BANCA D'ITALIA

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Economic Developments and Policies

The international economy

The cyclical differences between the major industrial countries became more pronounced during 1993. Economic activity grew by 2.9 per cent in the United States and by 2.5 per cent in Canada (Table 1). In the European Community, which changed its official title to that of "European Union" (EU) when the Maastricht Treaty came into effect on 1 November 1993, output fell by an average of 0.3 per cent, although it grew by more than 2 per cent in the United Kingdom. In Japan, whose GDP accounts for 14 per cent of the GDP of the industrial countries and equals about one third of that of the United States, output contracted by 0.5 per cent. Throughout the post-war period, and even in the last few years, Japan made a considerable contribution to the expansion of the world economy, with output rising by an average of 6.2 per cent a year. The recession in the developed countries affected world trade, which grew by less than 3 per cent, while trade between the industrial countries fell by 1.6 per cent in volume terms.

In the second half of last year the recovery in domestic demand gathered momentum in the United States and the United Kingdom, helped by the improved climate of confidence and continuing low interest rates. Signs of an upturn in the cycle have yet to appear in the other leading industrial countries. In Germany and France the contraction in output came to a halt. The economic situation in Japan deteriorated markedly in the second half of 1993, with GDP falling by 3.0 per cent on an annual basis compared with the preceding six months. The recovery in the United States helped to bolster activity in the rest of the world, thanks to an increase of about 12 per cent in the volume of imports. Europe benefited from this, but only to a small degree, as more than 70 per cent of the area's total exports go to other European countries and only 6.5 per cent to the United States. The prospects for recovery in Europe depend chiefly on the behaviour of domestic demand.

The continuing recession has led to a worsening of labour market conditions. Employment in the EU contracted by 2.1 per cent and the number of unemployed in the OECD countries rose to about 33 million; in Europe and Japan the unemployment rate is close to the peaks reached in the mid-eighties. Action to boost employment is now a priority of economic policy, as reflected in the introduction of macroeconomic and structural measures.

Inflation continued to decline, thanks to the weakness of economic activity, the slowdown in labour costs and the fall in the prices of raw materials, particularly oil. Despite the depth and length of the recession, consumer price inflation in the industrial countries has only fallen by an average of 1.4 percentage points from the cyclical peak of 5.1 per cent recorded in 1990, and few countries have experienced a fall of more than 2 percentage points.

Public-sector deficits increased, mainly on account of the downturn in economic activity, but also partly as a result of discretionary stimulatory measures in Canada, the United Kingdom, France and Japan. The only countries where the deficit was reduced were the United States, thanks to the recovery, and Italy, despite the recession. In the last few months of the year the United States, the United Kingdom and Japan re-affirmed their monetary policy stance aimed at sustaining output. In the

Table 1

Gross product and domestic demand in the leading industrial countries

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

	1992	1993 (1)	1993 H1	1993 H2 (1)
United States				
GDP	2.6	2.9	2.3	3.4
Domestic demand	2.9	3.8	3.3	4.2
Canada				
GDP	0.7	2.5	3.2	2.8
Domestic demand	–0.1	2.0	3.1	2.4
Japan				
GNP	1.4	–0.5	0.8	–3.0
Domestic demand	0.4	–0.4	1.3	–2.6
European Union				
GDP	0.7	–0.3	–1.2	1.2
Domestic demand	0.8	–1.6	–3.4	0.8
of which:				
Germany				
GDP	2.1	–1.5	....	....
Domestic demand	2.0	–1.5	....	....
of which:				
Western Länder				
GNP	0.6	–2.3	–3.5	0.2
Domestic demand	1.2	–2.5	–3.6	–0.7
France				
GDP	1.4	–0.9	–1.6	–0.1
Domestic demand	0.4	–1.2	–2.3	–0.1
Italy				
GDP	0.9	–0.7	–0.2	–1.1
Domestic demand	1.0	–5.0	–7.3	–1.2
United Kingdom				
GDP	–0.5	2.1	2.1	2.7
Domestic demand	0.4	1.6	1.2	2.3
Total OECD				
GDP	1.7	1.1	0.8	1.4
Domestic demand	1.7	0.9	0.4	1.5

Sources: OECD, Isco, Istat and national bulletins.

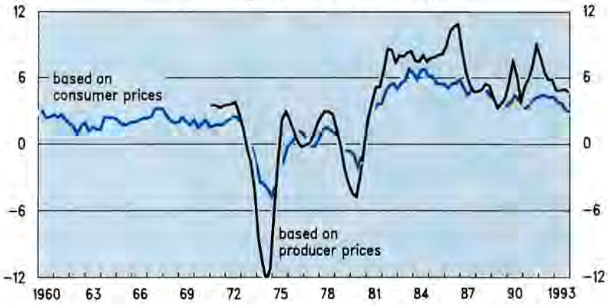
(1) For the United States, Germany and the United Kingdom, provisional data. For Italy, Isco estimates. For the other countries, OECD estimates.

United States, however, the Federal Reserve tightened monetary conditions at the beginning of February 1994, thereby inducing an increase in the federal funds rate, in order to forestall the risk of a resurgence of inflation during the recovery. In Germany, despite the worsening economic situation, the reduction in official rates was carried out gradually during 1993 on account of continued concern about money supply growth and inflation; the discount and lombard rates were reduced by half of one percentage point in October and the discount rate was lowered by a further half point on 18 February 1994. Short-term market rates continued to fall and are now below 6 per cent. Real long–term rates came down by an average of about 1 percentage point in the leading industrial countries in 1993, less than the decline in nominal rates; they remain high in comparison with the levels that prevailed in the sixties and in relation to the present phase of the cycle (Figure 1). Measured on the basis of expected changes in consumer prices, they are currently about 3.5 per cent; the major international organizations predict that consumer inflation will settle at around 2.5 per cent in the next few years. Real rates are higher when measured on the basis of the expected rate of increase in the producer prices of manufactures, which is normally lower than consumer price inflation.

Figure 1

Real long-term interest rates in the leading industrial countries (1)

(average quarterly data)



Sources: Istat, national bulletins, IMF and OECD.

(1) Nominal yields are deflated using the rate of increase in consumer prices and the producer prices of manufactures in the preceding twelve months (producer prices for December 1993 are estimated). 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 12.50 per cent); for the other leading industrial countries, gross yields on medium and long-term government bonds (5-10 years). The series for interest rates and for the price index for the seven countries as a whole are constructed as weighted geometric means of the component series; the weights are calculated on the basis of GDP (for interest rates and producer prices) and private consumption (for consumer prices) converted at the purchasing power parities calculated by the OECD.

Movements in the exchange rates of the major currencies reflected the increasingly divergent signals regarding economic recovery in the different economies and expected interest rate differentials. After the summer the dollar strengthened against the Deutschemark, continuing a trend that has lasted since September 1992. Until January of this year the dollar also appreciated against the yen; this helped the Japanese economy, but contributed nothing towards correcting the current account imbalance between the two countries. In the European exchange rate mechanism, the unrest of July that culminated in the decision to widen the fluctuation band in August was followed by a period of stability, helped by the relative weakness of the Deutschemark. In general, member countries chose not to exploit the greater exchange rate flexibility allowed by the wider band; interest rates were reduced gradually, so that they are now lower than before the EMS crisis in the summer of 1993. Germany continued to play a leading role in the determination of monetary conditions throughout the area.

Economic activity, inflation and the balance of payments in the industrial countries

The recovery in the United States gathered momentum in the second half of 1993 as a result of the growth in domestic demand, which benefited from the improved financial situation of households and the lower cost of borrowing. GDP grew at an annual rate of 3.4 per cent in the second half of the year and by 2.9 per cent in 1993 as a whole. The sustained growth in fixed investment and private consumption, which were respectively 12.3 and 4.0 per cent higher on an annual basis by comparison with the preceding half–year, was partly offset by a reduction in public spending and a negative contribution from the external sector. Industrial output rose by 4.0 per cent in the course of the year, the largest increase since 1988 (Figure 2). Economic activity quickened in the last few months of 1993; GDP rose at an annual rate of 5.9 per cent between the third and fourth quarters, and in January the capacity utilization rate almost equaled the peak recorded in the spring of 1989.

Figure 2

Industrial production (1)

(seasonally adjusted monthly data; indices, January 1992=100)

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

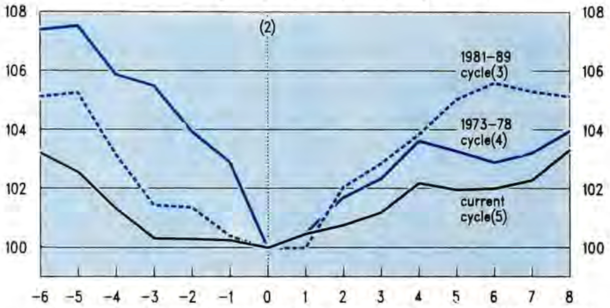
The current recovery in the US economy differs from the two periods of recovery in the wake of the oil crises of 1974 and 1980 in that the rate of growth is lower and the composition of demand different. From the trough of the cycle in the fourth quarter of 1991 onwards, average GDP growth has been weaker than in the previous recoveries, but more continuous (Figure 3). Consumer spending has increased more slowly, and expenditure on fixed investment more rapidly. Lower rates of growth combined with the weakness of raw materials prices have helped to curb inflation: consumer prices have been rising at an annual average rate of 3.0 per cent during the present recovery, compared with 3.8 and 7.3 per cent during the previous periods under examination. The increase in employment in relation to GDP growth has also been less than in the past; slower job creation is the result of the large–scale restructuring that has taken place in manufacturing and the contraction in the defence industry, whose workers are having difficulty finding jobs in other sectors. Moreover, non-wage labour costs, particularly health insurance contributions, are now higher, so that companies have an incentive to resort to overtime working rather than expand their workforce.

The recession in Japan deepened and the prospects of an imminent reversal of the cycle receded further. The business confidence indicator deteriorated sharply until the beginning of this year and shows no immediate signs of recovering. GDP fell by 0.5 per cent in 1993, with a pronounced contraction of about 3 per cent on an annual basis between the first and second halves. According to provisional figures from the OECD, domestic demand fell by 0.4 per cent during the year, despite the introduction of expansionary budget measures in August 1992 and April 1993 estimated to amount to around 5 per cent of GDP; in the first half of 1993 public investment increased by about 24 per cent in volume and public construction contracts were about 15 per cent higher than a year earlier. The contraction in domestic demand was attributable partly to the fall in share and property values and the pronounced slowdown in bank lending; long-term interest rates fell to 3.1 per cent at the end of 1993, compared with consumer price inflation of 1 per cent and a fall in producer prices that has been in progress for more than two years. The difficult financial situation of the corporate sector has been exacerbated by the large appreciation of the yen, which has reduced the profitability of exporting companies and led to an increase in company failures.

Figure 3

United States: comparison of economic cycles (1)

(seasonally adjusted quarterly data)



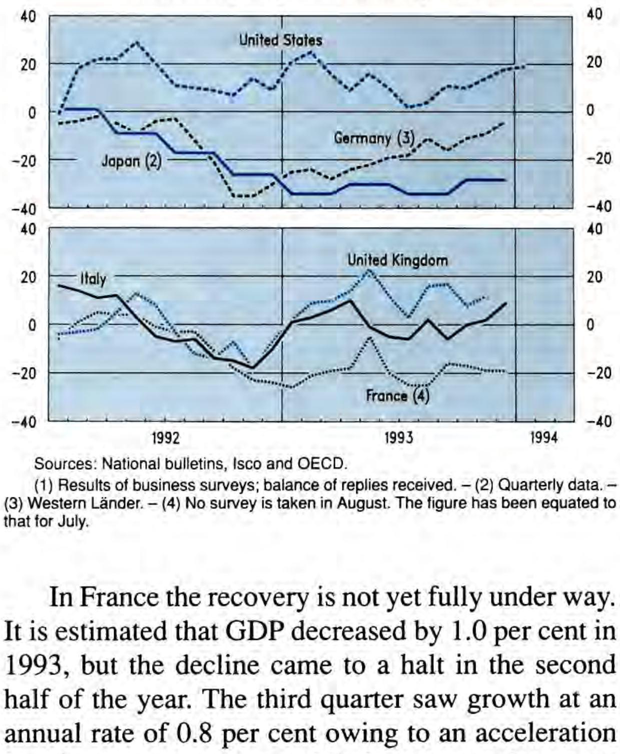
(1) Adjusted for the trend component calculated using the Hodrick-Prescott filter. – (2) Lowest point of the cycle. – (3) The lowest point of the cycle was reached in the fourth quarter of 1982. – (4) The lowest point of the cycle was reached in the first quarter of 1975. – (5) The lowest point of the cycle was reached in the fourth quarter of 1991.

Germany experienced the largest fall in output since the Second World War; according to preliminary estimates, GNP in the Western Länder declined by 2.3 per cent, with investment contracting by around 15 per cent. Output in the Eastern Länder increased by some 6 per cent, mainly in manufacturing and construction. The decline in activity in the Western part of the country came to a halt in the second half of the year, when GNP increased marginally (by 0.2 per cent on an annual basis by comparison with the first half). No clear signs of a turnaround have yet appeared, however. Industrial output recovered slightly in December (by 0.4 per cent over the month) after having declined in October and November; the confidence indicator improved considerably during the year, but remains negative (Figure 4).

Figure 4

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. – (4) No survey is taken in August. The figure has been equated to that for July.

In France the recovery is not yet fully under way. It is estimated that GDP decreased by 1.0 per cent in 1993, but the decline came to a halt in the second half of the year. The third quarter saw growth at an annual rate of 0.8 per cent owing to an acceleration in private consumption, while investment decreased by a further 1.9 per cent. Nevertheless, consumption again declined in the fourth quarter and business confidence remains depressed.

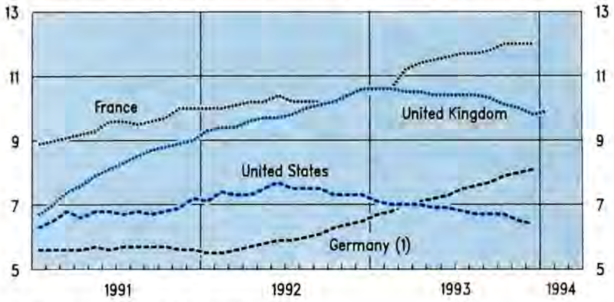
The United Kingdom was the only major European country to record significant growth; according to provisional data, GDP rose by 2.1 per cent last year, aided by the reduction in interest rates and the depreciation of sterling. In the second half of the year growth accelerated to an annual rate of 2.7 per cent owing to the large increase in private consumption and net exports. The latest indicators of economic performance also confirm that the expansion is continuing, without putting upward pressure on prices and to the considerable benefit of employment. In the last quarter of 1993 the number of persons in employment rose by about 140,000, much of the increase being in the services sector, and the unemployment rate declined to 9.9 per cent at the end of the year.

The employment problem worsened in continental Europe and Japan. The unemployment rate rose to very high levels by historical standards, increasing in Germany from 8.0 per cent at the end of 1992 to 9.5 per cent a year later (corresponding to about 4 million persons, 2.5 million in the West and 1.5 million in the East), from 10.5 to 12.0 per cent in France (around 3.3 million) and from 2.4 to 2.9 per cent in Japan, the highest level since the mid-eighties. It declined only in the United States (from 7.3 to 6.4 per cent) and in the United Kingdom (from 10.6 to 9.9 per cent) (Figure 5).

Figure 5

Unemployment rate

(seasonally adjusted monthly data; percentages)



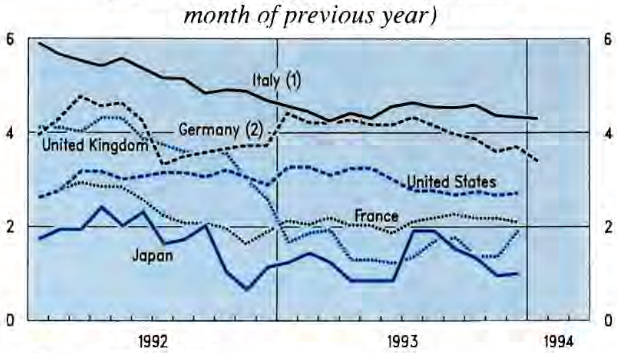
Sources: OECD and national bulletins.
(1) Western Länder.

In the major industrial countries there was a pause in the slowdown in inflation in the first half of the year but the downward trend resumed in the second (Figure 6). The twelve-month rate of increase in consumer prices fell from an average of 2.9 per cent at the beginning of 1993 to 2.7 per cent in July and 2.5 per cent at the end of the year. The slowdown was aided by the fall in the prices of primary energy products and the sharp slowdown in unit labour costs in manufacturing; in the United States, the United Kingdom and Canada the variation in unit labour costs even turned negative. In the course of 1993 the average dollar price of the main grades of oil fell by about 24 per cent to stand at $14 a barrel in January 1994, equal to the 1986 average. In the European countries whose currencies were devalued in 1992, the depreciation did not translate into an acceleration in inflation owing to the fall in domestic demand and, in some countries, incomes policies directed towards containing wage increases.

Figure 6

Consumer prices

(percentage changes on corresponding month of previous year)



Sources: OECD and Istat.
(1) From October 1993 onwards the data for Italy are estimated on the basis of movements in the cost-of-living index. – (2) Western Länder.

In the United States inflation remains at around the low level prevailing in the sixties, despite the recovery in economic activity. Producer prices have risen moderately in recent months; the twelve-month rate of increase in consumer prices remained at 2.7 per cent from August until the end of the year, compared with 3.3 per cent in January 1993. Excluding the more volatile components – energy and food products – consumer price inflation remains slightly higher than in the spring of 1993, but stable, at around 3 per cent. In Western Germany inflation began to decline in the second half of the year in response to the fall in demand and the slowdown in labour costs. The twelve-month rate of increase in consumer prices remained high until July (4.3 per cent), mainly owing to increases in rents and the prices of services, but then gradually declined to 3.5 per cent in January of this year. Producer prices rose less markedly, and some in fact decreased in the second half of the year. Between January and December 1993 the twelve-month rate of inflation fell from 1.3 to 1.0 per cent in Japan, remained steady at 2.1 per cent in France and rose slightly from 1.7 to 1.9 per cent in the United Kingdom.

In all of the industrial countries the employment problem has acquired considerable political prominence, and important macroeconomic and structural measures have been introduced in recent months to sustain employment and raise the efficiency of the labour market. In Germany the Government proposed a set of measures including the legalization of private employment agencies, incentives for unemployed persons to accept seasonal or lowly-paid work, and the promotion of part-time working. A major car manufacturer in that country reached agreement with the trade unions to shorten the working week from 36 to 29 hours and to reduce labour costs proportionately, while at the same time undertaking not to cut the level of employment further. The contract initialed recently in the chemical industry provides for greater labour flexibility and wage increases of 2 per cent in 1994, less than the expected rate of inflation. In France legislation has been introduced permitting young people to be paid less than the minimum wage, reducing employers' social security contributions, devolving responsibility for employment promotion programmes to the regions and encouraging reductions in working hours. In Spain, in an atmosphere of great social tension, a far-reaching reform of the labour market has been initiated which provides for the abolition of the state monopoly on recruitment services, the introduction of fixed-term employment contracts for young people and less restrictive conditions regarding dismissal, working hours and mobility.

Employment was high on the agenda for the authorities of the industrial countries. The Group of Seven called an interministerial conference to be held in March 1994 to examine employment promotion initiatives. In December the European Council approved the Commission's *White Paper on Growth, Competitiveness and Employment*. The White Paper lays down a medium-term framework for member countries' economic policies in various strategic areas: the labour market, education, research and development, investment in infrastructure. The European Council will assess progress periodically and may take specific initiatives to ensure achievement of the objectives set out in the White Paper.

With the economies of the United States and Japan remaining out of step with one another, their current account imbalances continued to increase. The US deficit exceeded $100 billion at an annual rate in the first three quarters of 1993, an increase of almost $37 billion over the preceding year. It had declined considerably as a percentage of GDP between 1988 and 1991, but it began to rise again thereafter, reaching 1.1 per cent in 1992 and 1.6 per cent last year. The United States' net external debtor position, which had stood at $612 billion at market prices at the end of 1992, therefore worsened. The trade deficit rose to about $130 billion at an annual rate in the first three quarters ($96 billion in 1992); the deficit vis-à-vis Japan and China increased, while that with the newly industrialized Asian economies declined slightly. Over the same period the balance with the EU deteriorated sharply, swinging from a surplus of $5 billion to a deficit of $7 billion at an annual rate; the US deficit vis-à-vis Italy rose from $3.6 billion in 1992 to more than $6 billion last year.

Japan's current account surplus rose to $131 billion in 1993; it remained unchanged in relation to GDP for the first time in three years, at 3.1 per cent. The increase in dollar terms was due partly to a rise in the trade surplus to $141 billion and partly to the surplus of $41 billion on investment income. The growth in the trade surplus reflected an improvement of about 8 per cent in the terms of trade as a result of the fall in raw materials prices and the appreciation of the yen. Imports rose by 3.7 per cent in volume and exports fell by 1.4 per cent.

Germany's current account deficit remained broadly unchanged in the first eleven months of 1993, amounting to about $23 billion on an annual basis and coming on top of the cumulative shortfall of $45 billion from the two preceding years. An improvement in the trade surplus was accompanied by a decrease in the surplus on investment income and an increase in the deficit on services, which continued to deteriorate, exceeding $30 billion on the same basis. In other European countries recession and, in some cases, the competitive advantages created by devaluation were reflected in an improvement in current account balances. In France the improvement in the first three quarters of 1993 was about $10 billion at an annual rate by comparison with 1992. In the United Kingdom the current account balance remains in deficit, although by less than in 1992 (some $13 billion in the first three quarters on an annual basis, compared with $15.5 billion in 1992). In Italy the improvement was considerable; a deficit of almost $27 billion in 1992 gave way to a surplus of about $8 billion in 1993.

Economic policies

In 1993 budget deficits increased on average from 4.0 to 4.6 per cent of GDP in the industrial countries and from 5.1 to 6.8 per cent in the European economies, mainly owing to the effects of the cyclical slowdown. Only the United States and Italy recorded a decrease. According to OECD estimates, the deficit adjusted for cyclical effects declined in the United States, Germany and Italy, and increased in France, the United Kingdom, Canada and most of the other industrial countries; in Japan, the adjusted surplus was slightly less than in the previous year.

In the United States, the federal budget deficit for the 1993 fiscal year, which ended in September, amounted to $255 billion, equal to about 4 per cent of GDP, compared with $290 billion in 1992. The reduction is mainly attributable to the improvement in economic conditions. In the autumn, at the same time as launching its plan for the reform of the health care system, the Administration presented a sweeping programme for the reform of federal government, the aim of which is to increase the efficiency of the federal bureaucracy by streamlining procedures and giving managers greater autonomy.

In Japan the central government budget is expected to show a small deficit equal to about 1 per cent of GNP for the financial year ending in March of this year, the first deficit since 1986. The deterioration is due mainly to the effects of the recession on tax revenues and an increase in public spending on investment. In the absence of signs of an imminent recovery, at the beginning of February 1994 the Government launched a package of stimulatory measures totaling more than 15 trillion yen, or about 3 per cent of GNP. For the first time, the measures included large reductions in direct taxes, amounting to about 6 trillion yen, as well as expenditure of 5.7 trillion yen on public investment.

In Germany preliminary figures suggest that the federal deficit rose from 1.4 to 2.3 per cent of GDP in 1993, with the general government deficit widening from 2.6 to 4.0 per cent. According to OECD estimates, the deterioration is attributable to cyclical factors; but for these effects, the general government deficit would have declined by 0.8 percentage points. The deficit for the enlarged public sector, which includes the Treuhandanstalt, the Post Office and the State Railways, increased from 4.4 to 6.0 per cent of GDP. Net transfers to the Eastern regions continued to rise, amounting to about DM 137 billion, or 4.4 per cent of the GDP of unified Germany.

In the United Kingdom the public sector borrowing requirement for the financial year ending in March 1994 is expected to increase to 8.2 per cent of GDP, compared with 6.2 per cent in 1992 and a broadly balanced budget in 1990. The budget for 1994-95 was presented at the end of November. The Government intends to reduce the deficit mainly by increasing revenues, with VAT being imposed on fuel, electricity and tobacco products. On the expenditure side, spending on transport, defence, housing and transfers to local authorities will be reduced. According to the Government's medium-term financial strategy, the corrective measures and the beneficial effects of the economic recovery and lower interest rates will lead to a substantial reduction in the borrowing requirement for the next financial year, to 5.5 per cent of GDP, and its elimination in 1998-99.

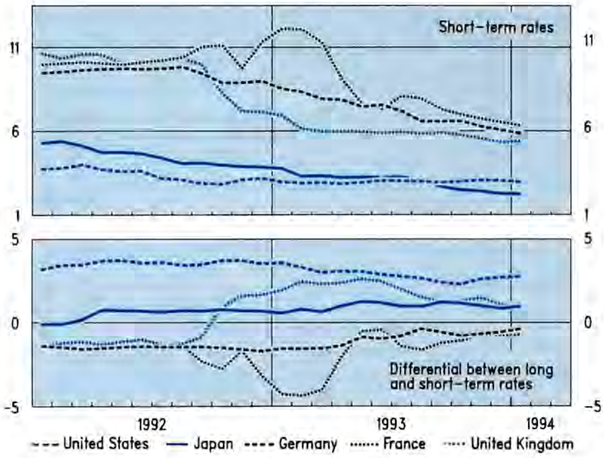
Budget deficits widened considerably in many industrial countries; between 1992 and 1993 the deficit increased from 6.1 to 9.1 per cent of GDP in Finland, from 11.1 to 14.8 per cent in Greece, from 4.6 to 8.2 per cent in Portugal, from 4.5 to 7.2 per cent in Spain and from 7.1 to 14.7 per cent in Sweden.

Monetary policy in the United States, Japan and the United Kingdom continued to be oriented primarily towards stimulating the recovery. Short-term interest rates in the United States remained broadly stable at around 3 per cent until the end of January 1994 (Figure 7). Long-term rates edged up in the third quarter of 1993 after having fallen slightly during the first half of the year; the yield on 10-year bonds rose by almost half a percentage point to average 5.8 per cent in January, the same level as in July 1993. Concern about the inflationary implications of the acceleration in growth prompted the Federal Reserve to tighten monetary conditions on 4 February 1994, causing the federal funds rate to rise by 0.2 percentage points. Nevertheless, the more restrictive monetary stance in the United States did not prevent a reduction of offical rates in Europe in mid-February. In Japan the fall in interest rates resumed in the second half of 1993 after having come to a halt in the spring. Short and long-term market interest rates fell to historically low levels of 2.3 and 3.2 per cent respectively in January of this year. The growth in the monetary and credit aggregates nonetheless remained very slow, with the reference aggregate (M2 plus CDs) showing a rise of 1.5 per cent between November-December 1992 and the same months of 1993; bank lending increased by only 0.5 per cent, the lowest annual rise ever recorded. The impact of the monetary stimulus was weakened by the difficulties of the banking industry, which is having to contend with a fall in profits and an increase in bad debts, mainly caused by the collapse in real estate values.

The decline in German interest rates, which had come to a halt over the summer, resumed in response to the half-point reduction in the discount and lombard rates to 5.75 and 6.75 per cent respectively on 21 October, thus continuing the downward trend that had begun in the third quarter of 1992. The rate on repurchase agreements was reduced by a total of 0.7 points between October and January, to stand at 6.0 per cent. Over the same period short-term market rates fell from 6.6 to 5.8 per cent and long-term rates declined from 5.8 to 5.5 per cent. The Bundesbank's caution in reducing the reference rates was prompted by the slowness of the decline in inflation and the continued rapid growth of M3, which showed twelve-month rates of increase of 7.2 per cent in November and 8.1 per cent in December, compared with a target range of 4.5-6.5 per cent. According to the Bundesbank, the growth in M3 in 1993 reflects extraordinary factors that are unlikely to recur this year, such as the effects of intervention to defend EMS central rates. The target range for M3 in 1994 has been set at 4-6 per cent, which is consistent with 2.5 per cent growth in potential output and an inflation rate of 2 per cent. On 18 February the discount rate was lowered by half a percentage point to 5.25 per cent, but the lombard and repo rates were left unchanged. Following the move by the German authorities, official rates were also reduced in most other European countries.

Figure 7

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.

In the wake of last summer's exchange rate tensions and the decision to widen the margins of fluctuation in the exchange rate mechanism of the EMS, the countries that still participate in the mechanism have nevertheless attempted to maintain stable exchange rates. After having risen in July, interest rates resumed the gradual decline that had begun in the autumn of 1992 (Appendix Table a5). In January 1994 short-term rates in France stood at 6.3 per cent, down from 12.1 per cent at the beginning of 1993 and 8.1 per cent in July; they were 8.8 per cent in Spain, 5.2 per cent in the Netherlands and 7 per cent in Belgium, compared with 11.3, 6.6 and 7.3 per cent respectively in July.

In the United Kingdom short-term interest rates decreased to 5.4 per cent, compared with 10.4 per cent in August 1992. The base rate was reduced by half a point in November and a quarter of a point in February of this year, to stand at 5.25 per cent, the lowest level for 16 years. Short-term rates in Italy fell to 8.4 per cent, about 10 percentage points lower than the peak recorded in September 1992.

On 1 January 1994 the second stage of Economic and Monetary Union in the EU countries began with the establishment of the European Monetary Institute and the implementation of important provisions aimed at reinforcing economic convergence among the member states. The independence of central banks will also be enhanced during the second stage; in this regard, the new Statutes of the Bank of France recently came into force.

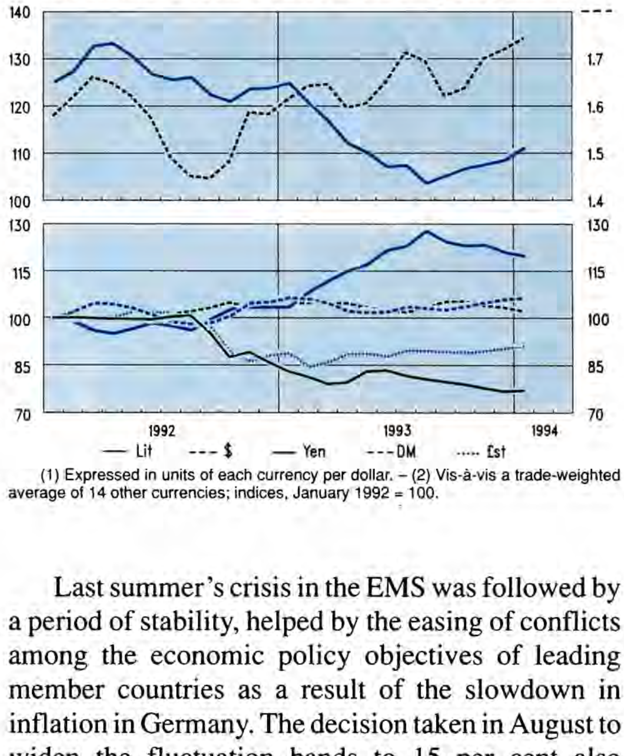
Exchange rates

In the second half of 1993 the dollar was buoyed up by the prospects for growth in the United States and expectations of a narrowing of interest rate differentials. The depreciation against the yen that had begun in April 1992 was reversed, with the dollar rising from a record low of 101 yen in August to 111 in January 1994. In mid-February, however, the dollar fell back sharply following the breakdown of trade negotiations between the United States and Japan, dropping to 102 yen in a matter of days. The appreciation of the dollar against the Deutschemark, which has been in progress since September 1992, albeit with large fluctuations, continued unabated, taking the US currency to DM 1.72 in February of this year after the increase in interest rates in the United States and the lowering of the discount rate in Germany. The dollar appreciated by about 4 per cent in effective terms in the second half of the year, returning in January to the average levels prevailing at the beginning of the nineties (Figure 8).

The yen fell by about 6 per cent in effective terms between August and January. This sudden reversal of the trend reflected the difficult economic conditions in Japan and expectations of further interest rate reductions. The weakness of the yen was also due partly to the fall of 13 per cent in share prices on the Tokyo Stock Exchange between August and December, which prompted portfolio adjustment in favour of foreign investments. There was a net capital outflow of around $20 billion in October alone, mostly in the form of portfolio investment; the net outflow for the year as a whole came to $126 billion, compared with $113 billion in 1992. In mid-February 1994, the failure of the negotiations with the United States aimed at increasing foreign access to the Japanese market and reducing the Japanese trade surplus triggered a rapid appreciation of the yen, which gained about 5 per cent against the dollar and more than 3 per cent vis-à-vis the Deutschemark in the space of a few days.

Figure 8

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

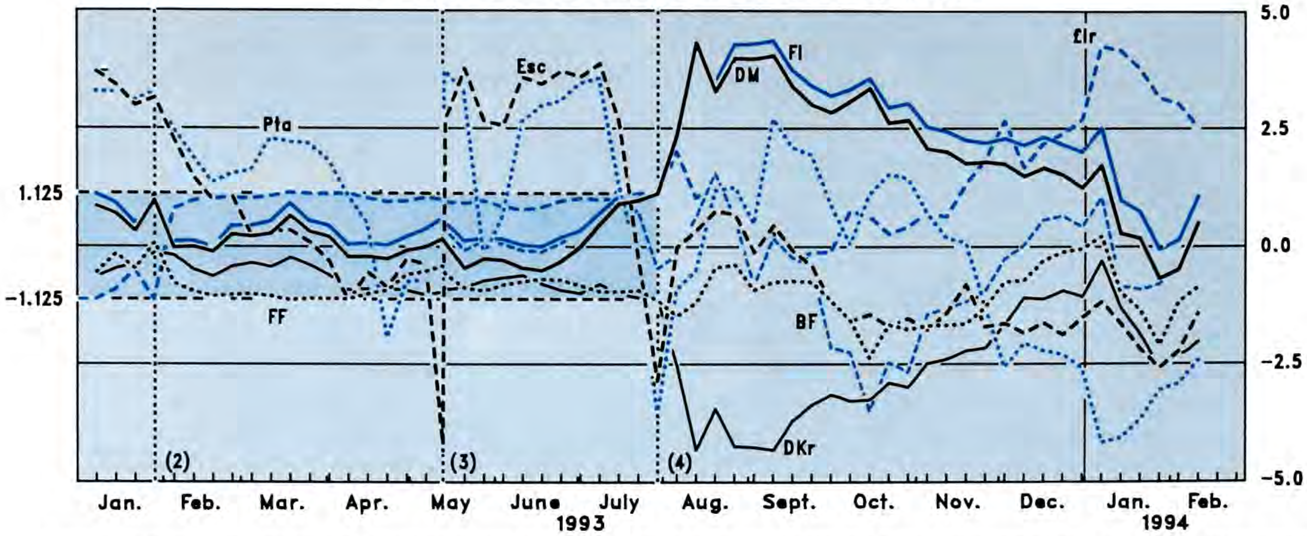


(1) Expressed in units of each currency per dollar. – (2) Vis-à-vis a trade-weighted average of 14 other currencies; indices, January 1992 = 100.

Last summer's crisis in the EMS was followed by a period of stability, helped by the easing of conflicts among the economic policy objectives of leading member countries as a result of the slowdown in inflation in Germany. The decision taken in August to widen the fluctuation bands to 15 per cent also restored exchange risk symmetry, reducing the scope for speculative gains. The other ERM currencies showed a general tendency to appreciate against the Deutschemark after the reduction in German official rates in October; in particular, the French and Belgian francs moved back within the 2.25 per cent fluctuation band that had applied until last August (Figure 9).

Figure 9

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 Deutschemark has weakened slightly since October; it depreciated by 3.2 per cent in effective terms between October and January, canceling the gain recorded in the first half of 1993, and declined by 2.8 per cent against the other EU currencies. The relative weakness of the Deutschemark was due to the effects of the recession and expectations of further interest rate cuts. The decline was arrested on a number of occasions by indications of a faster-than-expected rise in M3 and prices, which altered expectations of lower official rates.

The French franc strengthened against the Deutschemark in the latter part of 1993 to stand at FF 3.40 per Mark in January of this year, gaining about 3 per cent with respect to the low point recorded in October and returning to its level of July 1992. The appreciation was accompanied by a cautious easing of monetary conditions. The intervention and repo rates were lowered on 22 October, the day after the reduction in official rates in Germany, and again at the beginning of December, giving total reductions of 55 and 75 basis points respectively. The differential in relation to German short-term rates narrowed substantially, decreasing from 2.4 percentage points in the first week of August to 0.4 points in January; the long–term rate differential remained stable and close to zero over the same period. Once the strains within the EMS in the summer had been overcome, the Bank of France did not intervene again in defence of the franc, and between September and December it recouped about one quarter of the reserves expended in defending the central rate in July.

Among the other EMS currencies, the final months of 1993 saw a strengthening of the Danish krone, which had been the weakest currency, the Belgian franc and the Irish punt. However, the Spanish peseta has depreciated since October and become the weakest currency, reflecting the difficult economic and social conditions in Spain and the problems of a major Spanish banking group.

The pound sterling appreciated by about 5.6 per cent against the Deutschemark between October and January, entirely making good the fall it suffered following the EMS crisis in August 1993. By comparison with its level before being withdrawn from the ERM in September 1992, the pound is still about 8 per cent lower against the Deutschemark and 10 per cent down in effective terms; nevertheless, exports increased by barely 2.5 per cent in volume terms in 1993. Sterling benefited from the recovery in economic activity and the announcement of the measures to reduce the public deficit.

Movements in nominal exchange rates significantly altered the competitiveness of the major economic areas. According to preliminary estimates, the real effective exchange rate for the EU as a whole, computed on the basis of the producer prices of manufactures, fell by 7.8 per cent in 1993 and by 16 per cent compared with August 1992, returning to the 1989 level. Japan continued to lose competitiveness, as the yen appreciated by about 13 per cent in real terms in 1993, bringing the total loss since 1990 to more than 30 per cent. The real exchange rate of the US dollar rose slightly (by 1 per cent), returning to the average level of the last five years. Among European countries, the United Kingdom's loss of competitiveness was about 5 per cent in 1993, whereas gains were recorded by Spain (about 12 per cent), Italy (8 per cent) and Germany (3 per cent).

Central and Eastern Europe, the developing countries and recent international agreements on economic and trade integration

The economic situation in Russia remains critical. Real GDP, which fell by more than 30 per cent in the two years 1991-92, is estimated to have decreased by a further 10-12 per cent in 1993. Unemployment is put officially at around 1 per cent, but stands at about 6 per cent on the basis of a broader definition that includes workers in forced underemployment. According to IMF estimates, the deficit of the enlarged public sector rose from 6 per cent of GDP in the first half of the year to 14 per cent in the third quarter; it had been equivalent to 20 per cent of GDP in 1992. The shortfall has been financed largely by increasing recourse to central bank credit. Although the central bank's refinancing rate was raised from 117 to 593 per cent between May and October, it remains negative in real terms. The monthly inflation rate, which had declined from 27 to 12 per cent in 1993, rose above 20 per cent again in January of this year. The exchange rate of the rouble stabilized at about 1,200 per dollar in the final months of 1993, but fell sharply to around 1,600 in January following the results of the elections in December and greater uncertainty regarding the future of economic reforms. Russia recorded a trade surplus of about $7 billion in 1993, compared with $5 billion in 1992, with exports increasing by about 13 per cent in value terms.

There were signs of recovery last year in a number of Central and Eastern European countries that are at a more advanced stage in the process of stabilization and reform. In Poland and the Czech Republic real GDP rose by about 4 and 1 per cent respectively, and in Hungary output is thought to have declined by only about 1 per cent, compared with 5 per cent in 1992. Bulgaria, Slovakia and Romania, by contrast, suffered a decline in GDP of between 4 and 6 per cent. Unemployment continued to rise throughout the area, reaching peaks of 17 per cent in Bulgaria and Poland, 15 per cent in Slovakia and 13 per cent in Hungary. Budget deficits were virtually unchanged at between 5 and 7 per cent of GDP; the exceptions to the rule were Bulgaria, where the deficit rose to 12 per cent of GDP, and the Czech Republic, which balanced its budget. Inflation remains relatively high, ranging from an annual rate of 21 per cent in the Czech Republic to 60 per cent in Bulgaria; Romania was the exception, recording an annual rate of inflation of 275 per cent. The continued rapid rise in prices translated into a real appreciation of the countries' currencies. The resulting loss of competitiveness, combined with the weakness of economic activity in Europe and strong domestic demand, caused the area's aggregate current account deficit to increase to about $6.6 billion in 1993. The difficult balance-of–payments situation is compounded by a shortage of official reserves and the smallness of the inflows of direct investment. The region's growth prospects appear to depend increasingly on economic recovery in Europe and greater access to world markets for its products.

Rates of growth remained high in the newly industrialized economies of Asia, with output increasing by about 6 per cent in 1993. The effects of weak demand in the OECD countries were outweighed by an increase in domestic demand and intraregional trade. China's economy continued to grow at an exceptionally rapid pace, expanding by about 13 per cent for the second consecutive year. The growth was largely investment-driven. Inflation rose to an annual rate of 23 per cent in July; in the same month the Government approved an austerity programme to prevent the economy from overheating. In Latin America, growth accelerated to 3.5 per cent; the improvement in the economic situation fostered a net inflow of foreign capital, estimated at about $40 billion in the year as a whole.

Major progress towards the liberalization of international trade has been achieved in recent months with the conclusion of the Uruguay Round of the GATT and the implementation of the North American Free Trade Agreement (NAFTA) and the agreement establishing the European Economic Area. On 15 December, after seven years of negotiations, the 117 members of the GATT reached an agreement that cuts duties on industrial goods, reduces agricultural subsidies and eases quantitative restrictions on imports of textiles. They also agreed to extend the GATT to trade in services and the protection of intellectual property rights, to strengthen the multilateral anti-dumping procedures and to create a World Trade Organization. The agreement will increase the transparency of the international trading system, which will now be oriented more strongly towards multilateral arrangements, and will facilitate the economic integration of the developing countries and the countries making the transition to a market economy.

The North American Free Trade Agreement between the United States, Canada and Mexico came into force on 1 January 1994. The agreement governs relations between the countries in the matters of market access, protection of intellectual property and the resolution of disputes, but does not extend to the free movement of persons or capital, nor does it establish any supranational bodies. In order to secure ratification in the US Congress, side agreements were recently concluded that guarantee compliance with environmental protection and labour laws in Mexico and temporarily strengthen protection for a number of industries in the United States. The free trade area has an aggregate GDP of more than $7 trillion, slightly larger than that of the EU, and a population of about 370 million (compared with 330 million in the EU). The NAFTA members differ widely in terms of their development and economic structure, with Mexico having a per capita GDP only one-seventh of the average for the other two countries.

On the same date the treaty establishing the European Economic Area between the EU and EFTA excluding Switzerland came into force after ratification by national parliaments. In addition to the free movement of goods, services and capital, the agreement provides for the free movement of labour and the harmonization of national competition regulations.

The Italian economy and the balance of payments

Although some of the major structural problems afflicting the Italian economy are being tackled, the decline in output and employment worsened in 1993 and the prevailing mood among households and firms continued to be one of lack of confidence and uncertainty. This had a strong effect on spending and the formation of prices and incomes. In the first three quarters GDP was 0.7 per cent lower than in the same period of 1992.

The crisis of confidence generated by events in the financial and foreign exchange markets in the second half of 1992, the contraction in real disposable incomes and precarious job prospects prompted households to reduce their consumption in volume terms for the first time since the Second World War (Table 2). Firms generally had low and uncertain expectations of demand and consequently cut their investment plans drastically. Both domestic and foreign demand contributed on an unprecedented scale to the 0.7 per cent change in GDP in the first nine months of 1993, with the decline in domestic demand and the increase in net exports contributing respectively –5.7 and 5.0 percentage points. The improvement in competitiveness brought about by the depreciation of the lira and the slowdown in unit labour costs led to exceptional gains in foreign market shares; together with a fall in imports that was almost double that in domestic demand, this produced a substantial trade surplus, currently estimated at almost 50 trillion lire. The current account of the balance of payments closed the year with a surplus of more than 13 trillion lire, an improvement of just under 48 trillion lire by comparison with the outturn for 1992, or more than 3 per cent of GDP.

Table 2

Sources and uses of income

(percentage changes on corresponding period of previous year; seasonally adjusted figures at 1985 prices)

	1992					1993			
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	9 months
Gross domestic product	**1.7**	**1.5**	**0.7**	**–0.3**	**0.9**	**–0.9**	**–0.6**	**–0.5**	**–0.7**
Imports of goods and services	8.8	5.2	4.9	–0.5	4.6	–10.4	–9.9	–10.1	–10.1
Total resources	3.3	2.3	1.7	–0.3	1.7	–3.1	–2.6	–2.6	–2.8
Households' consumption	2.7	2.7	1.7	0.2	1.8	–1.4	–2.2	–1.9	–1.8
of which: non-durable & semi-durable goods, services	*2.5*	*2.4*	*1.5*	*0.4*	*1.7*	*–0.5*	*–0.9*	*–0.5*	*–0.6*
durable goods	*3.8*	*4.5*	*2.6*	*–0.9*	*2.5*	*–7.2*	*–10.7*	*–11.0*	*–9.7*
Gross fixed investment	3.2	0.4	–3.1	–6.0	–1.4	–8.7	–9.2	–9.4	–9.1
of which: machinery and equipment	*6.3*	*1.2*	*–3.0*	*–7.6*	*–0.9*	*–10.1*	*–10.9*	*–12.2*	*–11.1*
transport equipment	*2.0*	*7.3*	*–4.6*	*–11.9*	*–1.9*	*–22.2*	*–24.7*	*–22.2*	*–23.1*
buildings	*0.7*	*–1.6*	*–2.9*	*–3.3*	*–1.8*	*–4.5*	*–4.3*	*–4.4*	*–4.4*
Exports of goods and services	3.4	2.6	8.7	5.3	5.0	8.2	11.2	7.2	8.8
Domestic demand (including stocks)	**3.2**	**2.3**	**0.1**	**–1.6**	**1.0**	**–5.7**	**–5.7**	**–5.0**	**–5.5**

Source: Istat.

Industrial production was particularly affected by the recession, falling by 2.8 per cent compared with the previous year. The index declined sharply in the first half-year, by 4.2 per cent in relation to the same period of 1992, but now appears to have touched bottom. In the services sector, value added was only 0.5 per cent higher in the first nine months of 1993 than in the same period of 1992. The low level of economic activity affected employment; last summer's estimates were confirmed by labour force surveys in October, which found more than 500,000 fewer workers in employment than in October 1992. All sectors were affected, including services, which in earlier recessions had offset job losses in industry. Based on Istat's new definition, the unemployment rate rose from 9.7 per cent in October 1992 to 11.3 per cent a year later.

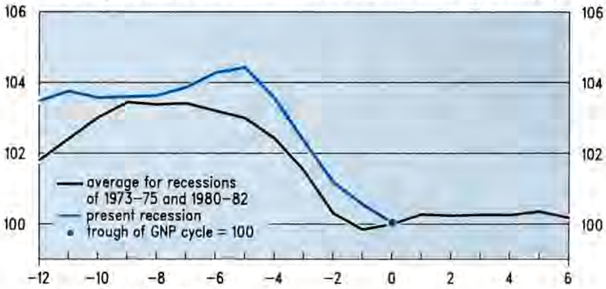
Prices recorded their smallest increase for twenty-five years in 1993, with the cost-of-living index rising by an average of 4.2 per cent (against 5.4 per cent in 1992), 0.3 points lower than the Government's target rate. This achievement was attributable on the one hand to the decline in the dollar prices of imported inputs and cautious pricing by foreign exporters of manufactured goods to Italy, and on the other to wage restraint resulting from the incomes policy agreed between the Government, employers and trade unions, the weakness of domestic demand and a monetary policy stance aimed at stabilizing expectations (see *Economic Bulletin*, No. 17, October 1993).

Domestic demand and output

Household consumption contracted in the first nine months of 1993, although the rate of decrease progressively slowed down. It fell by 1.0 per cent in the first quarter compared with the previous period, but was broadly stable in the third, so that the decline for the three quarters as a whole worked out at 1.8 per cent with respect to the corresponding period of 1992. It was the first time in the post-war period that household spending had declined for five consecutive quarters; not even in the recession in 1974 and 1975 following the first oil crisis was the contraction so protracted. There was a particularly sharp drop in purchases of durable goods, with spending on cars falling by an average of 20.4 per cent for the year. Spending on non-durable and semi-durable goods and services has stagnated since the beginning of the summer.

Figure 10

Households' consumption: comparison between three economic cycles (1)



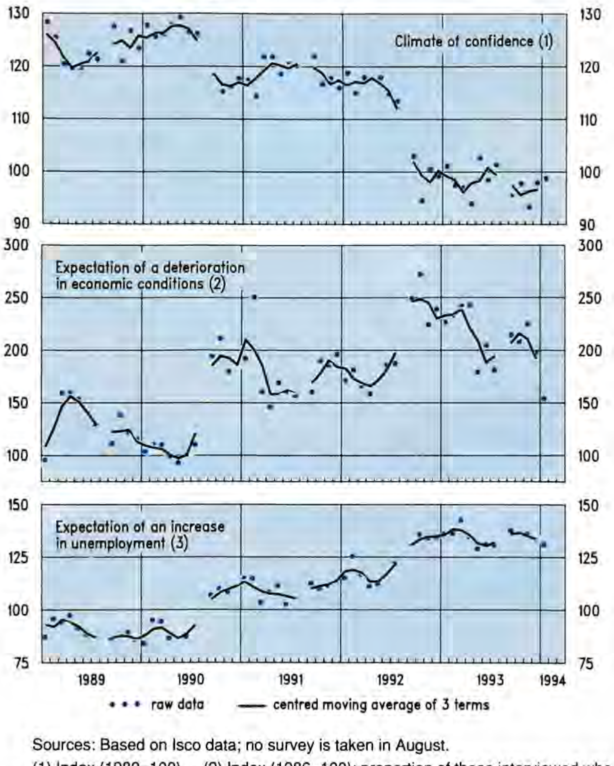
Source: Based on Istat data.

