BANCA D'ITALIA

Economic Bulletin

Number 19 October 1994

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prepared by the
Research Department

Number 19 October 1994

This abridged English edition of the *Bollettino Economico* has been translated from the Italian by the Governor's Secretariat

Registration with the Court of Rome No. 426, 19 September 1985 - *Director:* Dr. IGNAZIO VISCO

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Economic Developments and Policies

The international economy

For the industrialized countries as a whole, 1994 has marked the end of the recession that had lasted since the beginning of the decade. In the first half of the year output in the OECD countries was 3.0 per cent higher on an annual basis than in the preceding six months, a much better outturn than had been forecast by international organizations last spring. For most economies the recovery so far has been slower than in the corresponding stage of previous cycles over the last twenty years.

The economies of the United States, the United Kingdom and Canada continued to expand vigorously, and thereby helped continental Europe to emerge from the recession. Only in Japan is it still difficult to discern clear signs of recovery.

The labour market situation remains serious, particularly in the European Union, where there are more than 18 million unemployed. The prospects of an improvement in the medium term are impaired by persistent imbalances in external accounts and public finances and by exceptionally high long-term interest rates.

Economic recovery and fiscal adjustment contributed to a slight reduction in budget deficits in all the leading industrial countries except Japan. The structural components of the deficits nevertheless continue to cause concern, especially in the heavily indebted economies, which are more vulnerable to sharp increases in long-term interest rates.

Bond prices fell everywhere, with the decline gathering momentum from the summer onwards, especially in Europe. Between the beginning of the year and mid-October average long-term yields in the four leading EU countries rose by almost 2.5 points to 9.0 per cent; after adjustment for the September inflation figures, they are over 6 per cent, a historically high level. High interest rates pose a threat to the recovery of investment in Europe, and in the medium term they could hinder efforts to reduce unemployment. They are partly a reflection of fears that the faster pace of economic activity and higher world market prices for raw materials will rekindle inflation. Monetary policy was tightened in the United States, and subsequently in some European countries, in order to counter worsening inflation expectations.

The persistence of cyclical disparities accentuated the external imbalances of the United States and Japan, resulting in a substantial depreciation of the dollar during the year.

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

The US economy continued to expand briskly in the first half of the year (Figure 1): output grew at an annual rate of 4.2 per cent, compared with 3.5 per cent in the preceding six months (Table 1). Growth continues to be driven by domestic demand, particularly investment, which rose by about 13 per cent. Consumer spending on durable goods, which had been increasing strongly since the second half of 1992, was virtually unchanged in the second quarter, partly on account of the rise in interest rates from already high levels. Household and business confidence deteriorated in the summer (Figure 2), and other indicators also point to a more modest rate of economic growth in the second half of the year.

Between January and September the creation of more than half a million new jobs brought the unemployment rate down from 6.7 to 5.9 per cent (Figure 3), a figure many analysts consider to be close to the minimum compatible with non-inflationary growth. However, the recent introduction of new statistical criteria for measuring the labour force makes it difficult to compare current data with those of previous cycles.

Capacity utilization rates close to the maximum, the weakness of the dollar and the increase in the prices of oil products and some raw materials caused a rise in inflation. The twelve-month rate of increase in consumer prices, which touched a low point of 2.2 per cent in May, rose to 3.0 per cent in September (Figure 4), while the rise in the producer prices of manufactures accelerated from 0.1 to 2.9 per cent over the same period.

Table 1

Gross product and domestic demand in the leading industrial countries

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

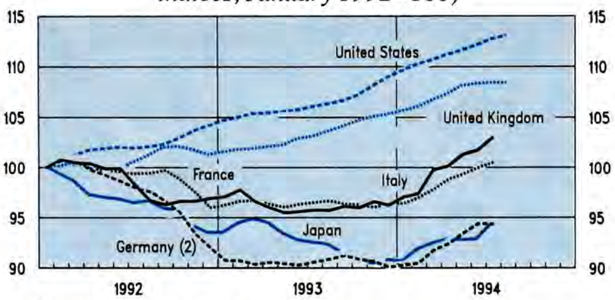
	1993	1993 H2	1994		1994 H1	1994 (1)
			Q1	Q2		
United States						
GDP	3.1	3.5	3.3	4.1	4.2	3.7
Domestic demand	3.9	4.3	5.0	4.6	5.1	4.4
Canada						
GDP	2.2	2.6	4.4	6.4	4.7	4.1
Domestic demand	1.8	2.5	3.0	5.5	3.9	3.1
Japan						
GNP	..	–0.9	3.3	–1.2	0.8	0.9
Domestic demand	0.3	0.2	3.2	–0.5	1.4	1.6
European Union (2)						
GDP	–0.3	1.4	....	....	2.9	2.1
Domestic demand	–1.9	–0.1	....	....	3.1	1.6
of which:						
Germany						
GDP	–1.2	....	....	....	....	2.3
Domestic demand	–1.4	....	....	....	....	1.7
of which:						
Western Länder						
GNP	–2.3	0.6	3.1	6.0	1.9	1.8
Domestic demand	–2.2	1.9	3.4	3.5	1.2	1.2
France						
GDP	–1.0	0.9	2.7	3.9	2.4	1.9
Domestic demand	–1.8	–1.2	5.9	4.1	3.8	2.0
Italy						
GDP	–0.7	0.1	1.7	5.7	3.3	1.6
Domestic demand	–5.0	–1.5	0.9	9.5	3.4	0.7
United Kingdom						
GDP	2.0	2.6	3.8	4.8	3.9	3.3
Domestic demand	2.0	3.2	1.9	1.6	2.7	2.8
OECD (2)						
GDP	1.3	2.1	....	....	3.0	2.7
Domestic demand	1.2	1.9	....	....	3.1	2.7

Sources: IMF, OECD, Istat and national bulletins.

(1) IMF forecasts, *World Economic Outlook* and, for Italy, *Relazione previsionale e programmatica*; for Japan, GDP. – (2) For 1994, OECD and IMF estimates.

Figure 1

Industrial production (1)
(seasonally adjusted monthly data; indices, January 1992=100)

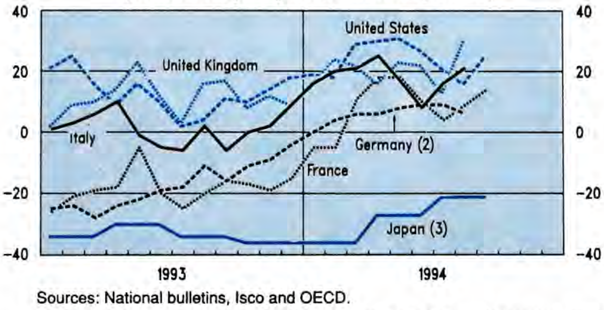


Sources: Based on OECD and Istat data.
(1) Centred 3-month moving averages. – (2) Western Länder.

In Japan output rose at an annual rate of 3.3 per cent between the last quarter of 1993 and the first quarter of this year, owing largely to statistical factors linked to the close of the financial year in March, but it contracted by 1.2 per cent in the second quarter. Investment fell by a further 2.7 per cent in the first half-year, partly on account of the scarcity of credit due to the continued weakness of the banking sector, the fall in corporate profitability and the rise in long-term interest rates. With nominal long-term rates currently at 4.8 per cent, real rates are about 7 per cent on the basis of the twelve-month variation in producer prices, or 5 per cent on that of the change in consumer prices; they are around 3 per cent on the basis of average consumer price inflation expected over the next ten years by the leading private forecasting institutions.

Figure 2

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

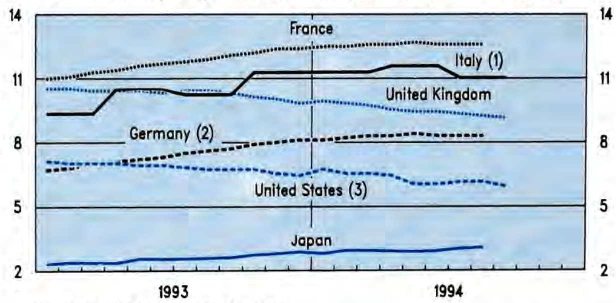


Sources: National bulletins, Isco and OECD.
(1) Results of business surveys; balance of replies received. – (2) Western Länder. – (3) Quarterly data.

In the second half of the year some stimulus to demand should come from private consumption as a result of the tax reductions contained in the package of stimulatory measures introduced at the beginning of the year. The expansionary effect on consumption could, however, be offset in part by the continuing deterioration of labour market conditions: in August the unemployment rate rose to 3.0 per cent, close to the 1987 peak. The sluggishness of economic activity and the appreciation of the yen by 8.4 per cent in effective terms between January and August contributed to a further decline in inflation; the twelve-month variation in consumer prices fell from 1.2 per cent in January to zero in August, while the corresponding rate of change in the producer prices of manufactures was consistently negative over the same period, at around –2 per cent.

Figure 3

Unemployment rate
(seasonally adjusted monthly data; percentages)



Sources: Istat and national bulletins.
(1) Quarterly data. – (2) Western Länder. – (3) A new definition was introduced in January 1994.

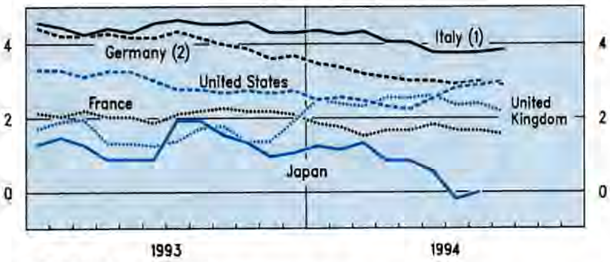
In the EU the recovery that began in the second half of 1993 gained momentum. Production was sustained mainly by foreign demand and by restocking, but investment continued to decline. The unemployment rate, which had remained virtually unchanged since the beginning of the year, reached a historic peak of 11.8 per cent in July. The persistence of wide margins of idle capacity and the very low rates of wage and salary increase contributed to the slowdown in inflation, which stood at 3.0 per cent in August, compared with 3.4 per cent in January.

In Germany GDP was 2.8 per cent higher in the first half of this year than in the corresponding period of 1993. In the Western regions GNP grew by 2.2 per cent (or at an annual rate of 1.9 per cent compared with the previous six months); growth was particularly vigorous in the second quarter (an annual rate of 6.0 per cent in relation to the preceding quarter), stimulated by foreign demand and stockbuilding. In the first six months of the year exports were almost 8 per cent higher than in the preceding half-year on an annual basis, thanks to strong demand from North America and South-East Asia for capital goods, in which German industry is specialized.

Figure 4

Consumer prices

(percentage changes on corresponding month of previous year)



Sources: OECD and Istat.

(1) From July 1994 onwards the data for Italy are estimated on the basis of movements in the cost-of-living index. – (2) Western Länder.

The latest indicators confirm the upturn in economic activity, but it was not sufficient to bring down unemployment, which in August stood at the high rate of 8.3 per cent, or 2.6 million, compared with 8.1 per cent in December 1993.

The decline in unit labour costs (by 4.2 per cent between the first half of 1993 and the first half of 1994 in manufacturing) and the appreciation of the Deutschemark sustained the slowdown in prices that had begun last year; the twelve-month rate of increase in consumer prices fell from 3.5 to 2.9 per cent between January and September.

Growth in the Eastern regions of Germany was considerably faster than expected. In the first half of the year investment in construction was about 20 per cent higher than a year earlier. Manufacturing output, which had begun to pick up in 1993 after two years of contraction, also increased strongly, offsetting about half of the decline of more than 35 per cent that the sector had suffered since unification. Unemployment fell from 18.2 per cent in January to 15.5 per cent in August. The cost-of-living index, which had risen by 11 per cent in 1992 and 9 per cent in 1993, was only about 3.5 per cent higher over the year in the first eight months of 1994. Prices have now adjusted almost completely to the levels prevailing in the Western regions.

The distinct improvement in economic activity in the Eastern regions reflects the start of endogenous growth, albeit still sustained by substantial transfer payments from the West for welfare expenditure (equal to about 70 per cent of the area's output), the upgrading of infrastructure and investment subsidies.

In the United Kingdom the recovery gained strength; output grew at an annual rate of 3.9 per cent in the first six months of the year, compared with 2.6 per cent in the preceding half-year, thanks to the increase in private consumption and investment and the growth in foreign demand. Between January and September the unemployment rate declined from 9.9 to 9.1 per cent. There has been no sign of pressure on prices to date: between January and September consumer price inflation net of mortgage interest payments fell from 2.8 to 2.0 per cent. Nonetheless, the rapid elimination of idle capacity, the weakness of the pound and the rise in the prices of raw materials fueled fears of inflationary pressures.

In France output grew at an annual rate of 2.4 per cent in the first half-year, sustained by the rebuilding of stocks and by private consumption, which in turn benefited from the tax measures introduced at the beginning of the year; these included a reduction in personal income tax amounting to FF 19 billion, and incentives for job creation and the purchase of automobiles. Investment, which had been in decline since the last quarter of 1991, remained unchanged. Unemployment rose from 11.0 per cent at the beginning of last year to 12.6 per cent in August. Inflation remained moderate, with consumer prices recording a twelve-month rise of 1.6 per cent in September. Signs of recovery began to emerge in Spain and the other EU countries, nurtured partly by stimulatory fiscal measures.

Unemployment in the industrial countries as a whole remained high, at more than 30 million, equal to over 8 per cent of the labour force of around 400 million. Given the strength of the recovery, the creation of new jobs has been slower in most countries than in other cycles during the last twenty years.

The dollar price index for non-energy raw materials rose by more than 10 per cent between December and September, thus continuing the trend that had begun in the middle of 1993 after four years of steady decline. In real terms, however, the index was about 20 per cent lower in September than at the beginning of 1989.

Average prices for the main types of crude oil fell to a low of $13.55 per barrel in March 1994, but had risen to $18.50 at the beginning of August. The rise was attributable to high demand from North America and Asia and the suspension of production in Nigeria as a result of strikes linked to a deterioration in the political situation. With the easing of social tension in that country, the price of crude fell to about $16 a barrel in mid-October.

The strengthening of economic activity in the industrial countries gave fresh impetus to world trade, which had slowed down considerably between 1991 and 1993. In the first half of this year the volume of trade was more than 7 per cent higher than in the corresponding period of 1993, a rate of growth similar to that recorded at the same point in past cycles. The exports and imports of the industrial countries, which had stagnated in 1993, grew by nearly 5 and 6 per cent respectively over the same period, while the trade of Asian and Latin American LDCs continued to increase at a faster pace.

The current account imbalances of Japan and the United States increased in the first half of the year owing to cyclical divergences and the appreciation of the yen. The current account surplus of the EU increased.

The US current account deficit, which had amounted to $100 billion in 1993, or 1.6 per cent of GDP, rose to an annualized figure of almost $140 billion in the first six months of this year, or 2.1 per cent of GDP. The deterioration was due almost entirely to the increase in the trade deficit, which increased from $133 billion in 1993 to about $160 billion on an annual basis and was mostly vis-à-vis the EU and Japan. The US current account has been in deficit since 1982; leaving aside the transient effects of cyclical divergences, the deficit is emerging increasingly as a structural problem and is fueling market expectations of a depreciation of the dollar. Preliminary estimates suggest that by mid-1994 it had given rise to net foreign debt of $625 billion, equal to 9.3 per cent of GDP.

Japan's current account surplus rose to $135 billion on an annual basis in the first half-year, or 3.0 per cent of GNP; this reflected a further improvement in merchandise trade, which recorded a surplus of $147 billion (3.2 per cent of GNP). The increase in the trade surplus was due entirely to the appreciation of the yen, given that in volume terms trade had already begun to move towards equilibrium last year; imports rose by an annual rate of about 15 per cent compared with the preceding half-year, and exports increased by only 4 per cent. Japan's net external creditor position now amounts to almost $700 billion, equal to 14.8 per cent of GNP.

Germany's balance of payments continued to improve, after the sudden deterioration in the wake of unification. In relative terms, the current account deficit in the first half of the year was the same as in 1993, at 1.2 per cent of GDP, but the trade surplus improved from 2.0 to 2.2 per cent of GDP, thanks to good export performance. Germany's net external creditor position amounted to about $230 billion, almost 12 per cent of GDP, whereas in 1990 it had exceeded $360 billion, or about 20 per cent of GDP. The IMF has forecast a current account surplus of almost $40 billion this year for the EU as a whole, compared with one of $6 billion last year.

Economic policies

The cyclical recovery and the adjustment measures introduced in 1993 have enabled all the leading industrial countries except Japan to achieve a slight reduction in budget deficits in relation to GDP this year.

According to final data published by the US Administration, the US federal budget deficit for the 1994 fiscal year, which ended in September, fell to $203 billion, or 3.0 per cent of GDP, compared with $255 billion and 4.0 per cent in the preceeding year, owing partly to cyclical effects and partly to cuts in defence expenditure and increases in direct taxes for higher income earners. The improvement was offset, however, by a further decline in households' propensity to save, which fell to an average of less than 4 per cent of disposable income in the first half of the year.

The proposed reform of the health care system was rejected by Congress after long and bitter debate. The failure to implement the reform is one of the factors heightening concern about the medium and long-term prospects for the US budget. According to Administration forecasts, the federal deficit should fall to 2.4 per cent of GDP next year but will remain at that level for the rest of the decade unless the health service is reformed; the IMF even forecasts that it will rise to 2.8 per cent over the same period.

In Japan the general government budget is expected to show a deficit of almost 3 per cent of GNP, compared with one of 0.6 per cent in 1993 and a surplus of 3.0 per cent in 1991. This outturn is attributable in almost equal measure to the four stimulatory programmes launched between August 1992 and February 1994 and to the effects of the recession. If the surplus of the social security sector is discounted, the deficit exceeds 6 per cent of GNP. The authorities are inclined to extend until next year the tax concessions introduced in the second half of 1994.

The overall public sector deficit of the EU is expected to fall to 5.6 per cent of GDP in 1994, having reached a historic peak of 6.0 per cent last year. The Commission estimates that, net of cyclical effects, the imbalance will remain high, at about 5 per cent of GDP. The procedure established by the Maastricht Treaty for monitoring excessive deficits came into operation in the spring of this year. On the basis of a report prepared by the Commission in May, the Council took note that all the EU member countries but two – Ireland and Luxembourg – failed to satisfy the convergence requirements laid down in the Treaty. The exclusion of Ireland, despite a persistently high level of public debt, is justified by the fact that the adjustment measures successfully undertaken by the Irish Government over a number of years brought the deficit down from 8.5 to 2.5 per cent of GDP between 1987 and 1994, thereby reducing the ratio of debt to GDP from 116 to 93 per cent. The grounds for declaring a deficit to be "excessive" differ from one economy to another, however. In Belgium, Greece, Italy, Spain, Portugal and Denmark both the deficit and the public debt are high; in the first three countries, in particular, the imbalances are extremely serious, with debt far exceeding output. In accordance with Article 104c of the Treaty of Maastricht, the Council has made recommendations to the ten countries with a view to bringing the "excessive deficit" situation to an end.

In Germany the decisive adjustment measures are beginning to rectify the imbalances in the public finances as a consequence of unification. The deficits at all levels of government should decline in relative terms this year; the federal deficit of DM 65 billion is expected to fall from 2.2 to 2.0 per cent of GDP, while the net borrowing of the enlarged public sector, which includes the Post Office, Telecommunications and the Treuhandanstalt, should amount to about DM 155 billion, or 4.8 per cent of GDP, compared with 6.1 per cent last year. A further improvement is expected in 1995, thanks to economic recovery and fiscal measures that will come into force in the new year: these include a further increase in social security contributions, which is expected to yield a total of DM 12 billion, and the so-called "solidarity tax", a temporary surtax of 7.5 per cent that should generate revenue of DM 26 billion. At the beginning of 1995 the Treuhandanstalt and the other minor funds created to finance unification will cease operations and their debts will be transferred to the federal budget; general government debt, the aggregate used for assessing compliance with the Maastricht convergence criteria, will consequently increase from 53.6 per cent of GDP this year to more than 64 per cent in 1995.

In France, the net borrowing of general government is expected to amount to 5.6 per cent of GDP, compared with 5.8 per cent in 1993 and 1.5 per cent in 1990. The budgetary consequences of the weakness of economic activity and the provisions adopted to stimulate the economy are likely to be outweighed by the effects of the deficit reduction measures introduced last year. In the United Kingdom the cuts in expenditure and increases in taxes introduced in 1993 are expected to produce a significant reduction in the PSBR, from 7.3 to 5.5 per cent of GDP. The measures will continue to produce effects in future financial years: the Government envisages a PSBR of 4.3 per cent of GDP in 1995 and a ratio of debt to GDP that will peak at 51 per cent in 1997 before gradually declining.

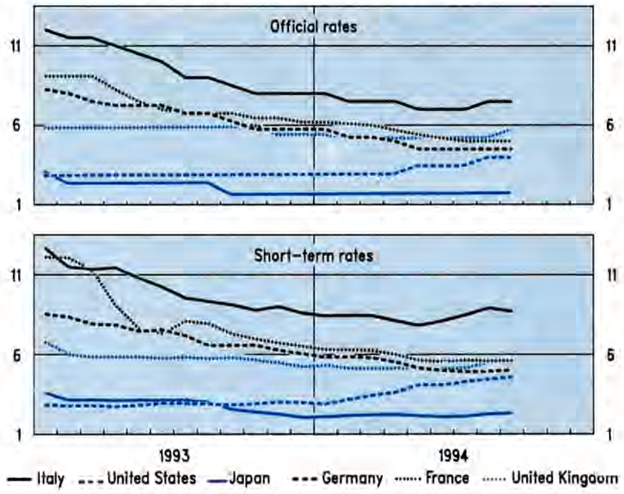
The monetary policy stances of the United States, Japan and Germany remained at variance owing to continued cyclical disparities and contrasting expectations regarding price trends. From February onwards the Federal Reserve attempted to counter the development of inflationary pressure by tightening monetary policy through repeated but modest increases in official interest rates. This change of direction and the means of implementing it led to a sharp decline in bond prices, which spread rapidly to all the other industrial countries. The discount rate was raised from 3 to 4 per cent and the rate on federal funds rose from 3.0 to 4.75 per cent between the beginning of February and mid-August; the increases were reflected in full in yields on 3-month Treasury bills (Figure 5) and prime lending rates.

In Japan the monetary stance remained expansionary, aimed at sustaining economic activity and assisting firms and banks to restore their capital base. The discount rate remained unchanged at 1.75 per cent, the lowest level since the Second World War. Until the beginning of July, 3-month interbank rates fluctuated around the level of 2.1 per cent to which they had fallen at the end of last year; the subsequent slight increase suggests that the low point has now been passed. In real terms, however, short-term rates rose from 1.0 to 2.4 per cent between January and September. Although the growth in the reference monetary aggregate (M2 plus CDs) was slightly faster than last year, it remained very low, between 1.5 and 2.0 per cent. Bank lending to the private sector slowed down further, and in June the twelve-month rate of change was negative for the first time, as a result of both weak loan demand and the reluctance of banks to grant credit. The banks aim to improve their capital position and profitability, which are still suffering as a result of the bursting of the speculative bubble at the beginning of 1990.

In Germany the gradual decline in official rates that had begun in September 1992 continued. Between February and May the Bundesbank lowered the discount rate by 1.25 points to 4.5 per cent and the lombard rate by 0.75 points to 6.0 per cent. The repo rate was reduced by 1.15 points between the beginning of the year and the end of July, to 4.85 per cent; short-term market rates fell from 5.9 to 5.0 per cent over the same period, and then fluctuated around that level. The Bundesbank's caution in the first half of the year mainly reflected concern at the exceptionally rapid growth of the money supply; since July the appearance of clear signs of recovery and the rise in long-term yields have persuaded the authorities to keep monetary conditions unchanged, despite the decline in inflation.

Figure 5

Official and short-term rates (1)



(1) For short-term rates, average monthly data. For official rates, end-of-period data. For sources and definitions, see Notes to Appendix Table a5.

Until April M3 was growing particularly rapidly, at an annual rate of more than 15 per cent compared with the last quarter of 1993, the reference period for the target range of 4-6 per cent set for this year. The rapid expansion was due partly to transient factors associated with the strong demand for mortgage loans generated by expectations of a reduction in tax allowances on purchases of primary residences and with the massive repatriation of funds from Luxembourg before the entry into force of less favourable tax regulations regarding interest on residents' assets held abroad. The effect of these distortive factors gradually waned and the yield curve, which had turned positive in March, took on a steeper slope, favouring a slowdown in the growth of M3. Between May and September the aggregate remained virtually unchanged, and by September the rate of growth in relation to the reference period had fallen to 7.7 per cent.

The monetary authorities of the other ERM countries eased monetary conditions further in order to sustain activity, given the favourable performance of prices, but they reaffirmed the objective of exchange rate stability by keeping interest rates above those in Germany. Between the beginning of January and the end of September the Bank of France reduced the intervention rate by 1.2 points to 5 per cent and the rate on advances by 0.6 points to 6.4 per cent. Over the same period 3-month interbank rates remained consistently about half a point above corresponding German rates. In Denmark, the Netherlands and Ireland, by contrast, the short-term interest rate differential vis-à-vis the Deutschemark worsened slightly.

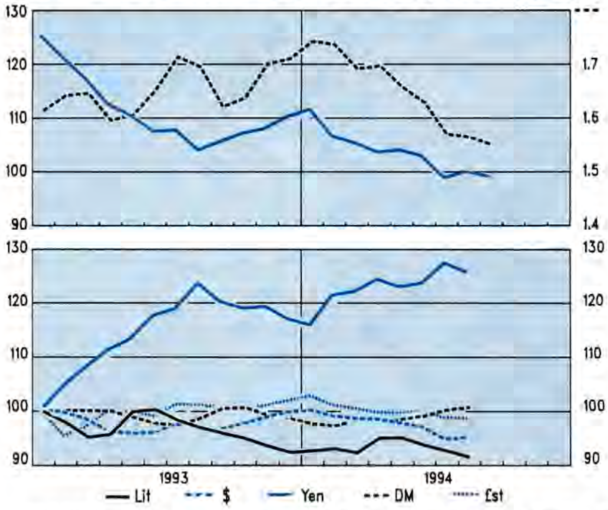
In the United Kingdom, base rate was lowered in February to 5.25 per cent, the lowest level for sixteen years; the Bank of England subsequently kept monetary conditions unchanged until mid-September. Three-month interbank rates fell to 5.2 per cent in February and remained at that level until the end of July, when short-term rates came under pressure owing to expectations of an acceleration in prices, causing interbank rates to rise to 5.5 per cent at the beginning of September. Inflation expectations were also reflected in an increase in the nominal yield differential between fixed-rate and index-linked government paper, which currently yields 4.5 per cent. To counter the deterioration in inflation expectations, the base rate was raised by half a point to 5.75 per cent on 12 September. A month earlier the Swedish authorities had also tightened their monetary policy to counter rising inflation.

Exchange rates

The dollar lost ground during the year, despite the fact that the short-term interest rate differentials vis-à-vis the Deutschemark and the yen moved in its favour (Figure 5). In the summer uncertainty about the future intentions of the Federal Reserve caused heightened exchange rate volatility; in mid-July the dollar fell to about 97 yen before rallying to 100 yen at the end of August (Figure 6). In late October it recorded a historic low of 96.87 yen, a depreciation of more than 8 per cent in nominal effective terms compared with the average for January. The persistence of a substantial current account deficit and rising external debt strengthened the financial markets' conviction of the need for an enduring depreciation of the dollar in order to restore the country's external position.

Figure 6

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 1993=100.

The yen continued to appreciate, albeit more slowly than last year, stimulated by the failure of the negotiations with the United States for increased foreign access to the Japanese market. The delicate political situation in Japan also contributed by reinforcing uncertainty as to whether the authorities would take decisive action to reduce the trade surplus. By mid-October the yen had gained about 13 per cent against the dollar and 8.7 per cent in effective terms compared with the January average, and was 26 per cent above the average for January 1993.

The EMS continued to enjoy the relative stability that began at the end of last year after the widening of the fluctuation bands to 15 per cent on 2 August 1993 (Figure 7). The situation was helped by the gradual lowering of official rates in Germany and by the improvement of the economic climate in Europe, which eased the conflicts between the member countries' economic policy objectives. The Belgian franc came under pressure for brief spells during the summer as a result of the increased volatility of the dollar, but the problem was successfully countered by the authorities.

From late January onwards the Deutschemark strengthened steadily not only against the dollar but also within the EMS when expectations of a less rapid reduction in German interest rates became more widespread. By mid-October its appreciation in relation to the average exchange rates for January amounted to 14.6 per cent against the dollar, 2.1 per cent against the ERM currencies and 3.4 per cent in effective terms.

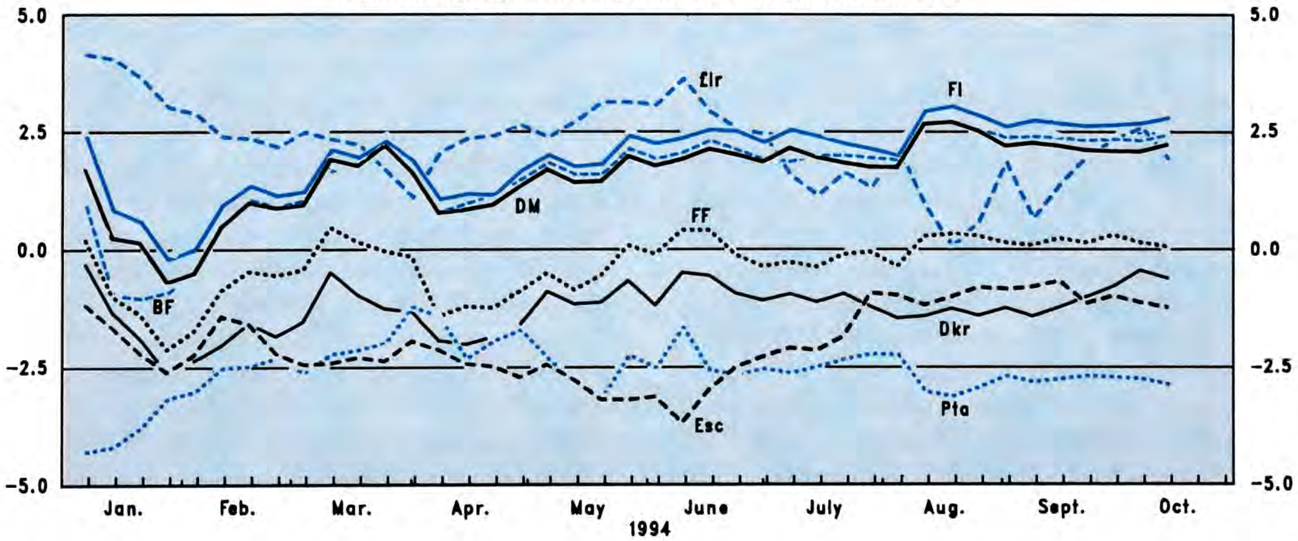
The French franc remained near the centre of the fluctuation band, except for brief periods of weakness at the beginning of the year and in April. In mid-October it showed an appreciation of 2.2 per cent in effective terms and one of 0.8 per cent vis-à-vis the ERM currencies, in both cases in relation to the average for January.

In mid-September the pound sterling was about 7 per cent below its average exchange rate for January against the Deutschemark and 3.8 per cent lower in effective terms; its depreciation in relation to the rates prevailing before its withdrawal from the ERM in September 1992 amounted to 13 per cent. The weakening of the pound was due partly to market perception that the authorities had been slow to respond to the growing risk of inflation; the pound rallied immediately when base rate was raised by half a point on 12 September, and by mid-October had recovered 1.0 per cent in effective terms.

The movements in nominal exchange rates were reflected in significant changes in competitivness between the major areas during the year (Figure 8). Provisional estimates show that the real effective exchange rate for the EU as a whole, calculated using the producer prices of manufactures, rose by more than 3 per cent between January and September, reversing a trend that had prevailed since the last quarter of 1992. Over the same period the Deutschemark appreciated in real terms by 2.1 per cent, the peseta by about 3 per cent, the Belgian franc

Figure 7

Position of ERM currencies in the fluctuation band (1)



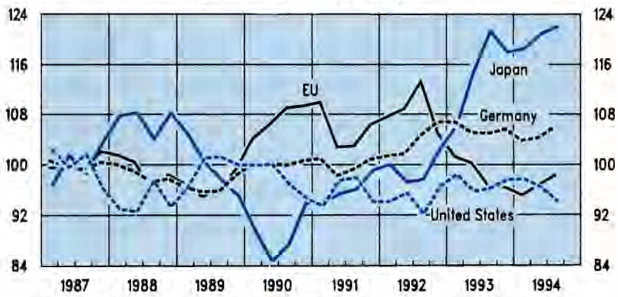
(1) Percentage divergence from the centre of the band; end-of-week data. – (2) On 2 August 1993 the fluctuation margins for all currencies were widened to 15 per cent.

by 5.6 per cent and the Dutch guilder by 4.1 per cent; in contrast, the pound sterling depreciated by a substantial 4.2 per cent, while the lira remained virtually unchanged. In Japan competitiveness recovered slightly at the beginning of the year, but subsequently deteriorated by 5.5 per cent; in September the real exchange rate of the yen was close to the peaks of a year earlier and the appreciation in relation to the low recorded in 1990 was more than 40 per cent. The progressive weakening of the dollar during the year helped to improve the competitiveness of the United States by about 5 per cent.

Figure 8

Real effective exchange rates vis-à-vis the leading industrial countries based on producer prices of manufactures (1)

(indices, 1987=100)



Sources: Based on data from IMF, OECD, Istat and national bulletins.
(1) The data for the third quarter of 1994 are partly estimated.

The international financial markets

During 1994 the shifts in monetary policy and the consequent change in expectations regarding short-term interest rates in the leading economies led to sudden and substantial movements of funds, accompanied by profound alterations in the maturity composition of portfolios. The repercussions on bond prices everywhere were considerable: between the end of December 1993 and mid-October 1994 yields on ten-year bonds in the leading industrial countries rose by an average of about 2 points, to 7.5 per cent. In the same period inflation slowed down from 2.5 to 2.2 per cent, albeit at a time when output was growing at a rate of 3.2 per cent. When adjusted for consumer price inflation, interest rates rose by more than 2 points to over 5 per cent, equalling the levels of 1988, when the rate of growth in the industrial countries touched 4.5 per cent.

The uncertainties dominating the capital markets affected international lending. In the first eight months of this year gross international bond issues amounted to $286 billion, well down on the figure of $322 billion for the corresponding period of 1993 (Table 2). The issue volume grew especially briskly in the first two months, with a peak flow of $62 billion in January, but between March and August it was about $30 billion less than a year earlier. The average maturity of new issues shortened conspicuously, while the flow of floating rate issues almost doubled to about 24 per cent of the total. The dollar segment remained the most important, slightly increasing its share. The proportion denominated in Deutschemarks, in contrast, fell by almost half, losing ground to the yen and the lira. Issues of ecu-denominated bonds increased for the first time since the summer of 1992 to $6.9 billion, almost double the volume for the first eight months of 1993.

Following the complete liberalization of the Eurolira market at the end of last year, gross Eurolira bond issues increased substantially, reaching $16 billion in the first eight months of the year, compared with $15 billion for the whole of 1993. Issues by supranational bodies continued to decline in relation to those by banks and enterprises, thus continuing a trend that had begun in September 1992 when the exemption of supranational issues from withholding tax was abolished. The increasing internationalization of the lira is also evident in the decline in the share of Italian borrowers in relation to that of foreign borrowers, particularly German banks; the leading Italian banks nonetheless continue to be the most active lead managers. In July the Republic of Italy issued five-year floating rate global bonds in three tranches denominated in dollars, yen and Deutschemarks, with a total issue volume of more than 6.35 trillion lire. An earlier issue worth 300 billion yen was launched in January of this year. Eurolira deposits also increased, from $131.5 billion at the end of 1993 to $148.8 billion at the end of March 1994.

The developing countries, Central and Eastern Europe and Russia

Economic growth remained rapid in the developing countries in the first half of this year, sustained by the recovery in the industrial countries, progress towards economic stabilization and reform and increases in the relative prices of raw materials. The GDP of the group as a whole is expected to rise by 5.6 per cent, compared with 6.1 per cent last year.

According to forecasts from international organizations, growth in Asia will slow down to 8.0 per cent, compared with 8.5 per cent in 1993. The Chinese economy is expected to continue to expand at a very rapid rate of about 11 per cent, despite the adoption of economic policies aimed at combating the sharp rise in inflation, which reached 13 per cent in 1993 and accelerated further this year, to a twelve-month rate of 20 per cent in June.

In Latin America growth is expected to be close to 3 per cent in 1994. GDP in Brazil is forecast to increase by 3.0 per cent, compared with 5.0 per cent last year; the Government has just completed a programme of monetary reform that included not only the abolition of indexation based on past inflation but also the introduction of a new currency, the real, for which a minimum value against the dollar has been fixed. The programme has had a highly positive impact on inflation: the monthly increase in prices, which had reached 45 per cent in June, fell to 1.5 per cent in September.

In Africa, after four years of economic stagnation, output is expected to increase by more than 3 per cent this year, thanks to the rise in raw materials prices.

Growth in the Middle East is likely to slow down to 1.4 per cent, compared with 4.8 per cent last year, mostly as a result of the recession in Turkey, where the serious currency crisis at the beginning of the year led the authorities to launch an austerity plan in April entailing rigorous measures to curb the budget deficit. The impact on inflation was swift: the monthly rate of price increase fell from about 24 per cent in April to 1 per cent in June.

Table 2

Gross lending in international capital markets
(billions of dollars)

	1992	1993	1993 (1)	1994 (1)
Bonds (2)	333.7	481.0	321.8	285.6
of which: floating rate	*43.6*	*69.8*	*42.5*	*68.0*
Syndicated loans (3)	117.9	136.7	95.1	75.0
Back-up facilities (4)	6.7	8.2	7.3	3.2
Total	**458.3**	**625.9**	**424.2**	**363.8**
Percentage breakdown by currency of bonds				
Lira	2.5	3.1	3.6	5.6
US dollar	36.9	35.9	34.7	35.3
Ecu	6.8	1.6	1.3	2.4
Pound sterling	7.6	10.8	12.7	10.4
Japanese yen	11.2	9.6	9.0	13.2
Deutschemark	10.4	11.8	11.8	6.9
Swiss franc	5.8	6.1	5.7	5.0
French franc	7.5	8.7	8.1	8.0
Other	11.3	12.4	13.1	13.2

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

In Central and Eastern Europe the recovery gathered momentum in the economies that have made the most progress towards macroeconomic stabilization and transition to a market economy. Output is expected to rise this year in Hungary, the Czech Republic and the three Baltic states for the first time since the reform process began; in Poland it is likely to grow by 4.5 per cent, compared with 3.8 per cent in 1993. The privatization process continues apace; according to a recent estimate by the IMF, the private sector now generates more than 50 per cent of GDP in Poland, Hungary and the Czech Republic. Although inflation is slowing down throughout the area, it remains high, in excess of 10 per cent in almost all countries. Thanks to the start of recovery in continental Europe, exports continued to expand, thereby boosting growth. The pronounced improvement in the balance of payments of the Czech Republic enabled that country to make early repayment of IMF loans totaling $470 million that had been due to mature in 1996.

In Russia economic activity slowed down further in the first half of the year, although the official figure of a fall of about 17 per cent compared with the corresponding period of 1993 may be an overestimate owing to continued statistical difficulties in measuring private sector output. The failure of Parliament to approve the restrictive fiscal measures envisaged in the plan agreed with the IMF in March led to lower than expected revenue; however, the shortfall was more than offset by substantial cuts in cash disbursements. The cash deficit of the state sector in the first half of the year amounted to 19 trillion roubles, or 8.3 per cent of GDP, almost the same as in 1993. The maintenance of a tight monetary policy, with limits on credit expansion and very high and rising real interest rates, helped to curb the rate of price increase, but inflation nonetheless remains high; the monthly rise in September was about 8 per cent, compared with 16 per cent in the fourth quarter of 1993.

The increase in payment arrears between firms and, above all, the recent collapse of the rouble are causes of concern on account of their adverse repercussions on the stabilization process. In August arrears totaled 112 trillion roubles, equal to almost 50 per cent of GDP; monetarization of the debts by the central bank, as happened in 1992, would greatly exacerbate inflation. Between the beginning of the year and the end of September the rouble depreciated by 50 per cent against the dollar; events took a dramatic turn at the beginning of October, when the rouble lost a further 25 per cent of its value against the dollar in just two days, despite massive intervention by the central bank. The currency subsequently rallied, and by mid-month had recovered much of the ground lost in previous days.

Some progress has been made with privatization, although the legislation governing property rights is still before Parliament. The transfer of some public enterprises to private ownership through the free distribution of vouchers to the public has now been completed; the Government intends to carry out the remaining privatizations through the sale of shares. In April the IMF approved disbursement of the second tranche of about $1.5 billion of a loan granted under the Systemic Transformation Facility. Negotiations for a new standby credit of about $4 billion are proceeding more slowly than foreseen owing to the Government's difficulty in formulating an adequate financial and structural policy. In June Russia's official creditors agreed under the auspices of the Paris Club to restructure the country's foreign debt, enabling it to save more than $7 billion on repayments due in 1994.

The Italian economy, the balance of payments and prices

The recovery in economic activity that had begun in the second half of 1993 strengthened in the first six months of 1994, spreading from export sectors to those oriented mainly towards the domestic market. In the first half of the year domestic demand was 1.7 per cent higher than in the previous six months, with an acceleration in the second quarter. An improvement in profitability boosted demand for capital goods but failed to generate a rise in total employment. In view of uncertainty about the scale of the recovery, firms initially took back workers who had been temporarily laid off, while labour-shedding continued in some industries, especially in the services sector, which is undergoing far-reaching restructuring.

Export growth, facilitated by stronger world demand, caused the surplus on current account to increase to about 7.7 trillion lire in the first half of the year, 6.3 trillion more than in the corresponding period of 1993.

The slowdown in inflation during the first half of 1994 came to a halt in the summer and inflation expectations worsened. The risk of an acceleration in prices is being heightened by the rise in the world prices of raw materials and the undervaluation of the lira; it is being affected by the sustained growth in demand, which is enabling producers to raise prices to offset the cumulative effects of the depreciation of the lira over the last two years, and by the widening of corporate profit margins, which were squeezed during the recession.

Demand and supply

The economic recovery gathered pace in the second quarter of 1994, when GDP grew by 1.4 per cent over the quarter after increasing by 0.4 per cent in the first. In the first half of the year as a whole output was 1.7 per cent higher than in the same period of 1993.

The largest contribution to growth again came from foreign demand. In conjunction with improvements in competitiveness generated by a further depreciation of the lira, the quickening revival in world demand in the first part of the year reinforced the growth in exports of goods and services, which were 5.6 per cent higher that in the second half of 1993. The rapid increase in the first quarter (5.3 per cent with respect to the previous period) was followed by a slight decline in the second (0.8 per cent), when the twelve-month rate of increase was 8.7 per cent.

Most of the growth in domestic demand occurred in the second quarter, when it expanded by 2.3 per cent over the preceding quarter under the impulse of a rise in private consumption, the consolidation of demand for capital goods (especially equipment and transport equipment) and the building-up of stocks of finished goods. Household consumption strengthened over the course of the first half, with the twelve-month rate of growth rising from 1.1 to 2.2 per cent between the first and second quarters. Purchases of automobiles, which have been rising since March, gained pace in the summer, with sales in August almost 13 per cent higher than a year earlier. The improvement in households' confidence in the first part of the year (Figure 9) therefore eventually translated into an increase in consumption. Real disposable incomes in the private sector, and especially profits, presumably grew even more rapidly than consumption (the increase in gross per capita earnings, by contrast, was more modest and less than the rise in consumer prices). The propensity to consume may therefore have declined further, partly reflecting uncertainty about the pace and scale of the recovery in employment.

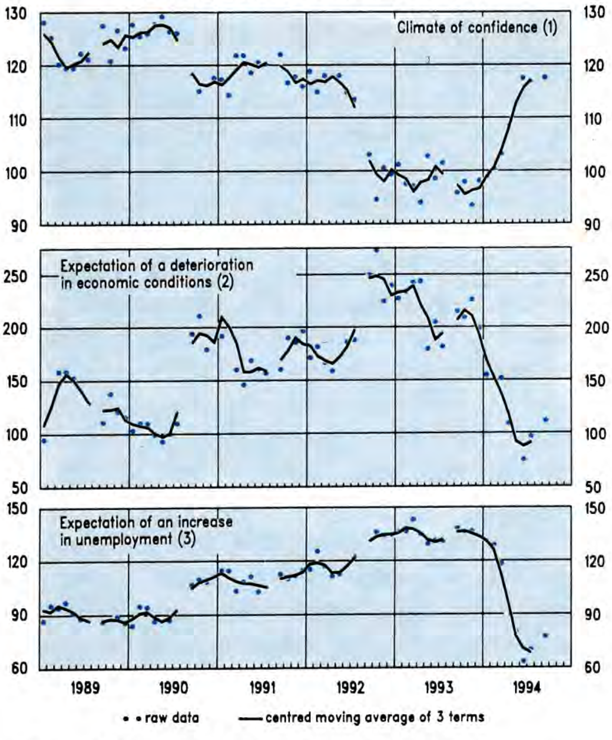
Optimism concerning the prospects for market growth and profitability stimulated investment demand. Gross fixed investment was 1.5 per cent higher in the first half of the year than in the preceding period, but was still 1.8 per cent lower than a year

2

earlier. There was a considerable increase in investment in machinery, which in the second quarter was 5.9 per cent higher than a year earlier and 1.9 per cent up on the first quarter. Demand for transport equipment was less buoyant, but nevertheless rose by 4 per cent between the first and second quarters. By contrast, spending on construction continued to fall, contracting by 1.6 per cent between the second half of 1993 and the first half of 1994, presumably owing partly to the grave problems that continue to affect the public works sector. A strong contribution to domestic demand in the second quarter came from the rebuilding of stocks of finished goods, which had been run down in 1993 and early 1994.

Figure 9

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



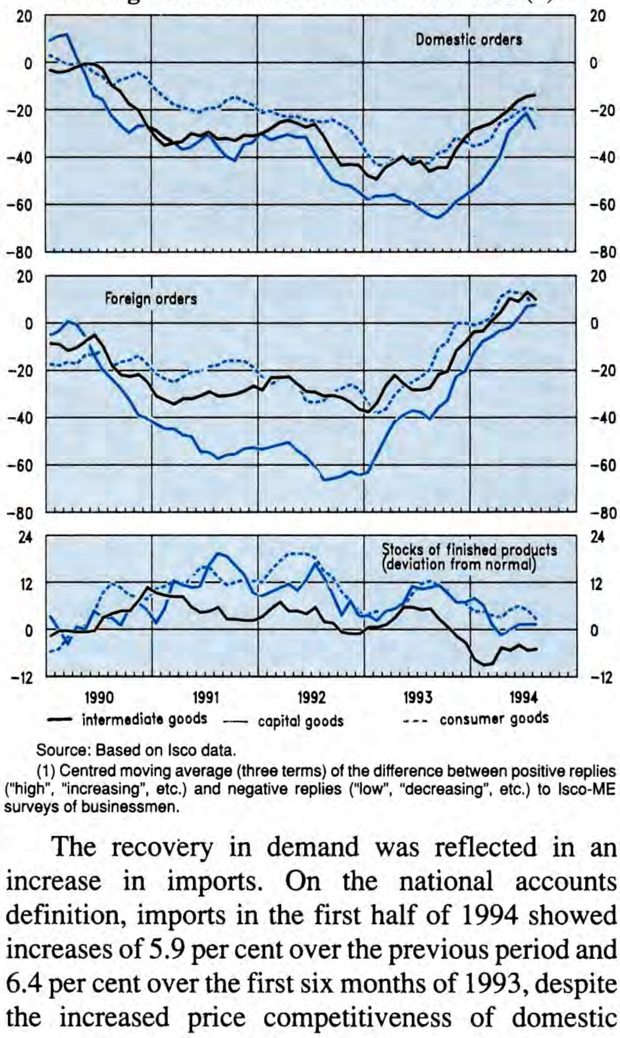
Sources: Based on Isco data; no survey is taken in August.

(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 sample survey of manufacturing firms with 50 or more employees conducted by the Bank of Italy's branches in September showed only a slight upward revision of the investment plans reported in January, but a considerable rise in investment planned for 1995. The latter improvement was attributed to an increase in orders, accompanied by a significant rise in capacity utilization rates.

Figure 10

Foreign and domestic orders and stocks (1)



Source: Based on Isco data.

(1) Centred moving average (three terms) of the difference between positive replies ("high", "increasing", etc.) and negative replies ("low", "decreasing", etc.) to Isco-ME surveys of businessmen.

The recovery in demand was reflected in an increase in imports. On the national accounts definition, imports in the first half of 1994 showed increases of 5.9 per cent over the previous period and 6.4 per cent over the first six months of 1993, despite the increased price competitiveness of domestic goods and services. In the second quarter the increase over the year was 8 per cent.

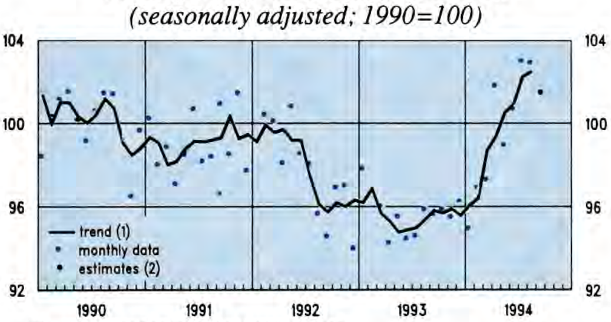
Non-exporting sectors also benefited from the stimulus generated by foreign demand. The increase in export turnover had already been discernible in virtually all branches of industry in 1993; the growth in domestic sales gained momentum in 1994, mainly in industries producing intermediate and capital goods and, from May onwards, consumer goods. A similar picture also emerges from the Isco business surveys, which show that domestic orders for consumer goods expanded at a similar rate to those for the other sectors only from the late spring onwards (Figure 10). The surveys also indicate that the running-down of stocks of finished products in manufacturing industry rapidly came to a halt.

The acceleration in demand at a time of reduced stocks triggered a sharp increase in industrial activity. In the first eight months of the year the index of industrial production was 3.7 per cent higher than in the same period of 1993 (Figure 11). Adjusted for the number of working days, the increase came to 4.2 per cent; figures for electricity consumption indicate a rise of 4.3 per cent in the first nine months of the year. Growth was most rapid in the sectors with a high export quotient (machinery, motor vehicles, footwear, textiles and clothing). According to the Isco business surveys, the capacity utilization rate was more than 2 points higher in the second quarter than in the same period of 1993, but still lower than at the end of the eighties. There was a considerable fall in the number of firms citing the level of demand as an obstacle to an expansion in production.

Figure 11

Average daily industrial production

(seasonally adjusted; 1990=100)



Sources: Based on Istat, Isco and Enel data.

(1) Centred moving average of three terms. – (2) Based on electricity consumption and the Isco "production trends" indicator.

Signs of recovery are less pronounced outside manufacturing industry, owing both to the lower proportion of exports and relatively weak demand in a number of sectors. Value added continued to decline in the construction industry, falling by 1 per cent between the first and second quarters, and in agriculture, where it contracted by 0.9 per cent; in market services it increased by 1 per cent in both the first and second quarters. Turnover in distribution was unchanged at constant prices, and demand continued to shift towards large retail outlets. Tourism benefited from greater competitiveness vis-à-vis destinations abroad, with overnight stays increasing by 7.8 per cent in the first five months of the year with respect to the corresponding period of 1993, thanks to a rise in the number of foreign tourists. Signs of improvement are also emerging in sectors more directly affected by the level of industrial production, such as railway freight traffic, which increased by 6.6 per cent in the first seven months of the year compared with the same period of 1993.

The labour market

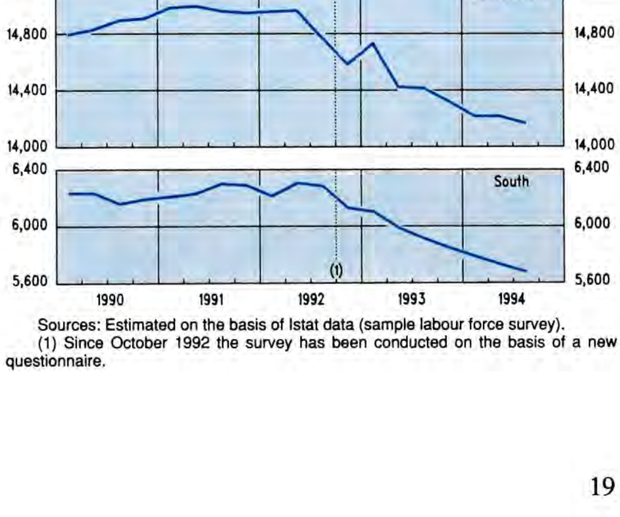
The economic recovery is only slowly filtering through to the labour market, which continues to be affected by restructuring aimed at increasing efficiency in a number of sectors.

According to the July labour force survey, total employment was down by 487,000 over the year, a contraction of 2.4 per cent. A rise of 0.6 per cent in relation to April was due entirely to seasonal factors; on a seasonally adjusted basis there was a decline of about 90,000 over that period (Figure 12).

Figure 12

Employment according to the labour force survey

(corrected, seasonally adjusted data; thousands of persons)



Sources: Estimated on the basis of Istat data (sample labour force survey).

(1) Since October 1992 the survey has been conducted on the basis of a new questionnaire.

The state of the economy: information gathered from a sample survey of manufacturing firms

In the last two weeks of September the Bank of Italy's branches surveyed a sample of 726 manufacturing firms drawn from among those that participate in the Investment Survey conducted at the beginning of each year. The purpose of the September survey was to ascertain the extent to which investment and employment plans had been implemented and to gather information of use in assessing current economic conditions.

The results confirm that firms' profitability has improved, although the improvement has yet to be reflected in investment and employment decisions. They also reveal significant disparities of performance according to geographic location and exposure to foreign demand: companies in the North and those with a high proportion of export sales are benefiting most from the recovery. While the sample as a whole shows wide margins of unused capacity, there are discernible signs of an acceleration in prices, primarily in firms experiencing a more marked growth in demand. Domestic demand is expected to increase substantially over the next twelve months and should then result in a more pronounced revival of investment.

Table 1

Survey of manufacturing firms (September 1994) (1)

(percentage breakdown of responses)

	Size of firm according to number of employees				
	50-99	100-199	200-999	More than 999	Total
Expected result for 1994					
Profit	66.3	69.7	67.1	71.7	67.5
Break-even	13.3	15.5	17.7	15.5	14.6
Loss	20.4	14.9	15.3	12.8	17.9
Actual compared with planned investment in 1994					
Higher	29.3	26.6	20.2	25.8	27.1
Practically the same	53.0	48.8	55.2	50.2	52.1
Lower	17.7	24.6	24.7	24.0	20.9
Investment planned for 1995					
Higher	33.6	51.5	45.6	41.9	40.8
Unchanged	54.9	33.7	44.3	48.6	47.0
Lower	11.5	14.8	10.1	9.5	12.2
Employment at the end of 1994 compared with the planned level					
Higher	21.3	22.1	18.6	18.0	21.0
Practically the same	62.7	53.4	49.5	54.0	57.8
Lower	16.0	24.4	31.9	28.0	21.1
Expected demand for the next twelve months					
Rising	55.1	53.6	50.6	53.2	53.9
Stable	37.9	41.3	40.3	36.7	39.2
Falling	7.0	5.0	9.1	10.1	6.8
Level of demand compared with productive capacity					
Higher	24.4	14.8	14.6	14.5	19.9
Even	30.6	38.9	37.1	54.0	34.5
Lower	45.1	46.3	48.3	31.5	45.7
Expected level of prices at end-1994 compared with end-1993					
Much higher	19.0	19.6	11.7	12.6	17.8
Moderately higher	28.6	29.3	25.6	18.8	28.1
Marginally higher	18.9	16.6	23.4	28.2	19.2
About the same	27.6	24.0	27.8	26.2	26.6
Lower	5.9	10.6	11.4	14.2	8.3

(1) The survey was conducted by means of telephone interviews between 19 and 30 September 1994 and is based on a sample of 726 manufacturing firms with 50 employees or more. The sample, stratified by size of firm and branch of industry, was drawn at random from the larger sample used for the Bank's annual Investment Survey, subject to the constraints of a roughly equal number of firms in each stratum and a minimum number for each geographic area. Among the firms contacted, 49 (around 6 per cent) were unwilling or unable to participate and were replaced by firms as similar to them as possible in size and branch of activity. The aggregates were estimated by assigning to each unit of the sample a weight that at the level of each stratum takes account of the ratio of the number of firms surveyed to that of the firms in the larger sample. With regard to the variability of the results, the estimated percentage shares are judged to have standard errors not exceeding 2 per cent, or confidence intervals of not more than 4 percentage points at the 95 per cent level. For narrower domains, the standard errors are larger since the statistics are based on a smaller sub-sample. For example, the estimates given by size class should have standard errors about twice as large as those for the sample as a whole.

Sixty-eight per cent of the firms expect to show a profit in 1994 and 18 per cent to show a loss (Table 1); the corresponding figures in September 1993 were 52 and 27 per cent. Only half of the firms that in the previous survey foresaw a loss for 1993 expect to be in the same position this year, while one third expect to show a profit; less than 3 per cent of those that foresaw a profit in 1993 expect to make a loss this year.

Capital spending in 1994 is likely to be slightly larger than the amount planned at the end of 1993. Twenty-seven per cent of the firms sampled report that they have revised their investment plans upwards; the proportion is higher among small firms (those with between 50 and 99 employees). The behaviour of demand is the reason stated in the great majority of cases for the upward revision of investment plans; financial factors as well as the behaviour of demand figure prominently among the reasons cited for downward revisions (Table 2)

A more pronounced revival in investment should occur in 1995. Of the firms surveyed, 41 per cent expect their capital spending to increase, in some cases markedly, and only 12 per cent indicate that it is likely to decrease. In contrast with the current year, the growth in investment should be more widespread among larger firms.

For the sample as a whole, employment at the end of 1994 is expected to show no change from the levels planned at the end of last year. Three fifths of the firms confirm their plans, one fifth revise them upwards and the remaining fifth downwards. The revisions in either direction are primarily due to the behaviour of demand; the weight attributed to changes in the tax and social security rules and labour legislation is virtually negligible (Table 2). The initially projected fall in employment, estimated at 3 per cent in the survey conducted at the beginning of 1994, is therefore likely to be confirmed.

One fifth of the firms report that the level of demand and orders is currently higher than productive capacity. This situation is more common among small firms (24 per cent), whereas 20 per cent of the medium-to-large firms (those with between 200 and 999 employees) report large excess capacity. Where pressures on capacity are present, they appear to be pushing up prices. Nearly half of the firms expect the prices of their products to be higher at the end of 1994 than a year earlier; 18 per cent expect the increase to be considerable. More than half of the firms that report demand to be well in excess of capacity forecast price rises of over 6 per cent; conversely, the firms that expect the prices of their products to fall are concentrated among those reporting a wide margin of spare capacity (Table 3).

Table 2

Reasons for changes in investment and employment plans
(percentage breakdown of responses)

Reasons for changes in investment plans	Actual compared with planned investment in 1994		
	Higher	Lower	Total sample
Behaviour of demand	44.8	38.1	41.8
Financial factors	3.4	22.9	12.0
Changes in uncertainty	3.7	14.8	8.6
Other	48.1	24.2	37.5
Reasons for changes in employment plans	**Employment at the end of 1994 compared with the planned level**		
	Higher	Lower	Total sample
Behaviour of demand	74.3	38.5	56.9
Changes in technology	8.1	24.5	16.0
Level of wages	..	0.6	0.3
Tax and social security rules	0.5	2.5	1.5
Labour legislation	1.5	7.3	4.3
Other	15.6	26.6	20.9

More than half of the firms surveyed expect domestic demand for their products to increase in the next twelve months; only 7 per cent expect it to slacken. The broadening of the recovery in domestic demand could fuel inflationary pressures

The effects of the recovery are more conspicuous among firms in the North, while reports of difficulties are more frequent among those in the Centre and South.

Table 3

Expected changes in prices and demand
(percentage breakdown of responses)

Demand compared with capacity	Expected prices at end-1994 compared with end-1993				
	Much higher	Higher	About the same	Lower	Total
Much higher	53.3	22.9	20.3	3.5	100.0
Marginally higher	28.4	39.7	31.2	0.7	100.0
Even	15.1	53.9	24.3	6.6	100.0
Marginally lower	14.6	52.6	25.3	7.6	100.0
Much lower	10.2	36.2	31.3	22.4	100.0

Employment trends differed according to geographical area and sector, with more severe conditions in the South than in the Centre and North. The disparity is due partly to differences in the productive structures of the respective areas. In manufacturing industry, which is concentrated in the North, the economic recovery virtually halted the destruction of jobs, with employment in July only 0.2 per cent lower than a year earlier; the survey shows a twelve-month decline of about 8,000 in manufacturing and one of 12,000 in the energy sector, but this was more than offset by a reduction in recourse to wage supplementation, which produced an average rise of about 90,000 in full-time equivalent employment in the first six months of the year.

By contrast, the contraction in employment in the construction industry worsened, recording a twelve-month decline of 6.4 per cent in July compared with one of 2.8 per cent in January. The services sector also had a distinctly negative impact on total employment; average employment in the sector between January and July was 280,000 lower than in the same period of 1993, accounting for nearly half the decline in overall employment. Most of the fall was in the distributive trades (over 150,000, including lodging and catering) and transport and communications (39,000), where restructuring continues apace, especially in large companies. Within the distributive trades there was a further decline in employment in small enterprises but a net increase in that in large stores in the first half of the year.

Against a background of uncertainty about the scale of the recovery and future developments in the labour market, firms elected to exploit existing flexibility to meet additional labour requirements. In the second quarter the number of full-time equivalent workers receiving wage supplementation was 16.5 per cent less than in the same period of 1993 owing to a decline of almost a half in the number of hours compensated by ordinary wage supplementation, which is more sensitive to cyclical conditions. Recourse to other unemployment instruments continued to increase rapidly, however; for example, the use of mobility procedures rose by more than 50 per cent in the second quarter, with an even larger rise in the South (more than 80 per cent), in many cases involving workers who had previously been receiving wage supplementation.

