BANCA D'ITALIA

Economic Bulletin

Number 17 October 1993

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CONTENTS

INSERTS

Economic Developments and Policies

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The international economy

The dominant features of 1993 have been the weakness of economic activity in the industrial countries and continued uncertainty about the timing and intensity of recovery. The international organizations have repeatedly revised their growth forecasts downwards. The present recession is the longest to affect the OECD countries since the War, though not yet the deepest. In the United States output grew much more slowly than expected. In Japan and many European countries, including Germany, the fall in production that began in the second half of 1992 became more pronounced. The continued deterioration in activity had serious repercussions on the labour market, with the result that the unemployment rate in Europe is approaching the peak recorded in the mid-eighties. The weakness of economic activity and the slowdown in wage growth, combined with the further fall in the prices of raw materials, have brought inflation down to the lowest levels for twenty years.

The growth in world trade is expected to slow down to 3 per cent for the year as a whole. For the third consecutive year, the weakness of the foreign trade of the industrial economies contrasts with the brisk growth in that of the developing countries, where regional integration is intensifying, particularly in Asia. The progress towards the liberalization of trade that would be achieved if the Uruguay Round were concluded by the end of this year would benefit economic activity worldwide by improving the climate of business confidence.

Public sector deficits increased in all the leading European countries except Italy. In Japan the budget surplus, much of which is traditionally due to the large surplus of the social security funds, is expected to disappear this year. The growth in deficits has generally been the result of the operation of built-in stabilizers, although in Japan, the United Kingdom and Denmark this effect has been magnified by discretionary measures to stimulate activity. In the United States and Germany the medium-term outlook for the public finances has improved with the adoption of measures to reduce the budget deficit over the medium term. In Europe it is felt that the scope for stimulatory fiscal measures is severely limited by the scale of budget deficits and, in many countries, by the level of public debt.

Monetary policy in the United States and the United Kingdom has been aimed at sustaining the recovery. In Japan the discount rate was lowered to 1.75 per cent in September on publication of data confirming the signs of a contraction in output. In Germany concern at the excessive expansion in the money supply, the high rate of inflation and the growth in the public sector deficit led the Bundesbank to delay reductions in official interest rates between May and the beginning of September, despite the pronounced worsening of the economic climate. In the early summer the Bundesbank's reluctance to ease monetary conditions further and the deepening recession in Europe highlighted the difficulty for low-inflation countries to reconcile the objectives of exchange rate stability and domestic growth when their short-term interest rate differentials vis-à-vis DM-denominated assets had evaporated. In July the currencies belonging to the Exchange Rate Mechanism again came under speculative pressure, which reached unprecedented levels at the end of the month in the wake of the Bundesbank's decision to leave the discount rate unchanged and led to the decision of 2 August to widen the margins of exchange rate fluctuation to 15 per cent.

Figure 1

Rate of growth in GDP and real long-term interest rates in the G7 (1)
(annual percentages)

Sources: Bank of Italy, IMF and OECD.

(1) Nominal rates (averages for the fourth quarter of each year, for 1993 average for the third quarter) are deflated using the rate of consumer price inflation in the year in question. The average interest rate is weighted on the basis of GDP converted into a common currency at purchasing power parities. The rates used are: for Italy, average yield on Treasury bonds with a residual maturity of more than 1 year, from September 1986 onwards net of withholding tax (initially 6.25 per cent, from September 1987 onwards 12.5 per cent); for the other countries gross yields on medium and long-term government bonds. Gross product is obtained by summing the GDP for each country, converted into a common currency at purchasing power parities; the IMF forecast has been used for 1993.

In the United States and Japan nominal short-term interest rates reached all-time lows of 3.0 and 2.7 per cent respectively in September; the average for the European economies was almost twice as large, despite the reductions in interest rates that had begun in the autumn of 1992. However, the easing of monetary conditions has only partially worked through to long-term rates, which have fallen everywhere by less than short-term rates. After adjustment for inflation, average long-term yields in the leading industrial economies have come down to the levels of the early eighties, although they are still higher than those of the sixties, when GDP was growing at rates of around 5 per cent (Figure 1).

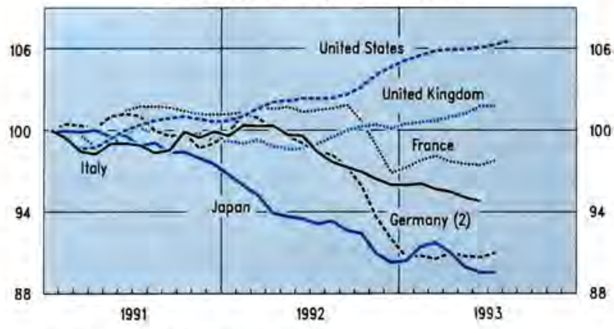
The decline in interest rates helped the recovery in share prices in Europe and Japan following the sharp falls recorded in the second half of 1992. The volume of finance raised in international markets continued to increase, thanks partly to bond issues by many European states to replace the reserves spent during the periods of turbulence in the foreign exchange markets. The narrowing of interest rate differentials in favour of European currencies and subdued business confidence owing to the difficult economic conditions in Europe caused the European currencies to lose ground against the dollar during the year. In Japan the rapid appreciation of the yen and the weakness of domestic demand led to an increase in the current account surplus.

Economic activity, prices and the balance of payments on current account in the leading industrial countries

In the United States GDP increased by 2.3 per cent in the first half of the year, approximately half the rate recorded in previous recoveries (Table 1). Growth was sustained by domestic demand, particularly non-residential fixed investment, which rose by 14.4 per cent. More recently the economic indicators have given contradictory signals. Industrial output was stationary in the second quarter, but grew in July and remained broadly unchanged for the following two months (Figure 2). Business confidence deteriorated abruptly at the beginning of the summer but improved appreciably in September (Figure 3). Although unemployment fell to 6.7 per cent in August and September, it still stands at a level comparable to the high rates recorded in 1991 (Figure 4).

Figure 2

Industrial production (1)
(seasonally adjusted monthly data; indices, January 1991=100)



Sources: Based on OECD and Istat data.
(1) Centred 3-month moving averages. – (2) Western Länder.

Table 1

Gross product and domestic demand in the leading industrial countries

(seasonally adjusted at constant prices; annualized percentage changes on preceding period)

	1992	1992 H2	1993 Q1	1993 Q2	1993 H1	1993 (1)
United States						
GDP	2.6	3.8	0.8	1.9	2.3	2.7
Domestic demand	2.9	4.4	2.5	3.1	3.3	3.5
Canada						
GDP	0.7	0.8	3.5	3.4	3.3	2.6
Domestic demand	–0.1	–0.6	4.9	4.5	3.1	1.6
Japan						
GNP	1.5	–1.2	2.3	–2.2	0.6	–0.1
Domestic demand	0.6	–2.1	2.8	–0.1	0.8	0.4
EC (2)						
GDP	0.6	–0.6	....	....	–0.8	–0.2
Domestic demand	0.8	–1.1	....	....	–1.7	–0.9
of which:						
Germany						
GDP	2.0	....	....	....	....	–1.6
Domestic demand	2.0	....	....	....	....	–1.4
of which:						
Western Länder						
GNP	0.6	–2.3	–7.8	5.1	–3.5	–2.2
Domestic demand	1.2	–2.1	–9.2	3.2	–3.6	–2.3
France						
GDP	1.4	–0.3	–3.5	–0.4	–2.3	–1.0
Domestic demand	0.4	0.1	–5.4	–1.1	–3.2	–1.5
Italy						
GDP	0.9	–1.7	–0.6	3.1	..	0.4
Domestic demand	1.0	–4.3	–13.0	2.2	–7.9	–2.0
United Kingdom						
GDP	–0.5	1.4	2.2	2.0	2.0	1.8
Domestic demand	0.4	1.9	–0.9	–0.2	–0.1	1.4
OECD (2)						
GDP	1.7	1.2	....	....	0.8	1.1
Domestic demand	1.6	1.2	....	....	0.8	1.1

Sources: IMF, OECD, Istat and national bulletins.
(1) IMF forecasts: *World Economic Outlook;* for Italy, *Relazione previsionale e programmatica.* – (2) Figures for 1993, OECD and IMF estimates.

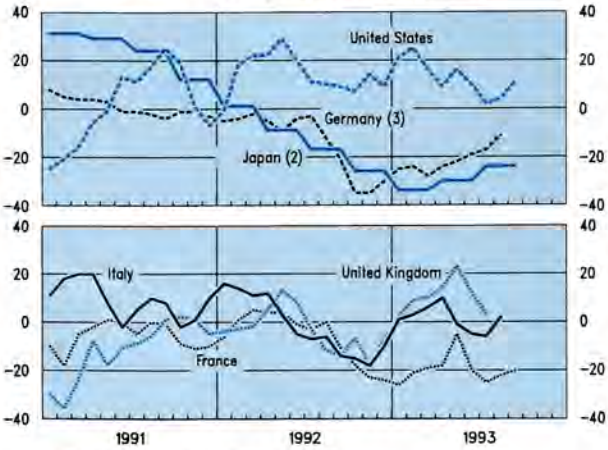
In Japan GNP grew by only 0.6 per cent in the first six months, despite stimulus from public consumption; this was the lowest level since the Second World War, apart from the 1974 oil crisis. Exports and investment were depressed by the effects of the appreciation of the yen on competitiveness and profit margins. Business confidence has been at a very low ebb for about two years and the downturn in industrial output, which in August was about 5 per cent lower than the average for 1992, shows no sign of abating.

In the EC economies as a whole the contraction in output that began at the end of last year continued in the first half of 1993 with a fall of 0.8 per cent. The decline in domestic demand was more pronounced, at 1.7 per cent, and the weakness of economic activity caused a considerable rise in the unemployment rate.

In the Western Länder of Germany the fall in output worsened sharply to 3.5 per cent, while the Eastern regions showed signs of a slow recovery from last year's seriously depressed levels. The contraction in the West occurred mainly in the first quarter and reflected a decline in all components of demand. Investment, in particular, fell by 6.9 per cent in the first half. Exports declined by 12.5 per cent in volume, primarily as a result of the collapse in demand from other EC countries and the Deutschemark's appreciation in real terms vis-à-vis their currencies. The rise in unit labour costs and high rates of interest had serious repercussions on industrial activity, which in August was 6 per cent lower than in the same month of 1992. The unemployment rate has risen by one percentage point since December 1992 to reach 7.5 per cent in July and August.

Figure 3

Indicators of business confidence (1)
(seasonally adjusted monthly data)

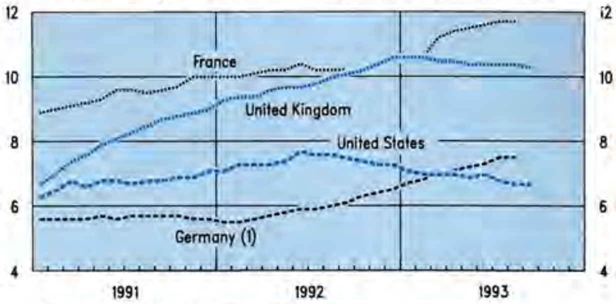


Sources: National bulletins, Isco and OECD.
(1) Results of business surveys; balance of replies received. – (2) Quarterly data. – (3) Western Länder.

Manufacturing output in the Eastern part of Germany had contracted by more than 30 per cent in the last two years, but began to recover ground in 1993, especially in the consumer goods sector. The recovery is nonetheless slow and is being hampered by the continuing weakness of foreign demand. Activity in the construction industry is rising, thanks to public sector projects. Unemployment is extremely high, standing at 16.0 per cent in July; the adjustment of wages and salaries to those paid in the Western regions, despite low productivity in the East, is proving an obstacle to higher levels of employment.

Figure 4

Unemployment rate
(seasonally adjusted monthly data; percentages)



Sources: OECD and national bulletins.
(1) Western Länder.

The moderate recovery in the British economy continued in the first half of the year. Output increased by 2.0 per cent, owing largely to the growth in foreign demand stimulated by the gains in competitiveness as a result of the depreciation of sterling and the slowdown in wage growth. The rise in house prices and the fall in nominal interest rates helped reduce households' debt; the improvement in their financial situation was reflected in an increase of 2.1 per cent in private consumption. Unemployment, which had risen steadily for two years and peaked at 10.6 per cent last December, remained broadly unchanged during the year and stood at 10.3 per cent in September.

In France the fall in output that had begun in the fourth quarter of 1992 continued, with GDP declining by 2.3 per cent in the first six months of this year. High real interest rates exacerbated the contraction in domestic demand, particularly investment. In August industrial output was almost 3 per cent lower than a year earlier. The unemployment rate reached a peak of 11.7 per cent in July and August, corresponding to 3.2 million unemployed.

In the industrial countries as a whole real wages in the manufacturing sector, whose rate of growth had already slackened considerably in 1991 and 1992, declined this year owing to the pressure of unemployment. This helped to curb the rise in unit labour costs and led to an actual decrease in the United States, the United Kingdom and Canada. The slowdown in labour costs, the contraction in demand and the fall in the prices of raw materials combined to produce a further reduction in inflation. Consumer prices in the OECD countries, excluding Turkey, rose by an average of 2.9 per cent in the first half of 1993, a figure close to the historical low of 2.6 per cent recorded in 1986. The rate of increase in the producer prices of manufactures was more than one percentage point less than that in consumer prices, but generally more rapid than the rise in labour costs. In the United States the twelve-month rate of increase in consumer prices fell to 2.7 per cent in September, while in Japan it remained below 2 per cent throughout the year (Figure 5); in France it was running at 2.3 per cent in September and in the same month it fell to 1.8 per cent in the United Kingdom, compared with 2.6 per cent last December. Inflation remained high only in Germany, where it was affected by the increase in indirect taxes introduced in January and the sharp rise in rents and in the prices of services; the pace of inflation slowed down markedly in the course of the year, but at no time did the twelve-month rise in the cost-of-living index fall below 4 per cent.

Figure 5

Consumer prices

(percentage changes on corresponding month of previous year)

Sources: OECD and Istat.

(1) From July 1993 onwards the data for Italy are estimated on the basis of movements in an indicator constructed from components of the cost-of-living index.

After rallying briefly in the winter months, average prices for the three main grades of crude oil fell by about 14 per cent between April and September 1993 to stand at $15.80 per barrel, the lowest value since the end of the Gulf war. The decline reflects the persistent weakness of demand for crude and expectations that the lack of unity that has recently become apparent among the OPEC countries will lead to a further increase in supply. In the third quarter of 1993 the aggregate price index for non-oil raw materials was about 5 per cent lower than in the corresponding quarter of 1992. The most dramatic decline was in the minerals and metals sector, where the weakness of economic activity and the rapid growth of exports from Russia caused prices to plummet by almost 23 per cent in the twelve months to September.

The persistent cyclical divergences between the United States and Japan contributed to a worsening of the imbalances in the current accounts of both countries. Between the first half of 1992 and the same period of 1993 the US current account deficit rose from $25 to 49.2 billion, equal to 1.6 per cent of GDP, a return to the 1990 level. The deficit had narrowed markedly between 1988 and 1991, but began to widen again in 1992 and is expected to persist for the next few years. The trade deficit increased to $63.7 billion in the first six months of this year, about $21 billion more than in the same period of 1992, chiefly on account of the rapid growth in imports. In contrast, trade in services continued to register a sizeable surplus of $29.4 billion. The trade deficit vis-à-vis Japan rose to $26.9 billion, almost $5 billion more than in the first half of 1992, while the surplus vis-à-vis the EC contracted by about $6 billion to $2.8 billion.

Japan's current account surplus rose to $78.8 billion in the first seven months of the year; the balance for the first six months was equal to 3.3 per cent of GDP. This outturn is attributable to the increase in both the trade surplus, which reached an all-time high of $83.6 billion, and a surplus of $26.3 billion on investment income. The growth in the trade surplus reflects the 6.0 per cent improvement in the terms of trade as a result of the appreciation of the yen and the fall in the prices of raw materials. The surpluses vis-à-vis the United States and the Asian economies increased to $26.3 billion and $31.7 billion respectively, while the surplus with the EC narrowed to $16.8 billion.

In Europe the decline in economic activity and, in some countries, the gains in competitiveness resulting from devaluation led to an improvement in current account balances. The figures for intra-EC trade may have been distorted by the changeover to the new Intrastat reporting system. The improvement was particularly marked in the case of Italy, which recorded a change of over $14 billion in the first half of this year compared with the same period of 1992; it was more modest in France ($3.2 billion in the first five months) and in Germany ($1.2 billion). Germany again recorded a current account deficit in the first half-year ($11.4 billion, or 1.3 per cent of GDP), owing to the increase in the deficit on invisible trade. Long-term capital movements, which have been in substantial surplus for about a year, recorded an inflow of $48.9 billion, due chiefly to inward portfolio investment, while short-term capital movements showed an outflow of $42.5 billion.

The weakness of economic activity in the industrial countries was reflected in world trade, which is expected to grow by 3 per cent this year. The prospects for a recovery in world trade depend partly on the conclusion of the Uruguay Round, which has now been under way for seven years.

In July a preliminary agreement was reached between the United States, the European Community, Japan and Canada to reduce tariff barriers to trade in industrial goods. The agreement envisages the reciprocal removal of import duties in eight manufacturing sectors, the halving of tariffs of over 15 per cent and an average reduction of the remaining duties by at least 30 per cent. However, unless the multilateral negotiations are concluded by the deadline of 15 December, there is a danger that they will come to nought and an important opportunity to boost growth will be lost. The major obstacles to be overcome include French opposition to the agreement between the European Community and the United States on the agricultural chapter, disagreements between developing and industrial countries on a number of issues (the liberalization of trade in services, the protection of intellectual property rights and the regulation of anti-dumping procedures), dissent between the United States and the EC on limitation of the use of unilateral retaliatory trade measures and US opposition to the proposal to create a multilateral trade organization with wider monitoring powers than those possessed by GATT.

On 14 September the Governments of the United States, Canada and Mexico signed the North American Free Trade Agreement (NAFTA), the conclusion of which had been postponed to allow further discussion on the strengthening of regulations on employment and environmental protection. The agreement is due to come into force on 1 January 1994, subject to ratification by national parliaments.

Economic policies

In Japan and the leading European economies except Italy, the ratio of primary and overall budget balances to GDP deteriorated in the course of the year owing to the operation of built-in stabilizers; their impact was magnified in Japan, the United Kingdom and Denmark by discretionary measures to stimulate activity. In the United States, by contrast, the federal deficit decreased.

According to provisional data published by the US Administration, the US federal budget for the 1993 fiscal year, which ended in September, showed a deficit of $285 billion, equal to 4.6 per cent of GDP. In August Congress approved a plan aimed at reducing the deficit by a total of $500 billion over the next five years. Approximately half of the reduction will be achieved by cutting expenditure, the growth of which was a significant factor in the widening of the deficit in the eighties; the cuts will be concentrated in the defence and health sectors. The tax burden on middle and high-income earners and corporations will be increased and petrol tax will be raised slightly. As a result of the measures, the deficit should decline to 2.2 per cent of GDP in 1998, compared with the projection of about 5 per cent on a current programmes basis. Gross federal debt is expected to rise from 51 per cent of GDP in 1992 to 55 per cent in 1988. At the end of September the Administration submitted proposals for reform of the health system that include extending health care coverage to 37 million Americans who are either unemployed or living below the poverty threshold.

The additional cost of this measure is put at about $350 billion over the next seven years, to be met primarily by cutting the cost of public health programmes and, to a lesser extent, by raising indirect taxes. The reduction in costs would be achieved by introducing market incentives and administrative measures to lower insurance premiums and medical and hospital charges, while the increase in indirect taxes would take the form of new duties on tobacco and alcoholic beverages, which should yield about $100 billion. If the plan is approved without amendment, the cost to the budget should actually be less than if no action were taken.

In Japan the central government budget, which was close to equilibrium in 1990, is expected to record a deficit this year equal to about 2 per cent of GNP, while the general government surplus, which is due primarily to the large surplus of the social security funds, is expected to disappear by the end of the year, chiefly as a result of the cyclical decline in revenue. Since August 1992 the Government has submitted three proposals for supplementary expenditure totaling about 30 trillion yen, equal to more than 6 per cent of GNP; the most recent, which provided for spending of 6.15 trillion yen, was submitted in September. The first two measures had a much weaker impact on output than expected, as not all of the outlays generated a direct increase in final demand, part of the additional expenditure was offset by cuts elsewhere during passage of the proposals through Parliament and delays occurred in the implementation of the measures. The Government is considering proposals for a reduction in direct taxation from 1994 onwards.

In Germany the federal deficit is expected to amount to around 2.4 per cent of GDP. The marked deterioration in comparison with 1992 is linked with the growth in transfers to the Eastern regions in respect of welfare payments and infrastructure investment. The territorial authorities' deficit, which comprises the federal deficit and that of the Länder, is expected to rise to 5.2 per cent of GDP, while that of the enlarged public sector, which also includes the Treuhandanstalt, the Post Office and the State Railways, will reach 7.4 per cent. In July the Government announced a package of measures intended to maintain the ratio of the federal deficit to GDP at about the present level for the three years from 1994 to 1996 by cutting welfare expenditure by DM 77 billion. International organizations estimate that, despite the measures, the territorial authorities' borrowing requirement will amount to around 3.6 per cent of GDP in 1996, only slightly less than in 1992, while the requirement for the enlarged public sector will decline to 4.5 per cent.

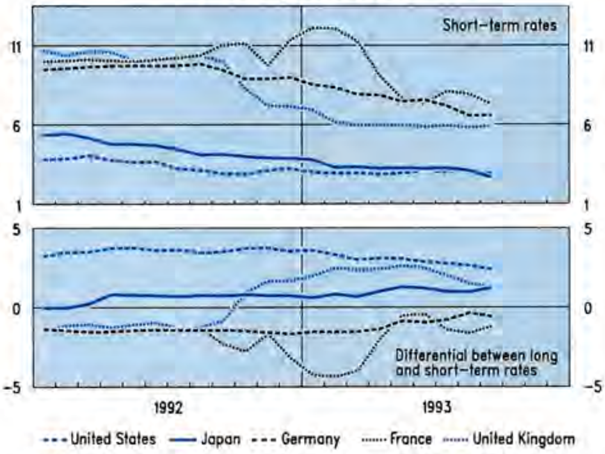
In the United Kingdom, where the budget was balanced in 1990, the PSBR has risen to 8.6 per cent of GDP, more than two points higher than in 1992. About one quarter of the difference is the result of discretionary measures. Tax increases due to take effect next year should help to bring the borrowing requirement down to 4 per cent of GDP after 1995. In France the public sector deficit has increased by about 2 points in relation to 1992 to 6.0 per cent of GDP; the deterioration is due entirely to the fall in national income. The Finance Bill for 1994, which was presented in October, provides for additional expenditure, incentives for the purchase of real estate and a reduction in the tax burden for middle-income earners. The package of measures should produce a modest stimulus to domestic demand.

In the United States, the United Kingdom and Japan monetary policies have been aimed chiefly at sustaining the recovery. In Germany the reduction in official interest rates was carried out gradually on account of concern about inflation and money supply growth. The other ERM countries followed Germany's lead. Nominal interest rates came down everywhere; over the twelve months to September short-term interest rates in the Group of Seven countries declined by an average of almost 2 percentage points to 4.3 per cent, while those at medium and long term fell by 1.5 points to 5.6 per cent. Long-term rates are still high, especially in the light of the protracted weakness of economic activity and in relation to expected inflation, which is estimated at less than 3 per cent for consumer prices and still less for producer prices.

The US monetary authorities recently announced their decision to pay greater heed to interest rates than to monetary aggregates when determining monetary policy on account of the unstable statistical relationship between growth in the money supply and nominal income. Their objective appears now to be to maintain real interest rates at a level that will foster economic growth without jeopardizing price stability. Short-term market rates have remained at around 3 per cent throughout the year (Figure 6), while long-term rates came down between January and March and again in the summer following approval of the measures to reduce the budget deficit. At the end of September yields on ten-year Treasury bonds stood at 5.4 per cent, the lowest level for twenty-five years. Nonetheless, the wide differential in relation to rates on short-term assets continues to provide an incentive to shift funds into longer maturities. In the first seven months of the year the expansion in the M2 and M3 monetary aggregates was slower than the growth in nominal income and near the lower limit of the target ranges of 2-6 and 0.5-4.5 per cent respectively.

Figure 6

Short-term interest rates and the differential between long and short-term rates (1)
(monthly averages)



(1) For sources and definitions, see Notes to Appendix Tables a5 and a6.

The Japanese authorities reduced the discount rate by 0.75 points to 2.5 per cent in February in an attempt to slow down the appreciation of the yen and sustain domestic demand. Money market rates declined by 0.5 percentage points in the same month and stabilized at 3.3 per cent until July. The fall in long-term rates came to a halt in April, but resumed in the summer. In August, when it was confirmed that output was still declining, money market rates fell to 3 per cent and long-term rates to 4 per cent. In mid-September the monetary authorities again lowered the discount rate, to 1.75 per cent, partly with the aim of reducing financing costs for firms, whose producer prices had been falling for almost two years and in July were 2 per cent lower than in July 1992. The easing of monetary conditions from April onwards led to a slight recovery in the growth of the reference monetary aggregate (M2+CDs), which had been slowing down for the seven previous months. In the first half-year the annual rate of growth in bank lending to the private sector was only 1.3 per cent, compared with 2.7 per cent in the previous six months.

In Germany the discount rate and the lombard rate were reduced by a total of 1 percentage point between February and April (Table a5), while the rate on repurchase agreements was lowered gradually until mid-May. The easing of monetary conditions reflected expectations of a slowdown in inflation following the conclusion of important wage agreements at the end of 1992 and the presentation of a medium-term programme to reduce the budget deficit in March. Subsequently, however, with inflation still running at more than 4 per cent, M3 overshooting the target range of 4.5-6.5 per cent and the Deutschemark depreciating against other leading currencies, the authorities halted the decline in short-term rates. At the beginning of the summer the deepening of the recession heightened expectations of a more rapid relaxation of monetary conditions. After reducing official rates on 1 July, the German monetary authorities held the discount rate at 6.75 per cent until September, lowering only the lombard rate by half a point to 7.75 per cent at the end of July. On 9 September and 21 October both rates were reduced by a total of 1 point when inflation and M3 growth showed signs of abating. Money market rates came down by about 2 percentage points between January and September; medium and long-term rates, which had already started to decline at the beginning of 1992, fell by 1 point to 6 per cent, whereas inflation is not expected to exceed 3 per cent in the Western regions next year.

German monetary policy in the present recession is different from that followed in similar circumstances in the past. Despite the slowdown in economic activity that began in the second quarter of 1991, the inverted yield curve became steeper in 1991 and 1992; the slope of the curve has flattened this year, but it remains negative. Moreover, real short-term rates were above 5 per cent for about three years until the end of 1992 (in September of this year they stood at 2.5 per cent). During previous recessions short-term rates had been reduced more promptly and the real short-term rate had never exceeded 5 per cent for such a long time.

In the United Kingdom monetary conditions continued to be eased until January, when base rate was lowered from 7 to 6 per cent. Short-term market rates fell by one point and remained at 6 per cent until July. The slowdown in consumer prices in June and July and signs that the recovery was weaker than had been foreseen led to expectations of a reduction in official rates. Long-term rates, which had already fallen by one point between January and July, decreased further in August and September to around 7 per cent.

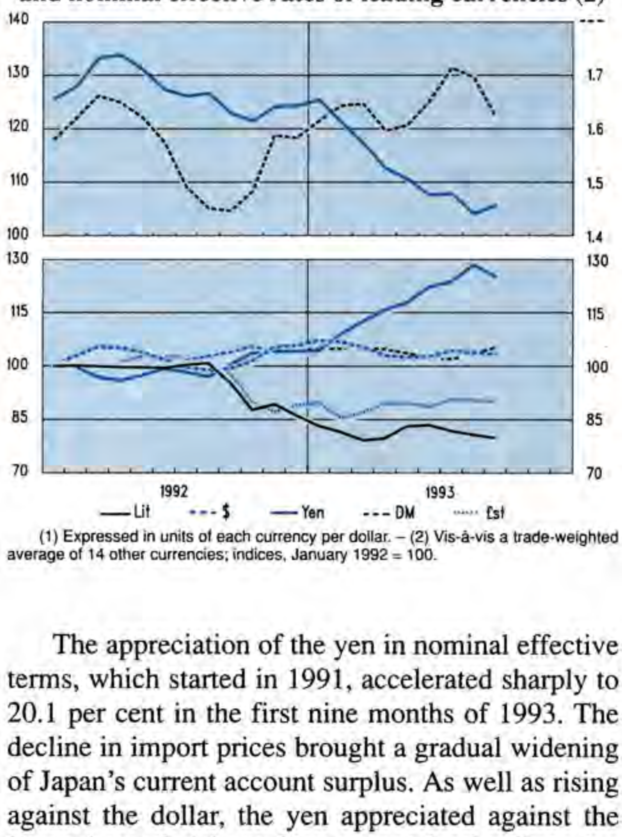
Short-term market rates in the other EMS countries began to fall at the end of March, but then rose again in response to strong turbulence on the foreign exchange markets in July. When the fluctuation band for ERM currencies was widened, France, Spain and Portugal reduced their short-term rates to pre-crisis levels, while Belgium and Denmark sought to combat the depreciation of their currencies by keeping interest rates high.

Exchange rates

During the first nine months of this year the dollar recorded a further large fall against the yen, while appreciating vis-à-vis the Deutschemark (Figure 7). In September its devaluation in effective nominal terms compared with December 1992 was only 2.3 per cent. Against the yen it fell from 124 in December 1992 to 106 in the first half of October, a decline of 14.5 per cent. In mid-August the dollar almost reached the threshold of 100 yen before rallying when, for the first time this year, the Federal Reserve intervened alongside the Bank of Japan to support the US currency and a further reduction in the Japanese discount rate came to be expected. The dollar gained ground against the Deutschemark between early April and July, when the exchange rate rose above DM 1.7. This appreciation reflected signs that the economic recovery in the United States was becoming stronger, but was interrupted in August when the estimates for GDP growth in 1993 were revised downwards and in mid-October the DM/dollar rate had fallen back to its level in January.

Figure 7

Bilateral exchange rates against the dollar (1) **and nominal effective rates of leading currencies** (2)



(1) Expressed in units of each currency per dollar. – (2) Vis-à-vis a trade-weighted average of 14 other currencies; indices, January 1992 = 100.

The appreciation of the yen in nominal effective terms, which started in 1991, accelerated sharply to 20.1 per cent in the first nine months of 1993. The decline in import prices brought a gradual widening of Japan's current account surplus. As well as rising against the dollar, the yen appreciated against the Deutschemark (about 21 per cent in the first nine months) and the other European currencies; the short-term interest rate differential with the latter narrowed considerably.

After falling between April and July by about 3 per cent, in September the Deutschemark's nominal effective exchange rate returned to its December 1992 level.

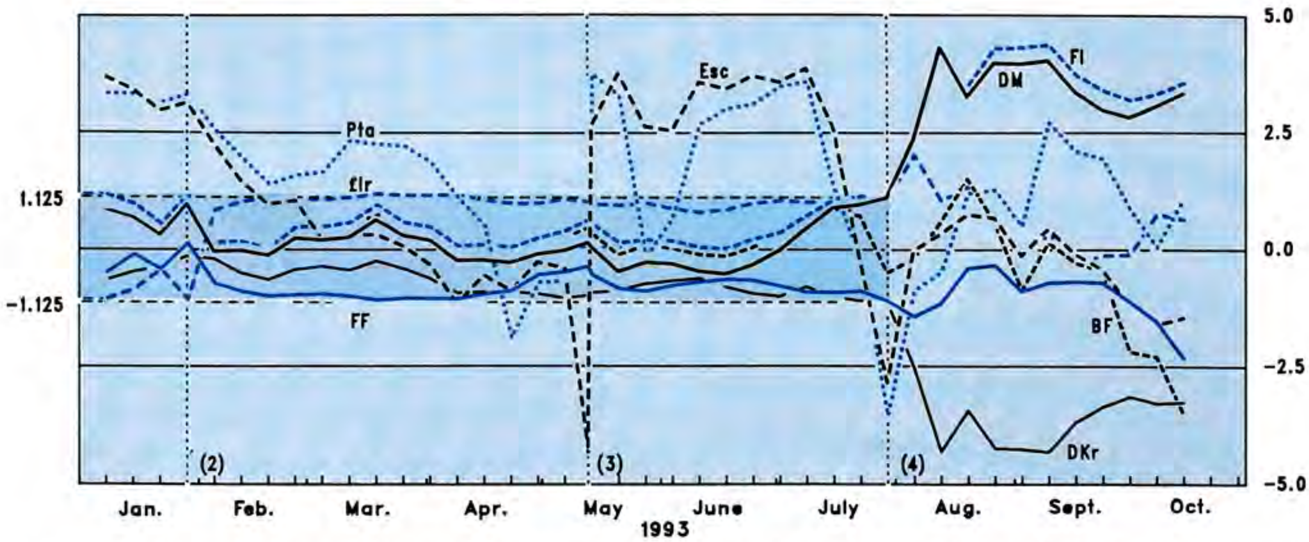
The ERM currencies had repeatedly come under pressure since the summer of 1992, but at the end of March, following the French legislative elections, the pressure on those in the narrow fluctuation band began to ease; attacks on the peseta and escudo continued, however, and on 14 May the central rates of both currencies were devalued again, by 8 and 6.5 per cent respectively (Figure 8). By mid-May the EMS appeared to have regained its stability, thanks partly to the positive outcome of the second Danish referendum on the Treaty of Maastricht. Both short and long-term interest rate differentials vis-à-vis the Deutschemark narrowed substantially and by the end of June the former had turned negative for nearly all the narrow-band currencies.

Serious pressure on the ERM currencies nonetheless resumed in July as a result of the deterioration in economic conditions in a number of European countries, including those where inflation was still very moderate. This strengthened the markets' perception that unless German interest rates were reduced further, the maintenance by low-inflation countries of levels of nominal interest rates capable of preserving exchange rate stability would result in excessively high real interest rates. However, the news concerning inflation and the monetary aggregates in Germany made a reduction in German rates appear improbable.

The Bank of France intervened substantially during July to counter pressure on the franc, but maintained official rates unchanged. On 23 July repos at 5-10 days were suspended and replaced with overnight operations at a rate that was raised from 7.75 to 10 per cent. At the same time the French and German Governments and central banks declared their full support for the existing parity. The short-term market rates for the franc, which had fallen below the German rates between mid-June and early July, quickly rose by 2.5 points and remained high. Although this strategy had proved successful during other episodes of pressure on the franc, its effect on this occasion was short-lived. On 29 July the Bundesbank's decision to lower the lombard rate but not the discount rate led to renewed speculative attacks against the franc. In the last two days of the month the scale of these attacks forced the Bank of France to intervene massively again. The French central bank's intervention in support of the franc during the month led to a fall in the official reserves of about $58 billion, only part of which has been replenished to date.

Figure 8

Position of ERM currencies in the fluctuation band (1)



(1) Percentage divergence from the centre of the band; end-of-week data. – (2) On 1 February the central rate of the Irish punt was devalued by 10 per cent. – (3) On 14 May the central rates of the peseta and the escudo were devalued by 8 and 6.5 per cent respectively. – (4) On 2 August the fluctuation margins for all currencies were widened to 15 per cent.

The Danish krone and the Belgian franc also came under attack from mid-July on. Both central banks increased official rates and short-term market rates rose rapidly. In the same month the peseta and the escudo lost ground heavily against the Deutschemark, depreciating by about 7.5 per cent each. On 2 August the financial ministers and central bank governors of the EC member states decided to widen the fluctuation bands of all the EMS currencies to 15 per cent, at the same time reaffirming the congruity of the prevailing central rates and their resolution to pursue price stability through monetary policy.

In the days following the widening of the band, expectations of a swift fall in French official rates brought an immediate decline in the three-month interbank rate and a depreciation of the franc by about 2 per cent against the Deutschemark. It was not until 9 August, however, that the French authorities began, very gradually, to lower the rate on repos, thereby signaling to the markets their intention to go on giving priority to exchange rate stability. Short-term market rates began to come down again by degrees from mid-August, while long-term rates kept falling until, by September, the differential with German rates was almost nil. In mid-October the franc's rate of exchange with the Deutschemark was about 3 per cent below the previous lower limit.

The Danish and Belgian authorities maintained a restrictive monetary stance during August in an attempt to prevent their currencies from falling below the previous fluctuation margin against the Deutschemark. Interest rates were gradually lowered in both countries during September and October; by mid-October the Danish krone and the Belgian franc were about 4 per cent below the earlier lower limit against the Deutschemark.

The lira was affected by the tensions within the EMS and the exchange rate against the Deutschemark fell gradually from 910 at the beginning of July to 950 in the first half of August. At the very end of August it started to fall again, in parallel with the Deutschemark's strong recovery against the dollar, and in mid-October stood at around 980.

During August and September the pound sterling reflected expectations of a decrease in official rates following signs of a weakening of economic activity. The rate of exchange against the Deutschemark fell by around 4 per cent and in mid-October stood at DM 2.45, its level at the beginning of April.

The exchange rate fluctuations during the year altered the competitive positions of Japan and Germany, while in July the dollar stood at the same level as in December 1992 in real effective terms, having lost about 3 per cent compared with the average for 1987. In July the yen had appreciated in real effective terms, as measured by the producer prices of manufactures, by 16.0 per cent compared with December 1992 and by 19.1 per cent compared with the average for 1987; this loss of competitiveness was due entirely to the nominal exchange rate. In the first seven months of 1993 Germany gained in competitiveness by 3.8 per cent, 2.5 per cent of which was due to the depreciation of the Deutschemark in nominal effective terms, with the result that the loss of competitiveness in comparison with 1987 was only 2.5 per cent. Among the other European economies, Spain, Ireland, Italy and France improved their competitive positions by 10.9, 8.8, 2.9 and 1.8 per cent respectively between December and July. When compared with 1987, Italy's gain was the largest, 10.7 per cent, followed by 8 per cent for Spain and Ireland and nil for France. By contrast, the United Kingdom's loss of competitiveness amounted to about 4 per cent in July when compared with last December and to 7.2 per cent in comparison with the average for 1987.

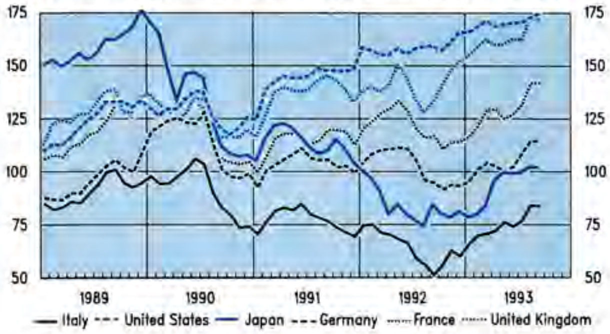
International financial markets

From January to September share prices tended to rise in the leading industrial countries, in conjunction with the decline in nominal interest rates (Figure 9). The rise in prices on US stock exchanges, which had begun in the last few months of 1992, continued in the first few months of this year; subsequently prices stabilized, reflecting the uncertainty surrounding the strength of the recovery in economic activity. In the United Kingdom share prices rose by 13.2 per cent in the first nine months of the year in response to the signs of an upturn in the economy and expectations of further reductions in short-term interest rates. The Japanese stock market recovered strongly from the previous year's depressed levels until May, but prices then stabilized in view of the weakness of economic activity and corporate profits. The approval of new measures to stimulate the economy and the lowering of the discount rate in September had only a limited effect on the market. In Germany and France prices rose between January and September by respectively 23 and 24.1 per cent, reflecting expectations of lower interest rates.

Figure 9

Share prices (1)

(monthly averages; indices, January 1987=100)



(1) For sources and definitions, see Notes to Appendix Table a6.

In the first eight months of 1993 gross bond issues increased by nearly one third compared with the first eight months in 1992, rising to around $321 billion, of which $42 billion with variable rates (Table 2). Dollar issues remained the most important, although their share declined a little. The US currency was also used on a significant scale by European sovereign borrowers. The Italian Republic's issues totaled $9.2 billion, including a $5.5 billion global bond issue in September. The uncertainty surrounding the yields of dollar-denominated assets prompted recourse to variable rates.

There was only a small volume of ecu-denominated issues between January and April, after which the flow dried up completely. The share of such issues fell to 1.3 per cent in the first eight months of this year, compared with 11 per cent in 1991. Activity in this market was depressed by the turbulence within the EMS from the end of 1992 on and the growing uncertainty about the outlook for European monetary union. The decline in ecu issues was accompanied by a large increase in those denominated in the leading European currencies, especially the Deutschemark and the French franc. The share of these two currencies in the first eight months of this year rose to 20 per cent, compared with 13.2 per cent in 1991. Several European governments made large Deutschemark issues and the flow of capital into the German currency was encouraged by the weakness of the dollar.

Table 2

Gross lending in international capital markets

(billions of dollars)

	1991	1992	1993 (1)
Bonds (2)	308.7	333.7	320.9
of which: floating rate	*18.3*	*43.6*	*42.1*
Syndicated loans (3)	116.0	117.9	92.4
Back-up facilities (4)	7.7	6.7	7.1
Total	**432.4**	**458.3**	**420.4**
Percentage breakdown by currency of bonds			
Lira	3.2	2.5	3.6
US dollar	29.7	36.9	34.6
Ecu	11.1	6.8	1.3
Pound sterling	8.8	7.6	12.7
Japanese yen	12.6	11.2	9.0
Deutschemark	7.1	10.4	11.8
Swiss franc	7.1	5.8	5.7
French franc	6.1	7.5	8.1
Other	14.3	11.3	13.2

Source: OECD.
(1) First 8 months of the year. – (2) Gross Euromarket issues plus foreign issues in domestic markets. – (3) Announced medium and long-term Eurocredits and foreign loans. – (4) Credit lines opened in connection with the issue of securities.

Activity in the Eurolira market picked up strongly. Between January and September issues amounted to 16,615 billion lire, which was well above the total for the whole of 1992 (10,500 billion).

The importance of supranational issuers declined in relation to that of enterprises and banks. The perception of a difference in the tax treatment of government securities held by non-residents, in connection with the slowness of the procedure for refunding the withholding tax on coupons, gave rise to a positive differential between the gross yields on Treasury and Eurolira bonds, which nonetheless narrowed during the course of the year.

Central and Eastern Europe and the developing countries

The economic situation in many Central and Eastern European countries remains critical. The decline in output in the former USSR has continued, made worse by the breaking of the commercial and monetary ties that linked the former republics, while planned reforms have not been fully implemented, partly owing to the dramatic political events in some republics.

The recovery that is taking place in some of the other countries of Central and Eastern Europe is hindered by the persistence of structural difficulties and by the fragility of their financial and institutional systems, as well as by the fall in demand from the industrial countries. Unemployment, which was virtually unknown at the start of the decade, has now overtaken the already high levels of Western Europe almost everywhere. Financial flows towards this area are expected to total $26 billion in 1993, mostly from official sources.

Output in Russia is expected to decline substantially again this year, by around 15 per cent. According to official statistics, GDP has contracted by about 45 per cent since 1990. In the first seven months of this year industrial output was around 17 per cent lower than in the year-earlier period, while oil production in July was 15 per cent down on the same month in 1992. Prices continue to spiral: in August they rose by nearly 30 per cent, corresponding to an annual rate of more than 2,000 per cent. The stabilization of the economy and the reforms have been seriously delayed by the dispute between the Government and Parliament that culminated in the dramatic crisis at the end of September. The new budget approved by Parliament in August would take the deficit for this year to 25 per cent of GDP, whereas the Government is sticking to its own target of 10 per cent. Bank credit and the state sector's payment arrears have expanded more than forecast, leading to expectations of growth in the money supply and higher prices. These have been reflected in a depreciation of the rouble, which had fallen to nearly 1,200 to the dollar at the end of September, compared with 415 at the end of December 1992. The decision by the central bank on 24 July to withdraw notes issued prior to 1993 from circulation in an attempt to curb the money supply and price inflation, effectively excluded the other republics from the rouble area. At the beginning of September five republics (Armenia, Belarus, Kazakhstan, Tajikistan and Uzbekistan) signed a draft agreement with Russia to recreate the rouble area, whereby monetary sovereignty and broad powers in budgetary policy matters would be assigned to the Russian central bank. However, the agreement still has to be ratified by the national Parliaments. In the meantime the five republics will be able to continue using old roubles. Furthermore, at the end of September all the former USSR republics, with the exception of the Baltic states, Georgia and Turkmenistan, signed a draft treaty for the creation of a customs and payments union, although Ukraine signed only on a provisional basis, pending its Parliament's agreement.

With the exception of the Baltic republics, all the former Soviet countries continue to suffer from falling income and hyperinflation. Even in the economies that have introduced their own currencies, such as Ukraine, the increase in inflation has distorted economic incentives and led to serious depreciation of national currencies. In the Baltic nations, where stabilization programmes have been implemented, budget deficits are modest and inflation is slowing down, although GDP has fallen further: by 2.3 per cent in Estonia and by 10 per cent in Latvia and Lithuania.

The IMF has granted new loans to Russia, Belarus, Kazakhstan, the Kyrgyz Republic and Moldova through the Systemic Transformation Facility, a new window that enables countries with balance-of-payments problems arising from the transition from a planned to a multilateral trading system to borrow up to 50 per cent of their IMF quota. In July Russia was granted the first tranche of about $1.5 billion of the loan, but the overshooting of the targets for the expansion of credit and the budget deficit make access to the second tranche unlikely before the end of the year. To date the other countries have met the targets linked to IMF loans.

Many republics have begun to privatize small firms; the World Bank estimates that about 67,000 have already been sold off in the former USSR, with Russia accounting for about 80 per cent of the total. The privatization of large enterprises, by contrast, is proving more difficult. Russia has transformed these firms into limited companies with shares held by the state and has distributed vouchers to the general public. Latvia is preparing to follow the same route, while Lithuania has privatized more than 1,000 medium-large firms through public offers of shares.

In the other Central and Eastern European countries economic restructuring has been accompanied by a sharp rise in unemployment; in Poland, Hungary and Bulgaria unemployment rose above 15 per cent in the first six months and is also high in the Slovak Republic and Romania, at 12 and 9.5 per cent respectively. There are nonetheless signs that growth is picking up. This year GDP should grow by 1 per cent in the Czech Republic, 4 per cent in Poland and 3.5 per cent in Albania, while it is expected to remain unchanged in Hungary. Inflation is falling in all these countries except Romania, and the ratios of budget deficits to GDP are particularly high in the Slovak Republic and Bulgaria. The area's balance-of-payments deficit on current account is expected to rise from $1.5 billion in 1992 to $4.6 billion this year.

In the developing countries growth is forecast to remain high (6.1 per cent), propelled by the expansion of the Asian and Latin American economies. The satisfactory economic results of the last four years, with output and per capita income growing at annual rates of 4.8 and 2.5 per cent respectively, were largely due to programmes of reform and policies of economic stabilization and opening to foreign trade. The largest Asian economies, China and India, recorded growth of 13.4 and 4.8 per cent respectively, accompanied by a deterioration in their external current accounts and, in China, by inflation. In Latin America the recovery of output and the reduction in inflation were accompanied by an increase in the current account deficit to about $39 billion and by substantial inflows of foreign capital. The difficulties encountered by the African economies in emerging from conditions of backwardness and stagnant growth are attributable in part to the weak demand from industrial countries, worsening terms of trade and the constraints that hinder the implementation of macroeconomic policies aimed at reducing budget and external disequilibria and inflation.

The Italian economy and the balance of payments

Economic activity remained weak in the first six months of the year; industrial production fell and the growth of output in the services sector slowed down. Gross domestic product was unchanged compared with the previous six months and 0.9 per cent lower than in the corresponding period of 1992.

As a result of the improvement in competitiveness following the devaluation of the lira in September 1992, external demand increased as a proportion of overall demand. Nevertheless, the fall of 4 per cent in domestic demand compared with the second half of 1992 had a dampening effect on gross output, offsetting the stimulus received from the exceptional growth in net exports (Table 3). Households' consumption decreased by 1.4 per cent; this was partly the inevitable result of policies of fiscal adjustment and wage moderation introduced last year, which caused a fall in real disposable incomes, and partly the effect of continued concern about the prospects for incomes and employment. The subdued climate also adversely affected investment, which continued to decrease rapidly, falling by an average of 5.8 per cent in the six months.

In the first half of 1993 the current account of the balance of payments was broadly in balance, improving by about 18.5 trillion lire with respect to the corresponding period of 1992; on a seasonally adjusted basis the current account showed a small surplus. The improvement is attributable to the especially good trade figures, as imports contracted more sharply than domestic demand and exports increased their market share. A decisive factor was the greater competitiveness of Italian goods, which benefited from both the depreciation of the lira and a reduction in unit labour costs.

Table 3

Sources and uses of income

(seasonally-adjusted figures at 1985 prices; percentage changes on previous period)

	1992	1992				1993	
		Q1	Q2	Q3	Q4	Q1	Q2
Gross domestic product	**0.9**	**0.6**	**0.2**	**–0.7**	**–0.5**	**–0.1**	**0.8**
Imports of goods and services	4.6	4.8	–1.7	0.6	–4.1	–6.5	–1.5
Exports of goods and services	5.0	2.9	–1.8	3.7	1.0	6.2	–0.7
Households' consumption	1.8	0.8	0.6	–0.3	–0.9	–0.8	–0.2
Collective consumption	1.1	0.2	0.3	0.4	0.0	0.1	0.4
Gross fixed investment	–1.4	–0.7	–1.2	–1.7	–2.2	–4.0	–1.5
of which: Machinery and equipment	*–0.9*	*–1.0*	*–2.4*	*–1.4*	*–2.3*	*–4.8*	*–2.7*
Transport equipment	*–1.9*	*–0.6*	*2.4*	*–7.8*	*–6.2*	*–12.2*	*–0.8*
Buildings	*–1.8*	*–0.5*	*–0.8*	*–0.7*	*–1.4*	*–1.8*	*–0.7*
Domestic demand (including stocks)	**1.0**	**1.3**	**1.7**	**–1.3**	**–1.8**	**–3.4**	**0.6**

Source: Istat.

The protracted cyclical slowdown that began in the second quarter of 1990 has had lagged but severe repercussions on employment, which has fallen rapidly since the summer of 1992. According to Istat figures, in the first half of the year the number of standard labour units was 1.2 per cent lower than in the preceding half-year, equivalent to about 280,000 full-time workers; the decline in relation to the first half of 1992 came to 2.9 per cent, equal to about 670,000 workers. The contraction in industrial employment was compounded by a fall in the services sector, partly owing to restructuring. A large proportion of the lost jobs had been casual. Unadjusted figures based on the new standard international definition of unemployment show that the unemployment rate rose from 9.4 per cent in January to 10.3 per cent in July. There is evidence that the exit of "discouraged" workers from the labour market limited the recorded increase in unemployment. Recourse to the Wage Supplementation Fund rose in the first half of 1993.

The agreement reached in July between the unions, the employers and the Government laid the foundations for slower wage growth, building on the moderation shown in the first few months of the year. In the first half of 1993 the combination of lower wage settlements and gains in productivity, which were especially large in the industrial sector, caused unit labour costs to fall in industry and to remain almost unchanged in the services sector.

The fall in labour costs mitigated the impact of the depreciation of the lira on producer and consumer prices, aided by the smallness of the rise in the world market prices of imported raw materials and the slowness with which exporters of manufactured goods to Italy raised their prices in lire. The curbing of inflation, which had begun to decelerate some months before the currency crisis owing to wage restraint and weak domestic demand, has created a virtuous circle: the abolition of the wage indexation mechanism, the new climate in industrial relations and the anti-inflationary monetary policy stance have encouraged expectations that the depreciation will have only a moderate impact on prices, and the market's consequent behaviour has proved these expectations correct. In view of the recent agreement on incomes policy, this virtuous circle can now become established.

Domestic demand and output

The contraction in real private consumption that began in mid-1992 continued in the first half of this year with an intensity not experienced in the post-war period. The decline was rapid in the first quarter (0.8 per cent with respect to the previous quarter) but eased to 0.2 per cent in the second. There was an unusually large decrease in spending on durable goods, which fell by 7.4 per cent between the second half of 1992 and the first half of this year; the decrease in purchases of transport equipment was especially sharp. Purchases of other durables also declined substantially, particularly furniture and large household appliances, as did those of semi-durable goods, which fell by 2.8 per cent. Spending on food contracted by 0.7 per cent. On the other hand, purchases of services continued to rise, albeit at a slower pace (0.4 per cent).

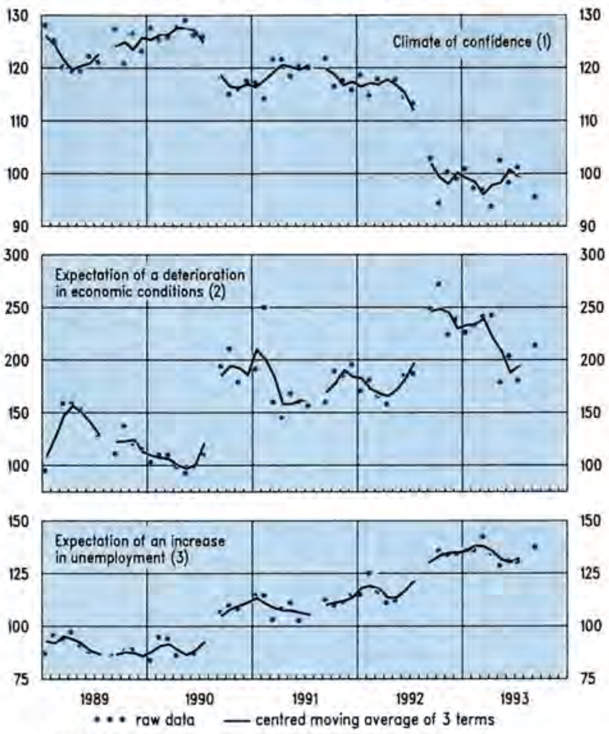
The persistent caution on the part of consumers continues to reflect concern about the state of the economy, especially the outlook for employment, as shown by the household confidence indicator (Figure 10). However, fears about the stability of the financial market that had adversely affected spending decisions during the currency crisis last autumn have abated.

Lower household spending is now closely linked to the reduction in real disposable incomes, which are estimated to have been 2.5 per cent lower in the first six months of 1993 than in the preceding period. The decline in real disposable incomes is partly a consequence of the worsening of the terms of trade, which is reflected in the fall in real earnings. The sharp decline in employment and the measures adopted last autumn to increase net budget receipts have also had a significant impact. For the time being, households perceive the reduction in disposable incomes as being permanent and perhaps anticipate further deficit-reduction measures, including both tax increases and cuts in spending on health care and pensions. Planned spending has been adjusted accordingly, with effects that may last for several quarters.

The reduction in disposable incomes also caused a slight decline in saving by consumer households, whose overall financial balance deteriorated.

Figure 10

Households' confidence and view of the outlook for the economy and unemployment



Sources: Based on Isco data; no survey is taken in August.

(1) Index (1980=100). – (2) Index (1986=100); proportion of those interviewed who expected a deterioration in the economic situation of the country in the subsequent 12 months. – (3) Index (1986=100); proportion of those interviewed who expected an increase in unemployment in the subsequent 12 months.

The decline in gross fixed investment that began in 1989 accelerated to 4.0 per cent in the first quarter of 1993 by comparison with the previous quarter but slowed down to 1.5 per cent in the second. The overall decline for the six months came to about 6 per cent compared with the previous period. As with household consumption, corporate purchases of vehicles fell sharply, declining by 15.4 per cent with respect to the preceding half-year. Investment in machinery and equipment decreased by 7.2 per cent, while the decline in spending on construction was more modest (2.8 per cent). On the basis of information provided by trade associations, domestic demand for machine tools in the first three quarters of 1993 was 9.3 per cent lower than a year earlier; foreign demand, which had soared at the end of last year, eased somewhat but still remained strong, rising by more than 20 per cent in the third quarter. The combination of uncertain demand expectations, considerable idle capacity, and the lagged effect of high interest rates and the decline in self-financing in 1992 prompted firms to postpone investment plans, a step that was accompanied by a reduction in their debt.

In January the firms with more than 50 employees that were polled for the Bank of Italy's annual survey of investment in manufacturing industry forecast a fall of more than 8 per cent in gross fixed investment in 1993; the half-yearly survey conducted by Isco in May produced a similar forecast. In September the Bank's branch offices interviewed a representative sample of the firms that had taken part in the original survey; more than half stated that they had not revised the investment plans for 1993 reported in January, but a clear majority of those that reported changes were planning to cut investment. There was a similar response regarding the desired level of employment. The replies concerning profit expectations produced interesting results, with a majority of the firms interviewed expecting to break even or show a small profit in 1993; the greater their exports in relation to total turnover, the more optimistic their outlook, a finding that is consistent with the trade figures and the trend in foreign orders.

The decline in domestic demand had an impact on output in both industry and the services sector. Despite the increase in foreign orders, industrial activity in the first eight months of the year was 3.9 per cent lower than in the same period of last year after adjusting for the number of working days (Figure 11). The fall in output between the first and second quarters was almost 1 per cent on a seasonally adjusted basis, causing the Bank of Italy's capacity utilization index to fall below 90 per cent. The deterioration came to a halt in the third quarter.

Table 4

Investment, employment and profit forecasts of manufacturing firms with more than 50 employees

(percentage of replies) (1)

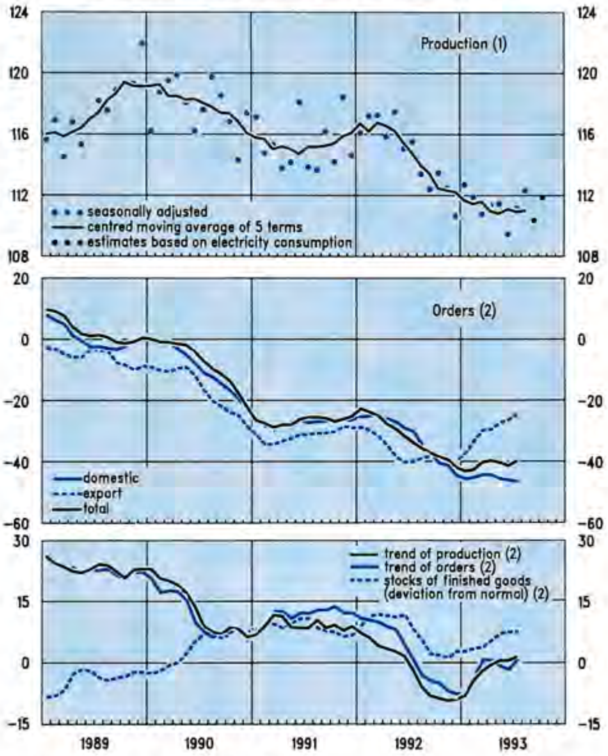
	Exports as a proportion of turnover				Total
	Zero	Less than 1/3	Between 1/3 and 2/3	More than 2/3	
Fixed investment in 1993 compared with that planned at the end of 1992:					
much higher	3.2	2.8	3.4	5.0	3.3
slightly higher	9.5	9.8	7.3	10.9	9.2
approximately the same	50.2	56.5	56.6	54.6	55.0
slightly lower	17.8	15.0	15.3	13.5	15.4
much lower	15.3	15.0	15.7	15.4	15.3
not known	4.1	0.9	1.8	0.7	1.7
Nominal planned expenditure on capital goods in 1994 compared with 1993:					
much higher	2.3	6.2	6.0	14.1	6.4
slightly higher	16.2	16.2	8.5	19.1	14.6
approximately the same	36.3	42.5	36.9	34.6	38.9
slightly lower	14.9	14.0	23.3	9.1	15.9
much lower	16.7	10.7	16.6	10.5	13.4
not known	13.7	10.4	8.6	12.6	10.9
Level of employment at the end of 1993 compared with that planned at the end of 1992:					
much higher	1.2	..	..	0.2	0.3
slightly higher	6.1	9.4	10.2	7.0	8.6
approximately the same	59.1	64.1	57.8	63.6	61.4
slightly lower	23.9	20.9	23.8	19.2	22.0
much lower	6.1	5.0	8.2	9.9	6.7
not known	3.6	0.6	..	0.2	1.0
Forecast profits for 1993:					
large profit	0.4	4.6	11.0	13.9	6.6
modest profit	39.2	43.4	43.8	49.6	43.4
break-even	25.3	19.6	21.1	8.3	19.8
modest loss	25.4	25.3	13.4	23.9	22.1
large loss	5.3	4.5	2.0	0.7	3.5
not known	4.3	2.6	8.8	3.5	4.6

Source: Survey conducted by the branches of the Bank of Italy between 15 and 29 September 1993.
(1) The sum may not equal 100 owing to rounding.

Output declined in all the main sectors of industry, the largest decrease being in the production of final capital goods, which was 6.4 per cent lower in the first seven months of the year compared with the corresponding period of 1992. The contraction in the output of capital goods eased in the second quarter, but that in the production of consumer goods became more pronounced, with a seasonally-adjusted decrease of 1.2 per cent with respect to the previous quarter. Performance varied from one industry to another, but the trend was universally downwards.

Figure 11

Industrial output, demand and stocks



Sources: Based on Istat and Isco-ME data.

(1) Overall index of industrial production (1985=100). Data adjusted for number of working days in the month. – (2) Centred moving averages (three terms) of the difference between positive replies, ("high", "increasing", etc.) and negative replies ("low", "decreasing", etc.) to Isco-ME surveys of businessmen. Seasonally adjusted.

The latest information on orders shows a strengthening in foreign demand and a stagnation in domestic demand for both consumer and capital goods. Demand expectations, which had been improving steadily until April, worsened again at the beginning of the summer as perceptions of the international economic situation changed. The cyclical economic indicators all agree that the increase in foreign orders alone is not capable of stimulating an immediate and strong recovery in output, especially in capital goods. A revival in domestic demand is essential if the economy is to pull out of recession quickly.

The weakening of demand caused the output of services to remain unchanged in the first half of 1993 compared with the second half of 1992, when it had increased by 0.6 per cent. The steady expansion in the services sector that was a feature of the Italian economy until 1992 thus came to an end. There was a significant decline in railway usage between January and May, with the number of passengers falling by 1.7 per cent and the volume of freight by 10 per cent compared with the same months in 1992. The turnover index for the distributive trades was about 6 per cent lower in real terms in the first half of the year compared with the corresponding period of 1992; only large stores managed to keep their turnover unchanged in the first six months of the year and at the same time opened new outlets.

The Isco distributive trades survey shows that businessmen remain pessimistic about the outlook, especially in the retail trade.

Employment and the labour market

The quarterly Istat labour force surveys indicate a steep decline in employment. Comparison with previous surveys is difficult in view of the numerous recent changes in methodology. In October 1992, the definition of "job-seekers" was amended, the arrangement of the questionnaire was changed to provide greater detail on the classification of workers by branch of economic activity and profession, and the lower age limit for persons considered as being of working age was raised from 14 to 15 years. These changes probably altered the sectoral distribution of employment, but will have had only a limited effect on the calculation of total employment. The coefficients for extrapolating from sample data were modified for the surveys from January 1993 onwards, as new census data revealed that the resident population had been overestimated by about 1 million persons, including 300,000 in employment.

The change in total employment between 1992 and 1993 can be reconstructed approximately by applying the new coefficients, disaggregated by gender and geographical area, and the new minimum age limit to the pre-1993 data. It is reasonable to assume that the seasonal factors considered in the series until 1992 have remained broadly unchanged, although it is necessary to adjust the data obtained from the second survey in 1992, which was carried out in May rather than April.

On the basis of these assumptions it is estimated that total employment, averaged over the period covered by the first three surveys of 1993 (conducted in January, April and July), was 3 per cent lower than in the corresponding period of last year, a decline of 650,000 persons; it fell by 2.3 per cent (about 500,000 workers) between January and July 1993 (Table 5).

Table 5

Total employment as indicated by the labour force survey

(thousands of persons)

	Unadjusted, uncorrected figures	Unadjusted, corrected figures (1)	Seasonally adjusted, corrected figures (2)
1992 – January ...	21,367	21,017	21,170
April	21,727	21,244	21,312
July	21,615	21,256	21,075
October ...	21,126	20,789	20,752
1993 – January ...	20,650	20,650	20,803
April	20,374	20,374	20,439
July	20,507	20,507	20,326

Sources: For the first column, Istat; for the second and third columns, calculation based on Istat data.

(1) The pre-January 1993 figures have been recalculated using the new extrapolation coefficients based on the 1991 census data that Istat has used since January 1993. In addition, 14-year olds, whom Istat has excluded from surveys conducted since October 1992, have been excluded from the entire series. It was necessary to adjust the data obtained from the second survey in 1992, which was carried out in May rather than April. – (2) The series has been adjusted for seasonal variations using the X11-Arima method.

Between January and July there was a decline of 70,000, or 15 per cent, in the number of persons who actually worked in the reference week but failed to state that they were employed, mostly occasional workers and those working in the unofficial economy. It should be borne in mind that the labour force survey measures employment in terms of numbers of persons, whereas the national accounts measure it in terms of standard labour units. The latter unit of measurement gives less weight to casual and irregular workers, who are decreasing in number, but unlike the labour force survey it includes the rising number of those receiving benefits from the Wage Supplementation Fund.

The figures for standard labour units derived from the quarterly national accounts confirm the rapid fall in employment signaled by the labour force survey. In the second half of 1992 the number of labour units was 1.7 per cent lower than in the first half-year and declined by a further 1.2 per cent in the first six months of 1993. By comparison with the corresponding period a year earlier, the fall in the first half was therefore 2.9 per cent, equal to 670,000 standard labour units.

The loss of jobs since 1992 has occurred in both industry and the services sector. The number of labour units in industry excluding construction was 2.4 per cent less in the first half of 1993 than in the previous six months (120,000 units). The contraction appeared to be less severe for larger enterprises, as the survey of firms with more than 500 employees shows that the twelve-month decline slowed down from 7.1 per cent in December to 5.6 per cent in July. Similarly, recourse to the Wage Supplementation Fund diminished in the second quarter of this year after having increased significantly in late 1992 and early 1993. The total number of hours compensated in the first eight months of the year increased by about 23 per cent in comparison with the same period in 1992.

Employment in services fell by 0.6 per cent in the first six months of the year in terms of standard labour units, reflecting the restructuring under way in some parts of the sector as well as the impact of the cyclical slowdown; productivity in market services is in fact rising at a historically rapid pace. The number of self-employed workers in the services sector decreased by 1.1 per cent after falling by 3.2 per cent in the previous six months, possibly owing to marginal self-employed workers withdrawing from activity as fiscal and social security measures squeezed actual and prospective profits. Employment in the public sector is expected to remain unchanged owing to measures taken to curb public sector expenditure; employment in the construction industry declined by 1.2 per cent in terms of standard labour units, partly owing to extensive recourse to the ordinary Wage Supplementation Fund. In the present economic climate, surplus labour from industry has not been absorbed by the other sectors, which are now contributing to the decline in total employment, by contrast with the situation at the beginning of the eighties.

The sudden fall in total employment is primarily the consequence of cyclical factors. The protracted slowdown and then decline in economic activity and continued uncertainty as to the time frame for recovery caused a sharp contraction in employment. Firms may also have judged that in the present economic climate the reorganization of production dictated by changes in markets and technologies could be carried out at lower cost.

The reduced demand for labour was immediately reflected in the unemployment rate, which rose from 9.6 per cent in October 1992 to 10.3 per cent in July on the basis of the new standard definition, according to unadjusted data that do not include workers receiving wage supplementation. The geographical disparities remain extremely large; in July the unemployment rate was 6.8 per cent in the Centre and North of Italy and 17.8 per cent in the South. The unemployment rate is particularly high for women and young people under the age of 30 (14.7 and 22.9 per cent respectively). Workers registered on mobility lists, who numbered about 140,000 at the end of May, account for an increasing proportion of the unemployed. For the year as a whole the decline in employment will not produce an identical increase in the number of unemployed if the recession induces a significant number of workers to temporarily abandon their search for a new job, especially among those who were previously employed in occasional work. A sign that this is occurring is evident in the fall in the seasonally-adjusted labour force participation rate revealed by the most recent labour force survey.

The worsening of unemployment has once again focused attention on the role and efficiency of the social security safety net and the laws to promote the recruitment of workers who have previously held a job. The agreement of 3 July 1993 between employers, trade unions and the Government proposes to expand the range of instruments for intervention in the labour market. It provides for the streamlining of procedures for the authorization of wage supplementation for companies in difficulty, a gradual increase in the ordinary unemployment benefit from 20 to 40 per cent of a worker's previous wages and the introduction of new procedures for ailing firms in the services sector. These measures supplement those already in force, which provide for a mobility benefit, greater recourse to ordinary wage supplementation for small industrial firms and to extraordinary wage supplementation for firms in the distribution sector with more than 50 employees and solidarity contracts. Numerous incentives are in place, mainly in the form of reductions in employers' social security contributions, aimed at the hiring of certain categories of workers, especially persons registered on mobility lists or receiving wage supplementation; many of these provisions were introduced at different times to deal with emergencies, making it difficult to decipher the overall structure of benefits.

More flexible forms of employment have recently been devised and the July agreement introduces further variety: trainee contracts differentiated by the type of training provided, temporary work in industry and services (excluding positions for less-qualified workers), specified types of fixed-term contract for employees registered on mobility lists and an expansion in the provision of apprenticeships.

The economic downturn has had an impact on the rate of wage increases, which had already slowed down significantly last year. The abolition of the *scala mobile* wage indexation mechanism, which was partly replaced by a lump-sum monthly payment of 20,000 lire for 1993, and the suspension of supplementary wage bargaining for the whole of this

The July 1993 agreement between business, labour and the Government

The draft agreement signed on 3 July by business, labour organizations and the Government (ratified on 23 July after union consultation with the rank and file) brought to a close the negotiations on the cost of labour and the collective bargaining system initiated in June 1991. The new agreement complements the protocol of July 1992, when employers and unions agreed to terminate automatic wage indexation. It deals principally with incomes policy, collective bargaining procedures and the labour market, but also lays down some general principles concerning industrial policy and public service charges.

Incomes policy. *– The document provides for two rounds of formal consultations between Government, business and labour, one in May and one in September, in advance of the formulation of the major economic policy measures, which remain the responsibility of the government. Employers and unions have undertaken to act consistently with the objectives set in the course of the consultations and the Government to devise effective instruments to deter inconsistent conduct. Reliable economic data will be indispensable in monitoring objectives and to this end the document envisages the institution of an observatory to follow the process of price formation.*

The structure of collective bargaining. *– Bargaining still hinges on an industry-wide contract at the national level and the possibility of decentralized agreements negotiated at the company or local level, with the two levels differing in timing, procedures and bargaining items. "Cooling-off" mechanisms are to be introduced, and union representation at the company level has been redesigned. With these innovations and the explicit link created between collective bargaining and incomes policy, Italian industrial relations have taken a decisive step towards greater regulation and "proceduralization".*

As in the past, the national industry-wide agreement will set contractual minimum wages. With the abolition of indexation, wage negotiations will be conducted more frequently (every two years), while the normative portion of the contract governing work rules and the like will have a duration of four years. To safeguard purchasing power in cases of protracted interruption of contract cover, the new agreement, in line with the 1992 protocol, provides for an interim increment in contractual minimum wages of 30 per cent of the programmed inflation rate with effect from the fourth month after the expiration of the old contract. To encourage the swift conclusion of negotiations, the increment is raised to 50 per cent in the seventh month.

To cool down industrial conflicts, provision is made for the two sides to negotiate without recourse to unilateral action during the quarter preceding and the quarter following the expiration of industry-wide agreements. Violations are to be sanctioned by anticipating or postponing the interim increments referred to above. However, no procedure has been specified for determining when one side or the other has committed an infraction.

As regards decentralized bargaining, the accord seeks to maintain "the spirit of current bargaining practices" and does not envisage the generalization of

year led to modest wage increases, although they were generally higher than those recorded in the second half of 1992. Contractual wages per employee in industry excluding construction rose by 3.4 per cent in the first six months of the year compared with the corresponding period of 1992, when they had increased by 7.4 per cent; they rose by 1.1 per cent in the construction industry and by 5.4 per cent in the market services sector. Industrial wages accelerated during the summer months owing to increases under existing contracts; in July they were 5 per cent higher than a year earlier. The freeze on wage negotiations in the public sector limited the increase in contractual wages in the first half-year to less than 1 per cent compared with the same period of 1992. As a result of a reduction in overtime working and individual bonuses and incentives, effective earnings growth was probably less than the increase in contractual wages. According to preliminary estimates contained in the quarterly national accounts, effective earnings *local-level wage agreements but rather a reinterpretation leading towards forms of profit-sharing, which are as yet largely untested. Future legislation is to revise the social security contribution regime to provide incentives for such arrangements. The salary elements stipulated at the company level should in any case be linked to productive programmes agreed by the two sides and should not involve matters settled in the national contract. The latter will determine the substance and timing of company-level bargaining. The task of verifying that actual conduct conforms to these principles is entrusted to the parties themselves. Specifically, checking the effective profit-sharing content of company-level agreements will pose monitoring problems that need to be addressed in the planned legislation.*

In the related area of union representation at the company level, the agreement institutes an innovative formula designed to reconcile effective representation of the company's work force with the need for coordination between the two levels of bargaining. The members of the new unified trade union representative body are elected directly at the company level, but one third of the seats are reserved to members of the organizations that signed the national contract.

Labour policy. *– Among the actions to which the Government is pledged under the agreement are the rationalization of the legislative and regulatory framework governing the labour market and the reorganization of the relevant administrative structures. Though recently revised by a wealth of measures to enhance the flexibility of the labour market, the present regulations continue to be unsystematic as well as difficult to apply. Moreover, the responsible government agencies suffer from a chronic inability to implement the rules fully and play an active role in the labour market.*

The agreement also institutes new formal employment arrangements, providing for two types of trainee contract for workers aged up to 32. The first formula is based on the present trainee contract, but with enhanced training requirements. The second is a labour market entry mechanism for young people in which the training content is limited to the job experience itself, with the possibility for collective bargaining agreements to assign such trainees to a lower grade than that of the job they are being trained for.

To deal with the employment crisis, the accord extends the scope of several existing programmes, in particular the Wage Supplementation machinery. In the implementation of the provisions care must be taken to avoid the risk, inherent in the present emergency situation, of blurring the crucial distinction between temporary benefits for laid-off workers who will eventually return to their jobs and income maintenance for the unemployed.

