BANCA D'ITALIA

Economic Bulletin

Number 20 February 1995

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CONTENTS

INSERTS

Economic Developments and Policies

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The international economy

The recovery in economic activity in the OECD countries strengthened in the second half of 1994 and the cyclical divergence among the major industrial economies lessened. Output continued to expand vigorously in the United States, the United Kingdom and Canada; in continental Europe, where the recovery had begun later, growth was much faster than expected, and the Japanese economy also finally emerged from recession. Current account imbalances nonetheless persist, with the United States heavily in deficit and Japan showing a large surplus.

Output is growing at a more moderate pace than in previous recoveries over the last twenty years and productivity gains are more pronounced, with the result that job creation has been weak. On an annual average basis, employment in the leading industrial countries was 0.7 per cent higher than in 1993, but only because of a rise of 3.1 per cent in the United States; the unemployment rate in the EU countries reached almost 12 per cent.

Inflation declined or remained low, thanks to the large rise in productivity, wage restraint and a cautious monetary stance, and despite increases in commodity prices and the rapid absorption of spare capacity.

Fiscal adjustment and the growth in activity led to a reduction in budget deficits but failed to halt the rise in the ratio of public debt to output, partly on account of the cost of debt servicing, which in turn is attributable to the size of the debt and the fact that interest rates are much higher than the rate of economic growth.

Long-term interest rates were on a rising trend until November; in real terms they rose to very high levels, almost 2 percentage points above those prevailing in 1993.

In the second half of last year cyclical convergence was accompanied by a more uniform monetary stance. Monetary conditions in the United States continued to be tightened by means of a series of small increases in official rates. In Germany and Japan the easing of monetary policy came to a halt; some financial indicators reveal expectations of a reversal of the trend, which has already taken place in the United Kingdom, Spain, Sweden and Italy, where monetary conditions were tightened in the early months of this year in response to signs of a rise in inflation.

The EMS enjoyed stability for most of 1994, but since December it has been subject to tensions affecting the French franc and the peseta; the latter depreciated by more than 10 per cent vis-à-vis the strongest currency in the System.

On 1 January 1995 Austria, Sweden and Finland joined the European Union; on the same date the new World Trade Organization took up its activities, the agreements reached in the Uruguay Round of the GATT came into force, and two new regional free trade agreements in Latin America took effect.

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

The US economy continued to grow very rapidly in the second half of 1994, disproving expectations of a slowdown: output increased at an annual rate of 4.2 per cent, the same as in the first half of the year (Table 1 and Figure 1). The driving force came from domestic demand, which rose by 4.6 per cent, reflecting confidence on the part of households and businesses (Figure 2). Fixed investment continued to be the most dynamic component of demand, and stockbuilding became more prevalent.

Table 1

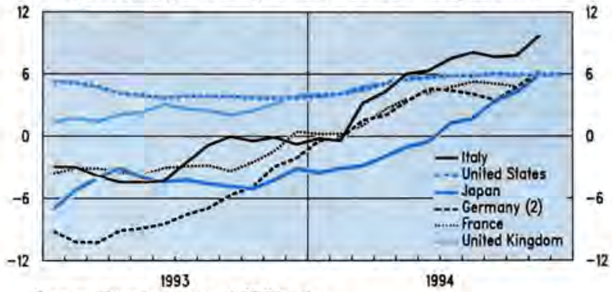
Gross product and domestic demand in the leading industrial countries
(at constant prices, seasonally adjusted; annualized percentage changes on preceding period)

	1993	1994 (1)	1994 H1	1994 H2 (1)
United States				
GDP	3.1	4.0	4.2	4.2
Domestic demand	3.9	4.8	5.1	4.6
Canada				
GDP	2.2	4.1	4.7	4.3
Domestic demand	1.8	3.3	3.9	–2.1
Japan				
GNP	–0.2	1.0	0.9	3.1
Domestic demand	–0.1	1.7	1.0	4.4
EU				
GDP	–0.3	2.5	3.2	2.6
Domestic demand	–1.4	2.2	3.2	2.3
of which:				
Germany				
GDP	–1.1	2.8	....	....
Domestic demand	–1.2	2.7	....	....
of which:				
Western Länder				
GNP	–2.3	2.3	1.9	4.8
Domestic demand	–2.2	1.7	1.2	2.5
France				
GDP	–0.9	2.2	2.8	2.5
Domestic demand	–1.8	2.5	4.8	2.3
Italy				
GDP	–0.7	2.3	2.9	3.3
Domestic demand	–5.0	2.0	2.7	3.9
United Kingdom				
GDP	2.1	3.9	4.4	3.7
Domestic demand	2.0	3.0	3.4	....
OECD				
GDP	1.3	2.8	3.1	3.0
Domestic demand	1.2	2.9	3.3	2.9

Sources: OECD, Isco, Istat and national bulletins.
(1) For the United States and the GDP of the United Kingdom, provisional data. For Italy, Isco estimates. For the other countries, estimates based on OECD forecasts in *Economic Outlook*, December 1994. For Japan and the Western Länder of Germany, the figures relate to GDP.

Figure 1

Industrial production (1)
(seasonally adjusted monthly data; percentage changes on year-earlier period)

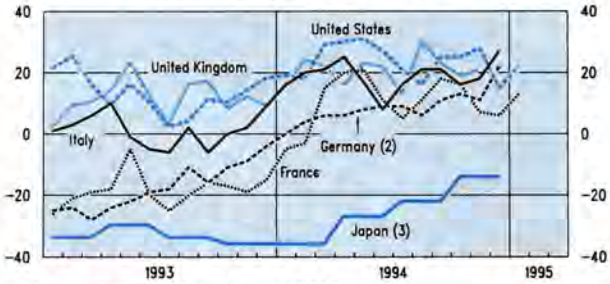


Sources: Based on Istat and OECD data.
(1) Centred 3-month moving averages. – (2) Western Länder.

Employment benefited from the brisk growth in activity, with more than 3.5 million jobs being created in the course of the year; the unemployment rate consequently fell from 6.7 to 5.4 per cent (Figure 3).

Figure 2

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



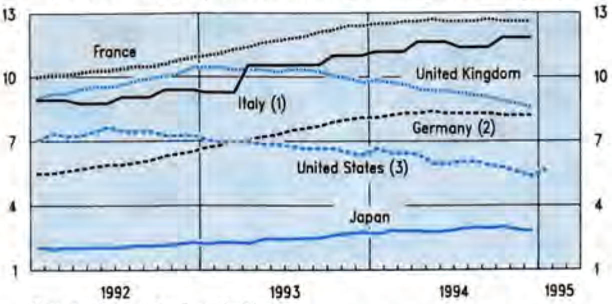
Sources: National bulletins, Isco and OECD.
(1) Results of business surveys; balance of replies received. – (2) Western Länder. – (3) Quarterly data.

Wages in manufacturing industry continued to rise at an annual rate of just over 3 per cent. This moderate pace of wage growth was accompanied by further productivity gains, an unusual development at such an advanced stage of the cycle. Unit labour costs consequently declined (Figure 4), mitigating the upward pressure on prices generated by the strength of demand, virtually full capacity utilization, the weakness of the dollar and the rise in the prices of non-oil raw materials. Consumer prices thus rose by an annual average of 2.6 per cent, decelerating slightly between the third and fourth quarters (Figure 5); producer prices rose at a twelve-month rate of 2.1 per cent in October. Nevertheless, the sharp rise in the prices of intermediate goods and the findings of surveys of firms' pricing policies point to the risk of higher inflation.

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.

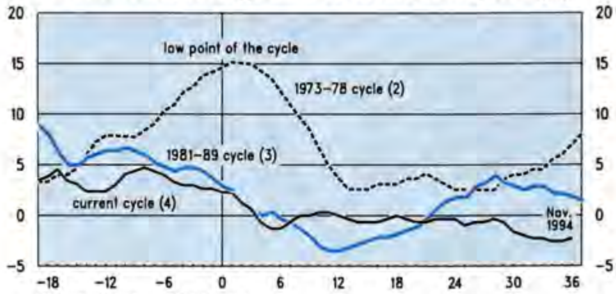
In Japan the recovery began very late, and only thanks to the stimulatory fiscal measures adopted in the last two years. Output increased at an annual rate of 3.1 per cent in the second half of the year. Public spending was the fastest growing component of aggregate demand. Private consumption also increased as a result of tax reductions and an improvement in confidence in the last quarter. Investment continued to contract, however, as credit remained scarce, the yen strong, corporate profitability low and real interest rates extremely high, especially when calculated on the basis of producer prices; nevertheless, for the first time in a number of years investment planned for 1994 was not scaled down during the year. Prices rose quite slowly, owing to the availability of considerable unused capacity and the appreciation of the yen. In November consumer prices increased at a twelve-month rate of 1.0 per cent and producer prices continued to decline.

According to provisional figures, output in Germany rose by 2.8 per cent in 1994. Growth in the Western Länder, which averaged 2.3 per cent over the year as a whole, accelerated to 4.8 per cent in the second half, reflecting the strengthening of domestic demand. In the Eastern regions output continued to expand at a rapid annual average rate of about 9 per cent under the stimulus of a sharp rise in investment. This produced a significant increase in employment, with the unemployment rate falling from 18.2 per cent in January to 14.1 per cent in October.

Despite the strengthening of the recovery, job creation was weak in Western Germany. The unemployment rate stood at 8.2 per cent in November, barely 0.2 points below the peak recorded in April. Modest wage increases, productivity gains and the appreciation of the Deutche Mark led to a further slowdown in inflation, which averaged 3 per cent for the year, compared with 4.1 per cent in 1993; it fell to 2.3 per cent in January 1995.

Figure 4

United States: unit labour costs in manufacturing in three economic cycles (1)



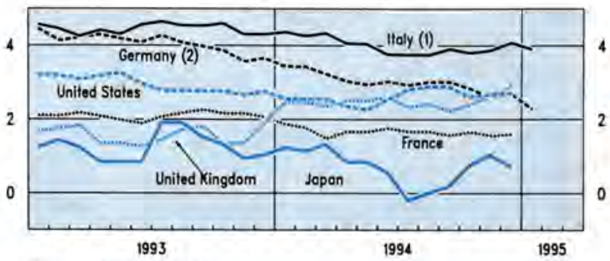
Source: Based on OECD data.
(1) Seasonally adjusted monthly data. Non-centred moving averages of three terms. Percentage changes on year-earlier month. – (2) The low point was reached in the first quarter of 1975. – (3) The low point was reached in the fourth quarter of 1982. – (4) The low point was reached in the fourth quarter of 1991.

In France GDP grew at an annual rate of 2.5 per cent in the second half of the year, compared with 2.8 per cent in the first. The stimulus came from investment, which began to rise again after three consecutive years of decline, and from stockbuilding. Unemployment remained unchanged at the extremely high rate of 12.6 per cent in the second half of the year. The rate of increase in consumer prices declined to a very low annual average of 1.7 per cent, compared with 2.1 per cent in 1993.

Figure 5

Consumer prices

(percentage changes on corresponding month of previous year)



Sources: OECD and Istat.
(1) From November 1994 onwards the data for Italy are estimated on the basis of movements in the cost-of-living index. – (2) Western Länder.

In the United Kingdom the growth in output remained rapid but slowed down slightly from 4.4 per cent in the first half of the year to 3.7 per cent in the second, mainly owing to a fall in investment demand. The unemployment rate declined to 8.6 per cent in December, more than 1 percentage point less than at the end of 1993; productivity nevertheless continued to improve. However, the weakness of sterling and the rapid increase in capacity utilization put upward pressure on prices: the rate of increase in the retail price index rose from a low of 2.2 per cent in September 1994 to 3.3 per cent in January 1995, while that in the index excluding mortgage interest payments increased from 2.0 to 2.8 per cent.

The prices of non-oil raw materials, which had begun to rise in the second half of 1993, increased by a further 12.3 per cent in 1994 under the impetus of the strengthening and broadening of the world economic recovery; in particular, the dollar prices of minerals and metals, which are more sensitive to cyclical conditions, rose by 11.9 per cent, mainly in the second half of the year. However, the rise did not offset the decline in real terms recorded since the beginning of 1989. After easing slightly in the fourth quarter, the average price of the main types of crude oil rose to $16.80 in January 1995.

World trade, which had been sustained by economic growth in the developing countries in 1993, began to expand rapidly again in 1994 as the recovery in the industrial countries took hold; it grew by nearly 9 per cent in volume, compared with 3.5 per cent the previous year. On 1 January the new World Trade Organization (WTO) took up its activities. It is expected to make an important contribution to the resolution of major trade disputes. The agreements reached in the Uruguay Round of the GATT, the customs union between the MERCOSUR countries (Brasil, Argentina, Paraguay and Uruguay) and the free trade treaty between Mexico, Colombia and Venezuela came into force on the same date.

The US current account deficit, which has persisted since 1982, continued to worsen. It is put at $153 billion in 1994 (2.2 per cent of GDP), primarily owing to the trade deficit, which increased to about $166 billion. A deficit on investment income was also recorded for the first time. The United States' external debtor position therefore rose to almost 11 per cent of GDP. Such a large imbalance, which the leading international organizations expect to increase in the medium term, is a potentially disturbing factor in the international monetary and financial system, and not only because of its destabilizing effect on the dollar, which remains the most widely used currency in international trade. The current account deficit was financed primarily by net inflows of bank capital (at an annual rate of about $120 billion in the first three quarters) and the accumulation of dollar reserves by foreign monetary authorities ($48 billion).

In Japan the current account surplus declined last year for the first time since 1990, narrowing from $131 billion to about $129 billion owing to an increase in the deficit on services; the trade surplus increased only slightly, rising particularly vis-à-vis the United States and Asia. In Germany the current account deficit is estimated to have grown to about $33 billion (1.6 per cent of output) as a result of an increase in the deficit on services and the balance on investment income, which moved into deficit despite the country's substantial creditor position. Among the leading industrial countries, Italy recorded the largest improvement in its external accounts as a proportion of GDP by comparison with 1992.

Economic policies

The combined budget deficit of the industrial countries fell from 4.2 per cent of GDP in 1993 to 3.8 per cent last year. According to recent OECD estimates, the improvement occurred mainly in the non-cyclical component, which declined from 3.4 to 3.1 per cent of GDP as a result of the adjustment measures adopted. Only Japan recorded a larger deficit, due to both cyclical factors and discretionary measures. With budgets net of interest payments remaining in deficit and real interest rates higher than the rate of economic growth, the reduction in overall budget deficits was not sufficient to reverse the rise in the ratio of public debt to GDP, which increased to an average of more than 70 per cent in the industrial countries, twice the figure recorded at the beginning of the seventies.

In the United States the federal budget deficit for the 1994 fiscal year, which ended in September, decreased by $53 billion to $202 billion, or 3 per cent of GDP. This did not, however, halt the rise in the ratio of public debt to GDP. The reduction in the deficit was due partly to the improvement in economic conditions and partly to the tax increases and expenditure cuts contained in the adjustment programme adopted in the summer of 1993. According to the Administration's latest budget proposals, the federal deficit should decline to $192 billion in 1995, rise slightly in 1996 and then stabilize at around 2.2 per cent of GDP as a result of a further decrease in public expenditure, owing primarily to the more efficient management of welfare programmes, and a fall in revenue following reductions in personal income tax on medium and low incomes.

In Japan the general government budget recorded a deficit equal to 2 per cent of GDP owing to the effects of the recession and the measures adopted to counter it. A tax reform providing for permanent reductions in income taxes offset by increases in indirect taxation was passed in December. In order to stimulate the economy, the increases have been postponed until 1997 and the lower income tax rates that were introduced earlier in 1994 have been extended to 1996.

In Germany the federal budget deficit fell from 2.1 per cent of GDP in 1993 to 1.8 per cent last year, while the deficit of the enlarged public sector decreased even more markedly. The federal deficit is expected to decline to 1.6 per cent in 1995, owing primarily to the introduction of a 7.5 per cent solidarity surtax on all personal and corporate income and other tax increases. On the other hand, the ratio of public debt to GDP, as defined for the convergence criteria laid down in the Maastricht Treaty, is likely to rise by 8 percentage points to 59 per cent, or just below the limit set by the Treaty, as the debts incurred by the Treuhandanstalt and the body responsible for managing the real estate of the former German Democratic Republic have been transferred to the public sector.

In France the general government deficit remained virtually unchanged at 5.7 per cent of GDP in 1994. It is expected to fall to around 5 per cent this year as a result of the strengthening of the recovery and the increases in indirect taxes in the budget that has just been approved.

In the United Kingdom the improvement in the public finances that began in 1993 is proceeding more rapidly than expected, thanks to the growth in activity. In the 1994 financial year the ratio of the PSBR to GDP fell by 2 percentage points to 5 per cent. Last November's budget provided for further cuts in expenditure and increases in excise duty on some consumer goods; these measures will help to reduce the deficit to 4.7 per cent of GDP this year and to around 3.5 per cent next year.

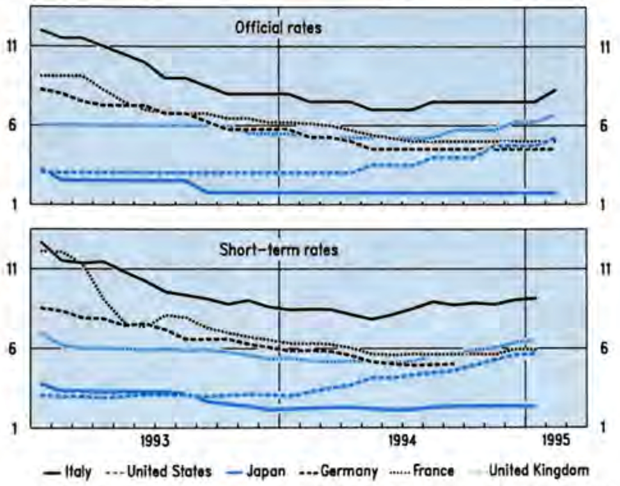
Monetary developments in the leading economies were influenced predominantly by the increase in both nominal and real long-term interest rates. Given the increasing integration of international financial markets, rates rose everywhere; the upward movement did not halt until November, and it was more pronounced than in previous recoveries. The trend originated in the United States, primarily in response to fears of a rekindling of inflation and uncertainty about the future stance of monetary policy. It reflected growing market concern about budgetary imbalances, uncertainty stemming from memories of past inflation and possibly the perception that investment demand is likely to exert pressure on capital markets.

In the United States the Federal Reserve continued to tighten monetary conditions in order to prevent a resurgence of inflationary pressures: the discount rate was raised from 4 to 4.75 per cent on 15 November and to 5.25 per cent on 1 February of this year. Similar increases occurred in the federal funds rate, which rose to 6 per cent. The yields on short-term Treasury bills rose accordingly (Figure 6), confirming the expectations embodied in the forward rates implicit in the yield curve. On this occasion bond prices did not fall as they had at the time of earlier increases in interest rates; the stability of long-term yields despite continued rapid economic growth can be interpreted as evidence of market confidence in the ability of the monetary authorities to keep inflation under control.

Monetary policy in Japan remained expansionary, aimed at sustaining the recovery in economic activity and helping the banks to restore their capital base and profitability. The discount rate was kept unchanged at 1.75 per cent, the lowest level since the Second World War. Both short and long-term market rates nonetheless rose slightly, indicating that a reversal of the monetary stance was considered to be imminent.

Figure 6

Official and short-term interest rates (1)



(1) For short-term rates, average monthly data. For official rates, end-of-month data; for February 1995, latest data available. For sources and definitions, see Notes to Appendix Table a5.

In Germany the gradual lowering of official interest rates came to a halt, confounding market expectations that it would continue in view of the slowdown in money supply growth and inflation. The growth in M3 was particularly rapid in the first quarter but subsequently slowed and returned within the 4-6 per cent target range. The same target has been set for 1995. Short-term market rates and expected rates, which can be deduced from the prices of future contracts, rose moderately, suggesting expectations of a reversal of the monetary policy stance, a view that was reinforced by the gathering pace of the recovery and uncertainty about the outcome of the wage negotiations in the engineering industry.

In the other ERM countries the downward trend in short-term interest rates also came to an end, in accordance with the objective of exchange rate stability and the strengthening of the recovery. In Spain monetary conditions were tightened on 4 January, when the official interest rate was raised from 7.35 to 8 per cent.

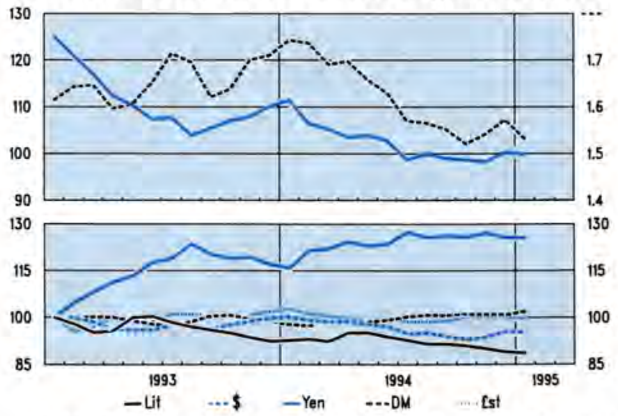
In the United Kingdom, following the increase announced on 12 September, base rate was raised from 5.75 to 6.25 per cent on 6 December to counter inflationary pressure as the economy approached full capacity utilization. The increase fed through to short-term rates and by the end of the month the differential with Germany had widened to 1.1 percentage points.

Exchange rates

The depreciation of the US dollar became more pronounced in October, when the exchange rate reached a two-year low of DM 1.4915 and a postwar record low of 96.55 yen, but was reversed in November by the increase in US interest rates, which caused the dollar to rise above DM 1.57 and 100 yen (Figure 7). In January 1995 the dollar again depreciated in connection with the Mexican crisis, and by the fourth week of February had slipped below DM 1.48. Closer international financial integration and greater market liquidity are tending to accentuate the speed and intensity with which turbulence originating in one country spreads to others.

Figure 7

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



(1) Expressed in units of each currency per dollar. – (2) Vis-à-vis a trade-weighted average of 14 other currencies; indices, January 1993=100. A rise corresponds to an appreciation of the currency.

Although the widening of short-term interest rate differentials with the Deutsche Mark and the yen has occasionally caused the dollar to strengthen, the trend of the dollar exchange rate appears to be determined predominantly by the size of the external deficit and the growing foreign debt of the United States. There is an increasingly prevalent expectation in the markets that the dollar will continue to depreciate. However, in relation to purchasing power parities based on a standard basket of goods and services that includes items not traded internationally, the dollar is undervalued against both the Deutsche Mark and the yen.

The yen has experienced a period of stability since the middle of last year, after having appreciated by 14.9 per cent in nominal effective terms in 1993 and by 8.7 per cent in the first half of 1994. The main factors underlying its recent performance were the widening of the negative short-term interest rate differentials vis-à-vis the other two leading currencies and the first signs of a decline in Japan's massive trade surplus, which should be further reduced by the economic recovery.

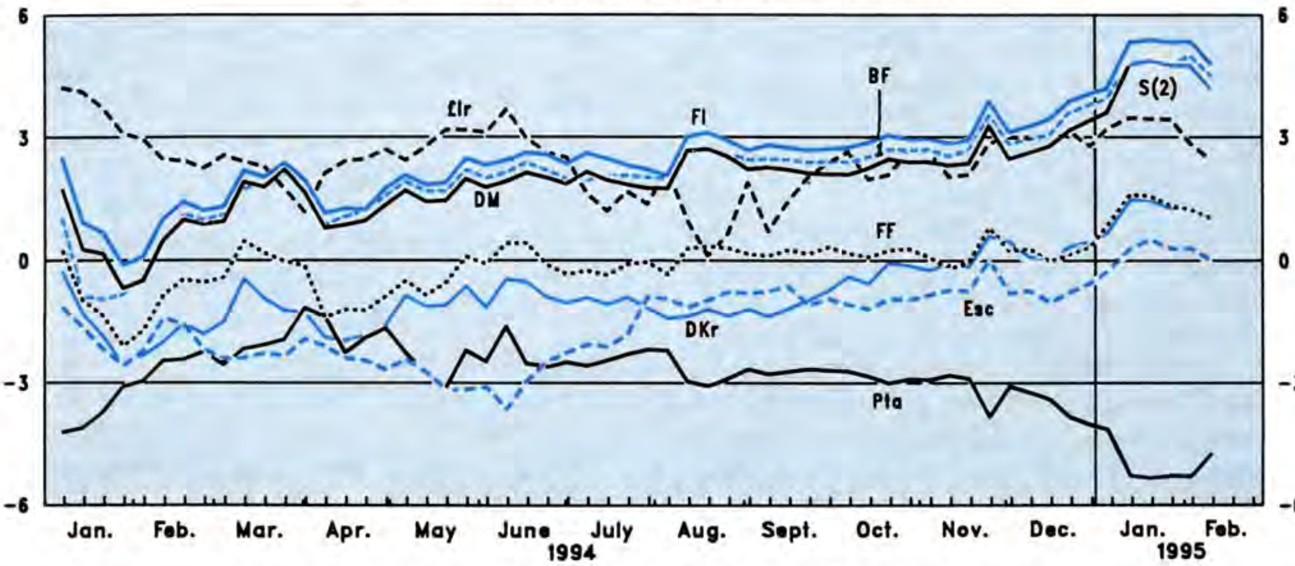
The period of stability that had prevailed within the EMS since the end of 1993 was brought to an end in December by the appreciation of the Deutsche Mark and the weakening of the French franc and the Spanish peseta (Figure 8). The franc was affected by the uncertain political outlook and spreading expectations of an increase in short-term rates in Germany: a tightening of monetary conditions in France would have been at odds with the country's lower inflation rate and high unemployment. The franc rallied after the major commercial banks had increased their prime rate, even though no restrictive action was taken by the monetary authorities. The depreciation of the peseta, which was influenced by the political crisis in Spain, was more pronounced, and the official interest rate was raised as a countermeasure.

On 1 January 1995 Austria, Finland and Sweden became members of the European Union. On 9 January Austria joined the Exchange Rate Mechanism; the Austrian monetary authorities intend to continue to peg the schilling to the Deutsche Mark, a policy they have pursued since the early eighties. Finland and Sweden have decided not to join the ERM for the time being, as they are aware of the need to achieve more balanced economic conditions before doing so.

The pound sterling weakened further against the Deutsche Mark, despite the widening of the short-term interest rate differential in its favour from 0.7 percentage points in September to 1.3 points in December; over the year, sterling depreciated by 5.8 per cent against the mark and by 2.9 per cent in nominal effective terms.

Figure 8

Position of ERM currencies in the fluctuation band (1)



(1) Percentage divergence from the centre of the band; end-of-week data. A rise corresponds to an appreciation of the currency. – (2) The Austrian schilling joined the Exchange Rate Mechanism on 7 January 1995. Its position in the band coincided with that of the Deutche Mark, apart from negligible divergences.

The developing countries, Central and Eastern Europe and Russia

The rate of growth of GDP in the developing countries fell from 6.1 per cent in 1993 to 5.6 per cent last year.

The newly industrialized Asian economies recorded sustained growth of 7.6 per cent, compared with 6.4 per cent in 1993. In China, despite a slight slowdown, output continued to expand at an extremely rapid pace (11.5 per cent). Inflation in the region accelerated, however; in China the annual rate of increase in retail prices rose from 13.0 to 21.5 per cent.

In Latin America economic growth slowed down slightly, from 4.9 to 4.4 per cent, owing primarily to the continued recession in Venezuela and the adoption of more restrictive monetary policies in most countries in order to control inflation.

In Mexico, despite a recovery in economic activity and a reduction in inflation, the sustained decline in saving and the sharp deterioration in the current account of the balance of payments led to substantial capital outflows, which were aggravated by political instability. This brought the peso under severe pressure, which the authorities tried unsuccessfully to counter by tightening monetary policy and intervening in the foreign exchange market on a massive scale. The peso depreciated by more than 40 per cent against the dollar between the beginning of December and the middle of February.

This grave episode confirms that even though capital mobility fostered by market integration and the emergence of new financial instruments offers opportunities for more efficient resource allocation and more rapid economic adjustment, it also entails serious risks of instability, which may spread internationally. Sudden changes in the direction of capital flows, especially if they are inconsistent with economic fundamentals, expose countries to serious financial disturbances, which in turn may impede economic growth or boost it artificially. The Mexican crisis has also highlighted the need to improve IMF surveillance of member countries' economies. This issue will be dealt with as part of a broader review of the role of the international financial institutions by the Group of Seven and will be one of the main themes of the summit of Heads of State and Government to be held in Halifax, Nova Scotia, in June.

The recovery in economic activity in the countries of Central and Eastern Europe appears to have gained momentum during 1994, slowing the increase in unemployment. According to OECD estimates, output grew by between 3 and 4 per cent in Poland, Slovakia and the Czech Republic, by 2.5 per cent in Hungary and by 1 per cent in Romania and Bulgaria. The recovery was sustained by an increase of 10 per cent in the volume of exports to industrialized countries. As a result, all except Hungary recorded a reduction in their current account deficit.

Russia is still in the throes of a severe economic crisis. It is estimated that GDP fell by 15 per cent and industrial production by 21 per cent in 1994, despite a recovery in household consumption thanks to an increase in disposable incomes. These estimates may overstate the actual reduction in output, as a growing number of private activities are not covered by the statistics. According to official sources, the unemployment rate rose to over 7 per cent of the active population, compared with just under 6 per cent in 1993. The public sector deficit is put at about 10 per cent of GDP, 3.5 points above the level agreed with the IMF for the disbursement of the second tranche of the loan from the Fund. The monthly inflation rate, which had been reduced to 4 per cent in August, rose again to 18 per cent in January, causing the rouble to depreciate sharply to an exchange rate of over 4,000 to the dollar at the end of the month, compared with around 3,500 a month earlier.

The outlook

According to the latest forecasts published by the leading international economic organizations, economic activity in the industrial countries should increase by around 3 per cent a year in 1995 and 1996, a faster rate than was expected last autumn (Table 2).

Table 2

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

	1994 (1)	1995 (2)	1996 (2)		1994 (1)	1995 (2)	1996 (2)
GDP (3)				**Current account balances** (6)			
OECD countries	2.8	3.0	2.9	OECD countries	–33.9	–20.0	–9.0
United States	4.0	3.1	2.0	United States	–153.7	–173.0	–169.0
Japan	1.0	2.5	3.4	Japan	129.3	145.0	140.0
EU	2.5	3.0	3.2	Germany	–33.3	–13.0	–13.0
Germany	2.8	2.8	3.5				
of which: Western Länder	*2.3*	*2.2*	*3.0*				
Consumer price deflator				**Unemployment rate** (7)			
OECD countries	4.2	3.4	3.1	OECD countries	8.2	7.9	7.7
United States	2.2	3.1	3.6	United States (8)	6.1	5.6	5.6
Japan	0.8	0.5	0.6	Japan	2.9	3.0	2.9
EU	3.0	2.6	2.6	EU	11.8	11.4	10.9
Germany	2.6	2.1	2.2	Germany	9.6	9.1	8.6
of which: Western Länder	*2.5*	*2.0*	*2.2*	*of which: Western Länder*	*8.3*	*7.9*	*7.5*
Budget balances (4)				**World trade** (3)	8.9	8.2	7.8
United States	–2.0	–1.8	–1.8	**Exports** (3)			
Japan	–2.0	–1.8	–1.8	OECD countries	9.0	8.1	7.4
Germany	–2.7	–2.4	–1.8	LDCs	8.8	9.3	9.3
Short-term interest rates (5)				**Imports** (3)			
United States	4.2	6.5	6.7	OECD countries	8.9	7.4	6.9
Japan	2.2	2.6	2.9	LDCs	8.9	9.8	10.1
Germany	5.3	5.0	5.6				

Source: OECD, December 1994.
(1) Estimates. – (2) Forecasts. – (3) At constant prices. – (4) As a percentage of GDP. – (5) Averages. For the United States, rate on 3-month Treasury bills; for Japan, rate on 3-6 month certificates of deposit; for Germany, 3-month interbank rate. – (6) Billions of dollars. – (7) Level. – (8) New definition from 1994 onwards.

The upward revision mainly concerns the United States, where a slowdown in growth is now expected to occur only in 1995 and to be milder than previously forecast. As the expansion strengthens, the economies of Europe and Japan should once again record growth rates of around 3 per cent. However, this expansionary scenario is overshadowed by the risks associated with disequilibria in the public finances, high real long-term interest rates and the possibility that turmoil in the international financial markets may recur, and having recurred may intensify and spread.

Unemployment will remain very high, despite the pickup in economic activity; in 1996 the rate will be barely below 8 per cent in the OECD as a whole and nearly 11 per cent in the European Union. In 1990, at the peak of the previous expansion, the comparable figures were 6.1 and 8.4 per cent.

According to OECD projections, with which the EU Commission concurs, inflation should remain modest, accelerating significantly only in the United States (to 3.1 per cent in 1995 and 3.6 per cent in 1996). If the predictions of continued wage moderation and small increases in the prices of non-oil commodities are borne out, prices should slow down further in all the EU countries except the United Kingdom. The forecasts may prove optimistic, however, particularly for countries whose currencies have depreciated sharply since the autumn of 1992.

The cyclical recovery and the implementation of adjustment programmes are expected to reduce the industrial countries' aggregate budget deficit from 3.8 per cent of GDP in 1994 to 2.9 per cent in 1996. Given the already high level of debt, however, the achievement of a small primary surplus will not be sufficient to halt the growth of public debt in relation to GDP. The economic upswing, which everywhere has proved stronger than expected, offers an opportunity to attain the deficit-reduction and debt-stabilization objectives earlier than foreseen in present adjustment programmes, which were based on assumptions of slower growth. This opportunity should be seized primarily by those countries where public debt is particularly high and long-term interest rates increased by more than the average in 1994.

Under the impetus of the recovery in the industrial economies, world trade is expected to grow by nearly 8 per cent a year in 1995 and 1996. In volume terms, trade among OECD countries should increase by around 7 per cent and the total exports and imports of the developing countries by about 10 per cent.

According to the forecasts, the external imbalances of the United States and Japan will persist. Despite an assumption that the dollar will continue to be weak, the US current account deficit is expected to remain above 2 per cent of GDP until 1996 and the Japanese surplus to decline only marginally, to 2.6 per cent. Accordingly, the external debtor position of the United States is likely to exceed $1 trillion in 1996 and the Japanese creditor position to be almost as high.

The Italian economy and the balance of payments

The recovery in economic activity in Italy gathered pace in 1994. The continuing growth in export demand, sustained by the expansion of world trade and the depreciation of the lira, was coupled with a revival in domestic demand and particularly in households' consumption. Production continued to expand and manufacturing output rose above its pre-recession level. GDP increased at a high and sustained rate in the second and third quarters of the year. In the second half, the rapid rise in imports curbed the growth in the surplus on the current account of the balance of payment.

Wide corporate profit margins were reflected only partly in gross fixed investment in machinery, equipment and transport equipment, which was held back not only by the existence of spare capacity but also by uncertainty about the expansion of demand.

The rapid growth in output and the improvement in profitability did not generate new jobs. On the contrary, the second half of the year saw a further fall in seasonally adjusted employment, chiefly in agriculture, services and construction. In the manufacturing sector the recovery in production has been reflected so far in a marked reduction in ordinary wage supplementation benefits, particularly in the more export-oriented industries.

The abatement of inflation came to a halt in the second half of 1994. (Beginning with this issue of the *Economic Bulletin*, price developments are discussed in a separate chapter.)

Demand and output

Total domestic and foreign demand was 3.6 per cent higher in the first nine months of 1994 than in the same period of 1993 (Table 3). The sustained rapid growth in foreign demand (10.4 per cent) was accompanied by a recovery in domestic demand (1.7 per cent). Domestic output was unable to keep pace with demand: GDP grew by 2.2 per cent, while imports rose by 8.6 per cent. Accordingly, the net contribution of the external sector to GDP growth was modest, amounting to half a percentage point, compared with 5 points in 1993.

Table 3

Resources and uses of income

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

	1993					1994			
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q1-3 (1)
Gross domestic product	−1.3	0.9	−2.7	4.9	−0.7	1.2	4.6	4.0	2.2
Imports	−18.5	−5.6	4.8	−0.8	−7.3	23.8	6.6	22.9	8.6
Total resources	−5.3	−0.5	−1.2	3.6	−2.1	5.7	5.1	8.0	3.6
Gross capital formation	−18.4	−12.4	−6.6	2.8	−11.1	4.1	0.2	−0.4	−0.6
Construction	−10.0	−5.2	−5.1	−3.1	−6.2	−4.1	−3.8	−5.4	−4.2
Machinery, equipment and transport equipment	−25.8	−19.1	−8.2	9.2	−15.6	12.9	4.3	4.7	3.1
Households' consumption	−4.7	−1.4	0.8	3.2	−2.1	2.3	1.8	2.3	1.9
Other domestic uses	−32.4	27.2	−20.3	4.7	−8.4	−16.5	58.7	14.3	3.9
Total domestic demand	−12.6	0.4	−4.4	3.4	−5.0	−0.5	9.0	3.7	1.7
Exports	29.3	−3.8	11.6	4.5	10.0	30.7	−7.4	24.1	10.4

Source: Based on Istat data.
(1) Percentage changes on the corresponding period of 1993.

After falling in the first half of 1993, households' consumption rose in five successive quarters at a moderate but steady pace. In the first nine months of 1994 it was 1.9 per cent higher than a year earlier. The most dynamic components were services and non-durable goods, which grew by 2.8 and 1.1 per cent respectively. Spending on durable goods was basically flat in the second and third quarters and recorded a small year-on-year increase of 0.7 per cent in the first nine months. The transport equipment industry performed particularly badly, with purchases falling at an annual rate of almost 6.9 per cent between the second and third quarters; however, signs of a recovery in the fourth quarter are evident from the Isco surveys of households' spending plans and figures on new car registrations from the Italian Automobile Manufacturers' Association.

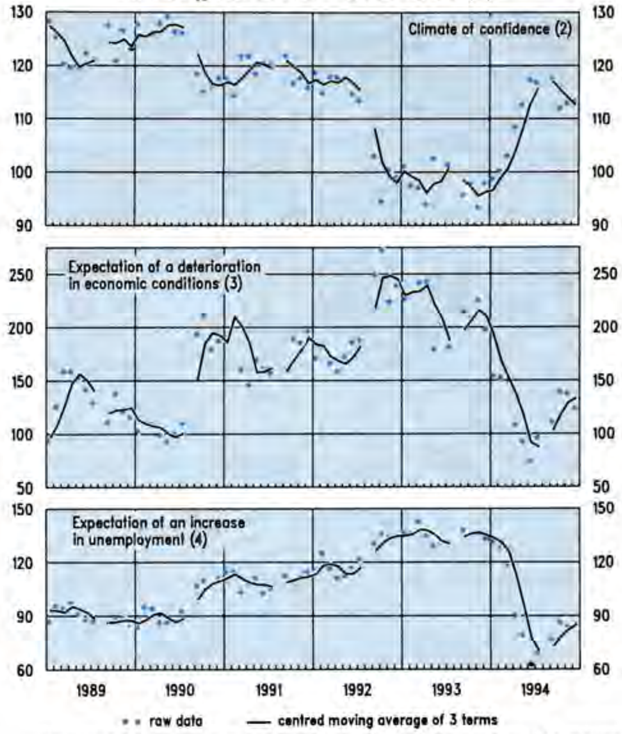
The Istat data available so far on households' disposable income relate only to earnings from salaried employment, which grew in nominal terms by no more than 0.7 per cent in the first nine months of 1994. In the light of the increase of more than 10 per cent in the gross operating surplus of the economy, the growth in households' income from self-employment and dividend income was more substantial. After adjustment for the effect of inflation on net assets, households' real disposable income can be estimated to have remained broadly stable on an annual average basis or to have increased only slightly. By contrast, the income of the entire private sector, which includes retained corporate profits, is estimated to have grown by around 3 per cent in real terms. Given the trend in real consumption, the private sector's average propensity to save appears to have increased in 1994, as could be expected during a cyclical upturn.

The indicator of households' confidence improved until the summer, rising to levels close to those recorded before the 1992 currency crisis. It fell back in the final part of the year, however, reflecting increasing pessimism about the short-term outlook for the economy and particularly for employment (Figure 9).

The recovery in gross fixed investment that had begun at the end of 1993 carried over into 1994 but remained fragile. Growth at an annual rate of 2.8 per cent in the first two quarters of the year was followed by stagnation in the third; in the first nine months investment was 0.6 per cent lower than a year earlier. Nonetheless, the downward phase of the investment cycle that had lasted since late 1991 came to an end.

Figure 9

Climate of confidence, expectations of unemployment and view of the outlook for the economy among consumer households (1)



Sources: Based on Isco data; no survey is conducted in August. The moving averages are calculated on three observations terminating in the reference month.

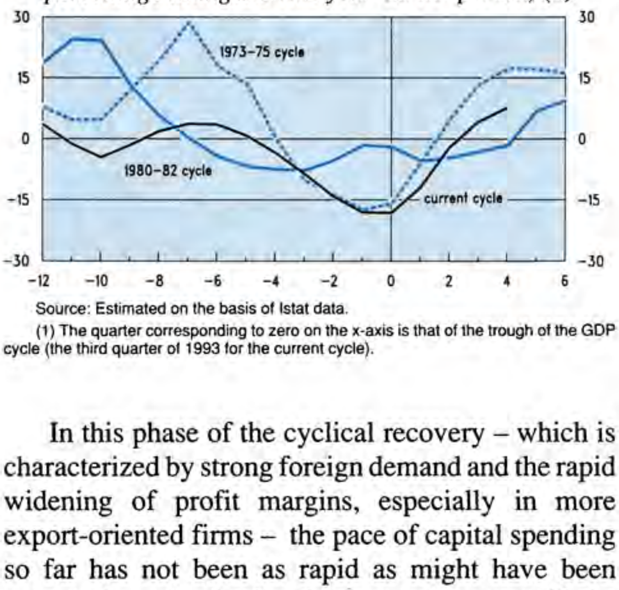
(1) Some aspects of the Isco survey of households were changed in January 1995. Although available, the figure for January is not included here since it has not yet been possible to assess its comparability with the earlier figures. – (2) Index (1980=100). – (3) Index (1986=100); proportion of those interviewed who expected a deterioration in the economic situation of the country in the subsequent 12 months. – (4) Index (1986=100); proportion of those interviewed who expected an increase in unemployment in the subsequent 12 months.

The overall behaviour of gross fixed investment conceals very different trends in the two main components, namely construction and purchases of equipment, machinery and transport equipment. Spending on construction was affected by the protracted recession in private residential building, which was compounded by the difficulties in the public works sector. In the third quarter of 1994 it fell further, by 5.4 per cent on an annual basis with respect to the second quarter, confirming a negative trend that has now lasted for more than two years. By contrast, purchases of equipment, machinery and transport equipment benefited from the recovery in economic activity; they increased at an annual rate of 4.7 per cent in the third quarter, bringing their year-on-year growth in the first nine months to 3.1 per cent. Spending on machinery and equipment (excluding transport equipment) was even stronger, accelerating in each quarter from the end of 1993 onwards.

Figure 10

Investment in machinery, equipment and transport equipment in the last three economic cycles

(seasonally adjusted quarterly data; percentage changes on the year-earlier period) (1)



Source: Estimated on the basis of Istat data.

(1) The quarter corresponding to zero on the x-axis is that of the trough of the GDP cycle (the third quarter of 1993 for the current cycle).

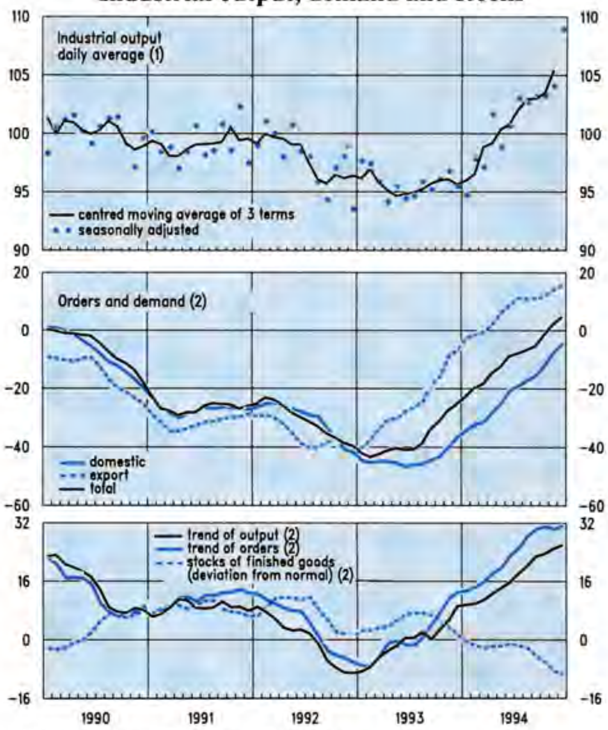
In this phase of the cyclical recovery – which is characterized by strong foreign demand and the rapid widening of profit margins, especially in more export-oriented firms – the pace of capital spending so far has not been as rapid as might have been expected on the basis of past cycles, even if the comparison is limited to investment in machinery, equipment and transport equipment. Figure 10 compares rates of change around the trough of the current cycle and the two previous ones (1980-82 and 1973-75). In the current cycle, the recovery of investment in the four quarters following the one in which GDP bottomed out (the third quarter of 1993) has been markedly slower than in 1973-75; it has been swifter than in 1982, but in that instance the contraction of investment had also been far less pronounced. The rate of growth in investment may have been moderated by uncertainty about the strength of demand as well as by the availability of spare capacity.

Industrial production and valued added by economic sector

Industrial production continued to rise sharply in the closing months of 1994, leading to an annual growth rate of 4.9 per cent, the highest since 1988; adjusted for the number of working days, the increase amounted to 5.8 per cent. In the fourth quarter average daily output was almost 10 per cent higher than a year earlier. The speed with which the manufacturing sector regained and surpassed its pre-recession level of activity (Figure 11) was reflected in a rapid rise in the capacity utilization rate.

Figure 11

Industrial output, demand and stocks



Sources: Based on Istat and Isco-ME data.

(1) Index (1990=100). Data adjusted for the number of working days in the month. – (2) Difference between positive replies ("high", "increasing", etc.) and negative replies ("low", "decreasing", etc.) to Isco-ME surveys of businessmen. Moving averages of 3 terms ending in the reference month. Seasonally adjusted except for stocks of finished goods.

There were differences in the performance of value added according to geographic area and economic sector. It grew less rapidly in the South, where there are fewer exporting firms. In industry excluding construction, value added at market prices increased at a real annual rate of 11.6 per cent in the third quarter (and by 4.5 per cent in the first nine months, year on year); in the other sectors producing goods and market services the increase was far smaller, amounting to 0.4 per cent. The value added of agriculture remained broadly unchanged in the first nine months compared with the same period of the previous year, rising by 0.2 per cent, while that of the construction sector fell by a further 4.5 per cent. However, the Isco surveys of business opinion showed an improvement in the level of orders and construction plans: although the balance of responses remained negative, it was better than in 1993. After almost two years of severe recession, the surveys also revealed moderately positive opinions in the construction industry regarding output and expected orders three to four months ahead.

In the first nine months of 1994 the value added of market services was 2.2 per cent higher than in the same period a year earlier. In the distributive trades, turnover rose by 3.8 per cent at current prices; the growth in sales – around 4 per cent for small shops, against 3 and 2 per cent respectively for large and medium-sized stores – marked a pause in the relative expansion of medium and large-scale distribution. The long-term trend appears to have resumed in the third quarter: sales remained unchanged for small shops, whereas they increased sharply for medium-sized and large outlets (by 4.2 and 5.1 per cent respectively). In real terms, the 0.5 per cent growth in the turnover of the distributive sector was smaller than that in households' consumption.

Other sectors that are traditionally more sensitive to the trend of industrial production benefited from the recovery. In the first nine months of 1994 rail freight traffic was 11.4 per cent higher than a year earlier, thanks primarily to an 18.0 per cent increase in export shipments. In the first eight months air traffic was 5.2 per cent greater than in the corresponding period of 1993.

The tourist industry also continued to record positive results: from January to August the total number of overnight stays was 5.4 per cent higher than in the same period of 1993; the number of overnight stays by Italians declined slightly, while that attributable to foreigners rose by 16.8 per cent thanks to the large improvement in the price competitiveness of the Italian tourist sector.

The cyclical recovery was also reflected in the figures on industrial turnover. In the first ten months of 1994 total sales rose by 9.4 per cent at current prices as a result of an increase of 6.5 per cent in domestic sales and one of 17.6 per cent in exports. Judging from the order books of firms producing to order, both domestic and foreign demand continued to grow in subsequent months: in the first ten months of the year domestic and export orders in hand were respectively 13.6 and 21.0 per cent higher than a year earlier in value terms. The Isco industrial surveys also show rapid growth in domestic demand, especially in the second half of the year (Figure 11), with businessmen expecting the trend to continue in the first few months of the current year.

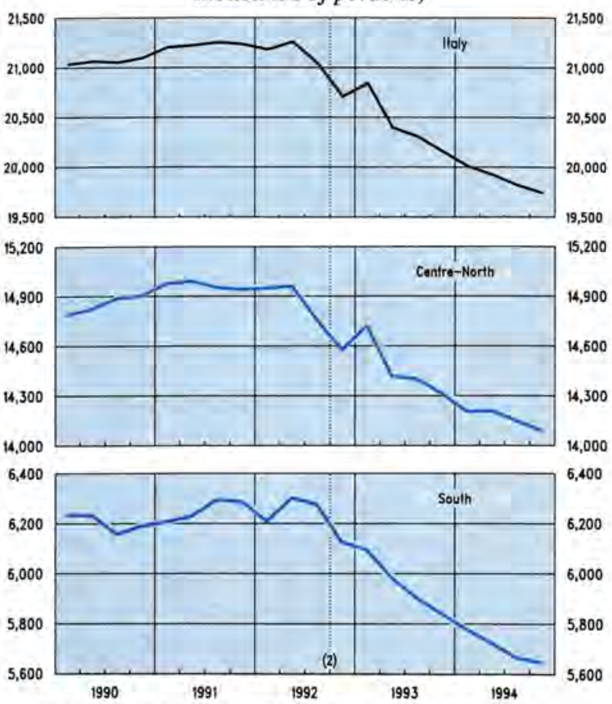
The labour market

Employment continued to decline in the second half of 1994. Given the trend in value added described above, the contraction reflected a sharp increase in productivity. According to Istat's latest quarterly labour force survey, 421,000 fewer persons were employed in October than twelve months earlier. Using a preliminary reconstruction of the statistical series for total employment undertaken by the Bank of Italy in order to overcome the many breaks that have occurred over the years, developments in the course of 1994 can be viewed net of seasonal variations. On this basis, employment declined by 100,000 between the April and July surveys and by a further 78,000 by the time of the October survey (Figure 12). The contraction was largest in agriculture, services and construction.

According to the survey, which counts workers receiving Wage Supplementation Fund benefits as employed, employment in manufacturing declined by 104,000 on average between 1993 and 1994, or by 2.2 per cent. The reduction between October 1993 and October 1994 amounted to 1.0 per cent. According to the available data, the contraction even affected firms in which exports account for a large part of total turnover. For the time being the recovery in manufacturing output has resulted chiefly in a sharp decline in ordinary wage supplementation, especially in export-oriented branches. The number of hours for which ordinary wage supplementation was paid declined by a half in the first eleven months of the year; in the third quarter the number of full-time equivalent workers receiving benefit was 90,000 below the peak recorded in the second quarter of 1993. There is scope for further progress in this direction; despite the sharp decrease, 180,000 full-time equivalent workers were still on wage supplementation in the third quarter of 1994, equal to about 5 per cent of total manufacturing employment and 2 points above the figure recorded at the last cyclical peak in 1990.

Figure 12

Total employment according to the labour force survey
(corrected, seasonally adjusted data; (1) *thousands of persons)*



Source: Estimated on the basis of Istat data.
(1) The method of reconstructing the historical series is described in Banca d'Italia, *Relazione annuale per il 1993*. – (2) Since October 1992 the survey has been conducted on the basis of a new questionnaire.

The survey of industrial firms with more than 500 employees shows an increase in the number of hours worked. If workers on wage supplementation are not counted as employed, the decline in the employment index for production workers in large manufacturing firms (excluding the energy sector) halted in mid-year, while overtime working increased steadily.

Signs of further industrial restructuring have continued to emerge, however. On the evidence of the survey of large industrial firms, white-collar workers appear to have borne the brunt of this development, with the fall in their employment index steepening in the course of 1994. Moreover, extraordinary wage supplementation benefits, which are related to restructuring, continued to increase during the first eleven months of the year for manufacturing industry as a whole.

As the stagnation of investment in construction persisted, employment in this industry diminished by 4.4 per cent, or 75,000 workers, between 1993 and 1994. In the South the decline amounted to more than 9 per cent.

Employment also continued to fall in the services sector. The October labour force survey revealed a year-on-year decline of more than 200,000 persons, or 1.7 per cent. Two thirds of the loss occurred in distribution, transport and communications. In distribution, however, the survey of large firms found an increase in employment, from which one can infer a sharp decline in the number of persons employed by small retailers and wholesalers. The survey also reveals a sharp reduction in employment in land-based transport services, which have been undergoing sweeping reorganization for some time. In the first nine months of the year the employment index for this branch was more than 10 per cent lower than in 1993, with an even more pronounced fall in employment in the railways.

The unemployment rate rose to 12.1 per cent in October, 0.8 points higher than a year earlier. This increase does not fully reflect the true contraction in employment, as there was also a further decline in labour market participation. On average for the year the participation rate decreased by about 0.6 points, corresponding to the withdrawal of about 330,000 persons from the labour force. In the second half of the year, however, the discouragement effect appears to have abated; on a seasonally adjusted basis, the increase in the number of unemployed between July and October fully reflected the simultaneous decline in employment.

The contraction of employment in market services

Since January 1992 employment in the market services sector has fallen by 560,000 standard labour units, or nearly 5 per cent. This contrasts starkly with the pattern in the previous cyclical downturn in the early eighties (Figures 1 and 2), when employment in services continued to increase, albeit at a declining pace, providing jobs for some of the workers made redundant in manufacturing. In the last two years services have shed labour at a faster rate than industry and are continuing to do so. The rise in employment in services in the early eighties was greatest for the self-employed, particularly in such branches as lodging and catering, personal services and road transport and related activities, where large numbers of marginal positions were created for which entry costs were low, but so too were productivity and income. Similarly, the decline in employment since the beginning of the nineties has also been sharpest among the self-employed, and in particular in the distributive trades and lodging and catering, while the entire services sector has achieved significant increases in per capita output.

Normal cyclical fluctuations in the sector now appear to be overlaid by structural changes in production and organization that are reducing the number of people employed. Restructuring similar to that undertaken by industrial firms in the eighties was already taking place among service enterprises, and recession appears to have accelerated the process. The pace of change has been especially rapid in the distributive trades and in transport and communications. The labour force survey of October 1994 revealed a further sharp fall in employment in both these branches (5.8 per cent compared with October 1993 in transport and communications, 2.7 per cent in the distributive sector). Only business and other professional services, which are still feeling bruised by the recession in industry, suffered a comparable decline (4.1 per cent). The only increase in employment occurred in lodging and catering, where it rose by 2.6 per cent thanks to strong growth in tourist demand, especially on the part of non-residents.

Figure 1

Cyclical developments in the market services sector, 1981-85 (1)

(quarterly percentage changes)

(1) Centred moving averages of three terms; seasonally adjusted. Employment is measured in standard labour units.

In retailing, the impact of the restructuring of firms and markets is highlighted by the uneven pattern of the fall in employment, which is concentrated in the traditional retail sector and especially among the self-employed. By contrast, in the first eleven months of 1994 retailers with more than 500 employees increased their work force by 1.5 per cent compared with the same period of 1993. The number of persons employed in the wholesale and retail trade as a whole between January and July 1994 was 2.1 per cent lower than a year earlier and the number of self-employed down by 3.5 per cent. These differences reflect the changing *structure of demand. Owing partly to a reduction in real disposable income, consumers are gradually transferring their custom to large retailers, who offer a wider and more competitive range of products at lower average prices in spacious premises. The relaxation of restrictions on the expansion of retail outlets and a tightening of tax regulations for small businesses over the past two years have also favoured concentration in the sector.*

Figure 2

Cyclical developments in the market services sector, 1990-94 (1)

(quarterly percentage changes)

(1) Centred moving averages of three terms; seasonally adjusted. Employment is measured in standard labour units.

An Istat survey of retail turnover has found that sales increased by 36 per cent in large stores and by 19 per cent in medium-sized and small ones between the first quarter of 1990 and the third quarter of 1994. As a result, large retailers increased their share of total consumer purchases from 12.7 per cent in 1990 to 15.4 per cent in 1993 and their share of the grocery market from 21.6 to 26.5 per cent.

The cyclical contraction in employment in transport and communications, which mainly affected freight transport, was accompanied by rationalization in public transport services in connection with the transformation of state agencies into public enterprises. Between 1990 and 1994 employment in the State Railways declined by nearly 60,000, or more than a quarter. In 1994 the average staffing level declined by more than 10 per cent. Between the first eleven months of 1993 and the same period of 1994, employment in firms with over 500 employees declined by 4.0 per cent in the maritime transport sector, by 2.0 per cent in air transport and by 2.5 per cent in communications. Preliminary estimates for the postal service indicate a decrease of over 5 per cent in the number of employees in 1994 alone, more than twice the contraction registered in the previous three years. A comparable decline appears to have taken place in telecommunications as well.

