BANCA D'ITALIA

Economic Bulletin

Number 21 October 1995

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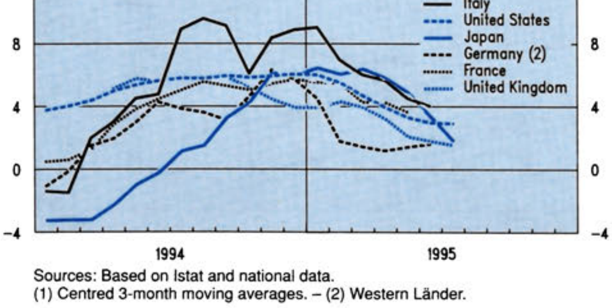
Economic Developments and Policies

The international economy

The rate of economic growth has slowed down in the industrial countries in the course of 1995 (Figure 1 and Table 1). The International Monetary Fund has revised its forecasts downwards by about half a percentage point since May. GDP is now expected to increase by 2.5 per cent this year, compared with 3.1 per cent in 1994. The growth in world trade continues to stimulate activity, but the contribution from domestic demand is diminishing. Although investment remains buoyant, the recovery in consumer spending is still hesitant, owing to slow growth in labour incomes, the persistence of high unemployment, especially within the EU, and the consequent deterioration in consumer confidence. The Japanese economy continues to stagnate as a result of the sharp appreciation of the yen and the problems of the banking system; it is estimated that output will again increase only marginally this year, despite the adoption of a strongly expansionary stance in monetary policy and, after some hesitation, in fiscal policy as well.

Figure 1

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



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

Notwithstanding the slowdown in growth, the particularly strong recovery in activity last year should begin to be reflected in an improvement in labour market conditions. International organizations estimate that the unemployment rate in the industrial economies, which averaged 8 per cent in 1994, will decline by half a percentage point this year.

Progress in adjusting the external imbalances of the three leading industrial countries has been modest. The Japanese current account surplus should continue to decline, albeit slowly, but the US deficit is still increasing.

In most of the industrial countries monetary policy has continued to be directed towards preventing inflationary pressures. Inflation has remained quite low this year (Figure 2), partly as a consequence of the cyclical slowdown and the fall in the dollar prices of commodities. In some countries the monetary authorities tightened liquidity conditions in the early part of the year but cautiously relaxed them once the pressures on prices and exchange rates had subsided. In Germany a decline in short-term interest rates from the end of March onwards helped bring about a similar reduction in other European countries. In Japan the protracted economic stagnation prompted the authorities to reduce the discount rate to 0.5 per cent in September, the lowest level recorded in any industrial economy since the Second World War (Figure 3).

Long-term rates also declined, aided by the easing of inflation and progress in reducing budget deficits. On average, however, they remained high in real terms (Figure 4).

Table 1

Gross product and domestic demand in the leading industrial countries (1)

(annualized percentage changes on preceding period)

	1994	1994 H2	1995 Q1	1995 Q2	1995 H1	1995 (2)
United States						
GDP	4.1	4.3	2.7	1.3	2.9	2.9
Domestic demand	4.7	4.4	3.5	1.9	3.3	3.0
Japan						
GNP (3)	0.4	0.8	–0.6	3.0	–0.5	0.5
Domestic demand	1.0	1.4	0.5	3.2	0.3	1.5
Germany						
GDP	2.9	2.4	3.1	0.9	2.4	2.6
Domestic demand	2.8	2.6	2.2	1.0	2.2	2.3
France						
GDP	2.9	4.1	3.0	1.6	2.8	2.9
Domestic demand	3.1	3.6	1.0	1.1	1.5	2.5
Italy						
GDP	2.2	4.3	5.5	–1.5	2.7	3.0
Domestic demand	1.9	4.9	–0.7	–3.8	–0.3	2.5
United Kingdom						
GDP	3.8	3.8	2.2	2.3	2.4	2.7
Domestic demand	3.4	2.4	–1.9	4.7	1.6	2.0
Canada						
GDP	4.6	5.5	0.9	–1.0	1.3	2.2
Domestic demand	3.4	1.9	3.1	1.5	2.6	1.8
Memorandum items:						
EU (4)						
GDP	2.7	3.7	....	....	2.7	2.9
Domestic demand	2.3	3.6	....	....	2.1	2.6
OECD (4)						
GDP	3.1	3.3	....	....	2.0	2.5
Domestic demand	3.3	3.3	....	....	1.7	2.6

Sources: IMF, OECD, Istat and national statistics.
(1) At constant prices. – (2) IMF forecasts in *World Economic Outlook* and, for Italy, *Relazione previsionale e programmatica*. – (3) The 1995 forecasts refer to GDP. – (4) For 1995, OECD and IMF estimates.

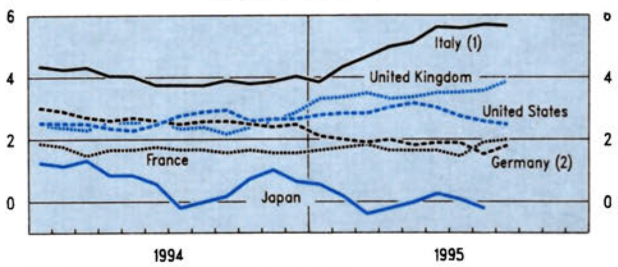
With fiscal adjustment continuing, the general government deficit should decline to an average of less than 3.5 per cent of GDP this year.

In the first few months of the year market tensions produced exchange rate movements among the major currencies that were not in line with the economic fundamentals. These misalignments were partially reversed during the summer by the easing of monetary conditions in Germany and the recovery of the dollar. Exchange market turbulence built up again in September owing to the renewed weakness of the dollar and uncertainty about the process of European monetary unification.

Figure 2

Consumer prices

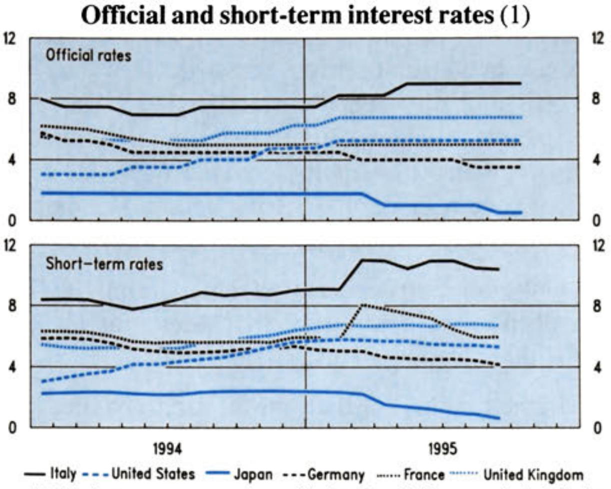
(percentage changes on corresponding month of previous year)



Sources: National statistics, Istat and OECD.
(1) From July 1995 onwards the data for Italy are estimated on the basis of movements in the cost-of-living index. – (2) Western Länder.

Figure 3

Official and short-term interest rates (1)



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

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

The economic slowdown in the United States, which was due in part to monetary policy aimed at averting a possible resurgence of inflation, brought a return to growth rates compatible with balanced expansion. The capacity utilization rate remains high, however. In the first half of 1995 GDP grew at an annual rate of 2.9 per cent, compared with 4.3 per cent in the preceding half-year. The decline in public consumption, which was not offset by the rise in private consumer spending, and the slowdown in investment in the second quarter reduced the rate of growth in domestic demand from 4.4 to 3.3 per cent. The Mexican debt crisis and the pause in the recovery in Europe put a brake on exports, despite the gain in competitiveness deriving from the weakening of the dollar. The cooling of the domestic economy and the reduction in labour costs facilitated a slowdown in inflation; in September consumer prices registered a 12-month increase of 2.5 per cent, more than half a percentage point less than the peak recorded in May. The unemployment rate remained low (5.6 per cent in September).

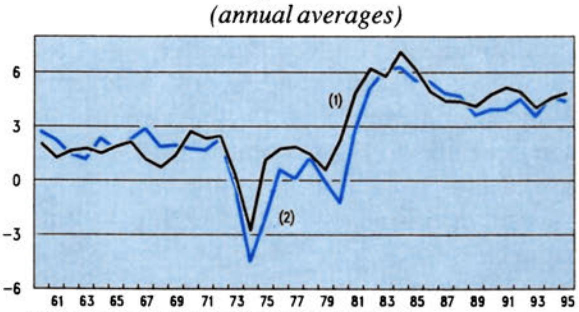
The Japanese economy is still in a fragile condition. Although GNP increased at an annual rate of 3.0 per cent in the second quarter, it declined by 0.5 per cent on the same basis in the first half as a whole. Industrial production stagnated in the first eight months of the year. As in 1994, there is likely to be an extremely slight increase in output in the year as a whole. Unemployment rose to the historically high level of 3.2 per cent in August, compared with 2.8 per cent in December. Together with the worsening difficulties of the banking system, this contributed to a persistent lack of confidence that adversely affected private consumption and investment (Figure 5). The sharp appreciation of the yen until April not only checked the growth in exports but also accentuated the deflation induced by the stagnation in economic activity and the fall in unit labour costs. In the first eight months of the year the consumer price index fell by 0.4 per cent. At the same time producer prices declined further, continuing a trend that has been under way for four years; in July they were 0.8 per cent lower than a year earlier. The economic situation has been aggravated by a further deterioration in the asset position of the banking system. According to official estimates, bank loans that are non-performing or subject to restructuring amount to some ¥50 trillion, equal to about 7 per cent of total lending and 10.5 per cent of GDP. Acting in concert with the central bank, the Government has taken action to deal with crises as they have arisen and has announced a five-year plan for restoring the health of the banking system.

Cyclical indicators also signal a slowdown in economic activity in the European Union.

Figure 4

Real long-term interest rates in the leading industrial countries

(annual averages)

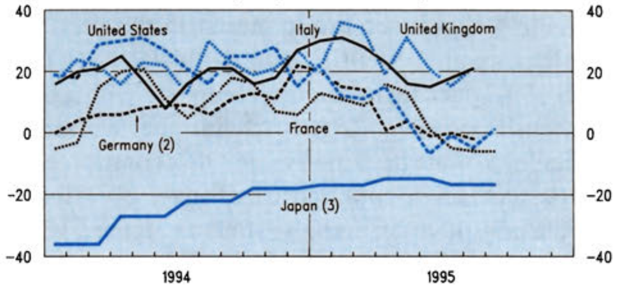


Sources: Based on OECD data and national bulletins.

(1) Nominal yields deflated by the rate of change in consumer prices in the twelve months preceding the observation. – (2) Nominal yields deflated as follows: for the eighties, by the OECD forecast of the average rate of change in the GDP deflator for the subsequent two years; for the seventies, by the change forecast for the subsequent year; for the sixties, by the average change in consumer prices over the subsequent two years.

Figure 5

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



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

In Germany the decline in the growth rate reflects the appreciation of the Deutsche Mark and the smallness of the rise in disposable income. In the second quarter GDP was 2.2 per cent higher than a year earlier, compared with a 2.6 per cent rise in the first. The slowdown was due to developments in the western regions, where the growth rate fell from 2.5 per cent in the first quarter to 1.8 per cent in the second; in the eastern regions output continued to increase at a rate of about 7 per cent. The unemployment rate in the western regions remained high (8.4 per cent in September). The slowdown in growth and the appreciation of the mark fostered a slowdown in inflation, with the 12-month rise in the new consumer price index declining from 2.1 per cent in January to 1.6 per cent in September.

In France the growth in GDP slowed down from an annualized rate of 4.1 per cent in the first half of 1994 to one of 2.8 per cent in the first half of 1995. A recovery in private consumption, which was especially marked in the second quarter, was offset by a slowdown in investment and exports. Although still high, the unemployment rate declined from 12.0 per cent in December to 11.4 per cent in August. Inflation remained low in the first nine months of the year, registering a 12-month rate of 2.0 per cent in September.

In the United Kingdom GDP growth declined from an annual rate of 3.8 per cent in the second half of 1994 to 2.4 per cent in the first half of 1995 as a result of increases in indirect taxes and the maintenance of a restrictive monetary stance. This helped contain inflationary pressures caused by the depreciation of sterling. The 12-month rate of increase in consumer prices remained at around 3.5 per cent until August and then jumped to 3.9 per cent in September. Labour market conditions continued to improve, with the unemployment rate declining from 8.5 per cent in January to 8.1 per cent in September; in January 1994 it had stood at 9.9 per cent.

Only modest progress was made during the first half of the year in adjusting the external imbalances of the three leading industrial countries.

In the first half of the year the United States had a current account deficit of $83 billion, compared with one of $68 billion in the first half of 1994. The deterioration reflected the widening of the trade deficit from $78 to 94 billion as a result of the steady growth in the volume imports, which increased at an annual rate of 10.8 per cent in the first half, and the worsening of the terms of trade, which more than offset an 11.7 per cent growth in exports. The IMF estimates that the current account will show a deficit of about $176 billion for the year as a whole, equal to 2.5 per cent of GDP, compared with $151 billion (2.2 per cent) in 1994.

The Japanese current account surplus has continued to decline, albeit slowly; in the first half of 1995 it amounted to $60 billion, $7 billion less than a year earlier; the deficits on services and unrequited transfers increased while the trade surplus remained virtually unchanged. Further adjustment is expected to occur in the second half, reducing the surplus for the year from $129 to 116 billion, or from 2.8 to 2.3 per cent of GDP.

Despite the appreciation of the Deutsche Mark, Germany's trade surplus increased to $32 billion in the first half, compared with $23 billion in the same period of last year. The current account deficit declined to $7 billion, around one third of the figure recorded in the second half of 1994. It is expected to reach $17 billion for the year as a whole, or 0.7 per cent of GDP, compared with $22 billion (1 per cent) in 1994. As a result of the current account deficits recorded every year since 1990, Germany's net external creditor position has been nearly halved, from 21 to about 10 per cent of GDP.

Economic policies

According to IMF estimates, the average general government deficit in the industrial countries will decline from 3.7 to 3.4 per cent of GDP in 1995 as a result of restrictive budgetary policy and economic growth in all the countries except Japan; the cyclically adjusted deficit should remain broadly unchanged at 2.5 per cent of GDP.

The US federal budget deficit for the 1995 fiscal year, which ended in September, amounted to $160 billion, or 2.3 per cent of GDP, compared with $203 billion in 1994 (3.1 per cent). The effect of measures to curb expenditure was amplified by a substantial increase in tax revenues and a reduction in interest expenditure owing to the recent decline in interest rates. The future shape of the federal budget is now the subject of a fierce confrontation between Congress and the President. In June Congress passed the adjustment plan presented by the Republican Party, which calls for balancing the budget by 2002 by making massive cuts in expenditure, which in the case of non-defence spending will amount to more than 30 per cent in real terms. If the adjustment should lead to more favourable trends in interest rates and economic activity, the savings would be earmarked to finance tax cuts of up to $245 billion. The Administration has presented a plan of its own that would defer balancing the budget until 2004, restrict tax relief to the lower and middle income brackets and make smaller reductions in expenditure in view of the need for measures in the field of education, infrastructure and research. The drafting of individual spending laws, on which Congress is preparing to vote, will offer an opportunity for compromise.

In Japan the general government deficit for the fiscal year that ends in March should increase from 3.2 to 4.3 per cent of GDP (or from 6.7 to 7.5 per cent net of the surplus of the social security system), owing mainly to the stagnation of economic activity and measures to stimulate growth. An initial supplementary budget of ¥2.7 trillion (0.6 per cent of GDP) was passed in May; ¥1.5 trillion was earmarked for reconstruction in areas devastated by the Kobe earthquake. However, the scale of the additional expenditure was far from sufficient to counteract the fall in economic activity, so that in September the Government enacted far larger outlays totaling ¥14.2 trillion, or 3.0 per cent of GDP; ¥4.6 trillion was appropriated for public works, ¥3.2 trillion for the purchase of buildings and land and ¥2.8 trillion divided equally between assistance to small and medium-sized enterprises and reconstruction in the earthquake area. Nevertheless, net of expenditure that had already been decided and that was simply brought forward under the new package, total additional expenditure is estimated at no more than ¥8 trillion, or 1.7 per cent of GDP.

The average general government deficit of the EU countries should fall from 5.7 to 4.9 per cent of GDP this year. The IMF estimates that the cyclically adjusted deficit will decline by only 0.2 percentage points to 3.4 per cent of GDP. Public debt is expected to rise to 70.5 per cent of GDP.

Under the excessive deficit procedure, which is in its second year, the EU Council of Finance Ministers noted that Germany, alongside Luxembourg and Ireland, now satisfied the Maastricht convergence criteria for the public finances on the basis of its performance in 1994. All the other countries, including the three new members (Sweden, Finland and Austria), have excessive deficits.

In Germany the general government deficit is expected to remain unchanged this year at 2.5 per cent of GDP, as the effect of the tax increases introduced in January will largely be offset by the smaller-than-expected growth in output. The 1996 budget, which was passed in July, provides for substantial cuts of 5.4 per cent in overall spending, with more than half of the savings coming from reductions in family allowances. The expenditure cuts will offset only part of the loss of revenue due to Constitutional Court judgements exempting subsistence incomes from taxation and abolishing the surtax on household energy consumption. The federal budget deficit is therefore expected to increase from DM 50 to 59 billion next year, or from 1.4 to 1.6 per cent of GDP.

In France the deficit is projected to decline to 5 per cent of GDP this year, having risen to 6 per cent in 1994. The adjustment measures passed in June, which will reduce the deficit by FF 48 billion, should

The variability of exchange rates

In 1995 the foreign currency markets experienced large and sudden exchange rate fluctuations generated by massive capital movements. In the early months of the year the dollar fell sharply to lows of DM 1.34 and ¥79.70, corresponding to a depreciation of respectively 13.5 and 20.3 per cent since December 1994; from the beginning of August to mid-September it appreciated by 8.2 per cent against the Deutsche Mark and by 18.2 per cent against the yen, only to lose respectively two thirds and one third of these gains in the second half of the month.

The variability of the dollar against other leading currencies, as measured by the standard deviations of the daily variations in the logarithm of the exchange rate evaluated over 3-month intervals,(1) has fluctuated widely over the long term (see figure). It was in excess of 10 per cent for some time following the abandonment of the system of fixed exchange rates, and then declined to a low of 4 per cent in mid-1977. It increased again markedly thereafter, exceeding 20 per cent in conjunction with the rapid rise in oil prices in early 1979. It remained in the vicinity of 10 per cent from the end of 1981 onwards, as the destabilizing effects of the second oil shock wore off, with spikes on two occasions: in 1985, when the trend of the dollar was abruptly reversed following four years of strong appreciation, and in the third quarter of 1992 against the Deutsche Mark in the wake of the crisis in the EMS.

The variability of the dollar during 1995 has been comparable to the peaks reached in the early and mid-eighties, although without major disturbances of the kind that accompanied those episodes.

The variability of the Deutsche Mark vis-à-vis the other European currencies appears to be structurally lower than that of the dollar, particularly since the inception of the EMS in 1979 (see figure). The smaller exchange rate fluctuations, especially for the currencies participating in the Exchange Rate Mechanism, are more evident in the period after the realignment of January 1987, which was followed by five years without any change in central rates.(2) Exchange rate variability in Europe has increased significantly since the temporary withdrawal of the lira and the pound sterling from the ERM in September 1992 and the widening of the fluctuation bands to 15 per cent in August 1993: during 1995 it has been consistently above the levels recorded from 1987 to 1992 and close to the highs of the seventies and eighties.

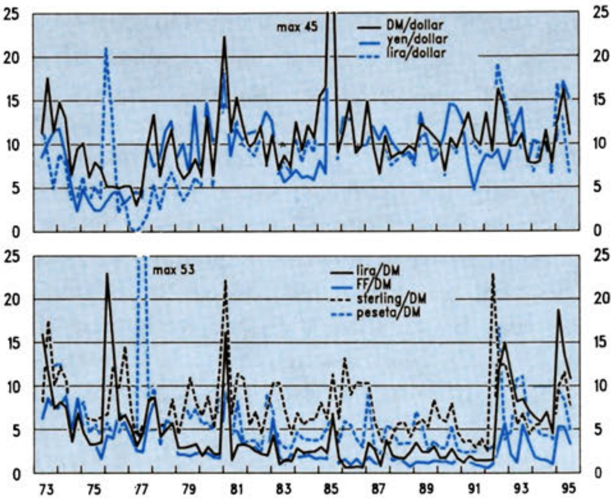
The turbulence in the foreign exchange markets in 1995 can be traced to both cyclical and structural factors.

play a decisive role in this regard; FF 29 billion of the total will consist of additional revenue stemming from increases in corporate taxation and in the standard rate of VAT. The slowdown in economic growth could limit the effects of the adjustment package, however. Under the new budget law, the deficit should decline to 4 per cent of GDP in 1996 and to the 3 per cent required by the Maastricht criteria in 1997.

In the United Kingdom the deficit is expected to fall by 2.7 points to 4.1 per cent of GDP, still above the target of 3.75 per cent. The improvement stems in equal proportions from restrictive fiscal measures and cyclical factors, although the contribution from the latter has been less than forecast in the Finance Act. At the beginning of the year the duties on tobacco products, alcoholic beverages and petrol were increased and cuts in expenditure amounting in real terms to 0.25 per cent of GDP were introduced.

Monetary policy in the United States has been dictated by the need to shore up the dollar and counter the risk of renewed inflation. In February the Federal Reserve raised the discount rate and the federal funds rate to 5.25 and 6 per cent respectively. In subsequent months the abatement of price pressures facilitated a small reduction in short-term interest rates. The federal funds rate remained above 6 per cent until June, then declined gradually to stand at 5.8 per cent in September. The lowering of inflation expectations and the improved prospects for the public finances

Variability of bilateral exchange rates
(standard deviations as a percentage of the level of rates on an annual basis)



Prominent among those of a cyclical nature have been heightened fears of a resurgence of inflation in the United States since the beginning of the year, the possibility that the financial crisis in Mexico might spread to other emerging markets, and the failure of the Japanese economy to recover. In addition, an important role should be attributed to the changes that have occurred in the structure of the foreign exchange and financial markets in recent years; in particular, the internationalization of markets and the liberalization of capital movements have increased substitutability between financial assets and made it easier for economic agents to make rapid portfolio adjustments. Exchange rate variability may also have been boosted by the spread of derivative instruments. It is not uncommon for derivatives to be used in order to establish highly leveraged positions, which may amplify the effect of temporary disturbances when these are interpreted as variations in the equilibrium level of exchange rates and interest rates.

(1) This measure of variability expresses the annualized standard deviation of the daily variations in the exchange rate as a percentage of the level of the exchange rate. Alongside the traditional measures of variability, new indicators have recently been developed that use appropriate econometric procedures to take account of the fact that economic agents' expectations are shaped by a more extensive set of information than the individual time series of exchange rates. However, for the period under review these measures do not provide qualitatively different indications from those that can be inferred from the standard deviation.

(2) With the exception of the "technical" realignment at the time of the lira's adherence to the narrow fluctuation band.

reinforced the downward trend in long-term interest rates that had begun last November, resulting in a flattening of the yield curve; in September the yield differential between ten-year Treasury bonds and three-month bills was 92 basis points, compared with 221 at the end of last year.

In Japan monetary policy was directed towards countering the decline in activity and alleviating the difficulties of the banking system. However, the balance-sheet situation of the banks was such that the easing of monetary conditions could not be passed on fully to lending rates. Despite deflation, the differential between long and short-term rates remains very large, reflecting the present state of uncertainty, compounded by the fragility of the financial system and the timidity of the economic measures taken to counter the recession. As the difficulties worsened, the central bank again lowered the discount rate on 8 September, to 0.5 per cent.

In Germany the weak growth in the M3 money supply (well below the 4-6 per cent target range), the slowdown in inflation and the relative sluggishness of economic activity militated in favour of a progressive easing of monetary conditions. Following the Bundesbank's decision to lower the discount rate to 4 per cent at the end of March while leaving the lombard rate at 6 per cent, short-term interest rates continued to decline gradually. The pace quickened at the end of August as a result of the half-point reduction in both official rates on the 24th of the month. The slope of the yield curve remained positive, owing partly to expectations of a rise in interest rates in the medium term, as demonstrated by the behaviour of forward rates.

In France growing pressure on the franc in the first few months of the year led to a rise in short-term rates, with the repurchase rate increasing from 6.40 per cent in December to 7.75 per cent in April. In subsequent months the reduction in exchange rate volatility and the continued low inflation rate created the conditions for an easing of the monetary stance. The repurchase rate was lowered several times, reaching 6.15 per cent in September. The yield curve, which had been inverted from March to May, consequently resumed a positive slope. Throughout the year the yields on ten-year government bonds fell in parallel with those on corresponding German securities, and the differential narrowed from more than 50 basis points between March and May to about 30 basis points in August. In September the renewed weakening of the franc as a result of domestic political uncertainty halted the decline in interest rates. An intensification of downward pressure on the currency in early October led the Bank of France to raise the repurchase rate by more than a point to 7.25 per cent; it was put back down to 7 per cent in the middle of the month.

Monetary policy in the United Kingdom has remained restrictive, reflecting fears that the rapid recovery in economic activity in 1994 could lead to overheating of the economy. However, the slowdown in growth in the course of the year dissuaded the monetary authorities from raising interest rates further after the increase in the base rate to 6.75 per cent in February. The stability of money market rates and the gradual decline in long-term rates resulted in a flattening of the yield curve; the differentials with the corresponding short and long-term German rates nevertheless remain large.

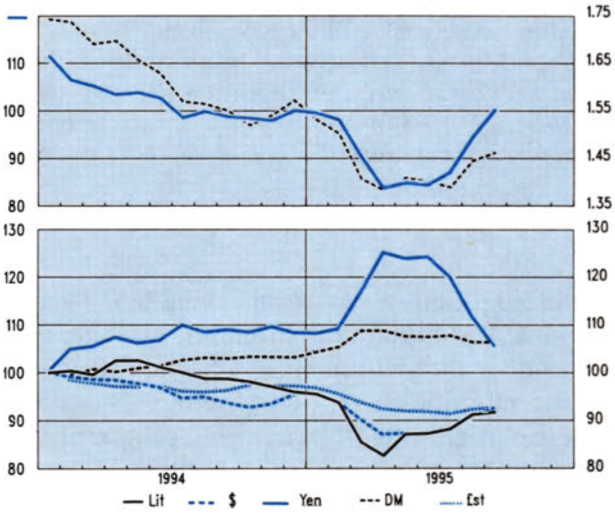
Exchange rates

The turbulence that affected the foreign exchange markets in the first few months of 1995 abated later in the year. Despite renewed depreciation in September and October, the dollar remained above the lows recorded in April.

The dollar recovered markedly during the summer. Between July and September it appreciated by almost 19 per cent against the yen, more than offsetting the losses sustained in the first four months of the year and returning above the 100-yen threshold (Figure 6). The appreciation against the Deutsche Mark over the same period amounted to only 4.4 per cent, however, little more than a third of the depreciation that occurred between January and April. In the first nine months of the year the dollar depreciated by 2.6 per cent in effective terms, despite the recovery during the summer. Conversely, the effective exchange rate of the yen fell by about 15 per cent between July and September to a level 2.5 per cent below that recorded at the beginning of the year. By contrast, the effective appreciation of the Deutsche Mark during the first few months of the year was only partially reversed during the summer.

Figure 6

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



(1) Expressed in units of each currency per dollar. – (2) Vis-à-vis a trade-weighted average of 14 other currencies; indices, January 1994=100. A rise corresponds to an appreciation of the currency.

Several factors contributed to the recovery of the dollar. First, the prospect of an improvement in the US economy during the second half of the year caused the markets to consider a further easing of monetary conditions less likely in the short term, following the marginal downward adjustment in the federal funds rate in July. By contrast, interest rates were reduced in Germany and more sharply in Japan, albeit for radically different reasons, thus widening the differential in favour of the dollar. Secondly, the trade dispute between the United States and Japan was defused in June, when an agreement concerning the automobile sector was signed. Thirdly, in August the Japanese authorities took a series of measures to counter the appreciation of the yen; in particular, restrictions on foreign lending by insurance companies were removed and the regulations on the net external position of banks were revised to encourage investment in assets denominated in foreign currency. Finally, the dollar's recovery was reinforced by coordinated exchange market intervention by the leading central banks in conjunction with explicit official statements regarding the need for a stronger dollar.

The easing of monetary conditions in Germany, the more rigorous stance adopted in the first few months of the year by the central banks of the countries whose currencies had depreciated the most and the recovery of the dollar induced a reduction in exchange rate volatility in Europe during the summer. The range of exchange rate fluctuation between the ERM currencies steadily diminished (Figure 7).

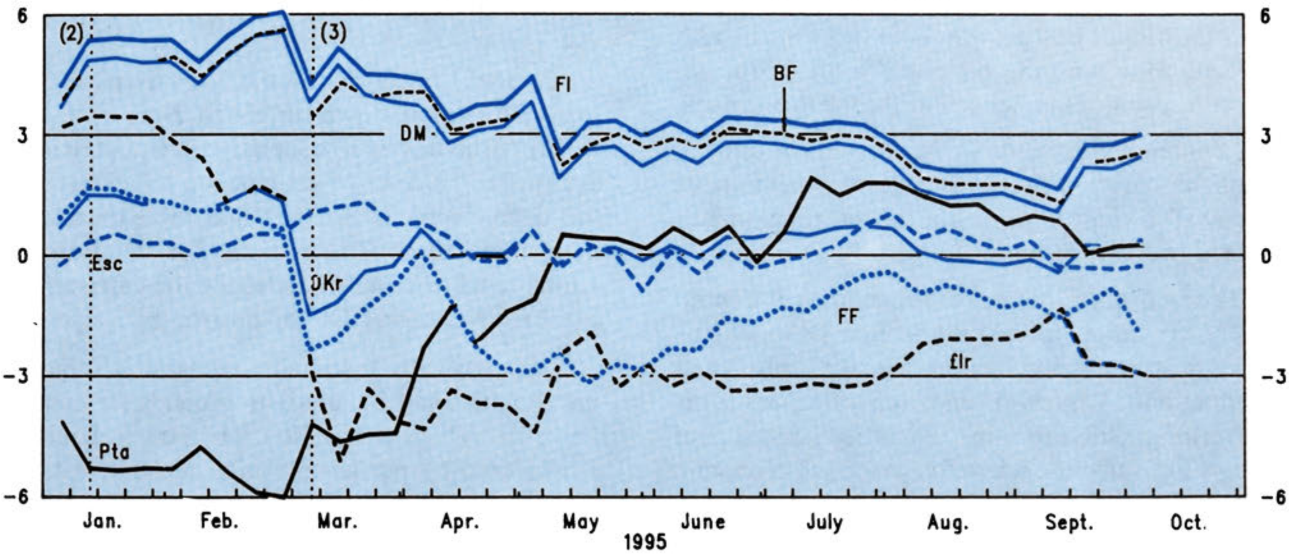
Exchange market tensions intensified again in September. The appreciation of the dollar halted abruptly when the deterioration in the US balance of payments was confirmed and the markets began to have doubts about the adequacy of Japan's fiscal measures to stimulate activity, and hence about the possibility of reducing the country's massive current account surplus by expanding domestic demand. The weakening of the dollar and growing uncertainty about monetary unification generated renewed exchange rate pressure in Europe, which affected not only the lira but also the French franc owing to fears that budgetary measures would prove insufficient to achieve compliance with the Maastricht convergence criteria for the public finances by 1997. The raising of the repurchase rate by the Bank of France enabled the franc to recover.

The developing countries, Central and Eastern Europe and Russia

The gross domestic product of the developing countries should grow by 6 per cent for the third consecutive year, albeit with differences between the main regions. Progress in economic adjustment has

Figure 7

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 Deutsche Mark, apart from negligible divergences. – (3) On 6 March the central rates of the peseta and the escudo were adjusted downwards by 7 and 3.5 per cent respectively.

resulted in lower inflation. Trade has been stimulated by liberalization in many countries, and despite the worsening of the balance of payments both the level of foreign debt and the cost of debt servicing should decline in proportion to exports of goods and services. The Mexican crisis had limited repercussions on the other emerging economies, which suffered only a temporary reduction in capital inflows.

In Asia output is expected to increase by more than 8 per cent in 1995 for the fourth consecutive year. The Chinese economy has continued to grow at a rapid pace, with GDP forecast to rise by about 11 per cent, the recovery in India has strengthened (5.5 per cent), and growth has accelerated significantly in South Korea (9.7 per cent), Malaysia (8.5 per cent) and Thailand (8.4 per cent). Economic expansion has been accompanied by inflationary pressures, albeit less acute than in 1994.

In Latin America output growth is expected to slow down markedly from 4.6 to 2.1 per cent owing to the sharp fall of 5.0 per cent in the GDP of Mexico caused by the restrictive financial measures taken to deal with the foreign exchange crisis and to an abrupt slowdown to 0.5 per cent in the rate of growth in Argentina, which suffered more severely than the other economies from the contagion of the Mexican crisis. Brazil, Chile and Colombia, by contrast, should achieve high rates of growth and a reduction in inflation.

In the Middle East growth should accelerate to 2.5 per cent. However, the outlook for the petroleum exporting countries is clouded by the fall in oil prices.

Economic conditions in Africa remain critical, although the prospects for development have improved owing to the adjustment programmes adopted by many countries.

The recovery in output in the countries of Central and Eastern Europe gained momentum. Despite signs of a slowdown, exports continue to make a substantial contribution to growth and intra-area trade is recovering rapidly. In some countries large capital inflows mitigated the restrictive stance of economic policy. The recovery has been accompanied by an increase in balance-of-payments deficits, aggravated in some cases by real appreciation of the currency. For the area as a whole the current account deficit is expected to rise to 4.0 per cent of exports of goods and services, compared with 2.3 per cent in 1994.

Russia has made significant progress towards economic stabilization, so that although GDP will decline further this year the contraction should be no more than 4 per cent, compared with 15 per cent in 1994. Consumer price inflation slowed down from 18 per cent a month in January to 4.6 per cent in August. Progress has also been made in reducing the budget deficit, which according to official estimates fell to 3.2 per cent of GDP in the first half of the year. In July the central bank undertook to keep the exchange rate within the range of 4,300 to 4,900 roubles to the dollar, a policy that has been reaffirmed until the end of the year. The extreme fragility of the banking system has worsened in the course of the year; bad loans now account for about a third of Russian banks' total assets.

In the countries of the former Soviet Union as a group, output is expected to contract further, although not as dramatically as last year, while inflation will remain very high, at an annual average of 200 per cent.

The outlook for 1996

According to the latest IMF forecasts, the industrial economies should continue to grow at essentially the same rate as this year, around 2.5 per cent (Table 2).

In the United States the growth in GDP is expected to slow down further to 2 per cent, but a recovery should begin in Japan, with output rising by 2.2 per cent, aided by the reduction in interest rates, the depreciation of the yen and the expansionary budget measures. The outlook for the European Union remains promising, despite the current pause in the recovery, and GDP should grow by 2.8 per cent.

This basically favourable scenario is subject to uncertainties and fraught with grounds for concern, however. The continuation of growth could be jeopardized by persistently high real interest rates and the feebleness of the recovery in private consumption, which is much weaker than in the two previous economic upswings, especially in Germany. Moreover, the growth in output is not expected to

Table 2

The main international macroeconomic variables

(percentage changes on previous year)

	1994	1995 (1)	1996 (1)		1994	1995 (1)	1996 (1)
GDP (2)				**Current account balances** (5)			
Industrial countries	3.1	2.5	2.4	Industrial countries	−6.3	−19.1	−20.1
United States	4.1	2.9	2.0	United States	−151.3	−175.9	−173.1
Japan	0.5	0.5	2.2	Japan	129.1	116.1	104.3
EU	2.7	2.9	2.8	Germany	−21.7	−16.5	−27.1
Germany	2.9	2.6	2.9				
LDCs	6.2	6.0	6.3	LDCs	−68.4	−63.7	−76.6
Consumer prices				**Unemployment rate** (6)			
Industrial countries	2.3	2.5	2.5	Industrial countries	8.1	7.6	7.5
United States	2.6	3.0	3.2	United States	6.1	5.7	5.9
Japan	0.7	−0.2	0.1	Japan	2.9	3.1	3.2
EU	3.0	3.1	2.8	EU	11.6	11.0	10.4
Germany	2.7	1.8	1.7	Germany	9.6	9.1	8.7
Budget balances (3)				**World trade** (7)	8.7	7.9	6.5
United States	−2.0	−1.9	−2.0	**Exports** (7)			
Japan	−3.0	−3.7	−3.9	Industrial countries	8.1	6.9	5.0
Germany	−2.5	−2.5	−2.1	LDCs	11.3	11.0	9.6
Short-term interest rates (4)				**Imports** (7)			
United States	5.1	6.2	6.2	Industrial countries	9.2	7.1	5.5
Japan	2.4	1.4	1.4	LDCs	8.5	11.1	9.5
Germany	5.3	4.6	5.2				

Sources: National statistics; IMF, October 1995.
(1) Forecasts. – (2) At constant prices. – (3) As a percentage of GDP. – (4) Averages; 6-month London interbank rates. – (5) Billions of dollars. – (6) Level. – (7) Goods and services at constant prices.

produce any improvement in labour market conditions; the unemployment rate is likely to remain at 7.5 per cent in 1996. In Japan there is a risk that the problems of the financial system will prevent recovery from the recession.

Inflation should not rise above the low level recorded in 1995, thanks partly to the decline in commodity prices. Between March and September of this year the dollar prices of non-oil commodities fell by 2.4 per cent, while oil prices, which exceeded $18 a barrel in April, declined to $16.80 in September.

The absence of inflationary pressures could be conducive to monetary conditions intended to sustain economic activity, thus mitigating the restrictive effects of the adjustment of the public finances taking place in many countries. For the industrial countries as a whole, the general government deficit should fall from 3.4 to 3.1 per cent of GDP. The aggregate deficit in the European Union is expected to decline from 5.0 to 4.1 per cent of GDP, but at this level it will still be above the limit set in the Maastricht Treaty.

It is foreseen that the economies of the developing countries will continue to expand strongly (at a rate of just over 6 per cent) and that the recovery in Central and Eastern Europe will strengthen and spread to the countries of the former Soviet Union, but the growth in world trade is expected to slow down from 8.0 to 6.6 per cent.

The external imbalances of the United States and Japan will continue to be substantial. The US current account deficit will remain unchanged at about $170 billion, or 2.3 per cent of GDP, while the Japanese surplus should be reduced to just over $100 billion, or 2.0 per cent of GDP. Germany's current account deficit is expected to rise again to $27 billion, or 1.1 per cent of GDP.

The Italian economy and the balance of payments

Total demand and economic activity continued to increase in 1995. The rapidity of the expansion in the early months of the year, which was due mainly to the stimulus of foreign demand, exerted pressure on productive capacity; together with the rise in raw materials prices and the depreciation of the lira, it created the risk of an acceleration in inflation, which could have jeopardized the further growth in output. Economic policy was directed primarily towards countering this risk.

The rate of growth in GDP on a seasonally adjusted annualized basis had jumped to 6.2 per cent in the third quarter of 1994 (Table 3). After slowing down sharply to 1.6 per cent in the fourth quarter, it quickened considerably in the first three months of 1995. In the second quarter there was a pause in the expansion, which slackened slightly more in Italy than in the leading industrial countries as a group (Figure 8). According to the cyclical indicators, growth resumed at a moderate rate in the second half.

In the first half of the year the rise in output was fueled by investment and exports, while consumption increased only slightly. This distinguishes the current cycle from previous ones, in which households' spending provided the main stimulus to growth (Figure 9).

The acceleration in investment in equipment, machinery and transport equipment was prompted by the substantial resources available for self-financing, the effect of tax incentives and the pressure that built up on productive capacity during 1994. The depreciation of the lira in the first half of the year and the cautious pricing policy adopted by exporters helped to keep Italian goods highly competitive, thus favouring continued export growth. Imports were boosted by the high level of production, but they were also affected by the weakness of consumption. The surplus on the current account of the balance of payments increased markedly.

Table 3

Resources and uses of income

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

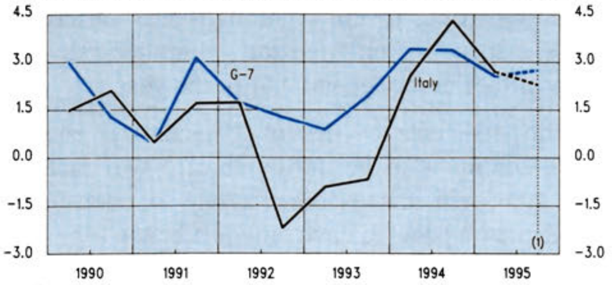
	1994					1995		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	H1 (1)
Gross domestic product	2.2	1.2	3.4	6.2	1.6	5.5	−1.5	3.5
Imports	9.8	21.0	10.4	14.3	13.5	8.9	10.6	11.8
Total resources	3.8	5.2	4.9	7.9	4.2	6.3	1.2	5.3
Gross capital formation	−0.1	1.2	4.1	−2.6	7.2	5.3	10.1	4.2
Construction	−5.2	−4.6	−5.9	−6.0	−3.5	2.3	1.5	−2.4
Machinery, equipment and transport equipment	5.3	7.5	15.2	0.8	18.1	8.1	18.2	10.7
Households' consumption	1.6	2.7	2.2	1.3	1.5	0.4	1.3	1.3
Other domestic uses	5.2	2.7	19.7	31.9	11.3	−10.7	−32.6	4.3
Total domestic demand	1.9	2.4	5.2	5.2	4.2	−0.7	−3.8	2.3
Exports	10.9	15.6	3.9	17.8	4.0	32.4	17.9	15.8

Source: Based on Istat data.
(1) Percentage changes on the corresponding period of 1994.

Figure 8

GDP in Italy and the G-7 countries

(seasonally adjusted half-yearly data, at constant prices; annualized percentage changes on previous half-year)



Sources: Based on Istat and OECD data.

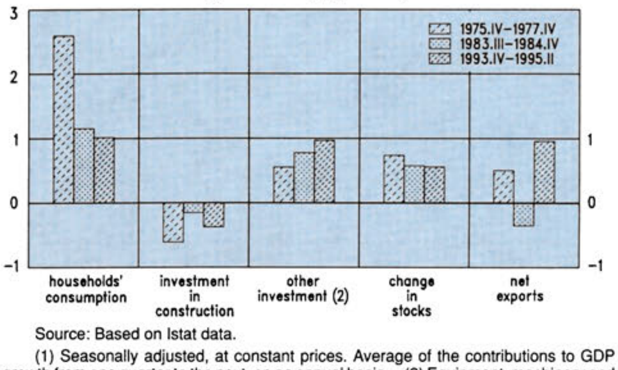
(1) Second half of 1995: for the G-7 countries, OECD forecasts; for Italy, based on the estimate for the year contained in the Forecasting and Planning Report.

The growth of the economy began to have an impact on non-agricultural private sector employment, though with pronounced regional differences. The gain in employment was largest in manufacturing industries located in the Centre and the North, where the scope for flexibility provided by the reduction in the number of hours compensated by the Wage Supplementation Fund seems to have been exhausted.

Figure 9

Contributions to GDP growth in the last three phases of cyclical expansion (1)

(percentage points)



Source: Based on Istat data.

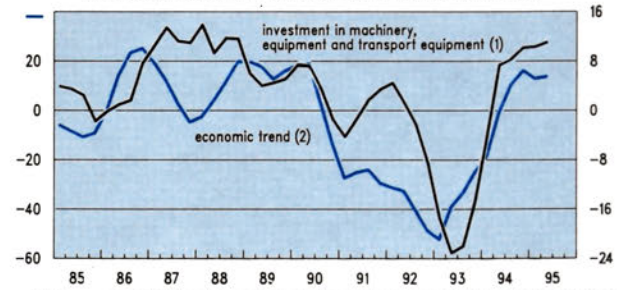
(1) Seasonally adjusted, at constant prices. Average of the contributions to GDP growth from one quarter to the next, on an annual basis. – (2) Equipment, machinery and transport equipment.

Output and demand

In the first half of the year GDP was 3.5 per cent higher than in the same period a year earlier, buoyed on the one hand by the remarkable growth in exports and investment and moderated on the other by the hesitant increase in consumption. The expansion in activity slowed down in the course of the year, however, as revealed by the behaviour of GDP, which grew by 1.3 per cent in the first quarter with respect to the previous three months but contracted by 0.4 per cent in the second; the continuing positive contribution from investment, net exports and, to a much smaller extent, consumption was offset by a large reduction in stocks, as estimated by Istat.

Figure 10

Investment in machinery, equipment and transport equipment and firms' expectations of the economic trend 3-4 months ahead



(1) Source: Istat. Rates of growth in relation to the corresponding period calculated from seasonally adjusted data at 1985 prices. – (2) Source: Isco. Moving average (three terms) of the difference between the percentage of positive replies ("favourable") and negative replies ("unfavourable") to Isco-ME surveys of businessmen.

Gross fixed investment was 3.4 per cent higher in the first half of the year than in the previous half and accelerated during the period. In contrast with the rapid growth in purchases of equipment, machinery and transport equipment, the recovery in construction remained sluggish.

Investment in construction continued to be affected by the difficulties that have beset the public works sector for more than two years; in the first half of 1995 it was nevertheless 0.3 per cent higher than in the previous six months, the first increase for around three years. This reversal of trend is confirmed by the Isco sample surveys of construction firms and by the figures reported by the National Builders' Association on the value of public works contracts awarded. The latter was 29.3 per cent higher in the first nine months of the year than in the corresponding period of 1994, although still well below the levels recorded in the early nineties.

Purchases of equipment, machinery and transport equipment grew much more rapidly than in the second half of 1994. The sustained high level of demand, especially from abroad, appears to have helped dispel the uncertainty that had held back plant expansion last year. Isco's monthly surveys of business opinion confirm the improvement in confidence, revealing a general climate of optimism among businessmen concerning the economic outlook (Figure 10). The rapid reabsorption of spare capacity gave firms a further inducement to proceed with planned investment (Figure 11).

Figure 11

Capacity utilization rate in industry: composite indicator (1)

(quarterly data; indices, 1989=100)

Sources: Based on Istat and Isco data.

(1) The composite indicator is obtained as the simple arithmetic mean of the Bank of Italy (Wharton) indicator and the Isco indicator.

The good level of profits reported in 1994, which in all likelihood will be repeated this year, provided firms with the resources to finance their expansion plans. Alongside the usual determinants of investment, the tax exemption of reinvested profits under Law 480 of 8 August 1994 may have given firms an additional incentive to bring forward their capital expenditure. The expansion and modernization of production should improve competitiveness and hence make it easier for firms to defend the market shares they have gained in recent years and to prevent the more rapid growth in demand from generating inflationary pressure.

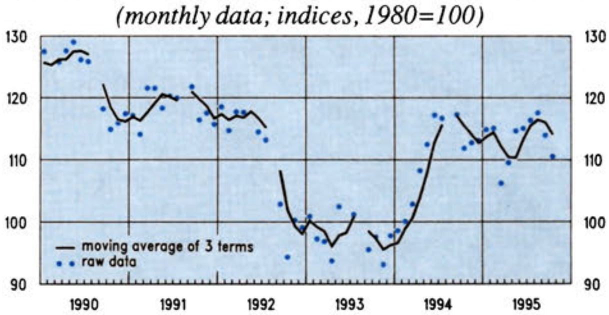
Household consumption was 1.3 per cent higher in the first half of the year than in the same period of 1994. Purchases of non-durable goods rose by 0.2 per cent, while those of semi-durable goods declined by the same proportion. The growth in expenditure on services and durable goods was more pronounced (respectively 2.8 and 2.3 per cent), even though the latter was curbed by a slowdown in spending on transport equipment, which grew by 5 per cent, compared with 10.3 per cent in the second half of 1994. According to information from a variety of sources, spending on transport equipment slowed down further in the second half of the year.

The persistent weakness of demand for consumer goods continues to be attributable to two factors. First, the real disposable income of consumer households appears to have only just begun to revive after two years of sharp contraction. Moreover, the recovery has been modest, held back by the moderate growth in total gross wages and salaries (3.2 per cent over the year in the first half), which in turn was due to the slow rise in employment and per capita earnings. Self-employment, property and entrepreneurial income grew more strongly, as shown by the rapid increase in the gross operating surplus of the economy as a whole (12.9 per cent). Secondly, there is lingering uncertainty about the prospects for future income, as indicated by the level of households' confidence, which was lower than at the beginning of the nineties and has fallen in the last two months (Figure 12).

Figure 12

Climate of confidence among consumer households (1)

(monthly data; indices, 1980=100)



Source: Based on Isco data.

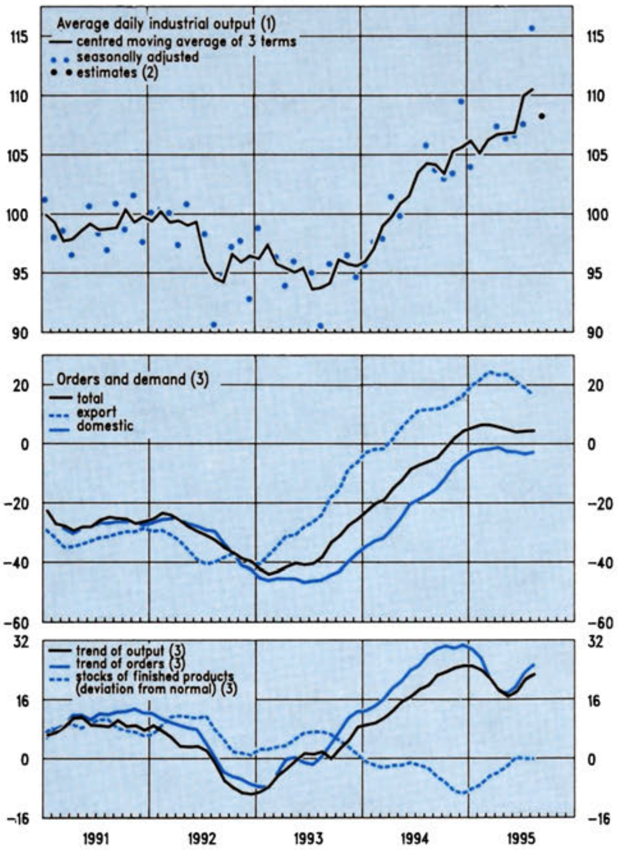
(1) Up to 1994 no survey was conducted in August. From January 1995 onwards survey interviews are no longer conducted in person but by telephone; moreover, the respondant no longer has to be the head of the household but may be any adult who contributes to the household's income.

Industrial production and value added by economic sector

In the first half of 1995 industrial production continued to grow at the more moderate monthly rates that had prevailed since the end of the previous summer (Figure 13). Over the period as a whole the index was 6.9 per cent higher than a year earlier; in the first nine months the year-on-year increase declined to 5.9 per cent, according to estimates based on electricity consumption.

Figure 13

Industrial output, demand and stocks



Sources: Based on Istat and Isco-ME data.

(1) Index (1990=100). Data adjusted for the different number of working days in the month. – (2) Based on electricity consumption and the Isco "trend of output" indicator. – (3) Moving averages (3 terms) of the differences between positive replies ("high", "increasing") and negative replies ("low", "decreasing") to Isco-ME surveys of businessmen. Seasonally adjusted except for stocks of finished products.

The high level of activity was reflected in a further rise in the capacity utilization rate in both the first and second quarters (Figure 11). A comparison with the values of the previous peak in 1989 shows that spare capacity is scant and to be found mainly in non-export industries.

The growth in production differed widely according to economic purpose, reflecting the stagnation in households' consumption on the one hand and the acceleration in corporate investment on the other. In the first seven months of 1995 the production of capital goods was 12.9 per cent higher than in the same period a year earlier; this was more than double the rate of growth for consumer and intermediate goods. There were also significant differences according to branch of manufacturing. The driving force provided by foreign demand is illustrated by the fact that growth was strongest in export-oriented industries (agricultural and industrial machinery, office machines, electrical goods, transport equipment, and rubber and plastic products). In these sectors the capacity utilization rate now matches the peaks reached during the previous expansion.

The rate of growth in output also displayed pronounced regional differences, as the figures reported by the industrial associations show. As in the past, the regions recording the fastest growth in manufacturing output were those in the North and North-East (Veneto, Emilia-Romagna, Friuli and Lombardy). In the Centre and South, the most dynamic regions were those along the Adriatic coast (the Marches, Abruzzo and Apulia) and Campania. The recovery was weak or non-existent in Calabria, Sicily and Sardinia.

The value added of the manufacturing sector increased in real terms by 6.5 per cent in the first half compared with the same period of the previous year. The good prospects for growth are confirmed by the recent results of Isco's monthly survey of industrial firms, which show a balance of optimism about the outlook for production and orders in the short run (Figure 13).

In the rest of industry the growth in productive activity was generally less rapid, owing to the sluggishness of domestic consumption and the less significant role of foreign demand. In the construction industry, value added at constant prices was broadly unchanged in the first half of 1995 compared with the second half of 1994 and 2.4 per cent lower than a year earlier.

Value added declined by 0.2 per cent in real terms in agriculture in the first half compared with the corresponding period of 1994 but increased by 2.8 per cent in market services. Activity in the wholesale and retail trade contracted slightly: on a seasonally adjusted basis, turnover per outlet was 0.6 per cent lower at constant prices than in the previous half; a decline of 4.6 per cent in the first quarter was followed by a recovery of 2.7 per cent in the second, which was reflected in an increase in the number of firms in business.

The tourist industry posted good results, thanks especially to foreign demand, which was stimulated by the depreciation of the lira. In the first quarter the number of overnight stays and that of foreign visitors were respectively 1 and 3 per cent higher than a year earlier. With the coming of summer, the influx of tourists from abroad boosted the figures for both aggregates; those for mid-August showed increases of respectively 6.6 and 5.7 per cent over the year. Railway freight transport rose substantially, with traffic in the first eight months 14.4 per cent higher than in the previous year.

Employment

The effects of the economic recovery that has been under way for almost two years have only begun to filter through to the labour market in the last few months. According to labour force surveys, total employment showed a seasonally adjusted rise of 120,000 in July in relation to the cyclical low recorded in January (Figure 14) but was still 60,000 lower than a year earlier, a fall of 0.3 per cent. The contraction was concentrated in the South, where, despite incipient signs of recovery, the number of persons in employment remained 600,000 below the 1991 peak, a reduction of 10 per cent.

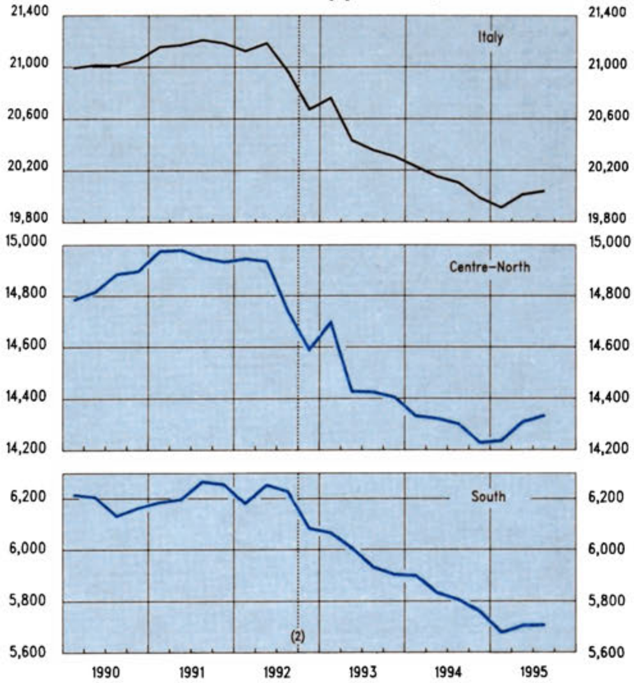
The rise in employment was largest among the self-employed, especially in household and business services, where it amounted to 80,000, or 5.2 per cent. In other branches of the services sector, and particularly in transport services, the contraction in the workforce due to restructuring appears to be continuing, albeit more slowly than in the past.

There was a significant reversal of trend in industry excluding construction; taking account of the accompanying reduction in recourse to wage supplementation, employment was almost 1 per cent higher in the first half of 1995 than in the same period of 1994.

Figure 14

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 1994*. – (2) Since October 1992 the survey has been conducted on the basis of a new questionnaire.

In firms with more than 500 employees, the employment index showed an increase in the number of staff from the very beginning of the year. The rise in actual labour utilization was even larger: the number of hours worked increased as a result of the reduction in recourse to wage supplementation, and the ratio of overtime to total hours worked rose further, exceeding 5 per cent in June.

Ordinary and extraordinary wage supplementation in industry excluding construction amounted to less than 1 per cent and 3.5 per cent of the sector's total employment in the second quarter, ratios close to those recorded at the time of the last cyclical peak in 1989. Ordinary wage supplementation, which is more sensitive to cyclical conditions, has stabilized in recent months at a level that can be described as "frictional". The further reduction in extraordinary wage supplementation appears to be connected with the expiry of benefits rather than an improvement in economic conditions.