The government also pledged to raise ordinary unemployment benefits further, to 40 per cent of the former salary. The measure attenuates present disparities in benefits, but it will need to be accompanied by controls; if the benefit were to be transformed into a kind of seasonal salary supplement this would be a distortion of its function of providing income maintenance for dismissed workers while they look for new jobs.

per employee declined by 1.9 per cent in industry and rose by 1.6 per cent in the services sector in the first six months of 1993 in comparison with the previous period.

Costs and prices

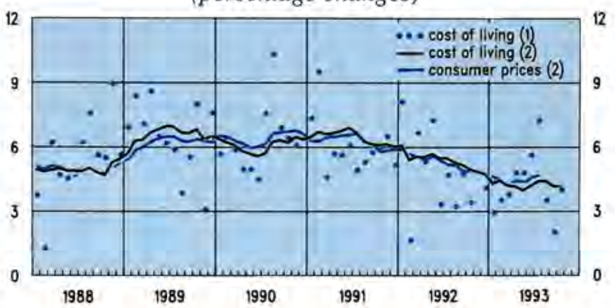
Consumer price inflation slowed down in the first seven months of the year, when the twelve-month rise averaged 4.5 per cent compared with 4.8 per cent in the last quarter of 1992 (Figure 12). Slight upward pressure on prices developed during the summer, with the inflation rate accelerating to 4.6 per cent in June and July. The cost-of-living index rose by even less in the first ten months of the year, recording an increase of 4.3 per cent in relation to the same period in 1992. The twelve-month rate of increase declined rapidly in the early part of the year, reaching a low of 4.0 per cent in April and subsequently rising to 4.4 per cent. The latest available figures, showing a 4.2 per cent rate of increase in October, confirm the moderate pace of inflation.

Expressed in seasonally adjusted annual terms, the rise in prices was well under 4 per cent in August and September and 4 per cent in October. The October figure, which is still provisional, was significantly affected by an increase in rents following amendment of the rent control legislation.

Figure 12

Cost of living and consumer prices

(percentage changes)



Source: Istat.

(1) Change on previous month, annualized; the data are seasonally adjusted. – (2) Change on corresponding month of the previous year.

The divergence between the rates of increase in the two price indices, which widened to 0.3 percentage points in the second quarter, was entirely attributable to differences in weighting. In the first part of 1993 the inflation differential vis-à-vis the other European Community countries, calculated using the general consumer price index for Italy, was similar to that recorded in 1992 (Table 6); the differential in relation to the average for the three Community countries with the lowest inflation was broadly unchanged in the first six months at 3.1 per cent.

The large depreciation of the lira had only a modest inflationary impact. The prices of non-food products, which are more vulnerable to fluctuations in the prices of imported inputs, accelerated noticeably, especially in the spring and summer; however, the acceleration was less than expected and was offset by the continued slowdown in the prices of food and services, especially those subject to official controls. Prices of services were significantly affected by the easing of labour costs and the fall in demand.

The decline of 3.9 per cent in the dollar prices of raw materials in the first eight months of the year and the behaviour of exporters of manufactured goods to Italy mitigated the impact of the devaluation of the lira on domestic prices. After rising briefly in the first quarter, the world market prices of energy products resumed the decline which had characterized the second half of 1992. In August the dollar price of crude oil was about 15 per cent less than a year earlier. The dollar prices of non-energy raw materials were also considerably lower than in 1992, with a twelve-month decrease of 6.8 per cent in August. Foreign producers were initially cautious about raising the lira prices of imported manufactures in view of the fall in demand and keen competition from domestic manufacturers, but they became bolder during the spring. Nevertheless, the rise in the prices of imported final goods was significantly smaller than the depreciation of the lira.

Table 6

Consumer price inflation differentials between Italy and other EC countries

(percentages)

	Italy: cost of living			Italy: consumer prices		
	EC excluding Italy	France	Germany	EC excluding Italy	France	Germany
1992 – Jan.	1.9	3.2	2.1	1.7	3.3	1.9
Feb.	1.0	2.6	1.1	1.2	2.9	1.4
Mar.	1.0	2.7	0.8	1.0	2.6	0.7
Apr.	1.1	2.8	1.0	0.9	2.6	0.8
May	1.2	2.9	1.1	1.1	2.8	1.0
June	1.3	2.9	1.2	1.2	2.8	1.1
July	1.9	3.3	2.2	1.5	3.0	1.9
Aug.	1.6	3.2	1.8	1.5	3.1	1.7
Sept.	1.5	3.1	1.6	1.1	2.7	1.2
Oct.	1.4	3.0	1.3	1.3	2.9	1.2
Nov.	1.5	3.3	1.2	1.5	3.3	1.2
Dec.	1.4	2.9	1.1	1.3	2.8	1.0
1993 – Jan.	1.0	2.2	–0.1	1.3	2.5	0.2
Feb.	1.3	2.5	0.3	1.3	2.5	0.3
Mar.	1.0	2.0	0.0	1.0	2.1	0.3
Apr.	1.1	2.2	–0.1	1.3	2.4	0.1
May	1.0	2.0	–0.2	1.3	2.3	0.1
June	1.2	2.3	0.0	1.6	2.7	0.4
July	1.3	2.3	0.1	1.5	2.5	0.3
Aug.	1.2	2.2	0.2	....	....	....

Sources: For Italy, Istat; for the other countries, OECD.

The prices of imported intermediate goods in the manufacturing sector were about 15 per cent higher in the first half of 1993 compared with the same period of last year; the rise was only partly reflected in higher domestic output prices, which increased by 3.7 per cent, thanks to the deceleration in labour costs and the moderate increase in the prices of domestic intermediate goods (4.7 per cent). Domestic producer prices have accelerated since the beginning of the year, reaching a twelve-month rate of 4.1 per cent in June. Profit margins on goods sold in the domestic market presumably widened slightly despite the fall in demand.

In the first half of 1993 the export prices of manufactured goods were about 11 per cent higher over the year, a considerably larger increase than that in domestic prices. Italian manufacturers took advantage of the scope offered by the depreciation of the lira to widen their profit margins on exports by more than those on goods for the domestic market. The improvement in export profitability may have helped to moderate the rise in domestic prices.

The twelve-month rate of increase in wholesale prices, which are strongly influenced by changes in the prices of raw materials and intermediate goods, accelerated from 4.0 per cent in January to 5.3 per cent in June. The rise in the wholesale prices of final goods, which had slowed down sharply in the second half of 1992, only began to quicken again in recent months. The twelve-month rate of increase in the second quarter of this year was 2.9 per cent, still less than the rise in producer prices; although the two indices are not wholly comparable, the disparity suggests that wholesalers have narrowed their profit margins.

Consumer prices have benefited from the deceleration in the prices of food products. The devaluation of the "green" lira under the new rules on the common agricultural policy had a limited effect on the prices of agricultural products. The slower rise in controlled prices of services also played a role.

The Forum-Mondo economico business survey conducted in September indicated that businessmen foresee a decline in consumer inflation. Expectations in this regard strengthened between June and September following the successful conclusion of negotiations on incomes policy and labour costs.

The balance of payments on current account

Since the abolition of customs controls within the European Community on 1 January 1993, statistics on trade between member countries have been recorded by means of a new system (Intrastat) that is still not fully operational. The figures provided by Istat on Italy's trade in the first six months of the year on a *cif-fob* basis are thus highly provisional. The *fob-fob* figures on merchandise trade, which are computed by the Bank of Italy in order to compile the balance of payments according to international standards, have been adjusted to compensate for a probable underestimation of imports in the Istat data on which they are based.

Table 7

Current account of the balance of payments

(balances in billions of lire)

	1992			1993 (1)
	Year	H1	H2	H1
(unadjusted)				
Goods	3,053	–5,157	8,210	14,624
Invisibles	–35,787	–13,342	–22,445	–14,879
Foreign travel	6,067	4,888	1,179	5,072
Investment income	–25,638	–10,705	–14,933	–12,518
Other services, income and transfers	–16,216	–7,525	–8,691	–7,433
Total	**–32,734**	**–18,499**	**–14,235**	**–255**
(seasonally adjusted)				
Goods	3,053	–1,243	4,296	18,716
Invisibles	–35,787	–14,116	–21,671	–15,512
Foreign travel	6,067	3,908	2,159	4,320
Investment income	–25,638	–11,295	–14,343	–13,003
Other services, income and transfers	–16,216	–6,729	–9,487	–6,829
Total	**–32,734**	**–15,359**	**–17,375**	**3,204**

(1) Provisional and partly estimated.

The data published by the Bank of Italy indicate that the current account returned to near-balance in the first half of 1993, compared with a deficit of about 18.5 trillion lire in the first half of 1992 (Tables 7 and a17). The improvement was due to the exceptional turnaround in merchandise trade, which generated a surplus of 14.6 trillion lire. The overall improvement of nearly 20 trillion lire in the trade balance far outweighed the deterioration of 1.5 trillion in the deficit on invisibles, attributable primarily to investment income.

Table 8

Merchandise trade, *cif-fob*: value, prices, volume
(seasonally adjusted; percentage changes on previous period)

	Year	1992		1993 (1)
		H1	H2	H1
Exports:				
At current prices	4.6	2.3	3.0	15.4
Average unit values	0.8	–0.3	1.5	9.5
At constant prices	3.8	2.6	1.5	5.4
Imports:				
At current prices	2.8	3.1	–2.7	0.5
Average unit values	–0.6	–0.6	1.0	11.1
At constant prices	3.4	3.8	–3.6	–9.5
Memorandum items:				
Domestic demand	1.0	1.4	–2.2	–4.0
Real exchange rate of the lira (2)	–0.4	0.9	–0.2	–13.1

Sources: Istat; in part based on data from OECD, IMF and Istat.
(1) Provisional and partly estimated. – (2) Based on producer prices of manufactures. A minus sign indicates a gain in competitiveness. The percentage changes relate to average exchange rates, with a three-month lag; for example, the figure given for the first half of 1993 is the percentage change between the average for the period from April 1992 to September 1992 and that for the period from October 1992 to March 1993.

On a seasonally adjusted basis, the first six months produced a current account surplus of 3.2 trillion lire, the first since the second half of 1986. The improvement in the trade account as a result of strong export growth and stagnating imports became evident in January and continued month after month for the entire first half.

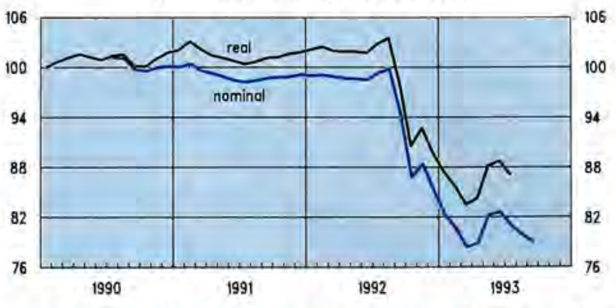
Seasonally adjusted data on a *cif-fob* basis show that the good trade results in value terms were due largely to trends in import and export volumes. The volume of imports was down by 9.5 per cent compared with the second half of 1992, while the volume of exports grew by 5.4 per cent (Table 8). These variations were much more pronounced than the changes in the corresponding demand variables; domestic demand contracted by 4 per cent during the first half, while the growth in world demand was wafer-thin.

A significant factor in the improvement in volume terms was the gain in competitiveness stemming from the depreciation of the lira (Table 9). In the six months from October 1992 to March 1993 – an appropriate reference period for trade performance in the first half of 1993 in view of the usual lag with which gains in competitiveness affect the volume of trade – the real exchange rate of the lira measured in terms of the producer prices of manufactures declined by 13.1 per cent compared with the previous six-month period. The gain in competitiveness in relation to the United States and Japan was especially large (17.7 and 20.1 per cent respectively); the improvement vis-à-vis EC member countries was 12.4 per cent.

Between August and March the real exchange rate of the lira declined by 19.3 per cent, owing to a nominal devaluation of 21.5 per cent (Figure 13). Competitiveness deteriorated slightly in the second quarter owing to a temporary rise in the nominal exchange rate, but the loss was recouped in subsequent months. It is estimated that in September the real exchange rate was nearly 18 per cent lower than in August 1992.

Figure 13

Effective exchange rates of the lira (1)
(indices, January 1990=100)



(1) Real exchange rates are based on the producer prices of manufactures. A rise in the index indicates an appreciation of the lira.

Table 9

Nominal and real exchange rates of the lira (1)
(percentage changes on previous period)

	Real exchange rates (2)				Nominal exchange rates			
	1992		1993		1992		1993	
	Year	Q4	Q1	Q2	Year	Q4	Q1	Q2
EC countries (3)	–3.3	–9.3	–5.4	2.1	–4.3	–10.3	–6.8	1.3
of which: Belgium-Luxembourg	*–2.9*	*–10.3*	*–4.0*	*2.2*	*–4.9*	*–11.9*	*–6.9*	*1.4*
France	*–3.4*	*–10.8*	*–5.8*	*1.7*	*–5.3*	*–11.7*	*–7.0*	*1.0*
Germany	*–4.5*	*–10.8*	*–5.3*	*2.8*	*–5.0*	*–11.9*	*–7.0*	*1.6*
Netherlands	*–2.1*	*–10.1*	*–5.3*	*2.2*	*–5.0*	*–12.0*	*–7.0*	*1.4*
United Kingdom	*–0.6*	*0.8*	*–5.7*	*–1.5*	*1.0*	*0.2*	*–5.8*	*–1.3*
Spain	..	*–2.4*	*–6.4*	*7.6*	*–0.8*	*–3.1*	*–7.1*	*6.8*
Canada	7.9	–12.7	–11.3	4.5	6.2	–12.5	–11.7	3.3
Japan	–2.2	–16.7	–11.4	–5.2	–5.1	–17.9	–13.2	–6.8
United States	2.1	–15.9	–10.5	3.0	0.8	–16.8	–11.8	2.6
Switzerland	1.0	–10.3	–3.0	0.6	–0.9	–11.2	–4.3	–0.4
Total (4)	**–2.3**	**–10.3**	**–6.0**	**1.8**	**–3.5**	**–11.3**	**–7.3**	**1.0**

Sources: Based on OECD, IMF and Istat data.
(1) A minus sign indicates a depreciation of the lira (gain in competitiveness for the real exchange rate). – (2) On the basis of producer prices of manufactures. – (3) Excluding Greece and Portugal. – (4) Includes Austria and Sweden in addition to the countries listed.

The average unit values of exports and imports in lire both rose sharply following the devaluation, resulting in a small deterioration in the terms of trade in the first half of the year (1.5 per cent compared with the second half of 1992). Export unit values increased by 9.5 per cent, import values by 11.1 per cent. As noted above, the disparity between the rates of increase in the export and domestic prices of manufactures became more marked, indicating a widening of Italian exporters' profit margins, albeit by less than the depreciation of the lira would have allowed.

The depreciation had a modest effect on import prices. Whereas the effective depreciation of the lira between the third quarter of 1992 and the first quarter of this year amounted to almost 18 per cent and the foreign currency prices of manufactures on world markets remained more or less unchanged, the average unit values of imported manufactures increased by only 11 per cent, indicating that foreign manufacturers were concerned with defending their share of the Italian market (Table 10). With the dollar

Table 10

Average unit values of imports in lire and main price determinants
(percentage changes on previous period)

	1992		1993	
	Year	Q4	Q1	Q2
Average unit values				
Total imports	–0.6	5.7	6.4	2.8
Fuels	–9.3	14.0	11.3	–1.8
Non-fuel raw materials	–4.7	3.7	8.7	5.3
Manufactures	1.1	5.2	5.5	3.0
World prices in foreign currency				
Oil ($)	–1.3	–5.0	–5.0	0.8
Non-oil raw materials ($)	–1.7	–5.0	5.6	–3.3
Manufactures (various currencies)	–1.0	–0.2	0.6	0.5
Exchange rates				
Dollar/lira	0.8	–16.8	–11.8	2.6
Effective nominal, lira (1)	–3.5	–11.3	–7.3	1.0

Sources: Istat, FMI.
(1) An increase indicates an appreciation of the lira.

prices of raw materials stable or declining slightly, the depreciation of the lira by more than 26 per cent against the dollar caused the average unit value of imported fuel and power products to rise by 27 per cent over the same period and that of other raw materials to increase by nearly 13 per cent.

The balance on merchandise trade in value terms improved in all the non-energy items, the sharpest gains being recorded in metal products and machinery, transport equipment, textiles and clothing and food products (Table 11). The energy deficit increased slightly owing to the higher lira prices of imports.

A geographic breakdown of trade flows indicates that in the first half of the year exports to European Community countries were 10.9 per cent higher in value than in the first half of 1992, whereas imports contracted by 8.8 per cent (Table 12). The import figure must be treated with great caution, as it may be distorted by errors connected with the changeover to the new system for gathering data on intra-EC trade. If the data prove correct, Italy's balance of trade with the rest of the Community improved by more than 12.8 trillion lire, about half of it due to trade with Germany, thanks to a 15.7 per cent rise in exports and a 13.1 per cent decline in imports. Exports to the United States grew by 32 per cent. Trade with the countries of Eastern Europe, and particularly the Baltic republics, expanded substantially, with exports and imports growing by 34.4 and 39.8 per cent respectively. The largest relative increase was in exports to China, which rose by 125 per cent; however, the share of total exports going to China remained extremely small, 1.4 per cent, and amounted to just over 1.7 trillion lire.

Table 11

Merchandise trade by product group (January-June) (1)

(cif-fob; *billions of lire*)

	Exports		Imports		Balance	
	1992	1993	1992	1993	1992	1993
Agricultural, forestry and fishery products	2,759	3,025	7,864	7,290	–5,105	–4,265
Fuel and power products	2,140	2,852	12,063	14,358	–9,923	–11,506
Ferrous and non-ferrous ores and metals	4,719	6,059	10,279	10,305	–5,560	–4,246
Non-metallic minerals and mineral products	4,458	5,340	2,311	2,338	2,147	3,002
Chemical products	8,625	10,151	15,670	16,150	–7,045	–5,999
Metal products and machinery	36,040	43,907	26,766	25,704	9,274	18,203
Transport equipment	11,367	11,667	17,321	13,798	–5,954	–2,131
Food, beverages and tobacco products	4,936	5,859	9,291	9,496	–4,355	–3,637
Textiles, leather products and clothing	17,974	21,135	7,946	8,164	10,028	12,971
Other	12,887	16,139	10,041	9,975	2,846	6,164
Total	**105,905**	**126,134**	**119,552**	**117,578**	**–13,647**	**8,556**

Source: Istat.

(1) The data on trade with other EC countries in 1993, which were gathered by the new Intrastat system, relate only to firms whose imports or exports exceeded 50 million lire in 1992. The 1992 data have been harmonized with those generated by the new system and thus represent only part of the trade conducted by Italian importers and exporters.

Table 12

Merchandise trade by country and area (January-June) (1)
(cif-fob)

	Exports				Imports				Balance	
	Value (billions of lire)		Percentage change	Percentage of total 1993	Value (billions of lire)		Percentage change	Percentage of total 1993	Value (billions of lire)	
	1992	1993			1992	1993			1992	1993
OECD	**82,072**	**93,723**	**14.2**	**74.3**	**92,682**	**87,514**	**–5.6**	**74.4**	**–10,610**	**6,209**
EC	61,370	68,089	10.9	54.0	69,909	63,754	–8.8	54.2	–8,539	4,335
Belgium-Luxembourg	3,649	3,891	6.6	3.1	5,863	5,280	–9.9	4.5	–2,214	–1,389
Denmark	821	864	5.2	0.7	1,122	1,085	–3.3	0.9	–301	–221
France	15,634	17,127	9.5	13.6	17,323	16,122	–6.9	13.7	–1,689	1,005
Germany	21,376	24,742	15.7	19.6	25,371	22,046	–13.1	18.8	–3,995	2,696
Greece	1,820	2,166	19.0	1.7	1,052	950	–9.7	0.8	768	1,216
Ireland	312	372	19.2	0.3	924	936	1.3	0.8	–612	–564
Netherlands	3,271	3,552	8.6	2.8	7,000	6,619	–5.4	5.6	–3,729	–3,067
Portugal	1,707	1,859	8.9	1.5	422	362	–14.2	0.3	1,285	1,497
Spain	5,797	5,636	2.8	4.5	4,087	3,944	–3.5	3.3	1,710	1,692
United Kingdom	6,983	7,880	12.8	6.2	6,745	6,410	–5.0	5.5	238	1,470
Switzerland	4,381	5,058	15.4	4.0	5,239	6,010	14.7	5.1	–858	–952
Other European countries (2)	5,784	7,112	23.0	5.6	6,088	6,147	1.0	5.2	–304	965
Other OECD countries (3)	10,537	13,464	27.8	10.7	11,446	11,603	1.4	9.9	–909	1,861
of which: Canada	*784*	*973*	*24.1*	*0.8*	*908*	*901*	*–0.8*	*0.8*	*–124*	*72*
Japan	*2,010*	*2,284*	*13.6*	*1.8*	*2,941*	*3,298*	*12.1*	*2.8*	*–931*	*–1,014*
United States	*7,154*	*9,444*	*32.0*	*7.5*	*6,872*	*6,686*	*–2.7*	*5.7*	*282*	*2,758*
Eastern European countries (4)	**3,826**	**5,142**	**34.4**	**4.1**	**4,395**	**6,145**	**39.8**	**5.2**	**–569**	**–1,003**
OPEC countries (5)	**5,705**	**6,486**	**13.7**	**5.1**	**7,359**	**8,202**	**11.5**	**7.0**	**–1,654**	**–1,716**
Other	**14,302**	**20,783**	**45.3**	**16.5**	**15,116**	**15,717**	**4.0**	**13.4**	**–814**	**5,066**
of which: China	*780*	*1,757*	*125.3*	*1.4*	*1,762*	*2,079*	*18.0*	*1.8*	*–982*	*–322*
Asian NICs (6)	*2,985*	*4,320*	*44.7*	*3.4*	*2,133*	*2,016*	*–5.5*	*1.7*	*852*	*2,304*
Brazil	*505*	*709*	*40.4*	*0.6*	*1,179*	*1,165*	*–1.2*	*1.0*	*–674*	*–456*
Argentina	*423*	*635*	*50.1*	*0.5*	*375*	*363*	*–3.2*	*0.3*	*48*	*272*
Total	**105,905**	**126,134**	**19.1**	**100**	**119,552**	**117,578**	**–1.7**	**100**	**–13,647**	**8,556**

Source: Based on Istat data.

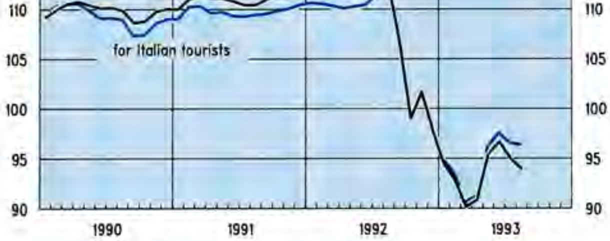
(1) The data on trade with other EC countries in 1993, which were gathered by the new Intrastat system, relate only to firms whose imports or exports exceeded 50 million lire in 1992. The 1992 data have been harmonized with those generated by the new system and thus represent only part of the trade conducted by Italian importers and exporters. – (2) Austria, Finland, Iceland, Norway, Sweden and Turkey. – (3) Australia, Canada, Japan, New Zealand and the United States. – (4) Albania, Bulgaria, former Czechoslovakia, Hungary, Poland, Romania, the former USSR and, until September 1990, the former GDR. – (5) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. – (6) Hong Kong, Singapore, South Korea and Taiwan.

3

According to provisional data, there was a deficit of 14.9 trillion lire on invisible items in the first six months of 1993, a rise of about 1.5 trillion compared with the same period of 1992. An increase in the surplus on trade in services was more than offset by a rise in net outflows of official transfers and investment income. The deficit on investment income increased from 10.7 to 12.5 trillion lire, owing partly to high lira interest rates during the early part of the year; nevertheless, gross inflows increased more rapidly than gross outflows (by 32.6 per cent as against 25.9 per cent), reflecting the trends in external assets and liabilities, which rose by 5.9 and 5.0 per cent respectively between the end of December 1992 and the end of June. Consequently, Italy's overall net debtor position increased from 173.5 to 177 trillion lire.

Figure 14

Real effective exchange rate of the lira: international competitiveness of Italian tourist services (1)
(indices, 1985=100)



Sources: Based on OECD, IMF and Istat data.
(1) Based on consumer prices in Italy and the countries with the largest tourist flows to and from Italy. An increase indicates a loss of competitiveness.

The surplus on foreign travel was slightly larger than in the first half of 1992; on a seasonally adjusted basis, however, it increased from 2.2 trillion lire in the second half of last year to 4.3 trillion in the first six months of 1993. The number of foreign visitors entering Italy between January and July was about the same as a year earlier. From the available data it is not possible to estimate their average per capita spending.

Capital movements

There were net capital inflows of 5.3 trillion lire in the first half of 1993 (Tables 13 and a17), in continuation of the trend that had begun in October 1992 after the pressure on the lira had eased. Gross financial flows also continued to grow rapidly, as they have for some time; the total reached 2,225 trillion lire in the first half, compared with 1,447 trillion in the second half of 1992.

The net balance of capital movements during the first half of 1993 was the result of sharply differing trends in the individual components. Despite the narrowing of short-term interest rate differentials vis-à-vis the Deutschemark and the dollar, in fact, there was a very substantial net inflow of non-bank capital (34.2 trillion lire); the net outflow of bank capital during the same period was almost equally large (28.9 trillion lire).

Net inward portfolio investment increased especially rapidly, rising from about 7 trillion lire in the second half of 1992 to 47.1 trillion in the first six months of this year. The growth reflected the revival of foreign interest in Italian government securities after the uncertainties of 1992. Net purchases of government securities totaled 39.2 trillion lire during the six months (Table 14) and were concentrated on fixed rate issues, in particular Treasury bonds (29.1 trillion) and Treasury option certificates (3.6 trillion). Part of this investment was presumably coupled with repurchase agreements with Italian banks (sale of the securities to the bank against lire, with a pledge to repurchase at a future date). In such operations the foreign investors' aim is not to alter the currency composition of his portfolio but to realize a capital gain in view of expectations that lira interest rates will decline more rapidly than those on other major currencies.

In the first nine months of 1993 net issues of Republic of Italy securities amounted to about 18 trillion lire. The Republic's foreign bond issues of DM 5 billion in February and $2 billion in June were favourably received by the international financial markets, as were the issues of 150 billion yen in July and $5.5 billion in September, of which $3.5 billion was 30-year paper. The latter was a global bond, issued simultaneously in several international financial markets. The June issue was accompanied by an exchange arrangement in which 5-year and 10-year bonds were offered to replace earlier issues that were no longer in line with market conditions.

Table 13

Capital movements

(net flows in billions of lire)

	1992					1993 (1)	
	Year	Q1	Q2	Q3	Q4	Q1	Q2
Non-bank capital flows	**–13,521**	**–16,051**	**–12,207**	**–15,322**	**30,059**	**25,238**	**8,942**
Foreign investment in Italy	16,683	1,218	6,485	–224	9,204	24,559	24,998
of which: portfolio	*12,788*	*811*	*4,954*	*–506*	*7,529*	*23,268*	*23,836*
Italian investment abroad	–31,490	–22,740	–18,646	–15,490	25,386	–1,656	–2,484
of which: portfolio	*–24,152*	*–20,750*	*–15,495*	*–14,267*	*26,360*	*3,521*	*–40*
Foreign loans	9,076	7,639	278	2,499	–1,340	5,435	–1,488
Italian loans	–5,882	–797	–1,987	–1,308	–1,790	–256	–2,848
Trade credits, other capital movements	–1,908	–1,371	1,663	–799	–1,401	–2,844	–9,236
Bank capital flows (2)	**25,303**	**23,284**	**18,356**	**–17,214**	**877**	**–13,480**	**–15,445**
Total	**11,782**	**7,233**	**6,149**	**–32,536**	**30,936**	**11,758**	**–6,503**
Memorandum items:							
Errors and omissions	–11,596	3,681	–12,645	–4,718	2,086	–6,512	1,908
Change in official reserves (3)	32,548	692	13,389	44,932	–26,465	–843	447

(1) Provisional. – (2) Resident credit institutions. – (3) Net of end-of-period valuation adjustments. A minus sign indicates an increase in reserves.

Italian portfolio investment abroad fluctuated during the period under review. The behaviour of residents differed from that of foreign investors, in that they did not switch wholesale into foreign currency assets in response to the narrowing of interest-rate differentials between the lira and the major currencies. There was a net capital inflow of 3.5 trillion lire in the first half of the year. Gross flows were more than 20 per cent below the level of the second half of 1992 and amounted to less than one quarter of the flows of foreign portfolio investment.

By contrast, direct foreign investment by Italian residents resulted in a net outflow of 7.6 trillion lire, compared with 2.2 trillion in the previous six months, despite the slowdown in economic activity in all the industrial countries.

Foreign loans gave rise to a net inflow of 3.9 trillion lire. Gross private lending declined by comparison with the previous six months, but official lending did not, owing essentially to loans to the Italian Treasury. The first tranche of the European Community loan to Italy – consisting of Ecu 500 million at 3 years and DM 2.9 billion at 7 years, together amounting to approximately 3.7 trillion lire – was disbursed in March. The second tranche, of Ecu 2 billion, will be released in November. In February the Treasury had used part of the proceeds of the issue of Republic of Italy bonds to repay the loan of DM 3 billion (about 2.8 trillion lire) obtained from foreign banks in December. The inflow of foreign loan capital in the first quarter was due partly to the growth of about 3.3 trillion in lira lending to residents from the foreign branches of Italian banks. In the second quarter the inflow resulting from Treasury borrowing came to an end and foreign private lending declined sharply, so that the net inflow of loan capital gave way to an outflow of 1.5 trillion lire.

The strong growth in merchandise exports was accompanied by a substantial increase in trade credit granted by Italian firms to foreign customers, which is provisionally estimated at a net amount of more than 14.5 trillion lire in the first two quarters. The net inflow of foreign trade credits was much smaller, totaling about 2.4 trillion lire.

Bank capital movements resulted in a net outflow of 28.9 trillion lire in the first half of the year, bringing the total for the period from September 1992 to June 1993 to 53.9 trillion. Small net inflows via special credit institutions (391 billion lire) contrasted with substantial outflows initiated by banks (29.3 trillion lire, bringing the total since September to 52.3 trillion). The banks therefore further reduced their net foreign indebtedness, continuing a trend that had emerged at the time of the currency crisis.

Several factors were involved, some of which had already been evident in September 1992 but which became more prevalent in the course of 1993, such as a contraction in the international supply of interbank deposits and greater depositor selectivity, a reduction in resident customers' demand for foreign currency finance due to the heightened exchange risk fol-

Table 14

Foreign portfolio investment in Italy

(net flows in billions of lire)

	1992			1993
	Year	H1	H2	H1
Government securities	1,664	408	1,256	39,227
Treasury bills	56	–160	216	–34
Treasury bonds	2,080	4,877	–2,797	29,072
Treasury bills in ECU	–1,266	–513	–753	–101
Treasury credit certificates in ECU	1,363	–606	1,969	277
Treasury credit certificates	330	169	161	–2,848
Treasury discount certificates	–18	–3	–15	25
Index-linked Treasury certificates	35	146	–111	..
Treasury option certificates	–403	–1,204	801	3,613
Other	–513	–2,298	1,785	9,223
of which: Republic of Italy issues (1)	*–497*	*–2,282*	*1,785*	*9,357*
Italian investment fund units	11	12	–1	..
Listed bonds	504	–2	506	482
Listed shares	–235	391	–626	1,645
Other securities	–16	–16	..	42
Other financial instruments (2)	–1,494	–671	–823	–96
Unclassified investments (3)	12,354	5,643	6,711	5,804
Total . . .	**12,788**	**5,765**	**7,023**	**47,104**

(1) Purchases and sales by non-residents. – (2) Financial investments of an unspecified nature. – (3) Including investments of less than 20 million lire channeled through reporting banks.

lowing the floating of the lira and more rapid growth in residents' bank deposits than in domestic lending and investment. Other factors that emerged more recently were the reduction in the banks' spot and forward debtor position in foreign currency, which had reached 17.7 trillion lire in September 1992 (not including domestic currency swaps, for which statistics were not compiled at the time but which were presumably not on a comparable scale), and growing net foreign demand for lira loans to finance the purchase of Italian securities.

Part of the outflow of bank capital during the first half of the year (7.9 trillion lire) stemmed from the expansion in Italian banks' foreign business in lire. The outflow of lire gathered momentum during the second quarter. At the end of June resident banks' net external lira assets amounted to 9.1 trillion lire, compared with 2.1 trillion a year earlier (Table 15).

The banks' repayment of net foreign currency liabilities during the first half amounted to 21.5 trillion lire at constant exchange rates; 16.8 trillion of

Table 15

Main items in the foreign exchange position of the banks (1)
(end-of-period balances in billions of lire)

	1992			1993	
	June	September	December	March	June
Spot external position (2)	**–116,889**	**–116,432**	**–126,571**	**–122,848**	**–100,447**
In lire	**2,059**	**1,918**	**1,249**	**2,934**	**9,103**
Assets	13,430	14,085	13,378	18,554	32,025
Liabilities	11,371	12,167	12,129	15,620	22,922
In foreign currency (A)	**–118,948**	**–118,350**	**–127,820**	**–125,782**	**–109,550**
Assets	92,388	108,138	122,861	123,384	112,965
Liabilities	211,336	226,488	250,681	249,166	222,515
Spot domestic position in foreign currency (B) (2)	**82,483**	**98,032**	**115,330**	**121,831**	**104,465**
Assets	114,164	144,812	172,182	183,396	158,077
Liabilities	31,681	46,780	56,852	61,565	53,612
Forward transactions against lire (C)	**24,390**	**2,585**	**3,404**	**327**	**5,510**
Assets (foreign exchange receivable)	152,524	173,025	182,851	233,296	232,828
Vis-à-vis residents	24,038	32,962	82,128	117,785	116,039
Vis-à-vis non-residents	128,486	140,063	100,723	115,511	116,789
Liabilities (foreign exchange for delivery)	128,134	170,440	179,447	232,969	227,318
Vis-à-vis residents	20,990	25,403	50,610	81,645	82,614
Vis-à-vis non-residents	107,144	145,037	128,837	151,324	144,704
Foreign currency position (A+B+C)	**–12,075**	**–17,733**	**–9,086**	**–3,624**	**425**
Domestic currency swaps	....	....	***8,431***	***5,188***	***4,434***
Creditor swaps	....	....	49,488	42,381	33,777
Debtor swaps	....	....	41,057	37,193	29,343
Foreign currency position including including DCS	**–12,075**	**–17,733**	**–655**	**1,564**	**4,859**

(1) Including Italian branches of foreign banks. Not seasonally adjusted. – (2) Including commitments up to 2 days forward.

this reflected a reduction in foreign currency loans to residents. The banks' spot debtor position in foreign currency fell dramatically in January and February and continued to decline in the following months, while their net forward position, including domestic currency swaps, remained positive (Table 15). The combined spot and forward position in foreign currency therefore also became positive. By the end of June their spot debtor position in foreign currency had been reduced to 5.1 trillion lire, compared with 36.5 trillion a year earlier, and their overall position, including forward assets and domestic currency swaps, showed assets of 4.9 trillion lire.

The Bank of Italy's holdings of foreign currency purchased from resident banks under swap operations, which had built up in the latter part of 1992, remained virtually unchanged in 1993. At the end of August they amounted to about 31.9 trillion lire, almost identical to the convertible currency component of the official reserves (Table a18).

In July and August the trends in capital movements that had emerged in the previous months became more pronounced. After a slowdown in net inflows in July to 3.7 trillion lire, foreign investment gave rise to an exceptionally large inflow of 12.6 trillion in August. The outflow generated by the banking system was also substantial (13.3 trillion lire, of which 11.8 trillion was attributable to the banks alone). The reduction in the banks' net debtor position stemmed from a sharp increase in external assets (6.8 trillion lire in domestic currency and 8.5 trillion lire in foreign currency at constant exchange rates). A simultaneous reduction of about 5.9 trillion lire in their domestic creditor position in foreign currency brought their overall spot foreign currency position roughly into balance.

Public finances

In the first nine months of the year the state sector borrowing requirement amounted to 110.3 trillion lire on the basis of the new definition of the sector, which excludes the autonomous government agencies transformed into limited companies. Net of settlements of past debts (around 3 trillion lire this year, but negligible in 1992), the balance was 107.4 trillion lire, or virtually the same as in the first nine months of 1992. On the basis of the broader definition of the sector used in the past, the borrowing requirement declined by around 3.9 trillion lire. The difference between the two results was related to the exclusion of the State Railways from the new definition, since their net borrowings decreased in conjunction with increased drawings on the balances they had accumulated with the Treasury (Table 16).

The containment of the borrowing requirement compared with the first nine months of 1992 was made possible by the large increase in the surplus net of interest payments, which rose from 11 to 27 trillion lire and offset the growth in the debt burden caused by the rise in interest rates in the second half of last year.

The Forecasting and Planning Report that the Government submitted to Parliament in September projected a borrowing requirement of 151.2 trillion lire for the year as a whole, compared with 158.7 trillion lire in 1992 (corresponding, on the old definition, to 154 and 162.8 trillion respectively; Table 17).

The achievement of this objective will be hindered by the further slowdown in the growth of tax revenues if the decline in economic activity continues or if the November self-assessed payment on account is less than expected as a result of changes in the income tax rules for the self-employed. It will benefit, on the other hand, from the decline in yields at issue on government securities and the effects of the corrective measures adopted in May.

On the assumption that the expected improvement occurs, the borrowing requirement on the new definition will fall from 10.5 to 9.7 per cent of GDP and decrease in value for the first time since 1986. The primary surplus will amount to 31.5 trillion lire (33.1 trillion on the old definition) or 2 per cent of GDP; this represents an improvement of 1.5 percentage points – the fifth in a row and the largest.

Table 16

State sector borrowing requirement
(billions of lire)

	1991		1992		1993 (1)	
	O	N	O	N	O	N
	including settlements of past debts					
First half	58,244	57,783	72,732	69,820	65,980	67,990
January-September	104,155	101,892	109,885	107,232	108,866	110,305
	excluding settlements of past debts					
First half	58,239	57,776	72,704	69,792	65,953	67,963
January-September	104,120	101,857	109,853	107,200	105,975	107,414

Legend: O = Old definition of the sector; N = New definition; excluding the State Railways, Monopolies and Telephone Company.
(1) Provisional.

The accounts for this year have been affected to a greater extent than in the past by the corrective measures adopted. The combined effect of those introduced at the end of 1992 and during 1993 is expected to exceed 5 per cent of GDP and will be the sum of almost equal adjustments in state sector revenue and expenditure.

The first of the 1993 budgetary measures were adopted in September 1992 and estimated to total 93 trillion lire, including 7 trillion from privatizations. The expansionary trends of the main expenditure items were curbed through both short-term and structural measures and the revenue-raising powers of local authorities were increased. The tax provisions were designed to impinge on self-employed incomes and companies' net worth, modify the structure of personal income tax and reduce the offset of fiscal drag. The aim was to lower the state sector borrowing requirement on a current programmes basis from 243 trillion lire on the old definition (15.1 per cent of GDP) to 150 trillion (9.3 per cent of GDP) and to achieve a primary surplus of 50 trillion.

In the early months of the year, it became clear, however, that the targets set in the autumn would not be achieved. Smaller savings than had been expected from some of the measures to curb expenditure and unforeseen calls on the budget combined with the slowdown in economic activity to reduce the primary surplus. About half the deterioration, which the March quarterly report on the borrowing requirement estimated at 25 trillion lire, was attributed to the lowering of the forecast for growth in 1993. The corresponding increase in the borrowing requirement was offset by an estimated reduction of more than 8 trillion lire in interest payments in connection with the fall in rates that had begun in the meantime. The borrowing requirement on a current programmes basis was accordingly forecast to amount to 167 trillion lire.

In May the new Government adopted supplementary budget measures to offset the rise in the borrowing requirement due to factors other than the slowdown in economic activity. A step that was also necessary to satisfy the conditions agreed with the European Community for the disbursement of the Ecu 8 million loan granted to Italy. The spending cuts and revenue increases were of the same order and totaled 12.5 trillion lire. The adjustment was intended to keep the borrowing requirement on the old definition to 154 trillion lire, or 4 trillion more than the original target.

Table 17

State sector balances

(billions of lire and percentages)

	1991		1992		1993 (1)	
	O	N	O	N	O	N
Borrowing requirement, net of interest of past debts	152,271	149,375	162,813	158,696	154,000	151,200
as a % of GDP	(10.7)	(10.5)	(10.8)	(10.5)	(9.8)	(9.7)
Settlements made in securities and in cash	73	73	31	31	12.000	12.000
Total borrowing requirement	152,344	149,448	162,844	158,727	166,000	163,200
as a % of GDP	(10.7)	(10.5)	(10.8)	(10.5)	(10.6)	(10.4)
Borrowing requirement, net of interest payments and settlements of past debts	7,425	8,270	-8,462	-8,718	-33,116	-31,521
as a % of GDP	(0.5)	(0.6)	(-0.6)	(-0.6)	(-2.1)	(-2.0)

Legend: O = Old definition of the sector; N = New definition; excluding the State Railways, Monopolies and Telephone Company.

(1) Estimates published in the Forecasting and Planning Report for 1994.

The package was approved by Parliament, which altered its composition but left the overall effect unchanged. The scaling down of the increases in social security contributions payable by the self-employed and the postponement of the increase in the tax on methane were offset by reductions in the transfers to local authorities and an increase in the funds that some social security institutions were required to deposit with the Treasury.

In June and August the borrowing requirement benefited from the substantial receipts of self-assessed taxes. The analysis of developments in 1993 contained in the Economic and Financial Planning Document for 1994-96 published in July acknowledged this favourable trend and forecast an additional saving in interest payments of 4 trillion lire as a result of the further decline in interest rates. On the new definition of the state sector, the target for the borrowing requirement in 1993 was fixed at 151.2 trillion lire, excluding privatization receipts. The new target discounted the reduction in payments on account of direct taxes with effect from November of this year, provided for as part of the 1994 budget in Decree Law 357 of 10 September 1993. The loss in revenue was estimated at 2 trillion lire and covered by the larger receipts from self-assessed taxes since May.

Important institutional innovations have been introduced this year in connection with the privatization of publicly-owned businesses, although the state sector has not benefited directly from the sales that have been made so far. The largest disposals concerned two of the companies resulting from the division of SME and the total price of 750 billion lire was paid to IRI. As part of the reorganization of the telecommunications sector, a start has been made on the unification of the various carriers, which is due to be completed in 1994. In June the Government issued a directive designed to accelerate the sale of the Treasury's interests in banks and insurance companies, as well as those in ENEL, STET and AGIP. The aim of the directive is to increase the Government's powers of guidance and coordination with respect to the timetable for privatizations. Subsequently, Decree Law 389 of 27 September established that privatizations were to be carried out preferably by way of public offers, exchanges for government securities or negotiations with potential buyers; the decree also provided for special clauses to be included in the statutes of public utilities that were offered for sale.

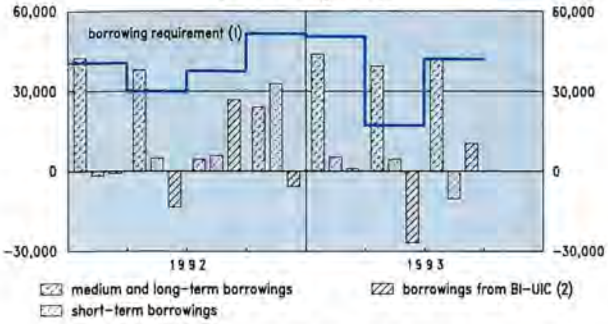
A major shift was implemented with the budgetary measures for 1993. Those affecting revenues are designed to maintain the receipts accruing to the state sector at the previous year's level in relation to GDP while increasing local authority receipts. Most of the temporary increases in revenue associated with the one-off measures adopted in 1992 have been replaced by permanent receipts. The increases in levies mainly concerned direct taxes, notably income taxes. Changes in indirect taxes with a limited impact on receipts were made at the end of 1992, in conjunction with the transposition of the Community directives on VAT and excise duties, and in the supplementary budget measures adopted in May, which raised the tax on oil products. On the expenditure side, the structural measures to curb the growth in spending on health services, social security and public employment were strengthened by imposing restrictions on retirement and increases in the wages and salaries of public employees. As a result of the foregoing measures, Italy is likely to be the only major Community country to achieve an improvement in its public finances in 1993, especially as regards the primary deficit and despite the unfavourable phase of the cycle.

The emergence of easier conditions in the financial markets made it possible to reduce the proportion of the borrowing requirement funded with short-term securities from 32.2 per cent in the first nine months of 1992 to 9.7 per cent in the corresponding period this year. There was also a reduction in the Treasury's recourse to its current account with the Bank of Italy, which had surged in September 1992 when the securities markets came under strain. The decline in the importance of postal deposits continued, whereas the share of foreign loans rose from virtually nil in 1992 to 13.4 per cent and exceeded the level recorded in 1990 (Figure 15). In September the debt of the state sector – on the old definition of the sector, which includes the autonomous government agencies transformed into limited companies – amounted to 1,755 trillion lire, an increase of 11.4 per cent on September 1992.

Figure 15

State sector quarterly borrowing requirement and its financing (1)

(billions of lire)



(1) Excluding the State Railways, Monopolies and Telephone Company; gross of settlement of past debts. - (2) Other than purchases of government securities.

Public debt management was able to take advantage of the progress made in adjusting the public finances. Interest payments have become less sensitive to fluctuations in short-term interest rates. The share of Treasury bills and credit certificates in issues of government securities fell from 67.4 per cent at the end of 1992 to 63.8 per cent in the first nine months of this year. After falling to less than twelve months in December 1992, the average maturity at issue of the main government securities rose to over two years in September. By contrast, the average residual maturity of the public debt remained virtually unchanged at around thirty-three months in the first nine months of this year, thus halting the downturn that occurred in the second half of 1992. The fact that this indicator was unchanged despite the sharp fall in net Treasury bill issues was partly due to the share of five-year floating rate paper in net issues having dropped below that of fixed rate paper with shorter maturities. Another factor was the relatively small amount of securities maturing in 1993.

State sector revenue and expenditure

Central government tax revenue totaled 317 trillion lire in the first nine months of the year. Compared with the corresponding period in 1992, it increased by 6 per cent, although the growth slowed significantly in the third quarter (Table 18). According to the estimate published in the recent Planning and Forecasting Report for 1994, the drying up of some of the revenues raised through one-off taxes in the second half of 1992 will result in tax revenue for this year rising by 2.9 per cent and falling slightly in relation to GDP. By contrast, the ratio of taxes and social security contributions to GDP is expected to rise for the larger public sector, partly as a result of the transfer of receipts to local authorities. The Economic and Financial Planning Document estimates that the latter will rise by more than one percentage point in relation to GDP.

The increase in revenue appears to be almost entirely attributable to the budget and the supplementary measures adopted in May since the various tax bases showed little growth. The combined impact of these measures this year is officially estimated at 46 trillion lire, excluding privatization receipts and including revenues accruing to municipalities and provinces, corresponding to 2.9 per cent of GDP. Of this amount, some 12 trillion lire is of a temporary nature or simply the result of the mechanism for paying self-assessed taxes.

In the first nine months of the year direct tax receipts increased by 11.2 per cent compared with the corresponding period in 1992. The increase in the first eight months of the year had been 14.7 per cent; the sharp slowdown in the trend was due to the boost given to revenue in September 1992 by the special tax on bank and postal deposits. The comparisons for the fourth quarter will continue to be influenced by the receipts of around 9.5 trillion lire from one-off taxes in the last three months of 1992.

The growth in direct tax receipts was primarily attributable to the rise in income tax revenues, especially payments of self-assessed taxes. Between May and September such payments by individuals and legal persons exceeded 44 trillion lire, or around 40 per cent more than in the corresponding period in 1992.

The self-assessed personal income tax paid between May and September amounted to 25 trillion lire, compared with 15 trillion in 1992. The

Table 18

State sector tax revenues (1)

(billions of lire)

	January-June		1993/1992	January-September		1993/1992
	1992	1993 (2)		1992	1993 (2)	
Direct taxes						
Personal income tax	66,832	78,950	18.1	94,817	108,225	14.1
of which: withholding tax on public sector wages and salaries	*10,795*	*12,433*	*15.2*	*17,733*	*19,261*	*8.6*
withholding tax on pensions and private sector earned income	*37,372*	*39,645*	*6.1*	*55,112*	*57,504*	*4.3*
self-assessed balances	*6,186*	*10,999*	*77.8*	*6,375*	*12,160*	*90.7*
self-assessed instalments	*5,768*	*8,438*	*46.3*	*5,890*	*9,075*	*54.1*
Corporate income tax	6,999	10,292	47.0	11,198	14,344	28.1
of which: self-assessed balances	*2,952*	*5,102*	*72.8*	*4,895*	*7,185*	*46.8*
self-assessed instalments	*3,810*	*5,035*	*32.2*	*5,986*	*6,978*	*16.6*
Local income tax	7,487	8,413	12.4	10,346	10,681	3.2
of which: personal income tax	*2,828*	*3,453*	*22.1*	*2,900*	*3,777*	*30.2*
self-assessed balances	*1,361*	*2,719*	*99.8*	*1,421*	*2,982*	*109.9*
self-assessed instalments	*1,467*	*734*	*-50.0*	*1,479*	*795*	*-46.2*
corporate income tax	*4,318*	*4,675*	*8.3*	*6,972*	*6,551*	*-6.0*
self-assessed balances	*1,724*	*2,028*	*17.6*	*2,933*	*2,968*	*1.2*
self-assessed instalments	*2,594*	*2,647*	*2.0*	*4,039*	*3,583*	*-11.3*
Withholding tax on interest income	11,057	10,883	-1.6	22,740	27,114	19.2
of which: in respect of bank deposits	*2,056*	*1,872*	*-8.9*	*7,823*	*7,688*	*-1.7*
in respect of government securities	*6,427*	*5,732*	*-10.8*	*10,882*	*14,098*	*29.6*
Withholding tax on dividends	1,336	1,250	-6.4	2,215	1,972	-11.0
Other (3)	7,166	8,490	18.5	18,279	15,099	-17.4
Total . . .	**100,877**	**118,278**	**17.2**	**159,595**	**177,435**	**11.2**
Indirect taxes						
VAT (4)	46,939	45,477	-3.1	70,001	67,366	-3.8
Other business taxes	17,014	20,101	18.1	24,712	26,754	8.3
Excise taxes on oil products	18,952	18,175	-4.1	27,345	27,137	-0.8
Other excise and sales taxes (5)	6,321	5,550	-12.2	9,594	8,478	-11.6
Tobacco taxes	3,389	4,203	24.0	5,166	6,011	16.4
Gaming taxes	1,621	2,626	62.0	2,432	3,627	49.1
Other	48	20	-58.3	77	37	-51.9
Total . . .	**94,284**	**96,152**	**2.0**	**139,327**	**139,410**	**0.1**
Total tax revenues . . .	**195,161**	**214,430**	**9.9**	**298,922**	**316,845**	**6.0**

Sources: Bank of Italy and Ministry of the Treasury.

(1) Net of tax collection commissions and accounting transactions with special statute regions - (2) Provisional. - (3) Includes receipts of inheritance taxes, which are recorded among indirect taxes in the accounts of the state sector. The figures for both years include receipts from special taxes; the tax condonation scheme and the taxes on the compulsory revaluation of corporate assets, the exclusion of buildings from the accounts of sole traders, PO and Bank deposits (1992 only) and the net worth of companies (1993 only). - (4) Includes the receipt used to settle tax credits and those accruing to the EC. - (5) Includes the proceeds of surtaxes on electricity consumption (levied by the tax authorities for disbursement to local authorities).

substantial increase reflects the scale of the measures introduced in the 1993 budget, with special reference to income from self-employment (the so-called minimum tax), the transformation of deductible expenses into tax credits, the return to the 1989 income tax brackets and the non-deductibility of local income tax. A contribution also came from measures adopted in previous years, such as the increase in personal income and property tax rates. These factors mainly boosted the balances paid for 1992 and had a smaller effect on the instalment payments for 1993, which were affected by the elimination of the local income tax on buildings with effect from this year.

The self-assessed company and local income taxes paid by businesses in the same period amounted to more than 19 trillion lire, compared with 16.4 trillion in the corresponding period in 1992. The balances payable for 1992 were increased by measures introduced in the 1993 budget. The fact that the revenue for 1992 net of that generated by these measures showed little or no change was due to corporate profits having remained basically unchanged.

The favourable results of self-assessed taxes were reflected in the sharp increase in Irpef receipts in the first nine months of 1993, with a rise of 14.1 per cent, compared with 10.7 per cent in the corresponding period in 1992. By contrast, the amounts withheld at source on private sector employee earnings only grew by 4.3 per cent, with a marked slowdown during the year. The twelve-month growth in this aggregate recorded a step increase at the beginning of the year owing to the payment of end-of-year balances that reflected the increase in Irpef rates and the new income brackets. Subsequently, the twelve-month growth rate fell rapidly and turned negative in the second quarter: net of the amounts attributable to the measures referred to above, Irpef receipts decreased by around 3 per cent. The contraction was due to the shrinking of the tax base as a result of the fall in employment and the slow rate of increase in earnings.

Receipts from the tax on interest income increased by 19.2 per cent. The growth was due to the tax withheld on income from bonds and government securities, while receipts in respect of bank deposit interest declined by 1.7 per cent in connection with the exemption of interbank deposits, which had already begun to produce its effects the previous year.

The tax on companies' net worth, introduced in 1992 for three years, yielded nearly 5.6 trillion lire in the first nine months of the year, or 900 billion more than the target for the whole year, which was reset at 5.9 trillion lire. The receipts of the third instalment of the tax on the compulsory revaluation of company assets amounted to 2.3 trillion lire and were also more than had been expected. The direct and indirect tax condonation scheme yielded around 6.2 trillion lire. This includes the last instalments due under the provisions of the 1992 budget and the payments made following the decision in September 1992 to extend the scheme's deadline, which is expected to result in 2.8 trillion of additional revenue this year.

Indirect tax receipts remained almost unchanged, rising by 0.1 per cent in the first nine months of the year, compared with 8.3 per cent in the corresponding period in 1992. The growth in revenue slowed during the year and came to a halt in the third quarter, influenced both by the downturn in private consumption, which was especially pronounced for durable goods and caused VAT receipts to fall, and the shift in the composition of demand in favour of exports, which are not subject to indirect taxation.

Total VAT revenue declined by 3.8 per cent. Collection delays associated with the procedures provided for in Community directives led to a shortfall in receipts of some 2 trillion lire in the first two months of the year. The corresponding revenue loss for the year will be partly offset by the tightening of the criteria for the deduction of the tax by importers. The effects of these changes in the law accounted for about two percentage points of the total fall in receipts, which was the outcome of a 21.9 per cent rise in the tax levied on domestic transactions and a 58.5 per cent drop in that on imports. The disparity between these results was partly due to the abolition of the collection in customs of VAT on imports from other Community countries and the inclusion of these amounts in domestic VAT.

Receipts from excise and sales taxes also contracted, falling by 3.6 per cent, partly as a result of the abolition of some minor taxes with effect from this year. The sales tax on electricity declined by 4.3 per cent and oil product revenues by 0.8 per cent, primarily as a result of the fall in consumption of diesel and heating oil. They nonetheless recovered somewhat in the summer following the rate increases decided in May. Implementing the relevant Community directives may have lengthened the time taken to collect excise duties since the amount assessed in the first half of 1993 actually showed a small increase of 1.2 per cent. Methane taxes declined by 0.6 per cent after rising rapidly in recent years as a result of rate increases.

Including amounts paid under the indirect tax condonation scheme, receipts of business taxes other than VAT rose by 8.3 per cent in the first nine months of the year. Stamp tax contributed owing to the application throughout the period of the increases introduced in the second half of 1992. By contrast, registration tax revenue contracted, falling by 13.5 per cent in the first six months, as a result of the weakness of the property market and the transfer to the regions of the proceeds of the tax on motor vehicles. Receipts from the taxes on monopoly products grew by 16.4 per cent in the first nine months of the year in connection with two increases in the sales tax on tobacco.

State sector outlays in the first half of 1993 amounted to 327.6 trillion lire on the new definition of the sector, an increase of 6.3 per cent on the corresponding period in 1992 (Table 19). The limited growth in expenditure was mainly due to the performance of current account spending, which expanded by 5.1 per cent compared with the first half of 1992. In particular, purchases of goods and services declined and the growth in current transfers slowed sharply.

Compared with the first half of 1992, state sector spending on wages and salaries rose by 4.3 per cent. This result reflected the steep increase in the personal income tax withheld in respect of the larger balances payable at the end of the previous year. According to the provisional outcome for the year published in the Forecasting and Planning Report for 1994, gross unit earnings in general government should increase by no more than 2 per cent in 1993. The factors contributing to the low rate of growth in this item include the absence of new wage agreements, the small cost-of-living allowance of 20,000 lire a month granted to all employees and the restrictions imposed on recruitment.

Table 19

Main expenditure items of the state sector on a consolidated cash basis (1)

(billions of lire)

VOCI	1992 H1	1993 H1	1993 / 1992
Current expenditure	**279,747**	**294,014**	**5.1**
Wages, salaries and pensions	57,460	60,435	5.2
of which: wages and salaries	43,286	45,142	4.3
Good and services	11,011	10,295	-6.5
Current transfers	131,674	133,809	1.6
of which: social security institutions	27,855	27,554	-1.1
regions	17,190	17,209	0.1
communes and provinces	52,835	50,046	-5.3
households	8,377	9,965	19.0
enterprises	8,364	7,614	-9.0
Net interest payments	75,329	83,666	11.1
Capital expenditure	**21,256**	**24,344**	**14.5**
of which: fixed capital	6,009	6,303	4.9
capital transfers	14,986	17,439	16.4
Financial items	**7,221**	**9,234**	**27.9**
of which: investments	1,336	453	-66.1
loans and advances	5,232	8,781	67.8
Total expenditure	**308,224**	**327,592**	**6.3**

Source: The Quarterly Report on the Cash Budget submitted to Parliament by the Minister of the Treasury on 30 June 1993

(1) Net of accounting transactions with special statute regions.

Interest payments amounted to 83.7 trillion lire, an increase of 8.3 trillion or 11.1 per cent on the first half of 1992. The amount paid on Treasury bills increased by 9.3 per cent and represented 27.3 per cent of the total (including the amounts the Bank of Italy returns to the Treasury), that on Treasury credit certificates increased by 21.5 per cent (41.5 per cent of the total), while that on Treasury bonds increased by 14.3 per cent (20.7 per cent of the total). The decline in issue rates should result in a smaller increase in this item for the year.

Current transfers grew only a little, rising by 1.6 per cent. Specifically, those to regions diminished by 5.3 per cent, reflecting both increased recourse to the market and larger own revenues. Transfers to enterprises fell by 9 per cent. These reductions were partly offset by the 24.8 per cent rise in transfers to the State Railways and households.

The funding required by the social security institutions decreased by 1.1 per cent. This can be attributed to the measures in the 1993 budget designed to curb spending on pensions and the rapid growth in contributions. The slowdown reflected the postponement of "length-of-service" retirements and the changes made to the mechanisms for determining cost-of-living allowances. The increase in contributions was fueled both by the rate rises introduced at the end of 1992 and during the year and by the receipts from the contribution condonation scheme.

Purchases of goods and services contracted by 6.5 per cent, partly as a result of the cuts in appropriations contained in the Finance Law for 1993. As regards expenditure on capital account, which grew by 14.5 per cent, the 4.9 per cent increase in the fixed capital component was primarily due to the upturn in the activity of the Southern Italy Development Agency. Capital transfers grew more rapidly, rising by 16.4 per cent as a result of a decline in those to local authorities and a substantial increase in those to enterprises.

The 27.9 per cent increase in financial transactions to more than 9.2 trillion lire was primarily due to the funds disbursed by the Deposits and Loans Fund in connection with the liquidation of EFIM.

The money and financial markets

Monetary policy

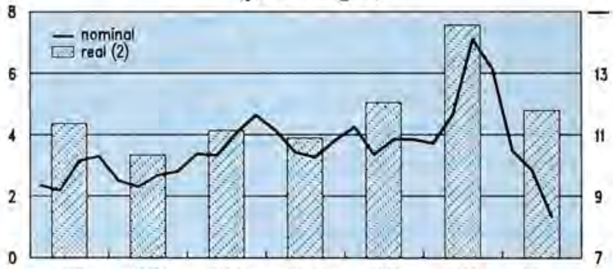
Against the background of a moderate rise in prices and a sizable improvement in the external accounts, the Bank of Italy's action during the year aimed at reconciling the need to prevent a revival of inflation expectations and of tension in the financial and foreign exchange markets with the necessity of not aggravating the difficult cyclical situation. The discount rate was reduced in a series of steps by 4 percentage points to 8 per cent. Open market operations kept very short-term interbank rates close to the discount rate in the first half of the year, pushing them up towards the rate on fixed-term advances from the summer onwards with the reappearance of pronounced exchange rate instability.

Careful liquidity management, in the face of an exceptionally weak expansion of credit, did not prevent the growth of M2 from exceeding the target range. The growth was mainly determined by the rapid increase in certificates of deposit with maturities beyond the short term; it was also strongly influenced by the repatriation of Italian capital, particularly in the early months of the year. The nominal rate on Treasury bills fell by almost half (Figure 16). The stance of monetary policy permitted the yields on medium and long-term securities to be brought down significantly and virtually without interruption, a trend that became steeper from April onwards: the net yield on Treasury bonds of more than nine years' maturity fell from an average of 12 per cent in December 1992 to 7.6 per cent on 20 October. The long-term interest rate differential vis-à-vis Germany was more than halved, narrowing from 4.7 to less than 2 percentage points (Figure 17).

In the first quarter interest rates continued to come down gradually from the levels reached at the height of the September 1992 currency crisis. The half-point reduction in the discount rate to 11.5 per cent on 4 February signaled that lower official rates would come with continued disinflation and falls in market yields. The reduction in the compulsory reserve ratio that was announced a few days later was intended to foster the decline in bank rates, as well as to reduce the competitive disadvantage of banking in Italy.

Figure 16

Nominal and real interest rates on six-month Treasury bills (1)
(percentages)



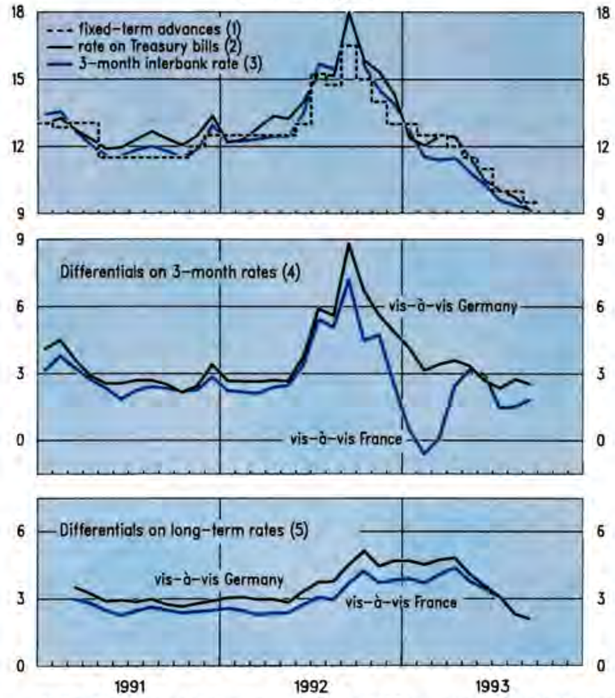
(1) Net of witholding tax. Quarterly averages for nominal rates and annual averages for real rates. – (2) Annual averages (January-September for 1993) of start-of-month yields deflated by the effective annualized change in consumer prices over the six months following the observation period. For the third quarter of 1993, consumer prices are estimated on the basis of the cost-of-living index; forecasts have been used for the subsequent two quarters.

From April to the beginning of July there was a recovery in the lira's external value in response to the more relaxed monetary conditions in the European markets and growing confidence that a process of regeneration had started in Italy. In June, there were moments in which the Italian currency traded at less than 900 lire to the Deutschemark, a level it had not achieved since the beginning of the year. The information coming in confirmed the seriousness of the domestic recession, which helped to contain the impact of the lira's depreciation on prices. Three successive half-point reductions, on 23 April, 21 May and 14 June, brought the discount rate to 10 per cent, its lowest level since March 1976. The central bank's interventions in the money market kept very-short-term rates close to the discount rate.

Figure 17

Short-term interest rates and the differentials vis-à-vis France and Germany

(percentages)



(1) Weighted average of effective rates until April 1991; subsequently, end-of-period data. – (2) Weighted average of compound yields gross of tax. – (3) Weighted average of bid rates. – (4) Difference between interbank rates. – (5) Difference between average net yield on the screen-based market in Italian Treasury bonds with a residual maturity of more than 9 years and yields on corresponding French and German securities.

Monetary conditions in Europe eased in early July as a result of the reduction in official rates by Germany, immediately followed by Belgium and the Netherlands. In Italy, the tripartite agreement on incomes policy concluded on 3 July helped to improve inflation expectations; the macroeconomic context continued to be characterized by moderate inflation and stagnation in productive activity. On 6 July the official discount rate was lowered from 10 to 9 per cent. The decline in market rates made it necessary to lower the return paid on compulsory reserves held against funds raised by way of certificates of deposit. Accordingly, with effect from September, this rate was reduced from 8.5 to 6.5 per cent, compared with an unchanged rate of 5.5 per cent for other deposits.

A fresh wave of instability hit the foreign exchange markets in Europe in the second week of July. There was growing consensus that the worsening of cyclical conditions in France and other countries adhering to the narrow fluctuation band would ultimately conflict with the need to avoid a further narrowing of the interest differentials vis-à-vis Germany, which had already been eroded in the preceding weeks. The tensions spread to the lira, which depreciated by around 2 per cent against the other Community currencies during the month. The firm management of bank reserves halted the decline in short-term interest rates: the repo rate rose from a low of 9 per cent on 7 July to 9.9 per cent on the 23rd. The tensions in the money market had only a limited impact on longer-term securities: the net yield on Treasury bonds with more than nine years' maturity, which had fallen to 9.6 per cent on 8 July, peaked at 9.8 per cent before coming down to 9.5 per cent at the end of the month.

The instability of the European foreign exchange markets reached its height at the end of July in connection with the Bundesbank's decision to reduce the lombard rate by half a point but not to change the discount rate, which is considered of more importance in a phase of declining yields. During the first half of August, with greater variability of exchange rates following the decision to widen the EMS fluctuation margins, the lira depreciated to around 950 to the Deutschemark; it weakened further towards the end of the month, when the mark appreciated against the dollar. Throughout the month the repo and overnight rates were higher than the discount rate, with average differentials of respectively 50 and 80 basis points. From mid-July onwards the undrawn margin on ordinary advances from the Bank of Italy was very small.

The stance of liquidity management was reflected in the three-month interbank rate differential vis-à-vis Germany, which widened to 2.8 points during August. Medium and long-term rates continued to decline: the net yield on Treasury bonds with more than nine years' maturity fell from 9.5 to 8.1 per cent during the month; the long-term differential narrowed to around 2 points vis-à-vis both Germany and France. Large net outright sales on the secondary market by the Bank of Italy smoothed the rise in the prices of medium and long-term securities. Issue policy for Treasury bills sought to lengthen the maturity of the securities in circulation; the net yields on three-month Treasury bills consequently fell more than those on six and twelve-month paper, declining from 8.9 to 8.2 per cent.

The decision to reduce the discount rate by another half point to 8.5 per cent on 10 September following a similar measure by the Bundesbank was also taken in the light of the slow pace of price increases and the weakness of economic activity. The careful calibration of liquidity resulted in very-short-term rates remaining around half a point above the discount rate. After steadying for most of September, secondary-market yields on long-term paper resumed their downward course at the end of the month and continued to fall in the following weeks. This development was reflected in the decision on 22 October to lower the discount rate to 8 per cent, in line with analogous decisions by other European central banks.

In the first nine months of 1993 monetary base, adjusted for the variations in the compulsory reserve ratios, grew at an annual rate of 9 per cent, compared with 7.1 per cent a year earlier (Table 20). In the same period the flow of monetary base was negative by around 30 trillion lire on an unadjusted basis (Table 21), reflecting the reduction in the compulsory reserve ratios in February of this year. The foreign sector created 4.4 trillion lire of monetary base in the first nine months of 1993, compared with the destruction of nearly 60 trillion a year earlier. The Treasury destroyed 14.3 trillion lire, after creating 3.4 trillion in the first nine months of 1992. In the three years from 1990 to 1992 monetary base financing of the Treasury was negative by respectively 1.4, 9.5 and 2.7 trillion. Taking advantage of investors' favourable attitude towards public debt instruments, the Treasury's net market sales of 109.3 trillion lire exceeded its borrowing requirement by around 500 billion; with the aim of lengthening the average residual life of the debt, the share of Treasury bonds in total issues was greatly increased. The other non-monetary forms of cover produced inflows to the Treasury of 13.8 trillion, the bulk of which consisted of foreign loans. Strong demand for government securities in the secondary market permitted the central bank to make net outright sales of around 12 trillion lire, offsetting just less than half of the Bank's large net outright purchases in 1992.

Table 20

Monetary variables (1)

	1992		1993 (3)
	Jan.-Sept. (2)	Year	Jan.-Sept. (2)
Bank reserves (4) ...	3.3	4.2	10.9
Monetary base (4) ...	7.1	7.1	9.0
Bank deposits	4.4	4.3	9.1
Money supply (M2) ..	5.6	5.9	8.3

(1) Percentage changes. Bank reserves and monetary base calculated as averages of daily data for the mid-month to mid-month reserve maintenance period, bank deposits and the money supply as averages for the three months ending in the period specified. – (2) Seasonally adjusted annual rate. – (3) Provisional. – (4) Corrected for the change in the average compulsory reserve ratio.

Changes in the composition of investors' financial portfolios and in banks' fund-raising policy contributed to the growth in M2. The customary lags in adjusting the rates on bank deposits to those on government securities brought an acceleration in deposits from the very first months of 1993: compared with the average stock in the fourth quarter of 1992, the growth in M2 was 9.3 per cent in June on an annual basis (Figure 18). After decelerating in the next two months, the growth resumed at a rapid pace in September, when it rose to 8.9 per cent on an annual basis compared with the fourth quarter of 1992. In the first eight months of 1993 M2 grew faster than financial assets; in the third quarter the ratio of the money supply to income returned to the values seen in 1987, when the difference between the yield on alternative financial instruments and that on M2 was not unlike that obtaining today. Particularly in the early months of the year, the behaviour of the money supply reflected the repatriation of Italian capital and, on the supply side, banks' desire to expand fund-raising with longer-term CDs, which from May onwards were subject to a lower reserve ratio.

Bank of Italy intervention in the money market

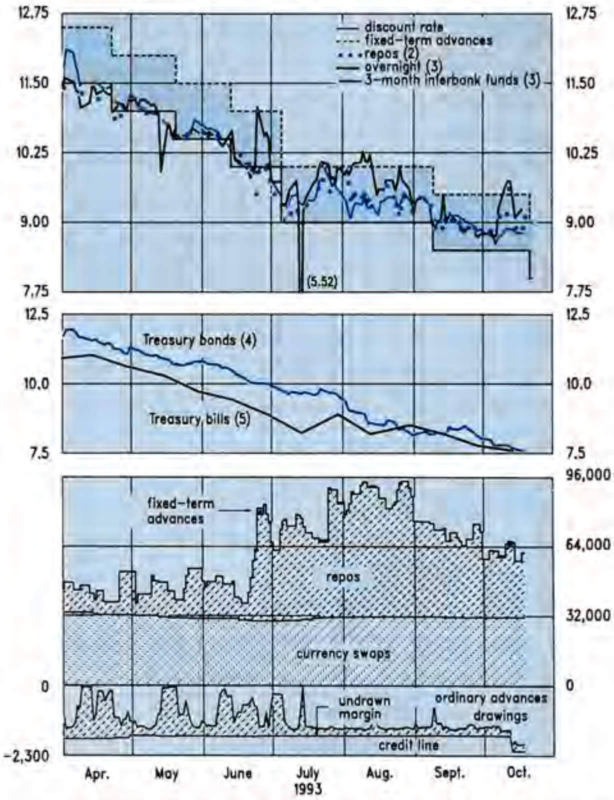
At the beginning of April the foreign exchange and government securities markets were affected by the uncertainty generated by the political situation. The lira came close to 1,000 to the Deutschemark and the prices of securities fell appreciably. The financial picture improved rapidly after the referendum on electoral reform and the conclusion of the government crisis. Following the reduction in official interest rates in Germany and France, on 22 April the Bank of Italy lowered the discount rate by half a point to 11 per cent (Figure 1); at the end of the month the rate on 3-month interbank deposits fell to 11.3 per cent, a decrease of more than half a point compared with March, while the prices of government securities recovered to the levels recorded at the beginning of March. The 3-month interest rate differential vis-à-vis the Deutschemark narrowed by 0.6 percentage points to 3.6 points. The differential vis-à-vis the French franc nearly doubled, widening to 3.2 points as a result of the large reduction in short-term rates implemented by the French monetary authorities (Figure 2).

The downward trend of yields continued in May, assisted by the decline in repo rates; by mid-May interbank rates had fallen below the discount rate, which on the 20th of the month was reduced further to 10.5 per cent. The prices of government securities continued to rise; the net yield on Treasury bonds with a maturity of more than nine years came down to 10.8 per cent, about half a point lower than at the end of April. The average net yield on Treasury bills fell to less than 10 per cent at the end-month auction.

The reduction in the official discount rate from 10.5 to 10 per cent on 11 June was transmitted to the entire structure of money market rates. At the end of June the 3-month interbank rate declined to 10 per cent, a decrease of 0.7 points on the end of May. Larger-than-expected tax receipts resulted in the Treasury's cash surplus exceeding 20 trillion lire; the Bank of Italy intervened by offering temporary financing to the banks, whose debtor position in securities with the central bank returned to a level of more than 45 trillion at the end of the month. The lira continued to strengthen in June, partly owing to the appreciation of the dollar against the Deutschemark; compared with the lows recorded on 2 April, it was up by 8.9 per cent in nominal terms against the currencies of Italy's leading trading partners and by 10.5 per cent against those of the other Community countries. On the secondary market, the after-tax yield on securities with more than nine years' maturity continued to decline, falling by more than 0.8 points over the month.