The combination of the effects of restructuring and cyclical fluctuations in employment can be observed in the road transport sector. In the absence of more specific employment data, an indication of developments in freight transport can be derived from new registrations of lorries with an unladen weight of more than 3.5 tonnes, which continued to decrease sharply in the first 9 months of 1994 (by 15.8 per cent compared with the year-earlier period) to about half the level recorded in 1990. This contraction in investment, which was very sharp even for a recession, may be partly due to restructuring in the transportation market. Employment in municipal transport companies, which had declined by 0.4 per cent in 1993, fell by an estimated 1.4 per cent last year, owing mainly to the budgetary problems of the local authorities. In the entire road transport sector, the first eleven months of 1994 saw a 3.9 per cent contraction of employment in firms with more than 500 employees.

In October the number of job seekers, which comprises both workers who have left or lost a previous job and persons seeking work for the first time, was 2,726,000; more than half lived in the South, where the unemployment rate was 20.1 per cent. Overall, the unemployed continue to have difficulty finding work. In October 1994 63.3 per cent of unemployed persons had been without a job for more than 12 months, compared with 56.7 per cent a year earlier. So far the mobility procedure (for which 278,000 workers were enrolled in October) has made only a modest contribution to the reintegration of the unemployed, despite the substantial subsidies it offers to employers.

A number of national labour agreements were renewed in 1994 both in industry and in the private services sector (Table 4). This was the first round of bargaining using the procedures laid down in the agreement of 23 July 1993, and the outcome was consistent with the accepted guidelines. Wage increases were held within the Government's target inflation rate. Except in some sections of the services sector in which negotiations had begun before July 1993, agreement was generally reached swiftly and without acrimony. In the private sector, the provision of the agreement awarding interim increments where labour contracts have expired was applied briefly only for workers in the tourist and road transport industries, but the mechanism did provide an incentive to settle quickly. By comparison with the past, the outcome of the negotiations was influenced not only by the clearer reference framework but also by the poor state of the labour market, which led the unions to moderate their wage claims and prompted management to reach agreement quickly in order to prevent negotiations from continuing into a phase of stronger demand for labour.

Table 4

Main wage agreements concluded in the private sector

	Date of agreement	Expiry of previous agreement	Average total increase (lire)	Expiry of pay provisions	Instalments	Lump sum (lire)
Industry						
Chemical	Mar. 1994	Nov. 1993	151,000	Dec. 1995	44% Mar. 94 30% Nov. 94 26% May 95	
Engineering	July 1994	June 1994	156,000	June 1996	52% Jan. 95 25% Sept. 95 23% Jan. 96	450,000
Wood and furniture .	Dec. 1994	Nov. 1994	145,000	Nov. 1996	40% Jan. 95 20% Jan. 96 40% July 96	
Services						
Tourism	Sept. 1994	June 1993	150,000	June 1996	52% Sept. 94 48% Sept. 95	
Distribution	Nov. 1994	Mar. 1994	147,000	Dec. 1996	52% Jan. 95 48% Jan. 96	350,000 (1)
Banking	Nov. 1994	Dec. 1992	287,000	Dec. 1995	74% Jan. 94 (2) 26% Jan. 95	1,300,000
Railways	Nov. 1994	Dec. 1992	230,000	Dec. 1995	32% Jan. 95 68% Oct. 95	3,000,000
Postal service	Nov. 1994	Dec. 1990	155,000	Dec. 1995	45% Oct. 94 29% Jan. 95 26% Oct. 95	160,000
Public transport	Dec. 1994	Dec. 1991	150,000	Dec. 1995	50% Dec. 94 50% Oct. 95	1,500,000 (3)

(1) A lump sum of 200,000 lire was paid when the agreement was concluded and another of 150,000 in February 1995. – (2) Backdated. – (3) Half was paid in January 1995 and the other half will be paid in August 1995.

In industry, the conclusion of agreements covering a total of 2 million workers in the chemical industry and in the metal and engineering industry was followed in the last few months of 1994 by agreements in the cement, printing, glass, tanning, wood and furniture, and gold industries as well as ENI. Contract renewals in the private services sector involved a total of more than 3 million workers in tourism, the distributive trades, banking and insurance, the Post Office, the railways, shipping and public transport.

Most of the new wage agreements provide for gross increases of about 150,000 lire a month payable in two or three instalments over two years and a lump-sum payment by way of arrears. According to the July 1993 agreement, provisions relating to pay should normally apply for two years; additional pay increases linked to productivity may be agreed at company level, negotiations on which should begin this year. The national industry-wide contracts seek to define the subject matter for this first round of decentralized bargaining to be held under the new rules, despite the fact that the legislation on tax and contributions relief laid down in the agreement of eighteen months ago is still not on the statute book. Only the public transport workers' contract required direct intervention by the Government, which undertook to cover the deficit in the category's pension fund. Many of the new contracts included provisions for the more flexible utilization of employees.

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 about 25 trillion lire in 1994, equal to 1.5 per cent of GDP, a rise of 7 trillion lire on the previous year (Table 5). The improvement was largely the result of an increase in the *fob-fob* trade surplus from 51 to about 57 trillion lire; a growth in net receipts from foreign travel and a reduction in net interest payments on the foreign debt more than offset an increase in the deficit on other invisibles.

The growth in the trade surplus, which had been quite rapid in 1993, gradually slowed down during 1994 as stronger domestic demand stimulated an acceleration in imports; it came to a halt in the final months of the year. According to preliminary estimates, the trade surplus is expected to be about 1.6 trillion lire less in the second half of the year than in the corresponding period of 1993.

Table 5

Balance of payments

(net, in billions of lire)

	1993			1994 (1)		
	H1	H2	Year	H1	H2 (2)	Year (2)
Current account	**1,400**	**16,585**	**17,985**	**7,704**	**17,396**	**25,100**
Goods	18,392	32,714	51,106	25,626	31,074	56,700
Invisibles	–16,992	–16,129	–33,121	–17,922	–13,678	–31,600
Capital movements	**13,487**	**–774**	**12,713**	**–8,107**	**–12,771**	**–20,878**
Bank capital	–49,711	–33,485	–83,196	17,392	4,147	21,539
Non-bank capital	63,198	32,711	95,909	–25,499	–16,918	–42,417
Errors and omissions	**–14,491**	**–14,001**	**–28,492**	**5,523**	**–6,596**	**–1,073**
Change in official reserves (3)	**–396**	**–1,810**	**–2,206**	**–5,120**	**1,971**	**–3,149**

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

Data released by Istat on the price and volume components of trade in the first ten months of 1994 show that the volume of exports continued to increase at a rapid rate, driven by the recovery in world trade and, to a lesser extent, by the continuing decline in the real exchange rate for exports (Table 6). The real exchange rate index for the lira, which is based on the producer prices of manufactures and weighted with reference to both exports and imports, was almost 20 percentage points lower at the end of the year than in August 1992 and 14.4 points lower than the average for 1987, the year of the last realignment of the lira's central parity in the EMS. For the year as a whole, exports are estimated to have increased by between 9 and 10 per cent in volume, somewhat greater than the increase in world trade, thus slightly raising Italy's share of world exports at constant prices.

Coming on top of the already strong growth in foreign demand, which itself gives a powerful boost to imports, the recovery in domestic demand in the second half of the year caused the volume of imports to accelerate sharply, outweighing the damping effect of the further improvement in the domestic competitiveness of Italian goods. As in 1993, domestic demand had a greater impact on the trade balance than relative prices, although on this occasion the effect was in the opposite direction. In the first ten months of 1994 the volume of imports was 10.0 per cent greater than in the corresponding period of 1993; preliminary estimates suggest that the growth rate for the year as a whole may have been even higher, as imports are thought to have increased at an annual rate of more than 16 per cent between the first and second halves.

Table 6

Merchandise trade

(cif-fob; *percentage changes on corresponding period of previous year)*

	1993			1994		
	H1	H2	Year	H1	July-Oct.	Jan.-Oct.
Exports:						
At current prices	19.2	22.3	20.8	14.8	14.9	14.6
Average unit values	11.2	11.5	11.4	4.1	3.0	3.7
At constant prices	7.1	9.8	8.5	10.3	11.5	10.6
Imports:						
At current prices	–1.3	1.6	0.1	10.6	18.3	13.7
Average unit values	12.2	11.2	11.7	3.1	4.0	3.5
At constant prices	–12.1	–8.5	–10.4	7.3	13.9	10.0
Exports/imports:						
At current prices	20.8	18.6	19.6	3.5	–2.0	0.9
Average unit values	–0.9	0.3	–0.3	0.9	–0.9	0.2
At constant prices	21.9	18.4	20.0	2.5	–1.1	0.8
Memorandum items:						
Real exchange rate of the lira						
Exports	–11.3	–10.9	–11.1	–3.3	(1) –1.9	(2) –2.8
Imports	–13.6	–9.8	–11.7	–1.1	(1) –2.7	(2) –1.6
Domestic demand	–5.7	–4.3	–5.0	0.7	(1) 3.8	(2) 1.7

(1) July-September. – (2) January-September.

Between January and October 1994 the average unit values of exports and imports were respectively 3.7 and 3.5 per cent higher than in the same period of 1993, sharply down on the 12.0 and 12.5 per cent rates recorded a year earlier. Export and import prices are estimated to have risen in step during 1994 as a whole, so that the terms of trade remained unchanged.

Most of the improvement in the *cif-fob* trade balance in the first eleven months of 1994 occurred in engineering and metals (4.5 trillion lire), textiles, leather products and clothing (3.2 trillion) and transport equipment (2.5 trillion; Table 7). While the deficit on energy products remained virtually unchanged, that on trade in ferrous and non-ferrous ores and metals and chemical products widened. The surplus increased principally on trade with the United States and the newly industrialized economies of Asia (Table 8; in the first ten months of the year the value of Italian exports to these markets rose by 18.2 and 34.3 per cent respectively); the increase vis-à-vis the EU countries was more modest.

Preliminary estimates for the whole of 1994 show a further increase of nearly 7 trillion lire in the surplus on foreign travel, which had amounted to 12.56 trillion in 1993 (Table 9). For the second consecutive year the result was primarily a consequence of lower Italian spending abroad: in the first ten months of the year, the period for which complete figures are available, spending abroad by Italians was 12.8 per cent less than in the corresponding period of 1993; the reduction was even larger in real terms (18.3 per cent). The appreciable improvement in the competitiveness of Italian tourist services in recent years was an important contributory factor, but so too was the stagnation of Italian households' real disposable incomes. Receipts grew by 9.9 per cent over the same period. The number of foreign visitors entering Italy and the number of overnight stays increased by 3.9 and 21.5 per cent respectively.

Net outflows of investment income decreased in 1994 for the first time in seven years, falling from 25.52 to about 23.5 trillion lire as the effects of the reduction in Italy's net foreign debt began to appear; the net outflow fell from 1.6 to 1.4 per cent of GDP.

According to preliminary estimates, the deficit on other services and income increased by 4.2 trillion lire last year. The deterioration reflected mainly the increased deficit on transport, most of which was attributable to freight transport as a result of the sharp increase in trade and the consequent rise in the use of foreign shipping fleets.

Table 7

Merchandise trade by product group (January-November)

(cif-fob; *billions of lire)*

	Exports		Imports		Balance	
	1993	1994	1993	1994	1993	1994
Agricultural, forestry and fishery products	6,055	7,353	13,368	15,277	–7,313	–7,924
Fuel and power products	5,212	4,568	25,658	25,391	–20,446	–20,823
Ferrous and non-ferrous ores and metals	10,946	12,261	18,211	23,030	–7,265	–10,769
Non-metallic and mineral products	10,013	11,642	4,214	4,626	5,799	7,016
Chemical products	18,755	21,921	28,646	34,016	–9,891	–12,095
Metal products and machinery	82,537	94,462	46,225	53,654	36,312	40,808
Transport equipment	21,365	25,923	23,317	25,358	–1,952	565
Food, beverages and tobacco products	11,123	11,982	18,310	20,343	–7,187	–8,361
Textiles, leather products and clothing	41,681	49,172	14,786	19,027	26,895	30,145
Other	30,764	35,213	17,948	21,441	12,816	13,772
Total ...	**238,451**	**274,497**	**210,683**	**242,163**	**27,768**	**32,334**

Source: Istat.

Table 8

Merchandise trade by country and area (January-October) (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	**157,664**	**183,052**	**16.1**	**74.1**	**140,507**	**161,433**	**14.9**	**74.4**	**17,157**	**21,619**
EU	113,205	131,468	16.1	53.2	102,963	120,584	17.3	55.6	10,242	10,884
of which: France	*28,086*	*32,171*	*14.5*	*13.0*	*25,534*	*29,079*	*13.9*	*13.4*	*2,552*	*3,092*
Germany	*41,375*	*46,976*	*13.5*	*19.0*	*36,086*	*41,259*	*14.3*	*19.0*	*5,289*	*5,717*
United Kingdom	*13,570*	*16,040*	*18.2*	*6.5*	*10,464*	*12,910*	*23.4*	*5.9*	*3,106*	*3,130*
Spain	*9,108*	*11,233*	*23.3*	*4.5*	*6,217*	*8,258*	*32.8*	*3.8*	*2,891*	*2,975*
Switzerland	8,395	9,393	11.9	3.8	9,752	10,646	9.2	4.9	–1,357	–1,253
Other European countries (2)	12,193	12,959	6.3	5.3	9,788	11,426	16.7	5.2	2,405	1,533
Other OECD countries (3)	23,871	29,232	22.4	11.8	18,004	18,777	4.3	8.7	5,867	10,455
of which: Japan	*4,186*	*5,488*	*31.1*	*2.2*	*5,038*	*5,243*	*4.1*	*2.4*	*–852*	*245*
United States	*16,502*	*19,511*	*18.2*	*7.9*	*10,289*	*10,186*	*–1.0*	*4.7*	*6,213*	*9,325*
Eastern European countries (4)	**8,447**	**10,706**	**26.7**	**4.3**	**10,181**	**13,199**	**29.6**	**6.1**	**–1,734**	**–2,493**
OPEC countries (5)	**10,405**	**9,579**	**–7.9**	**3.9**	**12,571**	**11,708**	**–6.9**	**5.4**	**–2,166**	**–2,129**
Other	**36,224**	**43,823**	**30.0**	**17.7**	**25,573**	**30,634**	**19.8**	**14.1**	**10,651**	**13,189**
of which: China	*3,066*	*2,965*	*–3.3*	*1.2*	*3,438*	*4,218*	*22.7*	*1.9*	*–372*	*–1,253*
Asian NIEs (6)	*7,639*	*10,257*	*34.3*	*4.1*	*3,142*	*3,297*	*4.9*	*1.5*	*4,497*	*6,960*
Total	**212,740**	**247,160**	**16.2**	**100**	**188,832**	**216,974**	**14.9**	**100**	**23,908**	**30,186**

(1) The data on trade with EU countries on which the figures in the table are based refer only to firms with intra-Community purchases and sales in excess of 50 million lire in the two periods considered. They thus cover only a part of the total trade of Italian exporting and importing firms. - (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.

Table 9

Current account of the balance of payments

(balances in billions of lire)

	1993			1994		
	H1	H2	Year	H1	H2	Year
Goods	18,392	32,714	51,106	25,626	31,074	56,700
Foreign travel	5,436	7,119	12,555	8,479	11,021	19,500
Investment income	–12,028	–13,496	–25,524	–12,922	–10,578	–23,500
Other services and income	–5,670	–6,016	–11,686	–8,348	–7,552	–15,900
Transfers	–4,730	–3,736	–8,466	–5,131	–6,569	–11,700
Total	**1,400**	**16,585**	**17,985**	**7,704**	**17,396**	**25,100**

The deficit on unrequited transfers widened by 3.2 trillion lire, according to provisional and partly estimated data. The deterioration was largely attributable to public transfers: in the first ten months of the year official transfers to and from the European Union showed a net deficit of more than 7.4 trillion lire, 2.8 trillion more than in the same period of 1993. Gross receipts fell by 24.8 per cent. A reduction in transfers from the European Agricultural Guidance and Guarantee Fund and the European Social Fund reflected the difficulties faced by Italian agencies responsible for public programmes in Southern Italy in managing EU structural funds. By contrast, gross payments increased by 3.9 per cent.

Capital movements

According to provisional and partly estimated data, capital movements gave rise to a net outflow of 20.88 trillion lire in 1994, as against a net inflow of 12.71 trillion the previous year (Table 5).

The division of financial transactions with counterparties abroad into those attributable to resident banks ("Bank capital") and those attributable to other operators ("Non-bank capital"), the significance of which was recently enhanced by the application of the new Community classification criteria, highlights the reciprocal behaviour of the two components. In 1993 there had been a large net inflow of non-bank capital of 95.91 trillion lire, entirely due to the portfolio decisions of foreign investors. This had been partly offset by a net outflow of bank capital of 83.20 trillion, which had allowed the Italian banking system to reduce its net foreign debt from the high level reached in 1992. In 1994, by contrast, there was a net outflow of non-bank capital of 42.42 trillion lire, again as a result of movements of foreign funds. This was coupled with resumed net borrowing abroad by Italian banks, which gave rise to a net inflow of bank capital of 21.54 trillion.

Table 10

Capital movements
(net flows in billions of lire)

	1993					1994 (1)				
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 (2)	Year (2)
Non-bank capital flows	**95,909**	**44,433**	**18,765**	**22,578**	**10,133**	**–351**	**–25,148**	**–21,119**	**4,201**	**–42,417**
Foreign	133,146	49,796	27,122	29,427	26,801	24,597	–17,486	–10,607	19,029	15,533
Investment	132,750	43,337	28,353	32,659	28,401	26,912	–18,513	–5,693	21,160	23,866
of which: portfolio	*126,855*	*41,696*	*26,993*	*31,624*	*26,542*	*25,592*	*–20,339*	*–5,850*	*18,577*	*17,980*
Loans	607	5,645	–1,282	–1,093	–2,663	–4,283	–2,556	–3,321	–4,208	–14,368
Trade credits	–211	814	51	–2,139	1,063	1,968	3,583	–1,593	2,077	6,035
Italian	–37,237	–5,363	–8,357	–6,849	–16,668	–24,948	–7,662	–10,512	–14,828	–57,950
Investment	–26,463	–2,211	–3,740	–8,692	–11,820	–19,045	–716	–8,215	–6,819	–34,795
of which: portfolio	*–15,099*	*3,207*	*–1,171*	*–6,802*	*–10,333*	*–18,180*	*1,683*	*–6,794*	*–3,252*	*–26,543*
Loans	–5,076	–343	–2,599	–295	–1,839	–3,696	–3,389	–2,955	–2,486	–12,526
Trade credits	–5,698	–2,809	–2,018	2,138	–3,009	–2,207	–3,557	658	–5,523	–10,629
Bank capital flows	**–83,196**	**–30,602**	**–19,109**	**–20,902**	**–12,583**	**–685**	**18,077**	**14,408**	**–10,261**	**21,539**
in lire	–36,088	–18,871	–9,425	–7,307	–485	–845	16,590	14,149	–1,236	28,658
in foreign currency	–47,108	–11,731	–9,684	–13,595	–12,098	160	1,487	259	–9,025	–7,119
Total	**12,713**	**13,831**	**–344**	**1,676**	**–2,450**	**–1,036**	**–7,071**	**–6,711**	**–6,060**	**–20,878**

(1) Provisional. – (2) The figures for trade credits and Italian loans are partly estimated.

Foreign portfolio investment, the most important item in determining Italy's gross external financial liabilities, gave rise to a net inflow of only 17.98 trillion lire in 1994, compared with one of 126.86 trillion the previous year (Table 10 and Figure 13). The net position fluctuated between inflows and outflows during the year: inflows weakened somewhat in the first quarter, notwithstanding a yen-denominated Republic of Italy issue in the European and US markets in January worth 4.58 trillion lire; foreign investors made massive net disposals in the second quarter, with more than half occurring in June alone, and continued to disinvest in the third quarter, though on a smaller scale. Most of the fall in foreign investment concerned government paper, especially fixed rate securities (Table 11). Another Republic of Italy bond issue in July worth 6.37 trillion lire helped limit the size of the net outflow in the third quarter. In the fourth quarter foreign portfolio investment resulted in a net inflow of 18.58 trillion, most of which was generated in the last two months of the year. The net inflow of 10.27 trillion in November was partly due to a recovery in repurchase agreements on Italian securities with non-residents, primarily by resident banks (2.74 trillion). There was also a sharp increase in Italian loans, which amounted to 3.91 trillion, compared with an average of 0.75 trillion in the two previous months. This item includes repurchase operations with non-residents by Italian non-bank operators, such as investment firms. Even though foreign investors continued to cover part of the foreign exchange risk by borrowing lire from Italian banks and investment firms, they began to increase the share of Italian securities in their portfolios once more. Nearly three quarters of the net inflow in December was due to another Republic of Italy issue worth 450 billion yen.

Table 11

Foreign portfolio investment

(net flows in billions of lire)

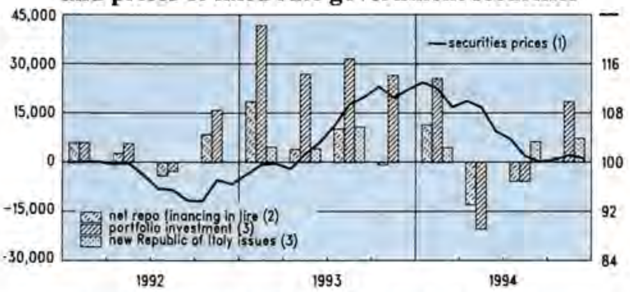
	1993		1994			
	Jan.-Oct.	Year	Q1	Q2	Q3	Jan.-Oct.
Government securities	92,250	111,898	17,638	–14,329	–6,006	–6,769
Treasury bills (BOT)	1,312	1,351	287	–1,222	231	–969
Treasury bonds (BTP)	64,917	79,748	14,238	–16,208	–13,977	–19,692
ECU Treasury bills (BTE)	–358	–285	–566	–173	–354	–1,646
ECU Treasury credit certificates (CTE)	1,027	1,776	837	926	691	2,425
Treasury credit certificates (CCT)	–1,037	–1,018	2,381	1,138	5,170	10,433
Treasury discount certificates (CTS)	35	24	..	..	..	..
Index-linked Treasury certificates (CTR)	..	..	..	..	..	..
Treasury option certificates (CTO)	8,252	11,932	–3,991	1,470	–3,855	–5,505
Republic of Italy issues (1)	18,105	18,374	4,470	–260	6,088	8,203
Other	–3	–4	–18	..	..	–18
Italian investment fund units	35	39	2	11	3	16
Listed bonds	439	421	67	–14	45	24
Listed shares	4,384	6,541	6,528	–6,770	–1,659	–2,328
Other securities	550	563	392	–449	167	102
Deposits	–86	–112	136	235	349	913
Derivative instruments	–14	–189	282	229	435	1,038
Unclassified investments (2)	6,079	7,694	547	748	816	4,627
Total	**103,637**	**126,855**	**25,592**	**–20,339**	**–5,850**	**–2,377**

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

The stock of government securities and Republic of Italy issues held by non-residents at the end of October is estimated at around 203.5 trillion lire, or 12.3 per cent of the total, a reduction of more than one percentage point compared with the beginning of the year.

Figure 13

Net foreign portfolio investment in Italy and prices of fixed rate government securities



(1) Index of the ex-coupon price of Treasury bonds listed on the screen-based market (January 1992=100), right-hand scale. – (2) Net financing granted by resident banks to foreign investors in the form of repurchase agreements, in billions of lire. – (3) In billions of lire.

Net of repatriated funds, Italian portfolio investment rose by around 11.5 trillion lire to 26.54 trillion in 1994 as a whole. A not inconsiderable part of the very large outflow of 18.18 trillion lire in the first quarter was probably due to the settlement of residents' repurchase agreements on foreign securities with Italian banks and foreign intermediaries that were outstanding on 1 January. The amount of these settlements is currently being estimated and has therefore not yet been reclassified under bank capital and foreign loans. After a pause in the second quarter, Italian investment abroad picked up again in the third and fourth quarters, with average monthly outflows in line with those recorded in the last few years.

Net foreign direct investment in Italy amounted to 5.89 trillion lire last year, while Italian purchases of equity interests abroad gave rise to a net outflow of 8.25 trillion. Since the removal of exchange controls, Italian direct investment abroad has systematically exceeded foreign direct investment in Italy. The ratio between the stocks of the two aggregates rose from just over one at the end of 1988 to 1.5 at the end of 1993 and is estimated to have risen again slightly in 1994.

Foreign loans generated a net outflow of 14.37 trillion lire last year, compared with a net inflow of 0.61 trillion in 1993. The net outflow of Italian loans more than doubled to 12.53 trillion.

Table 12

Exchange rates of the lira

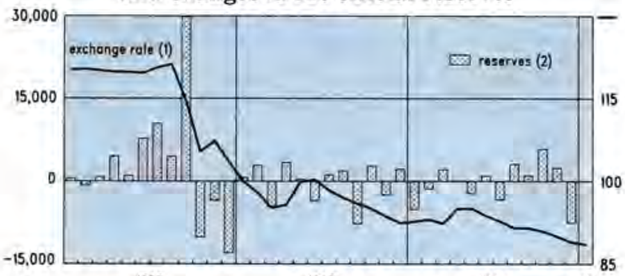
(not seasonally adjusted; percentage changes on the previous period)

	1993					1994				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year (3)
Nominal exchange rates of the lira										
– effective (1)	−7.3	1.0	−1.6	−3.5	−16.6	−1.0	2.1	−2.9	−2.1	−4.6
– DM/lira	−7.0	1.6	−1.7	−3.7	−17.2	0.4	1.2	−4.0	−2.2	−4.4
– dollar/lira	−11.8	2.6	−5.1	−4.0	−21.8	−2.0	5.0	2.1	−1.1	−2.6
Real effective exchange rates of the lira (2)										
– imports	−4.8	2.1	−0.4	−3.4	−11.7	0.1	3.1	−2.3	....	−1.6
– exports	−3.6	−0.2	0.2	−4.8	−11.1	0.1	2.8	0.1	....	−2.8
– overall	−6.1	2.0	−0.8	−2.9	−13.4	−0.3	2.7	−2.3	....	−2.0

Source: Based on Bank of Italy, OECD and IMF data.
(1) A minus sign indicates a depreciation. – (2) A minus sign indicates a depreciation, i.e., an increase in competitiveness. The overall real exchange rate is based on the producer prices of manufactures; the other two are based on the average unit values of imports and exports. – (3) For real exchange rates, January-September.

Figure 14

Nominal effective exchange rate of the lira and changes in the official reserves



(1) Index; January 1993=100 (right-hand scale). A fall in the index corresponds to a depreciation. – (2) In billions of lire, net of Republic of Italy operations (left-hand scale). A minus sign indicates an increase in the reserves.

Resident banks recorded net inflows of 18.08 and 14.41 trillion lire in the second and third quarters in connection with the settlement of repurchase agreements on Italian securities with non-residents, thus considerably reducing their lira-denominated foreign assets. Their net external lira position began to rise again in the last quarter.

The official reserves increased by 3.15 trillion lire at constant exchange rates and prices, compared with a rise of 2.21 trillion in 1993. Given the current account surplus and the net deficit on capital movements, a small deficit of about 1.1 trillion was attributed to errors and omissions.

At the end of the year the reserves stood at 91.28 trillion lire, of which 41.34 trillion consisted of gold and 32.13 trillion of foreign currencies obtained from Italian banks under renewable currency swaps. Excluding movements associated with Republic of Italy issues, the monthly fluctuations in the reserves were small, averaging less than 1.8 trillion lire in either direction. The lira continued to float more or less freely in the foreign exchange markets.

Since floating began in September 1992, the nominal effective exchange rate of the lira has followed a downward trend, with only two short-lived periods during which it strengthened, in the spring of 1993 and the spring of 1994 (Table 12 and Figure 14).

During the periods of weakness the *ex ante* excess supply of lire in foreign exchange markets, which depresses the exchange rate, was not clearly attributable to any particular item of the balance of payments. A number of conjectures can nonetheless be made in the light of the available data.

In the first place, the supply of and demand for lire associated with current transactions was heavily outweighed by those of a financial nature. This can be seen from the pronounced imbalance between the gross flows associated with current transactions and capital movements; the latter were nearly six times as large as the former last year, compared with about double at the end of the eighties.

The tendency of the lira to weaken can be ascribed primarily to three factors: first, the continuation of portfolio diversification by Italian investors that began when exchange controls were removed; secondly, in 1993 alone, the desire of Italian banks and their corporate customers to reduce their foreign currency exposure from the abnormal level it had reached the previous year; and thirdly, in 1994 alone, the reduced willingness of foreign investors to hold long positions in lire owing to the perception of increased foreign exchange and issuer risk.

On the other hand, the two periods during which the lira strengthened temporarily can be seen to have coincided with a pause in capital outflows in connection with Italian portfolio investment, probably as a result of the hedging of positions or changes in expectations.

Prices

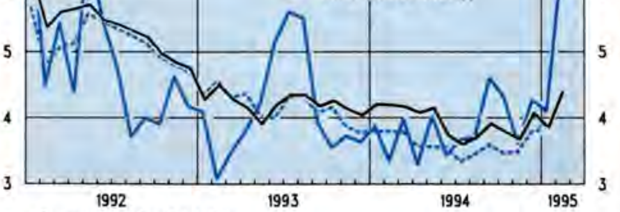
In the second half of 1994 the downward trend of consumer price inflation of the three previous years came to a halt. The rate of increase in the producer prices of industrial products for the domestic market, whose behaviour is normally a pointer to the future performance of consumer prices, began to accelerate. The faster rise in prices reflected the acceleration in international commodity prices, the depreciation of the lira and the recovery in domestic demand, but at the same time it was restrained by the smallness of the growth in earnings, the appreciable improvement in productivity and the existence of spare capacity. Surveys of business and household expectations revealed growing expectations of an upturn in inflation, which were countered by measures to increase the restrictiveness of monetary policy.

Consumer and producer prices

Measured in terms of the cost-of-living index, the average increase in consumer prices in 1994 was 3.9 per cent, thus exceeding the target rate of 3.5 per cent. About 0.3 percentage points of the increase was attributable to changes in indirect taxes (Figure 15).

Figure 15

General index of the cost of living
(percentage changes; monthly data)



Source: Based on Istat data.

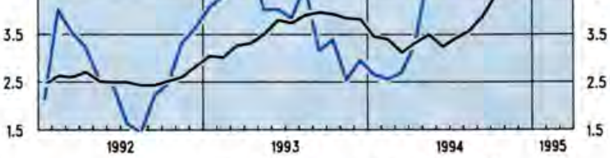
(1) Seasonally adjusted and annualized. Moving averages of 3 terms ending in the month indicated. – (2) Partly estimated.

The slowdown in the cost of living that had begun at the end of 1993 came to an end in August and September, with the twelve-month rate of increase rising from 3.6 per cent in July to 3.9 per cent in September (from 3.3 to 3.6 per cent net of indirect taxes). On a seasonally adjusted basis the acceleration was more pronounced. There was a slight slowdown in October and November, but at the end of the year the inflation rate was more than 4 per cent (3.8 per cent net of indirect taxes). After declining to 3.8 per cent in January, the twelve-month rate of increase in the cost of living was 4.3 per cent in February.

The monthly fluctuations were often linked to contingent events or, as in December, to increases in a number of local utility charges. They are nonetheless evidence of opposing pressures on prices originating in domestic and foreign factors, the net impact of which is not yet established. It is clear, however, that the slowdown in consumer prices gave way to a rising trend in the second half of last year, with the February figures reflecting the new tendency.

Figure 16

Producer and consumer prices
(percentage changes; monthly data)



Source: Based on Istat data.

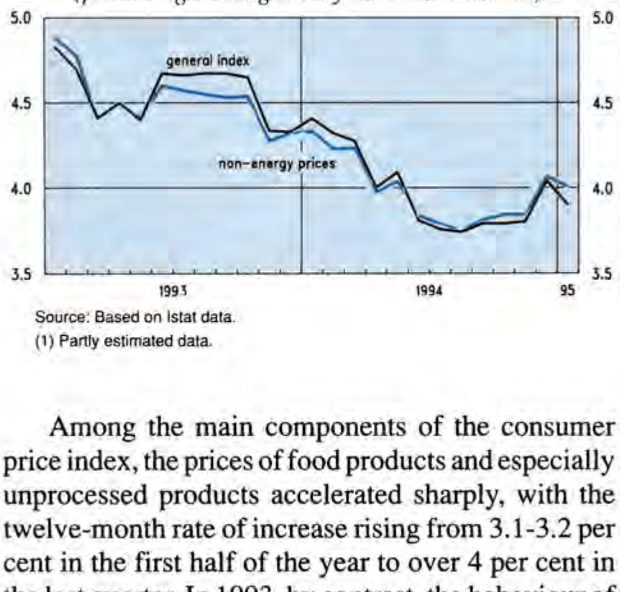
(1) Partly estimated data. – (2) Seasonally adjusted and annualized. Moving averages of 3 terms ending in the month indicated.

The index of consumer prices, which provides a more complete picture of price developments, confirms the upturn in inflation (Figure 16). Between June and October the twelve-month rate of increase was around 3.8 per cent, but the seasonally adjusted rate accelerated. Similar results are obtained using measures of the underlying rate of consumer price inflation, which exclude items whose prices are subject to official control or largely determined by exogenous factors, such as energy products (Figure 17). These indicators also show tensions developing during the summer: the twelve-month rates of increase at the end of the year were above 4 per cent.

Figure 17

Prices of consumer goods and services not subject to official control (1)

(percentage changes on year-earlier month)



Source: Based on Istat data.
(1) Partly estimated data.

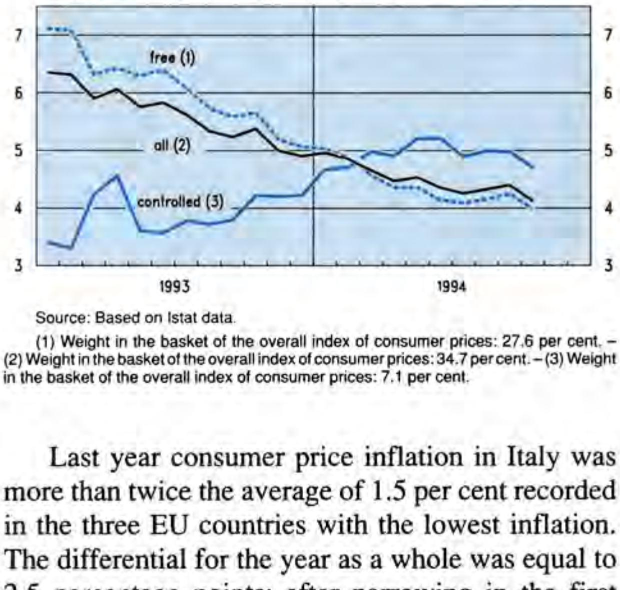
Among the main components of the consumer price index, the prices of food products and especially unprocessed products accelerated sharply, with the twelve-month rate of increase rising from 3.1-3.2 per cent in the first half of the year to over 4 per cent in the last quarter. In 1993, by contrast, the behaviour of these items had made an important contribution to curbing inflation. The prices of other non-energy consumer products not subject to official control slowed down: the twelve-month rate of increase fell from more than 4 per cent in the first half of the year to around 3.5 per cent in the last quarter. The pattern was the same for both durable and non-durable goods. The twelve-month rate of increase in energy prices slowed significantly until the middle of the summer, reaching 2.7 per cent in July and August, but then rose to 3.7 per cent in the next two months. The acceleration occurred mainly in prices subject to official control.

The prices of consumer services continued to rise more rapidly than those of consumer goods: in the third quarter the year-on-year rate of increase was 4.3 per cent (Figure 18). On the basis of the consumer price and cost-of-living indices, the slowdown in the prices of consumer services that had begun in 1992 and proceeded in tandem with the decline in domestic consumption appears to have come to an end. The twelve-month rate of increase in the prices of services subject to official control accelerated to nearly 5 per cent last year. Public utility charges rose by around 3.4 per cent, while the increase in rents, which had already increased more rapidly in 1993 as a result of the introduction of leases not subject to rent control, continued to rise at a rate of more than 8 per cent in the third quarter of 1994.

Figure 18

Prices of consumer services

(percentage changes on year-earlier month)



Source: Based on Istat data.
(1) Weight in the basket of the overall index of consumer prices: 27.6 per cent. – (2) Weight in the basket of the overall index of consumer prices: 34.7 per cent. – (3) Weight in the basket of the overall index of consumer prices: 7.1 per cent.

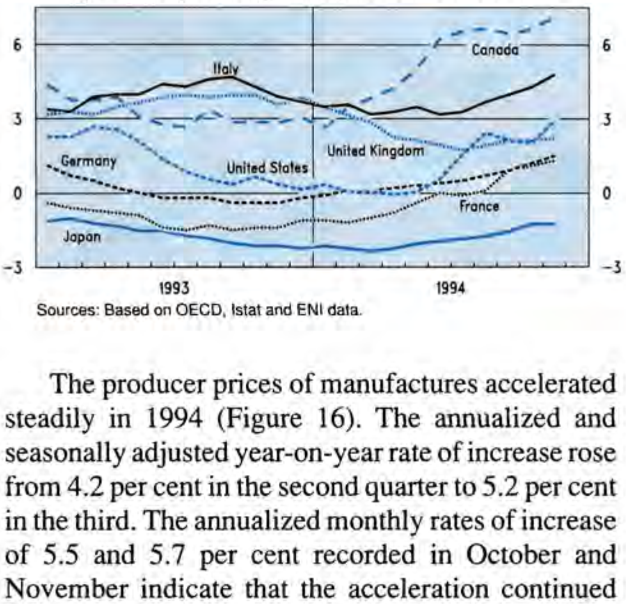
Last year consumer price inflation in Italy was more than twice the average of 1.5 per cent recorded in the three EU countries with the lowest inflation. The differential for the year as a whole was equal to 2.5 percentage points: after narrowing in the first three quarters, it widened again towards the end of the year, increasing from 2 points in the third quarter to 2.2 points in the fourth.

Wholesale price inflation slowed to a year-on-year rate of 3.1 per cent in the second quarter, but accelerated in the second half of the year to 4.6 per cent in November. Wholesale prices can be considered significant only where there is a sufficiently large wholesale market, such as that for unprocessed food products, where prices recorded a year-on-year increase of around 6 per cent in the third quarter. This was greater than the increase in the consumer prices of the same products (3.2 per cent), thus indicating a narrowing of retail margins.

In the distribution sector as a whole, any tendency for margins to widen as the economic recovery gathers momentum will probably continue to be curbed by the restructuring that is taking place, involving a rapid expansion in large-scale distribution and large improvements in productivity. Nonetheless, there were also clear signs of recovery in the turnover of small shops last year (see the box: *The contraction of employment in market services*).

Figure 19

Producer prices in the G-7 countries
(percentage changes on year-earlier month)



Sources: Based on OECD, Istat and ENI data.

The producer prices of manufactures accelerated steadily in 1994 (Figure 16). The annualized and seasonally adjusted year-on-year rate of increase rose from 4.2 per cent in the second quarter to 5.2 per cent in the third. The annualized monthly rates of increase of 5.5 and 5.7 per cent recorded in October and November indicate that the acceleration continued and may have repercussions on consumer prices. The increase in producer prices was especially marked in basic industries, which were affected by the rise in international commodity prices, as well as in industries producing motor vehicles and some consumer goods, especially clothing.

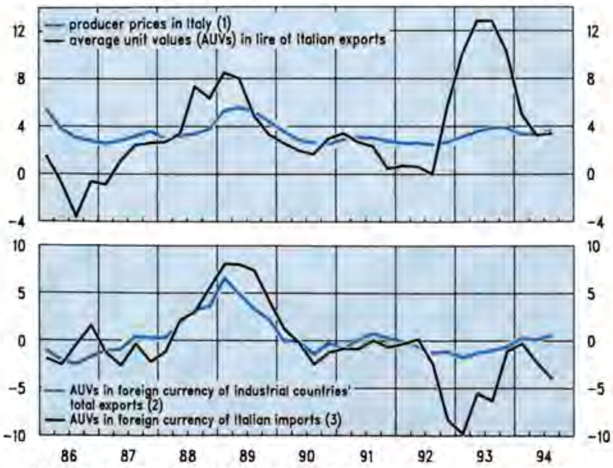
Producer prices also accelerated in the other leading industrial countries in the second part of the year, though to differing degrees (Figure 19). The acceleration was sharpest in Canada, where the rate of increase rose to more than 6 per cent, and in the United States, but small in the United Kingdom, where the rate remained below the average for 1993 and upward pressure only emerged in the late summer. The similar performance of producer prices in these countries suggests that common factors were at work, first and foremost the upturn in commodity prices and expectations of a strengthening of the world recovery.

Import prices and labour costs

In 1994 the prices of imported manufactures did not have an inflationary impact on consumer prices, despite the further effective depreciation of the lira. The increase in the average unit values of imports in lire declined rapidly from year-on-year rates of more than 10 per cent in 1993 to one of 1.8 per cent in the third quarter of 1994, corresponding to a fall of 2.3 per cent in prices expressed in foreign currency. The slight increase in the foreign currency prices applied in other markets confirms that exporters to Italy again accepted a narrowing of their profit margins as a result of the appreciation of their currencies against the lira in order to maintain their market shares in Italy (Figure 20).

Figure 20

Indicators of the pricing policies of domestic and foreign manufacturers
(percentage changes on year-earlier quarter)



Sources: Based on Istat, OECD and IMF data.

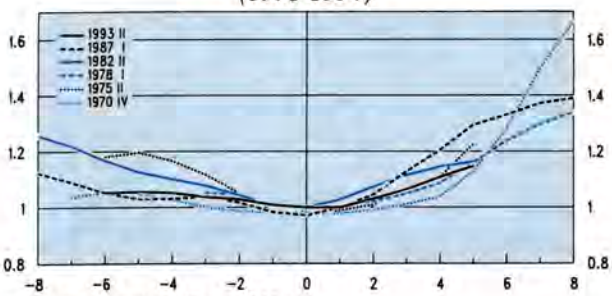
(1) Manufacturing output sold on the domestic market. – (2) The 14 countries considered in the calculation of the real exchange rate of the lira. – (3) Expressed in the currencies of the leading countries from which Italy imports manufactures.

The situation with regard to imported raw materials was different. The sharp rise in domestic producer prices was fueled not only by the recovery of domestic demand but also by the acceleration in the lira prices of inputs. Overall, the year-on-year rise in the prices of manufacturing inputs was 5.0 per cent in the third quarter and 5.4 per cent in October. The acceleration was evident in the domestic component, whose year-on-year rate of increase picked up from 4.1 per cent in the second quarter to 4.9 per cent in the third, but it was especially pronounced in the imported component, where the corresponding increase was from 3.9 to 5.1 per cent.

The rise in the prices of imported inputs reflected higher world market prices for non-oil raw materials, which the IMF index shows to have increased by 12.3 per cent in dollar terms in 1994, whereas in 1993 they had declined by 3.8 per cent. Similar trends were recorded by other indices (HWWA, Economist, Unctad), which differ substantially in the weighting of the various items. Dollar prices accelerated abruptly in the second half of the year to twelve-month rates of increase of more than 16 per cent. In the third quarter a considerable part of the overall rise was due to increases in the prices of beverages (especially coffee), partly reflecting poor harvests of certain products; in the fourth quarter it was primarily the rise in metals prices that pushed up the index. By contrast, the price of oil remained broadly stable at between $16 and $17 a barrel, after having fallen in the first quarter of the year.

Figure 21

Commodity prices in previous cycles (1)
(1970-1994)



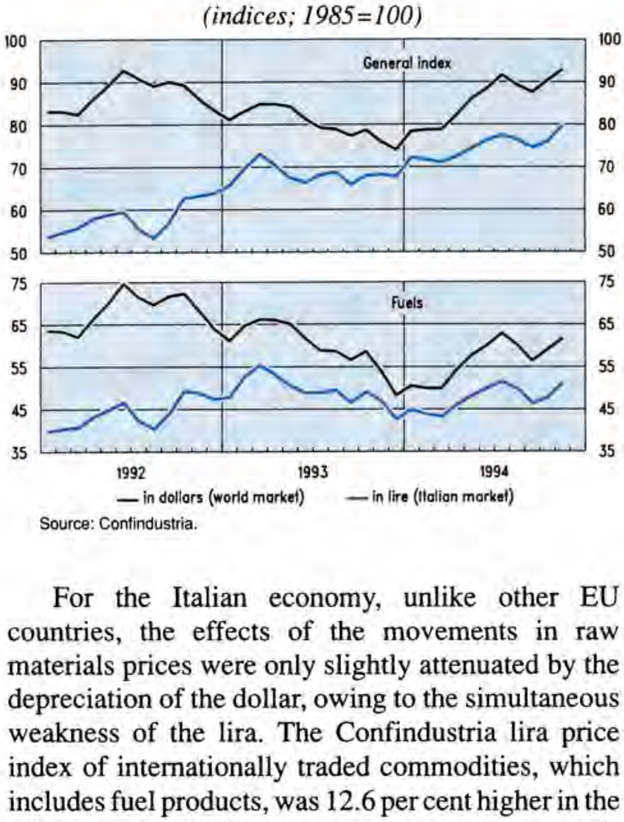
Sources: Based on IMF and OECD data.

(1) IMF quarterly general index of non-oil commodity prices; centred moving averages of 3 terms. The cycles were identified on the basis of the index of the industrial output of the OECD countries. The quarter corresponding to zero on the x-axis is that of the trough of the index of commodity prices, as indicated in the key. The value of the price index is equal to one for the quarter in which the turning point of the industrial output index occurs.

As Figure 21 shows, the behaviour of raw materials prices is closely linked to the cycle in the leading industrial economies. Over the past 25 years, the prices of raw materials have generally fallen in the quarters preceding the cyclical upturn in the OECD countries and risen rapidly thereafter. The current phase of the world economy is no exception. In the light of past experience, prices can be expected to continue to rise for several more quarters, although the extent of the increase will obviously depend on the strength and duration of the recovery of the world economy.

Figure 22

Prices of internationally traded basic commodities
(indices; 1985=100)



Source: Confindustria.

For the Italian economy, unlike other EU countries, the effects of the movements in raw materials prices were only slightly attenuated by the depreciation of the dollar, owing to the simultaneous weakness of the lira. The Confindustria lira price index of internationally traded commodities, which includes fuel products, was 12.6 per cent higher in the third quarter of 1994 than a year earlier (Figure 22); in December the year-on-year increase was 19.0 per cent. The lira prices of non-food raw materials alone were 33.9 per cent higher in the third quarter and 37.0 per cent higher in the fourth than in the corresponding periods of the previous year. Similarly, the average import prices of raw materials were 13.5 per cent higher in the third quarter than a year earlier; it is estimated that around 1.5 percentage points of the 5.0

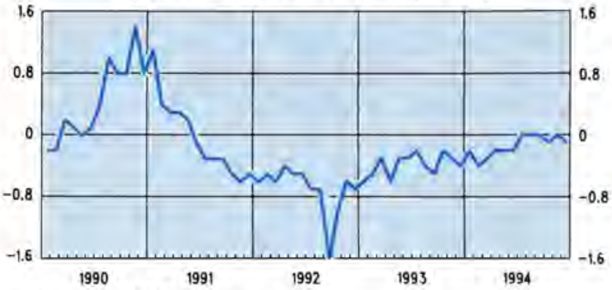
per cent rise in the prices of industrial inputs over the same period can be ascribed to the increase in raw materials prices.

Whereas input prices accelerated, labour costs increased more slowly. In the economy as a whole, average per capita earnings, including back pay and overtime, were 2.4 per cent higher in the first three quarters of 1994 than a year earlier, a figure broadly in line with the trend in contractual wages (see the chapter: *The Italian economy and the balance of payments*). In the manufacturing sector the increase was 3.0 per cent: notwithstanding several wage settlements in the fourth quarter, the average rise in 1994 should be lower than that recorded in 1993, which was already the lowest in twenty years. The 4.3 per cent growth in average per capita earnings in industry as a whole reflected the faster rise in wages in the energy and construction sectors.

According to the latest Isco survey of firms' expectations regarding labour costs per employee in the twelve months ahead, which was conducted in December, no acceleration from the 1994 rate is foreseen (Figure 23). It should be recalled, however, that under the agreement on incomes policy any overshooting of the target rate of inflation will be a reference point for renegotiation of the wage elements of labour contracts.

Figure 23

Expectations of an acceleration or deceleration in labour costs per employee according to Isco business surveys (1)
(percentage points; monthly data)



Source: Based on Isco data.

(1) Difference between the average percentage change in the cost of labour per employee in the last twelve months and that expected in the next twelve months, as reported by the firms surveyed.

Table 13

Unit variable costs and final prices in manufacturing
(percentage changes on year-earlier period)

	1993 H1	1993 H2	1993	1994 (1) H1	1994 (1) H2	1994 (1)
Input prices	**7.4**	**8.2**	**7.8**	**4.7**	**5.1** (2)	**4.9**
Domestic	3.7	4.4	4.0	4.2	5.0 (2)	4.6
of which: energy	*6.4*	*5.4*	*5.9*	*3.9*	*5.5*	*4.7*
services	*4.2*	*4.6*	*4.4*	*4.6*	*5.3*	*4.9*
agricultural products	*-0.9*	*2.4*	*0.7*	*2.4*	*4.8*	*3.6*
Foreign	15.3	16.2	15.7	5.7	5.3 (2)	5.5
of which: energy	*22.8*	*10.6*	*16.6*	*-5.0*	*5.5* (2)	*0.3*
Unit labour costs	**1.6**	**1.3**	**1.4**	**-1.2**	**-3.5** (3)	**-2.4**
Unit variable costs	**4.5**	**4.7**	**4.6**	**1.8**	**0.8** (3)	**1.3**
Output prices	**5.5**	**6.2**	**5.8**	**3.6**	**3.4** (2)	**3.5**
of which: domestic	*3.3*	*3.9*	*3.6*	*3.3*	*4.0* (4)	*3.7*

Sources: Based on Istat and ENI data.

(1) Largely based on preliminary estimates. The figures for unit labour costs are derived from the quarterly national accounts. – (2) July-October. – (3) Third quarter. – (4) July-November.

Labour productivity was boosted both by the economic recovery and by continued restructuring, which has been particularly intense in several branches of the services sector. In manufacturing it was 5.5 per cent higher in the first nine months of 1994 than in the same period of the previous year, and in market services the increase was 4.8 per cent. While productivity gains are normal during an upswing, when employment tends to be slow to adjust to the growth in demand, the increases recorded in 1994 were especially large. For example, productivity in the goods and market services sector increased by 4.6 per cent in the first three quarters of 1994, compared with 2.6 per cent between the third quarter of 1983 and the first quarter of 1984 at the beginning of the cyclical recovery of the eighties. The acceleration in productivity in the current upturn stems partly from the severity of the preceding recession, which left ample scope for output to expand even while employment was contracting, but above all from the changes that are continuing to occur in the structure of the distributive trades and the transport sector.

It is estimated that the smallness of the increase in earnings and the rapid rise in labour productivity led to a considerable reduction in unit labour costs in manufacturing in the second half of the year compared with a year earlier, compensating for the rise in the prices of domestic and imported inputs (Table 13); accordingly, unit variable costs probably remained practically unchanged overall. The simultaneous rise in output prices therefore reflects a sizable growth in firms' profits. With profit margins widening so rapidly, a failure of investment to pick up markedly in the near future could lead to a slowdown in productivity or to wage concessions that would trigger a wage-price spiral. Either event would adversely affect the competitiveness of Italian producers. However, it is possible that the increases in producer prices were made to pre-empt expected increases in input prices in view of the performance of the lira and the trends in raw materials prices.

Demand and production capacity

The increase in producer prices was due partly to the rise in input prices, but also partly to a revival of domestic demand. Although the recovery developed gradually during the year, the prospect of better economic conditions probably indicated to producers that they could raise prices without fear of a drastic fall in sales. The depreciation of the lira against leading European currencies had the same effect by making competition from foreign producers less of a constraint.

The pressure of demand on prices was mitigated, however, by the existence of spare production capacity and uncertainty as to whether the recovery would strengthen. Isco's business surveys and the surveys conducted by the Bank of Italy at the beginning of 1994 and in the autumn (see *Economic Bulletin*, No. 19, 1994) both confirmed that available capacity was more than sufficient to meet market needs, despite a rapid increase in plant utilization rates (Figure 24).

Figure 24

Plant utilization rates in industrial firms

(percentages; monthly data)

Source: Based on Isco data.

(1) Exporting sectors are defined as those exporting more than 25 per cent of their turnover according to the 1991 survey of gross product. They are the sectors producing: agricultural and industrial machinery, office machines and precision instruments, electrical goods, transport equipment, textiles, clothing, leather goods and footwear, plastic and rubber goods, and other industrial products.

The aggregate figure masks sectoral differences, however. Firms with a higher propensity to export are returning more rapidly to the capacity utilization levels reached at the end of the eighties; the percentage of such firms reporting excess production capacity diminished as the year progressed (Figure 25).

The sharp acceleration in imports, particularly during the summer, can be read as an indirect indication of the pressure of domestic demand in certain industries. The volume of merchandise imports grew at a seasonally adjusted annual rate of 21.6 per cent between the second and third quarters.

Figure 25

Industrial firms' assessment of production capacity in the light of their requirements at the time of the survey and in the subsequent 12 months (1)

(percentages; monthly data)

Source: Based on Isco data.

(1) Difference between percentage of positive replies ("more than sufficient") and that of negative replies ("insufficient"). – (2) See Figure 24, note 1.

Towards the end of the year firms were less optimistic about future demand. A greater proportion regarded their existing production capacity as sufficient to meet the requirements of the next twelve months, the twelve-month rate of growth in orders slowed down and households' confidence ceased to improve.

Inflation expectations

At the beginning of the summer the slowdown in consumer price inflation showed signs of faltering, and indications of a worsening of expectations about future price behaviour also appeared.

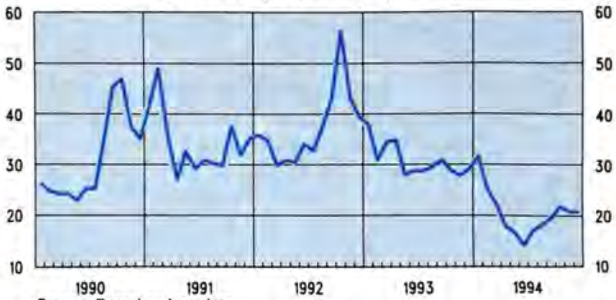
Households' inflation expectations, as recorded by Isco (Figure 26), deteriorated markedly during the summer but stabilized in November and December. The figure for January 1995 indicates a further significant increase in the number of families expecting the rate of price increase to accelerate, but it is difficult to compare with previous data owing to substantial changes in the criteria for selecting interviewees.

From June onwards the panel of businessmen and experts interviewed by Forum-Mondo Economico (Figure 27) began to foresee a significant acceleration in consumer prices in the two quarters following the interview. In contrast to the results of the Isco survey of households, expectations continued to deteriorate in December.

Figure 26

Expectations of an acceleration in consumer prices according to Isco surveys of households (1)

(percentages; monthly data)



Source: Based on Isco data.

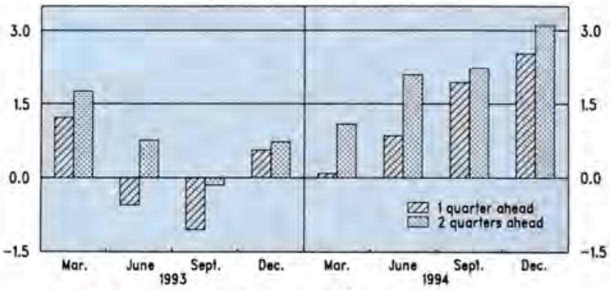
(1) Percentage of households expecting a "higher" rate of increase in prices in the subsequent 12 months. Some aspects of the Isco survey of households were changed in January 1995. Although available, the figure for January is not included here as it has not yet been possible to assess its comparability with earlier data.

The Forum-Mondo Economico survey seeks quantitative replies, not in terms of precise figures but according to predetermined bands. The bands are wide, as they were set at a time of more rapid inflation, so that slight adjustments in businessmen's inflation expectations that cause a switch from one band to another may lead to an overestimation of the expected average changes. The results of the survey should therefore be seen not so much as precise predictions but rather as indications of a general worsening of businessmen's inflation expectations.

Figure 27

Expectations of a change in the inflation rate one or two quarters ahead according to Forum-Mondo Economico surveys (1)

(percentage points)



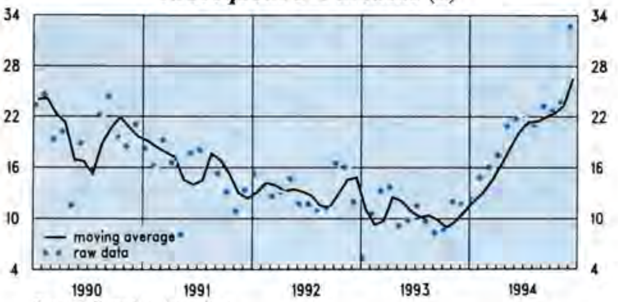
Sources: Based on Istat and Forum-Mondo Economico data.

(1) Difference between the expected annualized rate of change in consumer prices with respect to the current quarter and the seasonally adjusted rate actually recorded in the current quarter.