The unemployment rate stood at 11 per cent in July, a rise of 0.7 points compared with July 1993. The impact of the protracted decline in employment on the unemployment rate was partly offset by an increase in the number of discouraged job seekers withdrawing from the labour market. The disparity between the South and the rest of the country widened; in July the unemployment rate was 7.2 per cent in the Centre and North and 19.3 per cent in the South.

Legislation was introduced in the summer to encourage job creation and increase labour flexibility. The principal measures, contained in Decree Law 357 of 10 June 1994 (ratified by Law 489 of 8 August), grant tax credits to firms recruiting first-job seekers and disadvantaged workers on permanent contracts and establish a temporary lump-sum taxation regime for new businesses set up by young or disadvantaged persons or those working in specific sectors.

The tax credit for employers who show a net increase in their work force is in the form of a tax rebate equal to 25 per cent of new employees' taxable income up to 30 million lire per year. The credit will expire in 1996. The incentives for the creation of new enterprises consist in a three-year exemption from all national and local taxes except VAT; eligible enterprises can pay a fixed sum in lieu of tax.

The selectivity of the concessions, which primarily favour young unemployed persons and other disadvantaged categories, is intended not only to provide equality of opportunity but also to enhance the flexibility of the labour market by countering the tendency of firms to postpone recruitment, despite the improvement in economic conditions, owing to uncertainty about the scope of the recovery and the rigidities in labour turnover. Firms that are about to begin operations or that had already planned to expand their work forces may also take advantage of the concessions; it is therefore difficult to judge the effects of the measures in terms of additional employment.

The industrial relations climate in the first half of the year continued to benefit from the agreement reached between employers, unions and the Government in the summer of 1993. Wage growth remained moderate in both the private and public sectors, with the general index of contractual wages increasing by 2 per cent in the first eight months of the year compared with the same period a year earlier. The rise was larger in industry excluding construction (3.2 per cent). In accordance with the agreement, contracts signed in the first half of the year in the metal and engineering sector and in the chemical industry include wage increases in line with planned inflation. Many industry-wide contracts are due for renewal between now and the end of 1995, when there will also be a round of company-level bargaining. The lesser constraints on local bargaining compared with national negotiations could lead to an acceleration in wage growth, especially in view of the large productivity gains firms are reaping during the upturn.

The balance of payments on current account

According to provisional and partly estimated figures, the current account of the balance of payments showed a surplus of 7.7 trillion lire in the first six months of 1994, about 6.3 trillion more than in the corresponding period of 1993 (Table 3). The improvement is entirely attributable to the favourable performance of merchandise trade, which recorded a surplus of more than 25.6 trillion lire in the first half of the year, compared with one of about 18.4 trillion in the same period a year earlier. The deficit on invisibles widened slightly, with an increase in the surplus on foreign travel only partly offsetting a rise in the deficit on other services, investment income and unrequited transfers.

In the first seven months of 1994 *cif-fob* merchandise exports were 13.2 per cent higher in value terms than in the corresponding period of the previous year; in 1993 as a whole they had grown by an average of 20.8 per cent. Imports began to grow again after stagnating in 1993; on the same basis of comparison they showed an increase of 11.6 per cent in value terms.

Table 3

Balance of payments
(net, in billions of lire)

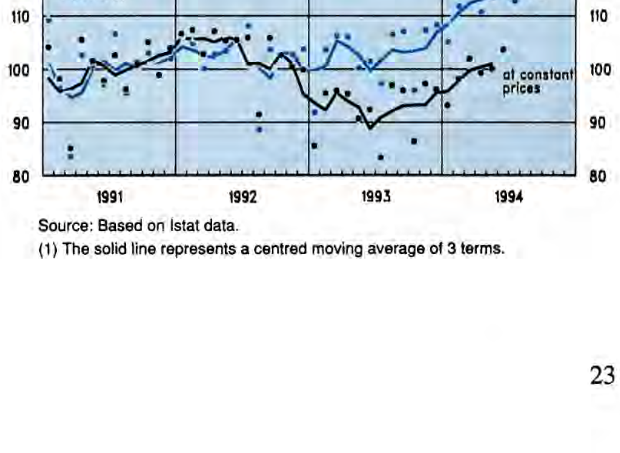
	1993 (1)			1994 (2)
	Year	H1	H2	H1
Current account	17,985	1,400	16,585	7,706
Goods	51,106	18,392	32,714	25,626
Invisibles	–33,121	–16,992	–16,129	–17,920
Capital movements .	12,863	13,489	–626	–9,028
Non-bank capital ..	96,059	63,200	32,859	–26,420
Bank capital	–83,196	–49,711	–33,485	17,392
Errors and omissions	–28,642	–14,493	–14,149	6,442
Change in official reserves (3)	–2,206	–396	–1,810	–5,120

(1) Provisional. – (2) Provisional and partly estimated. – (3) At constant exchange rates and gold prices. A minus sign (–) indicates an increase in the reserves.

According to figures released so far by Istat on the price and volume components of trade, which are available up to the end of June 1994, the volume of exports continued to grow at a rate similar to that observed in 1993, albeit with fluctuations (Figure 13 and Table 4). However, there was a change in the

Figure 13

Merchandise trade, *cif-fob* at current and constant prices
(seasonally adjusted; indices, 1991=100)



Source: Based on Istat data.
(1) The solid line represents a centred moving average of 3 terms.

Table 4

Merchandise trade, *cif-fob*

(seasonally adjusted; percentage changes on previous period)

	1993					1994		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Jan.-June (1)
Exports:								
At current prices	20.8	9.4	3.4	4.0	4.5	3.4	0.4	14.8
Average unit values	11.4	5.3	1.6	2.0	0.1	1.1	–0.1	4.1
At constant prices	8.5	3.9	1.7	1.9	4.4	2.2	0.6	10.3
Imports:								
At current prices	0.1	–2.5	3.6	–1.5	1.3	6.6	4.7	10.6
Average unit values	11.7	6.5	3.1	–0.8	..	1.7	1.3	3.1
At constant prices	–10.4	–8.6	0.5	–0.7	1.3	4.8	3.4	7.3
Exports/imports:								
At current prices	19.6	12.5	–0.4	6.1	2.7	–3.2	–3.9	3.5
Average unit values	–0.3	–1.2	–1.4	2.8	0.1	–0.5	–1.4	1.0
At constant prices	20.0	13.8	1.0	3.2	2.6	–2.7	–2.6	2.5
Memorandum items:								
Real exchange rate of the lira (2)								
Overall	*–13.5*	*–6.0*	*1.9*	*–0.7*	*–3.0*	*–0.1*	*2.7*	*–1.3*
Export	*–8.1*	*–2.5*	*1.5*	*–1.0*	*–2.0*	*–0.4*	....	*–1.9* (3)
Import	*–11.8*	*–4.7*	*2.1*	*–0.3*	*–3.6*	*–0.1*	....	*–1.9* (3)
Domestic demand	*–4.1*	*–2.9*	*0.2*	*–1.8*	*0.9*	*–1.5*	*2.3*	*1.0*

Sources: Based on Istat, OECD and IMF data.
(1) Percentage changes on corresponding period; not seasonally adjusted. – (2) Not seasonally adjusted; a minus sign indicates a gain in competitiveness. The overall real exchange rate is based on the producer prices of manufactures, while that for exports and imports is based on the average unit values of the two trade flows. – (3) January-March.

relative importance of the factors underlying the growth. In the first half of 1993 export volumes had benefited primarily from the devaluation of the lira in September 1992. The real effective depreciation with respect to August 1992 averaged 16.6 per cent in the first six months of 1993 on the basis of domestic producer prices; measured in terms of export prices, the gain in competitiveness was still considerable, although smaller (9.7 per cent) owing to the widening of exporters' profit margins. The decline in domestic demand, which was very pronounced in the first half of last year, created a further incentive to expand foreign sales. The diminishing effects of improved competitiveness were subsequently replaced by the impetus from the recovery in world trade, which proved stronger than had been estimated at the beginning of 1994.

The volume of imports, which had been declining since the last quarter of 1992, began to grow rapidly again in the second half of 1993, and by June 1994 had equaled the average level of three years ago. The recovery in imports reflected the strengthening of demand, while the constraint imposed by the greater competitiveness of domestic goods gradually eased as the real exchange rate stabilized.

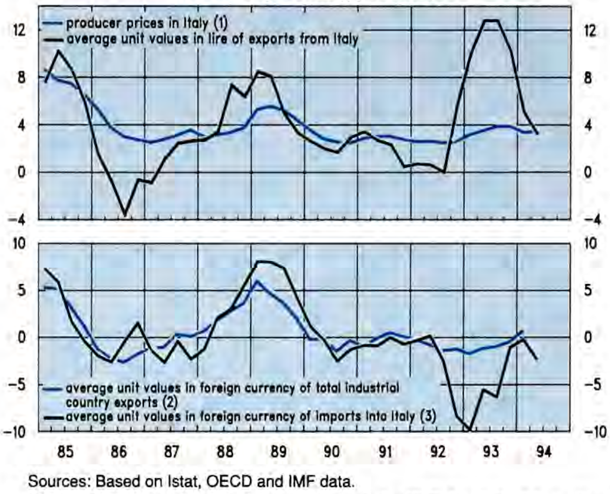
The rise in the average unit values of exports in lire immediately following the devaluation of the lira gradually declined over the course of 1993, reflecting the elimination of the scope that changes in the nominal exchange rate gave exporters to raise their prices. The positive differential between the twelve-month rate of increase in the prices of exported manufactures and that in the prices of industrial output for the domestic market virtually disappeared in the second quarter of 1994.

The rate of growth in the average unit values of imports had also slowed down progressively in 1993, but it showed signs of accelerating again this year (Table 5) under the stimulus of the rise in international crude oil prices and the even more rapid increase in the prices of other raw materials; in the second quarter, this was partly offset by the appreciation of the lira vis-à-vis the US dollar. The lira prices of imported manufactures (which account for more than 60 per cent of Italy's foreign purchases) stabilized during the first half of the year, with little change in the nominal effective exchange rate for imports. The rate of increase in the foreign currency equivalent of the lira prices charged in the Italian market by foreign producers slowed down sharply from the fourth quarter of 1993 onwards and is now in line with the rise in their average prices in other industrial countries, marking the end of the squeeze on suppliers' profit margins in Italy (Figure 14).

Figure 14

Indicators of the pricing policies of Italian and foreign manufacturers

(not seasonally adjusted; percentage changes on corresponding period)



Sources: Based on Istat, OECD and IMF data.

(1) Manufactures produced for the domestic market. – (2) Refers to the 14 countries included in the indicator of the real exchange rate of the lira. – (3) Expressed in the currencies of the leading exporters of manufactures to Italy.

Table 5

Average unit values of imports in lire and main price determinants

(seasonally adjusted; percentage changes on previous period)

	1993					1994	
	Year	Q1	Q2	Q3	Q4	Q1	Q2
Average unit values							
Total imports	11.7	6.5	3.1	–0.8	..	1.7	1.3
Fuels	16.3	13.7	1.0	–3.4	–7.1	3.7	2.8
Non-fuel raw materials	14.2	6.6	3.6	2.5	0.4	4.4	–0.3
Manufactures	12.4	6.2	3.2	–0.2	1.4	0.2	0.1
World prices in foreign currency							
Oil ($)	–11.0	6.7	–4.1	–15.3	–8.1	3.7	9.5
Non-oil raw materials ($)	0.4	2.9	–4.4	1.2	6.4	5.0	7.6
Manufactures (various currencies)	–1.1	–0.8	0.1	–0.2	0.2	0.5	0.7
Exchange rates (1)							
Dollar/lira	–21.8	–11.8	2.6	–5.1	–4.0	–2.0	5.0
Effective nominal, lira (2)	–16.2	–7.1	1.1	–1.3	–3.6	–0.9	2.0

Sources: Based on Istat and IMF data.

(1) Not seasonally adjusted. – (2) Weighted according to the geographic composition of Italian imports of manufactures; a minus sign indicates a depreciation of the lira.

Export and import volumes were respectively 10.3 and 7.3 per cent higher in the first six months of 1994 than in the corresponding period of 1993. The average unit values of exports rose by 4.1 per cent and those of imports by 3.1 per cent. The terms of trade therefore improved slightly, by 0.9 per cent. However, on the basis of seasonally adjusted figures, the differential between the rise in export prices and that in import prices turned negative and is widening. Unless the lira strengthens, further increases in the foreign currency prices of imported manufactures aimed at halting or reversing the narrowing of profit margins and in the prices of raw materials could aggravate the deterioration in Italy's terms of trade.

The improvement in the *cif-fob* trade balance at current prices in the first seven months of 1994 compared with a year earlier was largely the result of an increase of 3 trillion lire in the surplus on metal and engineering products and one of 1.7 trillion in that on textiles, leather products and clothing, and an improvement in the balance on transport equipment, which swung from a deficit to a surplus owing to a sharp rise of 18.1 per cent in exports and unchanged imports (Table 6). An increase in the deficit on trade in chemical products and ferrous and non-ferrous minerals contrasted with an unchanged deficit recorded by the energy sector.

A geographic breakdown of merchandise trade flows for the period from January to June reveals a considerable increase in the surplus vis-à-vis the OECD countries, which widened from 6.2 trillion lire in 1993 to 10 trillion this year (Table 7). More than half of the improvement occurred in trade with the United States, with exports increasing by 23.2 per cent and accounting for an average of 7.9 per cent of Italy's total exports. The surplus on trade with the EU countries widened less markedly (from 4.3 to 4.6 trillion lire), owing to slower export growth and a more pronounced increase in imports. The reduction in the deficit vis-à-vis the OPEC countries was accompanied by an increase in the surplus with developing countries, in particular the newly industrialized economies of Asia. The surplus with the latter widened by 1.7 trillion lire, with export growth of 40.5 per cent greatly outstripping the weak expansion of imports. The proportion of Italy's exports going to these countries rose from 2.9 per cent in 1992 to 4.3 per cent in the first six months of 1994.

Table 6

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

(cif-fob;*billions of lire)*

	Exports		Imports		Balance	
	1993	1994	1993	1994	1993	1994
Agricultural, forestry and fishery products	3,659	4,363	8,445	9,493	–4,786	–5,130
Fuel and power products	3,332	2,829	16,286	16,008	–12,954	–13,179
Ferrous and non-ferrous ores and metals	7,205	7,843	11,934	14,256	–4,729	–6,413
Non-metallic and mineral products	6,423	7,401	2,776	2,983	3,647	4,418
Chemical products	12,234	13,902	18,808	21,972	–6,574	–8,070
Metal products and machinery	53,625	60,698	29,915	33,940	23,710	26,758
Transport equipment	14,020	16,563	15,936	16,155	–1,916	408
Food, beverages and tobacco products	6,895	7,202	11,366	12,389	–4,471	–5,187
Textiles, leather products and clothing	26,687	30,858	9,618	12,105	17,069	18,753
Other	19,580	22,210	11,699	13,308	7,881	8,902
Total	**153,660**	**173,869**	**136,783**	**152,609**	**16,877**	**21,260**

Source: Istat.

(1) The underlying figures for trade with EU countries used to construct the table refer only to those firms with sales or purchases of more than 50 million lire within the EU in 1993 and 1994; they therefore account for only a part of total trade by Italian importers and exporters.

Table 7

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

	Exports				Imports				Balance	
	Value *(billions of lire)*		Percentage change	Percentage of total 1994	Value *(billions of lire)*		Percentage change	Percentage of total 1994	Value *(billions of lire)*	
	1993	1994			1993	1994			1993	1994
OECD	**93,724**	**108,727**	**16.0**	**74.1**	**87,514**	**98,730**	**12.8**	**75.1**	**6,210**	**9,997**
EU	68,089	78,028	14.6	53.2	63,754	73,413	15.1	55.8	4,335	4,615
of which: France	*17,127*	*19,246*	*12.4*	*13.1*	*16,122*	*17,899*	*11.0*	*13.6*	*1,005*	*1,347*
Germany	*24,742*	*27,766*	*12.2*	*18.9*	*22,045*	*24,835*	*12.7*	*18.9*	*2,697*	*2,931*
United Kingdom	*7,880*	*9,328*	*18.4*	*6.4*	*6,410*	*7,994*	*24.7*	*6.1*	*1,470*	*1,334*
Spain	*5,636*	*6,755*	*19.8*	*4.6*	*3,944*	*5,081*	*28.8*	*3.9*	*1,692*	*1,674*
Switzerland	5,058	5,587	10.5	3.8	6,010	6,583	9.5	5.0	–952	–996
Other European countries (2)	7,112	7,852	10.4	5.3	6,147	6,939	12.9	5.3	965	913
Other OECD countries (3)	13,465	17,260	28.2	11.8	11,603	11,795	1.6	9.0	1,862	5,465
of which: Japan	*2,285*	*3,164*	*38.5*	*2.2*	*3,298*	*3,311*	*0.4*	*2.5*	*–1,013*	*–147*
United States	*9,444*	*11,632*	*23.2*	*7.9*	*6,686*	*6,437*	*–3.7*	*4.9*	*2,758*	*5,195*
Eastern European countries (4)	**5,142**	**6,309**	**22.7**	**4.3**	**6,145**	**7,477**	**21.7**	**5.7**	**–1,003**	**–1,168**
OPEC countries (5)	**6,486**	**6,079**	**–6.3**	**4.1**	**8,202**	**7,121**	**–13.2**	**5.4**	**–1,716**	**–1,042**
Other	**20,782**	**25,650**	**23.4**	**17.5**	**15,717**	**18,184**	**15.7**	**13.8**	**5,065**	**7,466**
of which: China	*1,757*	*1,929*	*9.8*	*1.3*	*2,079*	*2,512*	*20.8*	*1.9*	*–322*	*–583*
Asian NIEs (6)	*4,320*	6,068	40.5	4.1	2,016	2,066	2.5	1.6	2,304	4,002
Total	**126,134**	**146,765**	**16.4**	**100**	**117,578**	**131,512**	**11.8**	**100**	**8,556**	**15,253**

Source: Based on Istat data.
(1) See footnote (1) to Table 6. – (2) Austria, Finland, Iceland, Norway, Sweden and Turkey. – (3) Australia, Canada, Japan, New Zealand and the United States. – (4) Albania, Bulgaria, former Czechoslovakia, Hungary, Poland, Romania, and the former USSR. – (5) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. – (6) Hong Kong, Singapore, South Korea and Taiwan.

The surplus on foreign travel was about 3.1 trillion lire higher in the first six months of the year than in the same period of 1993, rising from 5.4 to 8.5 trillion lire (Table 8). The result confirms the reversal of trend that first emerged in 1993, primarily reflecting the lagged contraction in Italian spending abroad by 18.3 per cent in response to the reduction in real disposable incomes and the appreciable improvement in the competitiveness of Italian tourist services the previous year (Figure 15). Spending by foreigners in Italy increased by 7.6 per cent. The number of foreign visitors entering Italy and the number of overnight stays increased by 8.4 and 22.2 per cent respectively in the first six months of the year, a marked acceleration with respect to 1993.

There was a net outflow of nearly 13 trillion lire in investment income in the first half of 1994, about 1 trillion more than in the corresponding period of 1993. Gross inflows, which in 1993 had amounted to about two thirds of outflows, grew by 4.5 per cent, while gross outflows increased by 5.6 per cent. The succession of current account surpluses and the consequent reduction in net foreign debt have not yet halted the growth in net outflows associated with interest payments.

Table 8

Current account of the balance of payments

(balances in billions of lire)

	1993 (1)			1994 (2)
	Year	H1	H2	H1
Goods	51,106	18,392	32,714	25,626
Services	980	–462	1,442	78
Transport	–5,601	–2,310	–3,291	–4,292
Foreign travel	12,555	5,436	7,119	8,479
Other	–5,974	–3,588	–2,386	–4,109
Income	–25,635	–11,800	–13,835	–12,869
earned income	–111	228	–339	65
investment income ..	–25,524	–12,028	–13,496	–12,934
Transfers	–8,466	–4,730	–3,736	–5,129
Private	724	188	536	–416
of which: remittances	*677*	*383*	*294*	*279*
Public	–9,190	–4,918	–4,272	–4,713
of which: EU	*–4,482*	*–3,113*	*–1,369*	*–3,353*
Total . . .	**17,985**	**1,400**	**16,585**	**7,706**

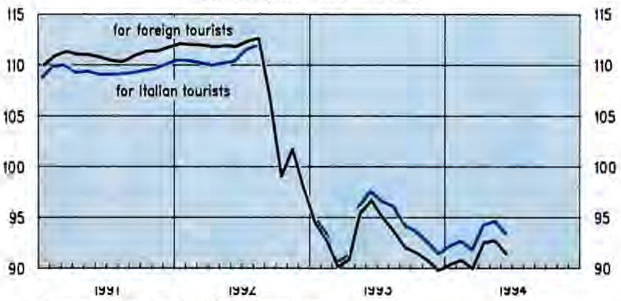
(1) Provisional. – (2) Provisional and partly estimated.

The deficit on unrequited transfers increased to about 5.5 trillion lire in the first half, over 700 billion lire more than in the same period of 1993. The deterioration is largely attributable to private transfers, and especially to the considerable outflows (688 billion) recorded in January in respect of "damages and penalties". The surplus on emigrants' remittances decreased by about 100 billion lire. Official transfers to and from the European Union showed a net deficit of almost 3.4 trillion lire, compared with one of 3.1 trillion in the corresponding period of the previous year.

Figure 15

Real effective exchange rate of the lira: international competitiveness of Italian tourist services (1)

(indices, 1985=100)



Sources: Based on OECD and Istat data.
(1) An increase indicates a loss of competitiveness.

Capital movements

A number of the time series on capital movements have undergone major revision, in particular those affected by the new criteria for recording repurchase agreements between residents and non-residents. According to available provisional figures, there were net outflows of non-bank capital of more than 26.4 trillion lire in the first half of 1994, compared with net inflows of 32.9 trillion in the previous six months; by contrast, Italian banks recorded net inflows of 17.4 trillion lire, compared with outflows of 33.5 trillion in the second half of 1993 (Table 9).

The weakening of inflows of foreign investment is worthy of particular note. The slowdown that was already evident in the last quarter of 1993 became more marked in the first few months of this year as political uncertainty increased in the run-up to the general election. In the second quarter foreign portfolio disinvestment considerably outweighed new investment, giving rise to net outflows of more than 20.3 trillion lire; there were further net outflows of about 6.9 trillion in July and August.

Most of the fall in foreign investment took the form of a reduction in purchases of Italian government securities, with the sharpest decrease being in fixed-rate paper (Table 10). In particular, very large purchases of Treasury bonds in 1993 in the expectation of capital gains associated with a continuation of the fall in interest rates were followed by massive sales as yield expectations were reversed. Among the range of government securities, only Treasury credit certificates showed a notable increase in net purchases by foreign investors, rising by more than 3.5 trillion lire in the first six months of the year, as against 400 billion in the previous six months. Net of redemptions, Republic of Italy issues gave rise to inflows of 4.2 trillion lire, less than half the amount recorded in the preceding half year and largely the result of a yen-denominated issue in the European and US markets in January. Net purchases of listed shares by foreign investors also gave way to a modest outflow in the first six months of 1994.

According to preliminary estimates, the stock of government securities and Republic of Italy issues held by foreign investors amounted to more than 209 trillion lire at the end of June, nearly 13 per cent of the total. After rising from 4 to 6.9 per cent between 1990 and 1992, this share nearly doubled in 1993 and reached a record high of 14.5 per cent in February.

Net of repatriated funds, Italian portfolio investment has given rise to increasing outflows since the second quarter of 1993; according to available figures, net outflows peaked at nearly 18.2 trillion lire in the first quarter of 1994. However, a not inconsiderable part of this figure presumably represents the settling of residents' repurchase operations in foreign securities with Italian banks and other foreign financial intermediaries outstanding on 1 January 1994. The next revision of the data on capital movements will make it possible to eliminate repurchase agreements from this time series as well. Following a pause in the second quarter, outflows of Italian investment resumed in July and August, albeit at a slower rate than had prevailed since the liberalization of foreign exchange transactions.

Since the second quarter of 1993 repayments of foreign loans have persistently exceeded new borrowing, giving rise to net outflows of about 7.7 trillion lire in the first eight months of 1994, with the private sector accounting for 5.6 trillion of the total. Net outflows of Italian loans amounted to almost 8.8 trillion lire, more than double the figure for the preceding eight months.

Resident banks recorded net inflows of more than 24 trillion lire in the first eight months of the year, compared with net outflows of nearly 56.9 trillion in the preceding eight months. Net outflows had been running at a consistently high rate until the first quarter, when they fell by almost 12 trillion lire with respect to the previous quarter. The change is mainly attributable to the rapid deterioration, at constant exchange rates and prices, in the net foreign exchange position of banks accepting short-term funds; their lira position remained virtually in balance. Italian banks recorded net inflows of almost 18.1 trillion lire in the second quarter, and a further 6.7 trillion in July and August; most of the improvement in their net foreign position was in lire, reflecting the sharp contraction in assets as a result of the settlement of outstanding repurchase agreements on Italian securities with non-resident investors.

Table 9

Capital movements

(net flows in billions of lire)

	1993					1994 (1)		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	July-Aug.
Non-bank capital flows	**96,059**	**44,434**	**18,766**	**22,595**	**10,264**	**–640**	**–25,780**	**–13,887**
Foreign	133,324	49,796	27,122	29,438	26,968	24,794	–18,259	–6,787
Investment	132,750	43,337	28,353	32,659	28,401	26,912	–18,513	–5,941
of which: portfolio	*126,855*	*41,696*	*26,993*	*31,624*	*26,542*	*25,592*	*–20,339*	*–6,902*
Loans	607	5,645	–1,282	–1,093	–2,663	–4,283	–2,556	–846
Trade credits	–33	814	51	–2,128	1,230	2,165	2,810	....
Italian	–37,265	–5,362	–8,356	–6,843	–16,704	–25,434	–7,521	–7,100
Investment	–26,463	–2,211	–3,740	–8,692	–11,820	–19,045	–716	–5,477
of which: portfolio	*–15,099*	*3,207*	*–1,171*	*–6,802*	*–10,333*	*–18,180*	*1,683*	*–3,935*
Loans	–5,076	–343	–2,599	–290	–1,844	–3,724	–3,423	–1,623
Trade credits	–5,726	–2,808	–2,017	2,139	–3,040	–2,665	–3,382	....
Bank capital flows	**–83,196**	**–30,602**	**–19,109**	**–20,902**	**–12,583**	**–685**	**18,077**	**6,695**
Total	**12,863**	**13,832**	**–343**	**1,693**	**–2,319**	**–1,325**	**–7,703**	**–7,192**

(1) Provisional.

The new criteria for recording repurchase agreements in the balance of payments and the consequent revision of the time series on capital movements

The criteria for recording securities repurchase agreements (riporti and operazioni "pronti contro termine") *were recently amended to bring them into line with European Union standards. The Bank of Italy issued new instructions for the preparation of the annual accounts of banks and financial institutions in accordance with the rules established by the EU in Directives 86/635 and 89/117, to apply from the 1993 financial year onwards. The new criteria are based on the principle that "substance prevails over form": the sale of securities in return for liquid funds under an agreement to repurchase must be treated in the same way as a loan backed by collateral; it is to be shown among the claims of the institution receiving the securities and disbursing the loan, and among the debts of the counterparty.*

Since the beginning of 1994 the new instructions have also applied to banks' statistical returns to the Bank of Italy and the Italian Foreign Exchange Office. Accordingly, the manner of recording transactions in the balance of payments has changed.

I. A comparison between the old and new methods of recording repurchase agreements in the balance of payments

Three types of transaction are affected by the change in recording criteria.

1. Repurchase agreements involving Italian securities

In the past these transactions were recorded under the item "Foreign portfolio investment": if the securities were sold by a resident to a non-resident (a repo from the Italian viewpoint), a credit was entered at the time of the spot sale and a debit at that of the subsequent repurchase; if they were sold by the non-resident (a reverse repo for Italy), the sign of the entries was reversed.

Under the new system a further distinction has to be made:

a) where the resident is a bank, the loan is recorded as an outflow (inflow) of bank capital when the reverse repo (repo) is initiated and as an inflow (outflow) when it is unwound;

b) where the resident is not a bank, the two entries of opposite sign are recorded under "Italian loans" if the seller of the securities is the non-resident and under "Foreign loans" if the seller is the resident.

2. Repurchase agreements involving foreign securities between non-residents and resident non-banks

In the past, a reverse repo was recorded as Italian portfolio investment when the securities were sold by the non-resident and as disinvestment when they were repurchased; a repo was recorded as Italian disinvestment when the securities were sold by the resident and as investment when they were repurchased. Under the new rules, reverse repos are considered to be Italian loans and are treated as new loans upon inception and as repayments upon termination; repos are considered to be foreign loans, requiring credit and debit entries respectively.

3. Repurchase agreements involving foreign securities between resident non-banks and resident banks

Previously, if a resident non-bank sold foreign securities to a bank, the transaction gave rise to a credit entry under Italian portfolio investment and a debit under bank capital movements; the unwinding of the operation resulted in entries with signs reversed. Under the new system, by contrast, such transactions are not recorded in the balance of payments.

Repurchase agreements involving foreign securities between resident banks and non-residents continue to be recorded under movements of bank capital.

The new criteria leave unchanged both the sign with which each transaction is recorded in the balance of payments and the overall balance of capital movements (bank and non-bank).

II. An initial revision of the time series on capital movements

The changeover to the new accounting methods posed the problem of comparability of data for periods before and after the beginning of 1994. The Italian Foreign Exchange Office decided not to burden reporting institutions with the cost of recalculating all past transactions according to the new methods. In the first few months of 1994 the fact that the old rules were retained for repurchase agreements initiated before the beginning of the year had implications for the balance of payments, resulting in an overestimation of net inflows of foreign portfolio investment and a corresponding overestimation of net outflows of bank capital.

Indirect data now available have enabled the Bank of Italy and the Italian Foreign Exchange Office to perform an initial revision of the time series from January 1992 onwards in order to make them consistent with the new methods (see the table). So far it has only been possible to reclassify repurchase agreements involving Italian Treasury bills or Treasury option certificates between resident banks and non-residents. However, this category of transaction comprises most of the repurchase agreements recorded in the balance of payments. The revision will be reflected in the aggregated and disaggregated series that appear in the publications of the Bank of Italy and the Italian Foreign Exchange Office. The process of revision will continue, extending the reclassification to the other transactions described above.

Old and new time series of capital movements

(billions of lire)

	Net foreign portfolio investment		Net flows of bank capital		Overall balance of capital movements
	Old series	New series	Old series	New series	
1992	13,048	25,203	25,303	13,148	10,712
1993	97,145	126,855	–53,486	–83,196	12,863
1992 – Jan.	–811	1,953	6,677	3,913	4,690
Feb.	643	2,917	6,228	3,954	2,263
Mar.	1,010	1,232	10,379	10,157	375
Apr.	2,807	6,694	7,131	3,244	2,675
May	537	630	4,787	4,694	3,499
June	1,722	–1,532	6,438	9,692	–214
July	–573	–2,407	7,093	8,927	–8,079
Aug.	910	520	1,574	1,964	1,323
Sept.	–969	–805	–25,881	–26,045	–26,343
Oct.	244	3,789	–3,160	–6,705	9,266
Nov.	5,321	6,288	–3,471	–4,438	4,855
Dec.	2,207	5,924	7,508	3,791	16,402
1993 – Jan.	4,732	11,714	–293	–7,275	7,551
Feb.	10,277	14,930	–14,090	–18,743	–2,847
Mar.	9,316	15,052	1,152	–4,584	9,128
Apr.	7,448	1,938	–1,244	4,266	–2,516
May	5,445	14,288	–6,102	–14,945	2,279
June	10,806	10,767	–8,469	–8,430	–106
July	2,178	8,101	–2,986	–8,909	–3,563
Aug.	12,558	16,393	–13,285	–17,120	–2,882
Sept.	7,679	7,130	4,578	5,127	8,138
Oct.	4,653	3,324	3,836	5,165	332
Nov.	11,587	14,753	–4,045	–7,211	7,160
Dec.	10,466	8,465	–12,538	–10,537	–9,811
1994 – Jan.	42,739	14,405	–30,595	–2,261	4,952
Feb.	22,193	12,115	–14,833	–4,755	–2,096
Mar.	2,525	–928	2,878	6,331	–4,181
Apr.	–5,952	–5,952	6,258	6,258	–282
May	–3,246	–3,246	3,533	3,533	–1,088
June	–11,141	–11,141	8,286	8,286	–6,333

Table 10

Foreign portfolio investment
(net flows in billions of lire)

	1993			1994
	Year	H1	H2	H1
Government securities	111,897	60,079	51,818	3,309
Treasury bills	1,351	–91	1,442	–935
Treasury bonds	79,748	40,420	39,328	–1,969
ECU Treasury bills	–285	–214	–71	–739
ECU Treasury credit certificates	1,776	3,323	–1,547	1,763
Treasury credit certificates	–1,018	–1,432	414	3,519
Treasury discount certificates	24	24	–	–
Index-linked Treasury certificates	–	–	–	–
Treasury option certificates	11,932	9,080	2,852	–2,522
Other	–5	–3	–2	–18
Republic of Italy issues (1)	18,374	8,972	9,402	4,210
Italian investment fund units	39	–	39	14
Listed bonds	422	355	67	53
Listed shares	6,540	2,472	4,068	–242
Other securities	563	369	194	–57
Deposits	–112	–86	–26	371
Derivative instruments	–189	113	–302	511
Unclassified investments (2)	7,695	5,387	2,308	1,294
Total	**126,855**	**68,689**	**58,166**	**5,253**

(1) Purchases and sales by non-residents. – (2) Unspecified financial investments, including transactions of less than 20 million lire settled via domestic banks.

The steady increase in merchandise exports generated net outflows of more than 6 trillion lire in trade credit granted to foreign customers by Italian firms in the first six months of the year. By contrast, foreign trade credit gave rise to net inflows of about 5 trillion lire, 4.1 trillion more than in the same period of the previous year; the increase partly reflects the renewed growth in imports that began in the last quarter of 1993.

Between January and August the official reserves increased by 5.2 trillion lire at constant exchange rates and prices (5.12 trillion in the first six months). Given the current account surplus and the net deficit on capital movements, equal to 7.7 and 9.0 trillion lire respectively, a surplus of about 6.4 trillion lire has been imputed to errors and omissions for the first half of the year.

Prices

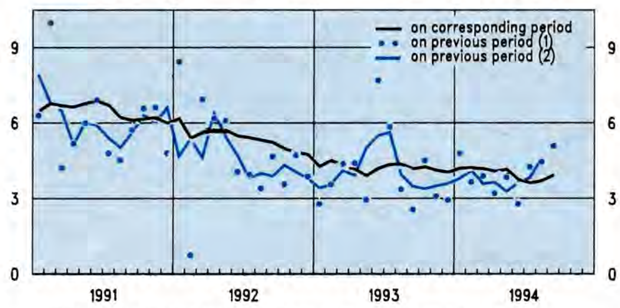
Price trends have been favourable so far, given the behaviour of the exchange rate, but there is a risk of an acceleration in inflation in the future, partly in view of the strength of the recovery in domestic demand over the short term.

The decline in consumer price inflation towards the Government's target of 3.5 per cent, which began in the middle of 1993 after the immediate effects of the devaluation of the lira had faded, continued until the beginning of the summer. From June onwards, however, prices began to respond to the pick-up in demand for consumer goods and services and the marked rise in the lira prices of imports that had emerged in the first part of 1994. The twelve-month rate of increase in the cost-of-living index accelerated from 3.7 to 3.9 per cent between June and September, before easing to 3.7-3.8 per cent in October on the basis of provisional figures. The interruption of the slowdown in prices is even more evident in the seasonally adjusted figures, with the annualized month-on-month rate of change rising to more than 4 per cent (Figure 16); the average rate for September and October remained above 4 per cent, despite the decline in October.

Figure 16

General index: cost-of-living

(percentage changes; seasonally adjusted) (1)



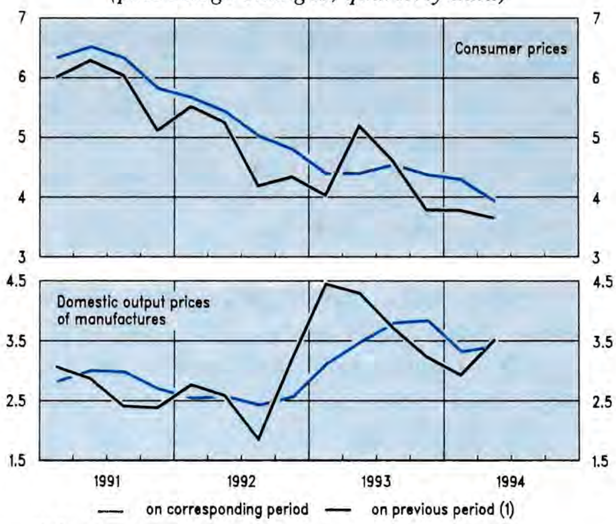
(1) Annualized. – (2) Annualized; centred moving average of 3 terms.

The twelve-month rate of increase in the output prices of manufactures produced for the domestic market slowed down from an average of 3.9 per cent in the last quarter of 1993 to one of 3.3 per cent in the first quarter of this year, only to rise again in the second quarter (Figure 17). Here too, the seasonally adjusted index shows greater variability, with the quarterly rate of increase falling from an annual 4.4 per cent in the first quarter of 1993, when the effects of higher prices for imported inputs associated with the depreciation of the lira were strongest, to 2.9 per cent in the first quarter of this year, before rising to 3.5 per cent in the second quarter.

Figure 17

Producer and consumer prices

(percentage changes; quarterly data)



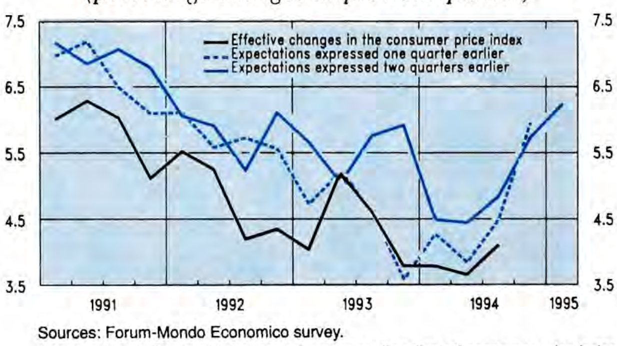
(1) Annualized; seasonally adjusted.

These developments were accompanied by an abrupt deterioration in short-term inflation expectations, as revealed by the Forum-Mondo Economico quarterly surveys of a panel of businessmen and experts. The survey carried out at the end of June showed significantly heightened expectations of a rise in consumer prices in the third quarter (Figure 18); a considerable increase was also foreseen for the fourth quarter. The survey conducted in September revealed continued pessimism for the first quarter of 1995.

Figure 18

Expectations of consumer price inflation (1)

(percentage changes on previous quarter)



Sources: Forum-Mondo Economico survey.

(1) Annualized. For the third quarter the seasonally adjusted consumer price index has been extrapolated using the seasonally adjusted cost-of-living index.

The factors that had previously contributed to the deceleration in prices are now increasing the risk of a resurgence of inflation: the sustained growth in demand, which is enabling firms to restore profit margins squeezed during the long recession, could lead to supply bottlenecks in particular sectors, and attempts may be made to recoup the lost purchasing power of wages, perhaps even breaching the limits on wage growth set in the July 1993 agreements. In addition, the sizable depreciation of the lira is putting upward pressure on the prices of imported inputs.

The acceleration in the lira prices of imported inputs in the second quarter of 1994 fed through into producer prices. The rise in the dollar prices of the main raw materials that had been under way since the end of 1993 became more pronounced in the spring, causing the lira prices of industrial raw materials to rise by 9.2 per cent in the second quarter with respect to the same quarter a year earlier. Crude oil prices, which had been rising since April, increased further during the summer.

The gains in competitiveness produced by the depreciation of the lira and wage moderation had allowed a widening of profit margins in manufacturing industry as early as 1993, especially for export-oriented sectors (Table 11). From the first half of 1994 onwards the improvement in profitability spread to the remaining industrial sectors, aided by stronger domestic demand, the continued moderate rate of increase in labour costs and a sharp rise in productivity associated with the upturn in the economic cycle. It is estimated that the increase in the output prices of manufactures was over 1.5 percentage points greater than the rise in unit costs in the first half of the year. The ratio of non-financial firms' operating margins to value added was more than 3 percentage points higher in the first quarter of 1994 than in the corresponding period of 1993. Since last spring a growing proportion of the manufacturers interviewed for the Isco business survey have reported that they intend to raise their prices, a finding that is confirmed in the survey conducted by the branch offices of the Bank of Italy (see the insert: "The state of the economy: information gathered from a sample survey of manufacturing firms").

Hence, the strengthening of the domestic recovery is encouraging businesses to widen their margins even further by rapidly passing on the rise in the prices of imported inputs and any increases in labour costs. Inflationary pressures would be greater if a quickening of the recovery generated sectoral bottlenecks. Faced with a more dynamic market and a further depreciation of the lira, foreign exporters could also consider that they no longer had to accept narrower profit margins to defend their market shares in Italy, a constraint which until now has limited the extent to which they could pass on the effects of the cumulative depreciation of the lira over the last two years.

Table 11

Unit variable costs and final prices in manufacturing

(percentage changes on corresponding period)

	1992			1993			1994
	Year	H1	H2	Year	H1	H2	H1 (1)
Input prices (2)	**1.8**	**1.6**	**2.0**	**7.8**	**7.4**	**8.2**	**4.7**
Domestic (3)	2.9	3.2	2.6	4.0	3.7	4.4	4.2
of which: energy	*–0.1*	*–2.5*	*2.3*	*5.9*	*6.4*	*5.4*	*3.9*
services	*3.8*	*4.1*	*3.5*	*4.4*	*4.2*	*4.6*	*4.5*
agricultural products	*0.6*	*2.8*	*–1.5*	*0.7*	*–0.9*	*2.4*	*2.4*
Foreign (3)	–0.5	–1.7	0.7	15.7	15.3	16.1	5.7
of which: energy	*–9.0*	*–12.8*	*–4.9*	*16.6*	*22.8*	*10.7*	*–5.0*
industrial materials	*–0.5*	*–1.2*	*0.2*	*15.1*	*14.7*	*15.6*	*4.2*
semi-finished goods	*–0.5*	*–1.5*	*0.4*	*15.2*	*14.3*	*16.1*	*4.4*
Unit variable costs	**2.3**	**0.9**	**3.7**	**4.7**	**4.7**	**4.6**	**2.0**
Output prices	**2.5**	**2.4**	**2.6**	**5.8**	**5.5**	**6.2**	**3.6**
Domestic (3)	2.6	2.6	2.5	3.6	3.3	3.8	3.4

Source: Based on Istat data.
(1) Estimates. – (2) Domestic inputs account for 60.5 per cent of total inputs; the latter account for 48.9 per cent of the total unit variable costs of production. – (3) Weighted net of intrasectoral transactions; the domestic component of output prices accounts for 71.9 per cent of the total.

Public finances

In the first nine months of the year the state sector borrowing requirement, on the basis of the definition of the sector that excludes the State Railways, Monopolies and Telephone Company and excluding settlements of past debts and privatization proceeds, amounted to 103.7 trillion lire, as against 106.7 trillion in the corresponding period in 1993 (Table 12 and Figure 19). The reduction reflects a decrease of around 8 trillion lire in interest payments, which was partly offset by a decline in the primary surplus from 26.5 to around 21.5 trillion lire. Significant debt settlements have not been made during the year, whereas in 1993 consolidations amounted to around 9.6 trillion lire, of which about 7.4 trillion was for tax credits and around 2.2 trillion for debts contracted by EFIM. Privatizations have raised more than 6 trillion lire so far, of which 1.59 trillion relates to IMI and 4.5 trillion to INA. No operations of this kind were carried out in 1993.

Table 12

State sector borrowing requirement (1)
(billions of lire)

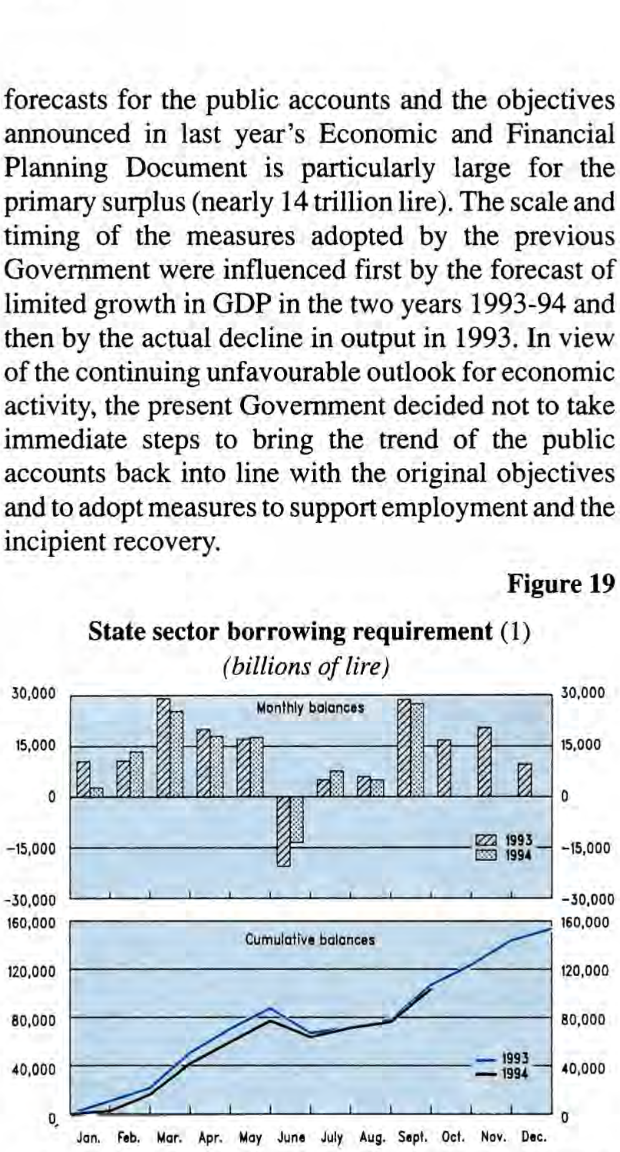
	1991	1992	1993	1994 (2)
First half	57,593	69,720	66,987	63,667
January-September .	101,702	107,472	109,558	103,725
		excluding settlements of past debts		
First half	57,587	69,692	66,960	63,661
January-September .	101,667	107,440	106,673	103,719

(1) Excluding the State Railways, Monopolies and Telephone Company. Privatization receipts are excluded. – (2) Provisional.

The results of the first nine months appear to be basically in line with the annual objective for the state sector borrowing requirement, set at 154 trillion lire in the Forecasting and Planning Report published in September. The difference between the current forecasts for the public accounts and the objectives announced in last year's Economic and Financial Planning Document is particularly large for the primary surplus (nearly 14 trillion lire). The scale and timing of the measures adopted by the previous Government were influenced first by the forecast of limited growth in GDP in the two years 1993-94 and then by the actual decline in output in 1993. In view of the continuing unfavourable outlook for economic activity, the present Government decided not to take immediate steps to bring the trend of the public accounts back into line with the original objectives and to adopt measures to support employment and the incipient recovery.

Figure 19

State sector borrowing requirement (1)
(billions of lire)



(1) Excluding the State Railways, Monopolies and Telephone Company. Privatization receipts and settlements of past debts are excluded.

Budgetary policy and debt management

According to last year's Planning Document, interest payments in 1994 were expected to amount to 176 trillion lire and the primary surplus to 31.8 trillion (Table 13). The estimate of interest payments was based on assumptions of a fall in interest rates and a larger primary surplus compared with current trends (the total interest saving was expected to be around 7.5 trillion lire). The primary surplus was to be kept virtually unchanged from the forecast for 1993 contained in the same document, reflecting a prudent approach aimed at not aggravating an already unfavourable cyclical situation. However, in May 1993 the Government had adopted a package of measures that were officially expected to reduce the borrowing requirement by around 12.5 trillion lire in that year and by almost 10 trillion lire in 1994.

Table 13

Public finance objectives for 1994

(billions of lire)

	Total borrowing requirement	Interest payments	Primary borrowing requirement
Planning document, July 1993 and Forecasting and Planning Report, September 1993 ...	144,200	176,000	–31,800
Quarterly report on the borrowing requirement, March 1994 (1)	159,000	168,900	–9,900
Planning document, July 1994	154,000	169,700	–15,700
Forecasting and Planning Report, September 1994 ...	154,000	172,200	–18,200

(1) Projection on a current programmes basis.

In order to achieve the objective for 1994, a budget producing an adjustment on the order of 31 trillion lire was proposed in September 1993. As approved by Parliament, the measures provided for spending cuts of more than 26 trillion lire and additional revenue of about 5 trillion. It was decided not to offset all of the decline in the ratio of tax revenue to GDP, from 27.8 per cent in 1993 to 26.5 per cent in 1994, resulting from the loss of receipts from temporary measures adopted in earlier years.

The quarterly report on the borrowing requirement published in March of this year indicated a large shortfall in the primary surplus compared with the objective: instead of the planned 31.8 trillion lire, the surplus was forecast to amount to just under 10 trillion. The report attributed the shortfall to the less favourable performance of the economy in 1993 and the first part of 1994 and, to a smaller extent, to the fact that some measures to curb expenditure proved less effective than expected. The outturn for 1993 showed a decline in GDP of 0.7 per cent instead of the increase of 0.5 per cent forecast in July. Furthermore, the forecast for GDP growth in 1994 was reduced from 1.6 to 1.3 per cent.

The increase in the total borrowing requirement was less pronounced (159 trillion lire in place of the original 144.2 trillion) owing to the reduction in the forecast for interest payments from 176 to 169 trillion lire. Despite the worsening in the general trend of the public accounts, the estimate of interest payments was based on the assumption that the fall in issue yields on government securities in the last half of 1993 would not be reversed (the average pre-tax yield on 3, 6 and 12-month Treasury bills fell from 9.9 per cent in July 1993 to 8.4 per cent in December, while the pre-tax yield on Treasury bonds fell from 11 to 9.2 per cent and the pre-tax half-yearly coupon was reduced from 5.5 to 4.25 per cent).

July's Economic and Financial Planning Document broadly confirmed the forecasts of the March report as regards GDP growth and the public accounts in 1994. The objective for the total borrowing requirement was raised from 144.2 to 154 trillion lire; achievement of the new objective depended on the adoption of measures totaling 5 trillion lire to supplement the budget presented at the end of 1993 and was expected to result in a primary surplus of nearly 16 trillion lire.

The Forecasting and Planning Report published in September raised the forecast for GDP growth in 1994 to 1.6 per cent, the level originally indicated in the 1993 Planning Document. It increased the forecast for interest payments to more than 172 trillion lire in response to the rise in interest rates that began in June (after fluctuating around 8.5 per cent in the first half of 1994, the average pre-tax yield on Treasury bills reached 10 per cent in August; the pre-tax yield on Treasury bonds rose from 9.5 per cent in May to 12 per cent in September, without a matching increase in the pre-tax half-yearly coupon) but nonetheless assumed that by the end of the year rates would have fallen to the level forecast in the Planning Document (an average pre-tax yield of 8 per cent on 12-month Treasury bills). At all events, the Report confirmed the objective of 154 trillion lire for the annual borrowing requirement, so that the primary surplus should be around 18 trillion lire. This forecast takes account of the revision of estimates for the macroeconomic variables and of the contribution of around 5 trillion lire to come from the additional measures announced in the July Planning Document. According to official estimates, the measures already enacted – Decree Law 452 of 18 July 1994 concerning the conciliation of contested tax assessments and Decree Law 468 of 26 July 1994 relating to the condonation of building regulation offences, both of which have subsequently been renewed – should generate 3 trillion lire of revenue in 1994.

The difference between the original objective of a primary surplus of 31.8 trillion lire and the latest forecast signifies a pause in the adjustment of the public finances, a task that cannot be deferred. The discrepancy appears to be due not only to the revenue effect of the worse-than-expected performance of the economy in 1993 (offset in part by the improvement that is emerging this year) but also to the fact that the original measures to reduce expenditures proved less effective than estimated. An accurate assessment will not be possible, however, until the final figures for the year are available and the reliability of the forecasts can be verified. Nevertheless, it is clear that capital expenditure by non-state public bodies has tended to decline this year in connection with the judicial investigations into public sector contracts and the uncertainty surrounding the legal position in this domain; this should offset part of the shortfall in the adjustment produced by the budget.

If the objectives set out in the Forecasting and Planning Report are achieved, the state sector borrowing requirement (as newly defined and excluding debt settlements and privatization proceeds) will fall from 9.8 to 9.4 per cent of GDP (Table 14), while state sector debt, excluding tax credits but including the debt of the State Railways and the former autonomous government agencies (State Monopolies, Post Office, State Telephone Company, National Road Agency and State Forests)

Table 14

State sector balances (1)

(billions of lire and percentages)

	1991	1992	1993	1994 (2)
Borrowing requirement, net of settlements of past debts and privatization receipts	151,336	158,861	153,557	154,000
as a % of GDP	(10.6)	(10.6)	(9,8)	(9,4)
Settlements made in securities and in cash	73	31	9,568	6 (3)
Privatization receipts	2,100	–	–	6,095 (3)
Total borrowing requirement	149,310	158,892	163,124	147,911
as a % of GDP	(10.4)	(10.6)	(10.5)	(9.0)
Borrowing requirement, net of interest payments, settlements of past debts and privatization receipts	10,155	–8,591	–28,044	–18,200
as a % of GDP	(0.7)	(–0.6)	(–1.8)	(–1.1)

(1) Excluding the State Railways, Monopolies and Telephone Company. – (2) Estimates published in the Forecasting and Planning Report for 1994. – (3) First nine months.

will rise from 116.2 to 120.5 per cent of GDP. These figures also take account of issue discounts, which increased significantly in the second part of the year as a result of the rapid rise in the yields on medium and long-term securities, which was not matched by an increase in coupons; in the first nine months of 1994 such discounts amounted to almost 5.3 trillion lire, of which more than 4.1 trillion arose in the third quarter, whereas in the whole of 1993 they had totaled 1.1 trillion.

In the first nine months of this year net issues of securities amounted to 117 per cent of the total borrowing requirement, after taking account of privatization proceeds. Among the other forms of financing, the balance on the Treasury payments account with the Bank of Italy rose by more than 26 trillion lire to stand at 56.8 trillion at the end of September. The proportion of the borrowing requirement financed by short-term securities (Treasury bills in lire and ecus) fell from 12 to 7.7 per cent. The average residual maturity of the public debt rose from just over 2 years and 11 months at the end of 1993 to around 3 years and 2 months at the end of March and then stabilized at around that level. Net borrowing abroad in the first nine months amounted to 4.6 trillion lire, as against 15.1 trillion in the corresponding period in 1993. Exchange rate variations resulted in a reduction of 1.8 trillion lire in the lira equivalent of the state sector's foreign currency debt; in 1993 the depreciation of the lira had led to an increase of around 8.1 trillion. The sizable appreciation of the lira against the US dollar more than offset its depreciation vis-à-vis the other leading currencies.

State sector revenue in the first nine months of 1994

Tax revenue in the first nine months of the year was 4.4 per cent less than in the corresponding period in 1993 (Table 15).

The decline was primarily due to the ending of the temporary effects of measures adopted in earlier years, which affected receipts of self-assessed direct taxes, and to the impact of the recession in 1993. In particular, income tax withheld at source on wages and salaries was depressed by the fall in employment, while VAT receipts reflected the weakness of consumer demand. In addition, the lagged impact of the fall in interest rates in 1993 influenced the instalments of the tax on bank interest income. Revenue was boosted by the tax measures adopted in the second half of 1993 and in the budget for 1994; these mainly concerned the rules for determining business income, excise duties on oil products and the procedures for paying VAT.

The reduction in revenue in the first nine months of the year was in line with the decline in the ratio of tax to GDP anticipated in the official forecasts for the year as a whole. July's Economic and Financial Planning Document indicated a fall of 1.9 percentage points in the ratio of state sector tax receipts to GDP in 1994 as a result of a decline of 2.2 per cent in revenue. The recent Forecasting and Planning Report puts the decrease in the ratio for general government taxes at only 1.1 points, whereas last year's Planning Document had forecast a decline of 1.3 points (in contrast with the figures for the state sector, those for general government are unaffected by the allocation of all the revenue generated by the municipal tax on buildings to communes as from this year). The ratios for indirect taxes, which are responding more rapidly to the recovery, are expected to remain basically unchanged for both the state sector and the general government.

Direct tax receipts decreased by 8.8 per cent, reflecting the lapsing of temporary measures that had boosted revenue in 1993 (primarily the tax condonation scheme and the last instalment of the tax on the compulsory revaluation of company assets, together amounting to more than 9 trillion lire), as well as the working of the mechanism for paying self-assessed taxes, which had temporarily increased the balances paid in 1993 by around 10 trillion lire. Net of these effects, it is estimated that direct tax receipts would have risen by around 2 per cent.

Self-assessed tax receipts decreased by around 12 per cent. In the four months from May to August the balances paid for 1993 and the first instalment for 1994 amounted to 37.6 trillion lire, as against 43.4 trillion in the corresponding period of the previous year. This fall was in line with official forecasts.

Table 15

State sector tax revenues (1)

(billions of lire)

	January-June 1993	January-June 1994 (2)	1994/1993	January-September 1993	January-September 1994 (2)	1994/1993
Direct taxes						
Personal income tax	78,950	74,213	−6.0	108,225	101,140	−6.5
of which: withholding tax on public sector wages and salaries	*12,433*	*12,786*	*2.8*	*19,261*	*18,873*	*−2.0*
withholding tax on pensions and private sector earned income	*39,645*	*40,886*	*3.1*	*57,504*	*58,528*	*1.8*
self-assessed balances	*10,999*	*6,246*	*−43.2*	*12,160*	*6,423*	*−47.2*
self-assessed instalments	*8,438*	*7,245*	*−14.1*	*9,075*	*7,357*	*−18.9*
Corporate income tax	10,292	11,311	9.9	14,344	16,910	17.9
of which: self-assessed balances	*5,102*	*5,682*	*11.4*	*7,185*	*8,604*	*19.7*
self-assessed instalments	*5,035*	*5,492*	*9.1*	*6,978*	*8,133*	*16.6*
Local income tax	8,413	7,344	−12.7	10,681	9,974	−6.6
of which: personal income tax	*3,453*	*1,364*	*−60.5*	*3,777*	*1,413*	*−62.6*
self-assessed balances	*2,719*	*756*	*−72.2*	*2,982*	*771*	*−74.1*
self-assessed instalments	*734*	*608*	*−17.2*	*795*	*642*	*−19.2*
corporate income tax	*4,675*	*5,814*	*24.4*	*6,551*	*8,291*	*26.6*
self-assessed balances	*2,028*	*2,889*	*42.5*	*2,968*	*4,158*	*40.1*
self-assessed instalments	*2,647*	*2,925*	*10.5*	*3,583*	*4,133*	*15.4*
Withholding tax on interest income	10,883	13,266	21.9	27,114	23,761	−12.4
of which: in respect of bank deposits	*1,872*	*1,220*	*−34.8*	*7,688*	*5,550*	*−27.8*
in respect of government securities	*5,732*	*8,445*	*47.3*	*14,098*	*12,677*	*−10.1*
Withholding tax on dividends	1,250	1,249	−0.1	1,972	1,927	−2.3
Other (3)	8,490	5,788	−31.8	15,057	8,113	−46.1
Total	**118,278**	**113,171**	**−4.3**	**177,393**	**161,825**	**−8.8**
Indirect taxes						
VAT (4)	45,408	43,769	−3.6	67,187	67,964	1.2
Other business taxes	20,101	18,063	−10.1	26,701	24,451	−8.4
Excise duties on oil products	18,175	19,796	8.9	27,137	28,847	6.3
Other excise duties and sales taxes (5)	5,550	5,958	7.4	8,479	8,654	2.1
Tobacco taxes	4,203	4,229	0.6	6,011	6,857	14.1
Gaming taxes	2,626	3,177	21.0	3,627	3,942	8.7
Other	20	13	−35.0	37	28	−24.3
Total	**96,083**	**95,005**	**−1.1**	**139,179**	**140,743**	**1.1**
Total tax revenues	**214,361**	**208,176**	**−2.9**	**316,572**	**302,568**	**−4.4**

Sources: Bank of Italy and Ministry of the Treasury.

(1) Net of tax collection commissions and accounting transactions with special statute regions. – (2) Provisional. – (3) Includes receipts of inheritance taxes, which are recorded among indirect taxes in the accounts of the state sector. The figures for 1993 include receipts from special taxes: the tax condonation scheme and the taxes on the compulsory revaluation of corporate assets and the net worth of companies (the latter also affects 1994 receipts). – (4) Includes the receipts used to settle tax credits, those accruing to the EU and, for 1994, refunds made via taxpayers' "tax accounts". – (5) Includes the proceeds of surtaxes on electricity consumption (levied by the tax authorities for disbursement to local authorities).

The decline in self-assessed personal income tax was caused not only by the working of the payment mechanism mentioned above but also by new measures, including the granting of a specific allowance in respect of imputed income from owner-occupied houses. The tax withheld at source on employee incomes was influenced by the offsetting of tax liabilities and refunds under the recently introduced system of so-called taxpayer assistance. Preliminary data indicate that the net effect on revenue was negative. The performance of receipts also reflected the fact that aggregate private sector earnings grew only slightly owing to the fall in employment and the smallness of wage increases. The sharp fall in local personal income tax was due to the exemption of imputed income from property; in contrast with the previous year, the exemption also applied to the payment of any balances due.