Figure 1

Official interest rates, money market rates, Treasury bond yields and central bank financing (1)



(1) Daily data. Interest rates in per cent; stocks in billions of lire. – (2) Marginal allotment rate. – (3) Weighted average of bid-ask prices. – (4) After-tax secondary market yield on Treasury bonds with residual maturity of more than 9 years. – (5) Weighted average of composite net allotment rates on 3, 6 and 12-month Treasury bills.

On 5 July, after the incomes policy agreement was concluded, the Bank of Italy decided to lower the discount rate to 9 per cent. However, the reappearance of strong tensions in the EMS, which also affected the lira, and the slight pick-up in inflation in June made it advisable to calibrate temporary financing, which brought the fall in short-term rates momentarily to a halt. Money market rates remained within the range marked out by refinancing rates;

at the end of July the overnight rate was 10 per cent, equal to that on fixed-term advances, and the 3-month rate was 9.6 per cent. The differential in short-term interest rates vis-à-vis Germany remained unchanged at around 2.7 per cent, while that vis-à-vis France was negative by 0.2 points owing to the large rise in French rates aimed at defending the franc within the EMS. In July the Treasury's borrowing requirement was small and 10 trillion lire less than in the same month in 1992; the Treasury accumulated considerable resources on its current account with the Bank of Italy, with the undrawn overdraft facility amounting to 45 trillion lire at the end of the month. The Bank of Italy responded to the destruction of liquidity via the Treasury by intervening in the money market with repurchase agreements, the stock of which exceeded 52 trillion lire at the end of July. The small borrowing requirement and favourable demand conditions facilitated the issuance policy designed to lengthen the life of the public debt; gross issues of Treasury bills fell short of redemptions, with a decrease in 3-month paper and an increase in that at 12 months.

In August, the lira weakened after the widening of the EMS fluctuation band; over the month it depreciated by 1.5 per cent against the currencies of Italy's leading trading partners and by 2 per cent against those of the other Community countries. The interbank yield curve, which had been flat since mid-April, took on a negative slope for most of the month; at the end of August the overnight and 3-month rates were repectively 9.4 and 9.3 per cent. Expectations of lower yields in the domestic and international markets fueled the demand for fixed rate government securities, a good part of which came from foreign investors, initiating a rise in prices that lasted throughout the month. The Bank of Italy intervened with net sales amounting to 6 trillion lire at face value to ensure that the decline in yields took place gradually and in orderly market conditions. At the end of August the net secondary market yield on long-term Treasury bonds was 1.4 points lower than a month earlier. At the mid-month auction the net allotment rates on 3 and 5-year Treasury bonds fell to respectively 7.5 and 7.7 per cent; that on 10-year paper came down to 8.2 per cent, a decrease of more than 1 percentage point compared with the beginning of the month.

Figure 2

Exchange rates and short-term interest rates (1)

(1) Daily data. For exchange rates, indices (11.9.1992=100). For interest rates, interbank rates on 3-month funds.

On 9 September, in conjunction with the reduction in German official rates, the Bank of Italy lowered the discount rate by half a point to 8.5 per cent. At the end of the month interbank rates fell to below 9 per cent, with overnight and 3-month rates of respectively 8.8 and 8.9 per cent. The prices of government securities began to rise again towards the end of the month, after weakening slightly in the preceeding weeks: foreign demand benefited from the ratification of the decree law aimed at speeding up government securities withholding tax refunds to non-residents. At the end-month Treasury bill auction the amount of securities supplied was 2 trillion lire less than the amount falling due and the net allotment rate on 6-month paper was 7.6 per cent, a decrease of more than 0.8 points compared with the previous auction.

Liquidity conditions tightened in the first half of October in connection with the weakening of the lira: at mid-month the overnight rate stood at 9.7 per cent, 0.2 points higher than the rate on fixed-term advances. The rise in rates was limited to the very-short end. On the government securities market, rates continued to come down. Ten-year Treasury bonds offered a net yield of 7.4 per cent at the mid-month auction, compared with 7.7 per cent at the previous auction; their net yield on the secondary market fell to 7.6 per cent, compared with 8 per cent at the end of September.

The non-state sector's purchases of securities under repos and of Treasury bills slowed down sharply between December and August, growing by 15.3 trillion lire, compared with an increase of more than 77.5 trillion in the same period a year earlier. Reflecting the introduction of new tax rules, banks' fund-raising policies and the effect of the fall in interest rates on the demand for such investment instruments, the stock of securities held temporarily by the non-state sector grew by 23.4 trillion, whereas in the same period in 1992 it had expanded by 47 trillion.

Table 21

Monetary base

(changes in billions of lire) (1)

	1992		1993 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Sources			
Foreign sector	–58,993	–32,591	4,386
Foreign currency swaps	*–*	*29,248*	*–2,055*
Treasury	3,396	–2,697	–14,277
Borrowing requirement	*109,884*	*162,844*	*108,866*
(excluding settlements of past debts)	*109,853*	*162,813*	*105,975*
Outstanding securities	*–106,491*	*–147,515*	*–109,330*
PO deposits and foreign loans (3)	*2*	*–18,026*	*–13,814*
Open market	37,304	42,781	–11,905
Refinancing of banks	17,308	122	–6,961
Other sectors	–2,649	858	–1,802
Total	**–3,634**	**8,473**	**–30,559**
Uses			
Currency in circulation	2,082	9,263	–2,087
Bank reserves	–5,716	–789	–28,472
Deposits with BI	–3,269	113	–27,222
Memorandum item: compulsory reserves	*–3,851*	*1,012*	*–29,860*
Other items (4)	–2,448	–902	–1,250

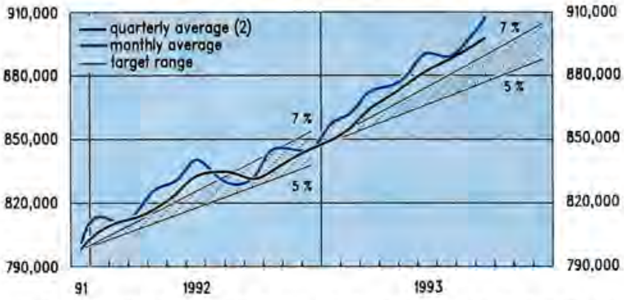
(1) Based on end-of-period data. Rounding may cause discrepancies in the totals. – (2) Provisional. – (3) Includes other minor items (chiefly bank loans). – (4) Vault cash and undrawn margin on ordinary advances.

Residents stepped up their investment in medium-term government securities in the first eight months of the year compared with the same period in 1992: excluding securities acquired under repos, their holdings increased by 14.4 trillion lire, compared with 2.6 trillion a year earlier. Treasury credit certificates continued to be the preferred instrument: the non-state sector holds around 70 per cent of all such securities in circulation. By contrast, in the twelve months ending in August Treasury bonds fell from 55.3 to 44.2 per cent of the non-state sector's portfolio of government securities. Foreign investors made very large purchases of fixed-rate securities: in August the share of Treasury bonds in circulation held by non-residents reached 18.9 per cent, more than three times the figure recorded twelve months earlier.

Figure 18

Money supply M2 (1)

(target range and actual; billions of lire)



(1) Seasonally adjusted. – (2) Averages for the 3 months ending in the reference month.

In the first eight months of the year total financial assets grew by 7 per cent on an annual, seasonally adjusted basis, compared with 9.6 per cent in the same period in 1992 (Table 22). Divergent patterns were observed within the private sector, for which the available data refer to the first half of the year: in contrast with the slowdown in the financial assets of households, including producer households, the tendency for firms to run down their financial assets reversed. In order to realize the gains deriving from the depreciation of the lira, residents reduced their holdings of foreign assets: in the first eight months of 1993 net disposals amounted to 1.4 trillion lire, as against net purchases of more than 40 trillion in the same period a year earlier.

Table 22

Credit and financial assets
(percentage changes and shares; end-of-period data)

	Growth rate			Share of outstanding stock	
	1992		1993	1992	1993
	Jan.-Aug. (1)	Year	Jan.-Aug. (1)	Aug.	Aug.
Total credit	**11.5**	**9.7**	**8.7**	**100.0**	**100.0**
finance to the non-state sector	*11.7*	*7.4*	*4.5*	*40.1*	*39.0*
from banks	*12.7*	*8.2*	*2.5*	*22.8*	*22.2*
from special credit institutions	*11.9*	*6.5*	*9.2*	*11.8*	*11.7*
bonds	*–14.9*	*–14.8*	*–18.5*	*0.9*	*0.6*
foreign finance	*13.1*	*10.3*	*6.6*	*4.6*	*4.5*
finance to the state sector	*11.3*	*11.2*	*11.5*	*59.9*	*61.0*
foreign finance	*–4.2*	*0.3*	*13.7*	*2.0*	*2.6*
Financial assets (2)	**9.6**	**8.0**	**7.0**	**100.0**	**100.0**
domestic	*7.0*	*7.4*	*7.6*	*93.4*	*94.7*
liquid assets	*9.9*	*10.7*	*7.2*	*63.3*	*63.7*
M2 (3)	*3.7*	*4.5*	*9.0*	*36.6*	*36.9*
medium and long-term government securities	*0.1*	*0.1*	*6.1*	*27.4*	*27.3*
Other (4)	*5.3*	*0.8*	*21.0*	*2.7*	*3.7*
foreign assets	*32.6*	*20.1*	*0.9*	*6.6*	*5.3*

(1) Calculated from seasonally adjusted data. – (2) Net of shares. – (3) Percentage changes are calculated from monthly averages. – (4) Investment fund units, non-state sector assets with special credit institutions, surety deposits of firms and atypical securities.

The weak cyclical conditions were reflected in the marked slowdown in credit to the economy. On the supply side, the growth in lending may have been affected by banks' caution in granting new loans in the face of higher risk and lower business profitability. Finance to the non-state sector grew at a seasonally adjusted annual rate of 4.5 per cent in the first eight months of 1993, compared with 11.7 per cent in the same period a year earlier. There was a steep decline in foreign currency loans. Total finance to the state sector also slowed down, although the amount supplied by non-residents grew: the latter included not only the funds raised by the Treasury with international issues, but also massive purchases of government securities by non-residents on the domestic market. The latter are estimated to have totaled 65 trillion lire between January and August; the stock of government securities held by foreign investors more than doubled from the end of 1992. In the first eight months of the year total credit expanded less than in the same period in 1992, growing at a seasonally adjusted annual rate of 8.7 per cent, compared with 11.5 per cent a year earlier.

The activity of credit intermediaries

The very moderate growth in lending, together with the recovery of deposits, enabled banks to reduce their foreign borrowings. By contrast, lending by medium and long-term credit institutions slowed down less than bank loans and they faced greater rigidity on the deposits side; consequently their net fund-raising abroad increased, albeit to a lesser extent than in recent years.

The financial balances of households and enterprises

The Bank of Italy resumed publishing the annual financial accounts in its Report for 1991 and since January 1993 it has also produced quarterly data on a regular basis (see Supplementi al Bollettino Statistico*). The latter, which are not seasonally adjusted, now appear with a lag of only three months with respect to the reference date, permitting financial developments in the main sectors to be analyzed during the year.*

The financial balance of the household sector (including sole proprietorships), the ex post difference between gross saving and capital expenditure inclusive of depreciation (basically, investment in housing), was 50.71 trillion lire in surplus in the first half of 1993. This surplus, representing the difference between the sector's acquisition of net financial assets and liabilities, was 13.2 per cent smaller than in the year-before period. The reduction in the surplus, which followed a decline in 1992 and became more pronounced in the second quarter as the economic situation worsened, resulted from a 20 per cent decrease in the flow of assets that was only partly offset by that in the flow of liabilities. A contraction of this magnitude in the acquisition of net financial assets may be indicative of a sharp slowdown in household saving and possibly of an ex post fall. The change in the sector's financial assets was entirely due to the foreign component, with a continuation of the disinvestment in external assets that had begun in the fourth quarter of 1992 following massive acquisitions in the first half of the year and the currency crisis. The flow of domestic financial assets was slightly larger than in the first half of 1992. Among domestic financial assets, the total flow of deposits, negative by 1 trillion lire (without seasonal adjustment), showed signs of recovering compared with the first half of 1992; in particular, the flow of non-sight deposits, including CDs, nearly doubled. Moreover, with interest rates declining, short-term securities accounted for only a very small share of the 37.3 trillion lire of net acquisitions of securities, whereas in the second half of 1992 they had exceeded 100 per cent of the total; the share of medium and long-term securities was 92 per cent, compared with 67 per cent in the first half of 1992. Investment in shares, capital parts and investment fund units was more than 70 per cent up on the corresponding period in 1992.

In conjunction with the reduction in purchases of durable goods and real estate transactions, households' overall demand for credit contracted from around 18 trillion lire in the first half of 1992 to 10.5 trillion. The fall was of similar size for short-term and medium and long-term liabilities, but larger in percentage terms for the former.

The corporate sector again ran a financial deficit, resulting from the ex post excess of expenditure on stockbuilding, plant and equipment over gross saving, mainly retained earnings. In the first half of 1993 the deficit fell to 11.6 trillion lire, compared with around 39 trillion in the first half of 1992. This result accentuated the decline in the financial deficit that has been under way at least since the beginning of 1990, i.e. since the beginning of the economic downturn. The behaviour of firms' financial balance appears to be tied to that of the flow of liabilities, which diminished by 32 per cent compared with the first half of 1992 owing to the further deterioration in cyclical conditions and the contraction of investment. Among the flows of domestic financing, the sharpest reduction concerned short-term bank loans, with net repayments of more than 5 trillion lire, and medium and long-term loans from special credit institutions, which were less than half the amount recorded in the first half of 1992. Allowing for the fact that intra-year figures are based to a considerable extent on estimates, net issues of shares and capital parts appear to have grown twofold and been placed entirely on the domestic market; the revival of firms' recourse to the market corresponds to the good showing of share prices and reflects the need to restore more solid financial equilibria. The flow of foreign financing slowed down appreciably, diminishing by around 50 per cent.

The slowdown in firms' acquisitions of financial assets that characterized 1992, against a background of large fluctuations in the three years from 1990 to 1992, was followed by an acceleration in the first half of this year: the flow amounted to 18.5 trillion lire, around 13 trillion more than in the first half of last year. The growth chiefly concerned external assets and, in particular, trade credits, the flow of which increased by more than 10 trillion compared with a year earlier thanks to the good *performance of exports. Net purchases of foreign shares and participations were substantial, while firms sold off foreign bonds, as they have been doing since late in 1992. Among domestic financial assets, there was further disinvestment in government securities, after the massive disposals effected in the second half of 1992; net purchases of domestic shares and participations turned upwards.*

Financial assets and liabilities
(billions of lire)

	Households (1)				Enterprises (2)			
	Flows			Stocks	Flows			Stocks
	1992 H1	1992 H2	1993 H1	Dec. 1992	1992 H1	1992 H2	1993 H1	Dec. 1992
Cash	–2,394	10,795	–3,456	77,483	–257	1,130	–367	7,978
Transferable sight deposits	–22,606	21,805	–19,645	331,329	–7,500	6,189	–2,752	83,015
Other deposits	9,955	35,916	18,665	553,788	–114	830	387	4,228
Short-term securities	15,733	41,821	2,808	351,007	905	–114	–252	4,500
Medium and long-term securities	31,502	–1,166	34,489	502,819	1,685	–11,692	–191	50,341
government	*24,184*	*462*	*19,832*	*418,092*	*1,736*	*–11,199*	*–805*	*44,115*
Investment fund units	5,068	–4,336	6,313	60,663	–	–	–	–
Shares and participations	3,912	2,618	9,522	545,422	1,695	1,110	4,185	245,298
External assets	14,765	–7,349	–3,090	84,825	7,825	2,363	16,942	115,678
Other	20,291	19,665	15,599	255,168	1,117	1,113	598	17,469
Total assets	**76,226**	**119,769**	**61,205**	**2,762,504**	**5,356**	**929**	**18,550**	**528,507**
Short-term loans	5,555	1,671	1,090	117,833	12,697	17,188	–3,933	402,357
banks	*5,147*	*1,929*	*1,275*	*113,130*	*13,082*	*16,461*	*–5,035*	*353,668*
Medium and long-term loans	8,458	3,058	3,835	165,988	12,994	8,985	9,084	239,199
banks	*4,623*	*165*	*1,381*	*71,320*	*1,204*	*752*	*2,217*	*18,505*
special credit institutions	*4,079*	*3,143*	*2,708*	*77,000*	*10,604*	*7,817*	*5,054*	*167,951*
Shares and participations	–	–	–	–	4,751	3,987	12,035	698,085
External liabilities	–	–	–	–	10,481	3,515	5,644	190,154
shares and participations	–	–	–	–	*2,053*	*1,594*	*781*	*44,916*
Other	3,793	4,481	5,570	68,137	3,565	6,870	7,357	145,958
Total liabilities	**17,806**	**9,210**	**10,495**	**351,958**	**44,488**	**40,545**	**30,187**	**1,675,753**
Balance	**58,420**	**110,559**	**50,710**	–	**–39,132**	**–39,616**	**–11,637**	–

Source: Financial accounts.
(1) Consumer households and sole proprietorships. – (2) Non-financial companies and non-financial quasi-corporate enterprises.

Bank loans, which have been slackening since the turn of the decade after growing vigorously in the eighties, slowed down considerably: the twelve-month rate of growth fell from 8.2 per cent in December 1992 to 1.6 per cent in August. The limited increase, from 4.3 to 5.8 per cent, in the twelve-month growth of lira loans over the same period did not offset the reduction in foreign currency loans that began with the floating of the lira; in the twelve months ending in August, foreign currency loans contracted by 21.5 per cent.

The weak state of the economy prompted banks to be particularly prudent: in the twelve months to June the volume of credit granted contracted by 2.4 per cent, compared with an expansion of 3.6 per cent in credit drawn (Table 23); for non-bank customers, the average ratio of credit drawn to credit granted rose in the first half of 1993 from 60.3 to 61 per cent, compared with 57.4 per cent at the end of June 1992. The increase in the ratio in the twelve months to June was particularly large for public enterprises.

The restrictive stance of the banks was influenced by the strong growth in non-performing loans and bad debts stemming from the economic downturn. In August bad debts, i.e. loans to borrowers that banks consider to be basically insolvent, exceeded 44 trillion lire; the increase of 6.8 trillion from the start of the year was more than twice that recorded in the same period in 1992. Bad debts increased from 7.2 to 8.4 per cent of total lira loans in the first eight months of the year. The growth in bad debts is slower today than in the recession of the early eighties, and banks have a stronger capital base, but the ratio of bad debts to loans was considerably lower in 1980 (4.9 per cent on average).

The growth in bad debts was largest for loans to financial companies, non-financial companies supplying market services and consumer households, the sectors that had increased their indebtedness most between 1989 and 1992. The deterioration in loan quality was most pronounced for larger banks and for borrowers with medium-sized and large exposures.

The greater riskiness of lending was confirmed by a large increase in non-performing loans, defined as claims on customers expected shortly to enter bankruptcy proceedings. Such loans grew by 39.2 per cent through June, with private sector non-financial companies accounting for a large share.

In the first eight months of the year the book value of banks' securities portfolio diminished by 17.1 trillion lire, as against a decline of 5 trillion in the same period in 1992. The contraction occurred at a time of rising prices and mainly concerned medium and long-term securities; by contrast, banks purchased almost 10 trillion lire of Treasury bills. Excluding repos with the Bank of Italy and customers, the portfolio contracted by 3.4 trillion lire, whereas in the first eight months of 1992 it had increased by 39.1 trillion. The reduction in repo operations with the Bank of Italy that accompanied the lowering of the reserve requirement in February and March thus did not lead to an expansion in the securities portfolio.

Bank lending rates continued to come down. From December to the end of September the average rate fell by 4 percentage points to 12.9 per cent, while the minimum lending rate declined from 14.2 to 10.1 per cent. The rate on current account deposits fell by 2 points in the first nine months of the year, or less than during the previous phase of declining official rates in 1986. The yield on newly issued six-month certificates of deposit, which had risen sharply in the closing months of 1992 in connection with the more difficult fund-raising conditions, fell by 4.2 points to 8.1 per cent at the end of August. Net of withholding tax, the differential between the average Treasury bill rate and that on deposits, including CDs, narrowed to 3.3 points in August (from the maximum of 9.5 points in September 1992). The spread between average lending and deposit rates, including CDs, was 6.3 percentage points, 0.3 points narrower than in May 1992. With the aim of preventing liquidity problems in the short run and building up resources to be used when the economy recovers strength, banks pursued a policy for deposit rates that sought to maintain the volume of intermediation, though not to the point of sacrificing short-term profitability.

Bank deposits revived as a result of the narrowing of the differential between deposit rates and yields on alternative instruments (Figure 19). Twelve-month growth rose to 7.7 per cent in August, compared with annual growth of 3 per cent in 1992. Certificates of

Table 23

Lending according to branch of economic activity (1)

	General government	Financial enterprises	of which: holding companies – private	of which: holding companies – public	Non-financial – private	Non-financial – public	Households – consumer	Households – producers	Total lending to resident customers
				12-month percentage change in credit granted (2)					
1991 – December .	47.9	18.6	44.4	4.0	11.0	–6.1	31.5	11.4	13.1
1992 – June	10.3	11.4	9.1	–2.8	11.4	–11.9	28.5	10.1	10.6
1992 – December .	7.2	1.8	–6.4	–15.9	0.9	–13.0	11.0	3.5	1.1
1993 – June	5.7	–5.1	–18.2	2.7	–1.7	4.4	10.5	0.9	–2.4
				12-month change in credit drawn (2)					
1991 – December .	70.4	23.9	57.0	0.5	14.8	7.1	37.2	13.9	18.3
1992 – June	28.2	27.0	18.0	15.2	16.0	11.7	33.5	12.5	18.4
1992 – December .	17.4	6.0	2.7	21.0	10.2	10.1	16.4	8.8	9.3
1993 – June	–2.0	1.4	–7.1	54.3	3.1	22.2	12.1	3.8	3.6
				Ratio of credit drawn to credit granted (2)					
1991 – December .	55.3	55.0	51.9	48.7	54.0	43.0	73.7	65.6	55.8
1992 – June	58.3	54.6	52.4	47.5	55.9	43.2	75.9	67.8	57.4
1992 – December .	60.6	57.3	56.9	70.0	59.0	54.4	77.3	68.9	60.3
1993 – June	54.1	57.9	59.0	71.1	58.7	50.7	77.2	69.8	61.0
				Interest rates on lira loans (3) *(averages)*					
1991	13.3	12.4	12.6	12.1	14.1	12.6	15.8	16.0	14.1
1992	14.3	14.5	14.5	14.9	16.1	14.9	17.7	17.7	16.0
1992 – 1st half	12.9	12.9	13.0	12.9	14.5	13.2	16.3	16.3	14.4
1992 – 2nd half ...	15.5	16.0	16.3	16.5	17.5	16.3	18.9	19.1	17.4
1993 – 1st half	13.4	13.3	13.7	13.6	15.3	13.9	17.1	17.1	15.2
				Percentage composition at 30 June 1993					
Credit line	3.7	18.9	4.4	3.1	56.7	4.1	3.8	12.2	100.0
Credit used	3.2	18.5	4.4	3.7	55.4	3.5	4.8	14.0	100.0

Source: Central Credit Register.

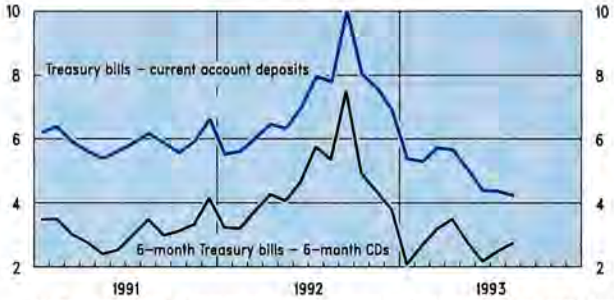
(1) Lending to resident customers. The total (final column) also includes lending to "private non-profit institutions". Credit drawn is net of bad debts. – (2) The foreign currency component of credit granted and credit drawn is net of exchange rate changes. – (3) Differences by comparison with previously published data are due to changes in the method of calculation; rates are calculated on the basis of the civil year (365 days, as laid down in Law 154/1992) instead of the commercial year (360 days).

deposits continued to expand briskly, growing by 27.7 per cent in the twelve months to August; current accounts recorded an upturn, with twelve-month growth of 3.9 per cent in August, as against a contraction of 2.3 per cent in 1992.

Figure 19

Interest rate differentials net of witholding tax (1)

(percentage points)



(1) The differential in relation to current account deposits is measured using the weighted average allotment rate on 3, 6 and 12-month bills.

Temporary sales of securities to customers slowed down after running strongly in the final months of 1992 despite a change in the tax rules, confirming that banks had overcome the difficulties they had perceived in fund-raising.

By contrast, temporary purchases of securities expanded strongly; the amount outstanding in August was 38.2 trillion lire, twice the figure for the end of 1992. Temporary purchases of lira securities from non-resident customers grew from 7.4 trillion lire in December 1992 to 25.3 trillion in August. These transactions, which helped to sustain the demand for government securities by temporarily covering foreign investors' exchange risk, was a factor in the large increase in Italian banks' claims on non-residents. Their net foreign creditor position in lire rose from 1.3 trillion lire in December 1992 to a maximum of 11.7 trillion in August. These changes were accompanied by further large repayments of foreign currency liabilities contracted with non-residents. In the eight months ending in August the banks' net foreign liabilities thus diminished by around 46 trillion lire, taking account of the exchange rates applied, compared with an almost equivalent increase in the same period a year earlier. This year's result was determined by a decrease of 29.9 trillion lire in liabilities and an increase of 16.7 trillion in assets.

Banks' profitability in the first half of 1993 improved considerably compared with a year earlier. This reflected the exceptional growth in non-interest income resulting primarily from the large rise in securities prices; to a lesser extent it was due to the wide spread between lending and deposit rates and the containment of operating expenses.

Net interest income rose by around 10 per cent. The large increase in profits from securities trading and, secondarily, in earnings from other services boosted the growth in gross income to around 22 per cent, compared with almost 6 per cent in the first half of 1992; gross income rose from 4.8 to 5.2 per cent of resources. The slowdown in operating expenses primarily reflected developments in staff costs: there was a slight decline in the number of staff and an increase of around 4 per cent in per capita costs. Operating profit was around 50 per cent larger than in the first half of 1992, rising from 1.6 to 2.1 per cent of resources. However, banks' results for the year will reflect provisioning policies adopted in response to the increased riskiness of their assets and the attenuation of the exceptional factors that influenced their results for the first half.

The fall in productive activity also continued to affect medium and long-term lending. Nonetheless, lending by the special credit institutions slowed down less than that by banks. The twelve-month growth in special credit was 6.9 per cent in August, compared with 8.1 per cent in December 1992. The deceleration was particularly pronounced for real estate lending, where twelve-month growth fell from 12.5 to 7.7 per cent over the same period in connection with the downturn in the property market. Industrial credit slowed down less, expanding by 5 per cent in the year to August, compared with annual growth of 6.1 per cent in 1992.

In July special credit institutions' bad debts amounted to 19.8 trillion lire, or 6.6 per cent of their lira loans, compared with 5.8 per cent in July 1992. The tendency for the volume of problem loans to grow is confirmed by the increase in instalments in arrears: these exceeded 9.8 trillion lire in June, with a twelve-month rise of more than 73 per cent.

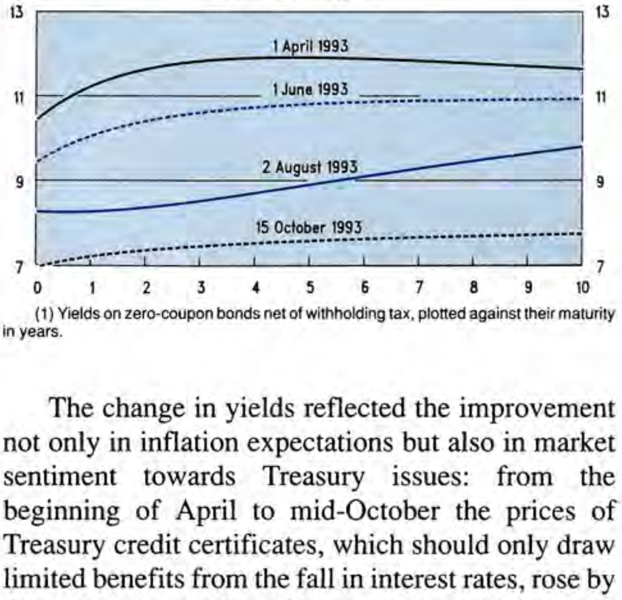
The deceleration in special credit was accompanied by a further slowdown in fund-raising after that observed in 1992. This was particularly pronounced for liabilities denominated in foreign currency and external lire, for which the twelve-month growth fell from 14.7 to 7.2 per cent between December and August. The slowdown in bond issues was countered by a recovery in CDs, for which the twelve-month growth rose from 6.4 in December to 8.6 per cent in August.

The financial market

Between the beginning of April and the middle of October long-term yields came down further in Italy than in other European countries. The narrowing of the long-term interest rate differentials vis-à-vis Germany and France was more marked than for short-term rates (Figure 17) and is a sign of the market's confidence in the continuation of disinflation and the lowering of official rates.

Figure 20

Yields curves (1)
(percentages)



(1) Yields on zero-coupon bonds net of withholding tax, plotted against their maturity in years.

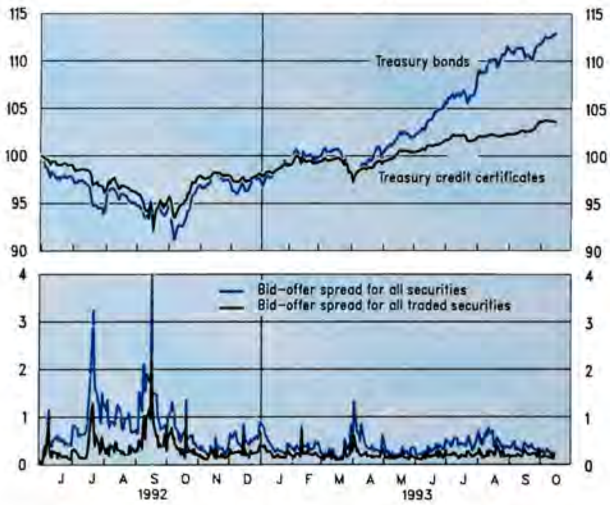
The change in yields reflected the improvement not only in inflation expectations but also in market sentiment towards Treasury issues: from the beginning of April to mid-October the prices of Treasury credit certificates, which should only draw limited benefits from the fall in interest rates, rose by 5.6 per cent, considerably more than the increase attributable to the reduction in the short-term rates to which they are indexed. In the same period there was a narrowing of the yield differentials between foreign currency securities issued by the Italian Republic and those issued by other sovereign borrowers; the differentials with respect to French and German securities with comparable features declined from around 60 to 45 basis points. However, the Treasury's recent placement of a thirty-year global dollar bond with a spread of around 90 basis points over the yields paid by the US Treasury indicates that sizable credibility gains can still be reaped.

The yield curve shifted downwards while keeping a gently rising slope (Figure 20). This configuration can largely be explained by the maturity premium: for investments at the long end, expectations of an imminent fall in interest rates may be countered by expectations of rising yields once the economy begins to recover.

Turnover on the screen-based market in government securities amounted to 1,514 trillion lire in the first nine months of 1993, compared with 1,307 trillion a year earlier; there are also signs of an increase in trading in the over-the-counter market. From April to August the average bid-offer spread remained at the previous months' levels (Figure 21). Though confirming its decline from the spikes recorded during the summer 1992 crisis, the spread was well above those obtaining before June 1992.

Figure 21

Screen-based market: ex coupon price indices and average bid-offer spread
(indices (29.5.92=100) and percentages)

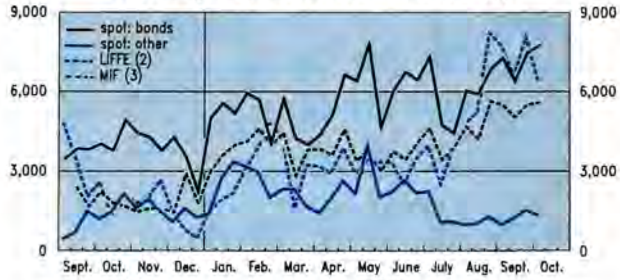


Turnover in Italian Treasury bond futures on MIF exceeded that on LIFFE until July (Figure 22). In August there was a surge in volume on the London market, which grew by 74 per cent from July, compared with an increase of 21 per cent on MIF; this may have been due not only to the increase in Italian securities held by non-residents but also to strong upward speculation, based on expectations of a decline in yields, on the part of foreign investors, who are most active in the London market. There was also substantial growth in trading in three-month Eurolire on LIFFE. Volume almost doubled between May and June and remained high in the following months; at the end of August volume and open interest were respectively 3.4 and 4.2 times larger than a year earlier. These increases are related to the growth of intermediation in Eurolire, partly in connection with the financing of foreign operators' securities positions and the greater use of short-term hedging instruments.

Expectations that yields would continue to come down facilitated the sale of government securities, including long-dated paper (Table 24): from April to September 23.5 trillion lire of ten-year Treasury bonds were sold in eleven placements, compared with the 16.5 trillion issued in the corresponding period in 1992. Net issues of Treasury bills only amounted to 1.6 trillion lire, compared with 18.9 trillion in 1992; modest net issues of Treasury credit certificates (4.6 trillion) were compensated by those of Treasury bonds (56.9 trillion), which accounted for 86 per cent of the government securities issued (65.8 trillion). Demand outstripped supply for all issues for medium and long-term securities by a factor of 1.8.

Figure 22

Turnover in government securities on the spot and futures markets (1)



(1) Average daily turnover in billions of lire. – (2) Turnover in long-term bonds. – (3) Turnover in medium and long-term bonds.

Table 24

Government securities
(billions of lire)

	Bills (1)	Ecu bills	Credit certificates	Bonds	Option certificates	Ecu credit certificates	Other	Total
				Gross issues				
1989	498,552	11,313	21,300	41,100	15,620	9,025	635	597,545
1990	559,196	6,109	75,538	74,460	27,161	8,017	4,582	755,063
1991	602,421	4,989	99,000	93,010	23,000	3,680	–	826,100
1992	675,055	6,961	83,426	95,519	14,500	4,759	–	880,220
1992 – Jan.-Sept.	484,555	3,465	69,000	72,557	14,500	3,469	–	647,546
1993 – Jan.-Sept.	569,302	4,905	40,000	102,952	–	8,029	2,865	728,053
				Net issues				
1989	39,777	3,264	20,916	27,006	15,336	7,434	–2,966	110,767
1990	44,640	–4,071	54,214	–13,347	26,678	7,262	–114	115,262
1991	13,894	–2,253	9,268	85,784	22,923	1,775	–3,296	128,095
1992	44,731	1,943	60,024	33,576	3,847	520	–7,035	137,606
1992 – Jan.-Sept.	20,249	7	49,372	24,146	10,165	45	–6,999	96,985
1993 – Jan.-Sept.	12,436	1,467	10,714	90,384	–7,041	2,538	1,020	111,518

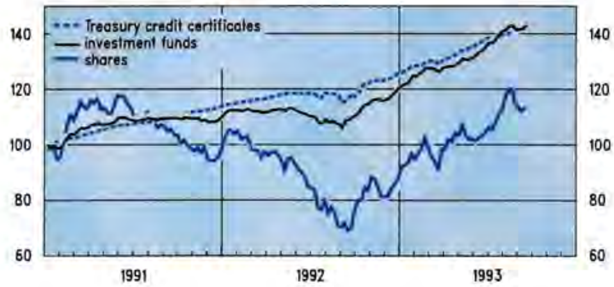
(1) Issues discounts are not accounted for in net issues.

Net subscriptions of government securities by non-bank investors totaled 97.5 trillion lire in the first eight months of the year, compared with 78.6 trillion in the same period in 1992. Foreign demand was the most buoyant component: net purchases by foreign investors through August amounted to more than 64 trillion lire, including 55.4 trillion of Treasury bonds.

Figure 23

Securities market: indices of capitalization

(31 December 1990=100)



Share prices on the Milan Stock Exchange turned up again in April after a temporary setback in March (Figure 23). When they peaked on 30 August, they were 40.8 per cent higher than at the end of last year and 78.8 per cent above their 1992 low, recorded on 16 September. Several factors contributed to the improvement: the fall in interest rates, the enhanced competitiveness of Italian firms in international markets, the agreements on the cost of labour and the acceleration of the privatization programme. The interruption of this tendency in September may have been due not only to profit-taking but also to the persistence of unfavourable cyclical conditions and, possibly, to the adverse effect of expectations of substantial capital increases.

Turnover in shares was boosted by the volatility of prices. In August it totaled 11.9 trillion lire, nearly eight times the figure for the same month in 1992. As well as reflecting the rise in prices, the growth in turnover can be attributed to the increase in shares listed for continuous screen-based trading, which currently number 84. Block trading grew by 7.7 per cent in the first seven months of 1993 compared with the year-earlier period.

The good performance of the bond and share markets was reflected in Italian investment funds' net fund-raising. This amounted to around 14.9 trillion lire in the period from April to September, with bond-based funds' accounting for 11.7 trillion of the total. The increase in fund-raising, together with the large rise in prices in the domestic securities markets, resulted in investment funds' net assets growing by 36 per cent to 89.7 trillion lire at the end of September.

Italian investment funds' portfolios contained a much larger proportion of foreign securities at the end of September than a year earlier owing to the depreciation of the lira and net purchases. Among government securities, the share of Treasury bonds increased and the value held by funds almost doubled from the beginning of the year. Thanks to the rise in securities prices, Italian investment funds' overall rate of return was 20 per cent from the beginning of the year; the best results were achieved by share-based funds (28 per cent), followed by mixed funds (25.8 per cent) and bond-based funds (15.7 per cent).

Short-term prospects

The international economy

For the industrial countries, the slowdown in the growth of economic activity and foreign trade in 1993 as a whole seems likely to be more pronounced than had been expected and unemployment has worsened, while inflation rates have continued to decrease. Confidence has remained depressed in Europe and Japan, owing partly to the strains in the European currency markets that culminated in the decision of 2 August to widen the margins of fluctuation for currencies participating in the Exchange Rate Mechanism to 15 per cent.

According to the International Monetary Fund, the growth in output in the industrial countries will work out at barely 1.1 per cent this year, compared with 1.7 per cent in 1992, owing to the recession in Europe and Japan and the moderate recovery in North America. Output is expected to fall by 0.2 per cent in the European Community (by 2.2 per cent in the Western regions of Germany) and by 0.1 per cent in Japan; it is expected to grow by 2.7 per cent in the United States (Table 25).

The IMF forecasts that growth in the industrial economies will accelerate to 2.2 per cent in 1994, with the recovery spreading to Japan and the EC, where GDP should increase by 2.0 and 1.6 per cent respectively. The rate of growth is likely to be close to 1 per cent in Germany and France, 2 per cent in Italy and 3 per cent in the United Kingdom. In the United States it should remain stable at 2.6 per cent. The recovery is expected to draw stimulus primarily from domestic demand, in the form of both private consumption and investment.

Nevertheless, these rates of growth will be insufficient to reduce unemployment, which is expected to rise marginally in 1994 to average 8.4 per cent in the industrial countries as a whole. In the European Community it is likely to rise to a historical peak of 12.0 per cent; only the United States will see a slight reduction, from 6.8 to 6.5 per cent. Total employment, which remained almost static in the three years from 1991 to 1993 (excluding the Eastern regions of Germany), should recover slightly (by 0.6 per cent), mainly as a result of an increase of 1.4 per cent in the United States; in the EC it is likely to remain unchanged.

Inflation appears to be under control in most of the industrial countries; wages are growing only moderately, the prices of oil and other primary products are stable or falling, and the monetary aggregates are increasing at a moderate rate. Inflation in the industrial countries, which declined to 3 per cent in 1993 in the case of consumer prices and to around 1 per cent in that of producer prices, should slow down further in the coming year; in some countries (Japan, Canada and France) the rise in consumer prices should not exceed 2 per cent. It seems unlikely that the recovery in economic activity forecast for 1994 will impede the above-mentioned factors that are tending to hold down prices.

The forecasts made by the IMF, which are in line with those recently published by the OECD and slightly more optimistic than those of the EC Commission, are based on the assumption of a further reduction in interest rates in Europe, a swift conclusion to the current GATT negotiations and, above all, an improvement in confidence in Europe and Japan that will trigger an upturn in these two areas in early 1994. There is considerable uncertainty, however, as to the course the international economy will take in the immediate future; in particular, the recovery in Europe and Japan may begin later than predicted.

Price moderation has allowed the monetary authorities to direct their policies increasingly towards sustaining economic activity. In Japan, where the official discount rate was reduced to an unprecedented 1.75 per cent in September, short-term market interest rates have continued to fall in recent months and now stand at just above 2 per cent; in the United States they have remained at historically low levels of around 3 per cent for more than a year. The easing of monetary conditions in Germany, which has been carried out gradually, is essential to the recovery in activity in Europe and allows the other countries to reduce their domestic interest rates with less risk of large and unwelcome movements in exchange rates.

The deterioration in budgetary positions this year, which has been due largely to adverse cyclical developments, must be corrected promptly and the authorities must make a renewed firm commitment to the restoration of sound public finances in the medium term so that monetary policies can contribute fully to the recovery in economic activity and produce significant reductions in real long-term interest rates. However, the scale of the required commitment depends on the specific situation in each country, particularly the level of public debt and the severity of the recession. A strengthening of the recovery in the United States and the ending of the recession in countries such as Germany and Italy cannot be achieved by easing fiscal policy; this would undermine the authorities' credibility and could possibly lead to increases in interest rates, which would spread to world markets. At the other extreme, countries such as Japan that are not suffering from serious budget deficits have scope to use fiscal policy to sustain economic activity.

Table 25

Forecasts of the main international macroeconomic variables

(percentage changes on previous year)

	1992	1993 (1)	1994 (1)		1992	1993 (1)	1994 (1)
GDP (2)				**Current account balances** (4)			
OECD countries	1.7	1.1	2.2	OECD countries	–39.0	–51.0	–52.0
of which: United States	*2.6*	*2.7*	*2.6*	*of which: United States*	*–66.4*	*–112.0*	*–130.0*
Japan	*1.3*	*–0.1*	*2.0*	*Japan*	*117.5*	*137.0*	*141.0*
EC	*1.1*	*–0.2*	*1.6*	*Germany*	*–25.4*	*–32.0*	*–30.0*
Germany	*2.0*	*–1.6*	*1.2*				
of which: Western	*1.6*	*–2.2*	*0.8*				
LDCs	5.8	6.1	5.5	LDCs	–62.0	–80.0	–85.0
Consumer prices				**Unemployment rate** (5)			
OECD countries	3.3	3.0	2.7	OECD countries	7.8	8.3	8.4
of which: United States	*3.0*	*3.0*	*2.8*	*of which: United States*	*7.4*	*6.8*	*6.5*
Japan	*1.7*	*1.2*	*0.8*	*Japan*	*2.2*	*2.5*	*2.7*
EC	*4.5*	*3.8*	*3.5*	*EC*	*10.2*	*11.6*	*12.0*
Germany	*4.7*	*4.6*	*2.9*	*Germany*	*7.7*	*9.3*	*10.0*
of which: Western	*4.0*	*4.1*	*2.7*	*of which: Western*	*5.9*	*7.8*	*8.8*
Budget balances (3)				**World trade** (2)	4.6	3.0	5.0
United States	–4.4	–4.1	–3.0	**Exports** (2)			
Japan	1.5	..	–0.3	OECD countries	3.5	..	2.8
Germany	–2.7	–4.8	–3.5	LDCs	9.5	9.4	9.2
				Imports (2)			
				OECD countries	3.7	1.2	3.4
				LDCs	10.5	9.3	9.1

Source: IMF, September 1993.
(1) Forecasts. – (2) At constant prices. – (3) As a percentage of GDP. – (4) Billions of dollars. – (5) Level.

According to IMF forecasts, the public sector deficits of the leading industrial countries as a whole should fall from 4.7 per cent of gross product in 1993 to 3.9 per cent in 1994; the budgetary position should improve in all countries except Japan and France, where it should remain broadly unchanged. Discretionary measures are likely to have a restrictive effect everywhere, but especially in Germany and Italy; only in Japan will their impact be slightly expansionary.

In the United States the Administration forecasts that the federal budget deficit for the 1994 financial year, which has just begun, should decline from 4.6 to 4.0 per cent of GDP. The future state of the public finances in that country will depend largely on the new shape of the health system, for which the Administration has just announced wide-ranging reform proposals. In Japan the recently approved public spending programme to bolster domestic demand has been supplemented in the last few days by a government proposal to reduce direct taxes substantially next January; this may stimulate activity more than has been forecast by the IMF. In Germany, according to the latest IMF forecasts, the general government deficit should decline from 4.8 to 3.5 per cent of GDP, while that of the wider "enlarged public sector" should fall from 7.4 to 6.6 per cent. Germany's budget prospects over the medium term remain uncertain, however, as the above forecasts are based on a growth assumption for next year that appears optimistic and the costs associated with unification are proving to be higher than predicted. In the United Kingdom the budget presented in March foresaw a reduction in the general government deficit from 8.6 to 7.4 per cent of GDP; given the fragility of the recovery that is currently under way, the wisdom of implementing the deficit reduction measures in full is now being questioned. For France, the IMF forecast in September that the general government deficit would remain broadly unchanged at about 6 per cent of GDP; however, the finance bill presented in October contained a number of mildly expansionary measures to stimulate domestic demand.

The weakness of economic activity in the industrial countries in 1993 has been reflected in a sharp slowdown in the rate of growth in world trade, which is likely to fall from 4.6 per cent in 1992 to 3.0 per cent this year, well below expectations. It is estimated that the developing countries managed to maintain the high rate of export growth of more than 9 per cent. By contrast, the exports of the OECD area are expected to stagnate this year, whereas they rose by 3.5 per cent in 1992. The IMF forecasts that total world trade will increase by about 5 per cent in 1994 and the exports of the industrial countries by 2.8 per cent. The successful conclusion of the GATT negotiations before the December deadline could be of major importance; apart from boosting world trade in the years to come, it would have immediate positive effects on expectations of a recovery in activity.

The crisis that struck the European Monetary System in the summer of 1992 and led to the decision to widen the margins of fluctuation among participating currencies in August reflected difficulties in the coordination of monetary policies in view of the different priorities of the various countries. In particular, in countries with lower inflation than Germany the level of interest rates conflicted with the need to encourage the recovery in economic activity. The decision taken in August did not lessen the commitment of the ERM countries to maintain a high degree of stability in reciprocal exchange rates; interest rates were adjusted gradually to the new pattern of exchange rates, with countries using only a small part of the greater room for manoeuvre permitted by the wider fluctuation band. However, the prevailing opinion among the authorities of the EMS countries is that present conditions do not allow an early return to the previous system and that it would not be appropriate to set deadlines for taking decisions in this regard. Instead, they emphasize the need to create the underlying economic conditions for greater exchange rate stability within the Community.

The completion of the process of ratifying the Maastricht Treaty reaffirms the commitment to proceed to the second stage of European Monetary Union next January, in accordance with the predetermined timetable. The European Monetary Institute will be established and the Treaty's provisions for this stage, which are designed to reinforce and give credibility to the process of convergence, will be implemented; accordingly, the monetary financing of public sector deficits will be prohibited, national laws giving the public sector privileged access to credit from financial institutions will not be permitted, and the Commission's powers to ascertain that the budget deficits of member states are excessive will be strengthened. The prohibition of the monetary financing of deficits means, among other things, that overdrafts from the central banks will have to be abolished and that the central banks must refrain from intervening in the primary market in government securities.

In the wake of the turmoil in the currency markets over the past year, the pattern of exchange rates now prevailing among the main currencies appears better able to ensure stability among the leading economies; in particular, the appreciation of the yen since last year (by around 30 per cent in effective terms in relation to the level of August 1992) goes some way towards achieving balance in Japan's current account in the medium term. Nevertheless, in the present phase of the cycle it is desirable from the point of view of the international economy that the reduction in Japan's current account surplus should result mainly from a recovery in domestic demand in Japan. However, in view of the long lead time before changes in real exchange rates are reflected in flows of goods and services, the IMF does not foresee a reduction in current account imbalances among the leading industrial areas before the end of 1994.

The Italian economy

Economic growth in Italy slowed down further in 1993. According to the forecasts outlined by the Government in September in the Forecasting and Planning Report, gross domestic product is likely to be slightly higher than in 1992 (Table 26); however, there is a possibility that output will fall, in line with the estimates by international organizations for the European Community as a whole. The large depreciation of the lira encouraged a substantial reallocation of resources to meet export demand, thereby averting a serious decline in economic activity, but not in employment, and producing a very pronounced improvement in the current account of the balance of payments. The Forecasting and Planning Report nonetheless shows that the current account is still in deficit by an amount equal to 1 per cent of GDP this year. The sharp fall in the external value of the lira did not prevent a further reduction in inflation.

Table 26

Selected Italian macroeconomic variables

	1992	1993 (1)	1994 (1)
	(percentage changes)		
Real variables			
GDP	0.9	0.4	1.6
Domestic demand	1.0	–1.9	0.8
Imports (2)	4.6	–2.0	3.6
Exports (2)	5.0	7.3	6.8
Prices			
GDP deflator	4.7	3.5	3.9
Private consumption deflator	5.4	4.5	3.5
Terms of trade (2)	0.3	–2.8	1.9
	(percentages)		
Financial balances/GDP			
State sector borrowing requirement (net of settlements of past debts) (3)	10.5	9.7	8.7
External current account balance	–2.2	–1.0	–0.1

(1) Estimates and forecasts from *Relazione previsionale e programmatica* for 1994. – (2) National accounts data. – (3) According to the new definition of the state sector, which takes account of the changes in the legal status of certain bodies.

The Government's forecasting scenario for 1994 foresees growth of 1.6 per cent in GDP. The main stimulus is expected to come from domestic demand, in the form of both private consumption and fixed investment. Net exports should continue to have an expansionary effect, aided by the expected revival in world trade. The resumption of growth in GDP should lead to a slight recovery in employment. Inflation, which has been held in check by the improvement in the terms of trade and wage moderation, is expected to slow down by 1 percentage point on an annual average basis. The current account of the balance of payments should move into equilibrium.

5

The 1994 budget

According to the official estimates in the Forecasting and Planning Report, the budget for 1994 should reduce the state sector borrowing requirement by around 31 trillion lire. The proposed measures are defined in the first budget variation note, the Finance Bill and the bill containing the implementing provisions. The proposals are intended to generate 27.5 trillion lire in expenditure savings and 3.5 trillion lire in additional revenue, and are also expected to permit a reduction in interest payments of around 7.5 trillion lire. The principal measures are illustrated below.

Expenditure

Much of the reduction in expenditure is accounted for by the provisions of the bill that accompanies the Finance Bill (about 18 trillion lire). The remaining savings are generated by the changes to budget appropriations contained in the Finance Bill and the first budget variation note and mainly consist in reduced transfers on capital account to enterprises and other entities in the public sector and changes in the annual apportionment of expenditure for multi-year programmes. The following remarks concern the measures contained in the implementing legislation and the projections of the Forecasting and Planning Report.

Personnel, organization and general government. *– The measures regarding public employees affect both earnings and employment levels. Appropriations for the new contracts are defined, the freeze on cost-of-living adjustments to bonuses and other benefits is maintained and various benefits and incentives are eliminated in the health services. In addition, redundant employees will receive a benefit equal to 80 per cent of their previous wages and cost-of-living allowances, but no other emoluments. Staff levels in general government have been reset at the number of current employees plus the posts for which a competitive examination was under way before 31 December 1993; the limits placed on turnover are renewed in more incisive form; in particular, 5 per cent of posts left vacant by departing staff may be filled by redundant personnel or those registered on mobility lists, and a further 10 per cent may be filled by new employees if it is established that there is an effective staff shortage in relation to the workload. Specific legislation provides for reductions in staffing levels in the education system and health services.*

The measures also establish procedures to verify the congruity of prices in public sector contracts for the supply of goods and services and the construction of public works; the preamble to the implementing bill estimates the expenditure savings at about 1.7 trillion lire. Finally, the bill provides for the reorganization of government departments and a number of social security institutions and interministerial committees.

Net of about 1 trillion lire of additional spending for the new public employment contracts, the measures should reduce outlays by 5 trillion lire.

Health services. *– The budget proposals reclassify drugs into three categories: "essential" drugs and those for chronic illnesses, for which users will have to pay a fixed contribution of 4,000 lire per prescription; an intermediate group, with payment of 50 per cent of the price; and a residual group, to be paid in full. Persons under 12 and over 65 years of age will pay a fixed contribution of 4,000 lire per prescription for the intermediate group of drugs. The limits on consumption by persons exempted from paying the full contribution (implemented with a coupon system) are abolished, as is the system of means-tested cost sharing for people with incomes above a certain level. The reclassification of drugs must ensure that the related expenditure does not exceed 10 trillion lire in 1994. Drug prices may not exceed the average level for similar products in the European Community.*

All persons must pay the cost of diagnostic and other specialist services up to 100,000 lire per prescription; persons under 12 and over 65 are exempted from payment. Finally, the reference number of hospital beds has been reduced from 6 to 5.5 beds per 1,000 inhabitants.

As regards health service contributions, the rate for incomes up to 40 million lire for self-employed persons has been raised by 0.2 percentage points; incomes between 100 and 150 million lire are now subject to health service contributions. The fixed per capita contribution of 85,000 lire for the services of family doctors is abolished.

The expenditure savings from these measures are expected to total about 3 trillion lire.

Social security *– The adjustment of pensions "distorted" by the year of retirement planned for 1 January*

1994 has been postponed until 1995, with an estimated saving of about 3.5 trillion lire. New seniority pensions for public employees having less than 35 years of contributions will be reduced in proportion to the number of years remaining before reaching 60; the commencement date for new pensions paid out under the general scheme for the private sector will be delayed by two months. Finally, the automatic adjustment of disability pensions is suspended. Social security revenue is expected to increase following the extension of the obligation to pay contributions to self-employed persons not enrolled in a pension scheme.

The measures are expected to reduce expenditure by about 5 trillion lire.

***Other expenditure** – Other measures provide for the sale of at least 4.5 trillion lire of property by INPS, INAIL and INPDAP in 1994-1996; the consequent reduction in transfers to these bodies is estimated at 1 trillion lire for 1994. Provison is also made for a reduction of about two trillion lire in transfers to the special-statute regions and autonomous provinces. Additional provisions are aimed at encouraging the sale of public residential property; the proceeds of any sales will go to the bodies that own the property and must be used to upgrade and increase the supply of public housing and reduce the deficits of the agencies concerned.*

Revenue

Net revenue is expected to increase by about 3.5 trillion lire, with the budget measures forecast to produce additional gross receipts of around 11 trillion lire. Part of the increase will cover the reduction in revenue deriving from the partial compensation of fiscal drag, the lowering of taxes on the imputed income from owner-occupied houses, the provisions for curbing public expenditure and the consequences of the decline in interest rates on revenue from the withholding tax on interest.

The Finance Bill estimates the loss of revenue from the adjustment for fiscal drag at 2.3 trillion lire, of which 1.1 trillion is accounted for by the revaluation of standard allowances and the related income limits, enacted pursuant to the provisions of the budget for 1993 contained in Decree Law 384/1992 as ratified in Law 438/1992. The rest of the loss derives from the raising of the extra deduction for incomes from salaried employment of less than 13.9 million lire from 227,000 to 267,000 lire and from its extension on a sliding scale to incomes between 13.9 and 60.12 million lire.

A further loss of revenue, estimated at 1 trillion lire in 1994, is due to the reduction of the taxation of owner-occupied houses as a result of the replacement of the personal income tax credit introduced in respect of imputed property income with the law establishing the municipal tax on buildings with a deduction from taxable income. The deduction is allowed up to 1 million lire and may not exceed the amount of imputed income itself.

The increases in gross receipts are partly the result of an additional 2 trillion lire from larger payments of the balance of income taxes following the reduction of the prepayments from 98 to 95 per cent for 1993 incomes. The provision, enacted in Decree Law 357/1993, is included in the first budget variation note. The remaining increases will be generated by measures either contained in the implementing bill (2.5 trillion lire) or to be promulgated in a decree law by the end of 1993. The latter is expected to regard primarily indirect taxation; Article 38 of the implementing bill indicates that the additional revenue to be generated will be not less than 6.7 trillion lire.

The revenue provisions contained in the implementing bill are aimed at curbing tax evasion and avoidance, promoting fairness and rationalizing the tax system. The measures provide for an increase of more than 1.2 trillion lire in state sector receipts from changes to the rules for determining business income. An additional 690 billion lire derive from the introduction of new rules for determining income from self-employment. Direct taxation will be extended to include gains from illicit activities if they have not already been seized or confiscated; the revenue in the first year is expected to be about 300 billion lire. The Government is continuing the drive to reduce tax reliefs. In particular, the measures regard the abrogation of a number benefits for the victims of natural disasters and the limitation of the tax credit for the purchase of cash registers.

The measures in the implementing bill regarding indirect taxes are of marginal importance (300 billion lire). They concern the rules governing VAT exemptions and deductions, changes in mortgage and cadastral survey taxes, and the suppression of some goverment concession charges and the stamp duty on some legal instruments.

The measures regarding the organization and working of the public administration

The delegated powers granted by Parliament in October 1992 and the subsequent legislative decrees regarding pensions, health care, local finances and public employment are designed primarily to redefine the services and benefits provided by the state with the aim of curbing their growth over the medium term, increasing the financial responsibility of certain types of cost centre and ensuring better control over staff expenses. The measures contained in the bill accompanying the 1994 Finance Bill constitute a wide-ranging reform of the public administration aimed at instilling greater efficiency in the use of resources by modifying the organization of the administration and the rules governing decision-taking.

The main principles underlying the bill's proposals[1] are the following: rationalization; a reduction in the role played in decision-making by joint bodies, multi-stage procedures and measures subject to prior approval by other public institutions; increased autonomy for decentralized bodies; and verification of the cost-effectiveness of public departments and programmes.

The most important measures relate to the reorganization of ministries, the elimination of specific bodies and committees, the granting of autonomy to educational institutions and universities, and verification of the appropriateness of prices quoted in public contracts for the supply of goods and services, the construction of public works and the award of concessions. Other provisions are aimed at simplifying certain administrative procedures.

The bill proposes to grant the Government delegated powers to reorganize ministries and the technical departments attached to the Prime Minister's Office and to establish independent bodies to regulate services of significant public interest. The legislative decrees are designed, in particular, to eliminate organizational and functional duplication and to give the Government and Ministries powers to reduce multi-stage procedures, establish internal controls and performance measurement procedures, control staff numbers, separate political responsibility from administrative responsibility and change the structure of public bodies. Some provisions contained in the bill appended to the Finance Bill anticipate the matters covered by the delegated powers. The Ministry of Transport and the Ministry of the Merchant Navy are to be abolished and their staff, premises and functions are to be transferred to a new Ministry of Transport and Shipping, apart from responsibility for protection of the marine environment, which will pass to the Ministry for the Environment. The local offices of the Ministry of Labour and Social Security will also be reorganized.

Almost all the interministerial committees and a number of joint bodies will be abolished and the reorganization of other joint bodies will be the subject of a subsequent regulation. The aim of these measures is to streamline and concentrate responsibilities (in the Interministerial Committee for Economic Planning, in particular) and to increase decision-making by single rather than joint bodies, which in the case of functions previously performed by interministerial committees means the ministry with the primary responsibility. Moreover, some public social security and pension institutions will be reorganized by government order. Finally, the legislation providing finance for public bodies that have been abolished will be repealed and time limits will be set for their winding-up.

The measures relating to educational institutions, universities and regional councils are aimed at

This scenario probably underestimates the improvement in the balance of payments, which may bring the current account into balance this year and produce a surplus in 1994, but its predictions regarding output, employment and prices are based on the realization of a precise set of conditions. In particular, the continued slowdown in inflation is contingent on the consolidation of expectations and behaviour geared towards moderation and the defence of domestic producers' share of the home market; if these requirements are met, the changes in behaviour observed this year will become permanent. Moreover, on the basis of prudent assumptions regarding the timing of the improvement in consumer *decentralizing state functions. Educational institutions will be given responsibility for their own budgets and the role of the central authorities will be reduced to one of planning and support. The reform will be implemented by government order, which will lay down, among other things, the procedures for: conferring legal personality on the institutions; the exercise of autonomy in teaching, organization and administration; state funding; vesting the directors of the institutions with responsibility for the management of personnel, finances and resources and for their institutions' performance; and the reorganization of the central administration responsible for public education and the periodic review of its appropriateness.*

The universities will also be given greater autonomy; in particular, the system of student contributions and state funding will be redesigned. From the 1994 financial year onwards state finance will be divided into three separate headings: funding for ordinary operations, including staff costs, funding for building and major items of scientific equipment, and funding for specific projects. The ordinary fund will be in two parts: a basic element equal to the expenditure borne by the state for each university in 1993 and an adjustment element, which will increase over time and will be distributed on the basis of standard costs of provision. Internal auditing departments will also be established to check that public resources are properly managed by comparing costs with performance; they will report annually to the Ministry for Universities and Scientific and Technological Research.

Finally, the regional councils have been given responsibility for specific measures relating to disabled persons, agricultural policy, food, forests, car parks and protection of the artistic heritage.

With regard to public licences and certificates, the law provides for 97 administrative procedures to be simplified by government order. In addition, prior authorization to engage in private activities will no longer have to be obtained if the issue of the relevant certificate does not depend on applicants passing a test and is not subject to limits.

Important changes have been made in the procedures for checking the prices quoted in public contracts for the supply of goods and services, the construction of public works and the award of concessions. Lists of reference prices for goods and services and standard costs for particular types of work will be published periodically. The listed prices and costs will represent a ceiling for public sector contracts; the prices quoted in contracts that have already been approved or are in the process of being approved must be verified, while those in contracts to be performed continuously or at intervals will be audited every two years.

Taken together, the measures outlined above represent the first step in the modernization of the state's administrative machinery. This process, which calls for continuity in the pursuit of the principles underlying the reform and in the implementation of the measures, is capable of producing substantial cost savings while at the same time reducing the expense and difficulty citizens currently encounter in their dealings with the public administration.

[1] *The formulation of the measures in question was preceded by the presentation of the Report on the public administration by the Civil Service Department and a series of working documents on specific proposals, including the project for the simplification of administrative procedures, the new system for the internal auditing of the public administration, the code of conduct for public employees, and the public services' charter. A summary of the proposals is also contained in Guidelines for the modernization of the public administration.*

and investor confidence, it cannot be ruled out that the mild recovery in GDP forecast for 1994 will be accompanied by a further slight fall in employment following the very sharp contraction that is beginning to emerge this year.

The Government is laying greater emphasis on structural changes in the economy and on the operation of the markets. It is against this background that the recently initiated reform of the public administration should be viewed. Apart from the cost savings it may produce in the short term, it is aimed at improving the efficiency of the public sector and hence raising the productivity of the entire economy. The privatization of a large proportion of public enterprises is intended to serve the same purpose; the recent definition of the procedures and timetable for implementing the privatization programme fulfilled an important prerequisite for the sale of public assets, which can now proceed with determination and dispatch.

The budget proposals for 1994, which follow the lines set out in the Economic and Financial Planning Document, are aimed at keeping the state sector surplus net of interest payments close to the level that should be attained this year (31.5 trillion lire); on a current programmes basis, the surplus would have contracted sharply in 1994 to around 800 billion, owing mainly to the decline of about 1.5 percentage points in the ratio of taxation to GDP, which in turn would have been attributable to the lapsing of a number of temporary measures and other factors that maintained the level of tax receipts this year. The measures to sustain the surplus should also lead to savings of 7.5 trillion lire in interest payments owing to the reduction in issues of securities and the impact on interest rates, which at present are lower than those on which the official estimates were based.

The measures affecting the primary balance and their repercussions on interest payments should make it possible to continue with the reduction in the overall state sector borrowing requirement that should begin this year. This aggregate should fall from the figure of 151.2 trillion lire forecast for 1993 to 144.2 trillion in 1994; the reduction in relation to GDP is expected to be more marked: from 9.7 to 8.7 per cent. In order to achieve this result, a set of measures has been introduced whose effects on the primary balance are officially put at 31 trillion lire.

The budget measures should produce savings of 27.5 trillion lire, around 18 trillion of which should result from a bill dealing primarily with expenditure on pensions, health, public employment and the organization of general government (see the insert). The remaining savings in expenditure should be produced by the finance bill and cuts in budget allocations; for the most part, they stem from reductions in transfer payments to public enterprises and other public sector bodies and changes in the timing of allocations provided under multi-year expenditure laws.

The net increases in revenue, which amount to 3.5 trillion lire, will mitigate the reduction in the ratio of taxation to GDP. The gross increases are estimated at about 11 trillion, offset by substantial reductions in tax yields, mainly owing to compensation for fiscal drag, the reduction in tax on the householder's principal residence and the impact of the measures to contain public expenditure. In order to achieve the indicated result, the Government intends to introduce additional measures before the end of the year; these will primarily affect indirect taxes and should yield 6.7 trillion lire.

The 1994 budget measures have the merit of concentrating on expenditure and initiating the reform of the public administration. They are aimed not only at achieving substantial savings but also at attaining greater efficiency in the operations of the administration and enhancing the effectiveness of the public sector. Achievement of the financial objectives calls for determination and rigour in implementing the measures regarding expenditure. The effectiveness of the rules governing the operations of the public administration depends on the way in which the reforms are implemented and on the conduct of civil service managers.

The cuts in funding to public bodies outside the state sector may lead not to reductions in expenditure but to an increase in the bodies' debts to credit institutions and suppliers. The planned savings on pharmaceutical spending are closely linked to the reclassification of the medicines that can be prescribed; indeed, the rules on access to health services are expected to lead to increases in expenditure.

According to the Forecasting and Planning Report, the maintenance of the surplus net of interest payments at the same level as this year depends on the cyclical performance of the economy. Prompt approval of the budget proposals and full compliance with the planned objectives are essential in order to strengthen market confidence in the adjustment of the public finances and benefit from the forecast recovery in the world economy; otherwise, interest rates will come under upward pressure, which would jeopardize achievement of the objectives set out in the Economic and Financial Planning Document.

The crisis in the European Monetary System does not necessitate changes in the underlying thrust of Italian monetary policy, which continues to be directed primarily towards controlling inflation until the gap has been closed between Italy and the European countries that enjoy greater monetary stability. Although no explicit exchange rate constraint exists, substantial and prolonged deviations from equilibrium rates may feed inflation in the medium term if remedial action is not taken promptly.

In the light of the trends described in the preceding chapters of the Bulletin, the expansion in the credit aggregates this year should prove much smaller than that recorded in 1992; in the twelve months to December the growth in credit to the non-state sector should be less than 5 per cent (Table 27). Total credit, which also comprises lending to the state sector, slowed down markedly in the course of the year, although by less than lending to the non-state sector; the growth for the year is likely to work out at between 7 and 8 per cent, and a similar figure is expected for total financial assets.

The rate of growth in M2 since the beginning of the year has remained above the upper limit of the target range of 5-7 per cent. If present trends continue, the growth for the year as a whole, calculated on the basis of the average for the final quarter, is likely to be about 1 percentage point above the limit. Analysis of the factors underlying the growth in M2 indicates that the relationship between the monetary aggregate and its determinants has not been seriously undermined; the overshooting of the target can be explained mainly in terms of interest rate trends. At the same time, the implications for the liquidity of financial assets are being mitigated by the shift towards certificates of deposit. In view of the cyclical slowdown in economic activity, which has been more pronounced than expected both in Italy and abroad, a

Table 27

Financial flows

(trillions of lire and percentages)

	Gross domestic product		State sector borrowing requirement (1)		Credit to the non-state sector			Total credit			Non-state sector financial assets (2)			Money (M2) (3)		
		% change	(A)	% of GDP (4)	(B)	% change	% of GDP (4)	(A)+(B)	% change	% of GDP (4)		% change	% of GDP (5)		% change	% of GDP (5)
1985	810.6	11.7	117.0	14.4	47.6	11.3	5.9	164.6	17.2	20.3	136.9	17.8	114.8	50.3	11.2	61.5
1986	899.9	11.0	110.2	12.2	47.8	10.4	5.3	157.9	14.1	17.6	153.0	16.8	121.5	50.1	10.1	61.0
1987	983.8	9.3	113.8	11.6	49.1	9.8	5.0	162.9	12.8	16.6	157.6	14.4	126.8	39.4	7.2	59.8
1988	1,091.8	11.0	124.9	11.4	81.1	14.7	7.4	206.0	14.3	18.9	182.6	14.6	130.7	44.8	7.6	58.0
1989 (6)	1,193.5	9.3	133.4	11.2	123.6	20.0	10.4	257.0	15.8	21.5	206.3	13.7	141.8	53.2	8.4	57.5
1990 (6)	1,312.1	9.9	140.6	10.7	133.3	18.0	10.2	273.9	14.5	20.9	222.1	12.9	146.0	66.2	9.6	57.3
1991	1,426.6	8.7	152.3	10.7	121.5	14.0	8.5	273.8	12.7	19.2	239.0	12.5	151.8	68.1	9.1	57.5
1992	1,507.2	5.7	162.8	10.8	72.9	7.4	4.8	235.7	9.7	15.6	173.0	8.0	155.7	47.1	5.9	56.1
1993 (7)	1,565.7	3.9	151.2	9.7	52.0	4.8	3.3	203.2	7.4	13.0	168.0	7.2	160.6	67.6	8.0	58.3

Sources: For GDP, Istat and *Relazione previsionale e programmatica*.

(1) Excludes settlements of past debts. – (2) Excludes shares. Until 1988, domestic financial assets. – (3) Monthly averages; for 1992 and 1993, quarterly averages. – (4) Calculated from flows. – (5) Calculated from stocks. – (6) The rate of growth in the money supply has been corrected for the effect of strikes in the banking system in December 1989. – (7) Estimates. The new definition of the state sector has been used for the calculation of the financial aggregates.

reduction in interest rates and an expansion in M2 by more than forecast are compatible with attainment of the inflation objectives.

Taking account of the expected recovery in economic activity and assuming that the tendency to repay foreign currency loans comes to an end, the growth in the credit aggregates is likely to accelerate in 1994; the expansion in credit to the non-state sector may work out at between 6 and 7 per cent. If the state sector borrowing requirement is in line with the objectives, credit and total financial assets are likely to increase by between 7 and 8 per cent.

The Bank of Italy has set a target of between 5 and 7 per cent for the growth in the M2 money supply in 1994; this is less than the forecast growth in total financial assets. The target leaves room for the recovery in economic activity and for a reduction in the average level of nominal interest rates in line with a further decline in international rates and the slowdown in inflation postulated by the Government. Attainment of the target presupposes that market confidence in government securities is maintained, primarily through compliance with the budget objectives.

Based on information available at 26 October.

Articles

An international comparison of tax systems

1. Introduction

International economic comparisons are an increasingly common method of inquiry. In the case of fiscal structures a twofold analytical approach can be adopted: on the one hand macroeconomic analysis on the basis of aggregate data, such as total tax and social security contribution revenue; and on the other partial comparisons based on the formal structure of the most important taxes and contributions, focusing on the burden on typical classes of taxpayer and selected sources of income.

The conclusions drawn from the two types of comparison do not necessarily coincide. In particular, in comparing typical taxpayers in different countries one must not forget that dispersion around them can vary enormously from system to system. Consequently, results and conclusions that are valid for individual taxpayer types may differ significantly from or actually contradict the macroeconomic findings.

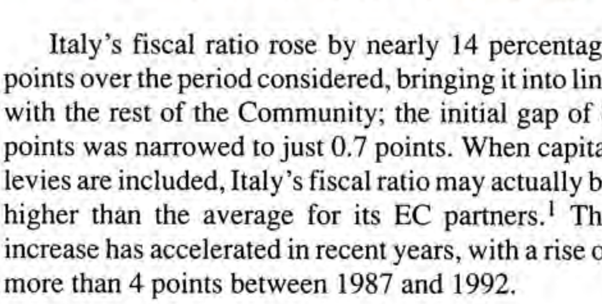
Furthermore, it must be emphasized that comparisons based on formal tax rates completely ignore tax evasion and avoidance and allow for only partial measurement of the erosion of the tax base, whereas comparisons based on aggregate revenue data implicitly take these phenomena into account.

2. Aggregate comparison of fiscal ratios

The aggregate data show that between 1970 and 1992 the average ratio of central government tax and social security contribution revenue to GDP in the countries of the European Community (excluding Italy) increased by nearly 7 percentage points (Figure 1, Table 1). This fiscal ratio indicator, however, is marked by considerable dispersion. In 1992, for example, while the weighted average fiscal ratio was 41.4 per cent, the figures for individual countries ranged from a low of 33.9 per cent in the UK to 49.8 per cent in Denmark.

Figure 1

Ratio of tax and social security contribution revenue to GDP, 1970-1992
(percentages)



Italy's fiscal ratio rose by nearly 14 percentage points over the period considered, bringing it into line with the rest of the Community; the initial gap of 8 points was narrowed to just 0.7 points. When capital levies are included, Italy's fiscal ratio may actually be higher than the average for its EC partners.[1] The increase has accelerated in recent years, with a rise of more than 4 points between 1987 and 1992.

Overall fiscal impact in different countries cannot be truly compared without considering trends in expenditure as well (Table 2). The total impact of government on the economy is given by the combined

Table 1

Ratio of tax and social security contribution revenue to GDP in the EC, the US and Japan, 1970-1992 (1)

(percentages)

	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992 (2)
United States	28.1	27.7	28.1	28.0	28.2	28.8	28.5	29.0	28.9	28.8	....
Japan	19.6	22.5	25.4	28.0	28.0	29.5	29.8	30.1	31.2	30.7	....
Belgium	37.0	43.5	46.2	49.7	48.9	49.4	47.8	46.1	46.6	46.7	47.2
Denmark	43.5	42.2	46.3	49.9	51.4	52.3	52.4	51.5	49.2	49.2	49.8
France	36.3	38.2	43.3	46.0	45.4	45.9	45.2	45.0	45.0	45.2	44.4
Western Germany (3)	36.6	41.1	42.8	42.8	42.1	42.3	42.0	42.4	40.7	42.4	–
Germany (3)	–	–	–	–	–	–	–	–	–	43.1	43.7
Greece	24.6	24.8	27.9	32.2	33.5	34.1	32.7	30.3	32.7	33.6	37.0
Ireland	29.8	31.3	34.3	38.4	39.2	39.2	40.1	37.0	37.0	37.5	38.0
Italy	26.8	26.7	31.0	35.6	35.9	36.6	37.0	38.7	39.5	40.4	40.7
Luxembourg	31.8	44.3	47.9	51.7	49.8	50.9	49.6	48.1	45.0	45.3	44.2
Netherlands	38.0	44.2	46.3	45.3	45.7	47.9	48.1	45.2	45.1	47.4	47.3
Portugal	....	....	29.7	32.1	33.9	32.3	35.1	35.4	35.3	36.2	37.8
Spain	18.8	21.1	26.5	30.9	31.8	33.9	33.8	35.8	35.7	35.8	37.2
United Kingdom	35.7	35.7	35.2	37.2	36.8	36.4	36.2	35.8	35.9	34.9	33.9
EC average, excluding Italy (4)	34.6	36.9	39.5	41.3	41.0	41.4	41.1	41.0	40.5	41.2	41.4

Sources: Based on Istat and EC data. For the United States and Japan, based on OECD data.