Expectations of an acceleration in the prices of industrial goods can be deduced from Isco's surveys of firms. The percentage of firms that planned to raise their prices in the subsequent three or four months increased sharply in December, although expectations of such increases had in fact been emerging throughout the year (Figure 28).

Figure 28

Industrial firms' expectations of increases in the sales prices of their own products in the subsequent 3-4 months (1)



Source: Based on Isco data.

(1) Balance between the percentage of positive replies ("increase") and that of negative replies ("reduction"). Seasonally adjusted data; moving average for the 3 months ending in the month indicated.

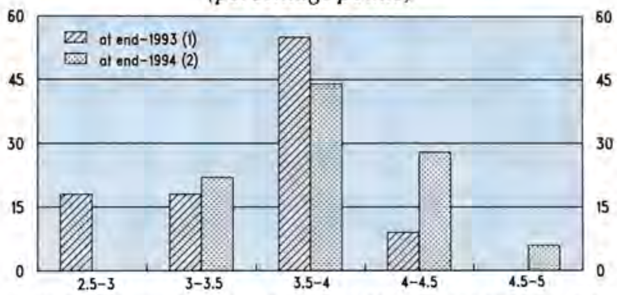
Indications of the inflation expectations of financial market operators can be derived indirectly from interest rates, for example from the differentials between the 3-month forward rate (on 3-month funds) implicit in the Eurolira yield curve and the corresponding spot rate (see Figure 34). Such differentials can be explained in several ways; they can be attributed to variations in risk premiums over the period in question, to an expected variation in the real interest rate or to an expected variation in the inflation rate. The differentials widened in the summer of 1994. Part of the increase can be ascribed to the greater volatility of yields, exchange rates and inflation itself, and a further part, assuming the expected real interest rate remains broadly unchanged, can be attributed to heightened inflation expectations.

Finally, Figure 29 summarizes the inflation forecasts for 1995 published by the main forecasting institutions and by some business and financial organizations. A comparison between the forecasts made at the beginning and end of last year shows a shift towards figures in excess of 4 per cent.

Figure 29

Distribution of the forecasts of consumer price inflation in Italy in 1995 published by leading Italian and international organizations (1)

(percentage points)



(1) Frequencies calculated on the basis of 11 forecasts, published by Banca Commerciale Italiana, Banca di Roma, Cariplo, Cer, Confindustria, Credito Italiano, ENI, Euromobiliare, Fiat, OECD and Prometeia. – (2) Frequencies calculated on the basis of 18 forecasts: those referred to in note 1 plus those published by Crédit Suisse-First Boston, IMF, Goldman Sachs, IBJ, IRS, Isco and James Capel.

N.B. Each interval excludes the upper limit.

The increases in official interest rates in August 1994 and again on 21 February 1995 were designed to curb emerging expectations of a strong acceleration in prices. These measures accord with the underlying monetary policy stance, which has been restrictive for some time and which has been reflected in a slowdown in the monetary and credit aggregates in the past three years (see the chapter: *Monetary policy, banking and the financial markets).*

Public finances

The state sector borrowing requirement in 1994 amounted to 155.9 trillion lire net of settlements of past debts and the proceeds of privatizations, an increase of 2.3 trillion compared with 1993. The ratio of this aggregate to GDP fell from 9.8 to 9.4 per cent (Table 14). Settlements of past debts amounted to around 6.4 trillion lire, comprising 3.1 trillion of tax credits refunded in securities, 2.5 trillion for the restructuring of IRI liabilities and 800 billion for the settlement of EFIM debts. The proceeds from the disposal of state-owned assets amounted to around 5.9 trillion lire, of which 4.3 trillion came from the partial privatization of IMI and 1.6 trillion from that of INA. Interest expenditure fell from 181.6 trillion lire to around 174 trillion, and from 10.8 to 9.4 per cent of the sector's average outstanding debt.

The gradual improvement in the primary balance came to a halt. The deficit of more than 10 trillion lire in 1991 (around 0.7 per cent of GDP) had given way to a surplus of 8.6 trillion in 1992 (0.6 per cent of GDP); in 1993 this had risen to around 18 trillion lire (1.2 per cent of GDP), despite the recession and even after taking account of around 10 trillion lire in balances held by the Treasury in respect of loans raised by the regions to cover the past debts of local health units. In 1994 the primary surplus was virtually unchanged in absolute terms and declined to 1.1 per cent of GDP.

The slowdown in the adjustment of the public finances reflected the large disparity between the provisional outturn for 1994 and the objectives set in the 1993 Economic and Financial Planning

Table 14

State sector balances (1)

(billions of lire and percentages)

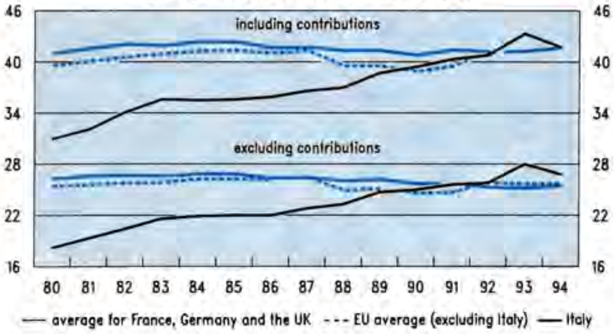
	1991	1992	1993	1994
Borrowing requirement, net of settlements of past debts and privatization receipts	151,336	158,861	153,557	155,881
as a % of GDP	(10.6)	(10.6)	(9.8)	(9.4)
Settlements made in securities and in cash	73	31	10,836	6,439
Privatization receipts	2,100	–	–	5,921
Total borrowing requirement	149,310	158,892	164,392	156,399
as a % of GDP	(10.4)	(10.6)	(10.5)	(9.5)
Interest payments	141,181	167,452	181,601	174,000
as a % of GDP	(9.9)	(11.2)	(11.6)	(10.5)
Borrowing requirement, net of interest payments, settlements of past debts and privatization receipts	10,155	–8,591	–28,044	–18,119
as a % of GDP	(0.7)	(–0.6)	(–1.8)	(–1.1)

(1) Excluding the State Railways, Monopolies and Telephone Company.

Document and the Forecasting and Planning Report, which had provided for a total borrowing requirement of 144.2 trillion lire and a primary surplus of 31.8 trillion. The disparity was due to the fact that the budget measures approved at the end of 1993 proved less effective than expected, revenue for 1994 had been overestimated and economic conditions in 1993 were more difficult than forecast. It was mitigated, however, by a decrease in capital expenditure that was larger than planned and by the upturn in economic activity in 1994.

Figure 30

Ratio of revenues to GDP (1)



(1) See the notes to Table 15.

Budget policy for 1994 was initially influenced by forecasts of modest growth in output in 1993 and 1994 and subsequently by the fall in GDP actually recorded in 1993 and expectations of continued cyclical weakness in 1994. The delay in recognizing the strength of the recovery that occurred last year prevented the timely adoption of further budgetary measures.

The performance of revenues in 1994 reversed the rise in the ratio of tax and social security contributions to GDP that had begun in the early eighties. From about 10 percentage points below the European average, the ratio had risen above the average in 1993. The recent decline, equal to 1.6 percentage points net of taxes classified as capital revenues, brought the ratio into line with the European average (Figure 30). The Italian tax system nonetheless continues to show structural anomalies on account of the high ratio net of social security contributions and the mix of direct and indirect taxes, with the latter providing a much smaller proportion than the Community average (Table 15).

Table 15

Ratio of revenues to GDP (1)

	1980-89	1990	1991	1992	1993	1994 (2)
Italy	35.2	39.4	40.3	40.8	43.3	41.7
EU average (3)	40.4	38.8	39.4	41.2	41.2	41.5
Average for France, Germany and the UK	41.6	40.7	41.3	41.1	41.2	41.6
of which: excluding contributions (4)						
Italy	21.6	25.0	25.6	25.8	28.0	26.8
EU average (3)	25.6	24.5	24.6	25.8	25.6	25.7
Average for France, Germany and the UK	26.3	25.6	25.6	25.2	25.1	25.4
of which:						
Italy	9.2	10.6	11.1	11.1	11.9	11.7
EU average (3)	13.8	13.0	13.0	13.8	13.8	14.1
Average for France, Germany and the UK	14.6	14.3	14.3	14.2	14.3	14.5
Memorandum items: capital taxes						
Italy	0.3	0.1	0.2	2.0	0.7	0.1
EU average (3)	0.2	0.2	0.3	0.3	0.3	....
Average for France, Germany and the UK	0.2	0.2	0.3	0.3	0.3	....

Sources: Based on Istat and EU data.
(1) The overall ratio measures the sum of tax revenues (excluding capital taxes) and actual and imputed social security contributions as a percentage of GDP. – (2) For Italy, provisional Isco data; for the other countries, EU forecasts. – (3) Excluding Italy. – (4) Indirect and direct taxes (excluding capital taxes) as a percentage of GDP.

Budgetary policy and debt management

The estimates for the 1994 public accounts contained in last September's Forecasting and Planning Report – interest payments of 172.2 trillion lire, a primary surplus of 18.2 trillion and a total borrowing requirement of 154 trillion – were based on the assumption that interest rates on government securities would return rapidly to the level recorded in May and that supplementary measures totaling around 5 trillion lire would be adopted, as announced in the Economic and Financial Planning Document published in July. The first assumption proved false, while the measures actually adopted consisted of a condonation of building offences, which raised around 3 trillion lire, and the postponement of around 2 trillion of expenditure to 1995. A number of factors were responsible for the increase in the borrowing requirement; these included additional interest payments of around 2 trillion lire and the measures adopted as a result of the flooding in North-West Italy, which entailed an increase of around 1.5 trillion, mostly as a result of the postponement of the payment of certain taxes in the affected areas. The growth in economic activity, which was greater than had been forecast as recently as September 1994, acted in the opposite direction.

The 1994 borrowing requirement was about 11.7 trillion lire above the target of 144.2 trillion set in the 1993 Forecasting and Planning Report, as the primary surplus amounted to 18.1 trillion lire instead of the forecast 31.8 trillion and only a small part of the shortfall was offset by a reduction in interest payments from 176 to 174 trillion lire.

The effect of the fall in issue rates on government securities in the last part of 1993 was almost completely cancelled out by their rise in the second half of 1994. Between July and December 1993 the average gross rate on Treasury bills of all three maturities declined from 9.9 to 8.4 per cent and then fluctuated around 8.5 per cent until June 1994; by August it had risen to 10 per cent, after which it declined to around 9.7 per cent in the last two months of the year.

The primary surplus for 1994 fell short of the target set in 1993 by about 13.7 trillion lire. Excluding the net effect of the measures adopted in 1994 (the building offences condonation scheme, the postponement of certain payments to 1995 and the flood relief measures), the shortfall was more than 17 trillion. In addition to the fact that the budget measures adopted at the end of 1993 proved less effective than expected and that the economy did not perform as forecast in 1993 and 1994, the shortfall was due to an overestimation of revenues. According to the preliminary figures for 1994, tax revenues were about 10 trillion lire less than the forecast made in March, even though this had been reduced by about 10 trillion lire compared with the September 1993 figure to take account of the recession. The shortfall compared with the original target for the borrowing requirement was partly offset by a larger-than-expected fall in capital expenditure. Fears caused by judicial investigations into public procurement practices and uncertainty as to the law in this regard may have played a part.

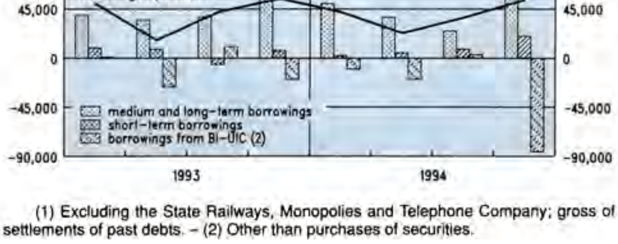
The quarterly report on the borrowing requirement published in March 1994 already recognized that the primary surplus was likely to fall short of the target. The disparity was estimated at nearly 22 trillion lire, of which 5 trillion was attributed to a downward revision of the effect of the 1994 budget measures and nearly 17 trillion to the worse-than-expected performance of the economy in 1993 and early 1994. Instead of rising by 0.5 per cent in 1993, GDP had fallen by 0.7 per cent and the forecast for growth in 1994 was cut from 1.6 to 1.3 per cent. According to official estimates, the composition of the expected reduction in growth in 1994 was such that it was likely to have a particularly marked impact on the borrowing requirement; the new macroeconomic forecasts attributed the slowdown primarily to domestic demand and implied a further large decrease in employment, which would have significant repercussions on indirect tax revenues, employee income tax receipts and social security contributions and on expenditure on wage supplementation and unemployment benefits.

According to preliminary data from Isco, GDP grew in real terms by 2.3 per cent last year, compared with the forecast of 1.3 per cent made in March. This recovery in economic activity during the year is likely to have offset a large part of the negative effects predicted in the March report, but not all of them, however, as the impact of recovery on self-assessed tax receipts will be felt mostly this year, when the balance of 1994 income tax falls due, whereas the poor performance of the economy in 1993 depressed both residual income tax payments for 1993 and the initial payments for 1994. Furthermore, the increase in domestic demand, which fueled the recovery in 1994 and led to a rise in indirect tax receipts and a reduction in wage supplementation payments, was not accompanied by an increase in employment, which would have boosted employee income tax receipts and social security contributions and reduced expenditure on unemployment benefits.

The manner of financing the borrowing requirement was modified during the year (Figure 31). Including privatization proceeds and settlements of past debts, the total to be funded amounted to around 156.4 trillion lire. The composition of borrowing was influenced by the completion of the changes in the relationship between the Treasury and the Bank of Italy that had been initiated in 1993. Specifically, securities totaling 76,206 billion lire were issued and assigned to the Bank to consolidate the overdraft outstanding on the Treasury's former current account with the Bank of Italy at 31 December 1993. In addition, a sinking fund was created in order to redeem government securities out of the proceeds of privatizations.

Figure 31

Quarterly borrowing requirement of the state sector (1) **and its financing**
(billions of lire)



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

Excluding the above-mentioned consolidation of the overdraft, net domestic issues of securities amounted to 100.6 per cent of the total borrowing requirement, as against 85.2 per cent in 1993 (excluding, for the sake of comparability, the 30.7 trillion lire issued when the Treasury opened its payments account with the Bank of Italy). The proportion of medium and long-term issues declined from 96 to 92.5 per cent of the net domestic issue volume. The decrease partly reflected the substantial rise in yields on such securities in the second half of 1994, with that on Treasury bonds increasing from 9.5 per cent in May to 10.9 per cent in July and settling at around 11.8 per cent from August onwards. Among the other forms of funding, the balance on the Treasury's payments account rose to 58 trillion lire and around 6 trillion lire was credited to the sinking fund. The proportion covered by Post Office deposits rose from 8.5 to 15.7 per cent of the borrowing requirement, while foreign borrowings declined from 8.8 to 5.9 per cent and from 14.4 to 9.2 trillion lire.

The debt of the state sector, defined according to the international convention that considers the debt actually issued but excludes rights that will crystallize as debt in the future (notably tax credits), rose from 1,770,500 billion lire at the end of 1993 to 1,937,100 billion a year later. In relation to GDP it rose from 113.5 to 117.2 per cent. General government debt rose from 116.5 to 120.5 per cent of GDP. According to the definition used for the convergence criteria laid down in the Maastricht Treaty, which excludes the Treasury's claims on the Bank of Italy (consisting mainly of the balance on the payments account), it rose from 118.6 to 124.5 per cent of GDP.

The increase in state sector debt was due not only to the borrowing requirement for the year but also to the settlements of past debts mentioned above, issue discounts (9.3 trillion, as against around 1.1 trillion in 1993) and the depreciation of the lira (around 2.8 trillion; in 1993 the lira equivalent of the state sector debt denominated in foreign currency had increased by around 8.1 trillion). Until April exchange rate movements reduced the lira equivalent of foreign currency debt by around 4.3 trillion; subsequently, the appreciation of the lira against the dollar partially offset the effects of its depreciation against the Deutsche Mark and the ecu, so that at the end of

October the exchange rate effect on the debt was still basically neutral. In the last two months of the year, however, the lira lost ground against the dollar as well. The average residual maturity of government securities lengthened from just over two years and eleven months at the end of 1993 to around three years and one month at the end of last year.

The main items of the public accounts

Preliminary estimates prepared by Isco indicate that general government net borrowing amounted to 153 trillion lire, an increase of almost 5 trillion on 1993 (Table 16); in relation to GDP it diminished from 9.5 to 9.3 per cent. Excluding tax credits refunded in securities totaling around 3.1 trillion (7.4 trillion in 1993), the increase in general government net borrowing was appreciably larger than that in the state sector borrowing requirement. The latter benefited primarily from the fact that drawings by the State Railways on their Treasury account, which do not affect the general government statistics, were around 4 trillion less than inpayments.

The general government budget surplus net of interest payments fell from 38.7 to 26.5 trillion lire and from 2.5 to 1.6 per cent of GDP in 1994. The fall in the rate of growth in non-interest expenditure from 5.7 to about 3.5 per cent, owing to the large 11.4 per cent fall in capital expenditure, was more than offset by the slowdown in revenue, which grew by 1.7 per cent, compared with 6.8 per cent the previous year. The current deficit increased by almost 7 trillion lire to 99 trillion, whereas in 1993 it had decreased by more than 20 trillion.

Preliminary figures indicate that total tax revenues and social security contributions grew by a modest 2 per cent, compared with 9.9 per cent in 1993, and consequently declined from 43.3 to 41.7 per cent of GDP. The decrease in the ratio was the result of a reduction of 0.4 percentage points in that of social security contributions to GDP (due mainly to the decline in employment and real per capita earnings) and a more marked fall in the ratio of tax excluding social security contributions, which is estimated to have declined by around 1.2 percentage

Table 16

General government income statement

(billions of lire; percentage changes)

	1993	1994	1993 / 1992	1994 / 1993
EXPENDITURE				
Wages and salaries	195,965	201,500	2.9	2.8
Intermediate consumption	81,038	83,200	7.2	2.7
Social security benefits	301,620	321,500	3.8	6.6
Production subsidies	34,504	38,400	10.6	11.3
Debt interest	186,933	179,500	8.6	–4.0
Other	37,034	39,142	19.3	5.7
Total current expenditure	**837,094**	**863,242**	**5.8**	**3.1**
as a % of GDP	*(53,7)*	*(52,2)*	–	–
Investment	41,203	38,500	–8.7	–6.6
Investment grants	21,057	19,800	20.9	–6.0
Other capital expenditure	9,378	5,200	432.5	–44.6
Total capital expenditure	**71,638**	**63,500**	**11.4**	**–11.4**
TOTAL EXPENDITURE	**908,732**	**926,742**	**6.3**	**2.0**
as a % of GDP	*(58,2)*	*(56,1)*	–	–
REVENUE				
Direct taxes (1)	250,459	248,500	13.2	–0.8
Indirect taxes	186,026	194,000	11.4	4.3
Social security contributions	238,841	246,000	5.6	3.0
Other	69,643	75,742	9.6	8.8
Total current revenue	**744,969**	**764,242**	**9.9**	**2.6**
Capital revenue	**15,518**	**9,500**	**–54.0**	**–38.8**
TOTAL REVENUE	**760,487**	**773,742**	**6.8**	**1.7**
as a % of GDP	*(48.7)*	*(46.8)*	–	–
NET BORROWING	**148,245**	**153,000**	–	–
as a % of GDP	*(9.5)*	*(9.3)*	–	–
Borrowing net of debt interest	**–38,688**	**–26,500**	**–**	**–**
as a % of GDP	*(–2.5)*	*(–1.6)*	–	–
Deficit on current account	**92,125**	**99,000**	**–**	**–**
as a % of GDP	*(5.9)*	*(6.0)*	–	–

Source: Isco.
(1) Excludes capital taxes, which are included in capital revenue.

points (from 28 to 26.8 per cent). If tax receipts are defined more broadly to include those counted as capital revenue in the national accounts, the tax ratio fell by almost 2 points (from 28.7 to 26.9 per cent). This more pronounced decline reflects the waning of one-off receipts – the final instalments of the tax condonation and of the compulsory revaluation of companies' assets – which had boosted revenue by around 9 trillion lire the previous year. The reduction in the broadly defined tax ratio was greater than the objective of 1.3 points set for 1994.

Current tax revenues of general government increased by 1.4 per cent. While the portion accruing to central government fell by 1.6 per cent, receipts from taxes levied by local authorities are estimated to have grown by more than 25 per cent, thus rising from 9.6 to 12 per cent of the total. This substantial reallocation of resources should be seen in the light of the devolution of the entire receipts from the municipal property tax (ICI) to the municipalities from 1994 onwards. Since the revival in domestic demand boosted receipts from indirect taxes, the results for the year reflected the fall in direct taxes.

Receipts from indirect taxes grew by 4.3 per cent, although they declined slightly in relation to GDP (from 11.9 to 11.7 per cent). Most of the growth came from the increase in receipts of excise duties on oil products due to the recovery in demand for refined products and the measures introduced at the end of 1993 regarding the taxation of fuels. VAT receipts rose by 4 per cent, or slightly less than the growth in the relevant tax base.

Excluding levies classified as capital taxes, direct tax receipts fell by 0.8 per cent and their ratio to GDP consequently declined by about 1 point, from 16.1 to 15 per cent. The reduction was due to a variety of factors, first and foremost being the fall in self-assessed personal income tax receipts, which in turn reflected the lagged effects of the decline in real income and self-employment in 1993, the introduction of a tax allowance for imputed income from the taxpayer's primary residence in the 1994 budget and the entry into force of the system whereby taxpayers could immediately deduct tax credits from their tax liability. Other factors were the decrease in local income tax (as a result of the elimination of individuals' income from property from the tax base) and the large fall in the withholding tax on interest on bank deposits (owing to the deduction of a substantial volume of tax credits accrued in 1993 from the banks' initial tax payments for 1994).

By contrast, there was an increase in corporate payments of income tax and local income tax, reflecting the revision of the criteria for determining corporate income as part of the 1994 budget. Even if the effects of these measures are excluded, the underlying tax base grew significantly, which can be taken as confirmation of the improvement in corporate profitability between 1992 and 1993.

There was also a notable 8.8 per cent increase in other current revenue due to the receipt of 3 trillion lire at the end of the year from the first instalment of payments relating to the condonation of building offences.

Actual social security contributions grew by 1.5 per cent. Excluding receipts from the related condonation scheme, which mainly accrued during 1993, the rise amounted to 3.5 per cent and outstripped the estimated growth in earnings by more than 2 percentage points. The difference was due in part to the increase in pension and health service contribution rates for the self-employed on 1 January 1994 and in part to the residual effects of the increase in pension contribution rates for the same group of workers decided in 1993. In addition, employers' contributions rose as a result of the reduction in abatements for Southern Italy.

Total expenditure amounted to 926.8 trillion lire and fell from 58.2 to 56.1 per cent of GDP. The rate of increase slowed down from 6.3 to 2 per cent. The deceleration reflected a decline of 4 per cent in interest payments and the marked contraction in capital expenditure (11.4 per cent; about half the reduction was due to the decline in tax credits refunded in securities). By contrast, the rate of increase in other current expenditure remained virtually unchanged at around 5.1 per cent. Expenditure on social security benefits accelerated, while outlays for intermediate consumption and other current spending slowed down.

Expenditure on wages and salaries rose to about 201.5 trillion lire, an increase of 2.8 per cent, similar to the rate recorded in 1993. Excluding imputed social security contributions, which are considered equal to the pensions of central government employees, the rise was just over 1 per cent, primarily reflecting the payment of two wage increases from April and July onwards to compensate for the non-renewal of the sector's wage contract.

The rate of increase in social security expenditure accelerated from 3.8 to 6.6 per cent as a result of an increase of about 7 per cent in spending on pensions, primarily owing to indexation mechanisms: about 3 percentage points of the rise were attributable to the adjustment of pensions for inflation in 1993 and November 1994, and around 0.7 points to the adjustment of pensions of less than 1 million lire per month (to compensate for the difference between the target rate of inflation and the actual change in the cost of living in 1993) and the revaluation of some categories of long-standing pensions. The remainder was due to an increase in the number of pensions and the effects of pensioner turnover on average pension size.

It is provisionally estimated that intermediate consumption increased by 2.7 per cent, as against 7.2 per cent in 1993. It should be noted that the 1994 budget contained measures aimed at curbing purchases of goods and services by the Ministries of Defence and Finance and that outlays may have been contained by the same factors that caused a decrease in investment.

General government interest payments on the public debt fell by 4 per cent to 179.5 trillion lire, compared with 186.9 trillion in 1993. The decrease reflected the decline in interest rates on government securities in the second half of 1993 and the first half of 1994, which was only partly offset by the rise in rates in the second half of last year. As regards short-term debt, average gross rates on Treasury bills fell from 10.6 to 9.1 per cent. The rise in rates on medium and long-term securities in the second half of 1994 did not affect interest payments during the year, owing to the delay with which variations in interest rates on such paper impinge upon interest expenditure.

Net of tax refunds, capital expenditure fell by 6 per cent, more than two thirds of which was attributable to spending on investment (which fell by 6.6 per cent) and the remainder to the fall in investment grants. Investment expenditure declined for the third consecutive year, falling from 3.3 per cent of GDP in 1991 to 2.3 per cent last year. The downward trend reflected changes in the budget on an appropriations basis in previous years (concerning central government allocations for investment and capital transfers and restrictions on lending to local authorities by the Deposits and Loans Fund) and, as mentioned above, the fears engendered by the judicial enquiries into the tendering activities of general government and the uncertainty regarding the law.

Monetary policy, banking and the financial markets

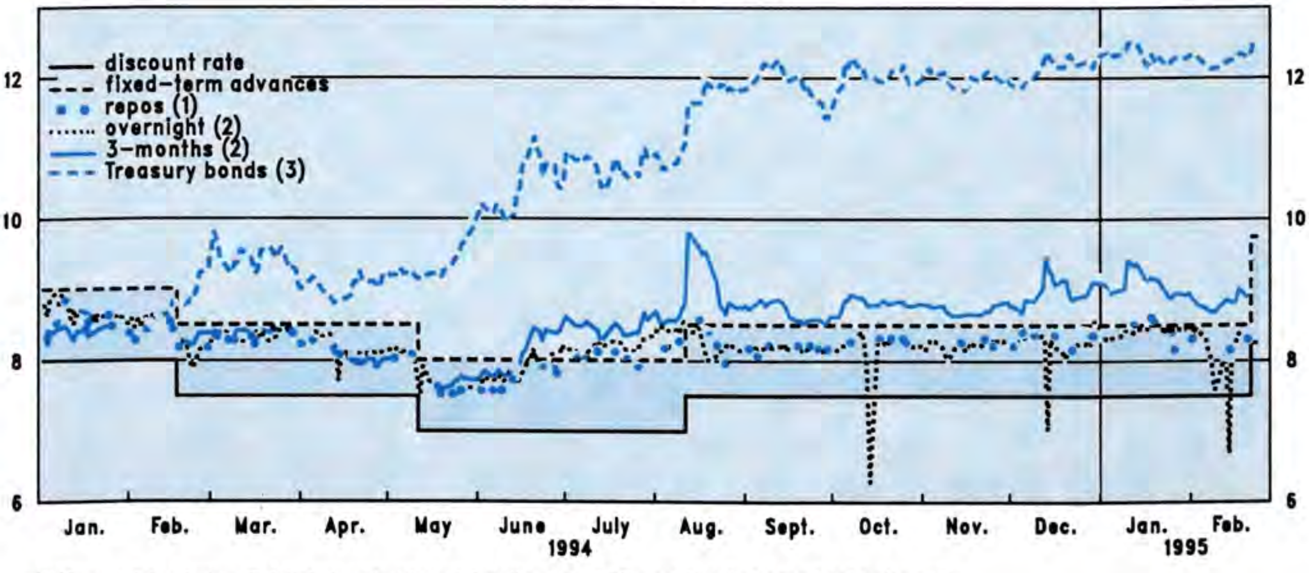
Following the increase in the discount rate in August 1994, a restrictive monetary policy stance was maintained in order to counter any resurgence of inflation caused by the progressive depreciation of the lira and the vigorous expansion of economic activity. The exchange rate of the lira and the prices of government securities were affected by uncertainty regarding the outlook for the public finances and the political situation. The build-up of inflationary pressures, fueled by the strong recovery in demand and the further weakening of the lira, prompted the Bank of Italy to raise the discount rate by 0.75 points and that on fixed-term advances by 1.25 points at the end of February (Figure 32).

A significant increase in the differential between yields on government securities and bank deposit rates, which were also affected by banks' efforts to stem the decline in their profitability, contributed to the sharp deceleration in money supply growth in the second half of 1994. The M2 monetary aggregate expanded by 2.8 per cent in the course of the year, 2.2 percentage points less than the lower limit of the target range; it contracted in real terms. Lending to the private sector declined by 0.7 per cent, while total credit increased by 5.2 per cent, more than 1 point less than the previous year.

Bank lending increased slightly in the last part of 1994; despite the recovery in economic activity, it was broadly unchanged over the year as a whole, reflecting a further pronounced reduction in foreign currency loans and moderate growth in lira lending. This virtual stagnation is attributable both to the persistent weakness of business demand for credit and caution on the part of the banks in the light of the continued rapid rise in bad debts.

Figure 32

Official interest rates, money market rates and Treasury bond yields
(daily data; percentages)



(1) Marginal allotment rate. – (2) Actual rate on the interbank deposit market. – (3) Gross yield on the ten-year benchmark security.

The conduct of monetary policy

The lira depreciated by 3 per cent against the Deutsche Mark in October and November 1994 (Figure 33) and its effective exchange rate declined by 2.4 per cent. By regulating the supply of liquidity, the Bank of Italy kept the overnight rate in the upper part of the range demarcated by the official rates.

Figure 33

Interest rate differentials vis-à-vis Germany and the lira/DM exchange rate
(daily data)

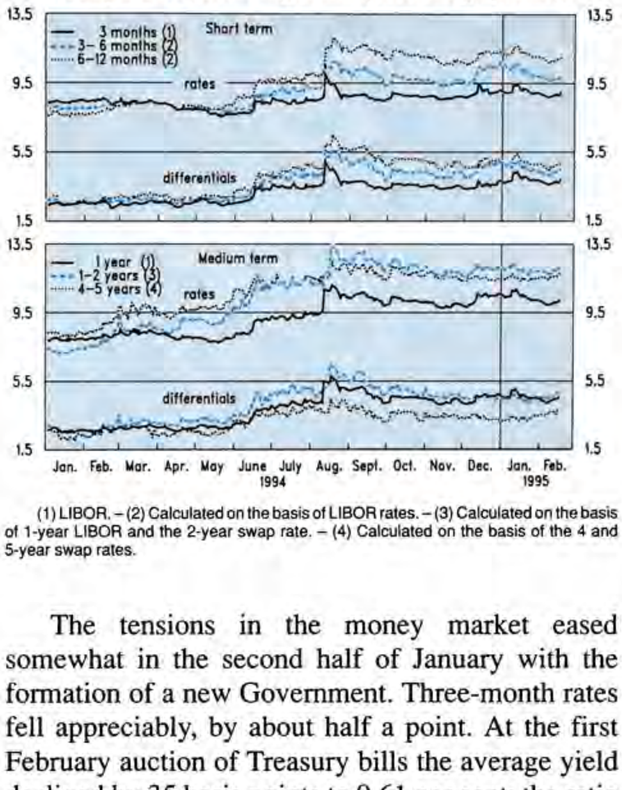
(1) Difference in percentage points between 3-month LIBOR in lire and marks. – (2) Difference in percentage points between the gross yield on 10-year benchmark Treasury bonds and that on the corresponding German securities.

The yield differential between 10-year Treasury bonds and corresponding German securities (10-year Bunds) widened by about 70 basis points over the two months to stand at 4.6 percentage points at the end of November. A comparison with the differentials for rates on interest rate swaps with similar maturities, which fell slightly during the period, indicates that the premium demanded by the financial markets for Italian government securities has risen, owing to widespread uncertainty about the prospects for adjusting the public finances. The one-year forward rate implicit in four and five-year Eurolira rates declined slightly both in absolute terms and in relation to similar yields on Deutsche Mark during the two months (Figure 34).

Tension heightened on the foreign exchange and financial markets in December in conjunction with the fall of the Government and spilled over to a considerable extent onto the money market. The lira depreciated further against the mark, dragged down partly by the weakness of the US dollar. One-month interbank rates rose above the rate on fixed-term advances, while 3-month rates increased by about half a point between the end of November and mid-January to 9.5 per cent. Central bank liquidity management during the period was aimed at keeping the overnight rate close to that on fixed-term advances but without exceeding it.

Figure 34

Spot and forward interest rates implicit in Eurolira rates and the respective differentials vis-à-vis the Euromark
(daily data; percentages and percentage points)



(1) LIBOR. – (2) Calculated on the basis of LIBOR rates. – (3) Calculated on the basis of 1-year LIBOR and the 2-year swap rate. – (4) Calculated on the basis of the 4 and 5-year swap rates.

The tensions in the money market eased somewhat in the second half of January with the formation of a new Government. Three-month rates fell appreciably, by about half a point. At the first February auction of Treasury bills the average yield declined by 35 basis points to 9.61 per cent; the ratio of demand to supply rose further to stand at about 2:1 for 3-month bills and 3:2 for 6 and 12-month bills.

From mid-February onwards the fall of the dollar in the international markets affected the lira, which depreciated in the subsequent week by 3.4 per cent vis-à-vis the mark and 2.5 per cent in effective terms. Money market rates again rose by about 20 basis points, as did the differential with German rates. On 21 February the Bank of Italy raised official rates to counter upward pressure on prices: the discount rate was increased from 7.5 to 8.25 per cent and that on fixed-term advances from 8.5 to 9.75 per cent.

Bank of Italy intervention in the money market

In the last quarter of 1994 and the first two months of 1995 Bank of Italy intervention in the money market was directed towards keeping very short-term interest rates towards the top of the band demarcated by official rates without exceeding the rate on fixed-term advances.

Between October and December the Bank of Italy created liquidity to offset the considerable absorption of monetary base through the Treasury's payments account, primarily by making outright purchases of securities totaling 5.7 trillion lire (see the table). The Bank's portfolio of Treasury bills grew by 2.8 trillion lire, the net result of open market purchases totaling 10.7 trillion (most of which were effected by means of competitive auctions) and redemptions of 7.9 trillion. Securities repurchase agreements created 400 billion

Bank of Italy operations
(billions of lire)

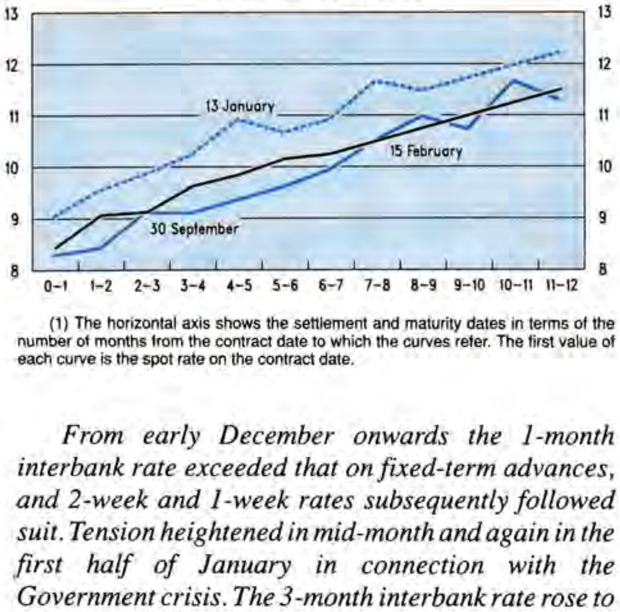
	1993			1994		
	Jan.-Sept.	Oct.-Dec.	Year	Jan.-Sept.	Oct.-Dec.	Year
Outright sales and purchases (1)	**–11,709**	**–6,326**	**–18,035**	**23,186**	**5,746**	**28,932**
Treasury bills	81	156	237	11,144	2,753	13,897
Treasury credit certificates	–3,860	–1,506	–5,366	222	29	251
Treasury bonds	–7,112	–4,562	–11,674	11,389	2,951	14,340
Other	–818	–414	–1,232	431	13	444
of which: Primary market	*712*	*–336*	*376*	*–11,424*	*–7,919*	*–19,343*
Treasury bills	608	–156	452	–9,661	–7,912	–17,573
Treasury credit certificates (2)	153	–20	133	1	–4	–3
Treasury bonds (2)	363	–130	233	–1,271	4	–1,267
Other	–413	–30	–443	–493	–7	–500
Open market	*–12,420*	*–5,990*	*–18,410*	*34,610*	*13,665*	*48,275*
Treasury bills	–527	312	–215	20,805	10,665	31,470
Treasury credit certificates	–4,013	–1,486	–5,499	221	33	254
Treasury bonds	–7,475	–4,432	–11,907	12,660	2,947	15,607
Other	–405	–384	–789	924	20	944
Securities repurchase agreements (1)	**–4,397**	**6,330**	**1,933**	**–1,679**	**387**	**–1,292**
Foreign currency swaps (3)	**–2,055**	**..**	**–2,055**	**–813**	**..**	**–813**
Fixed-term advances	**–6,998**	**200**	**–6,798**	**–200**	**599**	**399**

(1) Nominal values. – (2) Excluding securities purchased in December 1993 and November 1994 respectively for the creation of the Treasury's payments account and the consolidation of the overdraft on the Treasury's current account with the Bank of Italy. – (3) Net of exchange rate adjustments.

lire in liquidity, and net financing of 600 billion lire was provided in the form of fixed-term advances. Foreign currency swaps were renewed in their entirety.

In October and November the rate on central bank repurchase agreements and the overnight rate fluctuated narrowly around 8.3 per cent (see Figure 32 in the main text). Interbank rates for maturities of up to 1 month remained within the corridor between the official rates, while 3-month rates stayed above the upper boundary of the range at all times, averaging 8.8 per cent.

1-month forward yield curve implicit in Eurolira rates (1)



(1) The horizontal axis shows the settlement and maturity dates in terms of the number of months from the contract date to which the curves refer. The first value of each curve is the spot rate on the contract date.

From early December onwards the 1-month interbank rate exceeded that on fixed-term advances, and 2-week and 1-week rates subsequently followed suit. Tension heightened in mid-month and again in the first half of January in connection with the Government crisis. The 3-month interbank rate rose to around 9.5 per cent and the differential vis-à-vis the overnight rate widened to more than one percentage point. The 1-month forward yield curve implicit in Eurolira rates, whose steep positive slope was virtually unchanged throughout the period (see the figure), shifted significantly upwards, reaching its highest level just before mid-January. The spot 1-month rate rose above 9 per cent, while the implicit 1-month rate 11 months ahead exceeded 12 per cent. The Bank of Italy intervened during this period to ease monetary conditions, on occasion providing more liquidity than the system technically needed.

Owing to the very steep slope of the short-term yield curve, the rate on repurchase agreements with a maturity of more than 1 week at times rose above the rate on fixed-term advances; by contrast, the overnight rate, which more accurately reflects the actual liquidity of the system, never rose above that level.

The volatility of the overnight rate (computed as the standard deviation of daily variations) was low, recording levels similar to and often less than those for the 3-month rate.

In the second half of January and early February tensions in the money market eased somewhat, with interbank rates for maturities of up to 1 month falling below the rate on fixed-term advances. The largest decline was in the overnight rate, partly in response to technical factors as the end of the reserve maintenance period approached. The 1-month forward yield curve returned to the level recorded at the end of September.

The lira began to weaken again in the second half of February owing to the re-emergence of domestic uncertainties and the depreciation of the US dollar against the Deutsche Mark in connection with the crisis in Mexico. The pressures on the exchange rate had only a limited impact on the money market, where yields rose by about 20 basis points. On 21 February the Bank of Italy raised the discount rate from 7.5 to 8.25 per cent and the rate on fixed-term advances from 8.5 to 9.25 per cent.

Between October 1994 and mid-February 3-month Treasury bills attracted the strongest demand at auction; the cover ratio was 1.61 for 3-month bills, compared with 1.39 and 1.38 for 6 and 12-month bills respectively. Allotment yields mirrored the corresponding interbank rates, maintaining a marked positive slope. In mid-February gross compound allotment rates stood at 9, 9.5 and 10.1 per cent for 3, 6 and 12-month bills respectively; the weighted average rate was 9.6 per cent, the same as that at the end-September auction.

4

Excluding about 15 trillion lire in reserves released by the reform of the reserve requirement, the rate of growth in monetary base fell by half in 1994 to 3.6 per cent (Table 17). The behaviour of currency in circulation and bank reserves was different to that observed in 1993: the recovery in consumption caused the rate of increase in currency in circulation to rise from 4.7 to 6.8 per cent, while the growth in bank reserves slowed down abruptly (from 9.0 to 1.4 per cent), partly as a reflection of the restrictive monetary policy stance.

Table 17

Monetary variables (1)
(percentage changes over the period)

	1993		1994 (2)	
	Oct.-Dec. (3)	Year	Oct.-Dec. (3)	Year
Currency	3.4	4.7	1.5	6.8
Bank reserves (4)	6.2	9.0	–6.1	1.4
Monetary base (4)	5.1	7.2	–3.2	3.6
Bank deposits	8.3	8.8	–3.5	2.0
Money supply (M2)	7.0	7.9	–1.9	2.8

(1) Currency, bank reserves and monetary base are calculated as averages of daily data for the mid-month to mid-month reserve maintenance period, bank deposits and the money supply as three-month averages. – (2) Provisional. – (3) Annualized and seasonally adjusted. – (4) Adjusted for the change in the average compulsory reserve ratio.

The foreign sector created 3.2 trillion lire of monetary base (Table 18), while the Treasury destroyed 55.1 trillion as a result of deposits made on its payments account and the redemption of 19.3 trillion lire in government securities held by the Bank of Italy, mainly Treasury bills; the restrictive effect of Treasury operations on monetary base was the greatest ever recorded. The Treasury has destroyed monetary base every year since 1990 (1.4 trillion lire in 1990, 9.5 trillion in 1991, 2.7 trillion in 1992 and 3.4 trillion in 1993).

The Bank of Italy offset the restrictive impact of Treasury operations by creating 44.6 trillion lire in monetary base through open market operations; outright purchases of securities, which totaled 48.3 trillion, included 31.5 trillion in Treasury bills.

Table 18

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

	1993		1994 (2)	
	Oct.-Dec.	Year	Oct.-Dec.	Year
Sources				
Foreign sector	–2,581	2,564	–950	3,156
Foreign currency swaps	*0*	*–2,055*	*0*	*–813*
Treasury	10,740	–3,378	–17,479	–55,106
Borrowing requirement (3)	*54,834*	*164,392*	*53,703*	*162,320*
(excluding settlements of past debts	*46,883*	*153,557*	*47,751*	*155,881*
Market purchases of securities	*–29,701*	*–139,652*	*–50,998*	*–176,619*
Other financing (4)	*–14,394*	*–28,118*	*–20,184*	*–40,807*
Open market	–1,184	–14,098	12,945	44,595
Refinancing	538	–6,451	466	261
Other sectors	3,612	1,903	5,445	–2,773
Total	**11,125**	**–19,460**	**426**	**–9,867**
Uses				
Currency in circulation	6,430	4,152	6,820	6,591
Bank reserves	4,695	–23,612	–6,394	–16,458
Deposits with B.I.	3,628	–23,594	–7,174	–16,551
of which: Compulsory reserves	*5,688*	*–24,131*	*–2,627*	*–13,328*
Other items (5)	1,067	–18	780	92

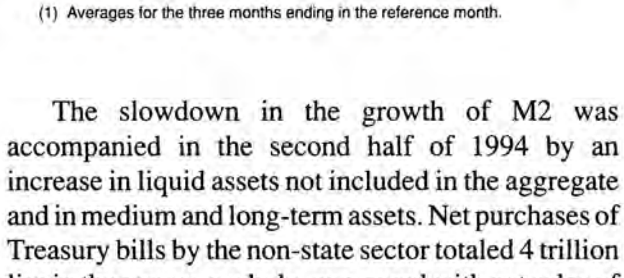
(1) Based on end-of-period data. Rounding may cause discrepancies in the totals. – (2) Provisional. – (3) Excluding privatization proceeds. – (4) PO deposits, foreign loans and other minor items (chiefly bank loans); includes an adjustment item to take account of privatization proceeds. – (5) Vault cash and undrawn margin on ordinary advances.

Notwithstanding the severe tensions in the financial markets, the public continued to subscribe very substantial quantities of government securities last year; net issues amounted to 176.6 trillion lire. Funds deposited by the Treasury on its payments account increased from 30.7 to 58 trillion; this does not include 5.9 trillion lire from privatizations carried out during the year, which was transferred to the government securities sinking fund in December.

The restrictive monetary policy stance reinforced the deceleration in the monetary and financial aggregates that has been under way for the last three years. The slowdown in money supply growth became more marked in the last four months of 1994 (Figure 35). Measured in terms of the average for the fourth quarter, M2 grew by 2.8 per cent over the year, 2.2 percentage points below the lower limit of the target range and 5.1 points less than in 1993. The slower growth is attributable to portfolio adjustment prompted by the sharp rise in yields on government securities and the banks' decision to hold down deposit rates in order to contain the growth in deposits at a time of weak demand for credit. The pronounced slowdown of the aggregate was due primarily to the behaviour of certificates of deposit; CDs with a maturity of 18 months or more continued to be the most dynamic component, although their rate of increase fell sharply from 36.7 to 11 per cent.

Figure 35

Money supply (M2)
(target range and actual; billions of lire; seasonally-adjusted data)



(1) Averages for the three months ending in the reference month.

The slowdown in the growth of M2 was accompanied in the second half of 1994 by an increase in liquid assets not included in the aggregate and in medium and long-term assets. Net purchases of Treasury bills by the non-state sector totaled 4 trillion lire in the year as a whole, compared with net sales of 39.9 trillion in 1993; net purchases of Treasury bonds increased from 19.4 to 57.7 trillion lire. Securities repurchase agreements moved in the opposite direction, declining from 2.7 to 0.5 trillion lire, as did holdings of investment fund units, which contracted sharply in the last part of 1994 after having increased rapidly in the early months of the year. Total liquid assets increased by 2.1 per cent, compared with 2.7 per cent in 1993. Total financial assets grew by 7.1 per cent, as against 7.0 per cent the previous year (Figure 36 and Table 19). Foreign financial assets were one of the most rapidly expanding components of the aggregate, with growth accelerating from 6.6 to 10 per cent.

Figure 36

M2, index of Divisia money, domestic credit and financial assets (1)
(percentage increases)

(1) Twelve-month rates of increase, based on averages for M2 and the Divisia index and end-of-period data for domestic credit. The Divisia index weights each component of liquid assets in inverse proportion to its market yield. – (2) Excluding shares.

Provisional figures on the financial assets and liabilities of producer and consumer households, which are available for the first nine months of the year, show that the recovery in consumption at a time of moderate growth in disposable incomes played a role in reducing the sector's financial investment to 54.7 trillion lire, compared with 150.6 trillion in the corresponding period of 1993 (Table 20), while flows of financial liabilities were modest and the amount outstanding remained virtually unchanged. The contraction in financial investment consisted of a fall of 23 trillion lire in deposits (compared with an increase of 11.4 trillion in the same period of 1993) and a reduction in net purchases of shares from 14.3 to 3.2 trillion and of medium and long-term government securities from 76.6 to 21.3 trillion. Despite purchases in the third quarter, net external assets declined by 700 billion lire over the period as a whole.

The behaviour of the money supply in 1994

The year can be divided into two distinct phases as regards the behaviour of the M2 money supply: a period of rapid growth until April, followed by a slowdown to the point of virtual stagnation on a seasonally adjusted basis in the last few months of the year (see Figure 35 in this Chapter). The average growth in M2 in the fourth quarter of 1994 was 2.8 per cent with respect to the same period of the previous year. The ratio of M2 to GDP, which had been rising since 1992, began to fall back in the second quarter, coinciding with a rise in the differential between the yield on Treasury bills and the average yield on M2 (see the figure). The yield differential between medium-term securities and money widened even more markedly.

In the first four months current account deposits grew at a particularly rapid annual rate of more than 15 per cent. This may have been due in part to the increased variability of yields in the financial markets, which tends to foster precautionary demand for money. The increase in the proportion of M2 in the portfolio of the non-state sector was accompanied by net disposals of Treasury bills; in addition, purchases of medium and long-term securities were less than in the same period a year earlier, although still considerable (see the table).

From May onwards there was a pronounced swing in the investment preferences of the public towards securities in conjunction with the rise in market yields. The slowdown in the growth of money involved both current account deposits (which diminished by 8.8 trillion lire between May and December, whereas they had increased by 26.1 trillion in the same period of 1993) and certificates of deposit (which decreased by 7.7 trillion, against an increase of 16.3 trillion a year earlier). Net purchases of Treasury bills (BOTs) amounted to 16.6 trillion, against net redemptions of 47.8 trillion in May-December 1993, while net purchases of Treasury bonds (BTPs) and Treasury credit certificates (CCTs) totaled 79.2 trillion, compared with 9.7 trillion a year earlier. In the last few months of the year the slowdown in money supply growth also coincided with purchases of foreign assets amounting to more than 11 trillion lire by residents; this was only marginally larger than the figure for 1993, however.

Over the year as a whole, the growth in current account deposits was very small (2.8 per cent). For the first time there was a sharp contraction in short-term CDs (17.7 per cent). Long-term CDs increased, but at a much slower rate than in previous years (11.0 per cent). The weighted Divisia index, which measures the average degree of liquidity of short-term assets, rose by only 1.7 per cent (5.7 per cent in 1993; see Figure 36 in this Chapter). For the second consecutive year liquid assets grew very slowly, by 2.1 per cent (2.7 per cent in 1993); total financial assets increased at a much faster rate of 7.1 per cent, more or less the same as in 1993 (7.0 per cent).

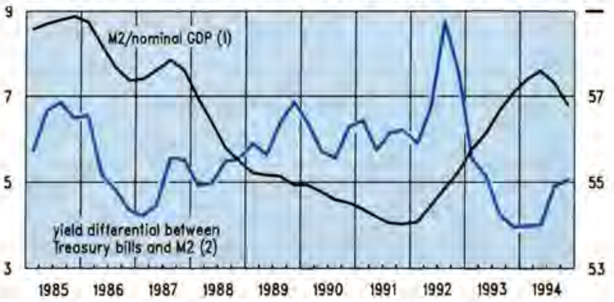
Financial assets of the non-state sector (1)
(changes on year-earlier period in billions of lire)

	January-April		May-December	
	1993	1994	1993	1994
M2	**–26,916**	**–24,172**	**90,808**	**46,586**
Liquid assets other than M2	30,745	1,332	–52,849	10,374
of which: T bills	*7,904*	*–12,603*	*–47,796*	*16,606*
Medium and long-term securities	33,463	22,444	48,539	87,343
of which: BTPs and CCTs	*26,575*	*10,431*	*9,653*	*79,189*
Investment fund units	3,742	25,808	29,720	–353
Foreign financial assets excluding shares	–2,834	1,960	11,239	11,633
Total financial assets excluding shares	**38,200**	**27,372**	**127,457**	**155,584**

(1) End-of-period data, not seasonally adjusted.

The pronounced slowdown in money supply growth in 1994 is largely attributable to a widening of the yield differential between government securities and bank deposits. The rise in yields on securities was larger than that in very short-term interest rates. The differential between the pre-tax yield on twelve-month Treasury bills and that on Bank of Italy repurchase agreements, which had been virtually nil at the end of 1993, stood at about 2.1 percentage points at the end of last year. The corresponding yield differential between Treasury bonds with a residual maturity between one and four years and Bank of Italy repos rose by 0.2 to 3.4 percentage points. The upward adjustment of bank deposit rates was slower than in the past: by the end of 1994 the differential between the after-tax yield on Treasury bills and that on six-month CDs had risen to 3.1 points, compared with 1.7 points a year earlier. At the end of 1994 CD rates were around 1.5 percentage points lower than the values extrapolated from past trends; the difference for the average yield on M2 was around half a point. The lagged adjustment reflected the banks' caution about encouraging deposit growth at a time of declining profits, weak credit demand and high risk on investments in securities.

Ratio of M2 to GDP
and yield differential between Treasury bills and money



(1) Right-hand scale in percentages. Seasonally adjusted. M2: 4-term moving average of quarterly data. GDP: 4-term moving sum of quarterly data. – (2) Left-hand scale in percentage points; quarterly data. For M2: average weighted average of auction allotment rates. All yields are net of withholding tax.

According to econometric estimates, the determinants of the demand for money are consumer prices, real income, the yield on money itself and that on alternative financial assets, among which Treasury bills play a prominent role. Based on this analysis, the rate of growth of the money supply in 1994 can be broken down into the contributions from its various determinants.(1) *In 1994 the increase in real income and prices was responsible for a little more than 5 percentage points of growth; by contrast, the changes in yields on securities and money had a negative impact that can be estimated at more than 1 point. The remaining negative element was due in part to adjustment in relation to the particularly high end-1993 level and in part to an unexplained negative component amounting to between half and one point. This may have derived from a change in the mix of products offered by banks, which had greater recourse to bond issues than to traditional forms of fund-raising in the second half of the year. The large rise in yields on long-term securities may also have acted in the same direction, as it may have affected the demand for certificates of deposit.*

Changes in the mix of instruments intermediaries use to raise funds can temporarily reduce the information content of the money supply; in such circumstances a slowdown in the growth of M2 does not indicate excessively tight monetary conditions.

From January 1995 onwards M2 includes certificates of deposit issued by banks accepting medium and long-term funds (formerly called special credit institutions), which are now treated in the same way as banks accepting short-term funds. Their inclusion reflects statistical requirements connected with the new bank reporting procedures and is also consistent with the fact that the move away from financial specialization has reduced the differences between the two types of CD. The change of definition will not have a significant impact on the aggregate, since CDs issued by the former special credit institutions represent only a small share of the total money supply.

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(1) The contribution of each determinant can be calculated as the difference between the growth rates of M2 derived from two simulations: in one, all the independent variables are held constant at their beginning-of-period values, while in the other they are assigned their historically observed values. Assuming linearity, the sum of the contributions thus calculated, plus a dynamic adjustment component and the simulation error, is equal to the actual growth of M2.

Table 19

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

	Growth on year-earlier period		Share of outstanding stocks	
	Dec. 1993	Dec. 1994	Dec. 1993	Dec. 1994
Total credit	**6.4**	**5.2**	**100.0**	**100.0**
Finance to the non-state sector	*1.3*	*–0.7*	*39.6*	*37.5*
from banks accepting short-term funds	*–1.4*	*–0.4*	*21.8*	*20.6*
from banks accepting medium and long-term funds	*9.8*	*1.9*	*12.5*	*12.1*
bonds	*–15.2*	*–2.8*	*1.1*	*1.1*
foreign finance	*–1.9*	*–8.8*	*4.2*	*3.7*
Finance to the state sector	*10.0*	*9.0*	*60.4*	*62.5*
foreign finance	*28.0*	*12.5*	*2.5*	*2.7*
Financial assets (1)	**7.0**	**7.1**	**100.0**	**100.0**
Domestic	*7.0*	*7.0*	*94.7*	*94.5*
Liquid assets	*2.7*	*2.1*	*61.8*	*59.4*
M2 (2)	*7.7*	*2.7*	*38.4*	*36.8*
Medium and long-term government securities	*13.2*	*14.9*	*28.5*	*30.2*
Other (3)	*52.7*	*23.3*	*4.4*	*5.1*
Foreign	*6.6*	*10.0*	*5.3*	*5.4*

(1) Net of shares. – (2) Percentage changes are calculated from monthly averages. – (3) Investment fund units, non-state sector assets with banks accepting medium and long-term funds, surety deposits of firms, atypical securities and Republic of Italy bonds held by the non-state sector.

Firms financed gross fixed investment with internally-generated funds; as a result they considerably reduced the flow of financial liabilities and increased that of financial assets. The net flow swung from a reduction of 34.6 trillion lire in the first nine months of 1993 to an increase of 300 billion in the same period of 1994. The contraction in the flow of financial liabilities from 44.2 to 13.5 trillion lire was primarily due to changes in bank debt: repayments of short-term debt came to 27.7 trillion, compared with 16.9 trillion in the first nine months of 1993, while the growth in medium and long-term debt fell by nearly half (from 17.3 to 9.5 trillion). The reduction in external liabilities (2.9 trillion lire, compared with an increase of 5.7 trillion in the first three quarters of 1993) was entirely attributable to large repayments of foreign currency loans, which were only partly offset by an increase in trade debt. The expansion of firms' portfolios of financial assets was primarily due to an increase in the foreign component; in particular, the growth in trade credit was sustained by the strong performance of exports.

In 1994 financial asset formation by the non-state sector was fueled by the large surplus on the current account of the balance of payments, which offset a slight decline in finance to the sector and the deceleration in the Treasury borrowing requirement. Total credit expanded by 5.2 per cent, more than 1 point less than in the previous year. Total finance to the non-state sector declined by 7.7 trillion lire, or 0.7 per cent. Finance to the state sector, which totaled 159 trillion lire, was provided almost entirely by residents; non-resident investors, who had purchased 93.5 trillion lire of government securities in 1993, made net sales estimated at 11 trillion in 1994.