The impact of the rise in employment on the unemployment rate was offset by an accompanying increase in labour force participation, particularly among women. Unemployment stood at 11.7 per cent in July, 0.9 points higher than a year earlier; the improvement in relation to April was due to seasonal factors. The disparity between the South and the rest of the country widened: the unemployment rate in the South rose from 18.9 to 20.6 per cent, while that in the Centre and the North increased from 7.0 to 7.5 per cent. In the North alone, male unemployment, which is more sensitive to cyclical changes, was almost half a percentage point lower than in the previous July, falling from 4.4 to 4.0 per cent.

The marked sectoral and regional disparities are also responsible for the difficulties that some firms in the North-East have encountered in recruiting labour. This is confirmed both by the Isco surveys and by the survey of firms that the Bank of Italy conducted in September.

Labour productivity in branches producing market goods and services continued to rise at a respectable pace in the first half of 1995 as the recovery proceeded. In 1994 firms had responded to the growth in demand by bringing the substantial stock of idle plant back on stream and using labour more efficiently. The further rise in demand during 1995 precluded further delay in expanding plant capacity and hiring additional staff, especially in export-oriented industries. In conjunction with the slowdown in industrial output, these factors caused a slight decline in the rate of productivity growth, which fell from 4.9 per cent between the first and second halves of 1994 to 4.4 per cent in the first six months of 1995.

The balance of payments on current account

According to provisional and partly estimated data, in the first six months of 1995 the current account of the balance of payments showed a surplus of 17.2 trillion lire, equal to 2 per cent of GDP, compared with one of 9.5 trillion a year earlier (Table 4). The improvement reflects an increase in the merchandise trade surplus on an *fob-fob* basis from 26 to 30.9 trillion lire. The rise in the surplus on foreign travel and the decline in the deficit on unrequited transfers more than offset the deterioration in the balance on other invisibles.

Table 4

Balance of payments
(net, in billions of lire)

	1994			1995 (1)
	Year	H1	H2	H1
Current account	**25,012**	**9,536**	**15,476**	**17,200**
Goods	56,999	26,031	30,968	30,893
Invisibles	–31,987	–16,495	–15,492	–13,693
Capital movements	**–21,841**	**–10,723**	**–11,118**	**7,265**
Bank capital	21,594	17,442	4,152	–5,461
Non-bank capital	–43,435	–28,165	–15,270	12,726
Errors and omissions	**138**	**6,307**	**–6,169**	**–16,633**
Change in official reserves (2)	**–3,309**	**–5,120**	**1,811**	**–7,832**

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

In the first half of 1995 the increase in the volume of exports accelerated further, to 17.3 per cent in relation to the same period of the previous year (Table 5). This rate of growth, which is almost double the IMF forecast of a rise of 8.8 per cent in world trade in 1995 as a whole, would appear to signal a major increase in Italy's share of the international market, and a far larger one than that achieved in 1994. It may reflect not only the lagged effects of the cumulative gains in competitiveness in the previous two years but also the impact of the further decline in the real exchange rate based on the average unit values of exports, which was 5.3 per cent lower in the first half of 1995 than a year earlier.

The growth in imports, which began in the second half of 1993, appears to have come to a halt; on a seasonally adjusted basis, the volume of imports is estimated to have been 3.2 per cent higher in the first half of 1995 than in the previous six months and 12.7

per cent higher than in the first half of 1994. Imports were stimulated primarily by strong foreign demand for Italian products and by higher investment. A breakdown of import volumes according to economic purpose appears to support this view: imports of final capital goods were 11.2 per cent higher than in the second half of last year, whereas those of semi-finished products and consumer goods both grew by only 3 per cent. Purchases of raw materials and energy products declined, reflecting destocking due in part to the sharp rise in the dollar prices of these commodities. However, in the second half of this year firms may begin to rebuild their stocks, which are now considered to be lower than normal.

In the first half of 1995 the lira prices of imports and exports were respectively 12.3 and 6.4 per cent higher than in the same period of 1994, causing a deterioration of almost 6 percentage points in the terms of trade.

The improvement in the *cif-fob* merchandise trade balance at current prices between the first seven months of 1994 and the same period of 1995 was mainly the result of increases of 5.5, 3.3 and 1.2 trillion lire in the surpluses on metal products and machinery, textiles, leather products and clothing, and transport equipment (Table 6). The rise in the dollar prices of raw materials was largely responsible for the increase of 2.9 trillion lire in the deficit on fuel and power products and one of 3.1 trillion in that on ferrous and non-ferrous ores and metals. The increase of 1.9 trillion in the deficit on chemical products was due chiefly to the large growth in volume.

Table 5

Merchandise trade, *cif-fob*
(seasonally adjusted data; percentage changes on previous period)

	1994					1995		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Jan.-June (1)
Exports:								
At current prices	14.7	1.1	3.8	7.2	0.9	7.5	11.8	25.0
Average unit values	3.7	0.7	1.2	1.0	0.3	1.7	5.4	6.4
At constant prices	10.7	0.3	2.6	6.1	0.6	5.7	6.1	17.3
Imports:								
At current prices	15.9	4.2	4.3	8.6	5.1	3.7	9.9	26.6
Average unit values	4.0	0.7	0.6	2.9	1.4	4.8	4.8	12.3
At constant prices	11.4	3.5	3.7	5.6	3.5	–0.9	4.8	12.7
Exports/imports:								
At current prices	–1.0	–3.0	–0.5	–1.3	–4.0	3.7	1.7	–1.3
Average unit values	–0.3	..	0.6	–1.8	–1.1	–3.0	0.6	–5.3
At constant prices	–0.6	–3.1	–1.1	0.5	–2.8	6.7	1.2	4.1
Memorandum items:								
Real exchange rate of the lira (2)								
Overall	–2.1	–0.4	2.7	–2.3	–1.3	–4.3	–4.0	–8.4
Exports	–2.8	–1.0	3.0	–2.5	0.1	–3.9	–0.9	–5.3
Imports	–1.1	–0.2	3.3	–1.9	–0.4	–5.1	1.1	–5.2

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

Table 6

Merchandise trade by product group (January-July)
(cif-fob; *billions of lire)*

	Exports		Imports		Balance	
	1994	1995	1994	1995	1994	1995
Agricultural, forestry and fishery products	4,354	5,547	9,488	11,367	–5,134	–5,820
Fuel and power products	2,833	3,058	16,013	19,105	–13,180	–16,047
Ferrous and non-ferrous ores and metals	7,847	10,725	14,257	20,259	–6,410	–9,534
Non-metallic minerals and mineral products ...	7,366	9,020	2,979	3,609	4,387	5,411
Chemical products	13,903	18,802	21,968	28,747	–8,065	–9,945
Metal products and machinery	60,635	75,844	33,923	43,601	26,712	32,243
Transport equipment	16,552	22,180	16,151	20,617	401	1,563
Food, beverages and tobacco products	7,194	8,758	12,389	14,154	–5,195	–5,396
Textiles, leather products and clothing	30,738	36,464	12,074	14,487	18,664	21,977
Other	22,153	28,106	13,257	18,217	8,896	9,889
Total	**173,575**	**218,504**	**152,499**	**194,163**	**21,076**	**24,341**

Source: Istat.

From a geographic point of view, the increase in the merchandise trade surplus between the two periods was attributable largely to trade with non-EU countries, and particularly with developing countries and the newly industrialized economies of Asia (Table 7). The intensity of "outward processing", that is to say the reimportation of products sent abroad for stages of processing, probably accounts for the further increase in the deficit with the Central and Eastern European countries. Within the EU, the trade balance with France and the Benelux countries worsened, but this was in contrast to the behaviour of the other bilateral flows. The geographic reorientation of Italian exports, which has been under way for some time, is aimed at securing more dynamic markets. Of late, Italy's progress in this direction has seemed slower than that of its main competitors: since Italian firms enjoy considerable competitive advantages everywhere thanks to the depreciation of the lira, they have been less prompt in adjusting to the changing composition of world demand. In the medium to long term, a rigid pattern of geographic specialization may impede the opening-up and growth of the economy.

In the first half of 1995 the surplus on foreign travel was almost 3.4 trillion lire greater than a year earlier (Table 8). Italian spending abroad began to grow again in nominal terms, rising by 16.1 per cent; in real terms, however, it remained unchanged, which was consistent with the modest growth in total national consumption and the further large gain in the competitiveness of Italian tourist services. Over the same period spending by foreigners in Italy increased by 28 per cent in nominal terms and by 22.1 per cent in real terms.

Table 7

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

	Exports				Imports				Balance	
	Value *(billions of lire)*		Percentage change	Percentage of total 1995	Value *(billions of lire)*		Percentage change	Percentage of total 1995	Value *(billions of lire)*	
	1994	1995			1994	1995			1994	1995
OECD	**109,286**	**136,203**	**24.6**	**74.3**	**98,726**	**123,754**	**25.3**	**74.3**	**10,560**	**12,449**
EU	83,486	104,591	25.3	57.0	78,829	99,359	26.0	59.7	4,657	5,232
of which: France	*19,246*	*24,054*	*25.0*	*13.1*	*17,899*	*22,830*	*27.5*	*13.7*	*1,347*	*1,224*
Germany	*27,767*	*34,818*	*25.4*	*19.0*	*24,835*	*31,455*	*26.6*	*18.9*	*2,932*	*3,363*
United Kingdom	*9,328*	*11,158*	*19.6*	*6.1*	*7,994*	*9,491*	*18.7*	*5.7*	*1,334*	*1,667*
Spain	*6,755*	*8,935*	*32.3*	*4.9*	*5,081*	*6,680*	*31.5*	*4.0*	*1,674*	*2,255*
Switzerland	5,587	7,247	29.7	4.0	6,583	7,526	14.3	4.5	–996	–279
Other European countries (2)	2,204	3,067	39.2	1.7	1,430	1,885	31.8	1.1	774	1,182
Other OECD countries (3)	18,009	21,298	18.3	11.6	11,884	14,984	26.1	9.0	6,125	6,314
of which: Japan	*3,164*	*4,096*	*29.5*	*2.2*	*3,312*	*3,901*	*17.8*	*2.3*	*–148*	*195*
United States	*11,632*	*13,306*	*14.4*	*7.2*	*6,437*	*8,327*	*29.4*	*5.0*	*5,195*	*4,979*
Eastern European countries (4)	**6,310**	**8,407**	**33.2**	**4.6**	**7,477**	**10,800**	**44.4**	**6.5**	**–1,167**	**–2,393**
OPEC countries (5)	**6,079**	**6,296**	**3.6**	**3.4**	**7,121**	**9,150**	**28.5**	**5.5**	**–1,042**	**–2,854**
Other	**24,901**	**32,521**	**30.6**	**17.7**	**18,095**	**22,765**	**25.8**	**13.7**	**6,806**	**9,756**
of which: China	*1,930*	*2,034*	*5.4*	*1.1*	*2,512*	*3,199*	*27.3*	*1.9*	*–582*	*–1,165*
Asian NIEs (6)	*6,068*	7,327	20.7	4.0	2,066	2,521	22.0	1.5	4,002	4,806
Total	**146,576**	**183,427**	**25.1**	**100**	**131,419**	**166,469**	**26.7**	**100**	**15,157**	**16,958**

(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) Iceland, Norway and Turkey. – (3) Australia, Canada, Japan, Mexico, New Zealand and the United States. – (4) Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia 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.

Notwithstanding the continuing rapid contraction in Italy's foreign debt, the net outflow of investment income was 500 billion lire higher in the first half of 1995 than in the same period of 1994, as gross inflows and outflows diminished by 17.1 and 3.2 per cent respectively in the first quarter and increased by 44.2 and 20.3 per cent respectively in the second. In both cases the behaviour of gross flows appears to have had a lagged response to movements in yields on domestic and foreign assets, which declined up to the end of the spring of 1994 and rose thereafter.

The deficit on other services and income increased by 2.6 trillion lire. The deterioration mainly reflects the larger deficit on transport services, most of which was attributable to freight transport and auxiliary transport services, owing to the sharp increase in trade and the attendant rise in the use of foreign fleets.

Table 8

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

	1994			1995
	Year	H1	H2	H1
Goods	56,999	26,031	30,968	30,893
Foreign travel	18,821	8,479	10,342	11,850
Investment income	−24,696	−12,922	−11,774	−13,422
Other services and income	−16,820	−8,183	−8,637	−10,815
Transfers	−9,292	−3,869	−5,423	−1,306
Total	**25,012**	**9,536**	**15,476**	**17,200**

The exchange rate of the lira and capital movements

The exchange rate of the lira fell steeply between mid-February and mid-March. The ensuing recovery was slow, incomplete and marked by wide fluctuations. The currency weakened again in the last ten days of October.

With the current account of the balance of payments remaining in surplus, cross-border financial transactions undertaken for portfolio purposes (loans and portfolio investment proper) displayed a similar pattern. The appreciable capital outflows recorded in the first quarter, when the lira was depreciating (Table 9), gave way to inflows, to which Republic of Italy loans and bond issues contributed; these were accompanied by a partial recovery of the lira (Figure 15). Capital movements initiated by Italian banks ran counter to this trend, largely reflecting liability management decisions on the part of Italian firms that had been granted loans in lire and foreign currencies (Table 10).

Table 9

Exchange rates of the lira
(not seasonally adjusted; percentage changes on the previous period)

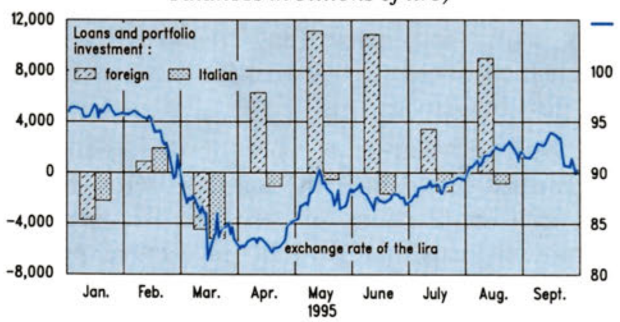
	1994					1995		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Nominal exchange rates of the lira								
Effective (1)	−4.6	−1.0	2.1	−2.9	−2.1	−5.6	−6.4	5.5
DM/lira	−4.6	0.4	1.2	−4.1	−2.2	−8.3	−6.9	6.1
Dollar/lira	−2.5	−1.9	4.8	2.0	−1.1	−3.4	−1.4	3.6
Real effective exchange rates of the lira (2)								
Imports	−1.1	−0.2	3.3	−1.9	−0.4	−5.1	1.1	....
Exports	−2.8	−1.0	3.0	−2.5	0.1	−3.9	−0.9	....
Overall	−2.1	−0.4	2.7	−2.3	−1.3	−4.3	−4.0	7.3

Sources: 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.

Figure 15

Nominal effective exchange rate of the lira and main items of capital movements

(index, 1994=100, and monthly balances in billions of lire)



During February and March 1995 the nominal effective exchange rate of the lira declined more steeply than at any time since the autumn of 1992, so that by the end of March it was 13 per cent lower than at the beginning of the year. In the first quarter as a whole, capital movements on account of loans and portfolio investment gave rise to a net outflow of more than 12 trillion lire and the official reserves decreased by 11.6 trillion net of exchange rate and valuation adjustments. Investors' portfolio decisions and the performance of the lira were influenced by the strong tensions in the international currency markets and uncertainty about the domestic political situation, which overshadowed the positive signals continuing to come from the real economy, first and foremost the figures showing growing current account surpluses, the immediate effect of which is to reduce the country's net foreign debt.

Expectations of a depreciation of the lira and of an increase in inflation caused non-residents to reduce their credit exposure to Italy. Net repayments of loans were accompanied by large disposals of Treasury bonds and bills (Table 11); those of fixed-income securities were also fueled by fears of capital losses if monetary policy was made more restrictive. Foreign loans and portfolio investment gave rise to net outflows of more than 7 trillion lire.

Table 10

Capital movements

(net flows in billions of lire)

	1994					1995 (1)		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	July-Aug.
Non-bank capital flows	**–43,435**	**–924**	**–27,241**	**–21,928**	**6,658**	**–8,979**	**21,705**	**9,334**
Foreign	40,393	48,594	–19,115	–11,307	22,221	1,388	28,494	11,997
Investment	47,477	50,895	–19,801	–6,202	22,585	–3,394	18,911	11,242
of which: portfolio	*43,871*	*49,361*	*–21,021*	*–6,411*	*21,942*	*–4,927*	*17,586*	*11,671*
Loans	–14,279	–4,283	–2,556	–3,321	–4,119	–2,299	10,703	755
Trade credits	7,195	1,982	3,242	–1,784	3,755	7,081	–1,120	....
Italian	–83,828	–49,518	–8,126	–10,621	–15,563	–10,367	–6,789	–2,663
Investment	–60,373	–43,182	–1,179	–8,215	–7,797	–5,961	–4,455	–2,119
of which: portfolio	*–52,135*	*–41,483*	*1,863*	*–6,850*	*–5,665*	*–5,980*	*–2,159*	*–1,712*
Loans	–13,548	–3,965	–3,704	–3,065	–2,814	601	–1,053	–544
Trade credits	–9,907	–2,371	–3,243	659	–4,952	–5,007	–1,281	....
Bank capital flows	**21,594**	**–2,464**	**19,906**	**14,874**	**–10,722**	**4,928**	**–10,389**	**–20,164**
In lire	30,847	–2,542	20,161	14,662	–1,434	5,537	–3,746	–7,221
In foreign currency	–9,253	78	–255	212	–9,288	–609	–6,643	–12,943
Total	**–21,841**	**–3,388**	**–7,335**	**–7,054**	**–4,064**	**–4,051**	**11,316**	**–10,830**

(1) Provisional.

Table 11

Foreign portfolio investment
(net flows in billions of lire)

	1994			1995
	Year	H1	H2	H1
Government securities	41,778	29,247	12,531	8,938
Treasury bills (BOT)	1,130	1,230	−100	−501
Treasury bonds (BTP)	−3,560	12,301	−15,861	−3,910
ECU Treasury bills (BTE)	−1,535	−563	−972	–
ECU Treasury credit certificates (CTE)	4,593	2,580	2,013	−628
Treasury credit certificates (CCT)	20,152	3,497	16,655	8,735
Treasury discount certificates (CTS)	–	–	–	–
Index-linked Treasury certificates (CTR)	–	–	–	–
Treasury option certificates (CTO)	5,545	6,072	−527	−6,027
Republic of Italy issues (1)	15,273	4,151	11,122	9,870
Oher	180	−21	201	1,399
Italian investment fund units	21	15	6	1
Listed bonds	−2	29	−31	−484
Listed shares	−1,862	476	−2,338	571
Other securities	335	14	321	−54
Deposits	983	372	611	301
Derivative instruments	20	−44	64	850
Other financial instruments	3,948	1,048	2,900	362
Unclassified investments (2)	−1,350	−2,817	1,467	2,174
Total	43,871	28,340	15,531	12,659

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

In the first quarter Italian lending abroad and portfolio investment also gave rise to net outflows, amounting to 5.4 trillion lire, which were entirely attributable to private firms and households. Export proceeds that are invested directly abroad should be included in Italian portfolio investment; however, if exporters omit to file foreign exchange returns and the value of the exported goods is correctly recorded, the capital outflows appear under errors and omissions. The size of the deficit attributed to errors and omissions (11.7 trillion lire in the first three months of 1995, against a surplus of more than 4 trillion a year earlier) suggests that actual outflows of Italian capital for portfolio purposes were higher than reported in the official statistics. In the first half of the year the deficit on account of errors and omissions amounted to 16.6 trillion lire, compared with a surplus of more than 6 trillion in the same period of 1994.

From the spring onwards the easing of tensions in the international financial markets, the evidence of more stringent control of Italian public expenditure (from a long-term view as well, after the passage of the pension reform), and the widening of yield differentials vis-à-vis foreign securities rekindled interest in Italian issues, especially on the part of foreign investors. In April and May foreign investors alone generated net inflows of more than 17 trillion lire, of which 11 trillion was for Republic of Italy loans in yen and ecus; in conjunction with these inflows, the effective exchange rate of the lira rose by 6 per cent. In the two months in question the official reserves increased by almost 6 trillion lire, owing partly to currency swaps undertaken by resident banks. After a period of substantial stability, the lira strengthened further during the summer in the wake of the appreciation of the dollar against the Deutsche Mark and the yen, which was in part the result of concerted intervention by the central banks of the main industrial countries. At the same time, foreign loans and portfolio investment gave rise to further considerable net inflows of more than 23 trillion lire between June and August. Over the same period the official reserves increased by around 12.3 trillion, thanks to the proceeds from the Republic of Italy issues in yen and ecus and new currency swaps by resident banks.

Capital flows generated by business operations as distinct from portfolio management (that is to say, direct investment and trade credit) were practically in balance in the period from January to August as a whole. The internationalization of Italian firms continued in 1995: net direct investment abroad (2.7 trillion lire) was more or less equal to net foreign direct investment in Italy (2.4 trillion). In parallel with the growth in imports there was a large rise in trade credit granted by non-residents; in the first half the net inflow was 6 trillion lire, while Italian exporters granted net trade credit amounting to 6.3 trillion.

Table 12

The external position, domestic position in foreign currency and overall position in foreign currency of Italian banks (1)
(billions of lire)

	1994	1995		
		Q1	Q2	July-August (2)
Stocks (3)				
External position	−153,247	−187,069	−169,903	−140,277
In lire	2,594	−2,943	803	8,024
In foreign currency	−155,841	−184,126	−170,706	−148,301
Domestic position in foreign currency	82,209	90,294	74,621	64,724
Overall position in foreign currency (4)	−1,336	−10,305	−10,690	....
Changes at constant exchange rates and securities prices (5)				
External position	−21,594	−4,928	10,389	20,164
In lire	−30,847	−5,537	3,746	7,221
In foreign currency	9,253	609	6,643	12,943
Domestic position in foreign currency	−25,279	−3,838	−12,148	−7,503
Overall position in foreign currency (5)	4,384	4,677	864	−3,362

(1) Including the Italian branches of foreign banks. – (2) Provisional. Stocks refer to August. – (3) At current exchange rates. – (4) Spot and forward, including domestic currency swaps, commitments to be settled within 2 days and loans indexed to foreign currencies. – (5) A minus sign indicates an inflow of bank capital. – (6) Spot and forward, including domestic currency swaps and commitments to be settled within 2 days.

Between the beginning of the year and the end of August the net external position of Italian banks improved by almost 13 trillion lire at current exchange rates, with net foreign assets in lire increasing by 5.4 trillion and net foreign liabilities in foreign currency declining by 7.5 trillion (Table 12). The overall improvement in the lira position was the result of contrasting flows in the two four-month periods. Between January and April there were inflows of bank capital in lire amounting to almost 12 trillion, in part attributable to the need to finance the recovery in domestic lending. In subsequent months repayments of foreign liabilities in lire gave rise to outflows of more than 16 trillion; in August, by contrast, lending to non-residents increased, partly as a result of repurchase agreements associated with the revival in foreign portfolio investment.

Albeit with large monthly fluctuations, between January and August the banks' external liabilities in foreign currency declined by 20.2 trillion lire at constant exchange rates and securities prices and their net domestic assets in foreign currency by 22.35 trillion; in August alone the former contracted by more than 10 trillion lire and the latter by a little less than 9 trillion, partly in connection with the appreciation of the lira, which turned to its mid-February level. Spot transactions in foreign currency were for the most part hedged forward against exchange rate risk; nonetheless, the value of the banks' open positions was higher than in the past. Contributory factors may have been a less passive management of the foreign currency portfolio and the use of hedging instruments, such as options, which do not affect the spot and forward position in foreign exchange.

In the first eight months of the year the official reserves increased by around 6.7 trillion lire; the net contribution of foreign currency obtained from Italian banks under currency swaps amounted to 9.5 trillion. The current account surplus and the inflows of capital from non-residents therefore covered the outflows connected with the changes in the assets and liabilities of resident banks and non-banks.

By mid-September the nominal effective depreciation of the lira since the beginning of the year had decreased to 2 per cent, but the currency weakened again in the weeks that followed. The fall became precipitous in the last ten days of October amidst mounting fears that the effort to redress the public finances might be interrupted in the prevailing climate of political uncertainty.

Prices and costs

Consumer price inflation and inflation expectations

The acceleration in consumer prices that had begun in mid-1994 gathered pace in the first half of 1995. Inflation expectations worsened considerably. The risks inherent in the continued strength of demand and in the rise in the prices of raw materials were compounded by a rapid depreciation of the lira, which lost 13 per cent of its value in the course of the first quarter. The increase in indirect taxes was also viewed as a potential cause of more rapid inflation.

Monetary policy was tightened even further, signaling to the markets that the authorities intended to prevent the development of an inflationary spiral. Expectations first stabilized and then improved as the effects of the slowdown in domestic demand began to work through and it became clear that the adjustment of the public finances was on track.

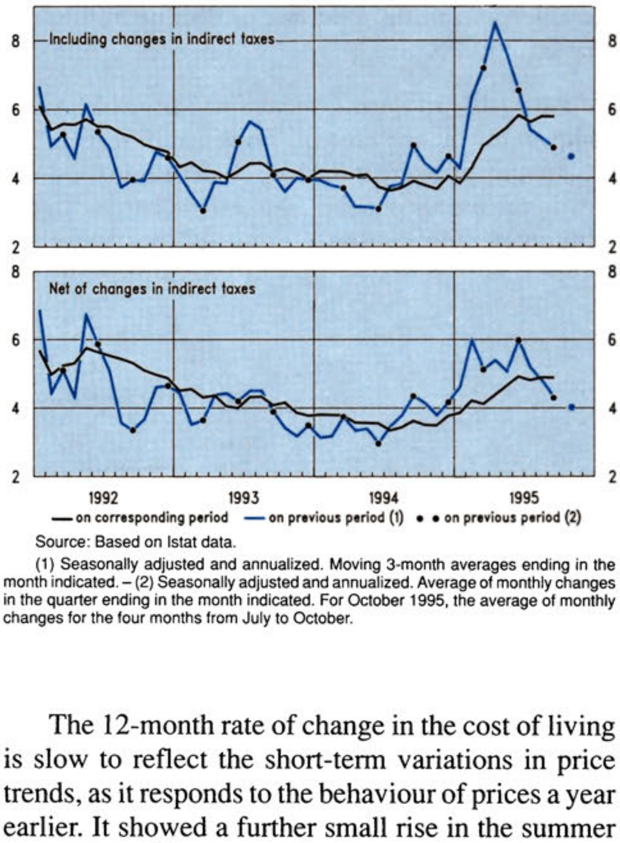
The trend in the monthly rates of change in the cost-of-living index was reversed in the summer. Adjusted for the effects of tax changes, on the assumption that they are fully and immediately passed on to prices, the annualized seasonally adjusted monthly rate of increase averaged 4.0 per cent between July and October, compared with 5.1 and 6.0 per cent respectively in the first two quarters (Figure 16). The improvement was attributable partly to the restrictive monetary stance and the weakness of domestic demand, but also to the recovery of the lira (slow and incomplete though it was), the sharp fall in the foreign currency prices of imported raw materials and continued wage restraint. The more favourable inflation outlook was broadly consistent with the trend indicated as an objective in the Bank's Annual Report in May.

The impact effect of tax changes on the cost-of-living index, which is put at just over 0.7 percentage points, was largely dissipated between March and May. The weakness of demand for consumer goods and the absence of formal indexation mechanisms prevented the measures from having the feared amplifier effect on prices.

Figure 16

Cost of living

(percentage changes)



Source: Based on Istat data.

(1) Seasonally adjusted and annualized. Moving 3-month averages ending in the month indicated. – (2) Seasonally adjusted and annualized. Average of monthly changes in the quarter ending in the month indicated. For October 1995, the average of monthly changes for the four months from July to October.

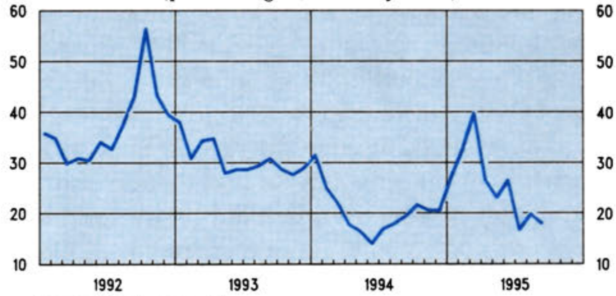
The 12-month rate of change in the cost of living is slow to reflect the short-term variations in price trends, as it responds to the behaviour of prices a year earlier. It showed a further small rise in the summer to stand at 5.8 per cent in August, September and October (4.9 per cent net of tax changes). On this basis, the inflation differential with the other countries of the European Union widened to an average of 2.6 percentage points in July and August. However, the year-on-year rate of increase is not the correct measure to use if one wishes to identify turning points in inflation trends.

From mid-1994 onwards the monthly Isco survey of households revealed a gradual rise in the proportion of respondents expecting inflation to accelerate, with a peak in March just as the effects of the changes in indirect taxation began to make themselves felt. Excluding this peak, the trend continued upwards until mid-year; in July the figure returned to a level close to that recorded in the summer of 1994, when inflation was at its lowest for 25 years (Figure 17). The forward yield curve also indicated an improvement in inflation expectations, at least until early October. Confirmation was provided by the Forum-Mondo Economico survey conducted in September, which found that the 12-month rate of inflation was expected to stabilize in the latter part of the year and to decline in the first quarter of 1996.

Analysis of the behaviour of the main components of the cost-of-living index reveals the inflationary pressure stemming from rises in food and energy prices, rents and public utility charges. In the third quarter the year-on-year rate of increase in the prices of unregulated energy products was 8.2 per cent, while rents rose by 7.7 per cent, public utility charges by 6.6 per cent and food products by 6.2 per cent. The prices of goods other than food and energy and those of services increased by less than the average, rising by 5.5 and 5.2 per cent respectively (Table 13).

Figure 17

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.

Table 13

Cost-of-living index (1)
(percentage change on year-earlier corresponding period)

	Percentage weights	1993	1994					1995		
		Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
General index	**100**	**4.2**	**4.2**	**4.0**	**3.8**	**3.8**	**3.9**	**4.4**	**5.5**	**5.7**
Food	20.9	2.1	3.3	3.1	3.3	3.8	3.4	4.9	6.4	6.2
of which: unprocessed	*9.1*	*–0.7*	*1.1*	*1.6*	*2.7*	*2.9*	*2.1*	*3.3*	*4.5*	*4.7*
Energy products	4.0	5.9	6.5	5.0	3.7	3.2	4.6	4.1	10.4	8.2
Non-food, non-energy products	40.9	4.3	4.1	4.0	3.5	3.6	3.8	4.0	4.7	5.5
Services	20.8	5.7	4.1	3.8	3.9	3.8	3.9	4.5	5.3	5.2
Total goods and services not subject to price controls	**86.5**	**4.2**	**4.0**	**3.8**	**3.6**	**3.7**	**3.8**	**4.3**	**5.5**	**5.7**
Goods subject to price controls (2)	**1.0**	**7.0**	**–1.1**	**0.2**	**1.7**	**..**	**0.2**	**–6.8**	**–9.8**	**–8.9**
Public utility charges	**8.5**	**2.4**	**4.1**	**3.6**	**3.8**	**4.1**	**3.9**	**4.4**	**6.2**	**6.6**
Rents	**4.0**	**8.1**	**9.6**	**8.8**	**7.9**	**6.9**	**8.3**	**7.0**	**7.5**	**7.7**

Source: Based on Istat data.

(1) Base year 1992=100. – (2) Does not include drinking water, which is included under public utility charges.

Developments in the retail trade did not contribute to consumer price inflation. On the contrary, the further restructuring of the sector, accompanied by continued stagnation in demand, helped limit the extent to which increases in producer prices were passed on to final consumers.

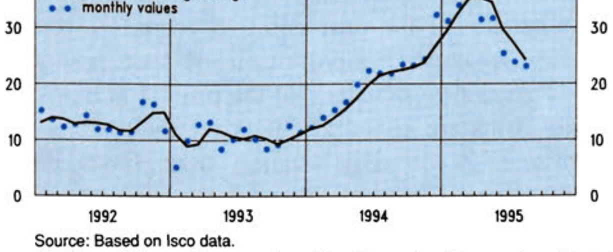
Producer prices, import prices and input prices

The weakening of demand, the fall in the foreign currency prices of raw materials and the partial recovery in the exchange rate following the steep decline in the early months of the year paved the way for a deceleration in the domestic output prices of manufactures at the beginning of the summer. The annualized seasonally adjusted monthly rate of increase, which had averaged 13.1 per cent between February and April, declined to an average of 7.4 per cent between June and August. In August the 12-month rate also fell from 8.6 to 8.4 per cent after having risen steadily for more than a year. The signs of lower producer price inflation that had emerged as early as June in the monthly Isco surveys of firms' pricing intentions were confirmed, in step with the dampening of expectations regarding the level of orders (Figure 18).

Figure 18

Intended changes in producer prices according to Isco business surveys (1)

(percentages)



Source: Based on Isco data.

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

The increase in production capacity that can be expected in the light of the growth in investment may help contain the pressure on producer prices.

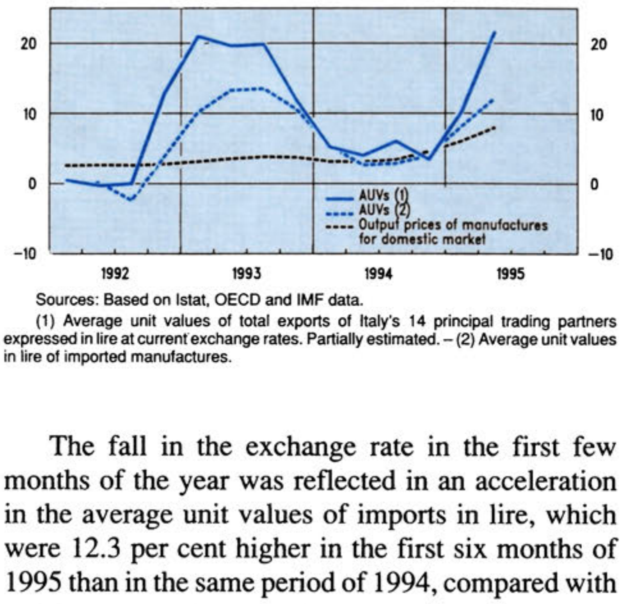
At the sectoral level, the largest increase was in the producer prices of less highly processed goods (Table 14). Between the last quarter of 1994 and the second quarter of this year the acceleration was especially pronounced in the case of primary products (from 8.3 to 14.3 per cent) and intermediate and capital goods (from 4.3 to 9.4 per cent), which were also the most dynamic components of domestic demand.

Among consumer goods, the rise in the producer prices of motor vehicles slowed down from 5.9 to 5.0 per cent, whereas that in the prices of food products and other consumer goods rose from 3.8 and 4.1 per cent respectively in the last quarter of 1994 to 6.7 and 5.7 per cent in the third quarter of this year.

Figure 19

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) Average unit values of total exports of Italy's 14 principal trading partners expressed in lire at current exchange rates. Partially estimated. – (2) Average unit values in lire of imported manufactures.

The fall in the exchange rate in the first few months of the year was reflected in an acceleration in the average unit values of imports in lire, which were 12.3 per cent higher in the first six months of 1995 than in the same period of 1994, compared with a 4.9 per cent increase in the second half of last year. This was due partly to the continued rise in the dollar prices of oil and raw materials, which peaked in the spring. The year-on-year increase in the prices of manufactures in the first half was smaller (10.4 per cent, compared with 3.5 per cent in the second half of 1994). As in the aftermath of the depreciation of the lira in the autumn of 1992, the fall in the exchange rate was not fully reflected in lira prices (Figure 19).

Table 14

Producer prices and import prices of manufactures (1)
(percentage change on year-earlier period)

	1993	1994					1995	
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
Primary products (2)								
domestic	3.1	3.5	3.5	4.5	8.3	5.0	11.2	14.3
imported	17.1	9.5	5.1	5.2	7.7	6.8	11.0	16.7
Intermediate and capital goods (3)								
domestic	2.9	2.6	2.5	3.1	4.3	3.1	6.5	9.4
imported	13.9	8.1	3.4	3.2	2.5	4.2	6.0	9.3
Motor vehicles								
domestic	5.1	5.6	6.4	6.2	5.9	6.0	5.7	5.0
imported	5.2	–1.1	–3.1	–1.1	0.1	–1.3	6.5	10.7
Food products								
domestic	5.8	3.8	3.0	2.8	3.8	3.3	4.8	6.7
imported	10.2	3.2	3.2	5.9	6.1	4.6	9.9	13.5
Other consumer goods (4)								
domestic	2.4	2.7	3.1	3.5	4.1	3.3	4.8	5.7
imported	7.0	0.6	–0.4	0.4	3.0	0.9	6.0	13.9
Total manufactures								
domestic	3.6	3.1	3.1	3.4	4.6	3.6	6.1	8.2
imported	11.9	5.4	2.7	2.9	4.0	3.7	8.0	12.5

Sources: Based on Istat, OECD and IMF data.
(1) Bank of Italy indicators, net of intrasectoral transactions, for the prices of output sold on the domestic market; average unit values for imports. – (2) Minerals, metals and chemical products. – (3) Metal products, agricultural and industrial machinery, office and data processing machines, electrical goods and rubber and paper products. – (4) Textiles, footwear, furniture and other products.

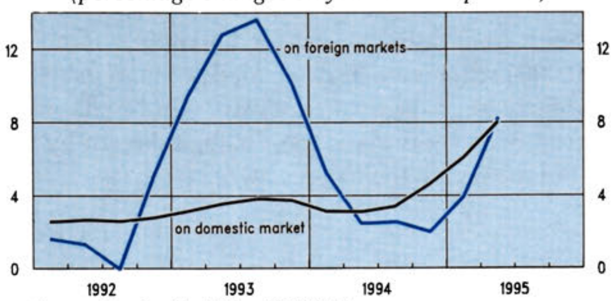
The acceleration in the 12-month rate of increase in the lira prices of imports affected all categories of manufactured goods (Table 14). In particular, the prices of consumer goods (excluding food products) and motor vehicles were respectively 13.9 and 10.7 per cent higher in the second quarter of this year than in the corresponding period of 1994; this compares with a fall of 16.4 per cent in the nominal effective exchange rate, weighted according to import shares. The average of the 12-month rates of increase in 1993 and 1994 were 4.0 and 2.0 per cent for these two categories respectively (as against a depreciation of 10.4 per cent), considerably lower than the overall average.

The decline in the exchange rate also triggered an acceleration in the lira prices of manufactures sold abroad. The divergence between the 12-month rates of increase in the prices of goods produced for the domestic market and for export, which had widened during 1994 to 2.6 points in the last quarter, disappeared in June of this year (Figure 20). The year-on-year increase in the average unit values of exported manufactures in lire (6.1 per cent in the first half of 1995) continued to amount to only about half of the nominal effective depreciation of the lira over the same period, in line with the tendency of the previous two years. However, the simultaneous acceleration in the cost of inputs would appear to indicate that the pricing policies of Italian firms are aimed at defending their shares of foreign markets. This stance may have been prompted by the weakening of demand in many important export markets, the need for firms whose market power had declined owing to poor non-price competitiveness to grant the discounts sought by their foreign distributors, and strategies directed at widening their foreign clientele, now made possible for many firms by the gradual easing of capacity constraints.

Figure 20

Indicators of the pricing policies of domestic manufacturers

(percentage changes on year-earlier quarter)



Sources: Based on Istat, ENI and OECD data.

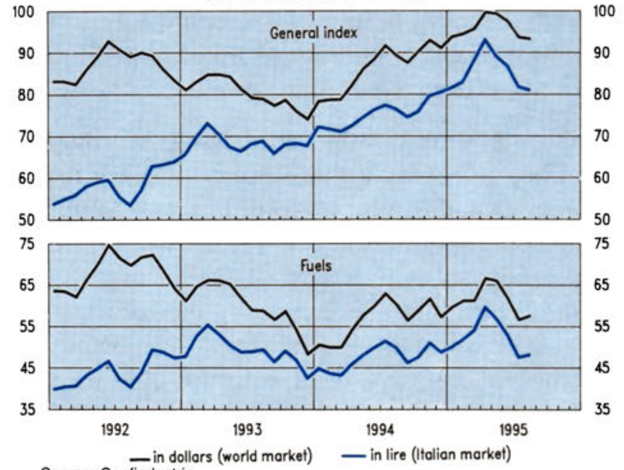
The dollar prices of raw materials in world markets continued to accelerate in the early part of the year. Confindustria's general index was 21.2 per cent higher in March and April than in the same period a year earlier. An easing of market conditions due to the softening of world demand, especially for fuel products and non-food raw materials, subsequently led to a fall in prices, which caused the rate of increase in the index to decelerate sharply to a year-on-year average of 3.2 per cent in July and August. Owing to exchange rate movements, the deceleration in the lira-based index was even more pronounced, with the rate of increase falling from 26.1 to 5.7 per cent over the same period (Figure 21).

The cost of total inputs used in the manufacturing sector was respectively 7.9 and 11.4 per cent higher in the first and second quarters than in the same periods a year earlier. This compares with an average increase of 4.2 per cent for 1994 as a whole. The acceleration in total unit variable costs was smaller, thanks to continued wage restraint and rapid productivity increases (Table 15).

Figure 21

Prices of internationally traded raw materials

(indices; 1985=100)



Source: Confindustria.

Table 15

Unit variable costs and final prices in manufacturing

(percentage changes on year-earlier period)

	1993			1994			1995 (1)
	H1	H2	Year	H1	H2	Year	H1
Input prices	**7.6**	**8.1**	**7.8**	**3.8**	**4.6**	**4.2**	**9.6**
Domestic	4.2	4.3	4.2	2.8	3.8	3.3	7.5
of which: energy	*6.4*	*5.4*	*5.9*	*3.9*	*5.4*	*4.7*	*8.4*
services	*4.9*	*4.5*	*4.7*	*2.7*	*3.2*	*3.0*	*6.5*
agricultural products	*–0.9*	*2.4*	*0.7*	*2.4*	*5.5*	*4.0*	*12.1*
Foreign	14.7	16.0	15.4	5.5	6.2	5.8	13.6
of which: energy	*22.5*	*11.0*	*16.6*	*–5.1*	*7.3*	*0.9*	*19.3*
Unit labour costs	**2.7**	**2.5**	**2.6**	**–0.6**	**–4.8**	**–2.7**	**–3.5**
Unit variable costs	**5.1**	**5.3**	**5.2**	**1.6**	**–0.1**	**0.7**	**3.0**
Output prices	**5.5**	**6.0**	**5.8**	**3.3**	**3.5**	**3.4**	**6.8**
of which: domestic	*3.4*	*3.8*	*3.6*	*3.1*	*4.0*	*3.6*	*7.0*

Sources: Based on Istat and ENI data.
(1) The figures for unit labour costs are derived from the quarterly national accounts.

Labour costs

Although still moderate and consistent with the guidelines established in the agreements on incomes policy, the rate of increase in nominal actual earnings was affected by the recovery in production, which led to a rise in the number of overtime hours worked. National accounts estimates show that per capita earnings in manufacturing industry were 4.4 per cent higher in the first half of 1995 than in the same period of last year and unit labour costs 3.5 per cent lower (the latter figure, which reflects an exceptional increase in productivity, especially in the first quarter, may subsequently be revised downwards). As a result there was probably a further sharp increase in profit margins in the first half of the year.

Supplementary wage bargaining at company level began to play a role in sustaining the rise in nominal actual earnings. According to information from the survey of manufacturing firms conducted in September, about one third of firms have already granted wage increases averaging between 1 and 2 per cent or expect to do so in the next six months. The incomes policy agreement calls for this level of bargaining to link pay awards to company profits, rather than be used as a means of restoring the purchasing power of nominal wages or triggering competitive wage increases between firms.

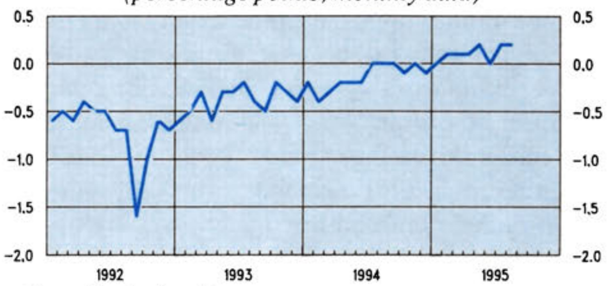
Contractual minimum wages also accelerated, with the 12-month rate of increase for the economy as a whole rising from 2.6 per cent in January to 3.3 per cent in August; the year-on-year rise in the first eight months averaged 2.8 per cent, compared with 1.7 per cent in the second half of 1994. The acceleration was linked to the fact that many contracts signed in 1994 provided for the increases to be paid in 1995, especially in the services sector. In the first eight months of this year wage growth averaged 3.3 per cent in industry excluding construction and 4.7 per cent in private services; the corresponding rates of increase in the second half of last year were 2.2 and 1.5 per cent respectively.

This year new national contracts were signed in the textile, food products, paper products and construction industries as well as in several parts of the public sector. The contract renewals in the private sector involved some 2 million workers. Negotiations generally took place in a non-confrontational atmosphere. Wage increases for the next two-year period were based on the target inflation rate (as revised by the Government in May), with settlements ranging from 140,000 lire for building workers to 180,000 lire for workers in the food products industry. The increase in the textile industry will be phased in more slowly by firms in the South, although by the end of the period the increase will be the same.

Figure 22

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.

The national labour agreement in the paper and printing products industry was renewed in July. The agreement it updates, which was signed two years ago, was the first to base wage increases on the Government's target inflation rate. These were therefore the first negotiations in which the question of compensation for the discrepancy between the actual and target rates arose. The parties agreed to compensate only the difference that occurred in the first half of 1995 between the original target rate and the new annual target for 1995 established by the Government in May. The amount to be compensated was set at just over 1 percentage point in view of the industry's difficult situation caused by the exceptional rise in raw materials prices. In the early part of the year the leading Italian and international forecasting organizations gradually revised upwards their predictions for contractual hourly wages in industry in the light of the fear that a discrepancy between the actual and target inflation rates might put pressure on nominal wages. However, broad compliance with the incomes policy agreements in subsequent months prompted them to lower their forecasts again.

The results of the Isco survey of firms' expectations regarding labour costs per employee in the twelve months ahead suggest that the rate of increase will remain broadly stable in 1996 (Figure 22). This reflects more favourable inflation expectations and the prospect that contract renewals will not be marred by acrimony. The parties have accepted the principle that any compensation for the discrepancy between actual and target inflation will be decided on a case-by-case basis when each national labour contract is renegotiated. Trade unions and employers have displayed an awareness of the need to take account of the rise in the cost of imports and the contribution of tax increases to higher inflation in 1995. A major test case in the private sector will be the negotiations for the renewal of the labour contract in the chemical industry, which expires in December.

Public finances

In the first nine months of 1995 the state sector borrowing requirement was considerably less than in the corresponding period of the previous year. On the basis of the definition of the state sector that excludes the former autonomous government agencies except the National Road Agency and the state forests administration, it amounted to 94.7 trillion net of settlements of past debts and privatization receipts, compared with 108.2 trillion in the first nine months of 1994 (Table 16). The improvement of 13.5 trillion stems from the increase in the primary surplus, which outweighed the growth of some 8 trillion in interest payments.

Table 16

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

	1992	1993	1994	1995 (2)
First half	70,956	68,382	66,989	54,433
January-September	109,091	111,115	108,695	97,347
	excluding settlements of past debts			
First half	70,928	68,355	66,514	51,763
January-September	109,060	108,230	108,206	94,678

(1) The figures refer to the new definition of the state sector, which excludes the former autonomous agencies except the National Road Agency and state forests. Privatization receipts are excluded. – (2) Provisional.

The budget introduced at the end of 1994, which was intended to produce a correction of 50 trillion lire, was complemented by measures amounting to 21 trillion in February of this year, when it became clear that interest expenditure would probably be about 14 trillion lire higher than expected, since interest rates were more than 2 percentage points above the level assumed in the Economic and Financial Planning Document of July 1994. On the basis of official estimates, in 1995 the measures should generate additional revenue of 39.6 trillion lire, reductions of 29.7 trillion in expenditure other than interest payments and a saving of 1.7 trillion in related interest expenditure; the increase in tax revenue due to the fiscal measures adopted is expected to amount to 28 trillion lire, raising the ratio of tax revenue to GDP by 1.6 points. Of this amount, around 19 trillion lire derives from one-off measures (the tax conciliation scheme and other measures with a minor effect on revenue, such as the settlement of pending tax cases, the introduction of an advance instalment on the tax on companies' net worth, the taxation of merger deficits and certain provisions subject to deferred taxation). The primary surplus was also affected by the real growth in GDP and the rise in inflation, which led to an expansion in the tax base in the course of the year; in particular, the nominal increase in consumption was immediately reflected in the rate of growth of indirect taxes, while in the case of direct taxes the recovery in economic activity primarily affected personal income tax withheld at source. The growth in expenditure other than interest payments, on the other hand, remained at little more than 1 per cent, as in 1994.

Settlements of past debts, which had been negligible in the first nine months of 1994, amounted to about 2.7 trillion lire in the same period of this year. Privatization proceeds totaled about 0.9 trillion, compared with 6 trillion a year earlier; the total projected for 1995 as a whole is 10 trillion lire. The further stage in the privatization of the insurance institution INA in October will generate receipts of about 1.7 trillion lire. It should be noted that privatization proceeds are earmarked for the fund for the redemption of government securities and directly affect the level of public debt but not that of the borrowing requirement.

The public accounts for the first nine months of the year appear to be in line with the annual objectives set out in the Economic and Financial Planning Document of June 1995 and broadly confirmed in the Forecasting and Planning Report presented in September; these objectives, which are based on a definition of the state sector that also excludes the National Road Agency and the state forests administration, provide for an annual borrowing requirement of 130 trillion lire, the net result of a primary surplus of 61 trillion and interest expenditure of 191 trillion (Table 17). The improvement by comparison with 1994 would be about 25 trillion, with interest expenditure rising by some 18 trillion and the primary surplus by more than 43 trillion.

Uncertainty about some elements of the budget raises doubts as to the attainment of the objectives. The revenue generated by the "tax conciliation" scheme, which should accrue in December, depends on the extent to which taxpayers agree to participate and the manner in which the scheme is implemented; in particular, the possibility of payment in instalments, which was not originally envisaged, will postpone receipt of part of the revenue until 1996. The measures relating to the condonation of building offences could also yield less than foreseen. On the other hand, both the particularly rapid growth in other items of revenue as a result of higher inflation and the slower than expected growth in current and capital expenditure should have a favourable effect on the borrowing requirement.

If the borrowing targets are met and the planned privatizations amounting to 10 trillion lire are carried out, state sector debt will stabilize in relation to GDP in 1995; using the definition adopted for the Economic and Financial Planning Document, which includes the estimated amount of outstanding tax credits, it will decline from 124.3 per cent of GDP in 1994 to 123.8 per cent. The expected reduction in the volume of tax credits will be a contribututory factor in this result.

In the first nine months of the year 73.6 per cent of the total state sector borrowing requirement, including settlements of past debts and privatization receipts, was financed by net issues of securities, almost entirely at medium and long term; these included more than 27 trillion lire (28.3 per cent of the total) of 2-year zero-coupon Treasury certificates, which do not affect the current borrowing requirement as they give rise to no interest payments but increase the stock of debt by the amount of the difference between the face value of the securities and the net proceeds for the Treasury. The proportion of the borrowing requirement financed by securities was lower than in the same period of 1994, when it had amounted to 110.9 per cent (103.6 per cent in medium and long-term securities) owing to a policy aimed at bringing forward to 1994 the replacement of a substantial volume of securities maturing in 1995. The decrease in the proportion financed by issues of securities in the first half of this year was accompanied by a decline in the accumulation of net assets with the Bank of Italy; the net flow fell from

Table 17

Public finance objectives for 1995 (1)

(billions of lire)

	Total borrowing requirement	Interest payments	Primary borrowing requirement	Effect of budgetary measures (2)
1994 outturn	155,167	172,801	–17,634	34,300
Planning document, July 1994	138,600	172,750	–34,150	45,000
Forecasting and Planning Report, September 1994	138,600	176,250	–37,650	48,000
Quarterly report on the borrowing requirement, April 1995	134,000	192,000	–58,000	69,000 (3)
Planning document, June 1995	130,000	190,000	–60,000	69,000
Forecasting and Planning Report, September 1995	130,000	191,000	–61,000	69,000

(1) The figures refer to the new definition of the state sector, which excludes all the former autonomous government agencies. – (2) Excluding associated saving on interest payments. – (3) Including the effects of the additional budgetary measures introduced in February, estimated at 21 trillion lire.

26.3 trillion lire in the first nine months of last year to 6 trillion in the same period of 1995.

Net borrowing abroad was substantial, amounting to 22.6 trillion, against 4.5 trillion a year earlier. This component represented more than 23 per cent of the overall borrowing requirement. The average residual maturity of the public debt remained almost the same as at the end of 1994, at around three years and one month.

State sector revenue in the first nine months of 1995

As shown in Table 18, tax revenue in the first nine months of the year was 7.5 per cent higher than in the corresponding period in 1994, when it had fallen by 4.3 per cent. The recovery in receipts reflected the cyclical upturn, the rise in inflation, the effects of the budget for 1995 and especially those of the additional measures adopted in February of this year. The improvement was primarily due to the increase in receipts of indirect taxes, which rose by 10 per cent; direct tax receipts grew by 5.4 per cent.

The increase in direct taxes reflected a rise of 10.5 per cent in receipts of personal income tax and reductions in those of the other main taxes (notably corporate income tax, local income tax and withholding tax on interest income).

Withholding tax on private sector wages and salaries increased by 9.2 per cent, owing mainly to the growth in the tax base, but also partly to the provision of the Finance Law for 1995 restricting the automatic offsetting of the effects of fiscal drag on tax deductions to 40 per cent, a limit that was raised to 80 per cent in June. Receipts of this tax were probably affected by the fact that more employees submitted their income tax returns to a tax assistance centre or to their employers, since the latter are required to make the ensuing adjustments to the tax to be withheld for the month of June. Receipts of self-assessed personal income tax also increased.

Receipts of corporate income tax declined by 7.4 per cent and those of local income tax by 9 per cent, despite measures affecting both taxes in the budget for 1995. In fact, some 1.6 trillion lire of additional revenue is expected this year from a series of measures designed to curb tax avoidance, including changes to the rules concerning company mergers and divisions and the introduction of a minimum tax for shell companies. The fall in corporate and local income tax receipts appears to have been due primarily to the contraction in taxable income in 1994; in particular, the fall in the profits of the banking sector appears to have outweighed the recovery in those of manufacturing industry, although the latter were probably curtailed for tax purposes by the possibility of deducting earlier losses over a maximum period of five years. Another contributory factor was the tax exemption of reinvested corporate profits; this was enacted last year and began to affect receipts in May 1995, when firms paid their self-assessed tax balances for 1994.

Receipts from withholding tax on interest income decreased by 10.9 per cent. This was primarily due to a fall of more than 2 trillion lire in revenue arising from interest on bank accounts, most of which can be attributed to the large volume of tax credits that accrued in 1994 and were deducted from the first instalment of the tax for this year. Receipts arising from income earned on bonds, banker's acceptances and government securities also decreased.

Direct tax revenue was boosted by the growth in receipts from the tax on companies' net worth from around 6 to 7.1 trillion lire. The increase was mainly the result of the payment of the first of the two advance instalments of the tax payable for this year, which were introduced in the February package.

Receipts of indirect taxes increased substantially, rising by 10 per cent, partly as a result of the economic recovery but mainly owing to the effects of the February measures, which began to make themselves felt in the second quarter. The most important of these concerned VAT and excise duties on energy products.

The bulk of the increase was due to an 11.7 per cent rise in gross VAT receipts, reflecting not only the growth in nominal consumption but also the decision to increase the standard 9 and 13 per cent rates to 10 and 16 per cent respectively. The rise in receipts of other business taxes was less pronounced (3.7 per cent).