(1) There are breaks in the series for Spain between 1979 and 1980 and between 1985 and 1986, and for the Netherlands between 1986 and 1987. – (2) Preliminary outturns. For Italy, definitive data. – (3) In computing the EC average, until 1990 the German figure refers to Western Germany; from 1991 on, to unified Germany. For 1970 and 1975 the average excludes Portugal. – (4) Weighted average, according to shares of total GDP at current prices and purchasing power parities, in US dollars.

evolution of both sides of the budget.[2] In 1992 the countries in which the incidence of government expenditure on GDP was higher than the average also tended to have higher fiscal ratios (Belgium, France, Denmark, and the Netherlands), while those with lower spending ratios also tended to have lower fiscal ratios (the UK and Spain; outside Europe, the same also applies to the US and Japan).

In Italy, however, with its fiscal ratio nearly on a par with the rest of the Community, the incidence of government expenditure is well above the EC average. The Italian indicator first exceeded the Community average in 1984, and the gap widened steadily thereafter to 6.6 percentage points in 1990 before narrowing thanks to the recession-induced rise in other countries' expenditure ratios. In 1992 the Italian expenditure ratio of 53.2 per cent stood 3.9 points above the average of 49.3 for the rest of the Community. Italy's greater expenditure is due chiefly to interest on the public debt. Net of this item, in fact, the gap is narrower, and in 1990 the Italian ratio actually dipped below the Community average.

Italy's public debt began to accumulate during the seventies, as sharp rises in expenditure were unaccompanied by comparable gains in revenue, which remained relatively stable (Figure 2).

Table 2

Ratio of total government expenditure to GDP in the EC, the US and Japan, 1970-1992 (1)

(percentages)

	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992 (2)
United States	31.7	34.7	33.7	36.7	37.1	36.8	36.1	36.1	....	....	....
Japan	19.4	27.2	32.6	32.3	32.6	32.8	32.2	31.5	....	....	....
Belgium	41.7	50.9	58.1	61.4	60.7	59.0	56.6	54.9	54.6	55.5	56.4
Denmark	42.0	47.0	54.8	58.1	54.3	55.7	58.0	58.4	57.0	57.4	58.7
France	38.1	43.8	46.6	52.7	52.2	51.7	50.8	49.9	50.5	51.2	52.3
Western Germany (3)	38.7	49.0	48.5	47.7	47.1	47.4	47.0	45.5	45.9	49.2	–
Germany (3)	–	–	–	–	–	–	–	–	–	49.5	50.1
Greece	....	....	....	47.9	47.2	47.7	47.9	49.4	52.5	51.2	53.2
Ireland	37.4	47.0	50.5	53.7	53.7	51.5	48.1	41.3	42.0	42.5	43.0
Italy	32.8	40.5	41.7	50.9	50.7	50.2	50.3	51.3	53.2	53.6	53.2
Luxembourg	33.2	48.7	55.9	51.9	51.3	55.2	51.8	47.9	50.0	51.5	50.5
Netherlands	42.4	51.5	56.5	58.5	58.5	59.4	57.6	54.8	55.0	55.2	55.5
Portugal	....	....	....	43.5	44.6	43.0	43.0	42.9	44.3	46.4	47.0
Spain	21.4	24.4	32.5	41.6	41.9	40.8	41.0	42.3	43.4	45.0	46.3
United Kingdom	36.8	44.5	43.1	44.2	42.6	40.8	38.1	37.8	40.0	40.2	42.6
EC average, excluding Italy (4)	36.8	44.1	46.2	48.9	48.1	47.5	46.4	45.7	46.6	48.1	49.3

Sources: Based on Istat and EC data. For the United States and Japan, based on OECD data.

(1) There are breaks in the series for Spain between 1979 and 1980 and between 1985 and 1986, and for the Netherlands between 1986 and 1987. – (2) Preliminary outturns. For Italy, definitive data. – (3) In computing the EC average, until 1990 the German figure refers to Western Germany; from 1991 on, to unified Germany. For 1970, 1975 and 1980 the average excludes Greece and Portugal. – (4) Weighted average, according to shares of total GDP at current prices and purchasing power parities, in US dollars.

In the eighties a number of countries embarked on programmes of public financial adjustment. This was the case of Belgium and Ireland, which had had imbalances comparable to Italy's since the mid-seventies. In these countries the adjustment was accomplished chiefly by the curbing of expenditure accompanied, at least at times, by increases in the fiscal ratio. Italy, by contrast, commenced the adjustment process while continuing to increase expenditure, with an accelerated expansion of revenues that brought the overall fiscal ratio up to that of the other countries.

The fiscal impact differs between countries not only in level but also in composition (Table 3). One finds three patterns of financing, as gauged by the breakdown between the two major components, namely social security contributions and taxes (direct and indirect). One pattern, characterizing such countries as Denmark, Ireland and the UK, is based chiefly on taxation; one, typical of France, relies largely on social security contributions; and a third, found in the remaining countries (including Italy and Germany), though oriented more to direct and indirect taxation than to contributory levies, maintains a rough balance between the sources.[3]

In Italy, the composition of government revenue was profoundly altered by the tax reform of 1973; from the old fiscal system relying chiefly on contributions and indirect taxes Italy shifted to a revenue structure in which direct taxes came to play the key role (Figure 3). By the mid-eighties income taxes were the largest single source of revenue. The expansion of income tax revenues, especially those from personal income tax, was due in part to fiscal drag in connection with the rapid inflation of the seventies. During the eighties the unwanted effects were attenuated by recurrent adjustment of tax brackets and allowances. At the end of the decade, with the budget for 1989, full and automatic compensation for fiscal drag was instituted. In 1993, however, the compensation was made only partial.

Figure 2

Italian general government revenue and expenditure, 1970-1992

(as a percentage of GDP)

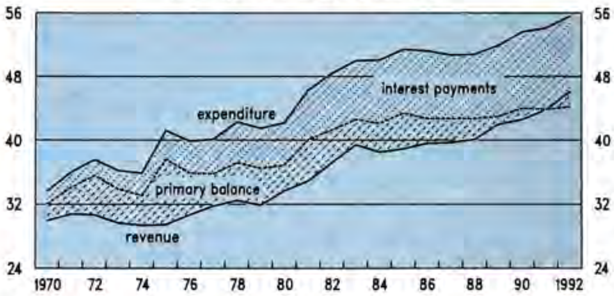


Table 3

Composition of fiscal revenues in the EC, the US and Japan, 1970-1992 (1)

(percentages of GDP)

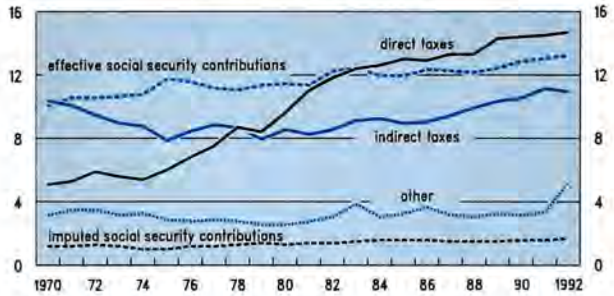
	1970			1980			1985			1990			1992 (2)		
	D	I	SS	D	I	SS	D	I	SS	D	I	SS	D	I	SS
United States	13.9	9.5	4.7	14.1	7.8	6.2	12.8	8.2	7.0	13.3	8.1	7.5	....	....	....
Japan	8.2	7.1	4.3	10.8	7.4	7.3	12.0	7.8	8.2	13.7	8.3	9.2	....	....	....
Belgium	11.4	13.2	12.4	18.5	12.4	15.3	19.8	12.3	17.6	17.1	12.2	17.3	16.5	12.6	18.1
Denmark	22.6	18.4	2.5	25.8	18.6	1.9	28.6	18.4	2.9	29.0	17.6	2.6	29.9	17.2	2.7
France	7.1	15.0	14.2	8.4	15.3	19.6	9.1	15.8	21.1	8.9	15.1	21.0	8.8	14.4	21.2
Germany (3)	10.8	13.2	12.6	12.8	13.1	16.9	12.6	12.6	17.6	11.2	12.5	17.0	12.1	13.0	18.6
Greece	3.5	14.5	6.6	5.5	13.4	9.0	5.6	15.3	11.3	6.1	16.9	9.7	6.8	19.0	11.2
Ireland	8.5	18.8	2.5	12.6	16.8	4.9	14.4	18.4	5.6	14.4	17.1	5.5	15.5	16.7	5.8
Italy	5.1	10.4	11.3	9.6	8.6	12.8	13.0	9.0	13.6	14.4	10.6	14.4	14.7	11.0	15.0
Luxembourg	12.1	9.8	9.9	18.1	14.4	15.4	20.2	17.2	14.3	17.0	14.5	13.5	15.7	14.6	13.9
Netherlands	13.0	11.2	13.8	15.9	12.2	18.2	12.6	12.1	20.6	15.5	12.6	17.0	15.9	13.0	18.4
Portugal	....	....	....	6.4	14.1	9.2	8.3	14.1	9.7	9.2	15.2	10.9	10.5	16.0	11.3
Spain	3.4	7.7	7.7	6.9	6.6	13.0	8.4	9.5	13.0	12.0	10.7	13.0	12.0	11.6	13.6
United Kingdom	14.4	16.2	5.1	13.4	15.8	6.0	14.5	15.9	6.8	14.0	15.6	6.3	12.1	15.6	6.2
EC average, excluding Italy (4)	10.3	13.8	10.4	11.7	13.6	14.2	12.2	14.0	15.1	12.1	13.9	14.6	12.0	14.0	15.4

Sources: Based on Istat and EC data. For the United States and Japan, based on OECD data.

(1) There are breaks in the series for Spain between 1979 and 1980 and between 1985 and 1986, and for the Netherlands between 1986 and 1987. Rounding may cause discrepancies in the totals. – (2) Preliminary outturns. For Italy, definitive data. – (3) In computing the EC average, until 1990 the German figure refers to Western Germany; from 1991 on, to unified Germany. For 1970 the average excludes Portugal. – (4) Weighted average, according to shares of total GDP at current prices and purchasing power parities, in US dollars. *Legend*: D = direct taxes; I = indirect taxes; SS = social security contributions (including imputed contributions).

Figure 3

Sources of Italian general government revenue, 1970-1992
(percentages of GDP)



Towards the mid-eighties the objective of shifting the tax composition towards indirect taxation was adopted.[4] The incidence of indirect tax revenue on GDP rose significantly, from 9 per cent in 1985 to 11.1 per cent in 1992. However, there was relatively little adjustment in the composition of tax revenues, as overall financial adjustment necessitated simultaneous increases in direct tax and social security revenues as well.

3. Comparison using "partial" data

In seeking to compare the taxes and social contributions levied by national fiscal systems, the first point concerns the rules determining the bases and rates, whose interaction gives rise to the "normal" structure of each tax or contribution and the effective fiscal burden.

There is a close connection between the normal structure of any given levy and the tax reliefs that the fiscal system provides for special categories of taxpayers, productive sectors and types of income. The distinction between the two is not always immediate. Some reliefs take the form of tax expenditures, i.e. the lowering of taxable income through exemptions and allowances or the easing of the tax burden through lower tax rates and tax credits.

Analysis of the normal structure of the individual levies must accordingly be completed by an examination of the exceptions the system recognizes to the general rules. These two aspects are combined by focusing on special types of taxpayer and specific forms of taxpaying capacity.

From this perspective, it emerges that in the course of the last decade such major Western countries as the United States, the United Kingdom and Germany have substantially rationalized and simplified their tax systems. In particular they have broadened tax bases while reducing the number of brackets, lowering the tax rates applied and eliminating a good many tax reliefs. The fundamental purpose was to attenuate the disincentive of very high marginal tax rates; it was also felt that in times of structural change the use of the fiscal system for purposes of resource allocation or redistribution could have undesirable effects.

Reform along these lines was not enacted in Italy, which was slow to perceive the need for fiscal rationalization and simplification. Substantial use continues to be made of the tax system to provide incentives. Indirect confirmation of this comes from a comparison with the formal structures of other countries. Generally speaking, Italian tax and contribution rates are in line with the European Community average if not above it, but in most cases this does not yield higher revenue than is generated by the formally lower rates of other countries.

An overly complicated tax system may foster tax avoidance and evasion, posing problems both of efficiency and of equity. Under conditions of public financial disequilibrium, the problems of equity tend to be aggravated. The need to expand revenue implies, in practice, increases in the tax burden that are unequal for different categories of taxpayer and of income, inevitably aggravating the effective liability of the groups whose opportunities for evasion are objectively more limited.

The foregoing is confirmed, at least in part, by the international comparison of the formal working of selected taxes. In what follows, three of the many possible comparisons are examined.[5]

In personal income tax comparisons, the typical taxpayer considered is the "average production worker" in manufacturing, with dependent spouse and two children and average earnings. In 1991, the last year for which figures are available, Italy ranked fourth among EC member countries in the personal income tax rate levied on this hypothetical taxpayer (Table 4).

Table 4

Personal income tax at the income level of an average production worker with dependent spouse and two children

(percentage of average earnings in manufacturing)

	1979	1981	1983	1985	1987	1989	1991
United States	11.6	14.4	15.2	15.3	13.3	11.5	11.3
Japan	1.8	2.8	3.3	2.8	2.7	1.9	2.4
Belgium	....	....	....	16.4	15.6	10.8	11.6
Denmark	30.3	32.6	33.8	34.3	35.7	35.6	36.0
France	0.4	0.5	0.4	....	....	....	1.0
Germany	9.9	9.7	10.5	10.9	8.6	9.2	8.7
Greece	....	....	....	....	1.8	3.7	....
Ireland	11.5	13.0	14.0	16.1	17.9	17.0	16.4
Italy	9.6	10.8	12.8	14.7	13.8	13.4	13.2
Luxembourg	3.4	3.1	2.7	2.2	1.0	....	....
Netherlands	12.5	11.2	9.6	8.4	8.9	9.2	10.0
Portugal	4.0	4.0	6.0	4.6	4.0	2.0	0.9
Spain	6.9	7.3	8.2	7.8	8.3	5.3	6.4
United Kingdom	....	19.8	18.6	17.9	16.5	15.5	15.5

Sources: OECD, *The Tax-benefit Position of Production Workers*, various years. For Italy, based on Istat data.

A more meaningful indicator of the fiscal burden on the average production worker is the total tax wedge – the difference between the worker's take-home pay and the cost of labour to the employer, comprising not only personal income tax liability but also employer and employee social contribution charges, net of any family benefits. In this category Italy ranks first (Table 5), chiefly because of the high rate of employer contributions (though this figure also includes the portion of such levies eligible for relief, i.e. charged to the general budget).

Virtually everywhere corporate taxation and the taxation of investment income in general are intended not only to raise revenue but also to foster saving and investment. Italy's nominal corporate tax rate of 52.2 per cent (including both the national corporate income tax and local income taxes) is among the highest found, second only to the 56.5 per cent rate imposed in Germany. However, this does not tally with the data concerning the incidence of these levies on GDP. Actually, the revenue generated depends on the criteria used to determine taxable income.

A good summary indicator of the incentives and disincentives implicit in the various corporate tax regimes is the marginal tax wedge relative to the yield on specified types of investment.[6] As a rule investments are classed by type of asset and source of finance.

Overall, the investment tax wedge in Italy appears to be roughly in line with that found in the other OECD countries but higher than in the rest of the European Community (Table 6). Disaggregated by asset, Italy places the relatively heaviest burden on buildings, followed by machinery and inventories. On average in the OECD and the EC, by contrast, the wedge is widest for inventories, then buildings and machinery.

In general, the tax treatment of investment varies greatly with the source of finance. In Italy, the investment of retained earnings appears to get the

Table 5

Total tax and social security wedge for an average production worker with dependent spouse and two children

(percentage of average compensation of employees in manufacturing)

	1979	1981	1983	1985	1987	1989	1991
United States	23.5	26.8	27.7	28.9	27.2	26.0	26.0
Japan	11.2	11.9	12.3	16.0	15.9	14.8	15.8
Belgium	....	....	....	41.4	40.2	35.9	37.1
Denmark	30.9	33.6	37.5	37.7	35.5	32.4	32.5
France	....	....	....	33.9	35.2	36.0	35.6
Germany	30.7	30.9	33.3	34.2	32.7	34.0	34.3
Greece	9.3	9.3	14.5	22.9	30.3	32.0	....
Ireland	20.4	22.7	27.4	29.9	30.6	30.0	29.6
Italy	38.0	35.6	38.4	40.4	39.8	41.2	42.6
Luxembourg	20.1	19.5	18.1	18.1	15.3	14.0	14.3
Netherlands	39.4	39.7	43.6	41.2	41.1	38.7	37.9
Portugal	24.3	25.8	27.5	26.9	27.5	26.4	25.2
Spain	32.1	32.6	34.3	33.7	34.1	31.6	32.6
United Kingdom	....	26.8	26.6	26.2	25.6	25.1	24.4

Sources: Based on data from OECD, *The Tax-benefit Position of Production Workers*, various years. For Italy, based on Istat data.

least favourable treatment, whereas in other countries financing via new equity tends to be the most heavily taxed. Investment financed via debt, according to the data, enjoys a negative tax wedge in Italy (i.e. a de facto subsidy). The same is true for other EC member coutries, including France and Belgium. Nor does this conclusion depend, qualitatively, on differences in inflation rates between countries; it holds even applying the average OECD inflation rate across the board.

As regards the indirect taxation of goods and services, finally, an examination of the formal rates levied puts Italy broadly in line with the rest of the Community; in some instances Italian rates are towards the top of the scale. The normal Italian VAT rate of 19 per cent in 1991, for instance, was exceeded only by the Danish and the Irish rates. Italy also had the highest rate (38 per cent) on luxury goods[7] while the structure of reduced rates did not differ greatly from those of the other member countries. As is well known, mineral oils were subject to a particularly onerous regime, with very high excise taxes on the production of petrol.

These results do not square with the incidence of indirect tax revenue on GDP in the various countries. According to OECD data, Italy has one of the lowest incidences. In 1991 general consumption taxes (principally VAT) brought in revenue of 5.7 per cent of GDP, compared with an EC average of 7.3 per cent. Italy ranked next to last, ahead of only Spain. In taxes on specific products, including the excise tax on the fabrication of mineral oils, Italy ranked seventh at 4.4 per cent, an incidence half a percentage point lower than the EC average.

The discrepancy between the relative formal indirect tax rates in various countries and the corresponding revenues can be attributed, with due caution, to a variety of causes. First, differential tax treatment, with reduced rates on the consumption of selected types of goods, presumably plays a significant role. Second, part of the discrepancy must be attributed to tax evasion, mainly involving VAT.

Table 6

Corporate and personal income tax wedges with country specific inflation rates, 1990 (1)

	Average for each source of finance			Average for each type of asset			Overall average	Standard deviation
	Retained earnings	New equity	Debt	Buildings	Machinery	Inventories		
United States	3.7	5.8	0.9	3.7	2.5	3.1	3.0	1.7
Japan	4.1	7.9	–0.8	3.3	2.2	3.6	2.8	3.0
Belgium	1.6	4.9	–1.4	0.8	–0.3	3.8	0.9	2.5
Denmark	1.3	4.2	2.7	2.1	1.8	2.7	2.1	1.1
France	2.7	6.4	–0.1	2.1	1.2	4.0	2.1	2.2
Germany	1.2	1.6	0.7	1.3	1.1	0.7	1.0	0.4
Greece	3.5	9.4	–7.8	0.1	0.6	–0.7	0.2	6.1
Ireland	0.5	2.5	3.8	1.7	1.8	2.2	1.9	1.5
Italy	4.5	2.9	–0.8	3.1	2.6	1.7	2.5	2.5
Luxembourg	1.2	7.1	2.6	2.6	1.4	3.9	2.3	2.0
Netherlands	0.5	6.5	2.9	2.2	1.8	2.0	1.9	1.9
Portugal	1.9	7.0	–1.5	1.5	1.4	0.3	1.2	2.6
Spain	0.6	3.2	3.9	1.4	1.6	3.8	2.0	1.9
United Kingdom	1.9	1.3	2.4	1.6	1.5	3.8	2.0	1.0
EC AVERAGE excluding Italy (2)	1.5	4.9	0.7	1.6	1.3	2.4	1.6	2.1
OECD AVERAGE (2)	3.3	5.2	0.1	2.0	1.7	4.4	2.4	3.0
average excluding Turkey (3)	2.5	4.9	0.8	2.2	1.7	3.2	2.1	2.1

Source: OECD, *Taxing Profits in a Global Economy*, Paris, 1991.
(1) The difference between the pre-corporate-tax rate of return necessary when real interest rates are 5 per cent and the post-personal-tax rate of return. Top marginal rate of personal taxes, average weights. The reference year is 1990. – (2) Unweighted averages. – (3) Turkey is excluded as particularly anomalous compared with the other countries.

Finally, such structural factors as the differing propensity to consume in different countries obviously affect the relation between the revenue generated by a tax on consumption and GDP; thus the revenue raised may differ even when formal indirect tax structures are identical.

1 The comparisons are based on the revenue and expenditure accounts of general government. These accounts are reclassified by the EC Commission to exclude tax levies on capital account, which are entered together with net capital expenditure. For Italy, the revenue produced by these levies has been substantial, especially in recent years, amounting to 2 per cent of GDP in 1992. Defining the overall fiscal ratio so as to include them would certainly raise Italy's relative standing.

2 To improve comparability, the aggregate referred to in these comparisons is general government. The relevant budget item is net indebtedness on current account. This balance reflects the results for the period, on both current and capital account, of the government agencies producing non-market services; financial transactions are not considered. This indicator is useful when the object of inquiry is the allocative and redistributional impact of government on the economy. If the focus is on financial problems, however, a more meaningful indicator is the public sector borrowing requirement, i.e. the difference between total expenditure and total revenue, covering current account, capital account and financial transactions, for all the institutions and agencies making up the state or public sector.

3 In some countries (Belgium, Germany, Italy, the Netherlands and Spain) the incidence of social security revenue (which the EC Commission defines to include imputed as well as effective contributions) is higher than that of either direct or indirect taxes.

4 The main reason for the shift in approach was the need to ease the tax burden on productive factors (consisting mainly of direct taxes and social security contributions) by shifting to levies on consumption (i.e. indirect taxes).

5 For a comparative analysis of the tax treatment of income from financial assets, which is not dealt with here, see Banca d'Italia, *Temi di discussione*, no. 94 and no. 114.

6 The wedge is constituted by the difference between some common net yield (generally posited equal to the rate of interest) irrespective of type of investment and the gross return corresponding to this net. In other words, the indicator measures how much higher the pre-tax yield must be in order to generate the chosen after-tax income. The size of the wedge depends on assumptions concerning the rate of inflation. In the present article the data analyzed are those computed by the OECD for 1990, applying to each country the observed rate of inflation.

7 In compliance with EC provisions for tax harmonization, this rate was abolished as from 1 January 1993 by Decree Law 513 of 31 December 1992.

The 1993 Banking Code

Italian banking legislation was recently consolidated into a code that coordinates the 1936 Banking Law with the many provisions that had been adopted to amend and supplement it, particularly in the 1980s. The code was enacted by Legislative Decree 385 of 1 September 1993 pursuant to Italy's 1991 Community Legislation Implementation Law, which had delegated powers to the Government not only to transpose the Second Banking Directive but also to issue a code that would coordinate those implementing provisions with the other relevant provisions in force.

The code includes the statutory provisions concerning the banking authorities, banks and banking groups, supervisory powers and crisis management measures. It also includes those regarding non-bank financial intermediaries, previously governed principally by Law 197 of 5 July 1991, as well as the rules on transparency of contractual conditions and consumer credit.

Confirming the approach adopted in the 1936 Banking Law, in many areas the code only lays down general principles, entrusting the banking authorities with the task of issuing secondary legislation specifying the technical details. The main points of the new banking code, which will enter into force on 1 January 1994, are summarized below.

1. Supervisory authorities

The code confirms the existing organizational structure of supervision consisting of the Interministerial Committee for Credit and Savings, the Minister of the Treasury and the Bank of Italy.

The composition of the Interministerial Committee is changed to include the Minister of Finance and reflect the abolition of the Ministry for Southern Affairs and the Ministry for State Shareholdings.

The division of responsibilities among the authorities is also broadly confirmed. However, the distribution of tasks is rationalized by empowering the Minister of the Treasury to adopt measures in particular cases for which the Interministerial Committee had previously been responsible.

According to the new provisions:

a) *the Interministerial Committee for Credit and Savings* (Art. 2)
   - is responsible for the orientation of supervision in the field of credit and the protection of savings;
   - resolves on all issues of a general nature, thereby contributing to the production of supervisory provisions;
   - decides on appeals against measures adopted by the Bank of Italy (Art. 9);

b) *the Minister of the Treasury* (Art. 3)
   - takes the place of the Interministerial Committee in circumstances calling for urgent action;
   - adopts measures of a general nature for which he has direct competence (e.g. regulations on the requirements for banks' shareholders, directors, managers and internal controllers);
   - adopts measures with respect to particular cases previously within the competence of the Interministerial Committee;
   - may submit the measures for which he has competence to the Interministerial Committee;

c) *the Bank of Italy* (Art. 4)
   - drafts the proposals for the resolutions of the Interministerial Committee concerning supervision and performs functions preparatory to and in implementation of such resolutions;

Prepared by the Supervisory Regulation and General Affairs Department. The text of the banking code includes the innovations introduced by Legislative Decree 481 of 14 December 1992.

- issues supervisory regulations, making public the principles and methods of supervisory activity;
- adopts measures of a specific nature;
- ensures public disclosure of the most important general and specific measures adopted by the supervisory authorities, publishes a yearly report on supervisory activity and is responsible for the publication of statistical data (Art. 8).

2. Aims of supervision (Art. 5)

The Banking Law of 1936 was characterized by its "neutrality", in the sense that the supervisory instruments it provided for could be used to pursue any aim (stability, efficiency, monetary policy, economic planning).

Reflecting the influence of Community legislation, the code establishes the limits of the banking authorities' discretionary powers by indicating the aims to be pursued. These are:

a) the sound and prudent management of the institutions supervised;

b) the overall stability of the financial system;

c) the efficiency and competitiveness of the financial system;

d) compliance with the provisions in the field of credit.

In addition, the banking authorities are required to exercise their powers "in harmony with Community provisions" (Art. 6).

3. Banks

Activity

The code confirms the traditional definition of banking business as the joint activity of raising funds from the public and granting credit (Art. 10).

It likewise confirms the entrepreneurial nature of this activity and restricts it to banks.

As regards the raising of funds from the public (Art. 11), the code clarifies that persons other than banks are prohibited from engaging in this activity, even if it is carried on separately from the granting of credit. An important innovation, however, is the provision for a series of cases in which:

a) fund-raising is not covered by the prohibition inasmuch as it cannot be considered to involve the public;

b) the prohibition is not applicable.

The Interministerial Committee is called on to establish limits and methods for the fund-raising of listed companies and firms in general, which may have greater recourse to markets, either directly or via intermediaries.

In line with the Second Banking Directive, the code allows the universal bank model to be adopted in Italy and provides for appropriate operating instruments. It states that banks' corporate object comprises not only typical banking activities but "every other financial activity ... as well as related and instrumental activities" (Art. 10). Hence the "universal bank" can operate without maturity constraints and carry on all the financial activities that are not restricted by law.

The result is the statutory despecialization of the banking system: both the distinction between banks and special credit institutions and the different categories of institution are eliminated. All banks may, in theory, issue bonds and instruments of deposit. The power to regulate the issue of these instruments is attributed to the Interministerial Committee and the Bank of Italy (Art. 12).

The code simplifies the rules on special credit operations, which can be effected by all banks, maintaining the tax, pricing and procedural facilitations provided for in legislation previously in force (Arts. 38-46).

With a view to fostering the equality of competitive conditions enshrined in the Second Banking Directive, the new provisions allow all banks to conclude agreements with government bodies for the purpose of granting subsidized loans directly or managing subsidized public resources (Art. 47).

Organization

The code requires banks to be constituted in the form of a company or cooperative limited by shares; banks constituted as cooperatives may only be in the form of a cooperative bank ("banca popolare") or mutual bank ("banca di credito cooperativo") (Arts. 14 and 28).

Operationally, there is no difference between cooperative banks and banks in the form of a company limited by shares (Arts. 29-32). By contrast, mutual banks (formerly rural and artisans' banks) have specific local and mutual-assistance features (Arts. 33-37).

The most important innovation with regard to the formation of banks is the replacement of the twofold authorization to engage in banking business (authorization to set up a bank and authorization to commence business) with a single authorization (to engage in banking business) (Art. 14).

The code confirms the objective conditions for authorization introduced by Presidential Decree 350 of 27 June 1985 transposing the First Banking Directive; sound and prudent management is established as a criterion for evaluating compliance with the conditions indicated by the law.

Branching is liberalized. The Bank of Italy may only prohibit a bank from opening a branch for reasons connected with the bank's technical and organizational situation (Art. 15).

The principles of freedom of establishment and freedom to provide services are implemented with reference to Community banks (Arts. 15 and 16).

Participation in the capital of banks is regulated with the principle of separation between banking and commerce reaffirmed (see Appendix 1). As regards the original provisions of Law 287 of 10 October 1990, the main innovation, incorporated from the Second Banking Directive, is the reference to sound and prudent management as a criterion for authorization by the Bank of Italy (Arts. 19-24).

4. Banking supervision

Although it is broadly in line with the provisions previously in force, the new configuration of supervisory controls has several innovatory features.

To begin with, by unifying the legislative sources, the code provides for a uniformity of controls consistent with the institutional, maturity and operational despecialization of credit institutions (Arts. 51 ff).

In a further change, the Interministerial Committee and the Bank of Italy are made responsible for every aspect of prudential regulation.

The scope of prudential supervision now includes not only capital adequacy and eligible investments (see Appendix 2), which were expressly subject to regulation on the basis of the 1936 Banking Law, but also corporate organization and internal controls, which were not explicitly mentioned in the provisions previously in force but were considered *de facto* in the supervisory activity performed by the Bank of Italy.

Bylaws (Art. 56)

As a consequence of despecialization, powers of control with regard to the bylaws of all banks are centralized in the Bank of Italy. In addition, the formal authorization that was required under the 1936 Banking Law for any amendment to a bank's bylaws is no longer contemplated. Instead of formal approval, the Bank of Italy now simply verifies that amendments to the bylaws are not in contrast with the dictates of sound and prudent management. The establishment of specific aims for such controls means that not all the matters governed by banks' bylaws are relevant for supervisory purposes and that certain matters are left entirely to the discretion of the banks.

5. Supervision on a consolidated basis

The regulation of banking groups is one of the most important innovations introduced by the code with respect to the 1936 Banking Law.

In coordinating the laws regarding consolidated supervision, the code preserves the centrality of the banking group as governed by Legislative Decree 356 of 20 November 1990, taking account of the particular regulation of intra-group relations laid down therein. A group headed by a financial company qualifies as a "banking group" only if it includes a significant banking component. In order to facilitate harmonization with Community law, the conditions for identifying such groups will now be established in secondary legislation instead of by statute. This allows the definition of banking group provided for in Legislative Decree 356/1990 to be broadened.

Consolidated supervision is addressed not only to banking groups in the narrow sense, but also to the other persons identified by Directive 92/30/EEC, transposed by Legislative Decree 528 of 30 December 1992.

With reference to *informational monitoring*, the code distinguishes the persons falling within the scope of consolidated supervision, who are required to produce interim financial statements (domestic and Community banking groups), from those engaging in a "commercial" activity, who may only be required to supply information useful to the performance of supervision on a consolidated basis.

Prudential supervision is centred on banking groups within the meaning of Legislative Decree 356/1990 and may be extended to other persons falling within the scope of consolidated supervision except those engaged in "commercial" activities.

Inspections apply to all persons subject to consolidated supervision including those engaged in "commerce"; vis-à-vis the latter, however, inspectors may only verify the exactness of the data and information supplied.

6. Persons operating in the financial sector (Title V)

The rules governing persons operating in the financial sector result from the coordination of the relevant provisions introduced by Laws 52/1991 (on factoring), 197/1991 (urgent measures to limit the use of cash and bearer instruments in transactions and to prevent the use of the financial system for money laundering purposes) and 317/1991 (measures to promote innovation and the development of small firms). They reiterate that only specially registered persons may engage in one or more of the following activities: investment in equities, lending in whatsoever form, the supply of payment services and foreign exchange trading.

With reference to intermediaries that deal with the public, the code sanctions the principle that financial activity must be their sole object. The criterion of exclusiveness supersedes the diverse criteria (prevalence, professional basis and exclusiveness) hitherto adopted in the absence of a unitary framework. This approach, aimed at safeguarding stability, is consistent with that adopted for other financial intermediaries subject to supervision (banks, securities firms and UCITS).

The provisions incorporate and generalize the model of supervision based on three different levels of control, distinguishing between:

a) financial intermediaries that deal with the public, registered in a general list kept by the Italian Foreign Exchange Office on behalf of the Minister of the Treasury. These intermediaries must satisfy requirements regarding legal form, minimum capital, the integrity and experience of their directors, managers and internal controllers and the integrity of their shareholders (Art. 106);

b) financial intermediaries exposed to systemic risk, identified on the basis of objective criteria among those indicated at point a). They must be registered in a special list kept by the Bank of Italy and are subject to prudential supervision, informational monitoring and inspections (Art. 107);

c) persons who prevalently perform the above-mentioned activities but who do not deal with the public. These persons are listed in a special section of the general list and their shareholders and directors, managers and internal controllers are only subject to integrity requirements (Art. 113).

The code confirms that the supervisory regime provided for is of a residual nature, in the sense that it only applies to persons who are not subject to substantially equivalent forms of supervision under other legislation (Art. 114).

7. **Transparency of contractual conditions** (Title VI)

The code coordinates the provisions of Law 142/1992 (Arts. 18-24) and Law 154/1992 on consumer credit and the transparency of contractual conditions. There were discrepancies between these laws, in part owing to the fact that one was of a general and the other of a specific nature.

The code rationalizes the relevant provisions and resolves several questions of interpretation that had arisen in applying Law 154/1992.

The wording of Art. 1 of Law 154/1992 was such that in theory it could apply to all persons, including non-financial entities, engaging "on a professional basis" in the activities indicated in the list annexed to the Second Banking Directive. By contrast, the new provisions explicitly state that the rules apply to banks and financial intermediaries governed by the code. However, the Minister of the Treasury is empowered to indicate other persons to be made subject to the transparency rules.

Securities firms (previously made subject to Law 154/1992 by the decrees implementing the law) and investment funds are not covered by the code's provisions regarding transparency since the special rules that govern them were considered to offer sufficient protection to customers.

Requirements concerning the disclosure of information to customers, previously fixed by law, are now established by regulations issued by the banking authorities. In particular, the code provides for the Interministerial Committee to indicate both the operations and services to be publicized, after consulting the Bank of Italy and the Consob, and the means of doing so; the same approach is adopted for communications addressed to customers.

The rules governing the form and minimum content of contracts, and the sanctions for non-compliance, are slightly amended to harmonize the various provisions of the laws consolidated by the code.

With regard to controls, the code confirms that the Bank of Italy may apply to other supervisory authorities to verify compliance with the law.

A general rule provides that only customers may nullify contracts for infringement of the provisions on transparency and consumer credit.

To protect customers and ensure certainty of legal relations, the title on transparency introduces a provision that empowers the Bank of Italy to determine whether the names of contracts or securities are consistent with their content (Art. 117).

This rule does not limit the substance of the principle of freedom of contract: there is no impediment to counterparties concluding whatsoever type of contract provided that they do not give it a name that the Bank of Italy has reserved for contracts or securities having a different content. Violation of this prohibition is sanctioned by the possibility for the customer to nullify the contract, without prejudice to the consequences deriving from the infringement of supervisory instructions issued by the Bank of Italy.

8. **Issuance of securities** (Art. 129)

The code rationalizes and updates the rules on the issuance of securities, replacing the provisions of Law 77 of 23 March 1983, Art. 11, and Law 281 of 4 June 1985, Art. 21.

These provisions were discrepant both in the distribution of supervisory powers among the authorities (the Interministerial Committee, the Minister of the Treasury and the Bank of Italy) and in their indication of the purpose of the controls.

The code vests the powers of control jointly in the Interministerial Committee and the Bank of Italy and establishes their purpose as being the stability of the securities market.

Issues exceeding the limit established by the Bank of Italy are subject to control; this limit must in any event be higher than 10 billion lire.

Government securities, investment fund units and, for the first time, shares are excluded from controls.

Controls consist in notifying the Bank of Italy, which may postpone or prohibit the operation on the basis of criteria established by the Interministerial Committee.

Certain types of operation may be exempted from notification or made subject to a simplified notification procedure.

9. **Transitional and final provisions** (Title IX)

For the first time, the Bank of Italy is attributed formal competence for the smooth functioning of the payment system: it is empowered to issue provisions aimed at ensuring efficient and reliable clearing and payment systems (Art. 146).

The code confirms the provisions of the 1936 Banking Law that serve as the legal basis for compulsory reserves, securities investment requirements for banks and ceilings on the growth in bank lending (Art. 147).

The rules governing the few banks still having public-law status are removed from the sphere of legislation and entrusted to these banks' bylaws and the statutory provisions referred to therein (Art. 151).

The code repeals by express abrogation (Art. 161).

To avoid the creation of legislative hiatuses, the provisions that have been removed from the sphere of law remain applicable until the entry into force of the relevant secondary legislation. This mechanism allows the current provisions of law to be retained until they actually have to be amended.

For the same purpose, the measures already issued by the banking authorities are to remain effective until the provisions implementing the decree are issued.

Appendix 1: Regulation of the ownership of banks

The supervisory controls on the ownership of banks and the measures to safeguard the separation between banking and commerce have been strengthened by recent banking regulation.

The banking code consolidates and coordinates the provisions of Laws 281/1985 and 287/1990. These provisions had already been amended by Legislative Decree 481/1992, which, in transposing the Second Banking Directive, had increased the scope of the Bank of Italy's supervision of the quality of banks' shareholders. This now refers not only to the aim of ensuring separation between banking and commerce, as previously, but also to the broader criterion of "sound and prudent management" of banks.

The supervisory regulations issued in August 1993 establish the procedures whereby participants in the capital of banks must apply for authorization or notify the Bank of Italy and the criteria to be adopted by the Bank in assessing the quality of potential shareholders.

In particular, persons who intend to acquire, directly or indirectly, a holding exceeding 5 per cent of a bank's capital (or that results in control) are required to apply in advance for authorization by the Bank of Italy. The provisions regarding subsequent changes in holdings are simplified by referring to fixed threshold percentages of the bank's capital (10, 20, 33 and 50 per cent) instead of incremental thresholds as before.

When the holding is acquired indirectly, the requirement to apply for authorization concerns both the beneficial owner and the person who directly holds (or intends to hold) the shares of the bank. However, persons who control a banking group's parent company – whether the latter is a bank or a financial company – are exempted from this requirement since only the parent company is responsible for the group's banking interests.

With regard to the quality of the shareholders of banks, the principle, specific to Italian law, of separation between banking and commerce is reaffirmed. Persons who engage in significant business activity in non-financial sectors may not be authorized to acquire holdings exceeding 15 per cent of the capital of a bank (or that give control). Other persons who intend to acquire holdings in excess of this threshold must sign a special "protocol of autonomy", undertaking not to take actions that are contrary to the interest of the bank and depositors.

In considering applications for authorization, the Bank of Italy takes account of the applicant's ability to ensure sound and prudent management of the bank, in accordance with the principles of the Second Banking Directive. In this regard, great importance is attributed to the requirements of integrity, correctness in the conduct of business and financial soundness of persons who intend to acquire holdings in banks.

Moreover, shareholders of banks are subject to notification requirements in the event that a change in a holding causes it to cross one of the predetermined thresholds.

Appendix 2: Regulation of the investments of banks and banking groups

In June 1993 the Bank of Italy issued regulations revising the rules on banks' equity holdings pursuant to Legislative Decree 481/1991 transposing the Second Banking Directive. The new regulations allow banks to acquire equity interests in non-financial firms and introduce other important innovations. They simplify the procedure for authorizing banks to invest in other banks and in financial companies, and apply both to banking groups and to unaffiliated banks, in accordance with the principle that the rules must be neutral with respect to banks' choice of organizational model.

Investments in other banks and in financial companies must be authorized when they exceed 10 and 20 per cent of the capital of the investee company and whenever they give control. Investments that exceed 10 per cent of a bank's own funds are also subject to authorization.

Investment by banks in non-financial firms widens the range of corporate financing instruments and is intended to help strengthen the financial position and listing on regulated markets of companies with good prospects of profitability and growth. Banks will have to select the companies in which to invest weighing both the overall potential gains in terms of profitability and the need to ensure that the new opportunities do not lead to an excessive tying up of their assets.

The great majority of banks are subject to an overall investment limit of 15 per cent of own funds and a concentration limit that restricts their holdings in an individual non-financial firm or group to 3 per cent of own funds. Banks which, by virtue of their size and proven stability, are deemed to be in a better position to face the additional risks involved in equity financing compared with normal financing are subject to less stringent limits (overall and concentration limits of respectively 50 and 6 per cent for leading banks and 60 and 15 per cent for "specialized" institutions).

Consistency with the principle of separation between banking and commerce is ensured by a further investment limit of 15 per cent of investee companies' capital. The rules allow little scope for banks to exceed this limit and thereby gain control. Such a possibility is only granted to leading banks and specialized institutions, and then only in particular cases and for limited amounts (2 per cent of the bank's own funds). Debt/equity swaps for non-financial companies in difficulty are only allowed when the problems are temporary and are subject to a procedure designed to ensure that the temporary nature of the crisis is objectively ascertainable.

Documents

GROUP OF TEN

International capital movements and foreign exchange markets

Report of the Deputies to the Ministers and Governors

April 1993

LETTER OF TRANSMITTAL

Rome, April 23, 1993

To the Ministers and Governors:

I have the honor to submit the Report of your Deputies prepared in accordance with the mandate, conferred in the attached letter of October 1, 1992 from the Honorable Nicholas F. Brady in his capacity as Chairman of the G-10, to examine the recent developments in international financial markets and their implications for the international monetary system.

During the last six months the Deputies have made an in-depth analysis of those developments by drawing on information they gathered directly from market participants through a series of interviews conducted in each of the G-10 countries, and on research studies prepared by the IMF, the OECD and the BIS, which are annexed to the Report. Further, the Deputies examined the functioning of the foreign exchange markets during recent episodes of turbulence, the sources of those pressures, and the policy responses of the authorities.

The Report contains a full account of the Deputies' deliberations on these subjects and draws attention, as requested, to possible implications of the recent development of financial markets for the working of the international monetary system. While the Report does not contain specific recommendations, the Deputies trust that it will help to update our knowledge of markets and contribute to a better understanding of the policy issues involved.

Lamberto Dini
Chairman, Group of Deputies

THE SECRETARY OF THE TREASURY

WASHINGTON

October 1, 1992

Dear Colleague:

Recent events demonstrate forcefully that the increased size and complexity of international financial markets over the past few years have resulted in a volume of transactions which dwarfs the resources governments can bring to bear in the markets. The latest survey of foreign exchange markets indicates daily turnover approaching $1 trillion, which is roughly double the official reserves of our countries. In these circumstances, even small changes in capital flows, let alone the massive speculation we have just witnessed, can have profound effects on our economies.

I believe it is important to get a better understanding of these financial market developments, and their implications for the working of the international monetary system. The Group of 10 (G-10) has been the traditional forum in which the major industrial countries could consider issues relating to the operation of the international financial system. Therefore, I proposed at the IMF/World Bank Annual Meetings a study of international capital markets and the implications of recent trends and developments.

In my capacity as G-10 Chairman, I would like to propose that our Deputies convene in mid-October to develop a plan for the proposed study and to begin work with a view to presenting a final report at our next meeting in late April. I would envisage that such work would be done in close cooperation with the IMF, complementing their efforts in this area. I hope you will agree on the importance of such a study and the proposed approach. David Mulford will be in touch with his colleagues in the near future to arrange a meeting. I am also sending this letter to the other G-10 Ministers and Central Bank Governors.

Sincerely,

/s/

NICHOLAS F. BRADY

REPORT OF THE DEPUTIES

I. Introduction

1. At the suggestion of their Chairman last October, the Ministers and Governors of the Group of Ten Countries agreed that their Deputies should conduct a study of recent trends and developments in international capital and foreign exchange markets and their implications for the working of the international monetary system. The main findings that have emerged from the study are presented in this Report.

2. As part of the study, the Deputies arranged for their representatives to conduct a series of in-depth interviews with market participants on the basis of a common set of questions. A summary of the findings of these interviews is attached to this Report. The IMF Research Department, the OECD, and the BIS contributed papers on relevant subjects which are also attached. [1]

3. The Report is organized as follows. Section II provides a description of recent trends in international capital and foreign exchange markets. Section III discusses developments during 1992 in exchange markets and international capital markets, including the role of so-called convergence trades in the exchange market turbulence. Section IV describes how exchange markets functioned under stress, drawing heavily on the interview findings and other working papers submitted by national authorities. Section V discusses the sources of exchange market pressures. Section VI reviews how policy instruments were used in response to these pressures and evaluates their effectiveness. Section VII discusses prudential concerns. Finally, Section VIII considers the implications for the working of the international monetary system.

II. Recent trends in international capital and foreign exchange markets

4. Cross-border portfolio investment has expanded rapidly over the past several years. Total cross-border securities holdings among residents of the United States, Europe, and Japan are estimated to have risen to $ 2.5 trillion in 1991, about evenly split between fixed-income securities and equities. Over the past decade, the volume of international equity transactions increased by an average of around 15 per cent per year. In nearly all major countries the percentage of domestic government debt owned by foreigners has increased substantially, and in some cases dramatically. Mainly as a result of those trends, and of more active management of portfolios, the worldwide volume of foreign exchange transactions is estimated to have tripled in the last six years, reaching an estimated US $ 880 billion a day. Growth in certain segments of the foreign exchange market, such as swaps, outright forwards and options, has been even faster.

5. Most of the growth in cross-border portfolio investment has been concentrated among institutional investors – pension funds, insurance companies, mutual funds, trust funds, and hedge funds. Institutional investors in Europe and Japan hold a higher proportion (about 20 per cent) of their securities assets in foreign securities than do those in the United States (about 5 to 7 per cent), but all of these shares have risen greatly over the past decade.

6. Among several factors that have contributed to the increased globalization of portfolio investment, an important catalyst has been the liberalization and modernization of capital markets in several major countries in Europe and in Japan over the 1980s. This liberalization included the elimination of exchange/capital controls in countries that previously had such controls in place. In several countries the development of active, liquid capital markets open to non-resident investors was vigorously promoted. Competitive pressure among financial centers was also a force for the development and modernization of national financial markets. In addition, the relaxation in some countries (including Japan and the United States) of limits on the proportions of their portfolios which could be held in foreign assets stimulated increased holdings of foreign assets by various institutional investors. Greater harmonization of accounting standards and disclosure requirements, and an increased global role for credit rating agencies, provided better information on the creditworthiness of international borrowers. Improvements in clearing and settlement systems reduced the costs and uncertainties associated with international securities investment.

7. Technological advances in telecommunications and computers, including risk management software, have contributed importantly to the increased globalization of portfolio investment. These technological advances lowered information and transactions costs for portfolio managers, enabling them to handle larger, more diversified portfolios.

8. The growth of broad, liquid markets in underlying capital market instruments encouraged the development of derivative instruments, such as futures and options, whose use enables fund managers to unbundle risks and more efficiently manage the risk/return profiles of their portfolios. The development of active derivatives markets, in turn, provided a further impetus to globalization of asset holdings.

9. Another major factor contributing to the internationalization of investment has been the increasing role of institutional investors in the management of savings. Total assets of US institutional investors rose from 20 per cent of household financial assets in 1980 to 31 per cent in 1990. Similarly, for the United Kingdom, the rise was from 42 per cent in 1980 to 59 per cent in 1990; for France the ratio rose from 11 to 36 per cent. As a per cent of GNP, assets of US institutional investors were 133 per cent in 1990, compared with 66 per cent in 1980; assets of UK institutional investors increased from 52 per cent of GNP in 1980 to 108 per cent in 1990. The amount of funds under management by the largest 100 US and 100 European fund managers totaled over US $ 8 trillion in 1991.

10. These trends in international capital markets are likely to continue as the institutionalization of savings increases and as institutional investors seek to enhance the risk/return profiles of their portfolios through further diversification. While the institutionalization of savings has already progressed quite far in some countries, in others it is still in its infancy and is likely to grow rapidly. Cross-border investment as a per cent of total assets under management is very likely to continue to grow, as well. Trade sources estimate, for example, that the share of foreign assets in the portfolios of the world's 300 largest pension funds will increase from their present 7 per cent to around 12 per cent over the next five years. In addition, total financial wealth is rising rapidly in many newly industrialized countries, and will likely follow the same pattern of institutionalization and cross-border diversification.

11. The process of undertaking and actively managing investments in foreign currency-denominated assets necessarily involves institutional investors in the foreign exchange market. Indeed, the most significant development in foreign exchange markets in recent years is the emergence of these investors as major participants in the market.

12. One type of institutional investor, US-managed hedge funds, although quite small relative to other institutional investors as a class, has gained particular visibility in the foreign exchange market in recent years, especially during the turmoil of 1992. These funds, often also called commodity funds, are sometimes chartered outside the United States and are organized as partnerships, with the number of partners kept small enough and the minimum investment large enough to avoid certain regulations of the US Securities and Exchange Commission with respect to sales of shares. Hedge funds are not restricted in their investment objectives or instruments, and may frequently undertake highly leveraged positions in any of a variety of markets, ranging from bonds and equities to futures in interest rates, currencies, and physical commodities. However, they are subject to US laws governing, for example, market manipulation and insider trading. Hedge funds have existed for many years, but only recently have some begun to be major players in the foreign exchange market. There are a handful of independent hedge funds that are very active in the exchange market; they had total invested capital in the neighborhood of US $ 7 billion as of mid-1992, much of it coming from European investors. There are also a number of similar smaller funds managed by other institutions, e.g. banks.

13. There is not a uniform investment approach among the hedge funds. Some tend to prefer strategic position-taking based on fundamental analysis, while others are short-term traders. However, the hedge funds have increasingly treated foreign exchange as an asset class in itself, separate from any underlying debt or equity security. This approach has also been adopted by some pension funds, which may allocate a small portion of their assets to an unrestricted category which can include commodity futures and foreign exchange, inter alia.

14. While growth in overall foreign exchange turnover in the latest three years (42 per cent) did not match the extraordinary pace of the previous three-year period (in excess of 100 per cent), it remained quite rapid and consistent with a continuing strong trend in the globalization of investment. Growth of foreign exchange turnover slowed in both London and New York, but much more so in Japan, the third largest market, where growth decelerated sharply. In many other financial centers, particularly those which have experienced financial liberalization more recently, growth increased in the latest three-year period. The slowing in overall growth was most pronounced in the spot market. Transactions in this market segment rose by only 15 per cent from 1989 to 1992 and now constitute less than half the total volume of transactions. The sharp slowing in the growth of the spot market was apparently accounted for by slower growth in transactions between reporting dealers. This could reflect the decline in the number of traditional commercial bank market makers in recent years – a fact mentioned by many participants interviewed.

15. The decline in the number of traditional market makers can be explained, in part, by the merger of some large banks in recent years, but it seems, also, that some banks have simply found this line of business not sufficiently profitable. This reduced profitability probably reflects, in part, the erosion of market makers' information advantage with the improvement and spread of communications and information technology. The latter development suggests greater market efficiency, and is consistent with observations by several market participants that intra-day volatility of exchange rates has declined and that the frequency of "gapping" (discontinuous rate movements with no trading) has increased as larger, better informed participants instantly react in the same way to the same "news". The reduced profitability also might reflect, to some extent, competitive pressures from other institutions, such as securities firms, that had either the client base or relevant prior experience to play a big role in the newer and more rapidly growing sectors of the market, i.e. derivative instruments. An increase in the average size of transactions, particularly in swaps, outright forwards and options, was also a factor in the exodus of a number of smaller institutions from active market making.

16. Most market participants indicated that liquidity in the exchange markets is generally quite ample, at least for the major international currencies, even with a reduced number of traditional, full-service market makers. One market segment where that is not the case is in longer-term forwards, particularly longer than one year. Several market participants indicated that capital requirements on the credit risk equivalent of forward contracts, per the Basle Capital Accord, were a factor in reducing market-making capacity in this segment of the market. Internal prudential concerns about counterparty credit risk, apart from regulatory considerations, appear also to have limited the willingness of some banks to act as market makers and, in particular, to deal in longer-term forwards. Indeed, counterparty credit concerns were a frequent theme of the interviews. Several market makers will deal with only the highest credit-rated institutions. Conversely, some lower-rated institutions may have trouble finding counterparties who are willing to deal with them on normal market terms.

III. Exchange market developments in 1992

17. Rapid growth of cross-border portfolio investment in recent years has contributed to the efficiency of world-wide resource allocation, and has also served to impose a certain discipline on economic policy making. The obverse of this, of course, is that, if some event or development prompts many institutional investors to quickly seek to make even moderate changes in the currency denomination of their assets, the problems posed for exchange rate management may be difficult. This was illustrated in the European exchange market turmoil in the summer and autumn of 1992 and also in the case of the Canadian dollar during September-November of that year.

18. From mid-1989 through early 1991, the US dollar and the Canadian dollar depreciated against European currencies, reflecting shifts in portfolio demands related to the differing cyclical positions of the North American and continental European economies and the associated monetary policy responses of the authorities. The North American economies were ending a long period of expansion, then experiencing recession, while the continental European expansion was receiving a boost from German unification, as well as the prospect of a single European market in 1993. From early 1991 through April 1992, the US dollar and the Canadian dollar fluctuated against European currencies, appreciating on balance. This primarily reflected the shifting prospects for the pace of the North American economic recovery. In late April, however, the North American currencies began to depreciate again, reaching all-time lows against the Deutschemark in early September. The yen also weakened against European currencies toward the end of August 1992 as Japanese interest rates were reduced reflecting the slowdown of economic growth in Japan. In the course of September, the US dollar strengthened; the beginning of an easing trend in German interest rates and renewed prospects for a more vigorous US recovery contributed to the dollar's appreciation. The Canadian dollar, however, did not appreciate along with the US dollar but weakened in September and, again, in November in response to concerns about the Canadian recovery and the federal and provincial debt levels, and to political uncertainties in connection with the constitutional referendum.

19. The European foreign exchange crisis of 1992 must be seen against the background of the building momentum toward European Monetary Union (EMU) over the previous few years, culminating in the completion of negotiations on the Maastricht Treaty in December 1991. With no general ERM realignment since 1987, even in the face of major events, such as German unification and its associated policy mix, many investors seemed to assume that the likelihood of further central rate adjustments had become quite small. This spurred large-scale capital inflows into the ERM countries where interest rates were high. Net purchases by foreigners of domestic securities in the United Kingdom, Italy, and Sweden amounted to $112 billion in the 10 quarters ended mid-1992; net portfolio investment for Spain amounted to $27 billion over that interval. These inflows were mostly predicated on continued, rapid convergence of economic and financial performance among ERM countries.

20. In the United States these "convergence trades" spawned a whole new segment of the mutual fund industry, the short-term global income funds. The amount of money invested in these short-term global income funds is estimated to have grown to perhaps US $25-30 billion by mid-1992, from essentially zero at the end of 1989, and most of this was invested through convergence trades in ERM currencies. The idea was to invest dollar funds into high yielding securities denominated in, say, lire, covering the short dollar exchange rate exposure by purchasing dollars forward against sales of marks. The mark was used as a "proxy hedge" because, as the lowest-yielding ERM currency, its forward discount against the dollar was much less than that of the lira. The investor was left with a long lira/short mark position. As long as the lira/mark exchange rate did not change significantly over the term of the investment, the investor could earn the lira-mark interest differential on top of the dollar interest return. These prospective returns looked very attractive to holders of US dollars as dollar interest rates on bank CDs and money market mutual funds plunged to very low levels.

21. Institutional investors in countries other than the United States were undertaking similar investments. Other economic agents seem to have based their own financial arrangements on such convergence assumptions. Swedish and Italian non-financial corporations were very heavy borrowers of marks and ecus to fund their domestic currency needs. Non-financial corporations operating in various European countries tended to assume long positions in high-yielding currencies and short positions in low-yielding ERM currencies in managing their payments/receivables exposures.

22. Some market participants, according to comments in the interviews, appeared to ignore the growing cost/price level divergences, large fiscal imbalances, or tensions between external and internal policy requirements among ERM countries, on the assumption that the necessary policy adjustments would be made to maintain the existing structure of exchange rates and that progress was being made towards convergence in the medium term. Other market participants may have recognized the diverging fundamentals, but believed that they could get out of long positions in weak currencies before a devaluation, perhaps with the expectation that central bank intervention would provide sufficient time. In any event, the June 2 rejection of the Maastricht Treaty in the Danish referendum shook market participants' confidence with regard to the certainty of the path toward EMU and, therefore, the stability of existing ERM parities.

23. Some institutional investors and non-financial corporations slowly began to adjust intra-ERM exposures after the Danish referendum; the July increase in the Bundesbank's discount rate, coupled with a decline in the US federal funds rate, prompted further position adjustments. The selling pressure on the Finnish markka which developed in August spilled over onto the Swedish krona and added to the market's anxieties about other European parities, particularly after the markka was floated in early September.

24. The selling pressures that erupted in September were unprecedented in magnitude, to judge from the scale of intervention and the defensive interest rate reactions of some central banks. Selling pressures were broadly based – from the full range of institutional investors as well as from non-financial corporations. Hedge funds were very aggressive and visible in their operations, but their sales were small as a proportion of total sales. Most of the initial selling was apparently in the forward and, to a lesser extent, options markets, but was transmitted to the spot market by market makers' covering sales and by covered interest arbitrage.

25. Many institutional investors initially tried to keep their positions in underlying securities in place, while hedging their foreign exchange exposures. As liquidity in forward and derivatives markets temporarily dried up, or where capital controls prevented hedging operations, underlying cash instruments were sold. Mutual funds also sold underlying instruments to obtain liquidity for anticipated redemptions. Some investors actually increased positions in bond markets and in shares of tradeable-goods-producing firms in countries considered candidates for devaluation, in anticipation of subsequent interest rate declines and increased corporate profits; these positions were hedged against exchange risk, however. It is worth noting that individual investors did not all behave the same way towards the various currencies under pressure. According to certain market participants, some of the more aggressive sellers of sterling were purchasers of French francs and Danish kroner, which were viewed as having sounder fundamentals.

26. Two striking features of the episode were, first, the suddenness with which selling pressure developed momentum and, second, the way that pressures seemed to spread from one currency to another in serial fashion. The suddenness, according to market sources, owed to the specific temporal focus provided by the known, fixed date of the French referendum. In the case of sterling, the suddenness also owed much to news reports of alleged remarks from official sources indicating that further ERM realignment, after the devaluation of the lira on September 13, was desirable. Some observers have viewed the seriatim spread of pressures as a vicious game of "parity busting" by speculators, fueled by earlier profits. Most analysts, however, viewed the phenomenon as reflecting the fact that a large depreciation of one member currency put further pressure on the already weak competitive position (or economic activity) of the next "weakest" currency. Some market participants pointed to the fact that the suspension of the participation of sterling and the lira in the ERM and the devaluation of the peseta caused many market participants to rush to eliminate long exposures in all but the strongest ERM currencies. Other market participants pointed out that the French franc and the Danish krone were not subject to the same intensely concentrated massive pressures as sterling, the lira, and the Swedish krona because many market participants viewed the former group of currencies as having much stronger underlying economic fundamentals.

27. The turmoil in exchange markets for European currencies appeared to have some spillover effects in generating uncertainties in the Canadian dollar market. The Canadian constitutional referendum set for October bore faint echoes of the French referendum. More fundamentally, the Canadian recovery appeared to be more precarious than that of the United States. Canada's growing current account deficit and the federal and provincial debt levels, which led to a number of downgradings by rating agencies, added to the market's anxieties.

IV. Exchange market functioning under stress

28. Despite the surge in volume and the one-way nature of much of the trading, foreign exchange markets generally functioned well throughout the summer and autumn of 1992, except for instances of illiquidity, especially concentrated in forward and options markets. No significant operational problems emerged with payment or settlement systems, risk management systems, or back-office procedures. There were few direct spillovers of exchange market difficulties into other markets – the exception being ecu-denominated capital markets – although bond prices fell in several countries in association with exchange market pressures and authorities' defensive interest rate increases.

29. Market participants reported very large increases in volume – as much as two-three times normal – at the height of the crisis in mid-September. The volume of dollar foreign exchange transactions settled over CHIPS, the large-value dollar payments system, was about 50 percent above normal the week before the French referendum. This probably understates the magnitude of the increase in the volume of foreign exchange transactions: first, CHIPS figures only reflect settlements, and do not capture most forward transactions undertaken during the period; and second, they only include settlements which involve the US dollar. In this episode, direct transactions between ERM currency pairs were probably a much higher proportion of total transactions than normally is the case.

30. Spot foreign exchange markets remained generally liquid, in some cases as a result of massive central bank intervention, although participants reported significant changes in market functioning and occasional difficulties in obtaining liquidity in some currencies. In general, market makers and other market participants tightened discipline in limiting their own foreign currency exposures and monitored credit lines very closely. A number of smaller banks backed away from market making, in effect becoming agents, and during some periods many market makers refused to quote prices to infrequent or small customers. In Japan, banks in some cases requested customers to place their orders for European currencies during the European trading day. Bid-asked spreads for European currencies widened substantially – to double, triple, or even more relative to normal spreads.

31. Defensive central bank interest rate increases, along with larger uncertainties about future exchange rates and about possible further interest rate increases, contributed to greater interest rate volatility in several domestic money and capital markets. The increased volatility in interest rates went hand-in-hand with increased volatility in the forward (including swap) and options foreign exchange markets, both in the European turmoil and in the case of the Canadian dollar.

32. Market participants reported that forward exchange quotations in certain currencies, particularly sterling and the lira, were at times virtually impossible to obtain. In general, forward spreads were very wide, and rates moved significantly on large transactions. The illiquid and volatile conditions in forward markets resulted in options trading in some currencies coming to a virtual standstill for several days. Problems in over-the-counter markets for forwards and options prompted some shifting of business to organized futures and options exchanges, which performed relatively smoothly with substantial increases in volume.

33. A number of pricing anomalies occurred, reflecting the breakdown of normal arbitrage relationships. Covered interest parity conditions between spot and forward exchange rates and interest differentials apparently did not obtain for a time for certain currencies; in the case of the Swedish krona this persisted for a couple of weeks. Wide differentials developed between domestic and off-shore deposit rates for the French franc and the lira, and there was a difference between futures and cash prices for French government bonds for a period. In some of these cases, quotations probably were not real prices, i.e. prices at which business could be conducted. In other cases, the filling up of credit lines may have hindered normal arbitrage activities.

34. Although market makers monitored credit lines very closely, they generally did not cut lines back. They paid close attention to their own balance, or liquidity, management since maturity gaps between payments and receipts of even a few days could produce difficult and/or very expensive borrowing needs in currencies that were subject to capital controls, or where the monetary authorities had pushed overnight interest rates very high.

35. Options and other derivatives do not appear to have played a special role in the episode. There were some reports that as currencies reached their lower intervention limits within the ERM, automated trading strategies were triggered for the hedging of options portfolios (dynamic hedging), adding to downward pressure; but this was apparently not a major element. Most of the action was in traditional spot, swap, and outright forward instruments, and was the direct result of conscious decisions to alter exposures in currencies viewed as devaluation risks.

36. In the aftermath of the crisis, options pricing formulas were revised to reflect greater volatilities. This has meant higher options prices, in some cases sufficiently high to reduce the use of options significantly. Another consequence has been a further reduction in the number of market makers. In addition, for several weeks or months after the crisis, bid-asked spreads for direct dealing in some ERM currencies remained higher than previously.

V. Sources of exchange market pressures

37. The events of 1992 have vividly illustrated some old lessons, while at the same time prompting questions about the relative role of fundamentals and other factors in determining the direction and intensity of exchange market pressures. The main issues that deserve attention for the purpose of this Report are: the relationship between currencies belonging to an exchange rate agreement and third currencies; the emergence in some circumstances of strong pressures for real exchange rate adjustment, even in countries with sound fiscal positions and low inflation; and the possibility that large and normally efficient markets may under-react or over-react to changing circumstances, leading to periods of excessive confidence, abruptly followed by massive retrenchment.

38. Depreciations of the US dollar relative to the Deutschemark have often, though not always, been associated with tensions within the ERM. This association occurred again last summer, when the dollar weakened sharply against the Deutschemark, mainly reflecting renewed doubts about the strength of the US recovery and further increases in the already very large differential between German and US short-term interest rates.

39. The often observed temporal coincidence between movements in the dollar/Deutschemark rate and tensions in the ERM has induced many observers and market participants, especially in Europe, to suggest a causal link running from the former to the latter. Analytically, this view relies on the existence of certain asymmetries among European economies. First, trade shares with the United States (and Canada) differ across European countries, being particularly high in the United Kingdom. Accordingly, the United Kingdom is more exposed than other European countries to shocks originating in the United States. Second, even where trade shares with the United States are similar,, a slowdown of exports to the United States, whether due to a low

7

value of the dollar or to sluggish activity in the United States, is harder to withstand in those countries where activity is particularly weak or where competitiveness has already been eroded within the ERM. Third, dollar assets are probably closer substitutes for Deutschemark assets than for assets denominated in other European currencies, although this hypothesis seems to be less persuasive today than in the past, when several European countries still had capital controls or had not yet developed modern, highly liquid domestic financial markets.

40. The significance of movements in the dollar/Deutschemark rate must be evaluated in terms of their underlying causes. In some cases the underlying causes may be developments in the United States; in other cases, developments in Germany or elsewhere. When the cause is a German-specific shock, e.g. an increase in interest rates in Germany, capital can be expected to move into Deutschemark assets both from other European currencies and from the dollar. In such cases, although a positive correlation would be observed between the weakness of the dollar against the Deutschemark and the tensions in the ERM, it would not be warranted to establish a causal relation running from the former to the latter; a change in conditions in Germany is absorbed by movements in the Deutschemark exchange rate against the dollar (and other floating currencies) and may create tensions in the ERM. When, instead, conditions change in the United States, the dollar, in principle, should be expected to rise or fall equally against all ERM currencies, not just the Deutschemark, although in practice the asymmetries referred to above can create tensions within the ERM.

41. In light of these various considerations, it seems fair to say that the weakness of the US recovery, combined with the reductions in US interest rates and the associated depreciation of the dollar through early September, as well as the low growth of activity in most other OECD countries, generated a less favorable environment for the maintenance of exchange rate stability within the ERM. However, the major causes of the recent exchange rate tensions were to be found in developments within ERM countries themselves.

42. The events of 1992 illustrate how downward pressures on a currency can arise when market participants perceive that price and cost performances have been allowed to diverge significantly and persistently, without appropriate changes in exchange rates. Similarly, pressures on the exchange rate may stem from large public sector imbalances when there is no clear indication that fiscal positions are being corrected.

43. However, pressure on a currency can also arise when a country has been successfully pursuing sound domestic policies. Unexpected changes in the world prices of important commodities such as oil, large shifts in macroeconomic conditions abroad which give rise to divergent cyclical positions, or political uncertainties can all generate pressures for adjustments in real exchange rates. Such pressures are often beyond a country's control, and in that sense the changing fortunes of a currency may not always reflect changing assessments of the rigor and success of domestic policies but rather changing assessments of the external environment in which those policies may be expected to operate in the future. This may have been the case, for example, in the first half of the 1980s, when the yen and the Deutschemark were exceptionally weak relative to the dollar, largely, though not exclusively, because of the macroeconomic policy mix of the United States. Generally, therefore, the relative strength of a currency in the market should not be interpreted as reflecting solely the degree of soundness of domestic policies.

44. The tensions that arose in Europe in 1992 bear some similarities with those between the major currencies in the early 1980s, as they were also related to divergences in the policy mix across countries. Especially towards the end of 1991, largely as a consequence of the fiscal expansion that followed German unification, the policy needs and priorities of Germany tended to diverge significantly from those of other countries. In most European countries except Germany, inflation and capacity utilization were low or falling, while unemployment was high or rising. The weakness in economic activity was exacerbated both by domestic factors, such as the financial fragility of banks or the non-financial sector in some countries, and by international developments, such as the sluggishness of the US recovery and the slowdown in Japan.

45. Against this background, and after confidence in the progress towards EMU was shaken, pressures materialized against all but the strongest currencies in the ERM. In most cases, the pressure arose when markets came to the view that risks were largely one way, because it was perceived that the authorities would aim at lowering interest rates or would not be able to maintain them at a sufficiently high level to resist strong pressure. Market participants were thus essentially faced with only two plausible scenarios: a no-realignment scenario, if pressure did not arise or was successfully subdued, and a devaluation scenario in case of extreme pressure. They were hence induced to close or hedge their long and/or increase their short positions in the currencies that were considered at risk. However, experience has shown that when the no-realignment scenario pursued by the authorities is widely perceived to be supported by strong underlying fundamentals, determined and coordinated action by the authorities can restore stable conditions in the market and prevent the alternative scenario from becoming a "self-fulfilling prophecy".

46. The emergence of exchange market pressure in an adjustable peg system may pose a difficult choice for the authorities: on the one hand, yielding to market pressure would weaken the disciplinary effect of the peg and the credibility of the authorities, possibly inducing anticipations of further realignments; on the other, attempting to hold the parity might require an excessive tightening of domestic monetary conditions and nonetheless turn out to be unsuccessful, thus resulting in an even greater loss of credibility for the authorities.

47. Such a situation can be exacerbated by large uncertainties about whether and when markets are likely to come to the view that an exchange rate is no longer sustainable. For instance, at the beginning of the 1980s, it would have been difficult to predict that markets would have sustained the US dollar exchange rates of the mid-1980s for as long as they did, given the large external deficits that those rates implied for the United States. Likewise, the increased size and liquidity of securities markets have certainly contributed to attracting capital flows and sustaining exchange rates in several European countries in recent years.

48. In addition, the convergence trading observed prior to the summer of 1992 and its rapid unwinding provide a reminder that, for good or bad reasons, market perceptions about the sustainability of an exchange rate can shift quite abruptly. This is the same lesson that was learned in February 1985, when market sentiment about the dollar shifted dramatically in a matter of days.

49. Experience shows that markets can bring very large pressure against a currency when sentiment changes. In a fixed-but-adjustable exchange rate regime, the challenge for the authorities is either to persuade the markets that the established exchange rate is in fact sustainable and consistent with fundamentals or to ensure that adjustments in policies and/or exchange rates are made in an orderly way. In the case of countries that maintain more flexible exchange arrangements, market pressures can be absorbed in whole or in part by movements in the nominal exchange rate, at least in the short run. However, once movements in the exchange rate become pronounced and go beyond what the authorities consider appropriate, a similar type of challenge arises.

50. The 1980s and early 1990s have witnessed several episodes in which, for a variety of reasons, sometimes involving the policy stance of the authorities, investors seemed to be excessively confident in the prospects for a particular asset, and to pay insufficient attention to the development of fundamentals. Such episodes, some of which contributed to the events of 1992, were often followed by abrupt and massive retrenchment and crisis. Examples included the excessive bank lending to some developing countries in the 1970s and early 1980s, the dollar overvaluation of late 1984-early 1985, the extraordinary rise in land and equity prices in Japan, and the large increases in asset prices and/or private sector debt ratios in the United States, the United Kingdom, and Sweden prior to the most recent recessions.

51. In 1992, the vulnerabilities of sterling and the Swedish krona were linked to financial pressures, on private sector borrowers in the first case and on financial institutions in the second, which limited the scope for a lasting and credible further tightening of monetary policy in defense of the parities. In Sweden, some financial institutions were provided with liquidity support at lower interest rates in order to soften this constraint. Likewise, the weakness of activity in the United States and elsewhere, which contributed indirectly to last summer's exchange market turbulence, stemmed in part from the painful unwinding of the financial excesses of the 1980s.

52. An important question is whether such episodes are likely to occur more often or to be more damaging as markets grow in size and sophistication. When huge amounts of funds can rapidly move across assets, currencies, and countries, large long or short positions can build up quickly. Their effects are, hence, more likely to be damaging both in the phase of confidence when excesses build, as larger amounts of scarce resources are allocated to relatively inefficient activities, and in the phase when excesses unwind, as economic sectors or entire economies are suddenly put in a condition of extreme financial stress. In addition, the speed with which positions can be closed or covered in markets that are normally highly liquid may obscure the perception of the risks and increase the likelihood of "fallacies of composition", whereby each market participant believes it can get out of a position before suffering losses from any change in exchange rates or other asset prices. As noted above, such reasoning appears to have stimulated the pre-crisis convergence trades in ERM currencies; in several cases the reasoning was validated when official intervention had the effect of providing liquidity to the market.

53. Large and efficient markets provide substantial benefits by improving the allocation of resources worldwide. Nevertheless, the possibility that they may exhibit periods of excessive confidence and retrenchment points to a number of challenges for the authorities in the fields of both macroeconomic and prudential policies. As concerns exchange rates, a potential for instability may build up if the degree of resistance to exchange rate adjustments is not kept consistent with the degree of convergence of macroeconomic policies and performances, or if market participants are induced to believe that the authorities will defend an exchange rate peg mainly through very large official intervention.

VI. The use of policy instruments

54. As the 1992 events again illustrated, the response of the authorities to extreme exchange market pressures may span a wide spectrum of measures, ranging from budgetary packages and agreements with social partners to interest rate increases, official intervention and exchange controls.