(1) Adjusted for the trend component, calculated using the Hodrick-Prescott filter. By convention, the trough of the GDP cycle in the current recession is placed in the third quarter of 1993.

Wage restraint, the fall in employment and higher taxes reduced real disposable incomes by an estimated 2.5 per cent in the first three quarters of 1993 compared with the corresponding period a year earlier. However, had consumers perceived the contraction as a cyclical phenomenon that would not significantly reduce their "permanent" income, the effects on consumption would have been much less severe, as was the case in similar situations in the past. Households' behaviour was especially affected by greater pessimism and uncertainty about economic prospects. The crisis of consumer confidence that began in the second half of 1992 in connection with the difficulties affecting the lira and the financial markets continued to affect spending decisions in 1993, and its negative effects outweighed the boost generated by the improvement in competitiveness as a result of the depreciation of the lira. By constructing an indicator of the cyclical component of household consumption (adjusted to eliminate the underlying trend) it is possible to illustrate the contrast between the current recession and the downturns in 1973-75 and 1980-82 (Figure 10). Consumption continued to rise until mid-1992, running counter to the overall trend in economic activity and contrasting with its behaviour in the earlier recessions. The currency crisis that came to a head in September 1992 coincided with an abrupt fall in the monthly Isco indicator of household confidence (Figure 11) and a decline of just over 2 per cent in the cyclical component of consumption between the first and second halves of 1992. The deepening of the recession and the worsening of employment prospects fueled consumer pessimism during 1993. The household confidence indicator remained below the levels recorded in past recessions throughout the year, reaching a record low in November. Against this background, the average propensity to save declined by a smaller amount in the first half of 1993 than might have been expected on the basis of past recessions, and actually stabilized in the third quarter, as the improvement in the financial balance of consumer households also suggests.

Figure 11

Climate of confidence, view of the outlook for the economy and expectations of unemployment among consumer households



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.

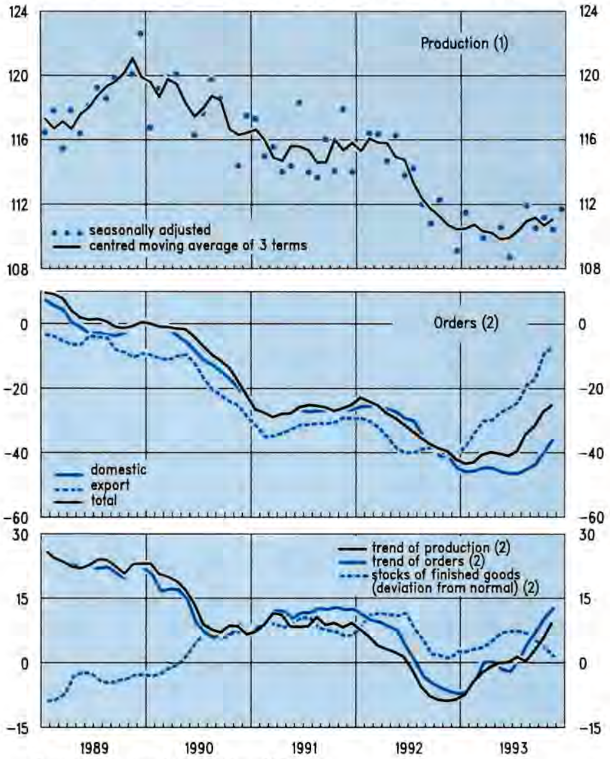
The decline in gross fixed investment that has been in progress for more than two years continued in the third quarter of 1993, with investment 1.8 per cent down on the previous quarter and 9.4 per cent lower than in the corresponding period of 1992. Averaged over the first three quarters, the fall with respect to the same period a year earlier came to 9.1 per cent. The decline in purchases of machinery, equipment and transport equipment was particularly sharp. Spending on construction was also significantly lower, owing to the slowdown in the awarding of public works contracts and the difficulties facing private residential construction; in the first quarter, the most recent period for which figures are available, the number of building permits issued was 16.0 per cent lower than in the corresponding period of 1992.

Among the principal factors underlying the sharp fall in investment last year was the weakness of the medium-term demand expectations of firms, which took note of the lack of improvement in consumer confidence and were themselves uncertain and pessimistic about the imminence and strength of the recovery in the international and domestic economies; other factors were low capacity utilization rates, the debt situation of many firms (according to a survey carried out by the Bank of Italy last autumn, about 40 per cent of firms are heavily indebted) and high real interest rates, despite a reduction during the year that brought them more closely in line with those prevailing in the other leading industrial countries. However, the fall in nominal interest rates helped alleviate firms' financial difficulties.

The supply side of the economy adjusted to the fall in domestic demand. Industrial output in the second half of 1993 was slightly higher than in the first half of the year, rising by 0.5 per cent. In December the index of industrial production recorded a seasonally adjusted increase of 1.1 per cent with respect to the previous month and one of 2.3 per cent compared with a year earlier (Figure 12). Capacity utilization rates remained low throughout the year. The production of capital goods fell by a further 1.4 per cent between the second and third quarters, whereas the output of consumer goods recovered slightly (by 0.8 per cent) in response to an increase in foreign orders; the output of intermediate goods was virtually unchanged, rising by 0.2 per cent. The industrial sectors worst affected by the recession were those producing transport equipment, "other industrial goods" and office equipment and precision instruments, which recorded falls of 17.2, 12.7 and 9.0 per cent respectively in the first ten months of the year by comparison with the same period of 1992.

Figure 12

Industrial output, demand and stocks



Source: 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 services sector was not immune to the general recessionary climate. The few indicators available show a fall in activity in the distributive trades, with the Istat retail sales survey recording a real decline of 4.0 per cent in the first nine months of the year compared with the corresponding period of 1992. The deepening of the recession was also reflected in high business mortality; a survey carried out by the Chambers of Commerce shows that business closures exceeded new formations by 41,000 in the first six months of 1993. This phenomenon was also partly due to the intensification of the restructuring that has been under way in the sector in recent years, which has led to a gradual reduction in the number of small shops. In the first three quarters of 1993 the turnover of medium and large stores was broadly unchanged, while that of small outlets declined. An Isco survey of the distributive trades, which also enquired into expectations of sales in the next six months, painted a similar picture, with only medium and large stores reporting a favourable outlook for the first half of 1994.

Other service industries also felt the effects of the recession. After seven years of growth, railway usage declined significantly in 1993, with freight traffic falling by an average of 9 per cent and passenger traffic by about 3 per cent, according to preliminary estimates. In the first half of the year, the number of overnight stays in hotels was lower than in the corresponding period of 1992.

Employment and the labour market

In December Istat published the results of the quarterly labour force survey conducted in October, the first that allow a comparison with the previous year following the changes in methodology. They confirm the serious labour market problems that had already been revealed in the forecasts and estimates made by the Bank of Italy last summer. Employment fell by 556,000 persons in the twelve months to October (2.7 per cent) and by an average of 2.9 per cent in 1993 (Table 3). The bulk of the decline occurred in the first half of the year, but the contraction continued at a less rapid pace in the second half, so that there was a fall of 630,000 between January and October (3.0 per cent on a seasonally adjusted basis; Figure 13).

Employment was also affected by non-cyclical factors, foremost among which were the lagged effects of changes in the relative cost of labour in recent years.

Table 3

Labour force survey (1)
(thousands of persons and percentage changes)

	October 1992	October 1993	Percentage change
Labour force	**22,949**	**22,743**	**-0.9**
Persons in employment ...	**20,732**	**20,176**	**-2.7**
Agriculture	1,675	1,544	-7.8
of which: employees	*726*	*640*	*-11.8*
Industry	6.821	6.650	-2,5
of which: employees	*5,559*	*5,423*	*-3.0*
Industry excluding construction	5,064	4,956	-2.1
Construction	1,757	1,695	-3.5
Other activities	12,237	11,983	-2.1
of which: employees	*8,373*	*8,264*	*-1.3*
Persons seeking employment	**2,217**	**2,567**	**15.8**
Unemployed	737	919	24.7
First job seekers	984	1,127	14.5
Other	496	521	5.0
Participation rate	**40.9**	**40.5**	**-0.4** (2)
Unemployment rate	**9.7**	**11.3**	**1.6** (2)

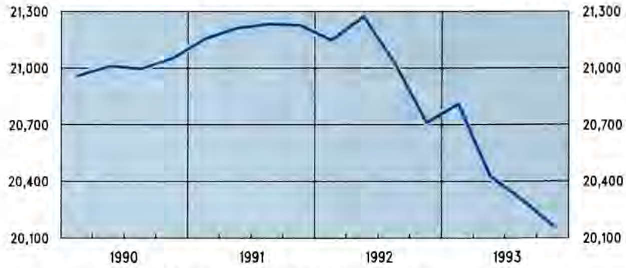
Source: Istat.
(1) Based on the new questionnaire. The figures for October 1992 have been adjusted by Istat on the basis of the new extrapolation coefficients used since April 1993. – (2) Change in percentage points.

In contrast to past recessions, the decline in employment affected all sectors of the economy and all categories of workers. Figure 14 compares the cyclical component of employment in industry and market services in the present recession with that in the previous two downturns. The current situation is notable for the sharp cyclical fall in employment in the services sector.

Employment in market services fell by 254,000 persons between October 1992 and October 1993, a decrease of 2.1 per cent. In terms of standard labour units, the decline in the first nine months of the year averaged 2.6 per cent compared with the same period of 1992 and was concentrated among the self-employed (3.8 per cent). A slightly less gloomy picture emerges from the Istat monthly survey of firms in the services sector with more than 500 employees; here employment was 1.4 per cent lower between the two periods. Employment in the public sector, which had increased in the first few years of the decade, remained unchanged at the level reached at the end of 1992.

Figure 13

Total employment (1)
(corrected, seasonally adjusted data; thousands of persons)



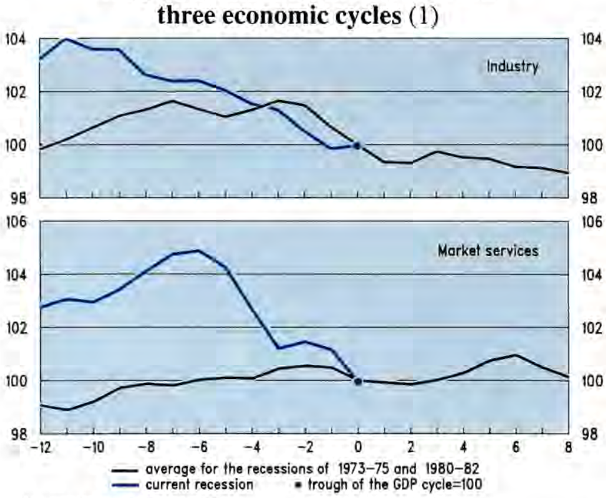
Sources: Estimated on the basis of Istat data (sample labour force survey).
(1) Data relating to periods before October 1992 have been recalculated using the new extrapolation coefficients based on the 1991 population census. 14-year-olds, whom Istat has not included in the surveys since October 1992, have been excluded from the entire series. The figure for April 1992 has been recalculated on the basis of the survey conducted in May of that year. The series has been adjusted for seasonal variations using the X11-Arima method.

The decline in industrial employment in the twelve months to October 1993 (by 2.5 per cent, or 171,000 persons) was accentuated by a sharp fall in employment in the construction industry (by 3.5 per cent for the country as a whole and by 8.2 per cent in the South) as a result of both cyclical factors and the postponement of public works projects. Employment in industry excluding construction fell by 2.1 per cent over the same period, a smaller decrease than in 1992. Industrial firms with more than 500 employees also recorded smaller twelve-month declines in the final months of 1993, with a 4.7 per cent fall in November, as against 6.7 per cent in January.

As the recession deepened, firms initially increased their recourse to the Wage Supplementation Fund and then began to dismiss workers. After increasing in late 1992 and early 1993, the number of hours compensated declined in the second and third quarters. At the same time, the use of collective redundancy procedures became more widespread; applications for mobility benefit received by the National Social Security Institute between January and September 1993 were more than 30 per cent higher than in the same period of 1992.

Figure 14

Employment: comparison between three economic cycles (1)



Source: Based on Istat data.

(1) Adjusted for the trend component, calculated using the Hodrick-Prescott filter. By convention, the trough of the GDP cycle in the current recession is placed in the third quarter of 1993.

In the South, employment fell by nearly five per cent in the twelve months to October 1993, more than twice the 1.9 per cent decline recorded in the Centre and North.

The depth of the recession is reflected in the unemployment rate, which rose from 9.7 to 11.3 per cent between October 1992 and October 1993 (equal to more than 2.5 million persons) despite excluding those receiving wage supplementation. Unemployment rose everywhere but there were regional disparities in the size of the increase; the rate rose by about 1 percentage point in the Centre and North (from 6.5 to 7.7 per cent) and by just over 2.5 points in the South (from 16.4 to 19.0 per cent). The gap between the two areas thus widened to more than 11 percentage points.

The increase in unemployment reflected only part of the fall in employment, as many of those who lost their jobs became discouraged and withdrew from the labour market. As a result, the labour force participation rate declined from 40.9 to 40.5 per cent (Table 3).

The new incomes policy that was launched with the abolition of wage indexation in 1992 and endorsed by last summer's agreement between business, labour and the Government had a beneficial impact on the rate of increase in nominal wages. In 1993 wages in the private sector rose at a very modest rate and significantly less than in previous years. Wage increases during the year followed the pattern set under existing labour contracts, which in many sectors of industry provided for rises during the middle months of the year.

The growth in contractual wages per employee in industry excluding construction averaged 4.2 per cent in 1993; according to preliminary estimates, this was slightly larger than the increase in effective earnings, which were affected by a reduction in overtime working and the almost complete absence of supplementary wage bargaining at company level as a result of the suspension of such negotiations under the agreement of 31 July 1992 and the difficult economic situation. Per capita earnings in market services rose in step with those in industry excluding construction, increasing by an estimated average annual rate of 4 per cent. Earnings in the building industry rose by much less (just over 1 per cent). In the non-agricultural private sector, per capita earnings therefore probably rose by slightly less than 4 per cent. In the public sector, however, the freeze on wage negotiations limited the increase to 1.5 per cent.

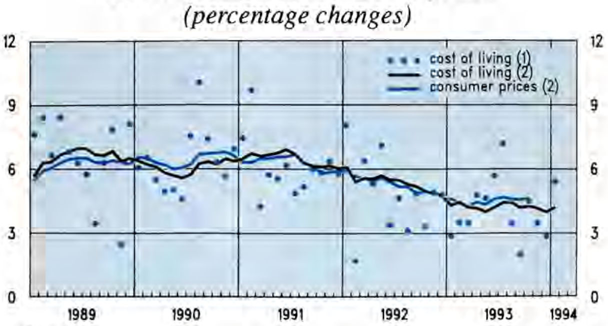
The simultaneous slowdown in consumer price inflation limited the loss of purchasing power of private sector earnings to a few tenths of a point, while public sector earnings suffered a larger reduction. Net of tax and social security contributions, the decline was more pronounced; applying current tax rates to average per capita earnings in the non-agricultural private sector, the cumulative real loss in the two years 1992-93 came to just over 1.5 per cent.

Costs and prices

As measured by the cost-of-living index, inflation averaged 4.2 per cent in 1993, the lowest rate of increase since 1970. There was a sharp slowdown in the first half of the year, after which the index fluctuated, recording a twelve-month rate of 4.0 per cent in December (Figure 15).

Figure 15

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.

Compared with the corresponding period of 1992, consumer prices were 4.5 per cent higher in the eleven months to November, the latest month for which figures are available. The average rate of increase for 1993 as a whole is thus expected to be higher than the increase in the cost of living, although much of the divergence between the two rates is attributable to differences in weighting. The twelve-month rate of increase in consumer prices accelerated slightly from 4.4 per cent in the first half to 4.6 per cent in the third quarter, owing mainly to rent increases, but then returned to its previous level.

The moderate pace of inflation in 1993 reflected lower dollar prices for imported raw materials, which offset much of the sharp depreciation of the lira, pricing policies by foreign firms aimed at defending their market shares even at the cost of narrower profit margins and, above all, the containment of unit labour costs and the weakness of domestic demand. The recession also prompted producers of goods and services in industries not exposed to foreign competition to moderate their price increases, which for the first time in about ten years were only slightly higher than those in other industries.

The inflation differential vis-à-vis the three EU countries with the lowest inflation, calculated on the basis of the consumer price index, stood at 2.9 percentage points in November, virtually unchanged from the 2.8 point difference recorded in January 1993 (Table 4). The differentials with respect to France and Germany narrowed to averages of 2.4 and 0.3 points respectively in the first eleven months of the year.

Table 4

Consumer price inflation differentials between Italy and other EU countries
(differentials between 12-month rates of increase)

	Italy: cost of living			Italy: consumer prices		
	Three countries with lowest inflation	France	Germany	Three countries with lowest inflation	France	Germany
1992 – Jan.	3.7	3.5	2.1	3.6	3.3	1.9
Feb.	2.9	2.6	1.1	3.2	2.9	1.4
Mar.	2.8	2.6	0.8	2.8	2.6	0.8
Apr.	2.9	2.7	1.0	2.7	2.6	0.9
May	3.0	2.9	1.1	2.8	2.7	0.9
June	3.0	2.9	1.2	2.9	2.8	1.1
July	3.1	3.3	2.2	2.8	2.9	1.8
Aug.	3.2	3.2	1.8	3.1	3.1	1.7
Sept.	3.1	3.1	1.6	2.7	2.8	1.3
Oct.	3.0	3.0	1.3	3.0	2.9	1.3
Nov.	3.1	3.2	1.1	3.1	3.2	1.2
Dec.	2.9	2.9	1.0	2.8	2.8	1.0
1993 – Jan.	2.5	2.2	–0.1	2.8	2.4	0.1
Feb.	2.7	2.4	0.2	2.7	2.4	0.2
Mar.	2.7	2.0	0.0	2.7	2.1	0.1
Apr.	3.1	2.1	–0.1	3.3	2.4	0.1
May	3.0	2.0	–0.2	3.3	2.3	0.1
June	3.2	2.3	0.0	3.6	2.7	0.4
July	3.2	2.3	0.1	3.4	2.5	0.3
Aug.	3.0	2.2	0.3	3.1	2.4	0.4
Sept.	2.7	1.9	0.2	3.1	2.3	0.6
Oct.	2.8	2.1	0.4	3.2	2.4	0.7
Nov.	2.7	2.0	0.6	2.9	2.1	0.7
Dec.	2.4	1.9	0.3	....	....	....

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

The twelve-month rate of increase in the domestic output prices of manufactured goods was 4.1 per cent in November, compared with 4.2 per cent the previous month. In October, the most recent month for which figures in this regard are available, the export prices of manufactured goods were 11.7 per cent higher than a year earlier, enabling Italian exporters to increase their competitiveness and widen their profit margins. Profit margins also benefited from the moderate rise in domestic prices allowed by the depreciation of the lira and the smallness of the increase in unit labour costs, which amply offset the rise in total input costs.

Wholesale prices rose by 5.3 per cent in the first eleven months of the year compared with the corresponding period of 1992. The twelve-month rate of increase accelerated in the summer, mainly owing to the more rapid increase in the prices of imported raw materials, but declined significantly in the autumn to stand at 4.3 per cent in November, slightly lower than the rise in consumer prices.

The balance of payments on current account

According to preliminary estimates, there was a surplus of 13.4 trillion lire on the current account of the balance of payments in 1993, equal to 0.9 per cent of GDP, compared with a deficit of some 34.4 trillion in 1992 (2.3 per cent) (Table 5). The improvement thus amounted to more than 3 per cent of GDP, and was surpassed only by that recorded in 1975. The data for 1992 and the estimates for 1993 are affected by the revision of the balance-of-payments statistics in accordance with the new Balance of Payments Manual recently published by the International Monetary Fund.

The improvement in the current account gathered pace as the year proceeded; by comparison with the corresponding period of 1992, it amounted to 17.6 trillion lire in the first half and more than 30 trillion in the second. The acceleration reflected not only the growing increases in the trade surplus but also the reduction in the deficit on invisibles.

The trade surplus of about 33.5 trillion lire recorded in the second half of the year was the result of persistently rapid growth in exports and stagnation in imports. Seasonally adjusted, the growth in exports stabilized as the months went by, and the decline in imports almost came to a halt. Over the year as a whole, the trade surplus was equal to 3.2 per cent of GDP.

Table 5

Balance of payments

(net, in billions of lire)

	1992 (1)			1993		
	H1	H2	Year	H1	H2 (2)	Year (2)
Goods	–4,761	8,617	3,856	15,863	33,500	49,363
Invisibles	–14,555	–23,673	–38,228	–17,561	–18,400	–35,961
Total current account	**–19,316**	**–15,056**	**–34,372**	**–1,698**	**15,100**	**13,402**
Non-bank capital	**–28,417**	**14,866**	**–13,551**	**32,197**	**19,708**	**51,905**
Bank capital	**41,640**	**–16,337**	**25,303**	**–28,925**	**–23,122**	**–52,047**
Errors and omissions	–7,988	–1,940	–9,928	–1,178	–9,906	–11,084
Change in official reserves (3)	**14,081**	**18,467**	**32,548**	**–396**	**–1,780**	**–2,176**

(1) Revised. – (2) Partly estimated. – (3) At constant exchange rates and gold prices.

Table 6

Merchandise trade, *cif-fob*

(seasonally adjusted; percentage changes on previous period)

	1992		1993			
	Year	Q4	Q1	Q2	Q3	Jan. - Oct. (1)
Exports:						
At current prices	4.6	2.8	11.1	3.2	3.4	19.6
Average unit values	0.7	3.9	5.5	2.7	1.1	12.0
At constant prices	3.8	–1.1	5.3	0.5	2.3	6.8
Imports:						
At current prices	2.8	4.7	–2.8	2.4	–0.2	–1.1
Average unit values	–0.6	4.1	7.5	1.8	–0.6	12.5
At constant prices	3.4	0.6	–9.6	0.6	0.4	–12.1
Memorandum items:						
Domestic demand	1.0	–1.3	–3.2	0.4	–0.8	(2) –5.5
Real exchange rate of the lira	–2.3	–10.3	–5.8	1.7	–0.9	–14.3

Source: Based on Istat data.
(1) Raw data; percentage changes on corresponding period. – (2) January-September.

According to data released so far by Istat on the price and volume components of the growth in *cif-fob* merchandise trade, the volume of exports was 6.8 per cent higher in the first ten months of the year than in the same period of 1992, while the volume of imports was 12.1 per cent lower (Table 6).

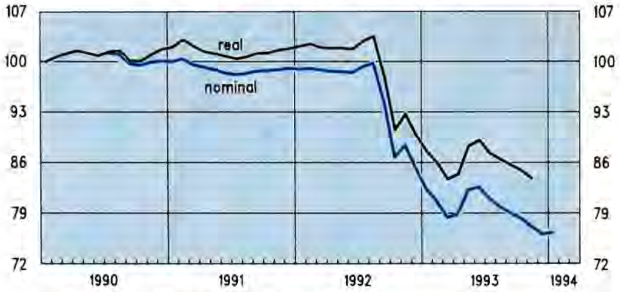
The seasonally adjusted volume of exports in September and October 1993 was 7.5 per cent higher than in August 1992, on the eve of the suspension of interventions in defence of the lira in the foreign exchange markets. The lira depreciated by 21.1 per cent in nominal effective terms over the same period; the real depreciation, measured by reference to the domestic producer prices of manufactures, was 17.7 per cent (Figure 16). Measured in terms of export prices, which rose much more rapidly than domestic prices over the period in question, the gain in competitiveness was smaller, and not dissimilar to the growth in the volume of exports. The boost to exports generated by the improvement in competitiveness was reinforced by the fall in domestic demand was vitiated by the weakness of world trade, which did not show signs of recovery until the final months of 1993. On a seasonally adjusted basis, the rapid growth of 5.3 per cent in the volume of exports in the first quarter was followed by smaller increases in each successive quarter.

The fall in the volume of imports was also very pronounced in the first quarter, and was probably exaggerated by the unresolved problems of data collection associated with the introduction of the Intrastat system for recording intra-Community trade, which were particularly acute in January. On a seasonally adjusted basis, imports remained more or less stationary in subsequent quarters, reflecting the stagnation in demand and the attenuation of the effects of the real depreciation of the lira on competitiveness, which occurred mainly in the winter of last year. The fall in the volume of imports in the first ten months of the year was comparable in scale only to that recorded in 1975. The decline of 5.5 per cent in domestic demand was responsible for about half of the decrease.

Figure 16

Effective exchange rates of the lira (1)

(indices, January 1990=100)



Sources: Based on OECD, IMF and Istat data.
(1) Real exchange rates are based on the producer prices of manufactures. A rise in the index indicates an appreciation of the lira.

The depreciation of the lira permitted a rise of 12.0 per cent in the average unit values of exports in the first ten months of the year by comparison with the same period of 1992. The rate of increase slowed down as the year progressed; by the third quarter it amounted to 1.1 per cent. The export prices of manufactures rose by 11.6 per cent between January and October, with signs of a slowdown appearing in the summer. The disparity in relation to the rise in the domestic producer prices of manufactures rose to 9 percentage points at mid-year but stabilized in the third quarter, reflecting the waning of the stimulus from the depreciation of the lira.

The average unit values of imports were 12.5 per cent higher in the first ten months of the year by comparison with the same period of 1992 (Table 7), but here too the rate of increase slowed down in the course of the year after the large rise in the last quarter of 1992 and the first of 1993. After the devaluation, the average unit values of imported manufactures increased by less than those of other types of imports (by 11.8 per cent between the third quarter of 1992 and the corresponding quarter of 1993). The disparity of about 6 percentage points between this figure and the change in the nominal effective exchange rate based on imports confirms the extent to which foreign competitors kept down their foreign currency prices in the Italian market by comparison with the average prices charged in other industrial countries.

Table 7

Average unit values of imports in lire and main price determinants

(percentage changes on previous period)

	1992		1993			
	Year	Q4	Q1	Q2	Q3	Jan.-Oct. (1)
Average unit values (not seasonally adjusted)						
Total imports	–0.6	6.4	5.6	2.9	–1.9	12.5
Fuels	–9.3	14.0	11.3	–1.8	–5.2	20.3
Non-fuel raw materials	–4.7	3.7	8.7	5.3	–	13.5
Manufactures	1.1	5.2	5.5	3.0	–2.2	12.4
World prices in foreign currency						
Oil ($)	–1.3	–5.0	–5.0	0.8	–10.5	–9.0
Non-oil raw materials ($)	–1.7	–5.0	5.6	–3.3	0.1	–1.1
Manufactures (various currencies)	–1.0	–	0.6	0.6	0.6	0.4
Exchange rates						
Dollar/lira	0.8	–16.8	–11.8	2.6	–5.1	–22.6
Effective nominal, lira (2)	–3.7	–11.1	–7.1	1.1	–1.3	–17.1

Source: Based on Istat and IMF data.
(1) Percentage changes on corresponding period of previous year. – (2) Weighted according to the geographic composition of Italian imports of manufactures; an increase indicates an appreciation of the lira.

Table 8

Merchandise trade by product group (January-November)

(cif-fob; *billions of lire*)

	Exports		Imports		Balance	
	1992	1993	1992	1993	1992	1993
Agricultural, forestry and fishery products	5,201	5,985	13,274	13,241	–8,073	–7,256
Fuel and power products	4,266	5,196	22,150	25,648	–17,884	–20,452
Ferrous and non-ferrous ores and metals	8,220	10,824	18,205	18,109	–9,985	–7,285
Non-metallic minerals and mineral products	8,186	9,908	4,083	4,165	4,103	5,743
Chemical products	15,589	18,564	26,924	28,347	–11,335	–9,783
Metal products and machinery	66,080	81,606	47,713	45,795	18,367	35,811
Transport equipment	19,814	21,262	29,694	23,212	–9,880	–1,950
Food, beverages and tobacco products	9,331	11,050	17,122	17,971	–7,791	–6,921
Textiles, leather products and clothing	34,757	41,194	14,072	14,713	20,685	26,481
Other	24,236	30,482	17,717	17,862	6,519	12,620
Total	**195,680**	**236,071**	**210,954**	**209,063**	**–15,274**	**27,008**

Source: Istat.

In the first eleven months of the year the improvement in the trade balance on a *cif-fob* basis was evident in all categories of goods except energy, although to varying degrees (Table 8). Most of the improvement occurred in Italy's traditional export sectors, in particular the engineering and metals industry and consumer goods, whose increased surpluses reflected the continuing strong growth in exports and the slight fall in imports. There was a substantial reduction in the deficit of the transport equipment sector, largely owing to the marked contraction in imports.

The improvement in Italy's trade performance was predominantly in relation to OECD countries; a *cif-fob* deficit of 10.4 trillion lire in the first eleven months of 1992 gave way to a surplus of 18.9 trillion in the corresponding period of 1993 (Table 9). The most striking change in trade with non-European industrial countries was the increase in the surplus with the United States (from 2.5 to 7.2 trillion lire), aided by a rise of 34 per cent in Italian exports to that market. The improvement in the balance on trade with European Union countries (20.7 trillion lire) was smaller than that with the other industrial countries together, owing partly to the more modest growth in exports and the less marked fall in imports. There was a large increase of almost 12 trillion lire in the surplus vis-à-vis developing and newly industrialized countries, where relative price is a more important factor in determining the competitiveness of Italian goods.

In the second half of the year the surplus on foreign travel was substantially larger than a year earlier (6.6 trillion lire according to initial estimates, compared with 1.2 trillion; Table 10); the surplus for the year as a whole is likely to be nearly 11.7 trillion lire, against 6 trillion in 1992. The marked improvement in the competitiveness of tourist services boosted the growth in receipts and curbed residents' spending abroad (Figure 17); the latter was presumably also curtailed by the reduction in households' real disposable incomes. In the second half of the year receipts were 2.7 trillion lire higher than in the same period of 1992; available figures also indicate a substantial increase in foreigners' overnight stays in Italy in July and August. The contraction in Italian spending abroad by comparison with the preceding year partly reflects the exceptional increase in transfers of funds classified as tourist spending in the autumn of 1992, which were presumably motivated by financial considerations in connection with the currency crisis.

Table 9

Merchandise trade by country and area (January-November)
(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	**154,951**	**174,659**	**12.7**	**74.0**	**165,302**	**155,716**	**–5.8**	**74.5**	**–10,351**	**18,943**
EU	115,969	125,165	7.9	53.0	125,620	114,085	–9.2	54.6	–9,651	11,080
Belgium-Luxembourg	6,720	6,981	3.9	3.0	10,371	9,564	–7.8	4.6	–3,651	–2,583
Denmark	1,553	1,681	8.2	0.7	2,143	2,105	–1.8	1.0	–590	–424
France	29,389	30,883	5.1	13.1	30,775	28,153	–8.5	13.5	–1,386	2,730
Germany	40,745	45,810	12.4	19.4	46,279	39,983	–13.6	19.1	–5,534	5,827
Greece	3,618	4,102	13.4	1.7	1,856	1,560	–15.9	0.7	1,762	2,542
Ireland	641	726	13.3	0.3	1,526	1,626	6.5	0.8	–885	–900
Netherlands	6,255	6,559	4.9	2.8	12,536	11,757	–6.2	5.6	–6,281	–5,198
Portugal	3,310	3,166	–4.3	1.3	791	636	–19.6	0.3	2,519	2,530
Spain	10,433	10,131	–2.9	4.3	7,176	6,868	–4.3	3.3	3,257	3,263
United Kingdom	13,305	15,126	13.7	6.4	12,167	11,833	–2.7	5.7	1,138	3,293
Switzerland	7,998	9,339	16.8	4.0	9,607	10,898	13.4	5.2	–1,609	–1,559
Other European countries (1)	10,766	13,660	26.9	5.8	10,896	10,928	0.3	5.2	–130	2,732
Other OECD countries (2)	20,218	26,495	31.0	11.2	19,179	19,805	3.3	9.5	1,039	6,690
of which: Canada	*1,447*	*1,957*	*35.2*	*0.8*	*1,685*	*1,750*	*3.8*	*0.8*	*–238*	*207*
Japan	*3,843*	*4,540*	*18.1*	*1.9*	*5,022*	*5,557*	*10.6*	*2.6*	*–1,179*	*–1,017*
United States	*13,756*	*18,398*	*33.7*	*7.8*	*11,286*	*11,245*	*–0.4*	*5.4*	*2,470*	*7,153*
Eastern European countries (3)	**6,981**	**9,470**	**35.6**	**4.0**	**8,545**	**11,271**	**31.9**	**5.4**	**–1,564**	**–1,801**
OPEC countries (4)	**10,054**	**11,625**	**15.6**	**4.9**	**13,001**	**13,842**	**6.5**	**6.6**	**–2,947**	**–2,217**
Other	**27,124**	**40,306**	**48.6**	**17.1**	**26,787**	**28,202**	**5.3**	**13.5**	**337**	**12,104**
of which: China	*1,524*	*3,428*	*124.9*	*1.4*	*3,195*	*3,803*	*19.0*	*1.8*	*–1,671*	*–375*
Asian NIEs (5)	*5,845*	*8,561*	*46.5*	*3.6*	*3,691*	*3,446*	*–6.6*	*1.6*	*2,154*	*5,115*
Brazil	*944*	*1,490*	*57.8*	*0.6*	*2,022*	*2,201*	*8.8*	*1.1*	*–1,078*	*–711*
Argentina	*910*	*1,324*	*45.5*	*0.5*	*705*	*772*	*9.5*	*0.4*	*205*	*552*
Total	**199,110**	**236,060**	**18.6**	**100**	**213,635**	**209,031**	**–2.2**	**100**	**–14,525**	**27,029**

Source: Based on Istat data.
(1) Austria, Finland, Iceland, Norway, Sweden and Turkey. – (2) Australia, Canada, Japan, New Zealand and the United States. – (3) Albania, Bulgaria, former Czechoslovakia, Hungary, Poland, Romania, and the former USSR. – (4) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. – (5) Hong Kong, Singapore, South Korea and Taiwan.

Table 10

Current account of the balance of payments
(balances in billions of lire)

	1992 (1)			1993		
	H1	H2	Year	H1	H2 (2)	Year (2)
Goods	–4,761	8,617	3,856	15,863	33,500	49,363
Transport	–3,759	–3,514	–7,273	–2,437	–2,900	–5,337
Foreign travel	4,888	1,179	6,067	5,072	6,600	11,672
Investment income	–11,263	–14,733	–25,996	–12,617	–13,700	–26,317
Other services and income	–1,183	–2,951	–4,134	–2,866	–4,500	–7,366
Transfers	–3,238	–3,654	–6,892	–4,713	–3,900	–8,613
Total ...	**–19,316**	**–15,056**	**–34,372**	**–1,698**	**15,100**	**13,402**

(1) Revised. – (2) Partly estimated.

Figure 17

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 deficit on investment income probably declined in the second half of the year, albeit only slightly; one factor, given the higher proportion of liabilities than assets denominated in lire, was the narrowing of interest rate differentials between the lira and leading currencies, which was particularly pronounced for short maturities in the first half of the year. The reduction in the deficit was also aided by the contraction in net external debt as a result of the emergence of a current account surplus. The deficit for the year as a whole is not expected to exceed 26.5 trillion lire.

The deficit on unrequited transfers, on the other hand, is estimated to have increased by about 1.7 trillion lire last year, 200 billion of which occurred in the second half; the deterioration concerned mainly official transfers, particularly those to and from the European Union.

Capital movements

Capital movements generated small net inflows of 3.4 trillion lire in the second half of 1993 (Table 11), so that the net flow for the year as a whole was virtually nil. As in the first half, net inflows of non-bank capital (19.7 trillion) were offset by net outflows on account of transactions by resident banks (23.1 trillion). Gross inflows and outflows were considerably larger than in the preceding half (more than 2,900 trillion, as against 2,200 trillion), thus accentuating a medium-term trend initiated by the full international integration of the Italian financial market and the consequent increase in the turnover of funds. We have commented upon this development in several previous issues of the Economic Bulletin. In 1988 gross capital flows had been equivalent to little more than 60 per cent of GDP; five years later they were equal to more than three times this aggregate.

Table 11

Capital movements
(net flows in billions of lire)

	1992 (1)			1993 (2)		
	H1	H2	Year	H1	H2	Year
Foreign investment in Italy	7,868	9,222	17,090	50,556	55,637	106,193
Italian investment abroad	–41,504	10,068	–31,436	–4,437	–17,442	–21,879
of which: portfolio	*–36,414*	*12,306*	*–24,108*	*3,243*	*–14,762*	*–11,519*
Foreign loans	7,903	1,312	9,215	3,966	–4,319	–353
Italian loans	–2,896	–3,359	–6,255	–2,890	–2,020	–4,910
Trade credits, other capital movements	212	–2,377	–2,165	–14,998	–12,148	–27,146
Total non-bank capital flows	**–28,417**	**14,866**	**–13,551**	**32,197**	**19,708**	**51,905**
Bank capital flows	**41,640**	**–16,337**	**25,303**	**–28,925**	**–23,122**	**–52,047**
Total	**13,223**	**–1,471**	**11,752**	**3,272**	**–3,414**	**–142**

(1) Revised. – (2) Provisional or partly estimated.

Despite the further narrowing of the interest rate differential vis-à-vis the Deutschemark and the US dollar, foreign investment gave rise to substantial net inflows in the second half of the year (55.6 trillion lire, 5 trillion more than in the first half; Table 11). Foreign investor confidence, which had already begun to return in the first half of the year, continued to strengthen in the second, suffering a slight setback only in October and November, when heightened political uncertainty led to a temporary reversal of the narrowing of interest rate differentials and slowed the net inflow of foreign funds.

Non-residents continued to invest primarily in government securities, and especially Treasury bonds (Table 12). In the period from July to October, for which detailed data are available, the average monthly amount of net outright purchases of Treasury bonds was 4.7 trillion lire, compared with 4.8 trillion in the first half of 1993. As earlier in the year, gross purchases were motivated predominantly by expectations of capital gains associated with the decline in yields; the exchange risk was hedged by a variety of means, which in the final analysis involved outflows of funds without increasing the net demand for lire in the foreign exchange market. Issues of Italian Republic securities led to inflows of 10.8 trillion lire (9.2 trillion net of redemptions). In January a loan for 300 billion yen (about 4.5 trillion lire) was issued on the Euromarket and on the US domestic market. Although non-residents' net purchases of listed shares remained extremely small, they showed a substantial increase over the preceding half-year.

In the second half of the year Italian portfolio investment again began to generate net outflows on a scale similar to the medium-term outflows that have persisted since the liberalization of foreign exchange transactions (14.8 trillion lire, following net inflows of 3.2 trillion in the previous six months).

Lending gave rise to net outflows amounting to 6.3 trillion lire. Foreign loans generated a net outflow of 4.3 trillion, which was attributable entirely to the private sector, in that repayments of loans granted to residents by the foreign branches of Italian banks exceeded new lending by 6.5 trillion, of which 5.5 trillion was denominated in lire. Official lending, on the other hand, produced net inflows of 2.7 trillion; the payment of the second tranche of the European Union loan to Italy contributed 3.8 trillion.

Table 12

Portfolio investment
(net flows in billions of lire)

	1992		1993			
	Jan.-Oct.	Year	Q1	Q2	Q3	Jan.-Oct.
Foreign capital	**5,681**	**13,135**	**23,965**	**24,140**	**28,417**	**80,857**
Government securities	–109	1,664	17,243	22,011	26,002	65,719
Treasury bills	199	56	–61	28	–746	276
Treasury bonds	1,871	2,080	13,538	15,534	18,886	47,723
Treasury bills in ECU	–985	–1,266	–345	245	135	211
Treasury credit certificates in ECU	311	1,363	563	–286	–980	–1,422
Treasury credit certificates	151	330	–2,176	–673	–1,425	–4,031
Treasury discount certificates	–16	–18	–9	34	10	35
Index-linked Treasury certificates	44	35	0	0	0	0
Treasury option certificates	162	–403	453	3,159	1,068	4,197
Other	18	–17	–72	–63	0	–136
of which: Italian Republic issues	*–1,864*	*–496*	*5,352*	*4,033*	*9,054*	*18,866*
Italian investment fund units	10	10	0	0	3	36
Listed bonds	405	527	221	262	55	64
Listed shares	247	–17	919	782	1,793	3,923
Other securities	63	79	10	354	363	546
Deposits	–159	–103	77	–167	–40	–103
Derivative instruments	124	108	596	73	–391	326
Other financial instruments	–1,380	–1,487	–22	–58	258	192
Unclassified investments	6,480	12,354	4921	883	374	10,154
Italian capital	**–42,605**	**–24,108**	**3,578**	**–335**	**–6,132**	**–8,005**

Trade credit continued to generate outflows (12.1 trillion in the second half), primarily on account of the growth in merchandise trade.

There were net outflows of 23.1 trillion lire in bank capital in the second half of the year, of which 18.9 trillion was initiated by banks as opposed to other financial institutions. The trend that began at the time of the currency crisis in September 1992 therefore continued; since then outflows of bank capital have amounted to 71.2 trillion lire, of which 48.2 trillion occurred in 1993.

This phenomenon is attributable to a number of factors that have been mentioned in previous issues of the Economic Bulletin: greater selectivity on the part of international interbank depositors and more rapid growth in residents' bank deposits than in domestic lending and investment. With regard to developments in the second half of last year, particular note should be taken of the further growth in the banks' foreign assets in lire (Table 13), associated partly with lending to non-residents to finance the purchase of Italian securities. Net of the increase in liabilities, the lira component of the banks' external position remained broadly unchanged. Net outflows in foreign currency were the result of an increase in assets that was far larger than the growth in liabilities, itself substantial. Overall, and taking account of exchange rate adjustments, outflows of capital via resident banks amounted to 19 trillion lire in the second half of 1993.

Table 13

Main items of the position of resident banks
(end-of-period stocks in billions of lire)

	1992		1993			
	September	December	March	June	September	December
External position (1)	**–116,432**	**–126,571**	**–122,848**	**–100,447**	**–92,467**	**–90,948**
In lire	**1,918**	**1,249**	**2,934**	**9,103**	**10,502**	**9,315**
Assets	14,085	13,378	18,554	32,025	35,666	39,467
Liabilities	12,167	12,129	15,620	22,922	25,164	30,152
In foreign currency (A)	**–118,350**	**–127,820**	**–125,782**	**–109,550**	**–102,969**	**–100,263**
Assets	108,138	122,861	123,384	112,965	118,343	131,738
Liabilities	226,488	250,681	249,166	222,515	221,312	232,001
Domestic position in foreign currency (B) (1)	**98,032**	**115,330**	**121,831**	**104,465**	**102,155**	**95,549**
Assets	144,812	172,182	183,396	158,077	157,875	158,553
Liabilities	46,780	56,852	61,565	53,612	55,720	63,004
Forward commitments against lire (C) (2)	**2,585**	**3,404**	**327**	**5,510**	**–85**	**1,124**
Assets (foreign exchange receivable)	173,025	182,851	233,296	232,828	239,345	262,088
Towards residents	32,962	82,128	117,785	116,039	120,625	....
Towards non-residents	140,063	100,723	115,511	116,789	118,720	....
Liabilities (foreign exchange for delivery)	170,440	179,447	232,969	227,318	239,430	260,964
Towards residents	25,403	50,610	81,645	82,614	85,321	....
Towards non-residents	145,037	128,837	151,324	144,704	154,109	....
Foreign currency position (A+B+C)	**–17,733**	**–9,086**	**–3,624**	**425**	**–899**	**–3,590**
Domestic currency swaps:	....	***8,431***	***5,188***	***4,434***	***5,371***	***7,077***
Assets (creditor swaps)	....	49,488	42,381	33,777	32,170	28,874
Liabilities (debtor swaps)	....	41,057	37,193	29,343	26,799	21,867
Foreign currency position including DCSs	**–17,733**	**–655**	**1,564**	**4,859**	**4,472**	**3,417**

(1) Including the Italian branches of foreign banks. Not seasonally adjusted. – (2) Including commitments at not more than 2 days.

Whereas in the first half of the year external foreign currency liabilities and domestic foreign currency assets both contracted, in the second half liabilities increased and assets remained unchanged. Net of foreign currency swap operations with the Bank of Italy, the banks' foreign currency claims on residents declined by 13 trillion lire in the first half but fell much less sharply in the second, decreasing from 127.5 to 124.7 trillion lire. The slight imbalance in the banks' overall spot foreign currency position (4.7 trillion) was more than offset by commitments in respect of forward transactions and domestic currency swaps, leading to a long spot and forward foreign currency position of 3.4 trillion lire, the same as at the end of the first half of the year (Table 13).

The official reserves increased by 1.8 trillion lire at constant exchange rates in the second half of the year, in the course of which the nominal effective exchange rate fell by 2.9 per cent. Given the estimated surplus of 11.7 trillion lire on the current account and on capital movements, errors and omissions showed a negative balance of 9.9 trillion.

Public finances

Notwithstanding the unfavourable phase of the cycle, the recent improvement of the public finances continued in 1993.

The state sector borrowing requirement declined from 158.7 trillion lire to 153.5 trillion, net of settlements of past debts and on the basis of the new definition of the sector, which excludes the State Railways, Monopolies and Telephone Company (Table 14). The ratio of this aggregate to GDP dropped from 10.5 to 9.8 per cent as a result of a reduction of 1.2 percentage points in the ratio of the primary deficit to GDP and an increase of 0.5 points in that of interest payments. On the previous definition of the state sector, the improvement was more pronounced, with the borrowing requirement falling by more than 12 trillion lire, from 162.8 to 150.4 trillion, and from 10.8 to 9.6 per cent of GDP. The difference between the results obtained with the two definitions was due to changes in the financial management of the State Railways, which reduced their net market borrowings in 1993 by drawing more heavily on the balances held with the Treasury.

In assessing the performance of the borrowing requirement, account nonetheless has to be taken of the transitory nature of some of the items that improved the primary deficit, such as the proceeds of bank loans to local authorities amounting to around 3.9 trillion lire, which were deposited on centralized Treasury accounts late in December and not withdrawn before the end of the year. Most of this amount consisted of loans to regions for the repayment of past debts incurred by local health units. Other funds held with the Treasury may have had a similar origin. Specifically, only a part of the total funds disbursed to the regions for the repayment of the past debts of local health units actually reached the latter, so that the balance may have further increased the amounts being held on centralized Treasury accounts at the end of the year. The incomplete utilization of these funds may have been due to the fact that the banks disbursed the greater part in the second half of the year.

Table 14

State sector balances

(billions of lire and percentages)

	1991		1992		1993	
	O	N	O	N	O	N
Borrowing requirement, net of settlements of past debts	152,271	149,375	162,813	158,696	150,374	153,467
as a % of GDP	(10.7)	(10.5)	(10.8)	(10.5)	(9.6)	(9.8)
Borrowing requirement, net of interest payments and settlements of past debts	7,352	8,197	–8,493	–8,749	–35,126	–27,533
as a % of GDP	(0.5)	(0.6)	(–0.6)	(–0.6)	(–2.2)	(–1.8)
Settlements made in securities and in cash	73	73	31	31	9,568	9,568
Total borrowing requirement	152,344	149,448	162,844	158,727	159,942	163,035
as a % of GDP	(10.7)	(10.5)	(10.8)	(10.5)	(10.2)	(10.4)
Public debt	1,453,798	1,416,849	1,637,282	1,594,924	1,809,676	1,769,054
as a % of GDP	(101.9)	(99.3)	(108.7)	(105.8)	(115.9)	(113.3)

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

The borrowing requirement net of interest payments recorded a surplus of around 27.5 trillion lire (35.1 trillion on the basis of the old definition of the state sector), continuing the improvement that had started as early as 1988. As a ratio to GDP, the surplus rose from 0.6 to 1.8 per cent (from 0.6 to 2.2 per cent on the old definition). When the withholding tax on income from governments securities is excluded, there was a swing from a deficit equal to 0.5 per cent of GDP in 1992 to a surplus equal to 0.7 per cent of GDP last year.

Interest payments rose from 167.5 to 181 trillion lire (185.5 trillion on the old definition) and from 11.1 to 11.6 per cent of GDP. The large increase in this item in connection with the growth of the public debt was curbed by the decline in yields at issue during the year. Indeed, at the end of 1993 the auction rate on twelve-month Treasury bills had already reached the level forecast by the Economic and Financial Planning Document for the end of this year.

The adjustment compared with the budget on a current programmes basis, initiated with the measures adopted at the end of 1992 and continued in 1993, is estimated to have amounted to more than 5 per cent of GDP. Of these five points, around 1.3 served to offset the loss of revenue caused by the expiry of the temporary measures adopted during 1992 (including the various condonation schemes and the special tax on buildings and bank deposits). By contrast, the revenue generated by the one-off measures adopted in 1993 (such as the increase in the December VAT instalment and the extension of the tax condonation scheme contributed only 0.4 points to the adjustment.

The borrowing requirement for the year on the previous definition was basically in line with the objective published in the Government's September 1992 Forecasting and Planning Report. This was set at 150 trillion lire, with interest payments of 200 trillion and a primary surplus of 50 trillion. The target was revised several times during the year and was achieved thanks to a 14.5 trillion lira reduction in interest compared with the original forecast, while the primary surplus on the old definition of the state sector amounted to 31.5 trillion lire instead of 50 trillion. The shortfall reflected the deterioration in economic conditions, the absence of privatization receipts accruing to the state sector, which had been forecast to amount to 7 trillion lire, and the fact that some measures produced less revenue than expected. On the other hand, the primary surplus benefited from direct expenditure savings, primarily in connection with public investment.