Table 20

Financial assets and liabilities

(billions of lire)

	Households (1)			Enterprises		
	Stocks	Flows		Stocks	Flows	
	Dec. 1993	Jan.-Sept.1993	Jan.-Sept.1994	Dec. 1993	Jan.-Sept. 1993	Jan.-Sept.1994
Cash	81,292	–2,034	–212	8,370	–220	–30
Sight deposits	349,532	–15,127	–6,070	91,639	–7,541	–8,485
Other deposits	602,834	26,526	–16,887	5,371	843	–85
Repos	82,820	2,096	–8,609	8,688	3,851	2,356
Short-term securities	308,248	–14,922	–1,947	3,260	–1,226	1,345
Medium and long-term securities	544,949	95,085	33,767	50,690	–3,147	2,179
of which: government securities	*427,497*	*76,561*	*21,317*	*42,607*	*–4,311*	*1,930*
Investment fund units	110,093	17,714	29,243	–	–	–
Shares and participations	663,711	14,288	3,186	239,295	6,425	1,143
External assets	88,372	596	–656	122,249	8,677	14,409
Other (2)	278,936	26,370	22,843	19,384	1,937	915
Total assets	**3,110,787**	**150,607**	**54,656**	**548,947**	**9,599**	**13,746**
Short-term loans (3)	120,041	–1,627	–4,333	399,919	–16,635	–29,604
of which: banks accepting short-term funds (4)	*112,198*	*–1,686*	*–1,670*	*351,933*	*–15,280*	*–23,057*
banks accepting medium and long-term funds	*5,076*	*125*	*–1,026*	*17,261*	*–1,650*	*–4,655*
Medium and long-term loans	171,987	4,995	6,156	268,385	21,824	15,553
of which: banks accepting short-term funds (4)	74,501	*1,930*	*3,920*	25,357	*3,343*	*5,802*
banks accepting medium and long-term funds	*81,777*	*4,487*	*2,908*	*184,686*	*13,950*	*3,687*
Shares and participations	–	–	–	678,655	25,546	15,317
External liabilities	–	–	–	210,201	5,692	–2,889
of which: shares and participations	–	–	–	71,345	*5,589*	*1,132*
Other	78,469	8,586	9,151	118,383	12,900	15,461
Total liabilities	**370,497**	**11,955**	**10,974**	**1,711,028**	**44,230**	**13,461**
Balance	**2,740,290**	**138,652**	**43,682**	**–1,162,081**	**–34,631**	**285**

Source: Financial accounts; provisional data.
(1) Consumer households and sole proprietorships. – (2) Technical reserves, severance pay and pension provisions and other minor items. – (3) Includes repos. – (4) Flows are corrected for exchange rate changes and debt consolidation.

Banking

The growth in banking business was moderate in the second half of 1994, despite the strong recovery in economic activity. Bank lending slowed down, owing to both demand and supply factors: on the demand side the large increase in self-financing and the slower revival in investment compared with previous cycles, and on the supply side the limited growth in bank reserves and a cautious attitude towards the granting of new loans while bad debts continued to rise. In view of the slower growth in lending and the substantial decline in bank profitability, which was due in part to the depreciation of medium and long-term securities, banks raised their deposit rates by less than the increase in money market rates, a strategy that contributed to the slowdown in deposit growth. By contrast, net fund-raising abroad increased considerably.

Table 21

Bank lending by branch of economic activity (1)

	General govern-ment (2)	Finance and insurance	Non-financial enterprises	Non-financial enterprises – Industry	Non-financial enterprises – Industry – Branches least affected by cycle (3)	Non-financial enterprises – Industry – Most export-oriented branches (4)	Non-financial enterprises – Industry – Other branches	Non-financial enterprises – Construc-tion	Non-financial enterprises – Services	Households – Con-sumer	Households – Producer	Total
					12-month percentage changes (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 – December	9.0	–8.9	0.9	3.2	1.5	3.7	3.8	0.9	–0.3	4.3	0.2	0.5
					Changes in billions of lire (5)							
1993	23.522	–2.747	–7.770	–13.002	–44	–8.536	–4.422	9.249	–3.560	5.938	1.926	20.869
1994	8.310	–14.442	4.827	7.057	857	2.689	3.511	756	–588	6.271	313	5.279
					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 – December	44.0	54.2	56.9	49.8	44.0	49.2	54.0	74.3	61.1	80.4	68.9	58.8
					Percentage composition of outstanding credit at 31 December 1994							
Credit drawn	9.6	14.0	49.7	21.9	5.6	7.2	9.1	7.8	18.9	14.5	12.2	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.

After slackening markedly in the first half of the year, bank lending picked up slightly in the summer and autumn and grew by 0.9 per cent in the twelve months to December. The year-end figure reflects a sharp contraction of 16.9 per cent in the foreign currency component and a moderate growth in lira loans (4.1 per cent, against 7.7 per cent in 1993).

During the year as a whole, lending to industry excluding construction grew by 3.2 per cent, or by 7.1 trillion lire (Table 21). There was a pronounced acceleration in credit to exporters, which amounted to 2.7 trillion lire, compared with net repayments of 8.5 trillion in 1993. The sectors that recorded the fastest growth in bank credit were consumer households (where the increase was accompanied by a rise in the ratio of credit drawn to credit granted and in the ratio of bad debts) and, above all, general government. The 9.0 per cent growth in bank lending to the latter was linked to the increase in state-guaranteed loans from banks accepting medium and long-term funds to bodies included in the non-state sector, such as local health units and autonomous government agencies. Financial enterprises and insurance companies reduced their demand for credit more than other firms, as is evident in the large decrease of 7 percentage points in their ratio of credit drawn to credit granted at a time when the volume of credit granted was beginning to recover. The decline of 14.4 trillion lire primarily reflected the large reduction in borrowing by holding companies.

Lending by banks accepting short-term funds diminished slightly in 1994, while that by banks accepting medium and long-term funds continued to grow, although much more slowly than in 1993; the sharp decline in foreign currency lending involved both categories of bank.

The slight revival in the last few months of the year reduced the twelve-month fall in lending by banks accepting short-term funds from 4.0 per cent in July to 0.4 per cent in December. The decline in reverse repurchase agreements, which are not classified as loans, caused the amount outstanding with residents to fall to just over 9 trillion lire, compared with 18.2 trillion at the end of 1993.

The slowdown in lending by banks accepting medium and long-term funds became more pronounced from the summer onwards; by the end of December the twelve-month rate of growth had fallen to 2.8 per cent, against 5.5 per cent in August and 8.4 per cent in December 1993. The deceleration reflects stagnation in industrial credit and a growth of 6.0 per cent in real estate loans.

The proportion of doubtful assets in banks' loan portfolios remained high in the closing months of 1994. Over the year, the bad debts of the banking system as a whole increased by 30.0 per cent (or by 21 trillion lire) while those of banks accepting short-term funds rose by 29.3 per cent. For the latter the ratio of bad debts to total loans rose to 9.5 per cent, almost 2 points higher than that for banks accepting medium and long-term funds; larger increases in credit risk were recorded for the building sector and for producer households. For banks accepting short-term funds, sub-standard assets (loans to borrowers in temporary difficulty) diminished by 2.6 trillion lire in the course of the year.

The increase in bad debts led the banks to exercise even greater prudence than in previous recessions and to switch to less risky forms of lending. The proportion of short-term loans, which are generally less secured and carry higher interest rates, fell progressively from 57 to 50 per cent of total lending between the end of 1992 and May 1994, and remained stable thereafter; moreover, the share of secured lira loans granted by banks accepting short-term funds rose from 35.5 to 40.2 per cent in 1994.

The signs of an easing of conditions in the loan market from the early summer onwards were confirmed in the closing months of the year. During 1994 the twelve-month rate of change in the volume of credit granted by banks accepting short-term funds swung from a contraction of 1.2 per cent to an increase of 4.4 per cent and the ratio of credit drawn to credit granted fell from 61.4 to 58.8 per cent. The share of lending at or below the ABI prime rate rose from 24.6 per cent in the fourth quarter of 1993 to 32.2 per cent a year later.

After falling to 10.8 per cent in June, the average lending rate edged upwards in the third quarter to a peak of 11.3 per cent in response to the tightening of monetary conditions (Figure 37). It then fell back to 11.1 per cent in December. The decline in the average lending rate over the year as a whole amounted to 0.9 percentage points, 0.4 points more than that in official rates.

Banks' fund-raising decelerated further in 1994. The twelve-month rate of increase for banks accepting short-term funds fell from 5.0 per cent in August to 1.8 per cent in December, below the previous historic low recorded at the end of 1992. The slowdown was attributable primarily to the decision of the banks to increase deposit rates by less than the rise in money market rates and yields on government securities. The after-tax differential between the average yield on Treasury bills and the average cost of funds widened from 2.7 points in May to 4.4 in December.

Figure 37

Interest rates and interest rate differentials (1)

(percentages and percentage points)

(1) The lending and deposit rates refer to banks accepting short-term funds. The Treasury bill rate is the weighted average allotment rate for the maturities issued. – (2) Net of withholding tax. – (3) The average deposit rate is calculated as a weighted average of the rates on the individual components of bank deposit liabilities (current accounts, savings accounts and CDs).

The most pronounced slowdown was in certificates of deposit, notwithstanding the continued rapid growth in those with a maturity of more than 18 months, which have been exempt from the reserve requirement since June. In December the amount of outstanding repurchase agreements with customers was basically unchanged from a year earlier. Bond issues, which banks accepting short-term funds have also been permitted to offer since January 1994, increased rapidly to an annual total of 4.2 trillion lire; such issues do not appear to have supplanted issues by the special credit sections that have now been absorbed into banks.

In 1994 banks accepting medium and long-term funds raised resources mainly through bond issues, which continued to expand swiftly, although slowing down in the final part of the year to a twelve-month growth rate of 10.6 per cent in November (against 16.5 per cent in December 1993). By contrast, the volume raised by means of certificates of deposit fell by 10.5 per cent.

Banks' net foreign liabilities increased sharply in the first seven months of 1994 but only moderately over the year as a whole, growing by 21.5 trillion lire, whereas in 1993 they had fallen by 83.2 trillion. The increase of 29.3 trillion for banks accepting short-term funds, compared with the decrease of 80.3 trillion in 1993, mainly reflects the decline in lira-denominated reverse repurchase agreements with non-residents, who use them to hedge foreign exchange risk.

With deposit-taking from ordinary customers more or less unchanged and lending lower than in the previous year, there was an increase of 37.6 trillion lire in the securities portfolios of banks accepting short-term funds, attributable mainly to purchases of Treasury bonds. In the first eleven months of the year the government securities held by banks accepting medium and long-term funds fell by 5.2 trillion lire, cancelling out more than one third of the increase that had been recorded in the same period of 1993.

The profitability of banks accepting short-term funds deteriorated considerably in the first nine months of 1994. As a result of the decline in lending and the narrowing of the spread between lending rates and the average cost of funds, net interest income was more than 10 per cent lower than in the corresponding period of 1993. The reduction of more than one third in income from securities trading was reflected in a fall of more than 13 per cent in gross income. Operating expenses declined by 3 per cent and net income by 29 per cent. Under the new national contract with banking staff agreed in November, the increase in average pay will be larger than in other sectors.

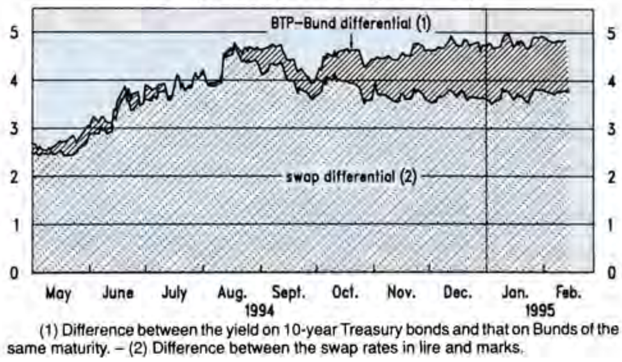
The financial markets

Between October 1994 and January 1995 the gross secondary market yields on securities with the longest residual maturities increased the most. The yields on ten-year Treasury bonds rose by nearly 50 basis points to 12.4 per cent, around 3.7 percentage points above the level recorded at the end of 1993.

Figure 38

10-year lira/mark yield differentials

(daily data; percentage points)

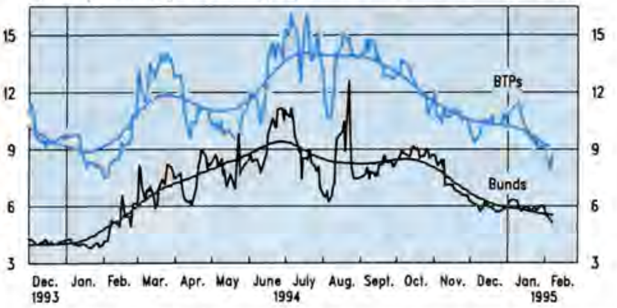


(1) Difference between the yield on 10-year Treasury bonds and that on Bunds of the same maturity. – (2) Difference between the swap rates in lire and marks.

Figure 39

Expected volatility of Treasury bonds and Bunds (1)

(daily data; percentage points on an annual basis)



(1) Volatility implicit in the prices of options on 10-year Treasury bond futures quoted on LIFFE. The trend component was estimated using the Hodrick and Prescott method.

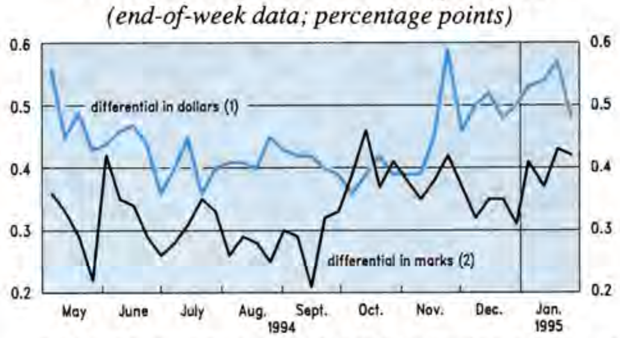
The yield differential between ten-year Treasury bonds and German Bunds began to widen in October, and by the end of November had risen to just under 5 percentage points. It consists of two components: the first, reflecting the expectations and risks connected with inflation and real interest and exchange rates in the two countries, can be measured by the difference between the ten-year rates implicit in interest rate swaps in Eurolire and Euromarks, whereby the stream of income on a fixed rate security is exchanged for that on a variable rate security; the second component is a function of the different premiums the market requires the two issuers to pay, and can be measured by subtracting the differential between Bunds and DM swaps from that between Treasury bonds and lira swaps. The first component gradually decreased from August onwards (Figure 38), in parallel with the decline in the expected volatility of 10-year Treasury bond prices – deduced from the prices of futures options – both in absolute terms and in relation to the expected volatility of the prices of German securities (Figure 39). The widening of the differential between 10-year Treasury bonds and Bunds from October onwards was thus due to the increase in the premium on Italian Treasury issues. A similar picture emerges from the behaviour of yield differentials between Republic of Italy foreign currency loans and those of other sovereign issuers (Figure 40).

The high level of secondary market liquidity helped to attenuate the fluctuations in the prices of medium and long-term securities in the periods of more pronounced tension on the foreign exchange and financial markets. Between mid-December and mid-January the gross yield on ten-year Treasury bonds traded on the screen-based market in government securities (MTS) increased by only about 30 basis points; the increase by comparison with Bund yields was even smaller (around 20 basis points).

Figure 40

Yield differentials between Republic of Italy loans and those of other sovereign issuers

(end-of-week data; percentage points)



(1) Differential between the yield on the 9.06.1998 Republic of Italy dollar loan and the 30.06.1998 US Treasury loan. – (2) Differential between the yield on the 10.02.1998 Republic of Italy DM loan and the 20.10.1997 Bund.

Average daily turnover on the MTS rose to 17.8 trillion lire in the period from October to January (Figure 41), owing partly to competition among dealers to achieve the trading volume required to become "specialists" (see the box *"The implementation of the reform of the screen-based secondary market in government securities (MTS)")*. In the first half of February daily turnover rose further to an average of 27.6 trillion. The increase in trading volume fostered a narrowing of bid-ask spreads to around 20 basis points, equal to the lowest values recorded in 1994.

Activity on the futures markets (LIFFE and MIF) declined from October onwards. Daily turnover in Treasury bond futures contracts fell from 10.5 trillion lire in the first nine months of the year to less than 6.2 trillion lire on LIFFE, and from 4.8 to 2.9 trillion on MIF. The fall in December was more pronounced than in the same month of 1993, partly owing to the decline in the volatility of Treasury bond prices, which reduced the demand for futures as a means of hedging portfolios of government securities.

The implementation of the reform of the screen-based secondary market in government securities (MTS)

The reform of both the spot and forward segments of the MTS gathered pace last year. The decree issued by the Treasury Minister on 24 February 1994 altered the structure of the market by introducing a new category of dealers known as "specialists in government securities" (see the box on the subject in Economic Bulletin, No. 18, 1994). In May trading in options on futures, which had previously been quoted only on LIFFE, began on the screen-based options market (MTO). Towards the end of the year regulations governing securities lending were introduced, improvements were made in the procedures for settling contracts and the trading rules for large-value transactions were made more flexible.

Both trading volume and the average bid-ask spread responded positively to the reform of the market. Average daily turnover was nearly twice as high as in the previous year, rising from 8 to 15.4 trillion lire. Trading by dealers wishing to qualify as specialists or remain primary dealers was a contributory factor. Market makers controlled by foreign institutions, which increased in number from 5 to 9, were particularly active in this respect and their share of total turnover rose from 8 to 19 per cent between December 1993 and December 1994.

The greater price volatility of fixed rate securities last year did not prevent the bid-ask spread for all listed securities from declining by about 6 basis points to 29 basis points. The improvement in liquidity was more pronounced for thinly traded securities, most of which carried a variable rate or had a short residual maturity. From the middle of the year onwards the improvement extended to more actively traded securities, the spreads on which are more strongly affected by yield volatility owing to their longer duration (see the figure).

The growth in the spot market was not matched by a comparable rise in futures turnover. This was partly attributable to the smaller share of government securities held by foreign investors, who are particularly active in derivatives. The ratio of aggregate turnover on MIF and LIFFE in futures contracts on 10-year BTPs to the value of spot trades in deliverable BTPs fell from 1.95 in 1993 to 1.68 last year. The MTO, the market for options on BTP futures launched on 20 May, also showed limited growth. The ratio of the turnover in options on all markets to that in the underlying futures was 8 per cent for BTPs, as against values ranging from 12 to 36 per cent for the corresponding government bonds of the United States, Japan, Germany, France and the United Kingdom.

The first group of 10 specialists began operations in June; these are primary dealers that had met the eligibility requirements in terms of the volume of subscriptions in the primary market (where each specialist must take up at least 3 per cent of gross annual issues and 1 per cent of the issues of each class of security) and transactions in the secondary market (at least 3 per cent of total annual turnover on the MTS and 1 per cent of the turnover in each class of security). In the two subsequent quarters another three dealers became specialists and others will be able to qualify in April. From then onwards, membership of the groups of specialists and primary dealers will be reviewed annually in June in the light of each dealer's activity in the twelve preceding months.

Figure 41

Turnover in government securities on the spot and futures markets

(average daily turnover in billions of lire)

(1) Turnover in futures contracts on 10-year Treasury bonds. – (2) Turnover in futures contracts on 5 and 10-year Treasury bonds.

In the new issue market the Treasury continued to increase the proportion of variable rate issues in the fourth quarter, albeit less intensively than in the summer, while maintaining a regular flow of fixed rate paper. This strategy was designed to accommodate strong domestic demand for variable rate securities at a time of rising medium and long-term interest rates. The demand for index-linked paper was fueled by the continuing opportunities for arbitrage between six-month LIBOR and the coupons on Treasury credit certificates; in 1994 operations of this kind helped to reduce the spread between the two by around 30 basis points to 1.5 percentage points. In January the Treasury changed the indexation

The specialists' prerogatives and obligations were gradually defined and implemented in the second half of 1994. In particular, since mid-July additional securities have been made available exclusively for specialists to take up after auctions of medium and long-term paper. Between July 1994 and January 1995 these offerings of securities, the size of which is determined by the Treasury up to a maximum of 10 per cent of the original issue volume, produced additional subscriptions of 5 trillion lire, equal to 5 per cent of the total amount placed at auction.

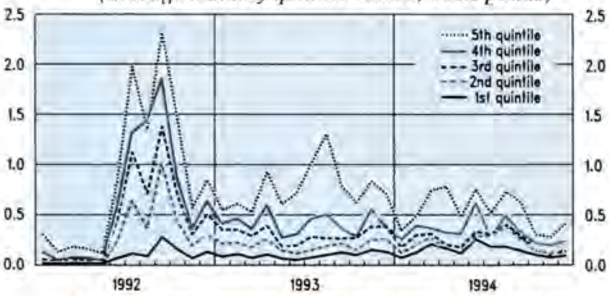
Specialists also have the exclusive right to propose outright sales and purchases of securities to the Bank of Italy. Lastly, from April of this year onwards, the only non-bank institutions allowed access to the Bank of Italy's repo auctions will be Italian securities firms that have qualified as specialists.

One of the requirements laid down in the Ministerial Decree of 24 February 1994 for dealers to remain specialists is that they should be able to guarantee an adequate volume of business and competitive pricing in the various segments of the market. Accordingly, since January the Ministry of the Treasury and the Bank of Italy have monitored each operator's performance in terms of average bid-ask spreads, number of securities quoted and daily turnover in securities of different types (BTPs, CTOs, CCTs, BOTs and CTEs) and different degrees of liquidity. The overall evaluation of the activity of specialists also takes account of their business on MIF.

Since December several measures to improve the liquidity of the MTS and reduce operating costs have come into effect: trades larger than the minimum lot no longer have to be broken down into separate orders for sequential execution but can be effected in a single operation on the basis of the best quotes available (multiple applications); specialists are now required to quote for lots of 25 billion lire for the most liquid securities; a procedure has been introduced for the automated settlement of transactions, whereby data are transmitted directly from the trading system to the settlement system, thus reducing dealers' back office costs; a Decree Law of 7 January 1995 reduced the minimum rate of tax on income from financing in securities from 15 to 12.5 per cent, thus removing one of the obstacles to the development of the securities lending market.

MTS: distribution of bid-ask spreads on medium and long-term securities (1)

(average monthly quintile values; basis points)



(1) The quintiles are defined on the basis of the number of securities quoted, ranked in ascending order of turnover.

mechanism for credit certificates: the coupons on new issues are now based on the rate on six-month Treasury bills at a single auction instead of the average of twelve-month rates at several. As a result, the issue yields on Treasury credit certificates fell by nearly 60 basis points, broadly equivalent to the spread between the rates on six and twelve-month Treasury bills.

Net issues of government securities amounted to 229.7 trillion lire last year (Table 22), or 153.5 trillion excluding the securities issued to eliminate the overdraft on the Treasury's current account with the Bank of Italy. Excluding these securities, the share of Treasury credit certificates rose from 12.3 to 24.5 per cent of net issues, while that of Treasury bills increased slightly less, from 3.9 to 12.5 per cent. Net issues of Treasury bonds, mostly with maturities of less than five years, accordingly declined from 82.3 to 68 per cent of the total. The average maturity of the stock of government securities lengthened slightly to three years and one month. In the first eleven months of the year net subscriptions of government securities by the non-state sector amounted to 86.5 trillion lire and those by banks and investment funds to 25.7 and 13.2 trillion respectively. By contrast, non-residents made net disinvestments amounting to 13.6 trillion.

Share prices on the Milan Stock Exchange fluctuated widely in the fourth quarter (Figure 42).

Table 22

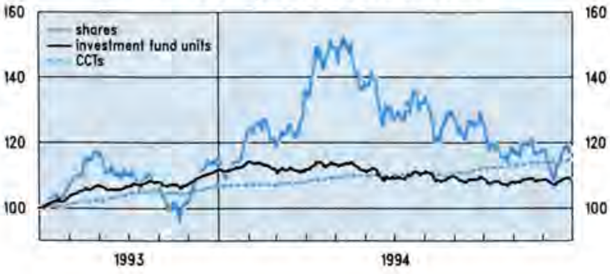
Government securities
(billions of lire)

	BOTs (1)	BTEs	CCTs	BTPs	CTOs	CTEs	Other	Total
				Gross issues				
1990	559,196	6,109	75,538	74,460	27,161	8,017	4,582	755,062
1991	602,421	4,989	99,000	93,010	23,000	3,680	–	826,101
1992	675,055	6,961	83,426	95,519	14,500	4,759	–	880,220
1993 - (2)	737,345	7,146	56,000	166,452	–	12,838	7,370	987,151
1994 - (3)	679,500	–	60,767	167,574	–	17,665	81,800	1,007,306
				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	128,094
1992	44,731	1,943	60,024	33,576	3,847	520	–7,035	137,606
1993 - (2)	6,479	219	20,968	138,485	–7,041	1,763	5,256	166,129
1994 - (3)	19,155	–7,145	37,629	104,458	–3,108	5,814	72,937	229,741

(1) Net issues do not include issue discounts. – (2) Including the BTPs and CCTs placed with the Bank of Italy in connection with the creation of the Treasury payments account. – (3) The securities issued to consolidate the Treasury's overdraft on its current account with the Bank of Italy are included under "Other".

Figure 42

Securities market: indices of total return
(indices 31 May 1993=100; daily data)



They fell below the end-1993 level at the beginning of December, but recovered the lost ground in January following the formation of the new Government. Banking and insurance shares fell by 2.3 and 7.7 per cent respectively, whereas the index of industrial shares rose by 7.7 per cent on the back of the sharp improvement in corporate profitability. The all-share index rose by 3.3 per cent in 1994 and by a further 4.4 per cent in January. The increase of about a quarter (61.5 trillion lire) in the market capitalization of the Milan Stock Exchange was primarily due to new admissions to listing, with newly privatized companies contributing more than 14.5 trillion; new share issues amounted to 12.2 trillion. Annual turnover rose from 103.5 to 193.6 trillion lire, despite declining substantially in the latter part of the year. The volume of trading in the 204 shares eligible for daily settlement amounted to 2.5 per cent of the turnover of the other shares between August and December 1994, compared with 3.9 per cent in the same period of 1993.

The first futures contract on an Italian share index was launched at the end of November. The contract, known as Fib30, relates to a basket of thirty shares chosen from among the most liquid in the market and which accounted for about two thirds of the total market capitalization at the end of December.

In the last quarter the fall in share and bond prices accentuated the decline in fund-raising by investment funds. Net redemptions of units amounted to 3.8 trillion lire, compared with 1.6 trillion in the third quarter. The reduction in portfolios, which was roughly equal to the net outflow of resources, was almost entirely in fixed rate bonds, in particular Treasury bonds, and securities denominated in foreign currency. By contrast, holdings of Treasury credit certificates rose from 18.6 to 23 trillion lire and from 18.2 to 20.2 per cent of the total portfolio. For the year as a whole net subscriptions amounted to 25.5 trillion lire.

Short-term prospects, prices and monetary policy

The Italian economy recovered more strongly than predicted in 1994 in the context of an expansion in international activity and world trade that was also more rapid than expected. The growth in GDP was not less than the rate of 2.3 per cent recently estimated by Isco, compared with the forecast of 1.6 per cent made in September 1993 (1.3 per cent in the Report on the Borrowing Requirement in March 1994) and reaffirmed last September in the Forecasting and Planning Report. Both foreign and domestic demand played their part. Industrial production increased by almost 5 per cent. The current account of the balance of payments closed with a surplus that can be put at 25 trillion lire, equal to 1.5 per cent of GDP; this was considerably higher than the surplus recorded in 1993 and sufficient to reduce external debt from 9.6 per cent of GDP at the end of 1993 to less than 8 per cent. Restructuring and large improvements in productivity in the services sector, coupled with continued difficulties in the construction industry, led to a further fall in employment. Only in manufacturing industry did the pronounced reduction in wage supplementation herald a recovery in the demand for labour, but even here employment declined.

In spite of productivity gains and considerable wage restraint, the cost-of-living index rose by 3.9 per cent, compared with a CPI target of 3.5 per cent. Inflation was fueled not only by the recovery in demand but also by the increase in the cost of imports, which was magnified by the depreciation of the lira. The nominal effective exchange rate rose by 3 per cent in the first four months of 1994 but declined by 7 per cent during the remainder of the year. Since then the lira has depreciated by a further 4 per cent.

In a tense political climate, the weakness of the currency was due partly to the perception that the imbalances in the public finances were still serious and their resolution uncertain. This was reflected in the prices of government securities: long-term yields rose from 8.7 to 12.3 per cent in the course of the year. The differential in relation to comparable German securities, which had narrowed to about 2.5 percentage points in April, widened again to almost 5 points. The increase in interest payments on the public debt as a result of higher interest rates invalidated the estimates for the 1995 borrowing requirement contained in the Economic and Financial Planning Document of last July and the Forecasting and Planning Report of September. It therefore became necessary to supplement the provisions of the 1995 Finance Law by introducing further measures amounting to approximately 20 trillion lire.

The sharp depreciation of the lira, which was far larger than was necessary to maintain the competitiveness of Italian industry, has become more pronounced in the last few weeks. There is a risk that the combination of the depreciation of the lira and the acceleration in demand will have repercussions on prices; evidence of this is already apparent in the behaviour of expectations and in the cost-of-living data. On 21 February the Bank of Italy increased the discount rate by 0.75 percentage points to 8.25 per cent and the rate on fixed-term advances from 8.50 to 9.75 per cent primarily to curb the acceleration in inflation and the deterioration in inflation expectations.

The economic prospects and fiscal policy

The favourable performance of the world economy should continue to sustain the expansion of the Italian economy. According to the latest OECD estimates, GDP growth in member countries should gather momentum in 1995, accelerating from 2.8 to 3.0 per cent, and from 2.5 to 3.0 per cent in the EU; for the first time since 1988 economic activity should increase at fairly similar rates in all the leading countries.

Inflation remains moderate in most countries. The world dollar prices of non-oil raw materials, which OECD data show to have risen by an annual average of around 15 per cent in 1994, should increase by around 4 per cent this year; the dollar price of OECD oil imports is expected to return to its 1993 level following the slight average reduction last year.

World trade should increase by more than 8 per cent again this year, buoyed by the recovery in the OECD area. Continued economic growth in the developing countries is likely to be reflected in a further acceleration in the growth of their imports to 10 per cent.

This broadly favourable forecast is based on the assumption of a stable configuration of exchange rates, financial conditions and capital flows that could be jeopardized by recent developments in the exchange rate of the dollar against the other leading currencies, the crisis in Mexico and exchange rates within the EMS.

The fiscal policies of the leading industrial countries are directed towards reducing budget deficits; the unexpected strength of the recovery will make it possible to achieve a larger reduction and attain the objectives earlier than foreseen in these countries' deficit-reduction programmes, which had been based on assumptions of lower rates of economic growth. Monetary policies appear to be geared towards maintaining restrictive conditions in order to hold inflation down to the 1994 level or foster a further reduction.

The current performance of the Italian economy suggests that economic activity will accelerate in 1995, stimulated primarily by exports and investment but also by firm consumer demand. However, the growth in output is likely to translate into only a modest improvement in private sector employment.

Macroeconomic conditions appear to be more than sufficiently robust to withstand the necessary correction in the public finances; economic growth would not suffer in the short run and would be strengthened and consolidated over the longer term.

Attainment of the objective for the state sector borrowing requirement indicated in the Forecasting and Planning Report last September (138.6 trillion lire) remains the minimum prerequisite for continued progress towards the restoration of sound public finances, a view that is shared by international organizations. The markets remain sceptical, as is evident from the wide interest rate differential on government securities between Italy and other countries and from the weakness of the lira in a situation of high tension in the international financial and foreign exchange markets, and especially within the EMS owing to the strength of the Deutsche Mark.

The increased burden of interest payments had opened up the prospect of a substantially larger borrowing requirement than planned. Although the Finance Law and the accompanying provisions were approved with only minor amendments before the end of December, the difficulties with the pension reform and its postponement by even six months accentuated the deterioration in market confidence.

Interest rates are currently more than 2 percentage points higher than had been assumed in the Economic and Financial Planning Document last July. If they remained at their present high level, this year's interest payments would be about 14 trillion lire more than foreseen. The measures approved in December 1994 regarding health services, local finances, production and investment assistance and social security contributions may fall short of their objectives by an estimated 7 trillion lire. As regards the tax conciliation procedure, which should generate a large part of the forecast additional revenue, the Government has confirmed its commitment to introduce implementing legislation. It will be necessary to monitor actual receipts in the course of the year so that any shortfalls can be swiftly offset.

The expenditure provisions of the budget presented last September concentrated mainly on measures to reduce spending on pensions. The agreement of 1 December between the Government and the trade unions, under which some of these measures were removed from the budget, endorsed the Government's commitment to obtain approval by 30 June 1995 for a comprehensive reform of the pension sector that would achieve the savings originally estimated for this year (5.1 trillion lire, partly ensured by suspending the award of long-service pensions for the entire first half of the year).

The better economic performance than had been foreseen in September, especially as regards 1994, could benefit the public accounts by around 5 trillion lire during the current year.

The new corrective fiscal measures introduced by decree law on 23 February 1995 (see the box) are rigorous. They substantially reduce the borrowing requirement by producing a primary budget surplus of more than 3 per cent of GDP. They create the conditions for improving on the borrowing target indicated in September; a significant recovery in market confidence will be a crucial factor. If the markets react positively, the overshooting on account of interest payments will decline by at least 5 trillion lire during the year.

The effect of the measures is put at about 21 trillion lire in 1995 (almost 1.5 per cent of GDP on an annual basis) and will increase to 22.9 trillion in 1996. Three quarters of this amount stems from permanent increases in taxes and contributions (in 1996 the reduction in the yield of certain temporary measures will be more than offset by the revenue from the new permanent measures, which will be in routine operation by then). The changes bring the Italian tax system more into line with those in other European countries. As a result of the revenue measures, which amount to around 0.9 per cent of GDP, the ratio of taxation (including capital taxes) to GDP will approach 42.5 per cent in 1995, above the level of last year but about one and a half percentage points lower than in 1993. The ratio of indirect taxation to GDP will rise by 0.5 percentage points, thus reducing the disparity in relation to other European countries, which was 2.4 points in 1994. The revenue measures are spread among taxpayers with the aim of ensuring a fair distribution of the additional burden.

The reduction in spending is apportioned among the various categories of state sector expenditure in such a way that it will produce significant results quickly. The greater part of the reduction will apply for the entire three-year period to which budget forecasts relate. The measures will generate savings of about 8 trillion lire in 1995 on an accruals basis and more than 5 trillion on a cash basis.

The main impact of the measures will fall on consumption and they will curb the potential overheating of the economy; their effect on GDP growth will be less than 0.5 percentage points. In view of this and the present level of interest rates, GDP growth should be close to 3 per cent in 1995. The reduction in risk premiums on lira-denominated financial assets, and in particular on government securities, which would cause the lira to appreciate and at the same time reduce interest rate differentials against other currencies, would have opposite effects on GDP growth. The net result is likely to be only slightly negative: the lira is grossly undervalued, exports enjoy a large competitive margin and investment is highly responsive. The balance-of-payments surplus on current account should show a further significant increase.

In conjunction with the privatization programme, for which the Government has announced a faster timetable and extended the list of public enterprises involved, the supplementary budget measures may stabilize the ratio of public debt to GDP this year rather than in 1996. If expectations are to respond favourably, events will have to follow the sequence envisaged by the foreign exchange and financial markets, namely approval of the measures by Parliament, the formulation of structural measures to reform the pension system and the bringing-forward of the presentation of the Finance Law for 1996.

Prices

The impact effect of the tax changes decided by the Government is likely to be a rise in consumer prices of less than one percentage point. Provided economic agents do not incorporate it into their inflation expectations, this will not lead to a permanent increase in the rate of inflation but remain a one-off rise in the average price level. When evaluating the rate of inflation in 1995 it will therefore be necessary to take account of the impact effect of the rise in taxes.

Consumer prices have shown a tendency to accelerate in the last three months. The twelve-month increase in the cost of living crept up towards 4 per cent and exceeded this level in February. The seasonally adjusted annualized monthly rate rose to an average of 6 per cent in the last three months.

The recent further tightening of the long-standing restrictive monetary policy stance was designed to counter this tendency by influencing the formation of the expectations that fuel it. The Bank of Italy is determined to prevent a resurgence of inflation.

Continued consensus as to incomes policy, which has become an established feature as a result of almost three years of responsible adherence to the guiding principles of the agreements and their rules of operation by employers and trade unions, is making a fundamental contribution to price stability. The central bank's resolute counterinflationary stance is helping to ensure that the agreements hold. The supplementary budget measures will play their part in damping inflationary expectations; they will bring a desirable slowdown in the growth of domestic demand by impinging primarily on consumption, both private and public.

The recent acceleration in consumer price inflation net of indirect taxation must first be halted and then reversed. The annual rate of increase in prices in 1995 may be lower than last year, so that the downward trend under way since 1990 should not be interrupted.

The size of the slowdown will depend on the climate of confidence in the markets, especially the foreign exchange market. The nominal effective exchange rate of the lira has fallen by around 30 per cent since the crisis of September 1992; the fall since last September, when the depreciation of the lira came to a temporary halt, is in excess of 7 per cent. Total private sector debt is much smaller in Italy than in the other industrial countries; public sector debt should stabilize in relation to GDP this year. The country's overall net external debtor position is on the way to being eliminated: the surpluses recorded on the current account of the balance of payments from 1993 to 1995 are expected to total 80 trillion lire. If the foreign exchange markets recognized these favourable trends in the stock of oustanding debt and accordingly restored the external value of the lira at least to the level of five months ago, this year's annual inflation rate could be much lower than last year's, excluding the effects of tax increases.

Monetary policy

In the present situation, in which expectations are liable to change suddenly, the Bank of Italy is paying particularly close attention to the variables that give advance warning of price pressures. The array of indicators used for monetary policy has been expanded in the current context of a floating lira. In interpreting them it is necessary to take account of changes in the determinants of inflation, which have been affected by, among other things, the increased sensitivity of profit margins to competitive conditions and exchange rate expectations; it is also necessary to take account of the evolution of the financial markets and the prudence displayed by banks in fund-raising and lending, which has helped to slow down the growth in the money and credit aggregates.

The Bank of Italy took prompt action to counter the danger of a resurgence of inflation as soon as it appeared in mid-1994, raising official rates as early as August. It then maintained stable conditions in the money market until the beginning of this year, within the framework of a generally restrictive stance that was reflected in a further slowdown in the already moderate growth in monetary base and the money supply. The acceleration of consumer prices in February confirmed the more pessimistic signals coming from the indicators; the risk that it would become entrenched and perhaps even be amplified by expectations was increased by an immediate and pronounced weakening of the lira. On 21 February the Bank of Italy announced a sharp increase in official rates. In the next few days yields in the interbank market rose by 78 basis points for overnight money and by 35 basis points for one-year funds; long-term yields went up by around 20 basis points.

Last October's issue of the *Economic Bulletin* described the planning framework for financial flows for 1995, which centred on the objective of reducing inflation to the level required by convergence within the EU. At that time it was estimated that M2 would grow by 5 per cent in 1995. This corresponded to the Government's forecasts of annual average rates of 2.5 per cent for inflation and 2.7 per cent for the growth in GDP.

The implementing provisions for the 1995 budget

The budget submitted by the Government at the end of September was enacted by the approval of the Finance Law (Law 725 of 23 December 1994) and two accompanying laws (Laws 656 of 30 November 1994 and 724 of 23 December 1994). The content of the measures differed from the Government's original proposals: a reduction of about 2.7 trillion lire in spending cuts was offset by higher revenue from taxation and contributions. According to official estimates, the budget should reduce the public sector borrowing requirement by 50 trillion lire, with 24.3 trillion coming from reduced expenditure, 23.7 trillion from increased revenues and 2 trillion from a reduction in interest payments due to the measures themselves.

On 23 February additional measures were submitted that are expected to reduce the borrowing requirement this year by around 21 trillion lire, with three quarters of the reduction being in the form of increased revenues.

1. *The Finance Law and the accompanying provisions*

Expenditure

Social security. *– On 1 December 1994 the Government reached agreement with the main trade union organizations on the structural reform of the pension system by means of a bill to be approved by 30 June of this year. A Government amendment to remove the structural measures regarding long-service pensions from the 1995 budget legislation was approved by Parliament. In particular, the original proposal to reduce long-service pensions by 3 per cent for each year of retirement before the statutory retirement age was deleted from the draft of Law 924/1994. The savings lost as a result of this change were offset for the first six months of the year by extending the ban on the granting of new long-service pensions until the entry into force of the pension reform or 30 June at the latest; the ban, which had originally been imposed by Decree Law 553/1994, had been due to expire on 1 February. Safeguard clauses provide that appropriate measures be taken to make good the shortfall in relation to the target of savings of 5.1 trillion lire for the full year. These may consist either of provisions in the reform law itself to reduce pension expenditure or increases in most employers' and employees' social security contributions.*

Parliament rejected the original proposals index-linking non-welfare pensions solely to the target rate of inflation and reducing the accrual rate used to determine the size of pensions from 2 to 1.75 per cent (the reduction had been limited to years of service accruing from 1996 onwards for workers with at least 15 years of contributions on 31 December 1992). These measures would in any case have had no impact on the public finances in 1995.

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

DECREASE IN EXPENDITURE	**24,300**
Public employment	**300**
Law 724/1994	
Organizational rules	1,200
Law 725/1994 (Finance Law)	
Additional allocation for new contracts	–900
Pensions	**9,300**
Law 724/1994	
Bringing-forward of increase in retirement age	400
Long-service pensions	5,100
Postponement of 1995 cost-of-living increase to 1.1.96	1,350
Postponement of increases in long-standing pensions	1,750
Reduction in allocation for civil servants' severance pay and other minor measures	700
Health services	**6,000**
Law 724/1994	
Local health units' purchases of goods and services	3,250
Expenditure on pharmaceuticals	1,500
New limits for exemption from paying for pharmaceuticals and fees for specialized services	500
Measures regarding staff and other measures	750
Other expenditure (2)	**8,700**
INCREASE IN REVENUE	**23,700**
Tax receipts	**12,900**
Reduction in receipts (3)	–2,000
Law 656/1994	
Conciliation procedure (1989-93 assessments)	11,500
Reduction in reliefs for cooperatives	700
Settlement of litigation	600
Law 724/1994 (4)	
Tax neutrality of mergers	450
Anti-avoidance measures, elimination of minor reliefs	400
Minimum tax for shell companies	950
Increase in imputed land and agricultural incomes	300
Law 725/1994 (Finance Law)	
Decrease in automatic offset for fiscal drag	600
Increase in tax allowances for dependent children	–600
Non-tax receipts	**6,950**
Law 724/1994	
Increases in charges for use of state property	50
Building offences condonation scheme	6,900
Social contributions	**3,850**
Law 724/1994	
Extension of deadline for contribution condonation scheme	1,900
Increase in contribution base for public employees	750
Increase in contributions to cover long-standing pensions	850
Conciliation procedure in respect of social contributions	1,000
Reduction in receipts due to reductions in expenditure	–650
SAVING IN INTEREST PAYMENTS	**2,000**

(1) Based on official estimates. – (2) Purchases of goods and services, transfer payments and financial transactions. – (3) In connection with spending cuts and the lowering of the VAT rate on building maintenance. – (4) The changes introduced during the law's parliamentary passage regard the establishment of a tax replacing the income taxes on capital gains realized by shell companies upon liquidation (+150 billion lire) and the reduction in the increase in imputed land and agricultural incomes (–200 billion).

The law approved by Parliament reduced the forecast savings by around 1.8 trillion lire, mostly owing to amendments regarding long-standing pensions and the broadening of the categories of workers exempted from the freeze on long-service pensions: the payment of the last instalment of the increase in long-standing pensions was brought forward from 1 July 1996 to 1 October 1995 (adding 1.1 trillion lire in expenditure), while workers who had accumulated 35 years of contributions on 31 December 1993 were exempted from the freeze (adding about 600 billion).

Health services. *- A number of amendments adopted during the passage of the legislation reduced the forecast savings in this field by about 500 billion lire. In particular: a) the maximum charge for diagnostic and laboratory services was reduced from 100,000 to 70,000 lire and the fee charged to persons who go to a hospital emergency department and who are not subsequently hospitalized was abolished; b) the 25 per cent reduction in the full-time allowance for hospital medical staff who also practice privately was abolished for 1995; and c) some categories of health service employees subject to radiation risk were granted 15 additional days of ordinary leave. The ceiling of 9 trillion lire on National Health Service expenditure on pharmaceuticals established for 1995 was extended to the two subsequent years.*

Public sector employment and other expenditure. *- The measures regarding public sector employment do not differ significantly from the Government's proposals: the forecast of overall savings of 300 billion lire stands confirmed. Amendments to other expenditure items will cost an additional 400 billion lire. In particular, Law 724/1994 lays down that the revenues received by the INPS from the conciliation procedure for social security contributions is to be used to finance employment and labour market measures to be drawn up by the Minister of Labour, resulting in 1 trillion lire of additional expenditure.*

Revenue

The amendments introduced during the passage of the budget measures increased forecast revenue by 2.7 trillion lire more than originally proposed. The most important changes are an increase of 1.8 trillion in social security contributions and one of 1 trillion in the central government's share of receipts from the building offences condonation scheme. The remaining amendments were marginal and their effects largely balance out. In particular, the upgrading of tax allowances to offset fiscal drag was reduced by 60 per cent, generating 600 billion lire in additional revenue. At the same time, under the memorandum of understanding of 1 December between the Government and trade unions, revenue was reduced by an equal amount by making a further increase, for 1995 only, in the tax allowance for employees with more than two dependent children who qualify for family allowance.

An increase in employers' and employees' social security contributions, to be implemented by 30 June 1995, was approved in order to finance the final instalment of the increases in long-standing pensions. In addition, the higher incomes ascertained in the tax conciliation procedure for personal income tax for the years from 1989 to 1993 are to count for the purposes of determining social security contributions owed to the INPS (with a reduction in penalties) in cases where personal income tax serves as the basis for determining contributions. The measure is expected to produce 1 trillion lire of additional revenue.

It should be noted that 1995 tax receipts will also be increased by two other provisions, although part of this revenue has already been used to cover expenditure originally programmed for 1994. The first of these provisions extends the time limit for the concessionary resolution of pending tax cases involving amounts of less than 20 million lire from 15 December 1994 to 31 March 1995. The measure is expected to yield 1 trillion lire of additional revenue. The second provision defers the tax and contribution payments due in November and December 1994 until early 1995 for persons living in the areas of North-West Italy affected by flooding.

Finally, additional revenue will be generated by the payment to municipalities of infrastructure charges related to the building offences covered by the condonation scheme and the tax measures introduced by Decree Law 691 of 19 December 1994 (imposition of an extraordinary tax on personal incomes of more than 100 million lire and an extraordinary tax on corporate incomes equal to 1 per cent of taxable income for the 1994 tax year, a 50 per cent increase in the stamp duty on bank statements). However, the official forecasts do not consider that these measures will affect the balances for the year, since they have been earmarked to finance additional expenditure: in the first case the construction of infrastructure in areas of unauthorized building and in the second assistance for the flood-stricken areas.

2. *The end-February supplementary budget measures*

The measures adopted in February are expected to generate 15.6 trillion lire of additional revenue and around 5.5 trillion of expenditure savings.

The most important indirect tax measures concern energy products: an increase in excise duties, causing the price of petrol (including unleaded petrol) to rise by 110 lire per litre, and smaller increases in excise duties on diesel fuel, LPG for vehicles and heating, methane for non-industrial uses and electricity for domestic consumption. The measures concerning VAT mainly consist of changes in rates. Specifically, the intermediate rates of 9 and 13 per cent have been increased to respectively 10 and 16 per cent. At the same time, the reduction of the VAT rate on pharmaceuticals to 4 per cent (introduced by Law 724/1994 with effect from June 1995) has been brought forward and the rate on red meat and sausages reduced from 19 to 16 per cent. The Government estimates that the impact effect of these measures will be to increase prices by 0.8 per cent. As regards direct taxes, most of the effects of the measures will be felt by firms this year. The corporate income tax rate has been raised by one percentage point (beginning with the payment on account for 1995) and 35 per cent of the tax on companies' net worth payable in 1996 has been brought forward to this year. Tax is to be levied on losses arising upon mergers and on certain provisions subject to deferred taxation.

The measures adopted on the expenditure side consist mainly of a freeze on discretionary disbursements until 31 December 1995 (1.1 trillion lire) and across-the-board reductions in the disbursements of government departments (2.4 trillion). The latter are also required to reduce staff costs other than contractual wages and salaries and cut spending on goods and services (except for the Ministry of Defence), current and capital transfers and loans.

Finally, there are a number of measures concerning local finances designed to save 500 billion lire, the extension of the ban on the hiring of public employees to the second half of the year (300 billion) and a reduction in the special funds to finance legislation that has still to be approved (500 billion).

Finally, the supplementary budget contains a number of extraordinary measures on the revenue side. In addition to the advance instalment of the tax on companies' net worth, there is a condonation scheme for motor vehicle taxes and another for fines in connection with Intrastat declarations (in respect of trade with EU countries). The absence of revenue from these measures in 1996 will be more than offset by the application of the indirect tax measures for the full year and the entry into force of a number of provisions concerning direct taxes (the reduction of some allowances and measures to counter tax avoidance in the determination of corporate income).

Effects of the supplementary budget on the cash flow of the public sector
(billions of lire)

INCREASE IN REVENUE	**15,600**
Tax revenue	**14,850**
Changes in VAT rates and other VAT measures	3,650
Taxation of energy products	5,060
Change in corporate income tax rate	470
Advance payment of tax on companies' net worth	2,100
Measures to counter tax avoidance	220
Taxation of merger losses and provisions subject to deferred taxation	2,050
Condonation of motor vehicle taxes and fines relating to Intrastat declarations	1300
Social contributions	**750**
Increase in the health contributions of the self-employed	750
DECREASE IN EXPENDITURE	**5,500**
Total	**21,100**

The monetary policy objective continues to be to prevent a resurgence of inflation and foster a slowdown. Resolute action to this end, carried out in conjunction with a rigorous fiscal policy, is the only way of permanently reducing the burden of interest on the public debt, which is kept high today by the perception of the risk of losses on lira-denominated financial assets, particularly government securities.

Although the relationship between M2 and nominal GDP has generally been stable in recent years, in the final part of 1994 M2 was affected by a variety of contingent factors that altered its behaviour in the short run. In the coming months money supply growth will presumably continue to be restrained by banks' caution in encouraging deposits and their aim of increasing the proportion of funding liabilities in the form of bonds. The increase in indirect taxation recently decided by the Government and the foreseeable associated rise in consumer prices, which will be tolerated only if it does not translate into more rapid inflation, could have the opposite effect. The monetary policy stance, as expressed in the target for M2 set in October, has been confirmed, even though contingent factors may influence the behaviour of the aggregate to a greater extent than in the past.

Credit to the private sector is continuing to grow very slowly. Its behaviour appears to be related not so much to the changes in inflation and output as to the financing requirements of firms, which in the current phase of the cycle reflect the favourable state of corporate profitability. The robust expansion of investment that is forecast for 1995 could push up the rate of growth in credit to the non-state sector to around 5 per cent, a positive swing of almost 6 percentage points compared with last year. However, self-financing could increase further, which would have a dampening effect on credit growth.

The planning framework for financial flows for 1995 incorporates the target for the state sector borrowing requirement, set at 138.6 trillion lire (7.8 per cent of GDP). In accordance with this framework, the growth in financial assets should amount to around 8 per cent, one percentage point more than in 1994. Given a reduction in the Treasury borrowing requirement, the acceleration in total financial assets would primarily reflect the faster growth in credit to the private sector and the rise in the surplus on the current account of the balance of payments. The rapid growth in financial assets other than money implies greater investment by the public in government securities and other financial assets than the already large amount recorded last year. Total credit is expected to grow by about 6 per cent, as against 5 per cent in 1994 (Table 23). Compared with last year, a larger share of the aggregate should go to the private sector.

Table 23

Financial flows

(trillions of lire and percentages)

	Gross domestic product		Total credit to the state sector (1)		Total credit to the non-state sector			Total credit			Financial assets of the non-state sector (2) (3)			M2 (3)		
		% change	(A)	% of GDP (4)	(B)	% change	% of GDP (4)	(A+B)	% change	% of GDP (4)		% change	% of GDP (5)		% change	% of GDP (5)
1986 ..	899.9	11.0	110.2	12.2	47.8	10.4	5.3	157.9	14.1	17.6	149.4	16.7	121.6	52.8	10.1	61.0
1987 ..	983.8	9.3	113.8	11.6	49.1	9.8	5.0	162.9	12.8	16.6	155.9	14.3	126.9	39.4	7.2	59.8
1988 ..	1,091.8	11.0	125.3	11.5	81.1	14.7	7.4	206.4	14.4	18.9	185.0	14.8	130.9	44.8	7.6	58.0
1989 ..	1,193.5	9.3	133.4	11.2	123.6	20.0	10.4	257.0	15.8	21.5	204.1	13.9	142.0	62.7	8.4	58.3
1990 ..	1,312.1	9.9	140.6	10.7	133.3	18.0	10.2	273.9	14.5	20.9	222.5	12.9	146.3	56.7	9.6	57.3
1991 ..	1,429.5	8.9	152.2	10.6	121.7	14.0	8.5	273.9	12.7	19.2	246.1	12.8	152.5	68.1	9.1	57.4
1992 ..	1,504.3	5.2	163.2	10.8	72.5	7.3	4.8	235.8	9.7	15.7	180.5	8.3	156.7	47.6	6.0	56.3
1993 ..	1,560.1	3.7	161.0	10.3	14.4	1.3	0.9	175.3	6.4	11.2	165.7	7.0	164.8	66.7	7.9	58.6
1994 (6)	1,652.5	5.9	159.0	9.6	–7.7	–0.7	0.5	151.3	5.2	9.1	183.0	7.1	166.6	25.8	2.8	56.9

(1) Borrowing requirement net of privatizations, less settlements of past debts plus other minor items. – (2) Net of shares. Until 1988, domestic financial assets. – (3) Monthly average data; quarterly averages since 1992. The rates of increase for 1989 and 1990 have been adjusted for the effects of bank strikes. – (4) Calculated on flow data. – (5) Calculated on end-of-year stocks. – (6) The figure for GDP is the provisional estimate published in the half-yearly Isco Report.

Table 24

Financing of the state sector

(as a percentage of GDP)

	Total securities falling due (1) (A)	*of which: medium and long-term*	Borrowing requirement net of settlements (2) (B)	Gross borrowing requirement (A+B)	Balance on Treasury accounts (C)	Net financing (3) (A+B) – (C)	*of which: net of the renewal of T bills*
1990	31.0	*8.5*	10.1	41.1	0.5	40.6	*18.1*
1991	30.4	*6.9*	10.4	40.9	0.7	40.1	*16.6*
1992	30.0	*6.8*	10.6	40.5	1.1	39.5	*16.3*
1993	30.6	*5.3*	9.8	40.4	0.8	39.6	*14.3*
1994	30.4	*6.1*	9.1	39.5	–	39.4	*15.1*
1995	33.4	*10.0*	7.3	40.7	1.9	38.8	*15.4*

(1) The figures include all the Treasury bills in lire and ecus outstanding at the beginning of the year. – (2) The proceeds of privatizations are included in revenues. – (3) On the assumption that all the funds available on the Treasury's accounts with the Bank of Italy are utilized.

Government securities amounting to 33.4 per cent of GDP will have to be renewed in 1995, a figure that is 3 percentage points higher than that for last year (Table 24). However, it should be borne in mind that if privatization proceeds are taken into account, the planned borrowing requirement for 1995 is 1.8 points smaller in relation to GDP than last year. In addition, the considerable liquidity accumulated by the Treasury provides a safety margin. Excluding the balances on the Treasury's accounts with the Bank of Italy, the gross funding requirement is equal to 38.8 per cent of GDP, slightly less than in previous years. From a structural point of view, the financing of the Treasury is facilitated by the size and efficiency that the securities market has attained.

Based on information available at 24 February.

Speeches

The protection of savings

Address by the Governor, Antonio Fazio, to the Association of Italian Savings Banks on the occasion of the 70th World Savings Day

Rome, 31 October 1994

The wealth of nations is the fruit of the ability and dexterity of men.

Economic development is founded on saving and the accumulation of capital, on the ability to set aside a part of what is produced each year to increase the scope for creating greater wealth in the future.

The Italian Constitution states that "The Republic shall encourage and protect saving in all its forms; and shall regulate, coordinate and control credit activity".

The members of the Constituent Assembly had witnessed the experience of catastrophic losses of accumulated savings, with a consequent diminution in the ability to produce new resources.

The central role that the Constitution assigns to savings reflects the economic and social culture of the members of the Assembly and its Economic Committee and their appreciation of the importance of savings for the nation's prosperity.

During the Great Depression of the thirties income had declined in some major countries to an extent never since approached. In some cases industrial output had fallen by half compared with the end of the previous decade. Unemployment had increased enormously. Individual fortunes had been lost. In the forties, war brought the physical destruction of productive capital and inflation greatly reduced the value of financial wealth.

In the Depression years, bank failures and financial instability had seriously aggravated the fluctuations in economic activity. Business failures and the resulting loan defaults had triggered runs on banks; these in turn produced bank failures, which amplified and spread the crisis, domestically and internationally.