Self-assessed corporate income taxes increased substantially, rising by more than 4 trillion lire compared with 1993. The increase was primarily attributable to the budget for 1994, which introduced numerous changes in the rules for determining business income, and to the capital gains made by banks in 1993 (on average, the tax paid by banks has been equal to around one fifth of total receipts in recent years). There was also an increase in the tax on firms' net worth, which amounted to 6 trillion lire, as against 5.5 trillion in the corresponding period in 1993. The tendency for firms to use the increase in their operating profits to strengthen their balance sheets contributed to the 2.3 per cent decline in withholding tax on dividends.

Receipts from withholding tax on interest income decreased by 12.4 per cent. Those arising from interest on bank accounts fell very sharply, by 27.8 per cent, since banks had accumulated substantial credits in respect of this tax, leading to smaller net payments for the first instalment. This result reflected the contraction of the tax base in the two previous years.

Indirect tax receipts rose by just over 1 per cent. The gradual strengthening of the recovery first moderated and then reversed the decline that had begun in the second half of 1993. The rise in revenue was damped by the small 1.2 per cent increase in VAT receipts gross of refunds. This result reflects the reduction in receipts for 1994 following the increase in the percentage prepaid in December 1993 and the lag with which the recovery in private consumption is reflected in higher receipts. Furthermore, the new method of collecting VAT via "tax accounts" means that the part paid in Sicily is excluded from state sector revenue from 1994 onwards.

There was a further decline in stamp duty and government concession taxes, and other business taxes as a whole fell by 8.4 per cent. Registration tax revenue rose slightly, reflecting the signs of recovery in the property market. By contrast, excise duties on oil products increased significantly, rising by 6.3 per cent as a result of the two increases in rates introduced in the second half of 1993 and the large rise in consumption. Taxes on methane gas rose by 4.9 per cent and those on monopoly products by 13.8 per cent in connection with the increase in the sales tax on tobacco.

State sector expenditure in the first six months of 1994

State sector outlays in the first half of 1994 amounted to 325.6 trillion lire, a decrease of 0.5 per cent on the corresponding period in 1993 (Table 16). According to the Forecasting and Planning Report published in September, there is likely to be a similar decline in expenditure for the year as a whole, thus interrupting the upward trend of the last few years.

Since interest payments remained more or less the same, the contraction in the first half of the year reflects the sizable reductions in current transfers, wages and salaries and capital expenditure. These reductions were partly offset by the increases in civil service pensions, purchases of goods and services (due primarily to the cost of the general election) and financial items, which were affected by the increase of more than 3.2 trillion lire in the loans disbursed to regions by the Deposits and Loans Fund to cover earlier health sector deficits.

The reduction in current transfers was due to decreases in transfers to regions, provinces and communes, which fell from 69.6 to 63 trillion lire, and to the State Railways and the former autonomous government agencies, which declined from 20.5 to 12 trillion. Tranfers to social security institutions rose from 29.1 to 34 trillion and other current transfers also increased, partly as a result of the inclusion of spending on university staff among transfers to other public sector entities following the change in the manner of financing universities introduced in Law 537 of 24 December 1993.

Table 16

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

(billions of lire)

	1993 H1	1994 H1	1994/1993
Current expenditure	**297,986**	**297,706**	**–0.1**
Wages, salaries and pensions	53,963	55,004	1.9
of which: wages and salaries	39,670	38,584	–2.7
Goods and services	8,900	10,613	19.2
Current transfers	142,260	139,411	–2.0
of which: social security institutions	29.075	34,036	17.1
regions	52,388	49,316	–5.9
communes and provinces	17,209	13,719	–20.3
households	9,960	10,787	8.3
enterprises	6,074	6,637	9.3
State Railways and former autonomous government agencies	20,496	12,009	–41.4
abroad	4,712	5,563	18.1
other	2,346	7,344	213.0
Net interest payments	83,034	82,718	–0.4
Capital expenditure	**18.848**	**15,186**	**–19.4**
of which: fixed capital	2,988	1,630	–45.4
capital transfers ..	15,258	13,438	–11.9
Financial items	**10,260**	**12,730**	**24.1**
of which: investments	453	610	34.7
loans and advances	8,856	12,087	36.5
Total expenditure	**327,094**	**325,622**	**–0.5**

Source: Ministry of the Treasury. The figures refer to the definition of the state sector excluding the State Railways and the former autonomous government agencies (State Monopolies, Post Office, State Telephone Company, National Road Agency and State Forests).

(1) Net of tax collection commissions and accounting transactions with special statute regions. For 1994, includes VAT refunds made via taxpayers' "tax accounts".

The fall in disbursements to regions from 52.4 to 49.3 trillion lire reflected the deposit with the Treasury of the proceeds of loans raised to settle debts of local health units, which resulted in a net inflow of around 4 trillion lire. The reduction in transfers to provinces and communes from 17.2 to 13.7 trillion lire was due to the allocation of the entire yield of the municipal tax on buildings to communes from 1994 onwards. In view of the margins of error in estimating the division of withdrawals from the Treasury between current and capital expenditure, it appears likely that the decrease in disbursements to regions, provinces and communes was also attributable partly to uncertainty surrounding the legal position regarding public works contracts (Article 6 of Law 537/1993 contained a series of provisions that were subsequently suspended by Decree Law 331 of 31 May 1994, which has been reintroduced twice; the Finance Bill for 1995 provides for the repeal of the Article in question). The decline in transfers to the Railways and the former autonomous government agencies was primarily due to a delay in the disbursement of government funds to the Railways and an increase in the latter's market borrowings. At least part of the fall is likely to be offset in the second half of the year.

The increase in transfers to social security institutions was due to the fact that pension outlays rose faster than social security contributions. Receipts of the latter were influenced by the small growth in per capita earnings and the fall in employment. Furthermore, the drying-up of receipts from the contribution condonation scheme, which had brought in 4.5 trillion lire in 1993, was only partly offset by the increase in contribution rates for the self-employed that came into force in 1994 and the rate increases introduced during 1993. Pensions expenditure was increased by the cost-of-living allowances granted in June and December 1993 (respectively 1.7 and 1.8 percentage points) and the end of the ban on the granting of long-service pensions to persons who had qualified for such benefits in the last quarter of 1992. On the other hand, the raising of the minimum age for entitlement to an old-age pension, as provided for in the 1992 reform of the pension system, had the opposite effect on expenditure. In the last part of the year expenditure will be boosted by the annual adjustment of pensions in November and reduced by the ban on the granting of long-service pensions enacted in Decree Law 553 of 28 September.

State sector spending on wages and salaries was 2.7 per cent lower than in the first half of 1993 as a result of two opposing factors: the inclusion of spending on university staff under current transfers, and the fact that for 1993 the deadline for the payment of health contributions for the first five months of the year had been postponed to 30 August in connection with the direct allocation of receipts of such contributions to the regions. Taking account of these factors, general government staff costs are expected to show a small increase of around 1 per cent for the year as a whole, primarily as a result of the payment of wage increases from April and July onwards to compensate for the non-renewal of the sector's wage agreement (the last contract to have been signed was that for the period 1988-90, which was subsequently extended to the end of 1993).

The decline in capital expenditure from 18.8 to 15.2 trillion lire mainly reflects the slowdown in the activities previously carried out by the Southern Italy Development Agency following their transfer to government departments.

Interest payments amounted to 82.7 trillion lire, a small decrease on the 83 trillion recorded in the first half of 1993. For the year as a whole they are expected to be significantly lower than in 1993. The amount paid on Treasury bills, which represented 19.2 per cent of the total, decreased by 31.4 per cent. More than two thirds of the decline was due to the sharp fall in rates compared with the first half of 1993 (the average pre-tax yield on Treasury bills fell from 11.9 per cent in the first half of 1993 to 8.6 per cent in the first half of this year); the rest reflected the reduction in gross issues, especially of 3-month paper. The interest paid on Treasury credit certificates, representing 38.6 per cent of the total, decreased by 9.2 per cent as a net result of an increase of around 4.5 per cent in the volume of such securities in issue and the fall in Treasury bill rates, which affect coupons on Treasury credit certificates with a lag of around eight months. The interest paid on Treasury bonds (30.1 per cent of the total) increased by 41.9 per cent, which was less than the growth of around 48 per cent in the stock of bonds in circulation in 1993.

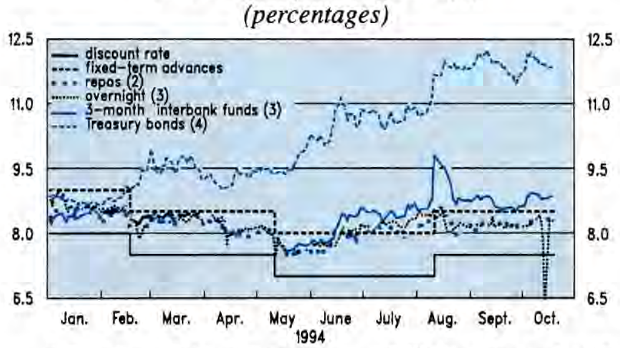
Monetary policy, banking and the financial markets

Action to implement the counterinflationary monetary stance has been maintained in 1994, and has intensified in recent months. To bring inflation down to the levels prevailing in the other leading European countries is one of the Government's economic policy objectives: the inflation target has been set at 3.5 per cent for 1994 and 2.5 per cent for 1995. Preventing a resurgence of inflation is essential to consolidate the economic recovery and reduce the cost of servicing the public debt by decreasing uncertainty. Pursuit of this objective required a tightening of liquidity control from June onwards in view of the first signs of a deterioration in inflation expectations, a much sharper rise in long-term interest rates in Italy than in international markets and a renewed weakening of the lira. Official rates were raised by half a point at the beginning of August following the release of new data confirming the pressure on prices (Figure 20).

Figure 20

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

(percentages)



(1) Daily data. – (2) Marginal allotment rate. – (3) Weighted average of bid-offer rates. – (4) Pre-tax secondary market yield on Treasury bonds with a residual maturity of 9 to 10 years.

The M2 money supply had accelerated in the first few months of the year, taking its growth rate above the 5-7 per cent target range. The expansion of this aggregate slowed down sharply from May onwards and by September was below the target range. The deceleration was due primarily to the impact of the rise in interest rates on the demand for money.

The growth in banking activity was moderate, owing not only to restrictive monetary policy and the caution on the part of the banks in extending loans at a time of increasingly frequent insolvencies, but also to slack demand for credit, which was affected by the rise in profits in some industries, particularly those oriented towards export markets, and hence by an increase in self-financing. The banks' profits deteriorated significantly, mostly on account of a decline in interest income and losses on securities.

The financial markets, though affected by the rise in long-term interest rates and the heightened variability of securities prices, continued to ensure the orderly financing of the Treasury, albeit at increased cost. The stock market had a year of mixed fortunes, but this did not prevent listed companies from launching substantial share issues.

Recent trends in the money supply, interest rates and credit confirm that any acceleration in inflation that might occur in Italy will not be fueled by the monetary and financial conditions of the economy.

The conduct of monetary policy

The rise in the federal funds rate in the United States in February brought to an end the decline in long-term interest rates that had taken place in the leading industrial economies over the previous two years. Initially, the rise was less pronounced in Italy than elsewhere (Figure 21). Between February and the middle of May Italian medium and long-term yields rose by only 0.7 points and the differentials with France and Germany decreased further to the lowest value recorded since the Treasury began issuing ten-year bonds in early 1991. Three-month interbank rates declined by nearly one percentage point during this period to 7.7 per cent, following the reductions in official rates decided by the Bank of Italy on 17 February and 11 May.

Bank of Italy intervention in the money market

The Bank of Italy encouraged a gradual decline in interest rates in the period between the general election at the end of March and mid-May, during which time the lira and Italian government securities generally performed well. Rates on repurchase agreements, which were close to those on fixed-term advances at the beginning of the period, fell to about 8 per cent in mid-April, midway between the two official rates. Short-term interbank rates recorded a parallel decline. Official interest rates, which had not been altered when German rates were reduced in April, were lowered by 0.5 points on 11 May in conjunction with similar moves by other European central banks, taking the discount rate to 7 per cent and that on fixed-term advances to 8 per cent. The reduction was only partially reflected in short-term market rates: 3-month interbank rates fell by about 0.3 points in the days immediately following the cut.

From the second half of May onwards, tensions in the financial markets of the leading countries spread to the interbank market; after falling to a low of 7.6 per cent on 20 May, 3-month rates rose by 0.2 points in the subsequent two weeks. As in Germany, short-term forward rates began to rise above the corresponding spot rates (see Figure 1 in the insert "Interest rates in Italy in 1994"). Liquidity regulation by the Bank of Italy during this period was aimed at maintaining a stable repo rate, which stood midway between the two official rates in the first ten days of June.

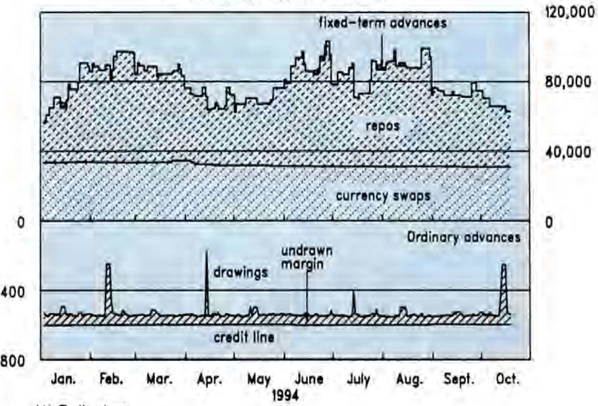
Domestic tensions stemming mainly from concern about the public finances played a more prominent role than international factors from the second half of June onwards. Between 10 and 20 June the yield on 10-year Treasury bonds rose by 1.2 points to 11.2 per cent and the differential with corresponding rates in the other main European countries widened, with that vis-à-vis Germany increasing by 0.8 points to 3.7 percentage points. The lira depreciated by more than 2 per cent against the Deutschemark in the same period, while 3-month interbank rates rose by 0.7 points to 8.5 per cent. Liquidity rationing by the Bank of Italy caused the repo rate to rise above the rate on fixed-term advances, to stand at 8.1 per cent at the end of the period in question, when the Bank renewed only a portion of expiring repurchase agreements. In the more restrictive conditions, banks had greater recourse to fixed-term advances.

The Bank of Italy's action was also intended to ensure that the banks' considerable liquidity needs in June in connection with the payment of tax receipts to the Treasury did not cause excessive strains. Bank of Italy repos partially offset the destruction of monetary base via other channels, in particular the Treasury, which deposited 26.9 trillion lire in its payments account with the central bank. As a result, the banking system's debtor position arising out of securities repurchase agreements with the Bank of Italy rose to about 63 trillion lire at the end of June. The Bank of Italy made net purchases of Treasury bonds on the secondary market amounting to 3.5 trillion lire.

In July repurchase operations were structured to offset the effects of the 10.1 trillion lire of liquidity released by implementation of the reform of the compulsory reserves in May. The financial markets continued to be prey to tensions, with the Deutschemark rising to above 1,000 lire. In response to the tightening of liquidity by the Bank of Italy, the repo rate rose to 8.2 per cent, 0.2 points higher than the maximum cost of central

Figure 1

Central bank financing (1)
(stocks, in billions of lire)



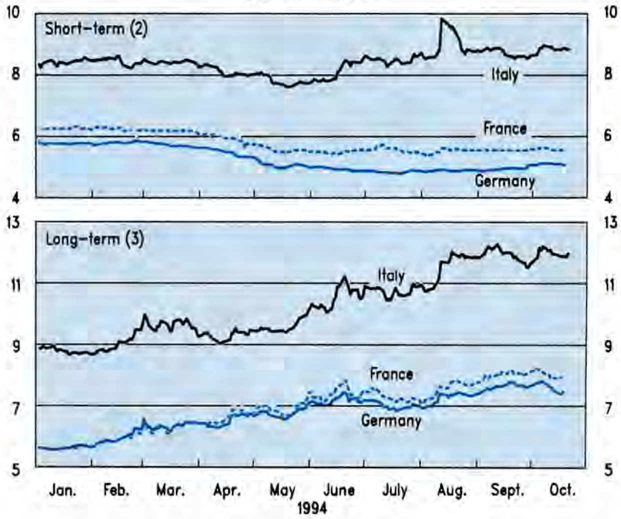
(1) Daily data.

bank refinancing. Overnight and 3-month interbank rates rose to 8.3 and 8.6 per cent respectively, 0.7 and 0.9 points higher than in mid-May, and remained at this level in the final days of the month, when the repo rate was temporarily brought back down to 8 per cent. Treasury bill allotment rates rose in line with interbank rates. The pre-tax yield on 3-month Treasury bills, calculated on the basis of simple interest, rose to 8.5 per cent at the end of July, 0.8 points higher than at the auction in mid-May; the yield on 12-month bills rose by about 1 point to 9.4 per cent.

Figure 2

Interest rates in Italy, France and Germany (1)

(percentages)



(1) Daily data. – (2) Three-month interbank rates. – (3) Average pre-tax yield on Italian Treasury bonds with a residual maturity of between 9 and 10 years in the screen-based secondary market and yields on 10-year French and German government securities.

In July the Bank of Italy made five purchases of Treasury bills from primary dealers for a total of 6 trillion lire. It continued its purchases of Treasury bonds in the secondary market, increasing its net holdings by 1.7 trillion lire. The Bank's portfolio of government securities expanded by about 17 trillion lire in the first seven months of the year.

The lira continued to weaken in early August; signs of a deterioration in inflation expectations for the final part of the year and of faster growth in the producer prices of manufactures began to emerge. Overnight and 3-month interbank rates rose to 8.5 and 8.8 per cent respectively, 0.5 and 0.8 points above the rate on fixed-term advances, which normally caps the rise in money market interest rates. On 11 August the Bank of Italy raised official rates by 0.5 points, with the discount rate rising to 7.5 per cent and that on fixed-term advances to 8.5 per cent. Comparable increases were announced by Sweden on the same day and by the United Kingdom in mid-September, together with other measures to nip inflationary expectations and pressures in the bud. The Bank of Italy's actions in subsequent weeks were aimed at stabilizing expectations by signaling the possibility of a return to a less restrictive stance. The minimum rate on repurchase agreements fell below that on fixed-term advances on 19 August, when the Bank of Italy entered into repurchase agreements totaling 10 trillion lire one day before the expiry of an equal volume of outstanding repos; the rate decreased further at the next operation, which was also carried out one day in advance, and declined to 8 per cent at the end of August. The rate on 3-month interbank funds rose by more than 1 percentage point to 9.8 per cent on 12 August in the immediate aftermath of the increase in the discount rate, but subsequently declined as repo rates came down; from the end of the month onwards it approached the level prevailing before the change in official rates. At the end of August the simple pre-tax yield on 3-month Treasury bills rose by 0.4 points to 9 per cent and that on 12-month bills by 1.1 points to 10.8 per cent.

The yield on 10-year Treasury bonds rose by 0.5 points to 11.7 per cent on the day after the raising of official rates and continued to increase in subsequent weeks, reaching 12.3 per cent in the first part of September; the differential in relation to the corresponding German rate widened to more than 4.5 percentage points over the same period. An improvement in expectations in the second half of September brought the differential down to less than 4 points, but renewed domestic uncertainty at the beginning of October caused it to widen sharply again.

Figure 21

Interest rate differentials vis-à-vis Germany and effective exchange rate of the lira (1)

(1) Daily data. – (2) 3-month interbank funds. – (3) Differential between secondary market yield on Italian Treasury bonds with a residual maturity of 9 to 10 years and that on 10-year German government bonds. – (4) Vis-à-vis the EU currencies. Index, 11.9.1992=100. A rise in the index indicates an appreciation of the lira.

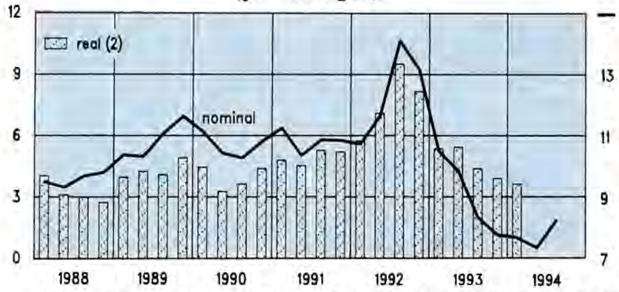
Tensions developed in the financial markets from June onwards, owing mostly to domestic factors and in particular to the outlook for the public finances. One element was market reaction to the judgment of the Constitutional Court of 8 June regarding pensions, which it was estimated would impose an additional burden of up to 30 trillion lire on the public finances. Short-term interest rates also rose during the month, quickly reaching a premium of about half a percentage point above the rate on fixed-term advances, which ordinarily acts as a ceiling. At the beginning of August the offer yield on ten-year Treasury bonds was more than a point higher than two months previously, whereas the corresponding rates in Germany, France and the United Kingdom were virtually unchanged. The rise in yields on government securities was accompanied by a progressive weakening of the lira, which reached an exchange rate of over 1,000 against the Deutschemark, a depreciation of 4 per cent compared with the end of May. Business surveys conducted in early August confirmed the marked worsening of inflation expectations, fueled by the weakness of the lira, the halt in the deceleration in the cost of living and a pick-up in producer prices. The deterioration in expectations was also reflected in the yield curve, whose positive slope steepened, especially for maturities up to 2 years. The decision to raise official rates, taken in conjunction with a further depreciation of the lira, was intended to counter inflationary pressures and expectations at a time of falling real interest rates (Figure 22).

In the ensuing weeks monetary policy was directed towards stabilizing market expectations. The rate on repurchase agreements came back within the band formed by the two official rates. Three-month interbank rates, which had risen by more than one percentage point immediately following the increase in official rates, had returned to approximately their previous level by the end of the month. The rise in long-term yields proved more durable, in response partly to renewed tensions in the European financial markets and partly to domestic strains. Long-term yield differentials with France and Germany, which had widened to 4.2 and 4.6 points respectively in August, subsequently reverted to their end-July levels of 3.5 and 4 points. There were further increases in rates in October, however.

Figure 22

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

(percentages)



(1) Allotment rates net of withholding tax. Quarterly averages. – (2) Yields deflated by the effective change in consumer prices over the six months following the observation period, on a seasonally-adjusted annual basis. For August and September 1994, consumer prices are estimated on the basis of the cost-of-living index.

The central bank's actions were reflected in slower growth in monetary base (Table 17). Adjusted to exclude the effects of the reform of compulsory reserves in July, monetary base increased at an annual rate of 5.2 per cent in the first nine months of the year, nearly 3 points less than in the same period of 1993. A slowdown in the growth in bank reserves (to 2.7 per cent, as against 9.5 per cent in 1993) was only partly offset by an acceleration in the expansion of currency in circulation (to 9.3 per cent, as against 5.2 per cent). On the sources side, the foreign sector accounted for monetary base creation of 4 trillion lire, while the Treasury destroyed 37.8 trillion (Table 18), including 26.1 trillion in net deposits on its current account with the Bank of Italy. Open market operations created monetary base amounting to 31.7 trillion lire.

Table 17

Monetary variables (1)
(percentage changes)

	1993		1994 (2)
	Jan.-Sept. (3)	Year	Jan.-Sept. (3)
Bank reserves (4)	9.5	9.0	2.7
Monetary base (4)	7.8	7.2	5.2
Bank deposits	8.6	8.8	3.6
Money supply (M2)	8.1	7.9	4.2

(1) 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) Annualized and seasonally adjusted. – (4) Adjusted for the change in the average compulsory reserve ratio.

The heightened uncertainty in the financial markets did not impede the orderly financing of the Treasury. In the first nine months of the year net issues of government securities totaled 109.2 trillion lire, compared with 111.5 trillion in the corresponding period of 1993. Bonds accounted for the bulk of net issues, although in recent months the Treasury has favoured short-term and floating rate paper. Issues of Treasury bonds denominated in foreign currency declined to about 15 trillion lire during the first three quarters, compared with 21 trillion in the same period of 1993. The average maturity of the public debt lengthened from 34 months at the end of last year to 38 months this spring and stabilized in the following months.

Table 18

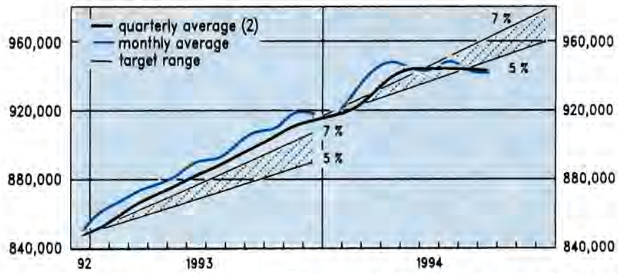
Monetary base (1)
(changes in billions of lire)

	1993		1994 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Sources			
Foreign sector	5,145	2,564	4,047
Foreign currency swaps .	*–2,055*	*–2,055*	*–813*
Treasury	–14,118	–3,378	–37,782
Borrowing requirement ..	*109,558*	*163,124*	*103,725*
(excluding settlements of past debts)	*106,673*	*153,557*	*103,719*
Market purchases of securities	*–109,951*	*–139,652*	*–125,654*
Other financing (3)	*–13,724*	*–26,850*	*–15,854*
Open market	–12,915	–14,098	31,682
Refinancing	–6,989	–6,451	–159
Other sectors	–1,709	1,903	–8,017
Total ...	**–30,585**	**–19,460**	**–10,229**
Uses			
Currency in circulation	–2,278	4,152	155
Bank reserves	–28,307	–23,612	–10,384
Deposits with B.I.	–27,222	–23,594	–9,346
of which:			
Compulsory reserves ..	*–29,819*	*–24,131*	*–10,837*
Other items (4)	–1,085	–18	–1,038

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

Figure 23

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

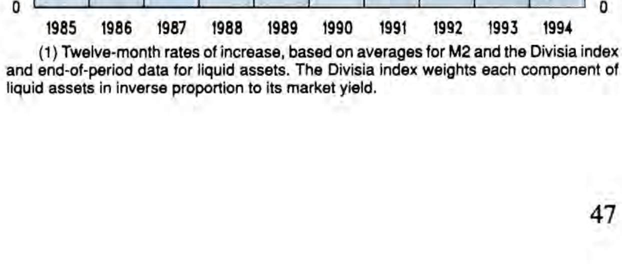


(1) Seasonally adjusted figures. – (2) Averages for the three months ending in the reference month.

Up to the end of April M2 expanded at an annual rate of 8.3 per cent (Figure 23). Bank current accounts were the fastest-growing component, owing primarily to the uncertainty prevailing on the financial markets. From May onwards the resumption of residents' purchases of foreign assets and the rise in the yields on government securities curbed the expansion of M2, despite the fact that the demand for money was boosted by growing

Figure 24

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



(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.

The recent reform of the reserve requirement

The new regulations governing banks' compulsory reserves, which were issued by the Bank of Italy on 27 May, came into force in July. The reform is consistent with the growing tendency for the reserve requirement to be used as an instrument of monetary policy in the leading countries, a function recognized in Italy by Article 10 of Law 483 of 26 November 1993 (see the insert: "The reform of the Treasury's current account with the Bank of Italy and of the compulsory reserves", Economic Bulletin, No. 18, February 1994). In accordance with the approach laid down in the 1993 Banking Law, the new rules provide for equal treatment of the various categories of bank, extending the reserve requirement to banks accepting medium and long-term funds and mutual banks (banche di credito cooperativo). In addition, the reform implements the provision of Law 483/1993 exempting savings certificates and CDs not repayable for 18 months from the requirement. Finally, it represents a further step towards gradually reducing the cost of holding reserves.

The reserve ratio is now 15 per cent and is applied to the monthly changes in deposit liabilities subject to the requirement (see the table). Deposits of banks accepting medium and long-term funds with banks accepting short-term funds are treated as interbank deposits and hence are exempt. Banks' own funds can be deducted from the reference aggregate until August 1995. To reconcile the objective of equal treatment with that of lowering the cost of reserves for small banks, the first 200 billion lire of deposit liabilities are exempt; to prevent this being an obstacle to amalgamations, banks formed as a result of mergers are to meet the requirement only with reference to new deposit liabilities. Compulsory reserve deposits now bear interest at a uniform rate of 5.5 per cent. Reserves held in respect of CDs with a maturity of at least 18 months issued before June 1994 are released by applying the 15 per cent ratio to the amount falling due; in January 1996 reserves held in respect of certificates still outstanding at that time will be released in the same manner.

The new system has three main effects with regard to the release of reserves. The first arose in July and was due to the introduction of the exemption for the first 200 billion lire of deposit liabilities and the exclusion of deposits of banks accepting medium and long-term funds with banks accepting short-term funds, releasing a total of around 8 trillion lire. The second is linked to the release of reserves in respect of CDs with a maturity of at least 18 months; given that the amount outstanding last May was around 165.5 trillion lire, the exemption will eventually release 24.8 trillion lire. The third effect stems from the lowering of the reserve ratio for short-term deposits; on the assumption that bank deposits will continue to grow at the current rate in 1995 and that, in line with recent trends, instruments with a maturity of at least 18 months will account for around two thirds of the increase, the lower reserve ratio will reduce the amount of compulsory reserve deposits by roughly 4 trillion lire. As a whole, the new system will reduce the average reserve ratio, i.e. compulsory reserves in relation to total deposits, from 13.7 per cent in June of this year to 9.3 per cent in December 1995.

The implicit cost of reserves, calculated by multiplying the amount of reserves by the difference between the average pre-tax yield on Treasury bills and the average interest rate on compulsory reserve deposits, fell in May 1994 to 0.32 per cent of total deposits, close to the level in the other leading countries. The cost is now 0.55 per cent, owing to the subsequent rise in interest rates; if Treasury bill yields and the interest rate on compulsory reserve deposits remained unchanged, the cost would fall to 0.42 per cent in December 1995.

uncertainty, reflected in the volatility of securities prices. On the basis of average quarterly data, M2 grew by 4.2 per cent between the beginning of the year and September, thus remaining below the target range. Liquid assets not included in M2 contracted by 0.5 per cent during the first eight months (Figure 24).

Total financial assets grew at an annual rate of 6.9 per cent during the first eight months, slightly slower than the 7.4 per cent recorded in the same period of 1993 (Table 19). The formation of financial assets was fueled by the substantial balance-of-payments surplus on current account, which partly offset the further slowdown in the credit aggregates. Total credit increased by 5.3 per cent, 2.5 points less than a year earlier. The slowdown reflected primarily the behaviour of the private sector component, with finance to the non-state sector contracting by 0.1 per

Changes in the reserve requirement in the last two years

	Jannuary 1993	February 1993 to May 1994	From June 1994
Institutions subject to the requirement	Banks accepting short-term funds; rural and artisans' banks (now called mutual banks) deposited compulsory reserves in the form of securities	Unchanged	All banks
Deposit liabilities subject to the requirement	Lira funds received from residents and non-residents and foreign currency funds from residents, excluding: repos with customers, lira funds from non-resident banks other than branches of Italian banks, and interbank deposits (except those of special credit institutions, now called banks accepting medium and long-term funds)	Unchanged	Lira funds received from residents and non-residents and foreign currency funds from residents, excluding: repos with customers, lira funds from non-resident banks other than branches of Italian banks, interbank deposits, and CDs, savings certificates and bonds not repayable for 18 months
Exempt amount	None	None	200 billion lire
Own funds	Deductible from deposit liabilities subject to the requirement	Deductible from deposit liabilities subject to the requirement; the proportion of own funds set against CDs subject to a lower reserve ratio was equal to the share of CDs in the reference aggregate	Deductible from deposit liabilities subject to the reserve requirement until August 1995
Reserve ratio	22.5% of the change in the reference aggregate; for banks with a lower ratio of reserves to the reference aggregate, 25% of any increase and 22.5% of any decrease	In February 1993: 17.5% of the reference aggregate; from March 1993: 10% of CDs with a maturity of at least 18 months and other features specified by the Bank of Italy; 17.5% of other deposit liabilities	15% of the change in the reference aggregate; the same ratio applies to the release of reserves in respect of CDs and savings certificates with a maturity of at least 18 months
Interest paid on reserve deposits	8.5% on reserves in respect of CDs; 5.5% on other reserves	From July 1993: 6.5% on reserves in respect of CDs and 5.5% on other reserves	5.5% on all compulsory reserves
Mobilization	5% of the compulsory reserves	From 15.2.1993: 7% of the compulsory reserves	From 15.7.1994, 15.1.1995 and 15.7.1995, respectively 8%, 9% and 10% of the compulsory reserves

cent on a seasonally adjusted annual basis. Over the same period the flow of finance to the state sector amounted to 75.8 trillion lire, 5.1 trillion less than in 1993.

Banking

The cyclical upturn in the economy has not yet translated into a recovery in bank lending. The further improvement in firms' profits and self-financing was accompanied by large-scale share issues and credit conditions that were still tight, despite some initial signs of an easing. As bad debts continued to increase significantly and earnings declined, banks reduced the volume of funds they attracted by progressively lowering deposit rates, leading to a widening of interest rate spreads in recent months.

Table 19

Financial flows

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

VOCI	Growth			Share of outstanding stocks	
	1993		1994	1993	1994
	Jan.-Aug. (1)	Year	Jan.-Aug. (1)	Aug.	Aug.
Total credit	**7.8**	**6.4**	**5.3**	**100.0**	**100.0**
Finance to the non-state sector	*4.0*	*1.3*	*–0.1*	*40.5*	*38.1*
from banks accepting short-term funds	*2.0*	*–1.5*	*–0.8*	*22.3*	*20.5*
from banks accepting medium and long-term funds	*10.1*	*10.2*	*3.8*	*12.4*	*12.5*
bonds	*–20.7*	*–28.2*	*–0.5*	*1.2*	*1.1*
foreign finance	*5.6*	*–2.0*	*–7.3*	*4.6*	*4.0*
Finance to the state sector	*10.3*	*9.8*	*8.8*	*59.5*	*61.9*
foreign finance	*13.7*	*22.3*	*9.6*	*2.2*	*2.6*
Financial assets (2)	**7.4**	**7.0**	**6.9**	**100.0**	**100.0**
Domestic	*7.9*	*7.0*	*6.7*	*94.8*	*94.4*
liquid assets	*5.8*	*2.7*	*2.4*	*62.8*	*59.1*
M2 (3)	*8.6*	*7.7*	*4.1*	*36.6*	*35.7*
medium and long-term government securities	*13.8*	*13.2*	*12.6*	*28.4*	*30.0*
other (4)	*33.8*	*52.7*	*43.9*	*3.6*	*5.3*
Foreign	–1.5	6.6	11.3	5.2	5.6

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

The slowdown in the growth in lending over the past two years turned into an actual contraction in the course of 1993. In July of this year total lending by banks accepting short-term funds was 4.1 per cent less than a year earlier. This reflected a further contraction in foreign currency lending, which fell by about one quarter over the same period, and a pronounced slowdown in lira lending, which stagnated in the twelve months to July after recording growth of 5.3 per cent a year earlier.

In August and September there was an upturn in lending, possibly the first stirrings of a recovery; the twelve-month contraction in total lending moderated to 2.0 per cent in September, while lira lending returned to positive growth (1.6 per cent). Harbingers of a relaxation of constraints on the supply of credit had been discernible in the preceding months. The volume of credit granted had begun to recover in May, and in July it registered a twelve-month growth rate of 1.3 per cent, compared with a 1.3 per cent contraction in the twelve months to December 1993. The ratio of credit drawn to credit granted declined during this period from 61.4 to 59.2 per cent, while the share of lending at or below the ABI prime rate rose from 23.0 per cent in the three months from June to August 1993 to 28.1 per cent a year later.

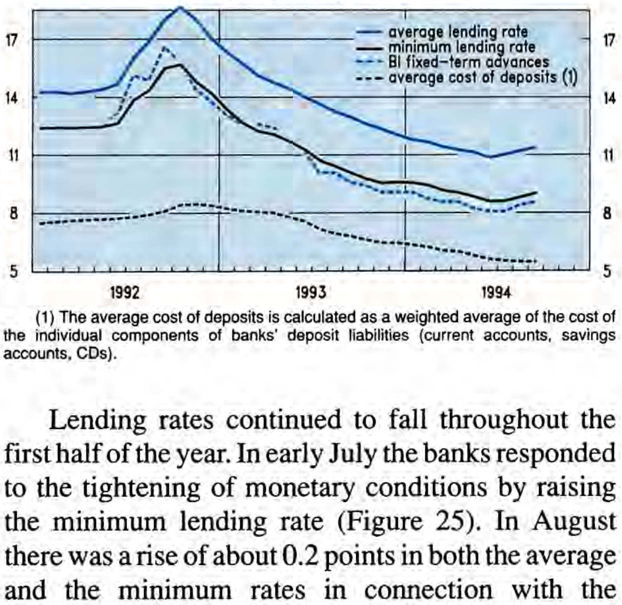
As in previous business cycles, bad debts continued to increase rapidly even after the start of the economic recovery. The twelve-month increase in the bad debts of banks accepting short-term funds was 26.8 per cent in August, about one point higher than in December. Over the same period their bad debts rose from 7.4 to 9.1 per cent of total lending and from 29.8 to 33.5 per cent of own funds. The data for June indicate a halt in the growth of sub-standard assets (loans to borrowers in temporary difficulties), which were valued at 30 trillion lire, about the same as in December.

Trends in credit risks again favoured a shift in the lending of banks accepting short-term funds towards longer-term loans, which are better secured. The share of their lira lending at medium and long term rose from 19.0 per cent in December to 21.5 per cent in August, when the proportion of their lira lending with a residual maturity of more than 18 months was 13.0 per cent, compared with 11.1 per cent a year earlier. The share of secured lira lending also rose, from 35.5 per cent in December to nearly 39 per cent in August.

Figure 25

Rate on fixed-term advances and bank interest rates

(percentages)



(1) The average cost of deposits is calculated as a weighted average of the cost of the individual components of banks' deposit liabilities (current accounts, savings accounts, CDs).

Lending rates continued to fall throughout the first half of the year. In early July the banks responded to the tightening of monetary conditions by raising the minimum lending rate (Figure 25). In August there was a rise of about 0.2 points in both the average and the minimum rates in connection with the increase in official rates. Nonetheless, at the end of the month the average lending rate was still about 0.7 points lower than in December. Over the same period the differential between the average lending rate and the rate on fixed-term advances narrowed from 3.0 to 2.8 points.

The slackening of credit demand and the rapid rise in bad debts led banks to curb their deposit-taking in order to avoid further undermining earnings, which were already declining. In particular, the general rise in interest rates that affected lending rates during the summer did not extend to deposit rates. The difference between the average yield on Treasury bills and the average cost of bank deposits widened by about 2 percentage points between December and September (Figure 26), while the rate of growth in deposits declined from 8.7 to 3.7 per cent; the slowdown also affected CDs, which increased by an average of only 1.4 per cent in the twelve months to September, compared with 18.0 per cent at the end of 1993. Current accounts, however, continued to expand at a relatively rapid pace, with their twelve-month rate of growth only easing from 8.9 to 5.7 per cent.

Repurchase agreements with customers declined in the first half of the year compared with the same period of 1993; they staged a recovery during the summer in connection with the slowdown in deposit growth, and in August the total outstanding was just 3.7 per cent lower than twelve months earlier, compared with a decline of 11.2 per cent in June. In the first eight months of the year reverse repos with customers fell by more than 24 trillion lire, owing largely to the contraction in such transactions with non-residents, who use them to hedge the exchange risk on their holdings of lira securities.

The net foreign liabilities of banks accepting short-term funds increased by 30.5 trillion lire during the first eight months, compared with a contraction of 76.4 trillion in the same period of last year. This was due for the most part to the behaviour of non-residents, which was accommodated by Italian banks, whose assets vis-à-vis non-residents contracted by more than 27 trillion lire; nearly half of this decrease was in the lira component, primarily as a result of the decline in reverse repos.

The slow growth of domestic deposits and the decline in lending to residents were associated with an overall increase of about 35.5 trillion lire in banks' securities portfolios, attributable entirely to purchases of Treasury bonds, whose share of the total thus rose from 19.2 per cent in August 1993 to 31.4 per cent a year later.

Bank lending according to sector

In 1993 bank lending to the productive sectors of the economy decreased across the board. In the first seven months of 1994, however, there was some recovery in lending to industry excluding construction, although outstanding credit was still below the level recorded in the first half of 1993. Credit growth was dampened not only by the continuing caution of the banks but also by the recovery in corporate profits; a reduction in firms' bank debt was accompanied by a considerable increase in their liquid assets (13.6 per cent in the twelve months to June). In addition, listed companies issued substantial amounts of new equity.

In the twelve months ending in July bank lending to non-financial companies diminished by 2.2 per cent after exchange rate adjustments. Credit to the industrial sector declined by 1.9 per cent over the same period, but increased by 3.8 trillion lire between January and July, compared to a contraction of 4.9 trillion in the first seven months of 1993.

The expansion was due in part to the industries that have benefited from improved competitiveness in export markets (agricultural and industrial machinery, office and data processing machines, electrical materials and supplies, textiles, clothing and footwear). The sharpest increase, however, was in lending to sectors oriented more strongly towards the domestic market, which recorded a twelve-month rate of growth of 1.7 per cent in July. The branches of industry that had been least affected by the recession (fuel and power products, food products, paper and publishing) made no contribution to the recovery in overall lending; loans to these industries, which had remained largely unchanged in 1993, contracted sharply in the first seven months of 1994.

The ratio of credit drawn to credit granted declined for the firms that had suffered least from the recession; in the case of exporters it rose slightly, though it remained lower than in the middle of 1993.

Credit to the market services sector contracted and the growth in lending to construction firms slowed down owing to the weaker recovery in these sectors; the adverse trend in lending to both sectors became more pronounced in June and July. The change in the rate of growth of lending to the small businesses classed as "producer households" was comparable to that for non-financial enterprises, whereas in 1993 their borrowing had increased more rapidly than that of the latter group.

Finance to general government in the form of state-guaranteed loans from banks accepting medium and long-term funds continued to expand. The reduction of financial enterprises' indebtedness to banks accelerated sharply in 1994, especially as regards foreign currency debt, with no apparent sign of an upturn; in July the twelve-month rate of contraction was 9.5 per cent. Lending to consumer households continued to grow, though less rapidly than in the first part of 1993.

The ratio of bad debts to lending rose by 1.2 percentage points in industry excluding construction, by 1.9 points in construction and by 1.7 points in the services sector. The reduction in lending rates during the first half of the year affected all three branches but was slightly more pronounced for industry (2.9 percentage points) than for construction (2.6 points) or services (2.8 points).

Bank lending by branch of economic activity (1)

	General government (2)	Finance and insurance	Non-financial enterprises							Households		Total
				Industry				Construction	Services			
					Segments least affected by recession (3)	Exporters (4)	Other industry			Consumer	Producer	
	12–month percentage change in credit drawn (5)											
1992 – December	14.4	4.4	9.8	6.7	10.7	3.0	7.5	14.9	12.6	9.3	4.3	8.5
1993 – June	29.7	–0.8	2.4	0.0	7.3	–4.7	–0.2	14.9	0.8	5.5	0.5	3.9
1993 – December	34.2	–1.7	–1.5	–5.7	–0.1	–10.8	–4.7	13.1	–1.8	3.4	1.8	2.0
1994 – June	24.4	–6.5	–2.4	–3.6	–4.5	–6.7	–0.4	2.6	–1.7	2.3	0.2	0.1
1994 – July	23.2	–9.5	–2.2	–1.9	–4.9	–4.1	1.7	2.0	–2.6	2.4	–0.8	–0.5
	Change in credit drawn (billions of lire) (5)											
1993 first 7 months	11,008	–5,453	–2,203	–4,885	–238	–2,991	–1,656	7,562	–4,982	4,387	3,865	11,604
1993 last 5 months	12,513	2,706	–5,567	–8,117	194	–5,545	–2,766	1,687	1,422	375	–1,678	8,348
1994 first 7 months	6,064	–17,616	–5,653	3,807	–2,959	2,384	4,382	–87	–6,530	3,048	647	–13,510
	Ratio of credit drawn to credit granted (6)											
1993 – June	54.1	59.7	59.6	52.9	46.6	53.3	56.5	73.3	64.0	78.7	70.5	61.7
1993 – December	51.3	61.2	58.7	51.1	47.1	50.1	54.4	74.1	63.6	79.8	70.2	61.4
1994 – June	42.2	54.9	57.7	51.0	42.4	50.2	56.8	74.2	61.6	80.3	70.1	59.4
1994 – July	43.8	52.8	57.9	51.7	42.8	51.4	57.1	74.7	61.1	80.6	69.7	59.2
	Percentage composition of outstanding credit at 31 July 1994											
Credit drawn	9.6	13.9	49.6	22.0	5.3	7.3	9.4	7.9	18.7	14.4	12.5	100

Source: Central Credit Register.

(1) Lending to non-bank residents. Credit drawn is net of bad debts. The foreign currency component (granted and drawn) is net of exchange rate adjustments. – (2) Conventionally includes several publicly owned service companies that formerly operated as autonomous government agencies. – (3) Food processing, fuel and power, paper and publishing. – (4) Agricultural and industrial machinery, office and data processing machines, electrical materials and supplies, textiles. – (5) The figures for consumer households, producer households and the total are adjusted to take account of the Central Credit Register's 80-million-lira reporting threshold. – (6) Only banks accepting short-term funds.

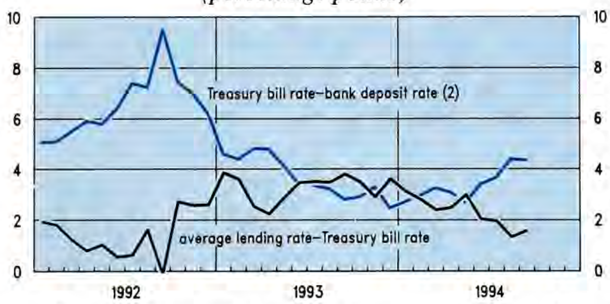
Bank profits decreased sharply in the first half of 1994. The net interest income of banks accepting short-term funds was about 10 per cent lower than a year earlier, while the fall in the prices of government securities was reflected in a decrease of some 17 per cent in income on securities trading. Gross income thus also declined by about 10 per cent. Operating expenses were reduced by 2 per cent and net income fell by 21 per cent.

Lending by banks accepting medium and long-term funds slowed down much less markedly than that of their short-term counterparts. The twelve-month growth rate declined from 8.4 to 4.8 per cent between December and September. The deceleration was particularly pronounced in the case of industrial credit, whose rate of growth fell from 5.6 to 0.9 per cent. Real estate credit was more buoyant, maintaining a twelve-month growth rate of around 8 per cent.

Figure 26

Interest rate differentials (1)

(percentage points)



(1) The rate on Treasury bills is the weighted average allotment rate on 3, 6 and 12-month bills. – (2) Net of withholding tax. The rate on deposits is calculated as a weighted average of the rates on the individual components of bank deposit liabilities (current accounts, savings accounts, CDs).

The risk ratios of banks accepting medium and long-term funds deteriorated perceptibly during the first half of the year, when the cyclical recovery had barely begun. The annual rate of increase in their bad debts was 36.5 per cent in July, about 8 points more than the rate recorded by banks accepting short-term funds. Their ratio of bad debts to total lending nevertheless remained lower than that of the banks accepting short-term funds, rising from 6.1 per cent in December to 7.0 per cent in July.

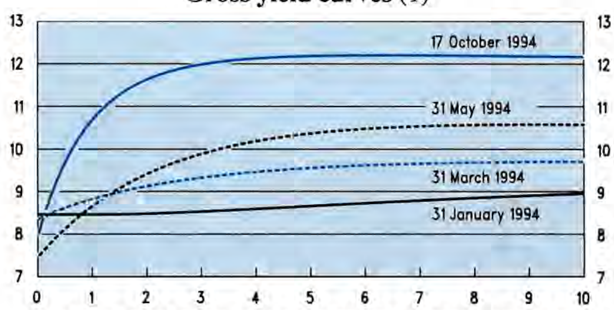
Bond issues by institutions accepting medium and long-term funds expanded further; the twelve-month increase in this form of fund-raising rose from 16.5 per cent in December to 18.2 per cent in August. However, the volume of certificates of deposit decreased by 7.4 per cent after having grown by the same percentage in 1993. These institutions' liabilities in foreign currency and external lire also contracted, falling by 7.6 per cent in the twelve months to August. Their holdings of government securities diminished by 3.4 trillion lire between January and August, owing mainly to net disposals of Treasury bonds.

The financial markets

Between the end of January and the middle of October the gross yield to maturity of the ten-year Treasury bonds traded on the secondary market rose by 3.3 percentage points, more than half of the increase occurring after the end of May (Figure 27). Yields on bonds with maturities of between one and four years showed a more pronounced increase (3.7 percentage points). The average yield on Treasury credit certificates traded on the Milan Stock Exchange rose by more than 2.5 percentage points between the end of May and the end of October, slightly more than the increase ascribable to the raising of the short-term rates to which it is indexed.

Figure 27

Gross yield curves (1)

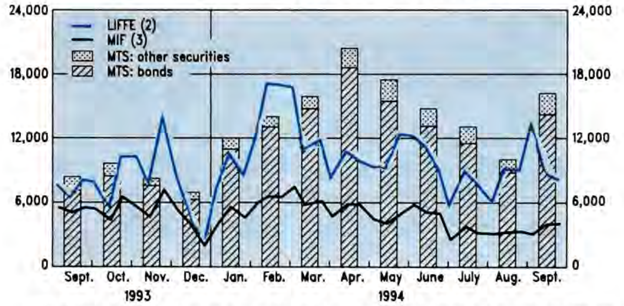


(1) Treasury bonds traded on MTS and the stock exchange. Pre-tax yields on zero-coupon bonds plotted against their maturity in years.

Turnover on the screen-based secondary market (MTS) waxed and waned between February and September (Figure 28). In the first three months it rose steadily to exceed a daily average of 20 trillion lire. A contributory factor was competition among

Figure 28

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

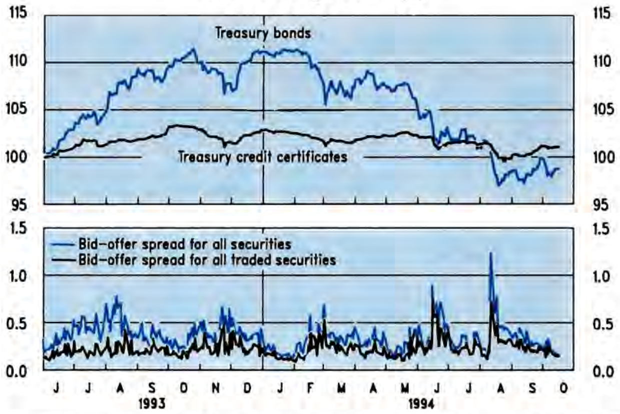


(1) Average daily turnover in billions of lire. – (2) Turnover in futures contracts on long-term bonds. – (3) Turnover in futures contracts on medium and long-term bonds.

dealers to achieve the trading volume required to gain the status of "specialist" (see the insert "The reform of the screen-based secondary market in government securities (MTS) and the introduction of screen-based auctions", *Economic Bulletin*, No. 18, February 1994). This effect had virtually run its course by mid-June. The volume of trading then declined to a daily average of 10 trillion lire in August, in line with turnover on LIFFE, owing partly to the uncertainty caused by the rise in interest rates and to a lesser extent to the transition to screen-based trading in government securities on the stock exchange. Average daily turnover on this market rose from 8 trillion lire in July to 14.3 trillion in September. The high degree of uncertainty in the markets was reflected in bid-offer spreads, which remained at around 50 basis points from March to May and then widened, most notably in June and August (Figure 29).

Figure 29

Screen-based market: ex coupon price indices for government securities and average bid-offer spreads (1)



(1) Base for indices, 31 May 1993=100; bid-offer spreads are averages for medium and long-term lira bonds traded on MTS.

Table 20

Government securities
(billions of lire)

	Bills (1)	Ecu bills	Credit certificates	Bonds	Option certificates	Ecu credit certificates	Other	Total
				Gross issues				
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 - 9 months	569,302	4,905	40,000	102,952	–	8,029	2,858	728,046
1994 - 9 months	499,000	–	40,372	139,454	–	12,770	–	691,595
				Net issues				
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 - 9 months	12,435	1,467	10,714	90,384	–7,041	2,538	1,016	111,512
1994 - 9 months	12,655	–4,905	23,602	85,636	–3,108	4,193	–8,863	109,209

(1) Net issues do not include issue discounts.

Interest rates in Italy in 1994

In the first part of the year, from January to May, Italian interest rates were influenced mainly by the rise in yields on international financial markets connected with the tightening of US monetary policy initiated by the Federal Reserve in February and, starting in the spring, with the improvement in expectations regarding recovery in Europe. The increases were restricted to the medium and long-term rates and were smaller in Italy than in other countries. The gross yield on 10-year Treasury bonds (BTPs) rose by 1.2 percentage points; the long-term differential narrowed to 3 percentage points vis-à-vis Germany, a decrease of 20 basis points, and narrowed by rather more vis-à-vis the other European countries. Short-term rates continued to decline gradually (in line with those in Germany), reflecting the narrowing of Italy's inflation differential. The reduction in the long-term interest rate differential and the stability of the exchange rate provided support for the Bank of Italy's gradual easing of monetary conditions in this period.

At the beginning of the year the forward yield curve implicit in Eurolira spot rates – the shape of which provides an indication of expectations regarding interest rates and their volatility – pointed to further reductions in interest rates in the two following years (Figure 1); the pattern for German rates was similar. Gradually, the forward yield curve acquired an upward slope, with the expectations of increases concentrated on the maturities between 1 and 3 years.

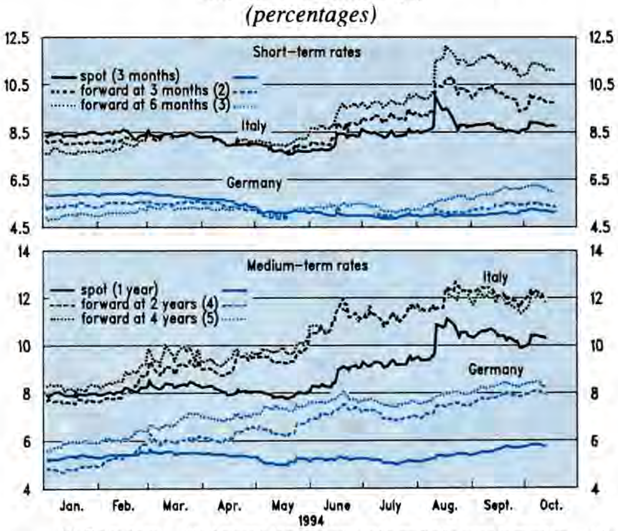
From the beginning of June onwards, Italian rates rose sharply, largely as a result of operators' expectations and the risk of an acceleration of inflation associated primarily with domestic factors. Long-term interest rate differentials widened and the lira weakened. The upward slope of the yield curve steepened (see Figure 27 in the text). Other countries saw a similar change, but in Italy it was more pronounced.

The increase in long-term yields and the corresponding widening of yield differentials continued in July. In order to prevent expectations of a resurgence of inflation from taking root, in August the Bank of Italy raised the official rates by half a point. After an initial phase of instability, conditions gradually became easier first in the money market and then in the securities market. In October domestic tensions caused a further rise in Italian long-term rates.

Figure 1

Spot and forward rates of the Eurolira and the Euromark (1)

(percentages)



(1) Daily data. – (2) 3-month forward rate with maturity after 6 months. – (3) 6-month forward rate with maturity after 12 months. – (4) 1-year forward rate with maturity after 3 years. – (5) 1-year forward rate with maturity after 5 years.

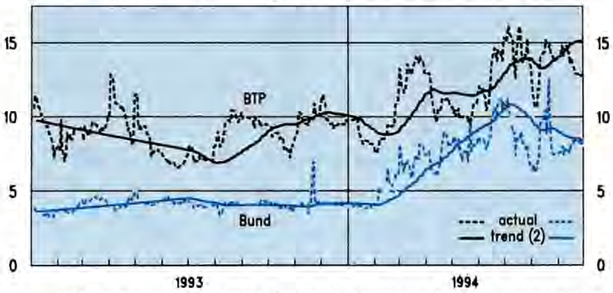
The volume of trading in Treasury bond futures contracts on LIFFE and on the Italian Futures Market (MIF) remained broadly stable from February to May, but declined by 8 and 30 per cent respectively between June and September, whereas the turnover of the spot market increased by 10 per cent. The contraction, which appears to have been related to the liquidation of positions held by non-residents, did not affect the ratio of trading on LIFFE and MIF, which remained at 2.1:1 from February to July.

In the new issue market for government securities, where yields responded immediately to the rises in interest rates described above, the Treasury increased issues of credit certificates and bills from May onwards, thereby decreasing the share of fixed rate securities in the net issue volume.

Between the end of May and the middle of October 10-year yields rose in the Euromarket and even more for Treasury securities. The yield on 10-year BTPs rose by 2 percentage points to 12 per cent. The 3-month spot rate rose by just over one point to 8.8 per cent; the forward rates on maturities of more than one year rose to over 12 per cent. The long-term differential widened to 4.5 percentage points vis-à-vis Germany, an increase of 1.5 points, with smaller increases vis-à-vis France and the United States (1.2 points) and a larger one vis-à-vis the United Kingdom (2 points).

Figure 2

Expected volatility of BTPs and Bunds (1)



(1) Daily data; values implicit in the prices of options on futures quoted on LIFFE; percentage points on an annual basis. – (2) Obtained by assuming a multiplicative model for the identification of the cyclical, trend and error-term components.

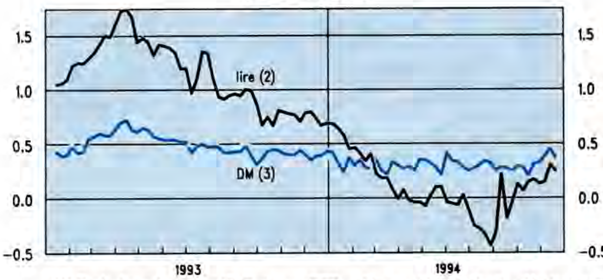
The rise in the inflation risk premium and the related increase in the uncertainty regarding Italian interest rates appear to be reflected in the expected volatility of BTP yields implicit in the prices of options on futures; until May, it had increased less than the expected volatility of German Bund yields. From June onwards the expected volatility of BTP yields showed a further large increase, while that of German Bund yields began to decline, albeit with wide fluctuations (Figure 2).

The interest rate differentials between Italian Treasury paper and that of other issuers denominated in the same currency, which provide an indication of the credit rating of the Treasury, are shown in Figure 3. In line with the improvement in the external accounts, those for securities denominated in foreign currency narrowed slightly compared with the previous year, fluctuating around the level of 40 basis points. The yield spread between 10-year BTPs and the corresponding interest rate swaps – whereby Euromarket operators exchange flows of income on fixed rate securities against those on securities with a rate linked to 6-month Libor – fell significantly compared with 1993, following the introduction of a much faster procedure for the refunding of withholding tax to foreign investors; towards the middle of the year the spread disappeared. The sharp increase in the differential between Treasury bonds and swaps from August on appears consistent with the perception of an increase in the credit risk associated with the Treasury for securities denominated in lire.

Figure 3

Yield differentials between Italian Treasury securities and those of other issuers (1)

(percentages)



(1) End-of-week data. – (2) Between BTPs with a residual maturity of between 9 and 10 years and 10-year swaps. – (3) Between Republic of Italy bonds in DM maturing 10.2.1998 and Bunds maturing 20.10.1997.

Variable rate paper soared from 12 per cent of the total in the first half of the year to 52 per cent in the third quarter. Over the first nine months as a whole, however, bonds accounted for 80 per cent of the total, similar to the proportion in the same period of 1993 (Table 20). Subscriptions of ten-year paper rose to 39 trillion lire, or more than a third of total net issues, compared with 30 trillion a year earlier.

In the first eight months net subscriptions of government securities by the non-state sector amounted to nearly 42 trillion lire, compared with 31.5 trillion in the same period of 1993. Net purchases by investment funds, which invested more than two thirds of their net fund-raising in government securities, exceeded 17 trillion lire, compared with 8.1 trillion a year earlier, while non-residents made net disposals of 10.6 trillion lire, as against net purchases of 72.6 trillion. Households and firms made net purchases of about 35 trillion, compared with 25 trillion a year earlier. Banks, whose holdings of government securities had remained more or less constant during the first eight months of 1993, made net purchases of 29.5 trillion lire in the same period of 1994, while the Bank of Italy acquired paper worth 24.6 trillion.

Share prices on the Milan Stock Exchange rose sharply in March and April but fell thereafter, in contrast with developments in the main stock exchanges abroad, owing to uncertainty about the budget measures and the rise in interest rates (Figure 30). By the end of October the Milan Stock Exchange Index had declined by 22.5 per cent from the peak reached in early May and was on a par with the level recorded at the beginning of the year. The price fluctuations affected trading volume; after peaking at 26.1 trillion lire in May, turnover slumped to 13.5 trillion in September.

Continuous screen-based trading has now been extended to all listed shares and bonds. The number of shares trading under daily settlement procedures rose from 47 in January to 190 at the end of October. Completion of the regulations governing securities loans will open up additional opportunities for dealers; the standardized contract for this type of transaction has already been drawn up, but the tax regime still needs to be redefined.

Listed companies made very substantial capital increases totaling 14.3 trillion lire during the first nine months of the year, compared with 2.7 trillion in the corresponding period of 1993.

Figure 30

Securities market:
indices of total return (1)
(31 dicembre 1991=100; end-of-week figures)

(1) Refers to the economic value of the instrument, taking account of capital gains (or losses) and accrued dividends and interest, on the assumption that these are reinvested; for shares the index is the MIB, which excludes dividends.

Fund-raising by investment funds declined steadily from net subscriptions of 8.4 trillion lire in February to net redemptions of 1.7 trillion in September, partly on account of the funds' poor investment performance: their yield index diminished by 3.5 per cent over that period, compared with gains of 4.6 per cent in the Milan Stock Exchange Index and 4.7 per cent in the index of yields on Treasury credit certificates. The proportion of the funds' portfolios invested in foreign securities declined significantly, from 34 to 27 per cent, while the percentage placed in Italian shares rose from 12 to 18 per cent. The proportion invested in Italian government securities remained more or less unchanged.