The slowdown in economic activity that had begun in 1991 led to a fall in GDP in 1993, with repercussions on the public finances. The fact that the growth rate in 1992 was 0.3 percentage points less than had been forecast in September of the same year, and the rate for 1993 two percentage points less, is estimated to have contributed around 1.3 per cent of GDP to the shortfall in last year's primary surplus compared with the original forecast. This was also of importance for the disbursement of the tranches of the 8 trillion ecu loan the European Community had granted Italy in January 1993, which was made conditional on achieving the objectives for the budget set out in the Government's September 1992 Forecasting and Planning Report but with provision for adjustment of the target for the primary surplus to take account of any shortfall in economic growth.

A first revision of the budget objectives was effected in March 1993 in the quarterly report on the borrowing requirement, which indicated a shortfall of 25 trillion lire in the primary surplus. About half this amount was attributed to the weaker-than-expected performance of the economy, with a consequent reduction in the target for the primary surplus to 37.5 trillion lire. The other half reflected the fact that some of the measures adopted in the Finance Law were proving less effective than forecast and a number of unforeseen calls on the budget. In order to ensure compliance with the conditions of the Community loan, it was necessary to introduce additional budgetary measures totaling around 12.5 trillion lire. Together with a downward revision of around 8.5 trillion lire in the forecast for interest payments to take account of the fall in rates, this permitted a new forecast of the total borrowing requirement of 154 trillion lire.

The Economic and Financial Planning Document published in July confirmed this target, despite the exclusion of the privatization proceeds originally forecast. This loss of revenue was matched by a reduction in the target for the primary surplus from 37.5 to 33.1 trillion lire, which discounted a better-than-expected result for tax receipts. At the same time the further fall in interest rates permitted 4 trillion lire to be cut from the estimated cost of servicing the debt. The Document also published the estimate of the borrowing requirement on the basis of the new definition of the state sector: the total was set at 151.2 trillion lire, with interest payments amounting to 182.7 trillion and the primary surplus to 31.5 trillion. The estimate took account both of the good results of the first instalment of self-assessed income tax in May and of the planned reduction in the percentage of the second instalment in November, which was given effect with the enactment of Decree Law 357 in September. On the basis of the new objectives, the second tranche of the Community loan was disbursed in September.

In the same month the Government published the Forecasting and Planning Report for 1994, confirming the objectives for 1993 that had been set in July. In the event, the borrowing requirement amounted to 153.5 trillion lire and exceeded the target by around 2.3 trillion lire, while the primary surplus of 27.5 trillion lire fell short of the target by around 4 trillion. The difference was accounted for by interest payments having been 1.7 trillion lire less than the 182.7 trillion forecast. By contrast the primary surplus under the old definition of the state sector was 2 trillion lire larger than forecast (35.1 trillion as against 33.1 trillion). The difference between the two results was due to the operations effected by the State Railways mentioned above. It should nonetheless be noted that, independently of the definition adopted, the results benefited from the balances that regions temporarily deposited with the Treasury, and that when these are excluded the primary surplus fell short of the target in both cases.

The failure to achieve the target set in September 1993 was primarily due to economic activity having weakened even more than had been envisaged during the year. Whereas in July annual growth was expected to be about 0.5 per cent, lowered to 0.4 per cent in September, the outcome is likely to have been a contraction of at least 0.5 per cent. The consequent deterioration in the public finances is estimated to have been on the order of 0.5 per cent of GDP. The primary surplus for the year is expected to have been consistent with the conditions of the Community loan referred to earlier. The saving in interest payments helped to keep the borrowing requirement basically on course.

The manner of financing the government underwent some changes during the year. The total to be funded under the new definition of the state sector amounted to around 163 trillion lire, including some 9.6 trillion for the settlement of past debts. In particular, the composition of fund-raising was influenced by the new rules defining the relationship between the Treasury and the Bank of Italy with regard to the latter's handling of treasury services. In compliance with Law 483 of 26 November 1993, the Treasury opened a so-called "Payments account" with the Bank of Italy, in which it deposited the proceeds, totaling some 30.7 trillion lire, of issues of long-term securities taken up by the Bank of Italy.

Excluding the foregoing special issues, which served a specific purpose having no connection with the ordinary funding of the government, the share of securities issues declined by just over one percentage point, falling from 87.1 per cent of total funding in 1992 to 85.9 per cent last year. Notably, the share of short-term securities dropped from 29.3 to 3.5 per cent as a result of a very substantial increase in issues of medium and long-term paper. The remaining part of the funding was provided by Post Office deposits, the share of which rose from 6.9 to 8.6 per cent, and foreign borrowings (where there was a swing from a net outflow to a net inflow that covered 8.9 per cent of the total, a return to the level of 1990). Drawings on the Treasury's current account with the Bank of Italy were negative for the first time, so that the overdraft diminished from 80.8 trillion lire to 76.2 trillion. The balances that some regions temporarily deposited with the Treasury contributed to this result. The monetary financing of the borrowing requirement, which has been negative since 1990, remained at the level of the previous year.

In 1993 the debt of the state sector under the old definition – i.e. including that of the State Railways, for the servicing of which the state is in any case largely responsible – rose to 1,809.7 trillion lire. In relation to GDP the debt grew from 108.7 to 115.9 per cent, an increase of 7.2 percentage points, as against one of 6.8 points in 1992. This result was influenced by the poor performance of GDP, since the rate of increase in the debt itself fell from 12.6 to 10.5 per cent. In addition to the borrowing requirement for the year, the increase in the debt reflected settlements of past debts amounting to some 9.6 trillion lire and the effect of the devaluation of the lira on the foreign currency component (around 9.3 trillion). The longer maturities of the securities issued during the year lengthening the average maturity of the debt from two years and nine months at the end of 1992 to three years in January 1994. The fact that medium and long-term securities represented only a small proportion of the paper falling due during the year curbed the increase in the average life of the debt.

The main items of the public accounts

Preliminary estimates prepared by Isco indicate that general government net borrowing amounted to 147 trillion lire, an increase of almost 4 trillion on 1992. In relation to GDP it remained virtually unchanged at around 9.5 per cent (Table 15). Excluding tax refunds (effected in securities and included among general government expenditure on capital account but not considered in the calculation of the state sector borrowing requirement), the change in general government net borrowing between 1992 and 1993 appears consistent with that in the state sector borrowing requirement; in fact no refunds were made in 1992, whereas in 1993 they amounted to 7.4 trillion lire.

Net of interest payments, general government recorded a surplus of 37.5 trillion lire, or 2.4 per cent of GDP, as against 1.9 per cent in 1992. This result was due to the fact that, though increasing much less than in 1992, revenue again outstripped expenditure net of interest payments, the former having increased by 6 per cent and the latter by 5 per cent. The current balance amounted to 97.8 trillion lire, or 6.3 per cent of GDP, which was 15 trillion, or one percentage point of GDP, less than in 1992.

Table 15

General government income statement

(billions of lire; percentage changes)

	1992	1993	1992/1991	1993/1992
EXPENDITURE				
Wages and salaries	190,795	196,000	4.7	2.7
Intermediate consumption	73,841	77,200	6.1	4.5
Social services	288,488	305,000	10.4	5.7
Production subsidies	30,867	32,800	–5.0	6.3
Debt interest	171,763	184,500	18.1	7.4
Other	31,120	32,260	15.3	3.7
Total current expenditure	**786,874**	**827,760**	**9.6**	**5.2**
as a % of GDP	*52.2*	*53.0*	–	–
Investment	44,499	41,200	–3.7	–7.4
Investment grants	18,166	19,000	10.0	4.6
Other capital expenditure	1,065	9,000	–29.5	745.1
Total capital expenditure	63,730	69,200	–0.8	8.6
Total expenditure	**850,604**	**896,960**	**8.7**	**5.4**
as a % of GDP	*56.4*	*57.5*	–	–
REVENUE				
Direct taxes	220,934	254,000	6.7	15.0
Indirect taxes	166,544	172,000	4.6	3.3
Social security contributions	226,358	241,000	7.8	6.5
Other	59,851	62,960	9.3	5.2
Total current revenue	**673,687**	**729,960**	**6.8**	**8.3**
Capital revenue	33,659	20,000	542.5	–40.6
Total revenue	**707,346**	**749,960**	**11.2**	**6.0**
as a % of GDP	*46.9*	*48.0*	–	–
Net borrowing	**143,258**	**147,000**	–	–
as a % of GDP	*9.5*	*9.4*	–	–
Borrowing net of debt interest	–28,505	–37,500	–	–
as a % of GDP	*–1.9*	*–2.4*	–	–
Total fiscal revenue (1)	613,836	667,000	6.5	8.7
as a % of GDP	*40.7*	*42.7*	–	–
Deficit on current account	113,187	97,800	–	–
as a % GDP	*7.5*	*6.3*	–	–

Source: Isco.
(1) Direct and indirect taxes and social security contributions. Excludes taxes on capital account, which are included in capital revenue.

Direct and indirect tax receipts (excluding those on capital account) plus actual and imputed social contributions rose from 40.7 to 42.7 per cent of GDP. The ratio rises by about 1 percentage point when taxes on capital account are included. The overall figure breaks down into 27.3 per cent for tax revenue and 15.4 per cent for social contributions. The increase was primarily attributable to taxes, which rose in relation to GDP by around 1.6 percentage points, as against 0.4 per cent for social contributions. The rise in the tax ratio falls to 0.6 percentage points when the definition is broadened to include taxes paid on capital account (those of a temporary nature such as one-off measures, revaluation taxes and condonation schemes). The difference between the results obtained with the two definitions reflects the shift in the composition of receipts between the two years. In 1992 receipts on capital account were especially large, but in 1993 they were replaced in part by increases in current taxes. The tax ratio was also influenced by the reform of local government finances, under which municipal authorities were granted increased tax-levying powers, notably in connection with the introduction of a municipal property tax (ICI), which produced receipts amounting to around 0.9 per cent of GDP.

Preliminary figures indicate that tax revenues increased by 9.9 per cent, primarily as result of a sharp rise in direct taxes, which was accompanied by sluggish growth in the indirect component.

The 15 per cent increase in the direct tax component to 254 trillion lire was largely the result of the measures introduced in the 1993 budget. When receipts from the municipal property tax are excluded, the increase falls to 8.6 per cent. The budget measures mainly concerned personal and corporate income tax. The measures regarding the former included the return to the income brackets in force in 1989, the transformation of some deductions from taxable income into tax credits, the non-deductibility of local income tax and the revision of the method of assessing self-employment incomes (the so-called minimum tax). These measures had a significant effect on receipts from self-assessed taxes, partly owing to the temporary boost produced by the mechanism for the payment of such taxes, with an initial impact on the balances payable for the previous year, which is then reflected in the instalments payable during the year. The increase in revenue attributable to the budget appears to have offset the drying up of receipts from the temporary measures adopted in the second half of 1992 and the effect on taxable income of the deterioration in economic conditions. In particular, in the last quarter of 1993 falling employment and modest earnings growth resulted in a continuation of the slowdown in withholding tax on private sector wages and salaries observed in the first nine months.

Indirect taxes, which rose by 3.3 per cent to 172 trillion lire, were considerably affected by the slowdown in the growth of private consumption. Revenue was boosted by the additional measures introduced in May, consisting primarily of increases in the excise taxes on oil products and in the VAT instalment payable in December; on the other hand, revenue was reduced by the one-off effect of the new procedure for the payment of VAT on intra-Community trade, which may also have offered greater scope for evasion.

Actual social contributions amounted to 212 trillion lire and rose by 5.9 per cent, which was appreciably faster than earnings. The faster rise in contributions can be attributed to the related condonation scheme, which contributed around 2 percentage points to the increase, and the 85,000 lira health poll tax, which contributed around 0.5 points. In addition, receipts were boosted by the increases in the contribution rates for employees (by 0.6 percentage points in July 1992 and another 0.3 points at the beginning of 1993) and the self-employed (by 1 percentage point in July 1992 and another 0.5 points in June 1993). Excluding condonation receipts, employers' contributions are likely to have remained basically unchanged in relation to total earnings as a combined effect of the reduction in relief for firms in the South of Italy and the termination at the end of 1992 of the temporary contribution earmarked for so-called mobility benefits.

Total expenditure amounted to 897 trillion lire and rose from 56.4 to 57.5 per cent of GDP. The rate of increase slowed from 8.7 to 5.4 per cent, reflecting

Interest payments on the public debt

Interest payments on the public debt have continued to rise rapidly as a percentage of GDP in the last few years. General government expenditure in this respect, which had risen from 1.6 per cent of GDP in 1970 to 5.3 per cent in 1980 and 8.9 per cent in 1989, reached 11.8 per cent in 1993. In the last four years interest payments have accounted for about two thirds of the increase in the ratio of total current expenditure to GDP. The level and rate of increase in the cost of the debt of the other main aggregates of the public finances have been comparable.

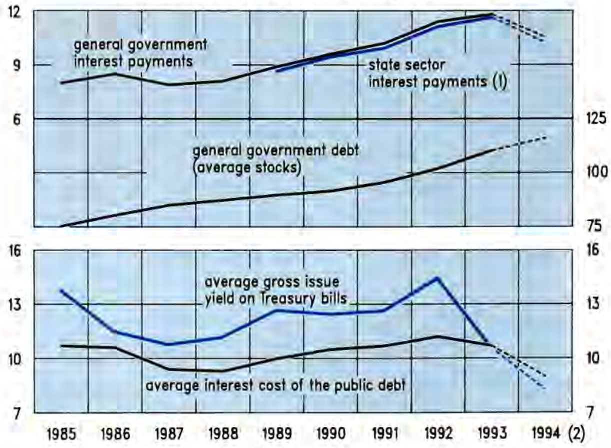
The rise in interest payments is mainly attributable to changes in the volume of debt and the related average interest cost. (1) Variations in the latter in turn reflect two factors: a) changes in issue yields, the impact of which is delayed by the presence of fixed-rate government bonds and by the operation of the mechanisms for adjusting the coupon paid on floating-rate paper to variations in short-term interest rates; b) changes in the composition of the debt by maturity and type of instrument, in view of the variety of yields and different accounting procedures involved. (2)

Given the current composition of the public debt, it is estimated that a 1 percentage point change in the gross yield on new issues produces a change of nearly 0.3 points in the average interest cost in the first twelve months. The effect doubles in the second year and gradually rises towards 1 point in subsequent years.

The rise in interest payments from 1990 to 1992 was caused by the increase in the public debt, which grew at an average rate of 13 per cent, and a rise in the average interest cost owing to the progressive increase in issue yields from 1988 onwards. Interest charges consequently rose by an average of 17 per cent a year, some 9 percentage points higher than the rate of increase in nominal GDP.

According to provisional figures, interest payments increased by 7.4 per cent in 1993, rising to 184.5 trillion

Determinants of interest payments
(upper figure: percentage of GDP; lower figure: percentages)



(1) New definition of the state sector, figures available from 1989 onwards. – (2) Calculated on the basis of Isco forecasts for 1994 and independent estimates of interest payments, assuming issue yields remain constant at the end-1993 level.

the deceleration in the growth of current spending from 9.6 to 5.2 per cent. The faster growth in capital expenditure, which rose by 8.6 per cent, is attributable to the tax refunds mentioned above; excluding these, capital outlays decreased by 2.4 per cent. All of the principal items of the general government accounts contributed to the deceleration in expenditure, including spending on wages and salaries (which accounts for about 22 per cent of total expenditure), social services (about 34 per cent), interest payments (almost 21 per cent) and direct outlays for intermediate consumption and public investment (nearly 14 per cent).

General government expenditure on wages and salaries rose by 2.7 per cent to 196 trillion lire. Excluding imputed social contributions, which correspond to the pensions of central government employees, and contributions actually paid by *lire; the slowdown in the rate of growth reflected the reduction in the average interest cost from 11.2 per cent (3) to 10.7 per cent of GDP. However, interest payments continued to rise as a proportion of GDP, increasing from 11.4 to 11.8 per cent. Interest payments by the state sector under the old definition, which includes the State Railways, Monopolies and the Telephone Company, came to about 185.5 trillion lire, compared with a forecast of 200 trillion lire in the Government's Forecasting and Planning Report for 1993. The Report was prepared in September 1992, when yields were high owing to strains in the financial markets.*

In 1993 the average cost of the public debt was influenced in one direction by the residual effects of high issue yields during the first nine months of 1992 and in the other by the sharp fall in yields that began in the fourth quarter of that year and continued into 1993. Gross short-term issue yields fell by 4.6 percentage points during 1993 (from 12.9 to 8.3 per cent) and similar reductions occurred in medium and long-term yields. Interest payments for the year were also kept down by the limited use of Treasury bills (their share of the year-end stock of debt outstanding declined from 23.8 per cent in 1992 to 21.8 per cent in 1993). This effect was partially offset by the increase in the volume of 12-month Treasury bills as a proportion of gross bill issues in the second half of 1993, which brought forward a larger share of 1994 interest payments to 1993.

The decline in market interest rates since the end of 1992 will make itself felt more strongly in 1994, progressively spreading to the various components of the debt; in particular, six-monthly and annual coupons on Treasury credit certificates will decline. Assuming that issue yields remain at the level prevailing at the end of 1993 and that the composition of the debt remains broadly unchanged, the average interest cost should fall by almost 2 percentage points (from 10.7 to 9.0 per cent). This would reduce interest payments in relation to GDP for the first time since 1987. The state sector would save about 10 trillion lire compared with the forecasts in the Forecasting and Planning Report of September 1993, which had conservatively forecast a gross yield of 9.5 per cent on 12-month Treasury bills at the end of 1993 (as against the actual rate of 8.5 per cent) and a 1 point decrease in interest rates during 1994.

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(1) The average interest cost is calculated as the ratio of interest payments for the year to the average stock of total general government debt.

(2) Interest paid on Treasury bills is accounted for at issue, while that on other government securities is recorded when the coupons are paid. This means, ceteris paribus, that a rise in the share of the borrowing requirement funded with Treasury bills increases interest payments for a given year, while a decrease reduces them.

(3) Excluding the portion of the public debt held by the Bank of Italy and the related interest charges, which are considerably lower than market interest rates, the average cost of the debt in 1992 was almost 1 point higher (12.1 per cent).

general government, the rise was 1.3 per cent. With the number of public employees broadly unchanged, the increase reflected the payment of 20,000 lire a month to all employees in lieu of cost-of-living adjustments (about 0.7 per cent of average monthly earnings), the limited automatic wage mechanisms endorsed in the latest labour contract, the outlays associated with Italy's military presence abroad and the lags in adjusting wages and salaries.

The rate of increase in expenditure on social services decelerated sharply, falling from 10.4 to 5.7 per cent, reflecting the modest growth in spending on pensions and health services. Spending on unemployment benefits accelerated as a result of the difficult economic situation. Around 4.5 percentage points of the slowdown in spending on pensions was due to the curbs imposed on indexation mechanisms and the freeze on new seniority pensions between

September 1992 and the end of 1993. The growth in expenditure on social services was also curbed by the measures regarding the health sector, introduced in the budget for 1993, which sharply reduced spending on pharmaceuticals.

Interest payments rose by 7.4 per cent, compared with 18.1 per cent in 1992. The effect of the growth of the debt was offset by the decline in interest rates (average gross issue yields on Treasury bills fell from 14.4 per cent in 1992 to 10.6 per cent) and the reduction in issues of Treasury bills.

Intermediate consumption, comprising purchases of goods and services used by general government as production inputs, amounted to 77.2 trillion lire and rose by 4.5 per cent, compared with 6.1 per cent in 1992. The slowdown was primarily the result of the redetermination of appropriations under the Finance Law for 1993.

After declining by 3.7 per cent in 1992, direct investment outlays (public works, equipment and machinery) contracted even more last year, falling by 7.4 per cent or almost 3.5 trillion lire. The contraction was only partly offset by the 4.6 per cent increase in investment grants and reflected not only the uncertainty generated by the developments on the law-enforcement front but also the curbs on investment appropriations introduced in recent budgets and the restrictions on the lending of the Deposits and Loans Fund to finance local authority investments.

The money and financial markets

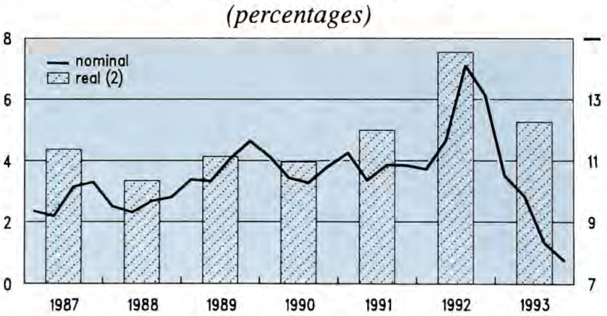
Monetary policy

In conditions of deepening recession, monetary policy was aimed in 1993 at exploiting the scope for a reduction in interest rates without jeopardizing further disinflation and orderly conditions in the financial and foreign exchange markets. The sequence and timing of monetary measures were influenced by the progress in curbing inflation, the behaviour of market interest rates and the monetary policy pursued in the leading industrial countries.

Figure 18

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

(percentages)



(1) Net of withholding tax. Quarterly averages for nominal rates and annual averages for real rates. – (2) Annual averages 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.

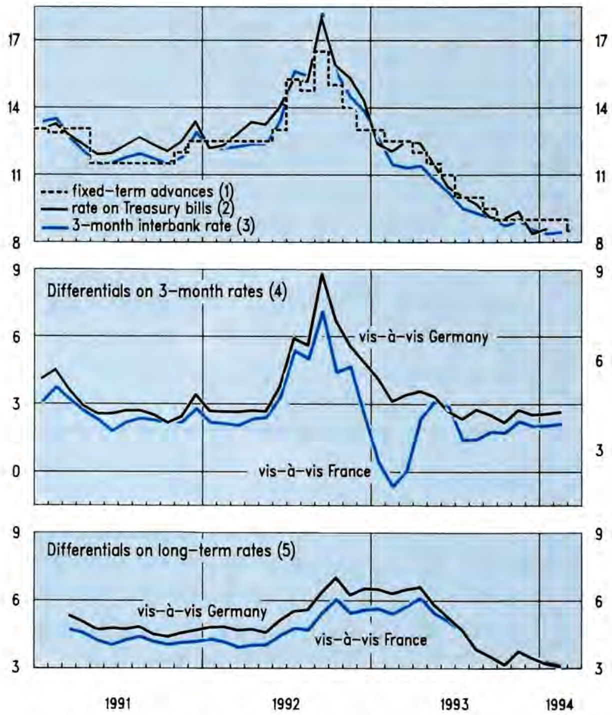
The discount rate was reduced in stages from 12 per cent at the end of 1992 to 7.5 per cent in February 1994. Over the same period the net issue yield on Treasury bills fell from 12.1 to 7.5 per cent, while that on Treasury bonds with a maturity of between nine and ten years declined from 11.8 to 7.6 per cent. Real yields diminished by an annual average of around 3 percentage points, thus returning to their 1991 levels and coming into line with those still obtaining in the international markets when risk premiums are taken into account (Figure 18). The differential vis-à-vis pre-tax, long-term interest rates in Germany narrowed by 3.3 percentage points (Figure 19).

The flow of credit to the economy slowed down markedly, owing mainly to the slackening of the demand for loans. The growth in the M2 money supply slightly overshot the target range, but the liquidity of M2 diminished as a result of large sales of bank certificates of deposit with a maturity of more than 18 months. Liquid assets not included in M2 decreased.

Figure 19

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 gross yield on the screen-based market in Italian Treasury bonds with a residual maturity of between 9 and 10 years and yields on corresponding French and German securities.

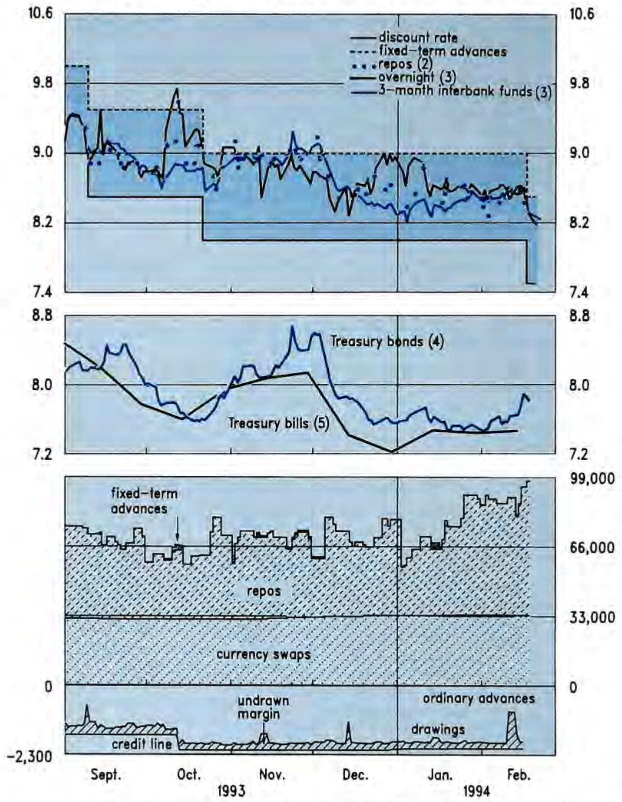
Bank of Italy intervention in the money market

In the second week of October the Bank of Italy began tightening monetary conditions in response to the weakness of the lira. Towards the end of the monthly reserve period the rate on repurchase agreements and the overnight rate were respectively 9.6 and 9.5 per cent, in line with the rate on fixed-term advances (9.5 per cent; Figure 1). The lira having then strengthened, the Bank of Italy lowered the official discount rate by half a point to 8 per cent on 21 October in conjunction with comparable measures by the other leading central banks.

Between the last ten days of October and the beginning of December the lira weakened again. The downward trend in secondary market yields on medium and long-term government securities was reversed. The Bank of Italy regulated the supply of repurchase agreements so as to keep their rates near the top of the range bounded by the two official rates. Towards the end of November the exchange rate pressure intensified; fixed-term advances were rationed, driving interbank rates and repurchase allotment rates above 9 per cent. Outstanding fixed-term advances amounted to slightly less than 1 trillion lire at the end of the month. The change in market expectations was now reflected in the interbank yield curve. At the end of November the rate on 3-month funds stood at 9.1 per cent, 0.3 points higher than in mid-October, whereas the overnight rate had declined by about 0.6 points to 8.7 per cent. As short-term rates in Germany fell during the same period, the differential vis-à-vis 3-month DM funds widened by nearly 0.7 points to 2.9 percentage points (Figure 2). The tensions in the money market spread to longer maturities, so that the pre-tax yield on 10-year Treasury bonds in the secondary market rose from 9.0 per cent in the middle of October to 10.0 per cent in the first few days of December.

Figure 1

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



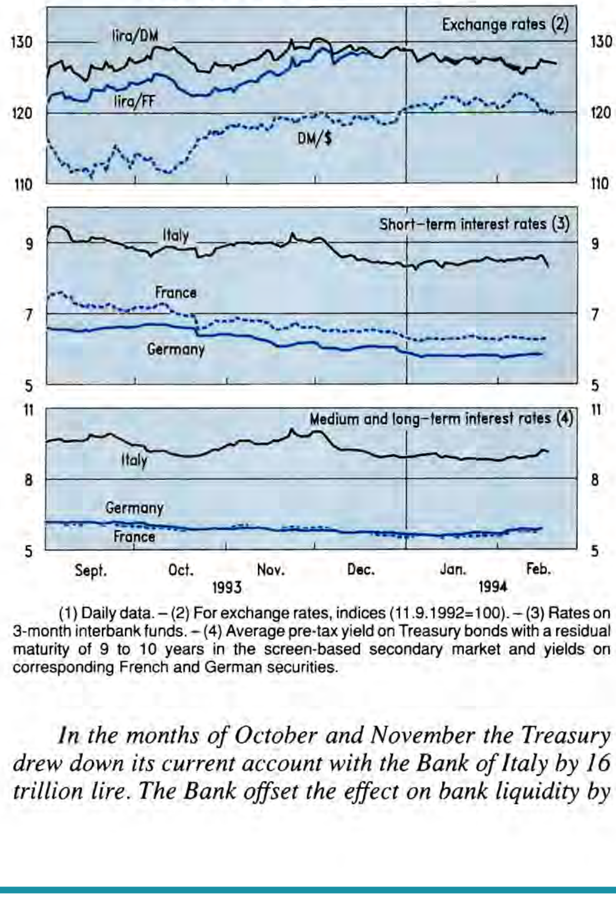
(1) Daily data. Interest rates in per cent; stocks in billions of lire. – (2) Marginal allotment rate. – (3) Weighted average of bid-ask prices. – (4) After-tax secondary market yield on Treasury bonds with a residual maturity of 9 to 10 years. – (5) Weighted average of composite net allotment rates on 3, 6 and 12-month Treasury bills.

After the rapid decline in rates in the first half of the year, the revival of tensions in the European currency markets in the summer caused the lira to depreciate by an average of more than 1 per cent against the other European Union currencies in July and prompted the authorities to tighten liquidity: during the summer the repo and overnight rates exceeded the discount rate by averages of 50 and 80 basis points respectively. Against the background of a fall in productive activity and expectations of a further slowdown in inflation, medium and long-term yields declined. The 1-point cut in the discount rate, which was implemented in two steps on 10 September and 22 October, took the rate to its lowest level since 1976 and was paralleled by similar reductions in other European countries.

The allotment yield curve for Treasury bills continued to have a pronounced positive slope, reflecting the Treasury's efforts to lengthen the average maturity of bills in circulation.

Figure 2

Exchange rates and interest rates (1)



(1) Daily data. – (2) For exchange rates, indices (11.9.1992=100). – (3) Rates on 3-month interbank funds. – (4) Average pre-tax yield on Treasury bonds with a residual maturity of 9 to 10 years in the screen-based secondary market and yields on corresponding French and German securities.

In the months of October and November the Treasury drew down its current account with the Bank of Italy by 16 trillion lire. The Bank offset the effect on bank liquidity by renewing only a portion of expiring financing operations. The banks' debtor position with the central bank arising out of securities repurchase agreements declined by about 2 trillion lire during the period to just over 37 trillion at the end of November, thus ending the steady rise that had been in progress since April.

The Bank of Italy allowed monetary conditions to ease at the beginning of December. The relaxation was aided by a rise in the exchange rate of the lira. By adjusting the supply of repurchase agreements, the Bank steered the repo rate back towards the middle of the range between the official interest rates (8 to 9 per cent). At the end of December the 3-month interbank rate stood at 8.3 per cent. The decline in secondary market yields on government securities was more pronounced; the gross yield on 10-year bonds fell to 8.9 per cent at the end of the year, slightly below its mid-October level.

Although the Treasury had only a modest cash requirement in January, it made very large issues during the month, chiefly of medium and long-term paper, in order to accumulate funds on its new payments account, the balance on which rose from the initial figure of 30.7 trillion lire to 48.4 trillion at the end of January. To counteract the resulting absorption of reserves, the Bank of Italy provided the banking system with temporary financing, and the banks' debtor position in respect of repurchase agreements increased to 55 trillion lire at the end of the month.

At the beginning of February a quarter-point rise in the US federal funds rate provoked an increase in long-term yields in European financial markets. The half-point cut in Italian official rates on 17 February in conjunction with the reduction in Germany was not fully reflected in market rates. Interbank rates declined by 0.3 points in the days that followed; as in the leading European markets, yields on government securities rose marginally.

In the last week of October the financial and foreign exchange markets showed signs of nervousness at the approach of local elections. There was a temporary rise in the yields on medium and long-term government securities, which had been declining since April, and in the allotment rates on Treasury bills. The lira weakened, depreciating by 3.4 per cent against the Community currencies in November. During this period the rate on Bank of Italy repos was just below that on fixed-term advances (9 per cent), while interbank rates rose above that level on several occasions.

At the beginning of December the easing of market tensions allowed the repo rate to fall back to 8.5 per cent, around the centre of the range demarcated by official rates. Partly reflecting the spread of expectations of a further reduction in official rates in other European countries, the decline in yields on medium and long-term securities resumed and rapidly offset the previous rise. At the end of December the net secondary-market yield on ten-year Treasury bonds was 7.6 per cent, around 1 point lower than at the end of November.

Monetary conditions remained stable in January 1994. The long-term interest rate differential vis-à-vis Germany and France narrowed slightly as a result of the rise in rates abroad, diminishing to respectively 3.2 and 3.3 percentage points. The lira appreciated by 0.7 per cent against the other Community currencies during the month, although it continued to show marked variability. On 17 February the discount rate was reduced further from 8 to 7.5 per cent, taking account of the moderate rate of inflation, the persistent weakness of productive activity and the prevailing interest rate trend in Europe by contrast with the upward movement in rates in the United States.

Table 16

Monetary variables (1)

	1992 Dec.	1993 (2) Dec.
Bank reserves (3)	4.2	9.0
Monetary base (3)	7.1	7.2
Bank deposits	4.3	9.1
Money supply (M2)	5.9	7.8

(1) Percentage changes in relation to the corresponding period of the preceding year. 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) Provisional. – (3) Adjusted for the change in the average compulsory reserve ratio.

Monetary base, adjusted for the effects of the significant reduction in the average compulsory reserve ratio from 19 to 14 per cent in February 1993, expanded by 15.6 trillion lire or 7.2 per cent last year, a rate of growth similar to that recorded in 1992 (Table 16). The unadjusted data, on the other hand, show a contraction of 19.4 trillion as a result of the

Table 17

Monetary base

(changes in billions of lire) (1)

	1992		1993 (2)	
	Oct.-Dec.	Year	Oct.-Dec.	Year
Sources				
Foreign sector	26,402	–32,591	–2,725	2,420
Foreign currency swaps	*29,249*	29,249	–	–2,055
Treasury	–6,092	–2,696	10,273	–3,845
Borrowing requirement	*52,960*	*162,844*	*51,912*	*159,942*
(excluding settlements of past debts)	*52,960*	*162,813*	*45,229*	*150,374*
Outstanding securities	*–41,024*	*–147,515*	*–28,672*	*–137,629*
PO deposits and foreign loans (3)	*–18,028*	*–18,025*	*–12,967*	*–26,158*
Open market	5,477	42,781	543	–12,372
Refinancing of banks	–17,187	108	599	–6,390
Other sectors	3,507	858	2,466	744
Total	**12,107**	**8,460**	**11,156**	**–19,443**
Uses				
Currency in circulation	7,181	9,263	6,439	4,147
Bank reserves	4,926	–803	4,717	–23,590
Deposits with B.I.	3,382	113	3,628	–23,594
Memorandum item: compulsory reserves	*4,863*	*1,012*	*5,729*	*–24,131*
Other items (4)	1,545	–915	1,089	4

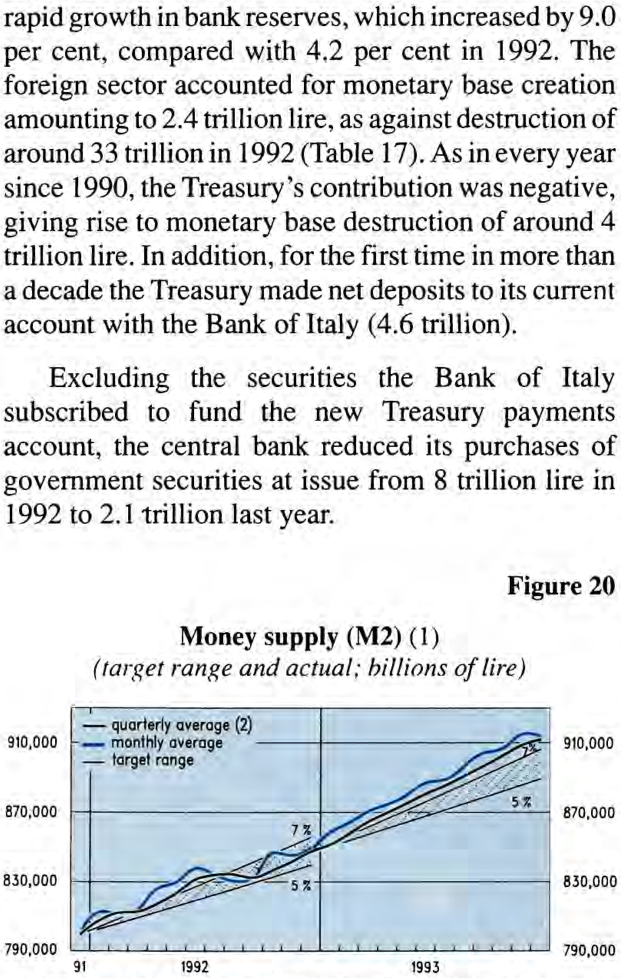
(1) Based on end-of-period data. Rounding may cause discrepancies in the totals. – (2) Provisional. – (3) Includes other minor items (chifly bank loans). – (4) Vault cash and undrawn margin on ordinary advances.

reduction in the reserve ratios. The moderate growth in currency in circulation (4.2 per cent), which reflected the contraction in consumption and the unwinding of the exceptional circumstances surrounding the currency crisis that had fueled its expansion at the end of 1992, contrasted with more rapid growth in bank reserves, which increased by 9.0 per cent, compared with 4.2 per cent in 1992. The foreign sector accounted for monetary base creation amounting to 2.4 trillion lire, as against destruction of around 33 trillion in 1992 (Table 17). As in every year since 1990, the Treasury's contribution was negative, giving rise to monetary base destruction of around 4 trillion lire. In addition, for the first time in more than a decade the Treasury made net deposits to its current account with the Bank of Italy (4.6 trillion).

Excluding the securities the Bank of Italy subscribed to fund the new Treasury payments account, the central bank reduced its purchases of government securities at issue from 8 trillion lire in 1992 to 2.1 trillion last year.

Figure 20

Money supply (M2) (1)
(target range and actual; billions of lire)

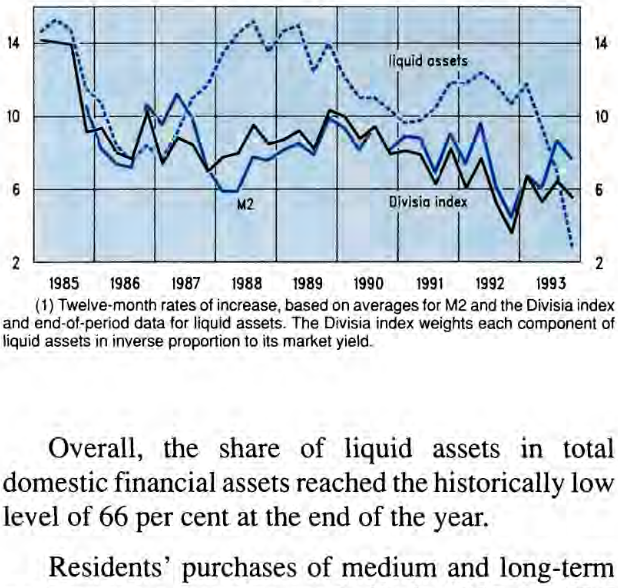


(1) Seasonally adjusted figures in billions of lire. – (2) Averages for the three months ending in the reference month.

As a result of banks' policies with regard to fund-raising and changes in the composition of households' financial portfolios, the rate of growth in M2 was slightly above the target range of 5 to 7 per cent throughout the year (Figure 20). The overshoot amounted to 0.8 percentage points at the end of the year. During much of the year the growth in the money supply was fueled by the less liquid components, particularly bank certificates of deposit with maturities of more than 18 months, as can be seen from the appreciably lower growth profile of a monetary index weighted according to the degree of liquidity of the various instruments (Figure 21). Moreover, liquid assets not included in M2 (primarily Treasury bills and bank fund-raising by way of repos) fell by around 19 trillion lire, whereas they had grown by 108.9 trillion in 1992; the fall in market yields, the fund-raising policies pursued by the banks and the introduction of the new tax rules for repos at the end of 1992 were contributory factors.

Figure 21

Money supply (M2), liquid assets and the weighted monetary index
(percentages) (1)



(1) Twelve-month rates of increase, based on averages for M2 and the Divisia index and end-of-period data for liquid assets. The Divisia index weights each component of liquid assets in inverse proportion to its market yield.

Overall, the share of liquid assets in total domestic financial assets reached the historically low level of 66 per cent at the end of the year.

Residents' purchases of medium and long-term government paper rose markedly in 1993, by 62.5 trillion lire net of repos, compared with a decline of 6.4 trillion in 1992. Residents' total financial assets grew by 7.7 per cent on a seasonally adjusted annual basis, which was 0.2 points less than in 1992 (Table 18). Within this aggregate, holdings of foreign securities increased by only 2.6 trillion lire, whereas they had grown by 21.3 trillion in 1992.

Data for the private sector, which are only available up to September, show an increase of 13.9 trillion lire in firms' financial investment, as against a decrease of 3.4 trillion in the same period a year earlier (Table 19). Most of the growth in firms' financial assets occurred in their foreign assets, and particularly in trade credit, which was buoyed by the good performance of exports. Shares also contributed, as did bank deposits, but only in the second quarter. In the first nine months of the year households' financial assets grew by 120.4 trillion lire, compared with 92 trillion in the same period of 1992. As a result of the rise in the stock market and the fall in yields on securities, investment funds once again began to attract a significant proportion of Italian households' savings in the second half of the year.

Table 18

Financial flows

(percentage changes) (1)

	1991 Dec.	1992 Dec.	1993 Dec.
Total credit	**12.7**	**9.7**	**6.2**
finance to the non-state sector	*14.0*	*7.4*	*1.0*
from banks	*15.0*	*8.2*	*-1.7*
from special credit institutions	*12.7*	*6.5*	*7.5*
bonds	*7.1*	*-14.8*	*-7.2*
foreign finance	*14.4*	*10.3*	*1.0*
finance to the state sector	*11.8*	*11.2*	*9.6*
foreign finance	*11.3*	*0.3*	*19.1*
Financial assets (2)	**12.3**	**7.9**	**7.7**
domestic	*10.9*	*7.3*	*8.0*

(1) In relation to the same period of the preceding year; end-of-period data.. – (2) Financial assets of the non-state sector, net of shares.

The recession caused a marked slowdown in the credit aggregates, against the background of a drop of around 5 points in the average bank lending rate. Finance to the non-state sector grew by 1.0 per cent in 1993, compared with 7.4 the previous year. There was a particularly marked slowdown in credit to firms, which grew by 1.2 trillion lire in the first nine months of 1993, as against 30 trillion in the same period a year earlier. The state sector borrowing requirement amounted to 159.9 trillion lire, compared with 162.8 trillion in 1992.

Total credit therefore grew by 6.2 per cent during the year, compared with 9.7 per cent in 1992.

The activity of credit intermediaries

The protracted recession and the large volume of share issues dampened corporate demand for credit. In the face of an increase in bad debts, which was attributable mainly to the business cycle, the banks maintained a cautious stance; they curtailed their lending, demanded more security on a larger proportion of loans, realized capital gains generated by the fall in yields on government securities, built up their liquidity and reduced their net foreign debt.

In 1993 total bank credit contracted by 1.4 per cent and foreign currency lending by 29.3 per cent. Despite a slackening of the pace from the summer onwards, lira lending increased by 4.8 per cent, a figure slightly higher than that recorded in 1992.

The deepening of the recession caused an appreciable increase in bad debts, which amounted to 46.3 billion lire in December, 23.8 per cent more than a year earlier; they accordingly rose from 5.9 to 7.2 per cent of the loan portfolio (excluding bad debts) and from 25.1 to 29.3 per cent of banks' capital and reserves. By sector of borrower, the increase was higher than average for loans to non-financial companies and, among these, to firms supplying market services. Non-performing loans also rose sharply, almost doubling over the year to more than 28 trillion lire.

The banks responded to the increase in risk by adopting a prudent lending approach, even towards groups with a past record of high creditworthiness, and by increasing the proportion of loans backed by greater security. The ratio of credit drawn to credit granted tended to rise until September, with particularly large increases in the case of holding

Table 19

Financial assets and liabilities
(billions of lire)

	Households (1)			Enterprises		
	Stocks	Flows		Stocks	Flows	
	Dec. 92	Jan.-Sept. 1992	Jan.-Sept. 1993	Dec. 92	Jan.-Sept. 1992	Jan.-Sept. 1993
Cash	77,483	1,898	−2,033	7,978	191	−221
Transferable sight deposits	331,329	−27,455	−13,017	83,015	−16,733	−7,711
Other deposits	553,788	11,647	24,431	4,228	153	843
Short-term securities	351,007	34,103	−8,642	4,500	569	−509
Medium and long-term securities	500,063	23,102	70,453	50,015	−2,422	−4,002
government	*415,336*	*17,010*	*45,181*	*43,789*	*−2,182*	*−4,451*
Investment fund units	60,663	2,091	17,714	–	–	–
Shares and participations	539,830	214	10,837	246,266	98	4,807
External assets	84,825	16,726	−1,990	115,677	10,082	19,773
Other (2)	255,168	29,793	22,654	17,469	1,689	926
Total assets	**2,754,156**	**92,116**	**120,405**	**529,149**	**−3,372**	**13,905**
Short-term loans	116,041	4,474	−1,542	403,681	14,281	−14,729
banks (3)	*111,341*	*3,907*	*−1,692*	*355,010*	*14,832*	*−15,300*
Medium and long-term loans	165,991	10,951	6,676	239,217	15,756	15,933
banks (3)	71,320	4,802	*1,952*	18,505	*1,789*	*3,336*
special credit institutions	*77,003*	*6,519*	*5,097*	*167,968*	*12,431*	*10,421*
Shares and participations	–	–	–	692,414	1,331	18,945
External liabilities	–	–	–	190,154	14,130	268
shares and participations	–	–	–	44,916	*2,341*	*4,759*
Other	64,175	5,670	7,893	106,003	9,180	15,472
Total liabilities	**350,170**	**21,614**	**13,655**	**1,671,423**	**52,442**	**33,303**
Balance	**2,403,986**	**70,502**	**106,750**	**−1,142,274**	**−49,070**	**−19,398**

Source: Financial accounts.
(1) Consumer households and sole proprietorships. – (2) Non-financial companies and non-financial quasi-corporate enterprises. – (3) Flows are corrected for exchange rate changes and debt consolidation.

companies, especially public ones (Table 20). While lira overdrafts showed a twelve-month fall of 0.5 per cent in December, loans at medium and long term, which are generally backed by greater security, increased by 11.7 per cent. Moreover, the share of fully secured loans rose from 33.0 to 35.4 per cent over the year to December. At the same time, the degree of backing of partly secured loans increased from 68 to around 73 per cent.

The average bank lending rate fell by 4.9 points during 1993 and is now more than 2 points lower than it had been before the mid-1992 rise in rates (Figure 22). The dispersion of banks' average lending rates increased, partly owing to differences in the incidence of bad debts. By contrast, the conditions banks apply to prime customers appear to be more uniform, as testified by the significant reduction in the dispersion of the minimum lending rate.

The reform of the Treasury's current account with the Bank of Italy and of the compulsory reserves

On 26 November 1993 Parliament enacted Law 483 abolishing the automatic monetary financing of the public sector and giving the Bank of Italy responsibility for setting banks' reserve requirements.

The reform of the Treasury's current account implements the provisions of the Treaty of Maastricht on monetary financing of the Treasury and follows the progressive reduction in the financing provided by the Bank of Italy in recent years (see the figure). In 1993 the Treasury made net deposits of 4.6 trillion lire to the current account, compared with net drawings of 7.7 trillion in 1992; the central bank's gross purchases of government securities at issue fell to 2 trillion lire last year, compared with 7.2 trillion in 1992.

BI-UIC purchases of government securities at issue and drawings on the Treasury's overdraft facility (1)

(annual flows in billions of lire)

(1) The data on drawings on the Treasury's overdraft facility in 1983 and 1984 are adjusted for the extraordinary advance to the Treasury. Purchases of securities in 1993 do not include those made to create the Treasury payments account.

Under the system introduced by Law 483/1993, the Bank of Italy may not grant the Treasury advances of any kind. An interest-bearing account, entitled the "Treasury payments account", has been opened with the Bank of Italy in the name of the Treasury. It has initially been credited with the proceeds of an issue of 31 trillion lire of government securities subscribed by the Bank. The debt accumulated on the former Treasury current account will be converted into long-term government securities bearing interest at 1 per cent a year.

The new rules reconcile the need to give the Treasury flexibility in cash management with the objective of avoiding permanent monetary base financing of the budget deficit. The Law prohibits overdrafts on the new account; in the hypothetical event of an insufficiency of funds, the shortfall would be written to an account on which interest would be charged at the official discount rate and the Bank would automatically suspend payments on behalf of the Treasury until the debt had been settled.

In order to regulate the Treasury's use of the funds in the new account and thus ensure that the balance always remains at a safe level, the Law establishes a number of "thresholds", the breaching of which the Government is required to report to Parliament so that corrective measures can be taken. If the balance at the end of any month is less than 30 trillion lire, the Treasury must bring it back to that level within the three following months. If the end-month balance is less than 15 trillion lire, the Treasury must submit a report to Parliament by the fifth day of the following month explaining the causes of the shortage of funds and describing any corrective measures planned. Finally, if the end-month balance is less than 30 trillion lire for three successive months, the Treasury Minister must give Parliament an account of the reasons and indicate any corrective measures.

Article 10 of Law 483/1993 empowers the Bank of Italy to adjust reserve requirements and recognizes their function as an instrument of monetary policy. Funds raised through the issue of bonds or certificates of deposit with an original maturity of at least eighteen months are exempt from any reserve requirement. A ceiling of 17.5 per cent is set for the compulsory reserve ratios. The Bank of Italy lays down the aggregates that count towards satisfying the reserve requirement and the ratios to be applied, which may differ for the various types of bank deposit. The Bank is also responsible for establishing the procedures for meeting the requirement and mobilizing compulsory reserve deposits, as well as setting the penalties for non-compliance. The Bank fixes the rate of interest payable on compulsory reserves, which may differ according to the type of funds against which the reserves are held but must be commensurate with the average level of bank deposit rates and may not exceed the official discount rate.