It is not mere coincidence that the year 1936 saw both the publication of the *General Theory* and the promulgation in Italy of a Banking Law that gave the monetary authorities, as in other countries, new means of control and broader powers concerning authorization to engage in credit activity, the safeguarding of stability, structural measures affecting the banking system and crisis management.

In the years of war that followed, the excessive increase in fiduciary-money circulation and massive inflation – events that had already occurred in earlier historical periods – revived the idea that it was necessary to limit exchange rate fluctuations by linking the currency to gold. It can thus be ascribed to the economic thinking of the day that our Constitution, like other Constitutions, contains no explicit reference to the determination of the value of the currency or to its stability.

But the concept is present in our Constitution. The Economic Committee of the Constituent Assembly knew well that "the protection of savings raises two problems: the first, that of preserving the value of money ...; the second, that of safeguarding deposits from bank failures".

The idea that had been dominant until then was that a currency's value was connected with the statutory fixing of its gold parity. In effect, banks of issue had always been committed to maintaining the convertibility of banknotes into gold at the predetermined rate, even if convertibility was suspended in times of war or grave difficulty.

In the period following the First World War the advisability of returning to the pre-war gold parities was widely debated. The solution chosen in many major countries was to move towards a revaluation of the currency, for reasons of prestige and a questionable notion of monetary order.

The adoption of unrealistic gold parities was one of the causes of the ensuing severe deflation. In Italy, the deflationary repercussions of fixing the exchange rate of the lira at 90 to the pound sterling (*quota 90*) were contained by cutting nominal wages by fiat. The political consequences of the Depression were a factor in the turn taken by international relations leading to the Second World War.

A monetary reading of history reveals a disturbing train of events: the Great War and its accompanying inflation, the subsequent grave economic crisis, mass unemployment, the advent of dictatorial regimes, the Second World War. History can and should be interpreted from many other points of view, but the monetary approach is certainly not without foundation.

The participation of the leading industrial countries in the Bretton Woods system preserved a link between currencies and gold – albeit indirect, via the dollar – until the end of the sixties. While for non-residents there was full convertibility of currencies into dollars, for residents the money issued by the central bank increasingly acquired a merely fiduciary nature.

In the meantime the system of payment media based on bank deposits was developing; from the economic standpoint money created by bank deposits is entirely equivalent, in terms of its effects on prices and output, to money created by central banks.

With the suspension of the dollar's convertibility in 1971 the monetary system lost its residual link with gold. The years since then have been characterized in the industrial countries by a high rate of growth in production and employment, though not matching that of the fifties and sixties, by a considerable increase in the size of government budgets and public debts, and by inflation rates well below the wartime and post-war peaks but much higher than those recorded in the preceding decades and particularly in the long era of the gold standard.

A further development has been the growth of financial assets other than money – public and private securities. It is difficult to believe that their amount has no implications for the aggregate price level.

The Constitution could not of course explicitly foresee these developments. Article 47, which is recognized by most legal scholars as having taken over the basic principles of the 1936 Banking Law, constitutes a clear point of reference for matters of monetary stability as well.

The 1936 Banking Law was designed to establish the general framework for financial activity. Over the years it served its purpose of ensuring the growth of the economy while preserving the stability of financial institutions.

In the course of time the development of markets and their greater interdependence have given rise to new needs, new instruments and new risks, both systemic and individual, in connection with the operational and geographical diversification of intermediaries.

International comparison shows that in the more advanced phases of this process the quantitative growth primarily concerns instruments other than money.

In the past few decades the monetary core, consisting of the central bank and the banking system, has tended to develop in line with the growth in the country's overall output. By contrast, non-money assets, including derivative instruments, have tended to expand more rapidly and also to play a more prominent role in international capital movements; their influence on exchange rates is growing.

The legislative changes introduced over the years have fostered the development of our financial system, while ensuring the necessary adjustment in regulations and controls, calibrating these to the different types of operator. A new framework of rules disciplining the securities market and its participants has been established; the instruments for the defence of savers and users of investment services have been strengthened.

The more extensive protection of financial stability has been recognized in Italy's new Banking Law, which came into force at the start of this year. The law also brings together the legislative changes that had built up over the years, not always in systematic fashion. It reaffirms the entrepreneurial nature of banking and freedom of entry to the credit and financial market, provided the requirements laid down in the law are met.

In adapting Italian banking legislation to the precepts of Community law, Parliament recognized the role the Bank of Italy has played and confirmed the assignment to it of the powers needed to foster the stability and efficiency of the credit system.

Supervision is carried on by verifying the compliance of all operators with rules designed to achieve these general objectives. Controls ascertain the sound and prudent management of credit institutions; they do not assess the merits of individual transactions, which, in keeping with the recognition of intermediaries' entrepreneurial nature, are made the exclusive preserve and responsibility of the intermediaries themselves.

The dictate of the Constitution on the protection of savings expresses the concept that a sound monetary and financial system is trustworthy, represents a public good and serves a general interest.

In Italy, in the other countries of the European Union and in most of the other economically advanced countries the functions of monetary policy and banking supervision are integrated to a greater or lesser extent.

The tasks of supervision are historically related to the function of lender of last resort. In the conditions prevailing in the early decades of this century the discounting granted by the central bank to overcome temporary liquidity crises could be a large proportion of a bank's deposits. There was acceptance of the principle, put forward by Thornton and reiterated by Bagehot, of unlimited discounting, albeit at penalty rates, in the event of a liquidity crisis. A thorough knowledge of banks' technical characteristics and situations was required in order to safeguard the currency.

The rise of bank money and the close, but not rigid, relationship linking credit and the money stock to the level of economic activity and prices mean that the activity of banks rightfully falls within the scope of monetary policy.

The value of bank money is ensured by the quality and stability of the loans that banks grant to the economy.

In the light of the foregoing considerations, the protection of the savings intermediated by banks takes on a new significance.

The correct allocation of credit that supervision aims to achieve leads to an efficient use of financial resources, preserves the stability of intermediaries and in return protects the value of bank deposits.

The development of instruments other than bank deposits, their importance in international capital movements and the links between the related markets and banking activity result in such instruments and markets becoming important for the defence of the value of the currency.

The rules that govern trading and operations on markets are primarily the responsibility of supervisory authorities other than the central bank. The effects of the functioning of markets on the formation and allocation of savings are of fundamental interest to monetary policy. The law takes account of these links by providing for appropriate forms of coordination.

The wealth of nations is the product of the ability and dexterity of men. But the wealth accumulated over time is increasingly embodied in assets and instruments having a monetary form.

Among the industrial countries Italy has a positive record in its considerable saving capacity. The saving of the private sector is around one quarter of national income. While firms indebtedness is in line with what is found elsewhere, Italian households are much less indebted.

A larger part of private savings than in other countries serves to finance the budget deficit.

A large public debt tends to weigh on the value of the currency and, other things being equal, to increase market interest rates.

The economies in which households, and more generally the private sector, are heavily indebted are exposed to the risk of instability and bank crises. When the debt is concentrated in the public sector, the risk of inflation is predominant.

A complete view of the role of monetary policy must necessarily embrace all the financial flows, both debit and credit, their distribution among the various sectors and their relationship to investment in productive capital, which in the final analysis is the source of increased employment and economic growth.

In this way monetary policy and the activity of the central bank link up, at the service of the nation and in loyal cooperation with its Institutions, with the more general problems of economic policy and the economy.

The future of financial regulation in the face of growing market freedom (*)

by the Deputy Director General, Tommaso Padoa-Schioppa

The year 2000 is no longer a distant date that we can contemplate in complete isolation from the present – six years are less than an economic cycle. The future is largely written in the present and the past, and we have no forecasting method that can ignore the intelligent observation of the present and past. However, we must be fully aware that the future, even the near future, is open: the events of the last six years are yet another dramatic demonstration of this fact.

Yesterday's financial universe

The financial universe that we studied and understood was relatively simple. It contained three types of contract, three types of participant and three types of supervisory authority.

If the future were certain, the specific contractual form used by financial markets to channel savings to investors would be irrelevant. But because uncertainty exists and economic agents base their decisions on incomplete and unequally distributed information, every financial transaction involves a risk. Moreover, each type of financial contract not only provides a means for the transmission of savings but also serves as an instrument for the distribution of risk.

The three contractual forms of the traditional financial universe were insurance, equity and debt. Each contract corresponds to a different way of distributing risk and the related uncertainty among the parties to the contract.

In this simple universe the three contractual forms corresponded to three categories of financial institution: insurance companies, stock exchanges and banks. Since the three basic contracts are not equally marketable, in some cases the intervention of a financial intermediary is necessary. For instance, insurance requires a financial intermediary because such contracts become profitable only if the insurer can count on a large number of policy holders. Similarly, loans (unmarketable debt) cannot be traded in an impersonal market because they are based on confidential information and assessments.

Since it is uniquely exposed to the risk of instability and crises, the financial universe is the component of the economic system in which forms of regulation and control have developed most, even in the economic systems most inclined towards *laissez-faire*. Finance, like money, does not manage itself.

Almost everywhere, the triptychs of contracts and financial institutions have historically been accompanied by three regulatory and supervisory authorities overseeing banking, securities and insurance business. Each sector was sufficiently separate from the others to be regulated and controlled with little or no coordination with the authorities presiding over the other two.

The erosion of the frontiers

For a number of years now we have been witnessing the erosion of the frontiers between the different types of contractual instrument and financial institution. The process has been driven by two forces: technological progress and market operators' search for more flexible and effective instruments for the transformation of savings.

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This erosion of the internal frontiers of finance has taken a variety of forms: the creation of more complex contractual instruments, the unbundling of some forms of risk into separate financial products, the increased marketability of financial contracts and the internationalization of capital markets. The changes have occurred in three domains: the geographic, the functional and the institutional.

It is often said that the opening of *geographical* frontiers was the consequence of government action such as the abolition of foreign exchange controls, the liberalization of capital movements and financial deregulation. This is true only in part; it is equally true that these steps were forced on the authorities by the technological progress and financial innovation that had rendered the separation of national markets largely ineffective. In addition, the development of international "off-shore" markets, such as the Euromarkets, was partly the result of the desire to avoid national regulations, such as compulsory reserves and Regulation Q in the United States. The breakdown of geographic partitions enabled operators, in turn, to circumvent those of a functional and institutional nature. It was the globalization of markets that permitted the London branch of an American commercial bank or a Japanese securities house to offer its international customers services that the parent company was not authorized to undertake in its home country. And it was technology that made it possible for a group comprising a variety of bank and non-bank intermediaries to operate under an integrated and unified management around the clock in the various financial centres and currencies of the world.

The second development has been the erosion of *institutional* frontiers. The marketability of financial products has increased enormously. It is true that marketability has never been an exclusive feature of equity: for some forms of risk the reinsurance market was essential to ensuring profitability. In the same way, marketable loans (corporate and government bonds) have always existed and the related market has grown with the help of the standards established by rating agencies. Nevertheless, the recent development of securitization has lent fresh impetus to marketability and has diverted a large part of the flow of savings away from the traditional channel of bank lending. The transformation of non-marketable assets (mortgage loans and so forth) into marketable instruments and the trading of bank loans on secondary markets created specially for the purpose (the Latin-American debt crisis) are notable examples of this tendency.

The frontiers between financial institutions have also been eroded by the trend towards distributing a variety of financial products through a single sales network. Banks selling insurance policies and pension plans, securities firms offering payment services as an adjunct to their portfolio management services, and reinsurance companies distributing mutual funds are just a few examples of the removal of institutional partitions.

The third development has been the erosion of *functional* frontiers. The combination of contractual forms, which in the past was quite limited, has become the central feature of financial innovation. Every day sees the creation of new instruments. Floating rate bonds and note issuance facilities mix insurance with debt, while convertible bonds link debt and equity. The common feature of such products is the partial protection they offer investors against unfavourable events for which no insurance market exists.

Another aspect of this functional evolution is the unbundling of financial instruments made possible by technology, where the individual components of the underlying contract are traded separately, each with its own price. Currency and interest rate swaps were the first instruments conceived in this way. More recently, financial futures, options and forward rate agreements have significantly widened the range of financial instruments with an insurance component.

The future of regulation

The breakdown of the traditional partitions in the three domains has not only increased the freedom enjoyed by markets but has also weakened the structure of traditional regulation. This was based on the coincidence between national and market frontiers, the correspondence of the three basic contractual forms to the three categories of financial operator (banks, insurance companies, stock exchanges) and the division of responsibilities among the three supervisory authorities, whose fields of action did not overlap.

Regulators have already begun to respond to the changes under way and are proceeding along lines that enable us to imagine the future of financial regulation in a world of greater market freedom.

The response to the erosion of geographic frontiers

Since the seventies the response to the removal of geographic partitions has taken the form of greater international cooperation between national supervisory authorities. In the banking and securities sectors in particular, cooperation between national supervisory bodies has made considerable progress, whereas in insurance the process has only just begun.

The Basle Committee on Banking Supervision, established in 1975 following the failure of Bankhaus Herstatt, was conceived as a body to set the rules of banking supervision at the international level. The Committee began its work by laying down the criteria for assigning responsibility in the supervision of international banks, adopting the principle of parent authority control (the 1975 Basle Concordat, revised in 1983). It has also established capital standards for credit risk, based on a formula that has been accepted in all countries.

The activities of the Basle Committee, which was initially aimed at international banks from the Group of Ten countries, were subsequently broadened to include all the banks in these countries as well as banks in other countries. The most recent biennial international conference of banking supervisors, held in Vienna in October 1994, brought together supervisory authorities from 132 countries that now operate in accordance with the methods and rules established by the Basle Committee. The common foundation is a system of minimum standards for banking supervision laid down by the Basle Committee in the wake of the BCCI crisis. In addition, countries have formed regional groups that maintain a regular dialogue with the Basle Committee and its Secretariat.

In the securities industry, the International Organization of Securities Commissions (IOSCO) is the principal forum for multilateral cooperation with more that 100 member countries.

In particular, the organization's Technical Committee, which since 1987 has brought together the supervisory authorities of the leading industrial countries, works to promote the internationalization of securities markets.

The response to the erosion of institutional frontiers

An initial response to the removal of institutional partitions was the development of supervision of banking groups on a consolidated basis rather than as individual banks. The change in focus began in the wake the Banco Ambrosiano affair with the revision of the Basle Concordat to specify the division of responsibility between the parent and host authorities and to incorporate the principle of consolidated supervision, which states that "parent banks and parent supervisory authorities monitor the risk exposure ... of the banks or banking groups for which they are responsible, as well as the adequacy of their capital, on the basis of the totality of their business wherever conducted".

A second and more recent response concerns financial conglomerates. A financial conglomerate is a group of companies under common control that offer services in at least two different sectors (banking, insurance, securities). After numerous independent studies conducted by supervisory authorities in one or another of the three sectors involved, in 1993, on the initiative of the Basle Committee, representatives from authorities in the three sectors formed the Tripartite Group to conduct a joint analysis. The group has already agreed upon a list of the major problems. These include the assignment of supervisory authority, the exchange of information, information on unregulated entities, the transparency of group structures, the double counting of capital, and intragroup exposures.

In addition to drawing up the list of major problems, the representatives of the three authorities have also agreed on a number of lines of action. First, they feel that the supervision and regulation of financial conglomerates must include a general assessment of the group as a whole while leaving individual entities as the primary focus of control. Second, they agree that supervisory authorities must have sufficient powers to exchange all the information necessary for the exercise of their functions and to ensure that a lack of transparency in group structures does not interfere with supervision.

The task of forging a framework of regulations to respond to the erosion of institutional frontiers is only just beginning. It must deal with complex technical issues, such as the calculation of capital ratios for groups and the economic and accounting rules for consolidating the accounts of businesses as different as insurance companies and banks. It must also tackle the institutional and legal problems involved in reorganizing supervisory authorities whose original mandates were conceived on the basis of a much sharper separation of the activities of financial institutions.

The response to the erosion of functional frontiers

The response to the removal of functional partitions has taken the form of an attempt to establish uniform regulations for risks of the same type, whatever the specific financial instrument generating the risk or the financial institution assuming it. Here too the adaptation of regulation is only just beginning and must grapple with complex technical, political and institutional problems.

The list of specific risks that underlie the more general danger of financial instability currently comprises credit (or counterparty) risk, market (or price) risk, legal risk and operating risk. Regulatory efforts are increasingly aimed at defining the policies and rules with which these risks must be addressed, whatever the financial instrument or financial institution involved.

The leading example of this approach is the treatment of market risk. The risk of a loss due to adverse price movements is inherent in many financial instruments and can involve a wide variety of financial institutions: shares, currencies, bonds, banks, securities firms, etc. The Basle Committee and IOSCO have long sought, so far without success, to establish a common regulatory framework for market risks for both banks and securities firms. The European Community has succeeded in this effort and has issued a directive for the uniform regulation of the two sectors. The standardization of prudential instruments so that they are applied in the same way to the same risks across institutions and instruments, is of vital importance to today's financial systems.

In the more specialized sector of derivative products, the Basle Committee and IOSCO have reached agreement and, with a joint declaration, released parallel documents based on the same principles setting out guidelines for the management of risks associated with derivative instruments by banks and securities houses.

Two challenges

Faced with the growing freedom of markets, regulatory authorities have organized their responses. The further development of their methods and organization, the lines of which have been traced in recent years, will characterize their future. This evolution faces two challenges: *the challenge of consistency* and the *challenge of respecting the market.*

As we have seen, regulatory consistency means adopting regulations that are applied uniformly to the same risks regardless of the financial instrument, financial institution or location involved. In addition to the technical difficulties of formulating prudential rules able to meet this need for uniformity, there is the institutional hurdle represented by the plurality of supervisory authorities inherited from an epoch in which markets were divided into three functional areas.

Coordination among different supervisory authorities at the national level, and to an even greater extent at the international level, has been the path taken so far in reconciling the need for uniformity with the variety of supervisory bodies. However, other solutions that go beyond coordination are slowly emerging in the effort to adapt regulation to the three-fold globalization of financial markets.

A number of countries, such as Canada and Denmark, have established a single supervisory authority with responsibility for banking, insurance and securities. In other countries, such as the United Kingdom, the supervisory authorities have been grouped according to function: traditional banking activities are monitored by the banking supervisors, while securities business is regulated by the Securities and Investment Board, a separate body that supervises these activities even when they are carried out by banks. In yet other countries supervisory specialization is organized according to objectives: in Italy, transparency and the protection of investors is the responsibility of the Consob, the stock exchange supervisor, whereas responsibility for stability (and hence capital ratios) has been assigned to the Bank of Italy, whether a bank, a securities firm or an investment fund is involved; a separate authority monitors the insurance industry. At the international level, the Tripartite Group for financial conglomerates is a first step towards full integration of the supervisory authorities for the three sectors.

Respect for markets, the second challenge, means developing an approach to regulation and control that, while recognizing the intrinsic vulnerablity of the financial system and therefore the need for control, does not hinder the operation of markets. There are two reasons for such an approach. First, the ability of markets to contribute to the efficient allocation of resources must be fully exploited. Second, modern technology offers too many instruments for avoiding supervisory control for supervisors to be able to act "against" markets. The deregulation that characterized the recent past consisted in the dismantling of most administrative controls, but also represented a change in the very nature of regulation.

Regulatory policy has increasingly sought to strengthen the effects of internal market discipline rather than limit competition. The idea that the segmentation of markets, limits on competition and a complex web of prohibitions, authorizations and requirements could ensure financial stability inspired the regulatory activity that followed the financial crises of the thirties. This approach gradually gave way to the idea that defences must be developed *within* the market rather than trying to act *against* it: regulation must stimulate the production of antibodies rather than impose or prohibit specific actions. Hence the strengthening of capital bases by means of capital ratios, the directives regarding internal control systems and the supervisory authorities' use of models developed by financial institutions themselves.

In the last twenty years, the freedom of markets has grown to the point of forcing the authorities to abandon two of the pillars erected in the thirties and forties to support the superstructure of the financial world: first, regulation based on administrative controls and limits on competition; and, secondly, the separation of national financial markets, since international capital flows consisted exclusively of official flows. The end of the Bretton Woods system marked the collapse of the second pillar and the assignment of the leading role in financial intermediation between countries to the market; the deregulation of the eighties marked the collapse of the first pillar.

The driving force behind these changes was technology, but the evolution of ideas also played an important part. This evolution is still under way and, in a global environment of peace and cooperation, it is unlikely that there will be a change of course. The year 2000 is close enough to foresee that further progress in the direction described here will have been made when we begin the new millenium.

The new legal framework of Italian banking

Speech by the Director General, Vincenzo Desario, to the Association of the OECD Economic Representatives in Rome

Rome, 16 December 1994

1. The new legal framework of banking and finance in Italy

The regulatory and market arrangements resulting from the 1936 banking reform, which contributed decisively to capital formation and Italy's economic development, were gradually transformed over the years in a context of growing international economic integration.

The turning point in the evolution of Italy's financial structures can be traced to the seventies, when severe upheaval, generating tensions in the raw materials, foreign exchange and labour markets, shook the Italian economy and created a number of inconsistencies between the rules governing finance and the needs of the real economy. Intermediaries were forced to become more selective in providing financing to firms, with the aim of fostering productivity gains and eliminating the inefficiencies that had emerged in various branches of industry.

The sequence of events is well-known: legal and banking scholarship have thoroughly investigated the transformation's preconditions, its rationale and its effects on the markets.

The transformation was marked by initiatives taken by the supervisory authorities and operators and by domestic and Community legislation, and was completed with the promulgation of the 1993 Banking Law, which defines a comprehensive and consistent framework of rules within which the financial system has greater freedom to develop its operational capacities in the service of economic growth.

The main lines of this evolutionary process can be seen to consist in the definitive confirmation of the entrepreneurial nature of banking, and in "despecialization", i.e. the elimination of the regulatory segmentation that separated the various product markets which intermediaries were allowed to enter.

An important contributory factor was the general adoption of the limited company form as the most appropriate organizational model for efficient banking. A second factor was the recognition of competition as the cardinal principle of market discipline.

The legislative preference for private-law structures and the definitive abandonment of public-law models for banking are based on an awareness that the function of a bank remains the same even if the nature of its owner changes; that any commingling of banking operations with considerations of general interest or social utility must be eliminated.

The 1936 Banking Law, which aimed essentially at safeguarding the stability of the banking system, did not explicitly mention the goal of competition. A strong boost to the affirmation of competition in the Italian banking system came from Community legislation. The transposition of the First Banking Directive in 1985 introduced the principle of freedom of access to the market, first attenuating and then substantially eliminating administrative barriers to entry and geographic segmentation.

Competition was initially set as an intermediate objective of supervisory activity, to be used to increase banks' efficiency and strengthen their ability to operate profitably. Law 287/1990 on the protection of free and fair competition and the market extended to the banking industry the same set of rules applicable to all other types of enterprise;

competitiveness thus became an autonomous objective alongside those of stability and efficiency, which had traditionally been entrusted to the supervisory authorities.

With the passage of Law 287/1990 the Bank of Italy took on the task of preventing conduct that is harmful to competition, preventing collusive or exclusionary practices and prohibiting amalgamations that abridge freedom of competition.

The 1993 Banking Law confirms this approach to competition, making it one of the main parameters that must guide the credit authorities in the exercise of their functions. The law takes the further step of ensuring an adequate level of competitiveness not only between persons engaged in the same activity, but also between the manifold institutions that provide financial services: banks and non-bank intermediaries, banks and capital markets, domestic institutions and foreign operators.

One of the most important features introduced into the Italian system is the complete implementation of the principle of "despecialization".

To begin with, the "institutional" peculiarities connected with the legal form of banks have been eliminated, confirming the preference for the limited company form repeatedly expressed in earlier legislation.

Of more specific relevance to all institutions operating in the credit and savings sector is the broad application of "operational" and "maturity" despecialization, not least because it ensures greater equality of competitive conditions within the Community. This step bestows full legitimacy, formal and otherwise, on the universal bank model, which takes its place alongside that of the banking group. The two formulas governed by the new legal framework are complementary schemes that necessarily coexist in the market. The innovation thus consists in granting intermediaries additional freedom in the choice of the organizational structure best suited to their own activities.

The 1993 Banking Law does not merely coordinate and collate earlier legislation; rather, it amends and rationalizes the rules governing the sector to take account of the overall evolution of the credit and financial markets. In harmony with Community regulations, it establishes a modern legal framework which is substantially consistent with that in other countries. It has created the conditions for the banking system to respond to the demands associated with industrial technological development, the rapid growth of trade and financial relationships, the creation of the Single European Market, the integration of international markets and the competition from new intermediaries specialized in complex and innovative businesses, technical forms and contractual instruments.

Nevertheless, there is a connecting thread between the old and the new banking laws. Like its predecessor, the new law primarily lays down general principles and assigns powers, and it preserves the previous legislation's elasticity and flexibility. However, the new legislation represents a radical departure in terms of the architecture of the system it envisages; its approach, underpinned by the values of enterprise, competition and the market, prevents banking from being bent to extraneous purposes.

By spelling out the purposes of banking supervision, the new banking law introduces a major change compared with the 1936 law, whose neutrality made it possible to use the instruments of supervision for a variety of aims (stability, economic planning, monetary policy objectives).

The institutional arrangements for supervision envisaged in the new banking law are identical to those established by its predecessor. The supervisory authorities consist of the Interministerial Committee for Credit and Savings, the Minister of the Treasury and the Bank of Italy. The three authorities' respective spheres of competence are clearly drawn.

The definitive affirmation of the technical nature of banking supervision is reflected in the central role assigned to the Bank of Italy. The Bank has a broad range of tasks: it issues supervisory regulations, adopts measures of a specific nature and exercises supervisory controls. It is responsible for publishing the most important measures adopted by the credit authorities and publishes an annual report on its supervisory activity.

2. The banking market

The new banking law confirms the notion of banking as consisting in fund-raising on a public basis combined with the granting of credit. It reaffirms that banking is an entrepreuneurial activity. Fund-raising on a public basis carried on separately from the granting of credit is restricted to banks; however, the law provides for derogations from the latter restriction in order to allow other operators access to the capital market, in accordance with the policy of enhancing the market's role in financing enterprises.

Recognition of the universal bank model is made explicit in the broader scope of banks' corporate purpose: in addition to banking, banks may engage in any other financial business and in related and instrumental activities; they may issue bonds and certificates of deposit and undertake medium and long-term financing.

The new law eliminates the previous functional specializations, which permitted only some institutions to engage in the intermediation of financial resources at medium and long term by issuing bonds and granting long-term loans to predetermined economic sectors, often at subsidized rates. Every restriction on access to the field of subsidized lending is eliminated, on the principle that all banks may grant loans at subsidized rates under agreements with government bodies.

However, nothing precludes banks from circumscribing their operations *de facto* or in their bylaws, choosing of their own free will to specialize in specific activities.

As regards the opening of branches, banks are now free to decide the structure of their branch networks. However, the Bank of Italy may prohibit a bank from establishing a new branch for reasons pertaining to the bank's technical and organizational situation.

With reference to the legal form of banks, the 1993 Banking Law retains a number of specific provisions governing banks formed as cooperatives, with the traditional distinction between two categories: *banche popolari* (cooperative banks) and *banche di credito cooperativo* (mutual banks, formerly called rural and artisans' banks).

Banks and the other financial intermediaries governed by the 1993 Banking Law are required to comply with its provisions concerning disclosure of contractual conditions. The credit authorities are charged with issuing detailed technical rules concerning public notice.

Two provisions are especially significant in the light of the law's objectives of consumer protection: the rule establishing so-called "relative nullity" and that empowering the Bank of Italy to determine whether the names used to designate certain contracts or securities are consistent with their content.

Under the "relative nullity" rule, only customers may enforce nullity of contract for infringement of the provisions on disclosure and consumer credit. In turn, the rule on the designation of contracts or securities protects consumers while ensuring certainty of legal relations, without limiting the principle of freedom of contract in any way: there is no impediment to counterparties concluding whatsoever type of contract provided they do not give it a name that the Bank of Italy has reserved for contracts or securities having a different content.

The 1993 Banking Law does not cover the entire spectrum of non-bank financial intermediation; intermediaries already subject to a regulatory framework (such as investment funds, securities firms, factoring firms, etc.) fall outside its scope.

The financial activities covered by the new law are: acquiring holdings, granting loans, providing money transmission services and trading in foreign exchange.

The model of supervision envisaged for non-bank intermediaries engaging in these activities has three levels of control. The most rigorous controls concern intermediaries most vulnerable to "systemic risk", identified on the basis of objective criteria relating to firm size and the nature of the specific activity performed. These intermediaries are entered in a register kept by the Bank of Italy and are subject to prudential regulation, reporting requirements and inspections.

The new banking law also assigns the credit authorities powers that are not strictly part of the function of prudential supervision; important developments can be expected to result from the new law's provision giving the Bank of Italy authority to issue regulations to ensure the efficiency and reliability of clearing and payment systems.

3. The supervisory function

The greater consistency between regulation and market discipline brought about by the new law is reflected in full in the basic principles governing supervision.

The discretionary authority of the credit authorities, and of the Bank of Italy in particular, to decide how to use the instruments of supervisory control is both framed and delimited by the rule that the powers of supervision must be exercised "having regard to the sound and prudent management of the persons subject to supervision, to the overall stability, efficiency and competitiveness of the financial system and to compliance with provisions concerning credit."

The Bank of Italy must establish and give prior public notice of the principles and methods of its supervisory activity. This provision of the Banking Law explicitly refers to Law 241/1990 on the transparency of administrative measures and aims at creating a more open relationship, consistent with the new set of rules, between the authorities and the market.

It is worth underscoring the explicit statement of the objective of sound and prudent management, connected with the transposition of the Second Banking Directive. This objective pertains to a microeconomic, corporate dimension, in contrast with the "macro" nature of the other aims of supervision. The concept is a complex one that warrants further discussion.

Prudent management refers to the degree of risk aversion of the persons subject to supervision; there must be rules to discourage financial intermediaries from assuming risk. Sound management refers to the need for intermediaries to operate in accordance with standards of full functional efficiency and propriety in the conduct of business.

In assessing the way a bank is managed, then, the supervisory authorities' concern with safeguarding the stability of the system will lead them to appreciate conduct reflecting allocative neutrality and aversion to risk.

The value assigned to competition implies that the supervisory authorities, in carrying out their regulatory activity and even in planning measures with respect to individual banks, must be careful to ensure substantial equality of treatment. Supervisory action, that is, must be neutral in competitive terms, in keeping with the principle that different types of institution must comply with the same rules when they offer the same products. This means the credit authorities must use instruments that are generally applicable, that are not addressed to particular institutions and that operate *ex ante*.

The focus of regulation is shifted from institutions to activities. In response to the need for a set of rules that do not conflict with competitive equality, intermediaries' right to take on risks is anchored to their compliance with capital adequacy ratios.

On the one hand, this orientation encourages the institutions subject to supervision to seek profit (and hence operational efficiency). On the other, it draws a clearer distinction between organizational and operational decisions, which are left to the discretion of the banking entrepreneur, and supervisory activity.

Supervision thus steps back from effecting controls within markets and centres its action on balance sheets, fixing ratios between the aggregates that are designed to limit exposure to the various types of risk without institutional distinctions.

The system of prudential controls can be viewed as a set of technical rules consisting of balance sheet ratios and organizational requirements that intermediaries should "naturally" satisfy in abiding by the precepts of the profession.

This means that the new rules do not sacrifice intermediaries' autonomy; on the contrary, in keeping with the recognition of the entrepreneurial nature of banking, they prefigure the conditions within which that autonomy can be practised. The supervisory authority is responsible for controlling the overall equilibrium of operations. The result is a system that supplements but does not replace the market; one that corrects its imperfections but does not alter its mechanisms and indeed protects them.

On the foundation of rules defining the limits of banks' operations in relation to their own funds, the broadest entrepreneurial autonomy is encouraged and the process of overcoming the legacy of segmentation given impetus. The relationship between finance and the real economy is more readily perceptible: the ultimate test of the validity of the new regulation of finance is whether it correctly interprets the needs of the economy case by case.

In implementing the rules of prudential supervision for capital adequacy ratios – solvency ratios and capital coverage of the risks connected with fluctuations of exchange rates and of the prices of securities held for trading – stress is laid on the responsibility of intermediaries in managing a good, capital, that tends to accentuate its characteristic as a scarce resource, influencing the selection of opportunities for corporate growth and business expansion. This has implications for banks' corporate strategies and their approach to the market.

All banks may raise funds by issuing bonds, certificates of deposit and other instruments, but capital is again the variable that defines their actual operating possibilities.

On the asset side, the new rules allow all banks the freedom to grant medium and long-term credit to borrowers other than firms, since experience has shown that this activity does not involve risks different from those inherent in short-term commercial lending. On the other hand, long-term loans to firms require a more complex assessment of creditworthiness centred on the income-producing potential of investment plans. Consequently, the rules applying to such loans differ according to banks' technical characteristics.

This approach is coordinated with the rules that govern maturity transformation by establishing minimum compulsory ratios between medium and long-term assets and the longer-term components of funding plus own funds not used as provision against non-earning assets. The new rules on shareholding also help encourage banks to undertake a more comprehensive evaluation of firms' long-run prospects, strengthening their relations with corporate customers.

The acquisition by banks of equity interests in industry, if marked by efficient use of the corporate information acquired in the process, can enable banks to monitor investee companies' problems and prevent them from degenerating into insolvencies, to facilitate the companies' financial rehabilitation, including the provision of consulting services, and to improve inadequate ownership arrangements. The risk of a bank being involved in the fate of a company in which it invests is counterbalanced by stringent limits on industrial shareholdings in terms both of the bank's own funds and of the investee company's capital.

These rules clearly reveal renewed attention to the problems of financing the economy and an awareness of the link between safeguarding the financial system's stability and improving its allocative efficiency. The practical implementation of the universal bank model enables banks to serve each borrower with a variety of product lines, to diversify corporate financial assistance, to gain better knowledge of the customer's real conditions and to assess creditworthiness more accurately and efficiently.

Closer relationships between individual banks and individual firms, which can reduce the sometimes extreme splitting of loans, allow intermediaries to verify the performance of borrowers more carefully and constantly; they enhance banks' capacity to react promptly to the first signs of a crisis and to get firms to take appropriate and timely corrective action.

4. The structural evolution of the system. Bank mergers

The general economic policy of the new legislation is, then, to facilitate the structural rationalization of the supply of financial services by recasting the relationships between firms, the market and the authorities in full accordance with the selective function of competition.

As a result of the elimination of regulatory barriers, the intensification of competition, which was already apparent in some segments of the national or international banking market, has since spread to the traditional deposit and loan markets at all geographic levels.

As is desirable, enhanced competition spurs banks to increase their efficiency and especially to realize cost savings, and provides strong incentives for mergers with other banks.

From the point of view of the authority that oversees the evolution of the banking system and is responsible for supervision, such operations are regarded with favour for a broader range of reasons: the benefits to efficiency associated with economies of scale and scope; the absorption of intermediaries not able to meet the challenge of competition; and, with the formation of larger banking groups, the enhancement of the competitiveness of the Italian banking system as a whole.

It is essential that mergers not be allowed to create an undesirable restriction of competition in the markets that they affect. This condition is not an impediment to rationalization but is rather a key parameter of the process.

In 1990, when the debate on these issues had reached a decisive turning point with the Amato-Carli Law, Governor Ciampi remarked, "In the present circumstances of the Italian banking system, a greater degree of concentration does not necessarily conflict with the need to safeguard the competitive nature of the market. ... Effective competition only exists when it takes place between undertakings of sufficient size having a high level of operational capability. The jump in size obtained through a merger, by increasing efficiency, enhances a bank's ability to set competitive prices". Governor Ciampi went on to recall that "the capital, organizational and human resources of the banking system as a whole are sufficient for its needs, but are unequally distributed among the banks. The large disparities in capital, labour productivity and profitability found within every size class and operational category of bank offer scope for seeking suitable combinations".

This analysis continues to underpin the strategic approach of the Bank of Italy. If anything, the intervening changes and the effects of the recent recession on banks' results have strengthened its lessons. Between 1991 and 1993 the pace of mergers accelerated sharply: 125 operations were carried out, compared with 75 in the previous five years. There was an increase in the average size of large banks and in their combined share of the national market. The number of bank branches rose by more that 40 per cent following the liberalization of branching in March 1990; at the same time the distribution of personnel was rationalized, so that staff numbers increased by less than 5 per cent with respect to 1989.

Amalgamations aimed primarily at securing economic advantage and greater market power, involving the acquisition of a sound intermediary or the merger of efficient banks with complementary strengths, have become more frequent. The fierceness of the contest severely tests the functioning of the new rules, especially when an attempted takeover is addressed directly to a bank's shareholders, none of whom alone is dominant, without the agreement of the bank's directors.

It is the Bank of Italy's conviction that a "target" configuration for the banking system does not and should not exist. To quote Governor Ciampi again, the Bank of Italy "does not have, and must not have, a map of the final arrangements that will emerge from the restructuring". However, this principle does not resolve all the problems associated with the exercise of the power of authorization; the difficulties also regard both the procedures and the substance of the assessments effected by the Bank of Italy.

Whatever the method adopted in carrying out an amalgamation (merger, acquisition of a controlling interest, takeover bid), the authorization process must begin with prior notification to the Bank of Italy. This must be given before formal steps have been taken and before knowledge of the proposed operation becomes public. The full impact of this phase can be grasped if one considers the complexity of the assessment to be carried out.

In its assessment of proposed mergers and acquisitions, the Bank of Italy has access to information that is not always available to the market and which is of particular importance with reference to stability. If such facts are also known to the acquiring bank, they are the first thing to be considered. Disclosure of plans before the Bank of Italy has been consulted and authorization granted could lead to uncertainty and turbulence in the markets.

The various techniques of concentration are treated as equivalents by the supervisory authorities as long as they meet the relevant conditions.

The Bank of Italy must verify the ability of the purchaser to ensure the sound and prudent management of the bank and compliance with the principle of separation between banking and commerce. If the purchaser is an Italian bank (an offer from a foreign bank requires further investigation and international consultation) the Bank of Italy must ascertain the effects of the operation on the technical and organizational situation of both the acquiring bank and the bank to be acquired; if the latter is in difficulty, the operation must provide for the solution of the problem if the acquiring bank is not to be involved in the crisis situation. Specific assessments are made with regard to competition on the basis of criteria and procedures agreed with the Competition Authority.

The criterion of equal treatment of intermediaries is specifically incorporated in the banking law. Nevertheless, a conflict with the rules governing the stock exchange has emerged; in applying the law on takeover bids it is possible that a complex operation (such as a merger) that has already been approved by the Bank of Italy might not be completed owing to the subsequent launch of a takeover bid.

The preference for the takeover bid in the stock exchange regulations gives an undue advantage to one of the two types of operation, which is not compatible with the rules of the banking market. Thus, there is still a need to consider amending the procedures in the light of experience.

The influence of Bretton Woods on European monetary integration

Contribution by the Deputy Director General, Tommaso Padoa-Schioppa, to Bretton Woods. Mélanges pour un cinquantenaire, *edited by Thierry Walrafen, Association d'économie financière, Paris, Le Monde Editions, 1994*

Introduction

International monetary history in the post-war period has been marked by the periodic emergence of a conflict between four irreconcilable objectives: free trade, free movement of capital, fixed exchange rates and independent macroeconomic policies. The four elements form an "inconsistent quartet" and any system in which they coexist is overdetermined.[1]

The influence of the Bretton Woods system on monetary integration in Europe can thus be analyzed in the light of the various solutions that have been adopted to resolve the recurrent problem of the inconsistent quartet. Three historical periods can be distinguished.

The first phase, from the late 1940s to 1971-73, comprises the years of fixed exchange rates (section 2). In this period the Bretton Woods system safeguarded international monetary stability, and it was under its protective umbrella that European economic integration was born and developed. In line with the framework adopted at Bretton Woods, in these years Europe was able to reconcile the progressive liberalization of trade with the independence of national economic policies and the stability of exchange rates by maintaining controls on capital movements.

The second phase, which lasted about twelve years, covers the period in which the inconsistent quartet was reconciled at the world level by the introduction of a system of floating exchange rates among the leading currencies. Europe pursued monetary stability at the regional level, creating the European Monetary System (sections 3 and 4). The experience gained and the lessons learned during the operation and crises of the fixed exchange rate system of Bretton Woods had a considerable impact on the design and management of the EMS, which nonetheless developed well beyond the Bretton Woods model.

The third phase, which began around the mid-eighties, saw the completion in Europe of the liberalization of the movement of factors of production and the approval, with the Maastricht Treaty, of the objective of economic and monetary union (sections 5 and 6). In drafting a Treaty that provides for the definitive renunciation of independent national monetary policies, Europe has developed a radically innovative response to the problem posed by the inconsistent quartet. This reverses the point of view of our analysis and therefore, rather than examining the influence of Bretton Woods on European monetary integration, I consider the implications that the experience and solutions developed in Europe might have for the world monetary system (section 7).

2. Bretton Woods: a framework for European integration

The economic order created at Bretton Woods, based on free trade and fixed exchange rates,[2] was a fundamental reference framework for the economic and structural policies of the European countries. The existence of a fixed exchange rate regime was an implicit cornerstone of the project for economic and monetary integration in Europe, and was considered such a natural component of the common market that it was not even mentioned in the Treaty of Rome.

Nevertheless, the Treaty of Rome contained a major innovation with respect to the Bretton Woods system: this was the objective of free movement of capital, which was considered one of the four fundamental freedoms guaranteed by the Treaty, together with the free movement of goods, services and people. In order to promote the free movement of capital, Article 67 of the Treaty of Rome states that "to the extent necessary to ensure the proper functioning of the common market, Member States shall progressively abolish between themselves all restrictions on the movement of capital".

In view of the explicit provision of the Treaty regarding the free movement of goods, services and capital, the choice was between giving up the independence of national monetary policies and abandoning fixed exchange rates.

As such a choice was inconceivable at the time, the founders of the Community sought to overcome the incompatibility between the various objectives of the inconsistent quartet by adopting the principle of coordination of national policies, so that fixed exchange rates, free capital movements and free trade could coexist. Various articles of the Treaty confirm this view. In particular, Article 145 establishes the obligation to ensure "coordination of the general economic policies of the Member States" as one of the main instruments for ensuring the attainment of the objectives of the Treaty. And the fact that, in a system of fixed exchange rates and free capital movements, economic policy had to be designed with external considerations in mind is further recognized in Article 104 of the Treaty, which states that "Each Member State shall pursue the economic policy needed to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency ...".

The Treaty of Rome is thus economically sound and conceptually consistent; in fact, until the early sixties the Community was able to reconcile fixed exchange rates with the liberalization of trade and to begin the removal of controls on capital movements,[3] by constraining national economic policies.

However, the liberalization process came to a halt as early as the mid-sixties[4] and subsequently regressed with the disappearance of the cyclical and structural conditions that had initially permitted the "spontaneous" convergence of the economic policies of the six founding members of the Community: stable, non-inflationary growth, abundant and mobile labour and low and falling energy and raw material costs.

The contradiction of the inconsistent quartet in Europe emerged when the divergences among the economic policies of the member states, provoked by internal and external shocks to their economies, made it clear that the economic policy coordination rule in the Treaty was no more than the enunciation of a principle, because the founding fathers had failed to introduce the implementing legislation and the practical instruments needed to turn it into a reality.

3. The end of Bretton Woods and the birth of the EMS

At the world level the contradictions implicit in the Bretton Woods system emerged in full at the end of the sixties.

Those years – marked by the disappointing economic performance of all the industrial countries in terms of growth, inflation and employment – saw the gradual development of financial markets that were global, mobile, unencumbered by official regulation and capable of exerting considerable pressure on exchange rates. At the same time, it became increasingly difficult to subordinate the economic policies of the leading countries, especially the United States, to the demands of the system. With the final abandonment of the fixed exchange rate regime in 1973, countries sought a solution to the inconsistent quartet by allowing the exchange rates of the main currencies to float and granting complete independence to national economic policies.

In Europe, the decline of the Bretton Woods system prompted the Community to search for a new path towards a monetary order for a variety of reasons. First, without the protective umbrella of Bretton Woods the European common market lacked an indispensable element for its proper operation. In addition, floating exchange rates exposed European currencies to the risks associated with the volatility of the dollar, with serious repercussions for European cohesion. Finally, the difficulties encountered in finding a global solution to international monetary problems in the final years of the Bretton Woods regime reinforced Europeans' preference for a more limited regional approach.[5]

Reviving an initiative launched in the early sixties by the Monnet Committee, in 1970 the heads of state and government and the Werner Committee proposed a step-by-step approach to monetary union. In April 1972 an exchange rate mechanism was established that limited fluctuations among currencies within narrower bounds than those fixed by the Bretton Woods agreements (the so-called "Snake within the tunnel"). However, plans for monetary union were virtually abandoned soon afterwards owing to the economic and monetary tensions caused by the first oil shock, and the project limited to the creation of a small Deutschemark zone.

The seventies were marked by monetary disorder and recession in Europe: inflation, unstable exchange rates, segmentation of the capital markets and a standstill in the implementation of the single market. The Bretton Woods regime had disappeared without being replaced. In these conditions, each country adopted a different mix of economic policies, giving way on one or more of the elements of the inconsistent quartet. Thus, while small open economies, such as the Benelux countries, sacrificed the independence of domestic monetary policy on the altar of stable exchange rates and the free movement of capital, anchoring their currencies to the Deutschemark, medium-sized countries, such as France and Italy, attempted to insulate domestic monetary policy and defend their exchange rates by introducing capital controls and other forms of direct control, such as credit ceilings. The United Kingdom and Ireland left the Snake shortly after its creation. Germany too made use of controls on capital inflows at the beginning of the seventies in an effort to square the circle.

It was only at the end of the seventies that the creation of the European Monetary System marked a turning point.

4. The methodology of Bretton Woods and the EMS

The lessons learned during the years of the Bretton Woods regime exerted a powerful influence on the operation of the European Monetary System.

A first major lesson concerned the problem of the decisions to be taken to ensure the proper functioning of a system of "fixed but adjustable" parities. As there is no mechanical rule that can solve this problem in all circumstances, it is necessary to decide who will exercise the discretion required. The solution adopted by the Bretton Woods regime was, as we know, the exercise of leadership by a single country, the United States, a natural choice in the economic and political environment of the times. Aware of the impossibility of this solution for Europe, the founders of the EMS avoided formally assigning the role of leader to a single country and instead adopted a "written constitution" with a more symetric design than Bretton Woods. This was true not only of the procedures for changing the parities, which call for "mutual agreement",[6] but also of other aspects of the system: the ecu, based on a basket of member country currencies, was the cornerstone of the system; central rates were set with respect to the ecu; the financing of intervention at the margin was structured as a multilateral relationship, in that the central banks are not debtors or creditors among themselves, but rather with the European Monetary Cooperation Fund, where they had deposited part of their reserves; a divergence indicator was established to identify the country (which was not necessarily that with the weakest currency) on which the burden of the adjustment should fall.

In addition to the written agreements, practice also permitted a more symmetrical operation of the system. Changes in central rates came to be a truly collective decision, with the management of exchange rates removed from the control of the individual countries and agreed at the Community level. This was a fundamentally important step that Bretton Woods had failed to take. Under Bretton Woods, changes in parities were usually made unilaterally by the country involved.

That said, it needs to be stressed that in the eighties, during the period of European disinflation, West Germany exerted considerable influence on the policies of the other member states and the Deutschemark acted as the anchor currency for the system.

A second lesson for the EMS was the awareness that, in the presence of increasingly integrated financial markets, the inconsistent quartet could only be resolved through closer coordination and convergence of national economic policies.

For this reason, and in contrast with the operation of the Bretton Woods system, changes in central rates in the EMS were generally accompanied by a significant change in the economic policies of the countries that had requested the realignment. Realignments were thus part of a broader range of measures aimed at bringing about adjustment in the underlying economies; they did not simply serve to ratify divergences in inflation rates, but were also used to induce changes in economic policy that would foster the convergence of the Community economies. In general, the size of the realignments did not fully offset inflation, both to avoid triggering dangerous rounds of competitive devaluation and to maintain an adequate incentive for the rationalization and restructuring of industry.

A third lesson learned from Bretton Woods concerned the operation of an adjustable peg exchange rate system. Until at least 1990 the European Monetary System succeeded in maintaining a satisfactory balance between the "fixity" and "adjustability" of central rates, avoiding the excessive rigidity that had led to the failure of the Bretton Woods regime. Realignments, of which there were 11 between 1979 and 1987, were always well-timed and seldom as highly politicized as the changes in parities during the Bretton Woods years.

The experience gained under the Bretton Woods system thus helped to ensure that the EMS was generally better managed than the fixed exchange rate regime that had preceded it. Thanks to the existence and good management of the EMS, the member states were able to safeguard the opening of trade in the Community in a period in which it was threatened by various factors (oil shocks, inflationary strains and a severe recession) and to strengthen both cooperation among themselves and that between central banks, fiscal policy authorities, trade unions and industrial organizations.

5. A radical solution: monetary union

In the second half of the eighties, economic and monetary integration in Europe received new impetus, sustained by the stable, non-inflationary growth of the world economy and the increasing convergence among the EMS countries. The average rate of inflation in the member countries fell from 11 per cent in 1980 to 2 per cent in 1986, while the differential between the highest and lowest rates narrowed from 16 to 6 percentage points.

With the signing of the Single European Act in 1986 the Community began the removal of capital controls and the remaining non-tariff barriers to trade, as well as the creation of a completely integrated banking and financial system. In this environment the risk of incompatibility among the elements of the inconsistent quartet increased sharply.

The problems of economic consistency posed by the Single Act were examined in a report prepared on behalf of the Commission entitled "Efficiency, Stability and Equity".[7] The report stressed that, in order for the single market project to be fully implemented and to continue to receive the support of the member countries, it was necessary both to improve the stabilization function of economic policy and to enhance the effectiveness of its distributive function by reforming and stepping up the action conducted through the Community budget.

As regards stabilization – and to re-establish consistency between the mobility of capital and the independence of monetary policies – the report examined the possiblity of switching from a fixed exchange rate system to a floating rate system. It concluded that the breakdown of the fixed rate regime in Europe, a highly integrated area with considerable unemployment, would have fueled protectionist tendencies and undermined the progress made towards an integrated European market. It therefore recommended a qualitative deepening of the EMS to guarantee the objective of monetary stability and greater coordination of economic policies.

There was in fact growing awareness during those years that the solution to the inconsistent quartet in the Community called for a radically different approach to that adopted at the world level for the Bretton Woods system. While the international monetary system had abandoned the fixed rate regime in an attempt to reconcile the growing integration of world markets and the independence of monetary policies, Europe tied national policies in order to arrive at a stable, uniform monetary standard. The different choices can be explained by the difference in conditions between a community of nations with a high degree of economic and political integration and the world community of extremely diverse states. However, it must be stressed that Europe's decision was also influenced by the unhappy developments following the abandonment of the Bretton Woods system of fixed exchange rates, an experience in which it appeared clear that in a world of capital mobility complete isolation from external influences was impossible even with a floating rate regime.

Following the debate on the implications of the single market and political initiatives such as those of the Giscard-Schmidt Committee, the process of monetary integration resumed. In June 1988 the European Council of Hannover established the "Delors Committee" to study and propose the specific stages that would lead the Community to economic and monetary union. The Delors Committee presented its report in April 1989. On the basis of its recommendations, in October 1990 the European Council of Rome agreed the fundamental points of economic and monetary union. Finally, in February 1992 the Treaty on European Union was signed at Maastricht. The Treaty enshrines the commitment to establish European monetary union once adequate economic convergence is attained and provides for a new institution to conduct monetary policy, now performed separately in each country by the national central bank.

Compared with the solution to the inconsistent quartet associated with the Bretton Woods system, the aim of unifying the management of monetary policy in Europe under a supranational institution is a radically new approach. The monetary union towards which Europe has decided to move is anything but an exchange rate regime. It is not a *rule* for deciding monetary policy, exchange rate policy or central bank operations, but rather a change of *institution*, with the creation of a system in which European monetary policy will no longer be conducted by individual countries but by a single central bank analogous to those that operate in unitary states.

6. Crisis and survival of the EMS

In the summer of 1992 the re-emergence of the conflict between the elements of the inconsistent quartet shook the Exchange Rate Mechanism of the EMS to its core.

Although considerable progress had been made in the convergence of the economies of the EMS countries since the previous realignment in 1987, significant differences remained in inflation rates and above all disequilibria in public finances. At the same time the divergences between the monetary policy objectives of the member states widened. The need for Germany to curb inflationary pressures, which were being fueled by wage growth and reconstruction in the Eastern regions, conflicted with the worsening economic conditions in the other EMS countries. The classic clash between the exchange rate constraint and domestic objectives re-emerged in a context of fully integrated financial markets following the completion of the liberalization of capital movements. These underlying factors were supplemented by the rapid switch in investor expectations regarding the ratification of the Maastricht Treaty in the wake of the referendum in Denmark. Unprecedented tensions were generated on the foreign exchange markets. Repeated rises in interest rates and massive intervention by the central banks proved unable to stabilize the markets.

Despite the five realignments carried out between September 1992 and May 1993 and the withdrawal of the pound sterling and the Italian lira from the Exchange Rate Mechanism, varying degrees of turbulence continued to buffet the European currencies throughout the first half of 1993. In August of the same year, the severe tensions on the foreign exchange markets led the authorities to widen the fluctuation band to 15 per cent. This was not intended as a change of regime – a return to floating exchange rates – and even less as an acknowledgement of any misalignment of the central rates, which in fact remained unchanged. On the contrary, the objective was to counter the destabilizing effect of the markets by recreating a "two-way risk". So far (October 1994), the bet implicit in that choice has been won: after a number of weeks of adjustment, the currencies in the ERM have rarely moved beyond the limits of the old narrow fluctuation band. The convergence of the ERM economies and their cyclical conditions, as well as the credibility accumulated over 13 years of good management of the EMS have contributed to this significant result.

The return to stable exchange rates after the crisis of 1992-1993 is an important success. However, it would be foolhardy to ignore the precariousness of this stability. The crisis in the ERM thus confirmed once again the limits of a fixed but adjustable exchange rate mechanism in the face of divergent national policies and highly integrated markets. It underscores the need to speed up, not slow down, the construction of monetary union in order to put a definitive end to the incompatibilities of the inconsistent quartet.

7. European experience and the international monetary system

It is natural to ask what the implications of monetary integration in Europe are for international monetary relations.

Since the reasoning that has applied in Europe also applies at the world level, there are two main lessons that Europe can offer to the international system. First, with highly integrated world markets for goods, services and capital, the solution of the inconsistent quartet can be sought in fixed exchange rates only to the extent that domestic monetary policies, and more generally economic policies, are truly coordinated and therefore limited in their independence. The second lesson, which is intimately linked to the first, is that the most effective way to limit the independence of domestic policies is to create supranational rules and institutions to govern the problems that transcend individual countries.

Since the time is not ripe for the transposition of the European solution (the creation of a supranational central bank) to the world level, fluctuation is bound to be a feature of the major monetary zones for the foreseeable future. That said, much can be done by acting gradually and pragmatically to apply the European lessons to certain regional situations and/or to individual aspects of economic and monetary policy.

The creation of monetary union in Europe will produce far-reaching changes in the international monetary system and will raise many questions that will fuel the debate in the coming years. With this prospect in view it will be necessary to assess the consequences of the birth of a single currency in Europe for the other major currencies and for the configuration (which will undoubtedly be tripolar) of a multicurrency system and evaluate the changes in the demand for and composition of international reserves following the monetary union of a group of countries that today holds more than a third of world reserves and accounts for nearly half of world trade. Finally, it will be interesting to see how the creation of a European central bank will alter traditional conceptions of the granting of monetary powers to a supranational institution.

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1 As early as 1972 Henry Wallich noted that this incompatibility was "a fact well known to economists but never recognized in our institutional agreements or avowed principles of national policy" (H.C. Wallich, *The Monetary Crisis of 1971. The Lessons to be Learned.* The Per Jacobsen Foundation; 1972). See also T. Padoa-Schioppa, "European capital markets between liberalization and restrictions", in *Money, Economic Policy and Europe*, Commission of the European Communities, European Perspectives series, Brussels 1985.

2 In principle this permitted the independence of domestic macroeconomic policies. According to McKinnon ("The Rules of the Game: International Money in Historical Perspective", in *Issues in International Economics*, University of Siena-CNR; 1992), the objective of avoiding constraints on national monetary policies was a prime consideration of the negotiators of the Bretton Woods agreement; in this regard, he cites Keynes, who wrote in 1943, "There should be the least possible interference with internal national policies, and the plan should not wander from the international 'terrain' ".

3 A first directive was approved in 1960 and a second in 1962, graduating the freedom of capital movements according to the different nature of the flows.

4 A draft directive for further gradual liberalization was prepared by the Commission in 1967 only to be withdrawn after 10 years of fruitless negotiations.

5 In 1972 the Governor of the Bank of Italy, Guido Carli, wrote: "On various occasions I have expressed doubts as to the feasibility of re-establishing an international monetary system based on the principle of universality; I continue to believe that the solution must be sought in the formation of large monetary areas" (The Governor's Concluding Remarks to the *Annual Report for 1971*).