Short-term prospects

The international economy

According to estimates made by international organizations and most recently by the IMF, the acceleration in economic activity and foreign trade in the industrial countries in 1994 will turn out to be faster than had been expected. The output of these countries as a group should grow by 2.7 per cent, more than double the rate recorded in 1993; GDP is expected to rise by 3.7 per cent in the United States, 2.1 per cent in the European Union, 1.8 per cent in the Western regions of Germany and 0.9 per cent in Japan (Table 21).

The cyclical disparities among the leading countries should lessen considerably in 1995. The rate of growth of the industrial economies should remain at 2.7 per cent, reflecting a slowdown in the United States (2.5 per cent), offset by an acceleration in the EU and Japan (2.9 and 2.5 per cent respectively). In all the main countries of Europe GDP is expected to increase by around 3 per cent, fueled by domestic demand in the form of both private consumption and investment. However, the strengthening of the recovery in Europe and Japan is being hampered by the unusually high level of real long-term interest rates, which is affecting the performance of the stock exchanges.

The expansion is expected to have only limited effects on the labour market: substantial improvements are forecast only for Canada, the United Kingdom and France. In the EU as a whole the unemployment rate should diminish marginally from 11.8 per cent, a historic peak, to 11.5 per cent; employment, which has been declining since 1992, is likely to increase next year, but by less than 1 per cent.

According to the IMF, consumer price inflation will accelerate in the United States and the United Kingdom (to 3.4 and 3.1 per cent respectively). In continental Europe, by contrast, the large margins of spare capacity should favour a further slowdown in prices, on the assumption of continued wage restraint and modest rises in the prices of raw materials. Other forecasting institutions tend to be less optimistic. The uncertainties revolve primarily around future movements in raw materials prices and the real level of productive capacity following the protracted decline in capital spending. The risk of higher inflation applies particularly to the European countries whose currencies have depreciated markedly in the past two years.

In this phase of the cycle national monetary authorities are taking timely action to counteract signs of worsening inflation. The monetary policy stance in the United States became more restrictive as early as the beginning of this year. From the summer onwards monetary conditions have been kept unchanged in Germany and other countries of continental Europe and have been tightened in the United Kingdom, Italy and Sweden. The decline in European official and short-term market rates that began in September 1992 has thus been interrupted.

The recovery now under way provides an opportunity for rigorous correction of the public finances without any fear of recessionary repercussions. The scale of the correction depends on the situation in each country, especially the level of public debt and interest payments, which will be affected by the steep rise in long-term rates this year. If the acceleration in economic activity proves stronger than expected, nearly every country should take advantage of the opportunity to achieve the targets for adjustment of the public finances earlier than is now envisaged. This accords with the position that has emerged in Community fora in the context of the excessive deficits procedure.

In the leading industrial countries as a group, general government deficits are forecast to fall from 3.7 per cent of GDP in 1994 to 3.2 per cent in 1995; the budget balance is expected to improve in all the countries except Japan, where it should remain unchanged.

Table 21

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)			
Industrial countries	1.3	2.7	2.7	Industrial countries	19.3	17.9	6.0
United States	*3.1*	*3.7*	*2.5*	*United States*	*–103.9*	*–149.4*	*–167.5*
Japan	*0.1*	*0.9*	*2.5*	*Japan*	*131.4*	*135.7*	*128.8*
EU	*–0.3*	*2.1*	*2.9*	*Germany*	*–19.9*	*–16.2*	*–14.2*
Germany	*–1.1*	*2.3*	*2.8*				
of which: Western Länder	*–1.7*	*1.8*	*2.3*				
LDCs	6.1	5.6	5.6	LDCs	–106.4	–104.7	–101.1
Consumer prices				**Unemployment rate** (6)			
Industrial countries	2.9	2.4	2.6	Industrial countries	8.1	8.2	8.1
United States	*2.9*	*2.7*	*3.4*	*United States (7)*	*6.8*	*6.3*	*6.3*
Japan	*1.3*	*0.7*	*0.7*	*Japan*	*2.5*	*2.9*	*3.0*
EU	*3.8*	*3.1*	*2.7*	*EU*	*11.2*	*11.8*	*11.5*
Germany	*4.7*	*3.1*	*2.2*	*Germany*	*8.9*	*9.8*	*9.8*
of which: Western Länder	*4.1*	*3.0*	*2.1*	*of which: Western Länder*	*7.4*	*8.3*	*8.5*
Budget balances (3)				**World trade** (2)	**4.0**	**7.2**	**5.9**
United States	–3.4	–2.3	–2.1	**Exports** (2)			
Japan	–0.6	–2.7	–2.7	Industrial countries	2.4	6.0	4.7
EU	–3.2	–2.6	–2.3	LDCs	8.9	9.1	8.7
Short-term interest rates (4)				**Imports** (2)			
United States	3.4	5.0	6.0	Industrial countries	1.8	7.2	4.8
Japan	3.0	2.3	2.9	LDCs	9.3	7.2	7.9
Germany	6.9	5.2	4.8				

Source: IMF. September 1994.

(1) Forecasts. – (2) At constant prices. – (3) As a percentage of GDP. – (4) Averages. 6-month interbank rates for the respective currencies on the London market. – (5) Billions of dollars. – (6) Level. – (7) On the new definition as from 1994.

In the United States the Administration forecasts that the federal budget deficit will decline from $203 to 170 billion and from 3.0 to 2.4 per cent of GDP in the 1995 fiscal year, which has just begun. However, the Administration's projections show deficit reduction coming to a halt in the second half of this decade as a result of increased expenditure on debt interest and health services.

In Japan the general government deficit should remain unchanged at 2.7 per cent of GDP (the figure rises to more than 6 per cent if the surplus of the social security system is excluded). At the end of September the Government launched a medium-term plan for tax reform; this provides for a two-year extension of the cuts in direct taxes implemented in 1994, to be financed by issuing new debt, and a permanent reduction in direct taxes from 1997 onwards, counterbalanced by an increase in indirect taxation.

In Germany the general government deficit is expected to fall to 2.3 per cent of GDP in 1995, compared with 2.6 per cent in 1994, consolidating the adjustment that was begun in 1992-93 despite a severe recession and amidst the economic difficulties associated with unification; the deficit of the "enlarged public sector" in its broadest definition should diminish even more markedly, from 4.8 to 2.9 per cent of GDP, partly as a result of the winding-up of the agencies and funds created to finance unification.

In France the 1995 budget bill now before Parliament provides for net general government borrowing to be reduced from 5.6 to 4.6 per cent of GDP; the impact of discretionary fiscal measures should be virtually neutral.

The economic upturn in the industrial countries has both stimulated and been reinforced by a revival of world trade. The total volume of trade is likely to increase by more than 7 per cent this year. The industrial countries' exports should grow by 6.0 per cent and their imports by 7.2 per cent, while the foreign trade of the developing countries of Asia is expected to continue to grow at a rate of about 10 per cent. Uncertainties remain, however, owing to the size and persistent nature of external imbalances, particularly between the United States and Japan.

The weakening of the dollar against the yen in 1994, notwithstanding several fundamentals that militated against it, suggests that the markets expect a dollar/yen exchange rate that will make it possible to correct the external imbalances of the United States after more than a decade of current account deficits.

Despite the weakness of the dollar against the Deutschemark as well as other currencies, the exchange rates among the currencies of the ERM countries continue to be remarkably stable, thanks primarily to the lessening of cyclical disparities; another contributory factor has been the wider fluctuation band adopted in August 1993, which has restored the market's full perception of the symmetry of exchange risk.

The Italian economy

The recovery of the Italian economy during 1994 has also been more vigorous than forecast. As a result of the acceleration in growth between the first and second quarters, GDP was 1.7 per cent higher in the first half of the year compared with the same period of 1993. An average rate of growth of not less than 2 per cent can now be predicted for 1994 as a whole, higher than the figure of 1.6 per cent indicated in the Government's Forecasting and Planning Report in September (Table 22).

Table 22

Official forecasts of Italian macroeconomic variables

	1993	1994 (1)	1995 (1)
	(percentage changes)		
Real variables			
GDP	–0.7	1.6	2.7
Domestic demand	–5.0	0.7	2.3
Imports (2)	–7.3	4.0	5.5
Exports (2)	10.0	7.3	6.8
Prices			
GDP deflator	4.4	3.3	2.6
Private consumption deflator	4.8	3.5	2.5
Terms of trade (2)	–1.5	0.4	..
	(percentages)		
Financial balances/GDP			
State sector borrowing requirement (3)	9.8	9.4	8.0
External current account balance	1.2	2.0	2.4

(1) Estimates and forecasts from *Relazione previsionale e programmatica* for 1995. – (2) National accounts data. – (3) According to the new definition of the state sector, which takes account of the changes in the legal status of certain bodies. The figures are net of settlements of past debts and privatization receipts.

While exports continued to expand strongly in the first half of the year, domestic demand also revived, particularly stocks and investment, and presumably private consumption as well. Adjusted for the number of working days, the index of industrial production is estimated to have been 4.3 per cent higher in the first nine months of the year than in the corresponding period of 1993.

Despite the stronger than expected growth in economic activity, there has been no improvement in employment so far; even if the figures for October reveal an increase, the average for the year is likely to show a decrease, albeit smaller than that recorded in 1993.

In line with official forecasts, the current account of the balance of payments should close the year with a surplus on the order of 2 per cent of GDP, nearly twice the surplus of around 18 trillion lire recorded in 1993. This will permit a further significant reduction in Italy's net foreign debt, which stood at 11.6 per cent of GDP at the end of 1992.

Inflation, measured by the private consumption deflator, has come down from an average of 4.8 per cent in 1993 to levels that indicate a rate of around 4 per cent this year, against a target of 3.5 per cent. Signs of an interruption in the gradual abatement of inflation have emerged since the summer. The widening of profit margins at home and abroad in the light of the recovery in domestic demand, the rise in international commodity prices and the further weakening of the lira have contributed to the pressure on prices. At the same time inflation expectations have worsened, owing not only to the factors just mentioned but also to uncertainty as to whether efforts to restore sound public finances will continue to be a priority objective of economic policy.

The Government's forecasting scenario for 1995 envisages growth of 2.7 per cent in GDP, an appreciable rise in domestic demand, a pick-up in imports and continued strong growth in exports, although at a slightly less rapid pace than in 1994. The target inflation rate as measured by the private consumption deflator is 2.5 per cent, in line with the objectives set last year; the target is linked to the goal of reducing the state sector borrowing requirement from 9.4 to 8.0 per cent of GDP. The surplus on the current account of the balance of payments should increase further, from 2.0 to 2.4 per cent of GDP, thereby reducing net foreign debt to well below half the level recorded at the end of 1992. Finally, on an annual average basis, unemployment is forecast to fall from this year's peak of 11.1 per cent to 10.7 per cent and employment to increase by 90,000.

Stringent conditions must be met for the inflation target of 2.5 per cent to be achieved. First, wage growth must be consistent with the moderation initiated by the agreement of July 1993 on incomes policy; secondly, given the difficulty of assessing the economy's spare capacity as it emerges from the long recession, the recovery in economic activity must be sufficiently gradual and balanced to prevent surges in demand from creating supply bottlenecks and hence fueling price pressures. Above all, fiscal policy must be directed towards resolutely pursuing and achieving the goals set for next year in the long-term process of redressing the public finances, notwithstanding the fact that the deficit now foreseen for 1994 (9.4 per cent of GDP) will overshoot the official objective of 8.7 per cent laid down last year.

Only progress in increasing the primary surplus, and thus in reducing the overall and current borrowing requirements, will produce the improvement in domestic and foreign confidence in Italy and the attenuation of inflation expectations needed to permit a strengthening of the lira and the consequent curbing of inflation. These in turn are essential conditions for bringing interest rates down to the levels on which the official forecasts for 1995 are based and thereby avoiding an increase in interest payments on the public debt, which would make it difficult to achieve the objective for the overall state sector borrowing requirement.

The workings of the foreign exchange and financial markets are such that a halt in curbing inflation and reducing the budget deficit would have more severe effects in Italy than in the other leading countries.

In line with the stance reaffirmed in the Economic and Financial Planning Document in July, the fiscal policy introduced at the end of September is intended to stabilize the ratio of the public debt to GDP by the end of 1996 and to reduce it gradually thereafter by means of far-reaching measures, particularly in the social security field. These strategic aims would be pursued by freezing non-interest current expenditure in real terms and maintaining the ratio of tax and social security contributions to GDP at the level to which it has declined this year.

In 1995 the state sector borrowing requirement (net of settlements of past debts and privatization receipts) should amount to 138.6 trillion lire and fall from 9.4 to 8.0 per cent of GDP. This is a crucial objective, tied to the measures designed to increase the primary surplus, for which the figure given is 37.65 trillion lire, or 2.2 per cent of GDP (against 1.1 per cent in 1994).

The measures regarding the pension system are of fundamental importance. As well as having a large planned impact on the budget for 1995 (11 trillion lire), they are intended to make a decisive contribution to the necessary reform of the Italian pension system by tackling the ever widening gap between the system's obligations to future pensioners and the unsustainable costs that meeting these commitments would impose on future generations. In the long run the reform measures strengthen the curbs on pension spending provided for in Legislative Decree 503/1992 and shorten the timetable for their implementation by accelerating the raising of the retirement age and setting limits on the award of long-service pensions that could have created shortfalls in the system, while leaving workers a margin of choice as to the age at which they may claim a long-service pension, subject to specific conditions and reductions in benefit. The downward revision of the accrual rates on pensionable earnings for each future contribution year for workers whose pension computation period is less than their entire working life is also designed to reduce the pension system's liabilities, an aspect to which the markets have been seen to attribute major importance. A further contribution to restoring the equilibrium of the pension system should derive from the proposed measures concerning supplementary pensions and the elimination of disparities in the benefits payable under the various compulsory pension schemes.

The budget for 1995 contains measures that will reduce the state sector borrowing requirement by 50 trillion lire; expenditure cuts total 29 trillion (of which 2 trillion consists of savings on interest payments), principally under the headings of social security, health services and transfer payments to enterprises and public bodies, and additional revenue amounts to 21 trillion. The correction on the revenue side has been increased by 3 trillion lire compared with the figure given in the Economic and Financial Planning Document by introducing measures to reduce tax avoidance and erosion of the tax base, so as to offset the larger interest expenditure stated in the Forecasting and Planning Report, which could nonetheless turn out to have been underestimated. The new procedure for the conciliation of disputed tax assessments and the condonation of building offences are designed not only to yield additional revenues in 1995 but also to combat tax evasion and unlicensed building: this requires a major commitment on the part of the administrations concerned in terms of perseverance, rigour and competence.

The rehabilitation of the public finances is the country's overriding priority. If economic activity grows more rapidly than expected, any additional revenue should be wholly applied to further reduction of the deficit. The experience of the second half of the eighties, when an opportunity to achieve a significant improvement in the public finances was allowed to pass, must not be repeated.

The assessment of economic policy, which has important financial implications, ultimately rests with the markets, which determine the level of interest rates compared with those in other countries. At present there is a danger that interest expenditure will exceed the forecast of 176.25 trillion lire. Average pre-tax yields on Treasury bills are currently 10.1 per cent, whereas the forecast for interest payments is based on the assumption that they will be down to 8 per cent by the end of this year and then remain at that level; a similar discrepancy exists for Treasury bonds. In this regard, it should be noted that, other things being equal, a 1-point increase in interest rates generates additional interest expenditure of around 6 trillion lire over the subsequent twelve months; the additional expense rises to 14 trillion in the third year (a period corresponding to the present average maturity of government securities, which represent around 75 per cent of the entire state sector debt totaling almost 1,900 trillion lire at the end of September). Only rigorous compliance with the budget objectives, strengthened if need be to take account of higher interest payments, can reduce the risk by altering market expectations.

A priority aim of monetary policy is to contribute to the abatement of inflation, in accordance with the Government's planning framework and the policy of wage restraint adopted by the two sides of industry. In recent months the Bank of Italy has taken action to pre-empt an acceleration in prices, as reflected in market expectations. The anti-inflationary monetary policy stance may not be eased if the Government's

The 1995 budget

According to the official estimates set out in the Forecasting and Planning Report, the budget for 1995 should reduce the state sector borrowing requirement on a current programmes basis by 50 trillion lire. As far as the pubic sector is concerned, 27 trillion should come from expenditure cuts and 21 trillion from increased revenue. In addition, a reduction of 2 trillion lire in interest payments is forecast.

Expenditure

Public employment. – *A general ban on the hiring of permanent staff by government departments has been imposed for the first half of the year. From the middle of 1995 until 1997 the existing limits on the filling of vacancies will continue to apply, subject to departmental verification of the effective workload. Provision is made for the working hours of public employees to be spread over five days, except in special circumstances; this should reduce the amount of overtime. Lastly, the one-third deduction from the earnings of public employees for the first day of special leave of absence will now also apply when such leave is taken for one day only. The total saving in this field is expected to amount to 300 billion lire, as a result of 1.2 trillion lire of savings from the above measures and the allocation of 900 billion lire to cover the additional cost of the new public employment contracts.*

Pensions. – *The measures in this field are expected to produce 11.1 trillion lire of savings, of which 5.7 trillion stems from the provisions concerning long-service pensions.*

Subject to only a few exceptions, Decree Law 553 of 28 September 1994 suspends the provisions permitting workers to retire on the basis of their length of service before they become eligible for an old-age pension.

The bill accompanying the Finance Bill provides: for the age at which workers become eligible for an old-age pension to be raised more rapidly, thus bringing forward by two years (to 1 January 2000) the date at which the new statutory retirement ages established by the 1992 pension reform will come into effect; for all retirements on long-service pensions to take effect from January of the year following that in which the application is made and for a permanent 3 per cent reduction in benefits for each year of difference between the age of the applicant and the statutory retirement age of the Employee Pension Fund, while allowing benefits to be supplemented by earned income; for the postponement of the annual cost-of-living adjustment of pensions from 1 November 1995 to 1 January 1996 and for the adjustment to be computed solely with reference to the target rate of inflation (except for welfare pensions); for the further postponement of the last tranche of the increase awarded for long-standing pensions; for a reduction in the amounts allocated (pursuant to judgement 243/1993 of the Constitutional Court) in Law 87 of 29 January 1994 for the payment of a supplement to public employees' severance pay; and for the various pension schemes to recognize a

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

REDUCTIONS IN EXPENDITURE	**27,000**
Public employment	**300**
Accompanying bill	
Organizational rules	1,200
Finance Bill	
Additional allocation for new contracts	–900
Pensions	**11,100**
Accompanying bill	
Bringing forward of increase in retirement age	400
Long-service pensions	5,700
Postponement of 1995 cost-of-living increase to 1.1.96	1,300
Postponement of increases in long-standing pensions	2,800
Reduction in allocation for civil servants' severance pay	600
Other measures	300
Health services	**6,500**
Accompanying bill	
Local health units' purchases of goods and services	3,100
Expenditure on pharmaceuticals	1,200
New limits for exemption from paying for pharmaceuticals	800
Hiring freeze and reduction of full-time allowance	1,100
Other measures (2)	300
Other expenditure	**9,100**
Finance Bill and budget variation note	
Transfers to enterprises and entities	6,300
Purchases of goods and services	1,800
Financial items	850
Accompanying bill	
Other measures	150
ADDITIONAL RECEIPTS	**21,000**
Tax receipts	**12,850**
Reduction in receipts (3)	–2,100
Decree Law 564 of 30.9.94	
Conciliation procedure (1989-93 assessments)	11,500
Reduction in reliefs for cooperatives	700
Accompanying bill	
Tax neutrality of mergers	450
Anti-avoidance measures, elimination of minor reliefs	400
Minimum tax for shell companies	800
Increase in imputed land and agricultural incomes	500
Decree Law 452 of 18.7.94 (reintroduced in Decree Law 538 of 17.9.94)	
Settlement of litigation	600
Non-tax receipts	**6,100**
Decree Law 468 of 26.7.94 (reintroduced in Decree Law 551 of 27.9.94)	
Building offences condonation scheme	5,900
Accompanying bill	
Increase in charges for use of state property	200
Social contributions	**2,050**
Accompanying bill	
Extension of deadline for contribution condonation scheme	1,300
Increase in contribution base for public employees	750
SAVING IN INTEREST PAYMENTS	**2,000**

(1) Official estimates. – (2) Hospital emergency department charge, separate prescriptions for different branches of specialization, closure of hospitals with fewer than 120 beds and minor measures. – (3) In connection with spending cuts and the lowering of the VAT rate on building maintenance (Decree Law 468 of 26.7.94).

standard 2 per cent of pensionable earnings from 1 January 1995 onwards for each year of contributions and for the reduction of this accrual rate to 1.75 per cent from January 1996 onwards for workers with 15 or more years' contributions on 31 December 1992.

Together with the budget, the Government submitted a proposal for an enabling law for the standardization of the various pension schemes, particularly as regards the methods of calculating the contribution period and determining the amount of pensionable earnings. The enabling law would also reduce the maximum period for which imputed contributions can be considered for the purpose of calculating pensions and tighten the conditions for the payment of survivors' pensions. It also contains provisions to promote supplementary pension schemes.

***Health services.** – Most of the reduction in expenditure by just under 6.5 trillion lire can be attributed to the requirement for local health units to limit their spending on goods and services to 83 per cent of the 1993 total and to the ceiling of 9 trillion lire on National Health Service expenditure on pharmaceuticals. The upper age threshold for exemption from payment for pharmaceuticals considered to be essential or of particular therapeutic value and for diagnostic services is raised from sixty to sixty-five years and exemption is made subject to the condition that the total gross annual income of the household to which the patient belongs does not exceed 100 million lire. Provision is also made for separate prescriptions to be written for different branches of specialization. The bill also provides for: the reorganization of the hospital system; a 25 per cent reduction in the full-time allowance for hospital medical staff who also practise privately; and the payment of a fee (of up to 100,000 lire) by persons who go to a hospital emergency department and who are not subsequently hospitalized.*

***Other expenditure.** – Transfers to enterprises and other entities not belonging to the public sector are to be reduced by 6.3 trillion lire and savings of 1.8 trillion made in purchases of goods and services by central government and regions, to which central government transfers will be reduced.*

Revenue

***Tax receipts.** – The largest component of the increase in revenue, amounting to 11.5 trillion lire, is to come from the conciliation of tax assessments by means of the procedure introduced in Decree Law 452 of 18 July 1994. Under this procedure tax offices are empowered to determine taxpayers' liabilities after discussions with the taxpayers themselves. The estimated increase in revenue refers to a broad operational plan that the Government has prepared to counter tax evasion. The conciliation procedure should lead to taxpayers accepting assessments, which will be carried out on a large scale on the basis of statistical parameters to be obtained from tax return data, pending the results of sectoral studies. The assessments will cover the tax years from 1989 to 1993. In addition, the tax on firms' net worth has been extended to 1995, which will increase revenue in 1996.*

Additional revenue on the order of 700 billion lire is expected from the reduction in the reliefs granted to cooperatives. Specifically, the base for the tax on net worth has been broadened, a special wealth tax introduced and the withholding tax on the interest on members' loans increased from 12.5 to 30 per cent.

The accompanying bill contains various measures designed to counter tax avoidance and erosion that are expected to generate 2.15 trillion lire. The anti-avoidance measures include changes to the rules governing the tax treatment of company mergers and divisions, the introduction of a form of estimated taxation for shell companies, defined as companies with turnover of less than 800 million lire and fewer than 5 employees. The anti-erosion measures include the abolition of reliefs reserved for Members of Parliament, political parties and trade unions, and the reduction of those granted to agriculture by increasing imputed land and agricultural income by respectively 60 and 50 per cent.

The Government has also modified the taxation of investment income. In particular, the withholding tax on savings share dividends has been reduced from 15 to 12.5 per cent and that on bonds issued by unlisted companies from 30 to 12.5 per cent. The revenue effects of these measures are expected to be negligible.

Lastly, Decree Law 538 of 17 September 1994 sets a lower limit of 20 million lire on the amount involved in individual tax cases to be submitted to Tax Commissions in the last quarter of 1994 (actions for smaller amounts are deferred, without prejudice to the possibility of using the condonation procedure provided for in Decree Law 452/1994). This measure is expected to produce 600 billion lire of additional revenue in 1995.

***Non-tax receipts.** – A substantial proportion (5.9 trillion lire) of the additional revenue generated by the 1995 budget is expected to come from the building offences condonation scheme, introduced in Decree Law 468 of 26 July 1994 and reintroduced in Decree Law 551 of 27 September 1994. Communes could receive additional revenue from the payment of related infrastructure charges. The size and timing of such receipts are uncertain, however. The condonation applies to unauthorized works finished before 31 December 1993 that involve either an increase of not more than 30 per cent in the size of an existing building or the construction of a new building of not more than 750 cubic metres.*

***Social contributions.** – More than 2 trillion lire of additional revenue is expected to come from the extension of the deadline for the contribution condonation scheme and from the provision levying contributions on the imputed earnings of civil servants corresponding to the 18 per cent increase applied to their pensionable income on retirement.*

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objective of reducing inflation to 2.5 per cent for 1995 is to be achieved.

The growth in the M2 money supply has been within the target range of 5-7 per cent since June and has continued to slow down in recent months. According to preliminary estimates, in the third quarter M2 was 4.2 per cent higher than in the last quarter of 1993. This tendency reflected not only tighter control of monetary base, but also incidental developments, such as the moderate expansion of bank lending and the recovery of investment by the public in foreign financial assets.

The 1995 planning framework for financial flows centres on achievement of the Government's objective of reducing the state sector borrowing requirement to 138.6 trillion lire. This implies a slowdown in the growth in finance to the state sector from 9 per cent in 1994 to 7 per cent next year. The strengthening of the recovery and the dispelling of the present climate of uncertainty could encourage an acceleration in the growth of credit and a revival of net inflows of non-bank capital. The growth in lending to the private sector could rise from about 1 per cent this year to around 5 per cent in 1995. The increase in total financial assets would be around 1 point larger than that in total credit, which would be on the order of 6 per cent. In accordance with this scenario, the money supply will continue to expand at a moderate rate, currently estimated at around 5 per cent.

Based on information available at 26 October.

Speeches

Adapting central banking to a changing environment (*)

Speech by the Deputy Director General, Tommaso Padoa-Schioppa, to the Central Banking Seminar on "Frameworks for Monetary Stability", organized by the International Monetary Fund

Washington, 1-10 March 1994

1. Introduction

The debate about central banking, which is as old as central banks themselves, has been given fresh impetus by a number of recent developments. In Europe, an unprecedented project to set up a supranational central bank has become an integral part of the EC treaties. The process of adapting the institutional arrangements of former socialist states to the needs of a market economy invariably has meant establishing a central bank along Western lines. New central bank statutes have just come into force in France, while in the United Kingdom a debate on the central bank's present institutional mandate is under way. In the United States, as well as in other countries, the question of whether the central bank should be kept out of the supervisory business is being discussed. Academic journals, for their part, abound with analyses of central banks' handling of monetary policy and assessments of the degree of central bank independence.

Attempts to define the essence of central banking in simple and immutable formulae inevitably leave out something crucial. In Walter Bagehot's time its essence was considered to consist in lending of last resort; today, central bankers' views of the desirability and perhaps of the very meaning of this function are considerably diversified. Those of us who studied economics in the 1960s and early 1970s were taught that monetary policy is the main, if not the only, concern of central banks. Today no one would deny that payment system concerns have been important all along, and that in many countries banking supervision has been no less important than monetary policy in shaping the functions and organization of the central bank.

The subject calls for pragmatism. Thus, rather than trying to fit some "ideal model" to a recalcitrant reality, it is better to take the route of asking *what* practical problems central banks were meant to address in the various stages of their history and *why* one solution, rather than another prevailed in the given circumstances of the time. Such an approach reveals that flexibility, or adaptability to changing needs, is a key feature explaining the continuing existence and good health of this three-centuries old social institution.

Today we are once more in the midst of great changes in the financial and economic environment, calling central banks to a new effort of adaptation. The reasons for this transformation and the direction this effort is taking are the subject of this paper. I will first describe the evolutionary logic behind the emergence of present-day central banks, with the

(*) *I am grateful to Curzio Giannini for his kind assistance and helpful comments in the preparation of this paper. The opinions it offers are mine, as is the responsability for any errors.*

three basic functions they perform (Section 2). I will then examine the new challenges and why they have arisen (Section 3). Finally, I will offer some reflections on the current and prospective lines of adaptation (Section 4). The paper has no ready-made ideal model to which a central bank should conform. Rather, it is an attempt to read in the present in order to get as comprehensive a view as possible of the sense and direction of the evolution under way.

2. The functions of central banks

2.1 *The triadic nature of central banking*

In 1967 Sir John Hicks summarized his views on the working of a monetary economy in a well-known series of lectures, to which he gave the title "The Two Triads" (Hicks, 1967a). The gist of his argument was that money is inherently a complex phenomenon, in terms both of the three functions it performs – means of payment, unit of account, store of value – and of the three motives people have to hold it – for transaction, precautionary or speculative purposes. What Hicks meant to underline is the strong economic and historical connection between the three elements of each triad, so that neglecting any one *function* of money or *motive* for holding it involves the risk of simplifying the analysis to the point of making it useless or even misleading.

Now, what I want to suggest is that central banking also has a triadic nature. The activity of modern central banks spans three areas: monetary policy, the payment system and banking supervision. Moreover, a close relationship exists between these three areas and the three functions of money. Monetary policy seeks to stabilize the real value of the unit of account; banking supervision serves to protect savings invested in monetary assets, or money as a store of value; and payment system policy is intended to make money an efficient and safe means of payment. Finally, these diverse and apparently unrelated activities are in reality strongly interconnected, not only in an economic way but also in a deeper institutional sense because they share the art of reconciling monetary rigour and flexibility of response in the face of unexpected shocks.

Even though central banks have evolved over time, gradually broadening the scope of their activities, the social function they perform has remained basically the same, as Hicks himself pointed out in his classic reappraisal of Harry Thornton's *Paper Credit* (Hicks, 1967b). The evolution of central banks then can be seen as a process of on-going adaptation, driven by the need to ensure effective execution of their basic functions in the context of ever-changing financial markets and increasingly complex economies (Giannini, 1994). In this light, the challenge that confronts us today is to adapt central banks to keep pace with the enormous changes that have occurred in recent years in the financial, economic and technological environment in which they operate.

2.2 *Payment technologies as the driving force*

Modern central banks have their origin in a fundamental change in monetary systems: the transition from a payment technology based on commodity money to one based on fiduciary money. In a fiduciary payment technology money is intrinsically useless. Payments in fiduciary money differ from those made with commodity money in that they are carried out by transferring liabilities of a third party. The value of these liabilities, and hence the quality of payments, depend on the standing of the third-party issuer. This is why a system based on fiat money requires an ultimate issuer whose liabilities are universally accepted and trusted. It also explains why, after some not entirely satisfactory experiences with unregulated private issuers, it was recognized that the role of ultimate issuer should be formally entrusted to a "central" bank set up to perform a public function. Thus, central banks were created – though not strictly out of a conscious design – to issue liabilities that would be accepted by everyone in the economy and, by their existence, to underpin confidence in a payment system based on fiduciary money and ensure its integrity and efficiency.

The evolution of central banks went through two major phases. The first, associated with the spread of the convertible banknote, led to the recognition that the issue of notes had important social implications and therefore required protection of the public interest through state-enforced restrictions on issuing banks, which in most countries nonetheless remained private concerns aiming at profit-maximization. The second phase, associated with the rise of bank deposits, led to the suppression of the profit motive and the recognition that protecting the stability of the banking system required a public institution endowed with lending-of-last-resort powers.

As a result of the spread of commercial bank money, however, central banks have come to play another essential, though less visible, function: the supply of payment services to banks similar to those that banks provide to individuals and firms. When payments occur between banks (and it should be noted that any payment between two parties not holding accounts with the same bank also involves an interbank payment), the central bank is the only possible third party – in the sense that it is external to the banking system as a whole. The transfer of liabilities of the central bank is the only payment that instantaneously and totally extinguishes an obligation and closes the transaction, thus eliminating all risk. Central bank money held by banks, or bank reserves, is excluded from the overall money stock, so that it is scarcely visible, but it nonetheless acts as the indispensable lubricant of the entire monetary system (Angelini and Passacantando, 1992). As a result, present-day payment systems can be seen as a pyramid, with individuals and firms forming the base; then commercial banks providing them with payment services; and finally, at the apex, is the central bank, which plays the same role vis-à-vis commercial banks that the latter play vis-à-vis individuals and firms.

2.3 *Managed money and the rise of monetary policy*

By the end of the 1920s this structure of the payment system and the role played in it by the central bank were firmly established throughout the industrialized world. In the 1930s, under the pressure of the Great Depression, currents of thought that had developed earlier came to the fore; these emphasized the role of the central bank in the determination of the overall level of economic activity. Monetary policy came to be seen as part of a broader array of economic policy instruments. After decades, even centuries, of relatively passive attitude, managed money came of age. By the end of World War II, the idea that governments had a responsibility for macroeconomic stabilization and that monetary policy ought to be used for this purpose had gained wide acceptance.

For a time, convertibility remained a key feature of the monetary system: the amount of fiat money was, or was supposed to be, proportional to the amount of gold. In the long run, however, the notion of managed money – or "monetary nationalism", as Hayek (1939) preferred to call it – proved incompatible with the notion of an objective anchor. In truth, convertibility was placed at the heart of the Bretton Woods system. But, as Guido Carli once said, it was little more than a fiction, which was "stretched beyond credibility" and finally abandoned at the beginning of the 1970s under the pressure of the growing balance-of-payments deficits of the reserve-currency country.

The advent of fiat money led to a new policy responsibility, that of managing the money supply for macroeconomic purposes. In line with this aim, between the late 1930s and the 1950s most central banks were nationalized or declared public institutions.

The new responsibility required the elaboration of a conceptual model to guide the daily activity of central banks. Two analytical tools were of crucial importance in this respect: Hicks' portfolio approach to money demand, which stressed the role of money as a store of value (Hicks, 1935), and the theory of the money-multiplier, which clarified the link between central banks' liabilities and the overall supply of money. On the operational side, traditional instruments, such as the discount window, were gradually superseded by open market operations.

The growing importance of monetary policy and the development of an analytical approach that played down the means-of-payment and unit-of-account functions of money gradually de-emphasized the central bank's payment system role, though this continued to take up a large proportion of central bank personnel and infrastructure.

2.4 *The role of banks and banking supervision*

Just as monetary policy is linked to the decline of convertibility, so banking supervision is linked to the rise of bank deposits in the total money stock. Confidence in the perfect substitutability between commercial and central bank money is a precondition for the former becoming a widely accepted medium. And since the burden of ensuring that substitutability rests ultimately with the central bank, the central bank needs to verify and promote the good health of commercial banks.

The link between banking supervision and the other two elements of the triad of central bank functions is equally clear. With bank deposits representing the bulk of the money supply, the banking system became not only the key actor in the payment system, but also the main channel of transmission of monetary policy impulses to the real economy. Being in a position to gauge the soundness and composition of banks' balance sheets became a prerequisite for an effective monetary policy. The wave of bank failures that swept the United States in the 1930s owing in part to the unduly restrictive stance of monetary policies is a textbook example of the potentially disastrous consequences of neglecting the state of health of the banking system.

Until the opening decades of this century there was little appreciation of the need to endow central banks with supervisory powers over commercial banks. The first central bank to be formally entrusted with this function was probably the Fed, in 1913, although it refrained from using its supervisory powers for years, at least until the banking reform of the 1930s. Other central banks began supervising banks in the 1930s, either directly or through so-called Banking Inspectorates. The Bank of England was formally assigned responsibility for bank supervision only at the end of the 1970s and it is well known that in some countries, such as Germany, the central bank does not exercise supervisory powers, although it constantly monitors the state of health of individual banks. These exceptions need to be evaluated in the light of the specific national financial structure and the *de facto* situation.

The case of the United Kingdom may be cited in this regard. The Bank of England assumed a public status at an early date compared with other central banks – not later than the 1880s. At the time, however, no need was felt to underscore this new status by formalizing the powers of the central bank or changing its ownership structure. Things happened quite naturally. Fred Hirsch explained very clearly how the oligopolistic structure of the London financial market, the club-like attitude of the ruling financial élite and the reputation the Bank had acquired over time made acceptance of the Bank of England's leadership uncontroversial (Hirsch, 1977). The Bank's officials never lacked up-to-date information and the effectiveness of their actions never suffered because of the informal nature of their powers. This state of affairs lasted until the 1970s, when increasing competition in British financial markets and the growing presence of foreign-based institutions cast serious doubts on the effectiveness of informal controls. The subsequent formalization of supervisory powers, as a consequence, marked a turning point in the British approach to central banking.

A new debate on the appropriateness of attributing banking supervision to the central bank has developed recently in France, Britain and the United States. Going deeply into this matter would exceed the limits of this paper: suffice it to recall that conflicts of interest and moral hazard are cited as motives for breaking the triad. No doubt it is technically feasible to take supervisory responsibility away from central banks, just as it is conceivable to separate the unit of account from the means of payment, to return to the analogy I made between central banking and money. But is it desirable to do so? In my view, the arguments that have been put forward so far do not carry decisive weight. A conflict between price stability and bank stability hardly arises; and, if it does, a careful weighing of the pros and cons of alternative policy courses is more likely to come from a single institution than from coordination between separate agencies, which is always difficult. Similarly, a degree of moral hazard is probably unavoidable in certain policy functions. On the other hand, intimate knowledge of the state of banks is indispensable even for a central bank not formally entrusted with the banking supervisory function. And the effectiveness of this function can be greatly enhanced if the supervisor is the central bank, i.e. the institution that has a direct knowledge of how banks, the money market and the payment process operate.

3. The new challenges

The triadic configuration presented so far remained more or less stable for about 50 years, since the 1930s, when the implications of its underlying causes – the transition from commodity to fiat money and the rise of bank deposits – unfolded in full.

Today, we are again in the middle of far-reaching changes, engendered primarily by two interrelated forces: technological change (in the twofold sense of financial innovation and data processing and communications) and the loosening of the co-extensiveness between economic and political frontiers. These changes are altering the way payment systems and financial markets work; at the same time, they are straining the governance structure of which traditional central banks are part, since they are eroding the very notion of "national" sovereignty as far as the economy is concerned. Let me briefly describe the main evolutionary trends set in motion by these forces.

3.1 *The abuse of non-convertibility*

Fiat money carries greater risk of abuse than metallic or convertible money, since its supply is not constrained by an objective anchor. This risk is far from merely theoretical. After surveying the early experiments with irredeemable money, Irving Fisher (1920) concluded that it had "almost invariably proved a curse to the country employing it." Indeed, the experiments Fisher had in mind were undertaken either by authoritarian governments hungry for funds or in the midst of a major national emergency, such as a war. The democratization of politics in the course of this century and the challenges posed by the Great Depression subsequently made these experiments appear less relevant.

Yet Fisher's warning is not to be taken lightly, as we have learnt through the painful experience of the inflationary outburst of the past decades. In another paper published in this volume, Robert Flood and Michael Mussa show there is a clear structural break in the behaviour of the price level before and after the repeal of convertibility. While under convertibility the price level – albeit in some cases fluctuating widely – showed a tendency to return to its long-run level, in later decades it began to rise steadily. Nowadays the very notion of a stable price level seems devoid of practical content, even in the most "virtuous" countries. The most one can hope for is stabilization at a very low rate of inflation.

This somewhat dismal record cannot be blamed entirely, if at all, on monetary mismanagement, but it reflects deeper phenomena: the enormous increase in the economic role of government, the pressures of unionized labour, the change in intellectual climate referred to above. As early as the 1930s, Keynes pointed out the desirability of stabilization policies. In later decades the role of government expanded well beyond stabilization, encompassing redistributive and allocative purposes. Government expenditure reached unprecedented peaks, as a percentage of GNP. Although there is no logical connection between public expenditure and monetary expansion, the practical impact on monetary management of such a rapid expansion of the economic role of government is undeniable. The subjugation of monetary policy to the needs of interventionist economic policy was so complete that Jacques Rueff – De Gaulle's influential monetary advisor – once lamented that "Monetary policy is no longer *à la mode*. Until recently it was even completely forgotten. The specialists who talked about money were considered retarded".

In this intellectual climate, when the objectives of short-run stabilization and price stability came into conflict under the pressure of the first oil shock and unions' rising demands, in the early 1970s, it is not surprising that the latter had to give way. Under the institutional arrangements in force at the time, central banks could do little to stem the tide.

The notable exception to the general trend was Germany, where the economic behaviour of business, government and labor, as well as public opinion, consistently gave high priority to the preservation of price stability, even at times of high unemployment. In this environment, the central bank availed itself of its ample operational autonomy to give absolute priority to price stability, meaning a rate of inflation as close to zero as possible, in all circumstances. The result was that in the 40 years between 1952 and 1993 annual inflation in Germany averaged less than 3 per cent and exceeded 6 per cent only 2 times. The German experience – whose relevance has in the meantime been enhanced by the concurrent development of a theoretical literature linking the autonomy of the central bank to the credibility of anti-inflationary policies – suggests, on the one hand, that fiat money need not necessarily be "a curse" and, on the other, that institutional safeguards have to be strengthened if the objective of price stability is to be attained.

3.2 *The changing financial structure*

In the spectacular transformation of the financial structure that we have witnessed in the last two decades, three main components can be identified: the disproportionately rapid development of financial markets and transactions compared with the real economy; the blurring of the frontiers of financial specialization; and internationalization. Leaving the latter aside for the moment, let me briefly discuss the first two components.

A few often quoted figures are sufficient to give an idea of how much the financial system has outpaced the growth of the real economy. Between the late 1970s and the early 1990s, Goldsmith's Financial Interrelations Ratio, which measures the size of the financial sector in proportion to real wealth, rose by more than 30 per cent on average in the six most industrialized countries; in the UK and the US, in particular, it rose by about 90 and 40 per cent, respectively. In the same period, stock exchange capitalization increased, as a percentage of GNP, by approximately four times in France and Italy, by three in Japan and the United Kingdom, by two in Germany; meanwhile, in these five countries annual shares issues have increased, on average, from about 0.8 to 1.7 per cent of GNP.

The underlying causes of this evolution can be summarized as follows. Firstly, the growth in the real economy has required an ever-increasing amount of financial transactions as the specialization in production and distribution and the dissociation between centres of savings and investment have multiplied the number of transfers of money and wealth associated with any unit of output. Secondly, within the financial sphere itself, a growing share of financial operations has gone through the market instead of being confined within the balance sheet of an institution, whether a bank or another intermediary.

The other phenomenon modifying the financial structure is the blurring of the boundaries between different financial contracts and institutions. The regulatory framework and the legislation inherited from the 1970s were based on a double tripartition: on the one hand, three basic contractual forms – equity, debt and insurance; on the other, three types of financial institutions – banks, insurance companies and capital markets. There was a fairly close correspondence between the two tripartitions, although the match was never perfect since, for example, capital markets also dealt in debt contracts and banks in many countries could deal in equity contracts.

Things have become far more complex in recent years, as a growing part of financial business, probably most of it by now, is carried out in mixed forms that hardly fit our conceptual boxes. This can be seen by looking at the recent evolution of contractual forms: the spread of complex contracts that combine features of debt, equity and insurance, such as convertible bonds, indexed bonds, floating-rate notes, and so on; the unbundling of the constituent parts of a given contract, which consequently can be priced explicitly and traded separately; the growth of off-balance-sheet items, i.e. contracts that hedge the buyer against liquidity risk but do not give rise to a visible financial transaction at the time they are signed.

Similarly, in part as a result of deregulation in the 1980s, financial institutions have considerably expanded the scope of their activities, to the point that it may be less than obvious where a bank ends and a securities house or an insurance company or, for that matter, a mutual fund begins. Much attention has been devoted in recent years to examining whether these trends imply a convergence of the financial structure of the major industrialized countries towards a single model. The enormous increase in the volume of trade in financial markets and the marked process of bank disintermediation in some countries apparently suggest an increasing orientation of the financial structure towards markets rather than institutions (FolkertsLandau and Garber, 1992). However, it has also been noted that the trend towards securitization in the Anglo-Saxon world stemmed from the attempt of banks themselves to circumvent burdensome regulations by developing off-balance-sheet items; and that financial innovation has been far less pronounced in Germany and Japan, where banks were already allowed to undertake a wide range of activities (De Cecco, 1993).

Whatever the ultimate impulse that causes them, these developments imply a considerable erosion of one of the pillars of the traditional model: the strong tie between the central bank and the banking system. With the fading of operational boundaries between different classes of intermediary, all three of the functions performed by central banks are affected. Monetary policy ceases to hinge on the banking system as the sole or even primary transmission mechanism. Supervision aimed at stability is bound to grow less and less effective if its scope is not redefined to encompass non-bank financial institutions. Payment system policy must allow for the fact that the increasing negotiability of securities means that intermediaries other than banks are able and willing to offer payment services.

3.3 *New technologies and the explosive growth of intraday payments*

Innovation in the payment system derives from a single but highly consequential phenomenon: the shift from mail and telex to modern information and telecommunications technology. This shift has made it possible to effect payments in real time at a negligible transaction cost, irrespective of the size of the payment, the unit of account, and the location of the traders involved. This means that the velocity of circulation of money can increase enormously with respect to traditional standards.

This far-reaching change in the technology of payments has coincided with an exponential increase in the volume of payments, largely as a consequence of the expansion of financial transactions outlined in the previous section; as a result, the annual flow of payments now amounts to several times GDP in the main industrialized countries.

For the traditional structure of the payment system and the central bank's role in it, the combination of these developments has created new problems, possibilities and risks.

Most of the recent growth in payment volumes has been accounted for by net settlement systems, such as CHIPS in the United States, CHAPS in the United Kingdom, BOJNET in Japan and SIPS in Italy. However, since payments flowing through these systems are provisional, as they are settled in monetary base only at the end of the day, the increase in total gross payments relative to net balances has prompted growing concern about settlement risk. In fact, failure to settle by a major participant can set off a chain reaction through the "unwinding" of the day's transactions. In other words, the pyramiding of provisional intraday payments involves an ever-increasing systemic risk. In a well-known paper, Humphrey (1986) estimated that on a typical working day the default of a single major participant in CHIPS (which has since been reorganized to reduce systemic risk) would bring down about 40 per cent of the other participants. Analogous exercises conducted elsewhere gave similar results.

An alternative route, taken by the Fed in the early 1980s, is to offer continuous settlement services in central bank money. This has the immense advantage of dramatically reducing systemic risk, as the "finality" of payments is provided throughout the working day for the gross amounts that would otherwise go through the clearing, rather than only for the net balances resulting from the clearing itself. However it also implies a much greater need for central bank money, since the increase in the velocity of circulation permitted by telematics is not sufficient to accommodate the increase in the transaction demand for base money generated by its use for gross settlement. Hence, for the central bank, the problem is providing its own money in ways and amounts that satisfy both payment system and monetary policy requirements. When the electronic Fedwire started in 1982 the Fed offered an unlimited overdraft facility at no cost. Only later – with the explosive growth of intraday payments – did the problems and risks implicit in this solution become apparent.

The new challenge central banks are facing in payment systems is thus to find a satisfactory way to combine efficiency, security and effective monetary control. Whatever solution is adopted, it will have an impact on the way the central bank stays in the market: the way the market is monitored, the way monetary policy is implemented and the way liquidity is supplied to individual banks are bound to be affected. In this respect, dematerialization and the growth of intraday payments are as radical a change compared with paper technology as the latter was compared with commodity money. As many episodes in recent years have shown, the extent of systemic risk has grown considerably. Bank runs used to be thought of as the main threat to financial stability. Under present circumstances, however, it is debatable whether this is still realistic, considering the extensive arrangements for deposit insurance and banking supervision. The high velocity of money today suggests that wholesale payment procedures may well now be the main channel through which instability can spread.

3.4 *The internationalization of exchange*

A key feature of traditional central banking, and economic policy in general, was the virtual coextensiveness of the central bank's jurisdiction with the "market". Though international trade and finance have always existed, national markets had long remained sufficiently segmented to make political and economic sovereignty but two sides of the same coin. This correspondence is being rapidly eroded. To use a figure of speech, what used to be the "content", namely the activity of individual economic agents (including banks) within a national system, is outgrowing the "container", namely the perimeter describing the area of competence and authority of the central bank.

As a result of the high international mobility of capital, the removal of exchange controls and the increasing freedom to offer financial services cross-border, the economic agents involved in a financial transaction, the currency used and the financial market or intermediary no longer have to carry the same national label. In a regime of perfect capital mobility and no foreign exchange restrictions, firms and households can place themselves beyond the reach not only of their own central bank but also of any central bank acting in isolation. Financial institutions can, to a large extent, choose the regulatory regime they prefer. The notion and practice of arbitrage has considerably widened its scope.

As a result of technical progress, increasing economic integration and, most of all, the internationalization of monetary and financial activity, the volume of cross-border payments – that is payments involving residents of different countries and/or two different currencies – has increased enormously. Although data on cross-border payment flows are not readily available, the indirect evidence is sufficiently clear. For instance, the volume of payments handled by SWIFT, the main carrier of cross-border payments, has increased by 60 percent over the last five years. The growth of cross-border transactions in securities, as captured by balance-of-payments statistics, has also been extremely rapid: to cite but one example, in the United States such transactions rose from about 9 per cent of GDP in 1980 to more than 100 per cent in 1992.

In these circumstances, the traditional functions of central banking are increasingly difficult to perform. For example, it is not clear how much control national monetary authorities retain over their "national" aggregate demand or their "national" price level. One may object that capital mobility is still not perfect and that individual countries may regain some degree of monetary policy independence, even with considerable capital mobility, provided they are prepared to forgo control of the exchange rate. I believe both these objections are questionable. The 1992 currency crisis showed how quickly capital flows can respond to economic incentives and to shifts in expectations. And events since then have confirmed yet again that the monetary policy independence granted by floating exchange rates may be largely illusory. These are, of course, complex theoretical and empirical questions, which cannot be addressed properly in the context of this paper. For my purposes, what matters is that today national monetary authorities must take into account the "mood" of international investors and the stance of monetary policy in other countries to an extent unparalleled in the past.

Similarly, the rapid growth of cross-border payments is having an enormous impact. Since the pyramidal structure typical of national payment systems does not encompass cross-border payments, the growth of the latter creates a demand for central banking services that is increasingly being met by private institutions. Individual banks and groups of banks provide forms of international service and organization similar to those supplied by central banks within their national systems. However, the reasons that led, historically, to the development of central banking functions at the national level are even more compelling at the international level: systemic risk is likely to be far greater in the international payment system; competitive pressures are stronger; the disparities between banks are more pronounced; the information needed to assess their standing is harder to obtain; supervisory rules differ appreciably and there is no well-identified monetary authority. In short, arrangements for cross-border payments may affect the structure of banking and financial markets and have far-reaching implications for supervisory, monetary and lender-of-last-resort policies.

4. Adapting central banking

The various challenges just described did not all emerge at the same time, nor were they equally strong in all countries. As far as price stability and monetary policy are concerned, the critical years were the 1970s, when the definitive abandonment of convertibility and the strength of wage pressures made it most difficult to provide a stable anchor for the currency. The challenges of technological change and internationalization became stronger in the 1980s.

Responding to the challenges is no rapid, straightforward process. Institutions adapt through trial and error. The problems they are intended to tackle are typically so complex that abstract solutions, thought out in the quiet of the theoretician's study, seldom work when put to practice. Moreover, in the history of central banking the successful reforms have been those that while advancing the state of the art to face a new challenge have at the same time preserved its sound practices and traditions wherever possible. These may be the reasons why pragmatism and conservatism are so often associated with central bankers.

Bearing these factors in mind, I shall now try to show the ways in which central banking has adapted in the last decade or two and continues to adapt to the challenges mentioned.

4.1 *Institutionalizing the commitment to price stability*

If one looks at the statutes of individual central banks – most of which where drafted at a time when gold convertibility was still the basis of the monetary system – it is not easy to get a precise idea of the objective to be pursued by monetary policy. The objective is not specified, or it is described with vague expressions, such as "providing an elastic currency" (the Fed), "regulating the currency" (the Bank of Japan), "safeguarding the currency" (the Bundesbank), "watching over the currency and credit" (the Banque de France, according to the 1973 Statutes, recently amended), "regulating the value of the currency in such a way as will be most conducive to the nation's prosperity and welfare" (the Nederlandsche Bank). The experience of the 1970s and early 1980s convinced many that in a world in which monetary policy had lost any natural anchor, the monetary authorities' commitment to price stability had to be made unmistakable and credible in the eyes of the public. A strong and explicit commitment to price stability is deemed to be necessary to sustain the public's confidence in the medium of exchange and, in the end, to preserve a stable currency.

Thus, the response to the challenge of non-convertibility has been to anchor the central bank to a stated objective and to grant it the requisite independence to resist pressure for easy money. There is little doubt that this evolution has been significantly influenced by the statutes and methods of the central bank of the country with the best postwar record in terms of price stability, namely Germany.

This evolution has meant two things: making explicit certain rules of conduct that many central banks already follow in practice; and strengthening the autonomy of the central bank in handling monetary policy once the objective has been clearly set. Both theory and practice seem to point in this direction. In this regard, much has been done in a number of countries, most notably New Zealand, Italy and France. In Europe, the objective of price stability has been given quasi-constitutional status by its explicit inclusion among the provisions of the Treaty of Maastricht.

This premised, two qualifications are necessary. First, even in the new context, the task entrusted to central banks remains inherently complex; the commitment to price stability cannot be pursued to the point of eliminating all flexibility or discretion in the handling of monetary policy. As Paul Volcker put it recently, there is no "quick fix" to establish the credibility of the anti-inflation commitment (Volcker, 1993). In the real world, which unlike the smoothly functioning economies of abstract models is marred by imperfections and therefore needs to be governed, excessive rigidity in the interpretation of price stability or reliance on mechanical rules for monetary management could prove to be a cure worse than the desease.

Second, while an autonomous central bank is certainly an important component of a credible commitment to price stability, we must not forget that no degree of autonomy can guarantee this objective if other areas of economic policy are set on a divergent path. Indeed, central bank autonomy offers no escape from the consequences of mismanagement of fiscal and incomes policies.

4.2 *Redesigning regulation*

In most countries financial regulation has traditionally been based on the division of the financial system into the securities, banking and insurance sectors, with central banks generally, though not always, responsible for banking supervision. In terms of contracts and institutions, each sector was assumed to be sufficiently separate from the others to require specific regulation with little need for coordination between the various regulatory authorities. As was noted in Section 3.2, financial innovation has weakened the rationale for this approach and appears to have seriously undermined its effectiveness.

In recent years, the adaptation of the regulatory system to the blurring of financial boundaries has followed several routes.

A first route was the gradual abandonment – which is still under way and by no means completed – of the traditional sharp distinction between commercial and investment banking inherited from the thirties. Even in the United States and Japan the regulatory barriers between the two segments of finance have been significantly reduced.

A second route has been to move from a purely *legal* to an *economic* notion of the supervised institution. The most significant step so far, taken in the mid eighties and now accepted in many countries has been the introduction of consolidated supervision of banks. Organizing supervision of financial conglomerates is the much more complex task that supervisors are now trying to accomplish.

A third route has been the drive to establish uniform regulation for each type of business. This can be called a "functional" approach, one in which each function, or type of financial service or product, is subject to a particular supervisor, regardless of the type of financial institution that offers it. This appeared to be an advance with respect to the more traditional "institutional" approach, whereby each category of institution is subject to the control of its own supervisory authority for the entire range of its operations, because it ensures, as the jargon goes, a level playing field.

The functional approach, however, has serious limits of its own, arising from the danger of concentrating on individual parts of a complex reality without catching the whole: in the end, it is institutions that fail, not the single functions they perform.

In my own country, Italy, we have tried to overcome these problems by organizing the instruments and responsibilities of supervision according to *objective* rather than function or institution. The approach is based on the recognition that regulation serves two aims. The first is to foster the efficiency of the market in managing information and pricing financial assets. This is pursued through all forms of intervention regarding the market as such, the rules of conduct for its participants, disclosure requirements and the setting of contractual standards. The second objective is to preserve stability. Even a well designed system of standards for disclosure and rules of conduct cannot eliminate all the sources of instability, because some trading takes place outside the market, some agents produce incorrect information, some relevant information is simply not available or retrievable, and so on. Hence, rumors and misleading or false information may distort the allocative process and even lead to financial crises. Financial innovation could actually aggravate this problem, since both the opening of new markets and the process of risk unbundling may shorten agents' time-horizon, making it harder to evaluate credit risk correctly and accelerating the transmission of local shocks to other parts of the financial system. Stability regulation is therefore needed both to reduce the risk of collapses of the public's confidence in financial institutions and to limit the consequences of crises that follow such breakdowns.

On the basis of this distinction Italian regulation has been reshaped in recent years to ensure that each of the two aims falls within the sphere of competence of a single authority: stability regulation has been placed within the realm of the central bank not only for banks but also for securities houses, mutual funds and other financial institutions, while market-making regulation has been assigned to the Consob, the Italian equivalent of the SEC.

4.3 *Reducing risks in payment systems*

Reliance on net settlement systems has made it possible to avoid an increase in the holding of non-interest-bearing central bank money parallel to the enormous increase in financial transactions in recent years. The multilateral nature of netting schemes, however, has entailed a concomitant increase in systemic risk. Of course, the central bank always has the capacity to provide enough liquidity to the system to prevent a crisis from erupting. But if the stability and safety of systems were based on the assumption that the central bank will always do so, risks would in the end grow rather than diminish and monetary control would be lost. Outside money would in fact cease to be exogenously determined and the very essence of central banking would be undermined.

Moral hazard and the externalities associated with netting systems therefore require central banks to reassess and enhance their role within the payment system. The response of central banks to these challenges is in fact developing along two lines. At one level, central banks are promoting measures to enhance security in domestic netting systems, using their authority as overseers of the payment system. At another level, they are expanding their operational role, offering more services and developing real-time gross settlement systems (RTGS).

The measures that central banks have developed and promoted to enhance security in domestic netting systems cover a wide range of aspects: restrictions 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 central banks; the collateralization of debit exposures, and, in the United States and Japan, the stipulation of liquidity-sharing and risk-sharing agreements among participants. In some countries relevant changes in the legal framework have been introduced to ensure the legal validity of bilateral and multilateral netting. In other countries, the pricing of central bank services has been used to smooth the functioning of the clearing and settlement procedure.

The second response, a shift towards continuous settlement in central bank money in the course of the business day, has become a central element in the evolution of modern interbank payment systems. In the United States, Japan, Switzerland, Denmark and other countries such systems are already in place. In most other advanced countries they are being developed. For commercial banks, switching to

RTGS entails the cost of increasing their reserve holding, which explains why they are somewhat reluctant. In fact, although technological progress tends to increase the velocity of central bank money dramatically, the shift from net to gross settlement is likely to mean an increase in the level of both transactional and precautionary reserves. A factor that has favoured acceptance of RTGS is the rising costs that participants in netting schemes have to bear as a result of risk reduction measures.

It is difficult to foresee the precise impact that the shift to gross settlement will have on the demand function for central bank money. Other things being equal, the outcome depends on two factors. The first is whether gross systems will supplement netting systems or replace them. As replacement may be brought about by a decision of the central bank, this is a hotly-debated issue in several countries, in Europe and elsewhere. I personally believe that the co-existence of the two systems is preferable. In fact, if the risk reduction measures of netting schemes were such that the two systems entailed equal risks, then payment operations would tend to be distributed between them in such a way as to minimize their cost. And it is reasonable to assume that, for certain classes of payments, netting systems will continue to be the efficient mode.

Second, the final outcome will also depend on the ways and conditions in which central bank money is supplied. All central banks face today what can be called the problem of liquidity provision to gross systems. Queuing, compulsory reserves, overdrafts and collateral are the constituent elements of a complex architecture, still to be designed in detail. The interplay of factors makes it difficult in the extreme to design the perfect architecture of a gross or, more generally, a large-value payment system. Once more, a degree of pragmatism is necessary. In particular, central banks should be prepared to bear part of the higher costs associated with of gross settlement.

Whatever choice a central bank makes on these matters, changes occurring within the payment system require adaptation of the procedures by which the central bank supplies money to the banking system and has major implications for the operating procedures of monetary policy.

4.4 *Enhancing central bank cooperation*

As noted in Section 3.3, the increasing integration of world capital markets undermines the ability of the single country to pursue purely domestic goals through monetary policy. That there is an internal inconsistency in the coexistence of free circulation of goods and services, free capital mobility, fixed exchange rates and independent monetary policy, is by now a commonplace, although it took time to become one. The Bretton Woods system collapsed, and more recently the European Monetary System was seriously shaken, because individual countries failed to acknowledge the inconsistency and accept the requisite degree of policy coordination.

Cooperation in the area of monetary policy is clearly important but, one might argue, not indispensable, if countries were willing to accept one of the two following solutions to the coordination problem: surrendering monetary sovereignty altogether, by "mimicking" the monetary policy of a larger partner; and letting the exchange rate fluctuate freely. Both these routes, however, pose problems. Pegging to a larger currency implies acceptance of a policy stance designed for the needs of another economy and renouncing all say in decision-making. Floating means leaving the decision to markets, which have repeatedly shown their inability to avoid bubbles, overshoots and volatility that are detrimental to economic activity. Over this century international monetary policy moved continuously between the three poles of coordination, pegging and floating. Recently, the European Union has adopted the radical solution of a single currency and a single central bank and enshrined it in a Treaty. The test of implementation is for the years to come.

Monetary policy was long the only central banking function for which the game of international cooperation was played, albeit often in words rather than substance. Cooperation is much more recent with respect to the other two functions of the triad – about twenty years for banking supervision, ten for payment systems – but it has made more progress than in the monetary policy area. As regards supervision, the internationalization of finance compels national authorities to seek greater harmonization and transparency of prudential standards both to safeguard the stability of banks and to ensure fair competition. The Basle Committee on Banking Supervision (once known as Cooke Committee) has risen, over the years, to the role of key rule-making body. Its pronouncements have covered such areas as capital ratios, risk concentration, standards for banking supervision and consolidated supervision. It is currently working on market risks, financial conglomerates and derivatives.