Table 20

Lending according to branch of economic activity (1)

	General government	Financial enterprises	Financial enterprises – of which: holding companies – private	Financial enterprises – of which: holding companies – public	Non-financial enterprises – private	Non-financial enterprises – public	Households – consumer	Households – producer	Total lending to resident customers
	12-month percentage change in credit granted (2)								
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
1993 – September ..	6.9	–3.7	–18.9	18.1	–0.8	–2.7	12.6	1.5	–1.3
	12-month change in credit drawn (2)								
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
1993 – September ..	–22.5	1.6	–6.8	55.9	0.3	–5.6	15.8	3.1	0.6
	Ratio of credit drawn to credit granted (3)								
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
1993 – September ..	45.5	57.0	60.9	62.4	57.9	49.2	79.1	68.5	60.1
	Interest rates on lira loans								
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	13.2	13.3	13.7	13.6	15.2	13.8	17.0	16.9	15.1
1993 – 3rd qtr.	11.3	11.5	12.0	12.1	13.4	11.8	15.3	15.1	13.2
	Percentage composition at 30 September 1993								
Credit line	3.8	18.6	4.1	3.3	57.0	3.7	3.9	12.3	100.0
Credit used	2.9	18.3	4.3	3.5	56.0	3.1	5.1	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) The foreign currency component is valued at the exchange rates obtaining at the end of 1989.

The banks' fund-raising strategy was aimed at building up reserves of liquid assets, which had been depleted in recent years by the large growth differential between loans and deposits. At a time when yields were falling rapidly, the average deposit rate came down by only 2 points; consequently, the after-tax differential between the yield on Treasury bills and the rate on deposits other than CDs narrowed by more than 3 points to 3.6 points (Figure 23). The increased relative attractiveness of bank deposits helped to stimulate demand for them: on the basis of monthly averages, bank deposits grew by 8.7 per cent in 1993, nearly 6 percentage points more than in 1992. The acceleration was mainly due to an increase of 8.9 per cent in current accounts, in contrast to a contraction in 1992. Sales of CDs, primarily those of certificates with a maturity of more than 18 months, grew appreciably, although not as rapidly as in 1992:

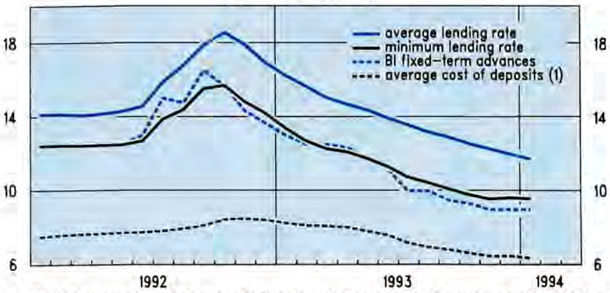
4

calculated on average data, the increase last year was 18.0 per cent, as against 30.1 per cent in 1992. The share of CDs with a maturity of more than 18 months rose to 63.1 per cent of the total.

Figure 22

Rate on fixed-term advances and bank lending rates (1)

(percentages)



(1) The average cost of deposits is calculated as a weighted average of the cost of the individual components of bank fund-raising (current accounts, savings accounts, CDs).

Banks further reduced their fund-raising through repurchase agreements; the amount outstanding in December was 96.6 trillion lire, 1.0 per cent more than a year earlier. By contrast, temporary purchases of securities from customers increased by more than 29.4 trillion lire, with around 22 trillion of such transactions being effected in lira securities with non-resident counterparties. The continuous rise in the latter transactions, which involve a small number of banks and are mainly carried out with foreign financial companies, again reflected the desire of non-residents investing in Italian securities to hedge their exchange risk.

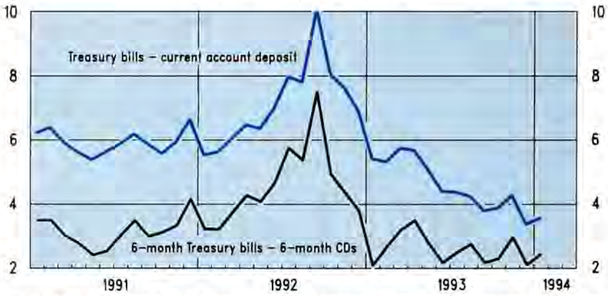
Banks' abundant domestic fund-raising was accompanied by a reduction in their liabilities towards non-residents. According to balance-of-payments data, their net foreign liabilities fell by 48.3 trillion lire during the year, whereas they had increased by 27.7 trillion in 1992. The net position in lire amounted to 9.3 trillion lire in December, compared with 1.2 trillion at the end of 1992. This large rise can also be attributed to exchange risk hedging by non-residents.

In the last four months of the year the banks began to increase their securities portfolios again, after having reduced them by around 15 trillion lire in the first eight months, when the rise in securities prices had enabled them to realize sizable capital gains. The increase over the year as a whole amounted to 43.4 trillion lire at book value (compared with 15 trillion in 1992), of which 32.6 trillion was attributable to purchases of Treasury bills, mostly in the last four months of the year. Net of repos with the Bank of Italy and customers, the increase amounted to 20.4 trillion lire.

Figure 23

Interest rate differentials net of withholding tax (1)

(percentages 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.

The prudence exercised in managing their main assets and liabilities enabled banks to achieve high profitability for much of the year, even if transitory factors played a significant role. Despite a narrowing of the spread between average lending and deposit rates, net interest income grew by 3.1 per cent in the first nine months of the year, as against 16.4 per cent in the same period of 1992. The slowdown in this item was more than offset, however, by the marked rise in other net income, reflecting profits from securities trading and, to a lesser extent, income from services. Consequently, gross income grew by 25.7 per cent in the first nine months, compared with 4.9 per cent a year earlier, and rose from 4.6 to 5.2 per cent of resources. Operating costs were equal to 3.1 per cent of resources, less than in 1992 as a result of the slowdown in the rate of increase in costs per employee from 10.1 to 2.9 per cent. Operating profit in the first nine months rose from 14.7 to 24.8 trillion lire and from 1.4 to 2.1 per cent of resources. The improvement in profitability contributed to a further strengthening of the banks' capital and reserves by around 9 trillion lire in the first nine months of the year.

The more rapid growth in medium and long-term lending, which is more highly secured but is less costly to customers in terms of the interest rates charged, is confirmed by the performance of special credit, which increased by 8.5 per cent over the year, around half a point more than in 1992. The growth in real estate credit slowed down from 12.5 per cent in 1992 to 8.5 per cent last year. Industrial credit increased less rapidly, rising by 5.8 per cent, slightly less than the rate recorded in 1992. As with the banks, the special credit institutions' bad debts reflected the weakness of the economy, increasing by 31.1 per cent over the year. Loan instalments in arrears amounted to 12 trillion lire in September, compared with 7.1 trillion a year earlier. Real estate loans marked as bad debts totaled 10.6 trillion lire in September, as against 8.1 trillion in September 1992.

Fund-raising by special credit institutions also expanded briskly, owing primarily to bond issues, which increased by 16.1 per cent in the twelve months to November. Issues of CDs rose by 9.2 per cent, compared with 6.4 per cent in 1992, while funds raised abroad increased by only 4.9 per cent, whereas in the previous year they had grown by 13.1 per cent. Like the banks, the special credit institutions expanded their securities portfolio, which grew by 5.6 trillion lire in the twelve months to November, as against a decrease of 4.1 trillion in the same period in 1992.

The financial market

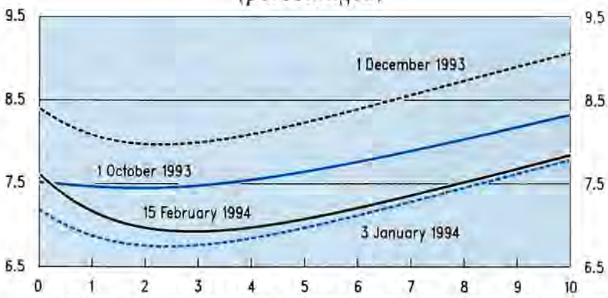
Yields on medium and long-term securities fell during the first part of the year, but the waning of expectations of further reductions in short-term interest rates in the European markets, coupled with uncertainty regarding the Italian political situation and the delay in approving the Finance Law, checked the decline and caused yields to rise briefly in November. The net issue yield on ten-year Treasury bonds was nonetheless 4.7 points lower at the end of January 1994 than at the beginning of 1993.

Both short and long-term interest rate differentials vis-à-vis Germany and France widened temporarily in November, reflecting the movements in lira rates. In December the differentials in relation to long-term paper in Deutschemarks and French francs were respectively 3 and 2 percentage points lower than a year earlier. By contrast, in the last part of the year the yield differentials between Italian Treasury bonds denominated in foreign currencies and comparable securities of other issuers remained broadly unchanged.

The fluctuations in yields did not affect the slope of the yield curve, which remained negative for maturities of less than two years and positive for longer-term paper (Figure 24). Between the beginning of October and mid-February long-term paper showed the largest decline in yields, a fall of about 25 basis points.

Figure 24

Yields curves (1)
(percentages)



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

Trading on the screen-based market in government securities continued to grow throughout last year, albeit more slowly than in 1992 (23.0 per cent, compared with 35.1 per cent in 1992; Figure 25). Daily turnover averaged 8 trillion lire in 1993 and surged to 12 trillion in January, partly as a result of the abolition of stamp duty on trading in government securities in the regulated markets. Market liquidity, as reflected in the bid-offer spread, fluctuated less than it had a year earlier but appeared to be less than before the currency crisis in the summer of 1992. This factor, combined with the increasing volume of trading in government securities on foreign markets, suggests that some aspects of the operation of the screen-based market should be amended, the range of products and services it offers increased and certain tax distortions removed (see the insert).

The reform of the screen-based secondary market in government securities (MTS) and the introduction of screen-based auctions

In its first six years of operation MTS has grown very substantially in terms of turnover, securities listed and participants (Table 1).

Table 1

MTS: indicators of growth

	Turnover (1)		Securities listed (2)	Primary dealers (2)
	Total	Treasury bonds		
1988	42,385	11,539	30	16
1989	71,836	28,319	37	17
1990	427,351	125,905	60	18
1991	1,224,426	695,926	76	23
1992	1,654,697	1,198,776	94	30
1993	2,034,458	1,584,251	102	38

(1) In billions of lire. – (2) End-of-year data.

After a phase of gradual growth, turnover soared in 1990 and 1991 and continued to rise rapidly in the next two years, though at a decreasing rate. The large growth in activity on MTS in the last three years has primarily concerned Treasury bonds, the turnover of which rose from 31 per cent of the total in 1989-90 to 86 per cent in the second half of 1993. Several factors contributed to this development: the demand for such securities by foreign investors, who trade on MTS through resident intermediaries, the introduction of derivatives based on Treasury bonds and the increase in the proportion of issues of long-term fixed-rate securities. Partly as a result of the policy of dividing issues into tranches, the number of different securities in circulation has declined, so that trading in Treasury bonds has been mostly in a limited number of securities (Table 2), coinciding in the main with those deliverable on the futures market: 60 per cent of the turnover in medium and long-term lira securities in 1993 was in five of the 92 Treasury bonds listed at the end of the year.

The growth in trading has not been accompanied by a narrowing of bid-ask spreads. This may in part reflect greater price volatility in the period following the currency crisis in the summer of 1992. In the last three years the bid-ask spread widened by around 4 basis points for the five most liquid securities and by around 57 basis points for those falling in the quintile of least actively traded securities (Table 2). Conditions of illiquidity have occurred, particularly for large-value transactions, which can only be effected on MTS by dividing orders into minimum lot trades: the bid-ask spread, calculated as the difference between the average purchase and selling prices, has tended to increase rapidly with the size of the transaction.

In the three years from 1991 to 1993 the number of primary dealers on MTS rose from 18 to 38, but many participants had only a marginal market share: in 1993 the top eight primary dealers were counterparties to 55 per cent of all dealers' trades. In the last two years the deficiencies of the screen-based market have become more apparent: the trading policies of non-resident investors, who are interested in managing interest rate risk on large portfolios and do not participate directly in MTS, together with tax considerations, have fostered the development of over-the-counter trading, the turnover of which is unofficially estimated to have surpassed that on MTS.

In order to give fresh impetus to MTS, the Minister of the Treasury and the Bank of Italy conducted a survey with the assistance of market participants and have prepared a set of measures to modify the market's structure with the aim of:

- *broadening foreign investors' access to the market;*
- *redefining the obligations and functions of primary dealers;*
- *widening the range of products and services offered by the circuit linking MTS and the Italian futures market (MIF).*

As a preliminary step, to remove the main differences of tax treatment, two provisions were adopted in December 1993 abolishing the stamp duty on government securities trades on regulated markets and modifying the rules on the accounting treatment of securities for tax purposes. Partly owing to these changes, average daily turnover surged from 8.3 trillion lire in the fourth quarter of 1993 to 12 trillion in January of this year (compared with 8 trillion in January a year ago).

With the aim of increasing the market's activity and liquidity, the reform provides for the following innovations.

First, non-resident operators will be granted access to MTS so that they will be able to operate directly in their capacity as dealers without having an establishment in Italy. The role of primary dealer will nonetheless continue to be restricted to authorized banks and Italian securities firms.

Secondly, primary dealers will be divided into two categories, which will enter into different undertakings and be subject to different rules. The first category will retain most of the features of today's primary dealers (though the minimum lot they will be required to quote will be increased to 1 per cent of total MTS turnover). The second, smaller, group will consist of "specialists in government securities". The requisites for members of this category will be *more stringent and include: a minimum capital requirement (75 billion lire), participation in the primary market (where each specialist must take up at least 3 per cent of gross annual issues and 1 per cent of the issues of each uniform class of security), and participation in the secondary market (handling at least 3 per cent of total annual turnover and 1 per cent of the turnover in each uniform class of security). A second set of membership requisites concerns operators' ability to guarantee satisfactory market liquidity at all times; their performance in this regard will be measured in terms of indicators covering spreads, volume of business, number of securities quoted for minimum lots of more than 5 billion lire, and the number and composition of counterparties. Membership of the group of specialists will be reviewed periodically on the basis of the foregoing requisites. Specialists will have access to special placements of securities that the Minister of the Treasury will arrange after auctions. Furthermore, the Bank of Italy will modify its intervention procedures by channeling certain categories of its own transactions primarily towards specialists and redefining the amounts of finance it provides.*

Provision has also been made for the introduction of interdealer brokers to facilitate the anonymous trading of large lots between specialists.

Lastly, the trading of options on futures will soon commence on the Italian futures market.

The rationalization of the secondary market's operational procedures carried out by the MTS Management Committee will permit two other developments. In the first place, the introduction of multiple applications will speed up the execution of orders involving amounts larger than the minimum lot. Instead of having to break such orders up into a series of separate orders for sequential execution, it will be possible for them to be met automatically on the basis of the best quotes available. Secondly, the automatic link created between the execution and settlement procedures will allow operators to reduce their operating costs and enhance the competitiveness of securities trading.

Two innovations were introduced in the primary market with the end-February issues: bidders in the auctions of medium and long-term securities can now submit their bids telematically via the National Interbank Network as an alternative to using the paper-based system; in addition, the procedure for the settlement of the securities allotted has been automated.

The adoption of the new procedures, which will be extended to Treasury bills in the coming months, will reduce the interval between the submission of bids and the announcement of the results of auctions. This should reduce operators' auction risk and is likely to diminish the lull in secondary market trading around the time of new issues. The easier access to auctions should encourage a growing number of operators to participate and thereby enhance competition.

Measures have been built into the new procedures to ensure the security and confidentiality of bids at the presentation and examination stages.

The settlement of the securities allotted will be effected automatically with the procedure known as "Daily securities settlement". This will relieve operators of the need to channel payment for their purchases through the clearing system and will allow securities to be placed directly in centralized securities deposits, thereby encouraging the centralization of securities at the Bank of Italy.

Table 2

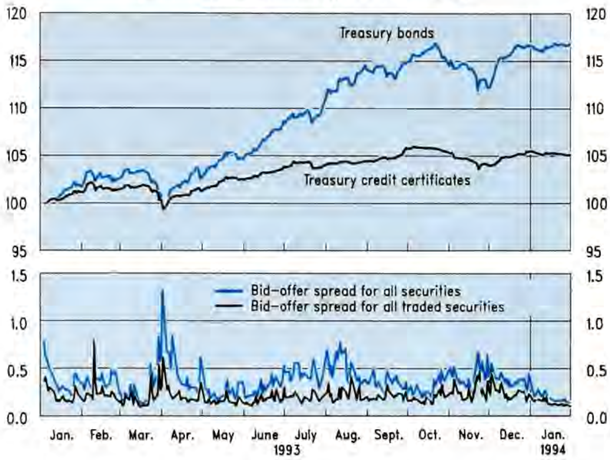
MTS: turnover and spreads for medium and long-term securities (1)

	Turnover by quintile in % (2)					Average spread for each quintile (in basis points)					
	I	II	III	IV	V	I	II	III	IV	V	Total
1988	67.3	83.0	92.1	97.7	100.0	6.9	12.6	12.3	15.5	20.4	13.5
1989	59.5	78.6	90.4	97.6	100.0	6.9	10.9	14.1	15.7	23.6	14.2
1990	63.7	82.0	92.3	98.0	100.0	3.2	6.9	10.6	13.8	20.6	11.0
1991	68.1	85.7	94.7	98.6	100.0	2.3	3.5	5.5	10.7	20.0	8.4
1992	84.8	94.3	97.9	99.6	100.0	8.3	28.1	44.9	62.7	85.4	45.9
1993	84.6	93.4	97.4	99.3	100.0	9.8	20.0	30.0	41.7	76.6	35.6

(1) The quintiles are defined with reference to the number of securities listed; the securities are ranked in descending order on the basis of turnover. – (2) Cumulative values.

Figure 25

Screen-based market: ex coupon price indices and average bid-offer spread
(indices; 4 January 1993=100)



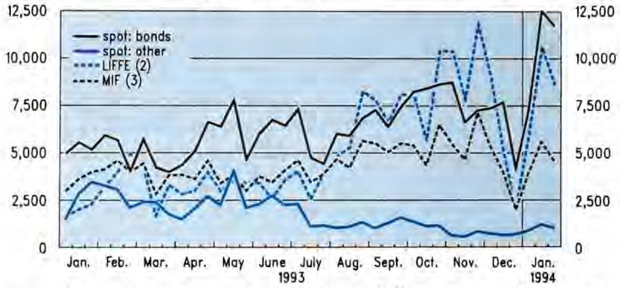
The average daily turnover in Treasury bond futures on the Italian futures market (MIF) rose to around 5 trillion lire in the second half of the year, an increase of 40 per cent over the first half. Nonetheless, from August onwards the volume of trading on LIFFE was consistently higher than that on MIF, and for the year as a whole it was about 1.1 times as large (Figure 26). The volume of LIFFE trading in contracts on long-term securities was twice as large as that on MIF. Trading in three-month Eurolira futures on LIFFE also remained high, recording an average daily turnover of 8.1 trillion lire in the last quarter; the open interest on the latter market at the end of the year amounted to about 100 trillion lire, almost seven times the figure at the end of 1992.

The shift in the composition of Treasury debt towards medium and long-term securities continued in the latter part of the year (Table 21). Between October 1993 and January 1994 there were net redemptions of Treasury bills amounting to 5.7 trillion lire. An issue of 30-year bonds was launched in November; the issue yield was respectively 70 and 50 basis points higher than that of the ten-year bonds issued in mid-November and at the beginning of January.

Following the liberalization of the market in December, issues of Eurolira bonds increased sharply, reaching 5 trillion lire in January alone, compared with 19.6 trillion in the whole of 1993.

Figure 26

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.

The fall in share prices on the Milan Stock Exchange that had begun in September continued until the end of November owing to a combination of factors: the temporary rise in interest rates, the announcement of substantial capital increases and uncertainty surrounding the political outlook. In December prices recovered markedly and continued to increase in January. The Milan Stock Exchange Index rose by 37.4 per cent in the year as a whole (Figure 27).

Turnover on the stock exchange contracted in October but later recovered, and in January had reached a daily average of 680 billion lire (compared with 330 billion in January 1993), with peaks of over 1 trillion lire.

The sharp rise in share prices during 1993 encouraged listed companies to make substantial capital increases. In the last quarter such operations amounted to 7.1 trillion lire, 3.3 trillion of which consisted of the Fiat issue; the annual total of capital increases by listed companies was about 10 trillion lire. Even excluding issues by unlisted companies in the last quarter, for which complete data are not yet available, the total funds raised by non-financial companies amounted to about 23 trillion lire, compared with 9.2 trillion lire in 1992. The buoyant tone of the stock market contributed to the success of the public offers of shares in Credito Italiano and IMI, which were respectively five and four times oversubscribed.

Table 21

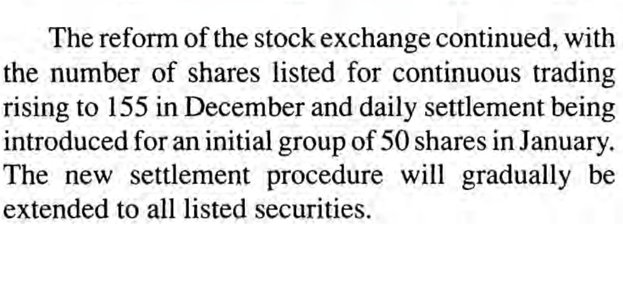
Government securities
(billions of lire)

	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
1993	737,345	7,146	56,000	166,452	–	12,838	7,370	987,151
				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
1993	6,479	219	20,698 (2)	138,485 (2)	–7,041	1,763	5,526	166,129

(1) Net issues do not include issue discounts. – (2) Including securities placed directly with the Bank of Italy to create a balance on the Treasury payments account.

Figure 27

Securities market: indices of capitalization
(31 December 1990=100)



The reform of the stock exchange continued, with the number of shares listed for continuous trading rising to 155 in December and daily settlement being introduced for an initial group of 50 shares in January. The new settlement procedure will gradually be extended to all listed securities.

The rise in bond and share prices continued to have a beneficial effect on investment funds in the last quarter, when net fund-raising reached 15.8 trillion lire. Net fund-raising of 33.5 trillion lire for the year as a whole (compared with 0.7 trillion in 1992) and the rise in securities prices increased the funds' net assets to 110 trillion lire at the end of 1993, 81 per cent more than a year earlier. Net fund-raising by bond-based funds was particularly large (26.6 trillion lire); at a time of lower interest rates and an increase in the proportion of government securities issued as longer-term fixed rate paper, this made it easier for households to achieve the desired trade-off between risk and return. Share-based funds also recorded substantial net subscriptions (6.2 trillion); at the end of the year the Italian shares in the funds' portfolios represented 5.2 per cent of the total capitalization of the Milan Stock Exchange, compared with 3.9 per cent a year earlier.

Short-term prospects

The international economy

In 1993 economic activity in the industrial countries as a whole grew by even less than had been expected; the cyclical disparity widened between North America and the other industrial countries, where recovery is proving slow to ignite. Unemployment increased, except in the United States. World trade grew at only half the rate of the previous year and exports by the OECD countries stagnated. Inflation continued to slow down, allowing scope for a gradual decline in interest rates. The economic recession caused a small increase in the industrial countries' aggregate budget deficit.

The worsening of the cyclical disparities among the major areas was compounded by disequilibria that prevented the industrial countries as a whole from overcoming the recession. The latest international forecasts are cautious as to the timing and strength of recovery in Europe and Japan. In December the OECD revised downwards its forecasts of growth in the industrial countries in 1994.

The GDP of this group of countries should increase by around 2 per cent, compared with 1.1 per cent in 1993, with a slight acceleration in the second half of the year (Table 22). There will continue to be a sharp contrast between the rate of growth in the United States, which is expected to rise to 3 per cent, and that in Japan, which is unlikely to exceed 0.5 per cent. In February the Japanese Government approved a programme of public investment and temporary reductions in direct taxes amounting to about 3 per cent of GDP; there is a danger, however, that an excessive appreciation of the yen would prolong the recession. The forecast growth in GDP in the European Union is also modest, less than 1.5 per cent, mainly on account of the low figures for Germany and France. Only the United Kingdom is expected to achieve a substantial rate of growth of nearly 3 per cent. With interest rates still high in real terms, economic recovery in Europe continues to be hampered by the adverse climate of confidence, the constraints on stimulatory budgetary measures and continued structural problems in countries such as Germany and Italy.

The rates of growth in the leading industrial countries remain markedly different, but in 1995 they are expected to converge around the average of 2.7 per cent forecast for the OECD area as a whole, a rate considered consistent with the growth in potential output.

Exports will generate significant stimulus in 1994. While the rate of growth in world trade is likely to double from 2.6 to 5.4 per cent, the growth in the exports of OECD countries is expected to rise from 1.0 to 4.4 per cent; intra-area exports should grow by 3.0 per cent, after having declined by 0.6 per cent last year. As in 1993, the Asian developing countries, which draw around half of their imports from the OECD area, should continue to make an important contribution to world trade. In the longer term, the implementation of the GATT agreements reached in December 1993 and progress in the negotiations on the further liberalization of trade in goods and especially services will foster the growth in trade among the leading areas of the world economy.

The growth rates forecast for 1994 do not appear to be sufficiently high to prevent a further deterioriation in the labour market. Only North America and the United Kingdom are likely to see a gradual decline in the unemployment rate. The situation in the European Union will remain problematic, as the number in work is likely to fall by a further 0.6 per cent in 1994 while the unemployment rate will rise from 11.3 per cent last year, a level that was already above the peak recorded in the mid-eighties, to 12 per cent in 1994-95. This forecast forms the basis of the employment programme set out in the European Union's *White Paper on Growth, Competitiveness and Employment*.

Table 22

Forecasts of the main international macroeconomic variables
(percentage changes on previous year)

	1993	1994 (1)	1995 (1)		1993	1994 (1)	1995 (1)
GDP (2)				**Current account balances** (5)			
OECD countries	1.1	2.1	2.7	OECD countries	–3.0	–10.8	–0.7
of which: United States	2.9	3.1	2.7	*of which: United States*	–105.7	–134.0	–147.1
Japan	–0.5	0.5	2.3	*Japan*	131.4	136.3	134.2
EU	–0.3	1.4	2.5	*Germany*	–20.2	–14.7	–13.2
Germany	–1.5	0.8	2.2				
of which: Western	–1.9	0.4	1.7				
Private consumption deflator				**Unemployment rate** (6)			
OECD countries	3.7	3.5	3.2	OECD countries	8.2	8.5	8.4
of which: United States	2.7	2.7	3.0	*of which: United States*	6.8	6.5	6.2
Japan	0.9	0.3	0.4	*Japan*	2.5	2.9	2.8
EU	3.8	3.3	2.5	*EU*	11.3	12.0	12.0
Germany	4.1	3.2	1.9	*Germany*	8.9	10.1	10.3
of which: Western	3.5	3.0	1.5	*of which: Western*	7.4	8.7	9.0
Budget balances (3)				**World trade** (2)	2.6	5.4	6.4
United States	–3.6	–2.7	–2.1	**Exports** (2)			
Japan	–1.0	–2.0	–2.4	OECD countries	1.0	4.4	5.8
Germany	–4.0	–3.5	–2.7	LDCs	7.8	8.0	8.1
Short-term interest rates (4)				**Imports** (2)			
United States	3.0	4.2	5.0	OECD countries	0.3	4.3	5.8
Japan	2.9	2.6	2.7	LDCs	7.3	7.9	7.7
Germany	7.3	5.0	3.8				

Source: OECD, December 1993.
(1) Forecasts. – (2) At constant prices. – (3) As a percentage of GDP. – (4) Averages. United States: 3-month Treasury bill rate; Japan: rate on 3 and 6-month certificates of deposit; Germany: 3-month interbank rate. – (5) Billions of dollars. – (6) Level.

Inflation should slow down further in Europe and Japan in 1994. Interest rates may therefore continue to decline, especially in Europe; the recent reductions in official rates in Germany, Italy and other European countries are steps in this direction, in contrast with developments in the United States, where the change in trend signaled by the small rise in rates at the beginning of February may be followed by further increases if the expansion in economic activity generates inflationary pressures. The increase in the cost of money that this might trigger worldwide could weaken the recovery in Europe and Japan.

Fiscal policy in the leading countries except Japan continues to be aimed at curbing budget deficits; the authorities in the United States, Canada, Italy and the United Kingdom aim to achieve significant results in this regard in 1994.

The dollar appreciated against the yen and the Deutschemark in the second half of 1993 and continued to rise until the first few days of February 1994. During that month the escalation of the trade dispute between the United States and Japan caused the yen to strengthen sharply in expectation of a further increase in Japan's balance-of-payments surplus. According to OECD forecasts, the US current account deficit will worsen in 1994 and 1995 and Japan's large surplus will remain essentially unchanged. Elimination of the imbalance between

The 1994 budget

The budgetary measures for 1994 should lower the state sector borrowing requirement on a current programmes basis by about 31 trillion lire, or 1.9 per cent of the forecast GDP. This is in line with the indications of last September's Forecasting and Planning Report. Following Parliamentary amendments to the bills submitted by the Government in September, the overall package of measures should produce expenditure savings of 25.7 trillion lire and revenue increases of 5.6 trillion for the public sector. For the state sector alone the figures are 26.3 trillion and 5 trillion.

Expenditure

Personnel, contracting, purchasing. *– The provisions of the Finance Law implementing bill concerning the government reorganization, the bodies responsible for determining its structure and the rules governing the decision-making process were passed without substantial amendment in Law 537 of 24 December 1993.*

The Government's original estimates of the savings in this area thus stand confirmed. The measures affecting public employment will involve savings of about 2 trillion lire, net of the appropriation of 1 trillion for the cost of new labour agreements. The total savings to be generated by functional reform, the renegotiation of general government supply contracts and the purchasing of goods and services by the Defence and Finance Ministries are estimated at 4.6 trillion lire.

Health services. *– Parliament made marginal amendments to the provisions of the implementing bill establishing limits and procedures for prescription drugs and specialist services; specifically: a) the fixed contribution for "essential" and intermediate drugs (defined as those "of substantial therapeutic value") for the age-exempt was raised from 4,000 to 5,000 lire; b) the lower and upper age-exemption thresholds on intermediate drugs and diagnostic and specialist services were lowered from 12 to 10 and from 65 to 60, respectively; c) total exemption was introduced for some categories of disabled persons.*

The health service measures will cut gross public sector expenditure by some 4 trillion lire. Of these savings, 2.3 trillion will come from the reduction in expenditure on drugs thanks to the abolition of the list of approved medicines and the consequent reclassification; 1.2 trillion will derive from a reduction in the number of hospital beds and the reform of specialist care; the rest will come from administrative measures.

Effect of the budget on the cash flow of the public sector (1)
(billions of lire)

Decrease in expenditure	**25,700**
Law 537 and Law 538 (Finance Law) of 1993	
Public employment	2,000
Renegotiation of public contracts and other measures	2,900
Curbing of purchases of goods and services	1,700
Health services	4,000
Social security	2,200
Reduction in spending of special-statute regions	1,900
Other expenditure on capital account	11,000
Increase in revenue	**5,600**
Tax revenue	**3,800**
Decree Law 357/1993 (ratified as Law 447/1993)	
Reduction (1993) in advance income tax payment	2,000
Law 537/1993 (2)	
Direct taxes:	
Changes in determination of business income	1,500
Changes in determination of self-employ't income	800
Reduction in taxation of owner-occupied housing	–1,000
Other measures (3)	300
Indirect taxes: (4)	700
Law 538/1993 (Finance Law)	
Partial compensation for fiscal drag	–2,300
Other expected revenue losses (5)	*–4,900*
Decree Law 557/1993	
Indirect taxes:	
New method of determing VAT payments	2,500
Change in VAT rates and reduction in reliefs	1,100
Excise taxes on petrol and alcohol products	1,400
Other measures	900
Direct taxes:	
Anti-avoidance measures (6)	800
Other receipts	**1,800**
Disposal of goods and services (PO restructuring)	*800*
Law 537/1993	
Disposal of assets by INPS, INAIL, INPDAP (7)	1,000
Social contributions	..
Law 537/1993	
– Elimination of fixed charge for access to health care	–1,200
– Increase in health service contribution rates and enlargement of contribution base	400
– Social security contribution levy on self-employment income of persons not enrolled in pension programmes and reduction of contribution relief for farms	800
Total	**31,300**

(1) Based on official estimates. - (2) The original figure of additional net revenue of 1.5 trillion lire was modified owing both to Government revision of the original estimates and to Parliamentary amendments; the overall effect of the changes should be additional revenue of 800 billion lire. - (3) Includes proceeds of taxtion of null or annullable acts. - (4) Includes revenue increases due to Parliamentary amendments on VAT deductions and the instant lottery. - (5) Due to the effect on revenue of expenditure reduction measures and the loss of revenue from the tax on loans owing to the decline in interest rates. - (6) Includes the loss of revenue due to revision of cadastral property values (Legislative Decree 569 of 28.12.1993). - (7) Istituto Nazionale di Previdenza per i Dipendenti della Pubblica Amministrazione (social security institute for government employees).

Social security. – *In the field of pensions and social assistance, the package is expected to generate total savings of 2.2 trillion lire for the public sector. Amendments passed by Parliament diminished the savings forecast under the original Government proposal by some 2 trillion lire. One trillion of this is due to rises in retirement pensions and other social security benefit incomes of under 1 million lire a month (gross) to compensate for the difference between programmed and actual inflation in 1993 and to the anticipation from 1 January 1995 to 1 July 1994 of increases in the benefits of certain pensioners whose entitlements are distorted according to year of retirement. A further increase in expenditure stems from the appropriation of 600 billion lire to create a Fund for Employment under the Ministry of Labour and Social Security. The fund is to finance projects designed to deal with the employment emergency. The remaining 400 billion in missed savings is due to minor measures, including the postponement to 1 January 1995 of the entry into force of new rules on pension cumulability.*

Other expenditure items. – *The reduction in transfers to the special-statute regions and in the restitution of tax refunds to Sicily were passed without amendment. The effect of these measures on public sector expenditure will be equal to any reduction in spending by the regions, as a consequence of the reduction in net transfers.*

Other budget measures for 1994 will produce savings of 11 trillion lire in expenditure on capital account. For the most part this consists in a reduction in capital transfers to public sector firms and entities, as well as in changes in the annual apportionment of expenditure for multi-year programmes. Going by the state sector classification, the savings also include reductions of 2 trillion lire in investment expenditure and about 500 billion lire in financial items.

Revenue

The budget measures for 1994 should generate an increase in public sector revenue of 5.6 trillion lire, net of the expected reductions.

The measures were contained not only in the Finance Law but also in other legislation submitted to Parliament in September and enacted subsequently. Moreover, the implementing bill provided for the enactment, before the end of 1993, of supplementary measures to produce additional revenue of at least 6.7 trillion lire. This objective was attained with Legislative Decree 557 of 30 December.

Most of the package involves indirect taxes, with an expected 3.6 trillion in additional revenue to be generated by VAT. Of this, 2.5 trillion is the one-off effect of a new method of calculating periodic payments to go into force on 1 April. Another 800 billion will be raised by increasing the intermediate VAT rate from 12 to 13 per cent. The impact effect of the measure on the cost of living was slightly greater than a tenth of a percentage point. In addition rate adjustments and the elimination of some exemptions and deductions should generate additional receipts of about 300 billion lire in 1994.

The increase in revenue expected from excise taxes is estimated at 1.4 trillion lire. Increases in the excise taxes on petrol widen the differential between the rates on premium leaded and unleaded fuel, which already met the EC requirement of at least 50 ecus per 1,000 litres to discourage use of the more polluting fuel. The cost-of-living impact of this measure is also estimated at about a tenth of a point.

Miscellaneous measures should produce an additional 900 billion lire. In the area of gaming taxes, the introduction of an "instant" lottery and a new type of football pool should increase net receipts by 250 billion. The extraordinary tax on the registration of luxury motor vehicles, originally envisaged for 1993 only, was renewed. The taxation of transactions between banks and customers was simplified. The interest rate applied to tax credits and debits was lowered from 9 to 6 per cent. Finally, some 500 billion lire will come from inflation adjustment of a number of fixed-sum levies and of the prices of tobacco products, to be enacted by ministerial decree prior to 30 April.

Direct tax measures, aimed chiefly at reducing tax avoidance, are expected to increase revenue by about 800 billion lire. Part of the gain will derive from a reduction in tax reliefs, with the elimination of some exemptions and the limitation of tax credits; other provisions are designed to rationalize some aspects of the fiscal code in order to reduce the scope for favour avoidance.

Finally, additional receipts are expected from the sale of goods and postal services as part of the restructuring of the post office and from disposals of real estate by INPS, INAIL and INPDAP (the civil servants' social security institute) in line with the Government's original provisions.

As regards social contributions, Law 537/1993 retained the essence of the Government bill levying social security contributions on the earnings of free-lance workers and added a provision reducing contribution relief for farms in disadvantaged areas. The overall effect on revenue, net of the loss due to the elimination of the fixed contribution for access to the health care system, will be negligible.

the two leading industrial economies by increasing the openness of the Japanese market to imports or by taking decisive measures to boost domestic demand in Japan would avoid the adverse effects that a correction based solely on a further appreciation of the yen would have on Japan and, by repercussion, on the world economy.

In Europe, the exchange rate strains of July and August were followed by a period of calm in which almost all of the EMS currencies moved back close to their central rates. This reflected the clear monetary policy stance of the countries concerned and the easing of cyclical divergences between Germany and the other countries. Despite the fact that the period of exchange rate instability has been overcome, it is felt that a return to the exchange rate regime in effect until last July or even merely a reduction in the width of the fluctuation band cannot be contemplated before the progress achieved so far has been consolidated; hence the importance of economic policies aimed at increasing the degree of convergence between the various economies.

The Italian economy

The fall in economic activity in Italy that began in the spring of 1992 continued for much of last year. Industrial output declined until the summer, and then stagnated for several months before showing signs of recovery towards the end of the year. According to provisional figures from Isco, the decline in GDP may have been as much as 0.7 per cent in 1993 as a whole, compared with an increase of 0.9 per cent in 1992. The external sector was unable to offset the contraction in domestic demand. The devaluation of the lira stimulated activity through its effect on net exports, but at the same time it contributed to the sharp fall in private consumption and investment as a result of the decline in confidence and the deterioration in the terms of trade. Public investment spending decreased.

In view of the contraction in demand, firms began to adjust the size of their workforce to match the reduced requirements of lower output; the resulting fall in employment was particularly marked in the services sector. Unemployment rose to 11.3 per cent. The operation of the various welfare mechanisms, both old and new, eased the social consequences of this development.

The decline in inflation and the attainment of a surplus on the current account of the balance of payments were the most important positive results of the year. Economic policy, the behaviour of households and businesses and certain features of the current phase of the cycle combined to promote the adjustment of the economy. Wage restraint and greater flexibility in the use of labour contributed to a marked reduction in inflation. It became possible gradually to reduce interest rates by more than in international markets. The budget net of interest payments showed a surplus despite the adverse effect of the recession on the public finances. The privatization programme was begun and the Government launched a reform of the public administration with the aim of achieving greater efficiency.

Conditions are such that the Italian economy can progress along a more balanced path, but it is necessary to consolidate and build on the results already achieved. Economic policy, and especially fiscal policy, should be directed towards that aim. The adjustment of the public finances is still at an early stage. The authorities must persevere in their efforts to reduce further the inflation differential vis-à-vis the other European countries, particularly if domestic demand begins to revive.

The timing and intensity of the recovery remain uncertain. It is bound to be gradual and to depend on two factors: the strength of the stimulus derived from the quickening of international activity, and the effect that this, together with economic policies aimed at consolidating the positive results already achieved, will have on confidence and hence on investment and consumption. The residual effects of last year's gains in competitiveness will help to sustain exports.

In their latest macroeconomic scenarios for 1994, the major forecasting bodies are tending to predict rates of growth in GDP not far short of the estimate of 1.6 per cent stated in the Forecasting and Planning Report drawn up last September. These forecasts assume an improvement in domestic confidence and a significant acceleration in the growth in world trade. Economic indicators do not rule out the first hypothesis, but nor do they yet confirm it. The second hypothesis is subject to uncertainty as to the cyclical performance of certain important economies.

The inflation forecasts broadly endorse the Government's target of an annual average rise of no more than 3.5 per cent in consumer prices. The maintenance of moderate wage growth, small increases in other costs and further productivity gains should help achieve this result. Wage restraint will have to be maintained when tangible signs of a recovery in activity appear. Above all, the other aspects of the agreed wage policy, namely greater flexibility in the use of labour and further measures to reduce unemployment, particularly among the young, will have to be developed.

Forecasts of employment growth as early as 1995, let alone this year, may prove overoptimistic, as a further small decline in the number in work cannot be ruled out. Unemployment will remain a central problem for the next few years owing to the lag with which cyclical changes affect the demand for labour – as was demonstrated during the downturn – and to the continued existence of structural obstacles to employment growth. Only an increase in the labour component of production, particularly in the services sector, can lead to a rise in the number in work over the short term.

The balance of payments on current account is set to record significant surpluses over the next two years. They may be larger than those indicated in the majority of forecasting exercises, thanks to the improvement in the balance on investment income owing to the decline in net foreign debt after ten years of continual growth and to lower nominal interest rates on the lira, the currency in which a large part of Italy's liabilities are denominated.

The budget measures for 1994 are in line with the programme outlined in the Economic and Financial Planning Document of last July and confirmed in the Forecasting and Planning Report of September. The fiscal measures indicated in the Document were aimed at stabilizing the ratio of public debt to GDP in 1996. Accordingly, the Government set itself the target of achieving a state sector surplus net of interest payments equal to 1.9, 2.7 and 3.6 per cent of GDP in 1994, 1995 and 1996 respectively. For 1994 the overall borrowing requirement was fixed at 144.2 trillion lire and the primary surplus at 31.8 trillion, on a par with the surplus then expected for 1993 and compared with an outturn of 27.5 trillion. In order to achieve these targets, measures were formulated to increase revenue by 3.5 trillion lire and reduce expenditure by 27.5 trillion by comparison with the forecasts on a current programmes basis. The budget measures were approved in December without substantial amendment, save for a slight change in composition.

Attainment of the public finance objectives for 1994 will be made more arduous, however, by the smaller than forecast growth in output, particularly in 1993, and the weaker than expected impact of spending cuts, owing partly to the fact that structural measures cannot produce significant results over a limited period of time. The budget measures for 1994 are notable for the emphasis placed on reductions in expenditure and the attention paid to the reform of the public administration. The risk of overestimating their financial effects can be attributed to the intrinsic merits of the measures themselves: rather than resort to tax increases, the authorities have chosen the ultimately more rewarding course of rationalizing expenditure and reforming the organization of the public administration, particularly as regards public employment contracts and the practices and procedures governing public consumption.

The downward movement in interest rates, which was much more rapid than had been expected, will help reduce the 1994 borrowing requirement. If interest rates remain at their present level, interest payments in 1994 will be about 10 trillion lire less than estimated in September 1993, leading to a reduction in the ratio of interest payments to GDP for the first time since 1987.

Overall, the state sector borrowing requirement for 1994 is tending to overshoot the target of 144.2 trillion lire; the difference could be substantial in the case of the surplus net of interest payments, particularly if the international recovery, and hence also the domestic recovery on which the Government's forecasts rest, were slow to materialize. The next quarterly report on the borrowing requirement, which the Minister of the Treasury will present to Parliament in the near future, will serve as a basis for assessing the danger of failing to achieve objectives that are essential for the adjustment of the economy and the further development of the financial markets and for defining any necessary corrective measures.

In order to strengthen market confidence, consolidate the benefits of the reduction in interest payments due to the fall in interest rates and take full advantage of the international recovery, it is essential that budgetary policy continue to be geared towards stabilizing the public debt and eliminating the current account budget deficit. Adjusted for inflation, the latter aggregate measures the public sector's contribution to national savings; at present it is still slightly negative. While maintaining the policy of reducing the ratio of public debt to GDP, positive public saving could provide scope for capital expenditure aimed at removing disparities in infrastructure among the different regions of Italy and between this and other countries. The need for public works investment, particularly in technologically more advanced fields, does not conflict with efforts in the short term to curb capital expenditure, which has been inflated by improper costs.

The launch of the privatization programme is one of the innovative aspects of the Government's measures. The sale of important industrial enterprises in the IRI and ENI groups has been completed; the change in the legislation governing the ownership of the companies to be privatized has made it possible to sell shares in Credito Italiano and IMI to private investors. The sale of Banca Commerciale Italiana is imminent. The main objectives of the privatization programme are to strengthen the competitiveness of the productive sector and to spread share ownership.

At the beginning of 1994 the slowdown in money supply growth became more pronounced, and at the same time bank lending showed signs of revival. In these circumstances, it proved possible to reduce the official discount rate by half a point on 17 February to 7.5 per cent, its lowest level since 1976. Over the next few days the leading banks reduced their prime lending rates by a comparable amount and interbank rates declined by about 0.3 percentage points. A question mark hangs over securities prices, however, not only on account of domestic factors but also because of uncertainty about future movements in international financial markets, which reacted adversely to the decision of the Federal Reserve to induce an increase in short-term interest rates. The equity market nevertheless continues to rise, albeit with wide fluctuations.

The signs of an appreciation of the lira that have been evident in recent months will gather strength as the cyclical recovery spreads and uncertainty about the political situation subsides, provided that efforts to improve the public finances continue and wage restraint is maintained.

Monetary policy is designed to favour a further slowdown in inflation towards the levels prevailing in the leading industrial countries, leaving scope at the same time for a recovery in economic activity. Last autumn the Bank of Italy set a target range of 5-7 per cent for the growth in the monetary aggregate M2 in 1994. The range takes account of the probable further reduction in the velocity of circulation of money due to lower interest rates; it is consistent with the GDP growth forecast and the commitment to reduce inflation.

Attainment of the M2 objective will be accompanied by a further small decline in the ratio of money to financial assets, provided that public confidence in government securities is maintained. The end of the recession and the recovery in investment will have an expansionary effect on the demand for credit; lending to the non-state sector, which rose by only 1 per cent in 1993, may increase by between 6 and 7 per cent in the course of this year.

Based on information available on 24 February.

Speeches

Identifying and managing risk

Remarks by the Director General, Lamberto Dini, to the Global Markets Corporate Finance Conference, organized by J. P. Morgan

Venice, 28 October 1993

1. Thank you very much for this invitation to Venice. This unique city of history and art provides an appropriate setting for recalling Pierpont Morgan's passion for collecting paintings and antiques, as well as his generosity towards Italy. It is, of course, common knowlegde that Pierpont Morgan put together the largest private art collection of his day, but it is probably less well known that in 1904 the King of Italy conferred upon him the title of Cousin of His Majesty, in recognition of a generous donation to Italy of a masterpiece from his collection.

Tonight, I would just like to share some thoughts with you on the topic of your conference: risk and risk management.

2. The first thought, a very general one indeed, is that risk is deeply embedded in economic activity and affects the welfare of all economic agents: households, enterprises and governments. Nobel laureate Kenneth Arrow vividly illustrated the universality of risk:

> "Machines break down from time to time; the coordination of complex production processes can never be perfect; ... the success of new businesses and the movements of the stock market cannot be foreseen; and above all, technological progress and the development of new knowledge are by their very nature leaps into the unknown." (K. Arrow – *Insurance, Risk and Resource Allocation*, 1963).

Thus the existence of risk and the need to defend against it are inherent aspects of all economic activity.

3. The second thought is that in the aggregate someone has to bear risk – it can be reduced, or shifted between agents, but it cannot be eliminated. Hence, the ingenuity of economic agents has devised arrangements to help individual agents face risk. Such familiar financial contracts as insurance policies, leases, securities and derivatives are basically means of reallocating risk and allowing market participants to share it in the most efficient way.

4. The third consideration is that handling risk and uncertainty is the essence of entrepreneurial activity. As Schumpeter put it:

> "To act with confidence beyond the range of familiar beacons ... requires aptitudes that are present in only a small fraction of the population and that define the entrepreneurial type as well as the entrepreneurial function" (J.A. Schumpeter – *Capitalism, Socialism and Democracy*, 1942).

5. My fourth consideration is that where the uncertainty inherent in economic activity will show up – in the real economy or in financial markets – depends to a large extent on economic policies. If, for instance, the major countries tried to return to a Bretton Woods type of system, with pegged exchange rates, exchange market risk would be reduced, but the repercussions of unforeseen shocks on economic activity and employment would certainly be greater. Likewise, attempts to return to interest rate pegging by central banks, a policy that was universally abandoned in the early 1980s following the lead of Paul Volcker, would reduce volatility in the money and financial markets, but it would also reduce the scope for policies aimed at stabilizing the economy on a sustainable non-inflationary growth path.

6. Fifth point. Financial and foreign exchange markets are better equipped to cope with shocks than goods and labour markets.

Risk can easily be reduced through the diversification of financial portfolios. By contrast, it is very difficult for an individual to learn different skills to cope with the risk of being without a job. For a firm, trading in financial instruments is a more efficient way to diversify risk than holding real assets or operating a diversified range of businesses. At the macroeconomic level, movements in exchange rates are a less costly way to counter real shocks than altering nominal wages, a process that typically involves at least temporary losses of output and jobs, or forcing labour to migrate. This is not to say that movements in the prices of financial assets are always beneficial. Indeed, they have sometimes resulted in prices diverging considerably from any plausible assessment of fundamentals, thereby increasing rather than reducing the risks present in the economic environment. The real estate and stock market bubbles of the late 1980s are good examples of this. In such circumstances, a case can be made for stabilizing action by the authorities.

7. Nonetheless – and this is my sixth point – risk in the financial and foreign exchange markets is here to stay, for several reasons. In the first place, the degree of overall political and economic uncertainty at the world level is unlikely to diminish and may indeed increase. The historic changes that are occurring in the formerly planned economies, as well as the catch-up process that seems to have started in several LDCs – possibly including such large countries as China and India – are bound to cause major reallocations of production across countries and continents. Integrating LDCs into a more liberal system of trade relations with industrial countries is a desirable objective that should be actively pursued, particularly through a successful conclusion of the GATT negotiations. Progress in this direction will also help to improve expectations, revive investment and foster growth in the industrial countries. But it will challenge traditional ways of doing things, in terms of production techniques and the geography of production. This challenge must be met, even though it will add to uncertainty in both the real economy and financial markets. It is also easy to foresee that the political processes set in motion by the fall of Communism will continue to be far from linear and may cause tensions or crises, even within some industrial countries. Italy, for instance, is in a phase of far-reaching institutional and political change, triggered by the collapse of the framework that had prevailed during the Cold War years.