6 See Resolution of the European Council of 5 December 1978, Art. 3.2.

7 T. Padoa-Schioppa *et al.*, *Efficiency, Stability and Equity*, Oxford University Press, Oxford; 1987.

Exchange rates and interest rates: recent trends and developments

Address by the Governor, Antonio Fazio, to the Conference organized by AIOTE, ASSOBAT, ATIC, FOREX

Sorrento, 21 January 1995

In a conversation with some of his collaborators at the Bank of Italy in the early seventies, Rinaldo Ossola set forth his view of the likely evolution of the international monetary system following the suspension of the dollar's convertibility in August 1971. He expected a tripolar system hinging on the dollar, the yen and the Deutsche Mark to emerge and the exchange rates of all the other currencies to revolve around these three.

The international monetary and financial system as it appears today seems to be moving towards such a configuration.

The dollar nonetheless remains a point of reference for the entire system, which is ever more tightly integrated. The European Monetary System is in good measure organized around the strong area of the Deutsche Mark; the monetary area of the yen appears less immediately important for us, but developments in the Japanese economy are becoming increasingly relevant and at times influence those in the whole system.

An analysis limited to the last decade reveals a very strong correlation between the external balance sheet of each of the three leading countries and the value of their currencies. A country's net external position is determined by its accumulated balance-of-payments outturns; it thus indicates the scale of saving in relation to the needs of investment and, hence, the economy's capacity to grow and prosper.

Under the Bretton Woods system, a deficit on current account had immediate repercussions on the exchange rate; the rules required this to be adjusted rapidly in order to correct fundamental imbalances.

The mobility of capital and the development of international financial markets have made the balance-of-payments constraint less binding. It has not vanished, however, but its effects are felt in the medium run.

The decline in the value of the dollar since the mid-eighties reflects the progressive accumulation by the US economy of net external liabilities, which amounted to around 11 per cent of GNP at the end of 1994. Between the turn of the eighties and the end of that year the dollar depreciated by more than 50 per cent against the yen and by around 20 per cent against the DM.

Over the same period the yen and the DM appreciated by respectively 120 and 30 per cent against all the main currencies, precisely in response to the accumulation of net external assets that are now equal to 16 per cent of gross product for Japan and 13 per cent for Germany.

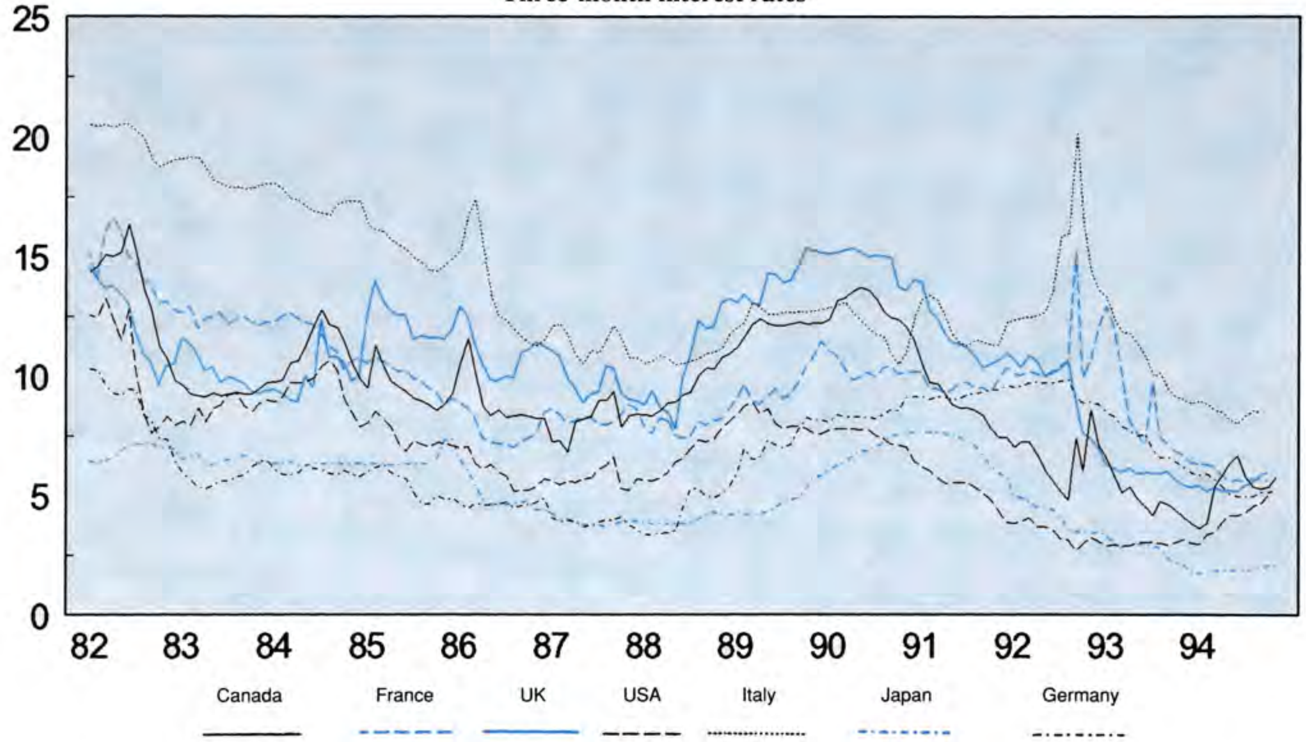
The use of the DM and the yen in international transactions is increasing steadily, but the dollar still plays a predominant role. In the mid-eighties foreign exchange transactions amounted to $200 billion a day, with 94 per cent involving dollars; in 1992 the value of such transactions had increased fivefold and the share of the dollar was still 81 per cent.

Monetary policy in the United States and interest rates

The correlation between interest rates in the leading industrial countries increased during the eighties. Short-term rates followed a generally downward trend in most countries between 1982 and 1988 (Figure 1); the reduction was considerable in Italy, where the rate fell from 20 to 10 per cent, while the medium-run fluctuations were more pronounced in the United States than elsewhere.

Figure 1

Three-month interest rates



Short-term rates reflect the situation in international markets, but, first and foremost, they reflect national cyclical conditions and the stance of national monetary policies.

After interest rates had reached a low point in 1988, an upturn originated in the United States; the rise gained pace during the two years 1988-89, with three-month rates increasing from just over 5 per cent to around 9 per cent.

Interest rates in the United Kingdom and Germany, though displaying greater variability, followed those in the United States with a slight lag, responding to monetary policy action aimed at controlling the productive cycle and inflation.

In the United States, monetary policy became more expansionary once these objectives had been achieved and interest rates started to come down again at the end of 1989. By the end of 1992 they had fallen to 3 per cent, serving the need to reflate the heavily indebted private sector (households and firms). Interest rates also reached a low point in Japan in 1993. Overall, the level of interest rates in 1993 was one of the lowest on record. It should be noted, however, that the eighties had been characterized by high nominal and real rates, reflecting the renewed role of monetary policy in controlling inflation. In the United States interest rates lower than those recorded in 1993 only obtained in the years of easy money policy immediately after the Second World War.

The international correlation between interest rates was more evident for long-term securities in both the rising and the declining phases (Figure 2).

The dispersion of long-term rates was even smaller in real terms (Figure 3). The increasing international mobility of resources fosters the convergence of real rates, not least through large-scale arbitrage between investments in different economies.

The strong correlation between long-term interest rates across countries loosens the relationship within each economy between short-term rates, which are controlled by monetary policy, and long-term ones.

Figure 2

Ten-year interest rates

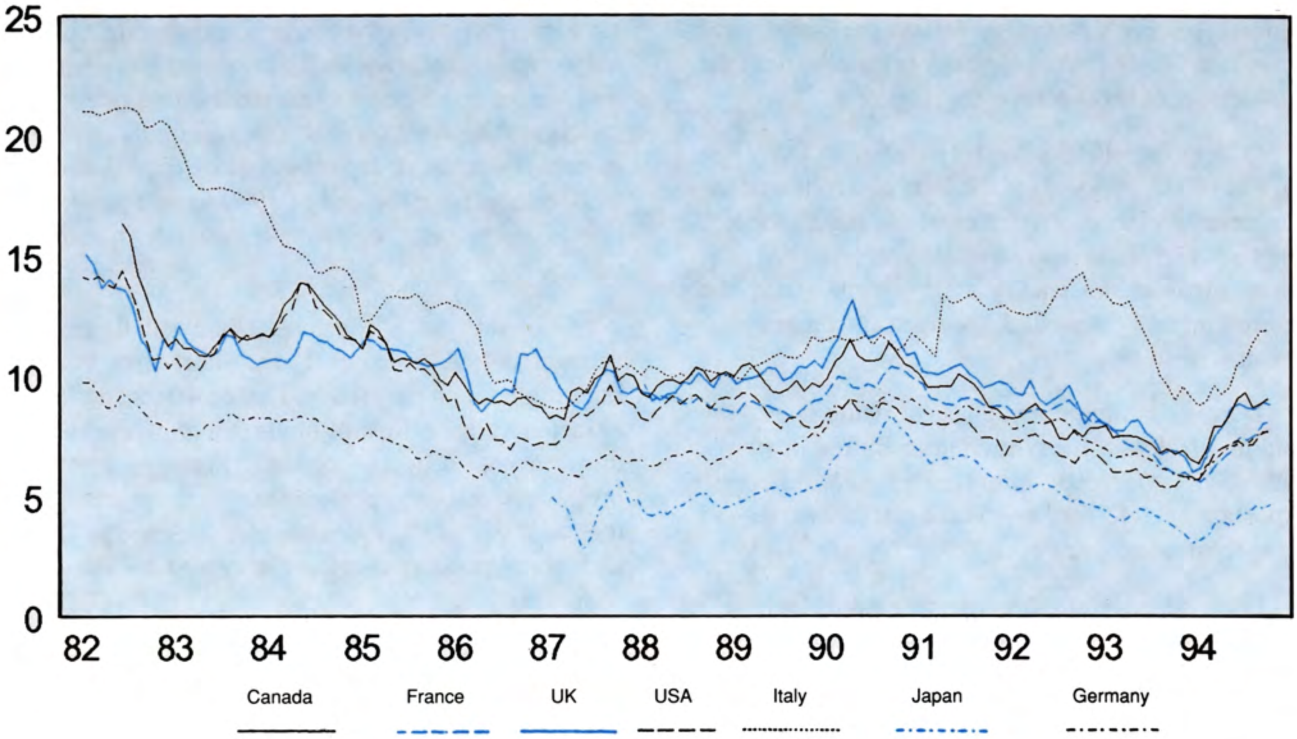
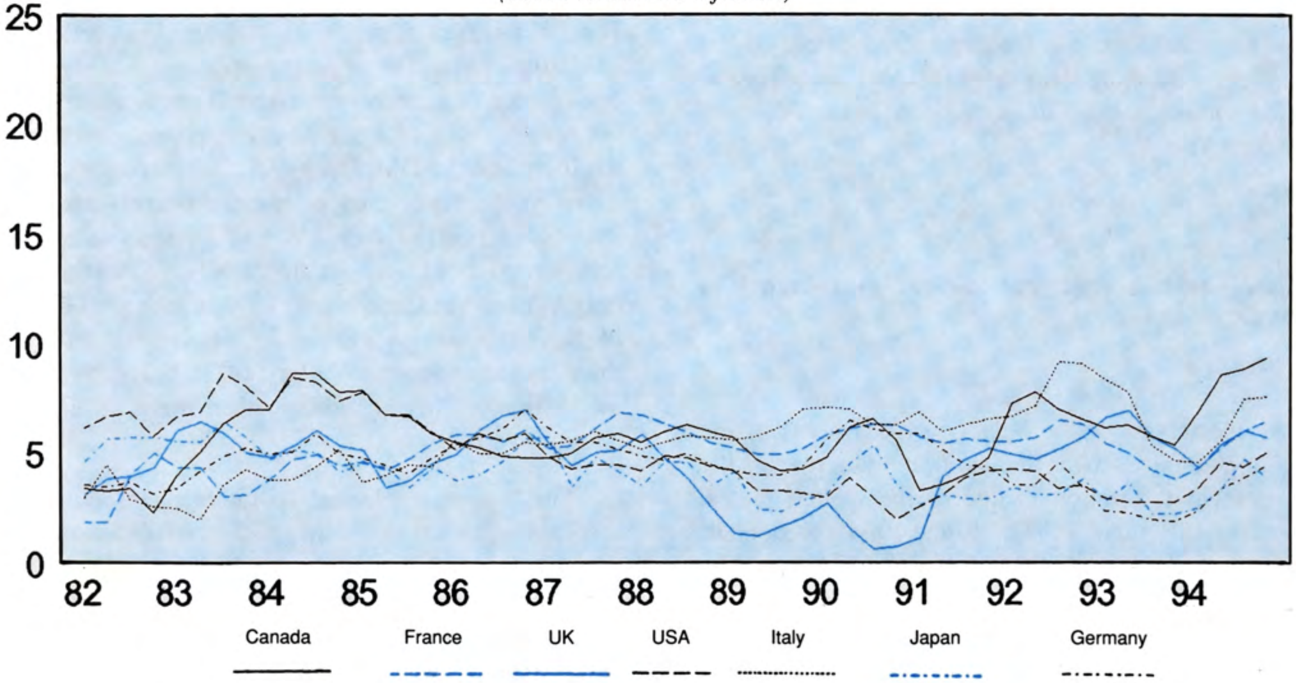


Figure 3

Long-term real interest rates (1)
(based on current inflation)



(1) Estimates for the last quarter of 1994.

In the United States, the behaviour of the whole term structure of interest rates was dominated by the Federal Reserve's monetary policy: the dollar yield curve as a whole shifted virtually in parallel with the movements of short-term rates (Figure 4).

During the phase of rapidly declining rates – at the end of 1991 – yields at the long end followed the movements of short-term rates with a lag; as the low point of the phase was gradually approached, the curve regained a steadily rising slope, with the shortest maturity at around 3 per cent and the ten-year rate at around 6 per cent.

During the subsequent phase of rising rates – the autumn of 1994 – the entire curve shifted upwards, with a very steep initial segment, reflecting expectations of further, imminent increases in short-term rates.

In the other leading countries, including Germany and France, whose markets could have been expected to enjoy considerable independence with respect to the international situation, long-term rates were influenced by the impulses originating in the United States, while short-term rates responded to the orientations of national monetary policy.

Yield curves therefore had a downward slope on several occasions; the frequency and extent of the variations in short-term rates differed according to price and exchange rate conditions in each country (Figure 5).

Payments balances and capital movements in 1993-94

An analysis of the balance of payments of the leading countries over the last four years reveals the constant deterioration in that of the United States. Between the end of 1991 and June 1994, the stock of dollars available to the rest of the world increased by around $160 billion. The relatively low level of interest rates until the end of 1993 stimulated capital outflows in the form of direct and portfolio investment (Table 1).

Japan's surplus on current account was larger than the US current account deficit from 1991 on. Low interest rates in the yen area and abundant credit led to capital outflows, including direct and portfolio investment corresponding to around one quarter of the current account surplus. The yen funds available to non-residents at Japanese banks diminished by $250 billion from the end of 1990 to mid-1994; this helped strengthen the Japanese currency during the period.

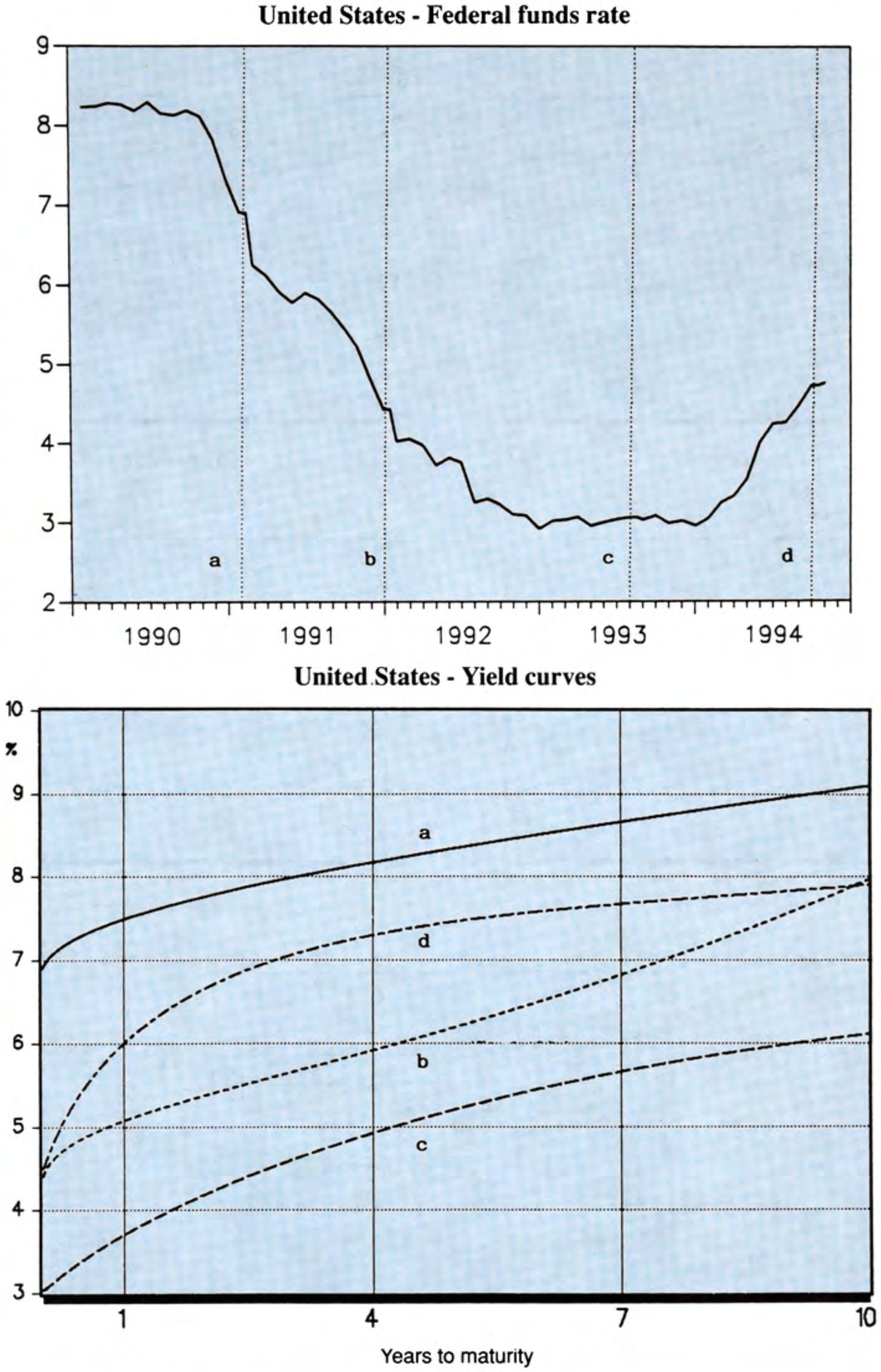
Germany ran a constant, albeit small, current account deficit from 1991 on. Short-term interest rates higher than those in the United States and Japan attracted a large inflow of funds that more than offset the current account deficit. Foreign portfolio investment rapidly pushed up bond prices until the turn of 1994; the direction of capital flows and bond price movements reversed as the year continued.

In the period under review interest and exchange rate movements in the three monetary areas were therefore related to the evolution of the balance of payments and monetary policy in the three leading countries.

This approach also holds broadly for France. Foreign portfolio investment in the early nineties, a basically balanced current account and the equilibrium of France's net external position ensured the maintenance of a stable exchange rate between the franc and the DM. Long-term interest rates came down in the first years of the period in question, moving in parallel with US and German rates; in real terms they were particularly high, exceeded only by those in Canada and Italy among the Group of Seven countries (Table 2). High real interest rates and the rigorous policy of stability resulted in difficulty in absorbing the high level of unemployment.

The approach adopted so far provides only an incomplete and at times insufficient explanation for other countries; this is especially true where the economy's overall efficiency and income distribution show serious shortcomings, notably in connection with fiscal imbalances and the existence of large pockets of structural unemployment.

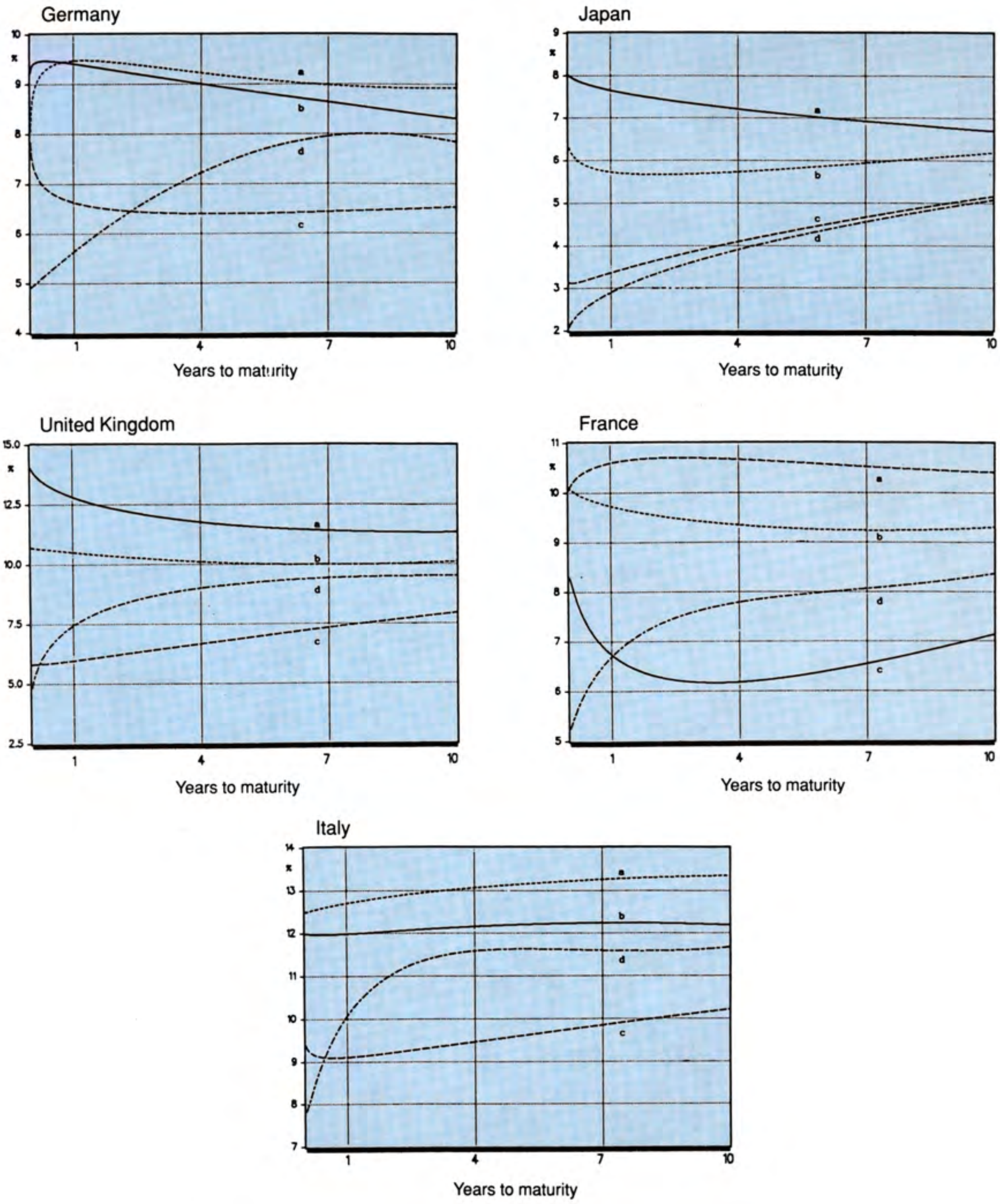
Figure 4



a) 11.1.1991; b) 10.121991; c) 9.7.1993; d) 21.9.1994.

Figure 5

Yield curves



a) 11.1.1991 (for Germany 29.1.1991); b) 10.12.1991; c) 9.7.1993; d) 21.9.1994.

Italy's balance of payments and the exchange rate of the lira

I dwelt on Italy's foreign exchange position in my address to the meeting of the Italian Forex Club in Salsomaggiore in October 1993.

Subsequently, the rise in long-term interest rates that was then just beginning in the United States involved Italy as well, albeit with some delay.

In line with developments in the other European countries, we endeavoured – with a considerable degree of success – to bring about a further reduction in the cost of money and yields at short term. A last cut in official rates was made in May 1994.

Italian long-term rates had remained stable until then and the differentials with respect to the leading countries had reached new lows.

The current account of the balance of payments continued to show a large surplus throughout 1994.

Foreign portfolio investment, which had contributed a capital inflow of $70 billion in 1993, saw a reversal of trend in the early months of 1994; from March to October foreign disinvestment amounted to $30 billion. In the final two months of the year a new inflow of capital was recorded notwithstanding the considerable uncertainty surrounding the situation in Italy. Foreign portfolio investment in Italy was largely financed in lire. These inflows were undoubtedly determined by depressed securities prices and yields that were excessive in the light of economic fundamentals.

In 1994 as a whole, the financial markets were highly sensitive to political developments in Italy.

From the spring on, the demand for foreign currency in Italy regularly exceeded the supply deriving from the current account surplus. The result was a continuous weakening of the lira, in perfect synchrony with the rise in the yields on long-term securities and the consequent widening of the yield diffential vis-à-vis the other markets.

As regards exchange rates, it should be recalled that the Deutsche Mark had depreciated by around 6 per cent against the dollar in 1993, whereas in 1994 the dollar/DM exchange rate fell from 1.75 DM to the dollar in January to around 1.56 at the end of the year, with the German currency showing an appreciation of 12 per cent.

The value of the Deutsche Mark vis-à-vis the lira rose from 975 in January to 1,050 in December, an appreciation of 8 per cent, which, however, came on top of a 7 per cent rise the previous year. The old rule that weaker currencies fluctuate midway between the dollar and the DM came to hold again (Figure 6).

During the initial phase of the dollar's decline, which lasted until March 1994, the lira had nonetheless remained stable against the Deutsche Mark; it appreciated in early April and held steady until mid-May. From then on the Italian currency depreciated considerably, albeit with wide fluctuations. The nominal effective exchange rate of the lira fell by 7 per cent in the period in question. The performance of sterling was similar to that of the lira: the pound stood at 2,540 lire in January and 2,546 in December.

It is worth noting the perfect correlation between movements in the lira/DM exchange rate and the yield differential between Italian ten-year Treasury bonds and comparable German securities; the correlation was very close, not only from May on but also in the first part of the year (Figure 7).

These developments reflected the evolution of the main items of Italy's balance of payments during 1994.

In 1993 Italy recorded a current account surplus of 18 trillion lire. The final surplus in 1994 should exceed 25 trillion (Table 3).

In last year's Annual Report of the Bank of Italy I discussed the sizable repayments of foreign currency bank loans effected by Italian firms in 1993; these repayments led to a practically identical reduction in the banking system's net external liabilities. I identified these flows as the immediate cause of the depreciation of the lira in 1993.

In 1994, Italian firms' repayments of foreign borrowings were mainly related to medium and long-term loans and amounted to around 15 trillion lire.

Figure 6

Exchange rates of the dollar vis-à-vis the lira and the DM (1994)

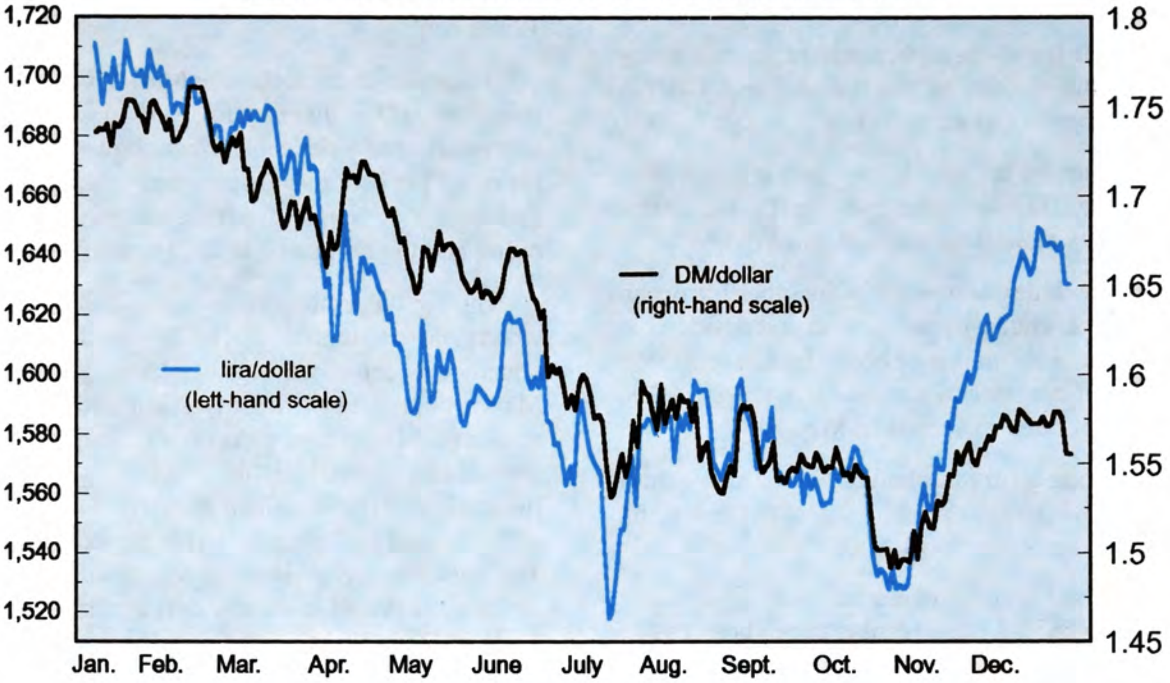
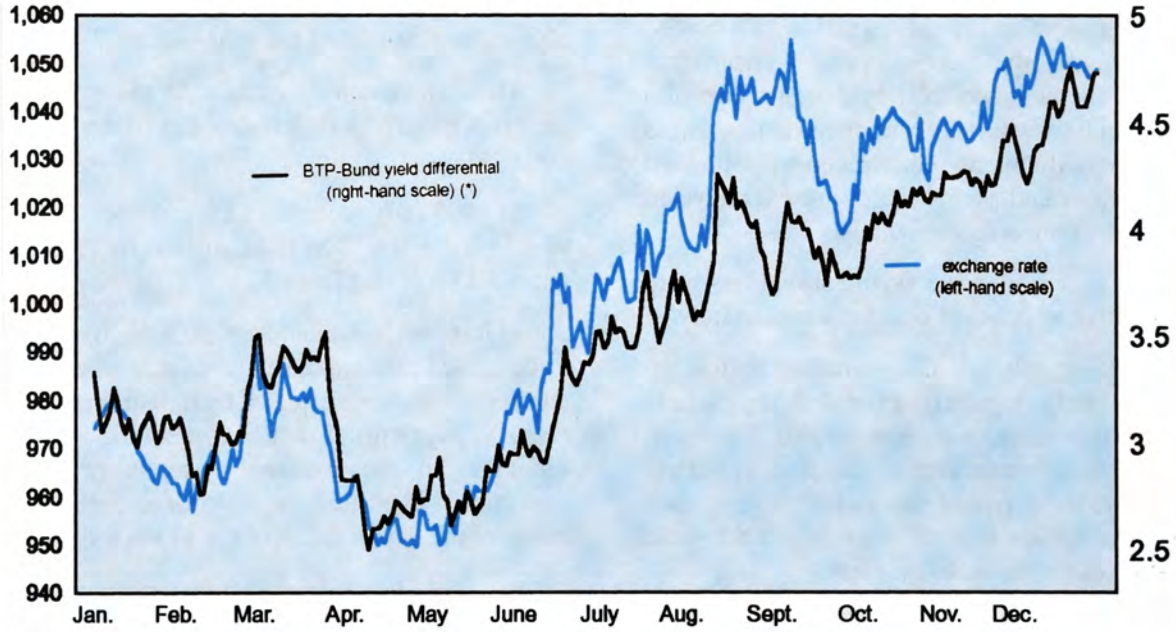


Figure 7

Exchange rate of the lira vis-à-vis the DM and the long-term interest rate differential vis-à-vis Germany (1994)



(*) The BTP yield is gross of withholding tax.

The repayments effected in 1993 were consistent with efforts to reach a more balanced overall foreign exchange position. Up to August 1992 Italian firms' short-term external debts in foreign currency had increased via the banking system. To an extent this had helped to keep the exchange rate high. The subsequent closing of these debtor positions, though resulting from the return of the current account to surplus, caused the exchange rate to drop closer to the equilibrium level.

In 1993 the foreign exchange outflow attributable primarily to savers other than firms for purposes of portfolio investment amounted to 15 trillion lire and occurred mostly through authorized intermediaries; account must also be taken of other foreign currency outflows of nearly 30 trillion lire, due in part to payment leads and lags. Last year the outflows of foreign exchange for portfolio investment abroad were larger, on the order of 22 trillion.

The component that shows a marked difference between the two years and that appears to have had a more direct impact on the exchange rate and securities prices is foreign portfolio investment. This gave rise to a net inflow of 127 trillion lire in 1993, one of 26 trillion in the first two months of 1994, a net outflow of 30 trillion between March and October, and a net inflow again in November and December.

These investment flows did not all result in changes in the supply of foreign exchange in Italy since a large part was financed by Italian banks with short-term credit in lire, but they nonetheless generated wide fluctuations in the exchange rate and securities prices over the short as well as the longer run, fluctuations that were amplified by forward and derivatives transactions. The flows in question were the cause of the close correlation between the exchange rate and the yield differential between Italian and foreign securities.

As I mentioned earlier, these large portfolio shifts reflected international capital movements linked to the fluctuation of interest rates in the dollar area. Such transactions are classified as portfolio investment, but they are really of a short-term nature comparable to movements of hot money. In past decades such flows primarily concerned bank deposits; in the current operational setting such massive transactions find better support in the deep, organized and liquid bond markets, both spot and forward.

Italy's financial position

I observed at the start of my talk that the net external positions of the three leading countries were among the fundamental determinants of the value of their currencies.

The overall external position of Italy has improved markedly in the last two years thanks to the balance-of-payments surplus on current account. Nevertheless, the country continues to have net external liabilities, estimated at about 130 trillion lire at the end of 1994. The variation in the net position over time reflects the balance-of-payments performance, but as a large part of the assets and liabilities are denominated in foreign currencies, it is also affected by changes in the exchange rate (Table 4).

At the end of 1992 Italy had net external liabilities of 175 trillion lire, or 11.6 per cent of GDP. By the end of 1994 this had improved to 7.9 per cent of GDP.

The overall negative balance, however, is the resultant of different positions for the various macrosectors of the economy, each of which responds to a different set of factors as regards the demand for and supply of foreign currency.

The net external liabilities of the public sector rose from 92 trillion lire at the end of 1992 to 210 trillion at the end of 1994 as the result of non-residents' increased holdings of Italian government securities, denominated both in lire and in foreign currency. Insofar as government paper is also sold to non-residents, the size of their holdings (which is in any case small in comparison with the total public debt) does not necessarily put pressure on the exchange rate.

At the end of 1994 the central bank had net external assets of about 60 trillion lire in gold and foreign exchange, excluding the portion held in the form of currency swaps.

At the same time Italian banks accepting short-term funds had net external assets of 29 trillion lire, consisting mostly of their foreign exchange positions and "synthetic lire". The shift from a position of rough balance in the course of 1992 to this substantial net asset position contributed to the pressure on the lira in the foreign exchange markets.

The banks accepting medium and long-term funds have net external liabilities of between 60 and 70 trillion lire, matched by medium-term foreign currency loans to Italian firms.

This, then, is the position of the financial intermediaries and institutional sectors whose activity has been aimed chiefly at managing foreign currency supply and demand and facilitating the placement of government securities.

The sectors that have had the most dynamic influence on the exchange rate over the last two years, and whose behaviour still appears to be evolving rapidly, are households, i.e. savers, and non-financial enterprises.

The stock of Italian households' foreign investment, including that made through investment funds, has grown rapidly, rising from 66 trillion lire at the end of 1990 to 123 trillion at the end of 1993 and to around 130 trillion at the end of last year. The expansion seems likely to continue this year as well, in response to the need for portfolio diversification. This demand for foreign assets means a steady exchange of lire for foreign currencies.

Non-financial enterprises reduced their net external debtor position in 1993 by paying back bank loans in foreign currency. In 1994 their net position showed a further improvement. As I mentioned earlier, the reimbursement of loans taken out abroad directly by firms was substantial, amounting to 14 trillion lire during the year.

Above all, the net external position of "other" firms and non-household private operators has improved notably following portfolio diversification through the acquisition of assets denominated in foreign currency. The upward movement has been much sharper for this group than for households and savers who used investment funds and other intermediaries.

Overall, the net external position of the non-banking private sector improved by almost 70 trillion lire in 1993 and by another 76 trillion in 1994.

The demand of these operators for foreign exchange far exceeded the balance-of-payments surplus on current account. It is to this fundamental movement that the longer-term downward trend of the effective exchange rate must be ascribed.

The motive for this behaviour has been the desire to diversify portfolio assets, but in the second half of 1994 it was primarily due to expectations of higher returns on foreign currency investments than on lira-denominated assets. In the end, the disparity is measured by the differential between Italian interest rates and those of other countries.

Yield differentials between investments in lire and comparable assets denominated in dollars, Deutsche Marks and French francs that range from 400 to 500 basis points, net of an almost negligible risk on capital account, can be explained in terms of expectations about the exchange rate and the variability of securities prices and the exchange rate itself. The close correlation between securities prices and exchange rate movements heightens the risk of short-term investments and widens the yield differential.

In the longer term the exchange rate is affected by inflation differentials. Especially in the short term an important role is played by general, non-economic factors, partly irrational ones, that influence exchange rate expectations and agents' behaviour in the allocation of savings.

The financial assets of the private sector have increased steadily thanks to the accumulation of savings by households. In the past two years the profit and loss accounts of firms have improved considerably owing to the stability of the cost of labour and the upturn in output and sales.

Italy's net external liabilities have been reduced from 11.6 per cent of GDP at the end of 1992 to 7.9 per cent last December.

This improvement needs to continue in the years to come. Hopes in this regard have been bolstered by the forecast of another balance-of-payments surplus on current account this year. Maintaining this surplus in subsequent years must be a priority objective for economic policy.

The tendency of households and firms to increase the share of their investments in foreign assets has also had an adverse impact, in conditions of widespread uncertainty, on productive investment in Italy.

A simulation using the Bank of Italy's econometric model has found that investment in plant and equipment is substantially lower than would have been expected on the basis of trends in output and corporate profits.

The same factors of uncertainty that led to the acceleration of financial investment abroad have probably also deterred entrepreneurs from expanding capacity, pending an improvement in the outlook.

The contraction of employment that has involved all the countries of the European Union in the last two years has been especially severe in Italy, where the situation is particularly serious in the southern regions.

The resolution of the difficulties and the reversal of the adverse tendencies I have described must be sought first and foremost in an adjustment of the overall state of the economy that will further narrow the inflation differential with the other industrial countries.

Fiscal policy must be unambiguously set to keep the external account in surplus, thus fostering the recovery of the exchange rate from its present depressed level, which is not necessary for Italian firms' competitiveness.

Supplementary budget measures, totaling at least one per cent of GDP, to bring the public sector deficit definitely within the limits set by the Economic and Financial Planning Document, as the Government intends; a functional link between this package and the budget for 1996, above all through revenue measures, a start on tax reform and improved governmental efficiency; and the structural adjustment of the pension system: these are necessary, but also sufficient, steps to steer the Italian economy back on to a path of stable, sustained growth.

This clear orientation will have a beneficial effect on financial markets, thus strengthening the lira, lowering interest rates and reducing the public sector borrowing requirement.

The monetary policy stance remains restrictive. The money and credit aggregates expanded very modestly in 1994 in nominal terms; in real terms there was a contraction. It would be a serious mistake in the present circumstances to foster the growth of credit and the money supply with the aim of lowering short-term interest rates. Such action would soon have repercussions on prices, the exchange rate and interest rates themselves, subsequently necessitating more drastic restrictions that would damage the economic recovery.

It is inevitable and in many ways desirable that the financial system should continue to participate in the international opening of the Italian economy.

For this to occur in an orderly fashion, there will have to be economic policy action to curb further growth of the component of private wealth consisting of public sector debt.

The composition of financial assets is unbalanced owing to the excessive weight of government paper, but the total amount of debt within the system is moderate. Both the indebtedness of the various sectors and total financial assets are lower than in the other industrial countries, principally because of the low level of household debt, coupled with a tendency during the last two years for corporate debt to decline.

Italy's financial stability is accordingly great, thanks among other things to the solid capital base of the banking system.

The interest rate and exchange rate movements registered during the second half of 1994, the weakness of investment and the contraction of employment do not reflect the underlying strength of the productive system, the robustness of the real economy and the moderate trend of domestic costs.

There is scope for a substantial appreciation of the lira and a narrowing of today's large medium-term interest rate differentials. The macroeconomic conditions also exist for a revival in private investment that would permit a new phase of employment expansion.

The high yields demanded by investors on Italian government securities are based on unwarranted expectations of a depreciation of the lira. The price competitiveness of Italian products, seen in the light of the good performance of domestic costs and the improvement in firms' profit margins, is unparalleled in recent decades. The firms that expanded their productive capacity during the previous, difficult cyclical phase are now reaping the full benefit in the form of large export sales.

In the context of the present political debate, a middle ground must be found between conflicting positions and interests that will permit the economic emergency to be tackled rationally.

Attitudes must converge on a reasoned approach that, by restoring sound public finances, will make it possible to transform the cyclical recovery into a new period of sustained growth.

This is in the interest not only of all the parties involved in the debate but also of each and every citizen; above all of those, including a high proportion of young people, faced with the difficulty of obtaining an active and productive role in civil society.

The Bank of Italy is aware of the need for the debate to remain within limits that are respectful of the roles, duties and perogatives of state institutions. This is also necessary in order to avoid giving foreign observers cause for unjustified opinions as regards the Italian political and social system that threaten to have a further damaging effect on the economy.

Table 1

Balance of payments of leading industrial countries

(not seasonally adjusted; billions of dollars)

	Cuurent account	Capital movements					Errors & omissions	Net official position (3)	
		Direct investment	Portfolio investment (1)	Bank capital (2)	Other	Total			*of which: official reserves*
					United States (4)				
1990	–91.8	18.0	–29.7	12.2	21.5	22.0	39.9	–29.9	*2.2*
1991	–6.9	–5.2	9.2	8.8	12.1	24.8	–38.7	–21.8	*–5.8*
1992	–67.9	–31.1	21.6	37.8	14.5	42.8	–17.1	–42.2	*–3.9*
1993	–103.9	–36.5	–15.1	50.7	15.0	14.2	21.1	–68.6	*1.4*
1994 – 1st quarter ..	–32.3	–12.8	5.9	34.0	7.4	34.4	–14.5	–12.4	*0.1*
2nd quarter ..	–37.0	–3.9	–6.7	40.0	–0.3	29.0	–3.5	–11.5	*–3.5*
					Japan				
1990	35.8	–46.3	–5.0	–13.6	29.2	–35.8	–20.9	–20.9	*–7.8*
1991	72.9	–29.4	41.0	–93.5	–0.3	–82.2	–7.8	–17.1	*–8.1*
1992	117.6	–14.5	–26.2	–73.0	5.2	–108.5	–10.5	–1.4	*–0.3*
1993	131.4	–13.6	–62.8	–15.0	–16.4	–107.7	–0.3	23.5	*26.9*
1994 – 1st quarter ..	35.0	–5.2	54.0	–81.9	–6.5	–39.7	10.8	6.1	*6.1*
2nd quarter ..	33.4	–3.8	–31.6	12.7	–3.6	–26.3	–13.3	–6.2	*9.7*
					Germany				
1990	46.3	–20.9	–2.0	–12.9	–18.5	–54.4	15.0	6.9	*7.3*
1991	–19.0	–18.7	21.8	6.6	1.2	10.9	8.1	0.0	*–6.0*
1992	–22.2	–15.4	39.4	49.2	–5.8	67.4	1.6	46.8	*36.5*
1993	–19.9	–11.8	119.1	–53.8	–41.5	12.0	–15.4	–23.4	*–15.5*
1994 – 1st quarter ..	–6.6	–3.6	–14.5	46.6	–8.9	19.7	–12.4	0.7	*0.0*
2nd quarter ..	–3.1	–4.6	–13.6	21.0	7.7	10.4	–4.4	2.8	*2.3*
					France				
1990	–10.0	–17.9	34.8	26.7	–24.2	19.3	1.5	10.8	*10.0*
1991	–6.7	–9.1	14.0	3.1	–12.2	–4.2	5.0	–5.8	*–5.0*
1992	3.9	–3.3	33.2	–53.4	–4.1	–27.6	2.2	–21.5	*2.5*
1993	10.3	–0.1	4.0	–53.8	34.1	–15.8	2.8	–2.6	*–4.5*
1994 – 1st quarter ..	3.9	–0.3	–18.6	39.0	–4.1	16.0	–6.4	11.8	*0.3*
2nd quarter ..	0.6	0.2	–17.0	9.9	3.0	–3.8	4.1	1.6	*1.0*

Sources: National bulletins.

(1) For Japan, Germany and France, only long-term investment. – (2) For Japan, only short-term movements. – (3) Adjusted for exchange rate variations. Rounding may cause discrepancies between this item and the sum of the others. – (4) Seasonally adjusted.

Table 2

Real long-term interest rates (1)

	1982	1983	1984	1985	1986	1987	Average 82-88	1988	1989	1990	1991	1992	1993	1994	Average 88-94
United States .	6.4	7.6	7.8	6.8	5.7	4.6	6.5	4.6	3.5	3.0	3.5	3.9	2.8	4.0	3.7
Japan	5.5	5.9	4.8	4.2	4.6	4.6	4.9	4.1	3.0	4.2	3.0	3.4	2.8	3.7	3.5
Germany	3.5	4.4	5.3	4.6	6.1	5.6	4.9	4.8	4.1	6.0	5.0	3.8	2.1	3.5	4.2
United Kingdom	4.0	5.9	5.5	4.3	6.2	5.1	5.2	4.3	1.7	1.5	3.9	5.2	6.2	5.4	4.0
France	3.3	3.8	4.5	4.8	5.9	6.0	4.7	6.2	5.1	6.2	5.6	6.1	4.7	5.6	5.6
Canada	3.1	5.6	8.0	6.8	5.1	5.3	5.7	6.0	4.7	5.8	3.9	7.2	5.9	8.5	6.0
Italy	3.2	3.1	4.3	4.1	5.3	5.6	4.3	5.6	6.1	6.7	6.5	8.0	6.6	6.3	6.5
G-7 (2)	5.1	6.1	6.3	5.6	5.5	4.8	5.6	4.7	3.6	4.0	4.0	4.5	3.6	4.6	4.1

(1) Based on current inflation. – (2) Weighted average. The weights correspond to average GDP in the period 1988-1990 converted into common currency at PPP exchange rates.

Table 3

Italian balance of payments

(billions of lire; January 1993 - December 1994)

	1993	1994											1994
		Jan. Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct. (1)	Nov. (1)	Dec. (1)	
A. Overall balance	2,206	6,436	-2,246	-202	2,170	-1,038	3,312	-3,211	-1,127	-5,929	-2,497	7,494	3,162
B. Current account (1).....	17,985	641	1,482	1,936	1,766	1,881	3,710	3,423	1,556	738	-2,023	4,298	19,408
C. Capital movements	12,863	3,131	-4,250	-21	-1,473	-5,552	-3,569	-2,228	-833	-6,667	-474	3,196	-18,740
C.1.1. Bank capital	-83,196	-7,016	6,331	6,258	3,533	8,286	8,166	116	6,126	-609	-6,876	-4,560	19,755
of which:													
– banks accepting short-term funds	-80,282	-2,449	5,068	8,342	4,024	5,715	11,237	746	6,858	-427	-7,146	-4,412	27,556
– other	-2,914	-4,567	1,263	-2,084	-491	2,571	-3,071	-630	-732	-182	270	-148	-7,801
C.1.2. Non-bank capital ..	96,059	10,147	-10,581	-6,279	-5,006	-13,838	-11,735	-2,344	-6,959	-6,058	6,402	7,756	-38,495
of which:													
– Italian capital:													
a) portfolio investment	-15,099	-13,015	-5,165	2,865	-1,815	633	-3,271	-1,378	-2,145	-294	-76	-1,880	-25,541
b) loans	-5,076	-2,262	-1,462	-2,629	-407	-387	-1,402	-265	-1,288	-52	-3,745	1,806	-12,093
– Foreign capital													
a) portfolio investment	126,855	26,520	-928	-5,952	-3,246	-11,141	-587	-4,188	-1,075	-2,587	10,273	10,084	17,173
b) loans	607	-2,807	-1,476	-1,627	-109	-820	-1,934	1,000	-2,387	-3,385	-315	-1,010	-14,870
D) Errors & omissions (1) .	-28,642	2,664	522	-2,117	1,877	2,633	3,171	-4,406	-1,850	–	–	–	2,494

Source: Ufficio Italiano Cambi, Balance of Payments.

(1) Errors and omissions and trade credits are included in the current account balance from October 1994 on.

	1993	1994											1994 Jan. Sept.
		Jan. Feb.	Mar.	Apr	May	June	July	Aug.	Sept.	Oct.	Nov	Dec.	
Merchandise trade (UIC)	51,106	6,521	5,150	4,396	4,554	5,005	7,495	4,882	4,109	–	–	–	42,112
Merchandise trade(ISTAT) – Non-EU	32,789	3,232	3,149	2,733	2,808	3,263	6,105	3,276	2,061	3,113	–	–	30,100

Table 4

Net external position of Italian residents: adjusted data (1)

(end-of-period stocks; in trillions of lire)

	State sector	Central bank	Banks			Non-bank private sector						Grand total
			accepting short-term funds	accepting medium & long-term funds	Total	House-holds and investment funds	Non-financial enterprises: short-term	Non-financial enterprises: medium-long term	Non-financial enterprises: Total	Other enterprises, errors & omissions	Total	
	1	2	3	4	3+4=5	6	7	8	7+8=9	10	6+9+10=11	1+2+5+11
1990	–57	103	–2	–57	–59	66	–124	–10	–134	–16	–84	–97
1991	–75	94	–12	–70	–82	85	–144	–7	–151	5	–60	–123
1992	–92	35	33	–66	–33	99	–197	–9	–206	22	–85	–175
1993	–194	50	82	–73	9	123	–168	–27	–195	57	–15	–150
1994	–210	59	29	–69	–40	....	....	....	....	....	61	–130

(1) The data on Italy's overall net position and that of the banks are taken from the balance-of-payments accounts. The data for the other items are taken from the financial accounts (February 1995). The item "other enterprises, errors & omissions" includes the statistical discrepancy between the two systems of accounts. The net assets of the central bank and the net liabilities of the banks accepting short-term funds exclude currency swaps. The net liabilities of the banks exclude the liabilities corresponding to domestic claims in foreign currency, which are included directly as liabilities of "non-financial enterprises".

Address by the Director General, Vincenzo Desario,

to the Nemetria Conference on "Organizational Structures and Personnel Management: the Change under way in Banks"

Torgiano (Perugia), 10 February 1995

Introduction

I thank the Nemetria Training Centre for inviting me to take part in this conference on a subject that is at the centre of the banking community's attention. The interesting findings reported by the representatives of the banking, business and academic worlds call for a deeper reflection on how banks' organizational and employment policies have responded to changing market conditions.

For more than a quarter of a century, starting from postwar reconstruction, the model embedded in the 1936 Banking Law contributed effectively to the allocation of the financial resources required by a growing economy. It strengthened the fiduciary relationship between the saving public and banks and enabled the latter to provide firms with the funds that were essential for capital formation.

However, during the crises triggered by the oil and wage shocks of the seventies the banking system was slow to adjust to the new macroeconomic conditions. There emerged a need for greater selectivity in financing firms and for a more effective contribution by the financial system to the reallocation of resources made necessary by the sudden shifts in the relative prices of products and factors of production.

This need provided the stimulus for the reforming drive that developed in the eighties and culminated in the 1993 Banking Law.

The key feature of the reform was the enhancement of the entrepreneurial role of banks within a new framework of regulated competition.

Prompted by changes in legislation, supervisory instruments and monetary policy techniques, and stimulated by growing competition, intermediaries initiated a process of far-reaching transformation in the eighties that is now reaching its climax.

The new banking law brings together principles that Italian supervisory rules and regulations had introduced even before the rapid harmonization of legislation within the Community: competition in the credit and financial markets; despecialization of credit institutions; substantial equality of treatment of intermediaries; preference for incorporation under private law; separation between banking and industry; provision for the multifunctional group structure; full recognition of universal banking; and, accordingly, freedom to adopt any organizational model, from the specialized intermediary to the multi-product enterprise to the banking group.

The stress on the entrepreneurial nature of banking and banks' freedom to choose their organizational model is matched by the law's emphasis on sound and prudent management.

The complex trade-off between competition and stability reinforces the role of supervision in fostering competition while preventing the erosion of confidence between banks and savers due to the difficulties of individual institutions.

Supervision is based on instruments of a strictly prudential nature designed not to encroach upon the autonomy of banks' managements. These instruments are clearly defined in advance and of general application, so that their impact on competition is neutral; they also conform to the principle that different institutions supplying identical products should be subject to the same regulatory regime.

The function assigned to capital as a reference parameter for the acquisition of risk compels banks to look for profitable opportunities in the market and to adopt productive structures conducive to self-financing.

1. The reorganization of the banking system

During the eighties banks focused mainly on the composition of their balance sheets, following the removal of the administrative restrictions on credit expansion that had been in force for about a decade and in response to the Treasury's competition for funds. Subsequently, the transformation of the banking system was extended to intermediaries' ownership and organizational structures.

New fund-raising instruments have become widespread: certificates of deposit, first issued in 1983, represent 30 per cent of total bank deposits today. By lengthening the maturities offered, the banks have achieved a greater stability of deposits: two thirds of the certificates of deposit have a maturity of at least 18 months. Customer business has been expanded through securities repurchase agreements, which now amount to more than 10 per cent of total deposits. The system has responded to households' portfolio diversification requirements by supplying portfolio management services and forming companies to manage different types of investment fund.

The profits banks earn from securities trading have increased considerably: though showing pronounced fluctuations, in the last few years they have amounted on average to more than 0.5 per cent of total assets and 11 per cent of gross income.

Despite the moderate growth in deposits, the banking system is increasingly committed to financing households and firms: the ratio of commercial banks' lira loans to their total deposits rose from 50 per cent in the early eighties to 75 per cent in 1992; subsequently, during the most severe phase of the recession, the ratio fell to 73 per cent.

The structural transformation of the Italian banking system was given fresh impetus by the Amato-Carli Law. This allowed credit institutions in the public sector to be incorporated as limited companies, thus creating the conditions for their privatization. The Law also allowed mergers between institutions belonging to different legal categories that had not previously been permitted. And, with specific reference to supervision, it introduced a complete set of rules governing banking groups.

Previously, mergers between banks had mainly involved small institutions and served primarily to resolve banking crises. Mergers have now taken on a new significance owing both to the size of the institutions involved and to the market-based policies inspiring such operations.

Between 1990 and 1994 there were 143 mergers, compared with 76 in the previous five years; the merged banks' share of the total volume of banking business (loans plus deposits) was 16 per cent, compared with 4 per cent in the previous five years. Between 1985 and 1994 the number of commercial banks (excluding small cooperative banks) diminished by almost 90, or by 22 per cent. The restructuring was even more intense among the former special credit institutions, whose number fell from 92 to less than 40.

In the last two years Credito Italiano and Banca Commerciale Italiana have been privatized. A start has been made on the privatization of IMI, which should be completed during the current year.

The enhanced mobility of bank ownership that privatizations bring has also been achieved through takeover bids.

Mergers and acquisitions tend to create banking enterprises that are able to achieve economies of scale and scope. They often involve the rationalization of the network for the distribution of banking services and can raise the competitiveness of the Italian banking system. For these reasons the Bank of Italy is in favour of operations of this type. The new banking law in fact directs the Bank to perform its supervisory functions having regard to the sound and prudent management of intermediaries and the overall efficiency, competitiveness and stability of the financial system.

Whatever the method adopted to carry out a plan of concentration (merger, acquisition of a controlling interest through direct negotiations, takeover bid or public offer to sell), authorization for the operation by the Bank of Italy can only be based on an analysis of all the aspects just mentioned and on verification of compliance with the principle of separation between banking and industry. In addition, it is the specific responsibility of the Bank to ensure an adequate level of competition in the credit sector, a task it performs on the basis of procedures and criteria agreed with the Competition Authority.

The Bank of Italy's assessment is sometimes based on information that is not available to the market and seeks to determine the effects of the operation on the technical and organizational situation of both the acquiring bank and the bank to be acquired; if the latter is in difficulty, the operation must provide for a solution of the problem.

The technique chosen by the parties makes no difference as long as it meets the conditions mentioned above. In accordance with the provisions of the law on the acquisition of shareholdings, which have to be authorized in advance by the Bank of Italy, supervisory regulations establish that even in the case of a takeover bid the procedure must begin with a notification before the proposal is made public. Disclosure of the information before the supervisory authority has been consulted and the required authorization granted could lead to turbulence in the markets, with repercussions on orderly trading.

Italy's banking law, which makes competition one of the crucial conditions for supervisory action, adopts the criterion of equal treatment of intermediaries. This, however, is not fully consistent with the rules governing the stock exchange.

In fact, the law on takeover bids may result in a complex, multi-phase operation (such as a merger) which has already been approved by the Bank of Italy and is thus under way not being completed owing to the subsequent authorization of a takeover bid.