55. Experience has demonstrated that exchange controls may temporarily relieve the pressure on the exchange rate, but are likely to be ineffective and even counterproductive in the medium term as they weaken confidence in the currency. This assessment was widely shared by the market participants that were interviewed; in particular, it was noted that an institution will be very reluctant to invest in a currency unless it is assured that it can close its position at all times. Furthermore, exchange controls introduce distortions both at the microeconomic level and in the allocation of savings and investment across countries. The reimposition of exchange controls is particularly damaging in economies with large financial sectors that have been operating in an environment free of such controls.

56. The best way to avoid exchange market pressure is through the pursuit of sound medium term policies. Where concern over domestic policy has been a major source of exchange market pressure, policy packages aimed at improving the economic fundamentals of a country are an essential ingredient to defending an exchange rate. In fixed-but-adjustable exchange rate systems, they are essential to restoring confidence after a realignment has occurred.

57. With regard to official intervention, recent events have clearly demonstrated the scale of pressure that can arise when markets hold a firm expectation that a depreciation is warranted. From June through December 1992, total net sales of Deutschemarks alone by European central banks (including those of the Nordic countries) reached the very high figure of DM 284 billion, of which DM 188 billion was used to defend ERM currencies. Given the amounts that the authorities can plausibly mobilize out of their own reserves or through borrowing from both private and official sources, it is of the utmost importance that the instrument of intervention be used judiciously.

58. In this connection, the conclusions of the 1983 Report of the Working Group on Exchange Market Intervention can be regarded as supported, in large part, by recent experiences. Intervention can be useful when complementing and supporting other policies, especially in the short run, and under the right circumstances. As some market participants have put it, the quality of intervention may be more important than its quantity. Intervention is likely to be less effective when it tries to stabilize exchange rates at levels that are widely perceived by the market to be out of line with fundamentals, or when used in isolation for a protracted period of time.

59. Intervention may be used to buy time, both for the authorities to take action in other areas of policy and for the markets to reassess the situation. An example is provided by the case of Sweden in September 1992: between the 16th and the end of the month, besides aggressively raising interest rates, the Riksbank intervened on a very large scale until a "crisis package" was agreed between the government and the opposition, which temporarily improved conditions in the krona market.

60. Intervention can also be effective when it helps to deliver clear signals to the markets about the policy intentions of the authorities and/or their assessment of fundamentals. Its "quality" in this respect can often vary with the degree of international committment or cooperation involved, as well as with the perceived consistency between exchange rates, underlying economic developments, and the stance of macroeconomic policies. In this regard, some of the concerted intervention operations undertaken since 1985 by the major countries to influence dollar exchange rates are viewed by most observers as having been effective on balance. Similarly, the signals sent last September in the concerted intervention of the French and German authorities, in combination with the joint communiqué of September 23 and moderate interest rate adjustments, proved effective in restoring the market's confidence that both countries were committed to defending the existing parity.

61. By contrast, in most of the other ERM intervention episodes of 1992 the parities were generally perceived to be out of line with fundamentals, and the impression that the authorities of different countries were facing different constraints on policy was never dispelled. In particular, Germany was seen to be exposed to the risk of, at least temporarily, losing control of the growth of domestic monetary aggregates in a situation in which inflationary pressures called for maintaining a tight stance of monetary policy. In other countries, however, in which inflation was already low and falling, a further tightening of policy was not justified on domestic grounds.

62. With regard to the use of interest rates to defend established parities, timely increases may prevent speculation from developing. Once speculation is occurring, the necessary increases have to be much larger. Interesting lessons can be drawn from the experience of 1992, as this instrument had never before been used so vigorously. Sweden utilized it most intensely. In a series of rapid steps from August 21 to the morning of September 16, the marginal lending rate of the Riksbank was raised from 13 to 75 per cent and then again, during the same day, to 500 per cent; interbank one-month rates jumped from 16 to 70 percent between September 7 and September 17. Though less dramatic than in Sweden, exceptional increases in official and market interest rates were experienced in virtually all other countries whose currencies came under pressure.

63. Judging the effectiveness of defensive interest rate changes in defusing exchange market pressure is not easy, since other factors contribute to the final outcome. As in the case of intervention, however, two general lessons can be drawn. The first is that extreme or very large interest rate hikes can act as "circuit breakers," temporarily stemming the pressure on a currency by making the cost of rolling over short positions and of covering long positions in a currency very high. Interest rate increases are more effective in this regard when combined with announced and credible commitments to act effectively in the near term through fiscal adjustments or other measures to address the source of the exchange rate pressure.

64. The second lesson pertains to circumstances in which there is no fundamental need for policy action to strengthen public finances or wage and price performance. In such cases, the effectiveness of interest rate adjustment may depend on whether market participants perceive that the authorities are strongly committed and politically able to maintain interest rates at the adjusted levels on a prolonged basis, if necessary. The lesson is illustrated by the experience of France in the period that followed the referendum on European Union. The key issue in that situation was to demonstrate to the markets that both the French and the German authorities were determined to defend the parity. Germany showed this intention through intervention; France, through a moderate increase in interest rates that could plausibly be expected to be sustained for a fairly long period of time. With this move, the French authorities further demonstrated that their desire to see lower interest rates in Europe had a lower priority than maintaining the parity within the ERM band. It should be noted that the increase in French rates was relatively moderate; behind the success of the operation was the fact that the markets were impressed by the clear evidence of coordination between France and Germany.

65. Interest rate policy is of key importance not only during, but also in the aftermath of, an episode of exchange market pressure. Maintaining relatively high interest rates for some time after the most immediate dangers for a currency have been overcome may help to reduce the perception that the risks are one-sided, thus discouraging the emergence of further speculative pressures in the future.

66. Under floating exchange rate regimes, exchange rate developments are only one of the factors affecting monetary policy. Interest rate changes may at times be warranted in light of market-driven exchange rate movements. The fact that exchange rate changes have effects on the level of spending on domestically produced goods and services may induce the monetary authorities – at least of smaller/open economies – to believe that some offsetting movement in interest rates is called for. Generally one might expect that interest rates changes could be smaller than those required to maintain fixed parities, given the increased likelihood of two-way speculation. However, experience with managing a floating rate regime in Canada, for example in the Fall of 1992, indicates that, should exchange rate changes be driven by extrapolative expectations, more significant interest rate changes might be called for to stabilize such expectations. Once this stabilization occurs, then some reversal of the initial interest rate movement would generally be anticipated.

VII. Prudential concerns

67. The increasing complexity, globalization, and operational speed of the international financial system has raised new prudential concerns and reinforced old ones. While significant operational problems were not encountered during the 1992 crisis, it has been noted that the situation might have been different in the absence of exceptionally large official intervention, which allowed many institutional investors and non-financial firms to unwind their currency exposures before exchange rates changed. The difficulties that might have arisen if many large institutions had suffered large losses underscore the importance of further progress in addressing prudential concerns.

68. Success in limiting the potential for problems in the future will require ongoing attention to a broad range of issues. In order to limit the risks faced by individual financial institutions, their internal prudential supervision and risk management systems must be kept under review and, where necessary, strengthened. Many market participants pointed out that such systems have been reviewed as a result of September's experience. At the same time, continuing efforts must be made to minimize the potential for systemic problems to develop from the build up of excessive positions or other sources of difficulties at individual financial institutions. In this regard, the authorities may want to consider improving their information concerning non-banks' cross currency asset holdings.

69. While the interviews with market participants confirmed that the development of new financial instruments and techniques has significantly enhanced participants' abilities to manage market risks, the Deputies are concerned that other developments may have added elements of risk to the environment. With more large participants in financial markets, and more extensive interactions between different participants, problems that have the potential to develop into systemic difficulties can originate from a wider range of financial firms. With the expansion of off-balance-sheet transactions, the creditworthiness of counterparties has become less transparent, which has made banks more reluctant to lend and, thus, to serve as a reliable source of funding for institutions that come to face unexpected credit needs. With the increased availability of derivative instruments, financial positions that straddle a number of markets have become more prevalent, which has raised the potential for a liquidity problem in one market to spill over into others with possible systemic consequences. With the spread of high-speed communications networks between financial markets around the globe, the potential for large and rapid market reactions to new information has increased considerably, which in turn may have reduced significantly the time available for national authorities to formulate their own reactions.

70. The Deputies see a need for various types of actions to limit the incidence of difficulties at financial institutions. Measures to upgrade information processing technology and to strengthen management systems can help insure that portfolio risks are managed effectively, and on a comprehensive basis, within individual institutions. Progress in these areas seems to be far from uniform at present. Efforts to achieve greater harmonization and transparency of national accounting, regulatory, and supervision systems – in a manner that strengthens these systems – are also very important for limiting the risks to the financial system.

71. The Deputies share a number of concerns that have been expressed about existing accounting, regulatory, and supervisory systems. One concern, which is being addressed by the Basle Committee on Banking Supervision, is to broaden the coverage of international capital adequacy standards to require minimum capital backing against market risks as well as credit risks, where market risks include those associated with net open positions in foreign exchange and in traded debt instruments and equities. A second concern, which is being addressed by the Eurocurrency Standing Committee at the BIS in the context of its Report on Recent Developments in International Interbank Relations, relates to the macroeconomic and macro-prudential implications of derivatives markets; a more complete understanding of the issues is needed in order to enhance supervisory policies conducive to financial stability. A similar set of issues is being considered by a recently formed Group of Thirty study group. At the OECD, work is in progress on the role of institutional investors in the present financial environment. A third concern is to develop common approaches to the supervisory issues that arise when entities with similar market activities and generating similar potential systemic risks are subject to different regulatory frameworks; when regulated financial entities are parts of conglomerates with unregulated non-financial entities; or when different regulators, sometimes in different countries, have responsibilities for different parts of financial conglomerates.

72. Some market participants voiced concerns that the risks posed by technology may not have been adequately addressed. By increasing the speed and ease with which information can be assembled and communicated, by reducing transaction costs, and by facilitating the design of new financial instruments and automated investment strategies, technology has increased efficiency and helped induce new entrants into the financial market place. However, by strengthening competition, these developments have also contributed to the erosion of the "franchise value" of traditional banking institutions, which may have encouraged some banks to hold more highly leveraged and risky portfolios than they would have otherwise maintained. In addition, specialization in information technology may have increased the concentration of risks in the financial system. In particular, to the extent that complex information and risk management systems necessary for the management of derivatives portfolios tend to be concentrated increasingly in a few large firms that enjoy a comparative advantage in information technology, a credit problem or technological failure in one of those firms could have the potential to create problems for the system at large. Though such problems remain somewhat hypothetical at present, they underscore the importance for these institutions to have strong risk management systems in place and for supervisors to have, in house, the requisite expertise for adequately exercising their responsibilities with regard to these developments.

73. In focusing on ways to prevent systemic difficulties, the Deputies place particular emphasis on the need to continue to protect and strengthen payment and settlement systems. The expansion of properly designed netting arrangements is regarded as a desirable approach for shielding settlement systems from strains associated with growing intra-day credit exposures and transaction volumes. In this context, it is important to make progress in resolving the legal ambiguities associated with cross-border netting. Further steps in other directions for strengthening settlement systems – such as raising collateral requirements for clearinghouse members, shortening settlement periods, moving toward delivery-versus-payment systems, and placing limits on daylight overdrafts – might be prudent as well.

VIII. Implications for the working of the international monetary system

74. However welcome on broad economic grounds, the growth in the size, integration, and agility of international financial markets has greatly increased the scale of the pressure that can be exerted against an exchange rate when market sentiment shifts. This growth can be expected to proceed substantially further in coming years as the institutionalization of savings continues to expand and as institutional investors continue to diversify their portfolios internationally.

75. It is difficult to assess the precise consequences of the growing size and internationalization of financial markets on the effectiveness of traditional exchange rate policies and intervention strategies. Experience has demonstrated, however, that the effectiveness of such policies and strategies depends crucially on the circumstances in which they are employed. The nature of the exchange rate system is a major factor in this regard. The role of interest rates is especially crucial in a fixed-but-adjustable exchange rate system, such as the ERM. Nevertheless, close coordination and cooperation among countries on economic policies, particularly monetary and fiscal policies, continue to be an essential condition for exchange rates to be relatively stable under any type of exchange rate arrangement.

76. As evident from the experiences reviewed in Section VI, the effectiveness of exchange market intervention under any type of exchange rate arrangement depends on two factors: whether market participants perceive that existing exchange rates are reasonably consistent with macroeconomic fundamentals, and whether the commitment of policy authorities to limit exchange rate movements is credible. These factors are not independent of each other. Commitments to limit exchange rate movements lack credibility when market participants believe that prevailing exchange rates have become inconsistent with macroeconomic fundamentals. In such circumstances, efforts to defend exchange rates through official intervention risk draining the resources of the monetary authorities. However, when existing exchange rates are not clearly out of line with fundamentals, intervention to allow market participants time for reassessment, together with appropriate statements to reaffirm commitments by policy authorities, may be sufficient to defuse market pressures. This prospect is more likely when the authorities also demonstrate that they are prepared to adjust interest rates. In turn, the effectiveness of interest rate adjustments depends on how strongly market participants believe that the authorities will be willing and politically able to maintain interest rates at the adjusted levels for a prolonged period, if necessary, to defend against exchange rate pressure.

77. In principle, exchange rate pressure can be defused by either boosting interest rates on the falling currency, cutting interest rates on the rising currency, or adjusting interest rates on both currencies simultaneously. These options may have different degrees of credibility as policy adjustments that can be sustained. In most cases the relative degrees of credibility and, hence, effectiveness of the different options depend on the prevailing and prospective macroeconomic circumstances in the two countries. The effectiveness of interest rate adjustment as a defensive mechanism may thus depend importantly on the willingness of countries to cooperate in undertaking the combination of adjustments that can most feasibly be sustained under the circumstances.

78. In general, a commitment to limit exchange rate movements requires close coordination of macroeconomic policies and can be undermined by market pressures if macroeconomic performances diverge substantially. Divergent macroeconomic performances typically imply that significant interest rate differentials must be maintained to hold exchange rate pressures in abeyance, with the higher interest rates required on the currency that is likely eventually to be weakened by the divergent macroeconomic performances.

79. For a pegged exchange rate system in which the policy commitment to avoid realignment is strong, such differentials may induce market participants to shift their financial portfolios toward the high-interest currency on the perception that exchange risk is limited and that, in any case, there will likely be sufficient time to shift out of that currency before any depreciation occurs. As long positions in the high-interest currency build, so does the volume of funds that investors may seek to quickly shift out of that currency if the course of events eventually casts doubt on the near-term sustainability of the exchange rate peg, and this can make the emergence of any doubt a self-fulfilling prophecy. Thus, for an adjustable peg system in which capital controls have become an ineffective and counterproductive policy option, convergent macroeconomic policies and performances are necessary to avoid exchange rate adjustment on a more durable basis. Although exchange rate realignment on some occasions can be avoided for prolonged periods without convergent macroeconomic policies and performances through the maintenance of divergent interest rates, if the divergent pattern of interest rates is not sufficient to promote convergence and the circumstances do not otherwise change, an eventual adjustment of exchange rates may be inevitable. Timely adjustment may involve lower economic costs and a smaller erosion of political credibility than attempting to resist adjustment for as long as possible. The policy implication, accordingly, is that the degree of resistance to exchange rate adjustment should be kept consistent with the degree of convergence in macroeconomic policies and performances.

80. For countries with floating exchange rate arrangements, divergent macroeconomic performances and domestic policy needs can also make it difficult to limit exchange rate movements, should they wish to do so. Attempts to smooth exchange rate movements through official intervention or interest rate changes may be ineffective when they are seen by the market to be inappropriate in light of domestic cyclical positions.

81. Under any type of exchange rate arrangement, even when substantial convergence of macroeconomic policies and performances has been achieved, exchange rates can be strongly affected by unexpected events. Various types of shocks can create strong pressures for exchange rate changes based on the macroeconomic implications of the shocks. A country can thus experience downward pressure on its currency despite the fact that its macroeconomic policy and performance have been sound. In response to some shocks exchange rate adjustment may be the most desirable course. More generally, however, the nature of exchange rate pressures should be closely examined in order to determine the appropriate course of action.

82. Countries that wish to limit exchange rate movements in the face of pressures induced by shocks must be prepared to adjust macroeconomic policies in a timely manner when, and by as much as is, appropriate. Moreover, because shocks often create a need for many countries to adjust policies simultaneously, and because policy adjustments in one country often have spillover effects on other countries, the avoidance of exchange rate adjustment can be greatly facilitated when countries coordinate their policy responses to shocks.

83. In general, international monetary stability requires close consultation among the major countries to identify inconsistent policies and to encourage appropriate policy adjustments in a cooperative framework. Among nations that, in addition, seek to maintain a pegged exchange rate regime, the process of coordinating policy adjustments requires the acceptance of constraints on national autonomy in respect of macroeconomic policies, especially interest rate policies. Exchange rate stability also requires a common strong commitment to price stability.

84. The political ability of countries to accept such constraints in favour of a credible exchange rate commitment depends crucially on the effectiveness of their individual and collective efforts to maintain internal macroeconomic stability without monetary policy autonomy. These efforts are likely to be more successful in economies with relatively flexible wages and prices, low structural rigidities, and countercyclical fiscal stabilizers that are relatively effective and well-disciplined. Establishing effective mechanisms in these respects is necessary for countries to reap the full benefits from maintaining stable exchange rates.

1 The summary of the interviews with foreign exchange market participants and the documents prepared by the IMF, the OECD and the BIS were published as annexes to the Report.

DATA SOURCES

Section II

Paragraph 4

Sentence 2: IMF, "International Capital Markets — Developments, Prospects, and Key Policy Issues, Part I: Exchange Rate Management and International Capital Flows in the Aftermath of the ERM Crisis," February 4, 1993, p. 3.

Sentence 3: Research Department, IMF, "A Note on Recent Trends and Developments in International Financial Markets and International Capital Markets," section I. *

Sentence 4: OECD, "New Instruments and Operations in Financial and Foreign Exchange Markets: An Overview," Table V. *

Sentences 5 and 6: BIS, "Foreign Exchange Market Activity: A Survey," calculated from Table Ia. *

Paragraph 5

Sentence 2: OECD, "New Instruments...," Table II. *

Paragraph 9

Sentences 2 and 3: OECD, "New Instruments...," Table I. *

Sentence 4: IMF, "International Capital Markets...," p. 3.

Sentence 5: IMF, "International Capital Markets — Developments, Prospects, and Key Policy Issues, Part I: Background Material on the Foreign Exchange Market and the ERM Crisis," February 11, 1993, Table 4.

Paragraph 10

Sentence 4: InterSec Research Corporation, as cited in IMF, "International Capital Markets..., Background Material...," p. 10.

Paragraph 12

Sentence 6: Estimate based on information from industry sources.

Paragraph 14

BIS, "Foreign Exchange Market Activity...." *

Section III

Paragraph 19

Sentence 4: National balance of payments statistics.

Paragraph 20

Sentence 2: Estimate based on information from industry sources.

Section IV

Paragraph 29

Sentence 2: US Federal Reserve Board, staff estimate.

* Published as annexes to the Report.

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SWITZERLAND:	J. ZWAHLEN	SWISS NATIONAL BANK
	D. GYGI	DEPARTMENT OF FINANCE
UNITED KINGDOM:	N.L. WICKS	H.M. TREASURY
	A.D. CROCKETT	BANK OF ENGLAND
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SECRETARIES:	ASSISTANTS TO THE CHAIRMAN: [2]
J. BALDET (IMF)	G. GALLI (BANK OF ITALY)
G. BINGHAM (BIS)	S. REBECCHINI (BANK OF ITALY)
M. FUKAO (OECD)	

[1] The following officials, who were Deputies at the time, participated in some of the meetings: MR. LAGAYETTE (France), MR. MULFORD (USA), MR. KAESER (Switzerland), MR. SMEE (Canada).

[2] MR. P. ISARD (IMF) and MR. R. SMITH (Federal Reserve System) also assisted the Chairman in various stages of the drafting of the Report.

Speeches

Capital mobility and implications for the international financial system

Address by the Director General, Lamberto Dini, to the Conference "International Capital Mobility and Financial Derivatives", organized by CARIPLO-IMI

Milan, 28 June 1993

I. Introduction

1. I would like to thank CARIPLO and the Istituto Mobiliare Italiano for having invited me to make some introductory remarks to this conference. The topic and timing of the conference are very well chosen; I am sure that the high quality of the speakers will make it an interesting meeting for both market participants and the authorities. The development of derivative markets has been a key factor in the growth and internazionalization of financial markets worldwide; both directly, because derivatives have been the fastest growing segment of the market, and indirectly, because they have contributed to the development of the markets for the underlying securities.

2. In my remarks, I will first describe the major trends that can be observed in international financial markets and then focus on their implications for market participants and the authorities; within this broader context, I will discuss some of the more specific issues relating to derivatives. I will draw on a recent study carried out by the Group of Ten Deputies, of which I have the honour to be the chairman, whose main deliberations were discussed and approved by the Ministers and Central Bank Governors of the G-10 last April.

II. Major trends in international financial markets

3. In recent years, international financial markets have undergone a major evolution, which can be characterized by four major changes.

First, net and gross international capital flows have increased substantially. Reflecting the need to finance growing current account imbalances, net international capital flows reached unprecedented levels in the second half of the 1980s. Net exports of capital from Germany and Japan averaged 3.9 and 3.6 per cent of GDP respectively, while the net imports of the United States were more than 3 per cent. In the preceding decades these numbers had rarely exceeded 1 per cent. For better or for worse, capital markets have made it possible for the United States and several other countries to run current account deficits of a size that would have been deemed unsustainable 15 or 20 years ago. But the major changes have concerned gross capital flows, both in tradeable securities and in banking operations. For instance, the stock of international loans (net of redepositing by banks) rose from 5 per cent of the industrial countries' GDP in 1973 to over 20 per cent in 1991. Meanwhile, foreign exchange market transactions increased sharply. According to the latest survey conducted in April 1992, the overall volume of activity in this market is estimated at almost $900 billion a day; this is three times the volume found in 1986 in the first survey of this type.

4. Second, world financial markets have become much more integrated, especially in the short-term segments, following the relaxation of capital controls and the general process of financial liberalization. The increasing integration of financial markets is clearly demonstrated by the virtual elimination of interest differentials between domestic and offshore markets and by the fact that arbitrage relationships hold almost continuously for all major currencies and financial instruments.

5. Third, the importance of institutional investors has grown substantially in the management of saving and in cross-border securities transactions. Until the early 1970s, their foreign investments were small, largely owing to administrative restrictions and the high cost of acquiring and managing foreign currency positions. Their role expanded very considerably in the 1980s, when their assets grew from 20 per cent to 31 per cent of total private saving in the United States and from 42 per cent to 59 per cent in the United Kingdom; while in France they more than tripled. In many other countries, the institutionalization of saving is only in its infancy and is growing very rapidly. The increased role of institutional investors has been one of the main factors behind the expansion of cross-border securities holdings, which are estimated to have risen to more than $2.5 trillion among residents of the United States, Europe and Japan, and has contributed to the emergence of a new environment in international financial markets. These operators are generally subject to less stringent regulatory standards and supervision than banks and do not have direct access to central bank refinancing; some of them appear to have greater incentives than banks to take open positions in securities and currencies and to change them rapidly.

III. The role of derivative instruments

6. The fourth major phenomenon is the expansion of markets for derivative financial instruments. Their growth in recent years has far exceeded that of other financial markets.

In the foreign exchange segment, which is directly connected to the integration of financial markets, the increase in turnover of swaps, forward contracts, futures, and options between 1989 and 1991 largely exceeded that in spot trading. Forward transactions, for instance, expanded by 61 per cent, against 13 per cent in the case of spot transactions; the share of spot trading declined from 58 per cent to 50 per cent of the total; on the other hand, the share of forward trading, including short-term currency swaps, rose from 40 per cent to 46 per cent. The fastest growth was that of options trading, which exceeded 100 per cent, though such trading still accounts for only 4 per cent of the total.

7. At the same time, domestic derivatives also recorded impressive growth. Estimates by the BIS show that the principal amounts outstanding of derivative instruments traded on organized exchanges, excluding foreign exchange futures and options, grew from $534 billion in 1986 to $3,440 billion in 1991; within this category, interest rate futures and options grew the fastest. An even faster build-up occurred for over-the-counter (OTC) instruments, with the swap market accounting for most of the expansion: at the end of 1991 interest rate swaps amounted to the equivalent of $3,100 billion, with more than half involving currencies other than the dollar. These developments contributed to the increase of cross-border investment activities by providing more flexible ways of managing risk and exploiting arbitrage opportunities.

Banks have become increasingly involved in the derivatives market and their activity in this segment has grown faster than traditional interbank operations. To cite only one significant figure, between 1987 and 1991 the share of interest rate swaps arranged between banks increased from 30 per cent to 44 per cent of the total.

8. The strong demand for derivative instruments which has emerged in recent years clearly signals that they perform a useful function, and that their expanding role is not likely to be reversed if markets continue to perform smoothly. Indeed, it can be argued that the development of derivatives has enhanced the two main functions of financial markets – the efficient allocation of capital and the sharing of risks.

In the first place, the use of derivatives has lowered transaction costs, since a single contract makes it possible to achieve what would otherwise require several different transactions, thus allowing investors to adjust their portfolios more rapidly end effectively. Moreover, by expanding trading possibilities, derivatives have increased the risk-return combinations available and improved the allocation of capital among different investment strategies. At the same time, by providing more cost-effective means of managing interest rate and exchange rate exposures, they have contributed to the internationalization of capital markets.

9. In the second place, the additional transactions executed in derivative markets allow information to be reflected more accurately and rapidly. The availability of more informative prices enables all market participants, both financial intermediaries and firms, to make better investment decisions. Investors and traders can identify the risks to which they are exposed more promptly and accurately and take action to avoid them.

10. Finally, an important feature of derivatives, one that provides true value added, is that they often cannot be easily replicated by every market participant. For instance, those, such as options, involving a dynamic hedging strategy are often introduced by large international institutions, which have a comparative advantage in handling the complex transactions and round-the-clock trading required to hedge them.

In sum, by facilitating transactions and increasing the information content of prices, derivatives have helped improve the allocation of resources across locations and across time. This is not to say that there are no side effects that market participants and regulators should be concerned about, as I will argue later.

IV. New challenges

11. The changes that have affected international capital markets in the past decade and helped to increase cross-border capital mobility are likely to continue in the future because their underlying determinants are still at work.

Technological progress and its application to money and finance are not going to abate; the use of increasingly sophisticated telecommunication and computer systems will continue to reduce the cost of processing and transmitting information, facilitate the management of global portfolios and increase the scope for arbitrage operations between different locations and instruments.

Economic fundamentals and policies will continue to require or facilitate large net and gross capital flows. Saving/investment imbalances between countries will inevitably arise. In addition to cyclical conditions, they will probably reflect structural differences: the stage of development, the distribution of wealth and the age structure of the population, none of which is likely to be harmonized rapidly across countries. More importantly, the process of cross-border portfolio diversification will continue, as financial liberalization proceeds, particularly in the newly industrialized countries but gradually also in the developing world. The ERM turmoil of 1992 will certainly enhance the use of derivative instruments for hedging against exchange rate risks, especially in those countries hit by the crisis where such instruments have had so far a relatively minor role.

12. These rapid changes in international capital markets can be regarded as a "two-edged sword": they generally improve the global allocation of resources, but at the same time they pose new challenges to market participants and policymakers. The former must be aware that new types of risks are emerging and must make sure that their internal procedures and investment strategies are up to the task of coping with a highly competitive environment. The authorities' responsibilities concern both the prudential and macroeconomic aspects; mistakes in either of these domains can have serious consequences for the stability of financial markets, intermediaries and the economy as a whole.

13. The episodes of turbulence on the foreign exchange markets in the summer and fall of 1992 illustrate some of the problems that can arise.

Until the crisis that started with the Danish upset vote on the Maastricht Treaty, capital had been flowing abundantly into the high-interest-rate European countries. Such inflows were predicated on the expectation that the authorities would be able to defend the established parities by implementing policies leading to rapid convergence of economic and financial performances among ERM countries. The G-10 Report provides some indications on the magnitude of these flows; between January 1990 and June 1992 net purchases by non-residents of British, Italian and Swedish securities are estimated to have amounted to $112 billion; and foreign portfolio investment in Spain alone was $27 billion in the same period.

14. I believe that many observers on both sides of the fence, i.e. both authorities and market participants, underestimated the speed with which the destination of these flows could change. Indeed, a striking feature of the ERM crises was the rapidity with which selling pressure gained momentum. For some currencies, particularly the pound sterling, much of the action took place in just two or three days. Overall, from June to December 1992, net sales of the German currency by all European central banks (including those of the Nordic countries) amounted to the staggering figure of DM 284 billion. It is noteworthy that this figure considerably underestimates the selling pressure that emerged in the markets, because central banks also resorted to other defensive instruments, mainly interest rates, and because several currencies were devalued or floated in that period.

15. The first lesson to be drawn from these developments concerns the magnitude of the resources markets can mobilize and the speed with which they can be shifted across markets and national boundaries. Initially, the selling pressure was concentrated in the forward and option markets, but it was rapidly transmitted to the spot segment by the hedging activity of market makers; the pressures spread rapidly from one currency to another and to the bond and equity markets.

It would be a useless and frustrating exercise to look for culprits, since the selling pressure originated across the board, from institutional investors, corporations and individuals. Not even hedge funds can be picked out; some of them were certainly very aggressive and visible, but their activities accounted for only a small fraction of total sales. Events would not have been significantly different if hedge funds had not operated or if they had been subject to stricter regulatory standards.

16. More generally, I believe that even an "ideal" regulatory system, harmonized across countries and categories of intermediary, and focused on both credit and market risks, would not have made a significant difference in this case since the problems were essentially macroeconomic. As to capital controls, the Italian authorities share the view of the G-10 countries that they should be ruled out, both because they distort the allocation of resources and because they are likely to be ineffective beyond the short run, and may even be counterproductive as they weaken confidence in a currency.

17. In the light of these considerations, three key issues should be addressed: the first is whether large and normally efficient markets may overreact, or underreact, to exogenous shocks, thus sometimes losing touch with fundamentals, and, if so, what can be done to prevent it; the second issue concerns the proper management of risk by individual institutions and supervisory authorities; and the third, the implications of the growing size and integration of markets for the international monetary system.

V. Market excesses?

18. On the first issue, whether markets may at times become detached from fundamentals, I would like to warn against the rather widespread temptation to oversimplify.

In the case of the ERM, for instance, one can certainly argue that from 1987 to mid-1992 markets were excessively confident about the prospects for certain currencies and that the subsequent crises were too abrupt. However, we all know that the confidence during that period was in part grounded in the attitude of the authorities, which were themselves somewhat too optimistic about the prospects for convergence and underestimated the difficulties involved in the ratification of the Maastricht Treaty.

A similar lesson can be drawn from other episodes that have occurred in recent years, such as the excessive bank lending to developing countries of the late 1970s, the dollar overvaluation of the mid-1980s and, more recently, the debt-driven speculative bubbles in asset prices in the United States, Japan, the United Kingdom and Sweden. In general, it is difficult to blame these excesses only on market forces.

19. In any case, it is clear that both market participants and the authorities must be quicker off the mark than in the past in preventing such episodes from occurring. The more so since excesses are likely to be increasingly damaging as markets grow in size and sophistication. When huge amounts of funds can move rapidly across assets and countries, damaging effects can be caused by the excessive build-up of positions, since this tends to result in a larger proportion of globally scarce resources being allocated to relatively inefficient uses; the rapid unwinding of such positions can be equally damaging, as individuals or entire economies are suddenly put in a situation of extreme financial stress.

For the authorities, the key tasks are to provide stable and realistic "anchors" for markets' expectations, to avoid actions and statements likely to blur the perception of risks or induce "moral hazard", and to refrain from validating market excesses through insufficiently disciplined monetary or fiscal polices. For market participants, the challenge is to ground their action on sound analysis of economic fundamentals. This is difficult and costly; more difficult and costly than relying on the indications provided by the commonly available instruments of so-called technical analysis or charts. But if a large part of the market uses such instruments, asset prices risk losing touch with fundamentals, a situation which increases systemic risk because fundamentals are bound to prevail sooner or later.

20. A problem that deserves special attention in connection with the possible "excesses" in the ERM concerns intervention policy. Individuals with long positions in the high-interest-rate currencies probably expected that central banks would intervene in the foreign exchange markets in a crisis, thus giving them enough time to unwind their positions without incurring major losses. In this sense, individual market participants may have behaved efficiently, but the incentive structure in place made the overall macroeconomic outcome somewhat inefficient. In the event, the expectation proved correct as foreign exchange intervention by central banks was very large. But the attitudes of monetary authorities should not be taken for granted. Indeed, it is worth asking what would have happened to the stability of individual intermediaries, and of the system at large, if central banks had not intervened so massively. This question is highly relevant because it is very unlikely that intervention on a similar scale will be undertaken again in the foreseeable future. It clearly underscores the need for prudence by operators, as well as for improvements in the present supervisory structure. This leads me into my second point, prudential concerns and the management of risk.

VI. Prudential concerns

21. Gerald Corrigan, the retiring President of the Federal Reserve Bank of New York and authoritative chairman of the Basle Committee on Banking Supervision, recently noted that "systemic risks may be greater as we look ahead". Drawing on the interviews conducted with more than 100 major market participants, the G-10 Report lists a broad set of developments that have made the environment more risky.

22. In the first place, the growing concentration in a few large firms of the technology required to handle complex transactions has strengthened the interaction between market segments, thus increasing the potential for local problems to develop into systemic difficulties. Secondly, lower transaction costs and better access to information by borrowers and lenders have facilitated the entrance of new players in the markets and increased competition. This in turn may have encouraged traditional banking institutions to hold more highly leveraged and risky portfolios. At the same time, counterparty risk has become more difficult to assess owing to the expansion of off-balance-sheet business. These developments may have contributed to the financial fragility that has hampered some major industrial countries. Last but not least, more rapid market reactions to new information have reduced the time the authorities have to take corrective measures.

23. In view of these developments, it is of the utmost importance that market participants be adequately equipped to cope with the risks that are a feature of the present financial environment, both for their own sake and for the welfare of the system at large. In this respect, individual firms should ensure that risks affecting their balance sheets are adequately understood and effectively managed; to this end, investment in information processing technology and management systems will be necessary, coupled with informed analytical judgment by management.

24. For their part, the authorities should seek greater harmonization and transparency of national accounting, regulatory and supervisory systems. Efforts should be made to eliminate differential treatment of similar entities and to ensure adequate supervision of financial entities which are part of conglomerates with unregulated non-financial entities. Capital adequacy standards should be broadened to cover against market risks as well as credit risks, a concern which has been recently addressed with a preliminary proposal from the Basle Committee on Banking Supervision.

25. Finally, continuing attention must be paid to strengthening payment and settlement systems. These withstood the strains caused by the extraordinary increase in transactions – as much as two-three times normal – during last summer's exchange market turbulence. Nevertheless, there is little room for optimism; it is important to focus on ways to cope with the growing volume of transactions and reduce systemic risks: these include the expansion of properly designed netting arrangements, raising collateral requirements for clearing-house members, shortening settlement periods, moving towards delivery-versus-payment systems and placing limits on daylight overdrafts.

VII. Prudential concerns arising from derivatives

26. It is often argued that since derivative contracts are those which can be replicated through existing instruments, they do not substantially alter trading possibilities and, therefore, do not introduce new sources of risk. Under real world conditions, however, this argument may be less cogent than theory suggests.

27. In the first place, derivatives may increase contagion effects, as their pricing and hedging involves the simultaneous use of different market segments. While such interaction contributes to the global efficiency of financial markets, it may result in temporary failures, or simply bottlenecks, in one segment causing distress to be "exported" to others.

28. A second concern relates to credit risk. In general, the netting provisions of derivative instruments, such as swaps, tend to reduce the mutual exposure of the counterparts in individual transactions with respect to that arising under an equivalent strategy (e.g. a parallel loan to achieve the same result as a swap). However, the growth in volume of trading may increase gross credit risk, which is neither easy to evaluate, because derivative contracts are technically complex, nor readily apparent in balance sheets. These are potential risks, since so far major problems due to counteparty default on derivative markets have not materialized.

29. Other threats may be involved in derivatives business: such as difficulty in controlling market risk, as well as liquidity risk. For those derivatives which involve dynamic hedging, the evaluation of market risk requires the use of analytical models; the limitations of these models and their underlying assumptions (e.g. continuous trading and equal liquidity of different markets) must be clearly understood. Liquidity and market risks are not independent. Liquidity problems, for example, may be associated with extreme price movements in a way that prevents the identification of a causality relationship (e.g. large movements cause liquidity to disappear or vice versa).

30. Finally, since the legal validity of some clauses of derivative contracts has not been tested in many countries, derivatives pose specific problems in terms of "legal risk". Such risk arises mainly from the uncertainty regarding the interpretation and validity of new financial contracts. In the case of derivatives, this risk may be quite important in view of the highly innovative nature and complexity of the contracts.

31. These issues are a direct challenge to market participants, especially the top managements of the financial institutions dealing with these products. The issue of making sure that top managements fully understand the risks involved in the trading activities of their institutions is crucial in the case of complex and often innovative derivative instruments. Several market participants among those interviewed for the G-10 Report, clearly stated that managers are often not sufficiently aware of, or do not have the instruments to appreciate, the overall risk implications of the transactions carried out by their trading desks in many different markets.

32. This situation calls for more careful prudential supervision and for changes in basic accounting and statistical procedures aimed at making balance sheets more informative. These issues are being addressed in several international fora, including the Eurocurrency Standing Committee of the BIS and a Group of Thirty study group.

VIII. Organized exchanges vs. OTC markets

33. One important issue, especially in countries that are in the process of reforming their financial systems, is whether to favour the development of organized exchanges.

It is often noted that such exchanges are generally better at risk management than OTC markets. In the former, margin requirements and clearing house risk-sharing schemes eliminate credit risk almost completely. Moreover, on an organized exchange, it is only the net position of participants that matters, which reduces credit risk, and liquidity is potentially greater, owing to the large number of operators. In OTC markets, instead, the level of risk may also be higher because of the tendency for business to be concentrated in a few large firms.

In addition, organized exchanges are usually designed to handle large volumes of trading and can therefore survive market tensions more easily. During the currency crisis of September 1992, for example, organized exchanges functioned continuously, while there were temporary gaps in the OTC trading of forward contracts in some currencies.

34. Nevertheless, OTC markets offer some distinct advantages: they bring greater flexibility through the scope they provide for customizing financial products to the needs of financial players and end users. This flexibility has to be preserved, despite the supervisory and regulatory problems it poses. The authorities must face these challenges and respond with a more comprehensive approach toward the regulation of market activities and a better understanding of financial products.

35. There is no contradiction between regulated markets and the growth of new financial instruments. On the contrary, intervention by the authorities may be useful to set a clear framework for the orderly operation of markets. Clear "rules of the game" are essential for the development of market activity, both on organized exchanges and on OTC markets.

IX. Implications for the International Monetary System

36. My third and last point concerns the implications of the growing size and integration of markets for the international monetary system.

The existence of a larger and more internationally mobile pool of capital changes the nature and in some cases accentuates the spillover effects of domestic economic policies. These externalities may determine a sub-optimal production of international public goods, such as monetary stability and/or sustainable non-inflationary growth. Hence the need to enhance international policy coordination in order to determine the production of "optimal amounts" of these public goods. For instance, higher capital mobility worsens the output/inflation trade-off resulting from a monetary stimulus in a single country, as lower interest rates are accompanied, ceteris paribus, by larger falls in the exchange rate and higher inflationary pressure. By contrast, a coordinated reduction of interest rates among a group of countries would maintain exchange rates stable and provide a more effective boost to the level of activity. Policy coordination is especially necessary to avoid excessive fluctuations of exchange rates, which may be harmful to investment decisions and trade or may foster protectionist pressures; it is also needed to maintain orderly conditions on currency markets. The key factor here is time. Markets act much more rapidly than in the past; the authorities must be at least as fast in consulting each other and taking decisions.

37. Better coordination is also needed because the traditional instruments available to individual countries to influence exchange rates have probably become less effective.

The scale of the capital flows that occur when markets firmly expect a depreciation can dwarf the resources that the authorities can mobilize for intervention. This is not to say that this instrument should not be used. As stated in the G-10 Report, there are circumstances in which intervention may be useful as a signal to the markets about the policy intentions of the authorities and/or their assessment of fundamentals. It is essential, however, that the authorities of the countries concerned should cooperate to deliver clear signals to the markets and that intervention be discretionary. In an efficient market, a signal is effective if it represents new information, i.e. if it has not already been discounted. In addition, a sense of two-way risk must always be present in the market, which means that there must be a degree of uncertainty as to whether, and in what amounts, central banks will intervene. This consideration applies to both floating currencies and those belonging to exchange rate agreements. In the ERM, new forms of discretionary coordinated inframarginal intervention have been experimented with some success in the cases of the French franc and the Danish krona.

38. Even interest rate changes made by a single country may have lost some of their effectiveness. This is essentially because markets are forward looking. When interest rates are raised to very high levels, markets ask whether such action is sustainable for a sufficiently long period of time. They may not only conclude that high interest rates are unsustainable but also perceive them as leading to even lower interest rates in the future, as they weaken the economy, or the balance sheets of certain operators, and threaten the stability of the domestic financial system; in such cases, beyond the very short run, speculative pressures may increase rather than abate.

39. At present economic conditions in the major industrial countries are still divergent and domestic requirements are unlikely to give way to external targets. In these circumstances, the objective of reducing exchange rate instability between the dollar and the major currencies needs to be pursued with pragmatism. Setting over-ambitious goals can produce disappointments and even conflicts among countries and within them. In modern democracies, the authorities who bear the main responsibility for exchange rate management cannot overlook domestic needs; otherwise, dissatisfaction may arise with the institutions in which national sovereignty ultimately rests, thereby inevitably undermining exchange rate objectives.

40. The implications of high capital mobility are particularly challenging for fixed exchange rate regimes. It has always been known that fixed exchange rates, the free flow of capital and independent monetary policies are potentially inconsistent. The complete removal of capital controls and the increasing size and sophistication of international capital markets in recent years have made such inconsistency all the more evident.

41. Accordingly, countries that have decided to maintain a pegged exchange rate regime should be ready to accept constraints on the autonomy of their monetary policies. The question then becomes whether the single monetary policy required to maintain fixed exchange rates should be set in a cooperative fashion or through the leadership of a dominant country. The recent events in the EMS show that this is a crucial question, and one which, in practice, is still largely unsettled.

Statement by the Deputy Director General, Vincenzo Desario, on the events regarding the Ferruzzi Group to the Finance Committee of the Chamber of Deputies

Rome, 7 July 1993

1. Introduction

I should like to thank the President and the Committee for this opportunity to clarify the role of the Bank of Italy and the banking system in the events regarding the companies of the Ferruzzi Group.

I shall be happy to respond as far as possible to your questions in the hope that at the end of this session the Committee will possess information that will help it to perform its functions.

It is normally the case, and not just in Italy, that a heated public debate immediately ensues when difficulties emerge in large companies or groups; this permits a profitable examination of the actions of the authorities, the companies and the intermediaries involved. However, it also entails the danger that false logic will prevail, that it may be supposed that risk-free lending is possible or that the authorities can and must protect banks from every risk and shield companies from the difficulties more or less closely associated with the economic cycle.

A number of observations are in order to help clarify the debate. I shall consider the tasks assigned to the Bank as the supervisory authority for the banking and financial system and outline some of the rules and controls the Bank applies to intermediaries. I shall explain some of the the functions and limits of the Central Credit Register, which has received considerable attention in the many comments on the events in question; I shall also illustrate how and to what end the Bank of Italy is following the situation of the Ferruzzi Group.

2. The aims of financial and credit supervision

On 5 March 1985 Parliament approved Law 74, which empowered the Government to transpose the EC's First Banking Directive into Italian Law, a task that was accomplished in Presidential Decree 350/1985. In Law 74 Parliament established that the fundamental "principle and guiding criteria" binding the Government was the affirmation of the "entrepreneurial nature of banking".

In the view of the Bank of Italy, this principle, although not explicitly stated, was already clearly discernible in a systematic interpretation of the previous legal order, but had nonetheless been the subject of long and heated academic and legal debate.

In enacting the above Law, Parliament put an end to that debate; it erected the central pillar of a new credit system and laid down in a clear and definitive manner the fundamental approach the authorities would adopt to an even greater extent in carrying out their supervisory activity.

Supervision is carried out so as not to encroach on banks' autonomy; the Bank of Italy cannot and must not take the place of a bank's management in making business decisions nor evaluate the merit of individual loans or transactions.

If the supervisory authorities were to usurp management's role by interfering in individual deposit-taking or lending decisions, they would violate the principle laid down by Parliament. They would restrict the entrepreneurial autonomy of banks recognized in banking law and create unacceptable confusion between the responsibility of the controlling authorities and that of the institutions subject to supervision.

The reaffirmation of the entrepreneurial nature of banks permits them to allocate their financial resources in response to market signals in the forms they prefer and with the customers they consider to be sufficiently creditworthy.

Accordingly, banking supervision is of a "prudential" nature, based on the use of ratios and is neutral with respect to the organizational form adopted by the intermediary and the type of operations it undertakes. In this system, the overall equilibrium of banks is carefully monitored, analyzed and assessed on the basis of regulatory standards that are normally considered sufficient to guarantee stability.

The approach rests on a system of rules that supplements rather than replaces the market, correcting its imperfections while respecting its mechanisms. The rules are concerned with banking prudence and proper management, and serve to discipline the pursuit of business objectives.

The paradigm of this approach is represented by the internationally applied system of capital adequacy standards, by means of which the stability of intermediaries is promoted while permitting them freedom of action against payment of a "premium", in terms of capital, commensurate with the risks they assume. Competitive equality is ensured, since the unit value of the risk premium is the same for all intermediaries, banks' strategic choices are respected and operating decisions have to comply with compatibility constraints.

The rules regarding risk concentration play a particularly important role in the system of prudential controls, a subject I shall come back to later.

In addition to operational limits, banking supervision is based on the observation and evaluation, using prudential returns and on-site inspections, of the principal technical aspects of banks' situations, such as the amount of own funds available, the structure of assets and liabilities and the ability to generate income. During this phase, which represents the synthesis of supervisory activity, the effects of lending decisions are examined and thus the degree of exposure to the risk of loans not being repaid in the manner or at the times agreed. The effective volume of a bank's own funds is not independent of the quality of its assets or of the probability of its loans being redeemed.

What I have said so far makes it clear that banks are not subject to any form of external management by the Bank of Italy. The supervisory instructions issued to the banking system consist of administrative provisions defining the framework within which banks may exploit their freedom.

The Bank of Italy evaluates banks' exposure to credit risk – on the basis of the information they periodically provide – to verify intermediaries' possession of the organizational, professional and technical features needed to ensure an adequate examination of the true risks they take on, assess the overall quality of assets on the basis of loan performance, and analyze the sectoral and customer concentration of the loan portfolio and the evolution of bad debts.

A more direct analysis is made during the periodic *ad hoc* on-site inspections that the Bank of Italy carries out. Inspectors examine banks' procedures for assessing customer creditworthiness with reference to their internal documentation. The purpose of the audit is not to assess individual decisions to grant a loan, i.e. the advisability of granting a loan to a given customer, but to determine whether banks acquire and evaluate all the information available for the purpose of making an informed judgement on the risks they take on, as well as the effect of their lending on the key aspects of their business.

It is in the light of the results of this examination that the Bank of Italy assesses the quality of the loan portfolio as regards recoverability and potential demands on capital.

When the inspection reveals an unsatisfactory situation at a bank or the methods for assessing customers' creditworthiness are found to be inadequate, the Bank intervenes as it deems most appropriate.

At no time during the evaluation procedure is the financial or economic situation of borrowers analyzed directly, nor is any attempt made to arrive at an early identification of companies' difficulties or possible crises; this is the task of the banks, which must assess the creditworthiness of potential borrowers and carefully monitor the credit lines they have granted.

Naturally, access to data on customers' debt situations is not in itself sufficient for this purpose, and has to be supplemented by a flow of constantly updated information on the overall activity of companies and their business prospects.

The Bank of Italy does not have the authority to request such information and, even if it were accessible, would not be able to use it to extend its supervisory activities to non-financial enterprises, since doing so would exceed the objectives and limits established for the Bank by law and nullify the principle that banking is an entrepreneurial activity.

It is the responsibility of the competent bank organs to ensure the application of the rules; they are institutionally responsible for the correctness and economic soundness of the operations they undertake.

The possibility of giving the supervisory authority powers of intervention in the granting and management of individual loans had already been explicitly excluded in the preparation of the Banking Law of 1936.

3. The supervisory regulation of large exposures

The regulations governing loan concentration represent one of the key aspects of the Bank of Italy's stability-oriented supervisory activity. Not even strict credit selection can eliminate insolvencies; risk is inherent in banking, probably more so than in other entrepreneurial activities. But if the loan portfolio is sufficiently diversified, losses should not be so large as to threaten banks' capital solidity.

The diversification of lending is fostered by quantitative prudential limits based primarily on the ratio between the credit granted to individual borrowers and the capital of the lending bank and designed to prevent excessive exposure to a single customer.

The rules in force in Italy subject loans exceeding 20 per cent of a bank's capital to special monitoring. Banks are free to grant loans between 20 and 100 per cent of their capital as long as the total amount of such loans does not exceed a limit fixed with reference to their capital and customer deposits.

In view of the special nature of the operations of medium and long-term credit institutions, the regulations regarding them are differentiated according to the operational specialization of each intermediary, although the underlying principles are analogous to those for commercial banks.

Community legislation will now have to be grafted on to this regulatory framework: EC Directive 121 of 21 December 1992, published in the *Official Journal of the European Communities* on 5 February 1993, lays down strict individual and overall limits on the concentration of exposures.

A bank or banking group may not incur an exposure to a client or group of connected clients exceeding 25 per cent of its own funds; a bank's total exposures exceeding 10 per cent of its own funds may not exceed 800 per cent of that aggregate.

In order to avoid disrupting existing relationships between banks and their customers, the Directive provides for the gradual implementation of the new regulations; until 1998, member states may set the single large exposure limit at 40 per cent and define large exposures as those exceeding 15 per cent of the bank's own funds. The new regulations must be fully implemented by 31 December 2001.

In order to render the provisions of the Directive effective immediately, where a credit institution has already incurred exposures exceeding the new limits, the member states must require the bank to take steps to bring them within the limits laid down by the Directive and to avoid any action which would increase them.

Immediately following the publication of the Directive, the Bank of Italy invited credit institutions to adopt an approach consistent with the future regulatory regime and not to hinder the smooth reduction of the exposures exceeding the new limits.

Finally, a decree issued by the Treasury Minister on 22 June 1993 made the Bank of Italy responsible for issuing implementing instructions and devising the procedures for the reduction of over-large exposures and set 31 December 1998 as the time limit for the transition.

In accordance with today's functional despecialization of intermediaries, the above limits apply to all types of credit institution.

4. The Central Credit Register

The Central Credit Register was set up in the early 1960s primarily to provide banks with information on customers' total indebtedness vis-à-vis the banking system.

The service's fundamental purpose is to offer banks an instrument enabling them to adopt more effective precautionary measures and avoid the increases in risk deriving from the cumulation of credit facilities granted by different institutions.

The Bank of Italy itself draws on the information filed with the Central Credit Register in its supervision of the banking system in order to supplement banks' prudential returns.

Banks' growing use of the Register and collaboration in ensuring the quality of the data confirm their interest in the service it provides. Since 1985 the value of the loans on file has grown from 380 to 935 trillion lire and the number of borrowers reported has roughly tripled to almost 2 million. On an average day the Bank of Italy receives some 3,000 queries from banks wishing to know the debtor positions of loan applicants.

At the end of the eighties the Bank of Italy began implementing a comprehensive plan to improve the quality and speed of the service and the completeness of the information available.

As regards the latter point, current reporting only covers the loans disbursed by each Italian credit institution to single resident and non-resident borrowers; it does not include the lending of foreign banks, except for their branches in Italy, or that of non-bank intermediaries.

Steps have already been taken to broaden the scope of reporting, notably by including the loans that Italian banks' foreign branches grant to residents; this has enabled the Register to capture around 40 trillion lire of previously unreported loans since January 1993.

Other more far-reaching measures are being implemented aimed at capturing a series of financial intermediaries that engage in credit activities and providing data focused specifically on the situation of corporate groups.

Already today, the monthly feedback of information from the Central Credit Register to the reporting institutions, together with their right to access the Register's data bank, enables banks that know the composition of an industrial group to monitor its total indebtedness vis-à-vis the banking system.

Italian law does not contain provisions facilitating the analysis of groups, so that it is not easy to determine the exact configuration of conglomerates, especially when they have a complex structure and ramifications abroad.

The Bank of Italy is examining the possibility of carrying out a survey of the major corporate groups with the help both of the banks, which are in direct contact with firms, and of other organizations, so as to offer credit institutions an effective means of assessing their customers' creditworthiness.

Lastly, in view of the effects of the freedom to provide services within the Community, the Bank of Italy has promoted contacts in the competent international fora with the aim of organizing exchanges of information with the other central credit registers operating in Europe. Such exchanges would further extend the scope of registers by adding information on the indebtedness of operators vis-à-vis banks in participating countries. It should be noted, however, that few authorities have instruments comparable to Italy's Central Credit Register and that the reporting systems differ widely.

Independently of these initiatives, the Bank of Italy is engaged in a wide-ranging study of the mechanisms governing the reallocation of corporate ownership and control. As part of this project, last summer the Bank and the Consob launched a joint project to permit more extensive and systematic use of the information available on the ownership of companies listed on the stock exchange, as well as of those controlled directly or indirectly by listed companies or that directly or indirectly control listed companies. The resulting data bank will make it possible, inter alia, to reconstruct the composition of the principal corporate groups operating in Italy today and to map the changes since 1986.

This complex project, in which the Bank of Italy and the Consob are investing substantial human and technical resources, is due to be completed by the end of this year.

5. The Ferruzzi group's indebtedness in relation to the supervisory limits

Provisional estimates of the financial debts of the companies that directly or indirectly belong to the Ferruzzi group are of the order of 31 trillion lire, with around 21 trillion owed to domestic credit institutions and more than 6 trillion to foreign banks.

Some 150 Italian banks have claims on the group. The total exposure of the ten largest banking groups is around 15 trillion lire, which is 21 per cent of their capital. The remaining exposure concerns some 120 intermediaries and is equal to around 7 per cent of their own funds.

Six intermediaries have granted the group loans of more than 1,000 billion lire each, seven of between 500 and 1,000 billion and fourteen of more than 100 billion. Another 43 banks have granted loans of more than 10 billion each.

On the basis of the information available, the Italian banks do not appear to have exceeded the monitoring thresholds in force today, which refer to the individual positions of borrowers.

Moreover, the figures that have been disclosed basically comply with the new limits laid down in the Community Directive on large exposures, which, unlike the current limits, also refer to group exposures.

The case of the Ferruzzi group is a clear example of the practice of multi-bank lending whereby an individual firm or group of companies may sometimes deal with a very large number of credit institutions.

This practice can lead to distortions and reduce the ability of an individual bank to control the evolution of the corporate borrower's financial needs. This is an argument for preferring a more exclusive relationship between banks and firms.

One of the basic rules applying to banks in every financial system nonetheless concerns the limitation of risk concentration in individual institutions. A bank wishing to assist a firm by meeting a sizable proportion of its financial needs will always have to stay within these limits and be of a size, above all in terms of capital, that will allow it to take on the related risk without calling its own stability into question.

One of the characteristics of the Italian banking system is the small average size of intermediaries; even the leading Italian banks are relatively small in international terms.

At present no one Italian bank could satisfy most of the financing needs of a major group such as Ferruzzi. It should also be remembered that firms cannot turn to a deep and efficient private capital market.

The resulting fragmentation of credit relationships may have negative effects from the point of view of the overall efficiency of dealings between banks and firms, but it has the merit, corroborated in the Ferruzzi case, of avoiding excessive concentrations of risk.

The remedy for the current situation is to facilitate the strengthening of domestic banks' capital base and an increase in their size, by mergers and other means. Recent legislation, from Law 218 of 30 July 1990 (the so-called Amato Law) to Legislative Decree 481 of 14 December 1992 (transposing the Community's Second Banking Directive) has reduced the impediments to such action.

In turn, the new rules governing banks' equity interests in non–financial firms provide a partial solution to the information problems connected with multi-bank lending by allowing closer relationships between banks and firms.

The recent tripartite agreement on incomes and employment policy is consistent with this general approach in that it underscores the need to facilitate the banking systems' operations in the fields of medium-term lending and equity financing, in part by speeding up the concentration of the banking system.

6. The role of the Bank of Italy

Faced with the group's difficulties, Ferruzzi Finanziaria entrusted the preparation of a restructuring plan to Mediobanca and the most heavily exposed banks (Istituto Bancario San Paolo di Torino, Banca di Roma, Credito Italiano and Banca Commerciale Italiana), later joined by two foreign banks (Société Générale and Union de Banques Suisses). These banks duly notified the Bank of Italy on 7 June, suggesting that a meeting of the group's creditor banks should be called to inform them of the situation and verify whether the conditions existed for the banking system to adopt a uniform approach that would provide the basis for a plan for the reorganization of the group.

The Bank of Italy decided to adhere to this initiative since the importance of the case, considering the group's size and the impact on domestic and foreign markets, required the Bank to follow the matter closely. Ferruzzi is in fact the second-largest private industrial group in Italy, a conglomerate that employs more than 50,000, comprises numerous listed companies and has a very large debtor position with Italian and foreign banks.

When situations of this kind are not tackled adequately and promptly, they are liable to have repercussions on the general performance of the economy and the financial sector, with the risk of systemic crises.

The involvement of more than 100 foreign banks with claims exceeding 6 trillion lire could damage the assessment of the risks associated with Italian borrowers.

A meeting of the 16 banking groups with the largest exposures to Ferruzzi was held at the Bank of Italy's Head Office on 16 June; further meetings with other banks having significant claims were held in June at the Bank's offices in Milan and Rome.

Following the meetings the participant banks, which hold around three quarters of the Ferruzzi group's debt to the banking system, came out in favour of maintaining support for the group so as to allow the preparation of the restructuring plan.

The Bank of Italy participated for the purpose of verifying the possibility of coordinated action to protect the banks' claims, with no intention of interfering in their decisions.

The banks, which are entrusted with the task of drawing up the reorganization plan, will start by determining the assets and liabilities and financial positions of the Ferruzzi companies and then identify the ways to ensure the group's profitability in the medium term and define how the creditor banks should take part in the initiative in order to ensure the best protection of their claims.

Participation in the plan can only be voluntary and based on an analysis of the specific interventions it will involve. The banks will determine whether and how to continue to provide support on the basis of a careful examination of the plan's prospects of success and the related costs and benefits.

The rescue plan may well exploit the operational possibilities recently allowed by the Interministerial Committee on Credit and Savings with regard to banks' interests in industrial companies. However, there is no connection between the adoption of the new provisions in this regard and the emergence of the Ferruzzi affair. The new rules had been announced well before and been the subject of an intense debate in banking and academic circles; they stem from the need to bring the Italian regulatory system into line with Community law following the transposition of the Second Banking Directive in Legislative Decree 481/1992.

As early as May 1992, in the Concluding Remarks of the Bank's Annual Report, the Governor had stated: "When the Second Banking Directive is incorporated into Italian law, it will be possible to increase the scope for banks to provide finance by allowing them to acquire interests in non-financial firms within predetermined quantitative and qualitative limits".

In this year's Concluding Remarks, the Governor announced the Bank's intention of recommending that the Interministerial Committee on Credit and Savings adopt provisions allowing banks to acquire interests in non-financial firms.

The Supervisory Instructions issued in application of the Treasury Minister's decree of 22 June 1993 clarify that the main objective of the new provisions is to expand banks' operational capabilities. They will widen the range of instruments for financing firms and foster both the strengthening of firms' balance sheets and their recourse to the regulated markets.

In special cases capital restructuring operations may be allowed in connection with the reorganization of companies in temporary financial difficulty. In no case, however, must such operations merely involve a debt-for-equity swap. A bank's entry into a company must lead to an improvement in corporate performance within the framework of a well-defined plan.

To this end, banks have to evaluate the profitability of the operation. Loan conversions can be profitable provided the borrower's crisis is temporary and there are reasonable prospects for recovery in the medium term.

For operations of this kind the Bank of Italy requires a specific procedure to be followed and a plan to be drawn up that envisages a return to profitability and financial solidity within a period not normally exceeding five years.

Another requirement is that banks holding a large proportion of the total debt should participate in the plan.

7. Conclusion

To conclude, I should like to stress that while the Ferruzzi group's size and high profile justify the concerns raised by this affair, crises of companies, both big and small, are always possible, especially during a recession such as the one Italy, together with the entire world economy, is now going through.

It is not the emergence of individual crisis situations that need cause alarm, but the possibility of doubts as to the resilience of the economic system and, within it, of the banking system. With reference to the latter, the ratio of bad debts has undeniably risen, but this increase is no larger than those recorded in similar cycical phases in the past, while banks' capital adequacy ratios are better. Moreover, unlike many other countries, Italy has not run into crises affecting entire sectors of the economy and capable of endangering the stability of the banking system or important parts of it.

The state and perspective of the Italian economy

Speech by the Deputy Director General, Tommaso Padoa-Schioppa, to a meeting organized by J.P. Morgan & Co. Incorporated

New York, 4 October 1993

1. My remarks are organized into three parts. I shall first present an overview of the present economic situation in Italy and look at the prospects for external adjustment and the pace of economic recovery following the devaluation of the lira. Secondly, I shall illustrate the current efforts to cure what, for years now, has been "the" problem of the Italian economy: the state of the public finances. Finally, I shall comment on the issue of privatizations and capital markets. At the end I shall draw some brief conclusions.

I. The lira, the external balance and prices

2. The main changes in the Italian economy in the last twelve months need to be seen against the background of two developments: at the domestic level, the rapid change that is under way in Italian society and politics; at the international level, the European recession and the crisis of the EMS.

The devaluation of the lira – larger than envisaged and outstripping the accumulated price differentials – has led to a dramatic improvement in the balance of payments, while having only a modest impact on inflation. Since August 1992, the lira has devalued by more than 20 per cent in effective terms. In the first six months of 1993, the trade balance recorded a surplus equal to 1.9 per cent of GDP, compared with a deficit of 0.7 per cent of GDP in the same period of 1992. Inflation, as measured by the cost-of-living index, has declined to just over 4 per cent, the lowest rate in twenty-five years.

3. The swing from a deficit to a surplus on trade was the result of both sustained export growth and a slowdown of imports, to which weak domestic demand also contributed. Regional differences in the pattern of world economic activity have caused trade to be redirected from EC countries to non-EC countries, notably to Asia and Latin America. Between the first half of 1992 and the first half of this year exports to Italy's EC partners increased in value by more than 11 per cent, but those to non-EC countries rose by more than 30 per cent. At the same time imports from EC countries fell by about 5 per cent, while those from the rest of the world rose by 8 per cent. In parallel with the improvement in the trade balance the deterioration of invisibles came to a halt, so that the seasonally-adjusted current account through June recorded a surplus for the first time since 1986.

The external current account deficits recorded in each of the last 14 years, except 1983 and 1986, had caused Italy's net external debt to grow, reaching 11.5 per cent of GDP at the end of last year. From the mid-eighties on, capital movements more than covered the deficits, with the excess flowing into the official reserves. The dismantling of all forms of financial protectionism that was completed in 1990 has enhanced Italy's credibility and increased the attractiveness of Italian securities. This has prompted a significant growth in the share of lira-denominated assets in international portfolios. We are now in a situation in which the improvement in the current account is leading to a decrease in Italy's net external debt. Domestic banks are particularly active in reducing their net foreign borrowing. On the other hand, foreign investors continue to be attracted by Italian government securities.

4. The improvement in the external accounts is also linked to a domestic recession of unexpected severity, which has generated uncertainty and pessimism in most sectors of the economy. The recession, the difficult phase of change in Italian society and the uncertainty on the political front all contributed to the fall of around 20 per cent in the index of consumer confidence between the middle of 1992 and the end of the year, when it stood at its lowest level since 1982. Households's gross disposable income rose by no more than 1.6 per cent at constant prices in 1992 and is expected to fall in 1993. Taken together, these two factors explain the decline in consumer spending in real terms that started in the third quarter of 1992.

The business climate has also been marked by pessimism: last year the indicator of business opinion concerning the short-term economic outlook dropped to its lowest level in ten years. After growing for eight years, gross fixed investment fell by 1.4 per cent at constant prices in 1992 and is expected to fall further in 1993. Since last spring, the index of industrial production has been fluctuating around its cyclical minimum, almost 8 per cent below the peak of the last quarter of 1989. Orders in 1993 have remained at a low level, despite the strength of export demand.

The economic slowdown has had its impact on employment. In the second half of 1992, and in the first half of 1993, jobs were lost in every sector of the economy, including the private service sector, in contrast with the recession of the early eighties.

5. Positive developments occurred on the inflation front. The slow but steady deceleration in prices that had characterized 1992 continued in the first half of 1993, in spite of the large devaluation of the lira. The twelve-month increase in the cost of living was about 4.2 per cent in September, one percentage point less than the average rate for 1992. The widespread fear, based on past experience, that the fall in the lira would rekindle inflation has thus been dispelled.

A number of factors have contributed to this rather extraordinary outcome: they include wage moderation, the rise in unemployment and the fall in demand, the more selective attitude of consumers and the rapid transformation under way in the distributive sector, the price war between foreign and domestic producers competing for shares of a depressed Italian market, the firm stance of monetary policy.

6. But the most important factor behind Italy's "devaluation without inflation" has been the absence of a wage-price spiral. This is the result of the "new deal" between trade unions, employers' organizations and the Government on wage and labour market reform. The tripartite negotiations that had been started in 1991 led to the definitive abolition of the *scala mobile*, our wage indexation mechanism, on 31 July 1992, and culminated one year later, on 3 July 1993, with the signing of an agreement providing a new and uniform framework for incomes policies and industrial relations throughout the economy.

New bargaining rules have been defined for the private sector: nationwide contracts will be negotiated every four years, with wage rates being reviewed every two years; pay rises are to be related to target inflation rates; company-level wage increases will only be allowed in various forms of profitsharing. In addition, to increase the flexibility of the labour market new legal instruments will be provided, following the agreement, in such fields as apprenticeships and temporary work.

The agreement has had a twofold effect: one *direct*, by cutting every automatic link between wages and prices; the other *indirect*, by inducing firms to embody the features of this new framework into their expectation-generating mechanism. These changes augur well for the goal of keeping inflation down when the economy starts to grow again.

II. Attacking the budget deficit

7. The last twelve months have also seen the adoption of important measures to redress the budget deficit.

Italy lagged behind other industrial countries in developing the main instruments and programmes of a welfare state, but it has also been slow to take the structural corrective action needed to curb the growth in public expenditure. Despite the increase in fiscal revenues (from 32 per cent of GDP in 1981 to over 40 per cent in 1991 and 1992), the continuous rise in government outlays (net of interest payments) resulted in primary deficits throughout the last decade. In contrast with most of the other EC countries (which on average ran primary surpluses in the order of 1-2 per cent of GDP in the period 1985-90), Italy failed to take advantage of the economic expansion of the second half of the eighties. The public debt grew steadily, rising from about 60 per cent of GDP in 1981 to more than 100 per cent in 1991 and to no less than 108 per cent last year, when the average ratio for France, Germany and the United Kingdom was 47.5 per cent.

8. Last year the Government that was formed by Prime Minister Amato after the spring general elections undertook a major correction, with a programme that for the first time tackled the four main areas where the structural growth in public spending had most of its roots: social security, health services, local authority finances and public employment. The budget for 1993, submitted to Parliament in September 1992, aimed to achieve a correction in the trend of the public sector borrowing requirement of about 6 per cent of GDP. A crucial contribution to the passage of the budget bill through Parliament came from the introduction of a new parliamentary procedure whereby any proposed amendment to the budget bill involving additional expenditure could only be discussed if it also made provision for the necessary financial cover.

It must be recognized that the 1993 budget bill marked a turning point, although it is sad that most of the corrective measures were only adopted after the crisis of the lira.

Let me briefly summarize the measures adopted in the four areas just mentioned. In the field of social security, the growing imbalance in public pension fund finances was tackled by providing for the retirement age and the minimum number of years of contributions to be raised gradually and for the reference period for the computation of pensionable earnings to be lengthened. The National Health Service was reorganized by making local health units both more independent and more accountable and by increasing the share of the cost of services to be borne by users. The power of local authorities to raise taxes was increased by introducing new taxes such as a municipal tax on buildings, with the aim of making these bodies more accountable for their spending. Finally, in order to narrow the differences between the private and public sectors, rules were adopted for public employment to ensure greater flexibility in the use of staff and better control of expenditure on wages and salaries.

9. Today it appears likely that the financial targets set for this year will be met (a SSBR of 9.7 per cent of GDP and a primary surplus of 2 per cent of GDP). In the first eight months tax revenues rose by more than 11 per cent compared with a year earlier. On the same basis the state sector deficit fell by 12 trillion lire. The results achieved so far in 1993 recently received international recognition when the EC Council authorized disbursement of the second tranche of the Community loan. The loan, of ECU 8 billion, had been granted to the Italian Republic in January 1993 under the condition that a specific public finance adjustment programme be implemented.

10. As you know, the Amato Government was followed, last May, by a new one formed by Mr. Ciampi, previously Governor of the Bank of Italy.

The new Government has pursued the same policies of the previous one in the two fields of incomes policy and fiscal adjustment.

I have already given an account of the labour cost agreement signed by the new Government, the trade unions and the employers' organizations last July. With regard to public finances, the Ciampi Government has just submitted the budget bill for 1994. The bill provides for further cutbacks in health services and social security accompanied by savings to be produced by a major reform of the public administration; additional taxes are small and less than the projected growth of nominal GDP. In contrast with previous budgets, the receipts expected from privatizations are not computed as budgetary revenues. The primary surplus of the state sector is set at around 2 per cent of GDP and the total borrowing requirement at 8.7 per cent, one point below the 1993 level. The ratio of the public debt to GDP is expected to stabilize by 1996 as a result of growing primary surpluses, combined with diminishing interest payments.

The importance of the reform of the public administration, one of the main planks of the present Government's programme, goes well beyond the budgetary field. The planned action is intended to have far-reaching effects on the efficiency of the public sector. It includes a virtual freeze on hiring, introduces the possibility of dismissing staff and ordering the transfer of employees, eliminates or rationalizes agencies and ministerial departments, and revises the procedures for public procurement contracts by including efficiency clauses and providing for the renegotiation of existing contracts.

On the whole the new Government has maintained a firm fiscal stance, in a cyclical situation in which most other industrial countries are experiencing a marked deterioration in public sector balances. The indicators of fiscal stance computed by the OECD for the years 1991-94 show reductions in Italy's cyclicallyadjusted budget deficits that are larger than those based on the actual balances, and far larger than those of any other G-7 country.

11. Market behaviour suggests that the economic developments and policy measures I have briefly summarized have been well received by domestic and international investors. As Prime Minister Ciampi noted during his recent visit to Washington, "When I recall the moments in which it appeared impossible for us to obtain credit, even with a maturity of three months, and consider that the Republic, just a few months later, has successfully placed its first ever thirty-year bond, I believe we can draw a highly positive conclusion from the market's judgement on Italy". In fact, the issue in question was increased from the initial estimate of between $3 and 5 billion to $5.5 billion in order to meet the strong demand, especially from US investors.

After the peak reached one year ago, official rates have been gradually reduced: the discount rate, which was raised to 15 per cent during the 1992 September's crisis, now stands at 8.5 per cent, the lowest value since February 1976. The after-tax rate on newly-issued three-month Treasury bills and the primary and secondary market rates on ten-year bonds (BTP) are all around 8 per cent. With an inflation rate of 4.2 per cent, this implies a real interest rate of around 4 per cent.

12. The basic orientation of Italian monetary policy has been, and remains, committed to curbing inflation, thereby bringing it close to that prevailing in the best-performing European countries. Under a floating exchange regime, domestic monetary targets acquire more importance in influencing market expectations. The 1994 target for M2 will be meant to induce further decline in inflation, while leaving room for the economic recovery and further reduction in nominal interest rates.

13. To sum up, Italy has recently laid the foundations for a sound adjustment of its public finances. The country has tackled problems at the roots by cutting public spending and increasing its effectiveness, while creating the conditions for implementing incomes policies and keeping inflation under control. The financial markets have responded positively to this approach.

The adjustment process is far from being completed; much remains to be done to set Italy's economy and public finances on a course that successfully combines growth and stability. In the budgetary field the battle will be won only when the public debt to GDP ratio starts to come steadily down. In the economy, it will be won when unemployment is reabsorbed without renewed pressure on prices.

III. Privatization and capital markets

14. Let me now turn to the final topic of my remarks: privatization and capital markets. Italy is in many respects a late-comer to the process of privatization that began in the early eighties in the United Kingdom, spread throughout Western Europe and, subsequently, to Central and Eastern Europe. Yet Italy presents an almost unique set of favourable conditions for a wide-ranging privatization programme: a large number of state-controlled enterprises, accounting for a substantial proportion of the total value added of the economy; a large stock of financial wealth held by households, amounting to about $1.8

trillion at the end of 1992, or one and half times the public debt; an urgent need to curb the expansion of the public debt; and ample margins for improving efficiency and profitability in the economy. In what follows, I shall briefly comment on various aspects of Italy's privatization policy: its legal and institutional framework, the state of its implementation, the scale of the planned privatizations, the implications for financial markets and the international dimension.

15. Last year marked a turning point in making privatizations a central element in the policy of the Italian Government. Since then, a number of steps have been taken to define the legal framework and the institutional procedures of the privatization process. One of the first measures was the transformation of the four main state holding companies – ENEL (electricity), ENI (petrochemicals), INA (insurance) and IRI (the holding company controlling the largest public industrial and banking conglomerates) – from state controlled agencies into companies limited by shares. This has allowed them to obtain a listing on the stock exchange and sell shares to domestic and foreign investors; it has also made them subject to the provisions of civil law. The privatization programme explicitly permits the state to sell majority stakes. It specifies that budgetary transfers to former agencies, now limited companies, are to be substantially reduced and gradually eliminated, thus forcing them to achieve complete financial independence. New rules for public tender offers have been established, introducing fiscal incentives and the possibility of debt-equity swaps of government securities for the shares of companies to be privatized. The declared aim of the Government is to achieve the broadest possible ownership structure. The implementation of the programme is now supervised by a Permanent Committee for Privatization, which enjoys extensive powers to control and audit all transactions.