In the second place, the authorities of the major industrial countries are likely to give priority to the ultimate objectives of economic policy – growth, employment and price stability – rather than trying to stabilize either interest rates or exchange rates. Ultimately, the achievement of a more stable macroeconomic environment should also help to reduce volatility in the financial markets, but this result is by no means assured.

In the third place, the coordination of economic policies among the major countries is unlikely to give much weight to the stabilization of exchange rates. Since 1985, there have been moments, most notably after the Plaza and Louvre meetings, in which monetary authorities have acted jointly to avoid excessive movements in the dollar exchange rate. To some extent these interventions were effective, but the more ambitious goal set at the Louvre of stabilizing the dollar within relatively narrow margins did not withstand the stock market crash of October 1987 and was gradually abandoned. At the start of this decade, with economic recovery the policy priority in the United States, and with Japan still growing and Germany having to cope with the effects of unification on the budget deficit and inflation, it became evident that the objective of stabilizing the dollar would have put excessive constraints on domestic policies. A similar conflict between domestic and external objectives emerged in

Europe during 1992 and 1993 and led to the abandonment of the narrow band system in August of this year. All the European countries needed, and still need, lower interest rates; however reductions have not been uniform, and will probably continue to differ across countries.

8. My seventh thought on risk is that the basic trends that we have witnessed in recent years in international financial markets are likely to continue in the future, leading to even closer links between different markets and geographic locations. The cross-border holdings of tradable securities among residents of the United States, Europe and Japan are estimated to have risen to $2.5 trillion in 1991. Over the past decade the volume of international equity transactions increased by around 15 per cent a year on average and the percentage of domestic government debt owned by foreigners has increased substantially, in some cases dramatically. Mainly as a result of these trends, and of more active portofolio management by institutional investors, the worldwide volume of foreign exchange transactions is estimated to have more than tripled in the last six years, reaching about $900 billion a day.

It is well known that the main factors that have contributed to the globalization of portfolio investment have been the liberalization and modernization of capital markets in several European countries and in Japan, coupled with technological advances, and the increasing role of institutional investors in the management of savings. All of these factors are likely to go on playing a major role in the future, especially as many newly-industrialized countries in Asia and Latin America will liberalize and modernize their markets, gain access to advanced technology, and probably follow the pattern set by the industrial countries in the institutionalization of savings and cross-border diversification.

Hence the increased size and globalization of markets is to be considered as a given that we will all have to live with, whether we like it or not. A return to capital controls is not a viable option, at least in the industrial countries, and is considered detrimental by the authorities of such countries.

9. While capital mobility is likely to improve the allocation of resources worldwide, it poses new challenges to both the authorities and market participants. In a nutshell – and this is my eighth thought – the concern is that the transmission of distress across markets and locations is now much quicker than it used to be, requiring much faster action and greater coordination by the authorities. The fact that markets are global while authorities are national may pose problems. As Alan Greenspan noted recently, "it is by no means clear" whether recent financial innovations "have increased or decreased the inherent instability of the financial system".

The authorities can act in several ways to limit the potential for crises. First, the major contribution they must provide is to maintain a stable macroeconomic enviroment in which financial and non-financial enterprises can prosper and grow. Second, they should remove fiscal and regulatory discrepancies that distort price behavior and reduce the efficiency and transparency of markets, wherever possible by harmonizing supervisory functions across countries and categories of intermediary. Third, they should avoid actions that might give rise to "moral hazard" among agents. Fourth, they will sometimes need to provide emergency liquidity so as to prevent local problems from turning into systemic threats.

On several occasions in the past the authorities have coped successfully with major crises. When Mexico's debt problems came to a head in 1982, official creditors provided considerable financial support, mainly through multilateral agencies, to debtors implementing stabilization programs. The aim was to allow them time to work out financial packages with their creditors that would avoid costly defaults and safeguard the integrity of the international financial system. Again, in the aftermath of the stock market crash of 1987, central banks provided ample liquidity to prevent the disruption of transactions on organized exchanges.

Likewise, the authorities do intervene at times in the foreign exchange markets to prevent movements in exchange rates that might result in excessive losses by operators. Some of the official interventions in Europe in the last 13 months may have served this purpose, although, overall, I believe that the

European Monetary System was not properly managed in terms of more fundamental choices, such as the timing and size of realignments and the coordination of interest rate policies.

10. Market participants – this is thought number nine – can contribute a great deal to improve the overall capacity of the system to cope with risk. They can strengthen the system's stability by improving management and control procedures for handling their increasingly complex financial transactions and monitoring their overall exposure. They must clearly recognize that the level of risk that matters is the global position risk resulting from their holdings of both financial and real assets. In their business decisions they should basically rely on rigorous analysis of fundamentals; experience shows that markets will not diverge persistently from fundamentals and that in the long run these are bound to prevail in the determination of asset prices. Instruments of so-called technical analysis as well as the array of models available to assist financial decision-making should be used to supplement, not to substitute, managerial judgement and discretion. I would like in this respect to recall the distinction between risk and uncertainty that was put forward in 1921 by Frank H. Knight: risk is measurable in the sense that statistical methods can be used to associate probabilities to certain events; uncertainty is by its own nature unmeasurable. Many of the events affecting businesses in our market economies fall in the realm of uncertainty. Models, based on measured probabilities can therefore be very useful, but they are not sufficient. At the end of the day, it is sound judgement and sound management that matters.

11. With these considerations in the background, I wish to conclude with a few remarks on the state and prospects of European monetary affairs, an area which – I am sure – is of concern to you all, also from the standpoint of managing risk.

Europe has a long-standing tradition of preferring managed or pegged exchange rates. After the collapse of the Bretton Woods system, several European countries tried to devise alternative ways to stabilize their currencies, first with the so called "snake" and later, with considerably greater success until mid-1992, with the EMS. This tradition, which stands in rather sharp contrast with the preference for floating exchange rates prevailing on the other side of the Atlantic and in Japan, can be understood in the light of certain specific political and economic features of the European continent. First and foremost, in the whole post-war era most European countries have aspired to the unification of the continent: this goal is of course much more ambitious than free trade, and goes well beyond the sphere of economic relations. Coordinating economic policies and maintaining a high degree of exchange rate stability always appeared a feasible objective, perhaps even a minimum condition for achieving the more ambitious targets spelled out in the Treaty of Rome in 1956.

Second, the European Community has taken important steps towards integration in recent years, through the creation of the Single Market. It is well known that free trade is compatible with floating exchange rates; Canada and the US provide an obvious example in this respect. It is not clear, however, whether a more ambitious construction such as the Single Market would be viable without a considerable degree of exchange rate stability. At the very least it is absolutely essential that competitive devaluations be ruled out in the whole area.

Third, the political geography of the European continent is considerably more complex than that of, say, the North-American Continent. It is more difficult to coordinate twelve or more countries, than it is to coordinate two or three. The relative size of the countries involved is also an important factor. In economic terms, Canada is small relative to the US and its actions impinge less on the US than, say, those of France on Germany; if a conflict arises between Canada and the US, it can be settled bilaterally more easily than conflicts arising among a number of countries of more or less similar size, with the smaller ones often playing a key role in tilting the balance of decisions one way or another. There is therefore a greater need in Europe to have a framework for coordinating economic policies, or at least to have a set of common guidelines to avoid divergent behavior by some countries.

The EMS was one way to resolve these problems, and it worked for quite some time. It avoided competitive devaluations and contributed to disinflation in many countries, especially after the second oil shock. But it failed on two fronts: it proved insufficient to impose budgetary discipline in most countries and it did not withstand the rapid growth in financial and foreign exchange markets that occurred once capital controls had been lifted in all the major European countries.

12. The authorities of Europe now have to take stock of the hard lessons that recent events have taught. A return to narrow bands is not feasible in the near future, nor would it be appropriate to set a date for such a decision. Instead, we will have to change our approach and emphasize the need to achieve the ultimate objectives of economic policy at home. Each country must implement the policies that are best suited to restoring confidence, reducing budget deficits, and fostering non-inflationary growth, without losing sight of the implications of its own actions on other countries. The result will have to be greater convergence of economic performances, which is a precondition for maintaining a high degree of exchange rate stability.

It is reassuring that so far no European country has been tempted to use monetary policy so as to engineer competitive devaluations. Although some currencies, notably the Italian lira, have seen very large – indeed excessive – devaluations, in no case was this the intended result of deliberately loose policies. On the contrary, the monetary authorities of all the European countries have continued to maintain a cautious attitude, trying to reconcile the need to support economic activity with that of avoiding a resurgence of inflation.

At the European level, progress is being achieved in some important areas, which should help improve convergence and confidence. The completion of the ratification of the Treaty on European Union reinforces the commitment of all the Community countries to stability-oriented policies. The second phase of EMU will start on schedule with the establishment of the European Monetary Institute and the implementation of important pieces of legislation, forbidding monetary financing of public deficits and strengthening Community monitoring of budgetary policies.

Convergence and confidence could also be greatly strengthened in the medium term if European countries were to achieve progress in key structural areas: deepening the Single Market; removing structural rigidities – particularly those hampering the functioning of labor markets; and contributing to a successful conclusion of the trade negotiations of the Uruguay Round, in which the Community plays an important role.

13. Italy remains committed to European integration and can contribute most effectively to this goal by continuing to pursue the objective of medium-term fiscal consolidation. In this connection, I wuold like to recall that the lira's withdrawal from the ERM in September 1992 has not weakened the adjustment effort. On the contrary, corrective measures amounting to more than 5 per cent of GDP have been implemented, which should considerably reduce the PSBR of 1993 relative to that of 1992; Italy will be one of the very few countries to achieve a reduction of the deficit, this year, in spite of the recession. I would also like to recall some positive developments in other areas: incomes policy, where important agreements have been reached with the social partners to check the growth of nominal wages; inflation, which has fallen towards 4 per cent in spite of the devaluation of the lira; and the current account of the balance of payments, which seems headed towards equilibrium this year, compared with a deficit of more than 2 per cent of GDP in 1992. The growth of net external demand is helping to make the recession in Italy less acute than in most other European countries.

In this context, monetary policy has prudently utilized the room for manoeuvre to gradually lower interest rates from the extraordinarily high levels reached in the fall of 1992. The prospects for further easing of monetary conditions will depend crucially on the speed of the process of budgetary consolidation, the main factor still affecting financial markets' confidence in Italy today, as well as on interest rate developments in other European countries.

14. To conclude, since we are in Venice and, in some noble sense of this word, we are all "merchants", let me recall Shakespeare's Merchant of Venice:

If to do were as easy as to know
what were good to do,
chapels had been churches,
and poor men's cottages princes' palaces.

Sure enough, to do is more difficult than to know or to talk; and this is my last thought on risk, one that leads me to welcome the initiative of J.P. Morgan and to wish that the conference be effective and useful for what each of you has "to do" in his own business back home.

The new supervisory regime for foreign banks in Italy

Address by the Director General, Lamberto Dini, to the 3rd Meeting of the International Financial Community, organized by AIBE

Milan, 9 November 1993

1. Introduction

I should like to start by thanking the Chairman of the Italian Association of Foreign Banks for his kind invitation to address the 3rd meeting of the international financial community. The single European market for banking and financial services has begun to operate and a preliminary assessment can be made of how European integration is affecting the relations between the supervisory authorities of the member states, the supervision of the foreign branches of both EC and non-EC banks, and the growth of foreign banking in Italy.

Since 1 January we have had the single banking licence, whereby banks authorized to operate in one member state can open branches and provide services in any Community country without having to obtain another authorization. This freedom is matched by the application of home-country control. The conditions have thus been created for a single banking market based on competition within a framework of prudential rules subject to minimal harmonization.

This unification of the European banking market is likely to have beneficial effects not only for Community credit institutions but also for banks located in third countries and, more generally, for the international financial system.

In my remarks I shall first look at the issues concerning the supervision of EC banks and their response to the single market and then discuss the implications of the single market for non-EC banks.

PART I
COMMUNITY BANKS

2. Relations between the supervisory authorities of the Community

The new regulatory regime applicable to the European banking market is more uniform and, in some respects, less stringent than the previous one. It allows banks greater freedom and encourages competition, but it does not imply any reduction in the vigilance of the supervisory authorities, which are committed to preventing gaps in the system of controls.

The switch from the old supervisory system, in which the host country was primarily responsible for controls, has made it necessary to solve a series of practical problems concerning cooperation between supervisory authorities under the new system. Now that supervisors' powers are no longer exercised within a single jurisdiction, such cooperation is essential to ensure the proper working of the banking market.

Starting last year, considerable progress has been made in establishing closer relations between supervisory authorities within the Community. Bilateral agreements have been reached covering the ways in which host and home-country authorities will cooperate to ensure the effective supervision of foreign branches in the environment created by the Second Banking Directive.

The key features of the bilateral agreements the Bank of Italy has signed with the supervisory authorities of the other member states can be summarized as follows:

- definition of the procedures to be followed when notifying establishments and the provision of services;
- determination of the information to be supplied by the host-country authority concerning laws and regulations intended to protect the general good with which Community credit institutions are required to comply;
- exchange of information between the two authorities on a continuous basis;
- definition of the scope of the controls for which the home-country authority will be responsible. The trickiest aspect of the division of responsibilities competences concerns the control of liquidity. In this field a distinction has to be made between powers serving to control banks' stability and those designed to ensure the proper working of the payment system and, more generally, of monetary policy. In the case of stability-oriented supervision, the agreements provide for forms of cooperation that will permit a bank's overall liquidity position to be assessed, in practice extending the scope of home-country control to this aspect. On the other hand, the responsibility of the host-country authority is confirmed for the second aspect, also in view of foreign branches' access to lending of last resort.

The agreements also cover:

- the definition of the forms of cooperation for the purpose of controlling market risks arising from trading in foreign exchange, securities and derivatives; and
- the definition of the procedures for the cooperation between home and host-country authorities as regards on-site controls.

Even though these agreements do not completely solve the problems arising from the switch to the new arrangements, they represent the start of a process that will need to be carried forward and consolidated. From now on, cooperation between supervisory authorities will have to be an integral part of the supervisory practices aimed at ensuring the control of internationally active banks.

3. Supervision of the Italian branches of Community banks

In conjunction with the steps taken to strengthen relations with other Community authorities, the Bank of Italy has revised the regulations concerning the control of the Italian branches of foreign banks with the aim of adapting instruments and procedures to the new supervisory regime. This led to the publication at the end of last year of a new set of supervisory instructions applicable to the Italian branches of Community banks.

The instructions make it clear that the branches in question are not subject to the supervisory regulations concerned with ensuring the stability of credit institutions, while they remain subject to the provisions governing matters for which the Second Banking Directive attributes responsibility to the host country and those intended to protect the general good.

The most important provisions concern:

- the implementation of monetary policy, based primarily on compulsory reserves;
- the transparency of banking and financial services and consumer credit;
- the prevention of money laundering;
- the promotion of free and fair competition;
- in general, the protection of customers and the proper working of the payment system, including the provisions on the standardization of fund-raising instruments and means of payment (bank cheques, cashier's cheques, certificates of deposit, etc.).

In addition, as in other countries, the redistribution of supervisory responsibilities prompted the Italian authorities to reduce their statistical reporting requirements.

The regulations governing securities intermediation business that are being issued in agreement with the Consob also take account of the objectives of Community legislation. The home-country authority is responsible for stability, while the host country is concerned with the provisions designed to protect the general good of investors in matters such as preventing conflicts of interest between intermediaries and their customers and between intermediaries' different customers.

An authorization procedure exists for activities that are not subject to mutual recognition and which therefore cannot benefit from a European licence. The procedure allows such activities to be carried on in Italy provided the company engages in them in its home country and has informed the competent home-country authority of its intention of operating in Italy.

4. Growth of foreign banking in Italy

The creation of the single European banking market has seen foreign banks confirm their interest in the opportunities offered by the Italian market. Between 1 January and 31 October of this year, Community supervisory authorities have sent the Bank of Italy 4 notifications with respect to the opening of 17 new branches and 26 notifications of companies' intention to provide services. As regards the latter, notification is only required in the case of banks intending to engage in an activity for the first time, while those that were already operating under the freedom to provide services before the beginning of the year are exempted. In this field, the activities have involved securities trading and underwriting more than traditional banking.

It is still too early for a definitive assessment, even on the basis of a comparison with other EC countries. However, there appears to be a growing tendency for the largest banks to operate on the basis of a global strategy aimed at channelling resources to the areas offering the highest potential returns and increasing their geographical and product diversification. At the same time the tendency for foreign banks' operations in Italy to be directed mainly towards innovative forms of finance and services has been confirmed, though there are some examples of involvement in retail banking, especially mortgage lending and consumer credit.

PART II
NON-EC BANKS

5. New opportunities

Non-EC financial operators are faced with a European market that in part is less regulated than before, and undoubtedly less segmented and disparate. Investment decisions will be easier; the need to arbitrage between different laws, regulations and institutional arrangements will diminish and the purely economic aspect of operations will increasingly be the decisive factor. In this respect progress still needs to be made as regards the tax treatment of financial transactions in the Community. The scant attention paid to this issue has negative implications for the competitiveness of the various markets.

Europe is not closing in on itself, it is not becoming a "fortress" opposed to foreign operators; the principles of openness and competition on which the single market is based also apply to financial institutions from outside the Community.

Once a non-EC bank has established a subsidiary in a Community country, it enjoys all the advantages the Second Banking Directive offers in the single market. The subsidiary is treated in every respect as a European bank and can open branches in every member state on exactly the same terms as any other bank in the Community. Equivalent principles will be applied to insurance companies and securities firms as soon as the relevant Community directives come into force.

The Banking Directives, however, do not regulate the direct establishment of non-EC banks via the opening of branches. Each member state is free to regulate this matter in accordance with national law. This may lead to the branches of non-EC banks being treated differently from those of EC banks in a given country.

6. The supervisory regime

The Bank of Italy is in favour of developing a more uniform supervisory regime for the branches of both EC and non-EC foreign banks. More equal treatment, which implies recognizing the prudential parity of other countries' laws and regulations, will be facilitated by the commitments deriving from membership of international supervisory bodies. It is obvious, however, that the institutional differences between the Community and the rest of the world still prevent complete achievement of the objective of official mutual recognition of third countries' prudential systems and the transfer of host-country responsibility for the solvency of the branches of foreign banks.

The creation of a level playing field, on which all the players in the market enjoy the same competitive opportunities, has long been one of the objectives pursued by the Bank of Italy, both in the performance of its supervisory functions and in the promotion of new legislation. Furthermore, it has always been recognized that freedom of capital movements annuls the effectiveness of national rules setting narrow limits on financial activities.

The Bank had already started to act accordingly in the eighties and took account of the special nature of the operations of foreign branches by issuing regulations in specific fields that were less stringent than those applicable to Italian banks.

More recently, the endowment capital requirement for the branches of non-EC banks has been reduced to half the amount applicable to Italian banks, and the Bank of Italy has been given the power to exempt them from compliance with the risk-assets ratio when they are already included in a similar ratio in the home country. The regulations on risk concentration the Bank of Italy has just issued also provide for the exemption of the branches of non-EC banks when the home country offers conditions of reciprocity and has an adequate supervisory system. Branches not exempted in this way are subject only to an individual limit, equal to their supervisory capital, instead of the 25 per cent of this aggregate that is normally applied.

The rules still remaining in this field concern minimum capital, the gearing ratio and the restriction of off-balance-sheet business to ten times own funds, though in practice this limit is often exceeded through case-by-case authorizations.

The endowment capital requirement is justified by the fact that the Italian authorities continue to be responsible for the stability of non-EC intermediaries. It is worth noting, moreover, that other EC countries have maintained a similar prudential rule and that the US branches of foreign banks have to comply with a "capital equivalency requirement".

The Bank of Italy is currently re-examining the gearing ratio and the off-balance-sheet limitation as part of a broader review following the introduction of new rules on the control of market risks.

Lastly, the regulations on banks' operations beyond the short term are soon to be replaced by provisions concerning maturity transformation that will apply to both Italian and foreign banks.

7. The outlook

In my view, further progress towards equality of supervisory treatment will have to take account of the following factors: the orientations emerging at the Community level; the supervisory standards of the home country; and the conditions of reciprocity and market access.

As regards the Community, it is desirable that a common position be adopted. Different approaches to the same problems would lead to competitive disadvantages and hence be detrimental to the effective working of the single banking market. At the request of the Bank of Italy, the question of the branches of non-EC banks is being examined by the Contact Group of Community supervisory authorities. The EC Commission is preparing a report on "the treatment and situation of the branches of third-country credit institutions taking account of Community legislation", which will be presented to the Banking Advisory Committee at the beginning of next year. The matters being addressed in these fora mainly concern the conditions governing access to banking activities, the prudential rules applicable to operations, and crisis management. When the report is published, it will be possible to decide whether there is a need for Community legislation to harmonize member states' laws and regulations on the branches of non-EC banks.

As regards the adequacy of supervision in home countries, it should be noted that freedom of establishment within the single European banking market is also the result of the legislative provisions adopted with the aim of ensuring adequate levels of supervision in the Community. In order for the branches of non-EC banks to enjoy the same opportunities as their EC counterparts, the supervisory activity of the home country must be based on appropriate standards. In this respect what counts is not just the existence of legally recognized powers but also a real ability to effect the necessary controls.

This requirement is present in the document on minimum standards for the supervision of international banking groups and their cross-border establishments prepared by the Basle Committee on Banking Supervision and approved by the Committee of Governors of the G-10 countries. The document in question is extremely important insofar as it strengthens the 1983 Basle Concordat and reformulates some of its principles by laying down minimum standards that the supervisory authorities of the G-10 countries undertake to comply with for the purpose of controlling international groups. It is hoped that, as in the past, the authorities of other countries will also adopt these principles.

Pursuant to their international commitments, last summer the Italian supervisory authorities established general criteria for assessing nonEC banks' applications to open branches in Italy. Specifically, the home country is required to have appropriate laws and regulations concerning prudential controls, on both a solo and a consolidated basis; it must also have entered into an agreement for the exchange of information, or at any rate have no impediments to such exchanges. In addition, the home-country authority must have given its approval and issued a declaration attesting to the capital soundness of the parent undertaking and the adequacy of its administrative structure.

The third issue, conditions of reciprocity and market access, is one which the Second Banking Directive also addresses. The process of bringing prudential regulations into line with those applying to Community banks can only begin when the branches of EC banks in the third country receive equivalent treatment. It is therefore necessary to assess the supervisory regime that the authorities of third countries apply to branches of EC banks. It will also be necessary to determine whether such branches enjoy conditions of market access comparable to those granted by Community countries to the banks of the country in question.

The Bank of Italy is in contact with the other authorities of the G-10 countries and has initiated a fact-finding survey of the Italian banks operating in the United States and Japan regarding the conditions to which they are subject in the exercise of their activities.

Assessing the supervisory regime is only one aspect of the problem. Even in the absence of discriminatory provisions, the economic and financial configuration of the host country may result in conditions that are not conducive to competition, thereby impeding the development and penetration of foreign intermediaries in the domestic market and possibly permitting national businesses, protected by the relative lack of competition at home, to operate more aggressively in foreign markets. Such a situation would be in conflict with the principles of openness and competition adopted within the Community, and in Italy – principles that have become the basis for the actions of both operators and the authorities.

The rules governing the credit and financial market

Speech by the Deputy Director General, Vincenzo Desario, to the Conference on "The good market: rules, regulators and participants", organized by the Lombardy Industrialists' Association

Milan, 29 November 1993

I would first like to express my special thanks to the organizers for inviting me to take part in this conference. Reflection on the "good market" is particularly opportune at present, as the rules governing credit and financial activities are being finalized, with emphasis being placed on consolidating the values of enterprise and competition that have taken root within the banking community.

In view of the present cyclical position of the Italian economy, it is especially valuable to intensify the dialogue between the academic community, public authorities and banks to identify the part that each can play in enhancing the interaction between regulation and entrepreneurship.

1. Rules and market forces: introductory considerations

The debate about regulation and market forces has long been distorted by the persistence of the nineteenth-century notion that the completely unrestricted interaction of individuals in the marketplace is the natural state, an optimum condition that contrasts with the distortions caused by state intervention. The free market, which is presumed to lead to "natural" equilibrium, therefore comes to be equated with the absence of rules, a situation of complete laissez-faire.

This concept fails to do justice to the richness of thought of the classical economists, and it has in any case been superseded by contemporary economic theory. Modern economists have specified the nature and stringency of the conditions that must be present if an economy free of external constraints is to produce a socially desirable state of equilibrium. They have also identified the situations that most frequently lead to market failure, thereby opening the way for defining the mechanisms that can best compensate for market inefficiency.

In the financial field, two particularly fruitful lines of inquiry identify transaction costs and information problems as the main justification for public regulation.

According to this approach, regulations and particular organizational forms are not solely ways of performing transactions more economically; they are also a factor in the broader consideration that trading costs may inhibit the formation of markets, and in certain cases may prevent it altogether.

The proposition that information is the key to assessing a market's efficiency is particularly relevant to financial markets. It has been demonstrated that incomplete or asymmetrical information can jeopardize a market's efficiency, if not its very existence. The asymmetrical distribution of information between savers and borrowers has been the point of departure for many studies of the role of intermediaries and the functions performed by regulation of the credit and financial sector.

In the financial field, this approach accords with Keynes's insight into the role of the institutions in the establishment of the conventions required to ensure the efficient financing of economic activity in a situation of uncertainty. Only when the behaviour of participants in the financial market is in harmony with the regulations and the actions of public institutions can the market successfully perform its functions. If conventions are lacking, if confidence falters, if rules and markets conflict, the entire economy will suffer the consequences. The reference to Keynes also highlights the "general" interest in the proper working of financial markets, namely that every sector of the economy benefits from their ability to foster public confidence, reduce uncertainty and encourage correct resource allocation.

The regulations governing the operation of a market are not exogenous constraints, the expression of the monarch's will imposed upon the market from outside by edict; rather, they stem from profound necessities of the market itself. Policymakers must therefore pay due attention to the manner in which rules are produced and ensure that they accord with conditions in the market.

There is no "optimum" set of regulations that can be defined in abstract terms. The efficacy of regulation must be assessed case by case with reference to the completeness of the market, the degree of uncertainty and the needs of the real economy.

The 1936 Banking Law, which is often cited as an example of "neutral" legislation, was motivated by an overriding concern for stability in view of the events that preceded its promulgation, and yet over the years it has increasingly permitted the pursuit of other aims as well. A brief recapitulation of the main stages in the development of banking and financial regulations in Italy, highlighting the aspects that eventually necessitated revision of the regulations based on the 1936 legislation, will serve as a useful basis for examining the implications of the new regulatory framework for relations between finance and industry.

2. The evolution of financial regulations: the contribution of regulators to the better operation of markets

Any historical assessment of the financial regulations established between 1936 and 1947 must begin by recognizing that for many years, at least until the seventies, this structure made it possible to finance Italy's sometimes headlong economic growth in conditions of considerable stability. The corporate sector's reliance on bank credit, the public ownership of the major banks, the precise demarcation of the fields in which the banks were permitted to operate and the fragmentation of the channels through which saving flowed into investment reinforced public confidence, leading to high saving rates and a satisfactory pace of capital accumulation.

In the seventies, strains in the markets for raw materials, labour and foreign exchange at a time when Italy was becoming increasingly integrated into the world economy led to friction between the regulations governing the financial sector and the requirements of the real economy. The need for industrial restructuring meant that a large-scale reallocation of resources had to be made without delay and required the financial system to make a new kind of contribution. Intermediaries had to take account of the new scarcities signaled by the changed structure of relative prices and develop a more selective attitude that would encourage productivity gains and gradually eliminate the inefficiency afflicting many industries.

Parliament and the banking authorities considered that the pursuit of this objective necessitated a refocusing of the regulations to promote greater competition. The changes in Italian banking and financial legislation since the end of the seventies can be read in this light, as action to stimulate competition among the various providers of financial services: between banks continuing to concentrate on a single area of business; between banks originally operating in different market segments; between banks and non-bank intermediaries; between bank credit and direct recourse to the capital market; and between Italian and foreign institutions. At the same time new mechanisms were put in place to safeguard the soundness of the financial system.

However, as I intimated earlier, this revision cannot be credited exclusively to the farsightedness of the regulators; it was triggered by demands coming from the market in the course of a process of financial innovation which was less intensive than in other industrial countries but which nevertheless called for prompt adjustment of the regulations and greater openness of the Italian financial market in response to European integration and, more generally, the internationalization of finance.

At first, the instruments for controlling entry to the banking sector were themselves used to foster keener competition in the credit markets. The reform of the regulations on banks' statutes greatly reduced segmentation according to type of institution and field of operation by transforming the public banks into limited companies and redefining banks' corporate purposes so that their scope of business could be adapted to take account of developments in the market. The central bank's "branch plans", which were originally introduced to prevent instability due to the opening of an excessive number of new bank branches, came increasingly to be shaped by considerations of competition and efficiency as well, until in 1989 network expansion was liberalized to a large extent. The progressive easing of constraints on the opening of new branches was accompanied by the gradual elimination of geographical restrictions.

The removal of barriers to access was completed by the lifting of the moratorium on the formation of new banks following the transposition of the European Community's First Banking Directive into Italian law and the implementation of the single market in banking services by means of the transposition of the Second Directive. The administrative constraints that kept different types of business separate were relaxed and eventually abolished. The balance-sheet distinctions between the different categories of intermediary became ever less pronounced. The growing tendency for credit business to be conducted through banking groups favoured a further widening of intermediaries' operational scope.

However, a thorough overhaul of the financial regulations required that supervisory activities be neutral from the point of view of competition and based on a set of rules guaranteeing broad equality of treatment throughout the country and across Europe.

Equal competitive conditions required first and foremost that all operators in the same market be subject to supervision. Controls were thus progressively extended during the eighties, first to special credit institutions and then to non-bank financial intermediaries. The focus of regulation shifted from institutions to activities: the proper working of competition requires that different types of operator comply with uniform rules when marketing the same product.

The reform thus establishes a new regulatory framework based on prudential requirements, rather than regulating intermediaries' spheres of business and supervising their managerial actions, as was the case in the past. The emphasis on banks' capital position as the gauge of their risk-taking capacity has stimulated the drive for profitability and operating efficiency on the part of the institutions and simultaneously enabled the supervisory authorities to distinguish more clearly between on the one hand organizational and managerial decisions, which are left to the discretion of the banking enterprise, and supervisory action on the other.

As I stated at the hearing of the Finance Committee of the Chamber of Deputies on the Ferruzzi affair, recognition of the entrepreneurial nature of banking entails a clear separation of responsibilities between the management of the enterprises under supervision and the supervisory authorities. The latter are charged with verifying the institutions' overall operational soundness by methods that supplement rather than supplant the marketplace and that correct the market's imperfections while respecting its mechanisms.

The greater consistency between regulation and market discipline can also be seen in another major part of the reform, namely legislation and regulatory activities aimed at achieving a more balanced overall financial structure by increasing regulation of securities firms and the organization of the various markets involved.

The rise of new providers of financial services, which has reduced the predominance of banking intermediation, has important consequences for the competitive tone of the entire financial market. So far, only the effects of the competition from government securities as an alternative to bank deposits have developed fully. The opportunities available to companies under the new regulations to raise funds directly in the market rather than rely on bank credit have not yet been widely exploited. The regulations implementing the new Banking Law encourage more widespread recourse to these channels of financing by calling on the banks themselves to make a significant contribution to the development of the securities market.

Membership of the European Community and the consequent harmonization of laws and regulations have been decisive in shaping the new financial regulations owing to the close comparison between Italy's regulatory system and those elsewhere. Nevertheless, the impetus for the changes I have briefly described derived first and foremost from the fundamental needs of the Italian financial system itself. In order fully to understand the developments in regulations, one must first examine the domestic reasons for change.

The move towards new arrangements for regulating the financial sector appears to be viewed in many quarters merely as compliance with an externally imposed constraint in the form of the EC Directives. According to this interpretation, the over-regulated Italian system, with what is viewed as an excessive degree of public ownership, underwent a process of deregulation in which operational restrictions were removed and controls on intermediaries eased. If this were so, then the experience of other countries and the theoretical debate at the international level should give us cause for concern, for it is well known that in some countries deregulation produced a more fragile financial system or led to crises, which promptly induced the authorities to "re-regulate" the sector.

Events in Italy simply do not accord with this interpretation. First of all, the harmonization of laws and regulations within the Community was not a constraint for Italian policymakers but an opportunity. It can easily be shown that many of the important decisions taken by the Italian authorities were not required by Community directives, and that some – notably the introduction of capital ratios – were taken before the relevant Community measures were adopted. The essential question is a different one, and takes us back to my earlier remarks concerning the relationship between rules and markets; the idea that placing the emphasis on competition means embarking upon deregulation is rooted in the mistaken equation of competition with laissez-faire, of the primacy of the market with an absence of rules.

In fact, financial regulation has not moved in the direction of fewer rules but towards a different *modus operandi*. The growth and increasing openness of financial markets made a system of controls based on rigid business segmentation obsolete and inefficient. New types of risk were emerging, and operations were becoming more complex. Supervisors had to abandon controls on access to product markets, which achieved type and maturity matching between liabilities and assets, and focus instead on banks' balance sheets by setting minimum ratios between asset and liability items to limit risk exposure, without distinction as to type of institution. One significant consequence of the new approach is that the rules tend to coincide with the instruments the banks themselves use to monitor risk; they complement management action in the area of internal banking information and they are better accepted by the institutions themselves. The method of prudential supervision might well be described as the imposition of technical standards – balance-sheet ratios and organizational requirements – that intermediaries should "naturally" apply as a logical part of their business activity.

This manner of designing controls may well lead to a supervisory system with fewer rules, but not necessarily; what is certain is that it will not result in a more fragile financial structure. By extending the scope of controls to all financial activities, the new approach avoids the perverse interaction between areas of the market that are strictly supervised and what one might call "free enterprise zones" that has been evident in many past instances of instability. I firmly believe that in this way we have succeeded in devising a regulatory system that is more strongly oriented towards competition, and that at the same time the country's financial structure has become stronger.

Competition is not the model of behaviour that prevails in the absence of state intervention; hence, if regulatory reform is to yield the desired results in terms of efficiency and produce benefits for the entire economy, some market safeguards must be established in order to prevent the formation of dominant positions both among banks and between banks and customers.

One of the accomplishments of the evolutive process I have described was Law 287/1990 regulating and safeguarding competition and markets, which expressly brings credit institutions within the scope of the regulations on concentrations and action in restraint of competition (covert understandings and the abuse of dominant positions), which apply to all companies, whether financial or non-financial. The Bank of Italy now has the means to ensure a plurality of potential sources of finance and to control the establishment of dominant positions in the provision of credit. Under the existing powers of supervision it was already possible to adapt the financial system in order to help stimulate competition; Law 287 now permits action affecting entrepreneurial conduct, reinforcing the discipline imposed by the market itself.

The regulations governing consumer credit and the transparency of contracts, which are contained in Laws 142 and 154 of 1992 and complemented by Title VI of the Banking Law, further contribute to the smooth working of the market by guaranteeing correct relationships between intermediaries and their customers.

Let us now turn to the most recent of the new credit and financial regulations, which have introduced further innovations and codified the legislation in this sphere.

3. The transposition of the Second Banking Directive and the codified law on banking and credit

The new banking legislation resulting from the transposition of the Community's Second Banking Directive and the codification of the various laws concerning the sector into a single text completes the overhaul of the legislative framework, and in so doing establishes "competition as one of the guiding criteria of supervisory action". The purposes of supervision are defined in Article 5 of the Banking Law, the first paragraph of which states:

"The credit authorities shall exercise the powers of supervision conferred on them by this Legislative Decree having regard to the sound and prudent management of the persons subject to supervision, to the overall stability, efficiency and competitiveness of the financial system and to compliance with provisions concerning credit."

In the initial phase of the reform, competition represented an intermediate objective of supervisory action, a means of fostering efficiency and the ability of intermediaries to stand the test of the market. With the adoption of Law 287/1990 it became an objective in its own right alongside the traditional ones of stability and efficiency. Today, competition among market operators is a constant theme of supervisory action and one of the main points of reference by which the credit authorities exercise their powers.

In accordance with the central importance of competition, the latest measures can be interpreted in the light of a cardinal principle that defines what is perhaps the most delicate and certainly the most controversial aspect of the reform, namely despecialization.

Let us begin with institutional despecialization. The special features associated with the legal form of credit institutions have been eliminated by taking to its logical conclusion the preference for banks to be incorporated companies that had been reflected in the transposition of the First Banking Directive and affirmed more forcefully in Law 218/1990 on the reorganization of public banks and in the decrees implementing that Law. In particular, Article 14(1)(a) of the Banking Law lays down that that in order to be eligible to engage in banking an institution must adopt "the legal form ... of a *società per azioni* or *società cooperativa per azioni a responsabilità limitata*", that is to say a company or cooperative limited by shares.

The final abandonment of the public-law form of bank, with the corporate model becoming the general rule, eliminates any possible confusion between the public purposes of institutions and their ownership. This has prepared the ground for wider competition with regard to bank ownership as well: the market's assessment of management performance can therefore also be expressed in terms of the banks' equity capital, permitting the more competitive institutions to raise capital without affecting the public budget and simultaneously favouring a transparent reallocation of ownership.

The transposition of the Second Banking Directive introduced a means of fostering the privatization process by giving the Treasury Minister general as well as specific powers to instruct the foundations set up under the Amato Law to dispose of their controlling interests in banks. Decree Law 389/1993 has given further impetus to the privatization of public sector companies; not only does the Law apply to banks, but in their case it does not even provide for the type of clauses whereby the acquisition of significant shareholdings may be made subject to government approval, as stipulated for public utilities and the transport sector.

The launch of the privatization programme is significant not only for the impact the current initiatives will have on the market but also in a broader sense; it involves making a clear division between the economic policy objectives that can be set with regard to resource allocation and the presence of public capital in the credit system. The allocative function assigned to intermediaries is appropriately brought back within the framework of a "private" model: the very possibility of the public shareholder disposing of its controlling interests reduces the significance of the public presence in the credit sector and, above all, prevents public ownership from being associated with privileges and patronage that are incompatible with the full development of competition in the financial market.

The aspect of innovation that has the most specific implications for the structure of Italy's financial system is the complete implementation of the principle of "operational and maturity despecialization", opening the door to the universal type of bank.

It is important to clear up a number of misunderstandings in this regard. They basically stem from the misconception of the relationship between rules and the market, as I mentioned earlier. The new Banking Law does not establish a new bank model, that is to say the universal bank offering every conceivable type of financial product; the regulations do not define the way in which banks have to carry on business, nor do they impose strategies. The sanction accorded to all banks to engage in the "financial" activities listed in the Annex to the Second Banking Directive, and thus to lend at short, medium and long term, is based on the simple repeal of a legal requirement that restricted certain types of operation to persons designated by law. Nonetheless, it would be irrational for all banks to expand into every form of business. In the light of their experience, their relations with customers and their size, many of them may find it profitable to "specialize" in certain categories of financial services. In all probability, many banks will prefer to enter new product markets by acquiring existing companies with specific expertise and an established customer base.

In the same way, the rules governing multifunctional groups did not establish a new model of financial services provider but recognized and regulated a type of organization that had been gaining ascendancy in the market, partly in view of the specific problems of stability that were arising.

The range of operations in which banks engaged broadened throughout the eighties and the distinguishing features of their balance sheets grew steadily less pronounced. The system took on a configuration which cannot be called "specialized", in the sense in which that term is used in economic literature. Many intermediaries already operated to varying degrees across the entire maturity spectrum and were also very active in the securities market.

This process was endorsed and, in some respects, actively encouraged by the credit authorities, which permitted ever closer integration between different activities, albeit with the gradualness necessary in a system in which competitive capacity differs widely.

Past experience, both in countries with specialized forms of banking and those traditionally considered to be the home of the universal bank, shows that the banking group is the typical structure for organizations engaging in banking activities in complex markets and using sophisticated instruments. The banking group and the universal bank are not antithetical; they are two complementary models that coexist in the market. In parallel with the process of despecialization, legal restrictions on the pursuit of certain securities activities and insurance business have been retained: financial enterprises must therefore adopt a group structure if they wish to provide the full range of services in the financial market.

The innovation can thus be seen as the introduction of a further degree of freedom in the choice of organizational models available to the banks.

The complete elimination of regulatory barriers in the credit market is being accompanied by the introduction of new rules to protect the stability of intermediaries. The regulations that have already been issued or are in preparation with regard to shareholdings, risk concentration, maturity transformation, exposure to market and exchange risks and fund-raising fully preserve and indeed strengthen the respect for banks' entrepreneurial autonomy that was established during the eighties.

The technical details of the rules are not specified in the new Banking Law, which assigns responsibility for defining the instruments to the Interministerial Committee for Credit and Savings and the Bank of Italy. In this way the flexibility that characterized the Banking Law of 1936 has been preserved.

The linchpin is the strength of the capital base of the persons subject to supervision. The limits within which they may take on risks rise as their own funds increase. In accordance with Community law, the provisions require institutions to have organizational structures able to ensure their sound and prudent management, without assigning preference a priori to any particular type of corporate structure; the scope for maturity transformation is enhanced considerably, although without eliminating all correlation between the maturity profiles of assets and liabilities.

By contrast, a more restrictive approach continues to be taken with regard to the relationships between banks and non-financial firms. The limits on holdings of capital in banks to ensure the separate ownership of banks have been confirmed. Moreover, the recent regulations on banks' equity interests not only establish capital requirements that will be more stringent for most banks than the highest ratios set by the Second Banking Directive, but also draw rigid demarcations to prevent the risk of cross shareholdings between banks and industrial firms. In the light of Italian history and the relations that have traditionally existed between banks and industry, these limits are needed to safeguard the autonomy of the banks themselves: it is essential to avoid confusion between the role of institutions whose task it is to lend financial resources and that of entrepreneurs called upon to put these resources to productive use, in order to prevent distortions to competition that the market can only correct with a lag and at considerable cost. The possibilities opened up by the new rules are nonetheless momentous, allowing the banking system to undertake significant equity investment in industry; they do not compromise the banks' autonomy, but rather create conditions in which that autonomy can actually be exercised.

A system of rules that respects the autonomy of the supervised entities requires a new, more transparent relationship between the authorities and the undertakings they supervise. The discretionary powers that must be available to the supervisory authorities in laying down technical rules, modifying them when necessary and carrying out prudential supervision can be exercised on the condition, expressly stipulated in the Banking Law, that the Bank of Italy establish and publish the principles and criteria on which its supervisory activity is based. The explicit reference in Article 4 to the principles of Law 241/1990 on the transparency of administrative measures clearly signals the desire to foster a more open relationship between the authorities and the market, in harmony with the new system of rules.

4. The new regulations and the relationship between banking and industry

The emphasis placed on the "rule-making process" must not obscure the demand aspect, the requirements to which the overhaul of the regulations on financial activities seeks to respond. As I said, the need to fashion a system of rules more geared to competition arose mainly from the changes that the real economy required of the financial market.

We can now examine the fit between the regulations that have been established and the needs of the economy, turning to the question of the relations between banking and industry. This is one of the most significant issues, particularly at a time when the recession is revealing the financial weaknesses of Italian industry. In this regard, I shall confine myself to outlining three aspects of the recent regulatory innovations that can help create more efficient relations between banks and firms.

4.1 *The diversification of the forms of lending and the reduction in multi-bank lending*

I have already discussed the first of these innovations, namely the despecialization of banks. However, despecialization can also be examined from the standpoint of the users of financial services, in order to analyze its possible effects on the composition of firms' liabilities and the cost of borrowing.

A sure effect of the removal of regulatory barriers is to increase the level of competition, potential if not actual, in the granting of credit. This enhances the market's disciplining role in precluding the exploitation of positions of strength in geographic or product segments of the credit market. The fact that all banks are now eligible for the public subsidies formerly connected with certain "special credit" operations further reduces the possibility that the rates charged to final borrowers will reward inefficiencies that had been concealed by the previous aid system.

The possible intensification of maturity transformation, in the presence of a normal yield curve and properly operating competitive mechanisms, could bring down the cost of financing investment. The simplification of the credit system as a result of the adoption of strategically centralized corporate group structures has already reduced the cost of intermediation. If you think back to the "concentric rings" that characterized the credit system at the end of the seventies, when savings flowed into investment in a series of steps, you will be able to appreciate more fully the value of the changes introduced in the system and their appropriateness to the needs of capital accumulation.

The new possibilities opened up by the banking regulations permit banks to make a more judicious choice of the form in which to lend. A survey based on information held by the Company Accounts Data Service shows that ordinary credit is used to finance a not inconsiderable proportion of corporate investment. If transactions carried out through leasing companies are also taken into account, the amount of short-term borrowings that finance non-financial firms' fixed assets is even more substantial and indicates one of the chief financial weaknesses of Italian industry.

The prevalence of debt at short term or even at sight makes corporate financing less stable and more subject to cyclical fluctuations; it reduces the banks' ability to make the assessment of creditworthiness that constitutes the value added of intermediation. Since banks already finance a not unimportant part of firms' investment, the possibility of adopting forms of credit better suited to the nature and function of the loan can improve the efficiency of credit activity and contribute substantially to the adjustment of firms' liabilities.

Banks will be better able to monitor borrowers across a range of products, diversify the forms of financial assistance they provide, improve their knowledge of their customers' situation and assess creditworthiness more thoroughly and efficiently. The practice of multiple loans and the sometimes grossly exaggerated subdivision of corporate loans greatly diminish the banks' ability to make an accurate assessment of borrowers' performance and reduce their capacity to react promptly to the first signs of difficulty and to call on firms to take appropriate and timely corrective measures. Despecialization is the first contribution the new regulations make to creating a relationship between banks and firms that is both clearer and more firmly oriented to medium-term results.

4.2 *Encouraging firms to raise funds directly in the market*

Correcting the balance between the sources of corporate financing also requires firms to reduce their overall bank borrowing and increase their direct recourse to the market.

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I have already mentioned the tenacious efforts of Parliament and the supervisory authorities to encourage the growth of the securities market and foster the development of a financial system in which bank intermediation plays a less central role. It is appropriate to mention the legislation on open and closed-end investment funds, SICAVs, securities firms, pension funds, takeover bids and insider trading, as well as the manifold provisions that have increased the transparency of price formation and the speed with which trades are executed by establishing minimum disclosure requirements for raising funds from the public and simplifying the clearing and settlement procedures.

The transposition of the Second Banking Directive offered an opportunity to expand the scope for firms to raise funds directly in the market. In restricting deposit-taking to banks, Article 11 of the Banking Law nonetheless authorizes the Interministerial Committee for Credit and Savings, acting on a proposal from the Bank of Italy and after consulting the Consob, to determine the characteristics of new types of debt securities which firms may issue in addition to bonds in order to cover their financing needs.

With the aim of establishing the investor protection required by the Directive, the Law permits firms whose securities are traded on a regulated market to go directly to the market; other firms may tap the public's savings through an intermediary that is subject to prudential supervision. Non-banks are only prohibited from taking sight deposits or raising funds in connection with the issue or administration of payment instruments. By creating further scope for diversifying industrial firms' sources of finance, this provision seeks to promote the expansion of the market in private securities and more intense competition between banks and the securities market with a view to increasing their functional synergism. The Interministerial Committee for Credit and Savings is responsible for establishing the relevant implementing regulations.

Nonetheless, perusal of the new regulations reveals that the authorities are aware of the difficulty of increasing firms' recourse to the market to raise both equity and debt capital unless the banking system makes a substantial contribution.

Banks control a sizable proportion of the firms operating in the securities market; the impulse from a bank parent company can be decisive in promoting the expansion of certain activities or the introduction of others. The growth of merchant banking services, especially for small and medium-sized companies, can lead to the selection of firms with good prospects that should be given technical and financial assistance to gain access to the securities market.

Furthermore, banks could stimulate the growth of the capital market by paying more attention to the composition of firms' liabilities in evaluating their creditworthiness: attributing greater weight to equity capital as a lending criterion can be an effective way of encouraging companies to turn to the share market.

4.3 *Investment by banks in non-financial firms*

The recent provisions governing banks' equity interests are also aimed at making banks more ready to meet the needs of firms, permitting them to supply corporate customers with fuller and more diversified financial assistance and lengthening the time horizon they adopt in supplying companies with financial support.

The acquisition of industrial holdings helps to lift banks' attention from an assessment of the customer's ability to meet principal and interest payments in the short term to a fuller evaluation of the firm's long-term prospects, making more efficient use of the information banks collect in the course of a continuing relationship.

Banks' monitoring of borrowers should extend beyond the point where, in the event of a corporate crisis, the bank merely takes note of the insolvency and initiates bankruptcy proceedings. If banks take a wider view to include consideration of the firm's long-term efficiency, they may be in a position to anticipate crises, prevent temporary difficulties from degenerating into insolvency, facilitate financial rehabilitation by offering advisory services and, where necessary, bring about changes of ownership. The acquisition of modest shareholdings in industrial firms can serve these objectives, and thus represents another important contribution banks can make to the efficiency and depth of the securities market.

The development of financial advisory services, growing involvement in the placing and underwriting of share issues and the ability to steer savers towards investment in shares, directly or through other members of the banking group, may constitute the banks' greatest contribution to the privatization process, even more than their own acquisition of privatization shares.

Naturally, closer links between banks and firms also give rise to new forms of risk, to which the supervisory authorities are not indifferent. The main risk is that a bank's stake in the fortunes of the corporate client may become excessive and may end up by binding the two inextricably together, thus facilitating the propagation of problems and inefficiency connected with the intrusion of bias into the evaluation of creditworthiness.