The takeover bid mechanism prevents the authorization of the merger from producing effects. This blatantly contradicts the criterion of equal treatment of intermediaries; the freedom of the shareholders of the "target" company to choose between the two competing options is limited. The law's "preference" for the takeover bid creates an undue advantage, which does not seem compatible with the rules governing the banking market. For this and various other reasons the need to amend the rules and procedures in the light of experience is inescapable.

Change in the structure of bank ownership is likely to gather momentum in the coming years. Under the directive issued by the Minister of the Treasury on 18 November to implement Law 474/1994, the "foundations" resulting from the reorganization of banks in the public sector will be able to diversify their assets so that less than 50 per cent of their capital is invested in shares of the company to which they have conferred their banking activity or more than 50 per cent of their expenditure for institutional purposes covered by income other than that deriving from their shareholding in the bank. However, the credit authorities remain committed to preventing the spread of bank ownership from leading to the formation of dominant positions, which reduce the level of competition in the market.

The evolution of the banking system has also been spurred by the liberalization of branching. The presence of banks throughout the nation has become more widespread: between 1990 and 1994 almost 7,000 branches were opened, an increase of 44 per cent; banking services were brought for the first time to more than 550 municipalities.

The expansion of the branch network has been achieved through business policies that are innovative for the Italian system but already widely used abroad. It has been based primarily on mini-branches staffed by an average of 5 employees, compared with 15 at the older branches.

By transferring employees from their head offices to their branches and from the larger branches to the new ones, the banks were able to keep the growth in their number of staff to less than 1 per cent a year in 1990-94, in line with the figure for the previous five years. Some banks – mainly larger ones – recorded a decline in their number of employees.

Thanks to the selection of dynamic areas and middle-sized cities as locations for the new branches, these investments have become profitable relatively quickly. According to estimates by the Bank of Italy, the branches opened since the liberalization have, on average, broken even during their second year of activity and been profitable from the third year on. However, it may take longer for new branches to become profitable in the future.

2. Current economic conditions and structural rigidities

The reorganization of the banking system has taken place in the last two years in an unfavourable setting. In particular, 1994 was marked by a substantial decline in profitability.

In the first half of the year, gross income contracted by 8 per cent whereas operating profit fell by 24 per cent, despite the limited rise in operating costs; the first-half results depleted banks' own funds by more than 750 billion lire.

In the second half the banking sector appears likely to have remained close to break-even. The effects of the widening of the spread between lending and deposit rates were countered by the stagnation in lending and the fall in securities prices. The renewal of the labour contract for non-managerial staff raised operating costs. Furthermore, the amounts written off loans remained conspicuous on account of the lag with which the problems of borrower firms affected banks.

Increases in lending rates, such as those implemented from mid-year onwards in conditions of slack demand for credit, helped to cover losses on loans and revaluation deficits on securities. In the future, however, they could hinder the growth of business and expose Italian banks to competition from foreign intermediaries and the financial markets.

The recovery of economic activity will eventually lead to an increase in the demand for loans, though probably with a longer lag than in the past. Moreover, conditions in the securities market should become easier. This could lead banks to believe that the causes of their problems were disappearing and that they were superable only by resorting to the strategies widely adopted in the eighties of increasing the supply of loans and the capital gains earned on securities trading.

This conviction could prove risky for the great majority of banks, especially those whose capital base has already been weakened by poor results. If the banks chose to put off investments and measures of rationalization with long pay-back periods, they would undoubtedly improve their short-run profitability, but at the price of making themselves less competitive, more exposed to external events and, in the long run, less able to remain in the market.

Performance in 1995 threatens to be basically similar to that of the second half of last year. Lending may pick up after two years of stagnation, but it is not certain that the share of loans in banks' balance sheets will increase. Operating costs, which will be unchanged in the short run, will continue to squeeze earnings and self-financing; the expansion of banks' capital resources is likely to consist mainly of external funds.

Notwithstanding the results of the last few years, the Italian banking system's capital base remains solid in absolute terms and by international comparison. At the end of 1993 the banks' capital exceeded the minimum requirement by a total of around 50 trillion lire. Capital adequacy was unevenly distributed, however: the undercapitalization of some banks, including large ones, limits their scope for expanding their loan portfolios. At the same date the shortfalls in respect of capital requirements amounted to about 1 trillion lire.

The recession contributed to the fall in banks' profits, but the recovery will not necessarily lead to a resumption of the pattern of development that marked the eighties.

The greater intensity of competition in the banking sector, together with the increasingly close links with financial markets, will exert considerable pressure on bank rates. The differential between the average return on loans and the cost of funds in lire has been narrowing since the beginning of the eighties, from more than 13 percentage points in 1981 to less than 7 points on average in 1994. It does not appear possible to compensate for this decline through balance sheet restructuring on a scale similar to that of the past decade.

3. The operational challenges

It is when conditions in the economy make the outlook for income uncertain that the factors weighing on intermediaries' operations emerge most clearly. It is the task of those who are entrusted with banks' destinies to tackle them in good time.

International comparison shows that the contribution of services to Italian banks' profits is small. To increase it, banks will have to take a more dynamic approach aimed at identifying customers' present and potential requirements and adapting the product range accordingly.

Recent research has confirmed that the supply of relatively advanced savings management services has also allowed some banks to increase their market shares for traditional products.

Presumably banks could follow a similar strategy for corporate services, by assisting medium-sized firms to raise funds on capital markets when this would allow them to grow, enabling small firms to achieve a better balance among their sources of finance, and helping firms of all sizes to reallocate ownership.

Operating costs, and especially staff costs, have remained basically unchanged in relation to total assets over the last two decades.

Italian banks' very large investments in information technology do not appear to have been fully integrated in their procedures, which are still much more labour intensive than in the main banking systems abroad.

There also appears to be further scope for rationalizing branch networks, in line with the steps already taken by leading European banks. These tend to concentrate their back office activities in regional branch offices, their head office or a separate head office unit, and to market their products via structures that are commensurate with the number and requirements of customers, be they households or large, medium-sized or small firms.

It appears possible in this way to make fuller use of the considerable operational opportunities offered by computerized equipment, which is used much more widely abroad than in Italy.

It is undeniable that "rigid" production structures make banks vulnerable to cyclical downturns and are not suited to fostering economic recovery when this takes a different form from the past.

But the term "flexibility", so recurrent in writings on the theory of the firm, is not unambiguous. At the present time, marked by major legislative and market innovations, it means the ability to position the bank rapidly on the frontier of the new operational opportunities in a way that will allow the bank to compete with foreign banks and other intermediaries and foster a lasting expansion of the volume of business.

Opportunities are opening up for Italian banks, or at least for some of them, to engage in activities related to the working of the financial markets, such as assisting firms to issue new debt instruments, acquiring equity interests in industrial firms to facilitate their stock exchange flotation, and supplying products serving to hedge market risks.

The use of such financial products is also growing in Italy since they provide a valid means of hedging foreign exchange and interest rate risks. They also constitute a risk, however, unless they are fully understood and appropriate internal procedures and controls are put in place.

This is a field in which there is strong competition from foreign intermediaries in view of the considerable expertise they have acquired. In the case of derivatives, for example, their share of the Italian market is growing and now stands at around one third of the notional value of the contracts concluded.

Today's regulatory framework for banking is designed to facilitate the supply of financial services to the economy by redefining banks' relationships with households, firms, markets and the authorities in total conformity with the principles of business and banking ethics, operational transparency and fairness, legality and the selective role of competition. In this context one is reminded of the timeless warning by Luigi Einaudi that "banks are made to serve the public and not vice versa", where the public certainly refers to both households and firms.

Banking requires the establishment of a constructive relationship with households and firms if it is to contribute to harmonious and balanced growth of the economy, which in turn will serve to foster the growth of banks themselves.

Market selection calls for managerial qualities and business policies that will enable banks to supply financial services and products that fully satisfy the economy in terms of quality and cost.

The success of banks will depend more than in the past on the skill of their managers. A decisive factor will be the ability to establish mutually consistent objectives and organizational structures, identify the best combinations of the factors of production and ensure a flexible response to the demands of the market.

The organizational model a bank adopts is closely linked to its strategic goals; the choice of products, markets and geographical configuration must be consistent and compatible with the organizational model selected, especially as regards the bank's structures, the attribution of decision-making powers and the transmission of information.

Capital plays a key role among the variables subject to the management decisions of a bank; it sets the limit on the risks the bank plans to take on or, in other words, the activities it wishes to engage in and the development programmes it intends to implement.

Establishing a bank's objectives implies in the first place identifying the customer categories to aim at and the products that will be of use to them. The speed of technological change and the scale of the investments needed for the in-house production of certain services may mean that smaller banks would do better not to produce them but to reach agreements to market the products of larger banks. The same line of reasoning applies to the sale of insurance policies, a field in which there is scope for the banking system to enlarge its range of operations, as has happened in other financial and banking systems.

Establishing the bank's objectives also implies defining its geographical area of operation. Italian banks have traditionally tended to concentrate their branch networks within a relatively small area. With reference to the main areas into which Italy can be divided, 75 per cent of all branches are in the same area as the bank's head office. The recent rise in the number of branches has only brought a small increase in the geographical spread of banks' networks. Yet, a study carried out by the Bank of Italy has shown that there are also good profit opportunities to be grasped outside the traditional locations.

The bank's organizational structure is then chosen in the light of the foregoing decisions. The choice between a specialized and a broad product range and that between the universal bank model and the banking group model are left to the bank. At all events the bank's structures and procedures have to be completely reliable.

The more streamlined the organizational structure, the simpler the methods and procedures, and the fewer the hierarchical levels, the better the bank is able to respond to changes in the market. Participation by employees in the bank's objectives makes the corporate machine easier to run. By constantly monitoring trends, comparing results with objectives and analyzing divergences, the bank obtains an indication of the corrective action needed. Strategic control ensures that the structure of the bank is always consistent with its business policies.

Regardless of the organizational solution adopted, the success or failure of a bank's operational policies ultimately depends on the quality of the workforce.

It is widely believed that working for a bank provides secure and well-paid employment that requires limited ability, especially at the lower levels of the hierarchy, and offers little gratification. This stereotyped view does not correspond to the new entrepreneurial conduct of banking business and will become less and less true. Establishing and maintaining satisfactory relationships with the public – relationships that the development of markets and the growth in financial activities make more complex every day – calls for staff with a high level of professional competence and motivation.

The increasing complexity of financial relationships means that bank employees will have to go beyond traditional tasks and banking techniques. They will be required to guide customers through the whole range of products and services and direct them to the point in the organization able to prepare a package that will fully meet their requirements. In addition, they will need to broaden the analysis of creditworthiness to include the integrity and proper conduct of business of existing and prospective customers. This will be necessary to prevent the bank from supporting illegal activities, which damage the country's economic and social fabric by hindering the development of healthy initiatives.

The excessive number of hierarchical levels and the extreme fragmentation of tasks are a serious impediment to the evolutionary process under way. A more consistent approach would be to allocate staff to areas that are homogeneous in terms of job content and customer category, thereby increasing the mobility and interchangeability of employees and enhancing their competence.

Contacts with customers organized along these lines would enhance the importance of the communication skills of bank staff, who are responsible for establishing and maintaining a solid relationship with the public based on mutual trust.

It is essential that customers should be able to dialogue with employees who are both competent and motivated. But this requirement is not served by a pay system based largely on length of service and automatic mechanisms that leads employees to feel that their prospects are not tied to those of the bank they work for.

It is certainly encouraging that the banking system and trade unions have recognized and tackled this problem, and that the recent labour contract for non-managerial staff shows signs of change. The conditions have been created for the transition to a form of organization based on professional areas and salary levels, and the number of length-of-service increases has been reduced for newly hired staff.

The structure of earnings is likely to change further with the spread of supplementary pensions, which are normally one of the distinctive features of banks' treatment of their employees. The reform of state pensions is directed towards reducing the benefits guaranteed under pay-as-you-go systems. It is to be hoped that the legislation serving to complete and render effective the project outlined in Legislative Decree 124/1993 will establish conditions conducive to the growth and development of supplementary pensions as well as rigorous measures to guarantee the financial equilibrium of pension funds. At the same time the protection of vested rights will have to be reconciled with the need for an equitable distribution of the cost burden, so as to ensure intergenerational solidarity.

The innovations introduced by the new contract for non-managerial staff will take some time to produce their full effects in terms of workforce flexibility and operating costs. They nonetheless represent a major opportunity that will need to be reflected in banks' organizational structures.

It will be necessary to redefine the distribution of tasks, the delegation of powers and internal control systems. Banks will have to invest heavily in staff training: it will be up to their managers to arrange this, looking beyond the costs it will entail in the short run. These costs need to be seen as investments with a deferred return, bearing in mind that the success of an enterprise depends ultimately on its human capital, independently of the pace of structural, technological, financial and market innovation. The lower rate at which staff are now being hired and the average age of non-managerial staff of around forty mean that today's employees will be banks' main resource for many years to come and fully justify such investment. For the same reasons it is in the interest of bank workers to see training as the key to their advancement.

Conclusions

Measures to improve the structure of banks' profit and loss accounts such as those discussed here appear to be Hobson's choice. It is inconceivable that banks' profitability should continue to rely so much on the interest rate spread.

The severity of the last recession, coming after years during which the growth in lending had regularly outpaced that in the real variables, demonstrated once more that even wide interest margins can be nullified by the subsequent deterioration in loan quality, especially when the assessment of creditworthiness fails to take due account of customers' income prospects and credit risk is not sufficiently diversified.

The profession of banker is more challenging today than it was in the past; initiative and decision-making ability, flexible procedures and market strategies will be necessary if the banking industry is to make the greatest possible contribution to the growth and development of the economy.

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)*				
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	1.3	0.9	1.2	–0.5	0.7	0.6
1993	3.1	–0.2	–2.3	–0.9	2.1	–0.7	2.2
1994	(4.0)	....	....	....	....	....	....
1993 – 3rd qtr.	0.7	0.1	0.5	0.2	0.8	–0.7	0.3
4th "	1.5	–0.7	–1.1	0.1	0.7	1.2	0.9
1994 – 1st qtr.	0.8	0.7	0.8	0.8	1.1	0.3	1.1
2nd "	1.0	0.3	1.5	1.1	1.5	1.1	1.6
3rd "	1.0	0.8	0.5	0.8	0.7	1.0	1.1
4th "	(1.1)	....	....	....	....	....	....
			GNP deflator *(% changes on previous period; seasonally adjusted data)*				
1989	4.6	1.8	2.4	3.0	7.1	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	1.5	4.4	2.3	4.3	4.5	1.4
1993	2.2	0.9	3.2	2.3	3.4	4.4	1.1
1994	(2.1)	....	....	....	....	....	....
1993 – 3rd qtr.	0.2	0.6	..	0.2	0.5	1.1	0.2
4th "	0.3	..	0.6	0.2	0.8	0.5	0.5
1994 – 1st qtr.	0.7	0.2	0.8	0.5	0.3	0.8	–0.2
2nd "	0.7	..	0.5	0.2	0.2	1.1	–0.1
3rd "	0.5	–0.7	0.1	....	0.8	0.8	0.6
4th "	(0.4)	....	....	....	....	....	....
			Current account balance *(billions of dollars; seasonally adjusted data)*				
1989	–102.8	57.2	57.5	–4.7	–36.9	–11.9	–22.7
1990	–91.8	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	–19.4	10.3	–16.8	11.2	–23.9
1994	....	129.3	....	....	....	....	....
1993 – 3rd qtr.	–27.9	34.0	–6.9	3.9	–3.1	1.8	–5.6
4th "	–30.6	31.0	–8.8	3.5	–3.0	5.7	–6.1
1994 – 1st qtr.	–32.3	33.8	–6.8	3.9	–2.2	4.5	–5.6
2nd "	–37.9	33.8	–4.6	1.0	–1.7	2.7	–5.5
3rd "	–41.7	32.1	–12.1	2.8	1.3	3.4	–3.7
4th "	....	29.3	....	....	....	....	....

Table a2

Industrial production

(percentage changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1989	1.5	5.8	4.7	3.7	2.2	3.9	–0.1
1990	..	4.1	5.2	1.5	–0.3	–0.5	–3.3
1991	–1.7	1.8	3.0	0.3	–3.9	–0.9	–4.1
1992	3.3	–6.1	–1.9	..	–0.4	–1.3	0.9
1993	4.1	–4.5	–7.3	–2.8	2.4	–2.1	4.9
1994	5.3	0.8	(3.3)	....	(5.3)	....	6.1
1992 – 4th qtr.	1.5	–2.8	–4.3	–1.5	0.6	–0.1	1.3
1993 – 1st qtr.	1.3	0.3	–2.8	–0.9	..	1.1	2.1
2nd "	0.2	–1.1	–0.4	–0.7	0.5	–2.4	0.9
3rd "	0.8	–1.0	0.5	0.2	1.3	0.5	0.9
4th "	1.3	–2.4	–0.2	..	1.3	0.7	1.0
1994 – 1st qtr.	1.7	1.5	–0.1	0.8	1.1	0.8	0.7
2nd "	1.5	1.0	3.2	2.7	2.1	4.0	3.3
3rd "	1.2	1.7	1.1	1.8	1.4	2.4	2.2
4th "	1.3	1.6	(1.8)	....	(0.6)	....	1.2
1994 – Jan.	..	0.3	–1.7	0.6	1.1	–1.4	0.4
Feb.	0.8	–0.4	1.8	0.1	0.5	3.2	–0.3
Mar.	0.9	4.6	0.5	0.4	–0.5	–0.6	1.5
Apr.	0.1	–1.9	1.7	2.2	1.9	4.7	1.3
May	0.6	–1.2	–0.1	0.4	0.4	–2.8	1.0
June	0.5	2.7	1.7	–0.4	0.2	1.8	1.0
July	0.2	–1.7	1.5	2.0	0.6	2.3	0.6
Aug.	0.8	3.9	–2.7	..	0.2	–0.4	1.1
Sept.	–0.1	–1.3	1.1	–0.3	1.1	0.5	–0.4
Oct.	0.3	–0.6	1.0	–0.6	0.5	..	0.3
Nov.	0.7	3.0	0.5	0.4	–1.4	–0.2	0.8
Dec.	0.9	–0.4	(2.0)	....	(0.8)	....	0.8
1995 – Jan.	(0.4)	....	....	....	....	....	....

Table a3

Consumer prices

(percentage changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
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	3.0	1.3	4.1	2.1	1.6	4.5	1.8
1994	2.6	0.7	3.0	1.7	2.5	....	0.2
1992 – 4th qtr.	3.0	1.0	3.7	1.8	3.1	4.8	1.8
1993 – 1st qtr.	3.2	1.3	4.3	2.1	1.8	4.4	2.1
2nd "	3.1	0.9	4.2	2.0	1.3	4.4	1.7
3rd "	2.8	1.8	4.1	2.2	1.7	4.6	1.7
4th "	2.7	1.1	3.7	2.1	1.5	4.4	1.8
1994 – 1st qtr.	2.6	1.2	3.4	1.7	2.4	4.3	0.6
2nd "	2.4	0.8	3.0	1.7	2.5	4.0	..
3rd "	2.9	..	3.0	1.6	2.3	3.8	0.2
4th "	2.7	0.8	2.7	1.6	2.6	....	..
1994 – Jan.	2.6	1.2	3.4	1.9	2.5	4.4	1.3
Feb.	2.6	1.1	3.4	1.8	2.5	4.3	0.3
Mar.	2.5	1.3	3.2	1.5	2.4	4.3	0.2
Apr.	2.4	0.8	3.0	1.7	2.5	4.1	0.3
May	2.3	0.8	2.9	1.7	2.5	4.0	–0.2
June	2.5	0.6	3.0	1.8	2.6	3.8	..
July	2.8	–0.2	2.9	1.7	2.3	3.8	0.2
Aug.	2.9	..	3.0	1.7	2.4	3.8	0.2
Sept.	2.9	0.2	3.0	1.6	2.2	3.9	0.2
Oct.	2.6	0.7	2.8	1.7	2.4	3.8	–0.2
Nov.	2.7	1.0	2.6	1.6	2.6	....	–0.1
Dec.	2.7	0.7	2.7	1.6	2.9	....	0.2
1995 – Jan.	2.8	....	2.3	....	3.3	....	....

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	4.5
1989	5.0	2.1	3.4	3.8	4.7	5.6	1.9
1990	3.8	1.5	1.4	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	1.4	–1.6	0.1	–1.2	3.7	4.1	3.3
1992 – 3rd qtr.	1.8	–0.9	1.5	–0.4	3.3	2.1	1.6
4th "	1.5	–1.2	1.1	–0.5	3.2	2.7	3.3
1993 – 1st qtr.	2.4	–1.1	0.8	–0.7	3.2	3.5	4.0
2nd "	2.0	–1.4	. .	–1.1	3.7	4.1	3.3
3rd "	0.6	–1.8	–0.2	–1.5	4.0	4.5	3.0
4th "	0.4	–2.1	–0.3	–1.4	3.9	4.0	3.0
1994 – 1st qtr.	0.2	–2.2	. .	–1.1	3.2	3.4	3.4
2nd "	0.2	–2.0	0.3	–0.4	2.2	3.3	5.2
3rd "	2.1	–1.7	0.7	0.3	2.0	3.7	6.6
1993 – Nov.	0.4	–2.1	–0.4	. . . .	3.6	3.9	2.9
Dec.	0.2	–2.2	–0.2	. . . .	3.9	3.7	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.	0.1	–2.3	0.1	. . . .	2.9	3.2	3.9
Apr.	. .	–2.2	0.2	. . . .	2.3	3.3	4.3
May	0.1	–2.0	0.3	. . . .	2.2	3.5	5.1
June	0.6	–1.9	0.4	. . . .	2.0	3.2	6.3
July	1.6	–1.8	0.5	. . . .	1.8	3.3	6.6
Aug.	2.5	–1.7	0.7	. . . .	2.0	3.7	6.7
Sept.	2.2	–1.5	0.9	. . . .	2.2	4.0	6.5
Oct.	2.1	–1.2	1.2	. . . .	2.2	4.3	6.7
Nov.	3.0	–1.2	1.5	. . . .	2.3	4.8	7.2

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
			Official reference rates *(end-of-period data)*				
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	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
Oct.	4.00	1.75	4.50	5.00	5.75	7.50	5.62
Nov.	4.75	1.75	4.50	5.00	5.75	7.50	6.04
Dec.	4.75	1.75	4.50	5.00	6.25	7.50	7.43
1995 – Jan.	4.75	1.75	4.50	5.00	6.25	7.50	8.38
			Money market rates *(period averages)*				
1991	5.37	7.41	9.18	9.62	11.53	12.21	7.42
1992	3.43	4.46	9.46	10.34	9.62	14.02	7.11
1993	3.00	3.01	7.23	8.59	5.94	10.20	3.86
1994	4.25	2.28	5.31	5.85	5.51	8.51	7.18
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	6.34
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
Oct.	4.95	2.37	5.17	5.65	5.92	8.85	5.37
Nov.	5.29	2.38	5.16	5.61	6.06	8.76	5.79
Dec.	5.60	2.37	5.35	5.95	6.38	9.04	7.18
1995 – Jan.	5.71	2.34	5.11	5.92	6.58	9.13	7.98

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
1991	7.86	6.40	8.54	9.03	10.11	13.17	8.97
1992	7.01	5.12	7.85	8.57	9.06	13.28	8.54
1993	5.87	4.03	6.45	6.72	7.47	11.29	7.12
1994	7.08	4.20	6.99	7.17	8.17	10.58	9.16
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	8.03	9.01	11.92	9.04
Oct.	7.74	4.72	7.72	8.14	8.87	11.94	9.29
Nov.	7.96	4.71	7.68	8.10	8.71	11.87	9.24
Dec.	7.81	4.59	7.65	7.98	8.66	12.09	9.16
1995 – Jan.	7.78	4.69	7.76	8.23	8.83	12.36	9.41
				Share price indices			
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
1994	540.68	513.33	372.02	2,058.1	1,182.7	1,050.37	428.42
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
Oct.	544.60	507.30	355.40	1,876.9	1,139.4	979.25	429.20
Nov.	541.30	489.56	360.10	1,930.9	1,152.0	979.28	409.30
Dec.	535.56	489.76	358.19	1,940.6	1,128.7	953.77	421.40
1995 – Jan.	546.26	476.12	355.95	1,841.1	1,128.3	1,013.18	401.70

Interest rates on international markets and US dollar premium/discount

(period averages)

	US dollar	Japanese yen	Deutsche Mark	Pound sterling	Lira	US dollar	Japanese yen	Deutsche Mark	Pound sterling	Lira
	Rates on 3-month Eurodeposits					**Rates on 3-month Eurodeposits**				
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
1994	4.60	2.18	5.21	5.44	8.29	5.45	2.41	5.30	6.25	8.92
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
Oct.	5.47	2.27	5.04	5.85	8.61	6.28	2.71	5.56	7.21	10.02
Nov.	5.75	2.27	5.05	5.98	8.52	6.69	2.68	5.50	7.23	9.76
Dec.	6.24	2.26	5.26	6.29	8.84	7.42	2.56	5.72	7.61	10.13
1995 – Jan.	6.19	2.24	4.96	6.52	8.93	7.38	2.46	5.70	7.75	10.27
		3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**			
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
1994		2.41	–0.61	–0.85	–3.69		3.04	0.16	–0.80	–3.47
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
Oct.		3.20	0.43	–0.38	–3.14		3.57	0.72	–0.93	–3.74
Nov.		3.48	0.70	–0.23	–2.77		4.01	1.19	–0.54	–3.07
Dec.		3.98	0.98	–0.05	–2.60		4.86	1.70	–0.19	–2.71
1995 – Jan.		3.95	1.23	–0.33	–2.74		4.92	1.68	–0.37	–2.89

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	
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
1994	1,611.8	15.7837	994.68	290.79	2,467.3	1,180.82	2,308.2	1,909.0	383.25
1992 – 4th qtr.	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	2,292.0	1,920.1	394.25
4th "	1,588.5	16.0644	1,028.51	299.53	2,515.5	1,225.07	2,330.0	1,960.0	383.25
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
Oct.	1,548.8	15.7290	1,018.73	297.61	2,487.2	1,224.78	2,287.9	1,942.9	387.50
Nov.	1,584.9	16.1604	1,028.19	299.43	2,514.9	1,221.57	2,331.8	1,958.1	383.10
Dec.	1,633.8	16.3159	1,039.12	301.65	2,545.9	1,229.04	2,372.3	1,979.9	383.25
1995 – Jan.	1,610.6	16.1597	1,051.68	304.16	2,535.8	1,250.99	2,360.9	1,992.4	374.90

Nominal effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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
1994	90.0	94.2	140.9	107.3	105.5	89.3	74.9	104.5
1992 – 4th qtr.	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
4th "	87.7	93.2	143.3	108.9	106.5	89.3	73.0	106.2
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
Oct.	86.7	94.2	142.9	109.0	106.8	89.4	73.8	107.3
Nov.	87.4	93.3	144.4	108.8	106.4	89.3	73.0	105.9
Dec.	89.1	92.2	142.8	108.8	106.1	89.3	72.2	105.3
1995 – Jan.	88.9	90.3	142.6	110.0	106.7	88.9	71.9	106.9

Table a10

Real effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1988	94.0	107.5	107.1	98.5	99.0	107.7	97.3	98.9
1989	99.6	110.5	99.5	96.6	97.3	104.8	99.6	93.9
1990	97.9	107.1	88.9	100.2	100.7	107.2	103.6	98.2
1991	95.8	106.6	96.1	99.8	97.8	112.2	104.1	95.3
1992	94.6	99.8	99.4	103.6	99.2	111.2	101.9	92.5
1993	97.1	96.1	115.1	105.7	99.4	104.5	88.3	94.5
1992 – 3rd qtr.	92.2	98.9	97.7	104.7	99.6	114.5	104.3	94.0
4th "	96.6	96.8	102.5	106.8	101.6	101.3	93.6	95.0
1993 – 1st qtr.	98.5	98.5	106.3	106.8	101.7	100.8	87.9	92.4
2nd "	95.8	96.1	114.9	105.1	100.6	104.2	89.7	93.2
3rd "	96.3	94.9	121.3	105.0	97.4	106.2	89.0	95.6
4th "	97.7	94.9	118.0	105.7	97.9	106.7	86.5	96.7
1994 – 1st qtr.	97.7	95.3	118.5	103.8	98.1	107.7	86.2	98.1
2nd "	96.5	92.7	120.9	104.2	97.7	105.9	88.6	97.8
3rd "	93.9	93.2	122.0	106.0	99.2	104.6	86.5	100.5
1993 – Nov.	97.8	95.6	118.9	105.4	97.3	106.5	86.4	95.2
Dec.	98.1	95.5	116.7	104.8	98.7	108.0	85.4	97.9
1994 – Jan.	98.7	96.8	115.0	103.8	98.0	109.1	86.0	97.9
Feb.	97.4	95.5	120.2	103.3	97.8	107.3	86.6	98.1
Mar.	97.1	93.8	120.2	104.3	98.7	106.7	86.0	98.3
Apr.	97.0	92.6	122.0	103.7	97.3	106.0	88.8	97.4
May	96.5	92.7	120.2	104.3	97.7	105.8	89.1	97.2
June	95.9	92.8	120.3	104.6	98.2	105.9	87.8	98.7
July	94.1	92.2	123.4	105.9	98.5	104.5	87.0	99.9
Aug.	94.6	92.9	121.1	106.3	99.2	104.3	86.2	100.4
Sept.	93.0	94.5	121.7	105.9	99.9	105.0	86.4	101.3
Oct.	92.1	94.8	120.7	106.1	99.8	106.0	86.1	101.5
Nov.	92.9	94.4	121.4	106.2	99.0	105.7	85.5	99.8

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	108.9	98.6	97.5	103.8
1989	100.2	98.1	97.3	107.3	98.9	100.4	109.4
1990	100.4	99.0	97.6	104.5	97.1	102.1	110.1
1991	97.8	96.6	98.1	111.0	95.4	103.1	110.2
1992	98.1	97.2	101.1	108.3	94.7	99.9	107.3
1993	98.5	99.8	107.1	105.8	96.5	88.0	97.4
1992 – 3rd qtr.	97.6	96.7	100.8	109.6	93.6	101.3	107.5
4th "	100.3	100.3	105.5	99.1	96.9	92.0	101.7
1993 – 1st qtr.	99.6	101.4	107.1	100.5	96.9	87.0	103.8
2nd "	99.2	100.6	105.8	104.7	96.2	89.1	98.2
3rd "	97.7	98.3	107.4	108.7	96.2	89.3	93.6
4th "	97.4	98.8	108.1	109.2	96.7	86.6	93.8
1994 – 1st qtr.	99.2	99.5	106.6	110.8	95.2	86.7	93.2
2nd "	100.9	98.6	106.4	108.0	95.7	88.7	93.5
3rd "	101.9	99.5	107.7	105.5	96.7	86.1	94.1
1993 – Nov.	97.7	98.4	108.1	109.3	96.6	86.7	94.2
Dec.	98.5	99.8	107.2	110.5	96.2	85.6	92.3
1994 – Jan	98.3	99.4	106.5	112.3	95.4	86.5	92.5
Feb.	99.6	99.2	106.3	110.8	95.1	87.2	93.6
Mar.	99.8	99.8	107.0	109.4	95.3	86.3	93.4
Apr.	100.5	98.4	106.4	108.8	94.9	89.3	94.0
May	100.9	98.4	106.3	107.7	96.0	89.2	93.1
June	101.4	98.9	106.6	107.5	96.2	87.8	93.5
July	102.2	98.9	107.6	105.5	96.8	86.7	94.3
Aug.	102.1	99.6	108.0	105.2	96.7	85.8	94.0
Sept.	101.5	100.2	107.5	105.7	96.5	86.0	94.0
Oct.	101.6	99.8	107.3	106.2	97.3	85.5	94.0
Nov.	101.8	99.2	107.7	106.5	97.6	85.1	94.1

Table a12

External position of the Italian banking system

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

VIS-À-VIS	1994 Q1	1994 Q2	1994 Q3
Industrial countries	293,393	288,014	(279,119)
OPEC countries	13,352	12,090	(12,881)
Other developing countries	14,436	14,025	(17,622)
of which: Latin America	*7,885*	*7,693*	*(11,207)*
Africa	*1,271*	*1,154*	*(1,179)*
Asia	*4,530*	*4,533*	*(4,709)*
Middle East	*750*	*645*	*(527)*
Eastern Europe	13,264	12,906	(13,195)
Offshore centres	36,558	35,154	(35,724)
International organizations	4,694	5,743	(5,479)
Total	**375,696**	**367,930**	**(364,019)**
Memorandum items:			
Albania	152	155	(158)
Argentina	3,080	3,007	(3,801)
Bolivia	8	8	(12)
Brazil	1,337	1,269	(2,691)
Bulgaria	886	904	(564)
Chile	212	190	(519)
Colombia	113	125	(494)
Croatia	37	53	(45)
Czech Republic	191	202	(181)
Ecuador	237	232	(251)
Hungary	285	310	(462)
Ivory Coast	67	22	(19)
Mexico	2,534	2,461	(2,466)
Morocco	512	474	(459)
Nigeria	1,177	1,036	(1,124)
Peru	115	130	(274)
Philippines	132	82	(192)
Poland	1,859	1,681	(1,475)
Romania	269	275	(295)
Russia	9,563	9,318	(9,944)
Slovenia	64	87	(94)
Uruguay	79	89	(415)
Venezuela	1,115	1,075	(1,149)

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed investment					
	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total	House-holds' consum-ption	Other domestic uses	Exports
				At 1985 prices					
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 – 3rd qtr. ...	–0.9	0.3	–0.6	–1.0	–2.0	–1.5	–0.6	–6.6	4.6
4th " ...	0.0	–2.3	–0.5	–1.7	–5.0	–3.4	–1.0	3.7	0.4
1993 – 1st qtr. ...	–0.3	–5.0	–1.4	–2.6	–7.2	–5.0	–1.2	–9.3	6.6
2nd " ...	0.2	–1.4	–0.1	–1.3	–5.2	–3.2	–0.4	6.2	–1.0
3rd " ...	–0.7	1.2	–0.3	–1.3	–2.1	–1.7	0.2	–5.5	2.8
4th " ...	1.2	–0.2	0.9	–0.8	2.2	0.7	0.8	1.2	1.1
1994 – 1st qtr. ...	0.3	5.5	1.4	–1.0	3.1	1.0	0.6	–4.4	6.9
2nd " ...	1.1	1.6	1.2	–1.0	1.0	0.1	0.5	12.2	–1.9
3rd " ...	1.0	5.3	1.9	–1.4	1.2	–0.1	0.6	3.4	5.5
				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 – 3rd qtr. ...	0.8	–0.1	0.6	0.6	0.6	0.6	1.1	1.5	–0.2
4th " ...	1.1	6.2	2.0	1.2	1.3	1.4	1.1	3.2	4.2
1993 – 1st qtr. ...	1.3	5.1	2.2	1.0	2.0	1.7	1.2	7.2	4.0
2nd " ...	1.3	1.6	1.5	0.7	1.5	1.2	1.3	–0.7	3.0
3rd " ...	1.1	0.5	0.9	0.2	0.7	0.4	1.3	1.7	0.7
4th " ...	0.5	0.5	0.6	0.6	0.3	0.3	0.9	–0.9	1.0
1994 – 1st qtr. ...	0.8	0.7	0.5	2.2	2.1	2.0	0.9	–0.1	0.3
2nd " ...	1.1	1.2	1.1	0.5	0.6	0.5	1.0	–0.2	1.1
3rd " ...	0.8	1.6	0.7	0.3	0.5	0.3	1.0	1.8	–0.1

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	Foreign	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	–31.5	–26.7	11.3	8.5
1992	97.8	99.9	90.9	98.8	–32.0	–36.9	–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. ...	100.1	99.6	101.7	101.3	..	–10.3	–0.9	17.1	–2.0
2nd " ...	100.3	101.3	102.6	100.2	–5.3	–9.1	–1.7	15.2	2.3
3rd " ...	101.1	99.5	95.9	97.6	–12.3	–20.0	–9.3	6.2	6.7
4th " ...	98.5	99.5	99.7	101.0	–19.9	–25.1	–18.0	9.0	7.7
1991 – 1st qtr. ...	99.2	100.5	96.6	98.9	–28.2	–34.7	–27.5	9.3	9.7
2nd " ...	98.7	99.5	96.2	99.3	–28.3	–32.3	–27.9	10.6	9.7
3rd " ...	99.2	100.3	93.9	98.2	–26.6	–30.3	–24.9	12.8	8.3
4th " ...	99.2	101.3	96.7	101.2	–27.1	–28.8	–26.5	12.3	6.3
1992 – 1st qtr. ...	100.0	100.9	93.0	100.9	–24.7	–30.1	–23.9	10.2	11.3
2nd " ...	99.1	101.0	92.3	100.2	–27.6	–38.5	–29.4	7.7	11.0
3rd " ...	96.1	98.0	88.1	97.4	–34.2	–38.3	–34.8	–3.2	5.3
4th " ...	96.0	99.7	90.3	96.9	–41.6	–40.9	–40.0	–6.8	1.0
1993 – 1st qtr. ...	97.0	99.2	90.5	97.0	–44.8	–33.7	–42.8	–3.7	3.3
2nd " ...	94.7	97.4	87.4	95.8	–46.6	–27.6	–40.6	–1.5	7.0
3rd " ...	95.3	97.5	87.2	96.8	–44.9	–18.3	–33.2	4.3	6.7
4th " ...	95.9	96.8	86.6	98.5	–36.1	–7.5	–25.8	12.6	1.3
1994 – 1st qtr. ...	96.6	98.4	84.7	98.5	–31.3	–0.4	–18.8	16.5	–2.3
2nd " ...	100.5	104.8	91.5	101.6	–20.4	9.2	–8.3	23.1	–1.0
3rd " ...	103.0	106.0	93.3	104.3	–15.9	11.4	–4.8	30.4	–4.7

Table a15

Labour market statistics

(thousands of units and percentages)

	Employment					Unem-ployment	Labour force	Unem-ployment rate	Partici-pation rate
	Agricul-ture	Industry excluding construc-tion	Construc-tion	Other	Total				
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	5,010	1,728	12,183	20,427	2,360	22,787	10.4	40.6
1994	1,411	4,890	1,652	11,922	19,875	2,586	22,460	11.5	40.0
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
4th "	1,432	4,898	1,646	11,780	19,755	2,726	22,482	12.1	40.1

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

Table a16

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
1994	....	....	....	....	....	....	....	....	3.9
1992 – 4th qtr.	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 qtr.	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 "	3.6	4.1	3.8	3.7	3.5	3.4	4.3	3.8	3.8
4th "	....	....	....	....	....	....	....	....	3.8
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.	3.3	3.8	4.4	3.9	3.4	3.5	4.3	3.8	3.7
Sept.	4.1	4.2	4.0	4.0	3.7	3.4	4.4	3.9	3.9
Oct.	4.0	3.5	4.2	4.0	3.9	3.6	4.1	3.8	3.8
Nov.	3.9	3.4	5.1	4.6	....	....	....	....	3.7
Dec.	....	....	....	....	....	....	....	....	4.1
1995 – Jan.	....	....	....	....	....	....	....	....	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						
1992	3,852	–5,715	–25,470	–6,892	–34,225	–2,439	13,148	10,709	–9,032	32,548
1993	51,106	980	–25,635	–8,466	17,985	95,909	–83,196	12,713	–28,492	–2,206
1994	....	....	....	....	....	(–39,938)	(21,539)	(–18,399)	....	(–3,149)
1992 – 4th qtr.	4,583	–2,144	–7,988	–1,497	–7,046	37,878	–7,352	30,526	2,985	–26,465
1993 – 1st qtr.	6,819	–1,640	–5,100	–1,992	–1,913	44,433	–30,602	13,831	–11,075	–843
2nd "	11,573	1,178	–6,700	–2,738	3,313	18,765	–19,109	–344	–3,416	447
3rd "	15,573	–216	–6,711	–2,619	6,027	22,578	–20,902	1,676	–3,256	–4,447
4th "	17,141	1,658	–7,124	–1,117	10,558	10,133	–12,583	–2,450	–10,745	2,637
1994 – 1st qtr.	11,671	–1,488	–6,446	–1,617	2,120	–351	–685	–1,036	3,106	–4,190
2nd "	13,955	1,555	–6,412	–3,514	5,584	–25,148	18,077	–7,071	2,417	–930
3rd "	16,486	930	–5,652	–4,295	7,469	–21,119	14,408	–6,711	–1,784	1,026
4th "	....	....	....	....	....	(6,680)	(–10,261)	(–3,581)	....	(945)
1992 – Dec.	3,359	–376	–2,716	–940	–673	12,610	3,791	16,401	–2,793	–12,935
1993 – Jan.	2,198	–588	–2,066	240	–216	14,825	–7,275	7,550	–8,073	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	–6,781	4,266	–2,515	–1,447	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	8,322	–8,430	–108	2,205	–3,461
July	9,528	139	–3,614	–1,342	4,711	5,343	–8,909	–3,566	–2,394	1,249
Aug.	2,114	84	–913	–1,211	74	14,232	–17,120	–2,888	852	1,962
Sept.	3,931	–439	–2,184	–66	1,242	3,003	5,127	8,130	–1,714	–7,658
Oct.	6,062	180	–2,196	129	4,175	–4,968	5,165	197	–7,230	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	730	–10,537	–9,807	4,369	2,248
1994 – Jan.	1,744	–851	–2,538	–26	–1,671	7,379	–2,261	5,118	1,631	–5,078
Feb.	4,777	–441	–839	–1,184	2,313	2,820	–4,755	–1,935	980	–1,358
Mar.	5,150	–196	–3,069	–407	1,478	–10,550	6,331	–4,219	495	2,246
Apr.	4,396	125	–1,605	–933	1,983	–6,342	6,258	–84	–2,101	202
May	4,554	584	–2,001	–1,344	1,793	–5,033	3,533	–1,500	1,877	–2,170
June	5,005	846	–2,806	–1,237	1,808	–13,773	8,286	–5,487	2,641	1,038
July	7,495	715	–3,309	–1,591	3,310	–11,224	8,166	–3,058	3,060	–3,312
Aug.	4,882	595	–734	–1,751	2,992	–2,292	116	–2,176	–4,027	3,211
Sept.	4,109	–380	–1,609	–953	1,167	–7,603	6,126	–1,477	–817	1,127
Oct.	5,070	209	–2,574	–1,285	1,420	–7,310	1,175	–6,135	–1,227	5,942
Nov.	....	....	....	....	....	(6,234)	(–6,876)	(–642)	....	(2,497)
Dec.	....	....	....	....	....	(7,756)	(–4,560)	(3,196)	....	(–7,494)

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
	Convertible currencies	Official Ecus	SDRs	Total		Assets: Total	Assets: *of which: foreign securities*	Liabilities			
					(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 – 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 . . .	43,656	7,101	189	50,946	768	2,210	*1,765*	1,617	3,402	41,400	95,573
Aug. . . .	40,565	7,062	189	47,816	878	2,232	*1,788*	1,615	3,332	41,400	92,287
Sept. . .	38,992	7,033	200	46,225	901	2,260	*1,819*	1,604	3,231	40,110	89,321
Oct. . . .	32,902	6,819	201	39,922	767	2,373	*1,930*	1,612	3,247	40,110	83,273
Nov. . . .	32,048	6,824	215	39,087	973	2,288	*1,826*	1,656	3,283	40,110	82,139
Dec. . . .	39,189	7,554	204	46,947	968	2,323	*1,844*	1,671	3,314	41,339	91,284
					(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 – 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 . . .	27,376	4,453	119	31,947	482	1,386	*1,107*	1,014	2,133	25,264	59,235
Aug. . . .	25,543	4,447	119	30,109	553	1,405	*1,126*	1,017	2,098	25,264	57,307
Sept. . .	25,049	4,518	128	29,696	579	1,452	*1,169*	1,030	2,076	25,712	57,326
Oct. . . .	21,282	4,411	130	25,823	496	1,535	*1,248*	1,043	2,100	25,712	53,631
Nov. . . .	19,807	4,218	133	24,158	601	1,414	*1,129*	1,023	2,029	25,712	51,688
Dec. . . .	24,047	4,635	125	28,807	594	1,425	*1,131*	1,025	2,034	26,342	56,988

State sector borrowing requirement

(billions of lire)

	Budget revenues			Budget disbursements			Deficit (–)	Other trans-actions	Borrowing require-ment (–)	Debt settle-ments and privat-izations	Borrowing requirement net of debt settlements and privat-izations
	Fiscal	Other	Total	Current expendi-ture	Capital expendi-ture	Total					
1991 O	374,263	71,735	445,999	508,619	68,031	576,651	–130,652	–21,554	–152,206	2,027	–154,233
1992 O	428,164	71,518	499,682	547,383	62,617	610,000	–110,318	–52,890	–163,209	–31	–163,178
1993 O	436,450	34,409	470,858	544,087	73,773	617,860	–147,002	–14,801	–161,803	–10,836	–150,967
N	"	"	"	"	"	"	"	–17,390	–164,392	"	–153,557
1994 O	431,180	49,104	480,285	548,240	72,975	621,215	–140,930	–15,966	–156,896	–519	–156,377
N	"	"	"	"	"	"	"	–15,469	–156,399	"	–155,881
1993 – 1st qtr. O ...	214,361	11,644	226,005	231,022	29,957	260,979	–34,974	–30,005	–64,979	–27	–64,952
N ...	"	"	"	"	"	"	"	–32,013	–66,987	"	–66,960
2nd qtr. O ...	222,089	22,764	244,853	313,064	43,817	356,881	–112,028	15,205	–96,823	–10,809	–86,014
N ...	"	"	"	"	"	"	"	14,623	–97,405	"	–86,596
1994 – 1st qtr. O ...	208,195	23,130	231,325	243,180	28,476	271,655	–40,330	–29,026	–69,357	1,120	–70,477
N ...	"	"	"	"	"	"	"	–25,125	–65,455	"	–66,575
2nd qtr. O ...	222,985	25,974	248,960	305,060	44,499	349,559	–100,600	13,061	–87,539	–1,639	–85,900
N ...	"	"	"	"	"	"	"	9,655	–90,945	"	–89,306
1994 – Jan. N	34,160	1,236	35,396	35,216	846	36,062	–665	–4,017	–4,683	–	–4,683
Feb. N	20,875	4,691	25,566	24,966	4,594	29,559	–3,994	–7,599	–11,592	1,593	–13,186
Mar. N	31,807	7,679	39,486	53,844	11,647	65,491	–26,004	–148	–26,153	–1	–26,152
Apr. N	28,170	1,965	30,135	34,070	5,669	39,738	–9,603	–8,662	–18,265	–467	–17,798
May N	37,432	3,298	40,730	35,603	1,851	37,454	3,276	–21,772	–18,496	–5	–18,491
June N	55,751	4,261	60,012	59,482	3,870	63,352	–3,340	17,074	13,734	–	13,734
July N	33,866	8,674	42,540	45,288	2,078	47,366	–4,825	1,577	–3,249	4,302	–7,551
Aug. N	38,556	2,216	40,772	38,119	7,823	45,942	–5,170	–487	–5,657	10	–5,666
Sept. N	22,466	2,219	24,684	68,653	2,623	71,275	–46,591	18,253	–28,338	–1	–28,338
Oct. N	28,279	2,568	30,847	53,532	5,038	58,571	–27,723	3,173	–24,550	–2,498	–22,052
Nov. N	37,024	3,353	40,377	45,934	5,954	51,888	–11,511	–10,767	–22,278	–3,095	–19,184
Dec. N	62,795	6,944	69,739	53,535	20,984	74,518	–4,779	–2,093	–6,872	–357	–6,515

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

Table a20

Financing of the state sector borrowing requirement

(billions of lire)

	Medium and long-term securities	Treasury bills	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	11,589	2,472	*2,011*	11,746	5,506	6,978	152,206	*–9,458*
1992 O	91,120	46,479	7,116	*7,706*	11,414	173	6,906	163,209	*–2,696*
1993 O	163,119	5,577	–34,512	*–35,244*	13,913	12,374	1,332	161,803	*–3,378*
N	165,121	"	"	"	"	14,443	–150	164,392	"
1994 O	225,727	11,726	–112,073	*–103,554*	24,500	9,551	–2,536	156,896	*–55,106*
N	221,755	"	"	"	"	9,168	1,324	156,399	"
1993 – 1st qtr. O	66,422	17,729	–25,488	*–26,217*	1,679	6,635	–1,997	64,979	*–24,335*
N	66,423	"	"	"	"	8,631	–1,987	66,987	"
2nd qtr. O	96,698	–12,152	–9,024	*–9,027*	12,235	5,739	3,328	96,823	*20,957*
N	98,698	"	"	"	"	5,812	1,837	97,405	"
1994 – 1st qtr. O	89,577	1,405	–29,816	*–29,639*	5,747	1,160	1,284	69,357	*–34,042*
N	85,577	"	"	"	"	966	1,576	65,455	"
2nd qtr. O	136,150	10,321	–82,257	*–73,915*	18,753	8,391	–3,819	87,539	*–21,064*
N	136,177	"	"	"	"	8,202	–252	90,945	"
1994 – Jan. N	13,813	–1,170	–18,028	*–17,732*	3,708	4,658	1,702	4,683	*–18,230*
Feb. N	20,295	–993	–5,939	*–5,743*	–771	–929	–70	11,592	*–6,151*
Mar. N	11,780	1,353	13,748	*12,909*	299	–1,143	116	26,153	*13,251*
Apr. N	11,388	1,604	5,757	*5,934*	1,110	–1,460	–133	18,265	*5,748*
May N	17,976	–389	1,207	*1,879*	1,194	–1,152	–341	18,496	*124*
June N	10,326	999	–26,561	*–26,886*	208	992	302	–13,734	*–28,783*
July N	4,959	2,000	–9,705	*–10,035*	992	4,922	82	3,249	*–10,643*
Aug. N	12,056	2,000	–7,585	*–7,366*	595	–1,431	22	5,657	*–10,239*
Sept. N	4,056	2,143	20,831	*20,921*	748	–11	571	28,338	*17,297*
Oct. N	16,164	595	10,456	*11,787*	828	–2,474	–1,019	24,550	*5,846*
Nov. N	88,042	1,583	–68,605	*–68,675*	1,290	–93	61	22,278	*5,156*
Dec. N	10,901	2,000	–27,648	*–20,548*	14,300	7,288	31	6,872	*–28,481*

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	381,833	163,466	70,960	6,641	3,002	625,901	124,798	17,379	768,077
1987 O	437,046	193,928	83,877	8,067	3,046	725,964	135,951	23,322	885,237
1988 O	494,362	240,324	94,873	12,097	3,385	845,041	139,571	28,586	1,013,198
1989 O	550,425	287,698	110,237	17,177	4,228	969,765	142,112	34,979	1,146,856
1990 O	635,360	323,405	122,954	20,351	5,506	1,107,575	140,091	48,799	1,296,465
1991 O	751,527	338,665	134,700	26,039	6,795	1,257,727	141,763	54,720	1,454,209
1992 O	826,193	395,378	146,114	34,102	6,238	1,408,026	165,979	64,653	1,638,658
1993 O	980,062	401,230	160,027	36,292	5,880	1,583,491	144,484	85,355	1,813,329
N	971,176	"	"	14,611	"	1,552,925	"	73,084	1,770,493
1994 – 1st qtr. O ..	1,021,709	396,431	163,263	37,786	3,168	1,622,355	143,300	85,310	1,850,966
N ..	1,010,823	"	"	16,314	"	1,589,998	"	73,243	1,806,541
1994 – 2nd qtr. O ..	1,061,542	399,548	165,774	37,460	3,235	1,667,560	127,124	84,434	1,879,117
N ..	1,048,657	"	"	16,075	"	1,633,290	"	72,070	1,832,483
July O ..	1,066,184	396,350	166,766	37,522	3,271	1,670,093	124,027	89,665	1,883,785
N ..	1,053,298	"	"	16,121	"	1,635,805	"	77,308	1,837,140
Aug. O ..	1,077,114	394,204	167,361	39,062	3,293	1,681,033	122,903	88,212	1,892,147
N ..	1,064,228	"	"	16,121	"	1,645,206	"	75,854	1,843,962
Sept. O ..	1,084,632	397,766	168,109	38,042	3,313	1,691,863	141,271	87,988	1,921,121
N ..	1,071,774	"	"	16,671	"	1,657,633	"	75,239	1,874,143
Oct. O ..	1,101,846	398,906	168,937	37,003	3,334	1,710,025	152,181	86,227	1,948,434
N ..	1,088,987	"	"	15,632	"	1,675,796	"	73,470	1,901,447
Nov. O ..	1,115,321	397,552	170,227	34,408	3,329	1,720,837	163,379	88,150	1,972,366
N ..	1,102,463	"	"	15,697	"	1,689,268	"	75,308	1,927,955
Dec. O ..	1,126,606	399,207	184,527	33,536	3,338	1,747,215	137,446	95,948	1,980,609
N ..	1,113,748	"	"	15,718	"	1,716,538	"	83,084	1,937,069

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

Table a22

Monetary base

(flows in billions of lire)

	Sources							TOTAL	Uses				
	Foreign sector		Treasury accounts	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: compul-sory reserves	Other	Total
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
1994	(3,156)	–813	(–33,269)	(–21,837)	(44,595)	(261)	(–2,773)	(–9,867)	(6,591)	(–16,551)	(–13,328)	(92)	(–16,458)
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	5,186	–229	1,897
Mar.	–2,347	..	12,909	342	–5,548	122	–1,348	4,130	3,091	1,104	–3,177	–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	497	2,941	1,740	936	3,877
June	–1,093	..	–26,886	–1,897	22,925	1,678	2,173	–3,099	–580	–2,541	–1,273	21	–2,520
July	3,361	..	–10,035	–608	285	1,003	–1,282	–7,277	5,179	–11,660	–10,130	–795	–12,455
Aug.	–3,218	..	–7,366	–2,873	15,271	–2,788	–368	–1,343	–4,612	3,158	–579	112	3,270
Sept.	–1,119	..	20,921	–3,624	–17,490	67	–2,639	–3,884	1,643	–5,765	–4,642	237	–5,527
Oct.	–5,947	..	11,787	–5,941	63	–17	–114	–169	–293	202	–858	–78	124
Nov.	(–2,497)	..	(7,531)	(–2,375)	(369)	(59)	(626)	(3,713)	(1,578)	(1,421)	(–758)	(713)	(2,135)
Dec.	(7,494)	..	(–26,469)	(–2,012)	(12,513)	(423)	(4,933)	(–3,118)	(5,535)	(–8,797)	(–1,011)	(144)	(–8,653)

Financing of the Treasury

(flows in billions of lire)

	Borrowing requirement	Non-monetary financing							Treasury accounts	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				
1992	163,209	–50,266	–60,632	–37,094	477	–147,515	–18,391	–165,905	7,706	–10,402
1993	164,392	–6,028	–10,480	–117,666	–5,478	–139,652	–28,118	–167,770	–4,574	1,196
1994	162,320	(–36,728)	(–33,467)	(–105,726)	(–699)	(–176,619)	–40,807	(–217,426)	(–33,269)	(–21,837)
1994 – Jan.	4,683	–254	–1,536	–16,064	5,002	–12,851	–10,062	–22,913	–17,732	–498
Feb.	13,186	–163	288	–19,365	–275	–19,514	178	–19,337	–5,743	–409
Mar.	26,153	–1,473	–995	–11,242	63	–13,647	745	–12,902	12,909	342
Apr.	18,265	–1,625	–2,002	–9,465	82	–13,009	492	–12,517	5,934	–186
May	18,496	–2,092	–4,014	–12,695	121	–18,680	308	–18,372	1,879	–1,755
June	–13,734	–3,236	–2,002	–8,405	86	–13,557	–1,492	–15,049	–26,886	–1,897
July	7,551	–2,925	–6,151	1,179	–12	–7,908	–10,286	–18,194	–10,035	–608
Aug.	5,680	–4,665	–3,504	–7,604	–943	–16,716	797	–15,919	–7,366	–2,873
Sept.	28,338	–5,883	–3,185	–3,248	2,577	–9,738	–1,303	–11,041	20,921	–3,624
Oct.	24,552	–6,368	–6,085	–7,750	–1,175	–21,379	2,672	–18,706	11,787	–5,941
Nov.	22,278	(–5,200)	(–4,528)	(–4,475)	(–1,675)	(–15,878)	–1,244	(–17,122)	(7,531)	(–2,375)
Dec.	6,872	(–2,844)	(–3,398)	(–6,594)	(–905)	(–13,742)	–21,611	(–35,353)	(–26,469)	(–2,012)

Table a23

Monetary base

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

	Sources											
	Foreign sector	*of which: currency swaps*	Govern-ment securities	Suspense account under Law 483/1993	Treasury overdraft with BI	Treasury payments account	Sinking fund for govern-ment securities	Other items	*of which: coins in circula-tion*	Tem-porary portfolio	Refinanc-ing	Other sectors
1991	94,171	–	62,579	–	73,064	–	–	4,706	*1,516*	25,160	8,796	–58,143
1992	67,089	*31,702*	76,017	–	80,780	–	–	4,218	*1,618*	43,466	8,905	–61,671
1993	84,085	*33,897*	91,031	–	76,206	–30,670	–	5,038	*1,705*	45,399	2,453	–74,199
1994 – Jan.	90,437	*33,729*	93,306	76,206	–	–48,402	–	4,748	*1,711*	54,952	2,194	–75,726
Feb.	92,044	*33,624*	92,501	76,206	–	–54,145	–	4,553	*1,712*	62,953	2,182	–77,380
Mar.	92,160	*32,209*	100,590	76,206	–	–41,236	–	5,408	*1,728*	48,802	2,304	–81,191
Apr.	91,656	*31,086*	102,446	76,206	–	–35,302	–	5,240	*1,737*	40,704	2,312	–82,983
May	93,807	*31,075*	99,994	76,206	–	–33,423	–	4,577	*1,747*	45,051	2,288	–83,849
June	93,208	*31,139*	102,985	76,206	–	–60,309	–	4,911	*1,758*	62,754	3,967	–82,170
July	95,733	*31,313*	109,306	76,206	–	–70,344	–	5,252	*1,769*	55,769	4,969	–82,615
Aug.	92,439	*31,228*	114,587	76,206	–	–77,709	–	5,039	*1,776*	63,098	2,181	–82,908
Sept.	89,481	*30,712*	112,936	76,206	–	–56,788	–	4,954	*1,781*	43,720	2,248	–83,708
Oct.	83,429	*30,621*	113,254	76,206	–	–45,001	–	3,633	*1,791*	38,845	2,232	–83,716
Nov.	(82,287)	*31,847*	(193,320)	,,	–	(–37,470)	–	(3,717)	*1,805*	32,895	(2,291)	(–84,445)
Dec.	(91,431)	*32,129*	(193,780)	,,	–	(–58,018)	(–5,921)	(2,546)	*(1,813)*	44,107	(2,714)	(–81,162)

	Uses					Total monetary base
	Currency in circulation	Bank reserves: Deposits with the Bank of Italy	*of which: compulsory reserves*	Other	Total	
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	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	*112,034*	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	111,323	*111,719*	5,420	116,743	204,652
June	87,330	108,782	*110,446*	5,441	114,223	201,553
July	92,508	97,122	*100,316*	4,646	101,768	194,276
Aug.	87,896	100,280	*99,737*	4,758	105,037	192,934
Sept.	89,540	94,515	*95,095*	4,995	99,510	189,050
Oct.	89,247	94,717	*94,237*	4,917	99,634	188,881
Nov.	(90,825)	(96,138)	*(93,479)*	(5,631)	(101,769)	(192,594)
Dec.	(96,360)	(87,341)	*(92,468)*	(5,775)	(93,116)	(189,476)

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)
1992 – Dec.	86,254	130,055	*127*	4,908	511	135,475	4.2
1993 – 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.	88,999	99,898	*161*	4,657	180	104,736	5.3
Sept.	89,204	95,263	*168*	4,988	243	100,494	4.4
Oct.	89,065	94,515	*278*	4,890	275	99,681	3.6
Nov.	91,745	93,661	*182*	5,172	249	99,082	2.3
Dec.	96,468	92,619	*151*	(5,400)	198	(98,217)	(1.4)

Table a24

averages of daily data

of lire)

		BI operations					
		Temporary operations					
TOTAL	Percentage changes (over 12 months)	Securities			Foreign currency purchases	Fixed-term advances	TOTAL
		Purchases	Sales	Total			
221,729	7.1	41,277	206	41,071	26,498	3,725	71,294
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
189,698	5.5	41,345	981	40,364	30,931	..	71,295
188,746	4.7	33,164	1,098	32,066	30,811	81	62,958
190,827	4.1	34,299	1,190	33,110	30,882	..	63,991
(194,686)	(3.6)	36,428	1,231	35,197	31,386	200	66,783

Table a25

BI-UIC operations in government securities

(billions of lire)

	Primary market			Open market			Variations in BI-UIC portfolio
	Subscriptions	Redemptions	Net subscriptions		*of which: temporary operations* — *Repos*	*Other*	
				Total			
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
1994	(347)	(19,691)	(–19,344)	(44,595)	*(2,495)*	*(–3,787)*	(25,251)
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.	10	2,670	–2,660	15,271	*7,499*	*–170*	12,611
Sept.	8	3,548	–3,540	–17,490	*–19,498*	*120*	–21,030
Oct.	9	4,629	–4,620	63	*–4,500*	*–375*	–4,557
Nov.	(2)	(2,461)	(–2,459)	(369)	*–6,000*	*50*	(–2,090)
Dec.	(3)	(844)	(–841)	(12,513)	*10,997*	*215*	(11,672)
			of which:	**Treasury bills**			
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
1994	..	(17,574)	(–17,574)	(34,730)	*(6,339)*	*(–2,977)*	(17,156)
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
Oct.	..	4,618	–4,618	1,729	*–2,378*	..	–2,890
Nov.	..	(2,450)	(–2,450)	(4,368)	*–1,016*	..	(1,918)
Dec.	..	(844)	(–844)	(7,965)	*6,844*	..	(7,121)

Table a25 cont.