No less serious a threat to financial stability comes from the development of international payment services. Here, very little can be accomplished without a cooperative attitude, as no central bank acting on its own can offer viable solutions to the problems examined in Section 3.3. In 1988 I argued that "the choice that is confronting central banks is whether and how much to get involved in the developments that will lead to satisfying this need. The options range from directly and jointly operating a clearing house, possibly through an institution jointly owned by central banks, to fully delegating these functions to the private sector" (Padoa-Schioppa, 1988b). Subsequent events have only strengthened my conviction. At the same time, central bank cooperation has made significant progress and produced concrete results. The Group of Experts on Payment Systems, which in 1990 drafted the "Lamfalussy Report", and the G-10 Committee on Payment and Settlement Systems that succeeded it have made considerable headway in this complex but crucial matter. The latter's recent "Noel Report" on central bank payment and settlement services with respect to cross-border and multi-currency transactions, in particular, provides a detailed account of available options, including, as was anticipated in the passage quoted above, the possibility of setting up a Common Agent of G-10 central banks entrusted with settling cross-border, multi-currency payments on its own accounts.

5. Conclusion

The history of central banks is one of ongoing adaptation of a basic mission (governing money) to new challenges posed by changes in the technological, economic and institutional environment. When central banking began about three centuries ago, the birth of the modern state posed the problem of ensuring the government rapid and effective access to external finance in order to face emergencies such as war and famine. At the beginning of the nineteenth century, the challenge raised by the spread of banknotes was addressed by imposing statutory rules on the issuing banks and, in many countries, by centralizing the note issue. Later in the century, the unprecedented spread of deposit banking required a new type of adaptation, which took the form of lending-of-last-resort and banking supervision. More recently, in our own century, the need to manage money for purposes of macroeconomic stabilization led the state to get a firmer hold on central banks, in many cases through nationalization.

The challenges confronting us today can be grouped under four headings: preventing the pressures of labour and governments for money-creation from jeopardizing price stability; revising the regulatory structure, to ensure financial stability in the face of increasingly complex contracts and markets; reshaping the payment system with the shift from paper to computerized information technology; and extending the three central banking functions to the international economy to keep pace with global and integrated markets. The responses to these challanges, to judge from current developments, can be summarized as follows.

Progress has been made with respect to the first challenge, by emphasizing the objectives to be pursued by the central bank and strengthening central banks' autonomy. Very broad central bank autonomy, with due emphasis on price stability as its primary objective, is by now an accomplished fact in many industrialized countries.

Signs of response to the second challenge are also visible. Indeed, central banks and policymakers around the world increasingly recognize that they can no longer restrict their attention exclusively to the banking system, if overall financial stability is to be preserved.

In the field of payment systems, an area that after many years of relative neglect now ranks high again in the priorities of central banks, measures to reduce risks in netting systems and the development of gross settlement are the two main lines of response.

Globalization poses a challenge of a different nature. Individual central banks owe their legitimacy, to use Stiglitz's (1989) terminology, to their "universality" and "coercive powers" – properties they derive from being part of the machinery of the state. This is why monetary sovereignty has always evolved in close association with political sovereignty. In a world still composed of separate political entities, but increasingly unified in the economic and financial fields, how can an effective structure of monetary governance be ensured? While Europe has taken the bold step of planning the creation of a central bank ahead of full-fledged political union, on a global scale the only conceivably feasible route is voluntary cooperation among sovereign national institutions: a second-best route on which considerable progress has been made.

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Statement by the Governor, Antonio Fazio,

to the Budget, Treasury and Planning Committees of the Senate and the Chamber of Deputies

Rome, 1 August 1994

I have examined the Economic and Financial Planning Document for 1995, 1996 and 1997, approved by the Government on 21 July, in the light of the performance of the Italian economy and the outlook for the next three years.

1. Current programmes projections and objectives for the public finances

The Government's Document sets the state sector deficit at 154 trillion lire for 1994. Achieving this objective will require the adoption of measures to curb expenditure and increase revenue with an impact of around 5 trillion lire already in the second half of this year.

Compared with 1993, the deficit would be only slightly reduced in relation to gross domestic product, which is expected to grow this year by 1.4 per cent in real and 5 per cent in nominal terms. It is significantly higher in absolute terms than the figure the preceding Government had forecast for the current year, that is to say 144 trillion lire. The result appears all the poorer considering that the trend of interest rates has been more favourable than expected; after the above-mentioned measures amounting to 5 trillion lire, the surplus on the budget net of interest payments would be around 16 trillion lire this year instead of 32 trillion, or one per cent of GDP instead of two.

The difference is attributable not only to the discrepancy between projected and actual cyclical conditions but also to the less than full effectiveness of the public spending control and rationalization measures provided for in the Finance Law for 1994 in reducing expenditure.

The unfavourable starting-point has repercussions for the planning framework for the next three years.

The overall state sector deficit is programmed to decline to 138.6 trillion lire in 1995, 121 trillion in 1996 and 107 trillion in 1997; this would lower it from 9.4 per cent of GDP this year to 8 per cent in 1995, 6.6 per cent in 1996 and 5.6 per cent in 1997. A contribution to these results is expected to come from interest payments, which are forecast to ease from 10.4 per cent of GDP (170 trillion lire) in 1994 to 9.6 per cent in 1996 and 1997 (175 and 184.5 trillion, respectively), reflecting rates on Treasury bills one point below present levels and the progressive containment of net borrowing.

It is assumed that GDP will grow at an average annual rate of just under 3 per cent over the three years. Inflation is expected to continue to slow down, eventually stabilizing at 2 per cent.

The baseline trends of public expenditure and revenue in the absence of corrective measures would lead to an ever increasing deficit in absolute terms. The deficit would rise to 186 trillion next year, 193 trillion in 1996 and over 200 trillion, or 10.5 per cent of GDP, in 1997.

Combined with the slow but steady decline in the private saving rate, this would divert still more resources from productive investment. A growing portion of savings would be used to cover current public expenditure.

Again, in the absence of corrective measures, the public debt – which was slightly smaller than gross domestic product in 1989 and will amount to 124 per cent of GDP at the end of this year – would continue to expand, rising to around 135 per cent of GDP in 1997.

These estimates for the debt and its ratio to national income are purely theoretical: failing corrective action, the baseline trends would lead to a progressive, further rise in interest rates and hamper the Treasury's fund-raising on the domestic and international markets; the Italian economy would be driven back into a vicious circle of high interest rates, inflation, distortion in resource allocation, slower growth.

The urgent need to take action is recognized by the Government's Document, which beyond the measures totaling 5 trillion lire this year provides for measures to reduce the deficit by 45 trillion in 1995, 67 trillion in 1996 and 86 trillion in 1997.

The bulk of the correction is planned on the expenditure side: of the total adjustment figures mentioned, additional revenues with respect to the estimates on a current programmes basis should be limited to 18, 23 and 30 trillion lire respectively in the three years. The Document also provides for a further positive effect due to interest savings connected with the smaller growth in the debt. As I shall recall later, in the event of sufficiently incisive measures the reduction in interest payments could be larger than that contemplated in the Document.

The Government also assumes a reduction in the debt through disposal of public sector assets, with the receipts estimated at 10 trillion lire for each of the three years; correctly, these receipts are not applied to reduce the borrowing requirement but are earmarked directly to reduce the debt.

However, the Document does not set out the manner of covering the extraordinary outlays deriving from the Constitutional Court's ruling regarding minimum pensions.

The measures on the revenue side would leave the overall ratio of taxation to GDP at the 1994 level, which is roughly in line with the European average but appreciably lower than in Germany, France and other countries of western and northern Europe where the structure of public expenditure is similar to Italy's.

Let me recall that on a current programmes basis, owing to the lapsing of revenue of an extraordinary nature, the ratio of government revenue to GDP will be 1.7 percentage points lower this year than in 1993 (the estimate for 1994 excludes the measures totaling around 5 trillion lire mentioned earlier).

Excluding interest payments, however, the ratio of total public expenditure to GDP should decline by around one percentage point each year. The Document postulates stepped-up public investment as a key part of the action planned. Thanks to increased allocations and the cost savings obtained by eliminating the improper charges connected with corruption and extortion, expenditure for public works in 1997 is expected to be some 20 per cent larger in real terms than in 1994. This is one of the positive aspects of the configuration of the public finances outlined by the Document. Such action will help to rectify the mix of consumption and investment in public sector expenditure, producing quick benefits for employment and the overall productivity of the economy.

As a result of the measures planned – but, as noted, excluding the outlays connected with the ruling of the Constitutional Court – the ratio of the public debt to GDP would continue to grow slightly in 1995 before falling back to this year's level in 1996 and decreasing sharply, by two percentage points, in 1997.

The stabilization and, subsequently, the rapid reduction of the volume of the debt is indispensable to lowering the cost of financing for the state and enterprises alike and to overall financial stability.

2. The correction of the public finances and economic growth

Corrective measures of the size and composition set forth in the Document are both necessary to avoid a resurgence of inflation and compatible with satisfactory growth in income and output.

It must be made clear from the outset that the current positive developments in prices, exports and the balance of payments and the recovery in production depend vitally on the stability of labour costs. The Document assumes that inflation will continue to abate; for this to occur, consistent behaviour by the cost of labour, continuing the present trend, is indispensable.

Adverse developments in costs and prices would have negative consequences for future movements of interest rates and the orientation of monetary policy.

For 1994 and 1995 the Document assumes yields on government securities that appeared realistic last spring but that are more than a full percentage point lower than those now registered in the secondary market and for the most recent new issues. In subsequent years, the level of interest rates could be lower than that assumed in the Document, on two conditions: that the inflation targets are achieved and, above all, that the deficit reduction measures are particularly incisive and are perceived as such by investors and the markets.

If attained, the objectives set out in the Document for the overall state sector deficit and the budget balance net of interest payments appear sufficient to correct the destabilizing tendencies of the public finances. The targets are based on an initial situation that is worse than that presented in last year's Planning Document but is partially rectified over the three years.

For 1997 the primary surplus is expected to amount to 78 trillion lire (4 per cent of GDP); this is greater than the 66 trillion lire (3.6 per cent of GDP) forecast for 1996 in the previous Document.

I stated to these Committees last year that I considered the latter target not entirely sufficient to enable interest rates in Italy to decline to levels more closely in line with those seen in the leading European financial markets. The yield differential on medium-term securities vis-à-vis Germany and France has now widened to 4 and 3.5 percentage points respectively.

If the cost of labour and the consequent variation in prices remain within the limits postulated in the Document, Italy could achieve a cumulative external surplus on current account of about 100 trillion lire in the three years through 1997.

Such a result is necessary if significant progress is to be made in reducing the country's foreign debt, which will total about 140 trillion lire at the end of 1994. The substantial elimination of Italy's net foreign debt is an indispensable condition for strengthening the lira.

Our analysis indicates the possibility of marginally faster growth in output and income than is posited in the Document; annual rates of growth could slightly exceed 3 per cent. Assuming realization of all the conditions set forth above, one may forecast a strong recovery in investment, which, as I observed in my Concluding Remarks to the general meeting of shareholders of the Bank of Italy on 31 May, has declined to the lowest levels of the past thirty years in relation to GDP.

Investment, especially productive investment, is already picking up, and if conditions and above all the economic, political and social outlook are favourable, there could be a notable increase as soon as next year.

The weak point in the development of the Italian economy remains the employment situation.

The plan to upgrade infrastructure and relaunch public works projects is to be praised for improving employment prospects in the more disadvantaged areas of the country, especially for the young; careful project selection and cost control remain essential to eliminate distortions and waste; otherwise, such projects would amount to mere handouts of public funds, with inflationary effects, and would make no contribution to increasing productivity.

The Document forecasts a moderate but significant rise in employment for the three years. The figures given may be overoptimistic: private sector employment is unlikely to expand by 350,000 jobs in the period, although one must add the beneficial impact of the measures already taken by the Government. Employment in the public sector, moreover, will continue to decline.

Following the sharp decrease recorded last year, total employment in the public and private sectors is expected to contract by a further 1 per cent on average for 1994, equivalent to 200,000 jobs. Nevertheless, employment should expand in the second half of this year, in conjunction with the improvement in economic conditions and investment. The number of persons employed in the private sector could thus increase by about 100,000 in the course of the year.

3. The contents of the budgetary package

The efficacy of the budgetary package depends primarily on the size of the correction. It also depends in large measure on whether or not the planned measures are structural in nature and whether their effects will persist or lapse in the medium term.

The beneficial impact on expectations is linked not only to the size of the planned correction but also to the degree of certainty that operators and financial markets attribute to the achievement of the objectives.

The fact that the definition of a good part of the measures planned has been deferred to a later date makes it impossible to offer a full appraisal of the package. However, on the basis of the information now available a number of comments and observations are in order.

The corrective measures on the revenue side, as noted, are aimed at keeping the incidence of taxation unchanged at this year's level in the three years from 1995 to 1997. This requires additional revenue, with respect to the current programmes estimates, of 18 trillion lire in 1995, 23 trillion in 1996 and 30 trillion in 1997.

According to the information available so far, the revenue-raising measures outlined for 1995 are largely of a "once-only" nature. In the ensuing years, the revenue derivable from the measures that have already been defined represents only a fraction of the amount needed to achieve the objectives for 1996 and 1997.

In fact, much of the additional revenue whose sources have already been determined is expected to come from the condonation of building offences and the scheme for the conciliation of tax disputes. The latter would favour the settlement of pending actions in respect of disputed taxpayers' liabilities and the determination of liabilities for tax years still open to assessment; in the years to come it should lead to a reduction in tax evasion and avoidance through the use of presumptive income coefficients.

The actual results in terms of increased revenue and decreased evasion will depend on the level at which these coefficients are set and on their rigorous application. If the coefficients established are inadequate, the conciliation scheme could have adverse consequences, inducing taxpayers to lower their declared income.

If the tax ratio is to remain steady as planned, in 1996 and 1997 it will be necessary to adopt further measures, beyond those already outlined, yielding revenues of respectively 18 and 25 trillion lire.

It is worth emphasizing that statutory tax rates are higher in Italy than in the other leading countries; those who fully meet their obligations pay more than in other systems, but the overall receipts of the revenue service are less. Taxpayers' willingness to accept a given tax burden improves if action on the factors described ensures a greater degree of distributive equity.

However, it should be noted that in view of the scale of tax evasion, which the Document estimates at 100 trillion lire a year, the corrective measures could make it possible for tax receipts to exceed the forecasts.

On the expenditure side, the key objective laid down in the Document is containing the growth of current expenditure within the programmed rate of inflation. By contrast, spending on capital account is expected to grow at a strong pace; the relaunching of public investment and the settlement of the massive debts contracted with firms for projects already completed should be partly offset by the reduction in public works procurement costs.

The budgetary correction aims at achieving expenditure savings of 27 trillion lire in 1995, 44 trillion in 1996 and 56 trillion in 1997. Most of the effects forecast for 1995 should stem from measures affecting the pension and health care systems.

If the guidelines laid down in the Document are put into practice, the measures that have already been defined will be structural in nature, unlike those on the revenue side, and would amount to 27 trillion lire in 1995, 27 trillion in 1996 and around 30 trillion in 1997. Thus, to achieve the reductions in spending that are planned for 1996 and 1997, it is necessary to adopt further measures, still to be determined, capable of saving respectively 17 and 26 trillion in the two years.

Notwithstanding the pension reform of 1993, the equilibrium social security contribution rate remains much higher than the rates in effect in the various pension plans. The areas identified in the Document for action, which should be defined in detail in the autumn, are unquestionably those where intervention is appropriate. Under present conditions, the restoration of the system's equilibrium must be approached from the expenditure side, since the level of contributions is in line with the European average.

Today's pension system was forged in the fifties and sixties, when both output and employment were expanding rapidly. In the decades since, the economy's growth rate has declined markedly; the growth in employment and in social security receipts, which made it possible to finance the considerable increase in benefit outlays during the start-up phase, has slowed down significantly. The age structure of the population has changed, with the elderly increasing in both absolute and relative terms.

Given the present prospects for macroeconomic growth, the costs deriving from the existing pay-as-you-go system are unsustainable. The progressive aging of the population and the slow growth of employment will inevitably cause the old age dependency ratio to rise considerably. It will not be possible to maintain the entitlement levels of the current system.

In the absence of corrective measures, the curtailment of benefits would come about as a result of macroeconomic disequilibria, threatening to trigger crises and increases in inflation that would produce inefficiency and inequity.

A significant feature of the debate under way in Italy on the size of the pension system's debt is the considerable attention to assessing, by actuarial techniques, the long-term financial imbalances.

The committee charged with drafting social security reform is examining a range of possible measures: an acceleration of the timetable for raising the retirement age, revision of the number of contribution years for entitlement to the seniority pension, stricter eligibility requirements for survivors' benefits, adjustment of the accrual rate and of the income ceilings for old age welfare benefits. These changes can generate significant savings, especially in the years to come.

The prospective rectification of the imbalances, moreover, even if referred to periods subsequent to the three years under review, could begin to have a positive effect on the performance of the financial markets right away.

Larger retirement incomes than those ensured by the public pay-as-you-go pension system will have to be provided by funded supplementary pension plans. In the transitional phase, in order to foster the formation of additional savings it will be necessary to provide incentives for the development of such funds by revising their tax treatment.

In the health care sector, the measures envisaged concern the criteria for exemption from payment of a share of the cost of medicines and specialist services, the reduction of drug prices, the range of charges for diagnostic services, the reorganization of the hospital system, especially as regards the smaller institutions, the containment of spending for the procurement of goods and services, and the introduction of strict limits to the hiring of staff.

Some of these measures do not appear to be particularly incisive, while others may be merely one-off.

The measures outlined for health services will probably not achieve the objectives set. In any case their effects will depend crucially on the criteria with which they are applied and hence on the conduct of administrators.

Health system administrators are duty-bound to ensure the provision of health care to the national community.

Larger expenditure savings in the field of health care should be sought, thoroughly rethinking entitlement to services, giving practical implementation to the minimum level of services to be provided nationwide, and favouring the transfer of certain categories of the population to private providers for some health care services.

The information available on the other spending cuts is limited. Study of the Document indicates that they should derive from a reduction in budgetary appropriations. Here, again, it appears unlikely that the projected savings can be achieved without affecting the level of services and benefits to be provided to the public. To be specific, the reduction envisaged in allocations in favour of decentralized spending bodies might be offset by larger withdrawals by these bodies from the state treasury and an increase in their borrowings from banks.

4. Conclusions. The role of monetary policy

Current trends in the Italian economy show a healthy growth in output, mainly export-led but more recently also fueled by the revival of domestic demand.

Following last year's leap of 10 per cent, the volume of exports will record further significant expansion this year, thanks to the combination of the lira's depreciation with stable domestic labour costs and to the sharp reduction in the cost of money.

Exporting firms will continue to improve their earnings, since they are still able to pass on higher average price increases to foreign buyers than to domestic customers.

Nonetheless, the recovery in domestic demand will also lead to renewed growth in imports.

The twelve-month inflation figures appear quite encouraging. Inflation is well below that recorded in earlier years, although the differential vis-à-vis the European countries with more stable currencies persists.

However, closer inspection of price trends over the last year reveals that the sharp slowdown of the second half of 1993 has been followed more recently by monthly consumer price variations that continue to fluctuate but no longer show any clear downward trend.

Indeed, the performance of wholesale prices and a comparison between producer and retail price movements suggest a likely upturn.

This reversal of trend is unmistakably reflected in surveys of business expectations for the next six months. These inflationary expectations must be immediately and effectively countered.

An analysis of monetary and credit aggregates nonetheless shows an orderly evolution, in line with developments in the real economy. The money supply grew at an annual rate of 6.6 per cent in the first half of this year; credit to the non-state sector increased at a pace of 1 per cent; interest rates on bank lending were 6 percentage points lower than at the end of 1992 and 1.5 points lower than at the end of last year.

The trends of the exchange rate and of yields on medium and long-term securities, two variables whose values are essentially determined by market forces, have not been consistent with the orderly pattern of output, the balance of payments on current account, and the credit and monetary aggregates.

External capital movements, in fact, signal adverse developments. Whereas in 1993 the net outflow generated by residents' portfolio investment abroad was more than offset by the net inflow of foreign capital, the first half of this year saw a reversal of the trend: in the second quarter, particularly, portfolio investment recorded an overall net outflow of 20.6 trillion lire, 11.7 trillion in June alone.

These trends are presumably the reason why the lira, as gauged by every possible index of competitiveness and taking into account the structural condition of the Italian economy, is currently undervalued vis-à-vis the Deutschemark. Some indices put this undervaluation at 10 per cent.

An undervalued currency may be a boon to exports in the short term, but in the longer run it brings inflation, through higher prices for imported goods and the accompanying expectations, especially if the depreciation persists.

The differential in the interest rates under the control of the central banks has been kept between 2 and 2.5 percentage points vis-à-vis those of France and Germany.

However, the actual money market rates are now showing a wider gap of between 3 and 3.5 points.

As noted earlier, the difference in yields on medium and long-term securities is particularly marked, reflecting operators' expectations on the domestic and international markets.

Higher interest rates mean greater interest expenditure for the public sector, swelling the budget deficit, and raise firms' financing costs.

The inflation differential vis-à-vis economies with stabler currencies is now between 1 and 2 percentage points; in the longer term it could widen.

The Economic and Financial Planning Document is by nature a sort of declaration of intent. Once approved by Parliament, it sets the guidelines for public finance policy for the next three years.

The experience of the last five years reveals just how costly repeated failure to achieve the targets can be. It teaches that provisional measures or mere stop-gaps may actually be counterproductive when the underlying expansion of expenditure and the deficit persists, as to some extent the Document confirms.

The lack of resolute action to resolve the structural problems of the public finances could prove especially costly in terms of the impact on interest rates and the exchange rate.

As I made quite clear in my Concluding Remarks last May, following the severe recession of 1993, the present state of the Italian economy offers great opportunities to correct the chronic imbalances of the public sector, to permit the recovery to centre above all on investment and exports and, through the lasting reduction of the budget deficit on current account and an increase in the primary surplus, to contain consumption.

Export growth favours output and the return to external balance; investment recovery improves the outlook for economic growth beyond the immediate future.

The present economic situation holds the potential for correcting the public sector deficit and keeping the debt within the limits established in the Government's Document at no immediate cost in terms of development and employment.

The trends in capital movements, exchange rates and interest rates that I mentioned before indicate deteriorating expectations in the domestic and international markets.

A resurgence of inflation would have serious repercussions on Italy's creditworthiness and on the confidence of all those who work, save or invest. If these expectations are to be halted and, hopefully, turned around, resolute, credible, lasting fiscal policy measures must be adopted.

If such measures were not forthcoming, the only alternative means of curbing inflation would be through monetary policy measures; in that case, however, the beneficial impact on prices and the exchange rate and, subsequently, on interest rates, would once again be accompanied by high costs in terms of investment and the prospects for growth.

STATISTICAL APPENDIX

Table 1

Economic and Financial Planning Document, 1995-1997: main features of the current programmes and planning forecasts

(State sector: in billions of lire and percentages of GDP)

	1994	1995			1996			1997		
		Current programmes	Budget measures	Planned	Current programmes	Budget measures	Planned	Current programmes	Budget measures	Planned
Total revenue	520,770	532,610	17,800	550,410	552,900	23,000	575,900	581,450	30,000	611,450
	(31.80)	(30.85)	(1.03)	(31.88)	(30.38)	(1.26)	(31.64)	(30.26)	(1.56)	(31.83)
Total expenditure net of interest (1)	505,040	543,460	–27,200	516,260	565,500	–44,000	521,500	589,900	–56,000	533,900
	(30.84)	(31.48)	(–1.58)	(29.90)	(31.07)	(2.41)	(28.66)	(30.70)	(–2.91)	(27.79)
Primary balance	15,730	–10,850	45,000	34,150	–12,600	67,000	54,400	–8,450	86,000	77,550
	(0.96)	(–0.63)	(2.61)	(1.98)	(–0.70)	(3.68)	(2.99)	(–0.44)	(4.48)	(4.04)
Interest expenditure	169,730	174,750	–2,000	172,750	180,300	–5,000	175,300	192,500	–8,000	184,500
	(10.37)	(10.12)	(–0.12)	(10.00)	(9.90)	(–0.27)	(9.63)	(10.02)	(–0.42)	(9.60)
Borrowing requirement	154,000	185,600	–47,000	138,600	192,900	–72,000	120,900	200,950	–94,000	106,950
	(9.40)	(10.75)	(–2.72)	(8.03)	(10.60)	(–3.96)	(6.64)	(10.46)	(–4.89)	(5.57)
Total debt	2,023,584	2,202,044	–57,000	2,145,044	2,386,927	–139,000	2,247,927	2,579,042	–243,000	2,336,042
	(123.58)	(127.53)	(–3.30)	(124.23)	(131.16)	(–7.64)	(123.52)	(134.24)	(–12.65)	(121.59)

(1) Includes net financial items.

Table 2

Economic and Financial Planning Document: State sector budget targets

(in billions of lire and percentages of GDP)

	1994	1995	1996	1997
Borrowing requirement	154,000	138,600	120,900	106,950
(% of GDP)	(9.4)	(8.0)	(6.6)	(5.6)
Primary surplus	15,730	34,150	54,400	77,550
(% of GDP)	(1.0)	(2.0)	(3.0)	(4.0)
Interest expenditure	169,730	172,750	175,300	184,500
(% of GDP)	(10.4)	(10.0)	(9.6)	(9.6)
Debt	2,023,584	2,145,044	2,247,927	2,336,042
(% of GDP)	(123.6)	(124.2)	(123.5)	(121.6)
Memorandum item				
GDP	1,637,478	1,726,693	1,819,819	1,921,225

Table 3

Economic and Financial Planning Document:
State sector budget projections on a current programmes basis
(in billions of lire and percentages of GDP)

	1994	1995	1996	1997
Borrowing requirement	159,000	185,600	192,900	200,950
(% of GDP)	(9.7)	(10.8)	(10.6)	(10.5)
Primary surplus	10,730	–10,850	–12,600	–8,450
(% of GDP)	(0.7)	(–0.6)	(–0.7)	(–0.4)
Interest expenditure	169,730	174,750	180,300	192,500
(% of GDP)	(10.4)	(10.1)	(9.9)	(10.0)
Debt	2,028,584	2,207,044	2,391,927	2,584,042
(% of GDP)	(123.9)	(127.8)	(131.4)	(134.5)

Table 4

Economic and Financial Planning Document:
effects of planned budgetary measures
(in billions of lire and percentages of GDP)

	1994	1995	1996	1997
Borrowing requirement	–5,000	–47,000	–72,000	–94,000
(% of GDP)	(–0.3)	(–2.8)	(–4.0)	(–4.9)
Primary surplus	5,000	45,000	67,000	86,000
(% of GDP)	(0.3)	(2.6)	(3.7)	(4.4)
Interest expenditure	–	–2,000	–5,000	–8,000
(% of GDP)	–	(–0.1)	(–0.3)	(–0.4)
Debt	–5,000	–62,000	–144,000	–248,000
(% of GDP)	(–0.3)	(–3.6)	(–7.9)	(–12.9)

Statement by the Governor, Antonio Fazio, and the Deputy Director General, Vincenzo Desario,

to the Parliamentary Committee for investigation into the mafia and similar criminal associations

Rome, 7 October 1994

Opening remarks by the Governor, Antonio Fazio

I should like to start by expressing my best wishes for the work of the Committee. Its mandate covers issues of vital interest for society and, indirectly, for the economy and finance.

It is with pleasure that I take this opportunity to recall that my first public address after being appointed Governor was delivered in May of last year at the Forum on "The Economy and Crime" organized by the Parliamentary Antimafia Committee. The Forum stimulated valuable research on the various aspects of the question.

The Bank of Italy has always paid special attention to this issue, as is confirmed by the many statements by my predecessor and his colleagues to the Antimafia Committee. The first date back to the middle of the eighties, when the terms of the problem were not clearly defined and the means of defence were very limited.

The Governor's Concluding Remarks of 1984 indicated the two, still relevant, lines of action that the Bank of Italy adheres to in its operations in this field: the first concerns the performance of the Bank's institutional function of supervising the banking system; the second is implemented through its cooperation with government bodies, notably the judiciary, engaged in the difficult task of fighting crime.

Law 197 of July 1991 established a comprehensive framework for Italian regulations on money-laundering. The initial phase of its application is now over. Combating money-laundering has become a part of the Bank's ordinary activity of verification and control of the institutions subject to its supervision. The time is ripe for a first reappraisal on the basis of the experience gained.

In an extremely dynamic context in which operating techniques evolve with great rapidity, the effectiveness of legal provisions is eroded if they are not revised along the way. In the money-laundering field too it is necessary to ensure that regulations remain satisfactorily effective and efficient and that excessive costs do not accumulate without their being justified by definite and perceptible benefits. Were this to occur, the vigilance of operators would be diminished, which would undermine the validity of the rules.

Safeguarding against money-laundering presupposes convinced and responsible participation on the part of operators in the application of the law. The statement of principles published in December 1988 by the Basle Committee, which brings together the central banks of the leading countries, stressed that "the first and most important safeguard against money-laundering is the integrity of banks' own managements and their vigilant determination".

In the fight against organized crime formal legal prescriptions may prove insufficient if they are not accompanied by a professional ethic based on good faith, reliability and correctness in business dealings.

Operators' self-discipline is especially important for the functioning of markets. Excessive recourse to rules involving formal procedures and penal sanctions would entail undesirable costs and rigidities and in time could weaken markets, an outcome which would hinder the objective of fighting crime. Robust and mature markets able to apply the rules of transparency and competition are the best defence against any attempt to introduce mafia influence.

In my May 1993 Concluding Remarks I set the issue of the fight against money-laundering alongside that of employment. The cost of the economic crisis is heavy and falls mainly on the poorest areas of the country and the weakest segments of society. The labour market is the terrain on which the fight against criminal activity is most difficult and at the same time most important.

The Bank of Italy continues to play an active role in the fight against money-laundering, making full use of the powers attributed to it by law and of the expertise at its disposal.

The Bank's attention is focused primarily on the prevention of the phenomenon. It is directed to strengthening market mechanisms, consolidating the defences designed to protect the legal financial system from involvement in money-laundering, and fighting illegal financial activity in its various forms.

In the light of the legislative framework, I see three main strands for the Bank's activity.

The first concerns the activity of banking supervision. Safeguarding the autonomy and integrity of banking operations is one of the objectives of supervision. It is pursued by means of numerous instruments, including control of the ownership structure, integrity requirements for directors, provisions governing equity interests and interventions of an extraordinary nature.

Experience confirms that smaller banks, especially those operating in the South of Italy, are particularly exposed to the risk of deviations connected with the local environment. This does not, however, negate the role of local banks, which has its origin in their ability to dialogue and establish relationships with local enterprises. Local banks must succeed in maintaining and enhancing this asset by operating in a manner that meets the requirements of today's competitive and integrated markets. In this respect it may be in the interest of local banks to establish suitable operating and equity links with larger banks that can provide the operational and other forms of support needed to allow them to go on performing their function profitably.

The second strand of activity concerns the economic analysis of the phenomenon. Information management is an important weapon in the fight against criminal activity. The anti-money-laundering law provides for data on financial intermediaries and the transactions they undertake to be collected at the Italian Foreign Exchange Office (UIC). The latter is working on a project for the creation of a permanent, institutional observatory to identify and analyze episodes of economic crime and to dialogue with other institutions.

The third, though certainly not the least important, strand is represented by cooperation with other authorities. The Bank of Italy stands ready to provide extensive and effective cooperation, as is proved by the numerous agreements and joint initiatives already implemented. This implies for the Bank a substantial commitment of resources, for example in the case of officers and inspectors who act as technical consultants to criminal judges in complex investigations that sometimes last a very long time.

International cooperation is indispensable. It is in the international financial markets that the large flows of "dirty" money that subsequently contaminate local markets develop and move. The financial deepening of the economy, the huge volumes of transactions, the use of increasingly complex operational techniques and the spread of speculative practices create an environment that can harbour threats to the legal system.

The Bank of Italy is active in this domain, especially in the various international fora in which the phenomena are analyzed and where the guidelines for countermeasures are laid down.

Lastly, I should like to mention the question of usury, which, as I have noted on other occasions, is a social scourge and intimately linked to organized crime, money-laundering and other afflictions such as extortion, fraud and unauthorized financial activity. Usury is a complex phenomenon, the fruit of the stratification of numerous long-standing problems, so that it needs to be tackled on several fronts. One of the objectives to be pursued is to establish conditions permitting an effective examination of creditworthiness and its responsible acceptance by economic agents, so as to prevent difficult situations from pushing the latter towards the dangerous channels of usury.

In conclusion, in a matter as complex as that with which this Committee is concerned, the solution to the problems has to be sought through coordinated and tenacious action by all the public and private forces making up the country's economic and financial fabric. The Bank of Italy continues to perform to the full the role with which it is entrusted, aware that confidence in the currency also rests on the underlying values of the nation and its ability to achieve healthy and lasting growth.

Statement by the Deputy Director General, Vincenzo Desario

Premise

I thank the Antimafia Committee for inviting the Bank of Italy to participate in its proceedings and join Governor Fazio in wishing the Committee further progress in its work.

I shall begin by recalling the main features of banking legislation, with special reference to the institutions and instruments that serve to protect the autonomy of intermediaries and the neutrality of the mechanisms of resource allocation from improper influence, especially on the part of organized crime.

It is now widely recognized that the penetration of the financial circuits by flows originating from illegal activities can affect the proper functioning of credit and financial mechanisms. The fight against the various forms of economic crime supports supervisory activity; the latter in turn participates in the pursuit of the more general objective of safeguarding the legal order.

I shall report on the steps taken by the Bank of Italy in countering unauthorized banking and financial activity and usury, and on the contribution it has made in various ways to averting the often unwitting involvement of the financial system in acts of money-laundering.

The measures aimed at the legal financial system, focusing on prevention, and those directed against the illegal sector, with the purpose of repression, have a common denominator in the objective of cutting the link that tends to be established between the criminal and legal sectors of the economy, with serious repercussions for economic growth.

I shall offer the Committee some reflections on the international importance that money-laundering has gradually assumed and on the lines of action that are taking concrete shape in various fora.

Finally, I shall point out a number of obstacles that have been encountered in applying the provisions against money-laundering and the steps that could be taken to make the fight against crime in the financial sector more effective.

1. The banking system's new regulatory framework and the Bank of Italy's supervisory powers

In October 1993 the Bank of Italy submitted a document to the Antimafia Commission illustrating the aims and instruments of supervision in the new regulatory framework created by the 1993 Banking Law (Legislative Decree 385/1993).

1.1 *Supervisory powers and rules*

The powers attributed to the credit authorities must be exercised in harmony with Community directives and to the end of ensuring the sound and prudent management of intermediaries, the overall stability, efficiency and competitiveness of the financial system and compliance with the provisions concerning credit.

The explicit statement of the aims of supervision confirms that banking supervision may not be used to pursue extraneous purposes.

The objective of the sound and prudent management of intermediaries permeates the entire framework of supervisory rules. Sound management requires that operators' activity be guided by criteria of efficiency, transparency and correctness in the conduct of business.

The concepts of the "sound administration" of banks and "sound corporate management" were already embodied in the work of the Economic Committee of the Constituent Assembly. The recent legislative choice confirms their validity.

The new legislation recognizes intermediaries' freedom to decide their own corporate strategies, in compliance with the principles indicated. The authorities are entrusted with the task of establishing the prudential rules, assessing the overall operations of the operators subject to supervision and taking the necessary measures in the face of anomalous conduct or critical situations.

The Bank of Italy, in conformity with the resolutions of the Interministerial Committee for Credit and Savings, issues general regulations concerning capital adequacy, the limitation of risk in its various forms, permissible shareholdings, administrative and accounting procedures and internal controls.

Law 197/1991 assigned tasks of verifying compliance with the provisions against money-laundering to the various sectoral supervisory authorities; it strengthened the efforts that the Bank of Italy had been making since the turn of the eighties to ensure the banking system's compliance with legal prescriptions.

Within the framework of the regulation of the financial system a number of instruments can be identified which help to defend the system from illegal influence by ensuring the autonomy and integrity of banks' management.

The rules protecting free and fair competition and the market, introduced by Law 287/1990, give the Bank of Italy responsibility for ensuring free competition in the credit sector. It is thus the Bank's task to monitor the creation of dominant positions, to prevent abuses of such positions, to repress understandings in restraint of competition and collusive practices, and to prohibit amalgamations that permanently reduce freedom of competition.

The provisions concerning ownership structures, introduced to ensure transparency and the possibility of identifying persons holding equity interests in banks, make it possible to verify compliance with the principle of separation between banking and commerce. The integrity requirements for substantial shareholders have been strengthened by taking the soundness of their economic and financial position into account, together with their record of correctness in the conduct of business, in order to ensure the sound and prudent management of the bank.

Assessment of the quality of shareholders in the terms I have indicated is particularly important when new banks are formed. Exchanges of information with various investigating bodies have led to authorization being denied (or suspended) on grounds of well-founded suspicions regarding the legitimacy and soundness of the initiative in eight cases, compared with forty authorizations granted since 30 June 1990.

Persons performing administrative, managerial or supervisory functions in credit institutions must also satisfy specific integrity and experience requirements; failure to do so results in disqualification from office. Similar requirements are fixed for members and corporate officers of financial intermediaries.

With a resolution adopted on 30 July 1993, the Interministerial Committee for Credit and Savings established stricter integrity rules for banks. In the event of criminal proceedings, even for matters unrelated to corporate operations, that have not yet reached a judgment in a lower court, the board of directors is required to examine the officer's position; if a precautionary measure restrictive of personal liberties has been ordered, the rules provide for suspension from office.

If the criminal charges against corporate officers are indicative of a state of serious subordination of management to rationales that are extraneous to the enterprise of banking, the procedures of special administration and compulsory liquidation may be adopted.

The 1993 Banking Law has strengthened the penal provisions that protect banking, safeguarding examinations of creditworthiness from fraudulent conduct on the part of banks and from conflicts of interest.

The importance of banks' administrative and accounting procedures has increased, as has that of internal controls to ensure the correctness, transparency and verifiability of their activity; the supervisory authorities have been empowered to issue regulations regarding these matters.

Under the recently issued regulations on large exposures, banks must identify the group to which customers belong and, in particular, the legal and economic connections between borrowers.

1.2 *Bank branches*

With the transposition of the Community's First Banking Directive by way of Presidential Decree 350/1985, the principle of freedom of access to the market was gradually implemented, by first attenuating and then substantially eliminating the administrative barriers to entry and branching.

Since 1990 banks have been free to determine the structure of their branch networks. The supervisory authorities may not ask them to modify their decisions for reasons relating to "economic need" or local market conditions. The Bank of Italy's power of veto is limited and based exclusively on the assessment of a bank's financial situation, profitability and assets and liabilities and of the adequacy of its technical and organizational structure.

The density of banking services increased in Italy between 30 June 1990 and 30 June 1994. Nationwide, the number of bank branches grew from 15,496 to 21,848, increasing by 6,352 units or 41 per cent; the regional growth rates do not differ significantly from the national average (42.3 per cent in the North, 36.7 per cent in the Centre, 41 per cent in the South).

Nationally, there are 3.85 branches for every 10,000 of the population; the ratio in the Centre and North is 4.58 per 10,000, while the figure for the South is much lower, 2.55.

Analysis of the disaggregated data does not turn up evidence of a possible link with illegal financial flows. However, such flows are characterized by their extreme mobility and do not necessarily emerge in the area that is the seat of the criminal activity. Indeed, the spread of bank branches in the less developed areas of Italy not only fosters economic growth but can also help counter financial crime such as usury and unauthorized financial activity.

The opening of branches of Italian banks in countries outside the European Union remains subject to authorization. In deciding on applications, the authorities weigh the Italian parent bank's possibility of obtaining information on the branch's activity without impediment, the existence of an effective system of supervision in the host country and the parent bank's possession of an adequate organizational structure enabling it to control the foreign branch.

Special administration and compulsory administrative liquidation – crisis management procedures that are also applicable to group structures – are now supplemented in Italian law by new instruments for special action in abnormal situations.

The Bank of Italy can now prohibit banks from undertaking new transactions and order the closure of branches for violation of laws, regulations or bylaws governing their activity, including without doubt conscious violation of the rules against money-laundering. The closure order may regard individual branches of an Italian bank, including its foreign branches, or one or more Italian branches of a foreign bank.

As regards non-bank financial intermediaries, beside the penal sanctions envisaged for the gravest irregularities, Article 111 of the 1993 Banking Law provides that serious violations of laws or regulations entail deletion of financial intermediaries from the general register kept at the UIC; deletion precludes their continuing to engage in financial activity.

2. Action to counter illegal financial activities

No counter-strategy can be effective unless it takes a global view of crime in the financial system. Unauthorized activities lead to distortions in competition and may become a breeding-ground for other criminal activities, such as money-laundering and usury.

2.1 *Unauthorized banking and financial activities*

Under the new regulations, the pursuit of financial activities in the market is restricted to certain types of explicitly defined intermediary, subject to specific forms of public control. The provisions of criminal law on unauthorized activities combine with regulatory mechanisms to expose the hidden financial system. This approach not only tends to expel undesirable operators but also acts as an incentive to honest intermediaries to seek authorization and take advantage of the benefits offered by the system in terms of repute and operational opportunities.

At present there are 21,836 financial companies registered with the UIC, most of which are engaged exclusively in managing shareholdings in other companies and not in dealing with the public. A total of 1,791 financial companies offer services to the public: 1,000 in the North of Italy, 433 in the Centre and 358 in the South (including Sicily and Sardinia).

Requisites of integrity apply to the corporate officers of all companies in the register; specific conditions, such as minimum capital, legal form, experience, etc., must be satisfied by intermediaries wishing to deal with the public, as well as proper conduct and transparency requirements; for anti-money-laundering purposes, the task of monitoring is entrusted to the Special Foreign Exchange Unit of the Finance Police.

The special register kept by the Bank of Italy contains the names of 272 companies, of which 220 have their registered offices in the North, 39 in central Italy and 13 in the South. The activities pursued are: leasing, 113 companies; factoring, 61 companies; lending, 58 companies; and consumer credit, 23 companies. The financial intermediaries subject to prudential control and inspections by the Bank of Italy are the larger ones and those that make greater use of borrowed funds.

Article 3 of Legislative Decree 481/1992 (now Article 11 of the 1993 Banking Law) makes it quite clear that, with specific exceptions, only banks may raise funds from the public in the form of deposits. The decree also makes the unauthorized raising of funds an offence, while the resolution of the Interministerial Committee for Credit and Savings of 4 March 1994 completes the provisions with a list of cases in which this activity can be legally undertaken by persons other than banks.

These provisions also apply to *casse di mutualità*. The ban on financial cooperatives' raising funds from their members is equally confirmed. Several procedures are available for bringing *casse di mutualità* within the legal fold, such as transformation into cooperative banks, sale of the business or merger.

To ensure that the new provisions are implemented, it will be necessary for all intermediaries who fail to adopt one of the standard legal forms to be excluded from the marketplace; checks will have to be maintained and all unauthorized operators identified.

The Bank of Italy has asked banks to be prudent when entering into relations with financial companies and not to encourage unauthorized business. The decalogue for combating money-laundering underlines the importance of intermediaries knowing their customers well; acceptance as the customer of an intermediary should be a mark of social status.

Legislative mechanisms alone cannot achieve the objective of "cleansing" the marketplace of illegal operators: the public must be persuaded not to seek financial assistance from unauthorized operators.

All market operators must be readily identifiable; every form of advertising must clearly evince the advertiser's authority to operate and the type of intermediary making the offer. Above all, the man in the street must be made fully aware of the nature of the operator to whom he entrusts his money or from whom he requests a loan.

This task can be efficiently carried out by intermediaries' and consumers' associations. The authorities can also contribute to the campaign of general awareness by encouraging the greatest possible diffusion among the public of lists of intermediaries authorized to engage in various activities. Explanatory notices clearly stating the activities pursued by individual categories of intermediary could be circulated.

2.2 *Usury*

Usury is in effect the crossroads where a number of illicit activities converge; examination of judicial proceedings suggests that usury is both a means of laundering and increasing the proceeds of other forms of crime and the bedfellow of extortion as a criminal means of acquiring possession of legal economic activities.

Usury is recognized as a complex problem that needs more than mere criminal proceedings to tackle it, and a series of initiatives have therefore been launched to this end.

The credit supply side has been enriched by the availability of new instruments and the entry of new operators in the financial system, which is also more widely distributed throughout the country. In general, the official financial system is thus adequate to satisfy the needs of households and firms.

Usury is normally bred from factors outside the banking system. Nonetheless, banks and other financial intermediaries are being asked to introduce further improvements and to speed up the procedures involved in their dealings with customers. Local banks will have to reaffirm their role as suppliers of financial support to households and small businesses.

In June this year the banking system was issued with specific operational guidelines to bring them actively into the fight against usury.

The guidelines first recalled that, following the amendments to Article 648 bis of the Penal Code, which refers to money-laundering, customer transactions suspected of having their origin in usury are now subject to the reporting requirements established in Article 3 of Law 197/1991.

The possibility that customers may use bank loans for illegal financial purposes should persuade banks to deny loans not directly justified by a customer's economic activities.

Banks' internal inspectorates will need to define mechanisms and procedures to prevent their employees from supporting usury in any way.

An information campaign will be needed to make customers aware of the risks inherent in applying for loans to persons not authorized to grant them.

The Italian Bankers' Association has invited banks to prepare fast lane procedures for examining and replying swiftly to loan applications in particularly urgent cases.

The innumerable causes of usury and its complex ramifications have led the Bank of Italy to launch a study to identify the supply-side factors that bar its victims from direct access to bank credit; among other things, the study will examine possible legislative shortcomings and failures in the functioning of government bodies and the procedures for recovering credits, which indirectly encourage usury. It will also include an examination of experience in leading foreign countries.

A number of legislative amendments have been submitted to Parliament and the Bank of Italy has already offered technical assistance. Among other things, the Bank supports the approach that would recognize usury as an offence regardless of the borrower's state of need and make it sufficiently comprehensive to cover every possible type of assault on a person's assets.

2.3 *Money-laundering*

Law 197/1991 introduced mechanisms to identify illicit financial flows at both the aggregate and individual levels.

Aggregate data are collected by the UIC, to which the law entrusts the performance of statistical analyses to identify anomalous financial flows in specific areas of the country. The data thus gathered, the processing of which is still at the experimental stage, will then be channeled into a broader project for the systematic detection of phenomena associated with organized crime's penetration of the economy and finance.

The intermediaries' task is to report cases of suspected money-laundering revealed by their evaluation of transactions in the light of their information concerning customers. These evaluations are based on the information contained in the integrated archives introduced by Law 197/1991. These records cover all the accounts, deposits and other standing customer relations with the bank, as well as all transactions involving more than twenty million lire.

Any traces of anomaly turned up by intermediaries are further investigated by the police. Judicial inquiries can also make use of the information intermediaries are required to hold. Relations between intermediaries and investigating bodies will be facilitated by the general record of customer accounts and deposits provided for in Article 20 of Law 413/1991, which will permit swift identification of the intermediaries to which the police should direct their inquiries.

2.4 *The need for active cooperation*

The decision to assign the task of reporting suspect transactions to the intermediaries follows from the recognition that financial transactions per se are neutral. Only by comparing the objective features of the operation with the subjective characteristics of the customer can a judgement of possible anomaly be formulated.

To assist intermediaries and ensure uniform conduct, in January 1993 the Bank of Italy issued its operational guidelines for reporting suspect transactions, the so-called decalogue on money-laundering. Based on similar experiences abroad, the guidelines were drafted with significant input from the Italian Bankers' Association and the police.

The Bank is now revising the guidelines to take account of legislative changes and experience, add to the types of transaction that provide grounds for suspecting anomaly and supply additional instructions concerning internal procedures for assessing suspect cases. The drafting of the revised rules will be followed by a campaign to sensitize the banking and financial system and encourage staff training and preparation.

The banking system is developing a computer screening procedure to screen out transactions for special scrutiny. This will be an aid to operators but does not dispense them from responsible assessment of individual cases on the basis of their knowledge of the customer.

The initial uncertainty with regard to the application of Law 197/1991 stemming from the reference to the crimes indicated in Article 648-*bis* of the Penal Code has been overcome, thanks to a reformulation of the latter that extends the reporting requirement to all serious crimes that generate illicit wealth, including usury.

However, the principal problem perceived by operators remains, namely the lack of mechanisms to guarantee the confidentiality of the reports, which is often essential to the very safety of bank staff. This need has been voiced in a number of fora.

Practical indications for action against money-laundering were set out by a working group formed at the Bank of Italy in October 1992 at the behest of the Minister of the Interior and including representatives of the Italian Bankers' Association, the UIC and the police. In line with French experience, the task of examining reports could be assigned to a joint body of administrative and law-enforcemnt authorities; alternatively, procedures could be revised to streamline the flow of reports and protect their confidentiality.

The latest figures show a marked increase in the application of the reporting requirement after a slow initial period. Between the start of this year and 15 September, 529 reports were made to the Special Foreign Exchange Unit of the Finance Police, more than twice as many as in all of last year (234). Since the passage of the measure in 1991 a total of 888 reports have been received, of which 792 have been filed by banks.

Since the end of the initial phase the flow of reports has grown. Once the necessary adjustments are made, in particular as regards confidentiality, it is reasonable to hope that the reporting machinery will perform as expected.

It has been suggested that an alternative to the present system could be the creation of a central data bank covering all bank transfers. However, the Bank of Italy remains convinced that there are strong arguments against such a solution in terms of its usefulness, technical feasibility, cost and legal practicability.

As regards usefulness, it is most unlikely that really significant information could ever be extracted from such an enormous quantity of data divorced from knowledge of the persons effecting the transactions.

Technically, taking an intermediary's suspicions concerning a given transaction as the point of departure for bringing the computer data into play is a more effective method of inquiry than examining a mountain of raw data, most of which will prove to refer to legitimate financial operations, in order to pick out those that seem suspect.

Nor must one underestimate the cost of installing and running such an information system, whose daily input would have to include the data of the entire financial system, not just those – already massive – of the banks.

Legally, citizens' right to privacy can be set aside only on a case-by-case basis, in the framework of the rules and guarantees applicable to criminal and tax investigations. Should the mechanism postulated here enable the authorities to monitor citizens' financial activities permanently or to launch investigations on the basis of simple automatic extrapolation, this could conflict with the basic demands of privacy and freedom.

Finally, an instrument of this kind is alien to the experience of all the other European countries. Its institution would severely penalize the Italian market, as market participants tend to prefer to place their investments in systems that are less restrictive and more respectful of the right to privacy.

2.5 *The payment system*

The provisions of Law 197/1991 are intended to discourage the use of cash and other anonymous means of payment and to foster the use of instruments that leave traces, permitting subsequent reconstruction of the trail of transactions.

The law restricts the process of handling flows of financial resources to authorized intermediaries, with the aim of creating a barrier to prevent the legitimate economy from being infiltrated by the proceeds of criminal activity.

The 1993 Banking Law adds a new element to the regulation of the payment system; Article 146 provides for the Bank of Italy to enact provisions to foster the orderly working of the payment system.

The overall use of cash in Italy is not out of line with that in the rest of Europe both on a per capita basis and in relation to GDP. The amount of cash in circulation also depends partly on habit and the availability of alternative means of payment. It has been observed that at present the bulk of the increase in notes in circulation is accounted for by the South of Italy.

The Ministry of the Interior, the UIC and the Bank of Italy are jointly conducting a study to assess the operations of so-called "service companies" from the standpoint of the money-laundering law. Originally these companies only engaged in the transportation of currency, but they are now adding more elaborate banknote distribution services. Specific regulation of these activities may be required.

3. The role of the Bank of Italy

As the central bank, the Bank of Italy has fully adopted the letter and the spirit of the anti-money-laundering legislation and the other rules enacted to increase the efficiency and the transparency of public administration. The integrated archive has been promptly activated. Transaction monitoring procedures have been refined. Staff training has been intensive.

Owing to the Bank's very limited "banking" business with private parties that are not credit or financial institutions, circumstances that could trigger the application of Article 3 of Law 197/1991 rarely occur. Even so, the Bank has reported a total of 14 anomalous transactions to the competent authorities, 13 of which were securities transactions.

The Bank makes a significant contribution to the battle against the financial aspects of organized crime through its supervisory activity and cooperation with other public bodies.

3.1 *Supervisory activity*

Checking intermediaries' compliance with the rules against money-laundering is now a routine part of the central bank's supervisory activity.

Banks and other financial institutions have been educated to adopt organizational arrangements that are functional to the requirements of Law 197/1991. The state of implementation of the rules within the system has been surveyed.

Inspections now check a sample of transactions, including those of branches, to verify the registration of "significant" transactions, compliance with the rules limiting the use of cash and bearer instruments, and the adequacy of procedures for reporting suspect transactions.

Under agreements with the UIC, the Bank carried out a joint programme of sectoral inspections in 1992-93 at more than 400 bank branches located in the four Southern regions where organized crime is most prevalent. In 1993 and 1994 the UIC carried out inspections of its own at 29 banks.

Compliance with the anti-money-laundering rules is also checked in the course of inspections at other intermediaries subject to supervision (securities firms, financial holding companies, financial companies entered in the register referred to in Article 107 of the Banking Law and investment fund management companies).

In the years from 1991 to 1993, a total of 543 bank inspections were carried out.

During these three years the Bank of Italy initiated 213 procedures for the application of sanctions by the Minister of the Treasury for violation of laws or administrative provisions.

Between 30 June 1990 and 30 June 1994, 22 banks were placed under special administration and 11 were put into compulsory liquidation. Of the 33 crisis procedures, 24 involved banks located in the South.

Failure to comply with the provisions limiting the use of cash and bearer instruments is subject to administrative sanction by decree of the Minister of the Treasury, to whom the Bank of Italy has reported 71 such cases since 1 January 1992. The failure to record significant transactions is a penal offence; 80 cases have been reported to the competent public prosecutors since 1 January 1992.

In addition, if the investigations find that the irregularities are related to organizational malfunction or inadequate internal controls, the Bank of Italy calls upon the intermediary to take the necessary corrective measures.

3.2 *Cooperation with other authorities*

In connection with the duties assigned to the UIC by Law 197/1991, in February 1992 the Bank of Italy and the UIC signed a memorandum of understanding for the coordination of supervisory activities with regard to money-laundering; the two institutions have also reached agreement on the exchange of information on financial companies.

The total number of requests for cooperation received from the judiciary has increased steadily, rising from 139 in 1992 to 273 in 1993 and to 206 in the first nine months of 1994. Many requests involved the participation of Bank officials in criminal investigations to provide expert opinions or technical advice in the reconstruction of complex financial transactions (118 cases between 1992 and 1994), or to testify in court (117 cases). In particular, the Bank has agreed to provide the National Antimafia Bureau with technical advice in investigations of economic crime.

As regards other general agreements, the Bank has also established a valuable exchange of information with the Bureau of Antimafia Investigation.

The Bank works closely with the Finance Police, especially as regards financial companies of dubious legitimacy. In March 1993 the Bank sent the Finance Police a list of 187 companies in Southern Italy suspected of unauthorized deposit-taking and lending. The two institutions have also recently agreed procedures for carrying out inspections of the transparency of the transactions and financial services offered by intermediaries not subject to specific forms of supervision.

The heads of the Bank of Italy's branch offices maintain close contacts with the Prefects by participating in the local Public Order Committees.

The Bank also participates with the UIC and the Finance Police in the "Committee for the resolution of money-laundering issues pursuant to Law 197/1991", established at the Ministry of the Treasury.

4. International aspects

At the international level, the globalization and intensification of financial activity increase the scope for economic crime.

The existence of financial centres that owe their success to the absence of restrictions and controls on the transfer and deposit of funds makes it possible to circumvent the measures adopted in other countries.

The weakness of economic institutions in Eastern Europe requires large inflows of external capital into the area to finance investment; at the same time still inadequate public controls do not provide the necessary barrier to funds of criminal origin. Accurate information on the size of these flows is not available, nor are reliable estimates possible.

The most effective barrier to the movement of the proceeds of organized crime is cooperation between supervisory authorities.

International integration has become a reality with the signing of memoranda of understanding between European Union supervisory authorities. Information is now exchanged on anomalous financial activities involving individual intermediaries.

Exchanges of information, although not yet codified, are taking place between the authorities of the industrial countries; this has in part been prompted by experience – such as the Bank of Credit and Commerce International affair – that has demonstrated the need for complementary controls, especially in the case of criminal influence in management decisions.

The Financial Action Task Force (FATF) to counter money-laundering, established in 1989 by the seven leading industrial countries, has been an important forum for the national delegations of the OECD, as well as Hong Kong and Singapore, to meet and exchange views. The 40 recommendations of the FATF are the common denominator of national legislation against illicit financial activity and set out guidelines for the improvement of anti-money-laundering strategies.

The task force has just completed its verification, by way of mutual evaluations, of the degree to which individual countries have incorporated the recommendations in national legislation, administrative and police controls, and law-enforcement cooperation.

Within the framework of this review, in 1993 an international expert committee visited the authorities, departments and institutions engaged in combating money-laundering in Italy, including the Bank of Italy and the UIC. The expert's conclusions, contained in a document approved by the Plenary

Assembly of the FATF, acknowledge the validity of anti-money-laundering legislation in Italy while underscoring the need, of which the Italian authorities are well aware, for more effective procedures for the handling of reports of suspect transactions.

International experience in this area is varied. Nevertheless, all of the solutions adopted aim to preserve the "confidentiality" of such reports and to centralize analysis with special units. The European countries have taken the common position of rejecting, as difficult to manage, the use of reporting systems based on the automatic collection of quantitatively significant data.

For its 1994-1995 session the FATF is planning a comparative assessment of the various approaches already in place, or in the process of implementation, in Europe.

A source of concern that has recently come to the attention of the FATF are the operating procedures of a number of private clearing systems for international transactions, which do not appear to guarantee full transparency regarding the identity of the parties to transactions.

The need for international cooperation received authoritative confirmation at the recent G7 summit in Naples. Another important event is the UN conference to be held in Naples in November.

The Bank of Italy has undertaken to provide assistance to Eastern European and developing countries to enable them to establish effective systems for the monitoring of financial activities. Within the framework of bilateral assistance agreements, the Bank is a frequent host of interns from the central banks of these countries and Bank staff are sent to collaborate on specific programmes. At the request of the International Monetary Fund, the Bank of Italy has organized periodic training courses for staff from Eastern European central banks.

5. The outlook

The implementation of the new legislation and the creation of control systems in the fight against money-laundering are nearing completion; much effort has gone into sensitizing intermediaries. The full application of the prescriptions of legislation and supervisory authorities can now be expected.

The operational proposals I have mentioned may lend further impetus to the fight against illicit financial activity and improve its effectiveness.

In conclusion, I would like briefly to review some of the lines of action that have been considered.

Countering illicit deposit-taking and lending involves:
- strengthening the local controls of the Finance Police and other law enforcement authorities with the aim of detecting unauthorized financial intermediaries;
- educating the public to avoid unauthorized financial intermediaries.

In addition to appropriate legislation, combating usury requires:
- the banking system to provide credit to small borrowers in appropriate forms and with suitable procedures, without prejudice to the technical criteria that underlie the assessment of customer creditworthiness;
- initiatives to prevent recourse to usurers by means of collective guarantee instruments promoted or provided by trade associations or non-profit foundations.

The fight against money-laundering will include:
- the updating of the Bank of Italy's decalogue and further efforts focused in particular on heightening non-bank financial intermediaries' awareness of the phenomenon;
- the reform of the procedures for reporting suspect transactions so as to ensure the confidentiality of the authors of reports, possibly entrusting the evaluation of transactions to a single unit in which law enforcement authorities and technical specialists would work together;
- the reinforcement of international cooperation to keep pace with the continuous evolution of illegal financial activity, which naturally tends to expand into inadequately regulated and monitored areas.

Statement by the Governor, Antonio Fazio,

to the Budget, Treasury and Planning Committees of the Senate and the Chamber of Deputies

Rome, 18 October 1994

I concluded my statement to these Committees on 1 August by observing that the Italian financial market was being affected by adverse expectations both at home and abroad, which were pushing up interest rates across the entire maturity range and causing the lira to weaken progressively vis-à-vis every other currency.

Inflationary pressures were also developing which, in the absence of certainty regarding the adoption of decisive budgetary measures, would have required a tightening of monetary policy.

The behaviour of both market interest rates and the exchange rate in the subsequent two weeks made a half-point rise in official rates inevitable: the discount rate was put back up to 7.50 per cent and the rate on advances to 8.50 per cent, the levels that had prevailed between February 1994 and the first half of May, when they were last lowered.

The increase in official rates in Italy was followed within days by an equivalent increase in the United States and, about one month later, by a rise in official rates in the United Kingdom. The tightening of monetary conditions in both countries was aimed primarily at countering growing expectations of inflation.

Market rates in Italy, especially at the short end of the maturity range, suffered an immediate and sharp rise in the wake of the increase in official rates, but within less than two weeks they were nearly back to their earlier level, as the market interpreted the change in official rates as a sign of firm monetary policy. From the end of August to the end of September market rates continued to fall gradually, but at the beginning of October they began to edge upwards again owing to tensions caused by factors that were not of a strictly economic nature.

An analysis of the differential between interest rates in Italy and those in the other leading industrial countries is enlightening. The short-term differential vis-à-vis the United States, which measured more than 5 percentage points at the start of the year, is now less than 4 points; the differential has also narrowed vis-à-vis the United Kingdom, but it has widened vis-à-vis Germany and France, whose considerably better inflation performance has been reflected in easier monetary conditions. The differential in relation to short-term rates in the latter two countries fluctuated between 2 and 2.5 points until mid-June, since when market rates have risen sharply in Italy but have remained basically unchanged in Germany and France.

The sharp rise in Italian interest rates has been more pronounced at the long end of the market. Between the beginning of the year and the end of last week, yields on ten-year government securities rose by between 2 and 2.5 percentage points in all the major industrial countries: the United States, the United Kingdom, Germany and France. In Italy the increase amounted to about 3.5 percentage points, thus widening the yield differential.