The quantitative limits which the new provisions set in relation to the bank's own funds and the investee company's capital differ according to category of intermediary and distinguish between shares that are listed (or in the process of being listed) and those that are not, with the dual aim of selecting intermediaries that already have sufficient experience in the supply of corporate financial assistance and channeling the maximum number of transactions to the stock exchange. The authorities' cautiously innovative stance is even more circumspect with regard to firms in temporary difficulty, for which stringent procedures are laid down. Where it is not plain that an ailing firm can be salvaged, banks are precluded from acquiring equity interests by any means, including debt-equity swaps.

The recent provisions on risk concentration, which incorporate the transitional limits laid down by the EC Directive and foresee a gradual reduction to the more stringent permanent limits, confirm that banks are being called on not to increase the quantity of finance to firms but to enhance the innovativeness and quality of their involvement.

* * *

In conclusion, the new regulations on the financial market now form a complete and consistent framework within which the financial system can give new and effective impetus to the growth and efficiency of the national economy.

However, the rules do not purely and simply define a new relationship between banks and industry, between the financial system and the real economy. Competition will have to bring out the advantages of innovative behaviour; all operators, both intermediaries and firms, must show an ability to abandon deep-seated habits and to intensify their presence in the new markets, in strict observance of business ethics.

If, as I believe, the reform of financial regulation is shown to have correctly interpreted the needs of the economy and if the incentives to foster a more market-oriented relationship between banking and industry prove effective, the recovery from the current recession may be more rapid.

The effects of the new regulations in the banking and financial sector will complement those stemming from the action that has steered interest rates downwards in a setting of substantially stable markets.

This twofold approach constitutes the Bank of Italy's contribution to national economic recovery and, in particular, to resolving the most painful "market failure": the difficulty of achieving full employment. A significant reduction in unemployment is a factor of major importance in order to ensure the "good market" – that is to say a market in which the pursuit of efficiency creates indispensable conditions of equity.

The Bank of Italy

Address by the Governor, Antonio Fazio, on the occasion of the centenary celebrations of the Bank of Italy

Rome, 11 December 1993

The art inherent in every profession, including that of central banking, is a combination of knowledge, experience and the prudent weighing of every decision.

This art can and must be guided by an understanding of facts and behaviour that are susceptible to systematic scientific analysis. Yet other important developments are the expression of free choices, decisions and events that are hard to predict or completely unforeseeable. The study of history provides data and enriches experience.

But the reason for studying a particular history, such as that of Italy's central bank, is primarily the pleasure that derives from knowing it.

1. The origin of central banks

The institutions entrusted with issuing the banknotes that represent the money of nation-states are known today as central banks, a term borrowed from economic analysis and commonly used in official and institutional language only in recent decades.

The term "central bank", in its current acceptance, is found in Wicksell's works at the end of the nineteenth century. It also occurs in reports and documents written earlier in that century, but there the underlying idea was the centralization of the metal reserves backing the currency.

Several central banks, formerly banks of issue in their respective countries, are far older than the Bank of Italy. The Bank of England will celebrate its three hundredth anniversary next year and the Bank of Sweden is thirty years older. The Bank of France was founded in 1800 and the Netherlands Bank in 1814.

In Italy the art of banking was already developed in the late Middle Ages. Genoa's Casa di San Giorgio, founded in 1408, and Venice's Banco del Giro, set up in 1619, issued negotiable instruments known as "luoghi" that to an extent were substitutes for coin.

Some banks of issue were founded in response to the need to grant loans to governments or to ensure their placement. The joint-stock company formed by "The Governor and Company of the Bank of England" was established for this purpose. Subsequently, the Bank of England extended its activity with success to include lending to the private sector; in time it became the lender of last resort for other banks and acted as the centralized depository of the gold reserves, the central bank.

As Bagehot noted, "In many European countries the credit of the State had been so much better than any other credit, that it had been used to strengthen the beginnings of banking". The endorsement of parliaments and governments – implicitly the granting of a guarantee – became necessary for banks of issue when they were authorized in special circumstances to exceed the values laid down for the link with the gold reserves or even to suspend the convertibility of banknotes.

Several experiments with paper money, such as that of John Law in France in the early eighteenth century, had ended disastrously. The lesson that quantitative limits were needed on fiduciary money was learnt.

The monetary function can be performed under certain conditions, and in well-defined institutional and political contexts, by media of little or no intrinsic value. This property of money has been recognized, at least in part, from its introduction. Money was the first credit instrument in history to circulate incorporating a value, a right; it was issued by the State, which fixed its purchasing power and in practice determined its quantity and guaranteed its integrity; in turn, it was re-accepted as payment of taxes; in the community it could be used for exchanges.

2. The Bank of Italy

The origins of the Bank of Italy can be traced back to Banca di Genova, which was created in March 1844 with capital subscribed by the leading Genoese families; its object was to supply credit to commerce and industry.

The scope for the new bank to perform this function derived from the need the economy perceived for a secure and practical currency. The banknote satisfied these requirements. The various forms of coinage were often dissimilar and it was difficult for economic agents to determine their exchange rates.

Banca di Genova took over Banca di Torino a few years later and was renamed Banca Nazionale.

In 1850 the first banking law of the Kingdom of Sardinia was promulgated. Competence for monetary affairs was passed from the King and the Government to Parliament.

The political unification of Italy in 1861 was immediately followed by monetary unification. The lira was made the legal tender of the Kingdom of Italy, its value fixed at 4.5 grammes of silver and 0.29 grammes of gold. These monetary provisions made no changes with regard to paper money. Banknotes were issued in the new Kingdom by Banca Nazionale and the other banks of issue that had operated in the pre-unification states.

The Bank of Italy, created by Law 449 of 10 August 1893, was born from the merger of Banca Nazionale with the two Tuscan banks of issue and assumed the burden deriving from the liquidation of Banca Romana. Banco di Napoli and Banco di Sicilia retained the right to issue notes. Provision was made for the top managements of the banks of issue to be elected by their respective boards of directors and for the Government merely to approve these appointments; these positions were also declared to be incompatible with a seat in Parliament.

When the Bank of Italy was established, its capital was 18 per cent of that of all the Italian joint-stock companies, banks and industrial and commercial firms.

The Bank's relative size explains both its influence on the economy and the importance of even small changes in the discount rate.

The growing importance one bank of issue took on vis-à-vis the others once again reflected the need to systematize and control money and to enhance the certainty of the value, and thus the acceptability, of a currency made up of coins of various origin and denomination as well as of notes issued by several institutions.

3. The period up to the First World War

The Bank of Italy was born and began to operate in the midst of a major economic, financial and political crisis.

One of the tasks of those who administered the Bank in its first ten years was to make the structure of its balance sheet consistent with its function as Italy's principal bank of issue. In the words of Luigi Einaudi, it was the "great achievement of [Bonaldo] Stringher ... and [Nicola] Miraglia ... to have succeeded, through years of prudent management, shrewd disposals, unsparing economy and reinvestment of profits, in plugging the holes of the past".

The lira had been inconvertible *de facto* since the end of the 1880s; in 1894 it became inconvertible *de jure*. The Bank's administrators nevertheless felt committed to restoring and then maintaining, albeit with some leeway, a gold parity for banknotes.

The paradigm was that set forth by Ricardo in his *Principles of Political Economy* at the beginning of the century: "A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent. The use of paper instead of gold substitutes the cheapest for the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it before used for this purpose, for raw materials, utensils, and food." Thornton, in turn, stressed that paper money was more adaptable than coinage to the needs of the economy.

In the first place it was necessary to cope with seasonal fluctuations in the demand for money, as well as cyclical and long-term changes, always within the limits imposed by the convertibility of banknotes and institutional constraints.

The end of the nineteenth century and the early years of this century were marked, particularly in 1893 and 1907, by financial crises and pronounced cyclical swings, above all in the building industry. Economic instability combined with financial instability; runs on deposits led to demand for rediscounting at the banks of issue.

After the discussions and disappointments generated by the application of the Currency Principle, and following the pattern that had emerged in continental Europe in the second half of the nineteenth century, the Bank of Italy was granted greater freedom to vary its note issue in financial crises and to satisfy the needs of the market; in particular, the tax on the note issue in excess of the legal limits was reduced.

The widely accepted view, which accorded with the principles of *Lombard Street*, was that sufficiently abundant refinancing should be provided in the case of a pure liquidity crisis. An internal memorandum of the Bank stated in 1907 that it was "absolutely necessary to arm the large institutions that distribute credit and manage the currency with extraordinary resources with which to cope promptly and effectively with extraordinary and urgent needs". At the same time it was necessary to set conditions and limits on these resources "in order to prevent the banks of issue from being led to abuse the right to undertake extraordinary intervention in support of the market and thereby preserve the currency in the condition attained thanks to long study and laborious efforts".

The crisis of 1907 brought the Bank of Italy's function of lender of last resort into full play. Its position with respect to the other banks began to be more clearly delineated; the question of the value of banknotes came to be posed more explicitly in terms of the total amount of the note issue and the quality of the assets the Bank refinanced.

The Italian financial system was relatively undiversified and dominated by the banks. It was in these special circumstances that the first attempts were made to legislate on banking, but in the end to no effect.

On the eve of the First World War the Bank had acquired the functions of controlling the note issue and managing the metal reserves to ensure the currency's parity with gold, despite its not being convertible. On the other hand, the Bank's position vis-à-vis the other banks had not yet been completely defined and it continued to compete with them in lending to the economy.

The legislation adopted in 1926 made the Bank of Italy exclusively responsible for the note issue and introduced, earlier than in other countries, a first set of supervisory rules that restricted the fund-raising of each bank in relation to its capital. In the wake of the crisis of the 1930s, the Banking Law of 1936 broadened the powers of banking supervision and turned the Bank of Italy into a public-law institution, set over the other banks and barred from lending directly to the private sector.

4. The return to gold and the crisis of the 1930s

The period from the outbreak of the First World War to the end of the Second can be seen as a single, unbroken period of crisis. The war and political events disrupted the industrial economies and world economic relations, preparing the ground for the Second World War.

The national and international monetary systems, based on the gold standard, were overwhelmed by military spending and inflation. Only the United States maintained its gold parity without interruption. France, Germany and the United Kingdom went off the gold standard during the war; Italy had suspended formal convertibility earlier and the *de facto* link ceased as well.

The period following the First World War was plagued by exchange rate breakdowns, severe inflation in several countries and financial instability. In the 1920s economic policy, and monetary policy in particular, reflected the conviction that it was necessary to return to the gold standard, albeit in the less rigid form of the gold exchange standard recommended by the monetary conference held in Genoa in 1922. It was believed that a close causal link existed between the monetary disorder and the problems of the economy, and that the return to gold would restore normality.

The debate on the level at which the new parities should be set was lively and wide-ranging. The United States had maintained the parity of the dollar. The United Kingdom and Italy deflated, the former in order to restore the pre-war parity, the latter to recoup part of the value the lira had lost in the preceding years. France chose to stabilize the franc at a slightly undervalued exchange rate. Germany had rebased the mark on gold in 1924; Japan also re-established the link with gold, albeit for a short time.

The collapse in economic activity at the beginning of the 1930s was the outcome of a complex set of interrelated factors rooted in the events that had followed the war. However, the widespread return to gold, often at unrealistic parities, was the underlying cause of a severe worldwide deflation. The depression was spread by world trade and gave rise to a chain of bank failures that accentuated the fall in investment and production.

In the countries that adhered most rigidly to the gold parities – the United States, France and Italy – industrial output fell by between 30 and 45 per cent. In the United Kingdom, Japan and Scandinavia – the first countries to abandon the system in the 1930s – the fall in industrial activity was less pronounced.

In Italy, it had been decided to return to gold at the end of 1927 at "quota 90", that is to say at 90 lire to the pound sterling, compared with rates of between 120 and 130 and peaks of more than 150 lire to the pound in the two previous years.

The great economists – Fisher, Cassel, Hawtrey and especially Keynes – who had advocated a different role for monetary policy than the simple return to gold convertibility, went unheeded. Fisher, Cassel and Hawtrey believed that gold should go on playing an important role in the monetary system, but in ways that would permit the general level of prices to be stabilized. Keynes called explicitly in his 1923 *Tract on Monetary Reform* for the link with gold to be abandoned and money managed by central banks with the aim of stabilizing prices and production.

The terrible consequences of the Great Depression had to be lived through before these ideas received the attention they deserved.

The close link between financial stability and economic activity had been highlighted again during the crisis and the banking laws of the 1930s were directed primarily towards ensuring the stability of banks, intermediaries and financial markets.

For both analytical and theoretical purposes, bank deposits were now considered an integral part of the money stock. The Chicago school, worried by the consequences of changes in deposits as a result of crises and wishing to attenuate the fluctuations in the supply of money, went so far as to propose limiting commercial banks' activity and imposing a reserve requirement, in central bank money, of 100 per cent of deposits.

5. Developments after the Second World War

From the end of the Second World War until the beginning of the 1970s, the paradigm of the new international monetary system was represented by fixed exchange rates and the indirect link with gold embodied in the Bretton Woods agreements, which Italy signed at the beginning of 1947. The same year saw the end of the postwar inflation and new provisions governing the Treasury's access to Bank of Italy credit, which had become virtually unlimited under Fascism.

The role of fiscal policy in stabilizing the business cycle was accepted everywhere. Monetary policy – based on a fiat money conceptually detached from metal and consisting primarily of the liabilities of commercial banks – is assigned a leading role in the determination of interest rates, which, in turn, influence investment and production.

In the view of monetarists, based on the tradition of the Chicago school, monetary policy's primary task is to control the price level. The emphasis came to be placed once more on the quantity of money rather than just interest rates. Amidst fierce debate, the quantity approach gained ground among economic policymakers, especially after the bout of inflation in the 1970s and the shift in monetary policy implemented by Paul Volcker in 1979.

In today's institutional arrangements and current economic thinking banks of issue have acquired in full the role of central banks, entrusted with the conduct of monetary policy.

When the dollar's convertibility into gold was suspended in 1971, the monetary regime became purely fiduciary at the international level as well. Exchange rates were now basically free to float; controls on capital movements were gradually removed. Monetary and financial systems, each of which constituted a separate whole with its central bank, embarked gradually on a process of integration.

This is the first time in history that there has been unrestricted worldwide circulation of capital between monetary systems in which there no longer exists an anchor related to the quanity of metal. The supply of money now depends entirely on the policies pursued by central banks and the behaviour of banking systems.

With the present configuration of the international monetary system, freedom of capital movements may result in the creation of money – by one financial system in response to the demand of another – that is not fully controllable by national central banks. A contributory factor in this respect has been the development of money markets outside national borders. Exchange rate fluctuations, by creating uncertainty, may limit the circulation of money and hence its creation through this channel. The system's curbs on the expansion of money are nonetheless weakened, with possible consequences for inflation.

6. Supervisory activity and the value of money

Within a given economic and institutional system, the money issued by the central bank is secure against the risk of insolvency under the law. It is the standard for payments within the State and has to be accepted as the means of discharging obligations. At the international level, the question of acceptability comes to the fore again, in terms of the reserves held by the central bank, the latter's credibility, and the economic strength and potential of the country of which that money is the expression.

The problem arises of the intrinsic value of the money consisting of the banking system's liabilities, which can be exchanged in unlimited amounts and at a rate of one to one for the money issued by the central bank.

In the financial systems of the last century, when the issuing bank's balance sheet predominated in terms of size, the conversion of bank deposits into notes by way of rediscounting was possible on a very substantial scale and the bank of issue had a vested interest in the quality of banks' assets.

In today's financial systems, even though the central bank is still the largest bank, or at any rate one of the largest, its relative size has shrunk and the empirical importance of the conversion of deposits into currency has declined enormously. The strength of the monetary system now rests directly on the quality of banks' assets.

The task of supervision is to promote the solvency and stability of the banking system, with the aim of reducing the need for recourse to the central bank, guaranteeing the latter's refinancing and protecting the holders of bank money.

A somewhat similar approach can be extended to the whole financial system and to assets other than money and the liabilities of the banking system – the securities of various kinds and maturities issued by the State and enterprises. It is not the responsibility of the central bank to control how the funds raised by these means are invested, but the conservation of the value of these securities, which are ultimately exchangeable for money, undoubtedly depends on the economic and productive activities they serve to finance.

7. The independence of monetary policy

In 1776 Adam Smith wrote in the *Wealth of Nations*: "The stability of the Bank of England is equal to that of the British Government. ... It acts, not only as an ordinary bank, but as a great engine of state" and further on: "The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended upon the Daedalian wings of paper money, as when they travel about upon the solid ground of gold and silver".

This passage reflects the origin of the banks of issue, their key role in the creation of wealth and the mobilization of resources; it also expresses reservations about the circulation of fiduciary money. Ricardo, and especially Thornton, were more convinced of its optimality. Keynes wanted to set aside the rules of the metallic system and use money to promote stability – in terms of prices, economic activity and employment.

More than six centuries ago, in around 1370, Nicholas Oresme, Bishop of Lisieux and advisor to the King of France, in his *Traictie de la première invention de monnoies*, which he wrote in Latin and then translated into French, concluded that money should be issued by the king or by a group of upright men designated by him, not for his own benefit, but *pro bono communitatis*, for the common good.

Money is a public good, to be managed in the general interest. This, in essence, is the concept of independence in monetary management.

The abandonment of gold has freed central bankers from mechanical and deterministic rules, but it has also increased the risk of the power to create money being put to distorted uses. Its exercise therefore needs to be entrusted to persons other than those responsible for public spending, persons in a position to act autonomously with a view to achieving objectives of general interest.

This autonomy can only be achieved in a democratic regime. In modern institutional systems it tends to be interpreted primarily in the form of legal and administrative independence of the central bank from the other powers of the State. In Italy, the Constitution refers implicitly to a body for the protection of savings. The Bank of Italy, partly owing to its historical origins, has always enjoyed a high degree of autonomy in the appointment of its executive organs.

The Bank's autonomy in managing market liquidity, using all the asset and liability transactions provided for in its Statutes, and in controlling market interest rates, increased during the 1970s and became complete in the second half of the 1980s.

Thanks to the farsightedness of Parliament and the Government, stimulated by the example of other countries and the commitments entered into within Europe, since 1992 the Bank of Italy has also been completely free to vary official interest rates, which had previously been set by the Minister of the Treasury. In November of this year, every obligation for the central bank to finance the Treasury was abolished and the Bank was empowered to fix the level and remuneration of banks' compulsory reserves.

Autonomy and independence do not mean arbitrariness, especially as regards the setting of objectives. The macroeconomic objectives that the central bank pursues must not conflict with those established for the country by Parliament and the Government, and shared by the public.

In accordance with a long-standing tradition, based on theoretical analysis and empirical experience, the Bank of Italy firmly believes that, in addition to an appropriate monetary policy, the defence of the value of money requires the contribution of other policies. This position was reaffirmed in the Governor's Concluding Remarks to the 1982 shareholders' meeting as a proposal for a "monetary constitution".

The stability of the economy is closely linked to that of the financial system. The supervision of the banking system is designed to protect the quality of banks' assets and the value of bank money.

The defence of the monetary yardstick depends decisively on controlling public expenditure and the budget deficit. These must not absorb an excessive amount of resources or distort their allocation; they must contribute to the quantity and quality of the fixed capital accumulated in the economy and hence to the overall productivity of the country.

In modern industrial economies an appropriate incomes policy is essential if price stability is to be maintained without incurring excessive costs in terms of economic activity. The effectiveness of such a policy has been demonstrated in Italy during the last year, despite the large fall in the external value of the lira.

The ultimate objective of monetary policy, as of the other components of economic policy, is to maximize the welfare of society, compatibly with the resources available to the economy.

Monetary stability is an integral part of this welfare. Inflation alters the distribution of income, distorts the use of resources and lowers the efficiency of the whole system.

The defence of purchasing power is conducted in the first instance through monetary policy.

Monetary policy, fiscal policy and incomes policy must jointly pursue the objectives of stability, economic growth and full employment of the available resources, especially human capital. Each of these policies directly or indirectly influences all the objectives; employed together their effectiveness is maximized.

The creeping inflation that afflicts the economies of many of the industrial countries, and notably Italy, must be tackled not only through macroeconomic policies but also by improving the quality of public expenditure, ensuring fair taxation and the correct allocation of credit by banks, and promoting efficiency and quality in the production of goods and services by the private sector.

In an open economy the defence of the currency requires international competitiveness but also the prospect of growth and stability in the economy as a whole. The redemption of the saving borrowed abroad and the maintenance of that formed within the domestic economy depend ultimately on sustained and orderly expansion. The remuneration of capital presupposes growth.

The opening of financial systems, the massive flows of capital between different monetary systems, especially at short term, and the creation of markets independent of national systems pose new problems for central banks.

National monetary policies will have to be directed towards domestic objectives that are consistent with those of other countries. In Europe this consistency must be sought in objectives for economic progress without inflation that will permit the various economies to advance in parallel in conditions of stability.

The European Monetary Institute can play an essential role in promoting, within the larger group of industrial countries, an area of monetary stability based on the orderly development of their individual economies and that of the system as a whole.

At the conclusion of this first century, the Bank of Italy has enlisted the critical eye of independent scholars in looking back over its history and at its development into the modern central bank we know. The intention has been to reflect on the road traveled, the adjustments to the Bank's policies in the course of time, and the contribution made to the growth of the nation.

The tasks performed and the results achieved are the merit of all those who have worked in the Bank, especially of the men who in varied and sometimes difficult circumstances have led the institution with authority and competence, with no other goal than the general good.

The years to come will be no less demanding. The Bank of Italy – through the operations of its central and branch offices, the professionality of its staff and the commitment of its management, and in cooperation with the organs of the State and the other economic policymaking bodies – will continue to serve the economic and social progress of Italy.

Central banking and payment systems in the European Community

Address by the Deputy Director General, Tommaso Padoa-Schioppa, to the International Symposium on Banking and Payment Services, organized by the Board of Governors of the Federal Reserve System

Washington, 10 March 1994

I Introduction

1. The title of my presentation has three components: payment systems, central banking, European Community. Let me start by briefly explaining the meaning I give to these components.

Payment systems come first. Although the primary function of money is that of means of payment, for many years economists, bankers and central bankers have devoted little attention to it. Only in recent years, largely as a result of the revolution in payment technology brought about by data-processing and telecommunications, have we all rediscovered the central role of the payment function. Coping with the new problems that have arisen in the payment system over the last ten years has required a renewed intellectual effort, a reconsideration of the priorities in policy and business, a high degree of interdepartmental cooperation in both banks and central banks and changes in legislation.

The monetary theory we learned when we were students was largely built on the monetary systems that emerged from the previous revolution in payment technology, that is the change from commodity to paper currency. Basic concepts about money and the monetary system now have to be understood anew in the light of present technological change. For a central banker and, I believe, for a commercial banker too, one of the fascinating aspects of being involved in payment systems issues today is that conceptual analysis and practical work have to proceed in parallel because we do not have a ready-made solution for the new problems brought to us by the change in reality.

2. The second component of my title is central banking. Since, in the programme of the Symposium, this presentation comes as the first by a central banker, you will not be surprised if my leitmotiv will be the special role of central banks in the payment system.

The essence of the role of the central bank is to provide final money, money to which the law grants the unique privilege of estinguishing an obligation in a definitive way.

In a world in which money has no intrisic value, the whole construction of an economy based on exchange and division of labour rests on the confidence in the medium of exchange. And although by far the largest proportion of the stock of money is a liability of commercial banks rather than of the central bank, the ultimate bastion on which confidence rests is the portion of the total stock of money that has been issued by the central bank, what economic literature calls "outside" money. This confidence ensures that the exchange rate between a central bank dollar and a commercial bank dollar will always stay fixed. The threefold mission of the central bank is to: manage the supply of outside money; oversee the functioning of the payment system; and supervise commercial banks in such a way as to support that confidence. This is also the reason why monetary policy, payment systems and banking supervision are, in my view, three complementary and deeply interlinked facets of central banking.

3. The European Community, now called the European Union, is the third component of my title. Cooperative work between European central banks in the field of payment systems is relatively recent. When the previous Fed symposium on payment systems was held here in Washington five years ago that cooperation had not yet started in Europe. Important ground has been covered since then.

The central banks of the European Community began to work together in the field of payment systems only in January 1991, when they created an Ad Hoc Working Group on EC Payment Systems to study the problems posed by the completion of the single market and by the prospects of Monetary Union. In May 1992 the Group submitted to the Governors a Report on the "Issues of common concern to EC central banks in the field of payment systems", known as the "Main Report". The Main Report was published in September 1992.

The Main Report identified four areas for joint work by European central banks: 1) harmonization of the main features of domestic payment systems of member countries; 2) cooperative oversight of cross-border participation in national payment systems; 3) preparatory work on the payment system for Stage III of Monetary Union (EMU); and 4) oversight of the ECU Clearing and Settlement System. Much of my presentation will draw on that work.

4. Compared with the global, G-10, central bank cooperative efforts, the work done at the European level is marked by three distinctive features.

Firstly, it is mainly driven by the creation of the single market, a market in which national borders (whether physical, legal or regulatory) should cease to have an economic relevance per se. Data collected by the Committee of EC Central Bank Governors indicated that as early as 1991 the value of cross-border payments within the Community amounted to ECU 200 trillion, around 40 times the member countries' GDP; this represented an increase of 63 per cent in four years. Secondly, there is a strong link, at the EU level, between the three functions of central banks: payment systems, banking supervision and monetary policy functions of central banks. Indeed, common EU legislation on banking and financial services is already in place and European central banks are expected to converge towards a European central bank and a single currency. Thirdly, Europe has a legislative and law enforcement authority that is missing at the G-10 level.

For these three reasons, central bank cooperation in the field of payment systems has largely focused – in Europe – on domestic systems and, in general, has taken a strong "domestic" approach even when dealing with cross-border payments. After all, borders are in the process of disappearing in Europe.

Taking these special features into account I shall deal, in most of this presentation, with the developments in European domestic systems. These developments are significantly influenced, today, by the work done in the Working Group on EC Payment Systems. Only in the last part of my presentation shall I move to cross-border payments.

II From net to gross settlement

5. The movement from net to gross settlement is the distinctive feature of the present evolution of European domestic interbank payment systems.

In Europe, as in the majority of industrial countries, interbank payments are effected in three alternative ways. Settlement in commercial bank money is the traditional mode, based entirely on "inside" money so that, from the system's point of view, credit rather than money is used to settle obligations. This mode is still predominant in less developed financial and payment systems and is by far the dominant mode in intra-European cross-border payments, as well as in international payments in general. Then there is clearing with settlement in central bank money, which is widely used in advanced systems, where end-of-day finality is required. Today, it is the most important mode in European domestic payment systems. To the third mode, real-time gross settlement (RTGS) with central bank money, I will come in a moment.

6. The advantages and pitfalls of clearing systems are well-known.

The main advantage is, of course, the enormous reduction in the holding of non-interest bearing central bank money, made possible by using the latter only to settle the net obligations emerging after canceling debits and credits due in the day, while reaping the advantage of end-of-day finality. The main pitfall has traditionally been the indirect risk deriving from the multilateral nature of the netting. Since the total amount of gross transactions to be settled has grown substantially in relation not only to central bank money balances but also to the net capital of the participants, the traditional pitfall has become "systemic", because of the increasing risk that the failure of one participant could trigger a chain reaction leading to the collapse of the entire system.

As systemic risk has outgrown individual risk, netting systems have gradually moved to a situation in which participants reap most of the benefits and the pitfalls are left to the central bank. Of course, the central bank can always prevent a crisis from erupting. But if it always did so and if every participant behaved on the assumption that it would always do so, the very essence of central banking would be lost. This essence consists in preserving a delicate balance between providing enough liquidity to ensure the smooth functioning of the system and making central bank money sufficiently rare to encourage its efficient use. This delicate balance would be broken. The outside money would cease to be exogenously determined and would become inside money and monetary control would be lost.

7. Moral hazard and the externalities associated with netting systems are the factors that require central banks to reassess their role. In the last few years, European central banks have developed their response to these changes along two lines.

The first line has been to promote actions to enhance security in domestic netting systems (see Table 1). I shall not dwell on these measures, which are well known to you. Let me just list the wide range of aspects they have covered: the restriction on direct access of supervised credit institutions and public entities to interbank netting systems; the adoption on a voluntary basis of bilateral limits on credit exposures; the capping of multilateral exposures by the central banks; and the collateralization of debit exposures. Many of these measures have, of course, also been taken in the US and Japan, where agreements on loss-sharing formulae by participants have also been reached.

In some European countries changes in the legal framework have been introduced to ensure the legal enforceability of bilateral and multilateral netting: France and Belgium, for example, have recently eliminated the zero-hour rule from their domestic bankruptcy laws. In other countries, the pricing of central bank services has been used to smooth the functioning of the clearing and settlement procedure: in Italy, for example, penalty rates have been introduced to discourage participants from asking for central bank money at a late hour in the day at the closing of the clearing process.

8. I will devote more space to the second line of response: the development and expansion of real-time gross settlement systems, the third mode of interbank payments mentioned above. This has become a central element in the reform of European interbank payment systems.

Five years ago, only four EU countries had such a system and only in Denmark did it process the bulk of large-value payments. Today, all but two EU countries are planning to have RTGS systems in operation by 1996, and they are planned to handle most large-value payments (see Table 2).

9. The shift from net to gross settlement is the product of several factors. Technological innovation has been the main driving force because it has dramatically cut the cost of using central bank money by making the velocity of circulation of central bank money virtually unbound, to the point where it can be used to settle not only the end-of-day net balances, but also bilateral obligations throughout the day.

A second factor behind the movement of European interbank payments towards RTGS is the rising cost to participants in netting schemes of the risk reduction measures introduced to improve such systems. The internalization of externalities implies a continuous decline in the opportunity cost of the shift from net to gross settlement.

Tab. 1

RISK MANAGEMENT MEASURES IN DOMESTIC NETTING SYSTEMS

	B	DK	D	GR	E	F	IRL	I	NL	P	UK	USA	JPN
1. ACCESS CONDITIONS													
- Direct participants (banks and public entities)	■	■	■	□	■	■	■	■	■	■	■	■	■
- Other access criteria	□	□	□	□	■	■	■	■	□	■	■	□	■
- Tiering	■	□	■	□	■	■	■	■	□	■	■	■	■
2. CONTROL ON NET EXPOSURES													
- Bilateral (credit) caps	□	□	□	□	■	■	□	□	□	□	■	■	■
- Multilateral (debit) caps	□	□	□	□	□	□	□	□	□	□	□	■	□
3. SETTLEMENT RISK MANAGEMENT													
- Unwinding	■	■	■	□	■	■	□	□	□	■	□	□	□
- Collaterals	□	□	■	□	□	□	□	□	■	□	□	■	■
- Loss sharing agreements	□	□	□	□	□	□	□	□	□	□	□	■	■
4. ENFORCEABILITY OF NETTING													
- Bilateral	■	□	■	□	□	■	□	■	□	□	□	■	□
- Multilateral	■	□	□	□	□	□	□	□	□	□	□	■	□
- Zero-hour rule	□	□	□	□	□	□	□	■	■	□	□	□	□

Legenda: ■ Yes □ No

Tab. 2

MAIN FEATURES OF GROSS SETTLEMENT SYSTEMS

	B	CH	DK	D	GR	F	IRL	I	NL	P	UK	USA	JPN
1. EXISTING OR PLANNED (year)	1995	1987	1985	1988	1996	1995	1995-96	1989	1985	1994	1995	19..	1988
2. LIQUIDITY PROVISION													
- Intra-day use of reserve requirements	□	■	□	■	▒	■	■	■	■	■	■	■	■
- Intra-day credit facilities		□			▒								□
- Collateralized	■		□	■	▒	■	■	■	■	■	■	□	
- Uncollateralized	□		■	□	▒	■	□	□	□	□	□	■	
3. SETTLEMENT RISK MANAGEMENT													
- Queue management facilities	■	□	■	■	▒	■	▒	■	□	■	□	□	□
- Pricing of intraday overdrafts	□	□	□	□	▒	▒	▒	▒	□	□	▒	■	□

Legenda: ■ Yes □ No ▒ Not yet decided

A third factor is the development of around-the-clock international financial markets, because only intra-day finality has the effect of supporting the discharge of home-currency obligations related to foreign exchange or cross-border financial transactions.

III Major issues in the European debate

10. The evolution I have briefly described has been accompanied by an intense debate on a number of general, sometimes rather conceptual, issues. It may be interesting, for a predominantly non-European audience, to have a summary account of the many points of this debate.

11. The demand for central bank money for the purpose of settling interbank transactions is a function of different variables. As we have seen, technology enters this function with a negative sign, because of the rise in velocity it induces. Risk reduction measures for netting systems enter with a positive sign insofar as they push towards gross settlement. Other things being equal, the dramatic increase in the volume of transactions obviously raises the demand for central bank money.

The aggregate effect of these different impulses over time is difficult to assess for both central and commercial banks, but it has an important bearing on two issues with which central banks are confronted today.

The first issue is whether RTGS should supplement or substitute netting systems, whether substitution is the natural outcome of the ascendancy of a superior technology, or the effect of central bank regulations imposing gross settlement for certain classes of payments. Some European central banks have envisaged, at some point, that with the establishment of RTGS, netting systems should cease to operate for large-value payments. The report of the EU central banks on "Minimum common features for domestic payment systems" shows that the view of European central banks today is that RTGS and netting systems should co-exist. Let me explain why I think this is the right attitude.

Conceptually, if the two systems were designed so as to entail equal risks, payment operations would distribute themselves between the two systems in a way that minimized their cost. And it is reasonable to expect that, for certain classes of payments, netting systems would continue to be the cheapest mode. This would be the case for payments where the time value of money for intra-day intervals is not relevant. In practice, of course, it is almost impossible to design risk reduction measures that would equalize risks in the two systems. Moreover, it is not possible to leave the choice between the two modes completely free for every class of payment: there are, for instance, organized markets for which the decision has to be taken, as part of their organization, whether their transactions are to be settled on a gross or a net basis. But, in general, it would be unwise to plan euthanasia of netting systems.

12. The second issue concerns the supply of central bank money required to meet demand. The increase in velocity is in fact unlikely to be sufficient to finance the larger volume of reserves required to settle on a gross basis. This is the problem of providing liquidity to RTGS. Queueing, compulsory reserves, overdrafts, limits, pricing and collateral in the overdrafts are the elements of the architecture of systems that exist or are in the process of being implemented (see Tab. 2). The trade-off between efficiency and stability and the complexity of the factors at work make it very difficult to design the optimal architecture of an RTGS or, more generally, of a large-value payment system.

Central banks are following a pragmatic approach, and accept that they must bear part of the higher costs associated with the introduction of gross settlement. I believe however that, even in the provision of intraday liquidity for RTGS, central banks should not depart from the classic principles regarding lending of last resort. First of all, commercial banks should never perceive the provision of intraday central bank money as an automatic guarantee supplied by central banks. Some elements of discretionality should be preserved by central banks (for instance, by offering lines of credit that can be revoked even with short notice). Second, the cost of this advance of liquidity should not be negligible, so as to preserve the incentives for commercial banks to reduce exposures through market mechanisms (for instance, better synchronization of receipts and payments, bilateral caps, etc.). Finally, if an RTGS requires the provision of intraday credit by the central bank, the exposures should always be covered by adequate collateral.

13. Another issue in the European debate about the evolution from net to gross settlement can be termed "reduction versus elimination" of systemic risk. To put it simply: can we say that with a complete transition to RTGS systemic risk would fall to zero?

Central banks may be tempted to answer positively because, almost by definition, a sequence of final payments cannot be unwound. I am, however, of the opinion that the risk inherent in payment systems does not disappear completely, and that it may be difficult to separate it from the risk of a domino-effect in payment-credit relationships. After all, the payment system is an amplifier, not the cause, of contagion risk. Even in a gross settlement world, failure by one bank to meet a payment obligation at the time due may set in motion a chain reaction if the density of interbank payment flows becomes high. The nature and effects of this chain reaction are very similar to those occurring in a netting system. In fact, a netting system can be looked at as the limit to which an RTGS tends when the density of payments per unit of time tends to infinity. This is why it is more appropriate, I think, to speak of risk reduction, or minimization, than of risk elimination.

14. Yet another set of relevant issues is centered around the theme of "commercial versus central" bank payment services and may be of particular interest to this audience. The general question can be put as follows: what is the appropriate division of labour between central and commercial banking in payment systems?

In the dialogue that has developed over the last three years in Europe between central and commercial banks, some commercial banks have expressed concern that conflicts of interest could emerge if the central bank acted as both supervisor and participant in the system, or concern about the distortions in competition that could arise if a central bank were to provide a settlement system or service. It has been suggested that such competition would be unfair, since central banks, unlike commercial banks, can provide unlimited liquidity.

These are difficult issues that call into question the very nature of the central bank. Delving into them goes well beyond the scope of this presentation. Let me confine myself to a few general comments.

If we accept that a well constructed monetary and banking system comprises not only commercial banks but also a central bank, then we have to accept that the central bank and the commercial banks do some of the same things, such as creating money, offering payment services, buying and selling financial assets. The unique role of the central bank does not lie in the types of contracts it stipulates nor in the operations it conducts, but, I would say, in the fact that contracts are stipulated to pursue a public function (providing a stable currency) and not for profit. If the central bank interprets its role correctly, conflicts of interest and distortions in competition are ruled out, so to speak, by assumption.

15. If we now move from this high level of generality to concrete aspects of the payment system, we have to consider specific functions that central banks may perform.

One is the provision of facilities for the transmission and netting of payment obligations. Here there are big differences between countries. In some countries the central bank is the main provider of systems, in others the transmission and netting operations are offered by the private sector. These differences are mainly the product of different traditions and historical developments. It is hard to say what is best. But I certainly do not think that where the sphere of action of the central bank is small, it should expand. Let me also note, however, that systems owned and run by central banks are characterized by a large number of direct participants, while direct access to private systems is generally limited to a restricted number of banks. And if direct participation in systems represents a comparative advantage in the provision of payment services, one is led to think that the provision of interbank funds transfer systems by central banks does not limit the competition, but rather enhances it. Moreover, the operational involvement of the central bank does not exclude the existence of private systems.

16. As regards the provision of settlement services, the supply of gross settlement services in central bank money instead of modes one and two for large-value interbank payments may, indeed, be seen by commercial banks as an incursion into their business area. But let me say that this is an incorrect perception.

Central banks are not competing with banks because they do not offer payment services to the non-bank public. Even in countries, such as Germany and the Netherlands, where there are limited exceptions to this rule and non-banks hold accounts with the central bank, such accounts cannot be used by their holders to provide payment services to the public in the way commercial banks do. Moreover, these accounts are mainly a legacy of the past, are not expanding and may even disappear in the near future. For instance, the new legislation regarding the Banque de France forbids it to open new accounts to non-bank institutions. On the other hand, central bank initiatives are driven by the public function entrusted to them to improve the efficiency and safety of the payment system as a whole, not by a profit motive. The situation is similar to monetary policy implementation: although central banks participate in the money market, it cannot be said that they compete with the banks.

Central bank money has always been the money used for interbank payments. It may be true that for some very large banks which play the role of a quasi-central bank with respect to smaller banks, the new developments in central bank activity may be unwelcomed because they fear a reduction in their role. But, as a central banker, I would like to say that this role had perhaps overexpanded, leaving to the central bank the costs, risks and responsibilities and taking away from it some of the operations that could (and used to) minimize those costs. The vast majority of banks probably welcomes the wider use of central bank money in interbank payments.

17. A final set of issues concerns the implications of payment systems developments for the effectiveness of monetary policy. For at least two reasons, related to safety and efficiency respectively, there is, in my view, a positive relationship between the developments under way in payment systems and the effectiveness of monetary policy. Firstly, on safety grounds, measures that reduce the risks in large-value payment system reduce the probability of the central bank decisions about money creation having to deviate from the path that would be best for price stability in order to avoid the systemic consequences of refusing liquidity. No central bank, whatever its charter and institutional setting, can be indifferent to systemic risk. Reducing systemic risk to a minimum allows the central bank to be guided more by monetary policy considerations.

Secondly, on efficiency grounds, the widening of the use of central bank money in interbank payments and, more generally, improving the efficiency of large-value payment systems, increases the responsiveness of the monetary system to the impulses coming from the central bank. The demand for central bank money is the fulcrum of the transmission mechanism of monetary policy. In the past, this fulcrum was the demand for notes and coins. Today, it is the central bank money held by banks in the form of deposits with the central bank. Continuous use of central bank money throughout the day tightens the grip of the central bank on the monetary system.

18. This is my account of the evolution of European domestic systems and the issues that have been debated in planning and implementing the change. For the sake of simplicity, I have made it without referring explicitly to central bank cooperation. But before turning from domestic to cross-border payments, it needs to be stressed that the continuous dialogue among EC central banks over the last three or four years has played a crucial role in clarifying issues, weighing the pros and cons of alternative solutions, and learning from the experience and ideas of others.

The report on "Minimum common features for domestic payment systems", which was made available to the banking community last November as a follow-up to one of the lines of action proposed by the 1992 Main Report, is now the document to which EC central banks and commercial banks refer in defining their strategy.

The report sets out principles for the harmonization of domestic systems in the sphere of access, risk control and legal, technical and operational characteristics. The report calls first of all for the establishment of real-time gross settlement systems in all member countries. It states that such systems should settle in accounts with the central bank and have mutually compatible technical, legal, operational and security specifications. Further, it requires netting systems to satisfy the security requirements laid down in the Lamfalussy report.

According to the report, access to systems should be restricted to credit institutions subject to supervision, as defined by the Second Banking Directive. Equal access should be granted to all Community banks, with the establishment of transparent standards for access set out in a public document.

IV Central banks and cross-border payments

19. The internationalization of economies and markets is the second major force - after tecnichal progress - driving change in today's payment systems. This adds an institutional and legal dimension to the problems central banks are facing, as well as the complication of multiple currencies. I shall first recall the key issues that the development of international payments raises for central banks in general, and then turn to the way these issues are approached in Europe.

20. If the international monetary system were still centred around a single currency, as it was under Bretton Woods, the institution issuing that currency would perform central banking functions not only for its country but also for the rest of the world, and the problems raised by the globalization of markets would be more tractable. Today, the multiplicity of currencies, the lack of a single legal system and the difficulty of creating international institutions increase the burden to be borne by cooperative, voluntary arrangements between national central banks.

21. The concerns of central banks in the international payment system were discussed here, and largely answered, five years ago. At that time commercial and central banks were mainly worried by Herstatt risk, that one of the two currencies involved in a foreign exchange deal would not be delivered after the other leg of the transaction had been settled. At the time of the 1989 Fed Symposium, the creation of private, multilateral, multicurrency netting systems appeared to be forthcoming. Central banks were appreciative of the efficiency gains to be obtained, but also made it clear that some form of oversight over multilateral netting schemes was necessary, because improperly designed systems could have the perverse effect of amplifying risks instead of reducing them.

22. Moving from concerns to actions, separate consideration has to be given to the two roles of central banks, as overseers of systems and as providers of services.

As regards oversight, the main achievement of the last five years is the definition, in 1990, of the minimum requirements for the design of international clearing and settlement systems and of the set of principles for allocating oversight responsibilities among central banks. That set of standards, established by the Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of Ten Countries, better known as the Lamfalussy Report, has rapidly become the key reference for commercial banks and central banks alike.

The Lamfalussy Report led to some of the initiatives envisaged in the main financial centres being dropped and the ones that are now likely to actually start seem to have embodied most of the recommendations. Two such systems are now at an advanced stage of preparation: ECHO in the United Kingdom and Multinet in the United States. Both are multilateral netting schemes for spot and forward foreign exchange transactions: members dealing in many currencies and with several counterparties throughout the day will settle just one position for each currency at the end of each day. Settlement will be made via correspondent members in each of the countries issuing the currencies involved. The original projects have undergone central bank scrutiny and, as a result, have been modified in various ways. Now they are about to become operational. Let me say that I take the slowing down of market initiatives due to the central bank's request for compliance with minimum standards of safety and soundness as a clear indication that the risk of creating unsafe systems was indeed real. Negative externalities had perhaps been initially underestimated. A repetition of the negative historical experience with private clearing houses has been avoided.

23. The provision of settlement services in central bank money for international transactions poses much more complex problems than those related to oversight.

Five years ago I argued that the central banks' role implies the supply of a settlement medium for interbank transactions. In recent years, central banks have actually taken some important steps to meet the needs of cross-border transactions. The extension by the Bank of Japan of the BOJ net's operating hours by two hours and the early opening of Fedwire are significant contributions to a safer international payment system since they allow the two sides of foreign exchange transactions to be settled simultaneously.

A number of other hypotheses have been discussed by central banks in the work done within the G-10 Committee for payment and settlement systems. One such hypothesis would be to open settlement accounts in different currencies that would be managed by an individual central bank. Another would be to create a common agent that would manage settlement accounts on the behalf of central banks. Needless to say, each of these hypotheses raises problems that touch upon very sensitive matters. Central banks would in fact either have to deal with institutions that do not fall within their jurisdiction, or delegate some of their powers to other institutions with possible implications for monetary policy. Furthermore, connecting the payment systems of different countries would make the global system vulnerable to problems arising in one of its components. Even though it is hard to predict the outcome of the present debate in payment systems, I believe that ever-closer coordination between central banks will be necessary in the coming years.

V European cooperation in payment systems

24. Turning from global to intra-European cross-border payments, I will briefly consider the two aspects, oversight and the provision of settlement services, that I have covered with reference to developments at the global level.

25. Establishing principles for cooperative oversight of cross-border participation in domestic payment systems was one of the four lines of action adopted by the EC central bank governors in 1992, on the basis of the Main Report.

Community banks' right of access to payment systems in countries where they do not have their headquarters, nor even a branch, is one of the important features of the single market for banking services. Cross-border participation in payment systems implies that the usual transmission of risks from a participant to a system and vice versa occurs across borders. This, in turn, requires a certain cooperation between the supervisor of the participant and the central bank responsible for overseeing the system.

To preserve the soundness of payment systems, the exchange of information between banking supervisors and central banks as well as the allocation of responsibilities will have to respect agreed principles. First, the primary responsibility for payment system oversight lies with the central bank of the country where the system is located, whereas the primary responsibilities for the supervision of participants rests with their home country authority. Secondly, under ordinary circumstances the exchange of information across borders would only take place between central banks and between supervisory authorities, not between central banks and bank supervisors. Finally, there would have to be suitable arrangements for coordination among the various authorities in managing crisis situations.

26. Overseeing the ECU Clearing and Settlement System was a second area of work. European central banks accepted joint responsibilities for overseeing the ECU Clearing and Settlement System from the early days of the system, but this role became more active after the adoption of the Lamfalussy Report. Indeed, the ECU Clearing was the first system in operation to be assessed against the minimum standards. As it was found that the system fell short of the minimum standards in some respects, in 1992 the ECU Banking Association (EBA) conducted a legal and technical audit and introduced a set of measures aimed at reducing credit and liquidity risks in the form of bilateral and multilateral limits to credit exposures; sanctions to be imposed by the EBA on members breaching these limits; and a loss-sharing agreement to ensure the daily settlement of the clearing. Full compliance with the minimum standards will be achieved with the implementation of a further set of actions (basically intra-day limits and collateral facilities) agreed upon by the EBA and central banks.

The oversight of the ECU Clearing also entailed a more active role for "home" central banks, in close cooperation with the Bank for International Settlement in its capacity as settlement agent, in the management of stress situations.

27. The provision of settlement services has been discussed in connection with Stage III of EMU. One of the four functions assigned by the Maastricht Treaty to the European System of Central Banks (ESCB) is "to promote the smooth operation of payment systems".

The Main Report of 1992 argues that in view of the long lead time (on the order of four or five years) needed for the installation of the technical infrastructure of a system, it is not advisable to adopt solutions that would only apply to the transitional period of EMU and would risk being made obsolete by the time they became operational. Instead, the Report suggested starting work immediately on defining the payment system that will be required by Stage III, with its single market, single currency and the European System of Central Banks. In view of this, decisions have to be taken with respect to several key options: a) gross or net settlement; b) creation of a new technical infrastructure or use of existing structures; c) the degree of centralization.

Consistent with the results of the European debate on gross versus net settlement, the idea and orientation has emerged in favour of an EU-wide RTGS for large-value payments.

Another relevant question is centralization. The principle of decentralization is laid down in the Statute of the ESCB. However, it will be necessary to determine whether a decentralized payment system is the most efficient and safe solution, whether it is compatible with the exercise of the other functions of central banks, and whether it is consistent with the needs and characteristics of the European financial market.

Let me turn to the relationship between the distribution of business in different centres and the distribution of certain payment structures (for the settlement of financial transactions). Concentration has prevailed in the United States, where monetary policy operations were centred in New York as a result of the concentration of the government securities market there and the emergence of open market operations as the fundamental instrument of monetary policy. This development is reflected in the structure of the US payment system, in which large-value payments are shared between two systems: a nationwide system operated by the central bank (Fedwire) and a system operating in New York alone with settlement only through the Federal Reserve Bank of New York (CHIPS).

The European situation differs from the US in important respects. The financial activity in the Community continues to be distributed among a number of financial centres (London, Paris, Frankfurt, etc.) and the completion of the single market in banking and financial services is unlikely to produce a rapid concentration of business towards a single financial centre. Moreover, Europe's central banks are incomparably more powerful and firmly established institutions than the newly created Federal Reserve district banks in the US were when the system was created. A single central bank in Europe will be the result of a confluence of many institutions, each with its own history, tradition and relationships with a financial community.

VI Conclusions

28. Let me conclude. In our area of activity we speak of monetary systems, payment systems, banking systems, systemic risks and the like. The word "system" that constantly returns means "a regularly interacting of interdependent groups of items forming a unified whole" (Websters); this is an essential feature of our field. In our training courses for new employees of the Bank of Italy, we explain that the banking system is formed by the commercial banks and the central bank. I think that "forming a unified whole" is particularly true in the field of payments. In this field, the central bank has a unique function that cannot be left to others, but which serves the rest of the whole, not a selfish purpose. Bringing together the key components of the banking system for a debate on payment services is the right way to approach our common problems.