Table 18

State sector tax revenues (1)

(billions of lire)

	January-June		1995/1994	January-September		1995/1994
	1994	1995 (2)		1994	1995 (2)	
Direct taxes						
Personal income tax	74,213	82,423	11.1	101,194	111,812	10.5
of which: *withholding tax on state sector wages and salaries*	*12,786*	*13,666*	*6.9*	*18,873*	*19,568*	*3.7*
withholding tax on pensions and private sector wages and salaries	*40,926*	*45,104*	*10.2*	*58,568*	*63,969*	*9.2*
self-assessed balances	*6,246*	*7,162*	*14.7*	*6,423*	*7,414*	*15.4*
self-assessed instalments	*7,245*	*8,057*	*11.2*	*7,356*	*8,988*	*22.2*
Corporate income tax	11,311	10,987	–2.9	16,910	15,657	–7.4
of which: *self-assessed balances*	*5,682*	*5,264*	*–7.4*	*8,604*	*7,495*	*–12.9*
self-assessed instalments	*5,492*	*5,322*	*–3.1*	*8,133*	*7,727*	*–5.0*
Local income tax	7,344	6,700	–8.8	9,957	9,061	–9.0
of which: *personal income tax*	*1,351*	*1,507*	*11.5*	*1,401*	*1,533*	*9.4*
self-assessed balances	*743*	*806*	*8.5*	*759*	*823*	*8.4*
self-assessed instalments	*608*	*701*	*15.3*	*642*	*710*	*10.6*
corporate income tax	*5,814*	*4,668*	*–19.7*	*8,290*	*6,855*	*–17.3*
self-assessed balances	*2,889*	*2,312*	*–20.0*	*4,157*	*3,466*	*–16.6*
self-assessed instalments	*2,925*	*2,356*	*–19.5*	*4,133*	*3,389*	*–18.0*
Withholding tax on interest income	13,266	14,277	7.6	23,759	21,162	–10.9
of which: *in respect of bank deposits*	*1,220*	*1,437*	*17.8*	*5,550*	*3,175*	*–42.8*
in respect of government securities	*8,445*	*9,217*	*9.1*	*12,677*	*12,432*	*–1.9*
Tax on companies' net worth	4,100	5,114	24.7	6,022	7,073	17.5
Withholding tax on dividends	1,249	1,535	22.9	1,927	2,294	19.0
Other (3)	1,688	2,500	48.1	2,071	3,460	67.1
Total ...	**113,171**	**123,536**	**9.2**	**161,840**	**170,519**	**5.4**
Indirect taxes						
VAT (4)	43,698	49,430	13.1	68,486	76,480	11.7
Other business taxes	18,063	18,502	2.4	24,311	25,222	3.7
Excise duties on oil producs	19,796	20,941	5.8	28,847	31,220	8.2
Other excise duties and sales taxes (5)	5,958	7,055	18.4	8,654	10,153	17.3
Tobacco taxes	4,229	4,556	7.7	6,857	7,092	3.4
Lotteries	3,177	3,381	6.4	3,943	5,033	27.6
Other	12	8	–33.3	27	25	–7.4
Total ...	**94,933**	**103,873**	**9.4**	**141,125**	**155,225**	**10.0**
Total tax revenues ...	**208,104**	**227,409**	**9.3**	**302,965**	**325,744**	**7.5**

Sources: Bank of Italy and Ministry of the Treasury.

(1) Net of tax collection commissions and accounting transactions with special statute regions. – (2) Provisional. – (3) Includes receipts of inheritance taxes, which are recorded among indirect taxes in the accounts of the state sector. For 1995 only, includes the payment of the extraordinary tax to assist victims of the flooding in November 1994. – (4) Includes the receipts used to settle tax credits, those accruing to the EU and refunds made via taxpayers "tax accounts". – (5) Includes the proceeds of surtaxes on electricity consumption (levied by the tax authorities for disbursement to local authorities).

The upturn in economic activity and the measures adopted in February also increased the yield from excise duties and sales taxes, especially receipts from excise duties on oil products, which rose by 8.2 per cent, and from the sales taxes on methane and electricity, which rose by 12.6 and 10 per cent respectively.

Lottery receipts jumped by 27.6 per cent, while the yield from tobacco taxes rose by 3.4 per cent.

In the first nine months of the year the revenue from the condonation of building offences was much less than had been expected.

State sector expenditure in the first six months of 1995

State sector spending in the first half of the year amounted to 330.5 trillion lire, an increase of 3.2 per cent on the corresponding period in 1994 (Table 19). Net of interest payments, which grew by 8.8 per cent, the increase amounted to 1.2 per cent, in line with that recorded in 1994 (1.3 per cent).

This result reflected the small increases in the main items of current expenditure, especially transfers and wages and salaries. As regards the other items, the large increases in civil service pensions and tax refunds (included among other current expenditure) were largely offset by falls in purchases of goods and services (which had been inflated by election expenses in 1994), capital expenditure and disbursements of loans to regions by the Deposits and Loans Fund.

Transfers increased by 1.5 per cent overall, since the rise of 13.5 per cent in those to social security institutions was almost completely offset by the large falls in those to enterprises and former autonomous government agencies, as well as in transfers abroad.

Transfers to the regions, which accounted for 38 per cent of the total, increased by 1.6 per cent. This reflected on the one hand a fall in expenditure on health services, which stemmed in part from the territorial reorganization of local health units, and on the other the expansionary effects of a contraction in the volume of resources deposited with the Treasury by banks and the Deposits and Loans Fund for the settlement of local health units' past debts; the volume of transfers to the regions is calculated net of these resources, so that the lag with which they are used initially reduces this aggregate.

Table 19

Main expenditure items of the state sector (1)

(billions of lire)

	1994 H1	1995 H1	1995/1994
Current expenditure	**291,013**	**308,177**	**5.9**
Wages, salaries and pensions	56,008	58,216	3.9
of which: *wages and salaries*	*39,588*	*40,181*	*1.5*
Goods and services	11,478	10,334	−10.0
Current transfers	131,036	133,002	1.5
to: *social security institutions*	*29,942*	*33,989*	*13.5*
regions	*49,316*	*50,096*	*1.6*
municipalities and provinces	*14,920*	*15,259*	*2.3*
households	*10,733*	*10,969*	*2.2*
enterprises	*7,281*	*6,775*	*−6.9*
former autonomous government agencies	*10,457*	*8,478*	*−18.9*
recipients abroad	*5,563*	*4,209*	*−24.3*
other	*2,824*	*3,227*	*14.3*
Net interest payments	83,197	90,552	8.8
Other	9,294	16,073	72.9
Capital expenditure	**13,927**	**12,754**	**−8.4**
of which: *fixed capital*	*1,629*	*1,612*	*−1.0*
capital transfers	*12,180*	*11,123*	*−8.7*
Financial expenditure	**15,446**	**9,566**	**−38.1**
of which: *investments*	*610*	*430*	*−29.5*
loans and advances	*12,122*	*8,977*	*−25.9*
Total expenditure	**320,386**	**330,497**	**3.2**

Source: Ministry of the Treasury. The figures refer to the new definition of the state sector, which excludes the former autonomous government agencies.
(1) Net of tax collection commissions and accounting transactions whith special statute regions.

State sector expenditure on wages and salaries increased by 1.5 per cent compared with the first half of 1994, rising from 39.6 to 40.2 trillion lire. The increase was primarily due to the payment of provisional wage increases from April and July 1994 onwards to compensate for the non-renewal of the sector's wage agreement; these were to be subsumed in the wage increases subsequently negotiated.

In the early months of this year most of the new public sector wage agreements for the two years 1994 and 1995 were signed and the pay increases for staff excluded from wage negotiations were determined. Nearly 3 million employees are covered by new contracts, leaving some 120,000 employees in research institutions and the universities still to have their contracts renewed. The agreements, which began to affect outlays only in the second half of this year, provide for a first pay increase backdated to January that will raise the total wage bill by 3.5 per cent and a second in December that will add another 2.5 per cent.

In view of the provisional increases granted in 1994, the rises granted under the new wage agreements are expected to raise unit staff costs by just over 3 per cent this year and by approximately 2.5 per cent next year, to which will have to be added the effects of the renewal of wage agreements for 1996 and 1997.

The increase in other current expenditure from 9.3 trillion lire in the first half of 1994 to 16.1 trillion in the same period of this year reflected the large increase in tax refunds from 3.8 to 9.7 trillion as a result of taxpayers' greater use of tax accounts, which speed up the payment of such rebates. Refunds of indirect taxes rose from 3 to 7.1 trillion lire, while those of direct taxes increased from 0.8 to 2.6 trillion. In 1994 as a whole refunds had amounted to 15.8 trillion.

The decline in capital expenditure from 12.2 to 11.1 trillion lire owing to a contraction in transfers to enterprises was sharply at variance with the increase of 15.8 per cent forecast for the year as a whole in September's Forecasting and Planning Report. It should be remembered, however, that during the year there are wide margins of error in estimating the division of withdrawals from the Treasury between current and capital expenditure.

Loans and advances declined from 12.1 to 9 trillion lire, primarily owing to a fall from more than 5 trillion lire to around 1.8 trillion in disbursements of loans to the regions by the Deposits and Loans Fund to settle local health units' past debts.

Interest payments rose from 83.2 to 90.6 trillion lire, an increase of 8.8 per cent due partly to the growth in public debt but primarily to the rise in its average cost, which in turn stemmed from the rise in interest rates from late 1994 onwards. There was an above-average increase in the amount paid on Treasury bills, which rose from 15.9 to 20.5 trillion lire. About one sixth of this increase was due to the growth in the volume of bills in circulation, while the remainder can be attributed to the rise in the average pre-tax yield from 8.6 per cent in the first half of 1994 to 10.8 per cent in the first six months of this year.

Monetary policy, banking and the financial markets

The restrictive monetary stance was tightened further in the early months of this year as the risk of inflation intensified; the increase in official interest rates at the end of February was followed by a severe squeeze on the supply of liquidity.

In the spring the announcement of the proposals for reform of the pension system and an easing of unrest in the foreign exchange markets helped the lira to recover from the decline it had suffered in February and March and contributed to an improvement in the prices of government securities. New tensions developed in the second half of May, fueled by the extreme volatility of the foreign exchange markets and a deterioration in expectations caused by an acceleration in domestic prices. As a countermeasure, the Bank of Italy again raised the discount rate and the rate on advances on 26 May. At the Bank's Annual Meeting held a few days later, it was emphasized that a slowdown in inflation had to be achieved by the end of the summer, otherwise a further tightening of monetary conditions would become inevitable. Inflationary pressures eased in subsequent months, the slope of the yield curve became less steep and long-term lira rates declined, both in absolute terms and in relation to corresponding Deutsche Mark rates. Since the end of September the doubts that have arisen about European unification, the weakness of the dollar and uncertainties surrounding the domestic political scene have led to renewed pressure on the exchange rate and a substantial rise in yields on government securities.

On a seasonally adjusted basis, the stock of money has remained virtually unchanged since the spring of 1994. The growth in M2 slowed down further to a seasonally adjusted annual rate of 1.1 per cent in the first nine months of 1995, compared with one of 1.9 per cent in 1994 as a whole. Bank current accounts and short-term certificates of deposit declined in absolute terms, reflecting a combination of monetary restriction and a shift in investor preference towards other financial assets (repos, Treasury bills and Post Office savings certificates). Lending to the private sector increased by a modest 3.4 per cent in the first eight months of the year, after remaining broadly unchanged in 1994. Total credit increased by 5.9 per cent, the same as last year.

The recovery in bank lending was slow by comparison with the sustained growth in output, owing partly to the high level of corporate self-financing and partly to the continued high level of credit risk. Bad and doubtful debts increased further, but less rapidly than in the latter part of 1994; the slowdown was more pronounced in the case of loans to customers in industries and regions that have benefited most from the economic recovery.

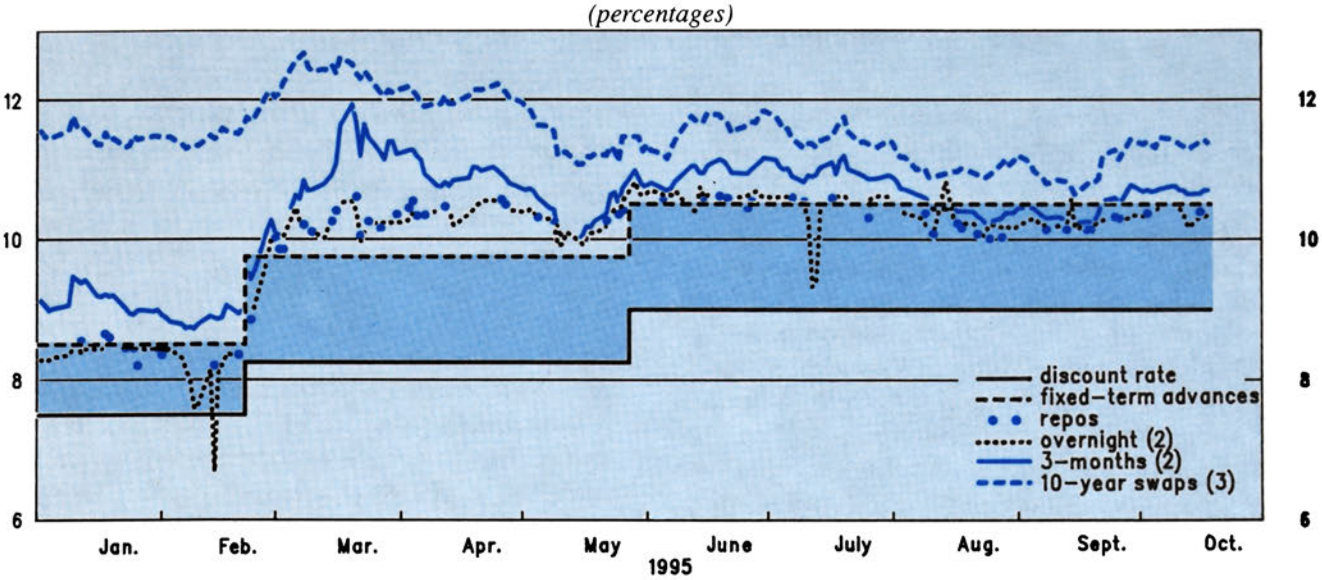
Monetary policy

In the weeks following the increase in official interest rates on 21 February (Figure 23), an intensification of exchange market volatility and renewed uncertainty about the domestic political situation led to a further sharp decline both in the exchange rate and in securities prices. By the middle of March the lira had suffered an exceptional depreciation of 12.5 per cent in effective terms (Figure 24) and the gross yield on ten-year Treasury bonds had risen by 120 basis points to a peak of 13.7 per cent (Figure 25); the differential vis-à-vis corresponding German securities widened by 160 basis points to 6.5 percentage points, the highest level since April 1993. The change in the differential for Euromarket swaps with similar maturities was less marked. The Bank of Italy tightened liquidity even more during this period, with the result that the overnight rate moved above the rate on fixed-term advances at the beginning of March and stood at 10.5 per cent in mid-month (see the box: *Bank of Italy intervention in the money market*).

Figure 23

Official interest rates and money and financial market rates

(percentages)



(1) Marginal allotment rate. – (2)Actual rate on the interbank deposit market. – (3) Euromarket rate.

The approval of supplementary budget measures in mid-March, the improved international climate from April onwards (aided by the lowering of the German discount rate) and the presentation of the Government's proposals for pension reform in mid-May helped ease tensions. Between mid-March and mid-May the lira's effective exchange rate rose by more than 10 per cent, yields on ten-year Treasury bonds fell by 170 basis points to 12.0 per cent and the differential vis-à-vis German securities narrowed to five percentage points.

Figure 24

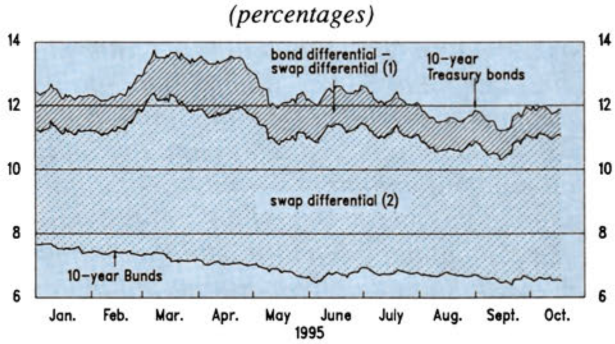
Interest rate differentials vis-a-vis Germany and the effective exchange rate

(1) Index, 13 September 1992=100. Right-hand scale. – (2) Difference in percentage points between 3-month Libor in lire and in Deutsche Marks. – (3) Difference in percentage points between 10-year swap rates in lire and in Deutsche Marks.

Figure 25

Breakdown of the yield differential between 10-year Italian Treasury bonds and Bunds

(percentages)



(1) Difference between the yield on 10-year benchmark Italian Treasury bonds and Bunds less the corresponding differential between lira and Deutsche Mark swap rates. – (2) Difference between lira and Deutsche Mark swap rates

Tension reappeared in the securities and foreign exchange markets in mid-May; fears of a resurgence of inflation aroused by the latest figures on producer prices and the cost of living were exacerbated by the steady rise in capacity utilization rates and the brisk growth in demand, as well as by a further depreciation of the lira. On 26 May the Bank of Italy raised the discount rate and the rate on fixed-term advances by 0.75 percentage points to 9.0 and 10.5 per cent respectively. The Bank's Annual Report warned that if inflation had not come down by the end of the

Bank of Italy intervention in the money market

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 9.75 per cent.

Between late February and mid-April the lira suffered a further sharp depreciation owing to tensions in the foreign exchange markets and domestic political uncertainty; there was a simultaneous increase in yields on government securities. The Bank of Italy progressively tightened monetary conditions by limiting the supply of liquidity on offer at auctions of repurchase agreements. Allotment rates for Bank of Italy repos and overnight rates rose above the rate on fixed-term advances; the overnight rate increased to more than 10 per cent at the beginning of March, reaching 10.5 per cent at about mid-month (see Figure 23 in the main text). The Bank of Italy met only part of the heavy demand for fixed-term advances, thereby confirming the stringency of monetary policy while avoiding an excessive increase in interest rates. The volume of outstanding advances peaked at 9.9 trillion lire on 14 March in conjunction with the end of the reserve maintenance period (Figure 1). During this period rates other than very short-term rates signaled expectations of a further increase in rates in subsequent months, fueled by fears of a resurgence of inflation; the differential between 3-month and overnight rates widened to more than 1 percentage point in the second half of March. Over a longer perspective, the forward yield curve implicit in the prices of 3-month Eurolira futures, which had been positively sloped at the end of 1994, gradually flattened and at the same time shifted significantly upwards (Figure 2).

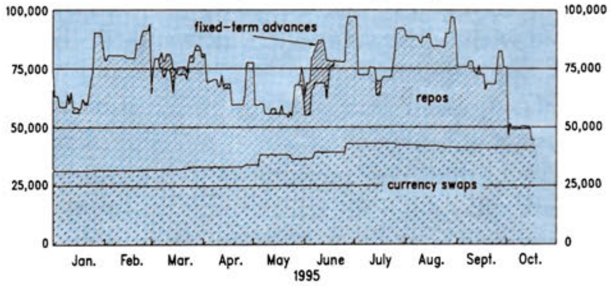
The differential between Italian and German 3-month rates widened sharply from 3.8 percentage points in mid-February to 6.7 points in mid-March, reflecting the more stringent monetary conditions in Italy (see Figure 24 in the main text). The 10-year swap differential increased less markedly, from 3.8 to 5.2 points.

From the second half of April onwards the exchange rate and long-term interest rates benefited from an improvement in the domestic and international climate; nevertheless, there was still considerable concern about the outlook for inflation. Liquidity was accordingly kept under tight control, and repo rates remained at around 10.3 per cent. Monetary policy was tightened further on 26 May by increasing both the discount rate and the rate on fixed-term advances by 75 basis points to 9 and 10.5 per cent respectively, thus bringing official rates up to the level already reached by very short-term market rates.

Figure 1

Central bank financing

(stocks, in billions of lire)



In June and July the repo and overnight rates were broadly in line with the rate on fixed-term advances. Judging this level to be appropriate, the Bank of Italy granted fixed-term financing, which helped avoid an excessive rise in rates; the volume of advances outstanding reached 18.3 trillion lire on 9 June. The 3-month interbank rate stood at about 11 per cent from mid-June onwards.

During this period there was considerable liquidity absorption by the Treasury, which in June deposited about 34 trillion lire in its payments account with the Bank of Italy. The Bank offset the effect on monetary base by providing the banking system with liquidity, primarily through securities repurchase agreements totaling 27.6 trillion lire in

June. The banking system's debtor position arising out of temporary operations with the Bank rose to 97 trillion lire at the end of the month; this consisted of 54 trillion lire in repos and 43 trillion in foreign currency swaps.

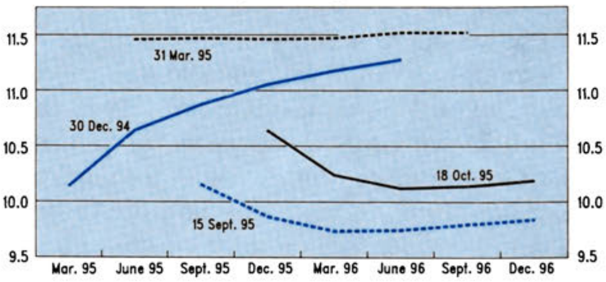
In the second half of July a further robust recovery in the lira was accompanied by a reduction in long-term interest rates owing to more favourable international conditions and an inflation performance that was better than the markets had expected. Interbank rates on deposits for three months or less consequently fell below the rate on fixed-term advances in the first ten days of August. The Bank of Italy only partly accommodated the easing of market conditions, maintaining careful control over liquidity in order to forestall an excessive relaxation, since expectations of an increase in inflation remained high. The Bank's action helped stabilize repo and overnight rates and prevented them from falling below 10.2 per cent. At the repo auction on 25 August no applications were accepted at rates of less than 10 per cent; Treasury bills were sold outright at a multiple-price auction held on 1 September in order to mop up a temporary excess of liquidity. The differential with German 3-month rates remained at about 6 percentage points during this period, 2 points more than the differential between 10-year swap rates. The slope of the 3-month Eurolira yield curve turned negative: in mid-September the forward rates implicit in the prices of futures contracts showed a decline of half a point up to those derived from contracts for settlement in March 1996, after which they remained stable.

Between mid-September and mid-October the lira began to depreciate again and long-term interest rates to increase. Three-month interbank rates again rose above the rate on fixed-term advances to stand at 10.7 per cent. The implicit forward yield curve shifted upwards, equaling spot rates on contracts for settlement in December 1995 and falling by about 50 basis points for those running up to the first quarter of 1996. Liquidity control remained tight, with rates on Bank of Italy repurchase agreements and the overnight rate rising to a level close to the rate on fixed-term advances. In mid-October the banking system's debtor position in respect of central bank repos fell to around 3 trillion lire, the lowest level of the year. The decline in central bank financing offset the creation of liquidity by the Treasury, which withdrew part of the funds it had accumulated in the previous months.

Figure 2

Yield curve for futures contracts on 3-month Eurolira deposits (1)

(percentages)



(1) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

In the first nine months of the year the Bank of Italy made net outright purchases of Treasury bills amounting to 11.5 trillion lire through competitive auctions. These operations, which are open only to primary dealers in the screen-based secondary market in government securities, are used to regulate conditions in the money market, especially when low volumes make repurchase agreements inadvisable. The effect on market liquidity is similar to that of auctions of repos of the same maturity. In 1995 the allotment rate for outright purchases was on average about 50 basis points less than interbank rates for comparable maturities; that for the sole outright sale was in line with the interbank rate.

summer it would be necessary to tighten credit conditions further.

Liquidity was made extremely tight in the weeks that followed; the overnight rate touched 10.7 per cent, its highest level since the beginning of the year. Long-term yields were unaffected by the increase in official rates; those on ten-year swap operations even declined by about 30 basis points in the next few days. The yield curve for maturities of more than one year also declined slightly and its slope flattened, reflecting a stabilization of market expectations (see the box: *Forward interest rates in 1995*).

Both the exchange rate of the lira and the prices of government securities recovered markedly from mid-July onwards, reflecting the publication of figures indicating that consumer prices were beginning to slow down and, subsequently, the development of a more favourable international atmosphere following a reduction in German and Japanese interest rates and a strengthening of the dollar. The lira appreciated by about 7 per cent in effective terms between 21 July and mid-September. Yields on ten-year Treasury bonds fell to 11.2 per cent and the differential vis-à-vis corresponding German rates narrowed to 4.7 percentage points, the same as at the end of 1994. At the beginning of August interbank rates on deposits for three months or less fell back below the rate on fixed-term advances. The Bank of Italy kept a firm check on bank liquidity; the overnight rate remained at around 10.2 per cent, thus responding only partially to the easier conditions in the money market.

Between mid-September and mid-October the lira depreciated by 4 per cent in effective terms, primarily as a result of the weakness of the dollar and doubts about European monetary union. The yield on ten-year Treasury bonds rose by 80 basis points to 12.0 per cent and the differential vis-à-vis corresponding German rates rose again to 5.4 percentage points. Mounting political uncertainty accentuated these trends in the second half of October, although there was some improvement in the last few days of the month.

Monetary base grew even more slowly than last year. Between January and September 1995 there was a negative overall flow of 19.1 trillion lire (Table 21), some 16 trillion of which was attributable to the reform of compulsory bank reserves by the Bank of Italy in May 1994 (see: "The recent reform of the reserve requirement", in *Economic Bulletin* No. 19, October 1994). After adjustment for seasonal factors and the change in the reserve ratio, the annualized rate of growth declined to 2.6 per cent, compared with 2.8 per cent for the whole of 1994 (Table 20). This modest increase is attributable to developments in both bank reserves and currency in circulation.

Table 20

Monetary variables (1)

(percentage changes)

	1994		1995 (2)
	Jan.-Sept. (3)	Year	Jan.-Sept. (3)
Currency	8.6	6.4	3.5
Bank reserves (4)	2.3	0.7	2.1
Monetary base (4)	4.5	2.8	2.6
Bank deposits	1.9	0.9	–0.2
Money supply (M2)	2.9	1.9	1.1

(1) Currency, bank reserves and monetary base calculated as averages of daily data for the mid- month to mid-month reserve maintenance period, bank deposits and the money supply as three-month averages; new definition of M2, which includes all bank CDs. – (2) Provisional. – (3) Annualized and seasonally adjusted. – (4) Adjusted for the change in the average compulsory reserve ratio; from 1995 onwards the correction is calculated for the entire "banks" aggregate.

In the first nine months of the year the foreign sector created 4.2 trillion lire of monetary base (Table 21) while the Treasury destroyed 27.8 trillion lire, continuing a trend that had begun in 1990. Treasury funds on deposit with the Bank of Italy increased by 6.4 trillion lire.

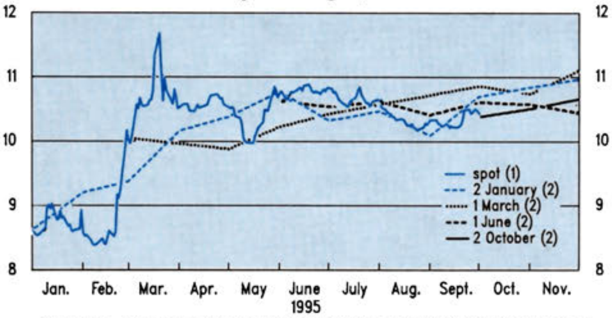
The Bank of Italy offset the destruction of monetary base by the Treasury by creating 10.5 trillion lire of liquidity through open market operations. Net outright purchases of securities totaled 20 trillion lire, mostly in Treasury bills. The Bank's portfolio of government securities declined by 2 trillion lire; at the end of September it amounted to 114.6 trillion lire, net of securities purchased in 1994 in connection with the conversion of the debt on the former Treasury current account. The banking system's indebtedness towards the Bank of Italy in respect of repos declined by 9.6 trillion lire.

Forward interest rates in 1995

At the beginning of 1995 the forward yield curve for Eurolira deposits displayed a positive slope up to maturity dates lying about 2 years ahead. In particular, it indicated that 1-month rates were expected to rise by around 2 percentage points to 10.7 per cent by May and by smaller amounts thereafter (Figure 1). This pattern presumably reflected expectations of both an acceleration in economic activity in all the main industrial countries and a rise in inflation; it was consistent with the expectation that restrictive monetary policy measures would be adopted in order to counter inflationary pressures.

Figure 1

1-month spot and forward rates
(percentages)



(1) Libor. – (2) Curve of 1-month forward rates implicit in Libor for the contract date indicated. The first value of each curve is the spot rate on the contract date.

As a result of the tightening of monetary conditions by the Bank of Italy, the rise in short-term spot rates between February and May was in line with that anticipated by the market at the turn of the year; rates increased by far more than had been expected in March, when the depreciation of the lira was particularly marked. At the beginning of October spot rates coincided with those implicit in the forward rate curves observed in the preceding months.

Forward rates on contracts maturing further ahead rose by more than 1 percentage point in the first quarter of 1995 (Figure 2), reflecting the weakness of the lira, the deterioration in inflation expectations and heightened uncertainty about future movements in interest rates, as can be deduced from the increase in the volatility implicit in the prices of options on Treasury bond futures (see Figure 29 in the main text). Forward rates subsequently declined, after monetary conditions had been tightened and the lira had recovered: at the end of September the implicit 1-year rate maturing 10 years ahead was below the level that had prevailed at the end of 1994. The slope of the Eurolira yield curve became progressively shallower during the summer until it was almost flat. There was a slightly more pronounced decline in the yield curve for government securities.

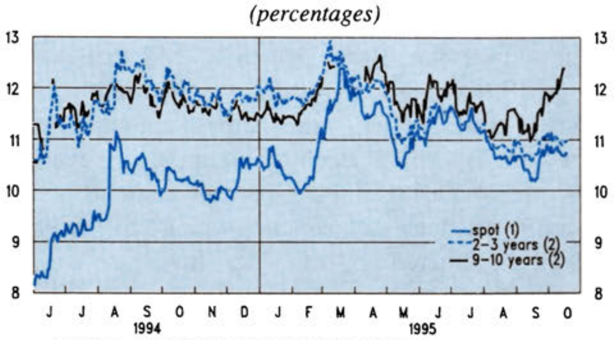
The tensions that have developed since the middle of September have been reflected primarily in forward rates further ahead; the steepening of the yield curve has principally involved the segment more than two years forward.

At the beginning of 1995 the curves for short-term forward rates in the other leading currencies also exhibited a rising slope. In Germany and Japan they discounted increases over the year that were about half the size of those expected for lira rates. In the United States and the United Kingdom the expected rise was comparable to that anticipated for Italian rates.

In contrast to developments in Italy, however, the behaviour of short-term rates in the other countries has not been consistent with expectations. In Germany and Japan the discount rate has been lowered by a total of respectively 1.0 and 1.25 percentage points and money market rates have fallen more sharply. In the United States 3-month spot rates have declined in spite of the Federal Reserve having increased the official discount rate by half a percentage point; at the beginning of October they were more than 2 points lower than the level implicit in forward rates at the start of the year.

Figure 2

1-year spot and forward rates
(percentages)



(1) Libor. – (2) Calculated on the basis of swap rates.

Table 21

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

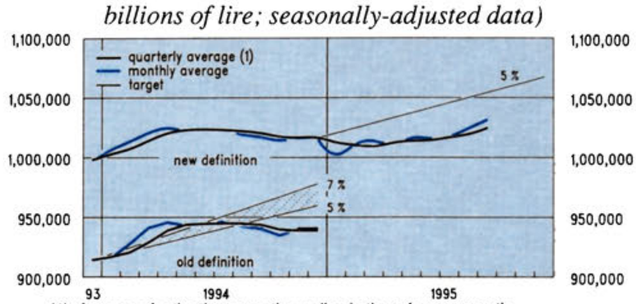
	1994		1995 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Sources			
Foreign sector	4,106	3,297	4,187
Foreign currency swaps	*–813*	–813	*9,486*
Treasury	–37,625	–54,743	–27,796
Borrowing requirement (3)	*108,694*	*162,155*	*97,347*
(excluding settlements of past debts)	*108,206*	*155,713*	*94,678*
Market purchases of securities	*–125,473*	*–176,475*	*–93,003*
Other financing (4)	*–14,927*	*–34,502*	*–31,225*
Disposals	*–5,919*	*–5,921*	*–915*
Open market	31,650	47,451	10,455
Repos (5)	*–4,004*	–3,802	*–9,569*
Refinancing	–211	236	–109
Other sectors	–8,209	–6,154	–5,878
Total	**–10,289**	**–9,913**	**–19,141**
Uses			
Currency in circulation	–228	6,452	–3,802
Bank reserves	–10,061	–16,365	–15,339
Compulsory reserves (6)	*–10,696*	–13,332	*–18,063*

(1) Rounding may cause discrepancies in the totals. – (2) Provisional. – (3) Including the settlement of past debts; based on the new definition of the state sector; excluding privatization proceeds; including former autonomous government agencies not providing market services. – (4) PO deposits, foreign debt, bank lending to the state sector, deposits of social security institutions with the Treasury, surety deposits with Deposits and Loans Fund. – (5) At book value. – (6) Average reserve requirement during mid-month to mid-month reserve maintenance period.

The slowdown in the growth of M2 that had begun in 1994 continued in the first nine months of this year (Figure 26), when the increase amounted to 1.1 per cent. The sharp deceleration in the aggregate has been most marked in bank current accounts and short-term certificates of deposit, which have been particularly affected by a shift towards other short-term financial assets, especially Treasury bills and repos between banks and their customers. The reasons for this lie partly in the restrictive stance of monetary policy but also in the tendency for banks to keep deposit rates fairly low at a time when market rates were increasing. Nonetheless, the changes in relative yields do not appear to explain all of the shift; the growth in repos, for example, is probably due to households' increasing awareness of this type of transaction (see the box: *The behaviour of liquid assets in the non-state sector and bank fund-raising in the first eight months of 1995*). As a result of such portfolio adjustment, the relationship between M2 and nominal income has become weaker.

Figure 26

Money supply (M2)
(targets and outturn;
billions of lire; seasonally-adjusted data)



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

Total financial assets grew at an annual rate of 5.6 per cent in the first eight months of the year, compared with 7.1 per cent in 1994 as a whole (Figure 27 and Table 22). Within this aggregate, liquid assets increased by 7.9 per cent, reflecting the growth in holdings of Treasury bills and repos. Net investment in medium and long-term government securities by the non-state sector totaled 20.4 trillion lire, against 34.5 trillion in the same period of last year; fixed-rate securities were the most popular, with Treasury bonds accounting for 64.5 trillion, whereas there were net redemptions of Treasury credit certificates amounting to 21.8 trillion lire. The decline in holdings of investment fund units that had begun at the end of 1994 continued, while purchases of bank and corporate bonds amounted to 6.3 trillion lire, compared with 21.5 trillion in the same period of 1994.

The growth in financial assets was fueled by the current account surplus, which in the first eight months of the year was higher than in the same period of 1994 (26.8 trillion lire, compared with 15.9

Table 22

Financial flows

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

	Growth			Share of outstanding stocks	
	1994		1995	1994	1995
	Jan.-Aug. (1)	Year	Jan.-Aug. (1)	Aug.	Aug.
Total credit	**6.1**	**5.6**	**5.9**	**100.0**	**100.0**
Finance to the non-state sector	*1.2*	*0.7*	*3.4*	*38.6*	*37.1*
from banks	*1.1*	*0.9*	*3.3*	*33.0*	*31.8*
bonds	*16.6*	*3.3*	*–17.4*	*1.2*	*0.9*
foreign finance	*–1.2*	*–1.7*	*9.2*	*4.4*	*4.4*
Finance to the state sector	*9.3*	*9.0*	*7.4*	*61.4*	*62.9*
foreign finance	*9.3*	*12.6*	*41.6*	*2.5*	*3.3*
Financial assets (2)	**7.9**	**7.1**	**5.6**	**100.0**	**100.0**
Domestic	*6.8*	*6.1*	*5.7*	*93.7*	*93.4*
liquid assets	*2.3*	*2.2*	*7.9*	*58.6*	*57.7*
M2 (3)	*2.8*	*1.7*	*1.1*	*38.3*	*35.9*
medium and long-term government securities	*12.0*	*12.0*	*5.5*	*29.8*	*31.1*
other (4)	*45.6*	*24.0*	*–10.6*	*5.3*	*4.6*
Foreign	*27.4*	*24.9*	*5.0*	*6.3*	*6.6*

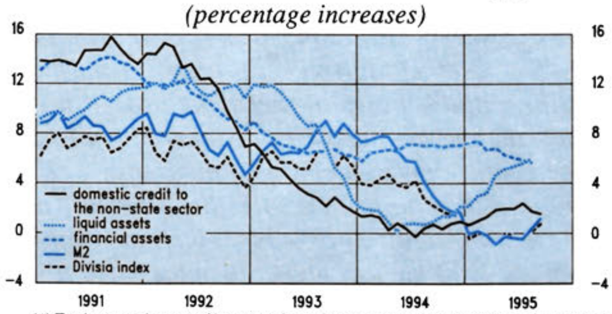
(1) Calculated from seasonally adjusted annualized data. – (2) Net of shares. – (3) Percentage changes are calculated from monthly averages; new definition including all bank CDs. – (4) Investment fund units, non-state sector assets with banks, surety deposits of firms, atypical securities and Republic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

trillion) and by a 5.9 per cent expansion in total credit (compared with 5.6 per cent last year). The other minor components of this aggregate declined. Within total credit, there was a reversal of last year's abrupt slowdown in financing to the non-state sector; between January and August this component increased at a seasonally adjusted annual rate of 3.4 per cent, compared with growth of 0.7 per cent in 1994 as a whole. The recovery in bank lending, which rose by 3.3 per cent on the same basis compared with 0.9 per cent in the whole of last year, was entirely attributable to growth in lira lending, as the foreign currency component declined sharply. Credit in the form of bonds contracted by 17.4 per cent. The growth in financing to the state sector slowed down from 9.0 per cent in 1994 to a seasonally adjusted annual rate of 7.4 per cent in the first eight months of this year, reflecting the decline in the borrowing requirement.

Figure 27

M2, liquid assets, Divisia index, domestic credit and financial assets (1)

(percentage increases)



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

The behaviour of the liquid assets of the non-state sector and bank fund-raising in the first eight months of 1995

The slowdown in the growth of bank deposits in the second half of 1994 gave way to an absolute contraction in the first eight months of 1995. Calculated as an average of daily data, the fall amounted to 0.9 per cent in the twelve months to August; adjusted for the rise in the cost of living, the contraction in March was the most pronounced for fourteen years.

The decline in bank deposits as a share of the non-state sector's portfolio of financial assets (Table 1) was accompanied by a shift towards other short-term instruments, especially securities repurchase agreements and Treasury bills. Repos, which increased by 40.5 trillion lire compared with 14.4 trillion in the same period of 1994, are highly liquid; about half had a residual maturity of one month or less, with the remainder falling due within six months. Despite the fact that net issues of Treasury bills were virtually nil, net purchases by the non-state sector totaled 36.3 trillion lire, compared with net sales of 2.9 trillion in 1994; net disposals by banks amounted to 30.5 trillion lire, compared with a reduction of 3.1 trillion in the same period of 1994. The decrease in deposits and the slowdown in M2, which grew by 1.7 per cent over the period, therefore contrasted with rapid growth of 7.9 per cent in total liquid assets; those not included in M2 increased by 19.8 per cent.

The shift towards liquid assets not included in M2 was encouraged in part by changes in relative yields. Net of differences in tax treatment, the differential between the net yield on Treasury bills and the average deposit rate widened from 4.1 to 5.7 percentage points in the first quarter of 1995 (see Figure 28 in the main text); it then narrowed again, so that by August it was only slightly more than at the end of 1994 but still higher than the average of 3.3 points for 1993 and 1994.

In 1994 the combination of a slowdown in lending, low demand from the non-state sector for short-term assets and continued brisk growth in deposits in the first part of the year meant that repurchase agreements with customers were virtually unchanged. In 1995 banks fostered customer interest in repos by increasing the relative yields on such operations in order to counter a pronounced contraction in deposit liabilities at a time when credit demand was picking up. Net of differences in tax treatment, the differential between the rate paid by banks on repurchase operations with customers and that on current accounts rose from 3.4 to 4.1 percentage points between the end of January and the end of August. The differential between repo rates and the issue yields on fixed-rate

Table 1

Financial assets of the non-state sector (1)
(flows and percentage changes since the beginning of the year)

	August 1994		August 1995	
	billions	%	billions	%
M2	–56,462	2.7	–62,594	1.7
of which: bank deposits ..	*–58,888*	*2.1*	*–61,569*	*1.0*
PO deposits ...	*4,298*	*18.7*	*4,467*	*18.1*
Treasury bills	–2,892		36,346	
Repurchase agreements ...	14,394		40,461	
Post Office savings certificates	4,617		2,277	
Liquid assets	**–41,413**	**2.3**	**17,370**	**7.9**
Medium and long-term financial assets	57,155	11.1	26,358	4.1
of which: BTPs and CCTs	*41.642*		*42,793*	
Domestic financial assets net of shares	**46,689**	**6.8**	**34,423**	**5.7**

(1) Percentage changes are based on annualized seasonally adjusted data.

CDs with maturities of between 18 and 24 months was negative by 0.3 points at the end of January but turned positive in April and reached a peak of 0.3 points in June; it subsequently narrowed and had virtually disappeared by the end of August.

The decline in deposits occurred mainly in short-term instruments. Funds raised by means of short-term CDs and savings deposits, which have been contracting since the end of 1993, fell by 23.2 trillion lire in the first eight months of the year. By contrast, long-term CDs, which have been exempt from the reserve requirement since June 1994, grew by 11.6 per cent in the 12 months to August (4.0 per cent at the end of 1994). Current account deposits diminished by 23.3 trillion lire. Sectoral figures available up to July (Table 2) indicate that the contraction during that period mainly involved consumer households, whose current accounts declined by 11.6 trillion lire (compared with a fall of 5 trillion in the same period of 1994); this comprised a contraction of 10.1 trillion in the Centre and North and one of 1.5 trillion in the South. The current account deposits of non-financial firms fell by about 1 trillion lire, owing entirely to a decline in the Centre and South. Those of sole traders in these areas also fell.

As current account deposits declined, so the volume of securities repurchase agreements increased, particularly in the Centre and North, where repos expanded by 17.6 trillion lire between January and July, compared with a fall of 11.8 trillion in current account deposits. In the South repos increased by 2.4 trillion lire and deposits contracted by 2.1 trillion. Sectoral figures show an increase of 14.3 trillion lire in repos with consumer households, probably owing to their increasing familiarity with these instruments; the rise was greatest in the North. Repurchase agreements with non-financial firms, which had already increased in 1994, continued to rise.

Table 2

Geographic and sectoral trends in current accounts and repurchase agreements (1)

(flows in billions of lire between January and July)

	Total								
				of which:					
				consumer households			*non-financial firms*		
	North	South	Centre	*North*	*South*	*Centre*	*North*	*South*	*Centre*
1994									
Current accounts	332	1,907	−1,514	*−4,730*	*782*	*−1,045*	*4,061*	*319*	*−58*
Repurchase agreements ..	−643	−1,606	−2,960	*929*	*−1,691*	*−2,117*	*950*	*140*	*−680*
1995									
Current accounts	−7,221	−2,055	−4,553	*−6,799*	*−1,525*	*−3,289*	*340*	*−64*	*−1,228*
Repurchase agreements ..	13,466	2,442	4,176	*9,907*	*1,986*	*2,399*	*1,204*	*177*	*1,019*

(1) The figures refer to banks accepting short-term funds. Lira operations with residents.

Banking

The growth in economic activity in the first nine months of 1995 created the conditions for a recovery in banking business, albeit a modest one. The substantial increase in gross fixed investment did not translate fully into demand for credit, partly on account of the high level of corporate self-financing. Banks financed the growth in lending largely by reducing their securities portfolios; domestic deposits increased only modestly, while net fund-raising abroad declined, especially in foreign currency. In order to avoid a further reduction in the volume of business, banks accommodated customers' preferences for highly liquid forms of investment and yields in line with those on Treasury bills; securities repurchase agreements, which had declined last year, thus began to increase rapidly again.

Bank lending rose by 3.3 per cent on an annual basis in the first nine months of the year, while the twelve-month rate stood at 2.3 per cent in September. The recovery reflects the acceleration in lira lending, which increased at a twelve-month rate of 6.6 per cent, and the pronounced contraction in foreign currency loans, which declined by 25.0 per cent.

The breakdown according to maturity indicates that short-term lending picked up again in April, having been in decline since the end of 1993; in August the twelve-month rate of increase (3.0 per cent) exceeded that in medium and long-term loans (2.2 per cent).

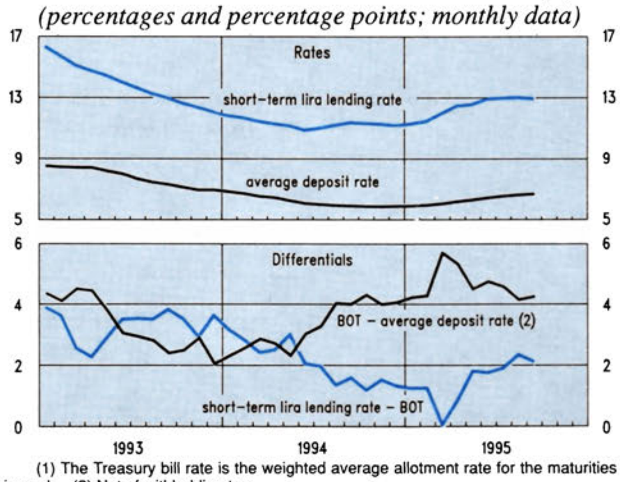
In the first seven months of the year the fastest growth occurred in lending to industry (a twelve-month rate of 7.5 per cent in July), services (5.3 per cent) and consumer households (6.9 per cent). The decline in lending to financial and insurance companies eased somewhat, while the growth in lending to general government continued to slow down (Table 23).

Bad debts again increased substantially, albeit at a slower rate than in 1994; between December 1994 and August 1995 the twelve-month rate of increase fell from 29.8 to 22.0 per cent, while the ratio to total lending rose from 8.7 to 9.8 per cent. The slowdown was more marked in lending to the sectors that have benefited most from the economic recovery; in the case of industry the ratio of bad debts to total lending declined by two tenths of a point to 8.1 per cent between December 1994 and July 1995 and in absolute terms the flow of bad debts was about one third of that recorded in the same period of 1994. Among non-financial enterprises, the growth in bad debts remained rapid in the construction industry and services. Loans to consumer and producer households also gave rise to substantial uncollectable positions. In geographical terms, the slowdown in the growth in bad debts was greatest in the North, where the twelve-month rate of increase fell to less than 20 per cent; in the South, however, the slowdown was marginal and the ratio of bad debts to lending rose to 24.7 per cent, compared with 22.1 per cent at the end of 1994.

With credit risk still high, lending terms improved only slightly. In the first seven months of the year the proportion of loans granted at or below the ABI prime rate averaged 30 per cent, compared with 27 per cent in the same period of 1994, while the ratio of credit drawn to credit granted, calculated in terms of short-term lira loans, declined from 56.0 to 54.7 per cent.

Figure 28

Interest rates and interest rate differentials (1)
(percentages and percentage points; monthly data)



(1) The Treasury bill rate is the weighted average allotment rate for the maturities issued. – (2) Net of withholding tax.

Banks' lending rates rose during the first nine months of 1995, reflecting the rise in official rates. The average rate for short-term lira loans increased from 11.1 per cent at the end of 1994 to 12.9 per cent in June and remained broadly unchanged thereafter

Table 23

Bank lending by branch of economic activity (1)
(percentages)

	General govern-ment (2)	Finance and insurance	Non-financial enterprises					Households		Total
				industry		*construc-tion*	*services*	Consumer (4)	Producer	
					exporting branches (3)					
			12-month percentage changes in credit drawn (5)							
1992 – December ...	14.6	4.5	10.2	*7.3*	*3.3*	*15.6*	*13.1*	9.3	4.6	8.7
1993 – " ...	23.6	–1.4	0.1	*–5.4*	*–11.0*	*13.3*	*2.1*	3.5	1.7	2.1
1994 – July	23.5	–9.8	–2.0	*–1.6*	*–3.9*	*1.9*	*–2.4*	2.5	0.2	–0.3
1994 – December ...	9.2	–9.3	1.0	*3.4*	*3.9*	*0.9*	*–0.2*	6.1	2.0	1.0
1995 – July	3.5	–3.0	5.8	*7.5*	*5.4*	*2.3*	*5.3*	6.9	3.8	4.3
			Ratio of credit drawn to credit granted (6)							
1992 – December ...	52.8	53.9	54.9	*47.9*	*47.3*	*65.8*	*59.4*	65.4	62.7	55.9
1993 – " ...	34.9	61.5	56.1	*48.1*	*46.6*	*72.9*	*59.7*	65.8	63.7	57.6
1994 – July	22.4	53.5	55.0	*48.2*	*47.4*	*73.4*	*57.3*	64.6	63.1	55.1
1994 – December ...	20.6	55.0	54.0	*46.3*	*45.7*	*72.9*	*57.7*	63.6	62.2	54.6
1995 – July	23.3	52.4	55.4	*48.2*	*48.0*	*74.6*	*58.9*	63.2	63.3	55.3
			Ratio of bad debts to total lending (5)							
1992 – December ...	–	1.4	5.5	*5.0*	*5.7*	*7.7*	*4.2*	6.6	11.8	5.4
1993 – " ...	0.5	1.8	7.1	*6.5*	*7.6*	*8.5*	*6.2*	8.0	13.4	6.6
1994 – July	0.8	2.9	8.7	*7.7*	*8.8*	*10.4*	*7.9*	9.1	14.9	8.0
1994 – December ...	0.8	3.3	9.5	*8.3*	*9.5*	*11.8*	*8.6*	9.6	16.4	8.7
1995 – July	0.9	3.7	10.0	*8.1*	*9.3*	*13.8*	*9.4*	10.6	17.5	9.4
			Percentage composition of credit drawn (5)							
1995 – July	9.4	12.9	49.8	*22.5*	*7.4*	*7.6*	*18.7*	15.1	12.8	100

Source: Central Credit Register.

(1) Lending to non-bank residents. The figures for July 1995 are provisional. Credit drawn is net of bad debts. Changes in the foreign currency component of credit drawn are net of exchange rate adjustments. – (2) Conventionally includes several publicly owned service companies that formerly operated as autonomous government agencies. – (3) Agricultural and industrial machines, office and data processing machines, private social institutions. – (5) For consumer and producer households, the figures for credit drawn are derived from banking supervision statistics to eliminate distortions caused by the Central Credit Register's 80 million-lira reporting threshold; the total has therefore also been recalculated. – (6) For short-term lending in lire.

(Figure 28). In the first nine months of the year the differential between the latter and average Treasury bill yields was on average 0.6 percentage points less than the average for 1994.

The twelve-month rate of growth in deposits, which had fallen to 0.6 per cent at the end of 1994, declined further to 0.1 per cent in September. Deposits contracted during the first half of the year as a whole, in line with the persistently high differential between Treasury bill yields and the average deposit rate: adjusted for differences in tax treatment, the differential rose from an average of 3.3 percentage points in 1994 to one of 4.7 points in the first nine months of this year.

Current accounts contracted by 0.6 per cent in the twelve months to September, while the decline in certificates of deposit for terms of less than eighteen months eased slightly, from 19.5 to 17.9 per cent. By contrast, the growth in CDs for terms of eighteen months or longer, which are exempt from the reserve requirement, accelerated from 4.0 to 13.6 per cent between the end of last year and September 1995. The twelve-month rate of growth in bonds plummeted from 11.8 per cent at the end of 1994 to 1.2 per cent in August.

The contraction in more traditional forms of deposit liabilities was partly offset by a strong expansion in securities repurchase agreements in lire with residents, which amounted to 127.6 trillion lire at the end of August, compared with 101 trillion a year earlier. The popularity of these operations can be explained by the favourable combination of high liquidity and high relative yields. Net foreign liabilities decreased by 25.6 trillion lire in the first eight months of the year, whereas in the corresponding period of 1994 they had increased by almost the same amount (26.2 trillion); the decline was primarily in the foreign currency component, which fell by 20.2 trillion lire, compared with a decline of 200 billion in 1994.

In view of the slower growth in fund-raising, the banks met the rising demand for loans by reducing their holdings of securities, which contracted by 39 trillion lire in the first eight months of the year, compared with an increase of 30 trillion in the same period of 1994.

The first-half results reported by banks accepting short-term funds show a modest recovery in comparison with the particularly poor performance in the same period of 1994. Net interest income increased by 8.0 per cent and by about 0.2 points in relation to the volume of business, aided by the recovery in lending and a modest widening of the differential between rates on short-term lira loans and the unit cost of lira deposits. Other net income contracted by 7.3 per cent owing to the deterioration in income from securities trading, which was nonetheless better than in the second half of 1994. The increase in gross income was small (3.5 per cent) and less than that in operating costs (3.6 per cent), partly as a result of the renewal of labour contracts for bank staff. Operating profits rose by 3.4 per cent and by 0.03 points in relation to the volume of business.

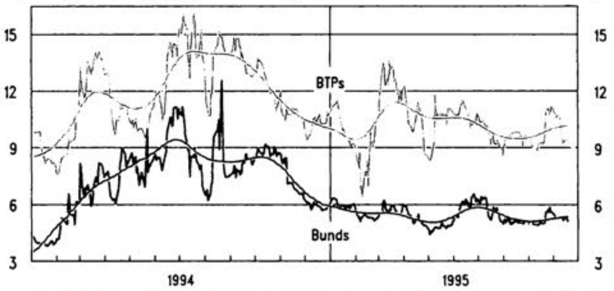
The financial markets

Market yields on long-term Treasury bonds, which had exceeded 12 per cent at the end of 1994, rose further in the first few months of this year as inflation expectations deteriorated. Those on ten-year bonds rose to 13.7 per cent in March, when the exchange rate was at its lowest, but a combination of international and domestic factors subsequently fostered a gradual decline, so that by mid-September they stood at about 11.2 per cent. Between the end of September and mid-October renewed turmoil in the foreign exchange markets caused yields to rise again, especially for longer maturities.

The differential between ten-year lira and Deutsche Mark swap rates, which is attributable to the expectations and risks associated with real interest rates, inflation and exchange rates in the two countries, widened to more than five percentage points in March, in parallel with an increase in the expected volatility of ten-year Treasury bond prices implicit in the prices of futures options (Figure 29). It then narrowed gradually to 4 percentage points in September. Net of the difference between swap rates, the yield differential between ten-year Treasury bonds and Bunds of the same maturity exceeded 1.5 percentage points in the spring, partly on account of uncertainty surrounding approval of the reform of the pension system. It began to narrow again in the summer, reaching a low of about 0.8 percentage points in mid-September, encouraged partly by expectations that the 12.5 per cent withholding tax on non-residents' holdings of government securities would be abolished.

Figure 29

Expected volatility of Treasury bonds and Bunds (1)
(daily averages; percentage points on an annual basis)

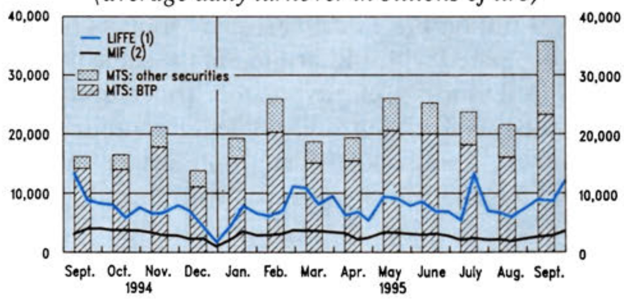


(1) Volatility implicit in the prices of options on 10-year Treasury bond futures quoted on LIFFE. The trend component was estimated using the Hodrick and Prescott method.

The average daily turnover on the screen-based market in government securities (MTS) surged to more than 24 trillion lire in the first nine months of this year (Figure 30), an increase of 61.9 per cent over 1994. The increase in trading is attributable to improvements in the organization of the market (see the box: "The implementation of the reform of the screen-based secondary market in government securities (MTS)" in *Economic Bulletin* No. 20) and to competition between traders to achieve and retain the status of "specialist in government securities"; by June sixteen dealers had been appointed in this capacity. The especially large increase in trading in Treasury credit certificates, which was more than four times the figure for the same period in 1994, was fueled by growing interest on the part of foreign investors in the wake of changes to the mechanism for indexing securities.

Figure 30

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.