16. As concerns the implementation of the programme, the main progress so far regards companies controlled by SME, IRI's food products and retailing sub-holding company. Last August, IRI completed the sale of a majority stake in Italgel to Nestlè for a total of 437 billion lire. Offers for the two other groups of companies owned by SME (valued at approximately 800 billion lire) are to be reconsidered by IRI, after earlier bids were judged to be unacceptable. The negotiations for the privatization of Italstrade, the fourth-largest Italian construction firm, are close to completion, and Iritecna, IRI's engineering sub-holding, is about to sell four other companies. Finally, the procedure for selling Nuovo Pignone, a major mechanical industries company controlled by ENI, has reached an advanced stage.

A deadline has been set for the start of the sale of the Treasury's stakes in ENEL, INA, STET (telecommunications) and a new company into which ENI is merging its oil and gas activities (AGIP Petroli, SNAM, Progetti and SAIPEM). The procedure for the sale of three of the largest Italian banks (IMI, Banca Commerciale Italiana and Credito Italiano, accounting for more than 10 per cent of the banking system's total resources) will be established by the end of the year.

17. Given the ambitious reach of the programme, all estimates of its scale are inevitably rather imprecise. In the medium-term plan presented by the government in 1992 the net revenue from privatizations was estimated at about 7 trillion lire for 1993 and 10 trillion lire for each of the following two years. However, the figures will have to be revised downwards in 1993. On the other hand, if the privatization of INA, IMI, Banca Commerciale Italiana and Credito Italiano is carried out within the next twelve months – as seems possible – privatization proceeds could increase rapidly, going well beyond the figures of the earlier estimates. It has to be stressed that the total size of privatizations could substantially exceed the *net* revenue for the Treasury, as part of the receipts will be used to reduce the indebtness of companies owned by IRI or ENI.

Privatization programmes of the magnitude and complexity of that being carried out in Italy require a reasonable span of time for their completion, in the order of years rather than months.

18. The privatization process will develop in full compliance with the principles of financial openness. These principles were re-established in Italy with the liberalization of capital movements in the late eighties. They were rigorously adhered to even in the midst of the exchange rate storm of last September, thus demonstrating that the Italian authorities' decision to open the economy to cross-border financial transactions is firmly based. That decision will also apply to purchases of shares of Italian public sector firms by foreign investors, even if this were to imply the transfer of ownership abroad. A major role has already been assigned to international financial institutions in various stages of the privatization process, such as valuation and placement.

19. The set of necessary conditions for carrying out such an ambitious privatization plan has just been completed by the adoption of a decree law that establishes the legal framework within which the process will be carried out.

In the defense industry and in the area of public utilities (oil and gas, electric power, public transport and telecommunications) the government, after an initial public offering, will conserve, for a period not exceeding five years and independently of its stake in the company, the following powers: to sterilize the voting rights of "unwelcome" shareholders – along the lines of the "golden share" used by the UK government in the KIO-BP case; to stop shareholders from liquidating the company or its main line of business, and from moving the headquarters abroad. As mentioned above, these special powers will expire five years after the initial offering: their main purpose is to protect the company during a period in which the ownership structure, and thus the company itself, are still relatively weak.

The new decree also amends company law by introducing a set of rules designed to limit individual stakes in a company, to protect minority shareholders, and to run shareholders' meetings in companies with a very large number of shareholders. The decree thus provides scope for giving some of the state-owned financial services companies and public utilities many of the features of large "public companies" – a model inexistent in the Italian industrial landscape.

20. The success of the privatization plan will depend to a considerable extent on the ability of stock markets to handle the process. The Italian stock exchange, largely located in Milan, will have a crucial role to play. Unlike the market for government securities – which has now reached an advanced stage of development and is highly efficient and deep – the market for private securities in Italy is still relatively thin and in many respects inadequate to meet the needs of a modern industrial country. International comparisons show that Italy is still far behind most of the other industrial countries in terms of indicators such as the capitalization of the stock exchange, the ratio of stock market capitalization to GDP, the number of domestic companies listed, and so on.

The smallness of the stock market conceals the fact that, at the aggregate level, the proportion of equity capital in total financing is high in the Italian business sector. Shares do exist in Italy; the gross equity issues of unlisted companies rose steadily between 1988 and 1992, totalling about $52 billion in the period, twice the amount raised by listed companies; and risk capital represented 44 per cent of company financing in 1992. The peculiarity of the Italian case is that there is a relatively small proportion of limited companies, and even these have a low propensity to seek a listing on the stock exchange. Listed companies account for only a quarter of the total capital of companies eligible for admission to the stock exchange.

21. Thus, Italy possesses all the requisites for rapid growth of the private securities market: abundant private savings, entrepreneurial talents and legislation that allows banks to play a leading role in securities business. Moreover, in the last couple of years Italian financial markets have proved capable of taking steps towards rapid modernization such as the development of a fully telematic spot market for government securities, the takeoff of a futures market, the gradual conversion from the open-outcry auction system to a screen-based continuous auction market, which will be extended to all stocks by next March. The latter change has enabled the Milan Stock Exchange to recapture a sizeable share of business from London's SEAQ and to establish a record for daily turnover on 18 August.

From a financial point of view, the problem of implementing the privatization program seems to be more a question of the proper organization of financial intermediation than of the formation of savings. The total volume of the public debt is about 9 times the market value of the stock exchange, an unusually large multiple for an industrialized country. It would be sufficient to transform a small fraction of this outstanding debt into shares of what now are public sector companies in order to realize a very ambitious privatization programme.

IV. Concluding remarks

22. In this speech I have tried to give you the flavour of the current situation in Italy. It is widely agreed that we are in the middle of a process that will change the country and the structure of its economy. In many respects the eighties were a period of positive achievements: an average rate of growth in line with that of the other EC countries, a successful reorganization of industry, and the smooth removal of all exchange rate controls, just to mention a few. Nonetheless, the eighties also saw a steady, and dramatic deterioration in the public finances. We are now faced with the necessity of stabilizing the public debt in an unfavourable business environment, at the bottom of a severe international recession.

In the past few months Italy has nonetheless laid the foundations for recovery. Structural budgetary adjustment measures have been adopted; a start has been made on a farreaching reform of the public administration, designed not only to reduce spending but also to improve the quality of public services; incomes policy is under way; and a wide-ranging privatization plan has been launched. We are on the road to a lasting re-equilibration of the economy: it will be neither short, nor painless. But it will lead, if successfully completed, to a better society and to a sounder economy.

Italy's external position

Address by the Governor, Antonio Fazio,
to the 36th National Congress of the Italian Forex Club

Salsomaggiore, 23 October 1993

1. Italy's financial relations with the rest of the world

The openness of the Italian economy in terms of foreign trade is comparable to that of other industrial countries of similar size. Its financial openness, however, is still relatively limited and will certainly increase in the years to come.

At the beginning of the seventies the financial claims of Italian residents on the rest of the world were equivalent to nearly 40 per cent of the nation's gross domestic product. The severe difficulties caused by the oil crises and the explosive rise in labour costs forced the authorities to reduce the international openness of the financial system; Law 159 of 1976, which made illegal capital exports a criminal offence, symbolized the restrictions that had to be imposed.

Financial relations with other countries were therefore unable to develop for a number of years. However, residents' claims on non-residents then rose from 28 per cent of GDP in 1988, the year in which the new foreign exchange law came into effect, to 39 per cent in 1992, while external liabilities rose from 31 to 50 per cent over the same period (Table 1).

In parallel with the rise in gross external assets and liabilities, Italy accumulated a steadily increasing net external debtor position in the course of the eighties as a result of persistent deficits on the current account of the balance of payments. At the end of 1992 net external liabilities amounted to 173 trillion lire, equal to 11.5 per cent of GDP; excluding the central bank's gold reserves from assets, they stood at 203 trillion lire, or 13.5 per cent of GDP (Table 1).

Table 1

Italy's external position
(end-of-year stocks as a precentage of GDP)

	Assets	Liabilities	Net position	Net position (excluding central bank gold reserves from assets)
1971	35.0	26.7	8.3	5.9
1972	39.0	31.9	7.1	4.9
1973	37.2	35.6	1.7	–0.2
1974	25.5	27.5	–2.0	–3.5
1975	23.6	27.1	–3.5	–4.8
1976	26.4	27.6	–1.2	–5.9
1977	26.6	25.6	1.0	–3.6
1978	28.1	23.4	4.7	0.1
1979	29.6	21.8	7.8	2.6
1980	32.6	24.1	8.4	–0.4
1981	32.8	29.1	3.7	–3.8
1982	28.1	27.6	0.5	–5.4
1983	32.0	29.8	2.2	–4.7
1984	33.6	32.2	1.3	–4.4
1985	29.8	31.5	–1.8	–6.6
1986	27.6	29.1	–1.5	–5.5
1987	27.4	28.6	–1.2	–5.3
1988	28.5	30.9	–2.4	–5.8
1989	31.6	36.6	–5.0	–7.8
1990	32.8	40.2	–7.4	–9.7
1991	34.2	42.8	–8.5	–10.6
1992	38.8	50.3	–11.5	–13.5

Table 2

Italy's external position according to type of economic agent
(as a percentage of GDP; end-of-year stocks)

	1971-75 (1)	1976-80 (1)	1981-85 (1)	1986-90 (1)	1990	1991	1992
				Assets			
Non-bank	16.9	11.7	10.7	13.3	16.0	18.8	23.5
Bank	11.1	7.1	9.6	8.6	8.8	8.7	10.2
Central bank	4.1	9.8	11.0	7.7	8.0	6.7	5.1
Total ...	**32.1**	**28.6**	**31.3**	**29.6**	**32.8**	**34.2**	**38.8**
				Liabilities			
Non-bank	16.6	12.9	16.9	18.3	22.6	23.3	25.9
Bank	11.7	9.6	12.9	14.7	17.5	19.3	23.7
Central bank	1.5	1.7	0.3	0.1	0.1	0.1	0.6
Total ...	**29.8**	**24.2**	**30.1**	**33.6**	**40.2**	**42.8**	**50.3**
				Net position			
Non-bank	0.3	–1.2	–6.2	–5.0	–6.6	–4.5	–2.4
Bank	–0.6	–2.5	–3.3	–6.1	–8.7	–10.6	–13.5
Central bank	2.6	8.1	10.7	7.6	7.9	6.6	4.5
Total ...	**2.3**	**4.4**	**1.2**	**–4.0**	**–7.4**	**–8.6**	**–11.5**

(1) Average of end-of-year figures for the period.

The large-scale net payments of interest to non-residents, which were equal to almost the entire balance-of-payments deficit in 1992, are a reflection of Italy's net financial indebtedness as well as of the high average cost of liabilities compared with the average return on assets.

This negative financial balance is one of the principal causes of the lira's weakness vis-à-vis the other leading currencies.

Analysis of Italy's external financial flows according to type of economic agent shows that non-banks' external assets have expanded rapidly, from around 11 per cent of GDP in the mid-eighties to 23.5 per cent in 1992.

The current account deficit and Italian investment abroad – much of it presumably medium-term – have their counterpart essentially in the growing short-term net external debtor position of the banking system (Table 2). The sudden correction of this maturity mismatch in the autumn of 1992 led to the foreign exchange crisis, in a sequence of events upon which I dwelt at some length in my remarks to the annual meeting of the Bank on 31 May. One of the fundamental causes of the subsequent further depreciation of the lira, which revealed the imbalance between the supply of and the demand for the currency, may have been the weakening of confidence in the Italian economy at certain critical moments. However, another significant factor was the structural weakness of the country's external financial and liquidity position.

2. An international comparison

By way of comparison with the figures on Italy's international financial transactions, German external assets at the end of 1991 amounted to the equivalent of about 73 per cent of GDP and liabilities to 50 per cent. This very substantial net creditor position, the fruit of Germany's traditional balance-of-payments surplus, is a cause as well as an effect of the strength of the German economy and its currency (Table 3). The order of magnitude of France's external assets and liabilities is not dissimilar to Germany's, but the net position is slightly negative. Spain is less open than Italy as far as financial transactions are concerned, but its net debtor position is larger in proportion to GDP. In the United Kingdom, residents' external assets and liabilities each amounted to more than 160 per cent of GDP at the end of 1991, with the overall position roughly in balance.

Table 3

External assets and liabilities of the leading European countries at the end of 1991
(as a percentage of GDP)

	Assets	Liabilities	Net position
Italy (1)	38.8	50.3	–11.5
France	71.0	76.1	–5.1
Germany	73.3	50.5	22.8
United Kingdom	165.1	162.7	2.4
Spain	29.0	44.7	–15.7

Source: For France, Germany and Spain, OECD; for the United Kingdom, CSO.
(1) At the end of 1992.

If external financial assets and liabilities are measured in proportion to total financial assets instead of gross output, the disparities between countries are less marked. However, the tendency for the financial system to increase in size and complexity as the economy develops and for international financial relations to grow at an even faster pace is still evident.

3. The balance of payments and the foreign exchange reserves up to December 1992

In the five years from 1986 to 1990 Italy's overall deficit on the current account of the balance of payments – in other words, the increase in net indebtedness vis-à-vis the rest of the world – amounted to 39 trillion lire, while households and firms invested a total of 100 trillion lire abroad. Over the same period foreign investment in Italy amounted to 162 trillion lire and a further 60 trillion was channeled through the banking system. Capital inflows into Italy were therefore more than twice as large as the outflows.

If non-identifiable outflows totaling 32 trillion lire are taken into account, Italy's foreign exchange reserves grew by 52 trillion lire over in the period in question (Table 4).

As the trade account net of transport and insurance costs was broadly in balance, the current account deficits were increasingly due to net interest payments, which in turn were partly the result of the accumulation of foreign debt but also partly attributable to the differential between interest rates on liabilities and the return on Italian investment abroad.

Italian banks borrowed abroad to meet growing customer demand for foreign currency loans, encouraged by the favourable economic climate and the lower interest rates on such loans at a time when the exchange rate was expected to remain stable.

Foreign exchange flows accelerated sharply in 1990 following the complete liberalization of short-term capital movements and Italy's adoption of the narrow fluctuation band within the EMS, which strengthened expectations of exchange rate stability, at least in the short term.

By the close of 1990 the Bank of Italy's foreign exchange reserves had risen to $89 billion, or $64 billion excluding gold reserves (Table 5).

Throughout 1991 and until May 1992 capital movements in both directions were very substantial, and even tended to increase. Nonetheless, the overall balance, which had been decidedly positive in 1990, swung into deficit, although not by a large amount. The inflow of foreign capital continued – despite a slowdown in portfolio investment – but was accompanied by a sharp acceleration in Italian investment abroad (Table 4); one of the reasons for these movements was the rise in German interest rates.

Table 4

Main items of the balance of payments
(billions of lire)

	1986-90	1991	Jan.-May 1992	June-Aug. 1992	Sept. 1992	Oct. 1992-June 1993
Current account	**–38,974**	**–26,598**	**–17,241**	**–3,976**	**–4,960**	**–6,528**
of which: trade account (fob)	*1,865*	*–923*	*–5,793*	*5,558*	*–804*	*18,716*
Capital movements, excluding those by resident banks	**62,707**	**–10,594**	**–21,537**	**–21,403**	**–640**	**64,239**
Italian capital	–99,754	–48,339	–39,084	–24,571	212	1,103
Investment	–77,132	–39,878	–35,927	–21,181	232	21,246
Loans	–12,340	–7,671	–1,390	–2,367	–335	–4,894
Trade credit and other	–10,282	–790	–1,767	–1,023	315	–15,249
Foreign capital	162,461	37,745	17,547	3,168	–852	63,136
Investment	69,428	26,306	5,177	2,889	–587	58,761
Loans	84,614	13,409	9,735	2,357	–1,676	2,607
Trade credit and other	8,419	–1,970	2,635	–2,078	1,411	1,768
Capital movements by resident banks	**60,206**	**39,369**	**35,202**	**15,105**	**–25,881**	**–28,048**
Errors and omissions	–32,227	–10,748	–2,724	–12,581	1,623	–2,802
Change in official reserves (1)	**–51,712**	**8,571**	**6,300**	**22,855**	**29,858**	**–26,861**

(1) At constant exchange rates and prices. A minus sign indicates an increase in the official reserves, i.e. an improvement in the net external position of the central bank (the Bank of Italy and the Italian Foreign Exchange Office).

Following the abolition of the reserve requirement on net foreign currency deposits, the inflow of short-term funds through the banks intensified, primarily to finance foreign loans to customers but also loans in lire. This increased the overall exchange rate risk, particularly for firms, but banks also took substantial long positions in lire.

On 31 May 1992 Italy's gold and foreign exchange reserves amounted to $72 billion, $49 billion of which was in foreign exchange. The banks' net debtor position in foreign currencies totaled $94 billion lire, $67 billion of which was to finance foreign currency loans to residents (Table 5).

Between the beginning of June and the end of August 1992 the crisis in the EMS and the serious repercussions it had on the Italian economy led to a net outflow of reserves of $17 billion.

The banks continued to borrow abroad, with the result that their net external debtor position rose from $94 to 115 billion between the end of May and the end of August. Their foreign currency lending to resident customers also expanded, though less markedly, thus creating a considerable gap of about $30 billion between their net external liabilities and foreign currency loans to residents.

In September the reserves declined by a further $26 billion and the effective exchange rate of the lira fell by 12 per cent in the course of the month. Most of the decline in the official reserves was due to a reduction of $19 billion in the banks' net foreign indebtedness; the repayment of foreign currency loans by customers accounted for only one quarter of the total. At the new exchange rates prevailing after September 1992 and despite wide fluctuations, a massive repatriation of Italian funds occurred and the inflow of foreign capital also resumed. This return of funds from abroad translated into an almost identical increase in the official reserves, thanks to foreign currency swaps between the Bank of Italy and the banking system. In the absence of such operations, a large part of the repatriated funds would presumably have been used to reduce the banks' net foreign debtor position.

Table 5

The banks' net external position and net domestic position in foreign currency and the official reserves
(stocks in billion of dollars)

	Net external position			Net domestic position in foreign currency	Official reserves		
	Total	In lire	In foreign currency		Gold	Other net assets	Overall net position of the central bank
31 December 1990	–50.2	–4.3	–45.9	48.6	24.9	64.5	89.4
31 May 1992	–92.1	1.6	–93.7	67.3	23.5	48.9	72.4
31 August 1992	–115.1	–0.2	–114.9	84.3	22.9	31.7	54.6
30 September 1992	–94.1	1.5	–95.6	79.2	22.8	5.4	28.2
31 December 1992	–85.7	0.8	–86.6	78.1	23.2	25.3	48.5
30 June 1993	–65.5	5.9	–71.4	68.1	22.3	26.0	48.3
31 August 1993	–55.4	7.3	–62.7	62.9	22.3	24.5	46.8
30 September 1993 (1)	–57.9	7.1	–65.0	64.5	23.0	29.6	52.6

(1) Provisional.

In the last quarter of 1992 the balance of payments on current account was already showing an improvement over the three preceding quarters. At the end of the year the Italian banks still had a spot foreign currency exposure of $8 billion.

4. Developments since then

The return of Italian capital from abroad slowed down in the first few months of this year and eventually gave way to an outflow. However, foreign investment in Italian securities was substantial, amounting to 63 trillion lire in the first eight months of the year. According to preliminary figures, the balance of payments on current account showed a surplus of some 5 trillion lire over the same period.

The foreign exchange inflow served exclusively to further reduce the banks' net external debtor position, which declined by $22 billion between the end of 1992 and 30 September (Table 5). The banks' net external liabilities have thus contracted by as much as $50 billion from the peak of $115 billion recorded in August 1992. They are now exactly matched by foreign exchange loans to Italian residents, so that the banks' net spot foreign exchange position, comprising both external and domestic positions, is in perfect balance. However, the banks also hold net forward foreign exchange assets of $20 billion, consisting of claims on the Bank of Italy and the Italian Foreign Exchange Office. Their overall foreign exchange position, both spot and forward, has therefore moved into substantial surplus.

A new feature of the Italian banking system's external position is the increase in lira assets, which grew from just over 1 trillion lire at the end of 1992 to 12 trillion at the end of August.

The liberalization of foreign exchange transactions led to one innovation of great importance by comparison with previous practice in Italy and elsewhere, namely the possibility of granting credit lines to non-residents, a facility that had previously been limited to expressly defined cases. The first effect of the change was the formation of a net external asset position in lire.

Another effect of potentially even greater importance is the growth and organization of a Eurolira market. Under the Bretton Woods system, this sort of development, in other words the creation of a money market and a monetary multiplier for a currency outside its country of origin, was possible only for reserve currencies. In circumstances of particular strain for the global financial system, this possibility resulted in the formation of the Eurodollar market and the Eurocurrency market in general. The Eurodollar market, which operated beyond the control of the US authorities, played an important role in the recycling of petrodollars, but it was also one of the causes of the crisis in the old monetary system.

Complete and systematic information on the development and working of these markets is not available, nor is it possible for national authorities to exercise monetary control over them, except indirectly. For purposes of prudential supervision, several countries within the Group of Ten are devising a system for monitoring and limiting risks for participants in these markets, and in particular those stemming from trade in financial derivatives.

Fuller information on the size and operation of these markets is unquestionably required, if only to maximize their potential. As regards Eurolire in particular, the growth of the market is closely linked to the recent emergence of substantial foreign investment in Italian securities.

It is clear from the figures I quoted earlier that only a fraction of inward portfolio investment has actually supplied foreign exchange to the Italian banking system; as I have already mentioned, the funds were used mainly to reduce the banks' net external foreign exchange liabilities.

About two thirds of foreign investment in Italian securities was financed by repos or, more generally, by an increase in Italian banks' external lira assets. Foreign investors therefore entered the Italian securities market at no exchange risk to themselves. Their decision to do so must have been motivated by an advantage in terms of interest rate and yield differentials, which was presumably amplified by expectations of short-term capital gains. Consequently, only part of the securities involved can be considered to have been truly "placed". Disinvestment would probably not jeopardize the exchange rate, at least not immediately, since it would not give rise to direct demand for foreign currency in exchange for lire, but it might have an impact on the financial market, as demonstrated in some respects by events in June 1992 and the months immediately following. The difficulties in the Italian securities market at that time, the severity of which was evident in the very sharp fluctuations in interest rates, were combined with expectations of devaluation, which exacerbated the problems and triggered destabilizing expectations and behaviour on the part of Italian residents as well.

The present situation is different, however, owing precisely to the nature of the more recent wave of foreign investment and in particular the way in which it has been financed. To some extent the market is isolated, beyond Italy's borders. It is a sort of extension of the domestic market, an appendage. It can be regarded as a useful development in that it widens the bounds of Italian markets and broadens the scope for financing the state and the private sector.

Final judgment as to the benefits of the Eurolira market must be reserved, however, until the initial period of development has been completed; at present the growth of the market is being stimulated principally by the sharp decline in interest rates and the rise in securities prices. This new segment of the market should ultimately be capable of withstanding the adjustments and instability that are possible and to some extent inevitable.

During the current phase of rapid growth, the situation remains volatile in a number of respects in view of the possible impact on interest rates and, indirectly, on currency flows and the exchange rate. The answer is to deepen and further strengthen the domestic financial market, while preserving the flexibility of the foreign exchange market. As confidence in the Italian economy grows, thus making the exchange risk acceptable to foreign investors, a portion of this inward investment may become permanent.

5. Conclusions

When the Italian economy embarked upon the liberalization of capital movements between 1988 and the beginning of the nineties it was in a relatively weak position. The current account had slipped into permanent deficit, although initially the shortfall was negligible as a proportion of national income.

Merchandise exports were becoming progessively less competitive and the general productivity of the economy was growing at an insufficient rate, owing partly to the large public sector deficit, the low productivity of the services sector and some areas of general government and the inefficiency of some parts of the taxation system. As a consequence, monetary policy remained broadly restrictive; short-term interest rates in the latter part of the eighties were five percentage points higher than in Germany and three points higher than in France.

The extension of full liberalization to short-term capital movements in the spring of 1990 triggered a large inflow of funds through the banking system, rather than the outflow that many had feared. This caused short-term market rates to decline; long-term rates also fell, though less consistently. The public sector deficit had to be reduced in order to tackle the delicate transition on a more solid footing, but the adjustment was inadequate; as a result, the financial market remained under intense pressure.

Changes in the more liquid components of Italy's external position are summarized in the following figures: at the end of 1990 the banking system, and through it the country as a whole, had net short-term external liabilities of $46 billion. The official reserves totaled $89 billion, including $64 billion in convertible currencies. By 31 May 1992, net liabilities had increased to $94 billion and the official reserves had fallen to $72 billion.

The imbalance was even more pronounced immediately before the autumn 1992 crisis and it increased further at the end of September, although only marginally.

The banks' net external foreign currency liabilities began to decline steadily in October 1992. The reserves of the Bank of Italy and the Italian Foreign Exchange Office returned to close to their pre-crisis level. At the end of September of this year the bank's net position showed an improvement of $50 billion in relation to August 1992.

At the end of August 1993 the banking system's overall spot foreign currency position with residents and non-residents was in balance: net foreign currency lending to residents was identical to net external foreign currency liabilities. Including forward assets inherent in foreign currency swaps with the central bank, the banks' overall foreign currency position had reversed decisively with respect to a year earlier.

I previously recalled the improvement in the current account in the last quarter of 1992 and during 1993. Seasonally adjusted, the current account of the balance of payments showed a small surplus in the first half of the year. This outcome is the product of changes in both trade components: a sharp fall in imports associated with the weakness of domestic demand and the reduced penetration of the Italian market by foreign goods, and a considerable rise in exports linked to the large improvement in competitiveness. It is estimated that Italy's competitiveness declined by between 5 and 7 per cent over the period from 1987 to August 1992. In March of this year the price competitiveness of manufactures was 19 per cent higher than in August 1992; in September the improvement was still 18 per cent.

The current account will be in balance or in surplus in 1993 as a whole, and a surplus is now forecast for 1994.

The rise in Italy's external debt will come to a halt and is then expected to be reversed. The current account must remain in surplus in order to strengthen the country's investment position. Such a recovery in Italy's external position will reinforce the improvement in its overall liquidity position, measured as the balance between the banking system's short-term external liabilities in foreign currency and the official reserves. The overall position will continue to improve as further current account surpluses and inflows of loan and investment capital are recorded. The pressure on the exchange rate generated in the last twelve months by the need to reduce short-term debt is expected to ease.

As it embarks on this new stage in its economic development, Italy is in a much stronger position than a year ago. Inflation is low and continues to decelerate owing to a number of favourable circumstances in the international and domestic economies; the weakness of domestic and world demand is of course reversible, but the key agreement on labour costs remains in place.

The Finance Law for 1993 addressed the problem of the structural adjustment of the public finances. Further measures are now being discussed in connection with the budget for 1994, although the correction does not yet appear to be complete, as I have already had occasion to state to the Budget Committees of the Senate and the Chamber of Deputies.

Real interest rates have slowly but steadily returned to levels close to those prevailing in the European countries with lower inflation. The short-term interest rate differential is currently about two percentage points in relation to France and two and a half points with respect to Germany; the medium and long-term differentials are similar, signaling expectations of a persisting inflation differential with respect to these countries.

Taking account of the stability of labour costs and the gains in competitiveness generated by the depreciation of the lira, the latest half-point reduction in official interest rates puts the Italian economy fully in a position to commence a recovery in investment and production in company with all the other industrial countries.

Within the new framework of international economic relationships, the underlying factors governing the exchange rate of a currency are more numerous and complex than they were when payments for goods and services accounted for the bulk of international financial transactions.

A medium and long-term investor in an economy undoubtedly assesses the current state of the external accounts, but also and above all the possible real return on investment over the medium and long term.

The traditional aspects of competitiveness, namely costs, prices and productivity, are still decisive for maintaining the balance between savings and investment and thus for the overall external position of a country. However, additional factors associated with the economy's capacity for growth have also taken on importance. Hence the need for efficient administration in the public sector, which currently generates half of national income, and for the public sector to make a cyclical and structural contribution to the growth in private sector output, rather than crowding out private initiative.

The foreign exchange dealers who belong to this Association have a magnificent tradition of professionalism, exercised for the benefit of the financial system, the economy and the country as a whole. They are well-equipped to cope with the tasks facing them in the years ahead, tasks of much wider scope than those they performed until only a few years ago.

The volume of foreign exchange transactions has increased enormously; the elimination of reference exchange rates set by the monetary authorities and the massive foreign exchange movements associated with long-term investment require a greater capacity for independent assessment, which, to judge from the extremely large fluctuations witnessed during the past year, still appears to be insufficient to curb exchange rate swings and unexpected changes in expectations triggered by other groups of market operators.

Greater integration with domestic money market operations and a more intensive exchange of information with long-term investment specialists would give the market greater depth and stability; in short, they would reinforce the role of foreign exchange operations in correcting market disequilibria and stabilizing the economy, and thus contributing to growth.

I am confident of your ability and that of your Association to tackle these challenging new tasks, and certain of your commitment to act accordingly in the interest of individuals and the community. I wish you every success in the new market environment, which is undoubtedly more difficult but offers greater scope for growth.

The state of the Italian economy

Speech by the Governor, Antonio Fazio,
to the Association of Italian Savings Banks on the occasion of the 69th World Savings Day

Rome, 29 October 1993

The year that is now drawing to a close has been a difficult one for the Italian economy. The currency crisis of September 1992 and the measures it necessitated were followed by a period of great uncertainty in the business community and a decline in confidence among households.

The feature that distinguishes this recession from previous ones is the unusually sharp and prolonged decline in consumption, which has curtailed the growth in national income; as a result, total saving has also declined.

Real disposable incomes and income expectations have been affected by the increase in the tax burden, the fall in employment and the rise in the cost of imports as a result of the depreciation of the lira.

The ratio of consumption to income tends to rise in a recession, but it declined in the immediate aftermath of the currency crisis. Households tried to increase their saving in response to the uncertainty caused by the crisis, but were frustrated by the fall in incomes and employment. Fears of a collapse in the financial market became widespread last autumn and a growing proportion of savings was transferred abroad.

The large reduction in incomes prompted changes in consumers' tastes, attitudes and expectations. Purchases of durable goods fell particularly sharply, but demand for the whole range of non-durable consumer goods and services also declined substantially.

I would like to stress that the present cautious attitude towards expenditure stems from concern about the economic situation in general and employment prospects in particular. By contrast, fears about the strength of the financial market have subsided, as demonstrated by the steep and prolonged fall in interest rates.

The widespread uncertainty and persistent weakness of demand caused a slowdown in investment and a decline in industrial output, which in turn was followed by a fall in employment. Critical factors have emerged that are tending to reduce the demand for labour in some branches of activity, with adverse repercussions on the prospects for a steady rise in incomes and stable growth of the Italian economy.

* * *

The events I have briefly recalled occurred against the background of the gradual fall in the saving rate since the mid-seventies. The gross private sector saving rate (adjusted for the erosion of the value of financial assets by inflation) rose rapidly during the post-war economic boom and then stabilized at the high level of around 25 per cent at the end of the sixties. In the two subsequent decades it declined steadily, in close parallel with the slowdown in economic growth. At present private saving stands at about 20 per cent of national income, a very high level by comparison with the other industrial countries.

The bulk of savings comes from households, which alone generate two thirds of the savings of the entire private sector. The national saving rate has fallen more sharply than that for the private sector alone, declining from around 26 per cent of national income in the seventies to less than 18 per cent in 1992 owing to the deterioration in the accounts of the public sector, which for many years contributed to savings formation but has now become a net user. A growing proportion of private saving has been absorbed by the public sector, not to finance investment or accumulate capital for the use of the community as a whole but to pay for collective consumption and to redistribute income.

* * *

In 1993 real gross domestic product is likely to be almost unchanged from the previous year. The only stimulus to economic activity is coming from exports.

Households' disposable incomes may not differ much from the 1992 level at current prices, but this implies that they will fall sharply in real terms. Real consumption may decline by between 1.5 and 2 per cent.

The contraction in saving in both real and nominal terms is mirrored in reduced financial investment by households, which have disposed of some of the assets they had previously accumulated. At the macroeconomic level it is reflected in the decline in investment.

The fall in investment that was already evident in 1992 became more pronounced at the beginning of this year. Corporate purchases of vehicles, machinery and equipment have decreased sharply, but the contraction in activity in the construction sector appears to be more limited.

The Bank of Italy's annual survey of manufacturing firms with more than 50 employees, which was carried out at the beginning of 1993, showed an expected reduction of about 8 per cent in the volume of gross fixed investment this year. A recent update of the survey broadly confirms this finding; one third of the firms interviewed revised their forecasts downwards, but those predominantly or at least strongly oriented towards exports foresaw an increase in investment in the latter part of the year.

The adverse effect that the crisis of confidence had on corporate investment has been accompanied by near-paralysis in public investment, which continues to feel the repercussions of the action taken by the magistrature against corruption.

Employment has been affected by an unfortunate combination of adverse circumstances; the cyclical slowdown that has been affecting industry since 1991 has been compounded by the rise in labour costs, which for many years has exceeded the rate of productivity growth, and by the restructuring of private sector services, particularly wholesale and retail distribution. Moreover, the public sector's intake of labour has been less than in the past; this is an inevitable consequence of any rational reform of the public administration aimed at reorganizing public employment in accordance with the principle of efficiency.

Data published by Istat last week show that in the first half of this year total employment, measured in standard labour units which take account of the number of hours paid by the Wage Supplementation Fund, was 2.9 per cent lower than a year earlier.

The unemployment rate rose from 9.4 to 10.3 per cent between January and July of this year. The figures do not make allowance for recourse to wage supplementation and, more important, they are not seasonally adjusted; if these two factors are taken into account, the rise is more pronounced.

The situation is aggravated by the uneven geographical distribution of unemployment. Peak unemployment rates of over 20 per cent have been recorded in some regions in the South, where a large proportion of the unemployed are young people seeking their first job.

* * *

The depreciation of the lira led to a large improvement in the competitiveness of Italian products. It has had only a modest effect on producer and consumer prices, however. Although inflation is still more than one percentage point above the

European average, it is now lower than it was a year ago, partly as a reflection of the particularly depressed state of domestic demand.

Wage restraint, the elimination of wage indexation and the reform of collective bargaining procedures give grounds for confidence that inflation is converging with the levels obtaining elsewhere in Europe.

The good level of output and profits in industries producing for export may stimulate a recovery in investment. Uncertainty about the prospects for domestic demand and, more generally, the continued lack of confidence in the economy's ability to resist the downturn in activity and return to growth are still having a negative effect. Many sectors are prey to adverse expectations and wait-and-see attitudes, or are displaying actual signs of distress.

A recovery in demand is essential; however, in order to set in train a new period of economic growth, it must spring from investment, first and foremost corporate investment but also public sector investment or other investment of public interest where infrastructure deficiencies are most acute. The uncertainty hanging over the public administration, the legal investigations that are taking place and the necessary review of public works contracts and prices have brought many projects to a halt. These are projects of public interest; not all of this investment should be financed out of public funds.

In present circumstances, the stability of labour costs and the lower level of interest rates form a particularly favourable combination.

As in all the leading industrial countries at this stage in the cycle, action is also needed to stimulate overall domestic demand. However, if the impetus were to come from consumption, an important opportunity to alter the composition of demand and production in ways favourable to growth would be lost. If the growth stems from investment, the consequent additional savings will remain within the economy in the form of additional productive capital. Consumption can then grow in order to absorb the increase in supply.

The new international division of labour, which I mentioned briefly at the close of my remarks to the annual meeting of the Bank of Italy in May, requires us to make up the ground we have lost in high technology sectors and to strengthen our presence in more innovative products as well as traditional sectors.

In the industrial restructuring that took place in the eighties the emphasis was laid on the modernization of plant and machinery, thereby increasing the capacity and profitability of production processes. There is now a pressing need to develop new products; quality must also be improved, primarily for exports but also for goods intended for the domestic market. Improvements must also be made in the organization of production and labour.

* * *

It is likely that the final quarter of this year will see the start of a recovery in economic activity by comparison with the preceding quarter and the average for 1993 as a whole. If confidence strengthens, the trend of both production and investment can be expected to change in 1994. Gross domestic product could increase by between 1.5 and 2 per cent by comparison with this year.

Even if the recovery in investment is vigorous, it will not make up for the fall recorded in 1993; however, forecasts can be wrong, particularly at the turning point of a cycle or in the early stages of a recovery and especially if they relate to a predetermined period.

Some large industrial groups have continued to invest in 1993, while others are in difficulties owing to the recession. Sometimes their problems are the result of errors and serious irresponsibility on the part of managers and directors.

The difficulties in the corporate sector have a knock-on effect on the balance sheets of the banks, which in turn tend to curb their lending and obviously delay reducing interest rates as long as possible in order to cover or avert losses. A recovery in economic activity is useful and necessary as a means of breaking the chain.

The reduction in employment reflected in the figures I have quoted is the result of a profound restructuring of industry and services; a cyclical recovery alone will not be sufficient to reverse the trend. Changes in employment contracts are needed to break the vicious circle of low output, low wages and low demand. Above all, flexibility must be increased to facilitate the entry of young people into the labour market.

Work for first-time job seekers and a higher level of employment are of great social and economic value; they are an investment on which the economy and society can rely for subsequent periods of growth.

* * *

The savings accumulated in bank deposits and other financial instruments are a fundamental national asset; they reflect the high savings propensity of households and the restored earning capacity of firms. The improper use the public sector has often made of the nation's savings should be eliminated as rapidly as possible. The public sector's role, including the part it plays in investment, is of course crucial, but the state must contribute to the growth of the private sector, rather than permanently usurping activities that should rightfully be performed by enterprises if national resources are used correctly.

The cost of capital has decreased sharply in the past year. In a medium-term perspective, all the macroeconomic conditions for capital market growth are fulfilled. The recent regulations allowing banks to invest a larger proportion of their net worth in risk capital may provide the momentum for the expansion and development of such markets.

More than ever before, interest rates are set in highly integrated, international financial markets. In Europe they are tending to fall. The slowdown in inflation should make a decisive contribution to a further reduction in rates in Italy.

The battle against inflation is not entirely over. The moderation in labour costs must be maintained, but the pricing policies of industrial and commercial companies must also be geared towards curbing inflationary pressures. It is essential that the competitive gains of the past year not be cancelled out by the rise in costs and inflation.

In order to underpin the value of the currency, part of national saving in future years must be used to steadily reduce the country's accumulated foreign debt. The restoration of sound public finances is the means of achieving this objective, as well as the way to create room for the recovery in investment.

Appendix

Statistical tables

In the following tables the figures for “Germany” refer to the western regions of the country unless otherwise specified. See the Notes to the Tables.

Unless indicated otherwise, the figures in the tables have been computed by the Bank of Italy.

Symbols and conventions:

— the phenomenon in question does not occur.

.... the phenomenon occurs but its value is not known.

.. the value is known but is less than the minimum figure considered significant.

( ) provisional.

( ) estimated.

Table a1

Gross product, implicit price deflator and current account balance

	US	Japan	Germany	France	UK	Italy	Canada
				Real GNP *(% changes on previous period; seasonally adjusted data)*			
1987	3.1	4.3	1.4	2.2	4.8	3.1	4.2
1988	3.9	6.3	3.5	4.5	5.0	4.1	5.0
1989	2.5	4.8	4.2	4.3	2.2	2.9	2.4
1990	1.2	4.8	5.7	2.5	0.4	2.1	−0.2
1991	−0.7	4.1	4.3	0.7	−2.2	1.3	−1.7
1992	2.6	1.5	0.6	1.4	−0.5	0.9	0.7
1992 – 1st qtr.	0.9	1.0	1.3	0.9	−0.8	0.6	..
2nd "	0.7	..	0.1	0.1	0.1	0.2	..
3rd "	0.8	−0.6	−0.9	..	0.5	−0.7	0.1
4th "	1.4	..	−0.7	−0.4	0.4	−0.5	0.7
1993 – 1st qtr.	0.2	0.6	−2.0	−0.9	0.5	−0.1	0.9
2nd "	0.5	−0.5	1.2	−0.1	0.5	0.8	0.8
				GNP deflator *(% changes on previous period; seasonally adjusted data)*			
1987	3.2	..	1.9	3.0	4.9	6.0	4.7
1988	3.8	0.3	1.5	2.8	6.0	6.7	4.6
1989	4.5	1.9	2.4	3.0	7.1	6.2	4.8
1990	4.4	2.2	3.1	3.0	6.4	7.7	3.3
1991	3.9	2.1	3.9	3.0	6.5	7.4	2.5
1992	2.9	1.8	4.4	2.3	4.4	4.7	1.1
1992 – 1st qtr.	1.0	−0.4	1.3	0.5	1.0	1.3	0.5
2nd "	0.7	1.6	1.4	0.4	1.4	0.7	0.2
3rd "	0.3	−0.2	0.8	0.4	0.5	0.7	0.4
4th "	0.8	0.4	0.5	0.6	0.3	1.0	0.6
1993 – 1st qtr.	0.9	−0.3	0.8	0.8	0.7	1.0	−0.2
2nd "	0.6	0.8	1.5	....	0.1	0.8	0.3
				Current account balance *(billions of dollars; seasonally adjusted data)*			
1987	−167.3	87.0	46.2	−5.0	−8.2	−1.7	−8.8
1988	−127.2	79.6	50.7	−4.8	−29.6	−5.8	−12.6
1989	−101.6	57.2	57.6	−4.7	−36.9	−11.0	−19.7
1990	−91.9	35.8	46.7	−9.9	−32.6	−14.8	−22.2
1991	−8.3	72.9	−19.8	−6.5	−13.7	−21.2	−25.4
1992	−66.4	117.5	−25.4	3.7	−15.6	−26.8	−23.0
1992 – 1st qtr.	−6.7	27.8	−6.7	−1.0	−3.6	−4.8	−6.7
2nd "	−18.3	29.3	−5.9	1.5	−4.5	−7.6	−6.1
3rd "	−17.8	27.8	−5.3	−0.1	−3.1	−8.7	−5.6
4th "	−23.7	31.4	−8.6	3.2	−3.9	−5.8	−4.6
1993 – 1st qtr.	−22.3	36.0	−7.6	1.5	−4.4	1.2	−4.9
2nd "	(−26.9)	31.5	(−3.8)	....	(−4.1)	0.9	(−5.3)

Table a2

Industrial production

(% changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1987	5.0	3.4	0.4	1.9	3.2	3.9	4.9
1988	4.4	10.1	3.6	4.1	3.6	6.0	5.3
1989	1.6	5.8	4.8	3.7	0.3	3.1	–0.1
1990	..	4.2	5.2	1.5	–0.5	0.1	–3.1
1991	–1.8	1.9	3.0	0.3	–3.0	–2.1	–3.7
1992	2.3	–5.7	–1.9	–0.1	–0.3	–0.5	0.4
1991 – 3rd qtr.	1.3	–0.4	–1.0	0.7	1.0	–0.7	1.0
4th "	0.1	–1.1	–1.3	–0.6	–0.1	1.2	–1.0
1992 – 1st qtr.	0.2	–2.1	2.6	0.2	–0.7	0.9	–0.6
2nd "	1.1	–2.4	–1.6	0.4	–0.4	–0.7	0.5
3rd "	0.2	–0.3	–1.4	–0.1	0.9	–2.1	0.5
4th "	1.7	–2.6	–4.7	–2.8	0.9	–1.1	1.5
1993 – 1st qtr.	1.4	0.6	–3.0	–1.0	0.2	–0.5	1.8
2nd "	0.4	–1.6	..	–0.3	0.6	–1.1	0.7
3rd "	(0.6)	....	....	....	....	....	....
1992 – Sept.	–0.4	3.8	0.1	0.3	0.4	–1.2	0.3
Oct.	1.2	–3.1	–2.4	0.5	1.2	2.0	0.2
Nov.	0.8	–1.3	–2.0	–4.4	–0.7	–1.5	0.6
Dec.	0.5	–0.4	–2.7	–1.5	–0.2	–1.5	0.5
1993 – Jan.	0.3	–0.3	–0.3	0.2	–0.1	2.1	0.1
Feb.	0.5	1.1	–1.3	2.5	1.4	–0.7	1.1
Mar.	0.2	2.6	1.8	–1.0	–1.0	–1.0	1.2
Apr.	0.3	–2.7	–1.3	–0.5	..	0.4	–0.7
May	–0.2	–2.4	0.8	0.1	1.8	..	–0.3
June	..	1.7	–0.3	–0.2	–1.0	–1.8	1.1
July	0.4	–0.2	–0.8	(–0.1)	1.0	1.0	–1.3
Aug.	0.2	(–1.2)	(2.1)	(1.3)	(0.1)	....	....
Sept.	(0.2)	....	....	....	....	....	....

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1987	3.7	0.1	0.2	3.3	4.1	4.7	4.4
1988	4.1	0.7	1.3	2.7	4.9	5.1	4.0
1989	4.8	2.3	2.8	3.5	7.8	6.3	5.0
1990	5.4	3.1	2.7	3.5	9.5	6.5	4.8
1991	4.2	3.3	3.5	3.2	5.8	6.3	5.6
1992	3.0	1.7	4.0	2.4	3.7	5.3	1.5
1991 – 3rd qtr.	3.9	3.2	4.1	3.2	4.8	6.4	5.7
4th "	3.0	2.8	3.9	3.0	4.1	5.9	4.1
1992 – 1st qtr.	2.9	1.9	4.3	2.8	4.1	5.7	1.6
2nd "	3.1	2.3	4.5	2.8	4.2	5.5	1.4
3rd "	3.1	1.8	3.5	2.1	3.6	5.1	1.3
4th "	3.0	1.0	3.7	1.8	3.0	4.8	1.8
1993 – 1st qtr.	3.2	1.3	4.3	2.1	1.8	4.4	2.1
2nd "	3.2	0.9	4.2	2.0	1.3	4.4	1.8
3rd "	2.8	....	4.2	2.2	1.6	....	....
1992 – Sept.	3.1	2.0	3.6	2.1	3.6	4.8	1.3
Oct.	3.2	1.1	3.7	2.0	3.6	4.9	1.6
Nov.	3.0	0.7	3.7	1.6	3.0	4.9	1.7
Dec.	2.9	1.2	3.7	1.9	2.6	4.7	2.1
1993 – Jan.	3.3	1.3	4.4	2.1	1.7	4.6	2.1
Feb.	3.3	1.4	4.2	2.0	1.9	4.5	2.3
Mar.	3.1	1.2	4.2	2.2	1.9	4.3	1.9
Apr.	3.2	0.9	4.3	2.0	1.3	4.4	1.8
May	3.2	0.9	4.2	2.0	1.3	4.3	1.8
June	3.0	0.9	4.2	1.9	1.2	4.6	1.6
July	2.8	1.9	4.3	2.1	1.4	4.6	1.6
Aug.	2.8	1.9	4.2	2.2	1.7	....	1.7
Sept.	2.7	....	4.0	2.3	1.8	....	....

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1987	2.6	–3.8	–3.8	0.6	3.9	3.0	2.8
1988	4.0	–1.0	1.1	5.2	4.5	3.6	4.4
1989	5.0	2.6	5.1	5.4	5.1	5.9	1.9
1990	3.6	2.0	0.6	–1.2	5.9	4.1	0.3
1991	0.2	–0.6	1.6	–1.3	5.6	3.3	–1.0
1992	0.6	–1.6	0.1	–1.6	3.7	1.9	0.5
1991 – 3rd qtr.	–0.2	–0.6	1.8	–1.5	5.5	3.1	–1.6
4th "	–3.0	–1.7	1.6	–3.6	5.0	2.1	–3.2
1992 – 1st qtr.	–1.3	–2.0	1.5	–3.0	4.5	1.4	–2.4
2nd "	0.7	–1.5	1.7	–1.1	3.6	2.0	–0.2
3rd "	1.5	–1.4	–1.0	–0.9	3.5	1.9	1.5
4th "	1.4	–1.5	–1.9	–1.5	3.4	2.3	3.3
1993 – 1st qtr.	2.1	–1.6	–1.6	–2.3	3.7	3.1	4.0
2nd "	2.0	–3.0	–2.0	–3.3	3.9	3.9	3.3
3rd "	(0.9)	(–3.7)	....	....	....	....	....
1992 – Sept.	1.6	–1.4	–1.2	....	3.4	1.8	2.2
Oct.	1.5	–1.6	–1.6	....	3.3	2.0	3.0
Nov.	1.2	–1.5	–2.2	....	3.3	2.2	3.2
Dec.	1.4	–1.5	–1.9	....	3.5	2.6	3.6
1993 – Jan.	2.1	–1.0	–1.4	....	3.6	2.9	4.4
Feb.	2.0	–1.6	–1.8	....	3.7	2.9	3.8
Mar.	2.2	–2.4	–1.6	....	3.6	3.4	3.8
Apr.	2.6	–2.9	–2.0	....	3.8	3.7	3.8
May	2.1	–2.9	–2.1	....	4.0	3.9	3.2
June	1.3	–3.2	–1.8	....	4.0	4.1	2.9
July	1.2	–3.4	–0.7	....	(4.2)	....	2.9
Aug.	(0.8)	–4.1	–0.4	....	(4.3)	....	3.2
Sept.	(0.7)	(–3.7)	....	....	....	....	....

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
				Official reference rates *(end-of-period data)*			
1988	6.50	2.50	3.50	7.75	13.00	12.50	11.17
1989	7.00	4.25	6.00	10.00	15.00	13.50	12.47
1990	6.50	6.00	6.00	9.25	14.00	12.50	11.78
1991	3.50	4.50	8.00	9.60	10.50	12.00	7.67
1992 – Sept.	3.00	3.25	8.25	9.60	9.00	15.00	5.69
Oct.	3.00	3.25	8.25	9.60	8.00	14.00	7.37
Nov.	3.00	3.25	8.25	9.10	7.00	13.00	8.82
Dec.	3.00	3.25	8.25	9.10	7.00	12.00	7.36
1993 – Jan.	3.00	3.25	8.25	9.10	6.00	12.00	6.81
Feb.	3.00	2.50	8.00	9.10	6.00	11.50	6.09
Mar.	3.00	2.50	7.50	9.10	6.00	11.50	5.36
Apr.	3.00	2.50	7.25	8.25	6.00	11.00	5.60
May	3.00	2.50	7.25	7.50	6.00	10.50	5.10
June	3.00	2.50	7.25	7.00	6.00	10.00	4.79
July	3.00	2.50	6.75	6.75	6.00	9.00	4.41
Aug.	3.00	2.50	6.75	6.75	6.00	9.00	4.90
Sept.	3.00	1.75	6.25	6.75	6.00	8.50	4.90
				Money market rates *(period averages)*			
1989	8.11	5.41	7.07	9.40	13.89	....	12.22
1990	7.49	7.73	8.43	10.32	14.77	13.72	11.47
1991	5.37	7.47	9.18	9.62	11.53	12.92	7.42
1992	3.43	4.55	9.46	10.34	9.62	13.85	7.11
1992 – Sept.	2.91	4.13	9.43	11.04	9.99	18.22	7.37
Oct.	2.86	3.99	8.88	11.12	8.32	15.58	6.05
Nov.	3.13	3.90	8.89	9.76	7.21	14.50	8.57
Dec.	3.22	3.86	8.98	11.34	7.16	13.85	7.11
1993 – Jan.	3.00	3.80	8.52	12.10	6.95	12.67	6.56
Feb.	2.93	3.31	8.34	12.06	6.16	11.50	5.84
Mar.	2.95	3.34	7.91	11.29	5.98	11.35	5.11
Apr.	2.87	3.25	7.85	9.10	5.98	11.45	5.34
May	2.96	3.26	7.45	7.64	5.97	10.81	4.85
June	3.07	3.25	7.55	7.32	5.89	10.25	4.54
July	3.04	3.27	7.18	8.10	5.95	9.54	4.16
Aug.	3.02	3.13	6.56	7.93	5.85	9.33	4.74
Sept.	2.95	2.68	6.57	7.29	5.92	9.11	4.65

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
1989	8.50	5.25	7.03	8.78	9.58	11.61	9.69
1990	8.55	7.38	8.85	9.92	11.08	11.87	10.51
1991	7.86	6.40	8.64	9.03	9.92	11.37	8.97
1992	7.01	5.12	7.98	8.57	9.13	11.90	8.54
1992 – Sept.	6.42	4.87	8.00	8.71	9.15	13.54	8.53
Oct.	6.59	4.80	7.40	8.36	9.24	13.28	8.33
Nov.	6.87	4.64	7.30	8.08	8.84	12.16	8.66
Dec.	6.77	4.59	7.30	8.15	8.84	12.31	8.54
1993 – Jan.	6.60	4.40	7.00	7.85	8.91	11.75	8.67
Feb.	6.26	4.15	6.80	7.70	8.64	11.22	8.19
Mar.	5.97	4.02	6.40	7.29	8.33	11.17	8.27
Apr.	5.97	4.27	6.50	7.09	8.39	11.44	8.27
May	6.03	4.55	6.60	7.11	8.60	10.74	8.12
June	5.96	4.46	6.60	6.90	8.39	10.14	7.96
July	5.81	4.27	6.40	6.68	7.97	9.31	7.79
Aug.	5.68	4.11	6.20	6.29	7.39	8.37	7.40
Sept.	5.36	3.92	6.00	(6.09)	7.20	8.05	7.55
				Share price indices (1975=100)			
1989	379.06	824.26	283.80	668.05	834.11	1.001.84	380.15
1990	392.88	699.73	337.38	675.47	820.88	1.008.71	342.11
1991	441.69	591.12	305.86	643.90	892.08	854.50	346.95
1992	488.15	437.57	302.24	682.47	919.71	710.79	340.29
1992 – Sept.	491.30	440.40	279.80	657.50	869.10	566.90	329.79
Oct.	484.33	417.22	270.42	622.22	917.62	618.80	333.61
Nov.	496.47	408.11	277.09	640.03	965.33	695.60	328.28
Dec.	511.46	423.89	275.09	642.74	994.72	663.88	335.04
1993 – Jan	511.01	409.96	282.11	654.07	1,015.40	728.45	330.55
Feb.	518.61	415.18	298.70	684.26	1,040.50	773.15	345.17
Mar.	528.54	436.99	307.45	725.78	1,063.30	782.43	360.24
Apr.	520.23	499.45	302.88	728.13	1,047.00	796.73	378.94
May	522.77	519.65	296.21	702.78	1,049.60	842.47	388.27
June	526.08	518.11	302.32	715.09	1,066.70	819.63	396.64
July	525.17	520.11	321.05	740.71	1,061.80	849.12	396.72
Aug.	533.21	534.82	338.47	797.62	1,125.80	929.11	413.76
Sept.	539.21	533.01	338.40	798.96	1,130.70	926.96	399.06

Table a7

Interest rates on international markets and US dollar premium/discount

(period averages)

	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira
	Rates on 3-month Eurodeposits					**Rates on 12-month Eurodeposits**				
1989	9.15	5.33	6.97	13.83	12.01	9.17	5.41	7.16	13.54	12.22
1990	8.16	7.63	8.39	14.70	11.63	8.32	7.77	8.88	14.40	12.07
1991	5.86	7.22	9.14	11.45	11.52	6.23	6.77	9.26	11.01	11.69
1992	3.70	4.33	9.36	9.53	13.48	4.10	4.14	9.04	9.34	13.10
1992 – Sept. ...	3.12	3.88	9.14	9.84	16.98	3.33	3.70	8.94	9.66	15.19
Oct.	3.25	3.78	8.73	8.17	14.85	3.52	3.59	7.92	7.50	13.96
Nov.	3.63	3.70	8.80	7.07	14.15	3.92	3.56	7.79	6.51	13.20
Dec.	3.45	3.68	8.75	7.09	13.59	3.96	3.56	7.75	6.75	13.25
1993 – Jan.	3.19	3.60	8.34	6.85	12.40	3.73	3.41	7.42	6.48	12.33
Feb.	3.10	3.21	8.20	6.09	11.21	3.53	3.18	7.22	5.61	11.07
Mar.	3.07	3.22	7.82	5.91	11.07	3.44	3.12	6.76	5.67	10.82
Apr.	3.05	3.16	7.75	5.90	11.16	3.41	3.24	6.75	5.98	11.11
May	3.08	3.17	7.34	5.92	10.53	3.46	3.28	6.57	6.09	10.39
June ...	3.17	3.16	7.44	5.81	9.96	3.68	3.23	6.60	5.84	9.76
July	3.14	3.15	7.06	5.89	9.27	3.61	3.08	6.34	5.76	8.81
Aug.	3.10	2.95	6.48	5.80	9.10	3.52	2.88	5.95	5.52	8.42
Sept. ...	3.07	2.54	6.49	5.83	8.93	3.41	2.53	5.85	5.67	8.36
		3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**			
1989		3.83	2.18	–4.68	–2.86		3.76	2.02	–4.37	–3.05
1990		0.53	–0.23	–6.54	–3.47		0.55	–0.56	–6.08	–3.75
1991		–1.36	–3.28	–5.59	–5.66		–0.55	–3.04	–4.78	–5.47
1992		–0.63	–5.65	–5.82	–9.77		–0.04	–4.94	–5.24	–9.00
1992 – Sept. ...		–0.76	–6.02	–6.72	–13.86		–0.37	–5.61	–6.33	–11.86
Oct.		–0.53	–5.48	–4.92	–11.60		–0.07	–4.40	–3.98	–10.44
Nov.		–0.07	–5.17	–3.44	–10.52		0.36	–3.87	–2.59	–9.28
Dec.		–0.23	–5.30	–3.64	–10.14		0.40	–3.79	–2.79	–9.29
1993 – Jan.		–0.41	–5.15	–3.66	–9.21		0.32	–3.69	–2.75	–8.60
Feb.		–0.11	–5.10	–2.99	–8.11		0.35	–3.69	–2.08	–7.54
Mar.		–0.15	–4.75	–2.84	–8.00		0.32	–3.32	–2.23	–7.38
Apr.		–0.11	–4.70	–2.85	–8.11		0.17	–3.34	–2.57	–7.70
May		–0.09	–4.26	–2.84	–7.45		0.18	–3.11	–2.63	–6.93
June ...		0.01	–4.27	–2.64	–6.79		0.45	–2.92	–2.16	–6.08
July		–0.01	–3.92	–2.75	–6.13		0.53	–2.73	–2.15	–5.20
Aug.		0.15	–3.38	–2.70	–6.00		0.64	–2.43	–2.00	–4.90
Sept. ...		0.53	–3.42	–2.76	–5.86		0.88	–2.44	–2.26	–4.95

Table a8

Lira exchange rates and the price of gold

	Lire per unit of currency								Gold (dollars per ounce)
	US dollar	Japanese yen	Deutsche-mark	French franc	Pound sterling	Swiss franc	SDR	Ecu	
1987	1,296.8	8.9827	721.65	215.74	2,123.7	870.44	1,676.9	1,495.0	484.10
1988	1,302.9	10.1594	741.17	218.51	2,315.4	889.68	1,751.0	1,537.3	410.25
1989	1,373.6	9.9659	729.71	215.07	2,248.6	838.96	1,760.6	1,509.6	401.00
1990	1,198.4	8.2983	741.60	220.09	2,133.2	864.13	1,626.0	1,524.8	385.00
1991	1,241.6	9.2255	747.65	219.87	2,187.4	865.30	1,698.8	1,534.4	353.60
1992	1,232.3	9.7399	790.04	233.11	2,163.4	878.52	1,735.5	1,592.2	333.25
1991 – 3rd qtr.	1,303.1	9.5473	746.55	219.68	2,192.5	857.45	1,742.1	1,532.3	354.50
4th "	1,225.7	9.4589	752.21	220.32	2,170.4	853.07	1,697.3	1,535.3	353.60
1992 – 1st qtr.	1,219.1	9.4753	752.14	221.03	2,155.5	836.94	1,692.6	1,536.3	341.70
2nd "	1,217.2	9.3406	754.00	223.76	2,195.8	824.11	1,692.0	1,546.4	342.36
3rd "	1,134.0	9.0867	774.73	228.59	2,156.0	870.71	1,647.2	1,565.5	348.50
4th "	1,361.5	11.0670	878.60	258.86	2,146.9	981.06	1,910.6	1,719.8	333.25
1993 – 1st qtr.	1,547.3	12.8393	945.88	278.85	2,281.6	1,026.71	2,129.6	1,841.8	337.80
2nd "	1,504.1	13.6889	929.44	275.55	2,308.6	1,029.54	2,124.8	1,815.0	378.45
3rd "	1,585.3	15.0195	945.75	272.68	2,384.9	1,074.29	2,224.4	1,813.9	354.95
1992 – Sept.	1,168.1	9.5362	806.87	237.23	2,160.0	917.18	1,702.7	1,605.8	348.50
Oct.	1,307.2	10.7885	881.92	259.99	2,163.8	993.48	1,875.6	1,723.0	339.25
Nov.	1,364.4	11.0138	859.55	254.12	2,083.2	954.29	1,892.5	1,686.3	334.20
Dec.	1,415.3	11.4119	894.18	262.41	2,192.7	994.82	1,965.7	1,749.8	333.25
1993 – Jan.	1,490.1	11.9141	922.83	272.20	2,283.3	1,007.95	2,052.0	1,808.2	330.45
Feb.	1,548.7	12.8204	942.80	278.37	2,226.7	1,019.45	2,124.4	1,832.9	327.60
Mar.	1,593.2	13.6200	967.59	284.77	2,327.9	1,048.53	2,199.3	1,877.2	337.80
Apr.	1,535.4	13.6746	961.65	284.39	2,372.5	1,051.46	2,169.0	1,873.2	354.30
May	1,475.7	13.3822	918.63	272.48	2,286.3	1,018.70	2,089.0	1,795.8	377.45
June	1,501.4	13.9954	909.00	270.03	2,268.7	1,018.96	2,116.5	1,777.7	378.45
July	1,582.9	14.7151	923.62	271.17	2,369.9	1,045.21	2,200.6	1,798.4	403.00
Aug.	1,605.1	15.4650	946.66	270.56	2,394.6	1,072.16	2,249.5	1,806.8	371.55
Sept.	1,568.0	14.8784	966.97	276.31	2,390.4	1,105.48	2,222.7	1,836.3	354.95

Table a9

Nominal effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988	92.9	106.1	111.0	99.4	98.1	105.9	96.8	99.1
1989	96.4	112.1	105.6	98.6	97.1	102.8	97.7	93.9
1990	92.8	112.1	95.7	103.1	101.4	101.2	99.1	99.1
1991	90.9	113.8	103.3	101.9	99.5	101.6	97.6	97.5
1992	89.4	106.8	108.8	104.6	102.4	97.7	94.1	95.5
1991 – 3rd qtr.	93.1	115.0	103.3	100.9	98.8	100.5	97.0	95.8
4th "	89.1	114.4	106.9	102.4	99.6	100.5	97.5	95.9
1992 – 1st qtr.	89.7	110.1	108.0	102.6	100.1	100.0	97.5	94.1
2nd "	90.3	108.5	106.4	102.6	101.1	101.9	97.1	92.4
3rd "	86.5	106.2	107.5	105.4	102.8	100.4	96.4	97.3
4th "	90.9	102.6	113.5	107.6	105.4	88.4	85.5	98.3
1993 – 1st qtr.	92.9	103.5	118.6	108.0	106.2	87.1	79.3	95.7
2nd "	89.6	101.7	129.6	106.7	106.0	89.0	80.1	96.8
3rd "	90.6	99.4	137.4	106.7	103.1	90.1	78.8	99.1
1992 – Sept.	86.6	104.3	109.6	106.5	103.7	97.6	93.0	99.4
Oct.	88.5	103.0	113.1	108.2	106.0	89.6	85.5	99.8
Nov.	92.0	102.5	113.6	106.7	105.1	86.8	87.1	97.1
Dec.	92.3	102.2	113.7	107.8	105.1	88.7	84.0	98.1
1993 – Jan.	93.5	102.2	113.8	107.9	105.9	89.4	81.1	96.2
Feb.	93.1	103.7	119.0	108.1	106.5	85.2	79.5	95.4
Mar.	91.9	104.6	122.9	108.0	106.2	86.7	77.2	95.5
Apr.	89.8	102.5	126.5	107.9	106.7	89.3	77.7	96.4
May	89.4	101.6	128.8	106.8	106.0	89.3	81.1	96.9
June	89.6	101.0	133.6	105.6	105.4	88.4	81.4	97.1
July	91.0	101.3	135.1	105.1	103.7	90.3	79.8	97.5
Aug.	90.6	99.1	140.5	106.5	102.0	90.1	78.7	98.6
Sept.	90.2	97.8	136.6	108.5	103.5	89.9	77.9	101.1

Table a10

Real effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988	94.1	107.4	107.1	98.5	99.0	108.0	97.3	98.9
1989	99.6	110.4	99.5	96.6	97.3	105.5	99.6	93.9
1990	97.9	107.1	88.9	100.2	100.6	108.1	103.5	98.2
1991	95.7	106.5	96.1	99.6	98.1	113.2	104.1	95.2
1992	94.5	99.7	99.3	103.3	99.9	112.4	101.7	92.3
1991 – 2nd qtr.	97.6	107.7	95.4	97.9	97.7	113.3	103.7	95.9
3rd "	97.9	107.1	96.1	99.0	97.3	112.7	103.3	93.6
4th "	94.0	105.7	99.1	100.6	98.0	113.2	104.2	93.4
1992 – 1st qtr.	94.1	102.6	99.9	101.1	98.1	114.3	104.8	91.3
2nd "	95.5	100.8	97.2	101.3	98.5	117.0	104.4	89.5
3rd "	92.1	98.8	97.6	104.4	100.2	115.9	104.0	93.8
4th "	96.5	96.7	102.4	106.4	102.7	102.5	93.3	94.7
1993 – 1st qtr.	98.2	98.4	106.1	106.2	103.4	102.1	87.7	92.1
2nd "	95.5	96.0	114.7	104.3	103.3	105.2	89.3	92.8
1992 – July	92.4	99.5	97.4	103.2	99.5	117.6	105.5	92.6
Aug.	91.7	99.6	96.1	104.4	99.9	117.3	106.2	93.1
Sept.	92.2	97.4	99.3	105.5	101.1	112.7	100.5	95.7
Oct.	94.3	96.6	102.0	107.1	103.2	103.5	92.9	96.2
Nov.	97.6	96.5	102.5	105.6	102.3	100.7	95.1	93.5
Dec.	97.6	96.8	102.7	106.5	102.6	103.2	92.0	94.5
1993 – Jan.	98.8	97.3	102.2	106.4	102.9	104.6	89.6	92.5
Feb.	98.6	98.6	106.5	106.2	103.7	99.8	87.9	91.5
Mar.	97.4	99.4	109.5	105.8	103.7	101.8	85.7	92.2
Apr.	95.3	97.1	112.3	105.6	104.0	105.4	86.5	92.5
May	95.3	95.9	113.9	104.3	103.3	105.6	90.4	92.9
June	95.9	95.1	117.8	102.9	102.5	104.6	91.0	93.1
July	96.9	95.9	119.1	102.5	100.8	107.2	89.3	93.7

Table a11

Real effective intra-EC exchange rates

(period averages; indices, 1987=100)

	Belgium	France	Germany	UK	Netherlands	Italy	Spain
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988	97.9	99.3	98.9	109.2	98.3	97.4	103.8
1989	100.1	98.1	97.2	108.1	98.7	100.4	109.2
1990	100.3	98.9	97.5	105.3	96.9	102.0	110.1
1991	97.7	96.9	97.7	112.0	95.1	103.0	110.1
1992	97.8	97.9	100.6	109.4	94.3	99.6	107.0
1991 – 2nd qtr.	97.7	97.2	97.0	113.4	94.4	103.4	110.7
3rd "	97.3	96.7	97.9	112.8	95.0	102.8	109.7
4th "	97.7	96.5	98.5	111.5	94.9	102.8	109.0
1992 – 1st qtr.	97.1	96.4	98.7	112.2	94.0	103.2	109.9
2nd "	96.9	96.5	98.4	114.4	93.6	102.5	109.5
3rd "	97.3	97.2	100.2	110.8	93.6	101.0	107.1
4th "	100.0	101.4	105.0	100.2	96.1	91.6	101.3
1993 – 1st qtr.	98.9	103.1	106.1	101.6	96.6	86.7	103.1
2nd "	98.3	103.3	104.6	105.4	96.1	88.5	97.3
1992 – July	97.2	96.6	99.1	112.9	93.1	102.6	108.6
Aug.	96.4	96.6	99.7	111.6	93.6	102.8	108.0
Sept.	98.3	98.3	101.9	108.0	94.1	97.6	104.7
Oct.	100.4	101.4	105.1	100.4	96.4	90.8	101.5
Nov.	100.0	101.3	104.5	99.0	96.2	93.7	100.6
Dec.	99.5	101.5	105.3	101.3	95.6	90.5	101.8
1993 – Jan.	98.6	102.1	105.6	103.3	95.5	88.2	103.1
Feb.	98.9	103.6	106.4	99.6	97.2	87.0	103.1
Mar.	99.2	103.8	106.4	102.1	97.0	84.8	103.0
Apr.	99.0	103.7	105.5	105.0	96.4	85.3	101.0
May	98.2	103.2	104.3	105.5	96.0	89.4	96.2
June	97.8	103.0	103.9	105.8	95.9	90.7	94.6
July	97.8	101.9	104.3	109.7	95.5	89.4	92.9

Table a12

External position of the Italian credit system

(end-of-period outstanding claims in billions of lire)

VIS-A-VIS	1992-Q4	1993-Q1	1993-Q2
Industrial countries	241,114	(252,556)	(248,822)
OPEC countries	10,964	(13,030)	(12,582)
Other developing countries	12,212	(13,139)	(12,873)
of which: Latin America	7,031	(7,548)	(7,251)
Africa	1,427	(1,396)	(1,306)
Asia	3,278	(3,764)	(3,791)
Middle East	476	(431)	(525)
Eastern Europe	12,856	(13,536)	(12,857)
Offshore centres	34,121	(34,232)	(33,605)
International organizations	3,365	(4,090)	(3,754)
Total	**314,632**	**(330,583)**	**(324,494)**
Memorandum item:			
Argentina	2,437	(2,715)	(2,513)
Bolivia	7	(8)	(8)
Brazil	1,216	(1,205)	(1,203)
Chile	192	(203)	(230)
Colombia	207	(210)	(220)
Ivory Coast	18	(15)	(15)
Ecuador	245	(251)	(238)
Philippines	123	(112)	(101)
Ex-Yugoslavia	462	(446)	(451)
Morocco	565	(563)	(512)
Mexico	2,323	(2,543)	(2,465)
Nigeria	1,185	(1,267)	(1,214)
Peru	150	(148)	(140)
Uruguay	86	(100)	(95)
Venezuela	1,156	(1,181)	(1,170)
Total	**10,372**	**(10,966)**	**(10,574)**
Albania	127	(141)	(137)
Bulgaria	866	(891)	(806)
Ex-Czechoslovakia	177	(207)	(155)
Poland	1,979	(2,027)	(1,900)
Romania	111	(190)	(220)
Russia	9,266	(9,704)	(9,320)
Hungary	315	(322)	(301)

Table a13

Sources and uses of income

(% changes on previous period)

	SOURCES			USES					
				Gross fixed investment					
	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total	House-holds' consum-ption	Other domestic uses	Exports
					At 1985 prices				
1987	3.1	9.1	4.2	–0.7	11.5	5.0	4.2	3.1	4.7
1988	4.1	6.8	4.6	2.3	11.6	6.9	4.2	2.4	5.4
1989	2.9	7.6	3.9	3.6	4.9	4.3	3.5	–1.4	8.8
1990	2.1	8.0	3.3	3.5	4.1	3.8	2.5	1.3	7.0
1991	1.3	2.9	1.6	1.4	–0.1	0.6	2.3	2.1	0.3
1992	0.9	4.6	1.7	–1.8	–1.1	–1.4	1.8	1.0	5.0
1991 – 2nd qtr. ...	0.5	1.6	0.7	1.5	1.6	1.5	0.5	4.5	–2.2
3rd " ...	0.1	0.7	0.3	0.6	3.3	2.0	0.6	–1.8	–0.8
4th " ...	0.6	1.2	0.7	–0.9	1.4	0.3	0.7	–1.9	3.1
1992 – 1st qtr. ...	0.6	4.8	1.6	–0.5	–0.9	–0.7	0.8	5.8	2.9
2nd " ...	0.2	–1.7	–0.2	–0.8	–1.5	–1.2	0.6	0.3	–1.8
3rd " ...	–0.7	0.6	–0.4	–0.7	–2.7	–1.7	–0.3	–4.6	3.7
4th " ...	–0.5	–4.1	–1.3	–1.4	–3.0	–2.2	–0.9	–5.1	1.0
1993 – 1st qtr. ...	–0.1	–6.5	–1.5	–1.8	–6.1	–4.0	–0.8	–13.0	6.2
2nd " ...	0.8	–1.5	0.3	–0.7	–2.3	–1.5	–0.2	7.1	–0.7
					Implicit prices				
1987	6.0	0.5	4.9	4.5	3.6	4.1	5.3	8.9	0.8
1988	6.6	4.3	6.2	7.5	3.9	5.6	5.7	10.6	4.2
1989	6.2	8.8	6.4	5.7	5.1	5.4	6.3	7.8	7.5
1990	7.6	0.7	6.2	10.2	2.6	6.3	6.2	10.6	2.8
1991	7.4	–0.4	6.0	8.0	2.4	5.3	6.8	7.2	2.5
1992	4.7	1.3	3.9	5.2	2.1	3.7	5.4	1.9	1.6
1991 – 2nd qtr. ...	1.6	–0.6	1.2	2.7	0.7	1.7	1.7	–1.3	0.1
3rd " ...	1.8	1.2	1.7	3.4	0.5	1.9	1.6	1.8	1.5
4th " ...	1.2	–1.7	0.7	1.2	0.6	0.8	1.4	0.3	–0.8
1992 – 1st qtr. ...	1.3	–0.3	0.7	0.7	0.0	0.4	1.3	–0.5	0.2
2nd " ...	0.7	1.4	1.0	0.8	0.7	0.8	1.2	0.1	0.8
3rd " ...	0.7	–0.7	0.4	0.4	0.7	0.6	1.2	0.2	–1.1
4th " ...	1.0	7.5	2.3	1.2	1.7	1.5	1.1	5.7	4.9
1993 – 1st qtr. ...	1.0	6.6	2.2	1.5	2.4	2.2	1.1	8.2	4.1
2nd " ...	0.8	1.7	1.1	0.5	1.4	1.0	1.3	–2.9	2.6