In Europe, the word "system" increasingly applies to a EU-wide whole. There is a single market, an increasing share of real and financial transactions are cross-border and legislation permits interstate banking to a higher degree than in this country. In the last few years, this evolution has started to deeply influence the strategy of both commercial and central banks in the field of payment services.

In the area of domestic, that is national, payment systems the crucial change underway in Europe is the shift from net to gross settlement systems. In planning their RTGS systems, European countries have the intention of combining efficiency and safety in an optimum way, and are taking advantage of the 10-15 year lag they have with respect to the US experience with the Fedwire.

In the area of cross-border payments, work under way in the EU is largely based on the prospects of the moving towards a single currency and a single central bank, that is on the prospect that what is now "cross-border" will become "domestic". This will probably mean linking national RTGS systems into a EU-wide RTGS system.

Central banks in Europe cooperate to design and implement this strategy. But they do so in full awareness of the fact that they are only one part, albeit an essential part, of a system in which the community of commercial banks has a crucial role to play.

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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)						
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	4.3	4.3	0.7	–2.2	1.3	–1.7
1992	2.6	1.4	0.6	1.4	–0.5	0.9	0.7
1993	(2.9)	....	....	....	(2.1)	....	....
1992 – 3rd qtr.	0.8	–0.1	–0.9	0.1	0.4	–0.5	0.1
4th "	1.4	–0.1	–0.7	–0.4	0.3	–0.5	0.7
1993 – 1st qtr.	0.2	0.8	–2.0	–0.7	0.6	–0.2	0.8
2nd "	0.5	–0.7	1.2	0.1	0.7	0.7	0.9
3rd "	0.7	0.4	–0.1	0.3	0.7	–0.5	0.6
4th "	(1.4)	....	....	....	(0.7)	....	....
	GNP deflator (% changes on previous period; seasonally adjusted data)						
1988	3.8	0.3	1.5	2.9	6.1	6.6	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	7.6	3.3
1991	3.9	2.0	3.9	3.0	6.5	7.4	2.5
1992	2.9	1.6	4.5	2.3	4.4	4.7	1.1
1993	(2.5)	....	....	....	....	....	....
1992 – 3rd qtr.	0.3	..	1.2	0.4	0.4	0.7	0.4
4th "	0.8	0.1	0.9	0.5	0.4	1.1	0.6
1993 – 1st qtr.	0.9	–0.2	0.6	1.0	1.2	0.8	–0.1
2nd "	0.5	0.3	0.8	0.8	0.7	1.0	0.3
3rd "	0.4	0.5	0.5	0.3	0.7	0.8	–0.2
4th "	(0.3)	....	....	....	....	....	....
	Current account balance (billions of dollars; seasonally adjusted data)						
1988	–127.2	79.6	50.8	–4.7	–29.6	–6.2	–12.6
1989	–101.6	57.2	57.5	–4.7	–36.9	–11.8	–19.7
1990	–91.9	35.8	46.6	–10.0	–31.6	–16.9	–22.2
1991	–8.3	72.9	–19.6	–6.7	–13.7	–23.1	–25.4
1992	–66.4	117.6	–25.5	3.7	–15.5	–28.0	–23.0
1993	....	(131.4)	....	....	....	....	....
1992 – 3rd qtr.	–17.8	27.8	–5.3	–0.5	–3.2	–8.3	–5.6
4th "	–23.7	31.4	–8.6	2.8	–3.6	–6.3	–4.6
1993 – 1st qtr.	–22.3	36.0	–6.7	1.8	–4.0	0.5	–5.2
2nd "	–27.2	31.5	–3.4	3.7	–3.6	0.4	–5.1
3rd "	–28.0	31.6	–7.3	4.6	–2.4	2.1	–4.8
4th "	....	(30.4)	....	....	....	....	....

Table a2

Industrial production

(% changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1988	4.4	10.1	3.6	4.1	4.8	6.0	5.3
1989	1.6	5.8	4.8	3.7	2.1	3.1	–0.1
1990	–0.1	4.2	5.2	1.5	–0.3	0.1	–3.1
1991	–2.0	1.9	3.0	0.3	–3.9	–2.1	–3.7
1992	2.5	–5.7	–1.9	–0.1	–0.4	–0.5	0.4
1993	(4.0)	(–4.3)	(–7.2)	(–3.2)	....	....	....
1991 – 4th qtr.	0.1	–1.1	–1.3	0.3	0.3	1.1	–1.0
1992 – 1st qtr.	0.1	–2.1	2.6	0.2	–0.8	1.0	–0.6
2nd "	1.4	–2.4	–1.6	–0.1	–0.1	–0.6	0.5
3rd "	0.1	–0.3	–1.4	–0.4	1.2	–2.2	0.5
4th "	1.5	–2.6	–4.7	–1.9	0.6	–1.2	1.5
1993 – 1st qtr.	1.3	0.6	–3.0	–1.3	0.2	–0.4	1.8
2nd "	0.5	–1.6	..	–0.6	0.9	–0.9	0.8
3rd "	0.7	–0.1	0.8	0.6	1.1	0.6	0.9
4th "	(1.7)	(–3.7)	(–0.3)	(–0.3)	....	....	....
1993 – Jan.	0.2	–0.3	–0.3	–0.4	0.5	1.7	0.2
Feb.	0.6	1.1	–1.3	1.8	1.3	–1.3	1.0
Mar.	0.1	2.6	1.8	–0.6	–0.8	–0.8	1.4
Apr.	0.4	–2.7	–1.3	–0.9	0.3	0.6	–0.8
May	–0.4	–2.4	0.8	0.3	1.6	0.1	–0.3
June	0.3	1.7	–0.3	–0.2	–0.9	–1.8	1.8
July	0.4	–0.5	–0.7	0.7	1.2	1.5	–0.9
Aug.	0.2	–0.9	2.1	..	–0.1	1.1	0.7
Sept.	0.2	2.1	..	–0.4	..	–1.4	0.8
Oct.	0.7	–5.5	–0.5	–0.3	0.7	0.4	–0.1
Nov.	0.9	2.2	–0.8	0.7	0.8	–0.9	0.2
Dec.	(0.7)	(–1.9)	(0.4)	(–0.7)	....	....	....
1994 – Jan.	(0.5)	....	....	....	....	....	....

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
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
1993	2.9	1.3	4.1	2.1	1.6	....	1.9
1991 – 4th qtr.	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 "	2.7	1.8	4.2	2.2	1.6	4.6	1.7
4th "	2.7	1.1	3.7	2.2	1.5	....	1.8
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.	2.7	1.9	4.2	2.2	1.7	4.5	1.7
Sept.	2.7	1.5	4.0	2.3	1.8	4.5	1.9
Oct.	2.7	1.3	3.9	2.2	1.4	4.6	1.9
Nov.	2.7	0.9	3.6	2.2	1.4	4.3	1.9
Dec.	2.7	1.0	3.7	2.1	1.9	....	1.7
1994 – Jan.	2.5	....	3.5	....	2.5	....	1.3

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1988	4.0	–1.0	1.1	5.2	4.2	3.6	4.4
1989	5.0	2.6	5.1	5.4	4.7	5.9	1.9
1990	3.6	2.0	0.6	–1.2	5.8	4.1	0.3
1991	0.2	–0.6	1.6	–1.3	5.5	3.3	–1.0
1992	0.6	–1.6	0.1	–1.6	3.5	1.9	0.5
1993	(1.4)	(–2.9)	(–1.1)	....	(3.7)	....	(3.3)
1991 – 4th qtr.	–3.0	–1.7	1.6	–3.6	4.7	2.1	–3.2
1992 – 1st qtr.	–1.3	–2.0	1.5	–3.0	4.0	1.4	–2.4
2nd "	0.7	–1.5	1.7	–1.1	3.3	2.0	–0.2
3rd "	1.5	–1.4	–1.0	–0.9	3.3	1.9	1.5
4th "	1.4	–1.5	–1.9	–1.5	3.2	2.3	3.3
1993 – 1st qtr.	2.1	–1.6	–1.6	–2.3	3.2	3.1	4.0
2nd "	2.0	–3.0	–2.0	–3.4	3.7	3.9	3.3
3rd "	0.9	–3.7	–0.6	–3.4	3.9	4.3	3.0
4th "	(0.5)	(–3.3)	(–0.3)	....	(3.8)	....	(2.9)
1993 – Jan.	2.1	–1.0	–1.4	....	3.2	2.9	4.4
Feb.	2.0	–1.6	–1.8	....	3.3	2.9	3.8
Mar.	2.2	–2.4	–1.6	....	3.2	3.4	3.8
Apr.	2.7	–2.9	–2.0	....	3.5	3.7	3.9
May	2.1	–2.9	–2.1	....	3.7	3.9	3.2
June	1.3	–3.2	–1.8	....	3.9	4.1	2.9
July	1.2	–3.4	–0.7	....	4.0	4.2	2.8
Aug.	1.0	–4.0	–0.4	....	3.9	4.4	3.3
Sept.	0.6	–3.6	–0.5	....	3.9	4.3	2.8
Oct.	0.3	–3.2	–0.6	....	4.0	4.1	2.8
Nov.	0.6	–3.4	–0.3	....	3.6	3.9	(2.8)
Dec.	(0.7)	(–3.3)	(0.1)	....	(3.9)	....	(3.2)
1994 – Jan.	(0.5)	(–3.1)	....	....	....	....	....

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
			Official reference rates *(end-of-period data)*				
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	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
Oct.	3.00	1.75	5.75	6.45	6.00	8.00	4.63
Nov.	3.00	1.75	5.75	6.45	5.50	8.00	4.36
Dec.	3.00	1.75	5.75	6.20	5.50	8.00	4.11
1994 – Jan.	3.00	1.75	5.75	6.20	5.50	8.00	3.88
			Money market rates *(period averages)*				
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
1993	3.00	3.04	7.23	8.59	5.94	8.59	3.86
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
Oct.	3.02	2.49	6.58	6.98	5.76	8.78	4.38
Nov.	3.10	2.42	6.26	6.72	5.57	9.01	4.09
Dec.	3.06	2.26	6.05	6.52	5.33	8.59	3.86
1994 – Jan.	2.98	2.25	5.83	6.32	5.40	8.42	3.63

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
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
1993	5.87	4.03	6.28	6.72	7.87	9.60	7.12
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
Oct.	5.33	3.66	5.80	5.90	7.09	7.52	7.35
Nov.	5.72	3.45	5.60	5.97	7.06	7.94	7.45
Dec.	5.78	3.12	5.50	5.74	6.44	7.58	7.12
1994 – Jan.	5.72	3.23	5.50	5.60	6.41	7.21	6.86
				Share price indices (1975=100)			
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
1993	530.23	489.34	324.65	752.14	1.095.8	843.41	390.42
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
Oct.	544.68	527.59	357.49	812.57	1.160.50	903.36	425.55
Nov.	543.49	489.18	364.96	809.40	1.153.30	841.89	418.02
Dec.	546.86	462.95	381.94	847.14	1.223.70	911.91	432.14
1994 – Jan.	555.35	486.95	382.67	....	1.284.90	946.75	455.49

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 3-month Eurodeposits**				
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
1993	3.14	2.90	7.13	5.87	9.95	3.54	2.84	6.32	5.71	9.63
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
Oct.	3.22	2.37	6.49	5.69	8.59	3.40	2.34	5.78	5.48	8.11
Nov.	3.32	2.25	6.16	5.49	8.83	3.62	2.08	5.41	5.36	8.34
Dec.	3.18	1.98	5.97	5.25	8.40	3.64	1.76	5.19	5.06	8.04
1994 – Jan.	3.12	2.08	5.76	5.34	8.24	3.59	1.86	5.18	5.20	7.73
		3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**			
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
1993		0.24	–3.99	–2.73	–6.81		0.69	–2.78	–2.17	–6.09
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
Oct.		0.85	–3.27	–2.47	–5.37		1.06	–2.38	–2.08	–4.71
Nov.		1.07	–2.84	–2.17	–5.51		1.54	–1.79	–1.74	–4.72
Dec.		1.20	–2.79	–2.07	–5.22		1.88	–1.55	–1.42	–4.40
1994 – Jan.		1.04	–2.64	–2.22	–5.12		1.73	–1.59	–1.61	–4.14

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	
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
1993	1,572.7	14.2201	950.69	277.54	2,360.9	1,064.63	2,196.9	1,837.7	390.65
1991 – 3rd qtr.	1,225.7	9.4589	752.21	220.32	2,170.4	853.07	1,697.3	1,535.3	353.60
4th "	1,219.1	9.4753	752.14	221.03	2,155.5	836.94	1,692.6	1,536.3	341.70
1992 – 1st qtr.	1,217.2	9.3406	754.00	223.76	2,195.8	824.11	1,692.0	1,546.4	342.36
2nd "	1,134.0	9.0867	774.73	228.59	2,156.0	870.71	1,647.2	1,565.5	348.50
3rd "	1,361.5	11.0670	878.60	258.86	2,146.9	981.06	1,910.6	1,719.8	333.25
4th "	1,547.3	12.8393	945.88	278.85	2,281.6	1,026.71	2,129.6	1,841.8	337.80
1993 – 1st qtr.	1,504.1	13.6889	929.44	275.55	2,308.6	1,029.54	2,124.8	1,815.0	378.45
2nd "	1,585.3	15.0195	945.75	272.68	2,384.9	1,074.29	2,224.3	1,813.9	354.95
3rd "	1,653.0	15.2644	981.70	283.26	2,465.5	1,126.51	2,303.4	1,881.2	390.65
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
Oct.	1,600.8	14.9671	977.18	278.46	2,406.9	1,111.00	2,253.1	1,856.2	369.55
Nov.	1,668.2	15.4730	980.62	282.34	2,470.0	1,113.83	2,317.1	1,881.3	370.85
Dec.	1,688.4	15.3490	987.04	288.73	2,517.2	1,153.43	2,336.8	1,905.1	390.65
1994 – Jan.	1,701.0	15.2809	975.96	287.26	2,539.6	1,156.44	2,336.2	1,894.1	378.05

Nominal effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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
1993	91.3	100.7	130.1	107.2	104.8	89.1	78.5	98.1
1991 – 4th qtr.	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
4th "	92.2	98.1	134.6	107.5	103.9	90.2	76.0	100.7
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
Oct.	91.1	97.7	135.2	108.7	103.5	89.5	77.1	100.6
Nov.	92.2	98.8	135.6	107.2	103.5	90.1	76.0	99.4
Dec.	93.1	97.8	133.0	106.6	104.9	90.9	75.0	102.0
1994 – Jan.	93.4	99.3	131.7	105.4	104.6	91.7	75.3	102.6

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	107.7	97.3	98.9
1989	99.7	110.5	99.5	96.6	97.3	104.8	99.6	93.9
1990	97.9	107.1	88.9	100.3	100.7	107.3	103.6	98.2
1991	95.8	106.6	96.1	99.7	98.2	112.2	104.1	95.2
1992	94.6	99.8	99.3	103.4	100.0	111.1	101.7	92.4
1991 – 3rd qtr.	98.0	107.1	96.1	99.1	97.4	111.5	103.4	93.7
4th "	94.1	105.8	99.1	100.7	98.1	112.0	104.2	93.5
1992 – 1st qtr.	94.1	102.7	100.0	101.2	98.3	113.1	104.9	91.3
2nd "	95.5	100.9	97.3	101.4	98.7	115.8	104.5	89.5
3rd "	92.2	98.9	97.7	104.5	100.4	114.4	104.1	93.9
4th "	96.6	96.7	102.5	106.5	102.7	101.2	93.4	94.9
1993 – 1st qtr.	98.4	98.5	106.2	106.4	102.9	100.7	88.0	92.3
2nd "	95.7	96.1	114.8	104.5	103.1	103.9	89.5	92.9
3rd "	96.1	94.8	121.1	104.2	100.4	105.7	88.7	95.1
1992 – Nov.	97.7	96.6	102.6	105.7	102.4	99.4	95.2	93.6
Dec.	97.7	96.9	102.8	106.6	102.3	101.9	92.2	94.7
1993 – Jan.	98.9	97.3	102.4	106.7	102.3	103.2	89.9	92.7
Feb.	98.7	98.7	106.7	106.5	103.1	98.4	88.2	91.7
Mar.	97.5	99.5	109.7	106.1	103.3	100.4	85.9	92.4
Apr.	95.6	97.1	112.3	105.8	103.8	104.0	86.6	92.6
May	95.5	95.9	113.9	104.4	103.2	104.3	90.6	93.0
June	95.9	95.2	118.0	103.2	102.4	103.5	91.4	93.1
July	96.9	95.9	119.3	102.7	100.7	105.8	89.6	93.7
Aug.	96.0	94.8	123.9	104.2	99.3	105.7	88.7	94.8
Sept.	95.5	93.7	120.1	105.7	101.2	105.6	87.9	97.0
Oct.	96.9	93.7	118.2	105.8	101.1	105.1	87.1	96.5
Nov.	97.6	95.3	118.7	104.4	101.0	106.0	85.9	95.2

Table a11

Real effective intra-EU 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	99.0	109.0	98.3	97.5	103.8
1989	100.2	98.2	97.3	107.4	98.8	100.5	109.3
1990	100.4	99.0	97.6	104.6	97.0	102.1	110.2
1991	97.8	97.0	97.9	111.0	95.2	103.1	110.2
1992	98.0	98.1	100.7	108.2	94.5	99.7	107.1
1991 – 3rd qtr.	97.5	96.8	98.0	111.6	95.2	103.0	109.9
4th "	97.9	96.7	98.6	110.3	95.1	102.9	109.1
1992 – 1st qtr.	97.2	96.6	98.8	111.0	94.2	103.3	110.0
2nd "	97.1	96.7	98.5	113.2	93.7	102.6	109.7
3rd "	97.5	97.4	100.4	109.4	93.7	101.1	107.3
4th "	100.2	101.5	105.2	99.0	96.3	91.8	101.5
1993 – 1st qtr.	99.3	102.6	106.6	100.3	96.9	87.0	103.5
2nd "	98.6	103.1	104.9	104.2	96.0	88.8	97.6
3rd "	96.9	101.3	106.2	108.0	96.2	88.7	92.8
1992 – Nov.	100.2	101.4	104.7	97.8	96.4	93.8	100.8
Dec.	99.8	101.2	105.6	100.1	95.9	90.7	102.1
1993 – Jan.	99.0	101.5	106.1	101.9	95.8	88.6	103.5
Feb.	99.3	102.9	106.9	98.3	97.6	87.3	103.5
Mar.	99.5	103.4	106.8	100.7	97.4	85.1	103.4
Apr.	99.3	103.5	105.8	103.6	96.6	85.5	101.3
May	98.5	103.0	104.5	104.2	96.2	89.7	96.5
June	98.2	102.9	104.3	104.7	95.1	91.1	94.9
July	98.1	101.7	104.5	108.3	95.7	89.7	93.4
Aug.	96.8	100.5	106.8	108.8	96.0	89.0	91.3
Sept.	95.9	101.8	107.4	107.0	96.9	87.5	93.6
Oct.	95.1	101.9	107.7	106.8	97.0	86.9	94.0
Nov.	96.9	102.2	106.7	108.6	96.4	86.0	93.5

Table a12

External position of the Italian credit system

(end-of-period outstanding claims in billions of lire)

VIS-A-VIS	1993 Q1	1993 Q2	1993 Q3
Industrial countries	252,678	251,158	253,962
OPEC countries	13,062	12,600	13,569
Other developing countries	13,144	13,009	12,732
of which: Latin America	*7,548*	*7,262*	*6,960*
Africa	*1,401*	*1,306*	*1,221*
Asia	*3,764*	*3,916*	*4,004*
Middle East	*431*	*525*	*547*
Eastern Europe	13,536	13,014	13,680
Offshore centres	34,232	33,648	40,312
International organizations	4,090	3,811	4,109
Total	**330,742**	**327,240**	**338,364**
Memorandum item:			
Argentina	2,715	2,518	2,477
Bolivia	8	8	8
Brazil	1,205	1,204	1,228
Chile	203	230	239
Colombia	210	224	139
Ivory Coast	20	15	30
Ecuador	251	238	259
Philippines	112	101	113
Ex-Yugoslavia	446	453	446
Morocco	563	512	524
Mexico	2,543	2,465	2,216
Nigeria	1,299	1,220	1,258
Peru	148	140	131
Uruguay	100	95	117
Venezuela	1,181	1,170	1,191
Total	**11,004**	**10,593**	**10,376**
Albania	141	137	147
Bulgaria	891	806	861
Ex-Czechoslovakia	207	184	208
Poland	2,027	1,900	1,938
Romania	190	220	249
Russia	9,704	9,449	9,927
Hungary	322	301	319

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	Households' consumption	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 – 3rd qtr. ...	0.2	0.5	0.3	0.6	3.5	2.1	0.5	–1.5	–0.6
4th " ...	0.5	1.5	0.7	–0.9	1.8	0.5	0.7	–1.4	2.5
1992 – 1st qtr. ...	0.5	5	1.5	–0.4	–1.1	–0.8	0.9	3.9	3.5
2nd " ...	0.3	–1.8	–0.2	–1.0	–1.8	–1.4	0.6	2.0	–2.6
3rd " ...	–0.5	0.3	–0.4	–0.7	–2.2	–1.5	–0.4	–6.0	5.3
4th " ...	–0.5	–3.7	–1.2	–1.3	–3.5	–2.4	–0.8	–2.2	–0.8
1993 – 1st qtr. ...	–0.2	–5.6	–1.4	–1.6	–5.5	–3.6	–0.8	–12.5	6.3
2nd " ...	0.7	–1.2	0.3	–0.7	–3.2	–1.9	–0.2	6.4	0.1
3rd " ...	–0.5	0.1	–0.4	–0.9	–2.7	–1.8	–0.1	–2.6	1.5
				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 – 3rd qtr. ...	1.8	1.3	1.7	3.4	0.5	1.9	1.6	2.2	1.3
4th " ...	1.2	–1.9	0.6	1.2	0.6	0.8	1.4	0.1	–0.9
1992 – 1st qtr. ...	1.2	–0.5	0.6	0.7	0.1	0.4	1.3	–0.8	0.1
2nd " ...	0.8	1.6	1.1	0.9	0.7	0.9	1.2	0.2	1.0
3rd " ...	0.7	–0.5	0.4	0.4	0.6	0.6	1.1	1.0	–0.8
4th " ...	1.1	7.2	2.3	1.2	1.7	1.5	1.1	5.4	4.3
1993 – 1st qtr. ...	0.8	5.7	1.9	1.5	2.4	2.1	1.0	4.2	5.8
2nd " ...	1.0	2.1	1.3	0.6	1.9	1.3	1.3	–0.1	1.5
3rd " ...	0.8	1.0	0.8	0.0	0.9	0.5	1.3	0.1	0.7

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	INDUSTRIAL PRODUCTION				ISCO BUSINESS OPINION INDICATORS				
	General index	Consumer goods	Investment goods	Intermediate goods	Changes in level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					Domestic	Foreign	Total		
	(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	11.9	3.7
1991	115.4	115.8	118.0	114.3	–27.5	–31.5	–26.7	11.3	8.5
1992	114.7	117.5	112.1	114.2	–32.0	–36.9	–32.0	2.0	7.2
1993	....	....	....	....	–43.1	–21.8	–35.6	2.9	4.6
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	1.9	22.4	–1.7
3rd " ...	118.2	116.5	123.9	119.0	–2.8	–3.8	0.8	22.9	–4.3
4th " ...	120.2	115.5	128.2	119.5	–1.0	–9.9	–0.7	22.3	–2.3
1990 – 1st qtr. ...	118.2	114.1	126.8	116.7	–0.1	–10.2	–0.9	17.1	–2.0
2nd " ...	118.1	114.5	127.1	116.4	–5.2	–9.1	–1.7	15.2	2.3
3rd " ...	118.6	117.9	125.6	118.8	–12.3	–20.0	–9.5	6.2	6.7
4th " ...	116.2	116.2	122.1	114.1	–19.7	–25.1	–17.7	9.0	7.7
1991 – 1st qtr. ...	115.8	116.0	120.0	114.2	–28.5	–34.6	–27.5	9.2	9.7
2nd " ...	115.4	114.8	119.7	114.5	–28.0	–32.3	–27.7	10.7	9.7
3rd " ...	114.5	115.4	117.3	113.5	–26.7	–30.5	–25.3	13.0	8.3
4th " ...	115.8	117.1	115.0	115.2	–26.8	–28.7	–26.1	12.3	6.3
1992 – 1st qtr. ...	116.9	118.3	116.2	116.4	–25.3	–30.1	–24.0	10.1	11.3
2nd " ...	116.2	119.1	113.0	115.7	–27.1	–38.4	–29.1	7.7	11.0
3rd " ...	113.6	116.6	110.1	113.2	–34.3	–38.7	–35.4	–3.0	5.3
4th " ...	112.2	116.2	109.2	111.4	–41.2	–40.7	–39.5	–6.9	1.0
1993 – 1st qtr. ...	111.9	117.3	107.5	110.9	–45.5	–33.7	–42.9	–3.9	3.3
2nd " ...	110.8	115.8	107.3	109.9	–45.9	–27.3	–40.2	–1.4	7.0
3rd " ...	111.5	116.7	106.0	110.2	–45.1	–18.9	–34.1	4.6	6.7
4th " ...	....	....	....	....	–35.7	–7.1	–25.1	12.5	1.3

Table a15

Labour market statistics

(thousands of units and percentages)

	Employment					Unemployment	Labour force	Unemployment rate	Participation rate
	Agriculture	Industry excluding construction	Construction	Other	Total				
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
1993	1,508	5,009	1,728	12,183	20,427	2,360	22,787	10.4	40.6
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
4th (*) "	1,675	5,061	1,757	12,237	20,732	2,217	22,949	9.7	40.9
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
4th "	1,544	4,954	1,695	11,983	20,176	2,567	22,743	11.3	40.5

(*) Extrapolation on the basis of the latest census data and the new definition of job seekers.

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	7.2	6.3	6.4
1992	4.3	3.3	1.1	2.1	4.9	3.4	7.6	5.2	5.4
1993	....	....	....	....	....	....	....	....	4.2
1991 – 4th qtr.	7.3	3.3	–1.6	1.1	6.9	3.7	7.6	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	3.5	7.5	5.5	5.6
3rd "	3.4	3.2	0.9	1.7	4.8	3.4	7.3	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	3.7	7.4	6.3	2.2	5.1	5.4	4.6	4.3
4th "	....	....	....	....	....	....	....	....	4.1
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	6.1	4.4	4.2
May	2.5	3.5	6.0	4.9	1.8	4.3	5.8	4.3	4.0
June	2.9	3.4	6.6	5.3	1.8	5.0	5.8	4.6	4.2
July	4.1	3.7	6.8	5.8	2.0	5.1	5.6	4.6	4.4
Aug.	4.7	3.8	7.4	6.5	2.3	5.0	5.3	4.5	4.4
Sept.	4.2	3.6	7.9	6.6	2.3	5.1	5.2	4.5	4.2
Oct.	4.0	4.1	5.8	5.2	2.4	5.0	5.4	4.6	4.3
Nov.	4.1	4.2	4.3	4.3	2.5	4.6	5.0	4.3	4.2
Dec.	....	....	....	....	....	....	....	....	4.0
1994 – Jan.	....	....	....	....	....	....	....	....	4.2

Table a17

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						
1991	–238	–217	–21,152	–7,370	–28,977	–10,532	39,369	28,837	–8,431	8,571
1992	3,856	–5,435	–25,901	–6,892	–34,372	–13,551	25,303	11,752	–9,928	32,548
1993	....	....	....	....	....	....	(–52,047)	....	....	(–2,176)
1991 4th qtr. .	2,264	–383	–5,540	–3,054	–6,713	–7,740	6,835	–905	–5,071	12,689
1992 – 1st qtr. .	–3,329	–1,302	–4,961	–2,209	–11,801	–15,953	23,284	7,331	3,778	692
2nd " .	–1,432	1,127	–6,181	–1,029	–7,515	–12,464	18,356	5,892	–11,766	13,389
3rd " .	4,033	–2,999	–6,299	–2,156	–7,421	–16,160	–17,214	–33,374	–4,137	44,932
4th " .	4,584	–2,261	–8,460	–1,498	–7,635	31,026	877	31,903	2,197	–26,465
1993 – 1st qtr. .	*(3,800)*	–1,432	–5,123	–1,971	–4,726	*(23,277)*	–13,480	*(9,797)*	*(–4,228)*	–843
2nd " .	*(12,063)*	963	–7,256	–2,742	3,028	*(8,920)*	–15,445	*(–6,525)*	*(3,050)*	447
3rd " .	*(15,548)*	–747	–6,522	–2,577	5,702	*(15,429)*	–12,169	*(3,260)*	*(–4,515)*	–4,447
4th " .	....	....	....	....	....	....	(–10,953)	....	....	(2,667)
1991 – Dec.	3,189	–175	–1,671	–1,079	264	–5,363	224	–5,139	–2,853	7,728
1992 – Jan.	–1,509	–632	–1,812	–724	–4,677	–1,980	6,677	4,697	–586	566
Feb.	–790	–1,047	–1,135	–906	–3,878	–4,107	6,228	2,121	2,476	–719
Mar.	–1,030	377	–2,014	–579	–3,246	–9,866	10,379	513	1,888	845
Apr.	–467	404	–2,048	–444	–2,555	–4,601	7,131	2,530	–4,529	4,554
May	–1,688	498	–2,021	–302	–3,513	–1,223	4,787	3,564	–1,105	1,054
June ...	723	225	–2,112	–283	–1,447	–6,640	6,438	–202	–6,132	7,781
July	2,405	–294	–3,012	–724	–1,625	–14,975	7,093	–7,882	–995	10,502
Aug.	2,471	–1,210	–1,291	–947	–977	–327	1,574	1,247	–4,842	4,572
Sept. ...	–843	–1,495	–1,996	–485	–4,819	–858	–25,881	–26,739	1,700	29,858
Oct.	1,646	–721	–3,183	–436	–2,694	13,027	–3,160	9,867	2,892	–10,065
Nov.	–422	–1,171	–2,666	–260	–4,519	7,707	–3,471	4,236	3,748	–3,465
Dec.	3,360	–369	–2,611	–802	–422	10,292	7,508	17,800	–4,443	–12,935
1993 – Jan.	*(–887)*	–281	–1,926	76	*(–3,018)*	*(2,526)*	–1,341	*(1,185)*	*(1,094)*	739
Feb.	*(2,896)*	–1,018	–791	–1,366	*(–279)*	*(11,932)*	–13,199	*(–1,267)*	*(–1,391)*	2,937
Mar.	*(1,791)*	–133	–2,406	–681	*(–1,429)*	*(8,819)*	1,060	*(9,879)*	*(–3,931)*	–4,519
Apr.	*(3,590)*	–19	–2,326	–1,158	*(87)*	*(–4,655)*	–1,040	*(–5,695)*	*(2,130)*	3,478
May	*(3,923)*	439	–2,598	–304	*(1,460)*	*(8,663)*	–6,334	*(2,329)*	*(–4,219)*	430
June ...	*(4,550)*	543	–2,332	–1,280	*(1,481)*	*(4,912)*	–8,071	*(–3,159)*	*(5,139)*	–3,461
July	*(9,674)*	–65	–3,427	–1,243	*(4,939)*	*(–557)*	–3,519	*(–4,076)*	*(–2,112)*	1,249
Aug.	*(2,413)*	231	–919	–1,128	*(597)*	*(9,387)*	–12,797	*(–3,410)*	*(851)*	1,962
Sept. ...	*(3,461)*	–913	–2,176	–206	*(166)*	*(6,599)*	4,147	*(10,746)*	*(–3,254)*	–7,658
Oct.	*(6,151)*	–1	–2,281	–143	*(3,726)*	*(–7,507)*	3,586	*(–3,921)*	*(–2,663)*	2,858
Nov.	....	....	....	....	....	....	(–9,113)	....	....	(–2,496)
Dec.	....	....	....	....	....	....	(–5,426)	....	....	(2,305)

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	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	34,669	4,210	420	39,299	1,336	907	1,578	3,836	34,932	76,060
Aug.	32,628	4,273	419	37,320	1,288	987	1,578	3,750	34,932	74,123
Sept.	39,319	4,264	419	44,002	1,154	1,848	1,576	3,747	34,129	80,996
Oct.	35,327	7,287	440	43,054	1,679	1,445	1,591	3,781	34,129	79,139
Nov.	38,749	7,453	458	46,660	1,113	1,670	1,654	3,815	34,129	83,507
Dec.	35,553	7,382	411	43,346	1,013	2,586	1,644	3,687	36,910	83,872
	(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	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	21,460	2,606	260	24,326	827	561	977	2,374	22,256	47,714
Aug.	20,449	2,678	263	23,389	807	619	989	2,350	22,256	46,818
Sept.	24,852	2,695	265	27,812	729	1,168	996	2,368	22,988	52,611
Oct.	21,730	4,482	271	26,483	1,033	889	979	2,326	22,988	50,674
Nov.	22,772	4,380	269	27,421	654	981	972	2,242	22,988	52,007
Dec.	20,864	4,332	241	25,438	594	1,518	965	2,164	23,593	51,153

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	–48,409	–158,727	–158,727	–31
1993 O	427,203	42,455	469,658	544,282	73,773	618,055	–148,398	–11,545	–159,942	–150,402	–27
N	427,203	42,455	469,658	544,282	73,773	618,055	–148,398	–14,637	–163,035	–153,494	–27
1992 – 1st qtr. O	190,151	33,489	223,640	263,578	27,533	291,111	–67,471	–5,261	–72,732	–72,732	–28
N	190,151	33,489	223,640	263,578	27,533	291,111	–67,471	–2,349	–69,820	–69,820	–28
2nd qtr. O	229,015	47,027	276,042	283,806	35,084	318,890	–42,848	–47,264	–90,112	–90,112	–3
N	229,015	47,027	276,042	283,806	35,084	318,890	–42,848	–46,060	–88,908	–88,908	–3
1993 – 1st qtr. O	214,266	11,630	225,896	231,090	29,956	261,046	–35,150	–30,187	–65,337	–65,337	–27
N	214,266	11,630	225,896	231,090	29,956	261,046	–35,150	–32,198	–67,348	–67,348	–27
2nd qtr. O	212,937	30,825	243,762	313,195	43,817	357,012	–113,250	18,645	–94,605	–85,065	–
N	212,937	30,825	243,762	313,195	43,817	357,012	–113,250	17,563	–95,687	–86,147	–
1993 – Jan. N	32,142	1,280	33,422	29,381	190	29,571	3,851	–14,418	–10,567	–10,567	–21
Feb. N	26,766	1,615	28,381	23,521	4,680	28,201	180	–10,851	–10,671	–10,671	–
Mar. N	31,841	1,624	33,465	42,171	7,631	49,801	–16,336	–13,241	–29,576	–29,576	–1
Apr. N	28,960	3,249	32,209	37,619	6,245	43,863	–11,654	–7,919	–19,573	–19,573	–4
May N	29,660	2,796	32,455	50,897	1,640	52,536	–20,081	2,658	–17,423	–17,423	–1
June N	64,897	1,066	65,963	47,502	9,572	57,073	8,890	11,573	20,463	20,463	–
July N	40,902	3,609	44,511	64,366	6,421	70,787	–26,276	18,579	–7,697	–4,839	–
Aug. N	36,229	3,443	39,672	39,391	6,274	45,665	–5,993	18	–5,975	–5,975	–
Sept. N	25,190	4,012	29,202	53,504	3,917	57,421	–28,219	–522	–28,741	–28,741	–
Oct. N	23,848	4,169	28,017	35,697	3,848	39,545	–11,528	–5,786	–17,314	–17,314	–
Nov. N	37,935	2,129	40,064	64,939	6,889	71,828	–31,764	10,788	–20,977	–19,564	–
Dec. N	48,834	13,463	62,296	55,298	16,468	71,766	–9,470	–5,514	–14,984	–9,713	–

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

Table a20

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
1993	O	163,012	30,602	5,671	452	–34,083	–4,574	14,012	12,371	–1,041	159,942	–3,845
	N	165,013	30,602	5,671	452	–34,083	–4,574	14,012	14,441	–2,020	163,035	–3,845
1992 – 1st qtr.	O	75,897	–4,444	11,133	–4,304	–14,166	–13,728	400	–1,548	1,016	72,732	–22,863
	N	76,571	–4,444	11,133	–4,304	–14,166	–13,728	400	–3,543	–575	69,820	–22,863
2nd qtr.	O	15,223	65	35,346	–1,231	21,281	21,433	10,580	1,722	5,960	90,112	20,166
	N	15,238	65	35,346	–1,231	21,281	21,433	10,580	1,856	4,606	88,908	20,166
1993 – 1st qtr.	O	66,419	493	17,729	621	–25,487	–26,217	1,678	6,635	–1,637	65,337	–24,335
	N	66,420	493	17,729	621	–25,487	–26,217	1,678	8,631	–1,624	67,348	–24,335
2nd qtr.	O	96,593	30,108	–12,059	–169	–8,595	21,643	12,334	5,736	596	94,605	20,491
	N	98,593	30,108	–12,059	–169	–8,595	21,643	12,334	5,809	–395	95,687	20,491
1993 – Jan.	N	7,197	17	4,758	–	–2,540	–2,607	2,152	70	–1,070	10,567	–2,517
Feb.	N	12,015	–3	1,980	487	–3,658	–3,587	–1,081	1,325	90	10,671	–3,165
Mar.	N	15,127	68	3,646	350	7,371	6,557	–901	3,664	669	29,576	7,792
Apr.	N	12,692	382	3,999	–167	2,804	3,648	1,063	–952	–33	19,573	3,026
May	N	12,161	15	2,846	–41	2,312	2,596	–62	515	–349	17,423	2,293
June	N	7,228	15	501	–8	–31,777	–32,824	507	4,010	–932	–20,463	–31,764
July	N	12,810	–249	–707	–	–3,427	–3,749	–79	–944	44	7,697	–3,666
Aug.	N	6,794	22	–2,850	–13	2,376	2,160	–1,300	267	688	5,975	2,392
Sept.	N	11,530	–163	–1,055	–	11,647	11,695	35	7,176	–590	28,743	11,493
Oct.	N	12,426	5	–2,838	–1	8,078	8,233	378	–1,137	407	17,314	8,093
Nov.	N	12,437	–195	–1,507	–35	8,417	8,163	200	1,544	–114	20,977	8,196
Dec.	N	42,596	30,687	–3,102	–120	–35,686	–4,859	13,100	–1,096	–829	14,984	–6,017

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 – O	791,084	387,021	145,628	33,204	6,247	1,363,184	209,445	64,653	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	145,798	33,757	5,407	1,439,637	183,543	74,258	1,697,428
N ..	840,093	403,697	145,798	15,385	5,407	1,410,380	183,543	61,076	1,654,999
2nd qtr. O ..	861,434	406,450	147,306	32,891	4,923	1,453,004	181,010	72,791	1,706,805
N ..	850,548	406,450	147,306	14,555	4,923	1,423,782	181,010	61,193	1,665,984
July O ..	870,900	402,235	147,227	33,555	4,567	1,458,484	183,957	73,351	1,715,791
N ..	860,014	402,235	147,227	14,955	4,567	1,428,997	183,957	61,613	1,674,568
Aug. O ..	883,628	396,538	145,927	35,040	5,243	1,466,376	183,327	74,507	1,724,209
N ..	873,742	396,538	145,927	14,967	5,243	1,436,417	183,327	62,746	1,682,490
Sept. O ..	904,585	402,355	145,962	34,629	4,820	1,492,350	178,498	82,292	1,753,140
N ..	894,699	402,355	145,962	14,799	4,820	1,462,635	178,498	70,499	1,711,631
Oct. O ..	924,230	397,150	146,340	35,032	4,784	1,507,536	181,284	82,147	1,770,966
N ..	914,344	397,150	146,340	15,243	4,784	1,477,860	181,284	70,060	1,729,204
Nov. O ..	935,857	399,440	146,540	35,451	3,923	1,521,210	187,870	86,892	1,795,973
N ..	925,971	399,440	146,540	15,989	3,923	1,491,863	187,870	74,662	1,754,395
Dec. O ..	945,820	390,135	159,640	34,517	3,893	1,534,005	190,312	85,359	1,809,676
N ..	936,934	390,135	159,640	15,055	3,893	1,505,658	190,312	73,084	1,769,054

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							USES				
	Foreign sector						TOTAL		Bank reserves			
		of which: currency swaps	Treasury	Open market	Refi- nancing	Other sectors		Currency in circulation	Deposits with the Bank of Italy	of which: compulso- ry reserves	Other	Total
1991	-8,674	–	-9,458	27,172	2,664	-583	11,121	6,906	3,646	3,424	570	4,216
1992	-32,591	29,249	-2,696	42,781	108	858	8,460	9,263	113	1,012	-916	-803
1993	(2,420)	-2,055	(-3,845)	(-12,372)	(-6,390)	(744)	(-19,443)	(4,147)	(-23,594)	(-24,131)	(4)	(-23,590)
1993 – Jan. ..	-600	..	-2,517	7,957	-6,972	1,281	-852	-3,091	3,275	2,062	-1,036	2,239
Feb. ..	-2,878	-3,097	-3,165	-13,169	24	-933	-20,122	-1,325	-19,186	-19,714	390	-18,796
Mar. ..	4,734	2,561	7,792	-21,427	38	-1,531	-10,394	782	-11,105	-10,979	-71	-11,176
Apr. ..	-3,283	-768	3,026	2,866	-100	-70	2,440	204	2,939	170	-703	2,236
May ..	6	..	2,293	421	-11	-2,240	468	1,016	-1,405	1,132	857	-548
June .	2,721	-751	-31,764	21,263	-26	4,165	-3,641	-1,389	-2,395	17	143	-2,252
July ..	-1,230	.	-3,666	7,530	628	-31	3,231	4,269	-91	-1,143	-947	-1,038
Aug. ..	-1,985	..	2,392	-2,206	-611	-611	-3,022	-3,968	678	184	268	946
Sept. .	7,661	..	11,493	-16,149	40	-1,753	1,292	1,210	68	-1,589	14	82
Oct. ..	(-2,916)	..	(8,093)	-5,308	(707)	(-888)	(-313)	(671)	(-407)	(1,984)	(-576)	(-984)
Nov. ..	(2,496)	..	(8,196)	(-2,282)	(619)	(1,084)	(10,113)	(1,062)	(7,650)	(2,551)	(1,402)	(9,052)
Dec. ..	(-2,305)	..	(-6,016)	(8,133)	(-727)	(2,271)	(1,355)	(4,706)	(-3,615)	(1,194)	(264)	(-3,351)

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			
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	-2,696
1993	159,942	(-6,028)	(-11,704)	(-117,670)	(-2,228)	(-137,629)	-26,158	(-163,787)	(-3,845)
1993 – Jan.	10,160	-4,749	-988	-8,525	2,325	-11,937	-740	-12,677	-2,517
Feb.	10,786	-1,949	-3,690	-12,203	4,331	-13,510	-441	-13,951	-3,165
Mar.	29,280	-3,296	-1,591	-12,316	-1,152	-18,355	-3,132	-21,487	7,792
Apr.	18,485	-4,166	-2,825	-8,554	-932	-16,477	1,018	-15,459	3,026
May	17,513	-3,041	-1,899	-11,248	1,155	-15,032	-188	-15,220	2,293
June ...	-20,887	-509	-98	-6,372	-745	-7,723	-3,154	-10,877	-31,764
July	7,961	707	439	-10,777	-2,720	-12,351	724	-11,627	-3,666
Aug.	6,266	2,837	134	-9,145	3,239	-2,935	-940	-3,875	2,392
Sept. ...	28,466	2,339	-43	-10,881	-2,052	-10,638	-6,335	-16,973	11,493
Oct.	17,552	1,603	120	-11,839	533	-9,584	125	-9,459	(8,093)
Nov.	20,507	1,215	-533	-9,826	-2,015	-11,160	-1,151	-12,311	(8,196)
Dec.	13,854	(2,982)	(-730)	(-5984)	(-4,196)	(-7,928)	-11,942	(-19,870)	(-6,016)

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 facility		
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	67,089	31,702	204,481	119,483	80,780	9,499	8,905	–61,671
1993 – Jan.	67,567	31,880	209,920	127,456	78,173	14,937	1,932	–61,468
Feb.	67,089	30,889	193,586	114,772	74,586	18,552	1,956	–64,802
Mar.	74,002	33,716	179,951	93,762	81,143	12,645	1,995	–68,512
Apr.	68,253	30,558	185,842	96,843	84,790	9,113	1,895	–66,115
May	67,980	30,372	188,556	97,238	87,387	6,658	1,884	–68,077
June	75,024	30,628	178,055	118,507	54,563	40,943	1,858	–68,235
July	76,172	32,104	181,919	125,788	50,814	44,666	2,487	–70,644
Aug.	74,212	31,905	182,104	123,592	52,974	42,505	1,876	–71,280
Sept.	81,088	31,770	177,448	107,280	64,669	30,810	1,916	–72,248
Oct.	(79,173)	32,488	(180,233)	101,976	(72,902)	(22,151)	(2,622)	(–74,137)
Nov.	(83,571)	33,904	(186,147)	(99,464)	(81,065)	(14,181)	(3,241)	(–74,955)
Dec.	(83,936)	33,897	(188,263)	(138,164)	(76,206)	(19,040)	(2,514)	(–75,354)

	USES					Total monetary base
		Bank reserves				
	Currency in circulation	Deposits with the Bank of Italy	*of which:* compulsory reserves	Other	Total	
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	85,617	127,485	129,927	5,701	133,186	218,803
1993 – Jan.	82,526	130,761	131,989	4,664	135,425	217,951
Feb.	81,201	111,574	112,275	5,055	116,629	197,830
Mar.	81,983	100,469	101,296	4,984	105,453	187,436
Apr.	82,187	103,408	101,466	4,281	107,689	189,875
May	83,202	102,003	102,598	5,138	107,141	190,344
June	81,814	99,609	102,615	5,280	104,889	186,703
July	86,082	99,518	101,472	4,334	103,852	189,934
Aug.	82,115	100,196	101,656	4,601	104,797	186,912
Sept.	83,325	100,263	100,067	4,616	104,879	188,204
Oct.	(83,996)	(99,856)	(102,051)	(4,039)	(103,895)	(187,891)
Nov.	(85,057)	(107,506)	(104,602)	(5,441)	(112,947)	(198,004)
Dec.	(89,764)	(103,891)	(105,796)	(5,705)	(109,596)	(199,360)

Monetary base and BI operations:

(stocks in billions

	MONETARY BASE						
	Currency in circulation	Bank reserves					
		Deposits with the Bank of Italy	*of which:* excess reserves	Cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)
1990 – Dec.	69,569	125,698	197	4,390	897	130,986	9.6
1991 – Dec.	77,150	129,111	196	4,719	900	134,730	8.9
1992 – Dec.	86,254	130,055	127	4,908	511	135,475	4.2
1993 – Jan.	81,821	132,095	113	4,045	569	136,709	3.2
Feb.	80,732	112,416	141	3,853	1,137	117,406	4.8
Mar.	82,482	101,434	133	4,018	1,249	106,701	6.5
Apr.	82,061	101,599	135	4,162	749	106,510	6.9
May	83,012	102,731	140	4,323	895	107,948	5.9
June	82,203	102,828	176	4,428	793	108,050	5.8
July	84,810	101,597	125	4,407	257	106,262	5.7
Aug.	83,002	101,783	127	4,262	302	106,347	6.3
Sept.	83,119	100,229	121	4,447	259	104,935	8.9
Oct.	83,663	102,189	132	4,059	240	106,488	9.4
Nov.	85,888	104,746	143	4,733	256	109,734	7.5
Dec.	90,347	105,917	121	(5,458)	230	(111,605)	(9.0)

Table a24

averages of daily data

of lire)

		BI OPERATIONS					
TOTAL	Percentage changes (over 12 months)	Temporary operations				Fixed-term advances	TOTAL
		Repurchase agreements			Foreign currency purchases		
		Purchases	Sales	Total			
200,555	10.2	1,912	1,052	861	..	2,127	2,988
211,880	9.7	17,018	89	16,929	..	1,492	18,422
221,729	7.1	41,277	206	41,071	26,498	3,725	71,294
218,529	7.0	43,410	287	43,123	31,777	862	75,762
198,137	7.8	30,718	325	30,393	30,173	..	60,566
189,183	9.1	16,239	455	15,784	33,262	..	49,046
188,571	8.7	12,410	434	11,976	32,420	..	44,396
190,960	8.3	16,581	418	16,164	31,081	44	47,288
190,253	7.9	34,511	409	34,102	30,041	298	64,441
191,072	7.0	50,016	355	49,660	31,424	375	81,459
189,349	7.2	50,208	309	49,899	31,814	81	81,794
188,054	7.7	34,215	330	33,885	31,577	366	65,829
190,151	8.1	36,941	301	36,640	31,555	285	68,480
195,622	7.1	38,170	307	37,863	32,247	371	70,481
(201,952)	(7.2)	35,913	251	35,662	33,408	135	69,205

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				
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
1993	(32,680)	(1,627)	(31,053)	(–12,372)	–754	..	2,687	(18,681)
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.	34	25	10	–2,206	2,502	..	530	–2,197
Sept. ...	28	191	–163	–16,149	–15,748	..	–343	–16,311
Oct.	32	28	4	5,308	–752	..	1,368	–5,304
Nov.	21	251	–230	–2,282	1,036	..	–1,470	–2,512
Dec.	(30,698)	(131)	(30,567)	(8,133)	5,038	..	3,182	(38,700)
				of which: **Treasury bills**				
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
1993	(850)	(398)	(452)	(2,025)	75	..	2,662	(2,477)
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. ...	..	..	..	–6,943	–7,001	..	–150	–6,943
Oct.	..	1	–1	2,324	1,003	..	1,245	2,322
Nov.	..	35	–35	–3,590	–2,162	..	–1,385	–3,625
Dec.	..	(120)	(–120)	(5,749)	3,023	..	2,977	(5,629)