Table 24

Government securities
(billions of lire)

	BOTs	BTEs	CTZs	CCTs	BTPs	CTEs	Other	Total
				Gross issues				
1991	602,421	4,989	–	99,000	93,010	3,680	23,000	826,101
1992	675,055	6,961	–	83,426	95,519	4,759	14,500	880,220
1993	737,345	7,145	–	56,000	166,452	12,838	9,541	989,322
1994 (1)	679,500	–	–	60,767	167,574	17,665	5,594	931,100
1994 - 9 months	499,000	–	–	40,372	139,454	12,769	–	691,595
1995 - 9 months	533,250	–	33,777	81,675	89,060	5,728	2,650	746,140
				Net issues (2)				
1991	13,894	–2,306	–	9,268	85,784	1,640	19,627	127,907
1992	44,731	1,751	–	60,024	33,576	319	–3,188	137,213
1993	6,480	–738	–	20,698	138,485	–656	657	164,927
1994 (1)	19,154	–7,443	–	37,629	104,458	2,736	–6,378	150,156
1994 - 9 months	12,654	–5,108	–	23,602	85,636	2,005	–11,972	106,817
1995 - 9 months	500	–	27,264	–25,483	82,812	–7,630	–7,428	70,036

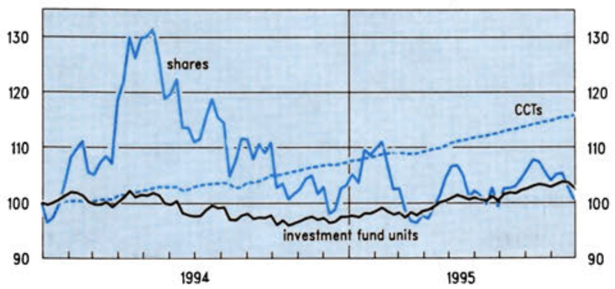
(1) The securities issued to consolidate the Treasury's overdraft on its current account with the Bank of Italy (76,206 billion lire) are not included. – (2) Net issues do not include issue discounts.

This year the Treasury has reverted to the policy of reducing the proportion of issues of short-term and index-linked goverment securities. Net issues of Treasury bonds amounted to 82.8 trillion lire in the first nine months of the year (Table 24), equal to more than the net total for all government securities, while net redemptions of Treasury credit certificates, Treasury option certificates and Treasury certificates in ecus totaled 25.5, 10 and 7.6 trillion lire respectively. By issuing two-year zero-coupon bonds for more than 27.3 trillion lire, the Treasury was able to reduce net issues of bills to almost nil. At the end of September the average maturity of government securities was three years and one month, virtually unchanged from the end of 1994. Net subscriptions of government securities by foreign investors totaled about 9 trillion lire in the first eight months of the year, compared with 14.2 trillion in the same period of 1994. Disposals of government paper by banks amounted to 8 trillion lire, while subscriptions by investment funds and the non-state sector totaled about 5.7 and 56.8 trillion respectively.

Figure 31

Securities market: indices of total return

(indices 31 December 1993=100; end-of-week data)

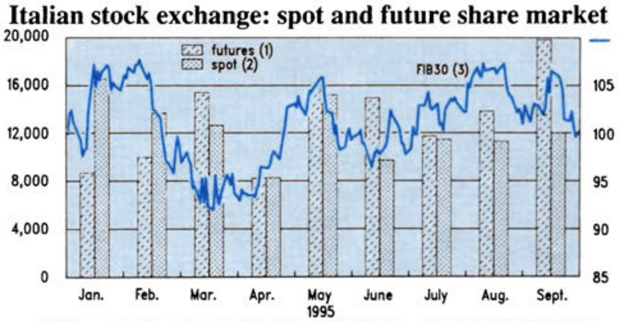


Trading in Treasury bond futures contracts was below the averages for 1994 on both the Italian futures market (MIF) and LIFFE in London, albeit less markedly on the latter; the decline is attributable to a decrease in the price volatility of long-term securities from the particularly high levels of 1994, thus reducing the demand for futures to hedge government securities portfolios. The MIF's share of total trading fell to 26.2 per cent in the first nine months of the year, compared with 31.5 per cent a year earlier. Trading on the screen-based options market (MTO) was also slack, totaling 20.6 trillion lire between January and September 1995, equal to 11.4 per cent of transactions in similar contracts on LIFFE. In contrast, Eurolira futures contracts grew by 32.3 per cent, fueled by the higher volatility of Italian short-term interest rates.

Share prices fluctuated widely and declined slightly in the first nine months of 1995. A rise of 7.5 per cent in the first few weeks of the year was followed by a sharp fall, so that by the end of March the market was more than 5 per cent lower than at the end of 1994 (Figure 31). A slight recovery occurred between April and May, in connection with the more favourable prospects for the stock market afforded by the introduction of the regulations on pension funds. At the end of September the MIB index was about 2.5 per cent lower than in December 1994. There was a decline of 3.7 per cent in insurance, banking and industrial shares and a substantial rise in the shares of companies in the services sector, some of which are to be privatized, whereas the shares of financial enterprises fell by 17.2 per cent, owing partly to massive recapitalization operations that have already begun or are planned. Share prices again fluctuated widely in October in connection with planned mergers between listed companies and uncertainty regarding the domestic political scene.

Figure 32

Italian stock exchange: spot and future share market



(1) Turnover in futures contracts on the MIB30 index. – (2) Turnover in all shares. – (3) Index of futures contracts on the MIB30 index.

Net issues of listed shares decreased from 9.9 trillion lire in the first nine months of 1994 to 4.1 trillion in the same period of this year; the number of companies listed in the main market rose from 223 to 226. Share turnover declined from 158.7 to 110.9 trillion lire between the two periods, continuing the trend that had begun at the end of last year (Figure 32).

Trading in futures contracts on the MIB30 index, which began in November last year, grew rapidly, with turnover totaling 118.4 trillion lire.

Securities investment funds recorded net redemptions of 10.1 trillion lire in the first nine months of the year. The outflow peaked at 2.25 trillion lire in March but had ceased by August, thanks chiefly to the performance of pure bond-based funds, which began to record net subscriptions again from May onwards, reflecting investor preference for more stable returns at a time of pronounced uncertainty about share prices. Share-based funds were the greatest losers, notwithstanding the fact that their yields were considerably less volatile than the share index.

Short-term prospects, prices and monetary policy

For some time the Italian economy has suffered from the effects of recurrent depreciations of the lira. The weakness of the currency is a reflection of concern within the financial markets that the policy of fiscal adjustment may not be sustained or pursued with the necessary determination. A decline in the exchange rate tends to fuel expectations of a return to rapid inflation, leading to long-term interest rates far higher than in the other industrial countries. These effects have occurred despite the fact that the real economy, the balance of payments and the public finances themselves continue to show significant improvement.

Output is still increasing steadily, although as in other industrial countries the rate of growth is slower than in the second half of 1994. In the first half of this year GDP was 3.5 per cent higher than in the same period of 1994; it is expected to grow by 3 per cent in the year as a whole, compared with 2.2 per cent in 1994.

As in 1993 and 1994, exports are making a significant contribution to the growth in output, augmented by investment in machinery and equipment. The current high level of investment by manufacturing industry should provide sufficient production capacity to ensure continued non-inflationary growth. Firms have been able to finance a large part of their investment from retained earnings, as they have benefited from a further widening of profit margins. Recourse to bank loans and the capital market has been limited. The growth in household consumption remains moderate.

As in the other EU countries, the expansion in economic activity has not yet translated into an appreciable improvement in labour market conditions. In the first half-year the number of persons in employment increased for the first time in two years, but there was no reduction in the high unemployment rate, as the economic recovery stimulated a simultaneous increase in the labour supply, especially among women.

Despite the rapid growth in imports, which in value terms was affected by further increases in world commodity prices in the first half of the year, the current account of the balance of payments recorded a surplus of more than 17 trillion lire in the first half, compared with 9.5 trillion in the same period of 1994. The surplus for the year as a whole could exceed the estimate of 1.7 per cent of GDP stated in the Forecasting and Planning Report published in September; this would further reduce Italy's net external debt to less than 5 per cent of GDP.

Inflation displayed a worrying tendency to increase from the second half of 1994 onwards, reflecting the depreciation of the lira, the rise in commodity prices and the recovery in demand; in February of this year the general price level was also affected by the increase in certain indirect taxes. As envisaged in May in the Bank's Annual Report, inflation began to slow down in the summer, however, thanks to the fall in the dollar prices of raw materials, the partial recovery in the exchange rate, the pause in GDP growth, continued wage restraint and the persistently restrictive stance of monetary policy. After adjustment for changes in taxation and seasonal factors, the annualized monthly increase in the cost of living averaged 4.0 per cent in the last four months, compared with 6.0 per cent in the second quarter.

In the first nine months of 1995 the state sector borrowing requirement was considerably less than in the corresponding period of 1994, declining from 108.2 to 94.7 trillion lire. The primary surplus increased by around 22 trillion lire. The borrowing requirement appears to be on course thus far, but the target for the year as a whole will be achieved only if the revenue from the conciliation of tax assessments, which will accrue in mid-December, is in line with current government estimates of between 7 and 8 trillion lire. The objective of slightly reducing the ratio of public debt to GDP before the end of this year is also based on the assumption that the proceeds from the privatization of state-owned enterprises will amount to 10 trillion lire; receipts from this source have totaled 2.6 trillion lire so far.

The economic prospects and fiscal policy

According to the latest IMF forecasts, the world economic environment will be generally favourable for Italy in 1996, despite an expected slowdown in the expansion of world trade in goods and services from 8.0 to 6.6 per cent. The other industrial economies should continue to grow at an average rate of 2.5 per cent, with a slowdown occurring in the United States and the beginnings of a recovery emerging in Japan. At the same time, inflation is expected to decline in the industrial area, thanks to spare capacity, lower raw materials prices and restrictive fiscal policies: in these conditions monetary policies should continue to accommodate the rise in economic activity. This outlook is nevertheless subject to a number of uncertainties, stemming in particular from the severe difficulties of the banking system and the weakness of the economic upturn in Japan, the low exchange rate of the dollar owing to the persistent balance-of-payments and budget deficits in the United States, and the continued high real long-term interest rates and the difficulties of economic and monetary convergence in Europe.

For the Italian economy, the scenario depicted by the Government in its Forecasting and Planning Report in September indicates a rate of growth of 3 per cent in 1996 (Table 25). The domestic components of demand, especially consumption, are expected to strengthen, while the growth in exports and imports is likely to slow down slightly. Employment should rise, albeit by only 0.6 per cent, resulting in a decline in the unemployment rate from 11.2 to 10.7 per cent. The surplus on the current account of the balance of payments should increase further. The inflation target, expressed in terms of the private consumption deflator, has been set at 3.5 per cent.

This scenario is realistic and internally consistent, but a number of essential conditions must be met if it is to be realized. On the international plane, these include a reduction in long-term interest rates in the industrial countries and the absence of commodity price shocks. Domestically, the incomes policy framework established by the agreement of July 1993 must be maintained, albeit with wages beginning to rise again moderately in real terms. Achievement of the inflation target requires unflagging commitment to the adjustment of the public finances and a consequent strengthening of the currency, in addition to the careful control of the monetary and credit aggregates that the Bank of Italy will continue to exercise.

Table 25

Official forecasts of Italian macroeconomic variables

	1994	1995 (1)	1996 (1)
	(percentage changes)		
Real variables			
GDP	2.2	3.0	3.0
Domestic demand	1.9	2.5	2.7
Imports (2)	9.8	9.9	7.5
Exports (2)	10.9	11.4	8.3
Prices			
GDP deflator	3.6	4.0	3.4
Private consumption deflator	4.7	5.1	3.5
Terms of trade (2)	–2.1	–3.0	–0.2
	(percentages)		
Financial balances/GDP			
State sector borrowing requirement (3)	9.5	7.4	5.9
Balance of payments on current account	1.5	1.7	2.0

(1) Estimates and forecasts from *Relazione previsionale e programmatica* for 1996. – (2) National accounts data. – (3) The figures are net of settlements of past debts and privatization receipts.

The Finance Bill submitted at the end of September envisages a reduction in the state sector borrowing requirement to 5.9 per cent of GDP in 1996, compared with 9.5 per cent in 1994 and a ratio of 7.4 per cent projected for this year; in absolute terms, the requirement should be cut from 130 trillion lire in 1995 to 109.4 trillion. The primary budget surplus should rise from 61 to about 80 trillion lire, or from 3.5 to 4.3 per cent of GDP, while interest expenditure should edge down from 191 to 189.4 trillion. State sector debt should decline from 123.8 per cent of GDP at the end of 1995 to 122.1 per cent at the end of 1996. These objectives are of fundamental importance to the progress of the Italian economy. The confidence of the financial and foreign exchange markets, the appreciation of the lira and the narrowing of interest rate differentials with the other leading countries depend not only on actual inflation trends but also on the credible prospect that these targets will be attained.

The fiscal package for 1996 contains measures designed to increase the primary surplus of the state sector by 32.5 trillion lire, of which 18 trillion should come from additional revenue and 14.5 trillion from reductions in expenditure. The main revenue-raising measures concern the application of new parameter-based income tax assessment procedures and an increase in tax audits, the extension of the tax on companies' net worth and the introduction of new types of lottery. The measures on the expenditure side relate mainly to pensions and health services, local authority finances and transfer payments to firms (see box).

The objectives set in the Finance Bill are consistent with those indicated in the Economic and Financial Planning Document of last June, which envisaged a reduction in net general government borrowing to 4.4 per cent of GDP in 1997 and 2.6 per cent in 1998, a level below the limit laid down in the Maastricht Treaty.

Nonetheless, there is uncertainty as to the efficacy of some of the measures designed to increase revenue and reduce expenditure.

The measures to improve parameter-based income tax assessment and rationalize the organization of the tax authorities' staff, which are expected to generate additional revenue of around 5 trillion lire, represent an important step forward: they must be implemented promptly and reinforced in future years. However, the results projected for 1996 appear to be fully achievable only if the tax authorities make a major organizational effort. Moreover, if next year's additional receipts from lotteries are to be close to the expected long-run level (2.2 trillion lire), the sales network will have to be expanded very rapidly and demand increase substantially.

With regard to the growth in social security contributions linked to the reform of the pension system, the assumption that the promise of a future pension will induce freelance workers to pay contributions on the scale indicated (2.6 trillion lire in 1996) is perhaps not fully warranted, since many work in this capacity precisely because they have already secured retirement benefits from previous employment.

The measures to raise the remaining 5.3 trillion lire of planned additional revenue have still to be decided and will be presented by the end of the year.

On the expenditure side, the reductions in current transfers to the health service and to local authorities (4.4 trillion lire) are an indispensable step towards marrying responsibility for financing expenditure with that for managing it. In the absence of specific reforms, however, the reductions could result not so much in an increase in the local authorities' own receipts or a decrease in their spending, as in greater recourse to funds on deposit with the Treasury, borrowing on the financial markets and trade credit.

The actual impact of the cuts in other current transfers (4.55 trillion lire) and especially in capital expenditure (3.2 trillion) will be influenced by the fact that considerable lags tend to occur before reductions in allocations are reflected in cash flows.

As regards the funds earmarked to cover increases in the wages and salaries of public employees under future negotiations (6 trillion lire for the public sector as a whole), the amounts relating to the state sector would appear to have been already included in the baseline projections, as revised in the light of current trends.

If the effects of the budget package as a whole fall short of the official estimates, interest payments will be higher than the projections, which are already based on the favourable assumption that interest rates will decline, with those on Treasury bills expected to come down from 10 per cent at the end of 1995 to 8.5 per cent at the end of 1996.

The uncertainty surrounding some of the increases in revenue and reductions in expenditure, means that compensatory measures to produce an amount equal to around one third of the planned increase of 32.5 trillion lire in the primary surplus may be required.

It is essential that the full amount of the proposed budget correction be achieved in order to strengthen expectations that the effort to restore sound public finances will be sustained.

Prices and monetary policy

The prospects for reducing inflation further next year to a level close to the announced target depend upon a strengthening of the lira. Leaving aside the effects of the increase in indirect taxes, it was the fall in the exchange rate at a time of expanding overall demand that caused inflation to accelerate in the first half of this year, primarily by raising the prices of imported manufactures and magnifying the rise in the cost of raw materials.

Inflation is now abating. Monetary tightening has been used to counter price pressures and expectations of a depreciation of the lira.

If inflation is to continue to decline, the economic policy objectives mentioned above, namely wage restraint and, above all, rapid progress in the adjustment of the public finances, must be achieved. A rise in the exchange rate in the coming months, which would be consistent with the economic fundamentals and the manifest undervaluation of the lira, could trigger a chain reaction, but this time in the sense of a virtuous circle, in contrast to the vicious circle witnessed in the first half of the year. In 1996 the policy of the Bank of Italy will continue to be directed towards achieving the overriding objective of curbing inflation.

Only in this way will it be possible to reduce long-term interest rates and narrow the differential with rates in the other industrial countries. In the highly unstable political climate of recent weeks, Italian long-term yields have increased further to more than 12 per cent.

Table 26

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	(B)	% change	% of GDP	(A)+(B)	% change	% of GDP		% change	% of GDP (4)		% change (5)	% of GDP (4)
1989 ..	1,193.5	9.3	132.7	11.1	125.5	20.1	10.5	258.2	15.8	21.6	202.7	13.7	141.7	62.7	8.6	61.6
1990 ..	1,312.1	9.9	139.6	10.6	148.7	20.0	11.3	288.3	15.2	22.0	221.7	12.8	146.1	79.1	10.7	62.1
1991 ..	1,429.5	8.9	153.3	10.7	138.9	15.9	9.7	292.2	13.5	20.4	244.7	12.8	152.0	74.3	8.5	62.2
1992 ..	1,504.0	5.2	164.1	10.9	81.1	8.2	5.4	245.2	10.0	16.3	180.0	8.3	157.3	41.6	5.9	61.8
1993 ..	1,550.2	3.1	161.5	10.4	22.3	2.0	1.4	183.8	6.7	11.9	147.7	6.2	164.9	75.5	8.2	64.9
1994 ..	1,641.1	5.9	158.8	9.7	7.8	0.7	0.5	166.6	5.6	10.2	182.3	7.1	168.4	17.4	1.9	62.3
1995 (6)	1,758.6	7.2	132.0	7.5	52.2	4.4	3.0	184.2	5.9	10.5	174.2	6.3	167.1	16.0	1.2	59.1
1996 (6)	1,872.6	6.5	112.4	6.0	72.0	5.8	3.8	184.4	5.6	9.8	177.1	6.0	166.4	55.0	5.0	58.4

(1) State sector borrowing requirement net of securities issued in settlement of past debts not deriving from tax credits and net of privatization proceeds; until 1992, according to the old definition of the state sector. For 1995 and 1996, planned borrowing requirement, including that of the former autonomous agencies not selling services in the market (2 trillion lire in 1995 and 3 trillion in 1996). – (2) Net of shares. – (3) For 1989 and 1990, corrected for the effects of bank strikes. – (4) Calculated on end-of-year stocks. – (5) Calculated on average stocks in the final quarter of the year. – (6) The figures for GDP are the estimates contained in the Forecasting and Planning Report.

The 1996 budget

The budget measures announced by the Government in September are intended to reduce the state sector borrowing requirement on a current programmes basis by 34.1 trillion lire in 1996. The planned increase in the primary surplus is equal to 32.5 trillion lire; the difference of 1.6 trillion represents the saving in interest payments as a result of the smaller borrowing requirement. In the state sector the budget is forecast to produce 18 trillion of additional revenue and 14.5 trillion of expenditure savings, while in the public sector, to which this box refers, the corresponding figures are 25.3 and 7.2 trillion.

The measures are set out in the Finance Bill, the accompanying bill and in the recent pension reform legislation (Law 335/1995).

Tax receipts. *– The forecast increase in public sector tax receipts is equal to 17.7 trillion lire. The budget itself provides for only 12.4 trillion of additional revenue, with the remaining 5.3 trillion to be the subject of a bill to be presented by the end of this year. A large part of the forecast increase (5 trillion lire) is expected to come from measures to intensify the fight against tax evasion. This will involve the adoption of new parameters for the assessment of incomes, pending the completion of detailed sectoral studies, and changes in the organization of the civilian staff of the tax authorities and of the Finance Police aimed at making tax audits more effective.*

Besides measures aimed primarily at levying additional revenue in 1996 (the extension of the tax on companies' net worth and the increase in the related prepayment, the expansion of the sales network of the lotto *lottery and the further development of instant lotteries, and the increases in mortgage and property registration fees), the budget contains a series of other provisions that are less important in revenue terms but are designed to reduce tax avoidance and streamline the tax system. They include measures to allow taxpayers to transfer personal, corporate and local income tax credits where application has been made for a refund and companies belonging to the same group to offset tax liabilities and credits, the introduction of more favourable rules for banks on the deductibility of loan write-offs, and the abolition of numerous government licence fees.*

The Government is seeking authority to overhaul the legislation on the taxation of motor vehicles and reform the withholding tax on income from bonds. The latter is to be retained only for persons for whom it constitutes final settlement of the related income tax liability and is to be levied by the intermediaries involved instead of the issuers. The reform is intended to benefit firms and non-residents; the former would receive coupons exempt from the withholding tax and the latter would no longer have to apply for reimbursement as they do today.

Effects of the budget (1)
(billions of lire)

	State sector (2)	Public sector
INCREASES IN REVENUE	**18,000**	**25,310**
Tax receipts	**16,500**	**17,660**
(*) Parameter-based assessments	4,000	4,000
(*) Tax on companies' net worth	3,450	3,450
(*) Lotteries	2,200	2,200
(*) Mortage and property registration fees	540	540
(*) Stamp duty	800	800
(*) Measures to streamline the tax system	1,990	1,990
(*) Local authority taxation (3)	–260	900
Failure to offset fiscal drag (4)	1,900	1,900
Allowances for single-income families	–1,040	–1,040
(*) Incentives for investment in depressed areas	–280	–280
Effects of the pension reform	–850	–850
Other reductions in revenue (5)	–1,250	–1,250
(*) Measures to be adopted by 31 December 1995	5,300	5,300
Social contributions	**1,500**	**6,650**
Reform of the pension system	0	4,850
Extension of housing programme contributions	870	870
Other increases in contributions	630	930
Other receipts	**0**	**1,000**
(*) Transfer of freehold of leased property	0	1,000
REDUCTIONS IN EXPENDITURE	**14,500**	**7,190**
Social security	**3,000**	**–2,150**
Reform of the pension system	4,000	–850
Increase in family allowances	–1,900	–1,900
(*) Wage Supplementation Fund et al.	900	600
Health services	**2,350**	**2,350**
(*) Expenditure on pharmaceuticals	350	350
(*) Expenditure in special statute regions (6)	800	800
National Health Fund et al. (6)	1,200	1,200
(*) **Public employment**	**700**	**700**
Goods and services	**800**	**800**
Current transfers	**6,600**	**4,440**
(*) To local authorities (6)	2,050	–110
To enterprises	2,250	2,250
Abroad	1,000	1,000
(*) Other current transfers	1,300	1,300
Capital expenditure and financial items	**3,200**	**3,200**
Other expenditure	**–2,150**	**–2,150**
TOTAL EFFECT ON THE PRIMARY SURPLUS	**32,500**	**32,500**
Saving in interest payments	**1,600**	**1,600**

(1) The measures contained in the accompanying bill are indicated by an asterisk. – (2) Official estimates. – (3) Excludes the revenue arising from the allocation of a share of excise duty on petrol to the regions since this is offset by reductions in other central government transfers. Municipalities are to receive around 250 billion lire in 1996 from the transfer of the revenue from another central government surtax. – (4) Includes the resources released as a result of the non-utilization of the allocations foreseen for 1996 to cover an additional allowance for families with more than 3 children (400 billion). – (5) Includes those due to reductions in expenditure, as well as discrepancies between estimates on an accruals basis and those on a cash basis. – (6) To be considered as reductions in transfers for the state sector and as reductions in expenditure for the public sector.

The tax incentives available under Decree Law 357/1994 (consisting of the exemption of 50 per cent of reinvested corporate profits) are to be extended, but only for investment in depressed areas.

The budget also contains measures designed to increase local authorities' powers to levy taxes. The provisions concerning the regions include changes in the system of transfers of central government revenue to the ordinary statute regions; it is proposed to abolish most of the existing transfers, but from 1996 onwards these regions would receive a share of the receipts of the excise duty on petrol and an equalization fund would be set up in 1997, to be financed from central government tax revenue. Under the proposed new system the ordinary statute regions would receive revenue which will no longer be earmarked for specific purposes. In addition, a new tax is to be introduced on landfills, partly in order to raise revenue to finance environmental protection and reclamation. Institutional changes are also envisaged: the Government is seeking authority to transfer some tasks to the regions in the fields of tourism, agriculture and forestry, heritage, public housing, training and local transport. The provisions concerning provincial and municipal finances are also aimed at increasing these authorities' tax-levying powers, although the immediate effects on their finances are likely to be marginal. Notable among these measures is one enabling municipalities to modify rateable values by up to 10 per cent for the purpose of the municipal tax on buildings and to relate them to the distribution of public services within their districts.

Part of the increase in the tax allowance for dependent spouses and that in family allowances (included under expenditure) will be covered by the additional revenue that will be received as a result of the failure to offset fiscal drag.

***Social contributions and other receipts.** – A substantial proportion of the total budget adjustment is in the form of an increase in social contributions. In fact, the effects of the pension reform law, estimated at around 4.85 trillion lire in 1996, are treated as an integral part of the adjustment. Of this amount, 2.6 trillion is expected to come from the broadening of the contributions base by requiring contributions from all freelance workers, including those for whom this form of activity is not their only source of earned income, those providing services in exchange for a share in profits and those who are employed on a coordinated and continuous basis. The increase of 0.7 percentage points in employee contribution rates to replace part of the former levy for public housing programmes should generate just under 2 trillion lire. A further 870 billion lire will be raised by maintaining the rest of the above levy; a provision to that effect was contained in the pension reform law, but its effects were not considered when the related savings were computed. Around 900 billion lire are expected to come from other measures that were not part of the pension reform law, notably the increase in contributions to finance the last tranche of the adjustment in long-standing pensions and the lowering (from 48 to around 40 hours per week) of the threshold beyond which overtime pay is subject to contributions at a rate of 15 per cent to fund unemployment benefits. Other additional revenue is expected to accrue by allowing municipalities to sell land to those who have been granted the right to build on it.*

***Social security.** – The savings arising from the reform of the pension system are expected to be 850 billion lire less than the figure of 4.8 trillion originally forecast for 1996 in connection with the long-service pension measures proposed by the Government in December 1994. Compared with the expenditure that would have arisen in 1996 under the law in force before the reform, the saving is estimated to be around 4 trillion lire, of which 3.6 trillion is due to the introduction of minimum age and length-of-service requirements for retirement before the statutory age for entitlement to an old-age pension, 350 billion is attributable to the income limits established for the cumulation of survivors' and disability pensions, and the rest is the net effect of a series of minor provisions. The accompanying bill provides for the ceiling on special compensation for short-time working to be applied to benefits receivable under the ordinary short-time working scheme.*

***Health services.** – Most of the savings in this field are to be achieved by reducing the allocation to the National Health Fund by around 900 billion lire, increasing the contributions of some special statute regions to the national health service (800 billion) and revising the margins payable to wholesalers and chemists on essential pharmaceutical products (350 billion).*

***Public employment.** – The budget makes local authorities subject to the existing limits on the filling of vacancies and extends these restrictions from the end of 1997 to 31 December 1998. It also provides for the geographical distribution of schools to be rationalized and reduces some staff incentives and a number of relocation and overseas employment allowances.*

***Other expenditure.** – The other expenditure measures of the 1996 budget are expected to produce a net correction on the order of 6.3 trillion lire. Most of the savings are to come from reductions in transfers to entities outside the public sector: the cutback in current transfers is estimated at 4.5 trillion lire, with those to enterprises accounting for about half the total, while that in capital transfers should be 3.2 trillion, which includes the effects of measures involving financial items. On the other hand, the budget provides for increased expenditure on school education and the administration of justice, as well as measures to benefit depressed areas.*

The deceleration in money supply growth that began in the second half of 1994 became more pronounced this year. Preliminary estimates indicate that M2 grew by little more than 1 per cent between the last quarter of 1994 and the third quarter of 1995. The growth in M2 for 1995 as a whole will be well below the target of 5 per cent.

Credit to the private sector will expand by about 4.5 per cent this year. On the demand side, the strengthening of the recovery and its effect on investment are reflected in signs of increased corporate borrowing, despite firms' considerable self-financing capacity. On the supply side, the banks' cautious approach to lending, prompted partly by the increase in bad debts in the last two years, is gradually giving way to greater confidence, which is justified by the underlying performance of the economy. Including credit to the state sector, total credit could grow by about 6 per cent this year.

In line with the objectives for the public finances set out in the Forecasting and Planning Report for 1996, the flow of credit to the state sector is expected to continue to fall. By contrast, lending to the private sector should increase more rapidly, expanding by about 6 per cent; this forecast is based on the assumption that the corporate self-financing ratio will decline in the presence of continued strong demand for capital goods. The recovery in credit growth may also curb the rise in bad debts and their ratio to total lending. Total credit and financial assets are expected to increase by between 5 and 6 per cent (Table 26).

Fueled by stronger credit demand, fund-raising by banks should increase at about twice the rate observed in 1995. Assuming that the changes that have occurred in the composition of private financial portfolios this year do not continue, M2 should grow by about 5 per cent in 1996. However, the possibility that such shifts may continue, causing changes in the short-term relationship between the money supply and nominal income, calls for particular caution in interpreting the behaviour of the monetary aggregates. The Bank of Italy will continue to rely on an array of indicators that directly reveal inflationary pressures and expectations in order to take decisive action to counter both.

In the current climate in Italy, market expectations have sometimes been subject to destabilizing influences. Continuity of economic policy, appropriate fiscal policy and further improvement in the fundamental economic variables will stabilize expectations, and not only in the short term.

Based on information available at 27 October.

Articles

The 1995 pension reform

1. The new rules

The main provisions of Law 335/1995 on the "reform of the compulsory and supplementary pension system", which was approved on 8 August, are as follows:[1]

a) a new award formula for newly insured workers based on contributions;[2]

b) a transitional period lasting until about 2035, during which pension awards will be determined partly by the old rules and partly by the new ones;[3]

c) the eventual elimination of the present long-service pensions and the introduction of a range of retirement ages from 57 to 65 for old-age pension eligibility, with a minimum requirement of at least 5 years of covered employment;

d) a transitional period in which long-service pensions will still be awarded without any reduction in benefits, but with certain eligibility requirements concerning age and length of service. Specifically, the contribution period required for retirement regardless of age is gradually raised from 36 years in 1996 to 40 in 2008; alternatively, persons with 35 years of covered employment can claim a pension, subject to an age requirement set to rise from 52 in 1996 to 57 in 2006. For the self-employed, the restrictions are more severe, while for public employees the law retains the benefit reductions introduced in the legislation accompanying the 1994 Finance Law for those retiring with less than 35 years of contributions. Special "windows" of long-service pension eligibility are established for 1996 and 1997;

e) setting of a contribution rate of 33 per cent of pensionable earnings to count towards the pension award (for the self-employed, 20 per cent of gross income) and an increase from 27 to 32 per cent in the contribution rate in respect of the Employee Pension Fund, financed by an equal reduction in payroll levies for several temporary benefit programmes;

f) modification of survivors' benefits, with the institution of income limits to cumulability; the restrictions do not apply to families with children who are minors, students or disabled; a lump sum allowance is provided for survivors of deceased workers who failed to meet the minimum contribution requirement for an old-age pension;

g) introduction, as of 1 January 1996 for workers whose benefit is determined entirely under the new contribution-based system, of a ceiling of 132 million lire a year on the pensionable earnings subject to contributions;

h) partial harmonization of the rules of the various pension funds, to be effected by subsequent legislative decrees;[4]

i) measures to foster the development of supplementary private retirement plans.[5]

A table annexed to the text of the law estimates the budgetary savings from the transitional rules at 108 trillion lire in the ten years from 1996 to 2005. The Government has been authorized to modify the parameters of the pension system in order to ensure the achievement of the savings set out in the table, in the event of discrepancy between the outturns for the state sector borrowing requirement and the targets for 1996-1998 or between the ten-year projections of the social security balance (to be included in a special section of the Economic and Financial Planning Document from 1998 onwards) and the adjustment path set forth in the table, or in the event of a worsening of the balance sheet or financial situation of individual compulsory funds.[6]

As regards the cumulative effect on the public finances over the next decade, the following provisions will tend to reduce the social security deficit:

1) the restrictions on long-service pensions in the transitional period (savings of 59.2 trillion lire);
2) the changes in survivors' benefits described at point (f) above (16.4 trillion);
3) the broadening of the contribution base for public employees (6.9 trillion);[7]
4) the limits on the cumulability of disability benefits with earned income and annuities from the National Industrial Accident Insurance Institute (4.1 trillion);
5) the introduction of compulsory contributions in respect of freelance work (30.8 trillion);[8]
6) the extension of a large part of former public housing programme contributions, abrogated by law as of 1 January 1996, and their allocation to finance pension expenditure (26.8 trillion).[9]

Several provisions, however, will have the effect of increasing the public borrowing requirement:

7) the tax incentives for private pension plans (21.2 trillion lire);
8) the lost income tax revenue stemming from the reduction in pension income as a result of the reform (13.6 trillion);
9) other less significant measures, including the extension to the public sector of the rules providing for partial and total disability pensions and subsidized minimum pensions.

The savings projected for the first ten years do not appear very substantial (about 0.3 per cent of GDP each year), and they will come very gradually over time. (In 2000, for instance, it will still be possible to retire at 54 with 35 years of contributions, or after 37 years with no age limit.) Furthermore, the savings from the reform of long-service pensions could be less than projected if workers, fearing further restrictions, were to retire earlier than assumed in the Government's projections.

It is worth underscoring the large part of the total net savings expected for the decade that will be generated by the measures increasing contributions. Net of the cost of tax incentives for private retirement plans, these will account for 40 per cent of the total deficit reduction on average, though the proportion decreases sharply over the decade. In practice, the additional contributions will come from the extension of existing contributions and the broadening of the compulsory contribution net (which, of course, will be followed eventually by pension benefit outlays).

Moreover, the explicit allocation to the pension system of contributions that previously served to finance temporary benefits, used in part to provide welfare assistance, will result in a future shortage of resources that will have to be overcome, unless the benefits themselves are cut, by increasing contributions further or drawing on general revenues.

2. The main features of the new system

2.1 The most important features of the new system for the award and indexation of pensions are that:

a) the system is one of virtual funding. Each worker holds a social security account financed (on a strictly imputed basis, i.e. with no actual deposit of money into an interest-bearing fund) by a fixed share of earnings (33 per cent of salary for employees, 20 per cent of earnings declared for income tax purposes for the self-employed) for the years of actual contributions. In practice, benefits will continue to be provided on a totally pay-as-you-go basis;

b) the rate at which the contribution payments are capitalized is the five-year moving average of nominal GDP growth rates;

c) on retirement, the pension award is determined by multiplying the balance on the individual's account by a conversion coefficient that varies with age, ranging from a minimum of 4.72 per cent at age 57 to 6.136 per cent at age 65. The coefficients reflect the expected duration of the pension, including survivors' benefits. The award formula is given in the appendix;

d) pension benefits are revalued yearly by the effective rate of inflation (measured, as under the Amato reform, by the consumer price index).[10]

2.2 When fully phased in, the new award and indexation formula will have the following microeconomic effects:

a) it will preserve the flexible retirement age. Workers will be able to choose to retire any time between age 57 and age 65, provided they meet the minimum contribution requirement of 5 years;

b) it should discourage contribution evasion, thanks to the drastic reduction in the minimum service requirement for old-age pensions combined with the contributions-based award formula. The eligibility requirement set by the 1992 reform (17 years, rising to 20 in 2000) encouraged evasion (for instance, through off-the-books work) by workers who felt they would not reach the minimum service requirement;

c) it will equalize the yields of the contributions paid in by all workers of the same sex in the same pension cohort (i.e., those beginning and ending their careers in the same years). Under the old rules, there was an unjustifiably wide range of yields, and the system discriminated against workers in the private sector, against men vis-à-vis women and against all those who lacked the requisites for early long-service pensions.[11]

2.3 As regards the new financial equilibria in the pension system that the reform will progressively bring, with reference to the equilibrium of the Employee Pension Fund, i.e. the fund covering the risks of longevity, disability and premature death of wage and salary earners in the private sector, the following are the key points (the calculations are given in the appendix):

a) benefits equal to those provided under the previous system,[12] estimated by the government as occurring for a typical career with retirement at 62 after 37 years of service, actually occur only in the slowest-growth scenario (an average real GDP growth rate of no more than 1.5 per cent; see the appendix).[13] In faster-growth scenarios, pension liabilities would not be the same for the typical worker except at much lower retirement ages and with shorter contribution periods unless some of the parameters included in the new award formula were significantly modified.[14]

b) the ratio of Employee Pension Fund benefits to GDP should be virtually the same as under the previous system in the case of real GDP growth under 1.5 per cent. At faster growth rates, the incidence of benefits is likely to be greater, mainly because in this case the new system would generate a higher initial income replacement rate for new pensioners.

In particular, if we set the social security liabilities accumulated by the Amato system as of 31 December 1992 in respect of active and "silent" workers[15] and retirees equal to 100, the reformed system would produce liabilities of 98 if GDP growth were 1.5 per cent, of 104 with 2.5 per cent growth and of more than 109 with 3.5 per cent growth.[16] However, these estimates refer to a population which is largely exempt from the new award formula or subject to it only on a *pro rata* basis. A very rough approximation of the burden of the new system compared with the old one can be derived by estimating the liabilities incurred with respect to a single retirement cohort.[17] Setting the cumulative liabilities to old age pensioners retiring in one year under the old system equal to 100, the new system produces liabilities of 97 with GDP growth of 1.5 per cent, 115 with 2.5 per cent growth, and 133 with 3.5 per cent growth.

For the self-employed, whose contribution rate is 20 per cent, the reform should produce a lower cost for the various pension funds compared with the previous system.[18]

In any case, two key factors will determine the relative costliness of the new as against the previous system:

– the difference between the real GDP growth rate (the rate at which contributions are capitalized under the reform) and 1 per cent (the rate applied under the 1992 reform to revalue, in real terms, the earnings of the insured worker over the entire career);

- the extent to which the earnings growth of a worker with an average career profile outpaces GDP growth. The larger the gap, the less burdensome the new system will be compared with the previous. In this connection, while time series on individual career profiles are lacking, studies of a panel of industrial employees offer support for the assumption on which our estimates are based, namely real GDP growth equal to the salary profile of a "representative" worker.[19] Moreover, given the difference between GDP growth rates and rates of increase in unit wages in the national accounts,[20] this assumption is also consistent with empirical evidence setting the contribution of career advancement alone to the increase in individual earnings of workers covered by the Employee Pension Fund at an average of 0.5 to 0.7 per cent per year.

The foreseeable increase in costs highlighted by these simulations could also reflect two other factors. First, for a number of reasons the incentive to keep working after attaining the various age and length-of-service thresholds might have only a modest effect for workers with continuous careers, whereas the average duration of pensions for workers with discontinuous careers could increase significantly owing to the lower age requirement for old-age pensions.[21] Secondly, even if the new system actually does shift the age and length-of-service distribution of retirees ahead, it might still be insufficient to produce savings in pension outlays, given the relatively generous premiums for not retiring early. In a defined-benefit system like that in place prior to the 1995 reform, additional covered employment invariably brings a permanent saving for the social security institution, whereas the formula for the accumulation of entitlements under the new system of "virtual funding" could result in the effect of the smaller number of new pensions paid annually being outweighed by their larger amounts.

If, as some observers have predicted, the typical mass-industry career (starting young, working continuously and retiring relatively young) gives way to a "post-industrial" pattern (starting late and working discontinuously), then the assumption of invariability on which the results in section 2.3 are based would no longer hold. In this case the additional cost compared with the previous system would be larger because the new system contains a mechanism that:

- advantages short careers begun young and ended early through the indexation of contributions. For example, the capitalized contributions of a "silent" contributor aged 57 who started work at 22 and contributed for 20 years would be 137 per cent of his claim under the previous system (see appendix);
- also rewards short, late careers, through the premium for workers retiring above age 62 (in the 1.5 per cent growth scenario) or even 59 (assuming only very slightly faster growth of around 2 per cent).

Given the distribution of retirements by age and length of service in 1992 and the most likely one for the future, the more favourable treatment of short, discontinuous careers will weigh heavily on the financial equilibrium of the new system compared with the previous one.

Finally, two further considerations are in order:

- first, assuming unchanged contributions, the transfers to the Employee Pension Fund from general revenues envisaged once the system is fully in effect do not appear sufficient to cover the residual redistributive commitments of the Fund.[22]
- secondly, if GDP growth rates and wage growth rates are high, the system will generate a substantial discrepancy between long-standing and recent pensions in the medium term. This could prompt demands for equalization, with one-off increases in the older awards, which would have to be financed by the public sector.

3. Other aspects of the reform

Other facets of the law, not directly bound up with the pension award formula, are of considerable interest:

a) The legislation expressly pursues the aim of universal coverage, to ensure that all citizens have basic old age protection. Specifically, a decree issued under an enabling act will subject to a 10 per cent social security contribution the earnings of all freelance workers, including those for whom this form of activity is not their only source of earned income, those providing services in exchange for a share in profits, and those employed on a coordinated and continuous basis. By exempting many forms of self-employment from compulsory disability and old age insurance, the previous system left too much room for unfair competition with forms of employment subject to compulsory contributions.

b) The minimum contribution requirement for pension entitlement is shortened from 17 to 5 years, and the range of unpaid activities in respect of which contributions can be paid voluntarily in order to obtain pension entitlement has been extended. These measures are dictated by the need to provide occasional workers and workers with short careers a strong incentive to "emerge".

c) Subsidized minimum pensions are eliminated for workers beginning their careers after 1 January 1996; at present these subsidies are given to retirees with more than 17 years of contributions whose pensions are lower than a guaranteed minimum (now 620,000 lire monthly, plus a "thirteenth month" each year) and whose individual or family income is less, respectively, than twice or five times this minimum.[23] The elimination of such subsidies is dictated by the need to prevent an excessive increase in benefits as a result of the reform's much shorter contribution requirements (see section 3(b)).[24] The reform also introduces an old-age allowance of 6,240,000 lire a year for citizens older than 65, replacing the present "social pension". If the beneficiary has other income, the allowance is reduced so as to bring his or her total income down to that amount, or to twice that amount if the beneficiary is married (the spouse's income, including the old-age allowance, also counts towards the ceiling). The amount of this new allowance is basically equal to today's "social pension" of about 4,600,000 lire augmented by the increase pursuant to Law 544/1988.

d) Survivors' benefits are extended to all compulsory social insurance programmes not included in the general social insurance system. Caps on cumulability with survivors' benefits are introduced, and the benefit is increased to 70 per cent of the entitlement of the deceased, when the survivors in question are only children who are minors, students, or disabled.

4. Conclusions

The 1995 pension reform is an important step forward in the revision of the mechanisms governing social security in Italy. Under the new rules, the amount of the social security system's liabilities to each retiree becomes a function of his or her contribution history, while the size of the pension depends on the life expectancy of the retiree and any persons entitled to survivors' benefits. The unequivocal definition of an individual retirement account strengthens the insurance character of the system's coverage against the risks of longevity, disability and premature death, while the actuarially-based award formula enhances its potential flexibility in the face of the significant changes projected for the decades to come in the main demographic variables.

The new system still differs from those in place in the other leading European countries, however, in its lower retirement age, its higher income replacement rate and the limited scale of income redistribution.[25]

In what follows, a number of modifications to the new system are proposed, designed to ensure that in the future pension expenditure will not increase excessively with respect to the growth in national income.

The new system sets the minimum age for old-age pension entitlement at 57 for both men and women, which is substantially younger than in other countries.[26] It would appear indispensable to move, in the future, towards a minimum of at least 60. Otherwise, the lowering of the age threshold for the old-age pension could largely offset the financial benefits of the virtual aboliton of long-service pensions (although they have been retained for workers with 40 years of effective contributions).

The technical report annexed to the reform law sets the objective of benefits equivalent to those provided under the previous system for a typical worker retiring at age 62 after 37 years of service. As noted, however, this equivalence is attained only in a scenario of very modest economic growth; with faster growth the new system is more generous. In the future, the retirement age at which the two systems would provide equivalent benefits should be raised to 65 (the standard retirement age in most OECD countries), perhaps with an option to continue working beyond that age. At the same time, the incentives to continue working, amended in the light of the new reference age of 65, should be revised by adjusting the conversion coefficients and if necessary putting a cap on the income replacement rate.

In this regard, it is worth noting that the reform:

a) provides for the conversion coefficient used in the award formula to be revised every ten years in response to changes in life expectancy and in the macroeconomic variables that affect the financial equilibrium of the social security system. However, it would be preferable for adjustments to be both more frequent (say, annual) and less discretionary (removed from the sphere of negotiation between government, business and labour and instead determined automatically by a formula). This would prevent waves of retirement on the eve of restrictive revisions of the conversion coefficients and at the same time avoid uncertainty over the medium-term evolution of expenditure;[27]

b) eliminates in practice the previous ceiling on the income replacement rate, which was already higher than those in other countries.[28] A significant reduction in the replacement rate, moreover, appears to be a necessary condition for the development of private retirement plans on a scale comparable to France or Germany.

Alternative ways of achieving equivalent benefits under the new system and the previous one at GDP growth rates above 1.5 per cent could be to:

1) revalue covered workers' contributions at an average capitalization rate of no more than 1.5 per cent over their entire careers;

2) reduce the contribution rate recognized in the award formula from the 33 per cent now envisaged for employees to a level consistent with the objective of equivalence (in correspondence with the combination of age and length of service chosen) and make it vary with the GDP growth rate.[29]

Appendix

THE NEW AWARD FORMULA AND THE PREVIOUS ONE COMPARED

A1. The award formula

The formula used to calculate the initial pension award, in real terms, is given below:

$$P_t = \beta c W_o \sum_{k=0}^{a-1} (1 + g)^k \, (1 + \omega)^{a-k}$$

where β is the conversion coefficient, varying with age at retirement (see point (c) in Section 2.1); c is the contribution rate recognized for pension purposes (assumed constant throughout the worker's career and set equal to 33 per cent, as the law provides for employees); W_0 is the entry wage; a is the number of years of contributions; g is the average annual rise in the worker's real earnings over the entire career (including both collectively bargained contractual increases and individual advancement); and ω is the average rate of increase in real GDP.

A2. A simulation

As far as the financial equilibrium of the system is concerned, nothing can be said about the potential of the reformed rules as regards extending the contribution base or enlarging the number of beneficiaries. It is difficult to estimate, a priori, the likely impact of several provisions, notably: 1) the drastic reduction from 20 to 5 years of the contribution requirement for eligibility; 2) the *de facto* lowering of the minimum retirement age to 57 for men and women alike; and 3) the abolition of subsidized minimum pensions.

Nonetheless, a simulation to assess the financial sustainability of the new system as compared with the previous one is useful. The exercise refers solely to the funds covering employees in the private sector of the economy; in this case the consensus view emerging from a large number of studies is that the previous pension system was unsustainable in the long run.

The exercise considers three representative insurance positions for three different GDP growth scenarios, with the results summarized in Tables 1, 2 and 3. The simulation is based on the following assumptions:

a) We consider three representative contributors to the Employee Pension Fund, beginning work at age 22, 25 and 28 respectively. They earn an entry wage (W_0) equal to 10, increasing over time at a real rate of g. Each worker may retire at 57 (or, under the 1992 rules, on reaching 35 years of service) or continue working until age 60, 62 or 65.[30] The three economic scenarios are for average real GDP growth rates (ω) of 1.5, 2.5 and 3.5 per cent, with equal capitalization rates. Three career profiles are considered: "flat", medium and "brilliant", defined as average rates of real individual earnings growth (g in the formula) that are respectively below, equal to and above the GDP growth rate. The real discount rate of future incomes is posited as 3 per cent.[31] The contribution rate recognized for pension purposes is 33 per cent.

b) The comparison involves the individual positions accrued under the 1992 and 1995 pension reforms (designated R92 and R95 in the tables). It relies on three indices signalling with fair approximation the structure of the incentives implicit within the system and the comparative costliness of the two systems:

1) an index measuring the cost sustained by the system on different assumptions concerning age of retirement; this cost is defined as the social security system liability (or, from the contributor's point of view, pension wealth), conditional on achieving various lengths of service at each retirement age (57, 60, 62 or 65). The social security liability (pension wealth) is defined as the discounted value of the future retirement benefits to be paid, which varies with life expectancy at retirement (23 years for retirement at the minimum age, 21 years for retirement at age 60, and so on[32]). To this is added (or subtracted) the contribution instalments the worker will avoid paying (or the additional instalments he will have to pay) compared to a benchmark of 40 years of contributions;[33]
2) an index measuring the worker's incentive to retire at 57 (when possible)[34] or to keep on working to attain greater length of service. The choice is assumed to be dictated by comparison between the indices of the present value of pension wealth on three different assumptions:
   - immediate retirement with enjoyment of pension benefits for the entire remaining life expectancy;
   - continued work to reach 40 years of service;
   - continued work up to the age limit of 65;[35]
3) an index of the salary coverage provided by pensions. This income replacement rate is defined as the ratio of the pension award to the worker's final salary. If there are stringent liquidity constraints, it may signal an incentive to keep working regardless of the pension wealth given at point 2 above.

A3. The results

Examining the conditional pension wealth given in section (a) of the three tables and the income replacement rates given in section (b), we find that the 1995 reform system is generally more generous to private sector employees than the December 1992 system, with the sole exception of those retiring before age 62 in the slow growth scenario (average real GDP growth of 1.5 per cent).

A number of significant conclusions can be drawn from the comparison:

a) Even at the new minimum retirement age of 57, the wealth accrued under the new system is generally greater than under the previous system, except in the slow growth scenario (ω = 1.5 per cent), when on average for the three career patterns it amounts to 88 per cent of the old total.[36] This is because the indexation of past contributions becomes more costly as GDP growth rates rise.

b) Analysis of the indices of pension wealth (point (2) of section A2, not given in the tables) and income replacement rates suggests that at the discount rate adopted the new system will attenuate but not eliminate the previous system's powerful incentive to retire early with 35 years of service. For example, under the previous system a worker aged 57 with 35 years of contributions and a medium career earnings profile would have had pension wealth of 100 with immediate retirement, compared with an average (for the three growth scenarios) of no more than 79 with five additional years of work. Under the new system, the same worker's disincentive to continue working diminishes but is not entirely eliminated except in the fast growth scenario.[37] The complicated set of incentives to continue working introduced by the 1995 reform legislation may thus fail to achieve the declared purpose of significantly shortening pension benefit duration. Accordingly, the number effect (the hoped-for reduction in the number of pensions being paid at any given time in proportion to the working population, offsetting the greater costliness of individual pensions) may prove insufficient.

c) The pension wealth accrued by a "silent" male worker retiring at 57 with 20 years of contributions from age 22 to 42 and a medium career earnings profile is 137 per cent of that under the previous system on average for the three growth scenarios.[38] Given the distribution of retirements by age and length of service in 1992 and the most likely distribution in the future, this increase in benefits to workers with short and discontinuous careers will unquestionably weigh heavily on the financial equilibrium of the new system.

d) under the 1995 reform, the income replacement rate for a worker with the "flat" earnings profile can be more than 100 per cent in some growth scenarios.[39] Under the previous system, the theoretical maximum was 80 per cent, which was already very high by international standards.

e) Weighting the indices of pension wealth with the frequency of the various career profiles on the basis of data on new pension awards by the Employee Pension Fund in 1992 classified by age and length of service, expenditure on old age pension awards under the new system would be respectively 97, 115 and 133 per cent of the present level in the slow, medium and fast growth scenarios.

Notes

1 For a detailed description of the law, see "Principali provvedimenti di politica economica" in Banca d'Italia, *Bollettino Economico*, no. 25, October 1995.

2 The old earnings-based formula determined the initial pension benefit by applying a coefficient (a function of the number of years of covered employment) to pensionable earnings, which Legislative Decree 503/1992, reforming the social security system, had gradually extended to contributors' total earnings over their entire working lives. The contribution-based system determines the initial award by the capitalization ("virtual" in the Italian case) of contributions actually paid.

3 Workers with at least 18 years of contributions as of 1 January 1996 are exempt from the reform, although they have the right to opt for the new system if they wish. The year in which the last cohort of exempt workers will retire with 40 years of contributions is 2018, which should accordingly be the last year in which there will be pensions awarded entirely in accordance with the earnings-based formula in force until 31 December 1995. The awards of workers with less than 18 years of contributions on that date will be determined on a *pro rata* basis, with only the years from 1996 onwards being calculated according to the contributions-based formula.

4 This point is not treated in the present article, pending the issue of the decrees provided for under the enabling legislation.

5 See Banca d'Italia, "Memoria sulla previdenza integrativa", presented to the Industry Committee of the Senate, 4 May 1995.

6 These provisions (constituting the so-called "safeguard clause") relate the possibility of modifying the structural parameters to the eventuality of failure to achieve what are for the most part temporary savings (stemming above all from the restrictions on long-service pensions).

7 In the longer term, however, this will correspond to an increase in pension benefits.

8 The term "freelance" refers not only to persons collaborating on a continuous and coordinated basis but also to those for whom this activity is not their sole source of earned income and to those providing services in exchange for a share of profits. All such workers are required to pay a contribution equal to 10 per cent of the income from professional activities declared for income tax purposes. Here too, the increase in contributions will mean additional benefits in the longer term.

9 The reform law provides for a permanent increase in social security contributions of 0.7 percentage points and the extension of the public housing programme contribution (0.35 per cent of taxable earnings) for the three fiscal years 1996-1998, although the technical table annexed to the text of the law does not consider the effects of the latter measure as an integral part of the reform.

10 The simulations described below do not take account of the planned revaluation of pensions below 10 million lire a year from 2009 onwards.

11 A recent study by a working group at the Accountant General's Office shows that the implicit yields for the various funds under the previous system ranged from a low of 2.5 per cent for a male worker under the private-sector Employee Pension Fund with a "flat" career earnings curve to a high of 5.3 per cent for a woman civil servant with a "brilliant" career.

12 The term "previous system" refers to that introduced by the Amato reform (Legislative Decree 503/1992) when fully in effect. Specifically, this ignores the distortions introduced by the "Giugni Decree" (Decree Law 373/1993), which restricted the scope of the provision of the reform extending the contribution period referred to for the purpose of calculating pensionable earnings to the entire career.

13 Under the macroeconomic assumptions used in the government projections the income replacement rate would therefore be lower than that assured by the previous system for persons retiring between ages 57 and 61 and higher for those older than 62.

14 The pension reform itself provides for some modification (albeit not linked automatically to the principal demographic and macroeconomic indicators) of the rules governing the award formula. See Section 4, below.

15 "Silent" workers are those who have temporarily or permanently ceased contributing to the fund under which they are insured but have not yet retired.

16 The aggregate referred to here differs from the index of conditional social security system liabilities analyzed in the appendix. The former is the present value (capitalized using a real rate of 3 per cent) of expected future flows of old age, disability and survivors benefits payable to today's active and "silent" workers (including contributors exempt from the effects of the reform), as well as to present pensioners, net of the present value of contribution payments still due. The latter is an indicator of pension wealth referred to a series of typical contributors ("photographed" at the moment of retirement) whose benefits are determined solely by the new award formula. Notably, the estimate of the system's liabilities to the actual population of contributors and pensioners as of 31 December 1992 (i) takes account of the higher age and length-of-service requirements for early retirement for workers still active at the reference date; (ii) lowers survivors' benefits compared with the previous

system by deducting 5 per cent to reflect the cap on cumulability; (iii) attributes to each cohort of active and "silent" workers aged under 52 and with less than 18 years of service as of 31 December 1995 the more favourable treatment between the *pro rata* award formula and that applicable as a result of opting for the new system; and (iv) sets the contribution rate for both systems at 32 per cent of taxable income.

17 In the simulation the distribution by age and starting date of activity of the population of contributors is assumed to be unchanged compared with that of 1992.

18 The previous system required the self-employed outside the agricultural sector to cover any deficits in their pension funds by increasing contribution rates, a requirement that Law 335/1995 has not amended.

19 The empirical evidence provided by the study indicates that the rate of increase in real individual earnings in industry did not differ significantly from the real GDP growth rate over the period 1974-1988, which can be considered fairly representative of a wide range of growth rates.

20 This difference, which has averaged slightly less than 1 percentage point in Italy over the past 40 years, is explained, with labour's share of GDP remaining unchanged, by the increase in the employee population and the historically important contribution of the self-employed to economic development in Italy.

21 As is made clearer at point (c) in Section 3, the new system is considerably more generous to retirees with discontinuous careers (see, in the appendix, the case of a "silent" worker with 20 years of contributions paid in starting at age 22). With the discount rate assumed here, it is in the interest of such workers, who form a very high proportion of new retirees, to take their pensions as early as possible.

22 Once the new system is fully in effect, such transfers will be limited to making up the difference between the 33 per cent contribution rate used for calculating the pension award and the 32 contribution levy for the Employee Pension Fund. This neglects a series of Fund obligations, such as insurance coverage during periods of leave for family care or training purposes and subsidies to attenuate strict actuarial standards in the awards of workers in especially taxing occupations, those receiving disability pensions before age 57 and those receiving survivors' benefits due to premature death of the contributor.

23 From 1 January 1995 onwards, and presumably until the end of the transition period, the subsidy is also extended to public employees meeting a special means test.