The cost of public sector borrowing has risen everywhere, though more markedly in Italy than in other countries. Most of the increase in Italy has occurred since mid-May, when yields on government securities were only half a point higher than at the beginning of the year. The immediate causes of the increase in yields are to be found in the recent behaviour of inflation and capital movements.

In the three months from the end of May to the end of August the balance of payments on current account showed a surplus of about 9 trillion lire. Italian investment abroad (purchases of government securities, shares and private sector bonds) resulted in a net outflow of 7.2 trillion lire; foreign investment in Italy, consisting mostly of purchases of government securities by non-residents, gave rise to a net outflow of 16.6 trillion lire, whereas it had produced capital inflows throughout 1993 and the early part of 1994. The capital movements generated by investment by non-bank residents and non-residents thus gave rise to a net outflow of about 24 trillion lire, well above the surplus of the balance of payments on current account.

The result is the widening of the differential between yields on Italian and foreign government paper and the gradual weakening of the lira.

The figures recently published by Istat highlight the developments I discussed on 1 August, that is, a strong recovery in economic activity and the progressive emergence of inflationary pressures.

Industrial production accelerated very sharply in the first seven months of the year; output grew at a seasonally adjusted annual rate of close to 17 per cent in volume terms between the first and second quarters. Preliminary estimates show continued growth in the third quarter, albeit at a less rapid pace, with output expanding at an annual rate of 7.4 per cent.

Domestic industrial orders, which had been growing less strongly until the early months of the year, increased at an annual rate of 40 per cent between the first and second quarters; foreign orders continued to expand at an annual rate of more than 20 per cent. Industrial turnover rose at an equally rapid pace.

The sharp expansion in demand was bound to have an impact on costs and prices; the cost of living rose at a seasonally adjusted annual rate of 4.1 per cent between the second and third quarters.

The tightening of monetary conditions in August came in response to these developments. Its impact will be felt in due course; nevertheless, it will be necessary to monitor economic activity and prices closely in the coming months.

The outlook for demand, especially domestic demand, indicates that it will grow more strongly than is assumed in the Government's planning documents. In particular, household consumption accelerated considerably in the second quarter. Export demand remains strong, but imports are once again increasing rapidly.

Accordingly, gross domestic product is likely to grow at a faster rate in 1994 than the 1.6 per cent indicated in the Forecasting and Planning Report. The state sector borrowing requirement is expected to amount to 154 trillion lire; consumer prices will rise by an average of about 4 per cent.

In these conditions the public finance measures proposed in the Finance Bill, which are part of a multi-year programme to reduce the public debt, are urgently needed to ensure that the growth in domestic demand and industrial production does not lead to overheating.

Despite the upturn in industrial production and the improvement in economic conditions in the regions in which industrial activity is concentrated, output continues to stagnate elsewhere, especially in Southern Italy and the islands.

The effects of the recovery on the labour market have been limited so far, consisting primarily in a fall in the number of workers receiving wage supplementation as a result of a rise in the average number of hours worked. Although total employment has yet to improve, the decline in the number of hours of wage supplementation in industry compared with a year earlier corresponds to about 50,000 standard labour units.

* * *

The objective of the Finance Bill is to cut the state sector borrowing requirement to 138.6 trillion lire in 1995. The borrowing requirement would thus decline from 9.4 per cent of GDP in 1994 to 8 per cent in 1995. Nevertheless, the size of the overall deficit will depend on the level of interest rates; at present they do not correspond to the expected rates underlying the forecasts in the Economic and Financial Planning

Document. Even assuming a reduction in Treasury bill rates, the forecast of a gross yield of 8 per cent on which the Government's objectives are based appears overly optimistic.

The spending cuts presented in the Finance Bill relate mainly to pensions, health services, wages and salaries of public employees, purchases of goods and services and transfers to the special statute regions, firms and public agencies.

On the revenue side, the most important measures are the introduction of a tax conciliation procedure, which is also intended to reduce tax evasion, the elimination of a number of tax reliefs that are no longer considered justified and a condonation scheme for violations of building regulations.

The Bill also addresses the fundamental problem of reforming the compulsory pension system and at the same time developing a system of supplementary pensions.

I feel that it is appropriate for me to make only a number of general comments regarding the broad categories into which the public finance measures for 1995 and subsequent years can be grouped.

Pensions reform

Reform of the pension system is of prime importance for the adjustment of the public finances. Although it is legally and economically impossible to treat accrued pension rights as equivalent to public debt, the fact remains that the financial markets consider such rights as a future expenditure commitment for the Treasury. The size of this commitment affects the interest rates demanded by the market to subscribe government securities.

The fundamental features of the pension system were established in the late sixties, when the outlook for economic growth in Italy, as in all the industrial countries, was far brighter than now and when the aging of the population, measured by the ratio of the retired population to that of working age, was significantly lower.

Subsequently, the system was widely used to serve purposes for which it was not intended, such as providing relief in connection with the closure of obsolescent enterprises and extending the coverage of social welfare measures.

The present system offers an accrual rate of 2 per cent; that is, each year of service gives entitlement to a retirement benefit of 2 per cent of pensionable earnings. The pensions of workers retiring in the next ten to fifteen years will be based on their earnings in the last few years of their working life. Full protection is provided against increases in the cost of living; until the 1992 reform, pensions were also indexed to the average increase in real wages.

At the macroeconomic level, the pensions burden depends on the ratio between the average pension and the average wage and on that between the number of pensioners and the number of active workers.

The first of these ratios is affected by the high accrual rate, as well as a variety of provisions crediting retirees with imputed years of service. The ratio of pensioners to active workers is now nearly one-to-one: every worker has to bear the cost of one pension. Unless corrective action is taken, the ratio will worsen further in the years to come.

The indexation of pensions to the cost of living appears fully justified. Indexation to real wages has been suspended, but the total exclusion of this component does not seem warranted, insofar as the productivity of the active generations of workers depends in part on the contribution made by past generations. On the other hand, reference solely to the income received in the last few years of working life to determine pensionable earnings is irrational. Moreover, the 2 per cent accrual rate is actuarially unsustainable, in view of the imbalance between each worker's lifetime contributions and the benefits to be enjoyed during the expected years of retirement; fortunately, this portion of the life cycle has lengthened considerably in the last few decades and can be expected to increase still further.

The foregoing considerations show that the planned lowering of the accrual rate from 2 to 1.75 per cent for those whose pensions will be based only on their salary in the last few years of their career is entirely rational. The same applies to increasing the number of years required for eligibility for long-service pensions at the full rate and to raising the retirement age.

Present trends will make a further reduction in the accrual rate unavoidable. At the same time, I believe that the full indexation of pensions to inflation is appropriate, while partial indexation to productivity gains – say, 50 per cent – would not be irrational. These changes should be introduced immediately for those now entering the work force and quite rapidly for workers with relatively few years of service, according to a sliding scale to be defined by experts and which pays due regard to equity.

In other countries it is usual to make an actuarial assessment of the future liabilities of the pension system over a period of many decades at three-yearly intervals. Such a computation for Italy would show that the increase in contribution rates necessary to maintain current benefit levels would be intolerable. At present the average level of Italian social contributions is in line with the rest of Europe; considerations of competitiveness obviously rule out any increase in labour costs.

Adjustments are necessary to ensure that the system will continue to be able to provide the benefits it now promises. For purposes of overall financial equilibrium, the adjustments must be clearly perceived by the financial markets.

In a country with a saving rate as high as Italy's, it is feasible as well as necessary to establish supplementary pension schemes on a strictly funded basis, as envisaged in the Government's plans.

Allow me to reiterate the need for tax treatment that does not discourage supplementary pension schemes and the desirability of providing for unified supervision in order to guarantee the correct administration of fund assets on behalf of members, albeit with wide margins of discretion for individual pension providers. In this way savings can be channeled back into the economy in the form of investment that expands the productive base and generates additional income. Should the economy grow significantly faster than is now forecast – an unlikely prospect at present – it would not be difficult to adjust pensions, for instance by increasing the degree of indexation to real wages.

A last remark concerns the plurality of schemes making up the compulsory pension system. In view of the inevitable redistribution of the work force among the various branches of economic activity in the years to come, it would be rational to provide for the gradual unification of all the compulsory pay-as-you-go pension plans.

The expenditure-side measures for 1995

The structural measures regarding the pension system, which are essential for the underlying adjustment of the public finances, will yield significant results in due course, but their immediate effects will be small.

The Finance Bill contains a series of specific provisions intended to reduce expenditure by a total of 27 trillion lire compared with the projection on a current programmes basis. The figure comprises 11.1 trillion of savings on pensions, 6.5 trillion on health services and 9.4 trillion relating to other sectors.

The measures regarding pensions consist of a ban on the award of new long-service pensions until the end of 1995, a permanent reduction of long-service pension benefits by 3 per cent for each year the pension is claimed in advance of the statutory retirement age, deferment of the increases already approved for long-standing pensions, postponement of the cost-of-living adjustment from November 1995 to January 1996, and some other minor items.

As to the measures concerning health services, I made a number of criticisms in my previous appearance before you on 1 August. The measures set out in the Finance Bill appear to be stronger than those envisaged in the Economic and Financial Planning Document. The results they produce will depend to a large extent on the way in which they are applied by administrators.

The other provisions consist mostly of reductions in transfer payments to firms and public bodies. They will be effective to the extent that the recipients actually reduce expenditure on a permanent basis and do not borrow to make up for the decrease in such allocations.

For the purposes of overall macroeconomic equilibrium, it will be necessary to ensure that the reduction in expenditure is of the planned size, irrespective of its composition.

The revenue-side measures for 1995

The Finance Bill for 1995 provides for 21 trillion lire of additional revenue compared with current programmes: 12.85 trillion in taxes, 6.10 trillion in non-tax revenue and 2.05 trillion in pension-related receipts.

The bulk of the additional tax revenue will come from the conciliation of disputed tax assessments for the years from 1989 to 1993. This is an innovative measure, albeit with largely one-off effects, that will not only increase revenue and possibly curb tax evasion, but also bring about a rapid settlement of outstanding disputes. The scale of receipts will depend on the rigour with which the measure is applied by the tax authorities.

Measures to eliminate outdated forms of tax relief and to reduce tax evasion are also expected to generate additional revenue. Here again, the manner in which they are applied will be extremely important, and the results will ultimately hinge on the efficiency of the tax authorities.

Finally, 5.9 trillion lire of one-off revenue is expected to derive from the condonation of building offences. It should be noted in this regard that there is considerable scope for additional receipts in respect of infrastructure charges, which was not fully exploited by local authorities at the time of the last condonation.

Interest on the public debt

As I recalled at the outset, world market interest rates have displayed an unmistakably rising trend, which was not taken into account when the Economic and Financial Planning Document was drafted.

On top of this, the yield differential between Italian securities and those in international markets has widened. Barring a drastic reduction in market rates in the course of the coming year, the objective of 176 trillion lire for interest expenditure will be overshot by a substantial amount. If average interest rates remained at current levels in 1995, interest payments would exceed the forecast by around 15 trillion lire.

The gap between interest rates in Italy and abroad has widened considerably in recent months, primarily owing to uncertainty concerning Italy's budget. Resolute action to adjust the structural components of public expenditure and equally decisive action on the revenue side should have significant lasting effects on the differential between Italian rates and those prevailing in other markets.

The scale and timing of these positive effects depend on the market's assessment, and it is difficult to make a reliable forecast of their size. The figure that has been announced for the primary surplus must therefore be considered a minimum objective, while aiming to achieve the target set for the overall borrowing requirement by offsetting at least part of the additional interest expense.

* * *

The situation of the Italian economy that I described at the outset calls for major public finance measures that are also sufficiently permanent. The financing of the additional one-off outlays that the pension system will face as a result of the Constitutional Court's ruling last June remains to be determined.

The financial markets – but, more fundamentally, the need to release savings for productive investment and to reduce Italy's net foreign debt – require a progressive reduction in the amount of resources absorbed by the public sector.

In view of the strength of total demand, to which consumer spending is now also contributing, the economy requires action to prevent the good prospects for expansion in the medium term – that is, the resumption of a cycle of growth in output based on increased investment and marked by higher employment – from rapidly running up against a rekindling of inflation. The increase in interest rates in August will prove sufficient if the fiscal measures help keep demand within limits compatible with productive capacity.

Our monetary policy stance will have to be determined in the light of developments in the other main industrial countries on the one hand and conditions in the Italian economy on the other. The exchange rate of the lira, itself a reflection of the general state of Italy's financial markets, together with the sharp rise in imports, including those of consumer goods, adds an inflationary risk of which fiscal and monetary policy will have to take due account. The continuation of wage restraint and the preservation of harmonious labour relations on which this rests are essential for further progress in disinflation.

Confidence that Parliament can swiftly pass the Finance Bill, thereby making structural adjustments in the public finances and resolutely adhering to the overall limits proposed by the Government, makes it possible to view the economy's prospects for 1995 and subsequent years with more assurance.

The development of the Italian economy and Southern Italy

Speech by the Governor, Antonio Fazio, to the third Nemetria Conference on "Ethics and Economics"

Foligno, 25 October 1994

In the speech I delivered on 23 October 1993 to the National Congress of the Italian Forex Club I stated that "the latest half-point reduction in official interest rates puts the Italian economy fully in a position to commence a recovery in investment and production in company with all the other industrial countries."

I returned more explicitly to this subject a few days later in Rome in the presence of the President of the Republic on the occasion of World Savings Day. After examining the difficulties that had beset the Italian economy in 1993, I concluded by forecasting an upturn in economic activity as early as the fourth quarter. I suggested that a strengthening of confidence would also lead to a recovery in investment in 1994 and that GDP could increase by between 1.5 and 2 per cent compared with 1993. I added that forecasts made in the early stages of a recovery often prove to be over-cautious.

These views were received with a degree of scepticism.

Stable labour costs, which are the fruit of the agreements signed in July 1993, and the defence against inflation that they provided had allowed monetary policy to be aimed decisively at sustaining economic activity and employment during 1993, notwithstanding a sharp depreciation of the lira.

We now have the national accounts statistics up to 30 June of this year.

In the fourth quarter of 1993 there was already an increase of 1 per cent in GDP compared with the previous quarter, corresponding to an annual growth rate of 4 per cent. The expansion continued at a slower pace in the first quarter of this year and then accelerated considerably in the second quarter, when growth exceeded 5.5 per cent on an annual basis.

The performance of the Italian economy is similar to that of the other leading industrial economies, especially in Europe. The growth in industrial production has been exceptionally strong.

On the basis of current trends, the Italian economy can be expected to grow by more than 2 per cent in 1994. Exports, which expanded by 10 per cent in volume and by 20 per cent in value in 1993, thus making an important contribution to corporate profitability, will again grow by nearly 10 per cent in volume this year. However, imports are also recovering strongly and making good the fall of the previous year.

The current account of the balance of payments is expected to show a surplus of more than 30 trillion lire, further reducing the country's foreign debt and thereby helping to remove an underlying cause of the weakness of the lira.

Household consumption has begun to grow again and corporate investment has revived; however, the construction industry is still on a downward trend.

As regards prices, the target of an increase of 3.5 per cent will be exceeded by a few tenths of a point.

Employment, which fell until July, will decrease on average in 1994. There may nonetheless be a moderate recovery in the last part of the year.

Medium and long-term interest rates, which had fallen to historically low levels at the end of 1993, are rising in all the main financial markets. Compared with the peaks reached in 1990, when rates on long-term government securities in the leading industrial countries ranged from 12 per cent in the United States to 8 per cent in Japan, they had almost halved by the end of 1993.

Conditions in the Italian economy made it possible to follow the trend prevailing in international markets in 1993. Indeed, interest rates fell more rapidly in Italy. By April of this year the long-term interest rate differential compared with the other leading countries, which had been very wide, had narrowed to one percentage point with respect to the United Kingdom and to 2.5 points with respect to Germany.

Interest rates have risen sharply this year on all the financial markets; business and central banks share the view that this has probably been in response to the prospect of economic growth, the risk of inflationary pressures and the change in the stance of monetary policies.

During this phase of rising rates, which in Italy began in June, we have again added an ingredient of our own. The rate differential has widened to 3 percentage points with respect to the United Kingdom and to 4.5 points with respect to Germany.

Unemployment

The economic downturn that affected all the advanced industrial countries in the late eighties and early nineties resulted in a sharp increase in unemployment, for reasons that were for the most part structural and to a lesser extent merely cyclical. Of course, distinguishing between these two components is analytically complex and statistically difficult.

I shall rely on the work of the International Monetary Fund in this regard. According to the Fund, structural unemployment in Europe – that is, unemployment due to the impossibility of integrating part of the labour force into productive activity at current levels of prices, costs and wages – rose from 2 per cent at the end of the sixties to more than 8 per cent at the end of the eighties. On this was superimposed cyclical unemployment, now amounting to more than 3 per cent of the labour force.

The increase in the cyclical component, especially in the second half of the eighties and the early nineties, was connected partly with the need to curb the rise in prices, principally by means of monetary policy. That objective was attained, but the level of economic activity and employment also fell.

At the same time, the greater openness of international markets, keener competition, the introduction of new production techniques that reduced costs by economizing on the use of labour, the collapse of output and demand in the countries of central and eastern Europe and the possibility of manufacturing medium and low-technology goods in countries and areas with extremely low labour costs have led to a far-reaching restructuring of production techniques, especially in Europe, and to the reorganization of productive activities internationally.

The structural and cyclical causes of the decline in employment have compounded one another.

Unemployment stood at 18 million in the countries of the European Union at the end of 1993, compared with 13 million three years earlier.

One aspect on which I would like to place special emphasis is the steady weakening of investment demand. Investment was still growing significantly in 1988 and 1989, but it began to slow sharply thereafter. Since 1991 it has steadily contracted in absolute terms and in proportion to gross domestic product.

Recession and higher interest rates also curbed consumer demand and triggered large-scale restructuring in the services sector as well as in industry. This affected some high-productivity sectors, such as financial and related services, but mainly lower-productivity areas, such as the distributive sector. Until then, many of these sectors had expanded employment, offsetting the contraction of the workforce in other branches.

Italy

Economic developments in Italy, which is ever more closely integrated in the international economy, were affected by the general trends I have just described, but they also displayed specific features of their own. Let me remind you briefly that in 1993 consumer demand declined for the first time in four decades, both in absolute terms and in proportion to income, investment fell more sharply than in other economies, contracting by 11 per cent and reaching a historic low in relation to GDP, and the balance of payments on current account recorded a large surplus for the first time in many years. The decline in employment has been unprecedented; since the summer of 1992 the number of persons employed has dropped by 1.2 million.

The current recovery has been based to a decisive extent on the stability of labour costs. The decline in employment has been the same in absolute terms in the Centre and North on the one hand and in the South on the other, a loss of 600,000 jobs in both parts of the country. In relative terms, the loss in the Centre and North comes to 4 per cent while in the South, including Sicily and Sardinia, the number of persons in work has declined by 10 per cent.

Most of the fall in employment has occurred in the private sector; the loss in the South has been especially severe, probably on the order of 20 per cent.

In July of this year the unemployment rate in the Centre and North stood at 7.2 per cent and the participation rate at 43 per cent. In the South and in the islands the unemployment rate was close to 20 per cent and the participation rate only 35 per cent, an extremely low figure by international standards.

In 1990 and 1991 output in the less developed part of the country grew by more than the national average, although this had little impact on employment; in 1992 and 1993 together, however, output in the South declined by nearly 2 per cent, and investment also fell significantly.

The ratio of investment to GDP in the South, which had been higher than 30 per cent until the mid-seventies, dropped to 18 per cent in 1993; over the same period investment declined from 24 to 17 per cent of output in the Centre and North.

The paucity of public and private investment in the less developed areas explains their lower productivity and employment. The figures on youth unemployment are alarming: in the South 50 per cent of the young people participating in the labour market are without work; but even in the regions of the Centre the youth unemployment rate is 30 per cent, while in the North it is 20 per cent. The percentage of long-term unemployed is dramatically high in the South, at between 13 and 14 per cent of the labour force, three times the figure for the rest of Italy.

The South

The current growth in economic activity is concentrated in the more industrialized regions, where it is not unlikely that output will rise by around 3 per cent in 1994, accompanied by a recovery in employment. In contrast, output in the less developed regions will remain essentially unchanged and the number of persons in employment will fall further. In several Northern regions unemployment is again at minimum levels, and consists almost entirely of frictional unemployment.

The ratio of public expenditure to output in the South is around 70 per cent, while the value added of the private sector is a mere 15-20 per cent of the corresponding figure for the Centre and North. Unless private and public sector investment recover sufficiently to raise the level of activity and productivity, the already substantial gap will widen further.

The economy of the South continues to depend on the rest of the country for the consumer and capital goods it requires.

In recent years, which have been marked by low investment, the trade imbalance has been equal to around 15 per cent of the area's gross output: in other words, the South consumes and invests in physical assets 15 per cent more than it can produce. In the seventies, when investment was well above the national average, the trade imbalance – that is, the amount by which imports, mostly from the Centre and North, exceeded exports – amounted to 25 per cent of the area's output.

Despite this, the South is not short of savings. The difference between public expenditure in the area – by which I mean ordinary current expenditure on wages and salaries, pensions, interest on the public debt, and investment – and revenue in the form of taxes and contributions generates a surplus of financial resouces at the disposal of the private sector, which is the ultimate recipient of the monetary equivalent of public expenditure. This surplus is in addition to the income generated in the area. Total disposable income is higher than expenditure on consumption and investment. The result is somewhat paradoxical, in that investment is insufficient to ensure full employment, while private saving far exceeds investment. Note that this excess saving in the private sector, in other words households and firms taken together, is simply the result of a budget deficit; this in turn is due to the fact that public expenditure is broadly proportional to the number of inhabitants in the area while revenue is lower in relation to average income than in other regions. These financial resources could be utilized in productive investment.

The financial consequences of this excess saving are confirmed by the low ratio between lending and the deposits taken by banks operating in the South. In recent years the ratio has been around 60 per cent, compared with 80 per cent in the Centre and North.

The weakness of the economy of the South and its greater fragility are also reflected in a higher degree of loan risk; bad and doubtful debts – loans on which the banks risk a loss of principal and for which recovery proceedings have been set in motion – amount to about 13 per cent of total loans in the South, about twice the figure for the Centre and North. The higher loan risk also translates into higher average borrowing costs for Southern firms.

Much of the savings collected by the banks and not used for financing within the area is invested in government securities. In this way the South self-finances part of the state sector deficit.

If expenditure on tangible investment were to increase instead of investment in government securities, more income would be generated and tax revenue would increase.

The prospects

Returning to the prospects for the country as a whole, the conditions exist for a resumption of strong economic growth. The prerequisite for an orderly, non-inflationary expansion of private sector activity consists in a reduction in the relative size of the budget deficit and public debt; as in many developed economies, public expenditure accounts for more than 50 per cent of national income.

The available analyses for Italy and the other industrial countries show that employment growth will tend to be extremely small, at least in this initial phase of the economic recovery.

Provided that the fiscal adjustment to which I have referred is carried out, an increase in gross domestic product on the order of 3 per cent in real terms appears possible for 1995.

Output should continue to be sustained by the growth in exports, which will remain strong, although less rapid than this year. The balance of payments on current account should show a surplus equal to around 3 per cent of GDP; Italy's net foreign debt would diminish further by an equivalent amount.

It is essential that the rate of growth in nominal wages be kept at a moderate level in order to reduce inflation further, support growth and permit a decline in yields on government securities. Orderly economic expansion and sounder public finances both now and in the years to come should reverse the intense outflow of capital that in recent months has weakened the exchange rate of the lira and increased yields on Italian securities in relation to the levels prevailing in financial markets abroad.

The projected expansion I have just described should continue to affect primarily Central and Northern Italy, but it should also spread to the South. However, it appears wholly insufficient to produce a satisfactory improvement in employment conditions in the Mezzogiorno. It is essential that the continued growth in GDP be more rapid in the South than in the rest of the country in the coming years.

This requires an increase in productivity and competitiveness in the South.

The infrastructure is mediocre even in the richest regions of Italy compared with the most advanced countries of Europe. It is particularly poor in the South, not only in the least developed districts but also in some urban areas where private enterprise is very vigorous. In these areas industrial and commercial activity leads to congestion and is constrained by the inadequacy of basic infrastructure; living conditions are also affected by the insufficient level of public investment.

The average productivity of industry is almost 20 per cent lower in the South and the islands than in the rest of Italy; with the phasing-out of the subsidies associated with special measures in favour of firms in the South, differentiation in unit labour costs can make a crucial contribution to the enhancement of competitiveness.

The competitiveness of industry in the South is deficient for environmental reasons, in the broad meaning of the term, and owing to the structure of costs. Unemployment in the Mezzogiorno is mainly structural in nature. However, I do not believe a higher rate of growth can be achieved simply by increasing the flexibility of the factors of production and reducing the relative cost of labour.

Analysis of recent trends in the industrial economies reveals a severe shortage of investment, and hence limited growth and a shortage of saving.

The chief factor of economic development, for the purposes of economic recovery and the elimination of structural rigidities, is investment.

In Italy, gross operating profits in manufacturing and services have been rising rapidly since last year. Both turnover and profit margins are improving. In industry alone, the cost of inputs other than labour is estimated to have increased by around 5 per cent in the first half of this year, unit labour costs to have remained unchanged or perhaps diminished and total unit costs to have risen by 2 per cent. Output prices rose by around 3.5 per cent, thanks mainly to exports. The overall size of the improvement in margins in all branches of activity can serve as a basis for financing a robust cycle of investment.

Gross investment in the South amounts to some 70 trillion lire a year. Given the extent of the increase in the private sector's resources, the financial conditions exist for a substantial improvement on this figure.

* * *

Periods of leisure provide a useful opportunity to reread the works of the great philosophers and reflect upon their method of approaching problems; the great medieval thinkers dedicated their early years of teaching to exploring and writing commentaries on the works of the past. Thomas Aquinas spent a number of years commentating line by line the *Sentences* of Peter Lombard and the *Metaphysics* and other texts of Aristotle before undertaking his great work. Kant made a thorough study of Wolff before writing his "Critiques", Sraffa reflected on Ricardo at length and the sophisticated monetary analysis of Patinkin owes much to a number of neglected passages of Keynes.

While taking care to place them in perspective, I believe we should carefully re-examine the writings of the great economists of the past, especially as regards the nature and causes of unemployment and the relationship between labour costs and employment. The stimulus for this reflection comes from the insistence with which international organizations and other bodies emphasize cost flexibility as a solution to unemployment. I am not averse to attributing an important role to this instrument.

I have begun a methodical, albeit slow, rereading of the *General Theory*. In the tormented initial section, Keynes demonstrates that a system can reach an equilibrium state of underemployment despite a fall in wages; in other words, a shortfall in total demand. We escape from this situation only by increasing investment, by boosting effective demand so as to produce a discontinuous expansion of the circle formed by the supply of goods, income and demand.

A classic distinction in economic analysis is that between development and growth. Even if the distinction tends to be lost in current teaching, we should bear in mind that development entails a qualitative leap, in other words a non-continuous shift to a higher level of wealth creation by way of process and product innovation. Freer trade and international competition may cause some sectors to decline, but they also offer greater scope for expanding innovative activities than would be available in a closed system.

For more than a thousand years there has been an intellectual tradition that orderly civic life, and hence economic life, within any politically organized community is founded upon distributive justice. The right to private property and the fair distribution of goods has long been interpreted only in relation to the existing stock of goods.

A fairer distribution of income is obtained first and foremost by enabling those who in effect are excluded from participating in the creation of additional income and its distribution to play an effective role in this process.

The wealth of nations consists ultimately of the ingenuity and skill of people.

Southern Italy possesses financial resources that it is unable to invest productively in the region. It has a reservoir of young human capital receptive to the possibility of higher qualification; entrepreneurial initiative is inadequate; the inefficiency of the public administration and the lack of infrastructure are constraints on productivity and competitiveness.

The financial system and the banking system in particular require management techniques that bring a more entrepreneurial approach to the allocation and administration of financial resources.

Economic analysis confirms that the conditions exist for a stable recovery in economic activity in Italy; this may also serve to improve the integration of the more economically backward areas in the process of development. Southern Italy is a "problem" for Italy, but it may also be considered a resource.

Investment in infrastructure, which need not depend on state financing, must remove the environmental diseconomies; it may also trigger a new phase of development. The challenge facing the community, the public authorities and the entrepreneurial class in the final years of this century is to exploit the available resources fully.

The ultimate measure of economic development is an increase in employment. Out of this is born greater distributive justice, allowing all to partake of the benefits of an evolving civil society.

Appendix

Statistical tables

In the following tables the figures for "Germany" refer to the western regions of the country unless otherwise specified. See the Notes to the Tables.

Unless indicated otherwise, the figures in the tables have been computed by the Bank of Italy.

Symbols and conventions:

— the phenomenon in question does not occur.

.... the phenomenon occurs but its value is not known.

.. the value is known but is less than the minimum figure considered significant.

( ) provisional.

( ) estimated.

Table a1

Gross product, GNP 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	–0.6	4.3	4.9	0.8	–2.0	1.2	–1.8
1992	2.3	1.4	0.9	1.2	–0.5	0.7	0.6
1993	3.1	..	–2.3	–1.0	2.0	–0.7	2.2
1993 – 1st qtr.	0.3	0.8	–2.2	–1.1	0.8	–0.3	0.8
2nd "	0.6	–0.7	0.8	0.2	0.4	0.2	1.1
3rd "	0.7	0.1	0.5	0.3	0.7	–0.6	0.3
4th "	1.5	–0.5	–1.1	..	0.8	1.0	0.9
1994 – 1st qtr.	0.8	0.8	0.8	0.7	0.9	0.4	1.1
2nd "	1.0	–0.3	1.5	1.0	1.2	1.4	1.6
				GNP deflator (% changes on previous period; seasonally adjusted data)			
1988	3.9	0.3	1.5	2.9	6.0	6.7	4.6
1989	4.6	1.9	2.4	3.1	7.2	6.2	4.9
1990	4.3	2.2	3.2	3.1	6.4	7.6	3.1
1991	3.8	2.0	3.9	3.1	6.5	7.7	2.7
1992	2.8	1.6	4.4	2.3	4.3	4.5	1.4
1993	2.2	1.0	3.2	2.3	3.4	4.4	1.1
1993 – 1st qtr.	0.8	0.2	0.9	1.0	1.4	1.2	–0.2
2nd "	0.4	0.3	1.3	0.6	0.9	1.3	0.5
3rd "	0.2	0.5	..	0.2	0.7	1.1	0.2
4th "	0.3	0.1	0.6	0.2	0.9	0.5	0.5
1994 – 1st qtr.	0.7	–0.1	0.8	0.4	0.2	0.8	–0.2
2nd "	0.7	....	0.5	....	0.4	0.3	–0.2
				Current account balance (billions of dollars; seasonally adjusted data)			
1988	–128.2	79.6	50.8	–4.8	–29.6	–6.6	–17.1
1989	–102.8	57.2	57.5	–4.7	–36.9	–11.9	–22.7
1990	–91.7	35.8	46.3	–10.0	–33.0	–16.8	–21.6
1991	–6.9	72.9	–19.0	–6.7	–14.6	–24.1	–24.1
1992	–67.9	117.6	–22.2	3.9	–17.9	–27.9	–22.1
1993	–103.9	131.4	–19.9	10.3	–15.5	11.2	–23.9
1993 – 1st qtr.	–19.9	33.4	–2.2	0.5	–4.7	2.5	–6.4
2nd "	–25.6	31.4	–3.2	2.5	–4.8	0.5	–5.8
3rd "	–27.9	34.0	–6.8	6.9	–2.8	2.7	–5.6
4th "	–30.6	31.0	–9.0	4.1	–3.2	5.5	–6.1
1994 – 1st qtr.	–32.3	33.8	–7.0	1.2	–1.9	5.0	–5.5
2nd "	–37.0	33.8	–4.5	0.4	–1.0	1.7	–5.5

Table a2

Industrial production

(percentage 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	6.9	5.3
1989	1.6	5.8	4.7	3.7	2.1	3.9	–0.1
1990	. .	4.2	5.2	1.5	–0.3	–0.5	–3.3
1991	–1.9	1.9	3.0	0.3	–3.9	–0.9	–4.1
1992	2.4	–5.7	–1.9	–0.1	–0.4	–1.3	0.9
1993	4.1	–4.3	–7.3	–2.9	2.4	–2.1	4.9
1992 – 3rd qtr.	0.2	–0.3	–1.6	–0.4	1.2	–3.1	0.4
4th "	1.5	–2.6	–4.3	–1.9	0.6	. .	1.3
1993 – 1st qtr.	1.3	0.3	–2.9	–0.9	. .	1.1	2.1
2nd "	0.6	–1.1	–0.3	–0.6	0.5	–2.4	0.8
3rd "	0.7	–1.2	0.5	0.6	1.3	0.4	0.9
4th "	1.6	–2.0	–0.2	–0.7	1.4	0.8	1.0
1994 – 1st qtr.	2.0	1.5	–0.2	1.0	0.9	0.8	0.7
2nd "	1.3	1.1	3.3	2.4	2.0	3.9	2.9
3rd "	1.3	. . . .	. . . .	. . . .	0.3	. . . .	. . . .
1993 – Sept.	0.2	0.3	–0.1	–0.4	–0.1	–2.0	0.8
Oct.	0.5	–3.0	–0.5	–0.6	1.4	1.6	–0.1
Nov.	0.8	1.4	–0.6	0.8	0.3	–0.4	0.5
Dec.	1.1	–0.6	0.5	–1.0	–0.5	0.8	–0.2
1994 – Jan.	0.5	0.4	–1.8	1.3	1.0	–1.5	0.5
Feb.	0.3	–0.4	2.0	–0.2	0.5	3.2	–0.4
Mar.	0.8	3.9	0.5	0.7	–0.4	–0.6	1.4
Apr.	0.1	–1.4	1.7	2.0	1.8	4.7	1.3
May	0.5	–1.0	–0.1	0.4	0.4	–2.8	0.8
June	0.6	2.2	1.8	–0.7	0.2	1.8	0.8
July	0.3	–0.9	1.4	2.3	. .	2.3	0.3
Aug.	0.7	(3.8)	(–3.3)	. .	(0.1)	. . . .	0.6
Sept.	. .	. . . .	. . . .	. . . .	(–0.1)	. . . .	. . . .

Table a3

Consumer prices

(percentage 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	5.2	1.5
1993	2.9	1.3	4.1	2.1	1.6	4.5	1.9
1992 – 3rd qtr.	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	4.4	1.8
1994 – 1st qtr.	2.5	1.2	3.3	1.7	2.4	4.3	0.5
2nd "	2.4	0.8	3.0	1.7	2.6	4.0	. .
3rd "	2.9	. . . .	(2.9)	1.6	2.3	. . . .	0.1
1993 – 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	4.3	1.7
1994 – Jan.	2.5	1.2	3.5	1.9	2.5	4.4	1.3
Feb.	2.6	1.1	3.4	1.8	2.4	4.3	0.2
Mar.	2.5	1.3	3.2	1.5	2.3	4.3	0.1
Apr.	2.3	0.8	3.1	1.7	2.6	4.1	0.2
May	2.2	0.8	3.0	1.7	2.5	4.0	–0.1
June	2.5	0.6	3.0	1.8	2.6	3.8	. .
July	2.8	–0.2	2.9	1.7	2.4	3.8	0.1
Aug.	2.9	. .	3.0	1.7	2.4	. . . .	0.1
Sept.	3.0	. . . .	(2.9)	(1.6)	2.2	. . . .	0.1

Table a4

Producer prices of manufactures

(percentage changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1988	3.6	–0.3	1.6	3.3	4.2	2.9	4.4
1989	5.0	2.1	3.4	3.8	4.7	5.6	1.9
1990	3.8	1.5	1.5	1.4	5.8	4.5	0.3
1991	0.6	1.1	2.2	0.8	5.5	3.6	–1.0
1992	0.8	–1.0	1.6	–0.4	3.5	2.1	0.5
1993	1.3	–1.6	. .	–1.1	3.7	4.1	3.3
1992 – 2nd qtr.	1.2	–1.0	2.3	–0.3	3.3	2.3	–0.2
3rd "	1.8	–0.9	1.4	–0.4	3.3	2.1	1.5
4th "	1.6	–1.2	1.0	–0.5	3.2	2.6	3.3
1993 – 1st qtr.	2.4	–1.1	0.8	–0.5	3.2	3.6	4.0
2nd "	2.0	–1.4	. .	–0.9	3.7	4.1	3.3
3rd "	0.6	–1.8	–0.3	–1.4	4.0	4.5	3.1
4th "	0.4	–2.1	–0.3	–1.4	3.9	4.0	3.0
1994 – 1st qtr.	0.2	–2.2	. .	. . . .	3.2	3.5	3.4
2nd "	0.2	–2.0	0.4	. . . .	2.2	3.4	5.1
1993 – July	0.9	–1.7	–0.3	. . . .	4.0	4.3	2.8
Aug.	0.6	–1.8	–0.2	. . . .	3.9	4.6	3.4
Sept.	0.3	–2.0	–0.4	. . . .	4.0	4.7	3.0
Oct.	0.6	–2.1	–0.4	. . . .	4.0	4.3	2.9
Nov.	0.4	–2.1	–0.4	. . . .	3.6	3.9	3.0
Dec.	0.2	–2.2	–0.2	. . . .	3.9	3.8	3.1
1994 – Jan.	0.4	–2.1	–0.1	. . . .	3.5	3.5	2.7
Feb.	0.1	–2.2	0.1	. . . .	3.2	3.6	3.5
Mar.	0.2	–2.3	0.1	. . . .	2.9	3.3	3.9
Apr.	. .	–2.2	0.3	. . . .	2.3	3.4	4.2
May	0.1	–2.0	0.4	. . . .	2.2	3.6	5.0
June	0.6	–1.9	0.5	. . . .	2.0	3.3	6.0
July	1.5	–1.8	0.6	. . . .	1.8	3.4	6.2

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 – 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
Feb.	3.00	1.75	5.25	6.10	5.25	7.50	4.10
Mar.	3.00	1.75	5.25	6.00	5.25	7.50	5.64
Apr.	3.00	1.75	5.00	5.70	5.25	7.50	6.07
May	3.50	1.75	4.50	5.40	5.25	7.00	6.31
June	3.50	1.75	4.50	5.20	5.25	7.00	6.92
July	3.50	1.75	4.50	5.00	5.25	7.00	6.04
Aug.	4.00	1.75	4.50	5.00	5.25	7.50	5.60
Sept.	4.00	1.75	4.50	5.00	5.75	7.50	5.54
				Money market rates *(period averages)*			
1990	7.49	7.79	8.43	10.32	14.77	....	12.81
1991	5.37	7.41	9.18	9.62	11.53	12.21	8.73
1992	3.43	4.46	9.46	10.34	9.62	14.02	6.58
1993	3.00	3.01	7.23	8.59	5.94	10.20	4.84
1993 – Sept.	2.95	2.66	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	2.35	6.26	6.72	5.57	9.01	4.09
Dec.	3.06	2.13	6.05	6.52	5.33	8.59	3.86
1994 – Jan.	2.98	2.18	5.83	6.32	5.40	8.42	3.63
Feb.	3.25	2.24	5.86	6.30	5.22	8.45	3.85
Mar.	3.50	2.28	5.79	6.25	5.17	8.42	5.39
Apr.	3.68	2.29	5.54	6.01	5.21	8.11	5.82
May	4.14	2.20	5.15	5.64	5.17	7.81	6.33
June	4.14	2.14	5.01	5.56	5.14	8.11	6.67
July	4.33	2.16	4.92	5.64	5.20	8.48	5.79
Aug.	4.48	2.31	4.96	5.60	5.53	8.92	5.35
Sept.	4.62	2.36	5.02	5.63	5.67	8.72	5.29

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
1990	8.55	7.38	8.82	9.92	11.80	....	10.85
1991	7.86	6.40	8.54	9.03	10.11	13.18	9.76
1992	7.01	5.12	7.85	8.57	9.06	13.27	8.76
1993	5.87	4.03	6.45	6.72	7.47	11.31	7.84
1993 – Sept.	5.36	3.92	6.17	6.09	6.96	9.64	7.55
Oct.	5.33	3.66	5.98	5.90	6.87	9.03	7.35
Nov.	5.72	3.45	5.90	5.97	6.85	9.58	7.45
Dec.	5.77	3.12	5.78	5.74	6.26	9.18	7.12
1994 – Jan.	5.75	3.23	5.69	5.60	6.24	8.79	6.86
Feb.	5.97	3.49	5.97	5.87	6.72	8.98	7.33
Mar.	6.48	4.02	6.41	6.35	7.40	9.63	8.25
Apr.	6.97	3.97	6.58	6.63	7.86	9.27	8.18
May	7.18	3.82	6.82	6.93	8.36	9.57	8.55
June	7.10	4.26	7.25	7.47	8.82	10.53	9.29
July	7.30	4.35	7.10	7.35	8.61	10.73	9.50
Aug.	7.24	4.63	7.32	7.58	8.74	11.46	8.89
Sept.	7.46	4.57	7.71	8.09	9.01	11.91	9.04
				Share price indices			
1990	392.88	699.73	337.38	1,837.3	820.88	1,008.71	342.11
1991	441.69	591.12	305.86	1,766.5	892.08	854.50	346.95
1992	488.15	437.57	302.24	1,850.5	919.71	710.79	340.29
1993	530.23	489.34	324.65	2,021.2	1,095.8	843.41	390.42
1993 – Sept.	539.21	533.01	338.40	2,117.4	1,130.69	926.96	399.10
Oct.	544.68	527.59	357.49	2,161.9	1,160.55	903.36	425.55
Nov.	543.49	489.18	364.96	2,115.5	1,153.26	841.89	418.02
Dec.	546.86	462.95	381.94	2,212.8	1,223.71	911.91	432.14
1994 – Jan.	555.35	486.95	382.67	2,279.2	1,284.94	946.75	455.50
Feb.	553.69	511.66	376.83	2,271.8	1,283.97	1,030.02	442.40
Mar.	544.57	519.39	376.32	2,181.2	1,216.89	1,024.44	433.00
Apr.	525.09	516.00	388.00	2,133.9	1,188.53	1,194.55	426.70
May	529.41	526.85	388.65	2,141.4	1,171.41	1,206.29	432.70
June	534.02	540.33	363.81	1,964.7	1,124.96	1,108.56	402.50
July	530.00	530.38	366.58	1,986.9	1,146.60	1,081.38	417.90
Aug.	545.08	528.82	377.96	2,051.3	1,196.10	1,055.93	435.00
Sept.	548.25	508.15	370.79	1,942.4	1,167.40	1,039.95	435.40

Table a7

Interest rates on international markets and US dollar premium/discount

(period averages)

	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira
	Rates on 3-month Eurodeposits					**Rates on 12-month Eurodeposits**				
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 – 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
Feb.	3.41	2.15	5.78	5.16	8.23	3.97	2.07	5.28	5.15	7.86
Mar.	3.73	2.23	5.67	5.12	8.22	4.45	2.28	5.37	5.29	8.17
Apr.	3.99	2.20	5.43	5.16	7.91	5.00	2.51	5.24	5.68	7.92
May	4.50	2.12	5.03	5.11	7.62	5.46	2.37	4.97	5.80	7.77
June ...	4.50	2.06	4.92	5.09	7.87	5.42	2.41	5.09	6.01	8.46
July	4.70	2.09	4.81	5.16	8.27	5.63	2.32	4.97	6.12	9.08
Aug.	4.77	2.20	4.84	5.44	8.69	5.63	2.53	5.17	6.66	10.02
Sept. ...	4.99	2.27	4.93	5.63	8.45	5.87	2.60	5.49	7.09	10.17
	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 – 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
Feb.		1.26	–2.37	–1.75	–4.82		1.90	–1.31	–1.18	–3.89
Mar.		1.50	–1.94	–1.39	–4.49		2.17	–0.92	–0.84	–3.72
Apr.		1.79	–1.44	–1.17	–3.92		2.49	–0.24	–0.68	–2.92
May		2.38	–0.53	–0.61	–3.12		3.09	0.49	–0.34	–2.31
June ...		2.44	–0.42	–0.59	–3.37		3.01	0.33	–0.59	–3.04
July		2.61	–0.11	–0.46	–3.57		3.31	0.66	–0.49	–3.45
Aug.		2.57	–0.07	–0.67	–3.92		3.10	0.46	–1.03	–4.39
Sept. ...		2.72	0.06	–0.64	–3.46		3.27	0.38	–1.22	–4.30

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	2,196.0	1,837.7	390.65
1992 – 3rd qtr. ...	1,134.0	9.0867	774.73	228.59	2,156.0	870.71	1,647.2	1,565.5	348.50
4th " ...	1,361.5	11.0670	878.60	258.86	2,146.9	981.06	1,910.6	1,719.8	333.25
1993 – 1st qtr. ...	1,547.3	12.8393	945.88	278.85	2,281.6	1,026.71	2,129.6	1,841.8	337.80
2nd " ...	1,504.1	13.6889	929.44	275.55	2,308.6	1,029.54	2,124.8	1,815.0	378.45
3rd " ...	1,585.3	15.0195	945.75	272.68	2,384.9	1,074.29	2,224.3	1,813.9	354.95
4th " ...	1,653.0	15.2644	981.70	283.26	2,465.5	1,126.51	2,303.4	1,881.2	390.65
1994 – 1st qtr. ...	1,684.2	15.6819	978.10	287.54	2,506.3	1,160.41	2,337.0	1,894.0	390.05
2nd " ...	1,603.6	15.5322	966.12	282.35	2,412.8	1,139.68	2,270.0	1,862.3	387.95
3rd " ...	1,571.6	15.8585	1,006.17	293.81	2,436.4	1,198.29	2,292.1	1,920.1	394.25
1993 – 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
Feb.	1,686.5	15.8682	971.13	285.81	2,494.4	1,156.84	2,340.0	1,883.6	381.65
Mar.	1,667.6	15.8686	986.01	289.28	2,487.8	1,166.97	2,337.9	1,902.9	390.05
Apr.	1,625.4	15.7239	957.25	279.52	2,409.7	1,130.56	2,282.4	1,850.6	376.15
May	1,595.0	15.3720	961.93	280.92	2,398.3	1,128.31	2,257.0	1,853.8	387.00
June	1,593.5	15.5267	977.98	286.22	2,429.9	1,158.92	2,274.5	1,880.9	387.95
July	1,564.5	15.8694	996.44	290.77	2,417.9	1,180.84	2,279.5	1,904.3	383.15
Aug.	1,582.6	15.8475	1,011.23	295.12	2,440.2	1,199.96	2,301.7	1,927.4	386.15
Sept.	1,567.4	15.8593	1,010.39	295.39	2,450.3	1,213.28	2,294.3	1,927.8	394.25

Table a9

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
1992 – 3rd qtr. ...	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
1994 – 1st qtr. ...	92.6	97.1	136.2	105.5	104.6	90.5	75.2	102.9
2nd " ...	91.2	93.4	140.5	106.3	104.5	89.0	76.8	103.0
3rd " ...	88.2	93.1	143.7	108.5	106.4	88.1	74.6	105.8
1993 – 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
Feb.	92.5	97.0	138.0	105.0	104.3	90.2	75.5	102.9
Mar.	92.0	95.0	138.8	106.2	105.0	89.6	74.9	103.2
Apr.	91.9	93.6	141.3	105.6	103.8	89.0	77.2	102.5
May	91.3	93.5	139.7	106.4	104.5	88.9	77.2	102.4
June	90.5	93.1	140.5	107.0	105.3	89.2	76.1	104.0
July	88.4	92.4	144.8	108.2	106.0	88.1	75.3	105.1
Aug.	88.7	92.8	142.8	108.7	106.5	88.0	74.3	105.6
Sept.	87.6	94.2	143.5	108.5	106.6	88.3	74.3	106.8

Table a10

Real effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1988	94.1	107.4	107.1	98.5	99.0	107.7	97.3	98.9
1989	99.7	110.4	99.5	96.6	97.3	104.8	99.6	93.9
1990	97.9	107.1	88.9	100.3	100.7	107.2	103.6	98.2
1991	95.8	106.6	96.1	99.9	97.8	112.3	104.2	95.2
1992	94.6	99.8	99.4	103.7	99.2	111.2	101.9	92.5
1993	97.0	96.1	115.1	105.6	99.5	104.5	88.3	94.4
1992 – 2nd qtr. ...	95.6	100.9	97.3	101.7	97.9	115.9	104.7	89.6
3rd " ...	92.2	98.9	97.7	104.7	99.7	114.5	104.3	93.9
4th " ...	96.6	96.7	102.6	106.8	101.6	101.3	93.6	95.0
1993 – 1st qtr. ...	98.4	98.5	106.3	106.8	101.8	100.9	88.0	92.4
2nd " ...	95.8	96.1	114.9	105.1	100.9	104.3	89.7	93.2
3rd " ...	96.3	94.9	121.3	105.0	97.5	106.2	89.0	95.5
4th " ...	97.6	95.0	118.0	105.7	97.9	106.7	86.4	96.6
1994 – 1st qtr. ...	97.7	95.4	118.5	103.8	98.1	107.8	86.3	98.0
2nd " ...	96.5	92.6	120.9	104.3	97.7	105.9	88.6	97.6
1993 – July	97.1	96.0	119.5	103.4	98.0	106.3	89.9	94.1
Aug.	96.1	94.9	124.1	104.8	96.7	106.1	88.9	95.1
Sept.	95.7	93.8	120.3	106.7	97.9	106.2	88.2	97.4
Oct.	97.1	93.8	118.5	106.7	97.5	105.7	87.5	96.9
Nov.	97.7	95.6	118.9	105.4	97.3	106.5	86.4	95.2
Dec.	98.0	95.5	116.7	104.8	99.0	108.0	85.4	97.8
1994 – Jan.	98.7	96.8	115.1	103.8	98.0	109.1	86.1	97.8
Feb.	97.4	95.5	120.2	103.4	97.6	107.4	86.8	98.0
Mar.	97.1	93.8	120.2	104.4	98.5	106.8	86.1	98.2
Apr.	97.0	92.5	122.0	103.7	97.2	106.0	88.9	97.2
May	96.4	92.7	120.3	104.4	97.7	105.8	89.1	97.1
June	96.0	92.6	120.4	104.7	98.2	105.9	87.9	98.6
July	94.1	91.8	123.5	105.9	98.3	104.5	87.0	99.9

Table a11

Real effective intra-EU exchange rates

(period averages; indices, 1987=100)

	Belgium	France	Germany	UK	Netherlands	Italy	Spain
1988	97.9	99.3	98.9	109.0	98.4	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	96.9	102.1	110.2
1991	97.9	96.6	98.1	111.1	95.1	103.1	110.3
1992	98.2	97.2	101.1	108.3	94.3	99.9	107.4
1993	98.5	100.0	107.1	105.8	96.0	88.0	97.4
1992 – 2nd qtr.	97.3	96.0	99.0	113.4	93.1	102.8	109.9
3rd "	97.6	96.7	100.8	109.6	93.5	101.3	107.5
4th "	100.4	100.4	105.5	99.2	96.4	92.0	101.8
1993 – 1st qtr.	99.6	101.6	107.1	100.6	96.4	87.1	103.9
2nd "	99.3	100.9	105.8	104.7	95.6	89.1	98.2
3rd "	97.7	98.5	107.4	108.7	96.0	89.2	93.6
4th "	97.5	98.9	108.2	109.3	96.0	86.6	93.9
1994 – 1st qtr.	99.4	99.4	106.7	111.0	94.6	86.8	93.3
2nd "	100.9	98.5	106.5	108.0	95.6	88.8	93.5
1993 – July	98.9	99.0	105.6	109.0	95.1	90.2	94.3
Aug.	97.5	97.9	107.7	109.3	96.4	89.4	92.0
Sept.	96.8	98.5	108.8	107.9	96.3	88.1	94.5
Oct.	96.1	98.2	109.2	107.8	96.6	87.6	95.1
Nov.	97.8	98.5	108.2	109.4	95.9	86.7	94.3
Dec.	98.6	100.1	107.2	110.6	95.5	85.6	92.3
1994 – Jan.	98.4	99.4	106.6	112.4	94.7	86.6	92.6
Feb.	99.7	99.1	106.4	110.9	94.4	87.4	93.7
Mar.	100.0	99.7	107.1	109.6	94.7	86.5	93.4
Apr.	100.4	98.3	106.3	108.7	95.3	89.3	93.9
May	101.0	98.5	106.5	107.8	95.4	89.3	93.1
June	101.5	98.8	106.7	107.5	96.0	87.8	93.4
July	102.1	98.7	107.6	105.4	96.9	86.7	94.3

Table a12

External position of the Italian credit system

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

VIS-A-VIS	1993 Q4	1994 Q1	1994 Q2
Industrial countries	304,421	289,259	(287,656)
OPEC countries	14,086	13,310	(12,129)
Other developing countries	14,254	14,222	(13,932)
of which: Latin America	*8,157*	*7,859*	*(7,600)*
Africa	*1,182*	*1,097*	*(1,154)*
Asia	*4,481*	*4,529*	*(4,533)*
Middle East	*434*	*737*	*(645)*
Eastern Europe	13,880	13,260	(12,899)
Offshore centres	35,477	36,445	(35,148)
International organizations	3,531	4,693	(5,741)
Total	**385,649**	**371,190**	**(367,505)**
Memorandum item:			
Argentina	3,241	3,078	(3,007)
Bolivia	9	8	(8)
Brazil	1,216	1,320	(1,176)
Chile	237	211	(190)
Colombia	178	113	(125)
Ivory Coast	12	21	(22)
Ecuador	254	237	(232)
Philippines	96	132	(82)
Ex-Yugoslavia	399	378	(410)
Morocco	519	499	(474)
Mexico	2,687	2,534	(2,461)
Nigeria	1,235	1,177	(1,036)
Peru	129	113	(130)
Uruguay	88	79	(89)
Venezuela	1,188	1,111	(1,115)
Total	**11,489**	**11,010**	**(10,556)**
Albania	154	152	(155)
Bulgaria	880	885	(904)
Poland	1,893	1,859	(1,681)
Czech Republic	215	191	(202)
Romania	249	269	(275)
Russia	10,112	9,563	(9,311)
Hungary	322	283	(310)

Table a13

Sources and uses of income

(percentage changes on previous period)

	SOURCES			USES					
				Gross fixed investment			House-holds' consum-ption	Other domestic uses	Exports
	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total			
				At 1985 prices					
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	1.2	3.4	1.7	1.4	–0.1	0.6	2.7	0.6	0.5
1992	0.7	4.6	1.6	–2.1	–1.9	–2.0	1.4	2.4	5.0
1993	–0.7	–7.3	–2.1	–6.2	–15.6	–11.1	–2.1	–8.4	10.0
1992 – 2nd qtr. ...	0.1	–0.6	. .	–0.6	–0.1	–0.3	0.4	–0.4	–0.6
3rd " ...	–0.9	0.2	–0.6	–1.1	–2.1	–1.6	–0.6	–6.8	4.7
4th " ...	–0.1	–2.3	–0.6	–1.7	–5.4	–3.6	–1.1	3.7	0.6
1993 – 1st qtr. ...	–0.3	–5.5	–1.5	–2.1	–6.9	–4.5	–1.1	–9.0	5.2
2nd " ...	0.2	–0.7	. .	–1.7	–5.0	–3.4	–0.4	5.8	0.3
3rd " ...	–0.6	0.9	–0.3	–1.4	–2.3	–1.9	0.2	–5.2	2.7
4th " ...	1.0	–0.1	0.8	–1.3	2.2	0.4	0.7	0.5	1.3
1994 – 1st qtr. ...	0.4	4.8	1.3	–0.6	2.6	1.0	0.5	–1.9	5.3
2nd " ...	1.4	2.3	1.6	–0.8	2.2	0.7	0.7	11.1	–0.8
				Implicit prices					
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	7.7	–0.3	6.2	8.0	2.5	5.3	6.8	8.7	2.6
1992	4.5	1.5	3.7	5.2	2.3	3.8	5.3	1.1	1.6
1993	4.4	12.0	6.0	3.2	5.1	4.6	4.8	10.7	10.4
1992 – 2nd qtr. ...	0.7	1.3	0.8	0.9	0.5	0.7	1.2	0.3	0.9
3rd " ...	0.8	. .	0.6	0.5	0.7	0.6	1.1	1.7	–0.1
4th " ...	1.1	6.3	2.1	1.3	1.2	1.4	1.1	3.6	4.2
1993 – 1st qtr. ...	1.2	5.3	2.2	1.1	2.1	1.8	1.1	6.9	4.1
2nd " ...	1.3	1.2	1.3	0.6	1.4	1.1	1.3	–1.0	2.8
3rd " ...	1.1	0.5	1.0	0.1	0.7	0.4	1.3	2.1	0.7
4th " ...	0.5	0.7	0.6	0.7	0.3	0.4	0.9	–0.7	1.1
1994 – 1st qtr. ...	0.8	0.9	0.6	2.3	2.1	2.1	0.9	–0.2	0.4
2nd " ...	0.3	0.8	0.3	0.4	0.3	0.2	1.0	–4.0	0.8

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: Domestic	Changes in level of orders: Foreign	Changes in level of orders: Total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices 1990=100)				*(average balance of monthly responses)*				
1990	100.0	100.0	100.0	100.0	–9.4	–16.1	–7.5	11.9	3.7
1991	99.1	100.4	95.9	99.4	–27.5	–31.6	–26.7	11.3	8.5
1992	97.8	99.9	90.9	98.8	–32.0	–37.0	–32.0	2.0	7.2
1993	95.7	97.7	87.9	97.0	–43.1	–21.8	–35.6	2.9	4.6
1990 – 1st qtr. ..	100.0	99.6	101.8	101.4	..	–10.3	–0.9	17.1	–2.0
2nd " ..	100.3	101.4	102.6	100.4	–5.2	–9.0	–1.7	15.1	2.3
3rd " ..	101.2	99.5	95.7	97.2	–12.3	–20.0	–9.3	6.1	6.7
4th " ..	98.5	99.5	99.9	101.0	–19.9	–25.2	–18.0	9.2	7.7
1991 – 1st qtr. ..	99.2	100.6	96.6	99.0	–28.2	–34.7	–27.6	9.3	9.7
2nd " ..	98.8	99.5	96.3	99.4	–28.2	–32.2	–27.8	10.5	9.7
3rd " ..	99.2	100.4	93.6	97.9	–26.6	–30.3	–24.9	12.8	8.3
4th " ..	99.2	101.1	97.0	101.4	–27.1	–29.0	–26.5	12.5	6.3
1992 – 1st qtr. ..	100.1	100.9	92.9	100.9	–24.8	–30.1	–24.0	10.2	11.3
2nd " ..	99.1	101.0	92.2	100.3	–27.5	–38.4	–29.3	7.5	11.0
3rd " ..	96.0	98.2	87.8	97.1	–34.2	–38.3	–34.7	–3.1	5.3
4th " ..	96.0	99.4	90.7	97.1	–41.6	–41.0	–40.0	–6.7	1.0
1993 – 1st qtr. ..	97.1	99.3	90.2	97.1	–44.8	–33.6	–42.9	–3.7	3.3
2nd " ..	94.8	97.3	87.3	95.9	–46.5	–27.4	–40.5	–1.7	7.0
3rd " ..	95.1	97.8	87.0	98.1	–44.9	–18.4	–33.2	4.5	6.7
4th " ..	95.9	96.5	87.1	98.6	–36.1	–7.6	–25.8	12.7	1.3
1994 – 1st qtr. ..	96.7	98.4	84.4	98.6	–31.4	–0.4	–18.9	16.6	–2.3
2nd " ..	100.5	104.6	91.5	101.6	–20.3	9.3	–8.2	22.9	–1.0

Labour market statistics

(thousands of units and percentages)

	Employment					Unem-ployment	Labour force	Unem-ployment rate	Partici-pation rate
	Agricul-ture	Industry excluding construc-tion	Construc-tion	Other	Total				
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)	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
1994 – 1st qtr.	1,389	4,836	1,649	11,941	19,815	2,523	22,339	11.3	39.8
2nd "	1,377	4,885	1,648	11,998	19,908	2,611	22,519	11.6	40.1
3rd "	1,444	4,942	1,664	11,970	20,020	2,482	22,501	11.0	40.1

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

Wholesale and consumer prices

(percentage changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living
	Consumer goods	Investment goods	Intermediate goods	Total	Food	Non-food products	Services	Total	
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	3.3	3.6	6.1	5.1	2.2	4.7	5.6	4.5	4.2
1992 – 3rd qtr.	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	4.1	4.7	4.5	2.6	4.7	5.1	4.4	4.1
1994 – 1st trim.	4.3	4.4	3.7	3.9	3.2	4.5	4.8	4.3	4.2
2nd "	3.8	3.9	2.8	3.1	3.1	4.0	4.5	4.0	4.0
3rd "	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	3.8
1993 – 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.	4.1	4.0	4.0	3.9	2.8	4.5	4.9	4.3	4.0
1994 – Jan.	4.3	4.3	4.0	4.2	3.1	4.6	5.0	4.4	4.2
Feb.	4.5	4.5	3.7	4.0	3.3	4.4	4.9	4.3	4.2
Mar.	3.9	4.5	3.2	3.5	3.4	4.5	4.7	4.3	4.2
Apr.	3.2	3.8	2.2	2.7	3.1	4.1	4.5	4.1	4.1
May	3.9	3.9	3.2	3.5	3.1	4.2	4.5	4.0	4.1
June	4.2	4.0	2.9	3.3	3.2	3.6	4.4	3.8	3.7
July	3.3	4.1	3.0	3.2	3.5	3.4	4.3	3.8	3.6
Aug.	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	3.7
Sept.	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	3.9
Oct.	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	(3.8)