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET			OPEN MARKET				VARIATIONS IN BI-UIC PORTFOLIO
	subscriptions	redemptions	net subscriptions		of which: repurchase agreements			
					Temporary purchases	Temporary sales	Other	
				of which: **Treasury credit certificates**				
1991	154	4,570	–4,416	3,546	7,614	..	–150	–871
1992	508	1,116	–608	10,168	8,059	..	–500	9,560
1993	(10,545)	(321)	(10,224)	(–12,938)	–10,114	..	70	(–2,714)
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.	8	9	–2	–833	–605	..	250	–834
Sept.	6	7	–1	–8,127	–7,915	..	–220	–8,127
Oct.	6	14	–8	–1,410	–850	..	120	–1,417
Nov.	2	8	–6	1,152	1,221	..	–35	1,146
Dec.	(10,092)	(7)	(10,085)	(993)	383	..	205	(11,078)
				of which: **Treasury bonds**				
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
1993	(21,223)	(407)	(20,816)	(383)	11,265	..	–45	(21,199)
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.	18	3	15	–4,691	152	..	20	–4,676
Sept.	22	180	–158	–357	51	..	27	–515
Oct.	25	4	21	–6,495	–1,253	..	3	–6,475
Nov.	19	190	–171	876	474	..	–50	705
Dec.	(20,606)	(4)	(20,602)	(1,700)	1,975	..	..	(22,302)

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												
1993 – 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
end- " ...	15,000	..	15,000	12,500	94	14,688	12,500	..	12,500	97.75	8.03	9.24
mid-Nov. ...	5,000	..	5,000	3,500	91	8,020	3,500	..	3,500	97.84	7.95	9.15
end- " ...	11,480	20	11,500	10,000	90	12,489	10,000	..	10,000	97.94	7.66	8.81
mid-Dec. ...	4,970	30	5,000	4,250	90	5,504	4,250	..	4,250	98.05	7.23	8.31
end- " ...	14,000	..	14,000	12,500	90	12,608	12,398	..	12,398	98.09	7.07	8.14
1994 – mid-Jan. ...	4,000	..	4,000	3,000	91	5,590	3,000	..	3,000	98.06	7.11	8.17
end- " ...	12,500	..	12,500	11,500	88	12,935	11,500	..	11,500	98.10	7.20	8.28
mid-Feb. ...	3,500	..	3,500	3,000	91	5,902	3,000	..	3,000	98.08	7.03	8.09
6-month												
1993 – 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
end- " ...	18,000	..	18,000	15,500	182	17,611	15,500	..	15,500	95.73	7.94	9.15
mid-Nov. ...	6,750	..	6,750	5,500	182	9,365	5,500	..	5,500	95.63	8.13	9.38
end- " ...	15,985	15	16,000	14,500	182	16,439	14,500	..	14,500	95.58	8.23	9.49
mid-Dec. ...	5,500	..	5,500	5,000	182	7,678	5,000	..	5,000	95.93	7.54	8.69
end- " ...	15,000	..	15,000	12,500	182	15,521	12,500	..	12,500	96.11	7.19	8.28
1994 – mid-Jan. ...	6,000	..	6,000	5,500	182	7,091	5,500	..	5,500	95.95	7.50	8.64
end- " ...	14,500	..	14,500	14,000	179	17,504	14,000	..	14,000	95.98	7.57	8.73
mid-Feb. ...	7,000	..	7,000	6,500	183	8,589	6,500	..	6,500	95.87	7.62	8.78

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						
1993 – 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
end- " ...	12,500	..	12,500	17,000	367	22,826	17,000	..	17,000	91.60	7.89	9.12
mid-Nov. ...	5,000	..	5,000	7,000	365	12,328	7,000	..	7,000	91.45	8.09	9.35
end- " ...	11,000	..	11,000	13,500	365	18,437	13,500	..	13,500	91.15	8.39	9.71
mid-Dec. ...	3,160	90	3,250	3,500	365	9,388	3,500	..	3,500	92.05	7.48	8.64
end- " ...	12,500	..	12,500	14,500	365	21,480	14,500	..	14,500	92.15	7.38	8.52
1994 – mid-Jan. ...	5,750	..	5,750	7,500	367	12,606	7,500	..	7,500	91.90	7.59	8.77
end- " ...	15,495	5	15.500	17,000	364	25,705	17,000	..	17,000	92.05	7.50	8.66
mid-Feb. ...	6,000	..	6,000	7,000	366	14,782	7,000	..	7,000	92.00	7.51	8.67
						Total						
1993 – 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
end- " ...	45,500	..	45,500	45,000	–	55,124	45,000	..	45,000	–	7.95	9.16
mid-Nov. ...	16,750	..	16,750	16,000	–	29,713	16,000	..	16,000	–	8.07	9.32
end- " ...	38,465	35	38,500	38,000	–	47,365	38,000	..	38,000	–	8.14	9.39
mid-Dec. ...	13,630	120	13,750	12,750	–	22,570	12,750	..	12,750	–	7.42	8.55
end- " ...	41,500	..	41,500	39,500	–	49,608	39,398	..	39,398	–	7.22	8.32
1994 – mid-Jan. ...	15,750	..	15.750	16,000	–	25,287	16,000	..	16,000	–	7.47	8.61
end- " ...	42,495	5	42.500	42,500	–	56.143	42,500	..	42,500	–	7.44	8.58
mid-Feb. ...	16,500	..	16.500	16,500	–	29,273	16,500	..	16,500	–	7.47	8.61

Table a27

Bank of Italy repurchase agreements

DAY OF AUCTION	AMOUNT		MATURITY (DAYS)		YIELDS	
	offered	taken up	minimum	maximum	marginal	weighted average
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
1993 – Oct. 25	11,000	11,000	8	8	8.75	8.85
1993 – Oct. 26	7,000	7,000	31	31	8.60	8.66
1993 – Nov. 2	3,000	3,000	15	15	9.15	9.16
1993 – Nov. 3	9,500	9,500	28	28	8.85	8.93
1993 – Nov. 4	3,000	3,000	26	26	8.95	9.02
1993 – Nov. 5	3,000	3,000	28	28	8.95	8.97
1993 – Nov. 10	5,500	5,500	30	30	8.95	8.96
1993 – Nov. 15	8,000	8,000	6	7	8.90	8.95
1993 – Nov. 16	2,500	2,500	29	29	8.95	9.00
1993 – Nov. 22	2,000	2,000	24	24	9.05	9.12
1993 – Nov. 24	7,000	7,000	5	23	9.05	9.11
1993 – Nov. 26	8,000	8,000	24	24	8.95	9.03
1993 – Dec. 2	3,000	3,000	18	18	9.20	9.39
1993 – Dec. 3	12,000	12,000	28	28	8.95	9.05
1993 – Dec. 6	7,500	7,500	28	28	8.75	8.87
1993 – Dec. 10	3,000	3,000	4	5	8.50	8.57
1993 – Dec. 17	5,000	5,000	21	21	8.60	8.66
1993 – Dec. 20	8,000	8,000	8	9	8.55	8.61
1993 – Dec. 23	4,500	4,500	11	11	8.75	8.76
1993 – Dec. 27	9,000	9,000	21	21	8.60	8.69
1993 – Dec. 29	4,500	4,500	22	22	8.65	8.72
1994 – Jan. 4	9,000	9,000	30	31	8.40	8.49
1994 – Jan. 7	9,000	9,000	31	31	8.55	8.57
1994 – Jan. 10	6,000	6,000	4	4	8.85	8.92
1994 – Jan. 17	9,000	9,000	28	28	8.45	8.49
1994 – Jan. 18	6,500	6,500	13	14	8.55	8.59
1994 – Jan. 19	8,500	8,500	13	14	8.60	8.63
1994 – Jan. 25	7,000	7,000	5	6	8.65	8.66
1994 – Jan. 26	8,000	8,000	33	33	8.50	8.57
1994 – Jan. 31	5,000	5,000	32	32	8.50	8.55
1994 – Feb. 1	12,000	12,000	27	28	8.40	8.46
1994 – Feb. 3	12,000	12,000	26	27	8.30	8.37
1994 – Feb. 7	7,000	7,000	28	28	8.45	8.49
1994 – Feb. 11	3,000	3,000	4	4	8.60	8.65
1994 – Feb. 15	9,000	9,000	28	28	8.55	8.62
1994 – Feb. 16	8,000	8,000	28	28	8.45	8.53
1994 – Feb. 18	3,000	3,000	35	35	8.20	8.26

Table a28

Bank of Italy financing of purchases at Treasury bill auctions

(billions of lire)

DATE OF AUCTION	Maximum amount	Actual amount	Maturity (days)
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	..	5
1993 – Sept. 30	11,512	140	4
1993 – Oct. 15	4,494	205	3
1993 – Oct. 29	10,340	1,385	4
1993 – Nov. 15	4,450	..	3
1993 – Nov. 30	9,731	..	3
1993 – Dec. 15	5,042	400	2
1993 – Dec. 30	10,346	2,977	4

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 – 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
1993 – Nov. 11 ...	5,000	5,000	64	1,647.00	15.70	15.73	8.90	8.91
1993 – Nov. 18 ...	4,000	4,000	30	1,672.50	7.77	7.81	8.71	8.74
1993 – Dec. 2 ...	3,000	3,000	63	1,716.50	16.46	16.50	9.01	9.03
1993 – Dec. 16 ...	5,000	5,000	64	1,693.00	15.10	15.17	8.30	8.32
1993 – Dec. 20 ...	4,000	4,000	33	1,687.00	7.85	7.88	8.28	8.30
1994 – Jan. 13 ...	5,000	5,000	31	1,688.50	7.46	7.49	8.27	8.29
1994 – Jan. 20 ...	4,000	4,000	59	1,703.00	14.13	14.15	8.28	8.29
1994 – Feb. 3 ...	3,000	3,000	59	1,689.00	14.08	14.12	8.36	8.38
1994 – Feb. 16 ...	5,000	5,000	59	1,678.50	13.81	13.85	8.55	8.56
1994 – Feb. 17 ...	5,000	5,000	28	1,681.00	6.57	6.60	8.48	8.50
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	13.56
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
1993 – Oct. 27	5,000	5,000	31	968.00	1.65	1.67	8.55	8.57
1993 – Nov. 25	5,000	5,000	14	987.50	0.90	0.91	8.79	8.81
1993 – Dec. 9	5,000	5,000	31	980.50	1.79	1.81	8.44	8.47
1994 – Jan. 11	5,000	5,000	32	982.00	2.04	2.05	8.47	8.49
1994 – Feb. 10	5,000	5,000	28	959.75	1.61	1.62	8.29	8.31

Table a30

Official rates

(percentages)

	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
1994 – Feb. 18	7.50	7.50	1.00	8.50

	BI OPERATIONS					
	Discount	Fixed-term advances	Foreign currency swaps		Repurchase	
			Purchases		Purchases	
			minimum	average	minimum	average
1990	12.50	13.49	–	–	11.52	11.90
1991	12.00	12.04	–	–	10.76	10.89
1992	12.00	13.00	13.80	13.89	13.42	13.57
1993	8.00	9.00	9.96	9.99	10.07	10.14
1992 – Sept.	15.00	16.50	–	–	17.49	18.06
Oct.	14.00	15.00	14.24	14.28	14.44	14.58
Nov.	13.00	14.00	13.84	13.92	12.80	12.92
Dec.	12.00	13.00	13.33	13.47	12.21	12.33
1993 – Jan.	12.00	13.00	12.29	12.35	12.06	12.14
Feb.	11.50	12.50	11.11	11.14	11.23	11.31
Mar.	11.50	12.50	11.09	11.13	11.23	11.27
Apr.	11.00	12.00	10.98	11.02	11.13	11.18
May	10.50	11.50	10.63	10.67	10.75	10.78
June	10.00	11.00	10.05	10.08	10.08	10.18
July	9.00	10.00	9.47	9.50	9.34	9.42
Aug.	9.00	10.00	9.17	9.20	9.41	9.51
Sept.	8.50	9.50	8.84	8.86	8.97	9.03
Oct.	8.00	9.00	8.59	8.61	9.01	9.06
Nov.	8.00	9.00	8.80	8.82	8.98	9.03
Dec.	8.00	9.00	8.51	8.53	8.73	8.81
1994 – Jan.	8.00	9.00	8.34	8.36	8.56	8.61

Table a31

rates

agreements		TREASURY BILLS			
Sales		3-month	6-month	12-month	Average
maximum	average				
11.29	11.02	12.28	12.33	12.53	12.38
13.69	13.21	12.66	12.53	12.39	12.54
–	–	14.48	14.38	14.02	14.32
–	–	10.47	10.52	10.74	10.58
–	–	18.05	18.52	17.02	17.98
–	–	15.52	16.15	15.92	15.85
–	–	15.37	15.23	15.40	15.33
–	–	14.45	14.35	14.10	14.33
–	–	12.52	11.98	12.59	12.38
–	–	12.08	12.08	11.97	12.05
–	–	12.51	12.37	12.62	12.50
–	–	12.30	12.54	12.48	12.43
–	–	11.51	11.36	11.64	11.49
–	–	10.62	10.23	10.51	10.46
–	–	9.88	9.95	10.37	10.05
–	–	9.18	9.84	10.03	9.71
–	–	8.86	9.03	9.40	9.10
–	–	9.11	8.95	9.11	9.06
–	–	8.90	9.46	9.59	9.37
–	–	8.18	8.40	8.54	8.38
–	–	8.26	8.70	8.69	8.59

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	
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	13.58	12.72	13.94	13.85	13.59	11.56	7.41	12.26	11.47	14.20	16.93	14.00
1993 – Jan.	13.30	12.68	12.65	12.67	12.40	11.09	7.17	11.82	11.16	13.38	16.23	13.63
Feb.	12.34	11.58	11.50	11.50	11.21	10.54	6.90	11.13	10.69	12.70	15.65	12.75
Mar.	11.85	11.31	11.32	11.35	11.07	10.30	6.85	10.73	10.43	12.26	15.03	12.63
Apr.	11.78	11.29	11.37	11.45	11.16	10.15	6.87	10.50	10.26	12.10	14.68	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	13.94	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	9.13	9.11	8.93	8.33	5.52	8.09	8.05	10.10	12.90	10.38
Oct.	9.11	9.08	8.83	8.78	8.59	8.12	5.35	7.79	7.68	9.79	12.55	10.00
Nov.	9.03	8.87	8.98	9.01	8.83	7.84	5.19	7.48	7.28	9.56	12.28	9.88
Dec.	8.85	8.67	8.66	8.59	8.40	7.78	5.27	7.40	7.24	9.62	11.99	9.88
1994 – Jan.	(8.96)	8.66	8.53	8.42	8.24	(7.64)	(5.27)	(7.29)	(7.09)	(9.57)	(11.73)	9.88

Table a33

Principal assets and liabilities of banks

(billions of lire)

	ASSETS										
	Bank reserves	Loans		Securities			Shares and equity interest	Bad debts	Interbank accounts	Accounts with special credit institutions	Interst-bearing external assets
		in lire	in foreign currency		of which: Treasury bills	of which: other govern-ment securities					
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	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 .	104,021	532,174	103,744	213,975	35,603	133,126	35,437	42,247	121,024	19,812	128,678
July . .	103,027	540,402	104,307	199,496	29,587	132,121	35,669	43,278	109,426	17,824	128,256
Aug. . .	104,034	529,131	102,040	197,283	29,080	132,138	35,692	44,279	116,811	18,660	144,167
Sept. .	104,033	523,250	100,313	232,578	42,825	151,634	35,923	45,049	118,612	19,149	137,547
Oct. . .	103,169	527,095	99,257	241,811	44,169	161,107	36,835	46,225	119,979	20,130	132,414
Nov. . .	112,094	521,544	100,035	246,584	46,513	162,779	37,266	47,029	125,175	21,625	141,040
Dec. . .	108,610	(546,792)	(94,210)	(255,223)	(52,046)	(161,458)	(38,115)	(46,335)	(142,701)	(23,453)	(157,227)

	LIABILITIES										
	Deposits			Residents' foreign currency accounts	Funds managed for public bodies	Loans from BI-UIC	Interbank accounts	Accounts with special credit institu-tions	Capital and reserves	Interest-bearing external liabilities	Other items
		of which: current accounts	of which: CDs								
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	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	–10,343
May . .	757,315	399,291	223,850	12,379	1,587	1,846	122,596	6,143	161,683	229,115	–18,734
June .	764,966	407,128	225,993	12,118	1,548	1,822	128,612	8,184	162,295	232,123	–10,558
July . .	750,565	391,428	227,702	12,192	1,570	2,439	116,860	7,471	163,539	232,591	–5,543
Aug. . .	754,886	394,678	228,622	13,366	1,538	1,836	124,684	6,170	163,620	237,480	–11,484
Sept. .	773,836	410,651	230,634	13,980	1,524	1,877	127,899	6,669	164,374	234,652	–8,359
Oct. . .	778,488	413,416	231,754	12,885	1,526	2,546	126,930	6,607	165,380	235,404	–2,852
Nov. . .	775,951	410,590	233,242	14,048	1,513	3,172	134,407	5,833	166,936	244,476	6,056
Dec. . .	(835,625)	(461,132)	(235,171)	(14,204)	(1,294)	2,454	(154,472)	(8,143)	(166,302)	(248,932)	(–18,760)

Principal assets and liabilities of the special credit institutions

(billions of lire)

	ASSETS							
	Cash and liquid assets	Loans		Securities	Share and equity interests	Foreign assets		
		domestic	on behalf of the Treasury			buyer credit	loans to non-residents	other
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	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
Sept.	6,282	365,417	159	20,744	4,695	9,107	2,153	6,712
Oct.	7,551	369,431	159	21,239	4,688	9,258	2,268	6,446
Nov.	7,161	373,963	159	20,624	4,675	9,597	2,349	6,027
Dec.	....	(375,920)	....	....	....	....	....	....

	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							
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	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	–22,704
June	174,832	330	82,905	12,530	3,518	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
Sept.	180,564	174	82,238	12,401	3,329	3,914	38,501	119,358	–25,211
Oct.	186,587	174	82,413	13,327	3,292	3,947	38,501	119,516	–26,715
Nov.	190,656	174	81,645	14,641	3,210	4,042	38,501	120,657	–28,971

Table a35

Loans by branch of economic activity

(billions of lire; percentage changes)

December 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	9,756	–2.6	7,337	8.4	7,461	1.2	5,716	7.1
Energy products	10,791	9.6	68	11.5	12,180	23.7	16	14.3
Ferrous and non-ferrous ores and metals	7,517	5.2	315	–2.2	3,467	3.2	35	16.7
Non-metallic mineral products	10,055	0.4	1,944	5.1	4,973	–1.9	251	4.6
Chemical products	10,208	–4.1	474	3.9	4,777	–8.1	61	22.0
Metal products except machinery and transport equipment	16,738	4.3	5,074	4.6	5,256	10.9	488	6.3
Agricultural and industrial machinery	15,966	–6.3	2,087	1.8	7,931	–10.0	375	–3.6
Office and data processing machines; precision and optical instruments	3,273	–9.7	381	6.4	1,677	–20.4	46	9.5
Electrical goods	12,208	–4.2	1,222	5.2	4,528	–17.4	129	13.2
Motor vehicles	7,214	–13.2	629	1.5	4,574	–19.0	91	–2.2
Food products, beverages and tobacco products	16,988	–8.2	2,941	4.4	8,257	–2.2	661	3.3
Textiles, leathers, footwear and clothing	26,302	–5.3	5,657	–0.3	5,919	5.8	591	9.4
Paper, products of printing and publishing	8,232	–1.3	1,514	5.1	3,987	2.8	167	15.2
Rubber and plastic products	6,216	4.1	1,286	3.0	1,916	2.6	134	16.5
Other manufacturing products	11,413	4.4	4,741	7.8	3,038	9.1	504	6.3
Building and construction	51,928	11.7	13,895	6.3	35,910	21.3	4,074	11.6
Wholesale and retail trade	65,753	0.9	30,327	5.8	13,637	9.3	5,392	5.8
Lodging and catering services	5,348	3.5	4,660	12.3	4,975	3.3	2,507	8.3
Inland transport services	7,325	5.4	2,783	1.0	11,438	–36.9	258	19.4
Maritime and air transport services	3,225	29.7	49	–16.9	2,384	21.0	5	0
Auxiliary transport services	3,261	–10.9	362	10.4	3,137	27.6	67	1.5
Communications services	1,682	87.7	18	5.9	10,392	–0.9	1	0
Other market services	52,880	7.3	8,766	11.0	24,856	10.9	2,447	13.0
TOTAL BORROWINGS	364,279	2.0	96,530	6.1	186,670	2.2	24,016	8.2
TOTAL FACILITIES GRANTED	580,251	1.1	117,578	3	227,878	–4.5	23,272	1.3

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			
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	2,657	6,576	41,407
1993	51,298	2,630	24,799	18,583	2,174	12,220	65,692
1991 – 4th qtr.	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	2,657	6,576	41,407
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 "	46,893	1,436	19,274	21,293	2,083	10,825	59,801
4th "	51,298	2,630	24,799	18,583	2,174	12,220	65,692
1992 – 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	9,876	52,735
Aug.	43,109	1,528	16,411	21,409	1,991	11,610	56,710
Sept.	46,893	1,426	19,274	21,293	2,083	10,825	59,801
Oct.	50,461	2,246	23,615	19,858	2,118	10,753	63,332
Nov.	47,146	2,849	20,620	18,930	2,093	10,231	59,469
Dec.	51,298	2,630	24,799	18,583	2,174	12,220	65,692

Table a36

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
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
13,890	6,319	727	56,024	60,663	26,717	732
35,243	14,244	1,140	102,075	110,093	67,776	33,462
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
13,890	6,319	727	56,024	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
24,385	10,405	1,051	85,237	89,675	7,223	4,277
35,243	14,244	1,140	102,075	110,093	26,516	15,748
13,890	6,319	727	56,024	60,663	26,717	732
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	7,785	739	62,195	67,846	4,114	919
17,030	8,075	814	64,822	70,368	4,146	1,163
18,716	8,382	708	68,898	73,521	3,766	1,408
20,442	9,084	626	73,803	78,532	5,514	3,081
23,022	10,200	815	80,547	85,609	5,817	4,043
24,385	10,404	1,051	85,237	89,675	7,223	4,277
27,137	11,780	974	91,442	97,141	9,075	6,388
31,241	12,188	947	91,657	101,900	9,808	5,554
35,243	14,244	1,140	102,075	110,093	7,633	3,806

Portfolio management

(end-of-period market values

		Government securities			Bonds	
		of which:				
		BOT	BTP	CCT	Italian	Foreign
1992 - 4th qtr.						
Securities firms	1,680	106	596	1,007	237	794
Trust companies	7,525	730	879	5,120	1,067	2,082
Banks	66,361	3,621	7,269	49,115	11,270	3,911
Total ...	**75,566**	**4,457**	**8,744**	**55,242**	**12,574**	**6,787**
1993 - 1st qtr.						
Securities firms	2,306	147	433	1,388	271	1,140
Trust companies	7,746	801	1,665	4,570	1,030	2,312
Banks	66,188	4,214	7,063	48,417	11,073	5,166
Total ...	**76,240**	**5,162**	**9,161**	**54,375**	**12,374**	**8,618**
1993 - 2nd qtr.						
Securities firms	2,364	55	690	1,284	322	1,123
Trust companies	8,498	985	2,202	4,792	899	2,219
Banks	72,074	6,726	7,799	51,910	11,298	4,984
Total ...	**82,936**	**7,766**	**10,691**	**57,986**	**12,519**	**8,326**
1993 - 3rd qtr.						
Securities firms	2,656	38	736	1,418	405	1,366
Trust companies	8,680	914	2,681	4,605	894	2,279
Banks	78,382	5,260	10,308	57,467	12,084	6,433
Total ...	**89,718**	**6,212**	**13,725**	**63,490**	**13,383**	**10,078**

Table a37

services

in billions of lire)

Shares		Other financial assets	Total portfolio	Total managed funds	Memorandum items	
Italian	Foreign				Gross fund-raising	Net fund-raising
296	42	545	3,970	4,210	874	279
1,012	77	1,015	12,778	14,166	2,259	–5
1,315	77	846	83,778	87,753	6,204	–1,649
2,623	**196**	**2,406**	**100,526**	**106,129**	**9,337**	**–1,375**
448	67	447	4,678	5,159	1,009	390
1,002	90	1,282	13,463	14,570	2,234	–190
1,387	70	1,063	84,948	90,780	7,370	–1,808
2,837	**227**	**2,792**	**103,089**	**110,509**	**10,613**	**–1,608**
517	95	657	5,079	5,591	814	84
1,111	95	1,493	14,313	15,248	3,339	1,382
1,919	188	563	91,026	95,698	12,080	322
3,547	**378**	**2,713**	**110,418**	**116,537**	**16,233**	**1,788**
641	122	847	6,038	6,482	1,261	691
1,195	114	1,761	14,922	16,354	2,493	464
2,301	220	653	100,074	104,877	8,483	3,801
4,137	**456**	**3,261**	**121,034**	**127,713**	**12,237**	**4,956**

Table a38

Net issues of securities

(billions of lire)

	ISSUERS			Total bonds and govern-ment securities	INVESTORS					Shares
	Public sector	Special credit institutions	Public agencies and firms		BI-UIC	Deposits and Loans Fund	Banks	Invest-ment funds	Other	
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	32,780	−691	14,390	1,500	95,842	16,194
1993	165,981	(26,636)	(−1,549)	(191,068)	(17,618)	249	(44,250)	17,035	(111,916)	(13,560)
1991 – 4th qtr. ..	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	3,108	−202	−14,760	540	55,501	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)	(2,089)
2nd " ..	39,836	(4,544)	(−1,317)	(43,063)	24,695	−39	(240)	2,554	(15,613)	(3,334)
3rd " ..	24,811	(5,072)	(84)	(29,967)	−11,329	−222	(19,090)	8,077	(14,351)	(4,089)
4th " ..	55,789	(13,057)	(308)	(69,154)	(30,011)	816	(23,040)	7,401	(7,887)	(4,049)
1992 – 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)	(428)
Apr.	16,341	(1,793)	(−686)	(17,448)	3,080	−26	(570)	1,445	(12,379)	(−512)
May	15,566	(995)	(−206)	(16,356)	366	−4	(−500)	1,018	(15,476)	(2,296)
June	7,929	(1,756)	(−425)	(9,259)	21,248	−9	(−170)	91	(−12,242)	(526)
July	11,060	(1,470)	(1,302)	(13,832)	7,206	−58	(−14,740)	3,179	(18,244)	(1,838)
Aug.	4,174	(1,856)	(−1,256)	(4,773)	−2,216	−164	(−2,220)	2,494	(6,878)	(874)
Sept.	9,578	(1,746)	(39)	(11,362)	−16,319	..	(36,050)	2,403	(−10,772)	(1,377)
Oct.	8,900	(5,991)	(187)	(15,078)	−5,291	..	(9,390)	2,469	(8,510)	(2,169)
Nov.	9,529	(3,681)	(409)	(13,618)	−2,486	366	(5,420)	−411	(10,729)	(830)
Dec.	37,360	(3,385)	(−288)	(40,457)	(37,787)	450	(8,230)	5,343	(−11,353)	(1,050)

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
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
36658	BTP	1.10.96	18.10.93	101.95	8.40	7.22	1,500	4.50	3.9375
36659	BTP	1.10.98	18.10.93	102.55	8.52	7.36	2,000	4.50	3.9375
36660	BTP	1.10.03	19.10.93	104.05	8.56	7.41	2,500	4.50	3.9375
36658	BTP	1.10.96	3.11.93	101.75	8.46	7.27	3,500	4.50	3.9375
36659	BTP	1.10.98	3.11.93	102.35	8.57	7.39	4,000	4.50	3.9375
36660	BTP	1.10.03	4.11.93	100.25	9.15	7.97	4,500	4.50	3.9375
36658	BTP	1.10.96	16.11.93	101.70	8.47	7.26	2,000	4.50	3.9375
36659	BTP	1.10.98	16.11.93	102.10	8.63	7.44	2,000	4.50	3.9375
36660	BTP	1.10.03	17.11.93	100.60	9.09	7.91	1,500	4.50	3.9375
36665	BTP	1.11.23	18.11.93	93.75	9.91	8.65	2,000	4.50	3.9375
36658	BTP	1.10.96	1.12.93	100.60	8.92	7.68	1,500	4.50	3.9375
36659	BTP	1.10.98	1.12.93	100.20	9.13	7.92	1,500	4.50	3.9375
36660	BTP	1.10.03	2.12.93	97.75	9.56	8.34	1,500	4.50	3.9375
36658	BTP	1.10.96	16.12.93	102.70	8.04	6.80	1,000	4.50	3.9375
36659	BTP	1.10.98	16.12.93	103.15	8.35	7.14	1,000	4.50	3.9375
36665	BTP	1.11.23	17.12.93	97.60	9.44	8.22	1,500	4.50	3.9375
36669	BTP	22.12.96	22.12.93	101.00	8.27	7.17	5,000	4.25	3.7188
36670	BTP	22.12.98	22.12.93	100.65	8.51	7.41	5,000	4.25	3.7188
36671	BTP	22.12.03	22.12.93	99.05	8.82	7.70	5,000	4.25	3.7188
36672	BTP	22.12.23	22.12.93	92.50	9.45	8.26	6,000	4.25	3.7188
36674	BTP	1.1.97	3.1.94	101.60	8.05	6.96	4,000	4.25	3.7188
36675	BTP	1.1.99	3.1.94	101.95	8.17	7.09	4,500	4.25	3.7188
36665	BTP	1.11.23	5.1.94	100.20	9.17	8.00	2,000	4.50	3.9375
36676	BTP	1.1.04	5.1.94	100.85	8.56	7.46	5,000	4.25	3.7188
36674	BTP	1.1.97	17.1.94	101.60	8.02	6.93	3,000	4.25	3.7188
36675	BTP	1.1.99	17.1.94	102.40	8.04	6.96	3,000	4.25	3.7188
36676	BTP	1.1.04	18.1.94	100.65	8.57	7.47	3,000	4.25	3.7188
36674	BTP	1.1.97	1.2.94	101.50	8.06	6.97	4,000	4.25	3.7188
36675	BTP	1.1.99	1.2.94	102.25	8.08	7.00	4,500	4.25	3.7188
36665	BTP	1.11.23	2.2.94	101.30	9.06	7.90	2,000	4.50	3.9375
36676	BTP	1.1.04	2.2.94	101.45	8.45	7.36	4,500	4.25	3.7188
36674	BTP	1.1.97	16.2.94	101.20	8.17	7.08	2,500	4.25	3.7188
36675	BTP	1.1.99	16.2.94	101.90	8.16	7.08	2,500	4.25	3.7188
36676	BTP	1.1.04	17.2.94	99.90	8.69	7.58	3,000	4.25	3.7188

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
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
36657	CCT	1.10.00	20.10.93	102.25	9.29	8.05	1,500	0.30	5.00	4.3750
36657	CCT	1.10.00	2.11.93	101.35	9.47	8.21	2,000	0.30	5.00	4.3750
36667	CCT	22.12.00	22.12.93	100.75	9.14	7.96	5,000	0.30	4.50	3.9375
36668	CCT	22.12.03	22.12.93	100.95	9.14	7.97	5,000	0.30	4.50	3.9375
36673	CCT	1.1.01	7.1.94	100.90	8.94	7.79	3,500	0.30	4.50	3.9375
36673	CCT	1.1.01	19.1.94	100.85	9.21	8.02	1,500	0.30	4.50	3.9375
36673	CCT	1.1.01	3.2.94	100.45	9.20	8.02	3,000	0.30	4.50	3.9375

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
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
36663	CTE	26.10.98	26.10.93	103.10	6.99	6.04	750	1,847.43	7.75	6.7813
36666	CTE	29.11.98	29.11.93	100.25	6.93	6.06	1,000	1,896.87	7.00	6.1250
36666	CTE	29.11.98	21.12.93	101.55	6.61	5.73	800	1,908.18	7.00	6.1250
36678	CTE	11.1.99	14.1.94	99.80	6.31	5.52	750	1,898.49	6.25	5.4688
36681	CTE	21.2.99	21.2.94	98.15	6.69	5.86	1,000	1,887.91	6.25	5.4688

Table a40

Securities market: expected yields and total return indices

	Expected yields					Total return indices				
	Treasury credit certificates	Treasury certificates in ecus	Treasury bonds	Treasury option certificates	Other bonds	Treasury credit certificates	Treasury certificates in ecus	Treasury bonds	Treasury option certificates	Investment funds
1988	11.25	8.11	10.54	–	10.87	316.26	233.11	180.86	–	167.63
1989	12.71	9.32	11.61	10.65	11.61	348.83	238.78	198.46	101.96	189.77
1990	12.31	9.99	11.87	11.48	12.03	397.58	255.49	221.95	112.33	201.58
1991	11.78	9.02	11.37	11.19	11.63	450.78	280.71	250.71	126.76	207.27
1992	13.70	8.95	11.90	11.46	12.04	497.70	299.19	276.02	139.69	216.42
1993	10.54	6.53	9.60	9.49	10.10	575.03	361.95	327.46	163.39	260.48
1991 – 4th qtr.	11.64	8.92	11.11	11.05	11.29	471.21	283.61	262.51	132.34	210.87
1992 – 1st qtr.	11.58	8.60	10.95	10.95	11.12	485.26	288.65	270.66	136.32	216.67
2nd "	12.38	8.78	11.23	11.15	11.32	496.59	292.07	276.12	138.90	217.01
3rd "	15.03	8.97	12.84	12.00	12.78	495.47	295.45	273.80	139.24	209.86
4th "	15.81	9.47	12.59	11.76	12.95	513.48	320.59	283.52	144.32	222.15
1993 – 1st qtr.	12.57	7.65	11.38	11.03	11.87	540.25	356.41	300.21	151.78	240.60
2nd "	11.77	7.71	10.77	10.59	11.18	561.73	352.60	313.10	157.54	251.17
3rd "	9.42	5.51	8.57	8.63	9.15	589.83	364.52	340.44	169.36	270.21
4th "	8.42	5.26	7.68	7.72	8.19	608.32	374.28	356.07	174.51	279.92
1993 – Jan.	13.27	7.89	11.75	11.26	12.08	532.09	348.29	294.78	149.40	234.33
Feb.	12.18	7.33	11.22	10.94	11.83	541.16	357.10	301.38	152.02	241.31
Mar.	12.25	7.74	11.17	10.88	11.71	547.51	363.85	304.47	153.53	246.16
Apr.	12.79	7.85	11.44	11.00	11.62	550.64	362.63	305.12	154.42	247.10
May	11.75	7.59	10.74	10.62	11.20	562.41	349.91	313.38	157.36	251.31
June	10.76	7.70	10.14	10.16	10.72	572.14	345.26	320.81	160.68	255.11
July	9.70	5.84	9.31	9.31	9.72	582.76	359.91	330.77	165.63	263.17
Aug.	9.57	4.83	8.37	8.44	9.14	589.44	366.84	342.54	170.50	272.93
Sept.	8.99	5.85	8.05	8.15	8.58	597.29	366.81	348.02	171.96	274.54
Oct.	8.24	5.36	7.52	7.58	7.95	607.13	370.74	355.29	174.33	278.52
Nov.	8.70	5.16	7.94	7.97	8.36	605.88	373.88	353.22	173.15	277.11
Dec.	8.31	5.27	7.58	7.62	8.26	611.94	378.21	359.71	176.05	284.13
1994 – Jan.	7.94	4.68	7.21	7.21	7.67	619.12	379.46	365.96	179.44	290.35

The money

(stocks in

	END-OF-PERIOD				
	Notes and coin	Sight deposits		Other assets	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 – 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	10,338	14,648	502,344
Feb.	81,201	392,746	9,123	14,305	497,445
Mar.	81,983	398,370	8,222	14,101	502,676
Apr.	82,187	400,981	9,360	13,259	505,787
May	83,202	402,736	9,240	12,647	507,825
June	81,814	409,621	10,127	13,196	514,757
July	86,082	394,402	10,060	15,645	506,189
Aug.	82,115	399,153	8,666	10,685	500,619
Sept.	83,325	414,746	8,754	12,690	519,516
Oct.	(83,996)	415,450	8,880	(12,925)	(521,251)
Nov.	(85,058)	413,128	8,777	(15,231)	(522,193)
Dec.	(89,764)	(462,747)	9,759	(12,834)	(575,104)

Table a41

supply

billions of lire)

DATA					AVERAGE DATA		
Bank certificates of deposit	Bank savings deposits	Postal savings accounts	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
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	477,994	840,093	846,616
200,755	145,881	29,218	920,026	925,171	491,552	857,362	862,758
203,474	143,237	29,233	878,287	883,881	515,032	890,035	895,404
209,607	141,068	29,380	877,500	882,783	489,907	867,398	872,836
217,414	138,190	29,511	887,791	892,811	488,050	868,816	873,968
221,118	137,586	29,562	894,052	899,044	493,538	878,607	883,613
223,614	135,938	29,588	896,965	901,125	496,875	884,493	889,068
225,788	133,614	29,170	903,329	908,233	497,343	882,387	886,918
227,505	133,238	28,792	895,724	900,350	498,861	885,024	889,788
228,423	133,397	29,425	891,864	896,349	490,970	877,558	882,114
230,457	134,439	29,484	913,896	918,747	500,355	889,432	894,100
231,588	135,496	29,561	(817,896)	(922,732)	509,551	901,624	906,467
233,156	134,464	29,742	(919,555)	(924,175)	517,509	911,865	916,592
235,105	141,652	30,493	(982,353)	(988,025)	(527,153)	(923,132)	(928,278)

Table a42

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 – 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.	878,287	107,103	107,624	*(365,913)*	75,351	1,631	*(1,535,909)*
Feb.	877,500	108,964	107,668	*(362,089)*	78,534	1,859	*(1,536,614)*
Mar.	887,791	103,906	107,652	*(362,462)*	79,463	1,724	*(1,542,998)*
Apr.	894,052	105,423	107,624	*(360,375)*	79,775	1,354	*(1,548,602)*
May	896,965	109,946	107,553	*(360,450)*	80,076	1,256	*(1,556,246)*
June	903,329	102,121	107,443	(352,402)	80,642	1,739	*(1,547,677)*
July	895,724	103,729	107,257	*(350,081)*	81,032	1,901	*(1,539,723)*
Aug.	891,864	107,411	107,327	*(344,588)*	80,285	2,011	(1,533,485)
Sept.	913,896	95,887	107,361	*(336,639)*	80,639	2,058	*(1,536,481)*
Oct.	(917,896)	102,826	107,540	*(326,991)*	80,776	1,904	*(1,537,932)*
Nov.	(919,555)	105,626	107,740	*(325,240)*	80,188	1,947	*(1,540,296)*
Dec.	(982,353)	92,226	117,640	*(312,803)*	*(80,188)*	*(1,947)*	*(1,587,157)*

Table a43

Financial assets

(end-of-period stocks in billions of lire)

	Liquid assets	Medium and long-term securities			Units of investment funds	Other financial assets	Other domestic financial assets	Total financial assets
		Government securities	Bonds of Crediop and autonomous gov. agencies	Other bonds				
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	(1,426,348)	(1,463,996)
1989	1,128,642	381,630	7,409	73,116	49,165	2,936	1,642,898	1,693,391
1990	1,245,946	453,646	11,250	83,145	47,379	5,649	1,847,016	1,917,195
1991 – Nov.	1,314,659	496,132	(11,870)	107,134	55,844	4,775	(1,990,413)	(2,097,951)
Dec.	1,393,773	487,532	(11,976)	107,919	56,191	4,857	(2,062,248)	(2,168,340)
1992 – Jan.	1,373,944	491,213	(11,396)	109,973	58,102	4,909	(2,049,538)	(2,160,320)
Feb.	1,375,902	492,948	(11,111)	112,358	59,492	4,295	(2,056,106)	(2,172,616)
Mar.	1,380,551	503,049	(10,670)	114,345	59,753	4,646	(2,073,013)	(2,195,424)
Apr.	1,392,068	496,857	(11,153)	116,491	61,245	4,927	(2,082,742)	(2,213,338)
May	1,409,127	491,728	(12,832)	117,441	62,277	5,429	(2,098,834)	(2,233,793)
June	1,413,352	486,346	(11,732)	116,104	61,074	5,927	(2,094,716)	(2,234,390)
July	1,418,100	483,202	(11,597)	115,102	58,169	6,091	(2,092,260)	(2,237,677)
Aug.	1,410,255	484,845	(11,504)	114,079	58,161	6,658	(2,085,503)	(2,232,402)
Sept.	1,436,104	471,115	(11,809)	112,858	56,604	6,554	(2,095,044)	(2,240,888)
Oct.	1,460,067	475,483	(11,912)	112,812	58,643	5,569	(2,124,486)	(2,264,149)
Nov.	1,472,993	478,148	(12,313)	(114,796)	59,703	4,993	(2,142,946)	(2,275,354)
Dec.	1,542,786	476,796	(13,518)	(113,731)	60,663	3,168	(2,210,661)	(2,338,060)
1993 – Jan.	(1,535,909)	(491,620)	(13,102)	(118,123)	61,900	2,791	(2,223,445)	(2,348,303)
Feb.	(1,536,614)	(499,173)	(13,347)	(120,299)	64,256	2,419	(2,236,108)	(2,358,092)
Mar.	(1,542,998)	(501,895)	(13,443)	(120,854)	66,086	2,535	(2,247,810)	(2,369,157)
Apr.	(1,548,602)	(509,542)	(12,396)	(123,347)	67,846	2,373	(2,264,105)	(2,387,561)
May	(1,556,246)	(512,029)	(12,557)	(126,777)	70,368	2,258	(2,280,234)	(2,402,176)
June	(1,547,677)	(516,441)	(12,488)	(127,706)	73,521	2,638	(2,280,471)	(2,402,725)
July	(1,539,723)	(524,547)	(12,706)	(135,682)	78,532	2,754	(2,293,944)	(2,415,005)
Aug.	(1,533,485)	(526,954)	(11,540)	(139,149)	85,609	2,873	(2,299,611)	(2,422,099)
Sept.	(1,536,481)	(526,953)	(12,534)	(142,185)	89,675	2,942	(2,310,770)	(2,434,438)
Oct.	(1,537,932)	(530,225)	(12,888)	(149,829)	97,141	(2,951)	(2,330,967)	(2,457,716)
Nov.	(1,540,296)	(534,048)	(12,899)	(152,929)	101,900	(2,891)	(2,344,962)	(2,472,737)
Dec.	(1,587,157)	(551,592)	(12,145)	(155,565)	110,093	(2,891)	(2,419,443)	(2,549,583)

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(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 – 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	*(20,654)*	*(971,307)*	*(124,990)*
Apr.	630,426	321,405	*(20,116)*	*(971,947)*	*(123,012)*
May	618,737	324,285	*(19,892)*	*(962,913)*	*(124,614)*
June	632,763	322,287	*(19,726)*	*(974,876)*	*(123,993)*
July	641,673	325,758	*(21,100)*	*(988,530)*	*(125,272)*
Aug.	627,700	330,603	*(19,818)*	*(978,121)*	*(125,200)*
Sept.	619,773	331,277	*(19,845)*	*(970,895)*	*(123,633)*
Oct.	622,322	334,516	*(19,476)*	*(976,314)*	*(122,152)*
Nov.	617,476	339,553	*(19,696)*	*(976,725)*	*(124,132)*
Dec.	636,175	*(341,329)*	*(18,952)*	*(996,455)*	*(121,442)*

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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
(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)	1,584,764	64,757	1,649,520	*(2,552,987)*	*(2,740,913)*
(1,094,480)	1,595,919	69,104	1,665,023	*(2,567,445)*	*(2,759,503)*
(1,096,297)	1,623,171	74,248	1,697,419	*(2,594,478)*	*(2,793,716)*
(1,094,960)	1,642,185	68,676	1,710,861	*(2,614,132)*	*(2,805,821)*
(1,087,527)	1,658,543	68,439	1,726,981	*(2,621,456)*	*(2,814,508)*
(1,098,869)	1,634,005	72,791	1,706,796	*(2,608,881)*	*(2,805,665)*
(1,113,802)	1,642,432	73,351	1,715,783	*(2,630,962)*	*(2,829,585)*
(1,103,321)	1,649,694	74,507	1,724,201	*(2,627,814)*	*(2,827,522)*
(1,094,528)	1,670,840	82,292	1,753,132	*(2,641,734)*	*(2,847,659)*
(1,098,466)	1,688,811	82,147	1,770,958	*(2,665,125)*	*(2,869,424)*
(1,100,857)	1,709,072	86,892	1,795,964	*(2,685,797)*	*(2,896,821)*
(1,117,897)	(1,724,309)	(85,359)	(1,809,668)	*(2,720,764)*	*(2,927,565)*

Table a45

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
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
1993	(62,327)	2,420	(48,213)	*(−2,535)*	*(40,177)*	*(−25,948)*
1991 – Nov.	5,385	−3,826	−1,192	5,433	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	−10,440
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.	−41,738	−600	1,700	*(−2,261)*	*(−26,483)*	*(−14,093)*
Feb.	−787	−2,878	12,928	*(−4,910)*	*(1,435)*	*(−7,362)*
Mar.	10,291	4,734	−200	*(−5,325)*	*(11,154)*	*(−72)*
Apr.	6,261	−3,283	4,224	*(6,371)*	*(9,875)*	*(−10,926)*
May	2,913	6	6,405	*(−9,671)*	*(2,545)*	*(3,628)*
June	6,364	2,721	4,259	*(12,613)*	*(−15,476)*	*(2,247)*
July	−7,605	−1,230	5,516	*(7,190)*	*(−3,983)*	*(−15,098)*
Aug.	−3,860	−1,985	10,800	*(−14,837)*	*(162)*	*(2,000)*
Sept.	22,032	7,661	−2,810	*(−7,845)*	*(28,961)*	*(−3,934)*
Oct.	(4,000)	−2,916	−5,040	*(3,728)*	*(13,989)*	*(−5,761)*
Nov.	(1,659)	2,496	(7,598)	*(−6,995)*	*(10,135)*	*(−11,575)*
Dec.	(62,797)	−2,305	(2,833)	*(19,408)*	*(7,863)*	*(34,998)*

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 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 EU 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 Italian 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 (for the fourth quarter of 1992 the table shows both the results based on the old definition but the new questionnaire and those reflecting the census data and the new definition).

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 (suppressed from 15 April onwards by Legislative Decree 96/1993).

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 Deposits and Loans Fund, the lending of the Deposits and Loans Fund (excluding that to the Treasury and autonomous government agencies) and, up to April 1993, the deficit of the Southern Italy Development Agency.

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: 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; up to May 1991 the item includes compulsory reserves on net foreign currency fund-raising.

Compulsory reserves: comprises the average reserve requirement in the maintenance period (from the 15th of one month to the 14th of the next); up to May 1991 the item includes 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: with reference to the lower half of the table, the last few months' figures for the borrowing requirement (which includes settlements of past debts in securities and refers to the old definition) 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: comprises PO deposits, foreign loans, deposits of social security institutions with the Treasury, surety deposits with the Deposits 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. 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; the figure for December 1993 includes the 30.67 trillion lire of securities issued by the Treasury to open a suspense account which the following month was transferred to the "Treasury payments account".

Deposits with BI: 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; up to May 1991 the item includes compulsory reserves on net foreign currency fund-raising.

Compulsory reserves: comprises the average reserve requirement in the maintenance period (from the 15th of one month to the 14th of the next); up to May 1991 the item includes compulsory reserves on net foreign currency fund-raising.

Other items: comprises cash on hand and undrawn ordinary advance facilities.

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: 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; up to May 1991 the item includes compulsory reserves on net foreign currency fund-raising. The average amount of cash on hand is estimated on the basis of the information reported by banks at 10-day intervals.

Twelve-month changes: in "Bank reserves" and "Monetary base" 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.

Table a25

Other operations: comprises finance granted to primary dealers in the screen-based secondary market for government securities; operations involving Treasury bills include finance granted in connection with auctions.

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; such financing was abolished in January 1994.

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 fixed by the Bank of Italy is applied.

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*.

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 a37

Bonds: includes certificates of deposit with a maturity of more than 18 months.

The figures for securities firms for the fourth quarter of 1992 include the activity of commission dealers.

Table a38

Issues by the public sector include the 30.67 trillion lire of Treasury bonds and Treasury credit certificates sold directly to the Bank of Italy in order to establish the "Treasury payments account".

Table a39

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 a40

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 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, calculated using averages of daily data and based as follows:

- 31 December 1980 for Treasury credit certificates;
- 26 January 1983 for Treasury credit certificates in ecus;
- 30 December 1983 for Treasury bonds;
- 27 June 1989 for Treasury option certificates;
- 31 December 1984 for investment funds.

Table a41

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 EU.

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.

Table a42

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 EU.

Securities acquired under repos: since January 1990, includes foreign currency securities issued by residents.

Treasury bills in lire and ecus: stated at face value.

Table a43

The table refers to the financial assets of the non-state sector, net of shares. Starting from December 1988 the method of computing 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). Owing to the size of the statistical discontinuity, only the revised data are published.

Stocks are calculated at face value, except for the units of investment funds, which are shown at market prices.

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, atypical securities and issues of the Italian Republic held by the non-state sector. As of December 1992 some of the funds managed by special credit instititutions and previously included in the assets of the non-state sector are no longer shown in the institutions' accounts. The data for the period December 1974 – November 1992 have been adjusted to eliminate this statistical discrepancy.

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.

Table a44

Starting from December 1988 the method of computing 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 Deposits and Loans Fund.

Table a45

The table refers to end-of-period M2. For the 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 and the Bank of Italy 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.

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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