24 At least for retired wage and salary earners, the proportion of subsidized minimum pensions would decline significantly independently of the elimination of such subsidies, for several reasons: the decoupling of benefits from real contractual wages, the changing structure of the work force, the maturing of the various funds and the rise in labour incomes over recent decades.

25 As noted, the reform law does not include a detailed assignment of the related costs.

26 The previous system, enacted with the 1992 reform, would have raised the standard retirement age to 65 for men and 60 for women as of 1 January 2000. Most OECD countries have set the retirement age at 65 for men and women or have enacted legislation to raise it to that age. Lower retirement ages for both sexes are still in force in France (60) and Turkey (55 for men, 50 for women), and for women in Australia, Austria and Belgium (60). Retirement is at the age of 67 in Denmark, Norway and Iceland and a switch to this age is planned in the United States. The option of retirement at 60, with curtailed benefits, is available in Belgium, Finland, Spain, Sweden and Mexico; and at 62 in Germany and the United States. France also curtails benefits, in proportion to the number of quarters lacking to meet the contribution requirement.

27 The law also provides for the partial indexation, with a ceiling and with procedures still to be specified, of pensions up to 10 million lire a year, starting in 2009. By increasing the system's prospective liabilities towards recipients of the smallest pensions, this measure means that the average increase in pension benefits will have to be controlled over time.

28 The earnings ceiling set in the new system will affect only a very few pensions. Under the previous system, the income replacement rate could not exceed 80 per cent (with 40 years of contributions), which was much higher than in other social security systems. For example, with comparable career assumptions, the rates are 50 per cent in France and 60 per cent in Germany. Virtually all OECD countries have a replacement rate cap; in some it is related to earnings, in others it is set in absolute terms. Supplementing this, some countries also have a cap on earnings subject to social security contributions.

29 For example, with a GDP growth rate of 2.5 per cent, to obtain equivalence between the two systems (for a contributor retiring at age 62 with 37 years of service and a medium career earnings profile) the contribution rate would have to be reduced from 33 to 27.5 per cent; and with 3.5 per cent growth, to 23.6 per cent. The idea of lowering this rate significantly below the actual contribution rate of 32 per cent is somewhat at odds with the contribution-based principle, which would require strict equivalence between the actual contribution rate and the rate adopted for the award formula. However, such equivalence would also imply explicit actuarial evaluation, which the reform law does not provide for, of all the elements that go into the "insurance package" (coverage for longevity, premature death and disability and the solidarity component vis-à-vis workers in especially taxing occupations and those in sectors with a serious imbalance (present or projected) between active workers and pensioners).

30 The representative workers considered here are comparable between the two systems. After the transitional period, only the new system provides for retirement at ages under 65 (57-64) for men and under 60 (57-59) for women, with less than 35 years of service. Only the previous system allows for retirement prior to age 57 with 35 years of service.

31 The real discount rate is used to compute the social security system's liability, equal to the difference between the current

value of future pension benefits and that of the contributions still due. Since our comparison between the two systems uses the same discount rate for both, the level chosen has no effect on the results.

32 In 1990, Istat found life expectancy at these ages of 23 and 21 years (calculated as the arithmetic mean between men and women). These are the figures used to determine the conversion coefficients.

33 For the worker beginning work at 28, the reference year is the one in which he or she turns 65.

34 Under the 1992 system, contributors beginning work at ages 25 and 28 could not retire before ages 60 and 63 respectively. In these cases the present value of pension wealth refers to the year in which the contributor turns respectively 60 or 63.

35 For example, under the 1995 reform, a worker retiring at 57 with 35 years of service would have accrued pension wealth equal to the discounted value of 23 years of pension benefits (the residual life expectancy) plus the discounted value of the contributions lacking to attain 40 years of service (at age 62), which he avoids by retiring early. Similarly, the pension wealth of this worker at age 57 deciding to postpone retirement to age 65 would be the discounted value of 15 years of pension benefits (life expectancy at 65) less the current value of the three extra years of contributions beyond 40 years of service, completed at age 62. The estimates of the indices of pension wealth are not given in the tables.

36 For a career beginning at age 28, the new system is more generous than the previous one in all three growth scenarios.

37 The penalty in terms of discounted pension wealth for continuing to work for five more years after age 57 ranges from 9 per cent in the slow growth scenario to 5 per cent in the medium scenario to 0 in the fast growth scenario.

38 In this calculation, the comparison is made on a homogeneous basis between the pension wealth of the "silent" 57-year-old under the new system and the value (discounted for 8 periods at 3 per cent) of the wealth accrued by age 65 under the previous system. With less than 20 years of contributions under the old system, the worker failed to attain old-age pension eligibility at all.

39 These rates are gross of income tax and employee social contributions; net of these charges, the replacement rate is even higher.

Table 1

Comparison between pension reform laws of 1995 (R95) and 1992 (R92)
(hypothesis: real GDP growth rate, 1.5%; individual discount rate, 3%)

a) PENSION WEALTH

WORK ENTRY AGE		FLAT CAREER PROFILE Age at retirement				MEDIUM CAREER PROFILE Age at retirement				BRILLIANT CAREER PROFILE Age at retirement			
		57	60	62 (1)	65	57	60	62 (1)	65	57	60	62 (1)	65
22	R95	159	166	170	177	193	201	206	213	371	384	391	399
	R92	180	172	165	139	219	210	201	168	422	408	391	319
25	R95	153	160	165	172	187	195	200	208	359	374	384	394
	R92	–	167	162	149	–	204	198	183	–	396	385	354
28	R95	137	143	149	153	164	171	178	183	299	311	322	328
	R92	–	–	142	135	–	–	171	162	–	–	315	296

b) INCOME REPLACEMENT RATE

WORK ENTRY AGE		FLAT CAREER PROFILE Age at retirement				MEDIUM CAREER PROFILE Age at retirement				BRILLIANT CAREER PROFILE Age at retirement			
		57	60	62 (1)	65	57	60	62 (1)	65	57	60	62 (1)	65
22	R95	0.59	0.71	0.80	0.97	0.50	0.59	0.66	0.79	0.32	0.37	0.41	0.47
	R92	0.68	0.74	0.78	0.78	0.58	0.62	0.65	0.64	0.38	0.40	0.41	0.39
25	R95	0.54	0.65	0.74	0.89	0.46	0.55	0.62	0.74	0.31	0.36	0.39	0.45
	R92	–	0.68	0.72	0.78	–	0.58	0.61	0.65	–	0.38	0.39	0.41
28	R95	0.48	0.59	0.72	0.82	0.42	0.51	0.61	0.69	0.29	0.34	0.39	0.43
	R92	–	–	0.68	0.72	–	–	0.58	0.61	–	–	0.38	0.39

N.B.: Flat career profile = rate of individual earnings growth of 1%.
Medium career profile = rate of individual earnings growth of 2%.
Brilliant career profile = rate of individual earnings growth of 5%.
(1) For work entry age 28, this column refers to retirement at 63 with 35 years of contributions.

Table 2

Comparison between pension reform laws of 1995 (R95) and 1992 (R92)
(hypothesis: real GDP growth rate, 2.5%; individual discount rate, 3%)

a) PENSION WEALTH

WORK ENTRY AGE		FLAT CAREER PROFILE Age at retirement				MEDIUM CAREER PROFILE Age at retirement				BRILLIANT CAREER PROFILE Age at retirement			
		57	60	62 (1)	65	57	60	62 (1)	65	57	60	62 (1)	65
22	R95	203	218	228	244	245	262	274	293	413	438	456	482
	R92	198	190	182	153	243	234	224	186	422	408	391	319
25	R95	191	205	215	230	231	247	259	277	391	416	434	460
	R92	–	185	179	165	–	227	220	203	–	396	385	354
28	R95	167	179	191	200	199	213	227	238	323	343	365	379
	R92	–	–	156	147	–	–	189	178	–	–	315	296

b) INCOME REPLACEMENT RATE

WORK ENTRY AGE		FLAT CAREER PROFILE Age at retirement				MEDIUM CAREER PROFILE Age at retirement				BRILLIANT CAREER PROFILE Age at retirement			
		57	60	62 (1)	65	57	60	62 (1)	65	57	60	62 (1)	65
22	R95	0.65	0.78	0.89	1.08	0.55	0.65	0.73	0.87	0.37	0.43	0.47	0.55
	R92	0.63	0.68	0.71	0.70	0.54	0.57	0.59	0.58	0.38	0.40	0.41	0.39
25	R95	0.58	0.71	0.81	0.99	0.50	0.60	0.67	0.81	0.35	0.41	0.45	0.53
	R92	–	0.63	0.66	0.71	–	0.54	0.56	0.59	–	0.38	0.39	0.41
28	R95	0.52	0.64	0.78	0.90	0.45	0.55	0.66	0.75	0.33	0.38	0.45	0.50
	R92	–	–	0.63	0.66	–	–	0.54	0.56	–	–	0.38	0.39

N.B.: Flat career profile = rate of individual earnings growth of 1.5%.
Medium career profile = rate of individual earnings growth of 2.5%.
Brilliant career profile = rate of individual earnings growth of 5%.
(1) For work entry age 28, this column refers to retirement at 63 with 35 years of contributions.

Table 3

Comparison between pension reform laws of 1995 (R95) and 1992 (R92)
(hypothesis: real GDP growth rate, 3.5%; individual discount rate, 3%)

a) PENSION WEALTH

WORK ENTRY AGE		FLAT CAREER PROFILE Age at retirement				MEDIUM CAREER PROFILE Age at retirement				BRILLIANT CAREER PROFILE Age at retirement			
		57	60	62 (1)	65	57	60	62 (1)	65	57	60	62 (1)	65
22	R95	260	286	306	338	343	376	401	441	464	506	538	589
	R92	219	210	201	168	301	290	278	230	422	408	391	319
25	R95	238	262	279	308	316	345	368	404	429	467	497	542
	R92	–	204	198	183	–	282	273	252	–	396	385	354
28	R95	203	223	246	262	264	289	317	337	351	382	417	442
	R92	–	–	171	162	–	–	230	217	–	–	315	296

b) INCOME REPLACEMENT RATE

WORK ENTRY AGE		FLAT CAREER PROFILE Age at retirement				MEDIUM CAREER PROFILE Age at retirement				BRILLIANT CAREER PROFILE Age at retirement			
		57	60	62 (1)	65	57	60	62 (1)	65	57	60	62 (1)	65
22	R95	0.71	0.86	0.98	1.20	0.55	0.65	0.73	0.87	0.43	0.50	0.56	0.65
	R92	0.58	0.62	0.65	0.64	0.47	0.49	0.50	0.49	0.38	0.40	0.41	0.39
25	R95	0.63	0.77	0.89	1.09	0.50	0.60	0.67	0.81	0.40	0.47	0.52	0.62
	R92	–	0.58	0.61	0.65	–	0.47	0.48	0.50	–	0.38	0.39	0.41
28	R95	0.56	0.69	0.85	0.99	0.45	0.54	0.66	0.75	0.37	0.44	0.52	0.59
	R92	–	–	0.58	0.61	–	–	0.47	0.48	–	–	0.38	0.39

N.B.: Flat career profile = rate of individual earnings growth of 2%.
Medium career profile = rate of individual earnings growth of 3.5%.
Brilliant career profile = rate of individual earnings growth of 5%.
(1) For work entry age 28, this column refers to retirement at 63 with 35 years of contributions.

Speeches

Monetary policy and the budget in Italy

Statement by the Governor, Antonio Fazio, to the Subcommittee on Monetary Affairs of the Committee on Economic and Monetary Affairs and Industrial Policy of the European Parliament

Brussels, 25 September 1995

1. Looking back: Italian membership of the EMS and monetary policy in the eighties

In most of the industrial countries the second half of the seventies saw a slowdown in economic growth – caused by the hike in oil prices and high rates of increase in wages – and large imbalances in public finances.

In Italy, partly as a consequence of legislative and institutional arrangements introduced in the previous decade, the rise in public expenditure and the growth in the fiscal deficit were more pronounced than in the rest of the industrial world. Monetary control was exercised through ceilings on bank lending and effective.

By the end of the seventies the repercussions of the first oil crisis on the balance of payments and growth had petered out and the Italian economy returned to satisfactory rates of expansion. The balance of payments on current account swung back into surplus. The rate of inflation, though still above 10 per cent, had been halved compared with the earlier peaks.

In the meantime, major reforms had been initiated in the fields of Treasury financing and interest rate policy. The first important step had been taken at the start of 1975 under Governor Carli, when it was agreed with the Government of the day that, although the Bank of Italy would continue its longstanding practice of taking up all unsubscribed Treasury bills, such purchases would be at market rates; previously, yields had been set in practice by the Treasury and, in the first half of the seventies, held below the inflation rate. A primary market for government securities was inaugurated in which prices would be determined by supply and demand.

1a. *Membership of the European Monetary System*

Italy joined the EMS at its inception in March 1979, albeit with a 6 per cent fluctuation band around the lira's central rate. There was a broad consensus in the country on the objective of using exchange rate policy to tame inflation.

The exchange rate constraint and the halt to the depreciation of the lira were also seen as a clear signal of the need to correct the course of the public finances. Compared with the other industrial countries, Italy was slow to recognize the risks inherent in the build-up of public debt: in the three years 1979-81 the fiscal deficit was around 10 per cent of GDP; in the next four years it rose to between 13 and 14 per cent.

The second oil crisis caused prices to rise again and the external accounts to swing back into deficit for both trade and capital flows.

Monetary policy responded by tightening the restrictions on bank lending and ratcheting up official rates. The process of shifting from administrative controls on credit to indirect, market-based regulation of the monetary and credit aggregates began. The deterioration of the external accounts and the worsening of inflation were reversed.

After rising to over 20 per cent again in 1980, inflation gradually came down, falling to 6 per cent in 1986.

The relative stability of the nominal exchange rate resulted in a large appreciation of the real exchange rate, i.e. in a loss of international competitiveness. In the two years 1979-80, this amounted to 9 per cent on the basis of producer prices and to 11.5 per cent on the basis of consumer prices (Figures 1a and 1b).

In 1981 a further, important step was taken towards eliminating the automatic funding of the government by the central bank, with the so-called "divorce" between the Bank of Italy and the Treasury, whereby Governor Ciampi and the Treasury Minister agreed that the Bank would no longer "passively" provide finance by taking up government securities not placed at auctions.

In the first half of the eighties exchange rate policy restrained the rise in costs and prices and was a factor in the far-reaching reorganization of Italian industry. Industrial employment contracted while new jobs were created in services. Corporate profitability recovered strongly but the expansion of productive capacity slowed. GDP growth was not very different from that of the other OECD countries.

The balance of payments on current account ran smallish deficits almost throughout the eighties.

1b. *Italy's net external position and loss of competitiveness*

Despite the balance-of-payments deficits associated with the oil crises, in 1984 Italy still had modest net foreign assets of 9.7 trillion lire, thanks to the substantial current account surpluses accumulated in the sixties and early seventies. In 1985 Italy became a net debtor.

At the end of 1986 the real effective exchange rate based on consumer prices was more than 26 per cent up compared with January 1979, though this had been one of the lowest levels in the seventies. Measured on the basis of producer prices, the loss of competitiveness was only 12 per cent, but has to be set against large gains by France and Germany.

Italy's external current account remained almost continuously in deficit until 1992, owing to the loss of competitiveness and the growth in domestic demand fueled by the fiscal deficit.

In 1990, following two years of small fluctuations of the lira around its central rate, Italy adhered to the narrow fluctuation band of the Exchange Rate Mechanism; the process of liberalizing capital movements was completed, including the removal of controls on short-term flows. The immediate effect was positive; there was an inflow of capital, albeit mainly short-term, and interest rates declined. As the trade deficit deteriorated, Italy's net external liabilities mounted, mainly in the form of short-term borrowings.

In 1992 the country's net debtor position reached 165 trillion lire, or around 11 per cent of GDP.

In the first few days of September of that year, the real effective exchange rate of the lira was around 35 per cent higher than in January 1979 on the basis of consumer prices. On the basis of producer prices the rise was less than 20 per cent.

The restrictive monetary policy pursued in the eighties and the stability of the exchange rate were successful in freeing the economy once and for all from high inflation. The large fiscal deficits led to substantial growth of the public debt and, notwithstanding the high domestic saving rate, to Italy becoming a net external debtor.

The lesson to be drawn from this experience is that monetary policy can be effective. But also that if other policies do not pull their full weight, disequilibria develop elsewhere: in Italy's case, high interest rates accompanied by a slowdown of investment and growth, a mounting public debt and the emergence of a growing foreign debt, with increasing risks for the preservation of monetary stability.

2. The crisis of 1992 and Italy's withdrawal from the Exchange Rate Mechanism

On 13 September 1992, with severe tensions affecting international markets, the decision was taken to realign the lira's central rate by 7 percentage points, in order to make good the competitiveness lost since the previous realignment within the System in January 1987.

Subsequently, the general crisis of the Exchange Rate Mechanism forced the pound sterling and the lira out of the System. The outcome was a real exchange rate of the lira in early 1993 more than 20 per cent below the level of August 1992.

The greater price stability of the late eighties made a decisive contribution to holding down the rise in labour costs. In 1992 the Government concluded a first agreement with the social partners to keep future increases in wages and salaries in line with the target rate of inflation, which was set to diminish rapidly. The Finance Law for 1993 contained measures producing a substantial reduction in the public sector deficit, on a scale comparable to the adjustments made after the oil crises.

Consumption and output had already contracted sharply by the end of 1992. From 1993 onwards the trade balance showed a large surplus.

Despite the devaluation of the lira, inflation remained moderate as a result of the labour cost agreement, the monetary tightening and the slowdown in domestic demand. After accelerating a little in the spring, inflation averaged around 4 per cent in 1993.

In the second half of 1993, following the agreement on incomes policy, money market rates were brought down to a more moderate level, even though they remained high compared with the average of the other industrial countries.

Some of the hot money that had flowed to Italian banks up to August 1992 began to flow out again towards the end of that year and outflows continued throughout 1993. As a result a more normal composition of the external debt was also restored. There was a further, albeit small, effect on the exchange rate.

The second half of 1993 can be seen as a period in which the effective exchange rate of the lira and interest rates returned to a situation of acceptable equilibrium. The official discount rate was lowered to 8 per cent in October. The real effective exchange rate of the lira recovered to a level slightly above the average for 1979 and close to the average for 1980. Yields on ten-year government securities stood at around 9 per cent.

3. The last two years

The second half of 1993 was also the bottom of the economic cycle. The fourth quarter saw a slight upturn fueled by exports and investment. For the year as a whole, domestic demand fell by 5.5 per cent and GDP by 1.2 per cent; exports of goods and services increased by more than 9 per cent, while imports decreased by 8 per cent.

After a long string of deficits, the balance of payments on current account showed a surplus of 18 trillion lire, as against a shortfall of 34 trillion the previous year.

The export and investment-led recovery was consolidated during 1994: GDP grew by 2.2 per cent and there was a surplus of 25 trillion lire on the external current account.

As measured by the cost-of-living index, the twelve-month rate of inflation fell to 3.6 per cent in July 1994. In the second half of the year there was a slow but continuous rise in costs and prices, owing to the pressure of demand, the robust growth of industrial production and the consequent reduction in idle capacity.

A tight rein was placed on the monetary and credit aggregates: there was virtually no growth in the money supply and credit to the private sector expanded by less than 2 per cent; in real terms, all the aggregates contracted.

Inflation increased towards the end of the year, primarily owing to the depreciation of the lira and the rise in international raw material prices. In the first half of 1995 the inflation rate was also affected by indirect taxes having had to be raised in the spring fiscal adjustment package.

3a. *The exchange rate*

The nominal effective exchange rate of the lira at the end of 1994 was 7 per cent lower than in the second half of 1993 (Figures 2a and 2b).

For most of 1994 the lira followed the dollar. The latter's depreciation against the Deutsche Mark and the yen was also reflected to some degree by the other weak currencies – the pound sterling, the Canadian dollar and the Swedish krona. By contrast, the French franc and the other currencies more closely linked to the Deutsche Mark recorded a slight, continuous appreciation during 1994.

In December 1994 and the early part of 1995 the Mexican crisis erupted. Wide and disorderly fluctuations of the exchange rates of the main currencies ensued. The dollar suffered a significant fall of 10 per cent, with the other weak currencies following in its wake; the Deutsche Mark appreciated in just a few months by more than 5 per cent and the yen by around 16 per cent. The lira fell sharply; by mid-March, with domestic political developments also a factor, it had depreciated by more than 15 per cent with respect to its average value in December (Figure 3). The exchange rate crisis remained acute until mid-April.

3b. *Interest rates*

In February 1994, the downward trend of market interest rates had reversed after two years in all the main countries, as rates rose in response to the shift in the stance of US monetary policy.

Liquidity conditions began to be tightened in Italy as early as June 1994. In mid-August, official interest rates were raised by half a percentage point. The rise in market rates was larger in Italy than elsewhere (Figure 4).

In February 1995, in the face of worsening inflation expectations and a weakening lira, it was decided to raise the discount rate by another 0.75 points and that on fixed-term advances by 1.25 points.

Both the rigorous fiscal measures adopted in March, bringing an adjustment equal to 1.5 per cent of GDP on an annual basis, and the monetary tightening were aimed at halting the fall in the internal and external value of the lira.

The worsening of the exchange rate and inflation was accompanied as early as 1994 by a further, marked acceleration in industrial production.

Once again, it was found that economic activity is boosted in countries whose currency depreciates; in those whose currency appreciates, there is an adverse impact on productive activity.

In February of this year the Federal Reserve raised official rates again. In Germany and Japan, currency appreciation, stable or declining prices and sluggish economic activity led the monetary authorities to lower official interest rates in the spring.

3c. *The further tightening of monetary policy and the recovery of the lira*

In the early part of this year annualized monthly inflation rose to between 5 and 6 per cent in Italy. On 26 May, with economic activity growing rapidly, the official discount rate and the rate on advances were raised by another 0.75 percentage points, in order to check the deterioration in inflation expectations. Control of liquidity was made even more stringent; the effects of the monetary and fiscal tightening on domestic demand began to appear.

Compared with its lowest value in the wake of the Mexican crisis, the exchange rate of the lira had already recovered by more than 8 per cent between mid-April and mid-May; the dollar and the other weak currencies also appreciated, while the Deutsche Mark and particularly the yen lost part of their earlier gains.

The recovery of the dollar continued over the summer, partly as a result of massive and coordinated intervention and the further reduction in interest rates in Germany and Japan.

By mid-September the effects of the tensions triggered by the Mexican crisis had been largely absorbed. Compared with December 1994, the depreciation of the lira, which had exceeded 15 per cent in March, was no more than 3 per cent. The turbulence of the last few days has reversed part of the gains recorded by the weak currencies. The depreciation of the lira, moving in line with the dollar, has increased again to around 5-6 per cent (Figure 3).

Market yields on ten-year government securities, which had risen above 12 per cent in the closing months of 1994, reached 13.7 per cent in the period of the lira's maximum depreciation, between the middle of March and the middle of April 1995.

After falling subsequently to 11 per cent, they have risen in response to the turbulence of the last few days to around 11.5 per cent. The differential with Germany is about 5 percentage points.

3d. *Inflation*

Inflation abated considerably over the summer.

In the third quarter the annualized monthly increase in the cost-of-living index, net of indirect taxes and seasonally adjusted, has been one and a half percentage points less than in the second.

The tightening of monetary policy, the recovery of the lira and the slowdown of the cyclical expansion braked inflation; the downturn will have to be consolidated in the coming months.

Inflation in Italy is still too high compared with that in other European countries.

The inflation objective for 1995 that the Bank of Italy indicated last May now appears within reach. The aim is to reduce inflation to below 4 per cent in 1996.

4. The public finances

The prospects for the internal and external value of the lira depend crucially on those for the public finances.

The adjustment that began with the measures adopted in 1992 has significantly curbed the expansionary trends that for many years had marked public expenditure. Major reforms have been carried out in health services, public employment, local finances and social security. The reform of the pension system is of major importance. In our view, however, it will be too long before it produces its full effects and even these will leave the Italian pension system out of line with those of other leading European countries, mainly owing to the lower retirement age and the more generous link with earnings.

4a. *Fiscal policy in 1995*

The objective established for fiscal policy in 1995 is to make good the shortfall in the adjustment of the public finances that occurred in 1994. The measures defined in the Finance Law and the supplementary measures adopted last spring will reduce the state sector borrowing requirement by more than 20 trillion lire compared with 1994 and cause it to fall from 9.5 to around 7.4 per cent of GDP. The primary surplus, which excludes interest payments on the public debt, will rise from 17.6 trillion lire and 1.1 per cent of GDP in 1994 to 60 trillion lire and 3.4 per cent of GDP this year. The ratio of tax revenues and social security contributions to GDP is set to rise by 1.5 percentage points. Public expenditure net of interest payments will fall by around 0.8 points.

After a great many years the rising trend of the ratio of public debt to GDP will be halted, a result to which privatization proceeds will also contribute. At the end of this year the ratio of state sector debt to GDP will be around 123.8 per cent, compared with 124.3 per cent at the end of last year.

This figure remains very high in comparison with the other industrial countries. It needs to be remembered, however, that Italian households have a particularly high saving rate and carry little debt; this leads and permits them to accumulate financial assets, notably in the form of public debt securities. In relation to GDP, total financial wealth in Italy is in line with that of the other leading countries.

The high rate of domestic saving has made it possible to limit the size of the country's external debt. We believe, however, that this should be rapidly eliminated. The surpluses earned on the current account of the balance of payments in 1993 and 1994, together with that projected for this year, will result in Italy's net external debt falling below 5 per cent of GDP by the end of the year. On the basis of plausible forecasts for the coming years, corroborated by those of international organizations, Italy should become a net creditor within the next three years.

4b. *The Government's plans for the three years 1996-98*

The Government's Economic and Financial Planning Document for the three years 1996-98 approved by Parliament addresses these issues.

The priority objective is to reverse the rising trend of the public debt in relation to GDP. The ratio of the public debt to GDP will fall to 115.4 per cent by the end of 1998.

In that year the primary surplus would amount to 125 trillion lire, or 6 per cent of GDP. The planned acceleration of the privatization programme would also contribute to the reduction of the debt. The borrowing requirement forecast for 1998, equal to 3 per cent of GDP, should be smaller than the planned expenditure on public investment.

These objectives need to be pursued with determination.

Achieving them will require the full amount of the planned revenue and expenditure adjustments to be implemented. Part of the improvement in the public finances of the last few years has been due to a slowdown in investment expenditure. In order to correct the infrastructure deficiencies of the less developed areas of the South, the increases in revenue and the savings in current expenditure will have to be larger than those indicated in the Government's Document.

Even though the tax rates in force in Italy, especially as regards direct taxes, are among the highest in Europe, the resulting ratio of tax revenues and social security contributions to GDP is lower than in France and Germany. Receipts are eroded to a greater extent by avoidance and, above all, evasion. These practices not only cause serious allocative inefficiencies but also give rise to fiscal rents and injustice.

The Government's strategy for reducing evasion will have to be put resolutely into effect and strengthened in the coming years, and the efficiency of the revenue service enhanced.

Italy has significant untapped economic potential available to increase income and employment. Saving is substantial compared with other countries, skilled labour plentiful and industry highly efficient. The scope for widespread productivity gains is considerable, especially in the South.

5. Summary and conclusion

Our backward glance shows that a rigorous monetary policy can curb inflation: this has been Italy's experience in the eighties and nineties.

In 1980 inflation in Italy was running at more than 20 per cent. It was significantly reduced, even before the sharp fall in the price of oil in 1986, by applying high interest rates, restricting credit and holding the exchange rate. Annual inflation was reduced to around 5 per cent, the lowest level since the early seventies.

The slowing of the rise in labour costs prepared the ground for the reform of the system of wage indexation; it allowed an incomes policy to be adopted that would further moderate costs and prices.

The shortcomings of fiscal policy led, with monetary policy necessarily restrictive, to a rapid accumulation of public debt and the emergence and build-up of net external debt. Consumption was stimulated and investment deterred, with adverse effects on growth and employment, and also on prices.

The 20 per cent fall in the real effective exchange rate between September 1992 and the spring of 1993 did not lead to a resurgence of inflation thanks to the steps taken to redress fiscal imbalances, the weakening of consumer demand and, above all, the working of incomes and monetary policies.

The increase in market interest rates in Italy was much larger than elsewhere, reflecting not only the monetary tightening but also the uncertainty of domestic and international investors about the outlook for the public finances.

The lira nonetheless continued to weaken, falling considerably further than could be justified on grounds of the competitiveness of goods and services.

The Bank of Italy took swift action as early as the summer of 1994, tightening liquidity conditions and raising official interest rates. In 1995 determined fiscal adjustment was resumed.

The Mexican crisis triggered speculative flows of capital from weak to strong currencies of unprecedented size and intensity. An exchange rate crisis followed and tensions developed in the Italian financial markets; the ensuing risk of serious repercussions on inflation expectations was met by two further tightenings of monetary policy.

The effective exchange rate of the lira has recovered towards its level of last December. Yields on long-term government securities have fallen well below the peak of 13.7 per cent recorded at the height of the difficulties encountered in the spring.

However, the yield differential between Italy and the industrial countries with the most stable currencies remains excessively large and the lira undervalued.

The adjustment of the public finances must be continued. This is necessary in order to achieve a further reduction in yields, to the benefit of the public finances and private investment.

A more careful assessment by market participants of the underlying conditions of the Italian economy could lead to a recovery of the lira. Italy's competitiveness hinges on keeping unit labour costs low. This is essential for eliminating the foreign debt, sustaining development and reducing unemployment, which is still extremely high in the poorest regions.

From the peak recorded in June, inflation fell on average over the three summer months; a further decline is possible in the final months of the year.

Improvements on the exchange rate and inflation fronts could be jeopardized by uncertainty about the continuation of the effort to readjust the public finances.

* * *

At the beginning of 1992, acting on a proposal from the then Minister of the Treasury, Guido Carli, Parliament formally endorsed the freedom of the monetary policy of the Bank of Italy from Government influence. The official discount rate and that on fixed-term advances are now set independently by the central bank. The compulsory reserve requirements are established and modified by the Bank in the light of its monetary policy objectives. All forms of monetary financing of the Treasury have been abolished. The new Banking Law, enacted in 1993, confirms the Bank of Italy's responsibility for banking supervision, with a view to ensuring the overall stability and efficiency of the banking system.

The Bank of Italy trusts that its efforts will be supported by substantial progress in restoring the public finances to a sound footing and by the incomes policy in place, thus allowing Italy to exploit all its potential for growth.

The value of money depends ultimately on the accumulation of savings and on their profitable use, on the correct allocation of resources between the public and private sectors, and on the ability of the economy to grow and compete in world markets.

The Bank of Italy will pursue the objective of monetary and financial stability autonomously; it will contribute with its disinflationary policy to the convergence of the Italian economy towards those of the countries with strong currencies.

Summary of the debate that followed the hearing

As regards the instability of the lira (question by Lyndon Harrison, PSE-United Kingdom), Antonio Fazio drew attention to the fact that both internal and external factors were at work, recalling that the performance of the lira also depended on that of the US dollar, which had depreciated considerably against the Deutsche Mark.

In reply to a question by Luigi Colajanni (PSE-Italy), Fazio stated that it was not possible to make monetary policy responsible for everything, so that it needed to be accompanied by a rigorous fiscal policy. As for the reform of the public pension system, his assessment was generally favourable, but he expressed the view that it was still not sufficient.

On the Maastricht convergence criteria (question by Mrs. Randzio-Plath, Chairman of the Subcommittee on Monetary Affairs), the Governor was of the opinion that while Italy could comply with the criteria for the budget deficit, inflation (which is likely to fall below 4 per cent) and interest rates, it was far from the 60 per cent of GDP limit for the public debt. He nonetheless stressed that in no circumstances should the criteria be made less demanding, even if this implied the exclusion of several countries from Stage Three of EMU. In his view, an easing of the criteria "would be a serious error, both for the countries participating in the system and for those outside it".

The Governor emphasized that, in contrast with the other Group of Seven countries, where household debt equals or exceeds the public debt, Italian households have very little debt. He raised the question of why this factor had not been taken into account during the preparation of the Maastricht Treaty, since it would have permitted a more accurate analysis of the convergence issue.

Replying to a question by Bernard Herman (PPE-Belgium), Fazio stressed that a sufficient degree of convergence among the EMU countries was necessary, since otherwise the system would be a bad one. He pointed out that the federal budget was extremely important in federal states, whereas in the EU the opposite was true, since the Community budget was small in comparison with those of the member states. Fazio noted that it was difficult to establish whether a code of budgetary behaviour for member states could be formulated in the absence of political union.

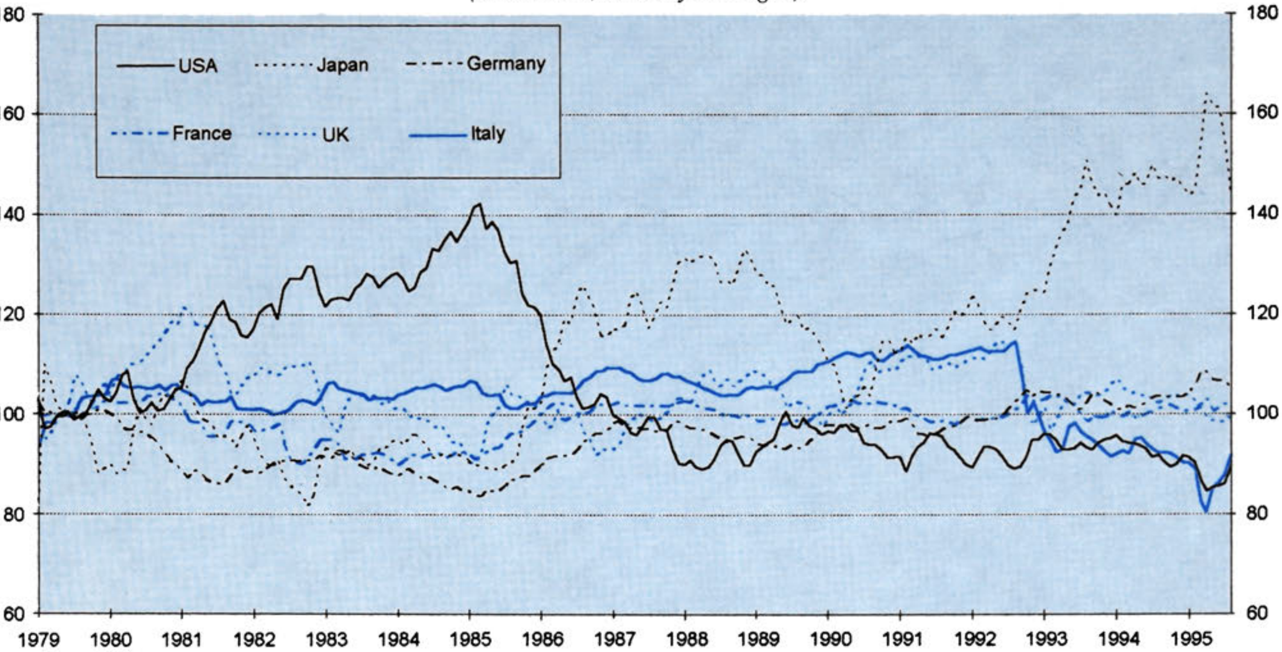
As regards the re-entry of the lira into the EMS (question by Fernando Perez Royo, PSE-Spain), Fazio expressed the view that this would require the lira to stay close to narrow fluctuation margins, which he believed should be reduced to around 3 or 4 per cent. He stressed that the lira's re-entry needed to be prepared very carefully, so that once back in there would be no doubt about staying in. "To re-enter the EMS and then have to withdraw again would seriously damage the lira".

Figure 1a

Real effective exchange rates of main countries

Calculated on the basis of the Producer Price Index; January 1979-August 1995

(1979=100; monthly averages)



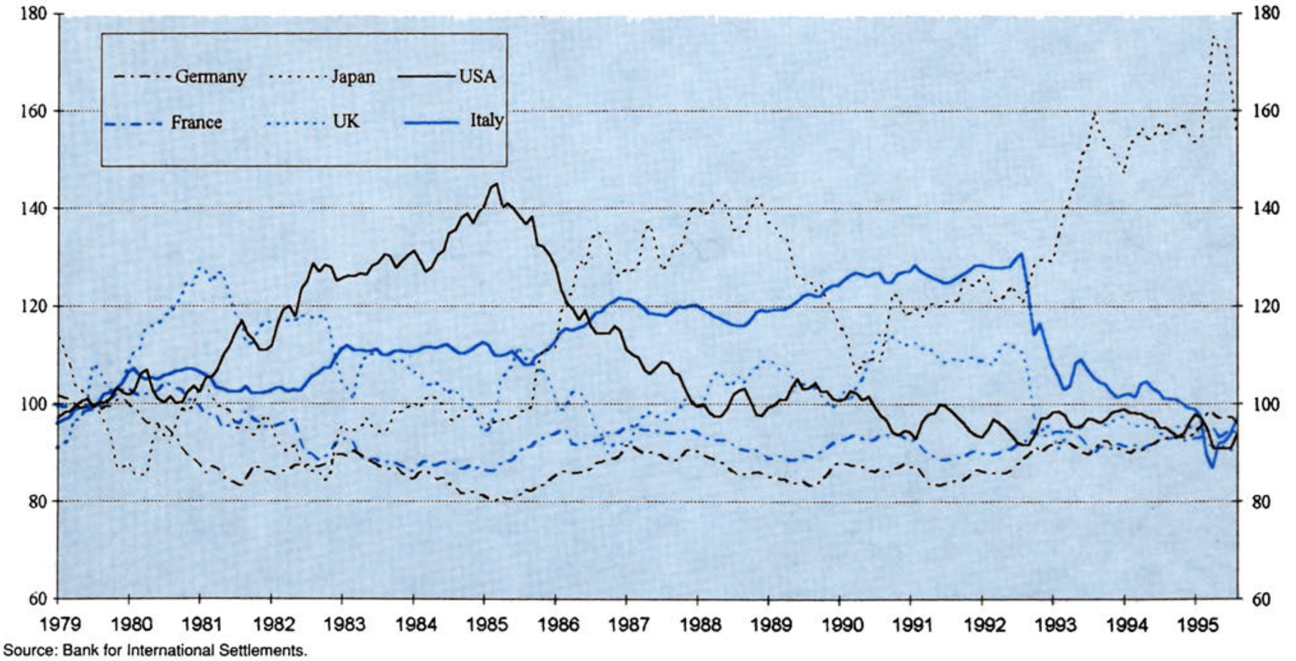
Source: Banca d'Italia.

Figure 1b

Real effective exchange rates of main countries

Calculated on the basis of the Consumer Price Index; January 1979-August 1995

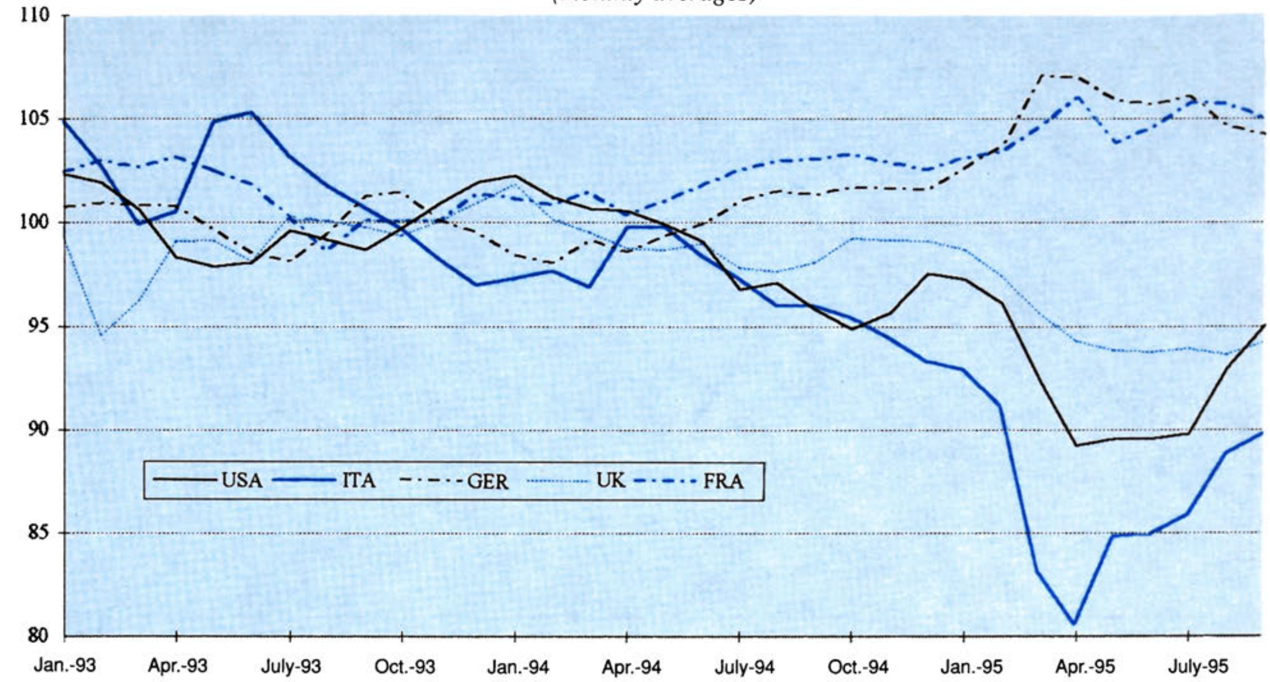
(1979=100; monthly averages)



Source: Bank for International Settlements.

Figure 2a

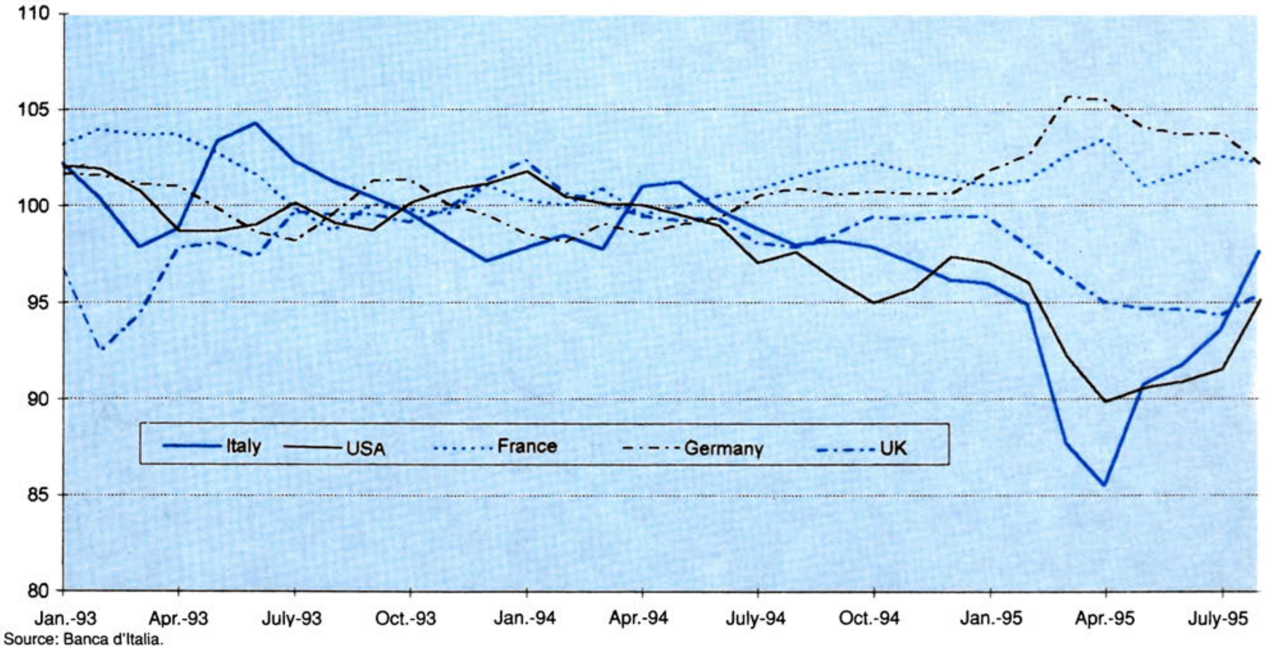
Nominal effective exchange rates of main countries
Average for 2nd half of 1993=100 – January 1993-September 1995
(monthly averages)



Source: Banca d'Italia.

Figure 2b

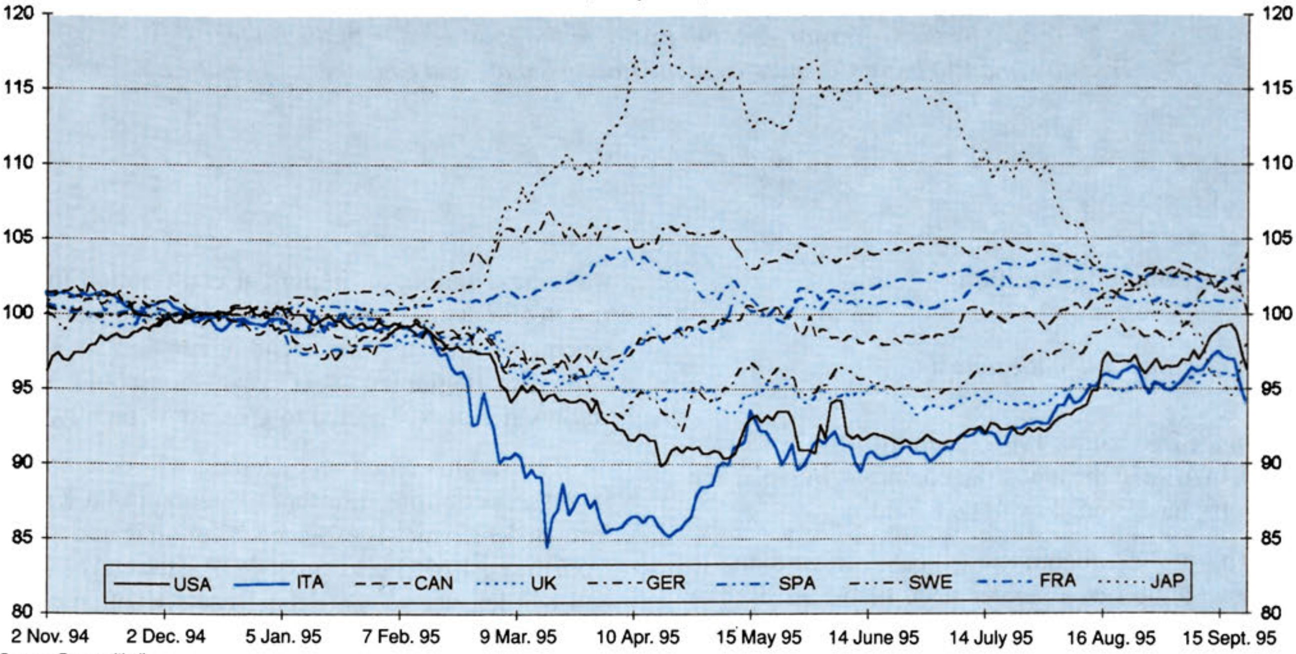
Real effective exchange rates of main countries
Calculated on the basis of the Producer Price Index; Average for 2nd half of 1993=100 – January 1993-August 1995
(monthly averages)



Source: Banca d'Italia.

Figure 3

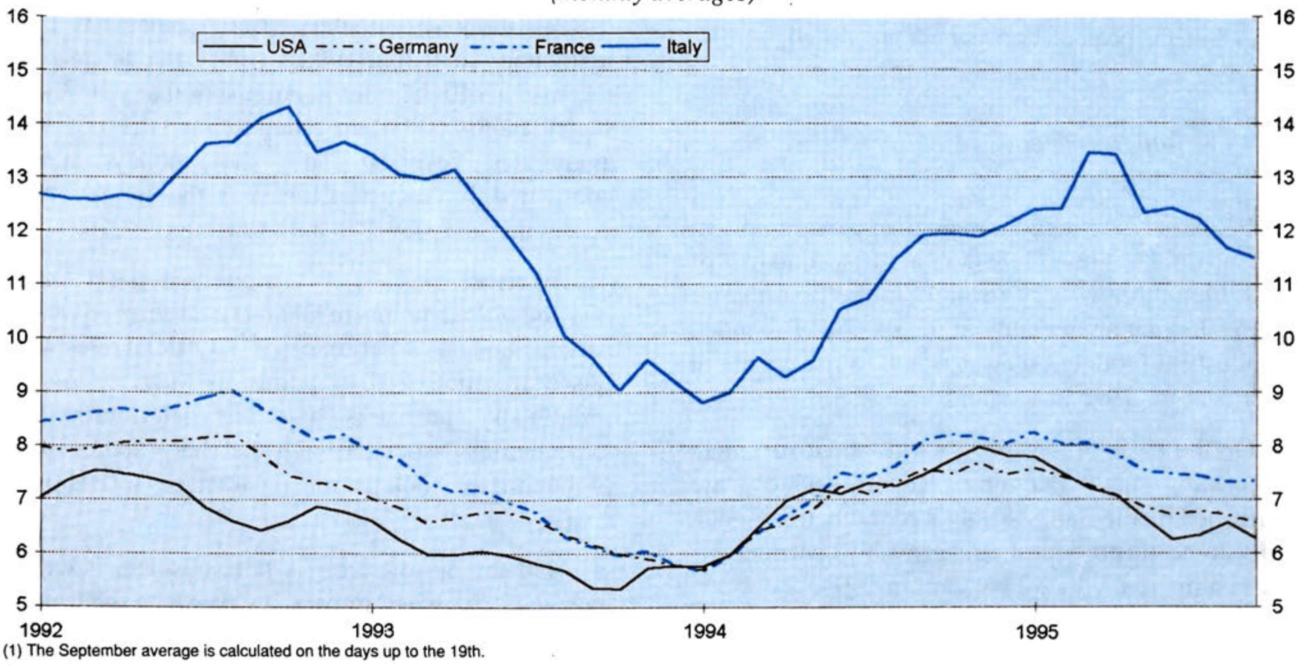
Nominal effective exchange rates of main countries
November 1994-September 1995; Average December 1994=100
(daily data)



Source: Banca d'Italia.

Figure 4

Long term interest rates of main countries
January 1992-September 1995 (1)
(monthly averages)



(1) The September average is calculated on the days up to the 19th.

Sources: Bank for International Settlements and Banca d'Italia.

Fact-finding preliminary to the examination of the budget for 1996-98

Statement by the Governor, Antonio Fazio, to the Joint session of the Budget, Treasury and Planning Committees of the Italian Senate and Chamber of Deputies

Rome, 5 October 1995

1. The economic situation

1.1 *The international economy*

In the first half of 1995 economic activity slowed down in most of the industrial countries. In Japan, the recovery has been slow to take hold.

The world economy is expected to continue to grow, although at a slower pace than forecast last spring. Inflation is still moderate in the leading industrial countries, but in many of them a considerable fiscal adjustment effort is still required.

Employment remains a priority issue, notwithstanding economic growth. The unemployment rate in Europe is still about 11 per cent, only slightly lower than the peak of 11.5 per cent recorded in 1994.

1.2 *The Italian economy*

Industrial activity continued to expand rapidly in Italy, albeit at a slower rate than in the second half of 1994. Output grew very strongly in the first quarter before slowing appreciably in the second. The index of industrial production is expected to rise by about 5 per cent for 1995 as a whole.

On the basis of the forecasts in the Government Forecasting and Planning Report, which are confirmed by the Bank of Italy's econometric model, gross domestic product should grow by 3 per cent this year, compared with 2.2 per cent in 1994.

In addition to the impulse from exports, which have benefited from the favourable exchange rate and wage moderation, an important contribution to the rise in output has come from investment in plant and machinery. Construction spending remains stagnant, however. Beginning next year, household consumption is also expected to grow more rapidly.

The surplus on current account will continue to increase, permitting a further reduction in Italy's net foreign debt, which is expected to continue its decline from the peak of 11 per cent of GDP at the end of 1992 and to be less than 5 per cent in December of this year.

Inflation has risen since mid-1994, reflecting the weakness of the lira and the recovery in demand. Prices accelerated at the beginning of 1995, even after adjusting for the increases in indirect taxes that it proved necessary to enact in February.

A restrictive monetary policy stance has been maintained since June 1994 and in particular since the increase in official rates in August of that year. In the second half of 1994, the rising trend in the monetary aggregates reversed and the money supply contracted. In August of this year, the money stock was at the same level as in the spring of 1994.

A further increase of 0.75 points in the discount rate and of 1.25 points in that on fixed-term advances was decided on 21 February 1995. Official rates were raised by another 0.75 points in May to counter inflationary pressures and the deterioration in expectations associated with the sharp depreciation of the lira; this took the rate on advances to 10.50 per cent.

Had the currency crisis not subsided, it would have had a severe impact on prices, triggering a perverse spiral that would have driven the country back towards unbridled inflation.

Adjusted for seasonal factors and indirect taxes, the rise in the cost of living slowed markedly in the third quarter of this year, recording a rate of about 4.5 per cent on an annual basis or 1.5 percentage points less than in the previous quarter.

2. The public finances: achievements and outlook

2.1 *The current year*

Budgetary policy in 1995 has aimed at making good the shortfall in the adjustment of the public finances recorded in 1994.

As a result of the budget measures adopted in September 1994 and the additional package enacted in February 1995, the state sector borrowing requirement is expected to decrease sharply compared with 1994, falling in nominal terms by about 20 trillion lire and in relative terms from 9.5 to 7.5 per cent of GDP.

The primary surplus, i.e. the borrowing requirement net of interest payments, should show a significant improvement; it is expected to rise from about 17.6 trillion lire to 60 trillion and from 1.1 to 3.4 per cent of GDP. The 1995 surplus will be the result of an increase of around 1.5 points in the ratio of tax and social security contributions to GDP and a reduction of 0.8 points in that of public expenditure net of interest payments.

In the first nine months of 1995 the Treasury borrowing requirement as defined by the Bank of Italy came to 95 trillion lire, about 13 trillion less than in the same period of the previous year.

This does not appear out of line with the objectives for the year; achieving them will depend, however, on the forecast revenue from the tax conciliation scheme being received when payments are made in December.

The reduction in the borrowing requirement in absolute and relative terms benefited from the growth in the macroeconomic aggregates exceeding expectations. Productive activity expanded faster than had been forecast, but unfortunately inflation also accelerated. Initially, this tended to reduce the deficit through its effect on revenues, but beginning next year it could cause expenditure to rise significantly.

Capital expenditure in 1995 may be less than planned.

The Government forecasts that the state sector debt will be 123.8 per cent of GDP at the end of 1995, compared with 124.3 per cent at the end of 1994.

Achieving this result not only requires the target for the borrowing requirement to be met but also depends on the planned privatizations producing their full proceeds, most of which should come in the last quarter.

It must be emphasized that the objective is of crucial importance for the exchange rate and interest rates on government securities. The effort is being closely watched by both Italian and foreign investors as an indicator of the State's ability to control the public finances and honour its commitments.

2.2 *The outlook*

The recent reforms of the main components of public expenditure are not yet sufficient to establish expenditure and revenue trends that will bring the necessary reduction in the borrowing requirement on a current programmes basis. Additional fiscal measures and careful management by the public administration in the implementation of the reforms are indispensable.

The underlying socio-economic forces that had pushed up spending in the past decades will continue to affect the main expenditure items. The rapid growth in employment until the seventies and the gradual aging of the population will cause outlays to increase in the years to come, especially for pensions and health care.

Success in curbing public sector staff costs and local authority spending will depend on the determination with which the innovations introduced are implemented as well as on the guidelines the Government establishes and administrators' compliance with them.

Interest rates on government securities are highly sensitive to medium-term exchange rate expectations, which in turn are influenced by the outlook for the public finances and inflation.

In Italy the public debt is larger in relation to GDP than in the other industrial countries. Nevertheless, we must not lose sight of the fact that household saving is also very high, while household debt is low. The ratio of total financial liabilities to income is not out of line with that in the other leading countries.

The high domestic savings rate has enabled Italy to contain its foreign debt. On the basis of medium-term forecasts, which are confirmed by those of international organizations, net external debt can be expected to decline to zero within the next two or three years, leaving Italy a net creditor in subsequent years.

The growth in budget deficits in recent decades, the decline in Italy's overall savings rate and the rise in interest rates have had an adverse effect on capital formation. The plans for restoring sound public finances must reduce the burden that past budget policies have placed on future generations.

The gradual elimination of the budget deficit would restore the confidence of Italian and international investors and consequently bring interest rates closer to those prevailing in foreign markets. This would also accelerate the adjustment of the public finances, free resources for public works and foster new productive investment.

3. The Government's plans for fiscal adjustment

3.1 *The Planning Document for 1996-98*

The Economic and Financial Planning Document prepared by the Government last June and approved by Parliament confronts the problems I have described. The latest Government plans provide for an acceleration of the fiscal consolidation compared with the two preceding Documents.