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	–330	–21,399	–7,370	–29,337	–10,319	39,369	29,050	–8,284	8,571
1992	3,852	–5,715	–25,470	–6,892	–34,225	–2,436	13,148	10,712	–9,035	32,548
1993	51,106	980	–25,635	–8,466	17,985	96,059	–83,196	12,863	–28,642	–2,206
1992 – 2nd qtr.	–1,435	970	–6,262	–1,030	–7,757	–11,670	17,630	5,960	–11,592	13,389
3rd "	4,033	–3,104	–6,333	–2,156	–7,560	–17,945	–15,154	–33,099	–4,273	44,932
4th "	4,583	–2,144	–7,988	–1,497	–7,046	37,875	–7,352	30,523	2,988	–26,465
1993 – 1st qtr.	6,819	–1,640	–5,100	–1,992	–1,913	44,434	–30,602	13,832	–11,076	–843
2nd "	11,573	1,178	–6,700	–2,738	3,313	18,766	–19,109	–343	–3,417	447
3rd "	15,573	–216	–6,711	–2,619	6,027	22,595	–20,902	1,693	–3,273	–4,447
4th "	17,141	1,658	–7,124	–1,117	10,558	10,264	–12,583	–2,319	–10,876	2,637
1994 – 1st qtr.	(11,671)	(–1,472)	–6,459	–1,617	(2,123)	(–640)	–685	(–1,325)	(3,392)	–4,190
2nd "	(13,955)	(1,550)	–6,410	–3,512	(5,583)	(–25,780)	18,077	(–7,703)	(3,050)	–930
1992 – Aug.	2,471	–1,296	–1,303	–957	–1,085	–641	1,964	1,323	–4,810	4,572
Sept.	–843	–1,530	–2,011	–457	–4,841	–298	–26,045	–26,343	1,326	29,858
Oct.	1,646	–637	–2,711	–347	–2,049	15,971	–6,705	9,266	2,848	–10,065
Nov.	–422	–1,131	–2,561	–210	–4,324	9,293	–4,438	4,855	2,934	–3,465
Dec.	3,359	–376	–2,716	–940	–673	12,611	3,791	16,402	–2,794	–12,935
1993 – Jan.	2,198	–588	–2,066	240	–216	14,826	–7,275	7,551	–8,074	739
Feb.	2,355	–854	–809	–1,501	–809	15,896	–18,743	–2,847	719	2,937
Mar.	2,266	–198	–2,225	–731	–888	13,712	–4,584	9,128	–3,721	–4,519
Apr.	3,713	–50	–2,030	–1,149	484	–6,782	4,266	–2,516	–1,446	3,478
May	3,474	483	–2,192	–300	1,465	17,224	–14,945	2,279	–4,174	430
June	4,386	745	–2,478	–1,289	1,364	8,324	–8,430	–106	2,203	–3,461
July	9,528	139	–3,614	–1,342	4,711	5,346	–8,909	–3,563	–2,397	1,249
Aug.	2,114	84	–913	–1,211	74	14,238	–17,120	–2,882	846	1,962
Sept.	3,931	–439	–2,184	–66	1,242	3,011	5,127	8,138	–1,722	–7,658
Oct.	6,062	180	–2,196	129	4,175	–4,833	5,165	332	–7,365	2,858
Nov.	4,728	479	–1,952	–62	3,193	14,371	–7,211	7,160	–7,884	–2,469
Dec.	6,351	999	–2,976	–1,184	3,190	726	–10,537	–9,811	4,373	2,248
1994 – Jan.	(1,744)	(–838)	–2,550	–58	(–1,702)	(7,213)	–2,261	(4,952)	(1,828)	–5,078
Feb.	(4,777)	(–438)	–841	–1,155	(2,343)	(2,659)	–4,755	(–2,096)	(1,111)	–1,358
Mar.	(5,150)	(–196)	–3,068	–404	(1,482)	(–10,512)	6,331	(–4,181)	(453)	2,246
Apr.	(4,396)	(126)	–1,605	–981	(1,936)	(–6,540)	6,258	(–282)	(–1,856)	202
May	(4,554)	(583)	–2,000	–1,371	(1,766)	(–4,621)	3,533	(–1,088)	(1,492)	–2,170
June	(5,005)	(841)	–2,805	–1,160	(1,881)	(–14,619)	8,286	(–6,333)	(3,414)	1,038
July	....	....	....	....	(3,887)	(–9,002)	(8,412)	(–590)	....	(–3,297)
Aug.	....	....	....	....	(3,400)	(–4,885)	(–1,717)	(–6,602)	....	(3,202)

Table a18

External position of BI-UIC

	Short-term-assets				Short-term liabilities	Medium and long-term position			Reserve position in the IMF	Gold	Overall position
						Assets		Liabilities			
	Convertible currencies	Official Ecus	SDRs	Total		Total	*of which:* foreign securities				
						(billions of lire)					
1990 – Dec. ...	57,578	10,433	1,172	69,183	400	3,230	3,218	1,129	1,936	30,579	103,399
1991 – Dec. ...	41,229	11,092	1,067	53,388	418	10,642	10,536	1,157	2,595	29,288	94,338
1992 – Dec. ...	36,642	1,925	350	38,917	7,819	4,090	3,913	1,421	3,588	29,944	67,299
1993 – Aug. ...	32,628	4,273	419	37,320	1,288	987	796	1,578	3,750	34,932	74,123
Sept. ..	39,319	4,264	419	44,002	1,154	1,848	1,657	1,576	3,747	34,129	80,996
Oct. ...	35,327	7,287	440	43,054	1,679	1,445	1,253	1,591	3,781	34,129	79,139
Nov. ...	38,766	7,453	458	46,677	1,118	1,665	1,465	1,654	3,815	34,129	83,514
Dec. ...	35,596	7,382	410	43,388	985	2,581	2,382	1,644	3,687	36,910	83,937
1994 – Jan. ...	43,203	6,922	371	50,496	986	1,723	1,479	1,646	3,692	36,910	90,189
Feb. ...	44,920	6,917	388	52,225	874	1,413	1,167	1,659	3,722	36,910	91,737
Mar. ...	41,226	6,697	247	48,170	985	1,515	1,152	1,599	3,482	41,371	91,954
Apr. ...	39,470	7,696	246	47,412	793	1,692	1,331	1,591	3,392	41,371	91,483
May ...	41,334	7,690	224	49,248	743	2,012	1,622	1,583	3,337	41,371	93,642
June ..	40,447	7,796	235	48,478	718	2,156	1,758	1,613	3,395	41,400	93,098
July ...	43,655	7,101	189	50,945	776	2,216	1,765	1,618	3,402	41,400	95,569
Aug. ...	40,556	7,062	189	47,807	874	2,238	1,788	1,615	3,332	41,400	92,288
						(millions of dollars)					
1990 – Dec. ...	50,949	9,232	1,037	61,218	354	2,858	2,848	999	1,713	24,913	89,350
1991 – Dec. ...	35,818	9,636	927	46,382	363	9,245	9,153	1,005	2,254	23,230	79,743
1992 – Dec. ...	24,824	1,304	237	26,365	5,297	2,771	2,651	963	2,431	23,175	48,481
1993 – Aug. ...	20,449	2,678	263	23,389	807	619	499	989	2,350	22,256	46,818
Sept. ..	24,852	2,695	265	27,812	729	1,168	1,047	996	2,368	22,988	52,611
Oct. ...	21,730	4,482	271	26,483	1,033	889	771	979	2,326	22,988	50,674
Nov. ...	22,782	4,380	269	27,431	657	978	861	972	2,242	22,988	52,011
Dec. ...	20,890	4,332	241	25,462	578	1,515	1,398	965	2,164	23,593	51,191
1994 – Jan. ...	25,451	4,078	219	29,747	581	1,015	871	970	2,175	23,593	54,980
Feb. ...	26,607	4,097	230	30,933	518	837	691	983	2,205	23,593	56,068
Mar. ...	25,586	4,156	153	29,895	611	940	715	992	2,161	24,975	56,367
Apr. ...	24,772	4,830	154	29,757	498	1,062	835	999	2,129	24,975	56,426
May ...	26,001	4,837	141	30,979	467	1,266	1,020	996	2,099	24,975	57,856
June ..	25,503	4,916	148	30,566	453	1,359	1,108	1,017	2,141	25,264	57,860
July ...	27,375	4,453	119	31,946	487	1,390	1,107	1,015	2,133	25,264	59,232
Aug. ...	25,537	4,447	119	30,103	550	1,409	1,126	1,017	2,098	25,264	57,307

Table a19

State sector borrowing requirement

(billions of lire)

		Budget revenues			Budget disbursements			Deficit (–)	Other transactions	Borrowing requirement (–)	Debt settlements and privatizations	Borrowing requirement net of debt settlements and privatizations
		Fiscal	Other	Total	Current expenditure	Capital expenditure	Total					
1991	O	366,306	79,693	445,999	508,619	68,031	576,651	–130,652	–21,554	–152,206	2,027	–154,233
1992	O	419,166	80,516	499,682	547,383	62,617	610,000	–110,318	–52,890	–163,209	–31	–163,178
	N	419,166	80,516	499,682	547,383	62,617	610,000	–110,318	–48,573	–158,892	–31	–158,861
1993	O	426,986	43,872	470,858	544,087	73,773	617,860	–147,002	–13,533	–160,535	–9,568	–150,967
	N	426,986	43,872	470,858	544,087	73,773	617,860	–147,002	–16,123	–163,124	–9,568	–153,557
1993 – 1st qtr.	O ..	90,749	4,519	95,268	95,072	12,501	107,573	–12,305	–37,424	–49,729	–22	–49,707
	N ..	90,749	4,519	95,268	95,072	12,501	107,573	–12,305	–38,012	–50,317	–22	–50,295
2nd qtr.	O ..	123,450	7,287	130,737	135,950	17,456	153,406	–22,669	7,419	–15,250	–5	–15,246
	N ..	123,450	7,287	130,737	135,950	17,456	153,406	–22,669	5,999	–16,670	–5	–16,665
3rd qtr.	O ..	102,211	11,187	113,399	157,152	16,612	173,764	–60,365	17,314	–43,051	–2,858	–40,193
	N ..	102,211	11,187	113,399	157,152	16,612	173,764	–60,365	17,794	–42,571	–2,858	–39,713
4th qtr.	O ..	110,576	20,879	131,455	155,913	27,205	183,117	–51,663	–842	–52,505	–6,683	–45,821
	N ..	110,576	20,879	131,455	155,913	27,205	183,117	–51,663	–1,904	–53,566	–6,683	–46,883
1994 – 1st qtr.	O ..	86,843	13,606	100,449	114,025	17,086	131,111	–30,663	–11,081	–41,743	1,592	–43,335
	N ..	86,843	13,606	100,449	114,025	17,086	131,111	–30,663	–9,280	–39,943	1,592	–41,535
2nd qtr.	O ..	121,333	9,524	130,857	129,134	11,390	140,524	–9,667	–14,538	–24,205	–5	–24,200
	N ..	121,333	9,524	130,857	129,134	11,390	140,524	–9,667	–12,464	–22,132	–5	–22,127
3rd qtr.	O ..	94,393	13,082	107,475	151,537	12,523	164,061	–56,586	20,773	–35,813	4,502	–40,315
	N ..	94,393	13,082	107,475	151,537	12,523	164,061	–56,586	21,030	–35,556	4,502	–40,058
1994 – Jan.	N	34,161	1,236	35,397	35,216	846	36,062	–665	–2,079	–2,744	–	–2,744
Feb.	N	20,875	4,691	25,566	24,966	4,594	29,559	–3,994	–7,841	–11,834	1,593	–13,427
Mar.	N	31,807	7,679	39,486	53,844	11,647	65,491	–26,004	640	–25,364	–1	–25,363
Apr.	N	28,168	1,965	30,133	34,068	5,669	39,736	–9,603	–8,376	–17,979	–	–17,979
May	N	37,428	3,298	40,726	35,599	1,851	37,450	3,276	–20,861	–17,585	–5	–17,580
June	N	55,737	4,261	59,998	59,468	3,870	63,338	–3,340	16,773	13,433	–	13,433
July	N	33,723	8,647	42,370	45,118	2,078	47,196	–4,825	1,688	–3,138	4,502	–7,640
Aug.	N	38,310	2,216	40,526	37,873	7,823	45,696	–5,170	215	–4,954	–	–4,954
Sept.	N	22,360	2,218	24,578	68,547	2,623	71,169	–46,591	19,127	–27,464	–	–27,464

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

Financing of the state sector borrowing requirement

(billions of lire)

	Medium and long-term securities	of which: net purchases by BI-UIC	Treasury bills	of which: net purchases by BI-UIC	BI-UIC financing other than securities purchases	of which: current accounts	PO deposits	Foreign loans	Other	Borrowing requirement	of which: monetary base creation
1991 O	113,915	–4,238	11,589	–7,790	2,472	2,011	11,746	5,506	6,978	152,206	–9,458
1992 O	91,120	–4,380	46,479	–5,534	7,116	7,706	11,414	173	6,906	163,209	–2,696
N	91,809	–4,380	46,479	–5,534	7,116	7,706	11,414	–1,687	3,760	158,892	–2,696
1993 O	163,119	30,594	5,577	452	–34,512	–35,244	13,913	12,374	64	160,535	–3,378
N	165,121	30,594	5,577	452	–34,512	–35,244	13,913	14,443	–1,418	163,124	–3,378
1993 – 1st qtr. O .	34,340	82	10,383	837	1,174	363	171	4,448	–787	49,729	2,110
N .	34,342	82	10,383	837	1,174	363	171	5,058	–810	50,317	2,110
2nd qtr. O .	32,081	411	7,346	–216	–26,662	–26,580	1,508	2,187	–1,210	15,250	–26,445
N .	32,081	411	7,346	–216	–26,662	–26,580	1,508	3,573	–1,177	16,670	–26,445
3rd qtr. O .	30,123	–389	–4,612	–13	10,596	10,107	–1,079	6,287	1,735	43,051	10,218
N .	31,123	–389	–4,612	–13	10,596	10,107	–1,079	6,501	41	42,571	10,218
4th qtr. O .	66,574	30,490	–7,540	–156	–19,620	–19,134	13,313	–549	326	52,505	10,740
N .	67,574	30,490	–7,540	–156	–19,620	–19,134	13,313	–689	528	53,566	10,740
1994 – 1st qtr. O .	47,887	–595	–810	–340	–10,219	–10,566	1,308	2,621	955	41,743	–11,131
N .	45,887	–595	–810	–340	–10,219	–10,566	1,308	2,615	1,161	39,943	–11,131
2nd qtr. O .	41,690	8	2,215	–3,349	–19,597	–19,073	1,492	–1,358	–236	24,205	–22,911
N .	39,690	8	2,215	–3,349	–19,597	–19,073	1,492	–1,517	–151	22,132	–22,911
3rd qtr. O .	21,071	–1,208	6,143	–5,973	3,425	3,521	1,400	3,833	–59	35,813	–3,741
N .	21,071	–1,208	6,143	–5,973	3,425	3,521	1,400	3,518	–1	35,556	–3,741
1994 – Jan. N ...	13,813	–203	–1,170	–5	–18,028	–17,732	2,924	4,687	517	2,744	–18,230
Feb. N ...	20,295	2	–993	–215	–5,939	–5,743	–514	–929	–86	11,834	–6,151
Mar. N ...	11,780	–394	1,353	–120	13,748	12,909	–1,103	–1,143	729	25,364	13,251
Apr. N ...	11,388	4	1,604	–21	5,757	5,934	1,092	–1,360	–502	17,979	5,748
May N ...	17,976	–2	–389	–1,091	1,207	1,879	100	–1,148	–159	17,585	124
June N ...	10,326	6	1,000	–2,237	–26,561	–26,886	300	992	510	–13,433	–28,783
July N ...	4,959	–24	2,000	–925	–9,751	–10,035	1,000	4,952	–23	3,138	–10,691
Aug. N ...	12,056	1	2,000	–2,665	–7,593	–7,366	–	–1,431	–78	4,954	–10,250
Sept. N ...	4,056	–1,185	2,143	–2,383	20,768	20,921	400	–3	100	27,464	17,200

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 banks	Other domestic debt	Subtotal	Borrowing from BI-UIC	Foreign debt	TOTAL
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	12,097	3,385	844,090	140,522	28,586	1,013,198
1989	O	547,133	285,628	110,237	17,177	4,228	964,403	147,474	34,979	1,146,856
1990	O	631,003	320,101	122,954	20,351	5,506	1,099,914	147,752	48,799	1,296,465
1991	O	729,690	335,342	134,700	26,039	6,795	1,232,567	166,923	54,720	1,454,209
1992	O	791,084	387,021	146,114	34,102	6,238	1,364,560	209,445	64,653	1,638,658
1993 – 1st qtr.	O ...	850,920	403,697	146,285	34,155	5,398	1,440,454	183,543	74,249	1,698,246
	N ...	840,034	403,697	146,285	14,433	5,398	1,409,847	183,543	61,078	1,654,467
2nd qtr.	O ...	861,375	406,450	147,793	33,680	4,913	1,454,211	181,009	72,923	1,708,142
	N ...	850,489	406,450	147,793	13,741	4,913	1,423,386	181,009	61,324	1,665,719
3rd qtr.	O ...	904,522	402,355	146,714	35,568	4,810	1,493,969	178,497	82,502	1,754,969
	N ...	894,636	402,355	146,714	13,885	4,810	1,462,401	178,497	70,709	1,711,607
4th qtr.	O ...	945,757	390,136	160,027	35,024	5,880	1,536,824	189,883	85,355	1,812,062
	N ...	936,871	390,136	160,027	13,343	5,880	1,506,258	189,883	73,085	1,769,225
1994 – 1st qtr.	O ...	980,962	388,378	161,335	36,718	5,142	1,572,534	192,100	85,310	1,849,945
	N ...	970,076	388,378	161,335	15,246	5,142	1,540,176	192,100	73,244	1,805,520
1994 – Apr.	O ...	1,001,740	387,021	162,427	36,538	4,791	1,592,517	191,487	83,486	1,867,490
	N ...	990,854	387,021	162,427	15,095	4,791	1,560,188	191,487	71,561	1,823,236
May	O ...	1,021,317	385,759	162,527	36,043	4,991	1,610,637	194,696	82,324	1,887,657
	N ...	1,008,431	385,759	162,527	14,735	4,991	1,576,443	194,696	70,380	1,841,519
June	O ...	1,018,636	379,699	162,827	36,532	5,091	1,602,786	189,880	84,508	1,877,174
	N ...	1,005,751	379,699	162,827	15,145	5,091	1,568,514	189,880	72,132	1,830,526
July	O ...	1,025,601	381,281	163,827	36,474	5,127	1,612,309	179,635	89,739	1,881,684
	N ...	1,012,715	381,281	163,827	15,087	5,127	1,578,037	179,635	77,371	1,835,042
Aug.	O ...	1,030,433	377,972	163,827	37,913	5,149	1,615,294	185,763	88,286	1,889,344
	N ...	1,017,548	377,972	163,827	14,987	5,149	1,579,482	185,763	75,917	1,841,162
Sept.	O ...	1,030,576	386,625	164,227	36,416	5,149	1,622,992	185,499	88,062	1,896,553
	N ...	1,017,690	386,625	164,227	15,087	5,149	1,588,777	185,499	75,302	1,849,579

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

Monetary base

(flows in billions of lire)

	SOURCES							TOTAL	USES				
	Foreign sector		Treasury account	Other BI-UIC operations with the Treasury	Open market	Refi-nancing	Other sectors		Currency in circulation	Bank reserves			
		of which: currency swaps								Deposits with the Bank of Italy	*of which:* compulsory reserves	Other	Total
1991	–8,674	–	2,011	–11,468	27,172	2,664	–583	11,121	6,906	3,646	3,424	570	4,215
1992	–32,591	29,249	7,706	–10,402	42,781	108	858	8,460	9,263	113	1,012	–916	–803
1993	2,564	–2,055	–4,574	1,196	–14,098	–6,451	1,903	–19,460	4,152	–23,594	–24,131	–18	–23,612
1993 – Sept. .	7,661	..	11,695	–203	–16,149	40	–1,753	1,292	1,210	68	–1,548	14	82
Oct. ..	–2,820	..	8,233	–140	–5,308	629	–942	–348	672	–408	1,949	–612	–1,020
Nov. ..	2,476	..	8,163	–27	–2,282	658	1,151	10,139	1,053	7,650	2,545	1,435	9,085
Dec. ..	–2,237	..	–4,859	–629	6,407	–750	3,403	1,335	4,704	–3,614	1,194	245	–3,370
1994 – Jan. ..	5,178	..	–17,732	–498	12,036	–259	–353	–1,629	–3,599	2,529	1,052	–558	1,971
Feb. ..	1,417	..	–5,743	–409	7,409	–12	–1,464	1,199	–698	2,126	5,185	–229	1,897
Mar. ..	–2,347	..	12,909	342	–5,548	122	–1,348	4,130	3,091	1,104	–3,176	–65	1,039
Apr. ..	–235	–813	5,934	–186	–6,225	8	–2,061	–2,765	–1,149	–1,269	1,122	–346	–1,615
May ..	2,162	..	1,879	–1,755	2,988	–24	–877	4,374	496	2,941	1,740	936	3,877
June .	–1,093	..	–26,886	–1,897	22,925	1,679	2,173	–3,099	–580	–2,541	–1,273	21	–2,520
July ..	(3,297)	..	(–10,035)	(–656)	284	(1,038)	(–1,113)	(–7,185)	(5,198)	(–11,626)	(–10,130)	(–758)	(–12,384)
Aug. ..	(–3,202)	..	(–7,366)	(–2,884)	(15,276)	(–2,786)	(–379)	(–1,341)	(–4,613)	(3,163)	(–571)	(109)	(3,272)
Sept. .	(–1,130)	..	(20,921)	(–3,721)	(–17,464)	(76)	(–2,595)	(–3,913)	(2,008)	(–5,773)	(–4,786)	(–149)	(–5,921)

Monetary base financing of the Treasury

(flows in billions of lire)

	Borrowing requirement	NON-MONETARY FINANCING							Treasury account	Other BI-UIC operations with the Treasury
		Net sales of securities on the primary market					Other forms of financing	Total		
		Treasury bills	Treasury credit certificates	Treasury bonds	Other	Total				
1991	152,206	–21,685	–13,684	–85,410	–16,753	–137,532	–24,132	–161,664	2,011	–11,468
1992	163,209	–50,266	–60,632	–37,094	477	–147,515	–18,391	–165,905	7,706	–10,402
1993	163,124	–6,028	–10,480	–117,666	–5,478	–139,652	–26,850	–166,502	–4,574	1,196
1993 – Sept. .	28,699	2,339	–43	–10,881	–2,048	–10,634	–6,572	–17,206	11,695	–203
Oct. ..	16,736	1,603	120	–11,839	533	–9,584	940	–8,643	8,233	–140
Nov. ..	21,853	1,215	–533	–9,826	–2,015	–11,160	–2,558	–13,718	8,163	–27
Dec. ..	14,978	2,982	493	–5,980	–6,453	–8,958	–11,508	–20,466	–4,859	–629
1994 – Jan. ..	2,744	–254	–1,536	–16,064	5,002	–12,851	–8,123	–20,974	–17,732	–498
Feb. ..	13,427	–163	288	–19,365	–275	–19,514	–64	–19,579	–5,743	–409
Mar. ..	25,364	–1,473	–995	–11,242	63	–13,647	1,533	–12,113	12,909	342
Apr. ..	17,979	–1,625	–2,002	–9,465	82	–13,009	778	–12,231	5,934	–186
May ..	17,585	–2,091	–4,014	–12,695	121	–18,679	1,218	–17,461	1,879	–1,755
June .	–13,433	–3,237	–2,002	–8,405	86	–13,557	–1,793	–15,350	–26,886	–1,897
July ..	7,640	–2,925	–6,151	1,178	–11	–7,909	–10,422	–18,331	(–10,035)	(–656)
Aug. ..	4,954	(–4,665)	(–3,505)	(–7,607)	(–943)	(–16,720)	1,515	–15,204	(–7,366)	(–2,884)
Sept. .	27,464	(–5,883)	(–3,687)	(–3,286)	(3,088)	(–9,767)	–497	–10,264	(20,921)	(–3,721)

Table a23

Monetary base

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

	SOURCES								
	Foreign sector	*of which:* currency swaps	Government securities	Treasury overdraft with BI	Account under Law 473/1993	Treasury payments account	Coins in circulation	Refinancig	Other sectors
1990	103,335	–	75,324	71,063	..	..	1,417	6,132	–58,050
1991	94,171	–	90,929	73,074	..	..	1,516	8,796	–58,143
1992	67,089	31,702	122,083	80,780	..	..	1,618	8,905	–61,671
1993 – Sept.	81,088	31,770	111,100	64,669	..	..	1,679	1,916	–72,234
Oct.	79,269	32,488	105,640	72,902	..	..	1,690	2,545	–74,177
Nov.	83,651	33,904	103,331	81,065	..	..	1,690	3,203	–74,932
Dec.	84,085	33,897	139,763	76,206	..	–30,670	1,705	2,453	–74,199
1994 – Jan.	90,437	33,729	151,294	..	76,206	–48,402	1,711	2,194	–75,726
Feb.	92,044	33,624	158,295	..	76,206	–54,145	1,712	2,182	–77,380
Mar.	92,160	32,209	153,072	..	76,206	–41,236	1,728	2,304	–81,191
Apr.	91,656	31,086	146,652	..	76,206	–35,302	1,737	2,312	–82,983
May	93,807	31,075	147,875	..	76,206	–33,423	1,747	2,288	–83,848
June	93,208	31,139	168,893	..	76,206	–60,309	1,758	3,967	–82,170
July	(95,671)	31,313	168,510	..	(76,206)	–70,344	1,769	(5,005)	(–82,449)
Aug.	(92,390)	31,228	(180,895)	..	(76,206)	–77,709	1,776	(2,218)	(–82,749)
Sept.	(91,260)	30,712	(159,710)	..	(76,206)	–56,788	(1,776)	(2,294)	(–85,344)

	USES					
	Currency in circulation	Bank reserves: Deposits with the Bank of Italy	*of which:* compulsory reserves	Other	Total	Total monetary base
1990	69,449	123,727	123,230	6,047	129,773	199,222
1991	76,354	127,372	128,915	6,616	133,989	210,343
1992	85,617	127,486	129,927	5,701	133,186	218,803
1993 – Sept.	83,339	100,264	100,108	4,615	104,879	188,218
Oct.	84,011	99,856	102,057	4,003	103,859	187,870
Nov.	85,064	107,506	104,602	5,438	112,944	198,008
Dec.	89,769	103,892	105,796	5,683	109,574	199,343
1994 – Jan.	86,169	106,421	106,848	5,124	111,545	197,715
Feb.	85,472	108,547	112,033	4,895	113,442	198,913
Mar.	88,563	109,651	108,857	4,830	114,481	203,043
Apr.	87,413	108,382	109,979	4,484	112,866	200,279
May	87,910	111,322	111,719	5,420	116,743	204,652
June	87,330	108,782	110,446	5,441	114,223	201,553
July	(92,528)	(97,156)	(100,316)	(4,684)	(101,840)	(194,368)
Aug	(87,915)	(100,319)	(99,745)	(4,793)	(105,112)	(193,027)
Sept.	(89,924)	(94,546)	(94,959)	(4,644)	(99,190)	(189,114)

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	Vault cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)
1991 – Dec.	77,177	129,111	196	4,719	900	134,730	8.8
1992 – Dec.	86,254	130,055	127	4,908	511	135,475	4.2
1993 – Sept.	83,119	100,229	121	4,447	259	104,935	8.9
Oct.	83,663	102,189	132	4,058	240	106,487	9.4
Nov.	85,895	104,746	143	4,716	256	109,717	7.5
Dec.	90,336	105,917	121	5,455	230	111,603	9.0
1994 – Jan.	86,374	106,992	143	4,664	317	111,972	8.1
Feb.	85,632	112,146	112	4,574	213	116,932	5.4
Mar.	87,724	108,979	122	4,639	225	113,843	5.8
Apr.	87,259	110,132	153	4,512	199	114,843	6.5
May	88,141	111,890	171	4,715	203	116,807	6.6
June	87,803	110,587	141	5,336	205	116,128	6.0
July	91,088	100,513	196	4,761	200	105,475	5.3
Aug.	88,998	99,898	161	4,658	180	104,736	5.3
Sept.	89,626	95,263	168	(4,558)	243	(100,064)	(4.1)

averages of daily data

of lire)

		BI OPERATIONS					
		Temporary operations					
		Repurchase agreements					
Total	Percentage changes (over 12 months)	Purchases	Sales	Total	Foreign currency purchases	Fixed-term advances	TOTAL
211,907	9.6	17,018	89	16,929	..	1,492	18,422
221,729	7.1	41,277	206	41,071	26,498	3,725	71,294
188,054	7.7	34,215	330	33,885	31,577	366	65,829
190,150	8.1	36,941	301	36,640	31,555	285	68,480
195,612	7.1	38,170	307	37,863	32,247	371	70,481
201,939	7.2	35,913	251	35,662	33,408	135	69,205
198,347	7.1	49,228	224	49,004	33,716	240	82,961
202,564	5.7	58,799	257	58,542	33,496	42	92,080
201,567	6.0	46,645	338	46,307	33,661	..	79,969
202,102	6.4	36,360	325	36,035	31,904	45	67,985
204,948	6.4	47,264	404	46,860	31,431	61	78,352
203,931	6.3	56,307	408	55,898	31,144	862	87,904
196,562	6.1	53,508	689	52,819	31,120	662	84,601
193,735	6.1	53,337	890	52,446	31,164	144	83,754
(189,690)	(5.5)	41,166	981	40,184	30,931	..	71,115

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	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	32,677	1,631	31,046	–14,098	–754	2,687	16,947
1993 – 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.	30,694	135	30,559	6,407	5,038	3,182	36,966
1994 – Jan.	239	447	–208	12,036	12,500	–2,947	11,828
Feb.	21	234	–213	7,409	8,001	..	7,197
Mar.	8	522	–514	–5,548	–14,001	–150	–6,062
Apr.	19	36	–17	–6,225	–7,998	–100	–6,242
May	10	1,103	–1,093	2,988	4,497	–150	1,895
June	8	2,239	–2,231	22,925	17,503	200	20,694
July	9	958	–949	284	–6,505	–480	–665
Aug.	(5)	(2,669)	(–2,664)	(15,276)	7,499	–170	(12,612)
Sept.	(6)	(3,574)	(–3,568)	(–17,464)	–19,498	120	(–21,032)
				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	2,564	75	2,662	3,015
1993 – 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	6,287	3,023	2,977	6,167
1994 – Jan.	..	5	–5	–1,380	1,474	–2,977	–1,385
Feb.	..	215	–215	10,671	10,347	..	10,456
Mar.	..	120	–120	–8,164	–11,932	..	–8,284
Apr.	..	21	–21	2,975	1,524	..	2,954
May	..	1,091	–1,091	1,999	3,419	..	908
June	..	2,237	–2,237	9,369	6,855	..	7,132
July	..	925	–925	1,333	–4,781	..	409
Aug.	..	(2,665)	(–2,665)	(7,969)	1,164	..	(5,304)
Sept.	..	(2,383)	(–2,383)	(–4,105)	–5,228	..	(–6,488)

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	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	10,538	320	10,218	–14,603	–10,114	70	–4,386
1993 – 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.	10,085	7	10,078	–672	383	205	9,407
1994 – Jan.	11	2	8	–1,905	–1,652	–20	–1,897
Feb.	3	1	2	4,010	4,071	. .	4,012
Mar.	2	26	–23	–2,489	–2,575	–100	–2,512
Apr.	8	3	5	–4,732	–4,738	–50	–4,727
May	3	. .	3	1,288	1,302	50	1,291
June	2	. .	2	8,975	8,681	150	8,977
July	2	. .	2	–4,991	–4,859	. .	–4,989
Aug.	(3)	. .	(3)	(5,581)	5,372	. .	(5,584)
Sept.	(2)	(4)	(–2)	(–4,949)	–5,011	–50	(–4,951)
			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	21,226	407	20,819	444	11,265	–45	21,263
1993 – 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.	20,609	4	20,605	1,761	1,975	. .	22,366
1994 – Jan.	47	409	–363	11,861	9,808	50	11,498
Feb.	18	4	13	–6,735	–6,209	. .	–6,722
Mar.	5	4	1	8,154	3,193	–50	8,155
Apr.	9	. .	9	–5,363	–5,699	–50	–5,355
May	7	2	6	–829	–819	–200	–823
June	6	2	5	4,938	2,129	50	4,943
July	6	4	2	3,428	2,537	–480	3,430
Aug.	(2)	. .	(2)	(155)	110	–120	(157)
Sept.	(4)	(991)	(–987)	(–8,125)	–8,350	120	(–9,112)

Table a26

Treasury bill auctions

	MATURING BILLS			Bills offered	Maturity (days)	Market demand	BILLS ALLOTTED AT AUCTION			Average allotment price	YIELDS	
	market	BI	total				market	BI	total		after-tax	gross
						3-month						
1993 – end-Sept.	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
end- "	9,985	15	10,000	10,000	92	12,757	10,000	..	10,000	97.89	7.67	8.83
mid-Mar.	4,250	..	4,250	5,000	92	7,232	5,000	..	5,000	97.88	7.71	8.87
end- "	12,278	120	12,398	13,500	92	16,643	13,500	..	13,500	97.87	7.75	8.92
mid-Apr.	3,000	..	3,000	3,500	91	8,794	3,500	..	3,500	98.01	7.30	8.40
end- "	11,500	..	11,500	12,000	91	14,308	12,000	..	12,000	97.95	7.53	8.66
mid-May	3,000	..	3,000	3,000	92	7,710	3,000	..	3,000	98.10	6.88	7.91
end- "	9,540	460	10,000	11,500	92	16,797	11,500	..	11,500	98.05	7.07	8.13
mid-June	4,525	475	5,000	5,000	92	9,541	5,000	..	5,000	98.00	7.26	8.35
end- "	12,667	833	13,500	14,500	92	16,835	14,500	..	14,500	97.90	7.64	8.78
mid-July	3,500	..	3,500	3,750	91	7,050	3,750	..	3,750	98.05	7.15	8.22
end- "	11,761	239	12,000	13,000	94	15,884	13,000	..	13,000	97.87	7.58	8.72
mid-Aug.	3,000	..	3,000	3,750	91	7,913	3,750	..	3,750	97.91	7.68	8.84
end- "	10,222	1,278	11,500	12,500	91	14,703	12,500	..	12,500	97.81	8.07	9.29
mid-Sept.	4,838	162	5,000	6,000	91	10,251	6,000	..	6,000	97.78	8.19	9.42
end- "	13,820	680	14,500	15,000	91	18,688	15,000	..	15,000	97.86	7.88	9.06
mid-Oct.	3,714	36	3,750	4,500	94	9,890	4,500	..	4,500	97.72	8.14	9.37
						6-month						
1993 – end-Sept.	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
end- "	15,000	..	15,000	14,000	184	16,571	14,000	..	14,000	95.81	7.69	8.86
mid-Mar.	5,500	..	5,500	5,000	184	6,820	5,000	..	5,000	95.84	7.63	8.79
end- "	14,000	..	14,000	14,000	184	15,241	14,000	..	14,000	95.74	7.83	9.02
mid-Apr.	5,876	20	5,896	6,000	182	11,010	6,000	..	6,000	95.89	7.62	8.78
end- "	15,500	..	15,500	15,000	185	16,314	15,000	..	15,000	95.84	7.59	8.74
mid-May	5,500	..	5,500	5,000	183	10,880	5,000	..	5,000	96.11	7.15	8.24
end- "	13,928	572	14,500	14,000	183	16,068	14,000	..	14,000	96.23	6.92	7.97
mid-June	4,815	185	5,000	5,000	183	7,576	5,000	..	5,000	96.11	7.15	8.24
end- "	12,085	415	12,500	12,500	183	15,146	12,500	..	12,500	95.91	7.54	8.69
mid-July	5,170	330	5,500	6,000	185	8,252	6,000	..	6,000	95.76	7.74	8.92
end- "	13,994	7	14,000	14,000	185	16,958	14,000	..	14,000	95.75	7.76	8.95
mid-Aug.	6,342	158	6,500	6,500	183	7,327	6,500	..	6,500	95.71	7.93	9.14
end- "	13,748	252	14,500	14,500	181	16,466	14,500	..	14,500	95.36	8.72	10.05
mid-Sept.	4,890	110	5,000	6,000	181	10,386	6,000	..	6,000	95.36	8.72	10.05
end- "	13,366	634	14,000	14,500	181	18,476	14,500	..	14,500	95.55	8.34	9.61
mid-Oct.	5,536	464	6,000	6,000	182	8,394	6,000	..	6,000	95.43	8.53	9.84

Table a26 cont.

Treasury bill auctions

	MATURING BILLS			Bills offered	Maturity (days)	Market demand	BILLS ALLOTTED AT AUCTION			Average allotment price	YIELDS	
	market	BI	total				market	BI	total		after-tax	gross
						12-month						
1993 – end-Sept.	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
end- "	14,852	200	15,052	16,000	365	22,533	16,000	..	16,000	91.85	7.68	8.87
mid-Mar.	5,000	..	5,000	5,000	365	9,592	5,000	..	5,000	91.85	7.68	8.87
end- "	14,000	..	14,000	14,000	365	17,319	14,000	..	14,000	91.70	7.83	9.05
mid-Apr.	4,499	1	4,500	4,500	364	12,658	4,500	..	4,500	92.05	7.50	8.66
end- "	12,000	..	12,000	13,000	364	18,425	13,000	..	13,000	91.95	7.60	8.78
mid-May	5,000	..	5,000	5,500	364	15,269	5,500	..	5,500	92.25	7.29	8.42
end- "	10,441	59	10,500	10,500	364	19,020	10,500	..	10,500	92.60	6.94	8.01
mid-June	3,887	113	4,000	4,000	365	7,446	4,000	..	4,000	92.15	7.38	8.52
end- "	10,284	216	10,500	10,500	365	17,139	10,500	..	10,500	91.45	8.09	9.35
mid-July	4,753	247	5,000	5,250	364	9,483	5,250	..	5,250	91.45	8.11	9.38
end- "	13,398	103	13,500	13,500	367	15,657	13,500	..	13,500	91.40	8.09	9.36
mid-Aug.	5,330	670	6,000	5,750	363	7,142	5,750	..	5,750	91.25	8.34	9.64
end- "	11,692	308	12,000	12,000	364	15,834	12,000	..	12,000	90.30	9.30	10.77
mid-Sept.	5,456	544	6,000	6,000	365	10,484	6,000	..	6,000	90.40	9.17	10.62
end- "	13,748	252	14,000	14,500	364	17,340	14,500	..	14,500	90.80	8.78	10.16
mid-Oct.	6,690	310	7,000	7,000	367	8,434	7,000	..	7,000	90.35	9.17	10.62
						Total						
1993 – end-Sept.	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
end- "	39,837	215	40,052	40,000	–	51,861	40,000	..	40,000	–	7.68	8.86
mid-Mar.	14,750	..	14,750	15,000	–	23,645	15,000	..	15,000	–	7.67	8.84
end- "	40,278	120	40,398	41,500	–	49,203	41,500	..	41,500	–	7.80	9.00
mid-Apr.	13,375	21	13,396	14,000	–	32,462	14,000	..	14,000	–	7.50	8.65
end- "	39,000	..	39,000	40,000	–	49,047	40,000	..	40,000	–	7.58	8.73
mid-May	13,500	..	13,500	13,500	–	33,860	13,500	..	13,500	–	7.15	8.24
end- "	33,909	1,091	35,000	36,000	–	51,885	36,000	..	36,000	–	6.97	8.03
mid-June	13,227	773	14,000	14,000	–	24,563	14,000	..	14,000	–	7.25	8.36
end- "	35,036	1,464	36,500	37,500	–	49,121	37,500	..	37,500	–	7.73	8.91
mid-July	13,423	577	14,000	15,000	–	24,784	15,000	..	15,000	–	7.72	8.91
end- "	39,152	348	39,500	40,500	–	48,499	40,500	..	40,500	–	7.81	9.01
mid-Aug.	14,672	828	15,500	16,000	–	22,382	16,000	..	16,000	–	8.02	9.25
end- "	35,663	1,837	37,500	39,000	–	47,003	39,000	..	39,000	–	8.69	10.03
mid-Sept.	15,183	817	16,000	18,000	–	31,121	18,000	..	18,000	–	8.69	10.03
end- "	40,934	1,566	42,500	44,000	–	54,503	44,000	..	44,000	–	8.33	9.60
mid-Oct.	15,941	809	16,750	17,500	–	26,718	17,500	..	17,500	–	8.69	10.03

Table a27

Bank of Italy repurchase agreements

DAY OF AUCTION	AMOUNT		MATURITY (DAYS)		ALLOTMENT RATES	
	offered	taken up	minimum	maximum	marginal	weighted average
1994 – Mar. 28						
1994 – Mar. 29	4,000	4,000	31	31	8.40	8.42
1994 – Apr. 1	5,000	5,000	31	31	8.25	8.29
1994 – Apr. 5	7,500	7,500	10	10	8.30	8.34
1994 – Apr. 12	5,000	5,000	20	20	8.20	8.27
1994 – Apr. 14	3,000	3,000	19	19	8.10	8.17
1994 – Apr. 18	8,000	8,000	30	30	8.05	8.05
1994 – Apr. 20	5,500	5,500	32	33	8.00	8.04
1994 – Apr. 22	4,000	4,000	29	33	8.00	8.04
1994 – Apr. 27	10,500	10,500	22	22	7.95	8.00
1994 – May 3	7,500	7,500	31	31	8.05	8.07
1994 – May 9	3,500	3,500	7	7	8.10	8.11
1994 – May 18	8,000	8,000	27	27	7.65	7.67
1994 – May 19	11,000	11,000	32	32	7.55	7.58
1994 – May 23	5,000	5,000	31	31	7.55	7.58
1994 – May 24	7,000	7,000	30	31	7.55	7.56
1994 – May 26	7,000	7,000	32	32	7.60	7.61
1994 – June 2	10,000	10,000	28	29	7.60	7.66
1994 – June 6	10,000	10,000	25	25	7.60	7.66
1994 – June 9	5,000	5,000	29	29	7.60	7.64
1994 – June 13	3,500	3,500	2	2	7.75	7.76
1994 – June 20	9,500	9,500	25	25	8.05	8.11
1994 – June 23	10,000	10,000	31	32	7.95	7.99
1994 – June 24	10,000	10,000	6	6	7.95	8.01
1994 – June 27	10,000	10,000	29	29	7.95	7.98
1994 – June 28	8,000	8,000	20	20	7.85	7.89
1994 – June 30	5,000	5,000	29	30	8.00	8.00
1994 – July 5	7,500	7,500	31	31	8.05	8.10
1994 – July 8	3,500	3,500	7	7	8.05	8.07
1994 – July 12	4,000	4,000	3	3	8.15	8.19
1994 – July 18	10,000	10,000	35	35	8.15	8.20
1994 – July 22	13,000	13,000	16	16	8.05	8.09
1994 – July 25	12,000	12,000	28	29	8.05	8.06
1994 – July 26	14,000	14,000	37	37	7.95	8.00
1994 – Aug. 4	8,000	8,000	27	28	8.20	8.23
1994 – Aug. 5	5,000	5,000	26	26	8.20	8.21
1994 – Aug. 9	9,500	9,500	7	8	8.30	8.31
1994 – Aug. 16	8,500	8,500	33	33	8.60	8.71
1994 – Aug. 19	10,000	10,000	32	32	8.45	8.50
1994 – Aug. 22	12,000	12,000	37	37	8.25	8.30
1994 – Aug. 25	11,500	11,500	10	10	8.00	8.07
1994 – Sept. 2	4,000	4,000	31	31	8.20	8.24
1994 – Sept. 5	10,000	10,000	4	4	8.10	8.15
1994 – Sept. 9	7,500	7,500	28	28	8.25	8.28
1994 – Sept. 19	8,000	8,000	28	28	8.25	8.27
1994 – Sept. 23	10,000	10,000	28	28	8.25	8.30
1994 – Sept. 26	8,000	8,000	29	29	8.20	8.24
1994 – Sept. 29	7,000	7,000	32	32	8.20	8.20
1994 – Oct. 7	3,000	3,000	10	10	8.30	8.32
1994 – Oct. 17	8,000	8,000	29	29	8.35	8.36
1994 – Oct. 21	7,500	7,500	24	24	8.35	8.40
1994 – Oct. 25	12,000	12,000	28	28	8.35	8.40

Table a28

Bank of Italy foreign currency swaps

DATE OD AUCTION	AMOUNT offered	AMOUNT taken up	MATURITY IN DAYS	SPOT EXCHANGE RATE	FORWARD POINTS marginal	FORWARD POINTS weighted average	Yields marginal	Yields weighted average
				Purchases of dollars				
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	6.59	8.48	8.50
1994 – Mar. 18 ...	5,000	5,000	31	1,676.00	6.76	6.77	8.26	8.27
1994 – Mar. 22 ...	4,000	4,000	61	1,672.00	12.61	12.68	8.36	8.38
1994 – Apr. 5 ...	2,500	2,500	61	1,635.50	11.68	11.76	8.24	8.27
1994 – Apr. 14 ...	5,000	5,000	63	1,631.00	11.50	11.55	7.93	7.95
1994 – Apr. 20 ...	5,000	5,000	31	1,627.50	5.41	5.44	7.81	7.83
1994 – May 19 ...	5,000	5,000	67	1,585.50	8.26	8.33	7.50	7.52
1994 – May 20 ...	4,000	4,000	96	1,584.00	11.71	11.73	7.49	7.50
1994 – June 3 ...	2,500	2,500	96	1,612.50	12.53	12.58	7.70	7.72
1994 – June 16 ...	5,000	5,000	92	1,593.00	13.51	13.55	7.92	7.93
1994 – July 21 ...	5,000	5,000	31	1,558.00	4.80	4.82	8.09	8.11
1994 – Aug. 22 ...	4,000	4,000	93	1,565.25	15.75	15.86	8.95	8.97
1994 – Aug. 23 ...	5,000	5,000	61	1,566.00	9.05	9.13	8.31	8.34
1994 – Sept. 5 ...	2,500	2,500	94	1,569.50	14.55	14.61	8.71	8.73
1994 – Sept. 16 ...	5,000	5,000	91	1,563.00	13.50	13.59	8.52	8.55
1994 – Oct. 21 ...	5,000	5,000	92	1,528.00	11.92	13.98	8.72	8.74
				Purchases of Deutschemarks				
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
1994 – Mar. 10 ...	5,000	5,000	31	991.50	1.80	1.83	8.18	8.21
1994 – Apr. 12 ...	5,000	5,000	32	951.00	1.85	1.87	8.01	8.03
1994 – May 11 ...	5,000	5,000	31	956.50	1.87	1.90	7.59	7.63
1994 – June 14 ...	5,000	5,000	32	971.00	2.22	2.25	7.65	7.68
1994 – July 14 ...	5,000	5,000	31	992.80	2.60	2.64	7.93	7.97
1994 – Aug. 16 ...	5,000	5,000	32	1,022.00	3.35	3.47	8.58	8.71
1994 – Sept. 15 ...	5,000	5,000	31	1,014.25	2.62	2.64	8.11	8.13
1994 – Oct. 17 ...	5,000	5,000	33	1,023.00	3.02	3.05	8.17	8.20

Table a29

Outright purchases of Treasury bills by the Bank of Italy

DATE OF AUCTION	Amount			Residual maturity in days		Allotment rates	
	offered	requested	taken up	minimum	maximum	marginal	weighted average
1994 – Feb. 25	–	337	337	91	91	8.25	8.37
– Mar. 2	–	712	712	89	104	8.03	8.30
– Mar. 10	–	685	685	81	111	7.90	8.11
– Mar. 18	–	1,064	1,064	89	119	7.90	7.99
– Mar. 29	1,000	2,466	1,000	92	107	8.15	8.28
– Apr. 7	1,000	1,278	1,000	99	113	8.05	8.19
– Apr. 26	1,000	2,259	1,000	112	127	8.00	8.04
– June 3	1,500	2,869	1,500	56	89	7.75	7.81
– July 4	2,000	2,404	2,000	58	88	8.05	8.15
– July 13	1,500	1,510	1,500	79	110	7.80	8.02
– July 20	750	1,337	750	57	86	8.00	8.02
– July 20	750	2,028	750	103	133	8.05	8.05
– July 28	1,000	2,292	1,000	95	125	8.20	8.24
– Aug. 2	2,000	3,743	2,000	90	120	8.30	8.31
– Aug. 3	1,250	2,059	1,250	89	119	8.30	8.32
– Aug. 11	1,750	942	942	96	126	8.05	8.26
– Aug. 11	1,250	2,600	1,250	141	172	8.30	8.31
– Aug. 29	1,000	2,618	1,000	108	170	8.55	8.57
– Sept. 14	1,000	2,136	1,000	92	154	8.55	8.67
– Oct. 11	1,500	3,317	1,500	97	155	8.80	8.91
– Oct. 12	1,500	2,065	1,500	96	154	8.65	8.76
– Oct. 18	1,000	1,935	1,000	148	163	8.85	8.91

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
May 12	7.00	7.00	1.00	8.00
Aug. 12	7.50	7.50	1.00	8.50

Table a31

Interest rates

	BI OPERATIONS								TREASURY BILLS			
	Discount	Fixed-term advances	Foreign currency swaps		Repurchase agreements				3-month	6-month	12-month	Average
			Purchases		Purchases		Sales					
			minimum	average	minimum	average	maximum	average				
1991	12.00	12.04	–	–	10.76	10.89	13.69	13.21	12.66	12.53	12.39	12.54
1992	12.00	13.00	13.80	13.89	13.42	13.57	–	–	14.48	14.38	14.02	14.32
1993	8.00	9.00	9.96	9.99	10.07	10.14	–	–	10.47	10.52	10.74	10.58
1993 – Sept. .	8.50	9.50	8.84	8.86	8.97	9.03	–	–	8.86	9.03	9.40	9.10
Oct. ..	8.00	9.00	8.59	8.61	9.01	9.06	–	–	9.11	8.95	9.11	9.06
Nov. ..	8.00	9.00	8.80	8.82	8.98	9.03	–	–	8.90	9.46	9.59	9.37
Dec. ..	8.00	9.00	8.51	8.53	8.73	8.81	–	–	8.18	8.40	8.54	8.38
1994 – Jan. ..	8.00	9.00	8.34	8.36	8.57	8.62	–	–	8.26	8.70	8.69	8.59
Feb. ..	7.50	8.50	8.42	8.44	8.39	8.46	–	–	8.66	8.83	8.81	8.78
Mar. ..	7.50	8.50	7.27	8.29	8.37	8.39	–	–	8.91	8.96	9.00	8.96
Apr. ..	7.50	8.50	8.00	8.02	8.11	8.15	–	–	8.60	8.75	8.75	8.71
May ..	7.00	8.00	7.53	7.55	7.72	7.74	–	–	8.08	8.04	8.15	8.09
June .	7.00	8.00	7.76	7.78	7.83	7.87	–	–	8.67	8.56	9.12	8.76
July ..	7.00	8.00	8.01	8.04	8.06	8.10	–	–	8.61	8.94	9.37	8.98
Aug. ..	7.50	8.50	8.61	8.67	8.29	8.33	–	–	9.19	9.77	10.40	9.80
Sept. .	7.50	8.50	8.45	8.47	8.21	8.24	–	–	9.16	9.74	10.29	9.73

Table a32

Short-term bank interest rates

	Interbank operations					Customer operations						ABI prime rate
	Sight deposits	Overnight	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 – 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
Feb.	8.84	8.41	8.46	8.45	8.23	7.48	5.12	7.11	6.96	9.46	11.60	9.38
Mar.	8.59	8.32	8.40	8.42	8.22	7.25	4.91	6.90	6.71	9.18	11.36	9.38
Apr.	8.52	8.17	8.13	8.11	7.92	7.16	4.94	6.80	6.71	9.05	11.20	9.13
May	8.17	7.77	7.79	7.81	7.62	6.95	4.72	6.64	6.55	8.85	11.08	8.88
June ...	8.02	7.87	7.96	8.11	7.87	6.72	4.50	6.42	6.36	8.60	10.80	8.88
July	8.32	8.19	8.28	8.48	8.27	6.71	4.53	6.40	6.32	8.64	10.96	8.88
Aug.	8.54	8.29	8.53	8.92	8.69	6.80	4.54	6.56	6.45	8.83	11.15	9.38
Sept. ...	(8.46)	8.17	8.34	8.72	8.45	(6.99)	(4.62)	(6.92)	(6.94)	(9.04)	(11.32)	9.38

Principal assets and liabilities of banks

(billions of lire)

	Assets								
	Bank reserves	Loans	Securities	Shares	Participating interests	Repos	Bad debts and protested bills	Interbank accounts	Interest-bearing external assets
1990	128,921	770,561	221,493	2,547	23,801	5,075	40,492	95,018	116,102
1991	133,056	880,933	274,235	2,600	34,950	14,373	47,199	97,583	124,901
1992	132,065	982,992	327,513	3,020	38,743	16,427	54,729	157,849	165,187
1993 – Aug. ...	104,085	1,000,569	316,028	2,182	38,856	21,048	64,361	140,324	212,808
Sept. ..	104,094	995,114	325,161	2,250	38,746	25,727	65,418	142,325	204,590
Oct. ...	103,186	1,001,306	338,376	2,566	39,337	25,438	67,815	146,016	203,799
Nov. ...	112,112	1,000,895	341,023	2,999	39,405	26,078	69,578	151,822	216,182
Dec. ...	108,626	1,021,651	349,770	3,172	40,255	27,792	70,185	171,104	229,057
1994 – Jan. ...	110,825	1,014,044	346,805	2,318	39,073	29,288	72,751	144,831	208,230
Feb. ...	112,638	1,012,289	355,311	2,072	39,576	27,493	74,716	151,234	219,449
Mar. ...	113,534	1,003,444	368,344	2,611	41,358	23,653	76,468	150,933	209,404
Apr. ...	112,060	1,001,221	372,269	2,631	41,638	22,124	78,543	144,949	193,494
May ...	115,855	997,944	375,882	2,667	42,418	19,858	80,332	146,325	196,914
June ..	113,388	1,007,207	382,668	1,805	44,707	17,394	80,948	148,609	196,325
July ...	101,617	1,011,237	376,486	2,044	45,325	....	82,147	135,890	184,925
Aug. ...	(104,728)	(1,004,851)	380,683	2,006	46,081	....	82,996	142,704	189,077

	Liabilities									
	Deposits		Bonds	Public funds and *Mediocredito centrale*	Loans from BI-UIC	Repos	Interbank accounts	Capital and reserves	Interest-bearing external liabilities	Other items
		of which: CDs								
1990	753,054	182,074	135,872	9,585	7,600	19,837	105,370	126,562	232,106	14,024
1991	823,460	222,950	153,174	9,542	8,858	78,156	103,403	162,498	279,783	–9,043
1992	861,143	274,920	166,407	8,254	8,936	138,035	159,320	189,993	367,496	–21,059
1993 – Aug. ...	848,530	308,904	178,913	9,438	1,849	167,703	142,802	202,042	358,489	–9,503
Sept. ..	868,439	311,258	180,808	8,767	1,895	143,690	147,178	203,064	355,635	–6,053
Oct. ...	872,202	312,570	187,012	8,765	2,648	150,307	146,929	203,961	357,373	–1,358
Nov. ...	870,430	313,112	191,087	8,765	3,357	153,022	154,855	205,511	367,804	5,263
Dec. ...	931,030	315,828	194,113	9,261	2,722	142,945	179,086	206,017	369,979	–13,542
1994 – Jan. ...	898,215	323,043	199,248	8,921	4,076	161,545	150,866	209,507	358,553	–22,766
Feb. ...	903,389	322,759	202,130	8,809	5,643	171,824	153,003	212,410	360,292	–22,724
Mar. ...	917,929	322,846	203,970	8,481	7,352	147,381	154,258	215,811	356,403	–21,835
Apr. ...	910,117	320,791	206,869	8,456	7,248	144,090	150,405	215,354	347,738	–21,348
May ...	904,629	322,829	209,515	8,489	7,091	145,039	149,651	215,350	354,124	–15,694
June ..	911,914	320,382	211,405	8,642	8,655	149,327	155,627	213,772	357,562	–23,853
July ...	885,521	315,391	211,485	9,116	9,654	....	138,921	216,173	358,784	....
Aug. ...	880,648	310,869	212,273	9,280	6,872	....	146,120	217,435	361,103	....

Table a34

Principal assets and liabilities of banks accepting short-term funds (excluding special credit sections)

(billions of lire)

	ASSETS										
	Bank reserves	Loans		Securities			Shares and participating interests	Repos	Bad debts and protested bills	Interbank accounts	Interest-bearing external assets
		in lire	in foreign currency		of which: short-term government securities	of which: other govern-ment securities					
1990	128,781	437,406	58,516	207,555	28,768	117,912	21,481	1,326	28,267	89,696	105,458
1991	132,952	500,199	69,494	260,530	31,196	170,065	32,125	9,314	32,613	90,355	112,132
1992	132,003	521,645	116,162	316,636	31,129	224,163	36,687	11,091	37,428	152,002	146,947
1993 – Sept. .	104,033	523,292	100,313	301,131	57,858	192,698	36,301	20,156	45,050	136,109	186,618
Oct. . .	103,168	527,095	99,192	314,123	63,406	201,855	37,215	19,187	46,239	138,537	185,827
Nov. . .	112,100	521,627	100,188	317,613	63,638	204,561	37,729	19,148	47,034	145,476	198,210
Dec. . .	108,616	546,863	94,423	325,711	72,999	201,633	38,520	20,182	47,161	164,298	209,103
1994 – Jan. . .	110,810	541,733	90,345	323,535	72,233	201,366	36,487	22,448	49,112	136,428	188,276
Feb. . .	112,622	536,899	89,893	332,889	78,046	206,197	36,746	21,424	50,461	143,905	199,494
Mar. . .	113,520	529,648	85,764	344,800	79,937	214,965	38,807	18,354	51,744	143,801	191,339
Apr. . .	112,024	529,488	82,937	349,527	80,010	220,623	39,126	17,730	53,111	138,874	175,430
May . .	115,844	524,786	82,141	353,220	80,617	222,459	39,934	16,370	54,191	141,096	178,849
June .	113,319	534,609	83,510	363,229	80,176	230,588	41,372	14,812	54,099	141,851	176,325
July . .	101,550	537,340	84,363	355,969	72,793	231,349	42,229	15,444	55,298	129,044	164,925
Aug. . .	104,665	529,864	84,400	361,223	68,939	240,143	42,925	13,327	56,146	136,352	169,076
Sept. .	....	(529,064)	(83,000)	(369,223)	(69,739)	....	....	....	....	....	....

	LIABILITIES										
	Deposits			Residents' foreign currency accounts	Funds managed for public bodies	Loans from BI-UIC	Repos	Interbank accounts	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	18,059	96,892	95,695	158,162	10,014
1991	748,800	435,469	153,493	5,203	1,821	8,826	75,170	95,802	126,499	188,453	–10,860
1992	775,946	431,273	200,998	11,274	1,613	8,870	136,615	148,714	153,592	254,630	–20,653
1993 – Sept. .	773,839	410,651	230,638	13,980	1,524	1,877	134,878	134,498	164,563	236,277	–8,432
Oct. . .	778,521	413,425	231,796	12,908	1,526	2,546	141,043	133,573	165,459	237,857	–2,849
Nov. . .	776,200	410,712	232,921	14,040	1,513	3,172	143,305	140,186	167,009	247,147	6,554
Dec. . .	835,874	461,250	234,851	14,178	1,294	2,454	132,776	162,064	166,292	251,502	–11,557
1994 – Jan. . .	798,906	423,942	238,734	15,133	1,326	2,223	152,769	136,642	169,781	240,300	–17,907
Feb. . .	806,282	430,442	241,310	15,793	1,276	2,204	164,442	138,742	172,685	242,324	–19,416
Mar. . .	821,136	443,699	242,620	16,701	1,313	2,328	141,390	137,510	174,294	241,261	–18,157
Apr. . .	814,210	439,102	241,000	16,258	1,283	2,341	138,350	129,960	173,837	233,354	–11,346
May . .	808,789	436,121	242,143	15,289	1,282	2,301	139,549	128,722	173,833	241,286	–4,619
June .	816,284	445,338	240,610	15,995	1,242	3,982	144,088	136,876	171,992	244,977	–12,310
July . .	792,459	424,687	238,012	15,822	1,255	4,981	147,172	120,590	174,392	246,490	–16,999
Aug. . .	789,977	424,628	235,992	15,953	1,238	2,199	157,248	127,387	175,655	248,902	–20,579
Sept. .	(796,777)	(433,428)	(233,892)	....	....	2,263	....	....	....	....	....

Table a35

Principal assets and liabilities of banks accepting medium and long-term funds (including special credit sections)

(billions of lire)

	ASSETS								
	Cash and liquid assets	Loans		Securities	Shares and participating interest	Repos	Foreign assets		
		domestic	on behalf on the Treasury				buyer credit	loans to non-residents	other
1990	5,504	273,241	1,708	13,938	4,867	3,750	5,476	1,311	3,857
1991	7,362	310,195	963	13,706	5,426	5,059	6,097	1,903	4,769
1992	5,921	342,757	458	10,878	5,076	5,336	7,879	2,506	7,855
1993 – Sept.	6,282	365,417	159	24,030	4,695	5,571	9,107	2,153	6,712
Oct.	7,509	369,431	159	24,253	4,688	6,250	9,258	2,268	6,446
Nov.	6,363	373,963	159	23,410	4,675	6,930	9,597	2,349	6,027
Dec.	6,849	375,648	151	24,059	4,907	7,610	9,330	2,352	8,273
1994 – Jan.	8,430	376,831	105	23,270	4,904	6,840	9,114	2,389	8,452
Feb.	7,443	379,942	105	22,422	4,902	6,069	9,249	2,483	8,223
Mar.	7,155	381,912	105	23,544	5,162	5,299	8,532	2,475	7,057
Apr.	6,119	383,049	105	22,741	5,144	4,393	8,532	2,397	7,135
May	5,246	385,645	105	22,661	5,151	3,488	8,468	4,173	5,423
June	6,837	384,088	98	19,439	5,140	2,582	8,402	3,227	8,372
July	6,922	384,535	98	20,516	5,140	....	8,426	3,500	8,074
Aug.	6,426	385,587	98	19,460	5,162	....	8,465	5,235	6,300
Sept.	....	(384,462)	....	....	....	....	....	....	....