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	INDUSTRIAL PRODUCTION				ISCO BUSINESS OPINION INDICATORS				
	General index	Consumer goods	Invesment goods	Intermediate goods	Changes in level of orders: Domestic	Foreign	Total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices, 1985=100)				*(average balance of monthly responses)*				
1988	114.1	111.6	119.6	113.6	3.3	–9.6	2.9	18.6	–7.5
1989	117.6	114.6	123.1	117.5	0.5	–5.7	2.8	23.0	–4.1
1990	117.8	115.7	125.4	116.5	–9.3	–16.1	–7.4	11.8	3.7
1991	115.4	115.8	118.0	114.3	–27.5	–31.5	–26.7	11.2	8.5
1992	114.7	117.5	112.1	114.2	–32.0	–36.9	–32.0	1.9	7.2
1989 – 1st qtr. ...	115.7	112.1	120.7	115.4	6.2	–3.3	9.2	24.6	–8.0
2nd " ...	116.4	114.3	119.6	115.9	–0.5	–5.9	1.8	22.4	–1.7
3rd " ...	118.2	116.5	124.0	119.0	–2.9	–3.9	0.8	23.0	–4.3
4th " ...	120.2	115.5	128.1	119.6	–0.9	–9.9	–0.7	22.2	–2.3
1990 – 1st qtr. ...	118.2	114.1	126.7	116.7	–0.1	–10.1	–0.8	17.1	–2.0
2nd " ...	118.1	114.5	127.0	116.4	–5.1	–9.1	–1.8	15.2	2.3
3rd " ...	118.6	118.0	125.9	118.8	–12.4	–20.2	–9.6	6.3	6.7
4th " ...	116.2	116.2	122.0	114.2	–19.7	–25.1	–17.7	8.9	7.7
1991 – 1st qtr. ...	115.8	116.0	119.7	114.2	–28.4	–34.5	–27.4	9.3	9.7
2nd " ...	115.3	114.7	119.6	114.5	–27.9	–32.3	–27.9	10.7	9.7
3rd " ...	114.5	115.4	117.9	113.3	–26.8	–30.8	–25.4	12.9	8.3
4th " ...	115.8	117.2	114.8	115.3	–26.9	–28.5	–26.0	12.1	6.3
1992 – 1st qtr. ...	116.9	118.2	115.8	116.4	–25.2	–29.9	–23.8	10.2	11.3
2nd " ...	116.0	119.0	112.9	115.7	–27.0	–38.5	–29.3	7.9	11.0
3rd " ...	113.7	116.7	110.7	113.0	–34.5	–39.0	–35.6	–3.2	5.3
4th " ...	112.3	116.3	109.1	111.6	–41.4	–40.4	–39.3	–7.1	1.0
1993 – 1st qtr. ...	111.9	117.1	107.1	110.9	–45.4	–33.5	–42.7	–3.6	3.3
2nd " ...	110.7	115.8	107.4	109.8	–45.8	–27.5	–40.3	–1.2	7.0

Table a15

Labour market statistics

(thousands of units and percentages)

	Employment					Unem-ployment	Labour force	Unem-ployment rate	Partici-pation rate
	Agricul-ture	Industry excluding construc-tion	Construc-tion	Other	Total				
1988	2,053	4,928	1,823	12,181	20,984	2,868	23,852	12.0	42.0
1989	1,946	4,953	1,801	12,305	21,004	2,866	23,870	12.0	42.0
1990	1,863	5,054	1,887	12,593	21,396	2,752	24,147	11.4	42.4
1991	1,823	4,958	1,957	12,854	21,592	2,653	24,245	10.9	42.4
1992	1,749	4,916	1,934	12,859	21,459	2,799	24,258	11.5	42.4
1990 – 1st qtr.	1,855	5,065	1,852	12,331	21,103	2,871	23,973	12.0	42.1
2nd "	1,883	5,054	1,899	12,449	21,286	2,640	23,925	11.0	42.0
3rd "	1,872	5,025	1,888	12,867	21,651	2,744	24,394	11.2	42.8
4th "	1,842	5,070	1,907	12,726	21,545	2,753	24,294	11.3	42.6
1991 – 1st qtr.	1,725	5,031	1,891	12,729	21,376	2,719	24,095	11.3	42.2
2nd "	1,825	4,986	1,948	12,771	21,530	2,624	24,154	10.9	42.3
3rd "	1,891	4,952	2,000	12,974	21,817	2,581	24,397	10.6	42.7
4th "	1,852	4,862	1,990	12,940	21,646	2,686	24,332	11.0	42.6
1992 – 1st qtr.	1,693	4,778	1,973	12,922	21,367	2,713	24,079	11.3	42.1
2nd "	1,833	4,850	2,021	13,024	21,727	2,622	24,349	10.8	42.6
3rd "	1,822	4,764	2,040	12,989	21,615	2,667	24,282	11.0	42.5
4th "	1,649	5,273	1,703	12,502	21,126	3,194	24,320	13.1	42.5
1993 – 1st qtr.	1,486	5,194	1,697	12,275	20,650	2,139	22,789	9.4	40.6
2nd "	1,490	4,927	1,740	12,218	20,374	2,389	22,763	10.5	40.6
3rd "	1,512	4,961	1,778	12,256	20,507	2,344	22,851	10.3	40.7

Table a16

Wholesale and consumer prices

(% changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living
	Consumer goods	Investment goods	Intermediate goods	Total	Food	Non-food products	Services	Total	
1988	....	....	....	....	3.9	4.7	6.4	5.0	5.0
1989	....	....	....	....	6.3	5.1	7.7	6.3	6.6
1990	5.7	5.5	8.3	7.4	6.2	5.9	7.3	6.5	6.1
1991	7.0	4.1	4.5	5.2	6.7	5.2	7.3	6.3	6.4
1992	4.3	3.3	1.1	2.1	4.9	3.4	7.5	5.2	5.4
1991 – 3rd qtr.	7.1	3.8	2.7	4.0	6.6	5.2	7.6	6.4	6.4
4th "	7.3	3.3	–1.6	1.1	6.9	3.7	7.7	5.9	6.1
1992 – 1st qtr.	6.0	3.0	–1.4	0.9	6.6	3.4	7.9	5.7	5.7
2nd "	5.4	3.2	1.6	2.7	6.0	3.4	7.5	5.5	5.6
3rd "	3.4	3.2	0.9	1.7	4.8	3.4	7.2	5.1	5.3
4th "	2.5	3.6	3.3	3.0	3.8	3.3	7.2	4.8	4.9
1993 – 1st qtr.	2.2	3.1	5.8	4.6	2.1	4.1	6.2	4.4	4.3
2nd "	2.8	3.5	6.4	5.2	1.8	4.5	5.9	4.4	4.1
3rd "	....	....	....	....	....	....	....	....	4.3
1992 – Sept.	2.8	3.2	0.1	1.0	4.6	3.4	7.0	4.8	5.2
Oct.	2.9	3.5	2.3	2.5	4.5	3.1	7.1	4.9	5.0
Nov.	2.3	3.5	2.4	2.4	4.0	3.3	7.2	4.9	4.9
Dec.	2.2	3.7	5.1	4.3	3.0	3.4	7.2	4.7	4.8
1993 – Jan.	1.9	3.3	5.2	4.0	2.5	4.1	6.4	4.6	4.3
Feb.	2.1	3.4	5.4	4.4	2.1	4.1	6.3	4.5	4.5
Mar.	2.6	2.7	6.9	5.5	1.8	4.2	5.9	4.3	4.2
Apr.	3.1	3.6	6.6	5.4	1.9	4.3	6.0	4.4	4.2
May	2.5	3.5	6.0	4.9	1.8	4.4	5.8	4.3	4.0
June	2.9	3.4	6.6	5.3	1.8	4.9	5.8	4.6	4.2
July	....	....	....	....	....	....	....	4.6	4.4
Aug.	....	....	....	....	....	....	....	....	4.4
Sept.	....	....	....	....	....	....	....	....	4.2

Balance of payments

(billions of lire)

	Current items					Capital flows			Errors and omissions	Change in official reserves
	Goods	Invisible items			Total	Non-bank	Bank	Total		
		Services	Incomes	Unilateral transfers						
1990	431	590	–15,501	–3,302	–17,782	29,167	22,976	52,143	–19,205	–15,156
1991	–923	1,439	–19,635	–7,479	–26,598	–10,594	39,369	28,775	–10,748	8,571
1992	3,053	–2,970	–25,553	–7,264	–32,734	–13,521	25,303	11,782	–11,596	32,548
1991 – 2nd qtr.	–1,163	1,797	–5,160	–1,461	–5,987	–10,350	16,761	6,411	–2,548	2,124
3rd "	911	339	–5,715	–488	–4,953	–8,584	12,725	4,141	–724	1,536
4th "	2,063	–436	–4,855	–3,106	–6,334	–7,908	6,835	–1,073	–5,282	12,689
1992 – 1st qtr.	–3,695	–622	–4,975	–2,314	–11,606	–16,051	23,284	7,233	3,681	692
2nd "	–1,462	1,257	–5,625	–1,063	–6,893	–12,207	18,356	6,149	–12,645	13,389
3rd "	4,118	–2,761	–6,765	–2,270	–7,678	–15,322	–17,214	–32,536	–4,718	44,932
4th "	4,092	–844	–8,188	–1,617	–6,557	30,059	877	30,936	2,086	–26,465
1993 – 1st qtr.	*(3,162)*	*(44)*	–5,563	–2,046	*(–4,403)*	(25,238)	–13,480	(11,758)	*(–6,512)*	–843
2nd "	*(11,462)*	*(2,241)*	–6,796	–2,475	*(4,432)*	(8,942)	–15,445	(–6,503)	*(1,624)*	447
1991 – Aug.	1,071	–506	–1,316	–227	–978	–2,714	2,453	–261	333	906
Sept. ...	–1,662	–89	–2,257	–164	–4,172	4,440	1,543	5,983	–1,472	–339
Oct.	40	451	–1,787	–885	–2,181	–1,836	4,533	2,697	–1,720	1,204
Nov.	–1,092	–513	–1,578	–1,099	–4,282	–663	2,078	1,415	–890	3,757
Dec.	3,115	–374	–1,490	–1,122	129	–5,409	224	–5,185	–2,672	7,728
1992 – Jan.	–1,818	–311	–1,814	–709	–4,652	–1,877	6,677	4,800	–714	566
Feb.	–867	–838	–1,118	–976	–3,799	–4,166	6,228	2,062	2,456	–719
Mar.	–1,010	527	–2,043	–629	–3,155	–10,008	10,379	371	1,939	845
Apr.	–551	467	–1,866	–445	–2,395	–4,282	7,131	2,849	–5,008	4,554
May	–1,547	414	–1,795	–312	–3,240	–1,204	4,787	3,583	–1,397	1,054
June ...	636	376	–1,964	–306	–1,258	–6,721	6,438	–283	–6,240	7,781
July	2,611	–488	–2,941	–808	–1,626	–14,603	7,093	–7,510	–1,366	10,502
Aug.	2,311	–1,142	–1,321	–940	–1,092	–79	1,574	1,495	–4,975	4,572
Sept. ...	–804	–1,131	–2,503	–522	–4,960	–640	–25,881	–26,521	1,623	29,858
Oct.	1,626	–8	–2,979	–426	–1,787	12,298	–3,160	9,138	2,714	–10,065
Nov.	–633	–720	–2,410	–301	–4,064	8,277	–3,471	4,806	2,723	–3,465
Dec.	3,099	–116	–2,799	–890	–706	9,484	7,508	16,992	–3,351	–12,935
1993 – Jan.	*(–1,064)*	*(–578)*	–2,031	247	*(–3,426)*	(5,977)	–1,341	(4,636)	*(–1,949)*	739
Feb.	*(2,063)*	*(277)*	–794	–1,560	*(–14)*	(11,491)	–13,199	(–1,708)	*(–1,215)*	2,937
Mar.	*(2,163)*	*(345)*	–2,738	–733	*(–963)*	(7,770)	1,060	(8,830)	*(–3,348)*	–4,519
Apr.	*(3,259)*	*(702)*	–2,220	–1,212	*(529)*	(–4,653)	–1,040	(–5,693)	*(1,686)*	3,478
May	*(3,782)*	*(534)*	–2,381	–308	*(1,627)*	(8,711)	–6,334	(2,377)	*(–4,434)*	430
June ...	*(4,421)*	*(1,005)*	–2,195	–1,239	*(1,992)*	(4,884)	–8,071	(–3,187)	*(4,656)*	–3,461
July	....	....	....	....	(1,924)	(2,576)	(–5,750)	(–3,174)	....	(1,250)
Aug.	....	....	....	....	(2,955)	(8,356)	(–13,267)	(–4,911)	....	(1,956)

Table a18

External position of BI-UIC

	Short-term assets				Short-term liabilities	Medium and long-term assets	Medium and long-term liabilities	IMF position	Gold	Overall position
	Convertible currencies	Official Ecus	SDRs	Total						
					(billions of lire)					
1989	44,847	11,409	1,268	57,524	400	1,793	1,173	1,834	33,663	93,241
1990	57,578	10,433	1,172	69,183	400	3,230	1,129	1,936	30,579	103,399
1991	41,229	11,092	1,067	53,388	418	10,642	1,157	2,595	29,288	94,338
1992 – Aug.	12,683	9,336	1,048	23,067	617	10,340	1,123	2,494	28,435	62,596
Sept. ...	14,391	10,383	1,158	25,932	27,319	6,579	1,281	2,805	26,228	32,944
Oct.	25,483	10,211	1,174	36,868	27,305	6,695	1,298	2,842	26,228	44,030
Nov.	31,335	10,412	329	42,076	27,087	5,460	1,355	3,767	26,228	49,089
Dec.	36,642	1,925	350	38,917	7,819	4,090	1,421	3,588	29,944	67,299
1993 – Jan.	35,193	5,580	355	41,128	8,705	3,076	1,439	3,634	29,944	67,638
Feb.	35,674	5,759	405	41,838	8,851	1,827	1,537	3,881	29,944	67,102
Mar.	38,834	4,381	367	43,582	4,559	902	1,569	3,850	31,594	73,800
Apr.	33,746	3,755	346	37,847	4,591	856	1,478	3,627	31,594	67,855
May	31,073	3,616	371	35,060	2,628	974	1,477	3,624	31,594	67,147
June ...	35,048	3,506	380	38,934	2,071	972	1,513	3,677	34,932	74,931
July	(34,625)	(4,210)	(420)	(39,255)	(1,302)	(912)	(1,578)	(3,836)	(34,932)	(76,055)
Aug.	(32,616)	(4,273)	(419)	(37,308)	(1,280)	(991)	(1,578)	(3,750)	(34,932)	(74,123)
					(millions of dollars)					
1989	35,299	8,980	998	45,277	315	1,411	923	1,444	24,422	71,315
1990	50,949	9,232	1,037	61,218	354	2,858	999	1,713	24,913	89,350
1991	35,818	9,636	927	46,382	363	9,245	1,005	2,254	23,230	79,743
1992 – Aug.	11,765	8,660	972	21,398	572	9,592	1,042	2,314	22,870	54,559
Sept. ...	11,624	8,387	935	20,947	22,067	5,314	1,035	2,266	22,820	28,245
Oct.	19,393	7,771	893	28,058	20,780	5,095	988	2,163	22,820	36,368
Nov.	22,405	7,445	235	30,084	19,367	3,904	969	2,693	22,820	39,165
Dec.	24,824	1,304	237	26,365	5,297	2,771	963	2,431	23,175	48,481
1993 – Jan.	23,739	3,764	239	27,742	5,872	2,075	971	2,451	23,175	48,601
Feb.	22,441	3,623	255	26,318	5,568	1,149	967	2,441	23,175	46,549
Mar.	24,299	2,741	230	27,269	2,853	564	982	2,409	22,855	49,263
Apr.	22,823	2,540	234	25,597	3,105	579	1,000	2,453	22,855	47,379
May	21,107	2,456	252	23,815	1,785	662	1,003	2,462	22,855	47,004
June ...	22,842	2,285	248	25,374	1,350	633	986	2,396	22,256	48,324
July	(21,433)	(2,606)	(260)	(24,299)	(806)	(565)	(977)	(2,374)	(22,256)	(47,711)
Aug.	(20,441)	(2,678)	(263)	(23,382)	(802)	(621)	(989)	(2,350)	(22,256)	(46,818)

Table a19

State sector borrowing requirement

(billions of lire)

	Budget revenues			Budget disbursements			Deficit (–)	Other trans-actions	Borrowing require-ment (–)	Borrowing requirement (–)	
	Fiscal	Other	Total	Current expendi-ture	Capital expendi-ture	Total				net of debt settle-ments in securities	of which: settle-ments of past debts in cash
1990 O	330,008	76,890	406,898	465,853	69,627	535,479	–128,582	–16,626	–145,208	–140,626	–249
1991 O	366,306	79,693	445,999	508,620	68,031	576,651	–130,652	–21,692	–152,344	–152,344	–73
1992 O	419,166	80,516	499,682	547,383	62,617	610,000	–110,319	–52,525	–162,844	–162,844	–31
N	419,166	80,516	499,682	547,383	62,617	610,000	–110,319	–48,408	–158,727	–158,727	–31
1992 – 1st qtr. O	80,602	15,390	95,992	91,266	9,643	100,909	–4,917	–36,243	–41,160	–41,160	–8
N	80,602	15,390	95,992	91,266	9,643	100,909	–4,917	–35,217	–40,134	–40,134	–8
2nd qtr. O	109,549	18,099	127,648	172,312	17,890	190,202	–62,554	30,982	–31,573	–31,573	–20
N	109,549	18,099	127,648	172,312	17,890	190,202	–62,554	32,868	–29,686	–29,686	–20
3rd qtr. O	101,935	17,195	119,130	119,223	18,392	137,615	–18,485	–18,667	–37,152	–37,152	–3
N	101,935	17,195	119,130	119,223	18,392	137,615	–18,485	–18,927	–37,412	–37,412	–3
4th qtr. O	127,080	29,833	156,913	164,582	16,692	181,275	–24,362	–28,597	–52,960	–52,960	..
N	127,080	29,833	156,913	164,582	16,692	181,275	–24,362	–27,133	–51,495	–51,495	..
1993 – 1st qtr. O	90,749	4,519	95,268	95,072	12,501	107,573	–12,305	–37,681	–49,986	–49,986	–22
N	90,749	4,519	95,268	95,072	12,501	107,573	–12,305	–38,270	–50,575	–50,575	–22
2nd qtr. O	123,517	7,111	130,628	136,017	17,456	153,473	–22,845	6,852	–15,993	–15,993	–5
N	123,517	7,111	130,628	136,017	17,456	153,473	–22,845	5,429	–17,416	–17,416	–5
3rd qtr. O	102,415	10,970	113,385	157,261	16,612	173,873	–60,488	17,601	–42,887	–40,022	..
N	102,415	10,970	113,385	157,261	16,612	173,873	–60,488	18,173	–42,315	–39,450	..
1993 – Jan. N ..	32,142	1,280	33,422	29,381	190	29,571	3,851	–14,140	–10,289	–10,289	–21
Feb. N ..	26,766	1,615	28,381	23,521	4,680	28,201	180	–10,955	–10,775	–10,775	..
Mar. N ..	31,841	1,625	33,466	42,171	7,631	49,801	–16,336	–13,175	–29,511	–29,511	–1
Apr. N ..	28,960	3,249	32,209	37,619	6,245	43,863	–11,654	–8,078	–19,732	–19,732	–4
May N ..	29,660	2,795	32,455	50,897	1,640	52,536	–20,081	2,490	–17,591	–17,591	–1
June N ..	64,897	1,066	65,963	47,502	9,572	57,073	8,890	11,017	19,908	19,908	..
July N ..	40,952	3,559	44,511	64,366	6,421	70,787	–26,276	18,432	–7,844	–4,979	..
Aug. N ..	36,248	3,424	39,672	39,391	6,274	45,665	–5,993	430	–5,564	–5,564	..
Sept. N ..	25,215	3,987	29,202	53,504	3,917	57,421	–28,219	–688	–28,907	–28,907	..

Legend: O = Old definition of the sector; N = New definition; excluding the State Railways, Monopolies and Telephone Company.

Financing of the state sector borrowing requirement

(billions of lire)

	Medium and long-term securities	of which: net purchases by BI-UIC	Treasury bills	of which: net purchases by BI-UIC	BI-UIC financing other than securities purchases	of which: Treasury overdraft with BI	PO deposits	Foreign loans	Other	Borrowing requirement	of which: monetary base creation
1990 O	69,799	–9,589	40,515	5,306	2,812	2,909	12,717	14,914	4,451	145,208	–1,383
1991 O	113,915	–4,238	11,589	–7,790	2,472	2,011	11,694	5,506	7,169	152,344	–9,458
1992 O	91,121	–4,380	46,479	–5,534	7,116	7,706	10,980	173	6,975	162,844	–2,696
N	91,810	–4,380	46,479	–5,534	7,116	7,706	10,980	–1,687	4,030	158,727	–2,696
1992 – 1st qtr. O	39,145	–2,496	1,713	–2,253	–754	–951	1,100	–768	724	41,160	–5,491
N	40,319	–2,496	1,713	–2,253	–754	–951	1,100	–1,830	–414	40,134	–5,491
2nd qtr. O	36,752	–1,948	9,420	–2,051	–13,412	–12,776	–700	–780	292	31,573	–17,372
N	36,252	–1,948	9,420	–2,051	–13,412	–12,776	–700	–1,713	–161	29,686	–17,372
3rd qtr. O	990	–696	9,114	89	26,836	26,889	900	–55	–633	37,152	26,258
N	1,004	–696	9,114	89	26,836	26,889	900	8	–450	37,412	26,258
4th qtr. O	14,234	761	26,232	–1,320	–5,555	–5,456	9,680	1,776	6,593	52,960	–6,092
N	14,235	761	26,232	–1,320	–5,555	–5,456	9,680	1,848	5,055	51,495	–6,092
1993 – 1st qtr. O	34,338	82	10,383	837	1,174	363	–76	4,448	–280	49,986	2,110
N	34,339	82	10,383	837	1,174	363	–76	5,058	–303	50,575	2,110
2nd qtr. O	32,081	411	7,346	–216	–26,661	–26,580	1,690	2,187	–650	15,993	–26,445
N	32,081	411	7,346	–216	–26,661	–26,580	1,690	3,573	–614	17,416	–26,445
3rd qtr. O	30,494	–402	–4,612	–13	10,454	10,107	–1,200	5,977	1,775	42,887	10,058
N	31,494	–402	–4,612	–13	10,454	10,107	–1,200	6,142	38	42,315	10,058
1993 – Jan. N ..	7,196	17	4,758	,,	–2,540	–2,607	1,845	70	–1,041	10,289	–2,517
Feb. N ..	12,015	–3	1,979	487	–3,658	–3,587	–956	1,325	69	10,775	–3,165
Mar. N ..	15,127	68	3,646	350	7,371	6,557	–965	3,664	668	29,511	7,792
Apr. N ..	12,692	382	3,999	–167	2,804	3,648	1,022	–952	167	19,732	3,026
May N ..	12,161	15	2,846	–41	2,312	2,596	–21	516	–222	17,591	2,293
June N ..	7,228	15	501	–8	–31,777	–32,824	689	4,010	–559	–19,908	–31,764
July N ..	12,810	–249	–707	..	–3,427	–3,749	–100	–944	212	7,844	–3,666
Aug. N ..	6,794	10	–2,850	–13	2,376	2,160	–1,200	267	176	5,564	2,383
Sept. N ..	11,889	–163	–1,055	..	11,504	11,695	100	6,819	–350	28,907	11,341

Legend: O = Old definition of the sector; N = New definition; excluding the State Railways, Monopolies and Telephone Company.

Table a21

The state sector debt

(end-of-period face value; billions of lire)

		Medium and long-term securities excluding BI portfolio	Treasury bills in lire and ecus excluding BI-portfolio	PO deposits	Lending by credit institutions	Other domestic debt	Subtotal	Borrowing from BI-UIC	Foreign debt	TOTAL
1985	O	297,190	152,034	59,693	6,013	4,036	518,966	120,286	18,205	657,457
1986	O	378,808	160,334	70,960	6,641	3,002	619,744	130,955	17,379	768,077
1987	O	436,625	192,332	83,877	8,067	3,046	723,947	137,968	23,322	885,237
1988	O	494,139	239,596	94,873	11,548	3,385	843,541	140,522	28,586	1,012,649
1989	O	547,133	285,628	110,237	16,628	4,228	963,854	147,474	34,979	1,146,307
1990	O	631,003	320,101	122,954	19,802	5,506	1,099,365	147,752	48,656	1,295,773
1991	O	729,690	335,342	134,648	25,680	6,795	1,232,155	166,923	54,720	1,453,798
1992 – 1st qtr.	O	766,158	337,734	135,748	27,312	5,887	1,272,839	169,108	55,120	1,497,067
	N	755,758	337,734	135,748	10,771	5,887	1,245,898	169,105	44,013	1,459,017
2nd qtr.	O	785,993	346,542	135,048	27,747	5,744	1,301,074	174,502	53,110	1,528,686
	N	775,093	346,542	135,048	10,753	5,744	1,273,180	174,499	41,459	1,489,137
3rd qtr.	O	779,023	358,549	135,948	27,422	5,436	1,306,378	211,053	58,402	1,575,833
	N	768,134	358,549	135,948	10,611	5,436	1,278,678	211,053	45,780	1,535,511
4th qtr.	O	791,084	387,021	145,628	33,204	6,247	1,363,184	209,445	64,652	1,637,282
	N	780,197	387,021	145,628	14,855	6,247	1,333,948	209,445	51,531	1,594,924
1993 – 1st qtr.	O	850,979	403,697	145,551	33,764	5,407	1,439,398	183,543	74,258	1,697,199
	N	840,093	403,697	145,552	15,426	5,407	1,410,175	183,543	61,086	1,654,804
1993 – Apr.	O	862,028	404,883	146,573	33,970	5,131	1,452,585	189,529	68,705	1,710,819
	N	851,143	404,883	146,573	15,870	5,131	1,423,600	189,529	56,805	1,669,934
May	O	870,633	410,578	146,552	33,904	5,137	1,466,804	191,835	68,466	1,727,106
	N	859,748	410,578	146,552	15,642	5,137	1,437,657	191,835	56,697	1,686,189
June	O	861,434	406,450	147,242	33,598	4,923	1,453,646	181,010	72,871	1,707,527
	N	850,548	406,450	147,242	15,297	4,923	1,424,459	181,010	61,262	1,666,731
July	O	870,873	402,236	147,142	34,430	4,567	1,459,248	183,957	73,438	1,716,643
	N	859,988	402,236	147,142	15,864	4,567	1,429,797	183,957	61,690	1,675,443
Aug.	O	884,576	396,538	145,942	35,404	5,242	1,467,702	183,317	74,596	1,725,615
	N	874,690	396,538	145,942	15,365	5,242	1,437,778	183,317	62,825	1,683,920

Legend: O = Old definition of the sector; N = New definition; excluding the State Railways, Monopolies and Telephone Company.

Table a22

Monetary base

(flows in billions of lire)

	SOURCES						TOTAL	USES				
	Foreign sector		Treasury	Open market	Refi- nancing	Other sectors		Currency in circulation	Bank reserves			
		of which: currency swaps							Deposits with the Bank of Italy	of which: compulsory reserves	Other	Total
1990	15,458	–	–1,383	2,393	1,260	–4,027	13,700	1,805	10,745	13,026	1,150	11,895
1991	–8,674	–	–9,458	27,172	2,664	–583	11,121	6,906	3,646	3,424	570	4,216
1992	–32,591	–	–2,697	42,781	122	858	8,473	9,263	113	1,012	–902	–789
1992 – Sept.	–29,884	..	17,132	14,350	388	–480	1,506	2,721	–932	–4,642	–283	–1,214
Oct.	10,064	13,072	900	6,180	–16,385	305	1,064	300	781	1,130	–17	764
Nov.	3,425	3,438	4,949	7,105	–7,751	–163	7,565	1,245	3,837	4,670	2,482	6,320
Dec.	12,912	12,738	–11,941	–7,807	6,950	3,365	3,479	5,636	–1,237	–937	–920	–2,157
1993 – Jan.	–600	..	–2,517	7,957	–6,962	1,281	–842	–3,091	3,275	2,062	–1,026	2,249
Feb.	–2,878	–3,097	–3,165	–13,169	18	–933	–20,127	–1,325	–19,186	–19,714	384	–18,802
Mar.	4,734	2,561	7,792	–21,427	34	–1,531	–10,398	782	–11,105	–10,979	–74	–11,180
Apr.	–3,283	–768	3,026	2,866	–92	–70	2,447	204	2,939	170	–696	2,243
May	6	..	2,293	421	5	–2,240	484	1,016	–1,405	1,132	873	–532
June	2,721	–751	–31,765	21,263	–29	4,165	–3,644	–1,388	–2,395	17	139	–2,256
July	–1,229	..	–3,666	7,530	632	–32	3,235	4,270	–91	–1,143	–945	–1,035
Aug.	(–1,956)	..	(2,383)	(–2,198)	(–609)	(–648)	(–3,027)	(–3,967)	(678)	(184)	(262)	(940)
Sept.	(6,872)	..	(11,341)	(–15,147)	(40)	(–1,795)	(1,312)	(1,412)	(67)	(–1,589)	(–168)	(–101)

Monetary base financing of the Treasury

(changes in billions of lire)

	Borrowing requirement	NON-MONETARY FINANCING							Treasury monetary base
		Net sales of securities on the primary market					Other forms of financing	Total	
		Treasury bills	Treasury credit certificates	Treasury bonds	Other	Total			
1990	145,208	–39,335	–59,193	9,014	–25,133	–114,648	–31,944	–146,591	–1,383
1991	152,344	–21,685	–13,684	–85,410	–16,753	–137,532	–24,270	–161,802	–9,458
1992	162,844	–50,266	–60,632	–37,094	477	–147,515	–18,026	–165,541	–2,697
1992 – Sept. ...	20,476	–6,153	–1,809	1,967	2,221	–3,774	430	–3,344	17,132
Oct.	13,337	–10,139	–4,891	1,916	24	–13,089	652	–12,437	900
Nov.	22,495	–9,098	–3,303	–8,120	1,837	–18,685	1,139	–17,546	4,949
Dec.	17,128	–6,566	–2,220	–2,831	2,366	–9,250	–19,819	–29,069	–11,941
1993 – Jan.	9,882	–4,749	–988	–8,525	2,325	–11,937	–462	–12,399	–2,517
Feb.	10,890	–1,949	–3,690	–12,203	4,332	–13,510	–545	–14,055	–3,165
Mar.	29,214	–3,296	–1,591	–12,316	–1,152	–18,355	–3,067	–21,422	7,792
Apr.	18,644	–4,166	–2,825	–8,554	–932	–16,477	859	–15,618	3,026
May	17,681	–3,041	–1,899	–11,248	1,155	–15,032	–356	–15,388	2,293
June ...	–20,332	–509	–98	–6,372	–745	–7,723	–3,709	–11,432	–31,765
July	8,108	707	439	–10,777	–2,720	–12,351	577	–11,774	–3,666
Aug.	5,872	(2,837)	(134)	(–9,149)	(3,230)	(–2,948)	–540	(–3,488)	(2,383)
Sept. ...	28,907	(2,339)	(–35)	(–10,890)	(–2,410)	(–10,997)	–6,569	(–17,566)	(11,341)

Monetary base

(stocks in billions of lire)

	SOURCES							
	Foreign sector		BI-UIC financing of the Treasury				Refinancing	Other sectors
		of which: currency swaps	Total	of which: Government securities and Treasury c/c	of which: Treasury overdraft with BI	Memorandum item: undrawn overdraft facility		
1989	92,875	–	146,798	74,489	68,155	1,658	4,872	–59,023
1990	103,335	–	147,805	72,596	71,063	6,266	6,132	–58,050
1991	94,171	–	165,518	87,739	73,074	9,121	8,796	–58,143
1992 – Sept.	32,797	..	206,218	115,686	86,236	3,289	26,105	–58,411
Oct.	43,883	13,140	213,298	121,630	86,880	3,091	9,719	–59,127
Nov.	48,902	17,485	225,351	128,306	92,694	–2,479	1,968	–60,884
Dec.	67,089	31,702	204,481	119,483	80,780	9,499	8,918	–61,671
1993 – Jan.	67,567	31,880	209,920	127,456	78,173	14,937	1,956	–61,468
Feb.	67,089	30,889	193,586	114,772	74,586	18,552	1,974	–64,802
Mar.	74,002	33,716	179,951	93,762	81,143	12,645	2,009	–68,512
Apr.	68,253	30,558	185,842	96,843	84,790	9,113	1,916	–66,115
May	67,980	30,372	188,557	97,238	87,387	6,658	1,922	–68,077
June	75,024	30,628	178,055	118,507	54,563	40,943	1,893	–68,235
July	76,172	32,104	181,919	125,788	50,814	44,666	2,525	–70,644
Aug.	(74,240)	31,905	(182,104)	(123,587)	(52,974)	(42,505)	(1,916)	(–71,316)
Sept.	(81,112)	31,770	(178,299)	(108,277)	(64,669)	(30,810)	(1,956)	(–73,110)

	USES					Total monetary base
	Currency in circulation	Bank reserves				
		Deposits with the Bank of Italy	of which: compulsory reserves	Other	Total	
1989	67,644	112,981	111,112	4,897	117,878	185,522
1990	69,449	123,726	123,230	6,047	129,773	199,222
1991	76,354	127,372	128,915	6,616	133,989	210,343
1992 – Sept.	78,436	124,104	125,064	4,169	128,273	206,709
Oct.	78,736	124,885	126,194	4,152	129,037	207,773
Nov.	79,981	128,722	130,864	6,634	135,356	215,337
Dec.	85,617	127,485	129,927	5,714	133,199	218,816
1993 – Jan.	82,526	130,761	131,989	4,688	135,449	217,975
Feb.	81,201	111,574	112,275	5,072	116,647	197,848
Mar.	81,983	100,469	101,296	4,998	105,467	187,450
Apr.	82,187	103,408	101,466	4,302	107,711	189,897
May	83,203	102,003	102,598	5,175	107,178	190,381
June	81,814	99,609	102,615	5,314	104,922	186,737
July	86,085	99,518	101,472	4,369	103,887	189,972
Aug.	(82,118)	(100,196)	(101,656)	(4,632)	(104,828)	(186,945)
Sept.	(83,530)	(100,263)	(100,067)	(4,464)	(104,727)	(188,257)

Monetary base and BI operations:

(stoks in billions

	MONETARY BASE							
	Currency in circulation	Bank reserves						TOTAL
		Deposits with the Bank of Italy	of which: excess reserves	Cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)	
1990	69,569	125,698	197	4,390	897	130,986	9.6	200,555
1991	77,150	129,111	196	4,719	900	134,730	8.9	211,880
1992 – Sept.	78,452	125,195	132	3,785	210	129,191	4.6	207,642
Oct.	78,823	126,310	105	3,813	586	130,709	3.9	209,532
Nov.	80,691	131,019	139	4,463	900	136,382	6.7	217,073
Dec.	86,231	130,055	127	4,931	511	135,497	4.2	221,729
1993 – Jan.	81,844	132,095	113	4,004	569	136,667	3.1	218,511
Feb.	80,763	112,416	141	3,797	1,137	117,350	4.7	198,113
Mar.	82,482	101,434	133	4,018	1,249	106,701	6.5	189,183
Apr.	82,061	101,599	135	4,162	749	106,510	6.9	188,571
May	82,997	102,731	140	4,337	895	107,963	5.9	190,960
June	82,180	102,828	176	4,450	793	108,071	5.8	190,251
July	84,813	101,597	125	4,405	257	106,259	5.7	191,072
Aug.	83,004	101,783	127	4,259	302	106,345	6.3	189,349
Sept.	83,317	100,229	121	4,268	259	104,756	8.7	188,073

Table 24

averages of daily data

of lire)

Percentage changes (over 12 months)	BI OPERATIONS							
	Temporary operations						Fixed-term advances	TOTAL
	Repurchase agreements			Foreign currency swaps				
	Purchases	Sales	Total	Purchases	Sales	Total		
10.2	1,912	1,052	861	..	–	–	2,127	2,988
9.7	17,018	89	16,929	..	–	–	1,492	18,422
8.1	41,053	..	41,053	..	–	..	17,328	58,381
7.7	51,609	55	51,554	7,233	..	7,233	2,382	61,169
9.2	49,201	220	48,981	17,702	..	17,702	70	66,753
7.1	41,277	206	41,071	26,498	..	26,498	3,725	71,294
6.9	43,410	287	43,123	31,777	..	31,777	862	75,762
7.8	30,718	325	30,393	30,173	..	30,173	..	60,566
9.1	16,239	455	15,784	33,262	..	33,262	..	49,046
8.7	12,410	434	11,976	32,420	..	32,420	..	44,396
8.3	16,581	418	16,164	31,081	..	31,081	44	47,288
7.9	34,511	409	34,102	30,041	..	30,041	298	64,441
7.0	50,016	355	49,660	31,424	..	31,424	375	81,459
7.3	50,208	309	49,899	31,814	..	31,814	81	81,794
7.7	34,215	330	33,885	31,577	..	31,577	366	65,829

Table a25

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET			OPEN MARKET				VARIATIONS IN BI-UIC PORTFOLIO
					of which: repurchase agreements			
	subscriptions	redemptions	net subscriptions		temporary purchases	temporary sales	other	
				Total				
1990	21,141	25,424	–4,283	2,393	2,120	..	179	–1,891
1991	10,252	22,281	–12,028	27,172	18,000	..	–501	15,144
1992	7,152	17,066	–9,914	42,781	20,256	..	–1,950	32,867
1992 – Sept. ...	1,187	1,320	–134	14,350	12,784	..	–313	14,216
Oct.	813	1,049	–236	6,180	954	..	–302	5,944
Nov.	43	472	–428	7,105	5,378	..	–1,290	6,676
Dec.	117	11	106	–7,807	–6,981	..	335	–7,701
1993 – Jan.	133	116	17	7,957	8,767	..	–360	7,973
Feb.	521	36	484	–13,169	–14,021	..	–80	–12,685
Mar.	650	232	418	–21,427	–21,000	..	160	–21,009
Apr.	398	183	215	2,866	2,999	..	–370	3,080
May	18	44	–25	421	3,000	..	180	395
June ...	31	25	6	21,263	22,032	..	590	21,270
July	116	365	–249	7,530	7,465	..	–700	7,281
Aug.	(22)	(25)	(–3)	(–2,198)	2,502	..	530	(–2,201)
Sept. ...	(33)	(196)	(–163)	(–15,147)	–15,748	..	–343	(–15,310)
				of which: **Treasury bills**				
1990	15,750	10,444	5,306	899	1,283	..	–49	6,205
1991	9,000	16,790	–7,790	4,095	375	..	–356	–3,696
1992	5,300	10,834	–5,534	1,251	6,384	..	–1,350	–4,283
1992 – Sept. ...	1,000	961	39	989	1,629	..	–352	1,028
Oct.	..	849	–849	–673	429	..	167	–1,523
Nov.	..	466	–466	776	1,638	..	–1,065	310
Dec.	..	4	–4	–634	2,551	..	315	–638
1993 – Jan.	..	..	..	–3,143	–3,061	..	–265	–3,143
Feb.	500	13	487	–592	–838	..	–50	–105
Mar.	350	..	350	–2,832	–2,551	..	300	–2,482
Apr.	..	167	–167	2,622	2,693	..	–300	2,455
May	..	41	–41	–2,777	–1,975	..	100	–2,817
June ...	..	8	–8	4,595	4,095	..	430	4,587
July	..	..	..	3,506	3,995	..	–500	3,506
Aug.	..	(13)	(–13)	(3,106)	2,854	..	260	(3,093)
Sept. ...	..	..	..	(–7,535)	–7,001	..	–150	(–7,535)

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET			OPEN MARKET				VARIATIONS IN BI-UIC PORTFOLIO
					of which: repurchase agreements			
	subscriptions	redemptions	net subscriptions		temporary purchases	temporary sales	other	
				of which: Treasury credit certificates				
1990	1,229	6,207	–4,979	–9,583	–661	..	148	–14,562
1991	154	4,570	–4,416	3,546	7,614	..	–150	–871
1992	508	1,116	–608	10,168	8,059	..	–500	9,560
1992 – Sept.	78	..	78	4,111	3,870	..	..	4,189
Oct.	130	..	130	1,564	–41	..	–200	1,694
Nov.	11	1	10	3,825	3,598	..	–150	3,835
Dec.	99	2	97	–4,492	–5,206	..	50	–4,395
1993 – Jan.	28	7	20	3,566	4,200	..	–150	3,586
Feb.	9	2	7	–2,534	–2,965	..	..	–2,527
Mar.	7	232	–225	–11,645	–11,283	..	–100	–11,870
Apr.	368	9	359	–2,459	–1,828	..	–50	–2,100
May	6	3	3	634	1,456	..	50	637
June	8	11	–3	9,826	10,168	..	200	9,823
July	5	11	–6	–2,101	–2,096	..	–200	–2,107
Aug.	(7)	(9)	(–2)	(–832)	–605	..	250	(–834)
Sept.	(15)	(7)	(8)	(–7,125)	–7,915	..	–220	(–7,117)
				of which: Treasury bonds				
1990	3,318	7,652	–4,334	8,222	63	..	80	3,889
1991	449	75	374	16,477	7,785	..	–140	16,850
1992	1,171	4,689	–3,518	27,742	3,026	..	45	24,223
1992 – Sept.	109	359	–250	7,811	5,560	..	90	7,561
Oct.	546	200	346	4,509	–292	..	–270	4,855
Nov.	32	..	32	3,672	1,423	..	–25	3,704
Dec.	17	..	17	–2,013	–3,663	..	20	–1,996
1993 – Jan.	105	..	105	6,175	6,461	..	–45	6,280
Feb.	10	16	–6	–7,503	–7,626	..	20	–7,509
Mar.	292	..	292	–3,392	–3,856	..	–40	–3,099
Apr.	12	..	12	1,565	904	..	–20	1,577
May	12	..	12	1,735	2,558	..	80	1,747
June	22	..	22	5,324	6,334	..	–40	5,346
July	80	11	69	5,447	5,091	..	..	5,516
Aug.	(15)	(3)	(12)	(–5,176)	152	..	20	(–5,164)
Sept.	(18)	(185)	(–167)	(–443)	51	..	27	(–610)

Table a26

Treasury bill auctions

	MATURING BILLS			Bills offered	Maturity (days)	Market demand	BILLS ALLOTTED AT AUCTION			Price	YIELDS	
	market	BI	total				market	BI	total		after-tax	gross
						3-month						
1992 – end-Sept.	13,500	..	13,500	18,000	91	18,266	18,000	..	18,000	95.91	15.74	18.23
mid-Oct.	5,500	..	5,500	8,500	92	12,015	8,500	..	8,500	95.97	15.31	17.73
end- "	13,500	..	13,500	17,000	91	23,408	17,000	..	17,000	96.70	12.47	14.41
mid-Nov.	6,472	10	6,482	8,500	88	10,609	8,500	..	8,500	96.58	13.43	15,53
end- "	12,985	32	13,017	15,000	88	16,877	15,000	..	15,000	96.63	13.22	15.28
mid-Dec.	5,750	..	5,750	8,000	90	9,630	8,000	..	8,000	96.53	13.32	15.40
end- "	18,000	..	18,000	19,000	90	22,711	19,000	..	19,000	96.81	12.17	14.05
1993 – mid-Jan.	8,500	..	8,500	8,500	90	10,521	8,500	..	8,500	97.04	11.23	12.96
end- "	17,000	..	17,000	17,000	91	18,499	17,000	..	17,000	97.15	10.66	12.30
mid-Feb.	8,500	..	8,500	8,250	91	10,678	8,250	..	8,250	97.22	10.38	11.97
end- "	15,000	..	15,000	14,500	94	17,228	14,500	..	14,500	97.09	10.53	12.15
mid-Mar.	8,000	..	8,000	8,500	92	9,866	8,500	..	8,500	97.12	10.66	12.29
end- "	19,000	..	19,000	19,500	92	24,466	19,500	..	19,500	97.05	10.93	12.61
mid-Apr.	8,500	..	8,500	9,000	91	11,219	9,000	..	9,000	97.07	10.98	12.67
end- "	16,855	145	17,000	18,000	91	19,785	18,000	..	18,000	97.19	10.50	12.11
mid-May	8,220	30	8,250	8,750	94	9,985	8,750	..	8,750	97.14	10.34	11.93
end- "	14,490	10	14,500	14,000	91	16,829	14,000	..	14,000	97.38	9.75	11.24
mid-June	8,500	..	8,500	8,000	92	8,973	8,000	..	8,000	97.42	9.48	10.93
end- "	19,500	..	19,500	17,500	92	19,310	17,500	..	17,500	97.52	9.09	10.48
mid-July	9,000	..	9,000	6,000	92	7,559	6,000	..	6,000	97.85	7.83	9.01
end- "	18,000	..	18,000	15,000	91	16,250	15,000	..	15,000	97.60	8.89	10.23
mid-Aug.	8,750	..	8,750	5,000	91	7,501	5,000	..	5,000	97.95	7.53	8.66
end- "	14,000	..	14,000	11,500	92	12,011	11,500	..	11,500	97.76	8.17	9.40
mid-Sept	8,000	..	8,000	5,000	91	6,428	5,000	..	5,000	97.89	7.76	8.93
end- "	17,500	..	17,500	14,000	91	15,230	14,000	..	14,000	97.91	7.68	8.84
mid-Oct.	6,000	..	6,000	4,000	91	5,719	4,000	..	4,000	97.94	7.57	8.71
						6-month						
1992 – end-Sept.	14,000	..	14,000	15,000	181	15,285	14,500	500	15,000	91.83	16.13	18.75
mid-Oct.	6,320	180	6,500	7,500	182	10,204	7,500	..	7,500	91.89	15.91	18.49
end- "	15,740	260	16,000	17,500	182	22,267	17,500	..	17,500	93.21	13.07	15.14
mid-Nov.	5,615	135	5,750	6,500	179	8,391	6,500	..	6,500	93.25	13.22	15.32
end- "	13,212	38	13,250	15,000	182	15,735	15,000	..	15,000	93.19	13.11	15.19
mid-Dec.	4,000	..	4,000	5,250	182	7,106	5,250	..	5,250	93.13	13.24	15.34
end- "	13,936	4	13,940	14,500	182	20,658	14,500	..	14,500	93.68	12.09	13.99
1993 – mid-Jan.	5,000	..	5,000	5,750	181	9,771	5,750	..	5,750	94.26	10.95	12.66
end- "	13,000	..	13,000	14,500	182	16,684	14,500	..	14,500	94.63	10.13	11.71
mid-Feb.	6,737	13	6,750	7,750	185	8,845	7,750	..	7,750	94.47	10.28	11.88
end- "	14,617	..	14,617	15,750	185	16,397	15,750	..	15,750	94.34	10.54	12.18
mid-Mar.	5,354	..	5,354	6,000	184	7,146	6,000	..	6,000	94.40	10.48	12.11
end- "	15,000	..	15,000	16,000	184	16,100	15,750	250	16,000	94.25	10.78	12.47
mid-Apr.	7,500	..	7,500	8,000	183	8,255	8,000	..	8,000	94.14	11.07	12.80
end- "	17,500	..	17,500	18,000	182	20,083	18,000	..	18,000	94.33	10.74	12.42
mid-May	6,500	..	6,500	6,750	185	10,742	6,750	..	6,750	94.41	10.40	12.02
end- "	15,000	..	15,000	16,000	183	17,880	16,000	..	16,000	94.87	9.59	11.08
mid-June	5,250	..	5,250	5,500	183	7,074	5,500	..	5,500	95.02	9.29	10.73
end- "	14,500	..	14,500	15,000	183	17,348	15,000	..	15,000	95.31	8,72	10.05
mid-July	5,750	..	5,750	6,000	183	6,377	6,000	..	6,000	95.50	8.34	9.62
end- "	14,500	..	14,500	14,500	185	15,121	14,500	..	14,500	95.25	8.74	10.08
mid-Aug.	7,737	13	7,750	7,000	182	7,048	7,000	..	7,000	95.55	8.29	9.56
end- "	15,750	..	15,750	15,000	182	16,748	15,000	..	15,000	95.37	8.65	9.97
mid-Sept.	6,000	..	6,000	5,500	181	8,681	5,500	..	5,500	95.50	8.44	9.73
end- "	16,000	..	16,000	14,000	181	17,195	14,000	..	14,000	95.92	7.61	8.76
mid-Oct.	8,000	..	8,000	6,000	182	5,896	5,896	..	5,896	96.04	7.33	8.44

Table a26 cont.

Treasury bill auctions

	MATURING BILLS			Bills offered	Maturity (days)	Market demand	BILLS ALLOTTED AT AUCTION			Price	YIELDS	
	market	BI	total				market	BI	total		after-tax	gross
						12-month						
1992 – end-Sept.	10,259	741	11,000	10,000	365	9,921	9,500	500	10,000	85.30	14.76	17.23
mid-Oct.	3,601	149	3,750	4,000	365	5,566	4,000	..	4,000	84.90	15.22	17.79
end- "	12,240	260	12,500	12,500	364	16,886	12,500	..	12,500	86.75	13.15	15.32
mid-Nov.	3,921	79	4,000	5,000	364	7,707	5,000	..	5,000	86.60	13.32	15.52
end- "	9,657	172	9,829	11,000	365	13,500	11,000	..	11,000	86.70	13.17	15.34
mid-Dec.	2,500	..	2,500	3,250	365	7,943	3,250	..	3,250	86.85	13.00	15.14
end- "	11,750	..	11,750	12,500	365	16,089	12,500	..	12,500	87.85	11.90	13.83
1993 – mid-Jan.	4,750	..	4,750	5,750	364	8,928	5,750	..	5,750	88.50	11.22	13.03
end- "	14,000	..	14,000	15,500	367	16,989	15,500	..	15,500	88.90	10.70	12.42
mid-Feb.	5,500	..	5,500	6,000	367	7,531	6,000	..	6,000	89.40	10.17	11.79
end- "	14,500	..	14,500	15,750	367	14,744	14,552	500	15,052	89.20	10.38	12.04
mid-Mar.	5,000	..	5,000	5,000	365	6,021	4,900	100	5,000	89.20	10.44	12.11
end- "	13,000	..	13,000	14,000	365	15,807	14,000	..	14,000	88.65	11.03	12.80
mid-Apr.	3,978	22	4,000	4,500	365	6,639	4,500	..	4,500	88.60	11.08	12.87
end- "	11,000	..	11,000	12,000	364	14,322	12,000	..	12,000	89.05	10.63	12.33
mid-May	4,499	1	4,500	5,000	367	8,484	5,000	..	5,000	89.25	10.33	11.98
end- "	9,250	..	9,250	10,500	365	12,875	10,500	..	10,500	89.70	9.91	11.48
mid-June	3,250	..	3,250	4,000	365	8,843	4,000	..	4,000	90.05	9.54	11.05
end- "	8,992	8	9,000	10,500	365	13,616	10,500	..	10,500	90.65	8.91	10.31
mid-July	2,500	..	2,500	5,000	365	6,637	5,000	..	5,000	90.95	8.60	9.95
end- "	10,956	..	10,956	13,500	364	16,434	13,500	..	13,500	90.50	9.09	10.53
mid-Aug.	3,000	..	3,000	6,000	365	10,917	6,000	..	6,000	90.90	8.65	10.01
end- "	10,100	..	10,100	12,000	366	20,277	12,000	..	12,000	90.85	8.68	10.04
mid-Sept.	3,338	..	3,338	6,000	365	18,180	6,000	..	6,000	91.20	8.34	9.65
end- "	10,000	..	10,000	14,000	365	20,412	14,000	..	14,000	91.50	8.04	9.29
mid-Oct.	3,999	1	4,000	7,000	364	11,105	7,000	..	7,000	91.70	7.85	9.08
						Total						
1992 – end-Sept.	37,759	741	38,500	43,000	–	43,472	42,000	1,000	43,000	–	15.65	18.18
mid-Oct.	15,421	329	15,750	20,000	–	27,786	20,000	..	20,000	–	15.52	18.03
end- "	41,480	520	42,000	47,000	–	62,561	47,000	..	47,000	–	12.87	14.92
mid-Nov.	16,008	224	16,232	20,000	–	26,706	20,000	..	20,000	–	13.33	15.46
end- "	35,854	242	36,096	41,000	–	46,111	41,000	..	41,000	–	13.17	15.26
mid-Dec.	12,250	..	12,250	16,500	–	24,678	16,500	..	16,500	–	13.23	15.33
end- "	43,686	4	43,690	46,000	–	59,458	46,000	..	46,000	–	12.07	13.97
1993 – mid-Jan.	18,250	..	18,250	20,000	–	29,220	20,000	..	20,000	–	11.15	12.89
end- "	44,000	..	44,000	47,000	–	52,172	47,000	..	47,000	–	10.51	12.16
mid-Feb.	20,737	13	20,750	22,000	–	27,054	22,000	..	22,000	–	10.29	11.89
end- "	44,117	..	44,117	46,000	–	48,368	44,802	500	45,302	–	10.48	12.12
mid-Mar.	18,354	..	18,354	19,500	–	23,033	19,400	100	19,500	–	10.55	12.19
end- "	47,000	..	47,000	49,500	–	56,373	49,250	250	49,500	–	10.91	12.62
mid-Apr.	19,978	22	20,000	21,500	–	26,114	21,500	..	21,500	–	11.03	12.76
end- "	45,355	145	45,500	48,000	–	54,190	48,000	..	48,000	–	10.62	12.28
mid-May	19,219	31	19,250	20,500	–	29,211	20,500	..	20,500	–	10.36	11.97
end- "	38,740	10	38,750	40,500	–	47,584	40,500	..	40,500	–	9.73	11.24
mid-June	17,000	..	17,000	17,500	–	24,889	17,500	..	17,500	–	9.43	10.89
end- "	42,992	8	43,000	43,000	–	50,274	43,000	..	43,000	–	8.92	10.29
mid-July	17,250	..	17,250	17,000	–	20,574	17,000	..	17,000	–	8.24	9.50
end- "	43,456	..	43,456	43,000	–	47,805	43,000	..	43,000	–	8.90	10.27
mid-Aug.	19,487	13	19,500	18,000	–	25,465	18,000	..	18,000	–	8.20	9.46
end- "	39,850	..	39,850	38,500	–	49,036	38,500	..	38,500	–	8.52	9.82
mid-Sept.	17,338	..	17,338	16,500	–	33,289	16,500	..	16,500	–	8.20	9.46
end- "	43,500	..	43,500	42,000	–	52,837	42,000	..	42,000	–	7.78	8.96
mid-Oct.	17,999	1	18,000	17,000	–	22,721	16,896	..	16,896	–	7.60	8.77

Table a27

Bank of Italy repurchase agreements

DAY OF AUCTION	AMOUNT		MATURITY (DAYS)		YIELDS	
	offered	taken up	minimum	maximum	marginal	weighted average
1993 – June 17	3,000	3,000	27	27	10.20	10.20
1993 – June 21	5,000	5,000	30	30	10.05	10.13
1993 – June 22	7,000	7,000	8	8	9.95	10.03
1993 – June 23	8,000	8,000	9	9	9.90	9.92
1993 – June 24	12,000	8,260	21	22	9.50	9.79
1993 – June 25	13,000	13,000	4	24	9.90	10.12
1993 – June 28	7,000	7,000	2	21	9.95	10.04
1993 – June 30	8,500	8,500	1	15	9.75	9.89
1993 – July 2	8,000	8,000	5	17	9.50	9.55
1993 – July 5	13,000	13,000	2	17	9.30	9.38
1993 – July 6	5,000	5,000	26	27	9.05	9.10
1993 – July 7	5,000	5,000	26	27	9.00	9.04
1993 – July 9	5,500	5,500	26	26	9.15	9.24
1993 – July 12	6,500	6,500	18	18	9.20	9.25
1993 – July 16	8,000	8,000	27	27	9.30	9.34
1993 – July 21	5,000	5,000	27	27	9.60	9.66
1993 – July 23	12,000	12,000	16	16	9.75	9.95
1993 – July 26	12,000	12,000	11	11	9.55	9.68
1993 – Aug. 3	7,000	7,000	17	17	9.70	9.78
1993 – Aug. 4	8,500	8,500	19	19	9.40	9.60
1993 – Aug. 5	5,500	5,500	20	20	9,45	9.49
1993 – Aug. 6	10,500	10,500	20	20	9.50	9.58
1993 – Aug. 9	5,000	5,000	17	18	9.45	9.54
1993 – Aug. 10	4,000	4,000	19	20	9.50	9.59
1993 – Aug. 11	8,500	8,500	20	20	9.35	9.47
1993 – Aug. 12	5,750	5,750	12	12	9.40	9.48
1993 – Aug. 20	5,000	5,000	21	24	9.65	9.70
1993 – Aug. 23	9,000	9,000	29	30	9.45	9.59
1993 – Aug. 24	8,500	8,500	26	27	9.30	9.40
1993 – Aug. 25	12,500	12,500	15	16	9.15	9.28
1993 – Aug. 26	11,000	11,000	5	6	9.25	9.37
1993 – Aug. 27	4,000	4,000	12	12	9.45	9.48
1993 – Aug. 31	5,000	5,000	15	15	9.20	9.25
1993 – Sept. 8	3,000	3,000	16	16	9.30	9.38
1993 – Sept. 10	9,500	9,500	11	11	8.90	8.97
1993 – Sept. 13	5,250	5,250	18	18	8.90	9.00
1993 – Sept. 17	4,000	4,000	13	13	9.05	9.09
1993 – Sept. 20	6,000	6,000	22	22	9.00	9.08
1993 – Sept. 21	8,000	8,000	30	30	8,90	8.94
1993 – Sept. 22	7,000	7,000	27	27	8,85	8.93
1993 – Sept. 24	6,000	6,000	14	14	8.90	8.96
1993 – Sept. 27	7,000	7,000	4	4	8.90	8.95
1993 – Oct. 4	4,000	4,000	11	11	8.85	8.96
1993 – Oct. 8	3,000	3,000	21	21	9.10	9.13
1993 – Oct. 11	4,000	4,000	22	22	9.15	9.21
1993 – Oct. 12	7,000	7,000	3	3	9.60	9.63
1993 – Oct. 15	4,000	4,000	31	31	8.90	8.98
1993 – Oct. 18	4,000	4,000	29	29	8.90	8.95
1993 – Oct. 19	7,000	7,000	10	10	9.10	9.12
1993 – Oct. 21	8,500	8,500	20	20	9.10	9.15

Table a28

Bank of Italy financing of purchases at Treasury bill auctions

(billions of lire)

DATE OF AUCTION	Maximum amount	Actual amount	Maturity (days)
1991 – Nov. 29	7,645	287	7
1991 – Dec. 16	2,884	..	8
1991 – Dec. 31	9,553	1,665	7
1992 – Jan. 15	4,653	..	5
1992 – Jan. 30	11,016	649	4
1992 – Feb. 14	5,074	798	7
1992 – Feb. 28	10,649	942	4
1992 – Mar. 16	4,585	565	1
1992 – Mar. 31	11,027	695	8
1992 – Apr. 15	4,414	..	6
1992 – Apr. 29	9,226	100	7
1992 – May 15	4,575	..	7
1992 – May 29	8,776	..	6
1992 – June 15	3,214	379	4
1992 – June 29	8,936	1,555	4
1992 – July 15	4,099	380	6
1992 – July 30	9,552	40	8
1992 – Aug. 14	4,628	405	4
1992 – Aug. 31	7,849	1,250	11
1992 – Sept. 15	9,801	..	2
1992 – Sept. 30	9,936	892	29
1992 – Oct. 15	6,067	..	4
1992 – Oct. 30	14,579	1,065	13
1992 – Nov. 16	5,212	..	10
1992 – Nov. 30	10,819	..	14
1992 – Dec. 15	4,806	..	6
1992 – Dec. 30	15,076	315	15
1993 – Jan. 15	7,043	..	4
1993 – Jan. 29	13,902	50	7
1993 – Feb. 12	6,331	1,309	3
1993 – Feb. 26	11,617	..	5
1993 – Mar. 15	5,056	..	1
1993 – Mar. 30	12,967	..	3
1993 – Apr. 14	6,729	..	8
1993 – Apr. 30	13,043	..	6
1993 – May 14	6,239	..	4
1993 – May 31	10,919	100	4
1993 – June 14	5,165	..	4
1993 – June 30	12,164	530	2
1993 – July 15	5,417	30	4
1993 – July 30	11,167	30	4
1993 – Aug. 16	5,565	..	18
1993 – Aug. 30	10,278	590	4
1993 – Sept. 15	5,374	0	5
1993 – Sept. 30	11,512	140	4
1993 – Oct. 15	4,494	205	3

Table a29

Bank of Italy foreign currency swaps

DATE OF AUCTION	AMOUNT offered	AMOUNT taken up	MATURITY IN DAYS	SPOT EXCHANGE RATE	FORWARD POINTS marginal	FORWARD POINTS weighted average	YIELD marginal	YIELD weighted average
				Purchases of dollars				
1993– Mar. 11 ...	3,000	3,000	31	1,610.00	11.17	11.22	11.27	11.30
1993– Mar. 12 ...	3,000	3,000	62	1,607.00	21.52	21.57	11.01	11.02
1993– Mar. 18 ...	4,000	4,000	92	1,610.00	30.93	31.08	10.83	10.87
1993– Apr. 8 ...	5,000	5,000	30	1,580.50	10.31	10.35	11.04	11.07
1993– Apr. 13 ...	2,500	2,500	32	1,553.50	10.71	10.73	10.97	10.98
1993– Apr. 29 ...	3,000	3,000	31	1,471.00	9.69	9.75	10.80	10.84
1993– May 11 ...	5,000	5,000	32	1,481.50	10.16	10.20	10.86	10.90
1993– May 13 ...	5,500	5,500	31	1,484.00	9.62	9.67	10.67	10.71
1993– June 1 ...	3,000	3,000	33	1,470.00	9.81	9.84	10.55	10.57
1993– June 10 ...	5,000	5,000	30	1,490.00	8.57	8.62	10.17	10.21
1993– June 15 ...	5,000	5,000	32	1,477.50	8.81	8.85	9.91	9.94
1993– June 18 ...	4,000	4,000	30	1,525.00	8.47	8.49	9.94	9.95
1993– July 1 ...	3,000	3,000	31	1,546.75	8.66	8.69	9.71	9.73
1993– July 12 ...	5,000	5,000	62	1,593.50	16.65	16.78	9.35	9.40
1993– July 15 ...	5,000	5,000	31	1,594.00	8.24	8.28	9.21	9.23
1993– July 20 ...	4,000	4,000	62	1,586.00	16.51	16.55	9.27	9.28
1993– Aug. 4 ...	3,000	3,000	61	1,597.50	15.36	15.40	8.96	8.97
1993– Aug. 17 ...	5,000	5,000	61	1,604.00	16.25	16.33	9.26	9.29
1993– Sept. 10 ...	5,000	5,000	62	1,542.50	15.10	15.17	8.90	8.93
1993– Sept. 20 ...	4,000	4,000	61	1,562.00	15.26	15.28	8.98	8.99
1993– Oct. 4	3,000	3,000	61	1,595.00	14.73	14.77	8.67	8.68
1993– Oct. 15	5,000	5,000	62	1,593.50	14.67	14.71	8.56	8.58
				Purchases of Deutschemarks				
1992– Nov. 6 ...	2,000	2,000	14	857.50	1.85	1.87	14.57	14.61
1992– Nov. 20 ...	4,000	4,000	7	863.00	0.77	0.78	13.47	1356
1992– Nov. 27 ...	4,000	4,000	14	873.00	1.26	1.28	12.66	12.71
1992– Dec. 11 ...	4,000	4,000	31	888.00	2.87	2.99	12.91	13.07
1993– Jan. 13 ...	4,000	4,000	14	925.00	1.38	1.40	12.47	12.54
1993– Jan. 27 ...	4,000	4,000	14	920.00	1.01	1.04	11.58	11.66
1993– Feb. 10 ...	4,000	4,000	28	926.50	1.72	1.74	11.03	11.06
1993– Mar. 10 ...	5,000	5,000	14	967.50	1.02	1.06	11.22	11.34
1993– Mar. 24 ...	5,000	5,000	31	968.75	2.18	2.21	11.20	11.23
1993– Apr. 22 ...	5,000	5,000	30	955.50	2.32	2.36	11.12	11.17
1993– May 24 ...	5,000	5,000	33	908.00	2.11	2.15	10.37	10.41
1993– June 24 ...	5,000	5,000	30	901.25	1.33	1.37	9.66	9.71
1993– July 26 ...	5,000	5,000	33	934.00	2.38	2.43	9.80	9.86
1993– Aug. 26 ...	5,000	5,000	31	947.50	1.96	2.00	9.29	9.34
1993– Sept. 28 ...	5,000	5,000	29	966.00	1.32	1.34	8.64	8.67

Official rates

	Discount	Ordinary advances (base) (a)	Premium (b)	Fixed-term advances (a) + (b)
1991 – May 13	11.50	11.50	..	11.50
Nov. 26	11.50	11.50	0.50	12.00
Dec. 23	12.00	12.00	0.50	12.50
1992 – June 5	12.00	12.00	1.00	13.00
July 6	13.00	13.00	1.50	14.50
July 17	13.75	13.75	1.50	15.25
Aug. 4	13.25	13.25	1.50	14.75
Sept. 4	15.00	15.00	1.50	16.50
Oct. 9	15.00	15.00	1.00	16.00
Oct. 26	14.00	14.00	1.00	15.00
Nov. 13	13.00	13.00	1.00	14.00
Dec. 23	12.00	12.00	1.00	13.00
1993 – Feb. 4	11.50	11.50	1.00	12.50
Apr. 23	11.00	11.00	1.00	12.00
May 21	10.50	10.50	1.00	11.50
June 14	10.00	10.00	1.00	11.00
July 6	9.00	9.00	1.00	10.00
Sept. 10	8.50	8.50	1.00	9.50
Oct. 22	8.00	8.00	1.00	9.00

	BI OPERATIONS					
	Discount	Fixed-term advances	Foreign currency swaps			
			Purchases		Sales	
			minimum	average	maximum	average
1990	12.50	13.49	–	–	–	–
1991	12.00	12.04	–	–	–	–
1992	12.00	13.00	13.80	13.89	–	–
1992 – Sept.	15.00	16.50	–	–	–	–
Oct.	14.00	15.00	14.24	14.28	–	–
Nov.	13.00	14.00	13.84	13.92	–	–
Dec.	12.00	13.00	13.33	13.47	–	–
1993 – Jan.	12.00	13.00	12.29	12.35	–	–
Feb.	11.50	12.50	11.11	11.14	–	–
Mar.	11.50	12.50	11.09	11.13	–	–
Apr.	11.00	12.00	10.98	11.02	–	–
May	10.50	11.50	10.63	10.67	–	–
June	10.00	11.00	10.05	10.08	–	–
July	9.00	10.00	9.47	9.50	–	–
Aug.	9.00	10.00	9.17	9.20	–	–
Sept.	8.50	9.50	8.84	8.86	–	–

rates

Table a31

Repurchase agreements				TREASURY BILLS			
Purchases		Sales		3-month	6-month	12-month	Average
minimum	average	maximum	average				
11.52	11.90	11.29	11.02	12.28	12.33	12.53	12.38
10.76	10.89	13.69	13.21	12.66	12.53	12.39	12.54
13.42	13.57	–	–	14.48	14.38	14.02	14.32
17.49	18.06	–	–	18.05	18.52	17.02	17.98
14.44	14.58	–	–	15.52	16.15	15.92	15.85
12.80	12.92	–	–	15.37	15.23	15.40	15.33
12.21	12.33	–	–	14.45	14.35	14.10	14.33
12.06	12.14	–	–	12.52	11.98	12.59	12.38
11.23	11.31	–	–	12.08	12.08	11.97	12.05
11.23	11.27	–	–	12.51	12.37	12.62	12.50
11.13	11.18	–	–	12.30	12.54	12.48	12.43
10.75	10.78	–	–	11.51	11.36	11.64	11.49
10.08	10.18	–	–	10.62	10.23	10.51	10.46
9.34	9.42	–	–	9.88	9.95	10.37	10.05
9.41	9.51	–	–	9.18	9.84	10.03	9.71
8.97	9.03	–	–	8.86	9.03	9.40	9.10

Table a32

Short-term bank interest rates

	Interbank operations					Customer operations						ABI prime rate
	Sight deposits	Over-night	1-month	3-month	3-month Eurolira	Deposits		Certificates of deposit		Loans		
						maximum	average	6-month	12-month	minimum	average	
1989	12.76	13.39	....	....	12.69	9.93	7.02	10.75	10.54	12.99	14.18	14.00
1990	12.40	14.52	14.39	13.72	12.35	9.67	6.73	10.50	10.59	12.37	13.77	13.00
1991	12.25	12.30	13.10	12.92	12.28	9.67	6.67	10.46	10.29	12.12	13.83	13.00
1992 – Sept. ...	20.21	22.12	20.77	18.22	16.98	11.46	7.33	12.05	11.16	15.50	17.87	17.00
Oct.	16.35	15.51	15.71	15.58	14.85	11.95	7.61	12.82	11.67	15.70	18.56	16.25
Nov.	14.32	13.87	14.39	14.50	14.15	11.90	7.57	12.53	11.56	14.81	17.90	14.75
Dec.	13.58	12.72	13.94	13.85	13.59	11.56	7.41	12.26	11.47	14.20	16.92	14.00
1993 – Jan.	13.30	12.68	12.65	12.67	12.40	11.09	7.17	11.82	11.16	13.38	16.22	13.63
Feb.	12.34	11.58	11.50	11.50	11.21	10.54	6.90	11.13	10.69	12.70	15.64	12.75
Mar.	11.85	11.31	11.32	11.35	11.07	10.30	6.85	10.73	10.43	12.26	15.02	12.63
Apr.	11.78	11.29	11.37	11.45	11.16	10.15	6.87	10.50	10.26	12.10	14.67	12.38
May	11.33	10.80	10.82	10.81	10.53	9.68	6.58	10.08	9.99	11.74	14.36	11.88
June ...	10.81	10.37	10.27	10.25	9.96	9.27	6.30	9.57	9.52	11.31	13.93	11.63
July	9.99	9.48	9.63	9.54	9.27	8.71	5.83	8.75	8.88	10.73	13.56	10.88
Aug.	10.11	9.83	9.62	9.33	9.10	8.48	5.59	8.26	8.22	10.44	13.18	10.88
Sept. ...	(9.46)	9.06	9.14	9.11	8.93	(8.33)	(5.52)	(8.09)	(8.05)	(10.10)	(12.90)	10.38

Table a33

Principal assets and liabilities of banks

(billions of lire)

	ASSETS										
		Loans		Securities							
					of which:						
	Bank reserves	in lire	in foreign currency		Treasury bills	other government securities	Shares and equity interests	Bad debts	Interbank accounts	Accounts with special credit institutions	Interest-bearing external assets
1989	116,814	374,248	52,935	200,395	22,171	112,658	19,599	26,166	104,171	10,420	100,608
1990	128,781	437,406	58,516	191,051	24,857	107,934	21,484	28,267	82,414	9,327	103,099
1991	132,952	500,199	69,494	196,776	27,603	115,100	32,120	32,613	82,428	10,890	106,560
1992 – Sept. .	127,090	504,077	102,864	195,573	17,438	127,009	35,799	36,603	95,439	14,486	111,722
Oct. . .	127,803	501,543	102,757	182,977	13,929	121,704	35,736	37,288	97,945	15,355	112,239
Nov. . .	134,163	495,199	112,085	175,377	14,810	113,520	36,382	37,966	112,832	15,465	116,947
Dec. . .	132,003	521,645	116,162	211,778	19,460	139,295	36,290	37,428	136,214	19,107	122,534
1993 – Jan. . .	134,284	519,930	116,848	169,150	13,554	113,892	35,831	38,390	108,931	17,594	106,936
Feb. . .	115,818	514,853	123,005	184,951	19,876	125,859	35,932	39,046	112,654	17,373	124,878
Mar. . .	104,523	512,156	122,239	213,866	24,254	146,838	35,786	39,916	114,872	17,224	127,440
Apr. . .	106,847	522,490	110,913	214,360	26,829	147,029	36,221	40,824	111,951	18,712	117,622
May . .	106,341	515,771	105,908	213,613	31,819	141,785	36,083	42,011	115,332	19,377	119,494
June .	104,019	532,070	103,743	213,732	35,867	133,151	35,431	42,325	121,027	19,799	128,677
July . .	103,025	539,698	103,751	197,208	29,378	130,122	35,672	43,231	112,377	17,755	129,237
Aug. . .	104,031	528,455	101,485	194,704	29,030	129,808	35,699	44,235	119,797	18,479	145,164
Sept. .	103,928	(521,155)	(99,785)	(226,704)	(42,530)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

	LIABILITIES										
	Deposits										
		of which:									
		current accounts	CDs	Residents' foreign currency accounts	Funds managed for public bodies	Loans from BI-UIC	Interbank accounts	Accounts with special credit institutions	Capital and reserves	Interest-bearing external liabilities	Other items
1989	625,348	358,420	86,093	2,908	1,534	6,298	119,609	6,337	87,468	152,955	2,899
1990	686,279	390,416	119,397	4,097	1,724	7,563	89,751	7,141	95,695	158,081	10,014
1991	748,800	435,469	153,493	5,203	1,821	8,826	88,022	7,780	126,499	187,942	–10,861
1992 – Sept. .	709,697	386,920	183,576	12,691	1,635	26,045	101,633	6,482	152,020	233,944	–20,493
Oct. . .	712,324	380,642	193,368	11,895	1,627	9,672	102,326	5,505	152,671	232,954	–15,330
Nov. . .	708,830	373,925	197,178	11,502	1,624	1,919	116,638	5,980	153,333	238,390	–21,801
Dec. . .	775,946	431,273	200,998	11,274	1,613	8,870	141,228	7,486	153,592	253,805	–20,653
1993 – Jan. . .	735,944	391,040	203,703	12,930	1,595	1,899	113,503	7,634	166,020	238,441	–30,072
Feb. . .	737,997	389,197	209,844	13,086	1,660	1,921	119,642	7,598	165,299	248,783	–27,475
Mar. . .	749,119	395,369	217,654	13,574	1,654	1,963	121,195	6,970	163,596	255,708	–25,758
Apr. . .	754,075	396,970	221,352	12,921	1,623	1,907	118,137	6,641	161,176	233,806	–10,346
May . .	757,315	399,291	223,850	12,379	1,587	1,846	122,596	6,143	161,683	229,115	–18,734
June .	764,930	407,106	224,696	12,116	1,548	1,822	128,627	8,177	162,082	232,122	–10,602
July . .	750,307	391,310	226,307	12,175	1,570	2,439	108,992	7,471	162,925	232,931	3,145
Aug. . .	754,674	394,606	228,477	13,350	1,538	1,836	115,289	6,134	162,986	237,880	–1,638
Sept. .	(771,974)	409,106	230,177	. . . .	. . . .	1,877	. . . .	. . . .	. . . .	. . . .	. . . .