The measures adopted in the spring, amounting to 1.5 per cent of GDP on an annual basis, will make it possible to halt the growth in the public debt as a percentage of GDP in 1995.

According to the Documents prepared in July 1993 and July 1994, this objective was to be achieved in 1996.

Even though the current plans start from a larger borrowing requirement on a current programmes basis following the budget overshoot in 1994, they bring forward the timetable for reducing the deficit with respect to the projections contained in the two previous Documents and, above all, set more ambitious objectives for the primary surplus. The budget deficit should fall to 4.4 per cent of GDP in 1997, instead of 5.6 per cent as indicated in July 1994; nonetheless it is not expected to fall to 3 per cent until 1998.

3.2 *The Finance Bill for 1996*

As I mentioned earlier, the budget for the current financial year is benefiting from two contingent factors – inflation and the low level of public investment expenditure – which could, however, cause larger deficits in coming years.

The Finance Bill for 1996 nevertheless sets the objective of reducing the Treasury's borrowing requirement to 5.8 per cent of GDP; the ratio of the public debt to GDP should record a first, significant reduction of more than 2 percentage points from the peak recorded in 1994 and fall to 122.1 per cent.

The planned increases in revenue amount to around 18 trillion lire, the spending cuts to 14.5 trillion.

A preliminary observation is that the scope for achieving further progress in increasing revenue and reducing expenditure is less than in the past and the task entrusted to budgetary policy more arduous.

In recent years the ratio of tax receipts and social security contributions to GDP has risen to match the average for the other Community countries. However, the taxes paid by law-abiding citizens are higher than the average. Total revenue is not correspondingly larger owing to the greater incidence of tax evasion and avoidance. In order to raise additional revenue, these phenomena will have to be tackled with measures that will not be easy to put into effect. In recent years reforms have been introduced in the main sectors; it is now necessary that they be implemented efficiently.

Finally, it should be noted that, in relation to GDP, public expenditure net of interest payments in Italy is not out of line with the figures for the other major European countries.

However, further progress is indispensable in view of the still excessive level of the deficit and, especially, of the size to which the public debt has grown.

3.2.1 *The correction on the revenue side*

The increase in tax revenue is essentially entrusted to:

- the extension to 1996-97 of the tax on companies' net worth (3.5 trillion lire of additional revenue in 1996);
- a revision of the methods of parameter-based income tax assessment (4 trillion);
- a strengthening of the tax authorities' control activity (1 trillion);
- the introduction of new types of lottery and the expansion of the related sales network (2.2 trillion);
- measures to streamline the tax system and reduce avoidance (0.5 trillion); and
- a series of minor measures with a net effect of around 1.3 trillion,
- giving a total of 12.5 trillion lire.

Revenue will be reduced by a total of 1.3 trillion lire as a result of the increase in the allowances for single-income households, tax incentives for investment in depressed areas and tax reliefs for first homes.

Further tax measures amounting to 5.3 trillion lire are to be adopted by the end of the year.

Moreover, around 1.5 trillion lire of additional revenue will be produced by maintaining part of the payroll contributions formerly earmarked for housing programmes and increasing some social security contribution rates.

In evaluating the extension of the tax on companies' net worth, it should be recalled that profits have increased considerably in the last three years as a result of the growth in both profit margins and output. The increase has been especially large for export-oriented firms. The depreciation of the lira has benefited firms in terms of both export volumes and prices.

Pending the completion of sectoral studies, improvements have been introduced in the methods of determining the reference parameters for the assessment of taxpayers' 1995 incomes; this should have a positive effect on the attitude of those concerned. The rules are designed to distinguish between taxpayers who fully meet their obligations, presenting returns consistent with the reference parameters, and those whose who submit "sub-standard" returns. The latter will be allowed to submit evidence substantiating the low income declared and agree an assessment with the tax authorities on the basis of the procedure provided for in the recent tax conciliation scheme. Where appropriate, the authorities will be able to carry out detailed controls.

The objective is valid. The results will depend on how the tax authorities apply the new rules and, more generally, on the system of controls being strengthened.

Such strengthening must be pursued resolutely. At present the number of staff assigned to this task is very small. The estimate of the additional revenue that can be raised is based on the assumption that newly assigned personnel will produce results comparable to those of the existing staff. This will require a considerable training and organizational effort.

As to the additional receipts expected from gambling, the demand for lotteries and other games of chance is certainly high and the supply on the part of the public sector insufficient; illegal privately-operated games have filled the gap. It is difficult, however, to judge the accuracy of the estimates. When new gaming schemes were introduced in the past, the revenue exceeded the tax authorities' forecasts, but the amounts involved were much smaller than those included in the budget.

3.2.2 *The measures on the expenditure side*

The main spending cuts concern:

- social security (5 trillion lire);
- health services (2.35 trillion);
- allocations to local authorities (2.05 trillion);
- allocations to public utilities (2.2 trillion);
- transfers to private entities (1.3 trillion); and
- capital expenditure (3.2 trillion).

When account is taken of other minor measures and the planned increases in expenditure for family allowances, the administration of justice and the fostering of employment, the expenditure saving is officially estimated at 14.5 trillion lire.

Nearly all the reduction in social security expenditure refers to the pension system and represents the difference between the effects of the recent reform and those that would have been produced by the measures concerning long-service pensions planned by the previous Government. The effects of the reform arise from maintaining the payroll contributions formerly earmarked for the construction of low-income housing and now used to pay pensions (around 2 trillion lire) and levying contributions on incomes from quasi-salaried employment (2.6 trillion).

It should be noted that these are only formally reductions in expenditure, as the cuts in transfers to the social security institutions (correctly included among outlays in the state sector accounts) are matched by increases in these institutions' contribution receipts from workers and employers. Achieving the planned additional receipts for quasi-salaried employment appears uncertain; in view of the way such incomes are earned, the interested parties may find ways to avoid paying their contributions.

The reduction in the allocations to regional governments for health services will not necessarily lead to a contraction in the expenditure they sustain. Savings of some significance could come from the introduction of the user fee for emergency room services not followed by admission to hospital and from the other measures planned.

The results of the corrective action will depend primarily on how local health unit administrators respond to having to provide services with a smaller volume of resources.

Similar considerations hold for the reduction in allocations to municipal governments and in those to regional governments for purposes other than health services. These measures are commendable; by going in the direction of fiscal federalism, they tend to create a closer link between spending decisions and the related financing. However, it is difficult to forecast the extent to which local authorities will respond to the reduction in their resources by utilizing the enhanced tax-levying powers they have been granted – for municipal governments, by revising the rating values on which the municipal property tax is based and, for regional governments, by introducing a tax on landfills and raising petrol tax rates – or by rationalizing their activities. It is to be hoped that the corrective action will translate, at least in part, into expenditure savings.

The reduction in transfers to public utilities and that in capital expenditure, together totaling more than 5 trillion lire, are the result of cutbacks in budget appropriations. Here again, it is difficult to evaluate the extent to which these will lead to a corresponding reduction in outlays on the part of the agencies and companies concerned. Particularly in the case of capital spending, the considerable lead times involved generate long lags between appropriations and disbursements.

Set against the spending cuts described above, there are increases. Measures are planned in favour of households (1.9 trillion in 1996 and 7.7 trillion in the three years 1996-98), the administration of justice (2 trillion in 1996-98), employment (4 trillion) and depressed areas (more than 11 trillion, including 10 trillion of new loans).

For public employment as a whole, allocations of around 6 trillion lire are planned. These amounts are to make up for the difference between the target and actual rates of inflation in 1994-95 and to cover pay increases under the new contract.

3.2.3 *Evaluation of the measures*

The quantitative results of the budget are subject to uncertainty for the reasons mentioned earlier and because of the innovative features of the planned measures. In some cases the budget provides for measures that will have to be repeated in time and which, appropriately calibrated and adjusted if need be, are likely to yield substantial results in the long run.

On the revenue side, the measures aimed at reducing evasion and broadening tax bases are of clear value, should be pursued and, if necessary, structurally strengthened; the law should be supplemented by specific measures relating to the main taxes. However, the revenue they will produce initially remains uncertain. The estimates of receipts from gambling also present margins of uncertainty, particularly in the first year of application, owing to the difficulty of evaluating the demand not satisfied by public schemes and the adequacy of the proposed measures. In view of their impact on prices, indirect tax measures are only able to make a modest contribution.

With regard to expenditure, the reduction of around 5 trillion lire in allocations to local authorities could lead to bank borrowing or debts with suppliers; in this case compliance with the ceiling on the borrowing requirement would only be formal. It is also difficult to evaluate the savings in outlays arising from the other reductions in budget appropriations. If these are to be effective, it will probably be necessary at the central and local levels to adopt provisions amending the law and custom with regard to the level of services and benefits to be supplied.

4. Conclusions

In a recent hearing before the Subcommittee on Monetary Affairs of the European Parliament, I stated that the outlook for the internal and external value of the lira depended crucially on the prospects of the public finances.

Next year may prove to be a turning point in the adjustment process. The figures set out in the Economic and Financial Planning Document show that it will be possible to begin reducing the ratio of the public debt to GDP.

The favourable cyclical situation allows the drive to restore sound public finances to be combined with a gradual reduction in the high rate of unemployment. These are objectives which the Prime Minister has rightly recalled in connection with the need for greater convergence of the Italian economy with those of the other European countries.

Uncertainty exists as to the results of the budget, especially with regard to the reduction in expenditure, in part because of the innovative nature of the measures.

Any perception by the markets of doubt about achieving the objective for the primary surplus would have repercussions on the projected decline in the interest rates payable on the public debt.

When the results of the tax conciliation scheme have been evaluated in December, a further budget correction may prove to be necessary. According to preliminary estimates, this could be around half that implemented at the beginning of this year.

Achieving the objectives for the current year and 1996 is indispensable in order to gain the full confidence of the foreign exchange and financial markets, foster a further slowdown of inflation and stabilize the exchange rate of the lira.

The Bank of Italy will pursue the objective of the stability of the currency and the financial system. It will contribute with a counter-inflationary monetary policy to the convergence of the Italian economy with those of the countries with stronger currencies. It is confident that Parliament, in the exclusive service of the national interest, will adopt a long-term view and act to strengthen the adjustment of the public finances.

7

Table 1

Objectives set for the state sector finances in the last three economic and financial planning documents (EFPDs)

	1994			1995			1996			1997			1998		
	Primary surplus	SSBR	SS debt	Primary surplus	SSBR	SS debt	Primary surplus	SSBR	SS debt	Primary surplus	SSBR	SS debt	Primary surplus	SSBR	SS debt
EFPD 94-96	31,800	144,200	2,008,321	46,100	127,800	2,142,200 (1)	65,500	106,400	2,253,600 (1)						
July 93 ...	1.9	8.7	121.4	2.7	7.4	123.3	3.6	5.8	123.2						
EFPD 95-97	15,730	154,000	2,023,584	34,150	138,600	2,145,044 (2)	54,400	120,900	2,247,927 (2)	77,550	106,950	2,336,042 (2)			
July 94 ...	1.0	9.4	123.6	2.0	8.0	124.2	3.0	6.6	123.5	4.0	5.6	121.6			
EFPD 96-98	17,634	155,167	2,039,383	60,000	130,000	2,178,079 (2)	80,000	109,400	2,287,012 (2)	104,000	87,600	2,369,301 (2)	125,100	63,100	2,422,351 (2)
June 95 ...	1.1	9.5	124.3	3.4	7.4	123.8	4.3	5.8	122.1	5.2	4.4	119.3	6.0	3.0	115.4

(1) Excludes the effects of possible privatizations. – (2) Includes the effects of possible privatizations, forecast to amount to 10 trillion lire in each year.

Table 2

Financing of the state sector borrowing requirement (1)
(billions of lire)

	1987	1988	1989	1990	1991	1992	1993	1994	First 9 months 1994	First 9 months 1995 (2)
Borrowing requirement	**114,405**	**125,879**	**133,171**	**144,184**	**151,164**	**164,081**	**164,938**	**156,235**	**102,776**	**97,030**
Settlements of past debts – in securities	421	732	454	4,582	–	–	10,808	6,433	481	2,650
– in cash	132	64	1,064	249	73	31	29	9	7	19
Privatization receipts	–	–	–	–	–2,100	–	–	–5,921	–5,919	–915
(Borrowing requirement net of settlements of past debts and privatization receipts)	**113,852**	**125,083**	**131,653**	**139,353**	**153,191**	**164,050**	**154,101**	**155,714**	**108,206**	**95,276**
Financing										
Medium and long-term securities	56,090	60,972	59,191	69,799	113,915	91,120	165,124	221,636	106,506	70,428
of which: BI-UIC net purchases at issue	*7,034*	*2,343*	*3,070*	*–9,589*	*–4,238*	*–4,380*	*30,594*	*–1,765*	*–1,763*	*–940*
Treasury bills in lire and ecus	27,482	41,982	43,143	40,515	11,589	46,479	5,577	11,706	7,542	494
of which: BI-UIC net purchases at issue	*5,818*	*7,229*	*3,481*	*5,306*	*–7,790*	*–5,534*	*452*	*–17,574*	*–9,661*	*–21,107*
Post Office funds	12,917	10,996	15,364	12,717	11,746	11,415	13,913	24,082	8,317	6,627
Lending by banks	1,426	3,824	5,080	3,174	5,689	7,463	174	1,115	2,064	2,518
Current accounts with BI	9,274	4,331	1,842	2,909	2,011	7,706	–35,244	–103,554	–26,118	–5,250
Other net borrowing from BI-UIC	950	–627	–8	–97	461	–590	732	–8,165	–157	–755
Other domestic debt	199	175	161	252	248	314	220	229	157	178
Foreign debt	6,066	4,227	8,397	14,914	5,506	173	14,443	9,186	4,465	22,790
	Percentage composition									
Borrowing requirement Financing										
Medium and long-term securities	*49.0*	*48.4*	*44.4*	*48.4*	*75.4*	*55.5*	*100.1*	*141.9*	*103.6*	*72.6*
T-bills in lire and ecus (excluding BI-UIC)	*24.0*	*33.4*	*32.4*	*28.1*	*7.7*	*28.3*	*3.4*	*7.5*	*7.3*	*0.5*
Post Office funds	*11.3*	*8.7*	*11.5*	*8.8*	*7.8*	*7.0*	*8.4*	*15.4*	*8.1*	*6.8*
Lending by banks	*1.2*	*3.0*	*3.8*	*2.2*	*3.8*	*4.5*	*0.1*	*0.7*	*2.0*	*2.6*
Current accounts with BI	*8.1*	*3.4*	*1.4*	*2.0*	*1.3*	*4.7*	*–21.4*	*–66.3*	*–25.4*	*–5.4*
Other net borrowing from BI-UIC	*0.8*	*–0.5*	*0.0*	*–0.1*	*0.3*	*–0.4*	*0.4*	*–5.2*	*–0.2*	*–0.8*
Other domestic debt	*0.2*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.1*	*0.1*	*0.2*	*0.2*
Foreign debt	*5.3*	*3.4*	*6.3*	*10.3*	*3.6*	*0.1*	*8.8*	*5.9*	*4.3*	*23.5*

(1) Up to 1992, based on the old definition of the state sector; subsequently, on the definition that excludes the State Railways, Monopolies and Telephone Service as well as the Post Office. Rounding may cause discrepancies in totals. – (2) Provisional and partly estimated data.

Table 3

The state sector debt (1)
(billions of lire)

	1987	1988	1989	1990	1991	1992	1993	1994	30 September 1994	30 September 1995 (2)
Total debt held by the market	**724,668**	**843,581**	**969,185**	**1,105,971**	**1,255,080**	**1,406,151**	**1,550,486**	**1,716,479**	**1,658,233**	**1,813,035**
Medium and long-term securities (excluding BI-UIC)	437,046	494,362	550,425	635,360	751,527	826,193	971,176	1,113,787	1,071,812	1,191,000
Treasury bills in lire and ecus (excluding BI-UIC)	193,928	240,324	287,698	323,405	338,665	395,378	401,230	399,206	397,765	409,226
Post Office funds ...	83,877	94,873	110,237	122,954	134,700	146,115	160,028	184,110	168,345	190,737
Bank lending	8,067	12,097	18,739	21,913	27,602	35,565	14,933	16,047	16,997	18,565
Other domestic debt	1,750	1,925	2,086	2,339	2,586	2,900	3,120	3,329	3,314	3,507
Net liabilities to BI-UIC	**135,951**	**139,571**	**142,112**	**140,091**	**141,763**	**165,979**	**144,484**	**137,787**	**141,271**	**133,929**
Medium and long-term securities ...	53,554	57,881	62,911	53,105	56,017	82,426	95,044	186,333	107,126	198,000
Treasury bills in lire and ecus	16,955	12,545	8,221	13,194	9,482	173	572	14,306	11,554	4,786
Current account overdrafts	61,981	66,312	68,155	71,063	73,074	80,780	45,536	–58,018	19,418	–63,268
Other debt	3,461	2,834	2,826	2,729	3,190	2,600	3,332	–4,834	3,173	–5,589
Total domestic debt	**860,619**	**983,152**	**1,111,297**	**1,246,062**	**1,396,843**	**1,572,130**	**1,694,970**	**1,854,266**	**1,799,504**	**1,946,964**
Foreign debt	**23,322**	**28,586**	**34,979**	**48,799**	**54,720**	**64,653**	**73,084**	**83,084**	**75,239**	**105,687**
Total state sector debt	**883,941**	**1,011,738**	**1,146,276**	**1,294,860**	**1,451,563**	**1,636,783**	**1,768,054**	**1,937,350**	**1,874,743**	**2,052,651**

(1) Up to 1992, based on the old definition of the state sector; subsequently, on the definition that excludes the State Railways, Monopolies and Telephone Service as well as the Post Office. Rounding may cause discrepancies in totals. – (2) Provisional and partly estimated data.

Table 4

Main indicators of the public finances (1)
(billions of lire and percentages)

	Outturn			Official forecasts			
	1992	1993	1994	Source FPR (Sept. 1995)	Source EFPD (June 1995)		
				1995	1996	1997	1998
				State sector			
Borrowing requirement net of settlements of past debts and privatization receipts (1)	159,740	154,101	155,713	130,000	109,400	87,600	63,100
as a % of GDP	*10.6*	*9.9*	*9.5*	*7.4*	*5.8*	*4.4*	*3.0*
Settlements of past debts and privatization receipts	31	10,837	521	6,500	1,132	5,281	−10,000
Total borrowing requirement (1)	159,771	164,938	156,235	136,500	110,532	92,881	53,100
as a % of GDP	*10.6*	*10.6*	*9.5*	*7.8*	*5.9*	*4.7*	*2.5*
Borrowing requirement net of interest payments, settlements of past debts and privatization receipts (1)	−8,729	−28,704	−17,873	−60,000	−80,000	−104,000	−125,100
as a % of GDP	*−0.6*	*−1.9*	*−1.1*	*−3.4*	*−4.3*	*−5.2*	*−6.0*
Debt	1,591,965	1,768,054	1,937,350				
as a % of GDP	*105.8*	*114.1*	*118.1*				
EFDP debt (2)	1,709,046	1,870,358	2,039,383	2,178,079	2,287,012	2,369,301	2,422,351
as a % of GDP	*113.6*	*120.7*	*124.3*	*123.8*	*122.1*	*119.3*	*115.4*
				General government (as % of GDP)			
Expenditure	56.0	57.8	54.5	54.7	52.3	50.9	49.2
of which: interest payments	*11.4*	*12.1*	*10.7*	*11.0*	*10.2*	*9.8*	*9.1*
Revenue	46.5	48.3	45.5	47.2	46.4	46.5	46.6
Net borrowing	9.5	9.6	9.0	7.5	5.9	4.4	2.6
Borrowing net of debt interest	−1.9	−2.6	−1.7	−3.5	−4.3	−5.4	−6.4
Deficit on current account	7.4	5.7	5.5	3.6	1.8	0.5	0.9
Debt (BI definition)	108.3	117.3	121.4	122.9	122.7	121.1	117.9
Debt (EU definition)	*108.4*	*119.4*	*125.4*	*125.1*	*124.6*	*122.7*	*119.5*

Legend: FPR = Forecasting and Planning Report
EFPD = Economic and Financial Planning Document.

(1) The forecast borrowing requirements are based on the method adopted by the Treasury, which excludes the National Road Agency (ANAS) from the state sector. The forecast assumes real growth of 3% in 1995 and an inflation rate of 5.1%. The assumption for interest rates is that the gross yield on 12-month Treasury bills will be 10% at 31 December 1995 and 8.5% at 31 December 1996. – (2) The definition of the state sector debt to which the EFPD refers includes tax credits (around 59 trillion lire at the end of 1994) and the debts of the State Railways and the National Road Agency (ANAS) payable by the Treasury (around 43 trillion lire at the end of 1994).

The concentration of the banking system

Speech by the Director General, Vincenzo Desario, to the Conference on "Banks and Security Markets" organized by NEWFIN – Financial Innovation Research Centre of Bocconi University

Milan, 18 September 1995

Introduction

The close connection between banking market equilibria and securities market developments has never been more evident than it is today. The reorganization taking place in the credit sector, fostered in part by legislative innovation and international openness, is leading Italy's financial structure towards a new configuration. A reflection such as that proposed by the organizers of this Conference on the links between the growth of the securities market and the structural and operational transformation of the Italian banking industry is timely indeed.

At a time when recent developments were still difficult to foresee, the Bank of Italy argued that the growth of the securities market and the creation of a more balanced financial system could not occur without substantial changes in banks' operations, in the relationship between banks and firms, in the range of products offered by credit intermediaries and in the degree of competition in the market. These analyses, to which I shall return, were followed by consistent measures in the field of banking regulation, which Parliament confirmed in harmonizing the legal framework with the construction of the single European market in banking and financial services.

I shall therefore begin by discussing the legislative developments that culminated in the 1993 Banking Law (section 1) and then dwell on the role of competition in spurring the banks' efforts to optimize the efficiency of their operational structures and size (section 2). Next, I shall recall the debate on the supposed conflict between concentration and competition in order to show that events have largely borne out the position the Bank of Italy took following the approval of the Amato Law, which provided tax and other incentives for bank combinations, and the law on competition, which bestowed powers to prohibit those that would result in the acquisition of dominant market positions. Partly owing to the use of the new powers to protect competition, bank mergers have been accompanied by heightened competition, even if some problems remain (section 3). A further matter – privatizations – constitutes a strong link today between banking concentration and the securities market (section 4). I shall conclude by reviewing the combinations that have been carried out (section 5) and exploring the possible outcomes of the rationalization of the structure of the supply of credit (section 6).

1. The evolution of the legal framework

The legal framework of banking at the outset of the eighties retained many of the features that had been established by the 1936 Banking Law and consolidated by its interpretation in the postwar years. One aspect deserves to be emphasized here: the grave consequences of the bank crises of the thirties stemmed from the interpenetration of banking and industry and the specific forms assumed by the concentration of market power in multipurpose conglomerates.

The banking system had given rise to a structure of supply in which a handful of "universal" groups were in a position to exercise a strong influence on the market. This had distorted the functioning of the allocative mechanisms and ultimately imperiled the nation's financial structure, which was "saved" with the rescues carried out by institutions specifically created for the task, notably IRI.

The legislative solution adopted at the time centred on the rigid separation between short-term deposit-taking and longer-term fund-raising, the definition of banking as a function of public interest and the confirmation of the public-law nature of Italy's largest banks.

These measures can be interpreted as defences erected against the recurrence of an excessive concentration of market power, and as the means whereby government sought to resolve a specific failure of the banking market, namely its tendency to produce oligopolistic conditions in combination with industry.

Some of the views expressed by Donato Menichella, who had helped to draft the reform legislation that he went on to implement as Governor of the Bank of Italy, signaled the supervisory authority's concern about the outcome of unregulated competition, its fear that substantial laissez faire in banking would lead to an excessive expansion in the lending, size and power of the large banks.

In accordance with this view, Menichella emphasized the role of local banks, which he considered "closer" to customers, hence in a better position to appreciate the conditions of individual loan applicants, and less exposed to the risks of bureaucratization. This orientation was reflected in the policies that restricted the formation of new banks to cooperative banks and rural and artisans' banks and prohibited the major banks from opening branches in small towns.

The model was certainly effective in supporting Italy's postwar reconstruction and development, ensuring the stability of the banking system and protecting and fostering the formation of monetary savings, but it produced a number of structural anomalies in the credit system: segmentation of markets, fragmentation of supply, administrative regulation of competition and pervasive public ownership.

The maturity and sectoral specialization of credit, adopted as a solution to the limited efficiency and effectiveness of the securities market, brought the task of financing capital formation back into the banking system. This helped to create a financial structure centred on the banks, to the detriment of the growth of the stock exchange.

This brief reflection on the past allows us to highlight the main innovatory aspects of the reform of banking regulation that was completed with the enactment of the 1993 Banking Law and the associated implementing measures.

Growing awareness of the efficiency costs of a market in which competition was unable to exert stringent discipline on the conduct of the banks was coupled with recognition that the changes brought about by financial innovation and internationalization were making some of the regulatory arrangements tailored to a less advanced context increasingly obsolete

From the turn of the eighties onwards, Parliament and the credit authorities moved in three directions: to increase competition in the banking industry, with the reaffirmation of the entrepreneurial nature of banking and the gradual elimination of market segmentation; to end the fragmentation of supply, in part through combinations that would result in more efficient firm size; and to create incentives for the development of the securities market.

The essential passages of the reform process are familiar: reorientation of supervision from a structural approach to one based on prudential controls; attenuation of the administrative barriers to entry to the credit market; full recognition of the private-law nature of banking business and transformation of public banks into companies limited by shares; liberalization of branching; rules to protect competition; tax and other incentives for bank mergers; maturity and sectoral despecialization, with the introduction into Italian law of the universal bank and provisions governing banking groups; regulation of new types of institutional investor; subjection of non-bank intermediaries to supervisory control; expansion of the scope for non-financial companies to raise funds directly from the public; measures to reduce the sporadic nature of lending to customers and strengthen banks' relations with customers; and, finally, the start of privatizations.

The links that tie these regulatory innovations into a coherent design are evident: the availability of instruments able to limit the establishment and exploitation of dominant positions in the banking market strengthens the defences of competition; enhanced competition in the banking market is a stimulus to banks to attain a size permitting them to realize cost savings; the disposal of the public sector's interests in the banks raises the level of market trading in bank shares; the banks' redefinition of their positions in the market and their relations with firms is likely to foster the growth of the market in private securities.

Thanks to the position the banks hold, both directly and through affiliated companies, in the field of securities trading and corporate financial services, their ability to facilitate companies' stock exchange flotations and, in lending, to demand a suitable balance between equity capital and debt finance, as well as through the acquisition of shareholdings in industrial firms, the banking industry can play a pre-eminent role in the deepening of the securities market.

In short, the reform of the legal framework has aimed at creating a less fragmented and more competitive banking system, set in a financial structure in which the securities market acquires importance as a channel for the intermediation of savings. Its effect has thus been to increase competition in a broader sense, in terms of the multiplicity of suppliers of financial services.

2. Bank mergers and the quest for optimal size

Empirical analyses and international comparisons have long underscored a peculiarity of the structure of costs and revenues of Italian banks.

Italian banks' operating expenses have been consistently high in relation to gross income, particularly in comparison with banks in the other Community countries, while services have made a very modest contribution to earnings. Nonetheless, Italian banks' profits have been significantly higher than the Community average.

At the same time, the average Italian bank has been considerably smaller than its European competitors in terms of both own funds and balance sheet assets. The evidence therefore shows a banking system characterized by institutions of limited size that has achieved conspicuous profitability in spite of high operating costs, a result attributable to the wider spreads between lending and deposit rates in Italy than in other Community countries.

The difficulty of Italian banks in minimizing costs has partly reflected the unsatisfactory performance of the mechanisms of competition, which have allowed them to transfer their high costs to prices.

Although these specific features continue in part to distinguish Italy's banks, the intensification of competition, not least in connection with international openness, and the attenuation of market segmentation as a result of regulatory innovations have notably spurred the effort to achieve cost savings through concentration.

The existence of economies of scale, that is to say of average production costs that decrease as output increases, has been repeatedly tested in various countries, most notably in the United States, although the results remain largely controversial. However, clearer conclusions have been reached with reference to the Italian market, where estimates made at different times using different methodologies and specifications have repeatedly found cost savings associated with larger size.

Empirical verification of the existence of economies of scope, i.e. of lower production costs when a bank simultaneously supplies a variety of different services, has proved more difficult. The studies conducted in this field, which directly concerns the specialization and the optimal diversification of the supply of banking services, suggest the need for a pragmatic approach aimed at identifying the best arrangement for each geographic and product market rather than a single, blanket solution.

These considerations figure prominently in the position taken by the credit authorities, who have long argued that the increasing competitiveness of the financial markets would spur the banks to raise their operating efficiency by seeking to increase their size and find their own special vocations.

However, an even more significant factor has to do with the size of banks not in absolute terms but in relation to the financing needs of enterprises.

The specific structure of Italian industry, historically characterized by a large number of small, mainly family-run firms and a modest number of large public and private industrial groups, has polarized the behaviour of the banks with respect to borrowers. While the dealings of most small businesses with the banking system are confined to a single intermediary, the situation is very different for large firms, which deal with numerous banks.

Smaller firms therefore have limited bargaining power vis-à-vis the banks, and this may have an impact on interest rates, whereas the practice of multi-bank lending to large firms undermines the ability of any one bank to monitor the customer and encourages insurance-like behaviour, in which risk-splitting is the prevalent concern.

Weaknesses have come to light that are in part attributable to mismatches in size between banks and borrowers, since no one major Italian bank was able to satisfy the financing needs of its largest customers.

An increase in the size of banks, together with an improvement in their operating efficiency, makes for a better fit between credit supply and demand, a more efficient match between intermediaries and firms.

This is not to diminish the role of the smaller banks with strong local roots. On the contrary, concentration can determine a suitable differentiation in size, with the smaller institutions able to exploit the information advantage they enjoy in local markets and traditional products and large intermediaries to engage in constructive dialogue with major industrial groups, which they can also assist with more innovative product lines.

The picture can be completed by banks that choose to specialize in providing particular services while remaining of moderate size.

The path taken by the Italian banking system can produce more efficient structural arrangements, with a number of large banks operating alongside local banks and specialized institutions in a market offering a broader range of financial services, giving customers greater choice and enhancing the allocative efficiency of the system as a whole.

A further important stimulus for some large banks to attain an international scale of operations is the growing integration of markets and the growth of securitization. A large and geographically diversified portfolio and a corresponding liabilities management capability are essential for the effective limitation of interest rate, exchange rate and counterparty risk.

3. Is there a conflict between concentration and competition?

Many of the points I have made show that the growth in the average size of Italian banks, far from being an obstacle to competition, is the result that competition itself produces by guiding the market to more efficient configurations.

Yet in 1990, the almost simultaneous adoption of Law 218, which provided incentives for bank mergers, and Law 287, which empowered the Bank of Italy to assess the impact of proposed combinations on competition, led some to discern an intrinsic contradiction in the new legislation.

It was argued that the Bank of Italy, in its twofold capacity as supervisory and competition authority for the banking industry, would encounter difficulty in implementing the provisions of both laws and inevitably end up by placing the objective of structural stability and consolidation before that of safeguarding competition.

These positions were based on the view that there was a trade-off between concentration and competition, an assumption not supported by convincing theoretical or empirical evidence. In reality, the lifting of certain restraints on competition generated the drive towards concentration. It thus appeared appropriate to entrust the authority that had sought to stimulate competition with the task of preventing concentration from giving rise to dominant positions.

The results of this process to date appear to validate this interpretation. A recent empirical study calculates several indicators of concentration of Italy's credit markets from 1980 to today, breaking them down not only geographically but also by customers' economic sector and total exposure and simultaneously considering the development of price competition in these markets.

Compared with 1980, the situation has improved appreciably in the "tails" of the distribution of the concentration indices. In other words, the number and importance of markets characterized by a particularly high degree of concentration have diminished. This is partly due to the effects of the liberalization of branching and the elimination of all forms of geographical segmentation.

The analysis of interest rates also strengthens the conviction that the changes under way are making for a more competitive climate.

A comparison between the average lending rates applied in the various market segments and the yield on twelve-month government securities (which are considered to be "risk free") shows a generalized convergence. This cannot be explained by a diminution in the components of the "risk premium", since riskiness actually increased over the period. It follows that competition has exerted considerable pressure on banks' pricing policies. However, the differences according to region, sector and size class of borrower have yet to change in a substantial and lasting fashion.

4. Bank privatizations and the development of the securities market

The relationship between concentration and competition in the banking market cannot be assessed only with reference to product markets.The gradual withdrawal of the state and public bodies from ownership of the banks, which is part of the more general process of privatization under way in Italy, constitutes a further element of dynamism. The more competitive institutions will find it increasingly easy to raise equity capital in the market, without burdening the public budget; transfers of ownership and control will be more transparent.

The discipline that competition imposes on the management of banks can always be expressed through changes of ownership – for example, through takeovers, whether friendly or hostile.

Following the first important steps taken for the disposal of IRI's and the Treasury's controlling interests in major institutions, the debate now centres on the foundations created in the transformation of public-law banks under Law 218/1990.

The law in question envisaged that the foundations would concentrate on the public welfare purposes that in the original public-law banks had ended up having secondary importance. In the spirit of the reform, the pursuit of specific philanthropic goals entailed a progressive weakening of the foundations' link with the newly incorporated banks as a result of the former ceasing to be dependent on a sole source of income. The diversification of their portfolios in conjunction with the disposal of shares in the banks whose capital they had originally contributed was aimed at improving their financial equilibrium and broadening their revenue base.

On the side of the banks, the law was intended to facilitate the raising of equity capital by permitting the entry of private investors and to limit the pressure that the foundations tended to exert on the distribution of profits with a view to financing their own programmes.

It is to this approach that the Bank of Italy refers in according pre-eminent importance to the diversification of ownership of the banks held by the foundations, not least through an inflow of savings that will strengthen their capital bases so as to ensure their sound and prudent management and, more generally, pluralism and competition in the banking system.

At this time a small number of the former savings banks – eight in all – are wholly owned by the foundations that originally contributed their capital. Thirty have placed a portion of their ordinary shares with the public.

The close connection between privatization, the concentration of the banking system and the development of the securities market clearly emerges if we consider the magnitude of the figures involved: at the end of 1993 the share of owners' equity in banks held by the central government, regional governments, foundations and other public bodies was estimated at 83 trillion lire. The amount of capital that could be placed on the market in the near future exceeds 35 trillion; this gives an idea of the scale of the challenge facing the banks, their shareholders and the credit authorities. It is clear, however, that if privatizations are to contribute to the effective broadening of the capital market, their manner and timing will have to be carefully planned in relation to the latter's performance.

The stock exchange listing of a growing number of banks and the consequent process of market scrutiny, which may include public offers to buy, are also a positive factor from the supervisory point of view. The increase in the flow of accounting data disclosed to the public enhances the discipline that can be exercised by shareholders and others who have committed funds to a bank, be they subscribers of subordinated loans, bondholders or depositors.

The result is more harmonious interaction between the instruments of supervision, which are centred mainly on capital adequacy, and banks' ability to raise equity capital in the market.

The rules on public offers are an important component of these complex institutional arrangements designed to enable the market to evaluate the conduct of banks' management. The record since the passage of Law 149/1992 on public offers reflects some weaknesses in its provisions; Consob has called for its revision and a number of draft amendments are now before Parliament.

5. Bank combinations in Italy

5.1 The increase in the opportunities for concentration

The changes in the regulatory framework and competitive environment in the past few years have been at the basis of the considerable acceleration in bank combinations and the rapid diversification of the techniques used to create permanent strategic and business links.

Combinations have become increasingly important in terms of their number, scale, variety and objectives.

Alongside traditional mergers, the sale of bank branches or lines of business and the acquisition of controlling interests, there has been growing recourse to the conclusion of operational agreements and voting trusts, the formation of holding companies and coordinating bodies, and the raising of financial resources that qualify as capital (hybrid capital instruments and subordinated loans).

The possibility of opting for the universal bank organizational model has enhanced the scope for integration, allowing amalgamations that until a few years ago were unachievable between banks accepting short-term funds and the former special credit institutions. Since the beginning of last year six limited-company banks accepting medium or long-term funds have been merged into their parent banks: this is the preferred solution in a growing number of cases, especially on the part of large banks with complex organizations.

Of the 36 remaining former special credit institutions – there were 90 before the "Amato" restructurings – 18 are members of groups headed by a bank accepting short-term funds; most of the others are potentially willing to join a banking group that can support their strategies and operations.

Banking-related activities that had originally been assigned to specialized entities are now being brought into the parent company as part of a drive to achieve economies of scale and bolster management control, particularly in sectors of operational weakness. In 1994, 18 financial companies and 10 companies engaged in auxiliary activities, as well as 10 banks, were merged into their parent banks.

The changes in the regulatory framework have also increased the opportunities for "heterogeneous" mergers, i.e. between firms belonging to different legal categories.

5.2 *The restructuring of the banking system in the last ten years*

In the ten years between 1984 and 1994 the banks that were acquired in mergers accounted for around 20 per cent of the total assets of the Italian banking system. Excluding 19 absorptions of special credit sections and 99 mergers between mutual banks (*banche di credito cooperativo*), a total of 158 combinations were carried out in the period.

The ten years also saw 36 agreements involving the acquisition of a minority interest by one bank in another. Although the terms of these agreements relate specifically to operational matters, they could in time give rise to genuine mergers.

The overall number of initiatives is significant in relation to the total number of banks. It should be remarked that two thirds of the combinations involved banks that acted as acquirer in more than one operation. In particular, 3 banks promoted 9, 6 and 5 combinations, respectively; 7 banks participated in 4 operations and another 7 in 3; and 21 banks took part in 2 initiatives.

There was thus a small group of banks that invested technical and organizational resources in multiple operations of concentration, demonstrating a preference for this policy as a means of achieving competitiveness gains and improving their branch networks.

In an initial phase, up to 1986, combinations were not very common; the average number per year was 7 (the figure rises to 9 if mutual banks are included). In the three years between 1987 and 1989 the average number increased to 14 (20 including mutual banks). The third phase, from 1990 onwards, saw a further acceleration in both operational agreements and mergers in the wake of the approval of Law 218/1990, with an average of 26 operations a year (41 including those involving mutual banks). In 1994 alone 38 operations were carried out (54 including mutual banks), exceeding the peak that had been reached in 1992, when the effects of the Amato Law were greatest.

Around three quarters of the combinations of the past ten years involved banks located in the same part of Italy. The most active intermediaries were those based in the North, which led in both intra-regional operations (81 cases) and interregional operations (20 with banks in the South and 19 with ones in the Centre).

The acquisition of shareholdings in Southern banks, which in several cases was aimed at resolving problem situations, almost invariably led to the transfer of control. The result was a significant change in the structure of the banking system in the South: 27 banks were involved, including two of the most important regional banks; the merged banks accounted for around 22 per cent of the total assets of banks in the South (the share falls to 11.3 per cent if the two above-mentioned banks are excluded).

By contrast, the interregional operations entered into by banks based in the North and the Centre generally involved cooperation agreements with institutions of prime standing and potentially able to enhance the competitiveness of the investee bank, which in most cases has a solid position in its traditional market.

This is a good starting-point for efforts to broaden the bank's customer base. The strategy of expanding into new geographical markets is typical of the larger banks and, although only recently, has also been adopted by some particularly dynamic medium-sized banks.

In other cases the initiatives appear to have been aimed primarily at expanding into areas adjacent to the bank's original market, either for defensive reasons or in order to establish a foothold in markets similar to the bank's traditional market.

An examination of the branch networks of the banks involved in rationalization does not reveal significant instances of overlap. A good many operations have led to contiguous networks that can be harmonized as part of the policy of expanding the geographical base and opening new branches. In particular, more than half of the combinations during the ten years in question did not result in overlapping branches at the municipal level.

Bearing in mind the legal constraints that until recently were a distinguishing feature of the system, combinations were usually between banks belonging to the same category. Cooperative banks were particularly active: almost half of the combinations between 1984 and 1994 involved at least one cooperative bank. The technique used was often that of widening the ownership base through an exchange of shares.

Initially combinations did not lead to significant changes in the size of the banks involved. However, the scale of these operations is becoming markedly larger and this has increased the complexity of the strategic and organizational problems posed by concentration.

There was a clear increase in the number of operations involving equal partners in 1994, when there were 15. At least four "regional" combinations were particularly important in that they involved banks of considerable size, albeit on a local scale, having strong market positions and healthy balance sheets. The parties are medium-sized banks, with strong ties to their traditional areas of operations, that are endeavouring to overcome their original technical and organizational shortcomings by combining their main production processes.

Combinations between banks of similar size reinforce their position in traditional markets and enhance their ability to stand up to competition.

This strategy is initially a defensive measure against potential encroachment. However, as soon as a combination shows signs of functioning well, it can act as a catalyst for further combinations with smaller banks operating in adjoining areas and take on a more aggressive stance vis-à-vis its closest competitors.

When the initial concentration is sustained by sufficient harmony of intent between the parties and by a clear strategic design, regional banking enters a new, more dynamic phase; the resistance that for decades blocked initiatives aimed at achieving more suitable size is weakened and even banks that were traditionally reluctant to enter into combinations are now seeking out such opportunities.

Nevertheless, combinations do not always produce positive results. There is no lack of cases in which the cultures and intentions of the banks involved have failed to meld, conflicts have not subsided, rivalries have re-emerged and disagreements have arisen, often over the location of the new head office and general management, and the distribution of positions, responsibilities and authority.

5.3 Problems posed by banking concentration

Combinations are often prompted by the need to safeguard the capital of a bank threatened by severe deficiencies. Such operations occur when there is a reasonable presumption that the underlying strengths of the bank in question can be preserved through the timely implementation of far-reaching reorganizational measures. Radical intervention often calls for the support and skills of a banking partner with the technical and professional resources required to restore sound and prudent management and establish a more balanced financial situation at the bank in difficulty.

The close contacts between the Bank of Italy and the banks provide a vast store of information that can also be used to assess combinations that are not motivated by crisis situations. The analysis of such initiatives focuses on ascertaining the existence of the necessary combination of capital and organizational ability, the presence of a strong and motivated management, the effective will to establish the proposed technical and operational links, and the potential effects on competition in the banking markets concerned.

Proposed combinations are also examined for their impact on supervisory ratios and the opportunity cost involved. Where a controlling interest is to be acquired, an evaluation is made of the outlay in relation to the acquiring bank's uncommitted capital and of the effects of the investment needed to ensure the success of the operation on the bank's assets and liabilities and profitability.

Assessment of the many forms of bank combination sometimes reveals possible weaknesses.

A common feature of major bank mergers is the difficulty of integrating the factors of production. In the case of combinations between equal partners, internal control mechanisms may malfunction if leadership is not clearly defined, especially in the period immediately following the operation; this may generate not inconsiderable risks for the new bank.

Combinations generally pose major problems in the management of human resources. The absence of appropriate social shock absorbers requires that staff redundancies be handled with extreme care. The merging of several key functions – information systems, risk control, treasury management, planning – depends upon harmonization of the technical and professional resources of the original entities. The diseconomies associated with coordination costs can only be overcome with a determined effort to reap the benefits of effective integration.

For the banks most actively engaged in concentration it is necessary that the key positions at the new structures be filled by staff of proven reliability and experience in order to facilitate the integration of corporate cultures and ensure strategic and operational control over the acquired banks.

5.4 *Valuations of blocks of shares in mergers and acquisitions*

A review of the valuations made in some 120 bank amalgamations between 1991 and 1995 reveals an increasing correlation between the price paid and the technical situation of the target bank. This result, which would seem unremarkable in any other productive sector, confirms that in the last few years market variables have acquired central importance in the Italian banking system compared with exogenous factors of a legal or cultural nature.

In the seventies and eighties intrinsic value was attributed to the possession of a banking license. Valuations were made using a complex capital-base methodology that involved adding an amount equal to 12-13 per cent of deposits to adjusted net worth, without considering profitability factors.

By contrast, amalgamations in the last five years show:

- greater use of profitability factors in valuations;
- greater variability in the percentage attributed to direct fund-raising, with a tendency of this to be lower than in the past;
- wide variations in the relative importance assigned to goodwill.

Statistical testing of the power of certain variables to explain the price paid to acquire a bank reveals:

- the high significance of indirect fund-raising. As earnings from traditional operations decline, this constitutes an increasingly attractive source of income. Accordingly, banks with innovative operations are usually valued more highly;
- the increased importance of risk and income indicators. The variables "non-performing loans" and "operating results" proved significant, confirming the importance attributed to factors closely linked to the profitability of the investment;
- the reduced significance of the number of branches. The liberalization of branching has diminished the importance of this variable, which was previously assigned high value even in acquisitions of problem banks.

The greater correlation between acquisition prices and the technical and organizational variables of the target bank increases the divergence between valuations of banks with deficiencies and those in a healthy financial position.

In short, the price paid for a bank is increasingly a function of its profitability and the strength or weakness of the overall balance sheet, financial and organizational situation. This tendency will strengthen in the future as competition heightens. It is therefore urgent for each bank to take steps to define its strategies, carefully assessing its strengths and weaknesses in relation to the expected development of its traditional market.

6. Conclusions

A wide range of options and operators is to be found within the banking system. However, not all bankers are equally aware of the urgency of defining clear strategies for the future of their firms and specific decisions of business planning and development.

The specific configuration of the Italian banking system, which still counts many small and medium-sized banks that will be weak players in a more competitive environment, assigns a key role to combinations in raising profitability, capital strength and organizational efficiency. It has been pointed out on past occasions that there is no predetermined map of possible combinations. It is the market that freely expresses its preferences, guides decisions and stimulates responses. The banks that rise most rapidly and effectively to this challenge will prevail.

Mergers must nevertheless be carefully conceived and diligently implemented; courage is required to tackle the often complex rationalization of corporate structures. The exploitation of existing complementarities does not rule out the need for usually painful steps to eliminate the inevitable areas of overlap and redundancy.

Without calling into question the autonomous decisions of banking entrepreneurs, the sum of the diverse individual choices must produce a banking structure that ensures sound and prudent management, overall stability, efficiency and competition.

Banking concentration is the product of a more competitive market and the path to a more competitive and efficient structural configuration of the supply of banking services. Those who assert that concentration and competition are a contradiction in terms fail to understand the complexity of the play of competition in the new regulatory and market environment.

The overall success of the far-reaching reallocation of ownership under way in the Italian banking system can only be assessed in the future. Today it is crucial for the Bank of Italy to ensure that mergers and agreements between banks do not distort competition, keeping close watch on those that have already taken place.

The reorganization of the banking system and the quest for dimensions more appropriate to the new market environment can lead to a qualitative leap in Italy's financial structure by fostering the growth of the securities market and a more fruitful relationship between credit intermediaries and instruments permitting direct access to capital resources.

Cooperation between banking and market regulators

Speech by the Deputy Director General, Tommaso Padoa-Schioppa, to the XX Annual Conference of the International Organization of Securities Commissions (IOSCO)

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I am glad to be here today to share with you some thoughts from my perspective as Chairman of the Basle Committee on Banking Supervision. I am particularly happy, not only because it is always good to be in Paris, but to be present at my good friend Jean Saint-Geours' final meeting in this company. Jean has served as Chairman of the COB with distinction, and my own contacts with him when he was Chairman of your Technical Committee were always fruitful and cordial. Since he is a man of many interests and I understand he intends to retain his other chair, that of the French cinema institute, the Cinémathèque, I expect he will be more than fully employed after he has taken off his COB hat.

In the relatively short time I am allotted today I would like to do **two things.** One is to offer some observations on how I see the changing attitude to financial regulation. Second, I would like to emphasize the areas in which I see a potential for closer cooperation between securities and bank regulators. As many of you know from the direct contacts I have had over the last two years, I consider that developing supervisory cooperation across different segments of the financial industry has become as urgent as cooperation across geographical frontiers. This topic has been given prominence in the last few weeks as a result of the official communiqué issued at the close of the Halifax summit.

I. Global supervision for global markets

It has become a truism to note that we live today in a world of global markets. Some have drawn the conclusion that we need a global supervisor but I am sure you will agree that now and for the foreseeable future this is unrealistic. Where I am sure you will also agree is that global markets have made **cooperation among regulators** imperative: supervisors of different countries as well as different types of institution must work together if they want to be effective. If I may quote from the Halifax communiqué, we need "a deepening of cooperation among regulators and supervisory agencies to ensure an effective and integrated approach, on a global basis, to developing and enhancing the safeguards, standards, transparency and systems necessary to monitor and contain risks". This means that not only do we need to maintain cordial relations, evidenced by your inviting me today, but we also need to work together to develop common minimum standards.

The Basle Committee has been the driving force behind what are now considered two basic precepts of banking supervision in the major industrialised countries: the concept of **consolidated supervision** and the clear **division of responsibilities** between home country and host country supervisors for cross-border banking groups. These principles were first developed in the Basle Concordat of 1975 and further refined in the Minimum Standards of 1992. In a world of telecommunications, financial innovation and capital mobility, these principles would be of little help if they were not embraced rapidly by supervisors throughout the world, inside and outside the G-10 countries: important steps are being taken in this direction. With respect to consolidated supervision, I observe that certain securities supervisors still follow a different approach that concentrates supervision on the regulated broker/dealer, while certain affiliates are not subject to supervision.

Despite the achievements of our respective groups, the task that lies ahead is to achieve greater collaboration among bank and securities regulators at the international level. The challenge I see is to extend the level playing field more widely. A level playing field implies a clear principle that I would formulate as follows: **the same supervisory treatment for the same activities**. In particular, the prudential treatment of a risk should be the same whether it is incurred by a bank, a securities firm or an insurance company and regardless of the location of the financial institution.

In what follows, I will first review some of the **recent work** of the Basle Committee and IOSCO that can serve as a foundation for future cooperation. I will then present my thoughts on how we might **carry this cooperation forward**.

II. Market-friendly supervision

On the banking side, the recent initiatives of supervisors can be characterized as a movement towards more "**market-friendly supervision**". This means that banking supervision increasingly aims at fostering stability by enhancing the disciplinary effects of markets rather than by limiting competition. The idea that segmenting markets and imposing restrictions was a good way to prevent instability and the risk of contagion underpinned many of the regulatory apparatuses created following the banking crises of the thirties: various limitations, prohibitions and forms of rationing were imposed on licensing, branching, lending, the collection of deposits and so on. Partly because financial and technological innovations rendered these segmentations and restrictions increasingly ineffective, and partly because ideas have evolved, this approach has gradually given way to the view that defences have to be developed within rather than outside the market. In fact, in a world of advanced technology, widespread information and free capital flows, well-informed investors, depositors and creditors can instill discipline. Increasingly, the supervisory framework has been designed to exploit the virtuous relationship with market mechanisms, to foster competition and to lower barriers to entry. The authorities have come to rely more, although not exclusively, on measures that stimulate sound management practices.

It is part of the market-friendly approach to supervision to perfect the two lines of defence that should preserve financial stability before prudential instruments come into play. These two lines of defence lie in the firm and in the market. Improving **management control** and **market discipline** are important objectives that supervisors themselves are now pursuing.

Today, when **new risks** and innovative transactions or techniques appear in the market, banking supervisors tend to approach them with a positive attitude, seeking to improve knowledge about their risk implications and to introduce suitable defences. This move towards market-friendly solutions emerges most clearly in the proposal of the Basle Committee to base banks' capital requirements in respect of market risks on the estimates of their own internal models, subject to a series of quantitative and qualitative parameters. As I will explain in a moment, this is the critical area for our future collaboration.

III. Joint initiatives of the Basle Committee and IOSCO

The principle of "going with the grain" of the market has also guided the recent joint initiatives of IOSCO and the Basle Committee. The first concerns **derivatives**. You will recall that in July 1994 we simultaneously issued very similar risk management guidelines for derivatives under a common press release. These guidelines were intended as an official adaptation and reinforcement of the approach suggested earlier by the industry itself in the G-30 report. That initiative was followed early this year by a report prepared jointly by the Technical Committee and the Basle Committee with the aim of improving and harmonizing supervisory reporting of derivatives activities. As you know, the information framework presented consists of a so-called "catalogue" that supervisors are invited to draw from as they expand their reporting system, together with a common minimum framework of data elements that is a subset of the catalogue. Following the market-friendly approach I just mentioned, the report adopted the basic principle of drawing as much as possible on information that banks and securities firms already produce for internal risk management purposes.

The other main area of work we have been engaged in together is the supervision of **financial conglomerates**. The start of this work dates back several years, to when the Basle Committee and the Technical Committee independently published separate papers on this topic. Then, early in 1993, at the initiative of the Basle Committee, an informal Tripartite Group of banking, securities and insurance regulators was asked to examine the matter. After a considerable amount of work and several meetings, they produced an important report, which was circulated to the two parent committees and to their insurance counterpart in April. This is a very thorough analysis that I believe reflects very favourably on the members of the group. It identifies the problems that financial conglomerates pose for supervisors and suggests ways in which they ought to be overcome.

The Basle Committee hopes that the Technical Committee will agree to publish this report in its present form as a most useful contribution to the debate on this highly complex matter. The work should then be taken forward in a more structured manner, through the establishment of a formal Tripartite Group of representatives of the banking, securities and insurance committees, with a mandate to develop practical working arrangements for the supervision of conglomerates. So far as the objectives are concerned, we are hoping for two principal outcomes. The first should be to develop proposals for improving cooperation among banking, securities and insurance supervisors so that **exchanges of information** can be developed freely between the supervisors of different affiliates within a conglomerate: this could be achieved by defining the specific role of a convenor or lead supervisor for a group, bearing in mind that each supervisor must retain the ability to supervise the unit for which he is legally responsible. The second principal objective would be to develop a **code of principles** for the effective supervision of conglomerates, dealing with such matters as measurements of group capital, intra-group exposures, contagion, powers to prohibit structures designed to impede supervision and suitability criteria for managers and shareholders. A tall order, I admit, but an agenda that has to be addressed if we are to progress from analyses to practical working arrangements.

Before turning to market risk, which I consider the major challenge for our joint efforts to level the playing field not only geographically but also functionally, let me mention **two other areas** where our collaboration is developing or could develop in the future: disclosure and consolidated supervision.

I do not agree with the view, popularised by some today, that improved **disclosure** could replace supervision; I do not think, in other words, that properly functioning financial markets can by themselves bring sufficient discipline and stability to make regulation and supervision unnecessary. The danger of sudden crises, collapses in the public's confidence, bubbles, overshootings is inherent in financial markets and will always require a supervisor.

Nevertheless, improved disclosure is a most important support to supervision, an objective that supervisors can and must promote as part of a market-friendly approach. I believe that there is scope for further collaboration on the **disclosure of the trading activities** of banks and securities firms. Currently, the common minimum reporting framework released by IOSCO and the Basle Committee focuses primarily on the credit risk and overall market activity of an institution's trading and derivatives business. But, it would make sense to extend this minimum framework in two directions: first, from reporting to disclosure and, second, to the market risks arising from these activities. It is encouraging that our groups are beginning to work in this area.

It is clear that financial institutions still need to make significant progress in conveying convincingly to the public how their rapidly growing trading and derivatives business affects the overall risk profile of the firm. I believe that the reporting framework we have developed together can serve as a basis for improved and more comparable practices concerning disclosure of trading and derivatives activities. One goal should be to promote greater comparability of disclosure between institutions that engage in similar activities. I believe that, working together, banking and securities supervisors can play an important role in moving towards this key objective.

Consolidated supervision is the other area in which a convergence of approaches between banking and securities supervisors is desirable. I mention this area without dwelling on it. But for many years it has been clear to banking supervisors that supervision would be seriously undermined if an unregulated subsidiary could do what a bank is not allowed to do. It is hard to imagine how this simple, general truth could fail to hold for other financial intermediaries as well.

IV. Working together on market risk

Let me now turn to the most challenging area in which bank and securities supervisors need to develop a common approach - a **capital requirement for trading risks.** This is a delicate area in which we have worked together in various ways over the years. Given the growing need to reduce the potential risk of financial disturbances, the question of sound capital standards for market players is undeniably a major issue. Our joint work on financial conglomerates shows that financial firms, whatever their title, are becoming increasingly less easy to classify as banks or securities companies. Glass Steagall-type barriers do not exist in Europe and are crumbling in the United States. There is no doubt in my mind that we need similar capital requirements for the same risks, whatever the institution's label.

When the Basle Committee looked at this issue together with the Technical Committee of IOSCO a few years ago, considerable progress was made on the **definition of capital and risk measurement frameworks.** In the end, however, the project of adopting a common capital requirement foundered on the inability to deal satisfactorily with equity risks, perhaps understandably because of the different volatilities shown by national markets. As you know, the Basle Committee went ahead with the framework which had been negotiated with the Technical Committee and put proposals out for consultation. That was in April 1993. Around the same time, a very similar framework was adopted in Europe through the Capital Adequacy Directive (CAD) governing the capital requirements for banks and securities houses.