	LIABILITIES									
	Bonds		Certificates of deposit	Short-term financing	Public funds	*Mediocredito centrale*	Repos	Capital and reserves	Foreign liabilities	Other items
	ordinary	on behalf on the Treasury								
1990	135,790	1,759	64,836	8,478	3,712	4,149	1,778	30,867	73,944	–11,662
1991	153,053	976	72,505	7,601	3,618	4,103	2,986	35,999	91,330	–16,693
1992	166,223	483	77,145	10,606	2,461	4,180	1,420	36,401	112,866	–23,120
1993 – Aug.	178,668	179	81,806	11,974	3,647	4,252	7,645	38,347	118,950	–24,977
Sept.	180,563	174	82,238	12,681	3,329	3,914	8,812	38,501	119,358	–25,446
Oct.	186,587	174	82,426	13,356	3,292	3,947	9,264	38,501	119,516	–26,801
Nov.	190,656	174	81,645	14,670	3,210	4,042	9,716	38,501	120,657	–29,798
Dec.	193,663	174	82,820	17,022	3,910	4,057	10,169	39,725	118,478	–30,839
1994 – Jan.	198,598	107	85,299	14,224	3,832	3,763	8,776	39,725	118,253	–32,245
Feb.	201,399	107	82,277	14,261	3,758	3,776	7,384	39,725	117,968	–29,816
Mar.	203,308	107	81,199	16,748	3,682	3,486	5,991	41,517	115,141	–29,937
Apr.	206,207	107	80,700	20,444	3,639	3,534	5,740	41,517	114,384	–36,658
May	208,848	107	81,668	20,930	3,611	3,596	5,490	41,517	112,838	–38,244
June	210,692	104	80,657	18,751	3,600	3,800	5,239	41,781	112,585	–39,024
July	210,468	104	78,203	18,331	3,865	3,996	....	41,781	112,294	....
Aug.	211,139	104	75,715	18,733	4,178	3,864	....	41,781	112,201	....

Bank lending by branch of economic activity

(source: Central Credit Register - billions of lire)

July1994

	Total outstanding				Twelve-month percentage change			
		public enterprises	private enterprises	producer households	total	public enterprises	private enterprises	producer households
Agricultural, forestry and fishery products	27,854	56	14,424	13,374	–8.5	–3.4	–18.4	5.4
Energy products	21,010	14,557	6,362	91	2.4	4.0	–1.2	12.3
of which: electric power	*11,851*	*10,936*	*894*	*21*	*5.8*	*6.0*	*3.2*	*16.7*
gas and water	*2,592*	*815*	*1,758*	*19*	*10.8*	*4.8*	*14.0*	..
Ferrous and non-ferrous ores and metals	11,393	161	10,880	352	3.9	–84.7	13.9	–1.7
Non-metallic mineral products	18,373	346	15,775	2,252	4.0	–7.7	4.2	4.1
Chemical products	16,398	309	15,530	559	–0.5	–4.9	–0.5	2.0
Metal products except machinery and transport equipment	30,908	3,490	21,687	5,731	14.5	288.6	5.2	4.5
Agricultural and industrial machinery	27,520	2,545	22,501	2,474	–0.5	333.6	–8.5	..
Office and data processing machines; precision and optical instruments	5,580	218	4,921	441	–9.7	–23.8	–10.2	5.8
Electrical goods	18,989	746	16,838	1,405	2.1	–36.4	4.4	8.2
Motor vehicles	12,189	2,421	9,060	708	–4.1	60.4	–13.5	–1.7
Food products, beverages and tobacco products	28,472	258	24,491	3,723	–4.4	–13.7	–5.4	2.8
Textiles, leathers, footwear and clothing	40,079	33	33,567	6,479	0.9	–47.6	0.8	2.0
Paper, products of printing and publishing	14,201	272	12,250	1,679	–1.7	–27.7	–1.7	4.3
Rubber and plastic products	10,079	25	8,552	1,502	5.5	4.2	5.2	6.8
Other manufacturing products	20,213	9	14,770	5,434	4.4	50.0	3.5	6.9
Building and construction	107,607	6,415	82,555	18,637	4.8	210.7	–0.4	5.1
Wholesale and retail trade	116,732	366	79,417	36,949	2.4	117.9	0.9	5.3
of which: wholesale trade	*73,891*	*316*	*58,438*	*15,137*	*2.0*	*167.8*	*0.8*	*5.7*
Lodging and catering services	17,794	116	10,207	7,471	2.7	–5.7	–1.4	9.1
Inland transport services	20,857	12,073	5,633	3,151	–1.2	2.0	–9.6	3.3
Maritime and air transport services	6,060	2,394	3,610	56	4.7	23.0	–4.7	3.7
Auxiliary transport services	6,969	2,197	4,364	408	6.8	7.1	7.1	2.3
Communications services	10,969	10,806	142	21	–13.0	–13.1	–12.3	10.5
Other market services	87,085	1,849	73,344	11,892	4.1	24.5	2.5	11.6
Total borrowings	**677,331**	**61,662**	**490,880**	**124,789**	**1.9**	**16.0**	**–0.5**	**5.6**
Total facilities granted	**945,797**	**87,227**	**714,761**	**143,809**	**0.9**	**14.7**	**–1.1**	**3.8**

Italian investment funds: securities

(end-of-period balance sheet

	LIRA SECURITIES						
	Government securities				Bonds	Shares	TOTAL
		of which:					
		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
1992 – 3rd qtr.	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	1,426	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
1994 – 1st qtr.	58,211	3,283	32,834	17,787	2,000	16,895	77,106
2nd "	61,679	4,194	32,401	20,760	2,355	20,492	84,525
3rd "	(59,670)	....	....	....	(2,846)	(21,934)	(84,450)
1993 – 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
1994 – Jan.	57,826	2,942	30,993	18,750	2,243	13,909	73,978
Feb.	56,595	3,191	30,544	18,274	2,046	13,990	72,631
Mar.	58,211	3,283	32,834	17,787	2,000	16,895	77,106
Apr.	61,231	3,290	34,679	18,831	1,902	21,103	84,236
May	63,775	3,402	36,452	19,528	2,057	20,406	86,238
June	61,679	4,194	32,401	20,760	2,355	20,492	84,525
July	60,848	3,901	31,997	20,823	2,395	22,974	86,216
Aug.	57,881	4,468	28,456	21,333	2,386	21,696	81,913
Sept.	(59,670)	....	....	....	(2,846)	(21,934)	(84,450)

Table a37

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
13,894	6,322	727	56,028	60,663	26,717	732
35,243	14,244	1,140	102,075	110,093	67,776	33,462
11,801	4,911	952	48,204	56,604	5,075	–2,977
13,894	6,322	727	56,028	60,663	5,934	–1,359
17,891	7,934	763	61,997	66,086	10,680	2,823
18,716	8,382	708	68,898	73,521	12,026	3,490
24,385	10,040	1,051	85,237	89,675	7,223	4,277
35,243	14,244	1,140	102,075	110,093	26,516	15,748
41,912	18,133	1,670	120,688	129,954	36,784	21,869
36,966	19,578	1,469	122,960	136,231	29,481	8,983
(35,814)	(20,273)	....	....	(134,388)	(9,883)	(–1,606)
24,385	10,004	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
39,195	16,569	1,378	114,551	120,132	11,924	8,390
43,082	18,232	1,625	117,338	125,485	14,270	8,438
41,912	18,133	1,670	120,688	129,954	10,590	5,041
40,138	18,766	17,41	126,115	136,259	12,463	3,939
38,926	19,135	1,795	126,959	137,481	10,758	3,925
36,966	19,578	1,469	122,960	136,231	6,260	1,119
37,821	20,257	1,564	125,601	138,027	4,143	183
38,116	21,250	743	120,772	136,804	2,840	–88
(35,814)	(20,273)	....	....	(134,388)	(2,900)	(–1,701)

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**
1993 - 4th qtr.						
Securities firms	2,695	120	921	1,333	525	1,668
Trust companies	9,392	774	3,482	4,789	1,015	2,461
Banks	85,086	7,134	12,187	61,372	13,309	8,558
Total ...	**97,173**	**8,028**	**16,590**	**67,494**	**14,849**	**12,687**
1994 - 1st qtr.						
Securities firms	2,926	127	1,007	1,562	664	1,636
Trust companies	9,739	833	4,115	4,465	1,213	2,348
Banks	91,106	5,339	19,470	62,265	13,979	9,582
Total ...	**103,771**	**6,299**	**24,592**	**68,272**	**15,856**	**13,566**
1994 - 2nd qtr.						
Securities firms	3,251	87	1,368	1,549	734	1,266
Trust companies	9,803	968	4,113	4,375	1,321	1,896
Banks	97,589	3,992	25,558	64,219	14,490	8,940
Total ...	**110,643**	**5,047**	**31,039**	**70,143**	**16,545**	**12,102**

Table a38

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**
818	417	1,111	7,235	7,641	1,216	441
1,213	147	2,375	16,603	17,831	3,314	1,130
2,542	325	834	110,655	117,457	12,976	6,547
4,573	**889**	**4,320**	**134,493**	**142,929**	**17,506**	**8,118**
1,153	500	1,270	8,149	8,948	1,710	555
1,517	147	3,033	17,997	19,388	3,581	1,461
3,479	390	2,235	120,771	128,905	22,465	9,888
6,149	**1,037**	**6,538**	**146,917**	**157,241**	**27,756**	**11,904**
1,530	521	1,280	8,582	8,980	1,375	–461
1,772	139	3,272	18,203	19,466	2,978	626
5,278	410	2,669	129,375	136,109	13,868	6,768
8,580	**1,070**	**7,221**	**156,160**	**164,555**	**18,221**	**6,933**

Table a39

Net issues of securities

(billions of lire)

	ISSUERS			Total bonds and govern-ment securities	INVESTORS				Shares
	Public sector	Bank accepting medium and long-term funds	International firms and institutions		BI-UIC	Banks accepting short-term funds	Investment funds	Other	
1988	103,850	7,966	709	112,525	16	–12,778	–9,555	134,842	9,697
1989	108,588	8,205	35	116,828	564	–23,559	–4,168	143,992	18,370
1990	116,753	5,985	–2,592	120,147	–4,205	387	3,776	120,189	21,246
1991	127,133	15,939	3,813	146,884	–973	52,957	6,726	88,174	18,363
1992	136,437	10,848	–3,464	143,821	14,483	55,258	1,500	72,580	16,194
1993	165,984	26,213	–2,341	189,856	11,557	12,140	17,042	149,117	20,276
1992 – 2nd qtr.	44,714	4,342	–768	48,288	2,009	47,475	3,111	–4,307	3,366
3rd "	10,414	–752	–1,058	8,603	9,697	–6,635	–5,712	11,253	3,393
4th "	40,605	3,021	–883	42,742	6,754	10,436	3,562	21,990	3,974
1993 – 1st qtr.	45,549	3,961	–625	48,885	74	–23,013	–996	72,820	2,396
2nd "	39,836	4,610	–1,567	42,879	–4,365	12,576	2,554	32,114	5,378
3rd "	24,810	5,083	–366	29,527	–7,042	–2,986	8,077	31,478	2,189
4th "	55,790	12,560	216	68,565	22,891	25,563	7,408	12,703	10,334
1994 – 1st qtr.	45,878	(9,348)	(–273)	(54,953)	9,751	(19,733)	14,394	(11,075)	....
2nd "	41,987	(7,074)	(–1,574)	(47,486)	3,432	(19,616)	5,561	(18,877)	....
1993 – Aug.	4,162	1,856	–1,256	4,761	–6,304	2,315	2,494	6,256	822
Sept.	9,573	1,747	39	11,358	–381	5,201	2,403	4,135	478
Oct.	8,900	5,990	114	15,004	–6,584	13,530	2,470	5,588	3,434
Nov.	9,529	3,680	409	13,618	655	3,972	–411	9,402	2,711
Dec.	37,361	2,889	–307	39,943	28,819	8,061	5,350	–2,287	4,189
1994 – Jan.	14,818	(5,390)	(50)	(20,258)	66	–(1,267)	8,360	(13,099)	....
Feb.	18,782	(3,001)	(–183)	(21,600)	220	(9,615)	4,570	(7,195)	....
Mar.	12,279	(957)	(–141)	(13,096)	9,465	(11,385)	1,464	(–9,218)	....
Apr.	11,618	(3,028)	(–1,025)	(13,621)	1,880	(5,110)	2,946	(3,685)	....
May	18,956	(2,319)	(54)	(21,328)	–2,292	(3,566)	3,375	(16,679)	....
June	11,413	(1,727)	(–603)	(12,537)	3,844	(10,940)	–760	(–1,487)	....
July	5,847	(793)	(–1,087)	(5,553)	6,607	(–8,413)	–405	(7,764)	....
Aug.	13,084	(775)	(–1)	(13,858)	5,779	(4,280)	–1,901	(5,700)	....

Table a40

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
36682	BTP	1.4.97	1.4.94	99.60	8.83	7.71	1,500	4.25	3.7185
36683	BTP	1.4.99	1.4.94	99.05	8.92	7.79	1,500	4.25	3.7185
36684	BTP	1.4.04	5.4.94	98.15	8.97	7.83	1,500	4.25	3.7185
36682	BTP	1.4.97	19.4.94	101.35	8.12	7.02	1,500	4.25	3.7185
36683	BTP	1.4.99	19.4.94	101.15	8.37	7.26	1,500	4.25	3.7185
36684	BTP	1.4.04	20.4.94	99.20	8.80	7.67	2,000	4.25	3.7185
36682	BTP	1.4.97	2.5.94	100.05	8.64	7.52	4,000	4.25	3.7185
36683	BTP	1.4.99	2.5.94	99.35	8.84	7.71	4,000	4.25	3.7185
36665	BTP	1.11.23	3.5.94	93.60	9.88	8.63	2,000	4.50	3.9375
36684	BTP	1.4.04	3.5.94	96.90	9.17	8.02	3,000	4.25	3.7185
36682	BTP	1.4.97	18.5.94	100.25	8.55	7.44	2,000	4.25	3.7185
36683	BTP	1.4.99	18.5.94	99.35	8.84	7.71	2,000	4.25	3.7185
36684	BTP	1.4.04	19.5.94	97.00	9.15	8.01	1,500	4.25	3.7185
36682	BTP	1.4.97	1.6.94	99.45	8.90	7.77	2,000	4.25	3.7185
36683	BTP	1.4.99	1.6.94	97.10	9.46	8.31	2,000	4.25	3.7185
36665	BTP	1.11.23	2.6.94	89.60	10.35	9.05	1,500	4.50	3.9375
36684	BTP	1.4.04	2.6.94	92.10	9.99	8.81	2,000	4.25	3.7185
36682	BTP	1.4.97	16.6.94	97.95	9.55	8.41	1,500	4.25	3.7185
36683	BTP	1.4.99	16.6.94	95.00	10.06	8.89	1,500	4.25	3.7185
36684	BTP	1.4.04	17.6.94	89.85	10.40	9.19	1,000	4.25	3.7185
36682	BTP	1.4.97	4.7.94	96.15	10.37	9.22	3,000	4.25	3.7185
36683	BTP	1.4.99	4.7.94	93.30	10.57	9.39	2,000	4.25	3.7185
36665	BTP	1.11.23	5.7.94	81.70	11.41	10.00	1,000	4.50	3.9375
36684	BTP	1.4.04	5.7.94	87.40	10.87	9.64	1,000	4.25	3.7185
36682	BTP	1.4.97	19.7.94	97.40	9.82	8.68	1,000	4.25	3.7185
36683	BTP	1.4.99	19.7.94	94.80	10.14	8.97	1,000	4.25	3.7185
36684	BTP	1.4.04	20.7.94	87.20	10.91	9.68	1,100	4.25	3.7185
36691	BTP	1.8.97	2.8.94	95.65	10.47	9.15	1,500	4.25	3.7185
36692	BTP	1.8.99	2.8.94	92.30	10.78	9.44	1,500	4.25	3.7185
36665	BTP	1.11.23	3.8.94	80.80	11.55	10.12	1,100	4.50	3.9375
36693	BTP	1.8.04	3.8.94	87.10	10.89	9.56	1,100	4.25	3.7185
36691	BTP	1.8.97	22.8.94	91.60	12.30	10.94	1,650	4.25	3.7185
36692	BTP	1.8.99	22.8.94	86.75	12.49	11.09	1,650	4.25	3.7185
36691	BTP	1.8.97	2.9.94	93.10	11.65	10.30	3,300	4.25	3.7185
36692	BTP	1.8.99	2.9.94	90.50	11.35	9.98	411	4.25	3.7185
36692	BTP	1.8.99	2.9.94	88.60	11.93	10.55	2,000	4.25	3.7185
36665	BTP	1.11.23	5.9.94	76.95	12.16	10.66	1,000	4.50	3.9375
36693	BTP	1.8.04	5.9.94	82.10	11.90	10.51	2,100	4.25	3.7185
36691	BTP	1.8.97	19.9.94	92.75	11.85	10.50	2,500	4.25	3.7185
36692	BTP	1.8.99	19.9.94	88.00	12.14	10.75	2,200	4.25	3.7185
36693	BTP	1.8.04	20.9.94	81.90	11.95	10.55	1,000	4.25	3.7185
36691	BTP	1.8.97	4.10.94	93.55	11.52	10.17	2,000	4.25	3.7185
36692	BTP	1.8.99	4.10.94	88.85	11.89	10.51	2,000	4.25	3.7185
36665	BTP	1.11.23	5.10.94	77.10	12.13	10.64	1,000	4.50	3.9375
36693	BTP	1.8.04	5.10.94	82.70	11.79	10.40	1,000	4.25	3.7185

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
36648	CCT	1.8.00	2.8.93	100.55	11.31	9.85	1,000	0.50	5.25	4.5935
36648	CCT	1.8.00	19.8.93	100.75	11.07	9.65	1,000	0.50	5.25	4.5935
36648	CCT	1.8.00	1.9.93	100.65	11.01	9.59	3,500	0.50	5.25	4.5935
36648	CCT	1.8.00	20.9.93	101.25	10.78	9.38	1,500	0.50	5.25	4.5935
36657	CCT	1.10.00	1.10.93	101.55	10.01	8.70	2,500	0.30	5.00	4.3750
36657	CCT	1.10.00	20.10.93	102.25	9.67	8.40	1,500	0.30	5.00	4.3750
36657	CCT	1.10.00	2.11.93	101.35	9.67	8.41	2,000	0.30	5.00	4.3750
36667	CCT	22.12.00	22.12.93	100.75	9.61	8.37	5,000	0.30	4.50	3.9375
36668	CCT	22.12.03	22.12.93	100.95	9.62	8.38	5,000	0.30	4.50	3.9375
36673	CCT	1.1.01	7.1.94	100.90	9.48	8.26	3,500	0.30	4.50	3.9375
36673	CCT	1.1.01	19.1.94	100.85	9.30	8.10	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
36673	CCT	1.1.01	1.3.94	99.50	9.48	8.28	2,000	0.30	4.50	3.9375
36673	CCT	1.1.01	16.3.94	99.10	9.56	8.36	2,000	0.30	4.50	3.9375
36685	CCT	1.4.01	5.4.94	100.00	9.47	8.27	1,500	0.30	4.50	3.9375
36685	CCT	1.4.01	20.4.94	100.35	9.40	8.20	2,000	0.30	4.50	3.9375
36685	CCT	1.4.01	4.5.94	100.10	9.45	8.25	2,500	0.30	4.50	3.9375
36685	CCT	1.4.01	17.5.94	100.95	9.08	7.91	1,500	0.30	4.50	3.9375
36685	CCT	1.4.01	3.6.94	100.15	9.06	7.90	2,000	0.30	4.50	3.9375
36685	CCT	1.4.01	1.7.94	99.10	9.37	8.20	4,000	0.30	4.50	3.9375
36685	CCT	1.4.01	18.7.94	99.50	9.49	8.29	2,200	0.30	4.50	3.9375
36690	CCT	1.8.01	1.8.94	98.40	10.00	8.73	2,000	0.30	4.50	3.9375
36690	CCT	1.8.01	19.8.94	96.40	10.73	9.41	1,597	0.30	4.50	3.9375
36690	CCT	1.8.01	1.9.94	95.30	11.38	10.00	5,775	0.30	4.50	3.9375
36690	CCT	1.8.01	16.9.94	96.40	11.44	10.03	3,300	0.30	4.50	3.9375
36694	CCT	1.10.01	3.10.94	97.80	11.19	9.77	4,395	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
36678	CTE	11.1.99	14.1.94	99.80	6.29	5.51	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
36681	CTE	21.2.99	25.3.94	95.55	7.34	6.49	1,000	1,905.82	6.25	5.4688
36681	CTE	21.2.99	19.4.94	95.95	7.25	6.41	1,000	1,845.73	6.25	5.4688
36681	CTE	21.2.99	26.5.94	94.25	7.71	6.86	1,000	1,859.66	6.25	5.4688
36689	CTE	26.7.99	26.7.94	96.60	8.35	7.32	500	1,904.35	7.50	6.5625
36689	CTE	26.7.99	30.8.94	94.15	9.02	7.97	800	1,934.45	7.50	6.5625
36689	CTE	26.7.99	29.9.94	93.00	9.36	8.30	700	1,922.35	7.50	6.5625

Table a41

Securities market: expected yields and total return indices

	Expected yields (net)					Total return indices (net)				
	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	–	167.64
1989	12.71	9.34	11.61	10.67	11.61	348.83	238.78	198.46	101.96	189.76
1990	12.31	10.19	11.87	11.52	12.03	397.58	255.49	221.95	112.33	201.69
1991	11.78	9.05	11.37	11.22	11.63	450.78	280.71	250.71	126.76	207.25
1992	13.70	9.00	11.90	11.51	12.04	497.70	299.19	276.02	139.69	216.29
1993	10.55	6.57	9.60	9.49	10.10	575.03	361.95	327.46	163.39	260.64
1992 – 3rd qtr.	15.03	9.02	12.84	12.10	12.78	495.47	295.45	273.80	139.24	209.87
4th "	15.82	9.48	12.59	11.82	12.95	513.48	320.59	283.52	144.32	221.97
1993 – 1st qtr.	12.57	7.71	11.38	11.02	11.87	540.25	356.41	300.21	151.78	240.92
2nd "	11.77	7.76	10.77	10.59	11.18	561.73	352.60	313.10	157.54	251.14
3rd "	9.43	5.55	8.57	8.63	9.15	589.83	364.52	340.44	169.36	270.10
4th "	8.44	5.26	7.68	7.72	8.19	608.32	374.28	356.07	174.51	279.81
1994 – 1st qtr.	8.15	4.85	7.54	7.53	7.84	620.68	376.29	364.28	179.02	290.60
2nd "	8.02	6.17	8.23	8.14	8.17	633.57	359.74	363.28	179.86	290.19
3rd "	9.33	7.39	9.92	9.84	9.53	641.00	363.17	352.82	177.27	283.16
1993 – Sept.	9.00	5.86	8.05	8.15	8.58	597.29	366.81	348.02	171.96	274.43
Oct.	8.25	5.36	7.52	7.58	7.95	607.13	370.74	355.29	174.33	278.40
Nov.	8.72	5.15	7.94	7.96	8.36	605.88	373.88	353.22	173.15	277.00
Dec.	8.35	5.27	7.58	7.62	8.26	611.94	378.21	359.71	176.05	284.02
1994 – Jan.	7.94	4.66	7.21	7.20	7.67	619.12	379.46	365.96	179.44	290.24
Feb.	8.10	5.02	7.38	7.35	7.82	620.58	373.38	366.00	179.79	293.18
Mar.	8.41	4.87	8.03	8.03	8.03	622.34	376.02	360.88	177.97	288.67
Apr.	8.14	5.96	7.80	7.75	7.94	629.69	358.41	366.19	180.26	292.92
May	7.82	6.23	7.98	7.84	7.97	635.37	358.31	365.97	181.01	292.38
June	8.11	6.33	8.92	8.83	8.60	635.64	362.51	357.67	178.35	285.64
July	8.67	7.09	9.29	9.23	8.92	639.47	361.92	356.45	178.08	284.43
Aug.	9.31	7.65	10.10	10.02	9.53	639.28	363.46	350.75	176.63	283.60
Sept.	10.01	7.42	10.38	10.27	10.14	644.26	364.15	351.27	177.14	281.53

The money

(stocks in

	END-OF-PERIOD				
	Notes and coin	Sight deposits		Other assets	M1
		Banks accepting short-term funds	Post Office		
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	7,825	17,068	482,358
1991	76,354	434,733	7,017	19,429	537,534
1992 – Aug.	75,715	372,379	9,288	12,027	469,411
Sept.	78,436	390,057	9,789	15,275	493,556
Oct.	78,736	383,199	9,620	15,116	486,672
Nov.	79,981	376,740	8,435	17,419	482,575
Dec.	85,617	434,011	9,519	16,011	545,158
1993 – Jan.	82,540	396,171	11,323	14,648	504,682
Feb.	81,215	393,837	10,178	14,305	499,535
Mar.	81,997	399,168	9,208	14,101	504,474
Apr.	82,201	401,496	10,334	13,259	507,291
May	83,216	403,690	10,270	12,647	509,823
June	81,828	410,865	11,114	13,196	517,002
July	86,096	395,470	11,285	15,646	508,497
Aug.	82,129	400,188	9,848	10,689	502,853
Sept.	83,339	415,554	9,910	12,686	521,489
Oct.	84,011	416,300	9,954	12,921	523,187
Nov.	85,064	413,783	9,627	15,942	524,415
Dec.	89,769	464,160	9,783	14,760	578,472
1994 – Jan.	86,169	428,077	12,683	13,571	540,500
Feb.	85,472	434,131	11,923	11,632	543,157
Mar.	88,563	448,508	10,445	13,836	561,352
Apr.	87,413	443,093	11,185	11,808	553,499
May	87,910	439,546	10,969	13,095	551,521
June	87,330	448,402	10,752	16,623	563,106
July	(92,528)	428,664	11,283	(14,737)	(547,212)
Aug.	(87,915)	426,337	10,683	(9,938)	(534,874)
Sept.	(89,924)	*(437,493)*	*(10,774)*	*(13,655)*	*(551,846)*

Table a42

supply

billions of lire)

DATA					AVERAGE DATA		
CDs of banks accepting short-term funds	Savings deposits of banks accepting short-term funds	Postal savings accounts	M2	Extended M2	M1	M2	Extended M2
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	801,992	804,307	442,428	752,409	754,683
153,433	160,244	26,924	878,136	881,850	488,712	820,537	824,148
177,416	142,044	27,700	816,571	822,926	466,812	813,280	819,569
183,412	141,566	27,474	846,007	853,381	472,175	818,564	825,428
193,211	140,705	27,305	847,892	855,292	483,789	840,575	847,962
197,104	140,176	27,292	847,147	852,792	478,459	840,611	847,133
200,945	145,881	29,046	921,030	926,175	492,292	858,139	863,534
203,520	143,265	29,061	880,528	886,121	516,701	891,665	897,034
209,656	141,094	29,208	879,491	884,775	492,121	869,514	874,952
217,464	138,215	29,339	889,492	894,513	489,994	870,663	875,815
221,167	137,611	29,390	895,459	900,450	495,189	880,161	885,167
223,666	135,964	29,416	898,870	903,029	498,627	886,148	890,724
225,841	133,639	28,998	905,481	910,384	499,465	884,414	888,946
227,561	133,263	28,551	897,872	902,497	501,190	887,173	891,937
228,480	133,418	29,257	894,009	898,493	493,389	879,784	884,339
230,519	134,464	29,409	915,880	920,764	502,459	891,495	896,180
231,689	135,457	29,489	919,822	924,860	511,473	903,510	908,471
232,895	134,925	29,826	922,061	927,227	519,732	914,045	919,148
234,845	142,117	30,833	986,268	992,654	529,867	925,941	931,717
238,831	138,644	32,034	950,010	955,624	549,002	954,261	960,262
241,360	137,112	32,059	953,688	959,080	528,206	934,982	940,485
242,648	137,402	32,097	973,499	979,214	536,058	943,133	948,687
241,012	136,440	32,147	963,098	967,786	546,898	954,224	959,425
242,120	132,749	32,281	958,670	964,464	546,133	950,870	956,110
240,582	132,678	32,458	968,824	973,120	538,002	940,614	945,658
237,953	132,000	32,399	(949,565)	(953,760)	542,583	945,418	949,664
236,006	131,648	32,701	(935,229)	(939,290)	524,294	924,413	(928,541)
(233,912)	(131,620)	*(32,824)*	*(950,201)*	....	*(529,151)*	*(927,584)*	....

Table a43

Liquid assets

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

	M2	Securities acquired under repos	PO savings certificates	Treasury bills in lire and ecu	CDs of banks accepting medium and long-term funds	Banker's acceptances	Total liquid assets
1986	574,859	1,172	50,129	*(128,765)*	23,950	1,570	*(780,446)*
1987	617,579	2,650	59,870	*(163,359)*	26,689	2,375	*(872,522)*
1988	663,850	4,267	70,426	*(212,480)*	40,015	2,121	*(993,159)*
1989	738,395	5,065	80,659	*(256,434)*	49,893	1,612	*(1,132,057)*
1990	801,992	8,199	91,011	*(284,887)*	62,678	1,540	*(1,250,306)*
1991	878,136	46,942	100,368	*(298,363)*	69,457	2,104	*(1,395,368)*
1992 – July	831,568	92,436	98,385	*(323,221)*	72,556	1,067	*(1,419,232)*
Aug.	816,571	93,888	98,574	*(329,029)*	72,190	1,042	*(1,411,295)*
Sept.	846,007	89,868	98,334	*(330,153)*	70,985	1,518	*(1,436,865)*
Oct.	847,892	98,090	98,248	*(344,849)*	71,256	2,149	*(1,462,485)*
Nov.	847,147	103,747	98,178	*(352,854)*	71,736	2,534	*(1,476,196)*
Dec.	921,030	86,904	107,210	*(355,415)*	73,923	1,925	*(1,546,407)*
1993 – Jan.	880,528	106,604	107,296	*(369,314)*	75,351	1,631	*(1,540,723)*
Feb.	879,491	108,578	107,340	*(364,862)*	78,531	1,859	*(1,540,662)*
Mar.	889,492	103,450	107,325	*(365,515)*	79,463	1,724	*(1,546,968)*
Apr.	895,459	104,095	107,296	*(363,541)*	79,775	1,354	*(1,551,520)*
May	898,870	108,559	107,226	*(363,566)*	80,076	1,256	*(1,559,552)*
June	905,481	99,647	107,115	*(355,394)*	80,642	1,739	*(1,550,018)*
July	897,872	102,391	106,929	*(353,489)*	80,982	1,897	*(1,543,559)*
Aug.	894,009	105,637	106,999	*(347,813)*	80,282	2,007	(1,536,747)
Sept.	915,880	96,136	107,034	*(339,666)*	80,620	2,058	*(1,541,393)*
Oct.	919,822	102,693	107,212	*(328,649)*	80,774	1,921	*(1,541,070)*
Nov.	922,061	106,730	107,380	*(326,528)*	80,191	1,972	*(1,544,863)*
Dec.	986,268	89,566	117,683	*(313,167)*	80,977	1,554	*(1,589,215)*
1994 – Jan.	950,010	104,441	117,883	311,760	84,176	1,826	1,570,095
Feb.	953,688	111,381	118,183	305,091	81,313	1,645	1,571,301
Mar.	973,499	103,031	118,383	300,054	80,092	1,736	1,576,796
Apr.	963,098	102,957	118,683	299,749	79,650	1,761	1,565,897
May	958,670	100,373	118,883	301,360	80,552	1,681	1,561,519
June	968,824	89,407	119,283	302,253	79,635	1,699	1,561,101
July	(949,565)	99,097	119,683	308,691	77,240	1,697	(1,555,973)
Aug.	(935,229)	101,807	120,083	(311,806)	74,717	1,783	(1,545,426)

Table a44

Financial assets

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

	Liquid assets	Medium and long-term securities: Government securities	Medium and long-term securities: Bonds of Crediop and autonomous gov. agencies	Medium and long-term securities: Other bonds	Units of investment funds	Other financial assets	Total domestic financial assets	Total financial assets
1986	(780,446)	(194,494)	(5,527)	(45,666)	65,077	2,822	(1,094,033)	....
1987	(872,522)	(252,783)	(6,967)	(54,058)	59,454	2,673	(1,248,458)	....
1988	(993,159)	(313,454)	(6,579)	(62,423)	51,565	2,232	(1,429,412)	(1,467,060)
1989	(1,132,057)	(380,309)	(7,401)	(72,473)	49,165	2,936	(1,644,341)	(1,694,834)
1990	(1,250,306)	(451,876)	(11,323)	(83,319)	47,379	5,649	(1,849,852)	(1,920,031)
1991	(1,395,368)	(496,080)	(12,162)	(108,354)	56,191	4,857	(2,073,012)	(2,179,105)
1992 – July	(1,419,232)	(497,367)	(12,388)	(116,086)	58,169	6,091	(2,109,315)	(2,254,732)
Aug.	(1,411,295)	(499,767)	(12,190)	(115,337)	58,161	6,658	(2,103,408)	(2,250,308)
Sept.	(1,436,865)	(485,592)	(12,414)	(113,941)	56,604	6,554	(2,111,970)	(2,257,814)
Oct.	(1,462,485)	(490,745)	(12,316)	(113,696)	58,643	5,569	(2,143,453)	(2,283,116)
Nov.	(1,476,196)	(496,207)	(12,757)	(115,252)	59,703	4,993	(2,165,108)	(2,297,516)
Dec.	(1,546,407)	(490,270)	(15,406)	(114,584)	60,663	3,158	(2,230,489)	(2,357,887)
1993 – Jan.	(1,540,723)	(502,142)	(15,029)	(118,488)	61,900	2,805	(2,241,087)	(2,367,095)
Feb.	(1,540,662)	(504,900)	(15,222)	(120,965)	64,256	2,422	(2,248,427)	(2,371,654)
Mar.	(1,546,968)	(507,651)	(15,433)	(121,476)	66,086	2,754	(2,260,369)	(2,383,551)
Apr.	(1,551,520)	(522,143)	(14,242)	(124,186)	67,846	2,620	(2,282,557)	(2,407,306)
May	(1,559,552)	(527,155)	(14,338)	(127,488)	70,368	2,474	(2,301,375)	(2,424,406)
June	(1,550,018)	(535,728)	(14,362)	(127,803)	73,521	3,153	(2,304,585)	(2,428,232)
July	(1,543,559)	(545,741)	(14,533)	(134,605)	78,532	3,283	(2,320,254)	(2,445,033)
Aug.	(1,536,747)	(542,347)	(13,385)	(138,109)	85,609	3,401	(2,319,599)	(2,445,919)
Sept.	(1,541,393)	(550,129)	(13,320)	(141,096)	89,675	3,818	(2,339,431)	(2,465,989)
Oct.	(1,541,070)	(553,783)	(14,210)	(149,530)	97,141	3,360	(2,359,094)	(2,488,800)
Nov.	(1,544,863)	(547,701)	(14,062)	(152,661)	101,900	3,581	(2,364,768)	(2,496,755)
Dec.	(1,589,215)	(554,761)	(13,429)	(152,838)	110,093	3,309	(2,423,645)	(2,559,665)
1994 – Jan.	1,570,095	547,741	15,091	(160,555)	120,132	3,621	(2,417,234)	(2,554,495)
Feb.	1,571,301	555,278	14,881	(164,452)	125,485	3,870	(2,435,266)	(2,572,305)
Mar.	1,576,796	554,746	14,763	(164,421)	129,954	4,099	(2,444,779)	(2,583,612)
Apr.	1,565,897	563,155	(14,810)	(167,803)	136,259	(3,894)	(2,451,818)	(2,591,504)
May	1,561,519	573,365	(15,951)	(169,135)	137,481	(3,685)	(2,461,137)	(2,602,134)
June	1,561,101	582,470	(16,243)	(169,162)	136,231	(3,484)	(2,468,690)	(2,610,852)
July	(1,555,973)	588,968	(16,297)	(168,849)	138,027	(3,515)	(2,471,629)	(2,617,239)
Aug.	(1,545,426)	(598,521)	(16,211)	(169,704)	136,804	(3,530)	(2,470,197)	(2,616,737)

	Finance to the non-state sector				
	From banks accepting short-term funds	From banks accepting medium and long-term funds	Bonds placed domestically	Total domestic finance	Foreign finance
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	567,165	287,785	24,875	879,824	109,006
1992 – Aug.	588,560	306,720	22,333	917,613	118,359
Sept.	604,243	308,374	22,255	934,872	118,993
Oct.	601,556	310,589	22,158	934,302	123,559
Nov.	604,584	312,660	22,274	939,518	120,413
Dec.	635,069	313,672	21,209	969,949	120,230
1993 – Jan.	635,568	331,053	38,871	1,005,493	129,556
Feb.	636,720	333,891	38,611	1,009,222	132,145
Mar.	632,951	337,726	38,695	1,009,372	130,558
Apr.	631,970	339,139	36,852	1,007,961	128,948
May	620,283	342,210	36,563	999,055	130,334
June	634,361	341,671	35,773	1,011,805	130,339
July	643,328	346,162	36,298	1,025,788	131,954
Aug.	629,790	351,008	33,804	1,014,602	131,727
Sept.	621,869	353,676	33,841	1,009,386	129,700
Oct.	624,260	357,888	34,524	1,016,672	127,999
Nov.	619,594	361,400	34,816	1,015,810	126,615
Dec.	638,347	365,783	33,464	1,037,595	124,318
1994 – Jan.	629,052	(364,691)	(35,538)	(1,029,282)	(123,342)
Feb.	623,725	(368,509)	(35,031)	(1,027,264)	(121,945)
Mar.	612,408	(370,125)	(34,506)	(1,017,040)	(120,576)
Apr.	609,511	(370,425)	_(33,204)_	_(1,013,141)_	_(119,412)_
May	604,021	(373,465)	_(35,080)_	_(1,012,566)_	_(119,502)_
June	615,193	(371,103)	_(34,460)_	_(1,020,757)_	_(118,847)_
July	618,777	(371,196)	_(33,476)_	_(1,023,448)_	_(117,390)_
Aug.	611,284	(372,248)	_(33,373)_	_(1,016,905)_	_(118,196)_
Sept.	_(609,105)_	_(371,002)_	_(33,373)_	_(1,013,481)_	....

Table a45

dit

in billions of lire)

	Finance to the state sector			Credit	
Total finance	Domestic finance	Foreign finance	Total	Total domestic	Total
(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)	984,598	28,586	1,013,184	*(1,549,850)*	*(1,629,472)*
739,221	1,111,864	34,979	1,146,843	1,781,994	1,886,064
867,072	1,247,655	48,799	1,296,453	2,019,439	2,163,525
988,830	1,399,479	54,720	1,454,199	2,279,304	2,443,030
1,035,972	1,493,459	52,066	1,545,524	2,411,072	2,581,496
1,053,865	1,518,773	58,402	1,577,175	2,453,645	2,631,040
1,057,861	1,532,432	58,507	1,590,939	2,466,734	2,648,800
1,059,931	1,557,145	59,786	1,616,931	2,496,663	2,676,862
1,090,179	1,573,996	64,653	1,638,649	2,543,946	2,728,828
1,135,049	1,555,459	52,046	1,607,505	2,560,952	2,742,555
1,141,367	1,566,418	56,030	1,622,448	2,575,640	2,763,815
1,139,929	1,593,381	61,078	1,654,459	2,602,753	2,794,388
1,136,909	1,613,061	56,788	1,669,849	2,621,022	2,806,758
1,129,389	1,629,009	56,681	1,685,690	2,628,064	2,815,079
1,142,144	1,604,387	61,324	1,665,711	2,616,192	2,807,855
1,157,742	1,612,734	61,740	1,674,474	2,638,522	2,832,215
1,146,329	1,619,543	62,872	1,682,415	2,634,145	2,828,744
1,139,086	1,640,890	70,709	1,711,599	2,650,276	2,850,685
1,144,671	1,658,324	70,304	1,728,627	2,674,996	2,873,299
1,142,425	1,679,789	74,623	1,754,412	2,695,599	2,896,837
1,161,913	1,696,134	73,085	1,769,218	2,733,728	2,931,131
(1,152,624)	(1,693,442)	77,516	(1,770,958)	(2,722,724)	(2,923,582)
(1,149,210)	(1,706,253)	77,038	(1,783,291)	(2,733,518)	(2,932,501)
(1,137,615)	(1,732,270)	73,244	(1,805,513)	(2,749,309)	(2,943,128)
(1,132,553)	(1,751,668)	71,561	(1,823,229)	*(2,764,809)*	*(2,955,782)*
(1,132,068)	(1,771,132)	70,380	(1,841,512)	*(2,783,698)*	*(2,973,580)*
(1,139,604)	(1,758,387)	72,132	(1,830,519)	*(2,779,144)*	*(2,970,123)*
(1,140,838)	(1,757,665)	77,371	(1,835,035)	*(2,781,113)*	*(2,975,874)*
(1,135,101)	(1,765,239)	75,917	(1,841,155)	*(2,782,144)*	*(2,976,256)*
....	*(1,793,895)*	75,302	*(1,869,197)*	*(2,807,375)*	....

Table a46

M2 and its counterparts

(changes in billions of lire)

	M2	COUNTERPARTS				
		Official reserves	Net foreign position of banks accepting short-term funds	Credit to the non-state sector	Credit to the state sector	Other
1988	46,271	10,947	–10,224	*(51,920)*	*(–1,137)*	*(–5,234)*
1989	74,544	14,971	–5,529	*(79,663)*	*(–15,456)*	*(895)*
1990	63,597	15,458	–5,400	*(73,132)*	*(9,795)*	*(–29,389)*
1991	76,144	–8,674	–26,167	*(86,303)*	*(59,066)*	*(–34,384)*
1992	42,894	–32,591	–15,558	*(54,897)*	*(79,099)*	*(–42,953)*
1993	63,892	2,564	80,282	*(7,320)*	*(4,695)*	*(–30,970)*
1992 – July	–16,689	–10,492	–9,328	*(10,047)*	*(6,352)*	*(–13,268)*
Aug.	–14,997	–4,516	–2,612	*(–10,103)*	*(–2,318)*	*(4,551)*
Sept.	29,436	–29,884	23,975	*(131)*	*(26,931)*	*(8,282)*
Oct.	1,886	10,064	5,282	*(–4,014)*	*(944)*	*(–10,391)*
Nov.	–746	3,425	3,371	*(–327)*	*(7,727)*	*(–14,943)*
Dec.	73,883	12,912	–1,274	*(19,641)*	*(3,716)*	*(38,888)*
1993 – Jan.	–41,848	–600	8,645	*(–1,618)*	*(–23,156)*	*(–25,119)*
Feb.	–1,036	–2,878	17,704	*(–6,788)*	*(–1,145)*	*(–7,930)*
Mar.	10,001	4,734	5,444	*(–3,442)*	*(3,487)*	*(–222)*
Apr.	5,967	–3,283	–1,331	*(7,079)*	*(9,564)*	*(–6,063)*
May	3,410	6	15,298	*(–6,706)*	*(–284)*	*(–4,903)*
June	6,611	2,721	4,295	*(13,804)*	*(–23,450)*	*(9,242)*
July	–7,609	–1,230	10,885	*(4,814)*	*(–10,544)*	*(–11,533)*
Aug.	–3,863	–1,985	15,479	*(–14,268)*	*(1,082)*	*(–4,170)*
Sept.	21,871	7,661	–3,756	*(–3,502)*	*(16,812)*	*(4,657)*
Oct.	3,942	–2,820	–6,369	*(2,296)*	*(17,625)*	*(–6,790)*
Nov.	2,239	2,476	5,734	*(–7,155)*	*(11,628)*	*(–10,444)*
Dec.	64,207	–2,237	8,254	*(22,806)*	*(3,077)*	*(32,307)*
1994 – Jan.	–36,258	5,178	–2,733	–18,161	*(–14,538)*	*(–6,003)*
Feb.	3,679	1,417	5,182	–7,157	3,411	827
Mar.	19,811	–2,347	–5,068	–5,103	31,009	1,318
Apr.	–10,401	–235	–8,342	–4,542	13,986	–11,269
May	–4,427	2,162	–4,024	–7,841	1,534	3,742
June	10,154	–1,093	–5,715	13,162	–15,265	19,065
July	(–19,260)	(3,297)	(–10,896)	5,374	(–11,140)	(–5,895)
Aug.	(–14,335)	(–3,202)	(1,128)	–8,116	(1,519)	(–5,663)

Notes to the tables

Table a1

Sources: National bulletins, IMF and OECD.

Real GNP: GDP for the United States, France, the United Kingdom, Italy and Canada; GNP for Japan and Germany. Germany's GNP and GNP deflator refer to the country's western regions.

The annual figures for the current account balance may not coincide with the sum of the quarterly figures.

Table a2

Sources: National bulletins and OECD.

For Italy, see the notes to Table a14. The figures for Germany refer to the country's western regions.

Table a3

Sources: National bulletins and OECD.

For Italy, see the notes to Table a16. The figures for Germany refer to the country's western regions.

Table a4

Sources: National bulletins, OECD and calculations based on ENI and Istat data.

Includes energy products and their derivatives. For the United States, producer prices of industrial goods; for Italy, the series refers to producer prices of manufactures, extended to include energy sources and their derivatives. The figures for Germany refer to the country's western regions.

Table a5

Sources: National bulletins.

Official reference rates. For France, intervention rate; for the United Kingdom, base rate; for Canada, official bank rate; for all other countries, discount rate.

Money market rates. For the United States, 3-month Treasury bill rate; for Japan, 3-month call rate (uncollateralized); for Germany, 3-month bank lending rate; for France, the United Kingdom and Italy, 3-month interbank rate (for Italy, see the note to Table a32); for Canada, end-of-period rate on 3-month Treasury bills.

Table a6

Sources: National bulletins.

Bond yields (gross). For the United States, 10-year securities and Treasury bonds (secondary market); for Germany, France, the United Kingdom and Japan, 10-year public sector bonds (secondary market); for Italy, average yield of Treasury bonds listed on the screen-based market with a residual maturity of between 9 and 10 years; for Canada, end-of-period yield of public sector bonds with a maturity of more than 10 years.

Share indices (1975=100). For the United States, Standard and Poor's composite index; for Japan, Topix; for Germany, FAZ Aktien; for France, CAC 40 (31.12.1987=1000); for the United Kingdom, FT All-Share; for Italy, MIB (2.1.1975=1000); for Canada, composite index of the Toronto stock exchange (closing prices).

Table a7

Sources: National bulletins.

The US dollar forward premiums and discounts are calculated as the differences between the interest 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

The nominal effective exchange rates are calculated for each country with reference to the currencies of the other 14 leading industrial countries. For the methodology, 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, OECD and national bulletin data.

The real effective exchange rates are calculated on the basis of the producer prices of manufactures of the 15 leading industrial countries. For the methodology, 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, OECD and national bulletin data.

The countries included in the EU aggregate are Belgium, France, Germany, the United Kingdom, the Netherlands, Italy, Ireland, Denmark and Spain. For the methodology, 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

The Italian credit system is taken to comprise the operational units of Italian banks and special credit institutions (branches in Italy and abroad) and the Italian branches of foreign banks. The "External position" comprises all claims on non-resident operators except loans granted by branches abroad to local operators in the currency of the host country.

The country grouping is that adopted by the BIS.

Table a13

Source: Istat.

Seasonally adjusted. "Other domestic uses" comprise government consumption and changes 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; the aggregate index may therefore 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 the first quarter of 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 (October 1992) 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 based on the new definition and reflecting the census data).

Table a16

Source: Istat.

Both the wholesale price indices and the consumer price indices have been rebased (1990=100, instead of respectively 1989=100 and 1985=100).

As of February 1992 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 and the cost-of-living index).

Table a17

The item "Change in official reserves" is 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

Tables 19 and 20 show the figures for the cash operations of the state sector (budget and other Treasury operations, the Deposits and Loans Fund, autonomous government agencies and the like, and the Southern Italy Development Agency, suppressed from 15 April 1993 onwards by Legislative Decree 96/1993) according to both the old and the new definition of the sector. The latter excludes the State Railways, Monopolies and Telephone

Company from the item autonomous government agencies and the like. In Table 19 the borrowing requirement is obtained as the sum of the budget deficit and the balance of other Treasury operations and of those 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 or which merely result in accounting transactions between the budget and other Treasury operations. Changes in the special VAT accounts are included, together, as of 1994, with refunds channeled through taxpayers' so-called tax accounts. The item "Other transactions" 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, until April 1993, the deficit of the Southern Italy Development Agency. The item "Debt settlements and privatizations" serves to reconcile the total amount of the borrowing requirement with the version currently used to define the objectives of fiscal policy. The item refers to the algebraic sum of the receipts from disposals (+) and the amount of settlements (–). Rounding may cause discrepancies in totals. The figures for the last year are provisional.

Table a20

The table shows the financing of the state sector borrowing requirement. The foreign loans considered include only those raised by the Italian government and state sector entities that are denominated in foreign currency; they do not include loans contracted indirectly via banks, 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. The subitem "Current accounts" includes the Treasury's overdraft with the Bank of Italy, the Treasury payments account and a suspense account (the two latter accounts were established pursuant to the provisions of Law 483/1993). Rounding may cause discrepancies in totals. The figures for the last year are provisional.

Table a21

The table shows the state sector debt and its composition on 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". The state sector debt (end-of-period data) is stated at face (or redemption) value and that denominated in foreign currency is translated at year-end exchange rates. Consequently, the changes in the debt do not coincide with the flows shown in Table a20. 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. Medium and long-term securities include 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 banks to these entities. PO deposits comprise 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 banks has been 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. 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

The item "Foreign sector" corresponds to the change in the net external position of BI-UIC, net of exchange rate adjustments. Until December 1993 the item "Treasury account" consisted of drawings by the Treasury on its overdraft facility with the central bank. As of January 1994 it comprises the utilization of the Treasury payments account; the proceeds of the privatizations of IMI and INA in 1994 were also credited to this account. The item "Other BI-UIC operations with the Treasury" includes BI-UIC net purchases of government securities at issue, coins in circulation, coins held by the Bank of Italy, postal securities to be redeemed, claims arising from the conversion of compulsory stockpiling bills, sundry services on behalf of the state and other BI-UIC financing, net of banknotes held by the Treasury.

"Open market" excludes the securities sold in connection with advances granted under the Ministerial Decree of 27.9.1974.

"Deposits with BI" comprise the reserve account, the free deposits of banks accepting short-term funds but not subject to the compulsory reserve requirement and deposits of collateral for banker's drafts; until May 1991 the item includes compulsory reserves on net foreign currency fund-raising. The subitem "Compulsory reserves" refers to the average reserve requirement in the maintenance period (from the 15th of one month to the 14th of the next); until

May 1991 it includes compulsory reserves on net foreign currency fund-raising. "Other items" comprise vault cash and undrawn ordinary advance facilities.

As regards the financing of the Treasury, the last few months' figures for the borrowing requirement and its non-monetary financing are provisional. The borrowing requirement includes debt consolidations and is net of privatization proceeds. As of 1993 it refers to the new definition of the state sector, which excludes the State Railways, Monopolies and Telephone Company.

"Net sales of securities on the primary market" comprise total net subscriptions excluding those of BI-UIC (a minus sign indicates net purchases). "Other forms of financing" comprise PO deposits, foreign loans, deposits of social security institutions with the Treasury, surety deposits with the Deposits and Loans Fund, and bank loans to autonomous government agencies in the state sector; the item includes an adjustment to take account of privatization proceeds.

Table a23

The figures for the stock of monetary base corresponding to the "Foreign sector" are calculated without considering exchange rate adjustments. This aggregate accordingly coincides with the net external position of BI-UIC, calculated on the basis of end-of-period prices and exchange rates. For the sake of accounting consistency, 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.

The figures for "Government securities" differ from those of the BI-UIC accounts because they include securities issued on behalf of the Treasury and those sold in connection with advances granted under the Ministerial Decree of 27.9.1974. The item includes claims arising from the conversion of stockpiling bills, coins held by the Bank of Italy, and PO securities to be redeemed. The item also includes sundry services on behalf of the state and other BI-UIC financing, net of banknotes held by the Treasury. 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 in order to establish the "Treasury payments account".

The "Account under Law 473/1993" comprises the balance of the Treasury's overdraft with the Bank of Italy at 31 December 1993. This claim on the Treasury will be converted into long-term government securities, as provided for in Law 483/1993. The balance of the "Treasury payments account" is shown with a negative sign to indicate that it is a Bank of Italy liability vis-à-vis the Treasury. During 1994 the proceeds of the privatization of IMI and INA (respectively 1,593 and 4,502 billion lire) were credited to this account.

"Deposits with BI" comprise the reserve account, free deposits of the banks accepting short-term funds but not subject to the compulsory reserve requirement and deposits of collateral for banker's drafts; until May 1991 the item includes compulsory reserves on net foreign currency fund-raising. "Compulsory reserves" refer to the average reserve requirement in the maintenance period (from the 15th of one month to the 14th of the next); until May 1991 the item also includes compulsory reserves on net foreign currency fund-raising. "Other items" comprise vault cash 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" comprise the reserve account, free deposits of the banks accepting short-term funds but not subject to the compulsory reserve requirement and deposits of collateral for banker's drafts; until May 1991 the item includes compulsory reserves on net foreign currency fund-raising. The average amount of vault cash is estimated on the basis of the information reported by banks at 10-day intervals.

The twelve-month percentage changes in "Bank reserves" and "Monetary base" are adjusted for changes in the compulsory reserve ratio.

"Repurchase agreements" comprise those with primary dealers in the screen-based secondary market for government securities; until December 1993 "Purchases" also included finance granted in connection with Treasury bill auctions.

Table a25

The December 1993 figures for subscriptions include the Treasury credit certificates and Treasury bonds, amounting to 10,085 and 20,585 billion lire respectively, issued in order to establish the Treasury payments account. The figure for February 1994 excludes the non-interest-bearing government securities issued for the conversion of stockpiling bills.

"Other operations" comprise finance granted to primary dealers in the screen-based secondary market for government securities; until December 1993 operations involving Treasury bills also include finance granted in connection with auctions.

Table a26

Multiple price auctions. Prices and yields are expressed in percentages, amounts in billions of lire. Compound yields are shown for 3 and 6-month bills, simple yields for 12-month bills. 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

Multiple price auctions. Yields are stated as percentages and amounts in billions of lire. The marginal yield is the minimum allotment rate.

Table a28

Multiple price 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, 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 a29

Multiple price auctions. Yields are stated as percentages, amounts in billions of lire. The marginal yield is the minimum allotment rate.

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. As of 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.

Treasury bill yields are the average of the allotment rates at auction (compound yields for 3 and 6-month bills, simple yields for 12-month bills); they are given before tax and weighted according to the quantities sold to the market. The "Average" yield refers to the average of the pretax allotment rates at auction weighted according to the quantities sold to the market.

Table a32

The annual data refer to the month of December.

The interbank sight deposit rate is the weighted monthly average of the values reported at 10-day intervals for the maximum rate applied to lira sight deposits of resident credit institutions with a debit balance of more than 1 billion lire. The 3-month Eurolira rate is the monthly average of the bid rates recorded daily on lira interbank deposits in London. The other interbank rates are monthly averages of the rates recorded daily on the screen-based interbank deposit market. The rates on customer operations are weighted monthly averages of rates reported at 10-day intervals. The ABI prime rate is 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.

Tables a33 and a34

The annual data refer to the month of December.

The figures for loans from BI-UIC are based on the accounts of the Bank of Italy. Those for bank reserves are also partly based on the accounts of the Bank of Italy. The latter item comprises lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, collateral for banker's drafts, non-interest-bearing deposits against overshoots of the ceiling on loans for banks accepting short-term funds and deposits with the Bank of Italy for banks accepting medium and long-term funds.

"Securities" are stated at book value. "Bad debts" include overdue and protested bills; for banks that raise medium and long-term funds they include the part of loans still to mature but exclude overdue instalments. "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" include the liquid balances on correspondent accounts. Interest-earning external assets and liabilities refer 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 a35

"Securities" include those denominated in ecus, while those issued by non-residents denominated in foreign currencies are included among "Other assets" under the heading "Foreign assets".

Table a36

Source: Bank of Italy Central Credit Register.

Lending comprises that of all credit institutions (banks and special credit institutions) and includes the financing of compulsory stockpiling, bad debts and overdue and protested bills but not positions of less than 80 million lire.

Producer households comprise one-man businesses and unincorporated enterprises with less than 20 employees that are primarily engaged in the production of goods and non-financial market services.

The twelve-month changes are computed without taking account of exchange rate adjustments.

Table a37

"Foreign currency securities" include government securities denominated in foreign currencies and Eurolira bonds. "Other financial assets" include CDs, banker's acceptances and commercial paper. The difference between "Total securities portfolio" and "Total net assets" consists of other net assets (mainly liquidity). Rounding may cause discrepancies in totals.

Table a38

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

"Bonds" include certificates of deposit with a maturity of more than 18 months.

Table a39

Investors' portfolios are not affected by repo sales and purchases.

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

Table a40

The yield at issue on Treasury credit certificates is the expected yield before and after tax in the months the first coupon matures, on the assumption that rates are unchanged over the period.

From 19 July 1994 for Treasury bonds and from 18 July 1994 for Treasury credit certificates, the amount taken up includes the amounts subscribed of issues restricted to the specialists operating on the screen-based government securities market.

Table a41

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.

The expected net yields are averages of daily data calculated for securities listed on the Milan stock exchange. The Treasury bond sample comprises listed securities with a residual maturity of more than one year.

The total return indices are 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.

The indices refer to securities listed on the Milan stock exchange and are averages of daily data.

Table a42

For the definition of non-state-sector monetary aggregates, see the section "Statistical aggregates" in the Appendix. The definition of M2 corresponds to the "harmonized" definition of M3 within the EU.

As of January 1993 the monetary and credit aggregates refer to the new definition of the non-state sector, which includes the former State Railways, Monopolies and Telephone Company. This causes a statistical discontinuity in the series.

"Bank current accounts" comprise demand deposits in lire and foreign currency.

"Other items" include banker's drafts issued by the Bank of Italy and other credit institutions and current account deposits with the Treasury.

"Bank savings deposits" comprise 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 a43

For the definition of non-state-sector liquid assets, see the section "Statistical aggregates" in the Appendix. The definition of liquid assets corresponds to the "harmonized" definition of M4 within the EU.

As of January 1990 "Securities acquired under repos" include foreign currency securities issued by residents but exclude securities issued by non-residents.

Treasury bills in lire and ecus are stated at face value. Net repo purchases are excluded.

Table a44

The table refers to the financial assets of the non-state sector, net of shares. The foreign financial assets of the non-state sector are computed on the basis of the methodology adopted in the new financial accounts (see *Relazione annuale per il 1993 – Note metodologiche*, Tables aD36-aD39); the new data are available from December 1988. Following the changes made in the rules governing banks' annual accounts, the non-state sector's financial assets now include securities the sector has sold under repos; securities purchased under repos continue to be included under liquid assets, the definition of which is unchanged.

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

"Government securities" comprise 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 under repos, which are included under liquid assets, but includes securities sold under repos.

"Crediop and autonomous government agency bonds" do not include bonds purchased by the non-state sector sector under repos, which are included under liquid assets, but includes securities sold under repos.

"Other bonds" include bonds issued by public and private sector enterprises, banks accepting medium and long-term funds and local authorities. The item excludes bonds acquired by the non-state sector under repos, which are included under liquid assets.

"Other financial assets" comprise the current accounts of stockpiling agencies with banks accepting long-term funds, the claims on the latter of social security institutions, insurance companies, local authorities and individuals; current accounts of agricultural consortia, enterprises' surety 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 the former special credit institutions 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" include deposits with the foreign branches of Italian banks, foreign securities and loans to non-residents.

Table a45

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 1993 – Note metodologiche*, Tables aD36-aD39). For the definition of the credit aggregates, see the section "Statistical aggregates" in the Appendix.

"Loans to the non-state sector" include loans in foreign currency. The disaggregated data are partly estimated until 1989.

"Foreign loans" comprise foreign loans and bonds issued by the non-state sector held abroad.

"Loans to the state sector" comprise the debt of the state sector at face value, net of bonds issued by the non-state sector held by the Deposits and Loans Fund.

Table a46

The table refers to end-of-period domestic M2. For the definition of non-state-sector monetary aggregates, see the section "Statistical aggregates" in the Appendix.

The definitions of the counterparts to the money stock (M2) were changed following the adoption of new accounting rules for the banking system in January 1994. Under the new definition securities held by the banking system or the Bank of Italy no longer include those bought under a reverse repurchase agreement, while they include those sold under a repurchase agreement. Correspondingly, credit extended by banks through repo operations on Treasury securities is no longer included in the "state sector" counterpart; it appears either in the "non-state sector" or in the "net foreign position" counterpart.

"Official reserves" are stated net of exchange rate adjustments.

"Loans to the non-state sector" comprise the financing provided to the non-state sector by banks accepting short-term funds.

"Loans to the state sector" comprise the financing provided to the state sector by banks accepting short-term funds and the Bank of Italy.

"Other items" comprise fund-raising repos, the financing provided by banks accepting short-term funds and by the Bank of Italy to other 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 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.

Monetary aggregates

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 and 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 and 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, social security institutions and some minor central government entities.

Non-state sector

- *households*
- *non-financial firms (including public enterprises)*
- *insurance companies*
- *non-state public bodies*
- *financial firms, excluding banks and investment funds.*

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, excluding some minor entities*
- *Deposits and Loans Fund*
- *Southern Italy Development Agency (until April 1993)*
- *autonomous government agencies.*

Total domestic credit

- *bank lending in lire and foreign currency*
- *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.*

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
MTS	—	*Mercato telematico dei titoli di Stato* Screen-based market in government securities
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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Printed by the
Printing Office of the Banca d'Italia
Rome, December 1994