BI-UIC operations in government securities

(billions of lire)

	Primary market			Open market			Variations in BI-UIC portfolio
	Subscriptions	Redemptions	Net subscriptions		*of which: temporary operations*		
					Repos	*Other*	
				of which: **Treasury credit certificates**			
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
1994	(43)	(45)	(–2)	(–214)	*3,417*	*30*	(–216)
1994 – Jan.	11	2	8	–1,905	*–1,836*	*–20*	–1,897
Feb.	3	1	2	4,010	*4,314*	. .	4,012
Mar.	2	26	–23	–2,489	*–2,525*	*–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.	4	. .	4	5,581	*5,372*	. .	5,584
Sept.	3	4	–1	–4,896	*–4,961*	. .	–4,897
Oct.	5	5	. .	–2,027	*–1,851*	. .	–2,026
Nov.	. .	(5)	(–5)	(18)	*48*	. .	(13)
Dec.	(1)	. .	(1)	(955)	*4,470*	. .	(956)
				of which: **Treasury bonds**			
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
1994	(116)	(1,383)	(–1,267)	(5,616)	*(–8,034)*	*–840*	(4,348)
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.	5	. .	5	152	*110*	*–120*	157
Sept.	5	954	–949	–8,058	*–8,350*	*170*	–9,007
Oct.	4	. .	4	715	*27*	*–375*	719
Nov.	(2)	(4)	(–2)	(–3,446)	*–4,332*	*50*	(–3,448)
Dec.	(2)	. .	(2)	(799)	*–429*	*215*	(801)

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						
1994 – 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
end- "	10,864	2,136	13,000	13,500	91	19,665	13,500	..	13,500	97.76	8.26	9.51
mid-Nov.	3,750	..	3,750	4,750	92	15,345	4,750	..	4,750	97.79	8.06	9.27
end- "	12,450	50	12,500	13,500	90	20,398	13,500	..	13,500	97.86	7.97	9.17
mid-Dec.	6,000	..	6,000	5,500	90	8,486	5,500	..	5,500	97.85	8.01	9.21
end- "	15,000	..	15,000	15,000	90	18,250	15,000	..	15,000	97.83	8.08	9.31
1995 – mid-Jan.	4,500	..	4,500	5,000	88	9,068	5,000	..	5,000	97.84	8.24	9.48
end- "	13,385	115	13,500	14,000	88	18,477	14,000	..	14,000	97.85	8.20	9.43
mid-Feb.	4,720	30	4,750	5,000	89	10,305	5,000	..	5,000	97.92	7.82	9.00
						6-month						
1994 – 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	14,000	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
end- "	14,493	507	15,000	15,500	179	19,446	15,500	..	15,500	95.47	8.60	9.91
mid-Nov.	4,945	55	5,000	5,750	181	12,584	5,750	..	5,750	95.53	8.38	9.66
end- "	13,258	743	14,000	14,000	181	19,524	14,000	..	14,000	95.57	8.30	9.57
mid-Dec.	4,859	141	5,000	5,500	182	9,422	5,500	..	5,500	95.57	8.25	9.51
end- "	12,121	379	12,500	13,000	182	16,083	13,000	..	13,000	95.44	8.51	9.81
1995 – mid-Jan.	5,823	177	6,000	6,500	179	8,667	6,500	..	6,500	95.39	8.76	10.10
end- "	13,231	769	14,000	14,500	182	17,614	14,500	..	14,500	95.44	8.51	9.81
mid-Feb.	5,479	1,021	6,500	6,250	180	9,565	6,250	..	6,250	95.63	8.23	9.48

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												
1994 – 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
end- "	15,834	1,166	17,000	17,000	364	19,855	17,000	..	17,000	90.35	9.25	10.71
mid-Nov.	6,499	501	7,000	7,000	365	14,973	7,000	..	7,000	90.60	8.96	10.38
end- "	12,399	1,102	13,500	13,500	365	19,138	13,500	..	13,500	90.75	8.81	10.19
mid-Dec.	3,379	121	3,500	4,500	365	7,285	4,500	..	4,500	90.80	8.75	10.13
end- "	14,297	203	14,500	15,000	364	19,864	15,000	..	15,000	90.50	9.09	10.53
1995 – mid-Jan.	6,883	617	7,500	7,500	364	8,334	7,500	..	7,500	90.45	9.14	10.59
end- "	16,137	863	17,000	17,000	366	22,492	17,000	..	17,500	90.45	9.09	10.53
mid-Feb.	6,705	295	7,000	7,250	365	11,780	7,250	..	7,250	90.80	8.75	10.13
Total												
1994 – 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
end- "	41,191	3,809	45,000	46,000	–	58,966	46,000	..	46,000	–	8.74	10.09
mid-Nov.	15,194	556	15,750	17,500	–	42,902	17,500	..	17,500	–	8.53	9.84
end- "	38,106	1,894	40,000	41,000	–	59,059	41,000	..	41,000	–	8.36	9.64
mid-Dec.	14,238	262	14,500	15,500	–	25,193	15,500	..	15,500	–	8.31	9.58
end- "	41,418	582	42,000	43,000	–	54,197	43,000	..	43,000	–	8.56	9.89
1995 – mid-Jan.	17,206	794	18,000	19,000	–	26,068	19,000	..	19,000	–	8.77	10.13
end- "	42,753	1,747	44,500	45,500	–	58,583	45,500	..	45,500	–	8.63	9.96
mid-Feb.	16,904	1,346	18,250	18,500	–	31,651	18,500	..	18,500	–	8.32	9.60

Table a27

Bank of Italy repurchase agreements

DATE OF AUCTION	Amount		Maturity (days)		Allotment rates	
	offered	taken up	minimum	maximum	marginal	weighted average
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
1994 – Oct. 26	12,500	12,500	7	7	8.30	8.34
1994 – Nov. 14	7,500	7,500	31	32	8.30	8.32
1994 – Nov. 15	8,500	8,500	36	36	8.25	8.29
1994 – Nov. 22	12,000	12,000	41	41	8.35	8.38
1994 – Nov. 25	6,000	6,000	6	6	8.25	8.26
1994 – Dec. 2	6,000	6,000	9	9	8.25	8.27
1994 – Dec. 5	4,500	4,500	31	31	8.45	8.47
1994 – Dec. 9	9,000	9,000	20	20	8.40	8.41
1994 – Dec. 16	7,500	7,500	14	14	8.40	8.41
1994 – Dec. 22	4,500	4,500	7	7	8.20	8.22
1994 – Dec. 27	8,500	8,500	17	17	8.45	8.46
1994 – Dec. 29	8,500	8,500	13	13	8.40	8.46
1994 – Dec. 30	11,500	11,500	21	21	8.35	8.42
1995 – Jan. 10	10,000	10,000	7	8	8.50	8.51
1995 – Jan. 12	4,500	4,500	20	20	8.55	8.60
1995 – Jan. 18	12,000	12,000	14	14	8.65	8.66
1995 – Jan. 19	13,000	13,000	13	14	8.60	8.61
1995 – Jan. 23	10,000	10,000	7	8	8.45	8.47
1995 – Jan. 25	10,000	10,000	34	35	8.45	8.51
1995 – Jan. 26	10,000	10,000	34	34	8.20	8.42
1995 – Jan. 31	12,000	12,000	28	29	8.45	8.48
1995 – Feb. 1	14,000	14,000	12	13	8.35	8.38
1995 – Feb. 2	4,000	4,000	31	32	8.45	8.46
1995 – Feb. 14	13,000	13,000	22	22	8.20	8.26
1995 – Feb. 20	6,000	6,000	22	22	8.35	8.39

Table a28

Bank of Italy foreign currency swaps

DATE OF AUCTION	Amount		Maturity in days	Spot exchange rate	Forward points		Yields	
	offered	taken up			marginal	weighted average	marginal	weighted average
				Purchases of dollars				
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	11.98	8.72	8.74
1994– Nov. 22	4,000	4,000	97	1,596.50	10.50	10.53	8.56	8.57
1994– Dec. 5	2,500	2,500	90	1,618.50	8.72	8.76	8.56	8.57
1994– Dec. 16	5,000	5,000	90	1,631.50	10.45	10.81	8.91	9.00
1995– Jan. 23	5,000	5,000	91	1,585.00	9.82	9.90	8.80	8.82
				Purchases of Deutsche Marks				
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
1994– Nov. 17	5,000	5,000	30	1,025.75	2.69	2.71	8.16	8.18
1994– Dec. 19	5,000	5,000	33	1,046.25	2.83	2.87	8.47	8.51
1995– Jan. 19	5,000	5,000	31	1,054.50	3.32	3.34	8.61	8.63
1995– Feb. 21	5,000	5,000	28	1,087.50	2.85	2.87	8.38	8.40

Table a29

Bank of Italy outright operations in Treasury bills: multiple price auctions

DATE OF AUCTION	Amount			Residual maturity in days		Allotment rates	
	offered	requested	taken up	minimum	maximum	marginal	weighted average
1994 – May 12	–1,300	–2,200	–1,300	64	78	7.90	7.85
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
August 2	2,000	3,743	2,000	90	120	8.30	8.31
August 3	1,250	2,059	1,250	89	119	8.30	8.32
August 11	1,750	942	942	96	126	8.05	8.26
August 11	1,250	2,600	1,250	141	172	8.30	8.31
August 29	1,000	2,618	1,000	108	170	8.55	8.57
September 14	1,000	2,136	1,000	92	154	8.55	8.67
October 11	1,500	3,317	1,500	97	155	8.80	8.91
October 12	1,500	2,065	1,500	96	154	8.65	8.76
October 18	1,000	1,935	1,000	148	163	8.85	8.91
November 4	1,000	3,998	1,000	131	175	9.05	9.05
November 18	1,500	1,420	1,420	117	132	8.50	8.73
November 28	1,500	2,528	1,500	137	183	8.85	8.99
November 29	1,250	1,897	1,250	136	198	8.77	8.87
December 6	1,000	1,937	1,000	160	191	9.02	9.07
1995 – January 5	1,000	1,149	1,000	161	176	9.00	9.21

Table a30

Official rates

(percentages)

	Discount	Ordinary advances (base) *(a)*	Premium *(b)*	Fixed-term advances *(a) + (b)*
1991 – May 13	11.50	11.50	..	11.50
Nov. 26	11.50	11.50	0.50	12.00
Dec. 23	12.00	12.00	0.50	12.50
1992 – June 5	12.00	12.00	1.00	13.00
July 6	13.00	13.00	1.50	14.50
July 17	13.75	13.75	1.50	15.25
Aug. 4	13.25	13.25	1.50	14.75
Sept. 4	15.00	15.00	1.50	16.50
Oct. 9	15.00	15.00	1.00	16.00
Oct. 26	14.00	14.00	1.00	15.00
Nov. 13	13.00	13.00	1.00	14.00
Dec. 23	12.00	12.00	1.00	13.00
1993 – Feb. 4	11.50	11.50	1.00	12.50
Apr. 23	11.00	11.00	1.00	12.00
May 21	10.50	10.50	1.00	11.50
June 14	10.00	10.00	1.00	11.00
July 6	9.00	9.00	1.00	10.00
Sept. 10	8.50	8.50	1.00	9.50
Oct. 22	8.00	8.00	1.00	9.00
1994 – Feb. 18	7.50	7.50	1.00	8.50
May 12	7.00	7.00	1.00	8.00
Aug. 12	7.50	7.50	1.00	8.50
1995 – Feb. 22	8.25	8.25	1.50	9.75

Table a31

Interest rates

	BI operations						Treasury bills			
	Discount	Fixed-term advances	Foreign currency swaps		Securities repos		3-month	6-month	12-month	Average
			minimum	average	minimum	average				
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
1994	7.50	8.50	8.24	8.26	8.21	8.25	8.84	9.13	9.50	9.17
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
Oct. ..	7.50	8.50	8.45	8.47	8.33	8.36	9.48	9.89	10.68	10.07
Nov. ..	7.50	8.50	8.36	8.38	8.29	8.31	9.20	9.60	10.25	9.70
Dec. ..	7.50	8.50	8.65	8.69	8.36	8.39	9.28	9.72	10.44	9.81
1995 – Jan. ..	7.50	8.50	8.71	8.73	8.48	8.53	9.44	9.90	10.55	10.01

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	9.06	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	10.95	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
Oct.	8.45	8.16	8.41	8.85	8.61	7.15	4.68	7.13	7.21	9.06	11.24	9.38
Nov.	8.42	8.20	8.42	8.76	8.52	7.20	4.73	7.19	7.32	9.05	11.21	9.38
Dec.	8.51	8.20	8.70	9.04	8.84	7.29	4.80	7.24	7.30	9.03	11.12	9.38
1995 – Jan.	....	(8.42)	(8.73)	(9.13)	....	....	....	....	....	....	....	(9.38)

Table a33

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
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	108,626	1,021,651	349,770	3,172	40,255	27,792	70,185	171,104	229,057
1994 – Jan. ...	110,825	1,014,092	346,805	2,318	39,073	29,288	72,703	144,831	208,230
Feb. ...	112,638	1,012,386	355,311	2,072	39,576	27,493	74,619	151,234	219,449
Mar. ...	113,534	1,003,616	368,344	2,611	41,358	23,653	76,468	150,933	209,404
Apr. ...	112,060	1,001,813	372,269	2,631	41,638	22,124	78,543	144,949	193,494
May ...	115,855	998,288	375,882	2,667	42,418	19,858	80,332	146,325	196,914
June ..	113,388	1,007,421	382,668	1,805	44,707	17,394	80,948	148,609	196,325
July ...	101,593	1,012,181	376,486	2,044	45,325	18,626	82,570	135,890	184,925
Aug. ...	104,682	1,005,949	382,561	2,006	46,090	17,106	83,902	141,929	188,981
Sept. ..	99,210	1,003,346	379,390	1,950	46,487	16,340	85,477	138,837	181,226
Oct. ...	99,385	1,007,285	380,841	2,155	47,040	....	86,225	146,663	185,240
Nov. ...	101,047	1,007,931	377,764	2,042	46,934	....	87,423	148,518	182,579
Dec. ...	92,855	....	....	....	....	....	....	....	....

	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								
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	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	171,826	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	–21,663
Apr. ...	910,117	*320,791*	206,869	8,456	7,248	144,090	150,405	215,354	347,738	–20,756
May ...	904,629	*322,829*	209,515	8,489	7,091	145,039	149,651	215,350	354,124	–15,350
June ..	911,914	*320,382*	211,405	8,642	8,655	149,327	155,627	213,772	357,562	–23,639
July ...	885,521	*315,391*	211,485	9,116	8,731	151,520	138,921	216,173	358,784	–20,609
Aug. ...	880,645	*310,910*	212,273	9,280	5,025	160,613	146,729	217,454	362,021	–20,834
Sept. ..	887,082	*307,972*	213,188	9,220	4,166	130,454	143,112	220,195	359,992	–15,146
Oct. ...	885,401	*307,258*	213,230	9,157	4,154	....	147,574	220,661	356,906	....
Nov. ...	873,536	*308,148*	214,935	9,080	4,168	....	149,529	221,592	359,955	....

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 government securities*					
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	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	529,803	84,352	361,101	*69,240*	*241,741*	42,934	13,324	56,206	135,577	168,981
Sept. .	99,194	529,736	82,998	362,251	*66,962*	*241,511*	42,889	11,957	57,358	132,833	161,690
Oct. ..	99,372	535,329	82,293	362,759	*66,010*	*242,761*	43,647	11,398	58,106	140,599	165,704
Nov. ..	101,033	534,483	81,795	359,929	*60,159*	*245,224*	43,376	12,097	59,303	142,462	163,044
Dec. ..	(92,839)	(559,441)	(80,315)	(363,287)	*(67,343)*	*(243,998)*	(43,783)	(12,520)	(60,979)	(158,546)	(181,504)

	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*								
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	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. ..	789,937	*424,587*	*235,992*	15,950	1,238	2,199	157,156	127,906	175,673	249,820	–21,027
Sept. .	797,057	*432,766*	*233,829*	16,061	1,222	2,263	127,889	123,060	178,229	250,365	–15,240
Oct. ..	796,449	*432,922*	*233,968*	15,873	1,179	2,251	136,541	124,451	178,695	247,370	–3,603
Nov. ..	786,033	*421,050*	*235,794*	15,394	1,168	2,265	135,930	124,424	179,626	249,115	3,568
Dec. ..	(848,396)	*(476,314)*	*(237,637)*	(14,830)	(1,190)	2,705	(127,436)	(145,612)	(179,559)	(266,729)	(–33,243)
1995 – Jan. ..	....	....	....	....	....	2,090	....	....	....	....	....

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 interests	Repos	Foreign assets		
		domestic	on behalf of the Treasury				buyer credit	loans to non-residents	other
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	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	382,084	105	23,544	5,162	5,299	8,532	2,475	7,057
Apr.	6,119	383,641	105	22,741	5,144	4,393	8,532	2,397	7,135
May	5,246	385,989	105	22,661	5,151	3,488	8,468	4,173	5,423
June	6,837	384,302	98	19,439	5,140	2,582	8,402	3,227	8,372
July	6,898	385,010	98	20,516	5,140	3,182	8,426	3,500	8,074
Aug.	6,380	385,856	98	19,460	5,162	3,783	8,465	5,235	6,300
Sept.	6,025	384,205	98	17,139	5,547	4,383	8,216	4,705	6,614
Oct.	6,083	383,255	98	18,081	5,549	....	8,202	3,724	7,609
Nov.	6,076	385,246	98	17,832	5,600	....	8,330	4,278	6,928
Dec.	....	(387,415)	....	....	....	....	....	....	....

	Liabilities									
	Bonds		Certificates of deposit	Short-term financing	Public funds	*Mediocredito centrale*	Repos	Capital and reserves	Foreign liabilities	Other items
	ordinary	on behalf of the Treasury								
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	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	–29,765
Apr.	206,207	107	80,700	20,444	3,639	3,534	5,740	41,517	114,384	–36,066
May	208,848	107	81,668	20,930	3,611	3,596	5,490	41,517	112,838	–37,900
June	210,692	104	80,657	18,751	3,600	3,800	5,239	41,781	112,585	–38,810
July	210,468	100	78,203	18,331	3,865	3,996	4,348	41,781	112,294	–32,540
Aug.	211,139	100	75,715	18,733	4,178	3,864	3,456	41,781	112,201	–30,429
Sept.	211,481	100	74,901	20,052	4,445	3,553	2,565	41,966	109,626	–31,757
Oct.	210,804	100	74,185	23,123	4,364	3,613	....	41,966	109,536	....
Nov.	210,926	100	73,044	25,105	4,313	3,600	....	41,966	110,840	....

Bank lending by branch of economic activity

(billions of lire)

December 1994

	Outstanding				Twelve-month percentage change			
	total	public enterprises	private enterprises	producer households	total	public enterprises	private enterprises	producer households
Agricultural, forestry and fishery products	28,928	60	15,265	13,603	–4.4	..	–11.0	4.2
Energy products	22,275	15,168	7,009	98	–3.4	–6.1	2.8	16.7
of which: electric power	*12,104*	*11,066*	*1,015*	*23*	*–4.1*	*–6.2*	*26.9*	*21.1*
gas and water	*2,385*	*847*	*1,516*	*22*	*–11.7*	*1.2*	*–17.8*	*22.2*
Ferrous and non-ferrous ores and metals	11,695	277	11,050	368	3.2	–76.9	12.9	5.1
Non-metallic mineral products	18,489	347	15,814	2,328	7.4	–13.3	8.1	6.1
Chemical products	14,333	229	13,520	584	–7.6	–26.1	–7.9	9.2
Metal products except machinery and transport equipment	31,502	3,062	22,478	5,962	14.3	236.9	6.6	7.2
Agricultural and industrial machinery	28,245	2,474	23,206	2,565	7.2	222.1	0.3	4.2
Office and data processing machines; precision and optical instruments	5,616	107	5,053	456	4.4	–65.9	9.0	6.8
Electrical goods	19,376	558	17,329	1,489	7.1	–22.0	8.2	10.2
Motor vehicles	13,520	2,091	10,704	725	8.1	–14.2	14.5	0.7
Food products, beverages and tobacco products	31,850	75	27,716	4,059	10.4	–76.9	11.2	12.7
Textiles, leathers, footwear and clothing	40,735	82	34,075	6,578	5.9	28.1	6.0	5.3
Paper, products of printing and publishing	14,665	248	12,629	1,788	5.5	–34.2	6.6	6.4
Rubber and plastic products	10,226	25	8,636	1,565	7.1	..	6.5	10.2
Other manufacturing products	20,782	10	15,098	5,674	5.5	66.7	4.5	8.2
Building and construction	111,035	7,212	84,350	19,473	4.9	2.2	4.4	8.4
Wholesale and retail trade	118,835	384	80,502	37,949	3.2	64.1	1.7	6.2
of which: wholesale trade	*74,671*	*324*	*58,673*	*15,674*	*1.3*	*74.2*	*–0.1*	*6.0*
Lodging and catering services	18,299	122	10,420	7,757	4.6	27.1	1.9	8.2
Inland transport services	22,035	13,293	5,506	3,236	1.1	5.5	–10.7	6.4
Maritime and air transport services	6,308	2,681	3,569	58	11.4	37.4	–2.4	7.4
Auxiliary transport services	7,432	2,294	4,691	447	8.9	7.3	10.1	4.2
Communications services	9,988	9,815	150	23	–17.4	–17.7	0.7	21.1
Other market services	94,762	2,143	79,846	12,773	6.5	25.1	5.0	13.9
Total borrowings	**700,931**	**62,757**	**508,616**	**129,558**	**4.4**	**1.6**	**4.0**	**7.5**
Total facilities granted	**981,283**	**88,534**	**743,885**	**148,864**	**3.4**	**5.4**	**2.7**	**5.7**

Italian investment funds: securities

(end-of-period balance sheet

	Lira securities						
	Government securities	of which:			Bonds	Shares	TOTAL
		BOTs	BTPs	CCTs			
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
1994	52,400	*6,981*	*20,551*	*22,960*	2,990	20,598	75,988
1992 – 4th qtr.	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	84,526
3rd "	58,877	*6,046*	*27,788*	*21,936*	2,434	21,940	83,251
4th "	52,400	*6,981*	*20,551*	*22,960*	2,990	20,598	75,988
1993 – 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*	2,067	20,406	86,248
June	61,679	*4,194*	*32,401*	*20,760*	2,365	20,492	84,536
July	60,848	*3,901*	*31,997*	*20,823*	2,415	22,974	86,237
Aug.	57,881	*4,468*	*28,456*	*21,333*	2,356	21,696	81,933
Sept.	58,877	*6,046*	*27,788*	*21,936*	2,434	21,940	83,251
Oct.	58,075	*7,531*	*25,060*	*23,112*	2,577	20,111	80,763
Nov.	54,424	*6,935*	*23,216*	*22,178*	2,537	20,250	77,211
Dec.	52,400	*6,981*	*20,551*	*22,960*	2,990	20,598	75,988

Table a37

portfolios and net assets

value; billions of lire)

Foreign currency securities	of which: shares	Other financial assets	Total portfolio	Net assets	Memorandum items: Gross sales	Net sales
8,373	*5,211*	938	51,625	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
37,298	*20,024*	682	113,968	130,168	85,032	25,455
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	18,554	11,401
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	122,961	136,231	29,481	8,983
36,660	*20,089*	860	120,771	134,390	9,900	–1,609
37,298	*20,024*	682	113,968	130,168	8,867	–3,788
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	*18,772*	1,741	126,115	136,259	12,463	3,939
38,927	*19,142*	1,795	126,970	137,481	10,758	3,925
36,970	*19,586*	1,469	122,975	136,231	6,260	1,119
37,824	*20,261*	1,564	125,625	138,027	4,143	183
38,111	*21,236*	743	120,787	136,804	2,840	–88
36,657	*20,080*	860	120,768	134,390	2,917	–1,704
36,444	*20,320*	896	118,103	131,600	3,029	–1,450
36,764	*20,192*	900	114,875	130,877	3,001	–1,170
37,298	*20,024*	682	113,968	130,168	2,837	–1,168

Portfolio management

(end-of-period market values

		Government securities			Bonds	
		of which:				
		BOTs	*BTPs*	*CCTs*	Italian	Foreign
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	3,351	*87*	*1,429*	*1,587*	742	1,269
Trust companies	9,803	*968*	*4,113*	*4,375*	1,321	1,896
Banks	97,464	*3,980*	*25,586*	*64,088*	14,488	8,992
Total ...	**110,618**	*5,035*	*31,128*	*70,050*	**16,551**	**12,157**
1994 - 3rd qtr.						
Securities firms	12,905	*268*	*3,944*	*6,932*	7,775	1,853
Trust companies	9,603	*1,001*	*3,511*	*4,702*	1,317	1,931
Banks	98,253	*4,794*	*27,111*	*62,518*	13,878	7,897
Total ...	**120,761**	*6,063*	*34,566*	*74,152*	**22,970**	**11,681**
1994 - 4th qtr. (1)						
Securities firms	13,222	*274*	*4,043*	*7,339*	7,734	1,904
Trust companies	9,278	*1,435*	*2,500*	*5,175*	1,315	1,988
Banks	97,837	*5,439*	*26,735*	*62,297*	13,105	7,937
Total ...	**120,337**	*7,148*	*33,278*	*74,811*	**22,154**	**11,829**

(1) Provisional.

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
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**
1,533	521	1,280	8,696	9,460	1,436	–400
1,772	139	3,272	18,203	19,536	2,978	626
5,301	436	2,665	129,346	136,280	13,828	6,692
8,606	**1,096**	**7,217**	**156,245**	**165,276**	**18,242**	**6,918**
1,562	522	1,600	26,217	27,646	18,795	18,139
1,869	141	3,221	18,082	19,515	1,828	48
5,649	354	2,468	128,499	135,063	15,405	–422
9,080	**1,017**	**7,289**	**172,798**	**182,224**	**36,028**	**17,765**
1,885	853	1,587	27,186	28,954	2,531	1,599
1,725	134	3,066	17,506	18,879	2,455	–499
5,041	536	2,217	126,704	133,648	5,975	–3,461
8,651	**1,523**	**6,870**	**171,396**	**181,481**	**10,961**	**–2,361**

Table a39

Net issues of securities

(billions of lire)

	Issuers			Total bonds and government securities	Investors				Shares
	Public sector	Banks accepting medium and long-term funds	International firms and institutions		BI-UIC	Banks accepting short-term funds	Investment funds	Other	
1989	108,588	8,205	35	116,828	564	–470	–4,169	120,903	18,370
1990	116,753	5,985	–2,592	120,147	–4,205	2,975	3,776	123,551	21,246
1991	127,133	15,939	3,813	146,884	–973	52,957	6,727	88,173	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
1994	233,637	(22,642)	(–5,440)	(250,840)	(106,417)	(39,226)	12,396	(92,801)	....
1992 4th qtr.	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	5,358
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)	9,542	(19,724)	14,394	(11,293)	....
2nd "	41,987	(7,074)	(–1,574)	(47,486)	3,436	(19,616)	5,571	(18,863)	....
3rd "	25,240	(2,279)	(–1,662)	(25,857)	11,429	(–2,257)	–1,817	(18,502)	....
4th "	120,532	(3,942)	(–1,930)	(122,544)	(82,010)	(2,143)	–5,752	(44,143)	....
1993 – 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)	–92	(–1,276)	8,360	(13,266)	....
Feb.	18,782	(3,001)	(–183)	(21,600)	281	(9,615)	4,570	(7,134)	....
Mar.	12,279	(957)	(–141)	(13,096)	9,352	(11,385)	1,464	(–9,105)	....
Apr.	11,618	(3,028)	(–1,025)	(13,621)	2,006	(5,110)	2,946	(3,559)	....
May	18,956	(2,319)	(54)	(21,328)	–2,302	(3,566)	3,385	(16,679)	....
June	11,413	(1,727)	(–603)	(12,537)	3,733	(10,940)	–760	(–1,376)	....
July	5,847	(793)	(–1,087)	(5,553)	6,720	(–8,413)	–395	(7,641)	....
Aug.	13,084	(775)	(–1)	(13,858)	6,517	(5,980)	–1,899	(3,260)	....
Sept.	6,310	(710)	(–575)	(6,445)	–1,808	(176)	476	(7,601)	....
Oct.	17,282	(401)	(–525)	(17,159)	435	(–89)	–574	(17,387)	....
Nov.	90,284	(1,185)	(–66)	(91,403)	79,908	(–1,511)	–3,918	(16,924)	....
Dec.	12,966	(2,356)	(–1,340)	(13,982)	(1,668)	(3,744)	–1,260	(9,830)	....

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
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
36691	BTP	1.8.97	17.10.94	93.05	11.78	10.42	1,650	4.25	3.7185
36692	BTP	1.8.99	17.10.94	88.35	12.07	10.68	1,100	4.25	3.7185
36691	BTP	1.8.97	3.11.94	93.50	11.62	10.26	2,750	4.25	3.7185
36692	BTP	1.8.99	3.11.94	89.00	11.89	10.51	2,200	4.25	3.7185
36665	BTP	1.11.23	4.11.94	75.70	12.37	10.85	1,000	4.50	3.9375
36693	BTP	1.8.04	4.11.94	81.70	12.02	10.62	1,650	4.25	3.7185
36693	BTP	1.8.04	17.11.94	83.15	11.72	10.34	1,000	4.25	3.7185
36691	BTP	1.8.97	18.11.94	94.05	11.40	10.04	1,640	4.25	3.7185
36692	BTP	1.8.99	18.11.94	89.85	11.64	10.27	1,630	4.25	3.7185
36693	BTP	1.8.04	1.12.94	82.80	11.80	10.41	1,000	4.25	3.7185
36691	BTP	1.8.97	2.12.94	93.85	11.53	10.17	1,500	4.25	3.7185
36692	BTP	1.8.99	2.12.94	89.40	11.81	10.42	1,500	4.25	3.7185
36693	BTP	1.8.04	15.12.94	80.20	12.37	10.95	1,500	4.25	3.7185
36691	BTP	1.8.97	16.12.94	93.20	11.89	10.52	1,000	4.25	3.7185
36692	BTP	1.8.99	16.12.94	88.45	12.14	10.74	1,000	4.25	3.7185
36707	BTP	1.12.97	3.1.95	94.45	12.14	10.62	2,200	4.75	4.1560
36708	BTP	1.12.99	3.1.95	91.50	12.17	10.66	1,650	4.75	4.1560
36665	BTP	1.11.23	4.1.95	74.00	12.67	11.11	1,000	4.50	3.9375
36709	BTP	1.1.05	4.1.95	85.70	12.34	10.82	1,500	4.75	4.1560
36709	BTP	1.1.05	18.1.95	87.15	12.05	10.55	1,003	4.75	4.1560
36707	BTP	1.12.97	19.1.95	95.25	11.80	10.28	1,542	4.75	4.1560
36708	BTP	1.12.99	19.1.95	92.15	11.99	10.48	1,507	4.75	4.1560
36707	BTP	1.12.97	2.2.95	95.50	11.72	10.20	2,000	4.75	4.1560
36708	BTP	1.12.99	2.2.95	91.80	12.11	10.60	2,200	4.75	4.1560
36665	BTP	1.11.23	3.2.95	74.45	12.59	11.04	1,037	4.50	3.9375
36709	BTP	1.1.05	3.2.95	86.25	12.24	10.73	2,123	4.75	4.1560

Table a40 cont.

Issue conditions of Treasury credit certificates

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Spread	First coupon	
					gross	net			gross	net
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
36694	CCT	1.10.01	17.10.94	97.70	11.51	10.06	2.750	0.30	4.50	3.9375
36694	CCT	1.10.01	2.11.94	97.50	11.58	10.12	7.000	0.30	4.50	3.9375
36694	CCT	1.10.01	17.11.94	98.10	11.36	9.92	2.750	0.30	4.50	3.9375
36694	CCT	1.10.01	1.12.94	98.00	11.40	9.95	2.000	0.30	4.50	3.9375
36694	CCT	1.10.01	15.12.94	97.30	11.47	10.03	1.500	0.30	4.50	3.9375
36706	CCT	1.12.01	2.1.95	97.60	10.91	9.53	5.000	0.30	4.75	4.1560
36706	CCT	1.12.01	18.1.95	97.95	11.13	9.72	2.500	0.30	4.75	4.1560
36706	CCT	1.12.01	1.2.95	97.45	10.96	9.57	6.050	0.30	4.75	4.1560

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
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
36689	CTE	26.7.99	26.10.94	93.45	9.25	8.19	1.000	1.946.17	7.50	6.5625
36695	CTE	22.11.99	22.11.94	95.25	9.22	8.09	1.000	1.952.12	8.00	7.0000
36695	CTE	22.11.99	21.12.94	95.25	9.23	8.09	500	1.995.10	8.00	7.0000
36710	CTE	24.1.00	24.1.95	95.20	9.75	8.55	744	1.994.95	8.50	7.4375

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 fund units
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
1994	8.81	6.45	8.98	8.89	8.95	638.10	366.74	359.85	179.19	285.97
1992 – 4th qtr.	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
4th "	9.72	7.38	10.23	10.06	10.27	657.15	367.74	359.02	180.68	279.91
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	177.98	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
Oct.	9.82	7.47	10.32	10.12	10.23	651.61	364.10	355.14	179.06	278.83
Nov.	9.68	7.10	10.10	9.94	10.23	657.98	368.38	360.21	181.11	280.67
Dec.	9.67	7.56	10.27	10.13	10.34	661.86	370.73	361.72	181.94	280.26
1995 – Jan.	9.84	8.10	10.40	10.18	10.07	667.79	370.98	365.85	183.25	283.01

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 – 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	(12,648)	(12,394)	(539,289)
Feb.	85,472	434,131	(10,869)	(10,271)	(540,742)
Mar.	88,563	448,508	(10,062)	(11,862)	(558,995)
Apr.	87,413	443,093	(10,195)	(10,203)	(550,904)
May	87,910	439,546	(10,574)	(11,309)	(549,339)
June	87,330	448,402	(10,051)	(14,767)	(560,550)
July	92,508	428,664	(9,952)	(12,876)	(544,001)
Aug.	87,896	426,293	(9,531)	(8,078)	(531,798)
Sept.	89,540	436,980	(9,547)	(10,769)	(546,835)
Oct.	89,247	433,777	(9,609)	(10,918)	(543,551)
Nov.	(90,825)	423,906	(10,012)	(12,465)	(537,209)
Dec.	(96,214)	476,362	(8,788)	(14,175)	(595,540)

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
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	32,424	(949,189)	(954,803)	(548,396)	(953,851)	(959,851)
241,360	137,112	32,888	(952,103)	(957,494)	(526,393)	(933,778)	(939,281)
242,648	137,402	33,330	(972,375)	(978,091)	(533,672)	(941,779)	(947,332)
241,012	136,440	33,740	(962,095)	(966,783)	(544,421)	(953,161)	(958,362)
242,120	132,749	34,021	(958,229)	(964,022)	(543,738)	(950,141)	(955,381)
240,582	132,678	34,272	(968,083)	(972,378)	(535,633)	(940,023)	(945,067)
237,953	132,000	34,667	(958,622)	(952,817)	(539,739)	(944,615)	(948,861)
235,988	131,649	35,170	(934,604)	(938,674)	(521,214)	(923,684)	(927,818)
233,855	132,867	35,412	(948,969)	(954,796)	(526,279)	(926,484)	(931,433)
234,018	131,936	35,856	(945,361)	(951,913)	(531,099)	(931,404)	(937,593)
235,875	131,885	36,310	(941,278)	(947,796)	(537,527)	(938,650)	(945,186)
237,733	136,936	38,472	(1,008,681)	(1,016,152)	(546,542)	(950,929)	(957,924)

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 ecus	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	256,438	49,893	1,612	1,132,062
1990	801,992	8,199	91,011	284,885	62,678	1,540	1,250,304
1991	878,136	46,942	100,368	298,362	69,457	2,104	1,395,368
1992 – Nov.	847,147	103,747	98,178	352,830	71,736	2,534	1,476,171
Dec.	921,030	86,904	107,210	355,364	73,923	1,925	1,546,356
1993 – Jan.	880,528	106,604	107,296	369,268	75,351	1,631	1,540,678
Feb.	879,491	108,578	107,340	364,814	78,531	1,859	1,540,613
Mar.	889,492	103,450	107,325	365,463	79,463	1,724	1,546,917
Apr.	895,459	104,095	107,296	363,492	79,775	1,354	1,551,471
May	898,870	108,559	107,226	363,528	80,076	1,256	1,559,514
June	905,481	99,647	107,115	355,366	80,642	1,739	1,549,991
July	897,872	102,391	106,929	353,470	80,982	1,897	1,543,540
Aug.	894,009	105,637	106,999	347,793	80,282	2,007	1,536,727
Sept.	915,880	96,136	107,034	339,651	80,620	2,058	1,541,378
Oct.	919,822	102,693	107,212	328,634	80,774	1,921	1,541,055
Nov.	922,061	106,730	107,380	326,515	80,191	1,972	1,544,849
Dec.	986,268	89,566	117,683	313,161	80,977	1,554	1,589,209
1994 – Jan.	(949,189)	104,441	(118,311)	311,753	84,176	1,826	(1,596,695)
Feb.	(952,103)	111,381	(118,933)	305,123	81,313	1,645	(1,570,498)
Mar.	(972,375)	103,031	(119,460)	300,087	80,092	1,736	(1,576,782)
Apr.	(962,095)	102,957	(120,025)	299,785	79,650	1,761	(1,566,273)
May	(958,229)	100,373	(120,577)	301,398	80,552	1,681	(1,562,811)
June	(968,083)	89,407	(121,116)	302,283	79,635	1,699	(1,562,222)
July	(948,622)	99,097	(121,684)	308,133	77,240	1,699	(1,556,475)
Aug.	(934,604)	102,510	(122,300)	311,689	74,759	1,788	(1,547,649)
Sept.	(948,969)	93,094	(122,679)	315,352	73,965	1,606	(1,555,665)
Oct.	(945,361)	101,178	(123,074)	317,283	73,079	1,639	(1,561,614)
Nov.	(941,278)	105,443	(123,564)	321,371	72,109	1,626	(1,565,392)
Dec.	(1,008,681)	90,113	(135,664)	*(314,642)*	*(72,109)*	*(1,626)*	*(1,622,835)*

Financial assets

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

	Liquid assets	Medium and long-term securities			Units of investment funds	Other financial assets	Total domestic financial assets	Total financial assets
		Government securities	Bonds of Crediop and autonomous gov. agencies	Other bonds				
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	1,132,062	380,051	7,401	72,473	49,165	2,936	1,644,088	1,694,581
1990	1,250,304	451,551	11,323	83,319	47,379	5,649	1,849,526	1,919,705
1991	1,395,368	496,628	12,162	108,354	56,191	4,857	2,073,560	2,179,653
1992 – Nov.	1,476,171	495,523	12,916	115,252	59,703	4,993	2,164,558	2,296,966
Dec.	1,546,356	490,033	15,406	114,584	60,663	3,158	2,230,201	2,357,599
1993 – Jan.	1,540,678	502,360	15,029	118,488	61,900	2,805	2,241,259	2,367,268
Feb.	1,540,613	505,005	15,222	120,965	64,256	2,422	2,248,484	2,371,710
Mar.	1,546,917	506,882	15,433	121,476	66,086	2,754	2,259,548	2,382,731
Apr.	1,551,471	522,250	14,242	124,186	67,846	2,620	2,282,615	2,407,364
May	1,559,514	529,628	14,338	127,488	70,368	2,474	2,303,810	2,426,840
June	1,549,991	540,944	14,362	127,803	73,521	3,153	2,309,774	2,433,420
July	1,543,540	552,114	14,533	134,605	78,532	3,283	2,326,607	2,451,386
Aug.	1,536,727	551,607	13,385	138,109	85,609	3,401	2,328,839	2,455,159
Sept.	1,541,378	560,216	13,320	141,096	89,675	3,818	2,349,503	2,476,061
Oct.	1,541,055	563,980	14,210	149,530	97,141	3,360	2,369,276	2,498,981
Nov.	1,544,849	555,088	14,062	152,661	101,900	3,581	2,372,142	2,504,128
Dec.	1,589,209	566,017	13,429	152,838	110,093	3,309	2,434,895	2,570,915
1994 – Jan.	(1,569,695)	558,991	15,091	(158,009)	120,132	(3,621)	(2,425,539)	(2,562,800)
Feb.	(1,570,498)	562,643	14,881	(161,906)	125,485	(3,870)	(2,439,283)	(2,576,323)
Mar.	(1,576,782)	561,947	14,763	(161,875)	129,954	(4,099)	(2,449,421)	(2,588,159)
Apr.	(1,566,273)	569,397	14,817	(165,490)	136,259	(3,829)	(2,456,066)	(2,594,713)
May	(1,562,811)	576,535	16,038	(166,916)	137,481	(3,899)	(2,463,680)	(2,602,907)
June	(1,562,222)	582,297	16,344	(166,941)	136,231	(3,743)	(2,467,778)	(2,607,163)
July	(1,556,475)	588,950	16,378	(166,551)	138,027	(4,086)	(2,470,467)	2,612,147)
Aug.	(1,547,649)	594,367	16,340	(168,447)	136,804	(4,274)	(2,467,881)	(2,609,900)
Sept.	(1,555,665)	605,275	16,145	(167,144)	134,390	(4,266)	(2,482,885)	(2,628,187)
Oct.	(1,561,614)	620,036	*(16,059)*	*(165,947)*	131,600	(4,237)	*(2,499,493)*	*(2,645,561)*
Nov.	(1,565,392)	631,870	*(16,170)*	*(166,752)*	130,877	(4,226)	*(2,515,286)*	*(2,665,564)*
Dec.	*(1,622,835)*	*(642,793)*	*(16,172)*	*(170,386)*	130,168	*(4,226)*	*(2,586,580)*	*(2,737,453)*

Cre

(end-of-period stocks

	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 – 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	(364,991)	(35,538)	(1,029,582)	(123,342)
Feb.	623,725	(368,409)	(35,031)	(1,027,164)	(121,945)
Mar.	612,408	(370,897)	(34,506)	(1,017,812)	(120,491)
Apr.	609,511	(371,617)	(33,444)	(1,014,573)	(119,268)
May	604,021	(374,309)	(35,503)	(1,013,833)	(119,412)
June	615,193	(371,317)	(34,896)	(1,021,406)	(118,661)
July	618,764	(371,968)	(33,841)	(1,024,573)	(117,274)
Aug.	611,162	(372,810)	(33,837)	(1,017,809)	(118,356)
Sept.	609,651	(370,767)	(33,091)	(1,013,509)	(116,453)
Oct.	614,617	(370,938)	*(32,609)*	*(1,018,164)*	*(113,495)*
Nov.	613,145	(372,731)	*(32,540)*	*(1,018,415)*	*(113,314)*
Dec.	636,569	*(374,018)*	*(32,540)*	*(1,043,127)*	*(113,314)*

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
1,059,931	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	2,742,554
1,141,366	1,566,418	56,030	1,622,448	2,575,640	2,763,814
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	2,807,856
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	1,697,401	73,084	1,770,486	2,734,996	2,932,398
(1,152,924)	(1,693,917)	77,516	(1,771,433)	(2,723,499)	(2,924,357)
(1,149,110)	(1,706,486)	77,038	(1,783,524)	(2,733,650)	(2,932,634)
(1,138,303)	(1,733,291)	73,243	(1,806,534)	(2,751,103)	(2,944,837)
(1,133,841)	(1,753,076)	71,500	(1,824,576)	(2,767,649)	(2,958,416)
(1,133,245)	(1,773,453)	70,319	(1,843,772)	(2,787,286)	(2,977,017)
(1,140,068)	(1,760,406)	72,070	(1,832,476)	(2,781,813)	(2,972,543)
(1,141,847)	(1,759,825)	77,308	(1,837,133)	(2,784,398)	(2,978,980)
(1,136,165)	(1,768,102)	75,854	(1,843,955)	(2,785,911)	(2,980,120)
(1,129,963)	(1,798,897)	75,239	(1,874,136)	(2,812,406)	(3,004,099)
(1,131,658)	(1,827,970)	75,470	(1,901,440)	*(2,846,134)*	*(3,033,098)*
(1,131,729)	(1,852,640)	75,308	(1,927,948)	*(2,871,055)*	*(3,059,677)*
(1,156,441)	(1,853,978)	83,084	(1,937,062)	*(2,897,105)*	*(3,093,503)*

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
1989	74,544	14,971	–5,529	*(79,663)*	*(7,632)*	*(–22,194)*
1990	63,597	15,458	–5,400	*(73,132)*	*(6,433)*	–26,026
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)*
1994	22,414	3,156	–29,334	(–7,576)	(28,500)	(27,667)
1992 – 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.	(–37,079)	5,178	–2,733	–18,170	(–15,359)	(–5,995)
Feb.	(2,914)	1,417	5,182	–7,157	(2,646)	(827)
Mar.	(20,273)	–2,347	–5,068	–5,103	(31,471)	(1,318)
Apr.	(–10,280)	–235	–8,342	–4,267	(14,107)	(–11,544)
May	(–3,866)	2,162	–4,024	–7,841	(2,095)	(3,742)
June	(9,854)	–1,093	–5,715	13,162	(–15,565)	(19,065)
July	(–19,461)	3,361	–11,237	5,363	(–11,257)	(–5,691)
Aug.	(–14,018)	–3,218	–746	–8,599	(3,705)	(–5,159)
Sept.	(14,365)	–1,119	–6,858	–1,845	(17,862)	(6,325)
Oct.	(–3,608)	–5,947	–1,351	4,558	(8,666)	(–9,534)
Nov.	(–4,083)	(–2,497)	(7,146)	(–498)	(12,359)	(–20,593)
Dec.	(67,404)	(7,494)	(4,412)	(22,822)	(–22,232)	(54,907)

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 a19 and a20 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 a19 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. For the sake of comparability, "Fiscal revenues" include the VAT accruing to the EU, previously included under "Other revenues". 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. Since January 1994 this item includes the movements in the current accounts held with the Treasury by the former social security institutions administered by the Treasury Ministry. 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 abroad by the Italian government and state sector entities; 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 item "BI-UIC financing other than securities purchases" includes the "Sinking fund for the redemption of government securities" set up pursuant to Law 432/1993, subsequently amended by Decree Law 436/1994, which has been reiterated (most recently as Decree Law 1/1995). 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). The Treasury's current account with the Bank of Italy was closed on 31 December 1993 and the overdraft at that date transferred to a suspense account. The latter was closed in November 1994 following the consolidation of the debt by way of the assignment to the Bank of Italy of the 76,206 billion lire of BTPs issued pursuant to a Ministerial Decree of 15.11.1994. These securities are included under "Medium and long-term securities". Since January 1994 this item includes the movements in the current accounts held with the Treasury by the former social security institutions administered by the Treasury Ministry. 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. The items "Medium and long-term securities excluding BI portfolio", "Treasury bills in lire and ecus excluding BI portfolio", "Subtotal" and "Borrowing from BI-UIC" only include securities acquired outright. 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 raised directly abroad and Treasury credit certificates in ecus that are stamped as being for circulation abroad. Until December 1993 the item "Other domestic debt" includes the current accounts held with the Treasury by the former social security institutions administered by the Treasury

Ministry. 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 accounts" consists of the drawings by the Treasury on its overdraft facility with the central bank; from January to November 1994 it consists of the movements on the Treasury payments account; from December 1994 on it also includes the movements on the sinking fund for the redemption of government securities to which the 5,921 billion lire of proceeds from the privatizations of IMI and INA were transferred from the Treasury payments account (to which they had initially been credited respectively in February and July 1994). The figure for December 1994 excludes the movement associated with the consolidation of the Bank of Italy's claim in respect of the overdraft on the Treasury's former current account. The item "Other BI-UIC operations with the Treasury" includes BI-UIC net redemptions of government securities at issue, coins in circulation, coins held by the Bank of Italy, postal securities to be redeemed, claims arising from the consolidation of compulsory stockpiling bills, sundry services on behalf of the state and other BI-UIC financing, net of banknotes held by the Treasury. The figure for December 1993 excludes the acquisition of the securities issued by the Treasury to establish the Treasury payments account; that for November 1994 excludes the acquisition of the securities issued by the Treasury to consolidate the Bank of Italy's claim in respect of the overdraft on the Treasury's former current account.

"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. 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). "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. Since January 1994 it excludes the deposits of social security institutions administered by the Treasury Ministry.

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, the above-mentioned adjustments are also excluded from "Other sectors". Foreign currency swaps are translated using end-month exchange rates.

The figures for "Government securities" show the amounts acquired outright by the Bank of Italy; they also include the securities issued in November 1994 in accordance with Law 483/1993 to consolidate the Bank of Italy's claim in respect of the overdraft on the Treasury's former current account. They 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 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 "Suspense account under Law 483/1993" comprises the balance of the Treasury's overdraft with the Bank of Italy at 31 December 1993. This claim on the Treasury was consolidated in November 1994 through the acquisition of 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 were credited to this account (respectively 1,593 billion lire in July and 4,328 billion in September). The "Sinking fund for the redemption of government securities" was established at the Bank of Italy pursuant to Law 432/1993, as amended by Decree Law 1/1995. In December 1994 the 5,921 billion lire of proceeds from the privatizations of IMI and INA were transferred to this fund from the Treasury payments account to which they had initially been credited. The other items, in addition to coins in circulation, include the claims arising from the consolidation of stockpiling bills, coins held by the Bank of Italy, and PO securities to be redeemed. They also include sundry services on behalf of the state and other BI-UIC financing, net of banknotes held by the Treasury.

"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). "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. 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.

"Temporary operations in securities" 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 November 1994 excludes the government securities issued, pursuant to Law 483/1993 and a Ministerial Decree of 15.11.1994, to consolidate the overdraft on the Treasury's former current account with the Bank of Italy.

"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 Deutsche Marks 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

Yields are stated as percentages, amounts in billions of lire. Purchases are shown with a plus sign, sales with a minus sign. The marginal yield is the minimum allotment rate for purchases and the maximum allotment rate for sales.

Table a31

The discount rate and the rate on fixed-term advances are end-of-period figures.

The rates on foreign currency swaps and securities 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 banks 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.

The issues by the public sector in December 1993 include the 30.67 trillion lire of BTPs and CCTs taken up by the Bank of Italy in order to establish the Treasury payments account. The issues made in November 1994 include the 76,205.8 billion lire of BTPs issued, pursuant to Law 483/1993, to consolidate the overdraft on the Treasury's former current account with the Bank of Italy. Rounding may cause discrepancies in totals.

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 CCTs;
- 26 January 1983 for CTEs;
- 30 December 1983 for BTPs;
- 27 June 1989 for CTOs;
- 31 December 1984 for investment fund units.

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 "sight deposits" comprise demand deposits in lire and foreign currency.

"Other assets" 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. The method of estimating the stock of Italian government securities held by non-residents (which is based on the information on flows) has been modified to take account of movements in market prices; the figures for previous years have been amended accordingly. The change affects the series for the non-state sector's holdings of government securities, liquid assets and financial assets.

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

"Government securities" comprise CCTs, BTPs, CTEs, CTSs, ordinary certificates, CTOs and CTRs, as well as certificates issued by social security institutions and the Deposits and Loans Fund, 5% annuities and school building loans. The item excludes government securities acquired by the non-state sector under 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 under repos, which are included under liquid assets, but include 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 Republic of Italy issues 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.

Under the new accounting rules applicable to banks since January 1994, the amounts of securities held by the different categories of operator refer only to those acquired outright, so that securities sold under repos are included and those bought under repos are excluded.

"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 the balance sheets of banks accepting short-term funds.

The annual figures for the current account balance may not coincide with the sum of the quarterly figures.

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

A public body under 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' 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.*

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.*

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 contributions 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
BI-UIC	—	*Banca d'Italia – Ufficio italiano dei cambi* Bank of Italy – Italian Foreign Exchange Office
BOT	—	*Buoni ordinari del Tesoro* Treasury bills
BTE	—	*Buoni del Tesoro in ECU* Treasury bills in ecus
BTP	—	*Buoni del Tesoro poliennali* Treasury bonds
CCT	—	*Certificati di credito del Tesoro* Treasury credit certificates
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
CTE	—	*Certificati del Tesoro in ECU* Treasury certificates in ecus
CTO	—	*Certificati del Tesoro con opzione* Treasury option certificates
EAGGF	—	*European Agricultural Guidance and Guarantee Fund*
EFIM	—	*Ente partecipazioni e finanziamento industria manifatturiera* Shareholding and Financing Agency for Manufacturing Industry
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
INPS	—	*Istituto nazionale per la previdenza sociale* National Social Security Institute
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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