In April of this year, the Basle Committee issued a revised set of proposals. As you know, the new package has one significant novelty, which goes back once again to the market-friendly approach to supervision. Subject to strict qualitative and quantitative standards, banks will be allowed to use their **in-house value-at-risk models** to calculate their market risk. Already, in our earlier proposal, we had acknowledged the need for the use of models to measure options risks and envisaged the use of historic simulation techniques to measure foreign exchange risks. Following comments from the major banks on the proposals put forward in 1993, the Basle Committee conducted an intensive investigation of value-at-risk models. It concluded that very significant technological progress had been made since Basle and IOSCO started their work several years ago, that models are the basis of today's best risk management practices. It came to the decision that supervisors should work with the market to develop sound criteria for using them to establish capital requirements.

I will not go here into a description of the technical aspects of our new proposals. Let me just recall that the **qualitative standards** we have proposed refer to such matters as the internal organization of the bank, the involvement of senior management, stress testing, etc. Such standards may be familiar to you because they closely follow the risk management guidelines developed with the Technical Committee in 1994. The **quantitative standards** have been defined in such a way as to balance more precise measurement with adequate safeguards.

We envisage that the great majority of banks in our countries will use the **standardized method.** This is essentially the method developed years ago with the Technical Committee with further enhancements in relation to commodities and options. However, these institutions will by and large be the smaller players. Global players will undoubtedly choose the **model option**. Probably, the number of banks relying on an internal model will increase over time, partly as a result of the approach we have adopted.

A particular aspect of the internal model approach that received considerable attention from the Committee and may attract yours is the **dispersion of the results.** In fact, while the model approach contains a series of quantitative parameters to reduce the level dispersion of value-at-risk estimates, the consequence of accepting proprietary models is a degree of dispersion of capital requirements, even for an identical portfolio.

Too much dispersion is, of course, not desirable. But in the present state of uncertainty as to the "right" way to measure market risk, "some" dispersion is a quality, not a fault. Indeed, only if supervisors held the ultimate truth about the measurement of market risk would the imposition of the same formula on everyone have a stabilizing effect. Otherwise, any measurement bias or distortion, once applied uniformly to all players, would be detrimental, not beneficial. Different views of risks are what enable markets to perform efficiently. If, for example, all banks used an identical model producing very similar measures of risk, one would be justified in fearing that the system would not be robust enough to withstand some unforeseen combination of circumstances.

The consultation with the industry will end this summer. In the second part of the year the Committee will review the comments received and work towards the final adoption of a Supplement to the 1988 Capital Accord. The **new capital charge** would come into force by the end of 1997.

What are the prospects for achieving the objective of **uniform regulation** geographically and functionally in this crucial area of market risk? In the past few weeks we have learned that the EU Capital Adequacy Directive can be made consistent, at least on a transitional basis, with the Basle proposals. This is extremely gratifying because it opens the door to the prospect that European banks and securities houses will continue to be subject, as under the CAD, to the same rules. In turn, this means that in the foreseeable future comparable minimun capital requirements for market risks could be applied to all major international players, with only two, undoubtedly very important, exceptions: the Japanese and US investment houses.

I do not want to speculate about the further steps which could be taken to complete the puzzle. This is more a matter for quiet technical work than for public speeches. And I am well aware that in proposing the use of models we are introducing a new philosophy into supervisory practice that will take time to assimilate. So I will confine myself to **two remarks**.

Firstly, once the new capital requirement is in place, market analysts, rating agencies and other market participants will want to know where this or that large non-bank player stands with respect to "Basle-type" standards, whether or not the player is subject to formal compliance requirements. Market pressures for uniform regulation may develop.

Secondly, I am encouraged by the "Voluntary Oversight" paper prepared by the six US securities firms comprising the Derivatives Products Group (DPG). There are important similarities between their approach and ours. For example, they also propose the measurement of market risk using value-at-risk models subject to a ten-day holding period and a 99% confidence interval, as the Basle paper does. I realise, of course, that the Group deliberately does not indicate the, for us, vital link between the value-at-risk and the capital requirement.

Against this background, I believe it is essential that we work to ensure that the remaining inconsistencies in how market risks are treated for capital purposes across banks and securities firms are ironed out. The points of similarity between the DPG effort and the Basle market risk initiative are an encouraging basis for convergence and I hope that we can use the coming year to build on this important first step.

V. Conclusions

Let me summarize and conclude. Banking and securities regulators have made considerable progress in certain aspects of our work in the last year, but much remains to be done. In my remarks, I have identified four areas of particular importance: conglomerates, disclosure, consolidated supervision and capital requirements.

Firstly, in the area of **financial conglomerates**, further cooperation through the Tripartite Group can serve as an important vehicle to promote improvements in the exchange of information between banking, securities and insurance regulators. Recent developments clearly suggest that more work needs to be done in this area.

Secondly, banking and securities supervisors can jointly contribute to greater financial market stability by promoting standards for improved **disclosure** about trading activities. The joint IOSCO/Basle Committee reporting paper released last May has made an important contribution to ensuring that supervisors have meaningful information about the trading and derivatives activities of banks and securities firms. Looking ahead, the measurement concept developed in the reporting paper can serve as the basis for improved disclosure practices by both banks and securities firms.

Thirdly, in the area of **consolidated supervision**, which has long been a basic principle of banking supervision, I hope there will be increasing convergence of practices among banking and securities supervisors.

Finally, and most importantly, we need to work to develop consistent **market risk capital requirements** across banks and securities firms. The internal model approach developed by the Basle Committee is sufficiently flexible to be applied to the activities of both banks and securities houses and there are signs that the thinking of bank and securities supervisors is consistent in this area.

These four points are suggestions for what could become an **agenda** for our future cooperation. The Basle Committee will be happy to hear your suggestions in this respect and is grateful to you for giving me the opportunity to be here today.

Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

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	Italy	UK	Canada
			Real GNP (% changes on previous period; seasonally adjusted data)				
1989	2.5	4.8	....	4.3	2.9	2.2	2.4
1990	1.2	4.8	....	2.5	2.1	0.4	–0.2
1991	–0.6	4.3	....	0.8	1.2	–2.0	–1.8
1992	2.3	1.3	2.2	1.3	0.7	–0.5	0.8
1993	3.1	–0.2	–1.1	–1.5	–1.2	2.3	2.2
1994	4.1	0.4	2.9	2.9	2.2	3.8	4.6
1994 – 1st qtr.	0.8	0.7	1.3	0.9	0.3	1.0	1.3
2nd "	1.0	0.3	0.7	1.4	0.8	1.3	1.4
3rd "	1.0	0.7	0.6	0.9	1.5	0.9	1.4
4th "	1.2	–1.0	0.6	0.9	0.4	0.7	1.1
1995 – 1st qtr.	0.7	–0.1	0.8	0.7	1.3	0.5	0.2
2nd "	0.3	0.8	0.2	0.4	–0.4	0.6	–0.3
			GNP deflator (% changes on previous period; seasonally adjusted data)				
1989	4.5	1.8	....	3.0	6.2	7.1	4.8
1990	4.4	2.2	....	3.1	7.7	6.4	3.1
1991	3.8	2.0	....	3.3	7.7	6.5	2.9
1992	2.8	1.5	5.5	2.1	4.5	4.4	1.2
1993	2.2	0.9	3.7	2.5	4.3	3.3	1.1
1994	2.0	0.2	2.3	1.3	3.6	2.1	0.6
1994 – 1st qtr.	0.6	0.2	0.6	0.5	0.8	0.6	–0.3
2nd "	0.8	..	0.3	0.2	0.9	0.1	0.2
3rd "	0.4	–0.7	0.6	0.3	0.9	0.3	0.4
4th "	0.4	–0.1	0.7	0.5	1.1	0.7	0.2
1995 – 1st qtr.	0.4	..	0.3	0.6	1.6	0.3	0.6
2nd "	(0.4)	....	0.8	....	1.6	(0.5)	0.7
			Current account balance (billions of dollars; seasonally adjusted data)				
1989	–103.8	57.2	57.2	–4.7	–11.9	–36.7	–22.7
1990	–92.7	35.8	48.3	–10.0	–16.8	–33.5	–21.6
1991	–7.4	72.9	–18.7	–6.7	–24.1	–15.3	–23.6
1992	–61.6	117.6	–21.7	3.9	–27.9	–17.2	–21.6
1993	–99.9	131.5	–15.6	9.1	11.1	–16.6	–22.4
1994	–151.3	129.1	–21.7	8.1	15.6	–2.4	–16.4
1994 – 1st qtr.	–30.3	33.4	–2.6	3.3	4.5	–1.5	–5.1
2nd "	–38.0	33.8	–1.6	1.0	3.2	–0.9	–5.1
3rd "	–39.7	31.7	–8.0	2.1	4.5	0.7	–3.3
4th "	–43.3	30.1	–10.4	1.3	3.8	–0.8	–2.9
1995 – 1st qtr.	–39.0	28.8	–3.5	8.8	5.0	–2.1	–3.4
2nd "	–43.6	30.9	–3.9	5.8	7.3	–3.8	–4.0

Table a2

Industrial production

(percentage changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	Italy	UK	Canada
1989	1.5	5.8	4.8	3.7	3.1	2.1	–0.1
1990	..	4.1	5.2	1.5	0.1	–0.3	–3.3
1991	–1.7	1.8	2.2	0.3	–0.9	–3.7	–4.1
1992	3.3	–6.1	–2.0	–0.1	–0.2	–0.1	0.9
1993	4.1	–4.5	–7.6	–2.7	–2.4	1.9	4.6
1994	5.3	0.8	2.9	3.9	5.2	5.0	6.5
1993 – 3rd qtr.	0.8	–1.0	0.7	0.2	–1.1	1.3	0.8
4th "	1.3	–2.4	–0.4	–0.1	1.0	1.2	1.1
1994 – 1st qtr.	1.7	1.4	0.7	1.2	1.2	0.9	1.0
2nd "	1.5	1.1	2.0	2.5	3.4	2.3	2.9
3rd "	1.2	1.5	1.3	1.9	3.7	1.3	2.6
4th "	1.5	2.0	1.2	–0.2	–0.1	–0.1	1.8
1995 – 1st qtr.	1.3	1.3	–2.1	1.2	–0.1	0.7	0.8
2nd "	–0.6	..	1.1	0.7	1.0	0.2	–0.6
3rd "	0.8	....	....	....	....	....	....
1994 – Sept.	–0.1	–1.2	0.3	–0.3	–4.3	0.5	0.4
Oct.	0.4	0.4	1.1	–0.8	–0.1	–0.5	0.1
Nov.	0.7	2.2	0.4	0.8	..	–0.7	1.4
Dec.	1.2	0.1	0.4	0.9	4.6	0.6	0.7
1995 – Jan.	0.2	–1.3	–3.0	0.4	–3.6	–0.1	0.3
Feb.	0.1	2.0	1.2	–1.4	0.3	0.4	–0.3
Mar.	–0.1	1.4	–0.6	2.3	1.2	1.1	–0.8
Apr.	–0.7	–0.9	0.9	–1.9	0.7	–0.7	0.2
May	0.2	–0.5	0.8	2.7	–0.8	0.2	0.3
June	..	–0.7	–0.7	–0.4	–0.1	–0.4	–1.0
July	0.1	–2.7	2.2	0.2	1.0	0.6	0.8
Aug.	1.2	2.5	(–4.8)	..	....	..	....
Sept.	–0.2	....	....	....	....	....	....

Table a3

Consumer prices

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1989	4.8	2.3	2.8	3.5	6.3	7.8	5.0
1990	5.4	3.1	2.7	3.5	6.5	9.5	4.8
1991	4.2	3.3	3.6	3.2	6.3	5.9	5.6
1992	3.0	1.7	4.0	2.4	5.2	3.7	1.5
1993	3.0	1.3	3.6	2.1	4.5	1.6	1.8
1994	2.6	0.7	2.6	1.7	4.0	2.5	0.2
1993 – 3rd qtr.	2.7	1.8	3.7	2.2	4.6	1.6	1.7
4th "	2.7	1.1	3.3	2.1	4.4	1.6	1.8
1994 – 1st qtr.	2.5	1.2	2.9	1.7	4.3	2.4	0.6
2nd "	2.4	0.8	2.6	1.7	4.0	2.6	..
3rd "	2.9	..	2.6	1.6	3.8	2.3	0.2
4th "	2.7	0.8	2.5	1.6	3.9	2.6	..
1995 – 1st qtr.	2.8	0.1	2.0	1.7	4.3	3.4	1.6
2nd "	3.1	..	1.9	1.6	5.2	3.4	2.7
3rd "	2.6	....	1.7	1.8	....	3.7	....
1994 – Sept.	3.0	0.2	2.6	1.6	3.9	2.2	0.2
Oct.	2.6	0.7	2.5	1.7	3.8	2.4	–0.2
Nov.	2.7	1.0	2.4	1.6	3.9	2.6	–0.1
Dec.	2.7	0.7	2.5	1.6	4.0	2.9	0.2
1995 – Jan.	2.8	0.6	2.1	1.7	3.9	3.3	0.6
Feb.	2.9	0.2	2.0	1.7	4.3	3.4	1.8
Mar.	2.9	–0.4	1.9	1.8	4.7	3.5	2.2
Apr.	3.1	–0.2	2.0	1.6	5.0	3.3	2.5
May	3.2	..	1.8	1.6	5.1	3.4	2.9
June	3.0	0.3	1.9	1.6	5.6	3.5	2.7
July	2.8	0.1	1.9	1.5	....	3.5	2.5
Aug.	2.6	–0.2	1.5	1.9	....	3.6	2.3
Sept.	2.5	....	1.6	2.0	....	3.9	....

Table a4

Producer prices of manufactures

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1989	5.0	2.1	3.4	3.8	5.7	4.7	1.9
1990	3.8	1.5	1.4	1.4	4.5	5.8	0.3
1991	0.6	1.1	2.2	0.8	3.5	5.5	–1.0
1992	0.8	–1.0	1.6	–0.4	2.2	3.5	0.5
1993	1.4	–1.6	0.1	–0.7	4.0	3.7	3.3
1994	1.4	–1.7	0.6	0.2	3.6	2.5	5.7
1993 – 2nd qtr.	2.0	–1.4	. .	–0.6	4.2	3.7	3.3
3rd "	0.6	–1.8	–0.2	–0.9	4.5	4.0	3.0
4th "	0.4	–2.1	–0.3	–0.7	3.9	3.9	3.0
1994 – 1st qtr.	0.2	–2.2	. .	–0.8	3.3	3.2	3.4
2nd "	0.2	–2.0	0.3	–0.2	3.1	2.2	5.2
3rd "	2.2	–1.7	0.7	0.3	3.5	2.0	6.6
4th "	2.9	–1.1	1.5	1.7	4.7	2.4	7.5
1995 – 1st qtr.	4.5	–0.7	2.3	....	6.4	3.4	9.9
2nd "	5.2	–0.5	2.5	....	8.7	3.9	8.8
1994 – July	1.6	–1.8	0.5	....	3.1	1.8	6.6
Aug.	2.6	–1.7	0.7	....	3.5	2.0	6.8
Sept.	2.4	–1.5	0.9	....	3.8	2.2	6.5
Oct.	2.1	–1.2	1.2	....	4.2	2.2	6.8
Nov.	3.0	–1.2	1.5	....	4.7	2.5	7.7
Dec.	3.8	–0.9	1.9	....	5.2	2.6	8.1
1995 – Jan.	4.2	–0.9	2.1	....	5.4	3.3	10.3
Feb.	4.6	–0.8	2.3	....	6.1	3.3	9.6
Mar.	4.7	–0.4	2.4	....	7.6	3.7	9.9
Apr.	5.3	–0.4	2.5	....	8.2	3.9	9.2
May	5.4	–0.5	2.5	....	8.7	3.9	8.9
June	4.9	–0.6	2.6	....	9.1	3.9	8.3
July	4.2	–0.8	2.4	....	9.2	4.2	7.8

Table a5

Short-term interest rates

	US	Japan	Germany	France	Italy	UK	Canada
			Official reference rates *(end-of-period data)*				
1990	6.50	6.00	6.00	9.25	12.50	14.00	11.78
1991	3.50	4.50	8.00	9.60	12.00	10.50	7.67
1992	3.00	3.25	8.25	9.10	12.00	7.00	7.36
1993	3.00	1.75	5.75	6.20	8.00	5.50	4.11
1994 – Sept.	4.00	1.75	4.50	5.00	7.50	5.75	5.54
Oct.	4.00	1.75	4.50	5.00	7.50	5.75	5.62
Nov.	4.75	1.75	4.50	5.00	7.50	5.75	6.04
Dec.	4.75	1.75	4.50	5.00	7.50	6.25	7.43
1995 – Jan.	4.75	1.75	4.50	5.00	7.50	6.25	8.38
Feb.	5.25	1.75	4.50	5.00	8.25	6.75	8.38
Mar.	5.25	1.75	4.00	5.00	8.25	6.75	8.47
Apr.	5.25	1.00	4.00	5.00	8.25	6.75	8.17
May	5.25	1.00	4.00	5.00	9.00	6.75	7.64
June	5.25	1.00	4.00	5.00	9.00	6.75	6.97
July	5.25	1.00	4.00	5.00	9.00	6.75	6.87
Aug.	5.25	1.00	3.50	5.00	9.00	6.75	6.59
Sept.	5.25	0.50	3.50	5.00	9.00	6.75	6.71
			Money market rates *(period averages)*				
1991	5.37	7.41	9.18	9.62	12.21	11.53	7.42
1992	3.43	4.46	9.46	10.34	14.02	9.63	7.11
1993	3.00	3.01	7.24	8.59	10.20	5.94	3.86
1994	4.25	2.28	5.31	5.85	8.51	5.51	7.18
1994 – Sept.	4.62	2.36	5.02	5.63	8.72	5.67	5.29
Oct.	4.95	2.38	5.17	5.65	8.85	5.92	5.37
Nov.	5.29	2.38	5.16	5.61	8.76	6.06	5.79
Dec.	5.60	2.37	5.35	5.95	9.04	6.38	7.18
1995 – Jan.	5.71	2.34	5.11	5.92	9.13	6.57	7.98
Feb.	5.77	2.31	5.04	5.82	9.09	6.75	7.77
Mar.	5.73	2.18	5.02	8.06	11.01	6.66	8.22
Apr.	5.65	1.50	4.63	7.78	10.96	6.67	7.92
May	5.66	1.35	4.55	7.47	10.45	6.74	7.39
June	5.47	1.21	4.48	7.20	10.95	6.64	6.72
July	5.42	0.96	4.51	6.46	10.96	6.80	6.62
Aug.	5.40	0.87	4.41	5.94	10.47	6.80	6.34
Sept.	5.28	0.61	4.15	5.96	10.40	6.72	6.46

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond rates			
1991	7.86	6.40	8.54	9.04	13.17	10.11	8.97
1992	7.01	5.12	7.85	8.57	13.28	9.06	8.54
1993	5.87	4.03	6.45	6.72	11.29	7.47	7.12
1994	7.08	4.20	6.99	7.17	10.58	8.17	9.16
1994 – Sept.	7.46	4.57	7.71	8.03	11.91	9.01	9.04
Oct.	7.74	4.72	7.72	8.13	11.94	8.87	9.29
Nov.	7.96	4.71	7.68	8.09	11.87	8.71	9.24
Dec.	7.81	4.59	7.65	7.98	12.09	8.66	9.16
1995 – Jan.	7.78	4.69	7.76	8.16	12.36	8.83	9.41
Feb.	7.47	4.57	7.57	7.94	12.39	8.72	8.86
Mar.	7.20	3.99	7.39	7.98	13.44	8.66	8.70
Apr.	7.06	3.40	7.21	7.75	13.40	8.50	8.44
May	6.63	3.18	6.94	7.44	12.30	8.25	8.11
June	6.17	2.80	6.89	7.39	12.38	8.16	8.02
July	6.28	2.75	6.99	7.34	12.21	8.29	8.50
Aug.	6.49	3.12	6.86	7.17	11.65	8.15	8.24
Sept.	6.20	2.82	6.67	7.20	11.55	7.96	8.11
				Share price indices			
1991	141.58	86.52	138.49	141.50	105.46	127.57	105.04
1992	156.51	63.78	136.96	148.23	87.53	131.36	103.02
1993	170.00	71.56	147.03	161.90	104.07	156.64	118.20
1994	173.35	75.07	168.49	164.86	129.61	169.05	129.71
1994 – Sept.	175.78	74.31	167.93	155.59	128.33	166.87	131.82
Oct.	174.60	74.19	160.94	150.35	120.84	162.87	129.94
Nov.	173.54	71.59	163.11	154.67	120.84	164.67	123.92
Dec.	171.71	71.62	162.23	155.45	117.69	161.34	127.58
1995 – Jan.	175.14	69.63	161.21	147.48	125.02	161.28	121.65
Feb.	181.42	66.10	164.02	146.88	126.09	161.74	124.89
Mar.	185.64	61.57	155.98	143.83	116.29	162.26	130.61
Apr.	191.20	61.17	153.76	151.80	116.42	168.27	129.55
May	197.19	61.06	160.47	157.67	123.41	173.39	134.70
June	203.04	57.42	163.73	153.24	118.59	176.50	137.06
July	209.82	60.91	167.72	154.51	120.65	183.38	139.72
Aug.	210.47	65.11	172.28	155.69	124.74	184.50	136.75
Sept.	217.87	67.39	173.51	148.46	122.04	187.20	137.15

Table a7

Interest rates on international markets and US dollar premium/discount

(period averages)

	US dollar	Japanese yen	Deutsche Mark	Lira	Pound sterling	US dollar	Japanese yen	Deutsche Mark	Lira	Pound sterling
	Rates on 3-month Eurodeposits					**Rates on 12-month Eurodeposits**				
1991	5.86	7.22	9.14	11.52	11.45	6.23	6.77	9.26	11.69	11.01
1992	3.70	4.33	9.36	13.48	9.53	4.10	4.14	9.04	13.10	9.34
1993	3.14	2.90	7.13	9.95	5.87	3.54	2.84	6.32	9.63	5.71
1994	4.60	2.18	5.21	8.29	5.44	5.45	2.41	5.30	8.92	6.25
1994 – Sept. ...	4.99	2.27	4.93	8.45	5.63	5.87	2.60	5.49	10.17	7.09
Oct.	5.47	2.27	5.04	8.61	5.85	6.28	2.71	5.56	10.02	7.21
Nov.	5.75	2.27	5.05	8.52	5.98	6.69	2.68	5.50	9.76	7.23
Dec.	6.24	2.26	5.26	8.84	6.29	7.42	2.56	5.72	10.13	7.61
1995 – Jan.	6.19	2.24	4.96	8.93	6.52	7.38	2.46	5.70	10.27	7.75
Feb.	6.12	2.22	4.95	8.85	6.70	6.93	2.38	5.59	10.14	7.71
Mar.	6.16	2.05	4.91	10.72	6.61	6.70	2.04	5.39	11.61	7.67
Apr.	6.13	1.42	4.52	10.73	6.64	6.56	1.43	4.84	11.48	7.50
May	6.03	1.24	4.43	10.26	6.67	6.17	1.32	4.64	10.83	7.39
June ...	5.87	1.06	4.37	10.67	6.59	5.71	0.98	4.38	11.12	7.07
July	5.79	0.79	4.43	10.76	6.76	5.73	0.73	4.54	11.23	7.16
Aug.	5.79	0.75	4.31	10.29	6.76	5.88	0.76	4.36	10.59	7.00
Sept. ...	5.74	0.41	4.05	10.22	6.68	5.75	0.45	4.08	10.42	6.69
		3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**			
1991		–1.36	–3.28	–5.66	–5.59		–0.55	–3.04	–5.47	–4.78
1992		–0.63	–5.65	–9.77	–5.82		–0.04	–4.94	–9.00	–5.24
1993		0.24	–3.99	–6.81	–2.73		0.69	–2.78	–6.09	–2.17
1994		2.41	–0.61	–3.69	–0.85		3.04	0.16	–3.47	–0.80
1994 – Sept. ...		2.72	0.06	–3.46	–0.64		3.27	0.38	–4.30	–1.22
Oct.		3.20	0.43	–3.14	–0.38		3.57	0.72	–3.74	–0.93
Nov.		3.48	0.70	–2.77	–0.23		4.01	1.19	–3.07	–0.54
Dec.		3.98	0.98	–2.60	–0.05		4.86	1.70	–2.71	–0.19
1995 – Jan.		3.95	1.23	–2.74	–0.33		4.92	1.68	–2.89	–0.37
Feb.		3.90	1.17	–2.73	–0.58		4.55	1.34	–3.21	–0.78
Mar.		4.11	1.25	–4.56	–0.45		4.66	1.31	–4.91	–0.97
Apr.		4.71	1.61	–4.60	–0.51		5.13	1.72	–4.92	–0.94
May		4.79	1.60	–4.23	–0.64		4.85	1.53	–4.66	–1.22
June ...		4.81	1.50	–4.80	–0.72		4.73	1.33	–5.41	–1.36
July		5.00	1.36	–4.97	–0.97		5.00	1.19	–5.50	–1.43
Aug.		5.04	1.48	–4.50	–0.97		5.12	1.52	–4.71	–1.12
Sept. ...		5.33	1.69	–4.48	–0.94		5.30	1.67	–4.67	–0.94

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	2,307.5	1,909.0	383.25
1993 – 3rd qtr.	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	2,329.9	1,960.0	383.25
1995 – 1st qtr.	1,641.9	17.1647	1,113.94	318.60	2,599.3	1,327.17	2,451.4	2,077.9	383.40
2nd "	1,665.3	19.7021	1,191.05	338.44	2,657.8	1,440.70	2,607.8	2,193.6	387.05
3rd "	1,610.0	17.1733	1,124.80	325.46	2,533.1	1,364.06	2,442.8	2,095.6	384.00
1994 – 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
Feb.	1,619.0	16.4815	1,078.28	309.95	2,544.4	1,273.91	2,393.4	2,026.7	376.40
Mar.	1,690.3	18.6764	1,201.79	339.30	2,704.9	1,443.03	2,596.4	2,200.6	383.40
Apr.	1,713.2	20.4157	1,239.06	353.23	2,754.2	1,503.99	2,700.4	2,273.8	389.75
May	1,652.3	19.4403	1,172.81	331.48	2,623.0	1,414.35	2,574.6	2,160.4	384.30
June	1,639.0	19.3802	1,170.01	333.30	2,613.8	1,415.28	2,562.9	2,161.1	387.05
July	1,609.7	18.4588	1,158.96	333.05	2,567.3	1,392.36	2,507.3	2,146.2	383.35
Aug.	1,605.4	16.9811	1,111.32	323.12	2,517.3	1,342.98	2,425.6	2,079.2	382.35
Sept.	1,615.1	16.0890	1,104.76	320.33	2,515.3	1,357.86	2,396.8	2,062.0	384.00

Table a9

Nominal effective exchange rates

(period averages; indices, 1987=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1989	96.4	105.6	98.6	97.1	97.7	102.8	112.1	93.9
1990	92.8	95.7	103.1	101.4	99.1	101.2	112.1	99.1
1991	90.9	103.3	101.9	99.5	97.6	101.6	113.8	97.5
1992	89.4	108.8	104.6	102.4	94.1	97.7	106.8	95.5
1993	91.3	130.1	107.2	104.8	78.5	89.1	100.7	98.1
1994	90.0	140.9	107.3	105.5	74.9	89.3	94.2	104.5
1993 – 3rd qtr.	90.6	137.4	106.7	103.1	78.8	90.1	99.4	99.1
4th "	92.2	134.6	107.5	103.9	76.0	90.2	98.1	100.7
1994 – 1st qtr.	92.6	136.2	105.5	104.6	75.2	90.5	97.1	102.9
2nd "	91.2	140.5	106.3	104.5	76.8	89.0	93.4	103.0
3rd "	88.2	143.7	108.5	106.4	74.6	88.1	93.1	105.8
4th "	87.7	143.3	108.9	106.5	73.0	89.3	93.2	106.2
1995 – 1st qtr.	87.1	146.9	111.9	107.3	68.9	87.6	90.2	108.7
2nd "	81.7	164.1	113.8	108.4	64.5	84.6	91.0	112.2
3rd "	84.6	148.3	112.6	109.2	68.0	84.8	93.1	111.6
1994 – Sept.	87.6	143.5	108.5	106.6	74.3	88.3	94.2	106.8
Oct.	86.7	142.9	109.0	106.8	73.8	89.4	94.2	107.3
Nov.	87.4	144.4	108.8	106.4	73.0	89.3	93.3	105.9
Dec.	89.1	142.8	108.8	106.1	72.2	89.3	92.2	105.3
1995 – Jan.	88.9	142.6	110.0	106.7	71.9	88.9	90.3	106.9
Feb.	87.8	144.0	111.1	107.0	70.5	87.8	90.9	107.1
Mar.	84.5	154.1	114.7	108.3	64.3	86.2	89.4	112.0
Apr.	81.5	165.0	114.7	109.7	62.2	84.9	90.5	113.4
May	81.8	163.4	113.4	107.3	65.6	84.5	91.9	111.5
June	81.8	164.0	113.3	108.2	65.7	84.5	90.7	111.8
July	82.1	158.3	113.6	109.4	66.4	84.1	91.8	111.3
Aug.	84.9	147.4	112.1	109.4	68.7	84.9	93.3	110.7
Sept.	86.8	139.2	112.1	108.9	69.0	85.4	94.2	112.7

Table a10

Real effective exchange rates

(period averages; indices, 1987=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1989	99.6	99.5	96.6	97.3	99.7	104.8	110.5	93.9
1990	97.9	88.9	100.2	100.7	103.7	107.2	107.1	98.2
1991	95.8	96.1	99.8	97.8	104.2	112.2	106.6	95.3
1992	94.6	99.4	103.6	99.1	102.0	111.2	99.8	92.5
1993	97.0	115.1	105.6	99.9	88.3	104.4	96.1	94.4
1994	95.3	120.4	104.9	99.3	86.5	105.9	93.9	99.0
1993 – 2nd qtr.	95.8	114.8	105.1	101.1	89.8	104.2	96.1	93.1
3rd "	96.3	121.3	104.9	98.0	89.0	106.1	94.9	95.5
4th "	97.6	118.0	105.6	98.5	86.4	106.7	94.9	96.6
1994 – 1st qtr.	97.7	118.4	103.7	98.8	86.1	107.7	95.3	98.0
2nd "	96.4	120.8	104.1	98.4	88.4	105.8	92.7	97.7
3rd "	94.0	121.9	105.9	99.8	86.3	104.5	93.1	100.5
4th "	93.1	120.5	105.9	100.1	85.2	105.8	94.6	99.9
1995 – 1st qtr.	92.3	121.4	108.7	99.9	81.5	104.2	93.7	101.1
2nd "	87.4	133.7	109.9	100.3	78.2	100.7	94.1	103.2
1994 – July	94.1	123.4	105.8	99.2	86.8	104.4	92.1	99.8
Aug.	94.6	121.0	106.2	99.8	86.0	104.2	92.9	100.3
Sept.	93.2	121.5	105.8	100.4	86.2	104.9	94.3	101.2
Oct.	92.1	120.7	106.0	100.6	85.9	105.8	94.9	101.4
Nov.	92.7	121.3	105.9	100.0	85.2	105.7	94.7	99.6
Dec.	94.4	119.7	105.9	99.7	84.4	105.9	94.2	98.7
1995 – Jan.	94.0	118.4	107.1	99.3	84.2	105.8	93.7	99.7
Feb.	93.1	119.0	108.0	99.6	83.3	104.3	94.3	99.6
Mar.	89.6	126.8	111.1	100.8	76.9	102.6	93.1	103.8
Apr.	87.0	135.0	110.9	101.7	75.0	101.1	93.5	104.6
May	87.7	133.0	109.4	99.3	79.6	100.5	94.8	102.4
June	87.6	133.1	109.4	99.9	80.1	100.5	93.9	102.5
July	87.8	128.4	109.8	100.6	81.4	100.3	95.2	102.0

Table a11

Real effective intra-EU exchange rates

(period averages; indices, 1987=100)

	Germany	France	Italy	UK	Spain	Netherlands	Belgium
1989	97.3	98.1	100.6	107.3	109.3	98.9	100.1
1990	97.6	99.0	102.2	104.5	110.0	97.1	100.4
1991	98.1	96.6	103.1	111.0	110.2	95.4	97.8
1992	101.0	97.2	100.0	108.3	107.3	94.7	98.1
1993	106.9	100.3	87.9	105.6	97.2	96.4	98.3
1994	106.9	99.9	86.4	107.6	93.5	96.3	100.8
1993 – 2nd qtr.	105.7	101.1	89.1	104.6	98.1	96.1	99.1
3rd "	107.2	98.9	89.2	108.5	93.4	96.1	97.5
4th "	107.9	99.5	86.5	109.0	93.7	96.6	97.2
1994 – 1st qtr.	106.4	100.1	86.5	110.7	93.0	95.1	99.1
2nd "	106.3	99.2	88.5	107.9	93.3	95.6	100.8
3rd "	107.5	100.1	85.9	105.4	94.0	96.6	101.8
4th "	107.3	100.4	84.6	106.5	93.8	97.7	101.4
1995 – 1st qtr.	110.2	99.9	80.7	104.4	92.5	99.6	102.7
2nd "	112.1	100.4	77.4	100.8	95.0	100.5	104.6
1994 – July	107.4	99.5	86.4	105.4	94.2	96.7	102.1
Aug.	107.8	100.2	85.6	105.1	93.9	96.6	101.9
Sept.	107.4	100.7	85.8	105.7	93.9	96.5	101.4
Oct.	107.1	100.7	85.2	106.0	93.8	97.2	101.4
Nov.	107.2	100.2	84.7	106.3	93.9	98.0	101.5
Dec.	107.6	100.2	84.0	107.0	93.5	98.0	101.2
1995 – Jan	108.5	99.5	83.6	106.4	92.4	98.8	101.5
Feb.	109.3	99.6	82.5	104.5	93.6	99.1	102.5
Mar.	112.9	100.8	76.0	102.3	91.7	101.1	104.0
Apr.	113.2	101.8	74.1	101.1	93.4	101.1	105.0
May	111.7	99.5	78.9	100.8	95.5	100.3	104.6
June	111.4	99.9	79.3	100.5	96.1	100.1	104.1
July	111.0	100.3	80.3	99.6	96.8	99.9	103.6

Table a12

External position of the Italian banking system

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

VIS-À-VIS	1994 Q4	1995 Q1	1995 Q2
Industrial countries	320,039	323,390	(280,683)
OPEC countries	11,193	10,342	(10,740)
Other developing countries	20,410	22,698	(21,500)
of which: Latin America	*13,626*	*15,165*	*(14,230)*
Africa	*1,180*	*1,283*	*(1,113)*
Asia	*5,082*	*5,582*	*(5,568)*
Middle East	*522*	*668*	*(589)*
Eastern Europe	12,662	14,439	(13,520)
Offshore centres	35,011	34,759	(32,075)
International organizations	5,580	5,644	(5,600)
Total	**404,895**	**411,272**	**(364,119)**
Memorandum items:			
Albania	166	189	(96)
Argentina	5,653	6,716	(6,414)
Bolivia	13	13	(6)
Brazil	2,729	3,079	(2,881)
Bulgaria	555	621	(598)
Chile	579	608	(490)
Colombia	672	658	(604)
Croatia	51	69	(77)
Czech Republic	198	385	(325)
Ecuador	267	183	(175)
Hungary	347	384	(461)
Ivory Coast	19	21	(21)
Mexico	2,644	2,615	(2,397)
Morocco	486	477	(446)
Nigeria	1,157	1,130	(1,035)
Peru	263	284	(307)
Philippines	84	87	(76)
Poland	1,213	1,098	(981)
Romania	315	365	(357)
Russia	9,797	11,280	(10,575)
Slovenia	127	122	(127)
Uruguay	429	515	(472)
Venezuela	1,156	1,076	(1,028)

Table a13

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed investment					
	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total	Households' consumption	Other domestic uses	Exports
				At 1985 prices					
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	–1.3	–1.7	1.1	3.0	5.0
1993	–1.2	–7.8	–2.7	–6.3	–19.3	–13.1	–2.5	–7.2	9.4
1994	2.2	9.8	3.8	–5.2	5.3	–0.1	1.6	5.2	10.9
1993 – 2nd qtr. ...	0.2	–0.9	–0.1	–1.8	–7.4	–4.5	–0.6	7.0	0.2
3rd " ...	–1.0	1.0	–0.5	–1.3	–0.7	–1.0	–0.1	–6.7	2.7
4th " ...	1.1	–0.1	0.8	–1.2	2.5	0.6	0.6	–1.9	3.1
1994 – 1st qtr. ...	0.3	4.9	1.3	–1.2	1.8	0.3	0.7	0.7	3.7
2nd " ...	0.8	2.5	1.2	–1.5	3.6	1.0	0.5	4.6	1.0
3rd " ...	1.5	3.4	1.9	–1.5	0.2	–0.7	0.3	7.2	4.2
4th " ...	0.4	3.2	1.0	–0.9	4.2	1.7	0.4	2.7	1.0
1995 – 1st qtr. ...	1.3	2.1	1.5	0.6	2.0	1.3	0.1	–2.8	7.3
2nd " ...	–0.4	2.5	0.3	0.4	4.3	2.4	0.3	–9.4	4.2
				Implicit prices					
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	2.2	3.7	5.4	0.6	1.6
1993	4.3	11.0	5.8	3.2	5.2	4.9	4.8	8.7	9.9
1994	3.6	5.7	3.5	3.4	3.6	3.0	4.7	1.4	3.5
1993 – 2nd qtr. ...	1.2	1.0	1.2	0.5	1.7	1.3	1.3	–1.5	2.3
3rd " ...	1.2	1.1	1.1	0.4	0.8	0.5	1.3	2.0	1.4
4th " ...	0.6	1.4	0.8	0.7	–0.1	0.2	1.1	0.9	1.0
1994 – 1st qtr. ...	0.8	1.4	0.7	2.0	1.8	1.7	1.1	–0.9	0.4
2nd " ...	0.9	0.8	0.8	0.3	0.2	0.0	1.1	0.6	0.2
3rd " ...	0.9	2.1	1.0	0.6	0.9	0.7	1.2	0.8	0.9
4th " ...	1.1	1.9	1.1	0.3	1.7	0.7	1.1	0.4	1.7
1995 – 1st qtr. ...	1.6	4.6	2.0	0.4	1.5	0.9	1.2	8.8	1.6
2nd " ...	1.6	4.3	1.9	1.2	1.6	1.2	1.6	4.0	3.9

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	Industrial production				Isco business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Changes in level of orders: Domestic	Changes in level of orders: Foreign	Changes in level of orders: Total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices 1990=100)				(average balance of monthly responses)				
1990	100.0	100.0	100.0	100.0	−9.4	−16.1	−7.5	11.9	3.7
1991	99.1	100.4	95.9	99.4	−27.6	−31.5	−26.7	11.3	8.5
1992	98.9	101.1	92.1	99.7	−32.0	−36.9	−32.0	2.0	7.2
1993	96.5	98.7	88.9	97.7	−43.1	−21.7	−35.6	2.9	4.6
1994	101.5	104.1	92.2	103.0	−17.9	8.9	−6.9	25.2	−4.3
1991 − 1st qtr. ...	98.6	100.5	97.3	98.5	−28.2	−34.7	−27.7	9.4	9.7
2nd " ...	98.5	98.7	95.2	99.0	−28.2	−32.5	−27.8	10.9	9.7
3rd " ...	99.4	100.4	95.4	100.1	−26.5	−30.3	−24.7	12.8	8.3
4th " ...	99.8	102.1	95.6	99.9	−27.3	−28.5	−26.7	11.9	6.3
1992 − 1st qtr. ...	101.1	102.8	94.9	101.7	−24.8	−30.3	−24.1	10.4	11.3
2nd " ...	100.5	101.7	93.2	101.4	−27.6	−38.8	−29.2	8.2	11.0
3rd " ...	96.5	99.0	88.7	98.7	−33.9	−38.2	−34.5	−3.5	5.3
4th " ...	97.4	101.1	91.5	97.1	−41.9	−40.3	−40.3	−7.3	1.0
1993 − 1st qtr. ...	98.7	102.2	93.0	98.5	−44.8	−34.1	−43.0	−3.4	3.3
2nd " ...	96.2	97.6	88.8	97.3	−46.5	−28.0	−40.4	−0.8	7.0
3rd " ...	95.1	97.7	86.2	96.8	−44.5	−18.1	−32.8	3.8	6.7
4th " ...	96.1	97.3	87.5	98.1	−36.6	−6.7	−26.3	12.1	1.3
1994 − 1st qtr. ...	97.2	100.6	86.0	98.9	−31.3	−0.9	−18.9	16.9	−2.3
2nd " ...	100.5	103.7	91.2	101.8	−20.4	8.6	−8.1	24.1	−1.0
3rd " ...	104.2	106.9	94.6	105.4	−15.4	11.8	−4.2	29.6	−4.7
4th " ...	104.1	105.1	97.1	105.9	−4.6	16.1	3.5	30.1	−9.3
1995 − 1st qtr. ...	104.0	105.2	97.3	105.0	−1.2	25.3	6.4	22.5	−4.7
2nd " ...	105.1	106.9	100.2	105.6	−2.8	21.1	4.5	19.9	0.3

Table a15

Labour market statistics

(thousands of units and percentages)

	Employment					Unem-ployment	Labour force	Unem-ployment rate	Partici-pation rate
	Agriculture	Industry excluding construction	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	1,750	4,916	1,934	12,859	21,459	2,798	24,257	11.5	42.4
1993	1,669	5,000	1,725	12,074	20,467	2,335	22,801	10.2	40.4
1994	1,573	4,933	1,655	11,959	20,120	2,561	22,680	11.3	40.1
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)	1,837	5,089	1,733	12,042	20,701	2,194	22,895	9.6	40.7
1993 – 1st qtr.	1,675	5,047	1,713	12,131	20,566	2,112	22,676	9.3	40.2
2nd "	1,622	4,961	1,731	12,107	20,421	2,372	22,792	10.4	40.4
3rd "	1,662	5,005	1,756	12,129	20,553	2,313	22,865	10.1	40.5
4th "	1,716	4,986	1,700	11,927	20,327	2,542	22,871	11.1	40.5
1994 – 1st qtr.	1,551	4,894	1,645	11,931	20,021	2,502	22,522	11.1	39.8
2nd "	1,551	4,899	1,647	12,051	20,148	2,578	22,726	11.4	40.2
3rd "	1,613	5,002	1,670	12,019	20,304	2,458	22,763	10.8	40.2
4th "	1,578	4,936	1,656	11,834	20,005	2,705	22,710	11.9	40.2
1995 – 1st qtr.	1,429	4,819	1,598	11,852	19,698	2,739	22,437	12.2	39.6
2nd "	1,490	4,898	1,571	12,053	20,011	2,715	22,726	12.0	40.1
3rd "	1,554	4,916	1,646	12,124	20,241	2,673	22,914	11.7	40.5

(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	4.0	3.7	2.8	3.5	3.9	4.4	4.0	3.9
1993 – 2nd qtr.	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 "	4.0	3.5	5.0	4.6	4.1	3.6	4.1	3.9	3.8
1995 – 1st qtr.	5.4	4.0	8.6	7.5	5.2	3.6	4.5	4.3	4.4
2nd "	7.8	5.1	13.9	11.7	6.6	4.7	5.1	5.2	5.5
3rd "	....	....	....	....	....	....	....	....	5.7
1994 – 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	4.1	3.5	4.1	3.9	3.7
Dec.	4.3	3.6	5.6	5.2	4.4	3.6	4.2	4.0	4.1
1995 – Jan.	4.7	3.7	6.7	6.0	4.6	3.1	4.2	3.9	3.8
Feb.	5.5	4.0	7.9	7.1	5.2	3.6	4.5	4.3	4.3
Mar.	6.0	4.3	11.1	9.3	5.7	4.1	4.8	4.7	4.9
Apr.	7.7	4.6	13.5	11.3	6.1	4.5	4.9	5.0	5.2
May	7.8	4.7	13.6	11.4	6.8	4.5	4.9	5.1	5.5
June	7.9	6.0	14.7	12.4	6.9	5.2	5.4	5.6	5.8
July	7.9	5.8	13.4	11.5	....	....	....	....	5.6
Aug.	....	....	....	....	....	....	....	....	5.8
Sept.	....	....	....	....	....	....	....	....	5.8

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	Transfers						
1992	3,852	–5,715	–25,470	–6,892	–34,225	–1,870	12,187	10,317	–8,640	32,548
1993	51,989	–33	–25,638	–8,494	17,824	99,388	–84,589	14,799	–30,417	–2,206
1994	56,999	1,845	–24,540	–9,292	25,012	(–43,435)	21,594	(–21,841)	(138)	–3,309
1993 – 2nd qtr.	11,856	767	–6,701	–2,672	3,250	30,171	–30,093	78	–3,775	447
3rd "	15,587	–402	–6,711	–2,553	5,921	12,414	–10,461	1,953	–3,427	–4,447
4th "	17,787	1,712	–7,126	–1,345	11,028	33,731	–35,732	–2,001	–11,664	2,637
1994 – 1st qtr.	12,137	–1,319	–6,444	–868	3,506	–924	–2,464	–3,388	4,072	–4,190
2nd "	13,894	1,549	–6,412	–3,001	6,030	–27,241	19,906	–7,335	2,235	–930
3rd "	16,493	746	–5,652	–3,809	7,778	(–21,928)	14,874	(–7,054)	(–1,750)	1,026
4th "	14,475	869	–6,032	–1,614	7,698	(6,658)	–10,722	(–4,064)	(–4,419)	785
1995 – 1st qtr.	12,814	–1,479	–7,577	460	4,218	(–8,979)	4,928	(–4,051)	(–11,763)	11,596
2nd "	18,079	1,887	–5,218	–1,766	12,982	(21,705)	–10,389	(11,316)	(–4,870)	–19,428
1993 – Aug.	2,159	–123	–912	–1,198	–74	5,757	–8,551	–2,794	906	1,962
Sept.	3,856	–624	–2,186	3	1,049	3,155	4,922	8,077	–1,468	–7,658
Oct.	6168	337	–2,198	125	4,432	3,295	–2,851	444	–7,734	2,858
Nov.	4,862	434	–1,954	–173	3,169	25,988	–18,839	7,149	–7,849	–2,469
Dec.	6,757	941	–2,974	–1,297	3,427	4,448	–14,042	–9,594	3,919	2,248
1994 – Jan.	2,198	–975	–2,538	140	–1,175	15,700	–13,580	2,120	4,133	–5,078
Feb.	4,845	–326	–838	–902	2,779	3,793	–5,975	–2,182	761	–1,358
Mar.	5,094	–18	–3,068	–106	1,902	–20,417	17,091	–3,326	–822	2,246
Apr.	4,360	24	–1,605	–719	2,060	–7,229	7,793	564	–2,826	202
May	4,675	496	–2,001	–1,184	1,986	–5,583	3,268	–2,315	2,499	–2,170
June	4,859	1,029	–2,806	–1,098	1,984	–14,429	8,845	–5,584	2,562	1,038
July	7,643	539	–3,309	–1,519	3,354	(–11,986)	8,602	(–3,384)	(3,342)	–3,312
Aug.	4,861	545	–734	–1,644	3,028	(–2,152)	116	(–2,036)	(–4,203)	3,211
Sept.	3,989	–338	–1,609	–646	1,396	(–7,790)	6,156	(–1,634)	(–889)	1,127
Oct.	5,156	284	–2,574	–724	2,142	(–7,260)	1,145	(–6,115)	(–1,969)	5,942
Nov.	4,081	208	–1,870	–567	1,852	(7,402)	–8,086	(–684)	(–3,658)	2,490
Dec.	5,238	377	–1,588	–323	3,704	(6,516)	–3,781	(2,735)	(1,208)	–7,647
1995 – Jan.	3,426	–1,258	–3,150	–936	–1,918	(–4,166)	9,938	(5,772)	(–7,581)	3,727
Feb.	3,615	–760	–1,336	683	2,202	(2,185)	–6,526	(–4,341)	(1,107)	1,032
Mar.	5,773	539	–3,091	713	3,934	(–6,998)	1,516	(–5,482)	(–5,289)	6,837
Apr.	5,977	–96	–2,304	–382	3,195	(4,982)	–1,655	(3,327)	(–4,414)	–2,108
May	5,875	638	–1,808	–180	4,525	(9,084)	–9,914	(–830)	(166)	–3,861
June	6,227	1,345	–1,106	–1,204	5,262	(7,639)	1,180	(8,819)	(–622)	–13,459
July	....	....	....	....	(2,926)	(459)	(–2,728)	(–2,269)	....	(–657)
Aug.	....	....	....	....	(6,724)	(8,875)	(–17,436)	(–8,561)	....	(1,837)

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)						
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 – 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. ...	32,062	6,824	215	39,101	982	2,281	*1,826*	1,656	3,283	40,110	82,137
Dec. ...	39,197	7,554	204	46,955	790	2,290	*1,817*	1,671	3,314	41,338	91,436
1995 – Jan. ...	35,791	8,004	213	44,008	1,243	2,625	*1,960*	1,656	3,284	41,338	88,356
Feb. ...	36,540	8,473	225	45,238	1,043	2,784	*2,078*	1,755	3,397	41,338	89,959
Mar. ...	32,821	8,957	241	42,019	2,413	2,615	*1,863*	1,875	3,628	41,417	85,391
Apr. ...	33,137	7,053	249	40,439	673	2,393	*1,649*	1,858	3,595	41,417	85,313
May ...	35,291	6,740	249	42,280	585	2,736	*2,019*	1,789	3,435	41,417	87,494
June ..	48,961	6,786	251	55,998	664	3,212	*2,487*	1,807	3,446	44,062	104,247
July ...	(45,743)	(7,027)	(186)	(52,956)	(327)	(3,648)	*(3,083)*	(1,735)	(3,311)	(44,062)	(101,915)
Aug. ...	(42,608)	(6,766)	(133)	(49,507)	(311)	(4,054)	*(3,444)*	(1,698)	(3,230)	(44,062)	(98,844)
					(millions of dollars)						
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 – 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. ...	19,816	4,218	133	24,166	607	1,410	*1,129*	1,023	2,029	25,712	51,686
Dec. ...	24,052	4,635	125	28,812	485	1,405	*1,115*	1,025	2,034	26,342	57,082
1995 – Jan. ...	22,414	5,013	133	27,560	778	1,644	*1,227*	1,037	2,057	26,342	55,787
Feb. ...	21,850	5,067	135	27,051	624	1,665	*1,243*	1,049	2,031	26,342	55,416
Mar. ...	19,188	5,236	141	24,565	1,411	1,529	*1,089*	1,096	2,121	25,685	51,394
Apr. ...	19,709	4,195	148	24,052	400	1,423	*981*	1,105	2,138	25,685	51,794
May ...	21,833	4,170	154	26,157	362	1,693	*1,249*	1,107	2,125	25,685	54,191
June ..	29,860	4,139	153	34,151	405	1,959	*1,517*	1,102	2,102	25,518	62,223
July ...	(28,869)	(4,435)	(117)	(33,421)	(206)	(2,302)	*(1,946)*	(1,095)	(2,090)	(25,518)	(62,030)
Aug. ...	(26,300)	(4,176)	(82)	(30,558)	(192)	(2,502)	*(2,126)*	(1,048)	(1,994)	(25,518)	(59,332)

Table a19

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					
1992 O	428,164	71,518	499,682	547,383	62,617	610,000	–110,318	–53,763	–164,081	–31	–164,050
1993 O	436,359	34,409	470,767	544,045	73,773	617,818	–147,051	–15,294	–162,344	–10,837	–151,507
N	"	"	"	"	"	"	"	–17,888	–164,938	"	–154,101
1994 O	430,886	40,362	471,248	542,214	72,875	615,089	–143,841	–12,881	–156,722	–522	–156,200
N	"	"	"	"	"	"	"	–12,394	–156,235	"	–155,713
1994 – 1st qtr. O ...	86,825	10,390	97,215	112,385	17,086	129,471	–32,256	–11,978	–44,234	1,592	–45,826
N ...	"	"	"	"	"	"	"	–10,186	–42,442	"	–44,034
2nd qtr. O ...	121,279	8,935	130,214	128,569	11,390	139,958	–9,744	–15,312	–25,056	–473	–24,583
N ...	"	"	"	"	"	"	"	–13,210	–22,954	"	–22,481
3rd qtr. O ...	94,861	8,881	103,742	155,059	12,523	167,583	–63,841	26,187	–37,654	4,311	–41,965
N ...	"	"	"	"	"	"	"	26,461	–37,380	"	–41,691
4th qtr. O ...	127,921	12,156	140,077	146,201	31,876	178,077	–38,000	–11,778	–49,778	–5,952	–43,826
N ...	"	"	"	"	"	"	"	–15,459	–53,459	"	–47,507
1995 – 1st qtr. O ...	97,398	9,653	107,051	153,821	18,641	172,463	–65,411	23,185	–42,227	–2,586	–39,641
N ...	"	"	"	"	"	"	"	25,713	–39,699	"	–37,113
2nd qtr. O ...	130,011	9,726	139,737	141,782	10,170	151,952	–12,215	–2,108	–14,323	–81	–14,241
N ...	"	"	"	"	"	"	"	–1,965	–14,180	"	–14,099
3rd qtr. O ...	98,336	11,094	109,430	115,534	11,262	126,795	–17,366	–24,678	–42,043	913	–42,956
N ...	"	"	"	"	"	"	"	–25,188	–42,553	"	–43,466
1995 – Jan. N	37,350	4,747	42,097	40,916	6,010	46,926	–4,830	–6,550	–11,379	–2,500	–8,879
Feb. N	28,949	2,602	31,551	36,687	4,924	41,611	–10,060	731	–9,329	–86	–9,243
Mar. N	31,099	2,305	33,404	76,218	7,708	83,926	–50,522	31,532	–18,990	0	–18,990
Apr. N	31,143	4,284	35,427	34,269	1,619	35,888	–461	–16,395	–16,855	–17	–16,838
May N	38,891	2,263	41,154	48,074	3,374	51,448	–10,294	–3,427	–13,721	–64	–13,657
June N	59,977	3,180	63,156	59,439	5,177	64,616	–1,460	17,856	16,397	0	16,397
July N	36,508	5,034	41,542	46,195	2,935	49,130	–7,589	1,595	–5,994	913	–6,907
Aug. N	38,116	3,238	41,354	31,578	2,935	34,513	6,841	–17,894	–11,053	0	–11,053
Sept. N	23,711	2,823	26,534	37,760	5,391	43,152	–16,618	–8,889	–25,506	0	–25,506

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

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*
1992 O	91,120	46,479	7,116	*7,706*	11,415	173	7,777	164,081	*–2,696*
1993 O	163,119	5,577	–34,512	*–35,244*	13,913	12,374	1,874	162,344	*–3,378*
N	165,121	"	"	"	"	14,444	394	164,938	"
1994 O	225,608	11,706	–111,718	*–103,554*	24,082	9,569	–2,525	156,722	*–54,743*
N	221,636	"	"	"	"	9,186	1,343	156,235	"
1994 – 1st qtr. O ...	47,894	–810	–10,219	*–10,566*	3,235	2,592	1,542	44,234	*–11,131*
N ...	45,894	"	"	"	"	2,586	1,756	42,442	"
2nd qtr. O ...	41,641	2,210	–19,597	*–19,073*	2,512	–1,432	–277	25,056	*–22,910*
N ...	39,641	"	"	"	"	–1,620	–191	22,954	"
3rd qtr. O ...	20,944	6,143	3,541	*3,521*	2,570	3,814	643	37,654	*–3,584*
N ...	20,971	"	"	"	"	3,498	657	37,380	"
4th qtr. O ...	115,130	4,163	–85,443	*–77,436*	15,765	4,596	–4,432	49,778	*–17,118*
N ...	"	"	"	"	"	4,722	–878	53,459	"
1995 – 1st qtr. O ...	26,397	3,244	6,912	*5,935*	3,429	413	1,832	42,227	*–2,223*
N ...	"	"	"	"	"	–147	–136	39,699	"
2nd qtr. O ...	19,353	500	–28,928	*–28,212*	559	19,896	2,942	14,323	*–36,565*
N ...	20,353	"	"	"	"	19,695	2,000	14,180	"
3rd qtr. O ...	23,506	–3,250	16,044	*17,027*	2,639	2,748	357	42,043	*10,993*
N ...	23,706	"	"	"	"	3,058	"	42,553	"
1995 – Jan. N	11,665	2,000	–5,698	*–5,714*	3,447	–3	–32	11,379	*–8,251*
Feb. N	16,328	–748	–6,284	*–6,068*	–81	–10	125	9,329	*–9,380*
Mar. N	–1,596	1,992	18,894	*17,717*	63	–134	–230	18,990	*15,409*
Apr. N	9,964	1,500	1,406	*1,607*	–678	4,437	227	16,855	*–1,831*
May N	2,474	0	3,514	*4,602*	1,851	4,709	1,174	13,721	*913*
June N	7,915	–1,000	–33,847	*–34,422*	–613	10,550	599	–16,397	*–35,648*
July N	5,274	–1,750	–724	*–671*	839	2,125	231	5,994	*–2,228*
Aug. N	11,299	–1,500	540	*619*	600	–12	126	11,053	*–1,830*
Sept. N	7,133	0	16,228	*17,079*	1,200	946	0	25,506	*15,050*