Table a34

Principal assets and liabilities of the special credit institutions

(billions of lire)

	ASSETS							
	Cash and liquid assets	Loans		Securities	Shares and equity interests	Foreign assets		
		domestic	on behalf of the Treasury			buyer credit	loans to non-residents	other
1989	5,099	234,853	2,791	13,875	4,481	4,344	1,280	4,056
1990	5,504	273,241	1,708	15,909	4,867	5,476	1,311	3,857
1991	7,362	310,195	963	15,779	5,426	6,097	1,903	4,769
1992 – Aug.	6,370	331,080	474	18,079	4,820	6,370	1,948	4,228
Sept.	6,232	333,338	474	16,274	5,102	6,990	2,120	7,018
Oct.	5,101	334,959	474	15,440	5,101	7,190	2,181	6,757
Nov.	5,300	337,099	474	14,917	5,101	7,535	2,268	6,325
Dec.	5,921	342,757	458	14,793	5,076	7,879	2,506	7,855
1993 – Jan.	5,505	344,212	318	15,025	4,997	8,256	2,214	7,770
Feb.	6,565	347,081	318	16,519	4,995	8,802	2,303	7,135
Mar.	6,982	350,628	318	18,522	5,115	8,824	2,315	8,969
Apr.	6,417	352,801	318	19,994	5,115	8,505	2,162	9,442
May	6,239	355,646	318	19,854	5,050	8,396	2,127	9,585
June	7,281	354,172	159	16,411	4,912	8,460	2,008	8,942
July	8,599	358,939	159	20,268	4,912	9,125	2,074	8,211
Aug.	6,491	363,816	159	18,057	4,912	9,244	2,090	8,076

	LIABILITIES								
	Bonds		Certificates of deposit	Short-term financing	Public funds	*Mediocredito centrale*	Capital and reserves	Foreign liabilities	Other items
	ordinary	on behalf of the Treasury							
1989	129,578	2,863	52,804	8,016	4,362	4,237	28,365	52,530	–11,975
1990	135,790	1,759	64,836	8,478	3,712	4,149	30,867	73,944	–11,662
1991	153,053	976	72,505	7,601	3,618	4,103	35,999	91,330	–16,693
1992 – Aug.	162,299	516	75,306	7,673	3,389	4,342	36,256	99,418	–15,831
Sept.	162,558	498	74,236	8,584	2,982	4,173	35,990	104,627	–16,101
Oct.	162,449	484	74,247	9,517	2,934	4,198	35,990	104,997	–17,613
Nov.	164,176	483	74,740	9,936	2,904	4,209	35,990	106,709	–20,129
Dec.	166,223	483	77,145	10,606	2,461	4,180	36,401	112,866	–23,120
1993 – Jan.	166,177	340	78,352	10,970	2,505	4,276	36,401	112,529	–23,254
Feb.	167,948	332	80,976	10,289	2,526	4,317	36,401	115,965	–25,034
Mar.	169,943	330	82,032	10,205	3,081	4,123	37,712	118,481	–24,234
Apr.	171,744	330	82,283	10,938	3,042	4,349	37,712	116,999	–22,642
May	172,856	330	82,689	11,465	3,209	4,206	37,712	117,451	–22,703
June	174,832	330	82,905	12,530	3,517	4,213	38,346	115,516	–29,844
July	176,856	191	82,890	11,278	3,680	4,242	38,346	118,103	–23,298
Aug.	178,668	179	81,806	11,954	3,647	4,252	38,346	118,950	–24,956

Table a35

Loans by branch of economic activity

(billions of lire; percentage changes)

July 1993

	BANKS				SPECIAL CREDIT INSTITUTIONS			
	Enterprises		Producer households		Enterprises		Producer households	
	out-standing	12-month % change	out-standing	12-month % change	out-standing	12-month % change	out-standing	12-month % change
Agricultural, forestry and fishery products	10,062	7.5	7,161	7.3	7,682	1.0	5,525	0.6
Energy products	8,639	18.5	67	15.5	11,802	29.6	14	7.7
Ferrous and non-ferrous ores and metals	7,179	5.0	322	–0.9	3,431	2.0	36	24.1
Non-metallic mineral products	10,772	7.9	1,925	5.0	4,738	–1.1	239	7.2
Chemical products	11,403	7.6	492	8.6	4,533	–8.4	56	12.0
Metal products except machinery and transport equipment	16,563	6.5	5,015	4.8	4,942	10.4	467	8.4
Agricultural and industrial machinery	16,917	5.2	2,094	3.3	8,256	–6.1	380	–1.3
Office and data processing machines; precision and optical instruments	4,446	27.5	373	10.0	1,317	–36.9	44	15.8
Electrical goods	12,796	–0.6	1,177	4.0	4,504	–15.2	122	9.9
Motor vehicles	7,398	–4.9	629	3.5	4,586	–15.7	91	3.4
Food products, beverages and tobacco products	17,680	1.7	2,965	8.6	8,496	0.8	657	8.2
Textiles, leathers, footwear and clothing	27,718	2.4	5,780	1.2	5,637	9.0	570	10.3
Paper, products of printing and publishing	8,884	9.2	1,458	5.0	3,954	1.8	152	13.4
Rubber and plastic products	6,374	9.4	1,290	3.7	1,777	4.2	117	6.4
Other manufacturing products	11,388	11.0	4,600	6.4	2,889	12.7	483	8.8
Building and construction	51,495	16.1	13,787	7.7	33,435	19.6	3,953	14.1
Wholesale and retail trade	66,078	7.1	29,950	6.9	12,809	8.9	5,151	6.0
Lodging and catering services	5,508	12.0	4,459	13.8	4,963	9.5	2,391	10.9
Inland transport services	7,089	11.5	2,808	1.2	10,979	–33.4	242	19.8
Maritime and air transport services	3,286	55.8	49	–9.3	2,448	26.8	5	..
Auxiliary transport services	3,292	0.8	323	11.8	2,835	22.8	76	22.6
Communication services	1,806	131.8	18	5.9	10,790	1.4	1	..
Other market services	49,046	9.8	8,317	11.0	23,982	15.7	2,339	16.4
TOTAL BORROWINGS	365,819	8.7	95,059	6.8	180,785	3.9	23,111	7.8
TOTAL FACILITIES GRANTED	570,061	0.2	115,777	1.8	228,902	–0.8	22,741	0.6

Italian investment funds: securities

(end-of-period balance sheet

	LIRA SECURITIES						
	Government securities	of which:			Bonds	Shares	TOTAL
		Treasury bills	Treasury bonds	Treasury credit certificates			
1989	18,634	1,434	2,887	12,427	4,404	14,881	37,919
1990	23,250	2,168	1,487	17,347	3,829	10,813	37,893
1991	30,504	1,049	5,904	19,699	3,513	8,297	42,313
1992	32,174	1,492	6,726	18,727	2,652	6,576	41,402
1991 – 3rd qtr.	29,517	1,139	4,681	19,905	3,796	9,280	42,593
4th "	30,504	1,049	5,904	19,699	3,513	8,297	42,313
1992 – 1st qtr.	31,448	894	6,815	19,603	3,095	8,045	42,589
2nd "	34,234	888	7,058	21,128	3,001	7,262	44,498
3rd "	27,626	790	4,124	17,547	2,694	5,132	35,452
4th "	32,174	1,492	6,726	18,727	2,652	6,576	41,402
1993 – 1st qtr.	33,720	706	10,931	17,939	2,216	7,407	43,343
2nd "	38,520	1,121	12,317	21,831	1,845	9,109	49,474
3rd "	(46,569)	(1,420)	(19,350)	....	(1,709)	(10,823)	(59,101)
1992 – Sept.	27,626	790	4,123	17,547	2,694	5,132	35,452
Oct.	30,413	1,442	5,012	18,493	2,737	5,965	39,115
Nov.	32,441	1,547	6,142	19,213	2,714	6,174	41,328
Dec.	32,174	1,492	6,726	18,727	2,657	6,576	41,407
1993 – Jan.	32,422	689	7,007	19,628	2,427	7,180	42,029
Feb.	32,163	661	7,911	19,053	2,359	7,642	42,164
Mar.	33,720	706	10,931	17,939	2,216	7,407	43,343
Apr.	33,868	941	10,559	19,124	2,086	8,301	44,255
May	36,457	861	11,409	20,904	1,881	8,640	46,978
June	38,520	1,121	12,317	21,831	1,845	9,109	49,474
July	40,955	1,700	13,335	22,331	1,905	9,873	52,732
Aug.	43,109	1,528	16,411	21,409	1,991	11,606	56,706
Sept.	(46,569)	(1,420)	(19,350)	....	(1,709)	(10,823)	(59,101)

portfolios and net assets

value; billions of lire)

FOREIGN CURRENCY SECURITIES		Other financial assets	Total portfolio	NET ASSETS	Memorandum items:	
	of which: shares				Gross sales	Net sales
6,905	4,940	1,053	45,877	49,165	10,020	–6,663
5,428	3,869	1,138	44,459	47,379	15,146	829
8,373	5,211	938	51,624	56,191	21,859	5,315
13,894	6,329	727	56,023	60,663	26,717	732
8,199	5,621	1,126	51,918	55,338	5,251	1,335
8,373	5,211	938	51,624	56,191	5,840	878
10,073	5,698	1,055	53,717	59,753	8,577	3,477
10,319	5,289	842	55,658	61,074	7,131	1,591
11,801	4,911	952	48,204	56,604	5,075	–2,977
13,894	6,329	727	56,023	60,663	5,934	–1,359
17,921	7,934	763	61,997	66,086	10,680	2,823
18,716	8,387	708	68,898	73,521	12,026	3,490
(23,673)	(10,530)	(1,067)	(83,841)	(89,673)	(18,548)	(11,411)
11,801	4,911	952	48,204	56,604	1,680	–1,965
12,238	5,374	816	52,169	58,643	2,010	–738
13,063	5,862	735	55,126	59,703	2,086	–120
13,894	6,322	727	56,028	60,663	1,838	–501
14,517	6,489	781	57,327	61,900	2,272	159
15,515	7,025	872	58,551	64,256	3,511	995
17,891	7,934	763	61,997	66,086	4,897	1,669
17,201	7,786	739	62,195	67,846	4,114	919
17,030	8,079	814	64,822	70,368	4,146	1,163
18,716	8,387	708	68,898	73,521	3,766	1,408
20,413	9,096	626	73,772	78,532	5,514	3,081
23,022	10,194	815	80,543	85,609	5,817	4,043
(23,673)	(10,530)	(1,067)	(83,841)	(89,673)	(7,217)	(4,228)

Table a37

Net issues of securities

(billions of lire)

	ISSUERS			Total bonds and govern-ment securities	INVESTORS					Shares
	Public sector	Special credit insti-tutions	Public agencies and firms		BI-UIC	Deposits and Loans Fund	Banks	Invest-ment funds	Other	
1987	85,628	11,012	4,038	100,677	–3,085	485	5,975	–2,971	100,274	10,432
1988	103,850	7,966	709	112,525	–1,050	252	–10,918	–9,555	133,795	9,697
1989	108,588	8,205	35	116,828	4,975	–6	–9,013	–4,168	125,039	18,370
1990	116,753	5,985	–2,592	120,147	–1,906	–577	–8,640	3,776	127,493	21,246
1991	127,133	15,939	3,813	146,884	16,526	–597	6,210	6,726	118,019	18,363
1992	136,437	10,848	–3,464	143,821	32,784	–691	14,390	1,500	95,838	16,194
1991 – 2nd qtr.	33,900	4,388	352	38,640	–2,590	–33	11,030	2,169	28,064	3,099
3rd "	31,912	3,190	–165	34,937	–4,454	–282	7,390	1,029	31,252	4,044
4th "	35,663	6,132	1,515	43,309	20,737	–102	27,120	701	–5,147	9,246
1992 – 1st qtr.	40,704	4,237	–755	44,187	3,112	–202	–14,760	540	55,498	5,462
2nd "	44,714	4,342	–768	48,288	17,841	–53	22,990	3,111	4,399	3,366
3rd "	10,414	–752	–1,058	8,603	6,982	–259	–9,610	–5,712	17,202	3,393
4th "	40,605	3,021	–883	42,742	4,849	–178	15,770	3,562	18,739	3,974
1993 – 1st qtr.	45,546	3,963	–625	48,884	–25,759	–307	1,880	–996	74,066	(2,053)
2nd "	39,836	4,544	–1,317	43,063	24,695	–26	10	2,554	15,830	(3,123)
1992 – Aug.	1,119	–26	–187	906	–13,661	–25	8,760	–928	6,760	83
Sept.	3,828	433	..	4,261	14,251	–168	4,350	–2,011	–12,160	1,618
Oct.	12,944	–146	–21	12,778	5,908	–26	–13,010	2,127	17,779	1,097
Nov.	18,223	1,575	236	20,033	6,660	–95	–7,620	1,907	19,181	927
Dec.	9,439	1,592	–1,099	9,931	–7,719	–57	36,400	–472	–18,221	1,949
1993 – Jan.	12,295	(336)	(–61)	(12,570)	7,936	–214	(–43,320)	–368	(48,536)	(1,047)
Feb.	14,177	(1,769)	(–413)	(15,534)	–12,711	–12	(16,180)	–508	(12,585)	(594)
Mar.	19,074	(1,859)	(–151)	(20,781)	–20,984	–81	(29,020)	–120	(12,946)	(412)
Apr.	16,341	(1,793)	(–686)	(17,449)	3,080	–26	(570)	1,445	(12,379)	(460)
May	15,566	(995)	(–206)	(16,356)	366	..	(–500)	1,018	(15,472)	(2,220)
June	7,928	(1,756)	(–425)	(9,259)	21,248	..	(–60)	91	(–12,021)	(443)
July	11,068	(1,470)	(1,000)	(13,537)	7,206	..	(–16,820)	3,179	(19,972)	(1,160)
Aug.	4,173	(1,856)	(–1,260)	(4,768)	(–2,231)	..	(–2,500)	2,494	(7,005)	(493)

Table a38

Issue conditions of Treasury bonds

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Coupon	
					gross	net		gross	net
36630	BTP	1.3.96	2.3.93	97.75	12.81	11.18	3,500	5.75	5.0313
36631	BTP	1.3.98	2.3.93	96.25	12.92	11.28	2,500	5.75	5.0313
36632	BTP	1.3.03	3.3.93	93.85	12.99	11.35	2,500	5.75	5.0313
36630	BTP	1.3.96	17.3.93	99.30	12.14	10.35	2,000	5.75	5.0313
36631	BTP	1.3.98	17.3.93	97.95	12.42	10.73	2,500	5.75	5.0313
36630	BTP	1.3.96	2.4.93	96.55	13.37	11.51	2,500	5.75	5.0313
36631	BTP	1.3.98	2.4.93	94.75	13.39	11.64	2,500	5.75	5.0313
36632	BTP	1.3.03	5.4.93	92.75	13.21	11.53	2,500	5.75	5.0313
36630	BTP	1.3.96	19.4.93	97.60	12.91	11.03	1,500	5.75	5.0313
36634	BTP	1.5.96	4.5.93	98.20	12.62	11.01	2,500	5.75	5.0313
36635	BTP	1.5.98	4.5.93	97.05	12.68	11.07	2,500	5.75	5.0313
36632	BTP	1.3.03	5.5.93	95.30	12.70	11.07	2,000	5.75	5.0313
36634	BTP	1.5.96	18.5.93	100.70	11.53	9.89	1,500	5.75	5.0313
36635	BTP	1.5.98	18.5.93	100.00	11.82	10.23	1,500	5.75	5.0313
36632	BTP	1.3.03	19.5.93	97.45	12.29	10.67	1,500	5.75	5.0313
36640	BTP	1.6.96	3.6.93	99.10	11.68	10.19	1,500	5.50	4.8125
36641	BTP	1.6.98	3.6.93	98.15	11.84	10.33	1,500	5.50	4.8125
36642	BTP	1.6.03	4.6.93	95.50	12.13	10.59	1,500	5.50	4.8125
36641	BTP	1.6.98	18.6.93	100.75	11.08	9.54	1,000	5.50	4.8125
36642	BTP	1.6.03	18.6.93	99.50	11.38	9.88	1,000	5.50	4.8125
36640	BTP	1.6.96	5.7.93	102.80	10.08	8.45	2,500	5.50	4.8125
36641	BTP	1.6.98	5.7.93	102.65	10.55	9.01	3,000	5.50	4.8125
36642	BTP	1.6.03	6.7.93	100.35	11.23	9.73	3,000	5.50	4.8125
36640	BTP	1.6.96	16.7.93	103.20	9.90	8.25	1,500	5.50	4.8125
36641	BTP	1.6.98	16.7.93	103.65	10.28	8.73	1,500	5.50	4.8125
36642	BTP	1.6.03	19.7.93	101.75	10.98	9.49	1,500	5.50	4.8125
36649	BTP	1.8.96	3.8.93	101.50	9.65	8.35	2,000	5.00	4.3750
36650	BTP	1.8.98	3.8.93	101.05	9.96	8.66	2,452	5.00	4.3750
36651	BTP	1.8.03	4.8.93	98.25	10.55	9.21	3,000	5.00	4.3750
36651	BTP	1.8.03	17.8.93	104.90	9.45	8.16	2,000	5.00	4.3750
36649	BTP	1.8.96	18.8.93	103.60	8.78	7.42	1,000	5.00	4.3750
36650	BTP	1.8.98	18.8.93	104.75	8.98	7.67	1,500	5.00	4.3750
36649	BTP	1.8.96	2.9.93	103.00	9.00	7.62	3,000	5.00	4.3750
36650	BTP	1.8.98	2.9.93	105.00	8.91	7.58	3,500	5.00	4.3750
36651	BTP	1.8.03	3.9.93	105.90	9.29	8.00	3,000	5.00	4.3750
36649	BTP	1.8.96	16.9.93	104.30	8.46	7.07	1,500	5.00	4.3750
36650	BTP	1.8.98	16.9.93	106.05	8.63	7.30	1,500	5.00	4.3750
36651	BTP	1.8.03	17.9.93	105.05	9.42	8.12	2,500	5.00	4.3750
36658	BTP	1.10.96	4.10.93	101.50	8.62	7.46	3,000	4.50	3.9375
36659	BTP	1.10.98	4.10.93	102.40	8.59	7.44	3,000	4.50	3.9375
36660	BTP	1.10.03	5.10.93	102.05	8.89	7.73	3,000	4.50	3.9375

Table a38 cont.

Issue conditions of Treasury credit certificates

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Spread	First coupon	
					gross	net			gross	net
36612	CCT	1.8.99	4.8.92	94.40	17.23	15.04	2,500	0.50	7.00	6.1250
36612	CCT	1.8.99	13.8.92	95.20	17.00	14.82	1,500	0.50	7.00	6.1250
36612	CCT	1.8.99	2.9.92	94.00	17.35	15.12	2,000	0.50	7.00	6.1250
36612	CCT	1.8.99	5.10.92	92.80	20.04	17.44	2,926	0.50	7.00	6.1250
36612	CCT	1.8.99	20.10.92	92.25	20.90	18.17	2,500	0.50	7.00	6.1250
36618	CCT	1.11.99	3.11.92	95.35	17.45	15.23	3,000	0.50	7.00	6.1250
36618	CCT	1.11.99	18.11.92	96.10	17.45	15.19	2,500	0.50	7.00	6.1250
36618	CCT	1.11.99	2.12.92	95.25	17.50	15.24	2,000	0.50	7.00	6.1250
36618	CCT	1.11.99	18.12.92	94.15	17.62	15.34	1,500	0.50	7.00	6.1250
36620	CCT	1.1.00	4.1.93	94.00	16.44	14.36	7,000	0.50	7.00	6.1250
36620	CCT	1.1.00	20.1.93	95.20	15.28	13.29	1,500	0.50	7.00	6.1250
36626	CCT	1.2.00	2.2.93	97.00	14.37	12.53	4,000	0.50	7.00	6.1250
36626	CCT	1.2.00	16.2.93	97.25	13.69	11.92	3,000	0.50	7.00	6.1250
36629	CCT	1.3.00	1.3.93	96.85	13.88	12.11	2,500	0.50	6.50	5.6875
36629	CCT	1.3.00	16.3.93	97.25	13.89	12.10	2,000	0.50	6.50	5.6875
36629	CCT	1.3.00	1.4.93	95.00	15.05	13.13	3,000	0.50	6.50	5.6875
36629	CCT	1.3.00	16.4.93	95.55	15.01	13.08	1,500	0.50	6.50	5.6875
36633	CCT	1.5.00	3.5.93	97.15	14.10	12.30	2,500	0.50	6.50	5.6875
36633	CCT	1.5.00	17.5.93	98.25	13.45	11.70	1,500	0.50	6.50	5.6875
36639	CCT	1.6.00	1.6.93	99.10	12.80	11.16	1,500	0.50	6.25	5.4688
36639	CCT	1.6.00	17.6.93	99.90	12.23	10.64	1,000	0.50	6.25	5.4688
36639	CCT	1.6.00	2.7.93	100.15	11.49	9.97	2,000	0.50	6.25	5.4688
36648	CCT	1.8.00	2.8.93	100.55	11.41	9.94	1,000	0.50	5.25	4.5938
36648	CCT	1.8.00	19.8.93	100.75	10.84	9.42	1,000	0.50	5.25	4.5938
36648	CCT	1.8.00	1.9.93	100.65	10.92	9.49	3,500	0.50	5.25	4.5938
36648	CCT	1.8.00	20.9.93	101.25	10.40	9.01	1,500	0.50	5.25	4.5938
36657	CCT	1.10.00	1.10.93	101.55	9.63	8.38	2,500	0.30	5.00	4.3750

Issue conditions of Treasury certificates in ecus

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (ecu mill.)	Lira/ecu exchange rate at issue	Coupon	
					gross	net			gross	net
36617	CTE	28.10.95	28.10.92	101.25	10.72	9.33	750	1,720.58	11.25	9.8438
36627	CTE	22.2.96	22.2.93	103.40	8.96	7.70	500	1,843.10	10.30	9.0125
36627	CTE	22.2.96	24.3.93	103.35	8.93	7.64	750	1,876.28	10.30	9.0125
36627	CTE	22.2.96	15.4.93	102.20	9.36	8.03	750	1,891.64	10.30	9.0125
36645	CTE	25.6.98	25.6.93	103.50	8.11	7.02	600	1,770.89	9.00	7.8750
36647	CTE	26.7.98	26.7.93	99.10	8.47	7.41	1,000	1,835.03	8.25	7.2188
36656	CTE	28.9.98	28.9.93	101.60	7.60	6.61	750	1,845.63	8.00	7.0000

Table a39

Securities market: expected yields and total return indices

	Expected yields						Total return indices					
	Treasury credit certificates	Treasury certificates in ecus	Treasury discount certificates	Treasury bonds	Treasury option certificates	Other bonds	Treasury credit certificates	Treasury certificates in ecus	Treasury discount certificates	Treasury bonds	Treasury option certificates	Investment funds
1987	10.66	8.44	–	10.58	–	10.13	289.14	207.29	–	163.43	–	169.68
1988	11.25	8.11	11.67	10.54	–	10.87	316.26	233.11	101.02	180.86	–	167.63
1989	12.71	9.32	12.96	11.61	10.65	11.61	348.83	238.78	108.48	198.46	101.96	189.77
1990	12.31	9.99	12.41	11.87	11.48	12.03	397.58	255.49	124.16	221.95	112.33	201.58
1991	11.78	9.02	11.51	11.37	11.19	11.63	450.78	280.71	141.56	250.71	126.76	207.27
1992	13.70	8.95	12.96	11.90	11.46	12.04	497.70	299.19	155.96	276.02	139.69	216.42
1991 – 3rd qtr. ..	11.58	9.00	11.41	11.33	11.18	11.45	457.18	283.83	143.43	254.17	128.35	210.93
4th " ..	11.64	8.92	11.24	11.11	11.05	11.29	471.21	283.61	148.02	262.51	132.34	210.87
1992 – 1st qtr. ..	11.58	8.60	11.03	10.95	10.95	11.12	485.26	288.65	152.77	270.66	136.32	216.67
2nd " ..	12.38	8.78	11.94	11.23	11.15	11.32	496.59	292.07	154.96	276.12	138.90	217.01
3rd " ..	15.03	8.97	14.65	12.84	12.00	12.78	495.47	295.45	154.77	273.80	139.24	209.86
4th " ..	15.81	9.47	14.23	12.59	11.76	12.95	513.48	320.59	161.33	283.52	144.32	222.15
1993 – 1st qtr. ...	12.57	7.65	11.18	11.38	11.03	11.87	540.25	356.41	169.87	300.21	151.78	240.60
2nd " ..	11.77	7.71	10.27	10.77	10.59	11.18	561.73	352.60	175.49	313.10	157.54	251.17
3rd " ..	9.42	5.51	7.74	8.57	8.63	9.15	589.83	364.52	182.48	340.44	169.36	270.21
1992 – Sept.	16.77	9.39	16.68	13.54	12.37	13.81	490.89	300.00	153.13	272.35	139.10	208.79
Oct.	17.23	10.11	15.86	13.28	12.10	13.24	501.84	318.13	157.29	275.81	141.60	216.38
Nov.	15.20	9.42	13.55	12.16	11.57	12.76	517.16	314.17	162.37	286.76	145.16	223.93
Dec.	15.00	8.87	13.28	12.31	11.62	12.86	521.46	329.46	164.34	287.99	146.43	226.13
1993 – Jan.	13.27	7.89	11.81	11.75	11.26	12.08	532.09	348.29	167.65	294.78	149.40	234.33
Feb.	12.18	7.33	10.90	11.22	10.94	11.83	541.16	357.10	170.23	301.38	152.02	241.31
Mar.	12.25	7.74	10.84	11.17	10.88	11.71	547.51	363.85	171.75	304.47	153.53	246.16
Apr.	12.79	7.85	11.20	11.44	11.00	11.62	550.64	362.63	172.78	305.12	154.42	247.10
May	11.75	7.59	10.20	10.74	10.62	11.20	562.41	349.91	175.64	313.38	157.36	251.31
June	10.76	7.70	9.41	10.14	10.16	10.72	572.14	345.26	178.05	320.81	160.68	255.11
July	9.70	5.84	8.21	9.31	9.31	9.72	582.76	359.91	180.81	330.77	165.63	263.17
Aug.	9.57	4.83	7.63	8.37	8.44	9.14	589.44	366.84	182.63	342.54	170.50	272.93
Sept.	8.99	5.85	7.39	8.05	8.15	8.58	597.29	366.81	183.99	348.02	171.96	274.54

The money

(stocks in

	END-OF-PERIOD				
	Notes and coins	Sight deposits		Other assets	Total: M1
		Banks	Post Office		
1985	45,196	244,048	8,761	12,304	310,310
1986	48,336	275,242	9,440	11,280	344,298
1987	52,718	297,245	10,213	11,609	371,785
1988	57,167	323,319	7,696	12,200	400,381
1989	67,644	356,073	9,388	18,681	451,785
1990	69,449	388,016	7,824	17,068	482,358
1991 – Aug.	68,707	355,117	7,266	12,109	443,198
Sept.	69,102	368,664	7,445	14,698	459,908
Oct.	69,033	371,889	7,014	16,224	464,160
Nov.	70,937	371,127	6,897	18,398	467,359
Dec.	76,354	434,733	6,986	19,429	537,503
1992 – Jan.	72,132	384,901	9,132	14,304	480,469
Feb.	71,652	382,075	7,629	14,253	475,609
Mar.	72,330	391,686	7,807	14,481	486,303
Apr.	73,294	394,286	6,414	14,238	488,232
May	74,648	393,525	7,439	15,027	490,639
June	73,680	400,613	8,082	16,414	498,790
July	79,216	379,062	8,507	17,378	484,163
Aug.	75,715	372,379	9,038	12,027	469,160
Sept.	78,436	390,057	9,375	15,275	493,142
Oct.	78,736	383,199	9,184	15,116	486,236
Nov.	79,981	376,740	7,942	17,419	482,082
Dec.	85,617	434,011	8,533	16,011	544,172
1993 – Jan.	82,526	394,832	10,202	14,648	502,208
Feb.	81,201	392,746	9,116	14,305	497,368
Mar.	81,983	398,370	8,183	14,101	502,637
Apr.	82,187	400,981	9,321	13,259	505,748
May	83,203	402,736	9,298	12,647	507,883
June	81,815	409,619	10,164	13,196	514,794
July	86,085	394,268	9,990	15,649	505,992
Aug.	(82,118)	399,066	8,664	(10,654)	(500,501)
Sept.	(83,530)	*(412,123)*	....	*(13,316)*	*(517,655)*

Table a40

supply

billions of lire)

DATA					AVERAGE DATA		
Bank certificates of deposit	Bank savings deposits	Postal savings accounts	Total: M2	Extended M2	M1	M2	Extended M2
13,309	196,443	9,506	529,568	529,991	289,262	496,028	496,647
21,465	198,049	11,047	574,859	575,234	325,503	548,856	549,234
31,876	200,485	13,434	617,579	617,900	350,845	588,218	588,589
55,866	191,231	16,372	663,850	664,509	376,337	633,041	633,750
86,014	180,862	19,733	738,395	739,476	415,018	695,759	696,758
119,333	176,712	23,589	801,991	804,307	442,427	752,409	754,683
139,837	157,676	24,701	765,412	768,628	442,412	763,409	766,618
143,373	156,316	24,745	784,342	787,784	448,687	770,771	774,100
148,371	153,924	24,909	791,364	794,807	457,540	782,341	785,784
150,943	153,356	25,090	796,748	800,257	465,504	793,388	796,864
153,433	160,244	26,923	878,104	881,818	488,696	820,521	824,132
160,400	152,905	27,170	820,944	824,540	503,835	844,029	847,684
164,353	149,839	27,454	817,255	821,724	475,078	816,088	820,121
168,471	147,594	27,726	830,093	835,292	471,018	813,188	818,022
172,311	146,845	27,904	835,292	841,326	484,373	830,011	835,628
175,026	146,111	27,978	839,754	846,638	486,038	833,896	840,354
177,382	144,126	27,866	848,164	854,500	483,749	832,166	838,775
177,348	142,228	27,649	831,388	837,610	481,803	830,390	836,669
177,485	142,044	27,716	816,405	822,759	466,574	813,107	819,395
183,305	141,566	27,524	845,536	852,910	471,843	818,246	825,110
193,099	140,705	27,366	847,405	854,805	483,364	840,097	847,484
196,937	140,176	27,402	846,598	852,244	477,963	840,062	846,585
200,755	145,881	29,218	920,026	925,171	491,532	857,342	862,737
203,474	143,237	29,233	878,151	883,745	515,027	890,030	895,399
209,607	141,068	29,445	877,489	882,772	489,861	867,384	872,822
217,414	138,190	29,475	887,716	892,736	487,978	868,759	873,911
221,118	137,586	29,484	893,936	898,927	493,499	878,511	883,517
223,614	135,938	29,455	896,890	901,050	496,867	884,379	888,954
224,491	134,898	29,239	903,422	908,325	497,377	882,370	886,902
226,110	134,494	28,862	895,458	900,083	498,902	885,107	889,872
228,279	133,402	29,497	(891,678)	(896,148)	(490,861)	(877,450)	(881,998)
(229,979)	*(134,159)*	....	*(911,304)*	....	*(501,452)*	*(890,565)*	....

Table a41

Liquid assets

(end-of-period stocks in billions of lire)

	M2	Securities acquired under repos	PO savings certificates	Treasury bills in lire and ecu	Special credit institution CDs	Banker's acceptances	Total liquid assets
1985	529,568	949	41,192	124,738	21,564	1,514	719,526
1986	574,859	1,172	50,129	128,580	23,950	1,570	780,261
1987	617,579	2,650	59,870	162,519	26,689	2,375	871,683
1988	663,850	4,267	70,426	209,138	40,015	2,121	989,818
1989	738,395	5,043	80,659	253,041	49,893	1,612	1,128,642
1990	801,991	8,209	91,011	280,517	62,678	1,540	1,245,946
1991 – July	773,431	33,581	91,943	303,730	66,211	1,685	1,270,581
Aug.	765,412	38,988	92,147	302,566	67,028	1,778	1,267,919
Sept.	784,342	38,300	92,196	301,576	66,854	1,619	1,284,887
Oct.	791,364	51,163	92,117	301,956	67,477	1,413	1,305,489
Nov.	796,748	55,439	92,080	301,655	67,309	1,428	1,314,659
Dec.	878,104	46,979	100,347	296,783	69,457	2,104	1,393,773
1992 – Jan.	820,944	70,325	100,298	311,288	70,076	1,013	1,373,944
Feb.	817,255	75,376	100,139	311,653	70,536	943	1,375,902
Mar.	830,093	69,796	99,804	309,264	70,685	909	1,380,551
Apr.	835,292	74,322	99,483	310,229	71,474	1,268	1,392,068
May	839,754	82,204	99,113	315,256	71,541	1,259	1,409,127
June	848,164	80,569	98,708	312,492	72,555	1,044	1,413,532
July	831,388	92,481	98,590	322,019	72,556	1,067	1,418,100
Aug.	816,405	93,953	98,757	327,909	72,190	1,042	1,410,255
Sept.	845,536	89,942	98,646	329,477	70,985	1,518	1,436,104
Oct.	847,405	98,169	98,571	342,517	71,256	2,149	1,460,067
Nov.	846,598	103,816	98,507	349,801	71,736	2,534	1,472,993
Dec.	920,026	87,115	107,538	352,260	73,923	1,925	1,542,786
1993 – Jan.	878,151	107,103	107,452	*(365,924)*	75,351	1,631	*(1,535,613)*
Feb.	877,489	108,964	107,496	*(362,102)*	78,534	1,859	*(1,536,444)*
Mar.	887,716	103,906	107,481	*(362,476)*	79,463	1,724	*(1,542,765)*
Apr.	893,936	105,423	107,453	*(360,504)*	79,775	1,354	*(1,548,445)*
May	896,890	109,946	107,382	*(360,579)*	80,076	1,256	*(1,556,129)*
June	903,422	101,864	107,271	*(352,208)*	80,651	1,739	*(1,547,155)*
July	895,458	106,591	107,171	*(350,489)*	81,040	1,423	*(1,542,172)*
Aug.	(891,678)	110,496	107,271	*(344,099)*	80,294	1,502	*(1,535,341)*

Financial assets

(end-of-period stocks in billions of lire)

	Liquid assets	Medium and long-term securities: Government securities	Bonds of Crediop and autonomous gov. agencies	Other bonds	Units of investment funds	Other financial assets	Other domestic financial assets	Total financial assets
1985	719,526	145,167	(4,689)	(39,201)	19,784	2,230	(930,597)	....
1986	780,261	194,216	(5,527)	(45,666)	65,077	2,822	(1,093,570)	....
1987	871,683	253,044	(6,967)	(54,058)	59,454	2,673	(1,247,879)	....
1988	989,818	313,731	(6,579)	(62,423)	51,565	2,232	(1,426,836)	(1,464,484)
1989	1,128,642	381,585	7,409	73,116	49,165	2,199	1,641,597	1,692,089
1990	1,245,946	453,965	11,250	83,145	47,379	2,364	1,844,912	1,915,091
1991 – July	1,270,581	491,238	12,011	(99,999)	54,509	2,280	(1,932,486)	(2,030,695)
Aug.	1,267,919	492,148	12,086	(100,915)	55,275	2,076	(1,932,399)	(2,034,922)
Sept.	1,284,887	498,997	12,111	(102,267)	55,338	2,303	(1,957,030)	(2,059,909)
Oct.	1,305,489	494,479	11,765	(105,244)	55,653	2,362	(1,976,152)	(2,081,676)
Nov.	1,314,659	495,893	11,870	(107,134)	55,844	2,372	(1,988,875)	(2,096,413)
Dec.	1,393,773	487,344	11,976	(107,919)	56,191	2,369	(2,059,926)	(2,166,019)
1992 – Jan.	1,373,944	491,112	11,396	(109,973)	58,102	2,381	(2,047,970)	(2,158,751)
Feb.	1,375,902	492,915	11,111	(112,358)	59,492	2,371	(2,054,791)	(2,171,300)
Mar.	1,380,551	503,229	10,670	(114,345)	59,753	2,362	(2,072,034)	(2,194,445)
Apr.	1,392,068	496,982	11,153	(116,491)	61,245	2,383	(2,081,782)	(2,212,378)
May	1,409,127	491,897	12,832	(117,441)	62,277	2,394	(2,097,638)	(2,232,596)
June	1,413,532	486,469	11,732	(116,104)	61,074	2,438	(2,092,884)	(2,232,559)
July	1,418,100	483,236	11,597	(115,102)	58,169	2,467	(2,089,931)	(2,235,348)
Aug.	1,410,255	484,943	11,504	(114,079)	58,161	2,425	(2,082,858)	(2,229,758)
Sept.	1,436,104	473,305	11,809	(112,858)	56,604	2,474	(2,097,255)	(2,243,099)
Oct.	1,460,067	477,152	11,912	(112,812)	58,643	2,497	(2,126,682)	(2,266,345)
Nov.	1,472,993	480,216	12,313	(114,796)	59,703	2,495	(2,146,707)	(2,279,115)
Dec.	1,542,786	479,888	13,518	(113,731)	60,663	2,081	(2,219,413)	(2,346,811)
1993 – Jan.	(1,535,613)	(493,254)	(13,102)	(118,133)	61,900	2,063	(2,230,587)	(2,355,445)
Feb.	(1,536,444)	(500,531)	(13,347)	(120,309)	64,256	2,064	(2,241,847)	(2,363,832)
Mar.	(1,542,765)	(502,003)	(13,442)	(120,865)	66,086	2,079	(2,256,199)	(2,377,831)
Apr.	(1,548,445)	(509,164)	(12,394)	(123,348)	67,846	2,094	(2,269,919)	(2,393,660)
May	(1,556,129)	(510,354)	(12,559)	(126,784)	70,368	2,117	(2,284,396)	(2,406,495)
June	(1,547,155)	(499,119)	(12,733)	(128,304)	73,521	2,129	(2,270,026)	(2,392,646)
July	(1,542,172)	(507,516)	(12,724)	(134,582)	78,532	2,183	(2,284,774)	(2,408,813)
Aug.	(1,535,341)	(507,878)	(11,993)	(137,675)	85,609	2,198	(2,287,757)	(2,413,913)

Cre

(end-of-period stocks

	Finance to the non-state sector				
	From banks	From special credit institutions	Bonds placed domestically	Total domestic finance	Foreign finance
1985	*(251,462)*	*(129,806)*	*(24,841)*	*(406,109)*	*(55,364)*
1986	*(273,872)*	*(145,924)*	*(30,150)*	*(449,946)*	*(52,244)*
1987	*(296,271)*	*(165,679)*	*(33,804)*	*(495,754)*	*(56,124)*
1988	*(349,334)*	*(190,199)*	*(25,719)*	*(565,252)*	*(51,036)*
1989	425,055	219,650	25,425	670,130	69,091
1990	493,256	255,317	23,212	771,784	95,288
1991 – Aug.	519,456	275,651	*(23,134)*	*(818,241)*	*(113,683)*
Sept.	522,231	275,569	*(23,805)*	*(821,604)*	*(112,864)*
Oct.	532,041	279,363	*(23,589)*	*(834,993)*	*(114,707)*
Nov.	537,180	284,377	*(24,140)*	*(845,697)*	*(114,025)*
Dec.	567,165	287,595	*(24,875)*	*(879,634)*	*(109,006)*
1992 – Jan.	566,231	289,188	*(24,796)*	*(880,216)*	*(114,013)*
Feb.	566,209	292,166	*(23,848)*	*(882,224)*	*(115,571)*
Mar.	569,697	295,682	*(23,762)*	*(889,142)*	*(115,703)*
Apr.	574,288	299,433	*(23,658)*	*(897,380)*	*(115,687)*
May	570,602	303,231	*(23,548)*	*(897,381)*	*(116,682)*
June	590,319	300,348	*(23,166)*	*(913,833)*	*(114,542)*
July	600,474	304,746	*(22,346)*	*(927,566)*	*(116,761)*
Aug.	588,560	305,930	*(22,333)*	*(916,823)*	*(118,359)*
Sept.	604,243	307,924	*(22,255)*	*(934,422)*	*(118,993)*
Oct.	601,556	311,223	*(22,158)*	*(934,937)*	*(123,559)*
Nov.	604,584	313,294	*(22,274)*	*(940,153)*	*(120,413)*
Dec.	635,069	313,806	*(21,209)*	*(970,084)*	*(120,230)*
1993 – Jan.	634,020	313,061	*(21,143)*	*(968,223)*	*(123,169)*
Feb.	635,124	315,719	*(20,683)*	*(971,526)*	*(122,954)*
Mar.	631,374	319,278	*(20,656)*	*(971,309)*	*(124,163)*
Apr.	630,426	321,406	*(20,118)*	*(971,950)*	*(122,186)*
May	618,737	324,286	*(19,893)*	*(962,915)*	*(123,519)*
June	632,810	322,288	*(19,743)*	*(974,841)*	*(123,339)*
July	640,454	326,251	*(20,023)*	*(986,727)*	*(125,416)*
Aug.	626,509	331,127	*(18,515)*	*(976,152)*	*(125,427)*
Sept.	*(617,529)*	*(332,572)*	*(18,515)*	*(968,617)*	....

Table a43

d i t

in billions of lire)

	Finance to the state sector			Credit	
Total finance	Domestic finance	Foreign finance	Total	Total domestic	Total
(461,472)	639,234	18,205	657,438	*(1,045,342)*	*(1,118,911)*
(502,190)	750,681	17,379	768,060	*(1,200,627)*	*(1,270,250)*
(551,878)	861,899	23,322	885,221	*(1,357,652)*	*(1,437,099)*
(616,288)	984,049	28,586	1,012,635	*(1,549,301)*	*(1,628,924)*
739,221	1,111,315	34,979	1,146,294	1,781,445	1,885,515
867,072	1,247,105	48,656	1,295,761	2,018,890	2,162,834
(931,924)	1,326,471	56,904	1,383,375	*(2,144,711)*	*(2,315,299)*
(934,469)	1,350,110	55,497	1,405,607	*(2,171,714)*	*(2,340,076)*
(949,701)	1,370,358	55,827	1,426,185	*(2,205,351)*	*(2,375,885)*
(959,722)	1,384,815	55,566	1,440,381	*(2,230,512)*	*(2,400,102)*
(988,640)	1,399,068	54,720	1,453,788	*(2,278,703)*	*(2,442,429)*
(994,228)	1,405,259	55,598	1,460,857	*(2,285,475)*	*(2,455,086)*
(997,794)	1,415,765	54,583	1,470,348	*(2,297,989)*	*(2,468,142)*
(1,004,845)	1,441,937	55,120	1,497,057	*(2,331,079)*	*(2,501,901)*
(1,013,067)	1,465,390	54,695	1,520,085	*(2,362,770)*	*(2,533,152)*
(1,014,063)	1,484,606	53,739	1,538,345	*(2,381,987)*	*(2,552,409)*
(1,028,375)	1,475,566	53,110	1,528,677	*(2,389,399)*	*(2,557,052)*
(1,044,327)	1,490,314	52,479	1,542,793	*(2,417,880)*	*(2,587,120)*
(1,035,182)	1,492,947	52,066	1,545,013	*(2,409,771)*	*(2,580,195)*
(1,053,415)	1,517,422	58,402	1,575,824	*(2,451,844)*	*(2,629,239)*
(1,058,495)	1,531,081	58,507	1,589,589	*(2,466,018)*	*(2,648,084)*
(1,060,565)	1,555,794	59,786	1,615,580	*(2,495,947)*	*(2,676,145)*
(1,090,314)	1,572,621	64,653	1,637,273	*(2,542,704)*	*(2,727,587)*
(1,091,393)	1,584,486	64,757	1,649,242	*(2,552,709)*	*(2,740,635)*
(1,094,480)	1,595,745	69,104	1,664,849	*(2,567,271)*	*(2,759,329)*
(1,095,472)	1,622,932	74,258	1,697,190	*(2,594,241)*	*(2,792,662)*
(1,094,135)	1,642,106	68,705	1,710,811	*(2,614,055)*	*(2,804,946)*
(1,086,434)	1,658,631	68,466	1,727,097	*(2,621,546)*	*(2,813,531)*
(1,098,180)	1,634,648	72,871	1,707,519	*(2,609,489)*	*(2,805,699)*
(1,112,143)	1,643,197	73,438	1,716,635	*(2,629,924)*	*(2,828,778)*
(1,101,579)	(1,651,011)	74,596	(1,725,607)	*(2,627,163)*	*(2,827,186)*
....	....	....	....	*(2,643,761)*	....

Table a44

M2 and its counterparts

(changes in billions of lire)

	M2	COUNTERPARTS				
		Official reserves	Banks' net foreign position	Credit to the non-state sector	Credit to the state sector	Other
1987	42,720	6,756	–5,573	*(26,694)*	*(15,843)*	*(–1,000)*
1988	46,271	10,947	–10,224	*(51,725)*	*(–342)*	*(–5,834)*
1989	74,544	14,971	–5,529	*(78,647)*	*(4,071)*	*(–17,616)*
1990	63,597	15,458	–5,400	73,371	3,147	–22,980
1991	76,113	–8,674	–26,167	78,495	31,298	1,161
1992	41,922	–32,591	–27,713	53,520	58,605	–9,900
1991 – July	–3,468	–801	–7,901	19,229	–409	–13,586
Aug.	–8,019	–1,085	–1,304	–11,180	4,823	726
Sept.	18,930	331	–1,127	5,097	13,388	1,242
Oct.	7,022	–1,150	–3,587	10,264	12,001	–10,506
Nov.	5,385	–3,826	–1,192	5,443	6,980	–2,020
Dec.	81,356	–7,740	57	30,410	26,301	32,328
1992 – Jan.	–57,160	–613	–5,709	–1,058	–32,406	–17,373
Feb.	–3,689	751	–7,069	–142	758	2,013
Mar.	12,838	–868	–10,084	4,226	23,996	–4,432
Apr.	5,199	–4,515	–7,206	5,847	21,520	–10,446
May	4,462	–1,055	–3,761	–3,125	6,845	5,557
June	8,410	–7,800	–7,129	20,946	–3,312	5,706
July	–16,777	–10,492	–7,494	11,302	–3,678	–6,415
Aug.	–14,983	–4,516	–2,222	–10,912	–3,156	5,823
Sept.	29,132	–29,884	23,811	3,790	32,215	–801
Oct.	1,869	10,064	1,737	–2,119	–2,580	–5,234
Nov.	–808	3,425	2,404	559	4,238	–11,435
Dec.	73,428	12,912	–4,991	24,206	14,165	27,136
1993 – Jan.	–41,874	–600	1,700	*(–2,261)*	*(–26,619)*	*(–14,093)*
Feb.	–663	–2,878	12,928	*(–4,910)*	*(1,560)*	*(–7,362)*
Mar.	10,227	4,734	–200	*(–5,325)*	*(11,090)*	*(–72)*
Apr.	6,220	–3,283	4,224	*(6,371)*	*(9,834)*	*(–10,926)*
May	2,954	6	6,405	*(–9,671)*	*(2,586)*	*(3,629)*
June	6,532	2,721	4,259	*(12,703)*	*(–15,114)*	*(1,962)*
July	–7,964	–1,229	(4,806)	*(5,825)*	*(–6,538)*	*(–10,827)*
Aug.	(–3,779)	(–1,956)	(11,778)	*(–14,854)*	*(71)*	*(1,181)*

Notes to the tables

Table a1

Sources: National bulletins, IMF and OECD.

Real GNP: Japan and Germany, GNP; the United States, France, the United Kingdom, Italy and Canada, GDP.

The annual figures for the current account balance may not coincide with the sum of the quarterly figures. From July 1990 onwards the current balance of Germany includes the transactions of the former German Democratic Republic.

Table a2

Sources: National bulletins and OECD.

Table a3

Sources: National bulletins and OECD.

For Italy, see the notes to Table a16.

Table a3

Sources: National bulletins and OECD.

For Italy, see the notes to Table a16.

Table a4

Sources: National bulletins and OECD.

Wholesale prices: the United States and Italy: total producer prices; France: producer prices of intermediate goods; the United Kingdom and Canada: prices of manufactured goods.

Table a5

Sources: National bulletins, IMF and OECD.

Official reference rates: France: intervention rate; the United Kingdom: base rate; all other countries: discount rate.

Money market rates: the United States: 3-month Treasury bill rate; Japan: 2-month call rate (uncollateralized); Germany, France, the United Kingdom and Italy: 3-month interbank rate (for Italy, see the note to Table a32); Canada: end-of-period rate on 3-month Treasury bills.

Table a6

Sources: National bulletins, IMF and OECD.

Bond yields (gross): the United States: 10-year securities and Treasury bonds (secondary market); Japan: 10-year government bonds (secondary market); Germany: public sector bonds with a maturity of more than 4 years (secondary market); France: long-term government bonds; the United Kingdom: 20-year government bonds; Italy: average yield, net of 12.5 per cent withholding tax, of Treasury bonds listed on the Milan Stock Exchange with a residual maturity of more than 12 months (weighted according to the amount outstanding); Canada: end-of-period yield of public sector securities with a maturity of more than 10 years.

Share indices: the United States: Standard and Poor's composite index; Japan: Topix; Germany: FAZ Aktien; France: CAC Général; the United Kingdom: FT All-Share Index; Italy: MIB; Canada: composite index of the Toronto stock exchange (closing prices).

Table a7

Sources: National bulletins.

US dollar forward premiums and discounts: the differences between the rates shown in the upper part of the table.

Table a8

Source: IMF for the prices of gold. Period averages except for gold prices, which are end-of-period values.

Table a9

Nominal effective exchange rates: calculated for each country with reference to the currencies of the other 14 leading industrial countries. For the method of calculation, see the article "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989.

Table a10

Sources: Based on IMF, Istat and OECD data.

Real effective exchange rates: based on the wholesale prices of manufactures of the 15 leading industrial countries. For the method of calculation, see the articles "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989, and "The Bank of Italy's Real Exchange Rate Indicators", in Banca d'Italia, *Economic Bulletin*, no. 15, October 1992.

Table a11

Sources: Based on IMF, Istat and OECD data.

The countries included in the EC aggregate are Belgium, France, Germany, the United Kingdom, the Netherlands, Italy, Ireland, Denmark and Spain. For the method of calculation, see the articles "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989, and "The Bank of Italy's Real Exchange Rate Indicators", in Banca d'Italia, *Economic Bulletin*, no. 15, October 1992.

Table a12

Italian credit system: for the purposes of the table, comprises the operational units of banks and special credit institutions (branches in Italy and abroad) and the Italian branches of foreign banks; "Foreign position" comprises all claims on non-resident operators except loans granted by branches abroad to local operators in the currency of the host country.

Country grouping: that adopted by the BIS.

Table a13

Source: Istat.

Seasonally adjusted data: "Other domestic uses" comprises government consumption and change in stocks.

Table a14

Sources: Based on Istat and Isco data.

Industrial production: the indices are first adjusted for variations in the number of working days. The seasonal adjustment of the general index of production is distinct from that of the indices of production by user sector, with the result that the aggregate index may differ from the weighted average of the disaggregated indices.

Stocks of finished goods: raw data.

Table a15

Source: Istat.

The figures, which are not seasonally adjusted, present major discontinuities, with the result that they are not immediately comparable over time. Since January 1991 Istat has taken account of registry data on the age-group composition of the population in relating the sample results to the total population. In 1992 the second quarter survey was conducted in May instead of April, while a different questionnaire was used for the fourth quarter survey and implies a different sectoral composition of employment. Since the first quarter of 1993 account has been taken of the results of the 1991 census in relating the sample results to the total population. In addition, a more restrictive definition of job seekers and the labour force was adopted in October 1992 (the results for the fourth quarter of 1992 are based on the old definition, but the new questionnaire).

Table a16

Source: Istat.

Both the wholesale price indices and the consumer price indices have been rebased (1990=100, whereas they had previously been based respectively 1989=100 and 1985=100).

From February 1992 onwards the consumer price indices exclude tobacco products (Law 81/1992). Since then the percentage changes between the indices including and excluding tobacco products have been calculated using Istat reconciliation coefficients (1.0034 for food products and 1.0009 for the total consumer price index, the cost of living index and the *scala mobile* index).

Table a17

Bank capital flows: includes those of special credit institutions from 1989 onwards.

Change in official reserves: net of exchange rate adjustments and the revaluation of gold; a minus sign indicates an increase in net assets.

Table a18

The dollar balances may not coincide with the sum of the component items owing to rounding.

Table a19

The table shows the figures for both the old definition of the state sector and the new one, which excludes the State Railways, Monopolies and Telephone Company from the item autonomous government agencies and the like.

State sector: the Treasury (budget and other operations) the Deposits and Loans Fund, autonomous government agencies and the like, and the Southern Italy Development Agency.

Borrowing requirement: obtained as the sum of the budget deficit and the balance of other Treasury operations and of the other entities included in the sector. The budget deficit excludes accounting items that are offset under other Treasury operations, loan proceeds and repayments and settlements of debts incurred by state sector bodies.

Other operations: includes the balance of other Treasury operations, the expenditure of autonomous government agencies and the like not financed out of revenues or with funds provided by the Treasury or the Savings and Loans Fund, the deficit of the Southern Italy Development Agency and the lending of the Savings and Loans Fund (excluding that to the Treasury and autonomous government agencies).

Rounding may cause discrepancies in totals. The figures for the last year are provisional.

Table a20

The table shows the figures for both the old definition of the sector and the new one, which excludes the State Railways, Monopolies and Telephone Company from the item autonomous government agencies and the like.

Foreign loans: includes only those raised by the Italian state and state sector entities that are denominated in foreign currency; it does not include loans contracted indirectly via credit institutions, which are included under "Other", or the Treasury bills and other government securities acquired by non-residents, which are included in the respective categories of domestic debt. The item also includes Treasury credit certificates in ecus stamped as being for circulation abroad.

Rounding may cause discrepancies in totals. The figures for the last year are provisional.

Table a21

The table shows the figures for both the old definition of the sector and the new one, which excludes the State Railways, Monopolies and Telephone Company from the item "autonomous government agencies and the like".

State sector debt: the changes in this item do not coincide with the flows shown in Table a20 since the debt is stated at face (or redemption) value and that denominated in foreign currency is translated at year-end exchange rates.

Medium and long-term securities: includes bonds issued by Crediop on behalf of the Treasury, autonomous government agencies and the like. The amount of these bonds is deducted from the lending of credit institutions to these entities.

Treasury credit certificates in ecus that are not stamped as being for circulation abroad and Treasury bills in ecus are included in the domestic debt.

PO deposits: comprises current accounts, net of "service" accounts and the proceeds of payments by the Treasury to municipalities and provinces that are held with the PO.

Lending by credit institutions: based on Bank of Italy Central Credit Register data since January 1989. Previously prudential returns were used for the banks and Central Credit Register data for the special credit institutions. The foreign debt includes only loans contracted directly in foreign currency and Treasury credit certificates in ecus that are stamped as being for circulation abroad.

Rounding may cause discrepancies in totals. The figures for the last year are provisional.

Table a22

Foreign sector: corresponds to the change in the net external position of BI-UIC, net of exchange rate adjustments.

Treasury: comprises the BI-UIC net purchases of government securities at issue, drawings by the Treasury on its account with the central bank and other minor items.

Open market: excludes the securities sold in connection with advances granted under the Ministerial Decree of 27.9.1974.

Deposits with BI: until September 1990, comprises the compulsory reserves, free reserves and deposits of collateral for banker's drafts. Since October 1990, the item comprises the reserve account, the free deposits of the banks not subject to the compulsory reserve requirement and deposits of collateral for banker's drafts.

Compulsory reserves: since October 1990 comprises the average reserve requirement in the maintenance period (from the 15th of one month to the 14th of the next) and compulsory reserves on net foreign currency fund-raising.

Other items: comprises cash on hand and undrawn ordinary advance facilities.

Monetary base financing of the Treasury: the last few months' figures for the borrowing requirement and its non-monetary financing are provisional.

Net sales of securities at issue: comprises total net subscriptions excluding those of BI-UIC (a minus sign indicates net purchases).

Other forms of financing: comprise PO deposits, foreign loans, deposits of social security institutions with the Treasury, surety deposits with the Savings and Loans Fund, and bank and special credit institution loans to autonomous government agencies.

Rounding may cause discrepancies in totals.

Table a23

Exchange rate adjustments are excluded from the calculation of the stock of monetary base corresponding to the "Foreign sector". This aggregate accordingly coincides with the net external position of BI-UIC. To ensure the consistency of the accounts, valuation adjustments are also excluded from the calculation of the stock corresponding to "Other sectors". Foreign currency swaps are translated using end-month exchange rates.

BI-UIC financing of the Treasury: includes the direct creation of liquidity by the Treasury.

Government securities and Treasury c/c: this item differs from the BI-UIC accounts because it includes securities sold in connection with advances granted under the Ministerial Decree of 27.9.1974. The year-end figures include unrealized capital losses on securities.

Deposits with BI: until September 1990, comprises the compulsory reserves, free reserves and deposits of collateral for banker's drafts. Since October 1990, the item comprises the reserve account, the free deposits of the banks not subject to the compulsory reserve requirement and deposits of collateral for banker's drafts.

Rounding may cause discrepancies in totals.

Table a24

Estimates of the average of the daily data in the maintenance period (from the 15th of one month to the 14th of the next).

Deposits with BI: until September 1990, comprises the compulsory reserves, free reserves and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts. Since October 1990, comprises the reserve account, compulsory reserve on net foreign currency fund-raising, the free deposits of the banks not subject to the compulsory reserve requirement and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts.

Twelve-month changes: in "Bank reserves" and "Repurchase agreements" are adjusted for the change in the compulsory reserve ratio.

Repurchase agreements: includes those with primary dealers in the screen-based secondary market for government securities.

Purchases: includes finance granted in connection with Treasury bill auctions.

Rounding may cause discrepancies in totals.

Table a25

Other operations: comprises finance granted to primary dealers on the screen-based secondary market for government securities; operations involving Treasury bills include finance granted in connection with auctions.

Rounding may cause discrepancies in totals.

Table a26

Competitive bid auctions. Prices are expressed in percentages.

Withholding tax is levied on gross yields at the rate of 12.5 per cent. The "Total" yields are averages weighted on the basis of the quantities sold.

Table a27

Competitive bid auctions. Yields are stated as percentages and amounts in billions of lire. The marginal yield is the minimum tender rate.

Table a28

Maximum amount: refers to the Treasury bills above a fixed proportion purchased at auction by the syndicate of banks that the Bank of Italy is prepared to finance.

The rate applied is the weighted average of the auction corresponding to the date of the transaction.

Table a29

Competitive bid auctions based on the spread (forward points) between the spot and forward rates.

The forward points are the points that have to be added to the spot rate to arrive at the forward rate.

Yields are stated as percentages and amounts in billions of Deutschemarks or US dollars; spot rates and forward points are stated in lire.

The yields are "indicative" rates computed with reference to the spread between the spot rate and the forward rate and to the Libor rate on the currency of the transaction.

Table a31

Discount rate: end-of-period figures.

Rate on fixed-term advances: until April 1991, the average of the rates on new operations; subsequently, end-of-period figures. Until 12 May 1991, the base rate was increased by 2.25, 1.25 and 0.5 percentage points for operations undertaken within respectively 5, 15 and 30 days of the preceding one. Since 13 May 1991, a single penalty rate is applied that the Bank of Italy is empowered to fix.

The rates on **Foreign currency swaps** and **Repurchase agreements** are simple averages of those on the operations concluded during the month.

Treasury bill yields: are given before tax. The "Average" yield refers to the average of the gross auction rates weighted according to the quantities sold to the market.

Table a32

The annual data refer to the month of December.

Interbank sight deposit rate: weighted monthly average of rates reported at 10-day intervals. The rates reported are the maximum rates applied to the lira sight deposits of resident credit institutions with a debit balance of more than 1 billion lire.

3-month Eurolira rate: monthly average of the bid rates recorded daily on lira interbank deposits in London.

Other interbank rates: monthly average of the rates recorded daily on the screen-based interbank deposit market.

Bank rates: weighted monthly average of rates reported at 10-day intervals.

ABI prime rate: based on the figures collected by the Italian Bankers' Association on unsecured overdraft facilities granted to prime customers. It does not include the maximum overdraft commission of 1/8 of a percentage point per quarter.

Table a33

The annual data refer to the month of December.

Loans from BI-UIC: based on the accounts of the Bank of Italy.

Bank reserves: also partly based on the accounts of the Bank of Italy. This item comprises lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, collateral for banker's drafts and the non-interest-bearing deposit against overshoots of the ceiling on loans.

Securities: stated at book value.

Bad debts: includes protested bills.

Capital and reserves: are those defined for supervisory purposes until November 1991; since then they have comprised own funds, loan loss provisions and the subordinated liabilities of domestic and foreign offices.

Interbank accounts: includes the liquid balances on correspondent accounts.

Interest-earning external assets and liabilities: refers to aggregates that do not coincide exactly with those included in the foreign exchange statistics. For the definition of these two items, see the Glossary published in the appendix to the *Relazione annuale della Banca d'Italia*.

Annual figures refer to the month of December.

Table a34

Securities: includes those denominated in ecus, while those issued by non-residents denominated in foreign currencies are included among the "Other assets" under the heading "Foreign assets".

Table a35

Source: Bank of Italy Central Credit Register.

Loans: includes the financing of compulsory stockpiling, bad debts and overdue and protested bills but not positions of less than 80 million lire.

Producer households: comprises one-man businesses and unincorporated enterprises with less than 20 employees, most of which engage in the production of goods and non-financial market services.

The twelve-month changes are computed without taking account of exchange rate adjustments.

Table a36

Foreign currency securities: includes government securities denominated in foreign currencies and Eurolira bonds.

Other financial assets: includes CDs, banker's acceptances and commercial paper.

The difference between "Total securities portfolio" and "Total net assets" consists of other net assets (mainly liquidity).

Rounding may cause discrepancies in totals.

Table a38

Yield at issue (Treasury credit certificates): the expected yield before and after tax in the months the first coupon matures, on the assumption that rates are unchanged over the period.

Table a39

Expected net yields: calculated with reference to securities listed on the Milan stock exchange. The Treasury bond sample comprises listed securities with a residual maturity of more than one year.

The expected yields of Treasury credit certificates and Treasury discount certificates assume no change in interest rates. Those of Treasury credit certificates in ecus are not comparable with the expected returns on lira investments. The expected yields of Treasury option certificates assume that the securities are not redeemed early.

Total return indices: refer to securities listed on the Milan stock exchange and are based as follows:

- 31 December 1980 for Treasury credit certificates;
- 26 January 1983 for Treasury credit certificates in ecus;
- 14 April 1988 for Treasury discount certificates;
- 30 December 1983 for Treasury bonds;
- 27 June 1989 for Treasury option certificates;
- 31 December 1984 for investment funds.

Table a40

For the definition of non-state sector monetary aggregates, see "*Relazione annuale per il 1992 – Glossario*". The definition of M2 corresponds to the "harmonized" definition of M3 within the EC.

Bank current accounts: comprises demand deposits in lire and foreign currency.

Other items: includes the banker's drafts issued by the Bank of Italy and other credit institutions and current account deposits with the Treasury.

Bank savings deposits: comprises savings and time deposits in lire and foreign currency.

Extended M2: includes the deposits of Italian banks with the branches of Italian banks abroad.

The average figures are calculated as the monthly averages of daily data, except for Post Office deposits and other minor items, which are calculated as two-term moving averages of end-of-month data.

Rounding may cause discrepancies in totals.

Table a41

For the definition of non-state sector liquid assets, see "*Relazione annuale per il 1992 – Glossario*". The definition of liquid assets corresponds to the "harmonized" definition of M4 within the EC.

The composition of the securities portfolio held by non-residents, which is needed to determine the securities portfolio of the non-state sector, is partially estimated.

Securities acquired under repos: since January 1990, includes foreign currency securities issued by residents.

Treasury bills in lire and ecus: stated at face value.

Rounding may cause discrepancies in totals.

Table a42

The table refers to the financial assets of the non-state sector, net of shares. In contrast with previous Bulletins, starting from December 1988 the construction of the foreign financial assets of the non-state sector has been brought into line with the methodology adopted in the new financial accounts (see *Relazione annuale per il 1992 – Note metodologiche*, Tables aD38-aD41).

Stocks are calculated at face value, except for the units of investment funds, which are shown at market prices.

The composition of the securities portfolio held by non-residents, which is needed to determine the securities portfolio of the non-state sector, is partly estimated.

Government securities: comprises Treasury credit certificates, bonds, certificates in ecus, discount certificates, ordinary certificates, option certificates, index-linked certificates, as well as certificates issued by social security institutions and the Deposits and Loans Fund, 5% annuities and school building loans. The item excludes government securities acquired by the non-state sector under repurchase agreements, included under liquid assets.

Other bonds: includes bonds issued by public and private sector enterprises, special credit institutions and local authorities. The item excludes bonds acquired by the non-state sector under repurchase agreements, included under liquid assets.

Other financial assets: the current accounts of stockpiling agencies with special credit institutions; the claims on special credit institutions of social security institutions, insurance companies, local authorities and individuals; current accounts and agricultural consortia with special credit institutions; enterprises' compulsory deposits and atypical securities. In order to avoid a statistical discontinuity, the data on the loans of special credit institutions contained in prudential returns have been adjusted for the period December 1974 – November 1992 since, as of December 1992, some of the funds managed on behalf of public entities are no longer included in the institutions' liabilities.

Total financial assets: includes the non-state sector's deposits with the foreign branches of Italian banks, foreign securities and medium and long-term loans granted to foreign borrowers.

Rounding may cause discrepancies in totals.

Table a43

In contrast with previous Bulletins, starting from December 1988 the construction of the foreign financing of the non-state sector has been brought into line with the methodology adopted in the new financial accounts (see *Relazione annuale per il 1992 – Note metodologiche*, Tables aD38-aD41).

In order to avoid a statistical discontinuity, the data on the loans of special credit institutions contained in prudential returns have been adjusted for the period December 1974 – November 1992 since, as of December 1992, some of the funds managed on behalf of public entities are no longer included in the definition of credit granted by special credit institutions.

Loans to the non-state sector: includes loans in foreign currency. The disaggregated data are partly estimated up to 1989.

Foreign loans: comprises foreign loans and bonds issued by the non-state sector held abroad.

Loans to the state sector: comprises the face value of the debt of the state sector, net of the bonds issued by the non-state sector held by the Savings and Loans Fund.

Rounding may cause discrepancies in totals.

Table a44

The table refers to end-of-period M2. For the new definition of non-state sector monetary aggregates, see "*Relazione annuale per il 1992 – Glossario*".

Official reserves: The figures differ from those of the balance-of-payments statistics. The discrepancies, which are in any case small, reflect the different methods used to value some of the external positions of the Bank of Italy and the Italian Foreign Exchange Office.

Loans to the non-state sector: comprises the financing provided by banks to the non-state sector.

Loans to the state sector: comprises the financing provided by banks to the state sector.

Other items: comprises the financing provided to special credit institutions by the Bank of Italy and banks, the "Other sectors" of the monetary base and residual items of bank balance sheets.

Rounding may cause discrepancies in totals.

Statistical aggregates

Autonomous government agencies

Roads (ANAS), post and telecommunications (PT), state forests, agricultural market intervention (AIMA) and, until December 1992, the state railways (FS), monopolies (MS) and telephone company (ASST).

Deposits and Loans Fund

Run by the Treasury, its resources consist of funds placed with the post office and its lending is almost all to local authorities.

M1: currency in circulation, residents' current accounts with banks in lire and foreign currency, current accounts with the post office, net of those held by banks, current accounts with other bodies, banker's drafts issued by the Bank of Italy and by credit institutions.

M2: M1 + residents' lira savings and time deposits with banks, certificates of deposit, savings accounts with the post office.

"extended" M2: M2 + residents' deposits with foreign branches of Italian banks.

Liquid assets: M2 + Treasury bills in lire and in ecus, bankers acceptances, post office savings certificates, banks' securities repurchase agreements with customers, certificates of deposit issued by special credit institutions.

Monetary base

- *notes and coin held by the non-state sector and banks*
- *deposits of the non-state sector and banks with the Bank of Italy*
- *deposits of banks with the Treasury*
- *banks' unused overdraft facilities with the Bank of Italy*
- *bills and current account overdrafts in respect of the financing of compulsory stockpiling and of corn marketing campaigns (until December 1988)*
- *banks' liquid foreign assets (sight deposits and short-term investments in respect of the part freely available and convertible into lire under the regulations governing borrowing from abroad and convertibility) (until 1983)*
- *Treasury bills used to meet banks' reserve requirement (until February 1976).*

Non-state public bodies

Local authorities and social security institutions.

Non-state sector

- *households*
- *firms (including public enterprises)*
- *insurance companies*
- *non-state public bodies.*

Private sector

- *households*
- *firms (including public enterprises).*

Public enterprises

- *ENEL and the state-controlled companies*
- *autonomous government agencies producing market goods and services*
- *municipal companies.*

Public sector

- *state sector*
- *local authorities*
- *social security institutions.*

State sector

- *central government*
- *Deposits and Loans Fund*
- *Southern Italy Development Agency (until April 1993)*
- *autonomous government agencies.*

Total domestic credit

- *bank lending in lire and foreign currency*
- *lending of the special credit institutions*
- *domestic bonds of firms and local authorities*
- *state sector borrowing requirement net of borrowing abroad and Treasury lending to credit intermediaries.*

Total credit

Total domestic credit and foreign loans and bonds issued by the non-state sector held abroad.

Statistical aggregates cont.
(Labour market)

Labour force

- *employed persons (excluding conscripts) plus job seekers (unemployed workers, first job seekers and other job seekers who were actively looking for a job in the previous four weeks).*

First job seekers

- *persons who have never worked or who have voluntarily not worked for over a year and who are looking for a job, have a job starting subsequently or plan to start a business and have the means to do so.*

Other job seekers

- *persons who declare they are of non-working status (housewives, students and pensioners, etc.) but also declare that they are seeking employment. This category also includes unemployed persons and first job seekers who plan to start a business but have not yet the means to do so.*

Unemployed workers

- *persons who have previously been in employment and who are seeking a job, have a job starting subsequently or plan to start a business and have the means to do so.*

Under-employed persons

- *persons working less than 26 hours in the survey week owing to lack of demand for labour.*

Unemployment

- *Unemployed workers + First job seekers + Other job seekers.*

Unemployment rate

- *ratio of unemployment to the labour force.*

Unemployment rate adjusted for Wage Supplementation

- *ratio of unemployment plus equivalent full-time workers on Wage Supplementation to the labour force.*

Scala mobile

- *Italian system of wage indexation. The mechanism, reformed in 1986, lapsed on 31 December 1991. The agreement on labour costs concluded by employers, unions and Government on 31 July 1992 recognized the definitive termination of the mechanism and provided for a wage increase of 20,000 lire per month to be paid to all employees in 1993 and subsequently incorporated into base pay.*

Wage Supplementation Fund

- *a fund administered by INPS to supplement the wages of workers in industry who have been temporarily laid off or put on short time without termination of employment. INPS (with a nominal contribution from firms) pays such workers up to about 80 per cent of their gross standard hourly rate within a limit that is currently about 60 per cent of average per capita earnings. "Ordinary" payments cover short-term layoffs (up to three months), "extraordinary" payments cover long-term layoffs (normally limited to two years).*

List of abbreviations

ABI	—	*Associazione bancaria italiana* Italian Bankers' Association
AIMA	—	*Azienda di stato per gli interventi sul mercato agricolo* Government Agency for Intervention in the Agricultural Market
BI-UIC	—	*Banca d'Italia – Ufficio italiano dei cambi* Bank of Italy – Italian Foreign Exchange Office
CICR	—	*Comitato interministeriale per il credito e il risparmio* Interministerial Committee for Credit and Savings (Credit Committee)
CIP	—	*Comitato interministeriale prezzi* Interministerial Committee on Prices
CIPE	—	*Comitato interministeriale per la programmazione economica* Interministerial Committee for Economic Planning
Confindustria	—	*Confederazione generale dell'industria italiana* Confederation of Italian Industry
Consob	—	*Commissione nazionale per le società e la borsa* Companies and Stock Exchange Commission .
EAGGF	—	*European Agricultural Guidance and Guarantee Fund*
EFIM	—	*Ente partecipazioni e finanziamento industria manifatturiera* Shareholding and Financing Agency for Manufacturing Industry
ENEL	—	*Ente nazionale per l'energia elettrica* National Electricity Agency
ENI	—	*Ente nazionale idrocarburi* National Hydrocarbon Agency
Iciap	—	*Imposta comunale per l'esercizio di imprese e di arti e professioni* Municipal tax on businesses and the self-employed
Ilor	—	*Imposta locale sui redditi* Local income tax
INAIL	—	*Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro* National Industrial Accidents Insurance Institute
INA	—	*Istituto nazionale delle assicurazioni* National Insurance Institute
INPS	—	*Istituto nazionale per la previdenza sociale* National Social Security Institute
INVIM	—	*Imposta sull'incremento di valore degli immobili* Capital gains tax on property
IRI	—	*Istituto per la ricostruzione industriale* Institute for Industrial Reconstruction
Irpef	—	*Imposta sul reddito delle persone fisiche* Personal income tax
Irpeg	—	*Imposta sul reddito delle persone giuridiche* Corporate income tax
Isco	—	*Istituto nazionale per lo studio della congiuntura* National Institute for the Study of the Economic Situation
ISPE	—	*Istituto di studi per la programmazione economica* Research Institute for Economic Planning
Istat	—	*Istituto nazionale di statistica* National Institute of Statistics
MIF	—	*Mercato italiano dei* futures Italian Futures Market
SACE	—	*Sezione per l'assicurazione dei crediti all'esportazione* Export Credit Insurance Agency
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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