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

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
1987 O	437,046	193,928	83,877	8,067	1,750	724,668	135,951	23,322	883,941
1988 O	494,362	240,324	94,873	12,097	1,925	843,581	139,571	28,586	1,011,738
1989 O	550,425	287,698	110,237	18,739	2,086	969,185	142,112	34,979	1,146,276
1990 O	635,360	323,405	122,954	21,913	2,339	1,105,971	140,091	48,799	1,294,860
1991 O	751,527	338,665	134,700	27,602	2,586	1,255,080	141,763	54,720	1,451,563
1992 O	826,193	395,378	146,115	35,565	2,900	1,406,151	165,979	64,653	1,636,783
1993 O	980,062	401,230	160,028	37,216	3,120	1,581,655	144,484	85,355	1,811,494
1994 – 1st qtr. O ..	1,021,715	396,430	163,263	38,710	3,167	1,623,286	143,300	85,310	1,851,896
N ..	1,010,830	"	"	16,641	"	1,590,331	"	73,243	1,806,874
2nd qtr. O ..	1,061,547	399,547	165,775	38,384	3,235	1,668,488	127,124	84,434	1,880,045
N ..	1,048,661	"	"	16,400	"	1,633,618	"	72,070	1,832,812
3rd qtr. O ..	1,084,671	397,765	168,345	38,967	3,314	1,693,061	141,271	87,988	1,922,319
N ..	1,071,812	"	"	16,997	"	1,658,233	"	75,239	1,874,743
4th qtr. O ..	1,126,646	399,206	184,110	34,463	3,329	1,747,753	137,787	95,948	1,981,488
N ..	1,113,787	"	"	16,047	"	1,716,479	"	83,084	1,937,350
1995 – 1st qtr. O ..	1,163,333	408,098	187,538	36,233	3,390	1,798,592	142,127	107,733	2,048,453
N ..	1,150,475	"	"	15,850	"	1,765,350	"	93,219	2,000,697
1995 – Apr. O ..	1,172,683	409,086	186,860	37,181	3,417	1,809,226	145,286	111,330	2,065,842
N ..	1,160,824	"	"	16,050	"	1,776,237	"	96,931	2,018,454
May O ..	1,173,632	409,822	188,711	38,531	3,441	1,814,137	149,979	112,681	2,076,797
N ..	1,161,774	"	"	17,400	"	1,781,148	"	98,298	2,029,425
June O ..	1,182,222	408,174	188,098	39,295	3,470	1,821,258	118,304	123,860	2,063,421
N ..	1,170,363	"	"	17,970	"	1,788,074	"	109,581	2,015,960
July O ..	1,187,485	407,287	188,937	39,495	3,500	1,826,703	116,871	121,635	2,065,209
N ..	1,175,827	"	"	18,170	"	1,793,720	"	107,601	2,018,192
Aug O ..	1,196,338	407,042	189,537	39,615	3,506	1,836,038	118,083	118,288	2,072,409
N ..	1,184,680	"	"	18,290	"	1,803,054	"	104,552	2,025,690
Sept. O	1,211,769	409,191	190,737	39,615	3,505	1,854,817	132,163	119,504	2,106,484
N ..	1,200,111	"	"	18,290	"	1,821,834	"	105,695	2,059,692

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

Table a22

Monetary base

(flows in billions of lire)

	Sources								Uses				
	Foreign sector		Treasury accounts	Other BI-UIC operations with the Treasury	Open market	Refi-nancing	Other sectors	TOTAL	Currency in circula-tion	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	106	822	8,422	9,263	69	*1,012*	–909	–841
1993	2,564	*–2,055*	–4,574	1,196	–14,098	–6,478	1,868	–19,522	4,152	–23,643	*–24,131*	–30	–23,673
1994	3,297	*–813*	–33,269	–21,474	47,451	236	–6,154	–9,913	6,452	–16,567	*–13,332*	202	–16,365
1994 – Sept.	–1,119	..	20,921	–3,623	–17,490	70	–2,643	–3,885	1,644	–5,769	*–4,645*	240	–5,529
Oct. .	–5,947	..	11,787	–5,941	63	–25	–108	–171	–292	201	*–860*	–79	121
Nov. .	–2,531	..	7,531	–2,331	365	38	574	3,646	1,581	1,394	*–760*	671	2,065
Dec. .	7,669	..	–26,469	–1,695	15,373	434	1,589	–3,099	5,392	–8,789	*–1,017*	298	–8,491
1994 – Jan. .	–3,741	..	–5,718	–2,534	9,295	–596	370	–2,924	–5,078	2,994	*–711*	–840	2,154
Feb. .	–1,034	..	–6,068	–3,312	5,328	2,716	–217	–2,587	–1,063	–1,268	*854*	–256	–1,524
Mar. .	–6,767	..	17,717	–2,308	–7,533	–1,230	–170	–292	2,574	–2,845	*–4,258*	–21	–2,866
Apr. .	2,046	..	1,607	–3,438	749	–1,336	197	–175	320	–670	*–1,670*	175	–495
May .	3,866	*2,932*	4,602	–3,689	–11,768	8,085	–911	185	–474	–22	*–1,322*	682	659
June	13,474	*6,554*	–34,424	–1,225	30,601	–7,895	3,294	3,825	–91	4,399	*–1,303*	–482	3,917
July .	591	..	–949	–1,278	–3,954	62	–3,062	8,590	2,375	–11,840	*–3,556*	874	–10,965
Aug. .	(–1,835)	..	(619)	(–2,448)	(3,031)	(107)	(–2,068)	(–2,595)	(–4,048)	(2,223)	*–1,313*	(–771)	(1,453)
Sept.	(–2,412)	..	(16,166)	(–1,116)	(–15,294)	(–21)	(–3,311)	(–5,988)	(1,684)	(–7,577)	*–4,785*	(–95)	(–7,672)

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	164,080	–50,266	–60,632	–37,094	477	–147,514	–19,262	–166,777	7,706	–10,402
1993	164,939	–6,028	–10,480	–117,666	–5,477	–139,652	–28,665	–168,317	–4,574	1,196
1994	162,156	–36,729	–37,630	–105,721	3,606	–176,475	–40,424	–216,899	–33,269	–21,474
1994 – Sept. ...	28,381	–5,884	–3,686	–3,248	3,077	–9,740	–1,343	–11,083	20,921	–3,623
Oct.	24,559	–6,369	–6,085	–7,750	–1,176	–21,379	2,666	–18,712	11,787	–5,941
Nov.	22,327	–5,198	–4,527	–4,472	–1,676	–15,872	–1,255	–17,127	7,531	–2,331
Dec.	6,575	–2,845	–3,418	–6,593	–895	–13,751	–20,989	–34,740	–26,469	–1,695
1995 – Jan.	11,379	–4,541	–2,330	–9,340	–17	–16,228	–3,402	–19,631	–5,718	–2,534
Feb.	9,331	–2,367	–3,120	–10,352	–2,849	–18,688	–24	–18,712	–6,068	–3,312
Mar.	18,990	–4,900	12,953	–10,542	–1,402	–3,891	310	–3,581	17,717	–2,308
Apr.	16,855	–4,747	972	–7,243	–3,695	–14,712	–3,973	–18,686	1,607	–3,438
May	13,721	–2,536	7,498	–10,313	264	–5,087	–7,721	–12,808	4,602	–3,689
June ...	–16,396	–866	–207	–7,937	237	–8,773	–10,479	–19,252	–34,424	–1,225
July	6,907	447	5,988	–8,731	–2,747	–5,043	–4,091	–9,134	–949	–1,278
Aug.	11,053	(–953)	(–240)	(–8,055)	(–3,005)	(–12,253)	–630	(–12,883)	(619)	(–2,448)
Sept. ...	25,506	(–1,144)	(3,048)	(–10,260)	(29)	(–8,327)	–2,129	(–10,456)	(16,166)	(–1,116)

Monetary base

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

	Sources											
	Foreign sector	*of which: currency swaps*	Government securities	Suspense account under Law 483/1993	Treasury overdraft with BI	Treasury payments account	Sinking fund for government securities	Other items	*of which: coins in circulation*	Credits & debits from temporary operations	Refinancing	Other sectors
1991	94,171	–	62,579	–	73,074	–	–	4,706	*1,516*	25,160	8,910	−58,141
1992	67,089	*31,702*	76,677	–	80,780	–	–	4,218	*1,618*	42,806	9,016	−61,705
1993	84,085	*33,897*	88,886	–	76,206	−30,670	–	5,038	*1,705*	47,544	2,538	−74,269
1994 – Sept.	89,481	*30,712*	113,116	76,206	–	−56,788	–	4,955	*1,782*	43,540	2,327	−83,767
Oct.	83,429	*30,621*	113,455	76,206	–	−45,001	–	3,634	*1,792*	38,644	2,302	−83,769
Nov.	82,251	*31,847*	193,344	–	–	−37,470	–	3,758	*1,807*	32,870	2,340	−84,550
Dec.	91,572	*32,129*	192,911	–	–	−58,018	−5,921	2,903	*1,816*	43,741	2,774	−80,517
1995 – Jan.	88,477	*31,629*	191,993	–	–	−63,732	−5,925	2,933	*1,826*	51,390	2,178	−80,794
Feb.	90,078	*33,309*	187,239	–	–	−69,800	−5,925	2,728	*1,838*	58,364	4,895	−83,646
Mar.	85,580	*34,410*	189,403	–	–	−52,083	−5,925	3,915	*1,848*	45,173	3,664	−86,085
Apr.	85,439	*33,822*	190,893	–	–	−50,475	−5,925	3,726	*1,859*	41,183	2,328	−83,702
May	87,625	*35,412*	191,755	–	–	−45,873	−5,925	2,650	*1,872*	25,941	10,413	−82,933
June	104,393	*42,533*	193,684	–	–	−80,295	−5,927	3,283	*1,885*	52,755	2,518	−82,933
July	101,976	*41,162*	192,799	–	–	−80,966	−6,205	3,523	*1,900*	48,167	2,580	−82,986
Aug.	(98,907)	*41,316*	(193,031)	–	–	(−80,347)	(−6,205)	(3,529)	*1,906*	48,512	(2,687)	(−83,820)
Sept.	(96,495)	*41,464*	(190,883)	–	–	(−63,268)	(−7,118)	(3,606)	*(1,906)*	34,172	(2,666)	(−87,131)

	Uses					Total monetary base
	Currency in circulation	Bank reserves: Deposits with the Bank of Italy	*of which: compulsory reserves*	Other	Total	
1991	76,354	127,474	*128,915*	6,630	134,104	210,458
1992	85,617	127,543	*129,927*	5,720	133,263	218,880
1993	89,769	103,899	*105,796*	5,691	109,590	199,359
1994 – Sept.	89,541	94,526	*95,101*	5,003	99,529	189,070
Oct.	89,248	94,727	*94,240*	4,924	99,650	188,898
Nov.	90,829	96,120	*93,481*	5,595	101,715	192,544
Dec.	96,221	87,332	*92,464*	5,893	93,225	189,445
1995 – Jan.	91,143	90,325	*91,753*	5,053	95,378	186,521
Feb.	90,080	89,058	*92,608*	4,796	93,854	183,934
Mar.	92,654	86,213	*88,349*	4,776	90,989	183,642
Apr.	92,974	85,543	*86,680*	4,951	90,494	183,468
May	92,500	85,521	*85,358*	5,632	91,154	183,653
June	92,408	89,920	*84,055*	5,150	95,071	187,479
July	94,783	78,081	*80,500*	6,025	84,105	178,888
Aug.	(90,735)	(80,304)	*79,186*	(5,254)	(85,558)	(176,292)
Sept.	(92,419)	(72,727)	*74,401*	(5,159)	(77,886)	(170,305)

Monetary base and BI operations:

(stocks in billions

	Monetary base						
		Bank reserves					
	Currency in circulation	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	3.7
1993 – Dec.	90,336	105,917	*121*	5,455	230	111,603	7.6
1994 – Sept.	89,204	95,263	*168*	4,990	243	100,496	3.0
Oct.	89,066	94,515	*278*	4,880	275	99,671	2.3
Nov.	91,748	93,661	*182*	5,173	249	99,083	1.2
Dec.	96,140	92,619	*151*	(5,732)	198	(98,549)	(0.7)
1995 – Jan.	91,678	91,879	*142*	(4,877)	263	(97,019)	(0.5)
Feb.	90,643	92,731	*139*	(4,615)	159	(97,504)	(–0.7)
Mar.	92,571	88,473	*174*	(4,662)	154	(93,290)	(–0.5)
Apr.	92,998	86,824	*161*	(4,906)	163	(91,893)	(–0.5)
May	92,902	85,516	*173*	(5,474)	164	(91,154)	(–1.0)
June	92,587	84,208	*153*	(5,009)	308	(89,525)	(–0.9)
July	93,769	80,639	*139*	(6,013)	223	(86,876)	(–0.3)
Aug.	91,960	79,343	*157*	(4,986)	180	(84,509)	(–0.8)
Sept.	91,736	74,730	*329*	(5,085)	168	(79,982)	(–0.2)

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	6.5	41,277	206	41,071	26,498	3,725	71,294
201,939	6.6	35,913	251	35,662	33,408	135	69,205
189,700	4.5	41,345	981	40,364	30,931	. .	71,295
188,737	3.8	33,164	1,098	32,066	30,811	81	62,958
190,831	3.2.	34,299	1,190	33,110	30,882	. .	63,991
(194,689)	(2.8)	36,428	1,231	35,197	31,386	200	66,783
(188,697)	(2.5)	44,790	1,226	43,564	31,684	264	75,512
(188,147)	(1.5)	48,706	1,342	47,363	31,988	2,572	81,923
(185,860)	(1.7)	42,040	1,374	40,666	32,946	1,442	75,054
(184,891)	(2.0)	28,973	1,676	27,297	35,194	418	62,909
(184,057)	(1.3)	25,534	1,644	23,890	37,824	7,481	69,194
(182,112)	(1.3)	39,436	1,570	37,867	41,685	724	80,276
(180,644)	(0.9)	41,785	1,634	40,151	42,514	522	83,187
(176,469)	(0.7)	43,194	1,706	41,487	41,475	180	83,142
(171,718)	(0.9)	23,391	1,923	21,468	41,199	188	62,855

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Table a25

BI-UIC operations in government securities

(billions of lire)

	Outright operations					Temporary operations			Total
	Primary market			Open market	Total	Purchases	Sales	Net purchases	
	Subscriptions	Redemptions	Net subscriptions						
					Total				
1993	32,677	1,631	31,046	–18,836	12,209	4,731	7	4,738	16,947
1994	350	19,690	–19,339	51,251	31,912	–3,069	–733	–3,803	28,112
1994 – Aug.	10	2,670	–2,660	9,240	6,580	6,174	–143	6,031	12,611
Sept.	8	3,548	–3,540	1,447	–2,093	–19,016	79	–18,937	–21,030
Oct.	9	4,629	–4,620	4,959	339	–4,524	–372	–4,896	–4,557
Nov.	4	2,459	–2,455	6,138	3,683	–5,819	45	–5,774	–2,090
Dec.	5	845	–840	4,500	3,660	10,651	220	10,871	14,533
1995 – Jan.	7	2,570	–2,564	1,646	–917	7,923	–274	7,649	6,731
Feb.	10	3,118	–3,108	–1,646	–4,754	7,042	–68	6,974	2,220
Mar.	11	3,506	–3,495	5,659	2,164	–13,058	–133	–13,192	–11,028
Apr.	6	3,254	–3,248	4,739	1,490	–3,727	–262	–3,989	–2,499
May	7	2,619	–2,613	3,475	862	–15,320	77	–15,243	–14,381
June	20	1,878	–1,858	3,787	1,929	26,868	–54	26,814	28,743
July	6	1,525	–1,519	633	–885	–4,765	177	–4,587	–5,473
Aug.	(6)	(2,460)	(–2,454)	(2,686)	(232)	645	–301	344	577
Sept.	–	(1,194)	(–1,194)	(–954)	(–2,148)	–14,108	–231	–14,340	(–16,488)
				of which:	***Treasury bills (BOT)***				
1993	850	398	452	–159	293	2,722	–	2,722	3,015
1994	–	17,574	–17,574	31,236	13,661	3,391	–	3,391	17,052
1994 – Aug.	–	2,665	–2,665	6,883	4,218	1,086	–	1,086	5,304
Sept.	–	2,383	–2,383	896	–1,487	–5,001	–	–5,001	–6,488
Oct.	–	4,618	–4,618	3,987	–632	–2,258	–	–2,258	–2,890
Nov.	–	2,450	–2,450	5,365	2,915	–997	–	–997	1,918
Dec.	–	845	–845	1,228	383	6,634	–	6,634	7,017
1995 – Jan.	–	2,541	–2,541	1,246	–1,296	–1,740	–	–1,740	–3,036
Feb.	–	3,115	–3,115	–201	–3,316	725	–	725	–2,591
Mar.	–	2,902	–2,902	1,873	–1,030	–2,183	–	–2,183	–3,213
Apr.	–	3,247	–3,247	3,753	506	–3,455	–	–3,455	–2,949
May	–	2,536	–2,536	1,805	–731	–3,658	–	–3,658	–4,389
June	–	1,866	–1,866	2,517	651	2,315	–	2,315	2,966
July	–	1,303	–1,303	441	–862	–1,570	–	–1,570	–2,433
Aug.	–	(2,453)	(–2,453)	(1,163)	(–1,290)	732	–	732	(–558)
Sept.	–	(1,144)	(–1,144)	(–1,005)	(–2,149)	–1,791	–	–1,791	(–3,940)

Table a25 cont.

BI-UIC operations in government securities

(billions of lire)

	Outright operations					Temporary operations			Total
	Primary market			Open market	Total	Purchases	Sales	Net purchases	
	Subscriptions	Redemptions	Net subscriptions						
				of which: ***Treasury credit certificates (CCT)***					
1993	10,538	320	10,218	–4,980	5,237	–9,688	65	–9,623	–4,386
1994	44	45	–1	1,305	1,304	3,214	33	3,247	4,551
1994 – Aug.	4	..	4	295	298	5,283	3	5,286	5,584
Sept.	3	4	–1	642	641	–5,037	–1	–5,038	–4,397
Oct.	5	5	..	–194	–193	–1,832	–1	–1,833	–2,026
Nov.	1	5	–4	–59	–63	76	..	76	13
Dec.	1	..	1	641	642	4,581	..	4,581	5,223
1995 – Jan.	2	3	–1	–392	–393	–172	46	–126	–519
Feb.	3	4	–1	–1,006	–1,007	4,957	–5	4,952	3,945
Mar.	3	602	–599	527	–73	–4,732	10	–4,722	–4,795
Apr.	2	7	–6	–10	–16	–3,023	–50	–3,073	–3,089
May	1	67	–66	38	–28	–2,288	–12	–2,300	–2,328
June	16	7	10	–131	–121	8,471	–42	8,429	8,308
July	1	221	–219	–430	–649	–3,070	..	–3,070	–3,720
Aug.	(3)	(5)	(–2)	(24)	(22)	–1,893	–302	–2,195	(–2,173)
Sept.	..	(36)	(–36)	(–205)	(–241)	–2,463	303	–2,160	(–2,401)
				of which: ***Treasury bonds (BTP)***					
1993	21,226	407	20,819	–12,856	7,963	13,358	–58	13,300	21,263
1994	119	1,382	–1,263	17,662	16,399	–10,242	–767	–11,009	5,390
1994 – Aug.	5	..	5	1,228	1,233	–982	–94	–1,076	157
Sept.	5	954	–949	–70	–1,019	–8,016	28	–7,988	–9,007
Oct.	4	..	4	1,148	1,152	–62	–371	–433	719
Nov.	4	2	1	706	707	–4,200	46	–4,154	–3,447
Dec.	3	..	3	2,232	2,235	–611	218	–393	1,842
1995 – Jan.	5	..	5	799	804	6,399	–319	6,080	6,884
Feb.	7	..	7	–290	–282	–260	–63	–323	–605
Mar.	8	..	8	3,128	3,136	–2,888	–144	–3,032	104
Apr.	4	..	4	768	772	4,713	–211	4,502	5,274
May	5	..	5	1,629	1,634	–8,482	90	–8,392	–6,758
June	4	..	4	1,356	1,360	13,139	–31	13,108	14,468
July	5	..	5	(243)	(248)	–1,775	156	–1,619	–1,371
Aug.	(3)	..	(3)	(1,401)	(1,404)	939	–191	748	(2,152)
Sept.	..	..	..	(–39)	(–39)	–7,023	–282	–7,305	(–7,344)

Table a26

Treasury bill auctions

	Maturing bills			Bills offered	Maturity (days)	Market demand	Bills allotted at auction	Average allotment price	Yields	
	Market	BI	Total						after-tax	gross
					3-month					
1994 – mid-Oct.	3,714	36	3,750	4,500	94	9,890	4,500	97.72	8.14	9.37
end- "	10,864	2,136	13,000	13,500	91	19,665	13,500	97.76	8.26	9.51
mid-Nov.	3,750	..	3,750	4,750	92	15,345	4,750	97.79	8.06	9.27
end- "	12,450	50	12,500	13,500	90	20,398	13,500	97.86	7.97	9.17
mid-Dec.	6,000	..	6,000	5,500	90	8,486	5,500	97.85	8.01	9.21
end- "	15,000	..	15,000	15,000	90	18,250	15,000	97.83	8.08	9.31
1995 – mid-Jan.	4,500	..	4,500	5,000	88	9,068	5,000	97.84	8.24	9.48
end- "	13,385	115	13,500	14,000	88	18,477	14,000	97.85	8.20	9.43
mid-Feb.	4,720	30	4,750	5,000	89	10,305	5,000	97.92	7.82	9.00
end- "	13,390	110	13,500	13,500	91	20,541	13,500	97.67	8.61	9.92
mid-Mar.	5,500	..	5,500	6,500	92	11,226	6,500	97.38	9.64	11.11
end- "	14,900	100	15,000	15,500	92	20,130	15,500	97.22	10.26	11.84
mid-Apr.	5,000	..	5,000	6,000	91	12,666	6,000	97.41	9.63	11.10
end- "	14,000	..	14,000	15,000	94	19,936	15,000	97.24	9.96	11.48
mid-May	5,000	..	5,000	5,500	91	10,373	5,500	97.60	8.89	10.23
end- "	13,474	26	13,500	13,500	92	17,756	13,500	97.45	9.37	10.79
mid-June	6,425	75	6,500	6,000	92	10,364	6,000	97.40	9.56	11.02
end- "	15,402	98	15,500	15,000	91	20,351	15,000	97.39	9.71	11.19
mid-July	5,629	371	6,000	5,500	94	9,239	5,500	97.36	9.50	10.95
end- "	14,975	25	15,000	14,500	91	18,352	14,500	97.43	9.55	11.01
mid-Aug.	5,300	200	5,500	5,250	93	9,566	5,250	97.42	9.38	10.80
end- "	13,060	440	13,500	13,000	92	16,598	13,000	97.52	9.09	10.48
mid-Sept.	6,000	..	6,000	6,000	91	8,575	6,000	97.55	9.08	10.46
end- "	15,000	..	15,000	15,000	91	20,865	15,000	97.44	9.51	10.96
mid-Oct.	5,500	..	5,500	6,000	91	10,705	6,000	97.49	9.32	10.73
					6-month					
1994 – mid-Oct.	5,536	464	6,000	6,000	182	8,394	6,000	95.43	8.53	9.84
end- "	14,493	507	15,000	15,500	179	19,446	15,500	95.47	8.60	9.91
mid-Nov.	4,945	55	5,000	5,750	181	12,584	5,750	95.53	8.38	9.66
end- "	13,258	743	14,000	14,000	181	19,524	14,000	95.57	8.30	9.57
mid-Dec.	4,859	141	5,000	5,500	182	9,422	5,500	95.57	8.25	9.51
end- "	12,121	379	12,500	13,000	182	16,083	13,000	95.44	8.51	9.81
1995 – mid-Jan.	5,823	177	6,000	6,500	179	8,667	6,500	95.39	8.76	10.10
end- "	13,231	769	14,000	14,500	182	17,614	14,500	95.44	8.51	9.81
mid-Feb.	5,479	1,021	6,500	6,250	180	9,565	6,250	95.63	8.23	9.48
end- "	13,833	667	14,500	14,500	183	18,614	14,500	95.19	8.95	10.33
mid-Mar.	5,741	259	6,000	6,500	184	8,294	6,500	94.69	9.90	11.43
end- "	13,276	1,224	14,500	14,500	183	17,049	14,500	94.40	10.54	12.18
mid-Apr.	5,850	150	6,000	6,000	185	9,907	6,000	94.71	9.80	11.32
end- "	14,290	1,210	15,500	15,500	185	18,039	15,500	94.55	10.12	11.69
mid-May	5,595	155	5,750	5,750	184	11,746	5,750	95.14	9.00	10.39
end- "	12,999	1,001	14,000	14,000	184	20,557	14,000	94.91	9.46	10.92
mid-June	4,891	609	5,500	5,500	183	11,047	5,500	94.91	9.51	10.98
end- "	12,703	297	13,000	13,000	182	17,411	13,000	94.88	9.63	11.12
mid-July	6,479	21	6,500	6,500	185	9,237	6,500	94.86	9.50	10.97
end- "	14,450	50	14,500	14,250	184	18,021	14,250	94.83	9.62	11.10
mid-Aug.	6,095	155	6,250	6,250	185	8,560	6,250	94.91	9.41	10.86
end- "	13,391	1,109	14,500	14,000	183	17,550	14,000	95.07	9.19	10.61
mid-Sept.	6,312	188	6,500	6,500	182	8,292	6,500	95.22	8.95	10.32
end- "	14,294	206	14,000	14,500	182	17,262	14,500	94.93	9.53	11.00
mid-Oct.	6,000	..	6,000	6,000	182	9,956	6,000	95.00	9.39	10.83

Treasury bill auctions

	Maturing bills			Bills offered	Maturity (days)	Market demand	Bills allotted at auction	Average allotment price	Yields	
	Market	BI	Total						after-tax	gross
					12-month					
1994 – mid-Oct.	6,690	310	7,000	7,000	367	8,434	7,000	90.35	9.17	10.62
end- "	15,834	1,166	17,000	17,000	364	19,855	17,000	90.35	9.25	10.71
mid-Nov.	6,499	501	7,000	7,000	365	14,973	7,000	90.60	8.96	10.38
end- "	12,399	1,102	13,500	13,500	365	19,138	13,500	90.75	8.81	10.19
mid-Dec.	3,379	121	3,500	4,500	365	7,285	4,500	90.80	8.75	10.13
end- "	14,297	203	14,500	15,000	364	19,864	15,000	90.50	9.09	10.53
1995 – mid-Jan.	6,883	617	7,500	7,500	364	8,334	7,500	90.45	9.14	10.59
end- "	16,137	863	17,000	17,000	366	22,492	17,000	90.45	9.09	10.53
mid-Feb.	6,705	295	7,000	7,250	365	11,780	7,250	90.80	8.75	10.13
end- "	15,008	992	16,000	15,000	366	19,743	15,000	90.20	9.35	10.84
mid-Mar.	4,695	305	5,000	5,500	366	8,047	5,500	89.40	10.20	11.82
end- "	12,986	1,014	14,000	13,500	365	15,404	13,500	89.15	10.49	12.17
mid-Apr.	4,308	192	4,500	4,500	367	7,897	4,500	89.70	9.85	11.42
end- "	11,305	1,695	13,000	12,500	368	15,202	12,500	89.25	10.30	11.95
mid-May	5,057	443	5,500	5,000	366	8,700	5,000	90.55	8.99	10.41
end- "	9,590	910	10,500	10,500	367	14,843	10,500	90.10	9.43	10.93
mid-June	3,671	329	4,000	4,000	365	6,217	4,000	90.05	9.54	11.05
end- "	10,042	458	10,500	10,500	364	12,590	10,500	89.95	9.67	11.20
mid-July	5,067	183	5,250	5,000	367	7,443	5,000	90.05	9.48	10.99
end- "	12,847	653	13,500	13,250	366	14,727	13,250	90.00	9.56	11.08
mid-Aug.	5,651	99	5,750	5,500	366	7,479	5,500	90.25	9.30	10.77
end- "	11,551	449	12,000	12,000	366	14,900	12,000	90.45	9.09	10.53
mid-Sept.	5,300	700	6,000	6,000	367	9,910	6,000	90.50	9.02	10.44
end- "	14,450	50	14,500	14,500	367	14,951	14,500	90.15	9.38	10.87
mid-Oct.	6,677	323	7,000	6,500	365	14,005	6,500	90.25	9.33	10.80
					Total					
1994 – mid-Oct.	15,941	809	16,750	17,500	–	26,718	17,500	–	8.69	10.03
end- "	41,191	3,809	45,000	46,000	–	58,966	46,000	–	8.74	10.09
mid-Nov.	15,194	556	15,750	17,500	–	42,902	17,500	–	8.53	9.84
end- "	38,106	1,894	40,000	41,000	–	59,059	41,000	–	8.36	9.64
mid-Dec.	14,238	262	14,500	15,500	–	25,193	15,500	–	8.31	9.58
end- "	41,418	582	42,000	43,000	–	54,197	43,000	–	8.56	9.89
1995 – mid-Jan.	17,206	794	18,000	19,000	–	26,068	19,000	–	8.77	10.13
end- "	42,753	1,747	44,500	45,500	–	58,583	45,500	–	8.63	9.96
mid-Feb.	16,904	1,346	18,250	18,500	–	31,651	18,500	–	8.32	9.60
end- "	42,231	1,769	44,000	43,000	–	58,898	43,000	–	8.98	10.38
mid-Mar.	15,936	564	16,500	18,500	–	27,567	18,500	–	9.90	11.43
end- "	41,162	2,338	43,500	43,500	–	52,584	43,500	–	10.42	12.06
mid-Apr.	15,158	342	15,500	16,500	–	30,470	16,500	–	9.75	11.27
end- "	39,595	2,905	42,500	43,000	–	53,178	43,000	–	10.12	11.69
mid-May	15,652	598	16,250	16,250	–	30,819	16,250	–	8.96	10.34
end- "	36,063	1,937	38,000	38,000	–	53,157	38,000	–	9.42	10.88
mid-June	14,987	1,013	16,000	15,500	–	27,628	15,500	–	9.54	11.01
end- "	38,147	853	39,000	38,500	–	50,353	38,500	–	9.67	11.17
mid-July	17,175	575	17,750	17,000	–	25,920	17,000	–	9.49	10.97
end- "	42,272	728	43,000	42,000	–	51,099	42,000	–	9.58	11.06
mid-Aug.	17,045	455	17,500	17,000	–	25,604	17,000	–	9.37	10.81
end- "	38,002	1,998	40,000	39,000	–	49,048	39,000	–	9.13	10.54
mid-Sept.	17,612	888	18,500	18,500	–	26,777	18,500	–	9.01	10.40
end- "	43,744	256	44,000	44,000	–	53,078	44,000	–	9.47	10.94
mid-Oct.	18,177	323	18,500	18,500	–	34,666	18,500	–	9.35	10.79

Table a27

Bank of Italy repurchase agreements

DATE OF AUCTION	Amount		Maturity (days)		Allotment rates	
	offered	taken up	minimum	maximum	marginal	weighted average
1995 – Feb. 23	5,500	5,500	17	18	8.85	8.92
1995 – Mar. 1	5,000	5,000	15	15	10.00	10.01
1995 – Mar. 2	7,000	7,000	14	14	9.85	9.89
1995 – Mar. 3	8,000	8,000	31	31	9.85	9.89
1995 – Mar. 8	9,000	9,000	13	13	10.20	10.24
1995 – Mar. 10	4,500	4,500	9	12	10.10	10.18
1995 – Mar. 15	10,000	10,000	19	19	10.25	10.26
1995 – Mar. 16	10,000	10,000	15	15	10.40	10.51
1995 – Mar. 21	9,000	9,000	14	14	10.60	10.68
1995 – Mar. 22	4,500	4,500	13	14	10.05	10.12
1995 – Mar. 24	4,500	4,500	14	14	10.25	10.29
1995 – Mar. 27	5,000	5,000	14	14	10.15	10.18
1995 – Mar. 31	7,000	7,000	32	32	10.35	10.39
1995 – Apr. 3	7,500	7,500	32	32	10.44	10.47
1995 – Apr. 4	8,500	8,500	34	34	10.54	10.56
1995 – Apr. 5	5,000	5,000	8	8	10.33	10.36
1995 – Apr. 7	7,000	7,000	8	11	10.34	10.36
1995 – Apr. 12	5,000	5,000	27	27	10.46	10.48
1995 – Apr. 26	6,000	6,000	25	26	10.56	10.59
1995 – Apr. 27	11,000	11,000	5	5	10.49	10.53
1995 – May 5	8,000	8,000	23	26	10.31	10.34
1995 – May 9	5,000	5,000	22	22	10.26	10.28
1995 – May 22	7,000	7,000	22	23	10.26	10.29
1995 – May 25	6,000	6,000	24	25	10.35	10.38
1995 – May 26	7,000	7,000	26	26	10.40	10.46
1995 – June 5	11,000	11,000	28	28	10.54	10.58
1995 – June 15	14,000	14,000	17	18	10.53	10.56
1995 – June 19	8,000	8,000	18	18	10.61	10.64
1995 – June 21	7,000	7,000	19	19	10.58	10.60
1995 – June 26	13,500	11,719	18	18	10.44	10.54
1995 – June 27	4,000	4,000	20	20	10.53	10.55
1995 – July 7	8,000	8,000	25	25	10.59	10.60
1995 – July 10	10,000	10,000	30	30	10.53	10.54
1995 – July 17	12,000	12,000	30	31	10.58	10.61
1995 – July 24	10,000	10,000	28	29	10.50	10.53
1995 – July 26	11,500	10,811	23	23	10.30	10.47
1995 – Aug. 1	5,000	5,000	30	31	10.51	10.52
1995 – Aug. 9	7,500	7,500	33	33	10.36	10.38
1995 – Aug. 11	2,500	2,500	5	5	10.07	10.08
1995 – Aug. 17	10,500	10,500	32	32	10.22	10.26
1995 – Aug. 18	11,000	11,000	32	32	10.15	10.19
1995 – Aug. 22	10,000	10,000	10	10	10.07	10.12
1995 – Aug. 25	7,000	6,158	6	6	10.00	10.02
1995 – Aug. 28	7,000	7,000	16	16	10.02	10.06
1995 – Sept. 8	5,500	5,500	21	24	10.13	10.15
1995 – Sept. 13	6,000	6,000	19	19	10.13	10.15
1995 – Sept. 18	6,000	6,000	13	14	10.13	10.15
1995 – Sept. 19	11,500	11,500	13	13	10.13	10.14
1995 – Sept. 25	7,000	7,000	9	9	10.31	10.33
1995 – Sept. 26	7,000	7,000	3	3	10.29	10.32
1995 – Oct. 3	10,000	10,000	12	13	10.36	10.37
1995 – Oct. 16	5,000	5,000	17	17	10.38	10.40

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– 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
1995– Feb. 23	4,000	4,000	92	1,616.00	12.31	12.39	9.22	9.23
1995– Mar. 3	2,500	2,500	96	1,672.50	15.58	15.67	9.95	9.98
1995– Mar. 16	5,000	5,000	35	1,690.00	6.50	6.70	10.62	10.75
1995– Apr. 18	5,000	5,000	32	1,698.00	6.36	6.39	10.36	10.38
1995– Apr. 21	5,000	5,000	91	1,732.00	19.83	19.94	10.79	10.81
1995– May 18	5,000	5,000	31	1,658.00	16.18	16.23	10.00	10.02
1995– May 25	4,000	4,000	92	1,662.00	17.50	17.53	10.25	10.25
1995– June 5	4,000	4,000	30	1,628.50	19.02	19.13	10.54	10.56
1995– July 24	5,000	5,000	92	1,598.50	18.75	19.62	10.60	10.81
1995– Aug. 18	5,000	5,000	92	1,625.00	17.55	17.64	10.23	10.25
1995– Aug. 28	4,000	4,000	92	1,620.00	17.38	17.47	10.14	10.16
1995– Sept. 5	4,000	4,000	91	1,625.50	17.68	17.75	10.24	10.26
				Purchases of Deutsche Marks				
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
1995– Mar. 21	5,000	5,000	31	1,232.00	6.55	6.63	10.94	11.02
1995– Apr. 20	5,000	5,000	30	1,261.00	6.18	6.21	10.47	10.49
1995– May 3	3,500	3,500	32	1,212.00	6.17	6.19	10.31	10.33
1995– May 22	4,000	4,000	31	1,162.00	5.90	5.94	10.06	10.10
1995– June 1	4,000	4,000	30	1,160.00	5.82	5.84	10.54	10.56
1995– June 21	3,000	3,000	31	1,177.50	6.07	6.09	10.57	10.59
1995– June 22	4,000	4,000	14	1,175.00	2.67	2.69	10.48	10.51
1995– July 4	4,000	4,000	32	1,174.00	6.15	6.18	10.48	10.50
1995– July 6	4,000	4,000	31	1,172.00	5.98	5.99	10.51	10.52
1995– July 20	3,000	3,000	31	1,172.00	6.13	6.15	10.66	10.68
1995– Aug. 3	4,000	4,000	14	1,134.00	2.50	2.52	10.18	10.22
1995– Aug. 8	4,000	4,000	32	1,124.50	5.76	5.79	10.22	10.25
1995– Aug. 17	4,000	4,000	31	1,096.00	5.21	5.22	10.04	10.05
1995– Aug. 22	3,000	3,000	32	1,094.00	5.45	5.47	10.06	10.08
1995– Sept. 7	4,000	4,000	30	1,096.00	5.30	5.32	10.01	10.03
1995– Sept.19	4,000	4,000	32	1,088.00	5.65	5.67	10.05	10.06
1995– Sept.21	3,000	3,000	30	1,118.00	5.61	5.63	10.17	10.19
1995– Oct. 9	4,000	4,000	33	1,136.00	6.57	6.58	10.40	10.40
1995– Oct. 19	4,000	4,000	14	1,128.50	2.67	2.68	10.22	10.24

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
1995 – 5 January	1,000	1,149	1,000	161	176	9.00	9.21
9 March	1,500	1,988	1,500	113	174	10.03	10.09
13 April	1,250	1,662	1,250	78	139	10.02	10.25
14 April	750	1,620	750	154	230	10.31	10.36
20 April	1,000	1,591	1,000	40	102	10.20	10.22
3 May	1,000	1,250	1,000	89	180	9.80	10.21
24 May	1,000	2,007	1,000	82	159	10.14	10.25
9 June	1,500	1,897	1,500	82	174	10.20	10.41
20 June	1,000	2,585	1,000	101	192	10.67	10.67
19 July	1,000	2,107	1,000	119	163	10.55	10.74
24 August	1,500	2,381	1,500	67	160	10.02	10.09
1 September	–1,000	–3,080	–1,000	59	59	10.42	10.37
2 October	1,500	1,879	1,500	88	121	10.10	10.17

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
May 29	9.00	9.00	1.50	10.50

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
Feb. ..	8.25	9.75	8.80	8.82	8.44	8.48	9.67	10.07	10.61	10.15
Mar. ..	8.25	9.75	10.50	10.58	10.17	10.22	11.62	11.95	12.07	11.87
Apr. ..	8.25	9.75	10.54	10.56	10.45	10.48	11.37	11.59	11.81	11.57
May ..	9.00	10.50	10.16	10.18	10.32	10.35	10.63	10.77	10.76	10.72
June .	9.00	10.50	10.53	10.56	10.54	10.58	11.14	11.08	11.16	11.12
July ..	9.00	10.50	10.56	10.63	10.50	10.55	10.99	11.06	11.06	11.04
Aug. ..	9.00	10.50	10.15	10.17	10.18	10.20	10.57	10.69	10.61	10.62
Sept. .	9.00	10.50	10.12	10.14	10.19	10.21	10.82	10.79	10.74	10.78

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	24-month	minimum	average	
1991	12.25	12.30	13.10	12.92	12.28	9.29	....	....	....	11.30	13.83	13.00
1992	13.58	12.72	13.94	13.85	13.59	10.76	8.62	....	....	13.37	16.93	14.00
1993	8.85	8.67	8.66	8.59	8.40	7.86	6.74	....	....	9.02	11.99	9.88
1994 – Sept. ...	8.46	8.17	8.34	8.72	8.45	6.67	5.70	....	....	8.26	11.32	9.38
Oct.	8.45	8.16	8.41	8.85	8.61	6.69	5.69	....	....	8.31	11.24	9.38
Nov.	8.42	8.20	8.42	8.76	8.52	6.81	5.70	....	....	8.35	11.21	9.38
Dec.	8.51	8.20	8.70	9.04	8.84	6.86	5.74	....	....	8.30	11.12	9.38
1995 – Jan.	8.75	8.42	8.73	9.13	8.93	7.09	5.79	....	....	8.37	11.25	9.38
Feb.	8.87	8.39	8.73	9.09	8.85	7.10	5.86	7.57	8.17	8.43	11.41	10.00
Mar.	10.44	10.22	10.65	11.01	10.72	7.36	5.97	7.94	8.50	8.80	11.93	10.13
Apr.	10.73	10.42	10.57	10.96	10.73	7.65	6.11	8.17	8.69	9.33	12.43	10.88
May	10.68	10.27	10.33	10.45	10.26	7.85	6.22	8.27	8.69	9.61	12.53	11.38
June ...	10.96	10.62	10.76	10.95	10.67	8.15	6.35	8.44	8.79	9.96	12.89	11.63
July	10.92	10.44	10.64	10.96	10.76	8.37	6.46	8.57	8.87	10.06	12.95	11.50
Aug.	10.70	10.26	10.31	10.47	10.29	8.40	6.54	8.59	8.97	10.10	12.97	11.50
Sept. ...	(10.49)	10.26	10.31	10.40	(10.22)	(8.41)	(6.60)	(8.61)	(9.03)	(10.04)	(12.90)	11.50

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	886,244	274,235	2,600	34,950	14,373	47,199	97,583	124,901
1992	132,065	989,183	327,513	3,020	38,743	16,427	54,729	157,849	165,187
1993	108,626	1,028,446	349,770	3,172	40,255	27,792	70,185	171,104	229,057
1994 – Sept. ..	99,210	1,004,475	377,475	1,968	46,839	16,298	85,653	139,019	181,173
Oct. ...	99,385	1,006,701	381,469	2,179	46,972	15,719	87,063	146,570	185,196
Nov. ...	101,044	1,006,929	377,815	2,077	46,934	16,420	88,954	148,399	182,589
Dec. ...	92,888	1,039,792	385,969	3,392	46,675	16,846	91,108	165,436	201,953
1995 – Jan. ...	95,290	1,026,600	372,964	2,740	44,930	13,376	93,385	129,313	185,752
Feb. ...	93,835	1,036,397	373,266	2,588	44,926	16,081	95,363	134,846	199,374
Mar. ...	90,838	1,044,457	373,040	1,801	44,939	13,559	97,427	138,174	214,061
Apr. ...	90,407	1,046,727	371,517	1,667	50,672	13,205	98,966	126,737	192,594
May ...	90,936	1,043,094	358,772	1,597	50,612	14,742	100,010	129,113	198,326
June ..	94,900	1,058,476	357,660	1,649	50,698	14,462	100,871	132,947	196,939
July ...	84,039	1,058,651	346,140	1,576	52,379	....	102,145	124,384	(193,517)
Aug. ...	85,296	1,043,306	346,985	1,547	52,727	....	102,712	131,465	(197,557)
Sept. ..	....	(1,040,000)	....	....	....	....	....	....	....

	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	821,006	*223,729*	153,174	8,742	8,858	78,156	103,403	162,498	279,783	–477
1992	852,840	*275,994*	166,407	7,414	8,936	138,035	159,320	189,993	367,496	–5,727
1993	919,115	*315,207*	194,113	8,486	2,722	142,945	179,086	206,017	369,979	5,943
1994 – Sept. ..	872,331	*306,787*	213,188	8,491	4,166	131,268	143,038	220,232	360,045	–649
Oct. ...	871,090	*306,146*	213,230	8,410	4,675	140,132	147,623	220,689	356,991	8,413
Nov. ...	859,757	*307,580*	214,935	8,388	5,211	140,261	150,837	221,587	360,845	9,341
Dec. ...	923,371	*309,379*	217,028	8,982	6,173	132,680	166,671	219,387	375,663	–5,895
1995 – Jan. ...	879,832	*318,196*	216,480	6,253	3,743	158,144	145,433	222,629	367,300	–35,466
Feb. ...	880,463	*318,849*	217,319	6,120	6,393	168,798	151,918	226,635	382,612	–43,581
Mar. ...	877,662	*322,194*	216,184	5,967	5,091	156,587	154,225	230,692	407,576	–35,687
Apr. ...	877,942	*321,609*	215,453	6,189	3,315	164,733	141,625	228,532	383,670	–28,967
May ...	870,698	*323,236*	215,682	6,198	10,813	152,155	145,503	227,111	370,594	–11,551
June ..	879,617	*324,516*	215,124	6,391	2,701	169,897	148,447	228,253	375,803	–17,631
July ...	862,608	*323,791*	213,937	6,492	2,755	....	137,853	228,788	357,534	....
Aug. ...	859,433	*326,476*	214,814	7,418	2,782	....	143,441	231,560	344,743	....
Sept. ..	(880,900)	....	(216,500)	....	....	....	....	....	....	....

Table a34

Principal assets and liabilities of banks accepting short-term funds

(billions of lire)

	Assets										
	Bank reserves	Loans: in lire	Loans: in foreign currency	Securities	Securities, of which: short-term govern-ment securities	Securities, of which: other govern-ment securities	Shares and participating interests	Repos	Bad debts and protested bills	Interbank accounts	Interest-bearing external assets
1991	132,952	607,196	92,479	264,038	*31,424*	*171,899*	32,802	9,314	39,366	92,450	113,366
1992	132,003	640,315	141,550	321,336	*31,129*	*226,028*	36,942	11,091	47,367	153,663	148,534
1993	108,616	685,426	121,243	330,281	*72,999*	*204,012*	38,765	20,182	60,317	166,371	211,117
1994 – Sept. .	99,194	676,947	107,597	361,730	*66,930*	*240,793*	43,519	11,915	73,386	134,086	163,485
Oct. ..	99,372	682,515	106,592	364,962	*65,944*	*244,325*	43,771	11,366	74,397	141,148	167,685
Nov. ..	101,033	682,787	105,842	361,518	*60,086*	*246,602*	43,519	12,097	75,795	142,646	165,269
Dec. ..	92,852	710,402	104,096	369,083	*67,741*	*245,192*	43,958	12,553	77,852	159,357	183,892
1995 – Jan. ..	95,281	706,464	103,998	355,160	*57,804*	*244,353*	41,863	11,654	79,515	120,122	172,649
Feb. ..	93,818	707,840	111,860	354,510	*53,489*	*248,063*	41,852	14,209	81,185	124,750	184,837
Mar. ..	90,824	709,807	118,213	354,264	*50,243*	*250,408*	40,946	11,897	82,326	129,738	195,342
Apr. ..	90,400	719,234	112,241	353,196	*46,765*	*253,038*	46,530	12,073	83,265	119,467	176,538
May ..	90,927	722,364	106,166	342,079	*43,053*	*245,422*	46,396	14,006	84,233	122,628	181,739
June .	94,863	734,384	104,970	341,647	*43,864*	*243,814*	46,783	14,069	84,847	124,107	181,473
July ..	84,020	742,882	99,597	330,974	*38,955*	*241,217*	48,384	13,794	85,983	117,132	178,292
Aug. ..	85,281	732,661	94,321	331,931	*38,576*	*242,980*	48,739	15,712	86,583	124,143	180,833
Sept. .	....	(730,000)	(93,000)	....	....	....	....	....	....	....	....

	Liabilities										
	Deposits	Deposits, of which: current accounts	Deposits, of which: CDs	Residents' foreign currency accounts	Bonds	Loans from BI-UIC	Repos	Interbank accounts	Capital and reserves	Interest-bearing external liabilities	Other items
1991	772,049	*435,885*	*175,961*	5,203	70,375	8,826	75,170	99,460	137,988	214,133	758
1992	801,975	*431,774*	*226,165*	11,274	85,456	8,870	136,615	154,732	164,237	292,088	–22,445
1993	866,020	*461,746*	*263,844*	14,178	98,292	2,454	132,776	170,733	177,823	292,899	–12,858
1994 – Aug. ..	815,508	*425,033*	*260,871*	15,950	107,877	2,199	157,691	141,925	187,291	288,630	–28,890
Sept. .	822,301	*433,296*	*258,150*	16,061	108,331	2,263	128,703	137,490	189,731	289,214	–22,233
Oct. ..	820,983	*433,189*	*257,702*	15,873	108,036	2,251	136,725	142,121	190,188	286,078	–10,445
Nov. ..	810,327	*421,479*	*259,455*	15,394	109,644	2,265	136,011	144,696	191,086	288,760	–7,677
Dec. ..	873,266	*477,440*	*261,048*	14,830	109,708	2,705	127,588	158,633	187,258	302,160	–22,103
1995 – Jan. ..	829,982	*436,278*	*270,160*	15,449	109,209	2,174	152,599	129,330	191,154	294,789	–37,979
Feb. ..	830,738	*438,147*	*270,884*	15,735	109,577	4,824	162,221	135,888	194,995	306,920	–46,037
Mar. ..	828,254	*434,661*	*274,383*	18,263	109,330	3,522	150,919	136,670	198,516	331,333	–43,450
Apr. ..	828,374	*435,555*	*273,743*	18,316	109,674	2,172	159,410	124,304	196,293	310,475	–36,076
May ..	821,231	*429,484*	*275,503*	18,808	110,598	9,947	149,490	127,415	194,895	298,376	–20,222
June .	829,590	*436,965*	*276,634*	18,936	110,512	2,410	166,725	130,281	195,765	302,564	–29,639
July ..	813,831	*422,572*	*276,715*	18,969	110,173	2,459	168,979	123,184	196,184	287,590	–20,313
Aug. ..	810,263	*417,182*	*279,048*	19,472	110,526	2,486	180,906	128,583	198,829	274,822	–25,684

Table a35

Principal assets and liabilities of banks accepting medium and long-term funds

(billions of lire)

	Assets								
	Bank reserves	Loans	Securities	Shares	Participating interests	Repos	Bad debts	Interbank accounts	Interest-bearing external assets
1991	134	186,570	10,197	596	4,152	5,059	7,833	5,133	11,535
1992	74	207,318	6,178	507	4,314	5,336	7,362	4,186	16,653
1993	43	221,776	19,489	398	4,264	7,610	9,868	4,733	17,941
1994 – Aug.	29	220,733	17,423	108	4,823	3,783	12,119	5,346	18,160
Sept. ...	21	219,931	15,745	161	5,127	4,383	12,267	4,932	17,688
Oct.	18	217,594	16,507	163	5,217	4,353	12,666	5,422	17,510
Nov.	17	218,300	16,296	214	5,278	4,323	13,159	5,753	17,321
Dec.	55	225,293	16,886	192	5,917	4,293	13,256	6,079	18,061
1995 – Jan.	13	216,138	17,804	95	5,712	1,722	13,870	9,191	13,103
Feb.	21	216,697	18,756	61	5,601	1,872	14,178	10,096	14,537
Mar.	17	216,437	18,776	34	5,760	1,661	15,101	8,435	18,719
Apr.	12	215,252	18,322	34	5,776	1,132	15,700	7,271	16,056
May	14	214,565	16,692	31	5,782	736	15,777	6,485	16,587
June ...	47	219,122	16,012	31	5,532	393	16,024	8,840	15,465
July	26	216,173	15,166	29	5,543	....	16,163	7,253	(15,226)
Aug.	18	216,323	15,054	31	5,504	....	16,129	7,322	(16,723)

	Liabilities								
	Deposits in lire	Bonds	Public funds and *Mediocredito Centrale*	Loans from BI-UIC	Repos	Interbank accounts	Capital and reserves	External liabilities	Other items
1991	48,957	82,799	5,340	32	2,986	3,943	24,510	65,650	–3,006
1992	50,865	80,951	5,336	67	1,420	4,589	25,756	75,408	7,535
1993	53,095	95,821	6,676	269	10,169	8,353	28,194	77,080	6,466
1994 – Aug.	50,563	104,396	6,944	2,826	3,456	4,558	30,243	73,476	6,060
Sept. ...	50,031	104,857	6,934	1,903	2,565	5,548	30,501	70,831	7,087
Oct.	50,107	105,194	6,936	2,424	3,408	5,503	30,501	70,913	4,463
Nov.	49,430	105,292	6,922	2,946	4,250	6,141	30,501	72,085	3,095
Dec.	50,105	107,320	7,426	3,468	5,092	8,038	32,129	73,503	2,953
1995 – Jan.	49,850	107,272	4,695	1,569	5,545	16,104	31,475	72,511	–11,374
Feb.	49,725	107,742	4,562	1,569	6,577	16,029	31,640	75,692	–11,718
Mar.	49,409	106,853	4,344	1,569	5,668	17,554	32,176	76,242	–8,874
Apr.	49,568	105,779	4,563	1,143	5,323	17,321	32,240	73,194	–9,575
May	49,467	105,083	4,580	866	2,665	18,088	32,216	72,217	–8,514
June ...	50,026	104,612	4,603	292	3,172	18,167	32,488	73,239	–5,131
July	48,777	103,764	4,682	297	....	14,669	32,604	69,943	....
Aug.	49,169	104,288	5,605	297	....	14,858	32,731	69,922	....

Table a36

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 borrowing	**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	42,314
1992	32,174	*1,492*	*6,726*	*18,727*	2,657	6,576	41,407
1993	51,298	*2,630*	*24,799*	*18,583*	2,181	12,220	65,699
1994	52,400	*6,981*	*20,551*	*22,960*	2,600	20,598	75,598
1993 – 3rd qtr.	46,893	*1,426*	*19,274*	*21,293*	2,083	10,825	59,801
4th "	51,298	*2,630*	*24,799*	*18,583*	2,181	12,220	65,699
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*	2,365	20,492	84,536
3rd "	58,877	*6,046*	*27,788*	*21,936*	2,434	21,940	83,251
4th "	52,400	*6,981*	*20,551*	*22,960*	2,600	20,598	75,598
1995 – 1st qtr.	54,899	*12,322*	*16,323*	*23,505*	2,649	19,269	76,817
2nd "	56,004	*11,123*	*17,948*	*25,058*	2,587	19,939	78,530
3rd "	(58,714)	....	....	....	(4,057)	(19,170)	(81,941)
1994 Sept.	58,877	*6,046*	*27,788*	*21,936*	2,434	21,940	83,251
Oct.	58,075	*7,531*	*25,060*	*23,112*	2,545	20,111	80,731
Nov.	54,424	*6,935*	*23,216*	*22,178*	2,505	20,250	77,179
Dec.	52,400	*6,981*	*20,551*	*22,960*	2,600	20,598	75,598
1995 – Jan.	57,021	*8,717*	*21,191*	*25,440*	2,701	21,499	81,221
Feb.	57,759	*11,247*	*18,811*	*24,864*	2,669	20,622	81,050
Mar.	54,899	*12,322*	*16,323*	*23,505*	2,649	19,269	76,817
Apr.	56,484	*12,545*	*17,182*	*24,111*	2,521	20,596	79,601
May	56,247	*11,764*	*18,168*	*24,297*	2,541	20,883	79,671
June	56,004	*11,123*	*17,948*	*25,058*	2,587	19,939	78,530
July	57,275	*10,025*	*20,262*	*25,004*	2,677	20,508	80,460
Aug.	58,959	*9,396*	*20,792*	*26,562*	2,861	20,454	82,274
Sept.	(58,714)	....	....	....	(4,057)	(19,170)	(81,941)

Table a37

portfolios and net assets

value; billions of lire)

Foreign currency securities		Other financial assets	Total portfolio	Net assets	Memorandum items:	
	of which: shares				Gross sales	Net sales
8,373	*5,211*	938	51,625	56,191	21,859	5,315
13,890	*6,319*	727	56,024	60,663	26,717	732
35,240	*14,241*	1,140	102,079	110,093	67,776	33,462
37,289	*20,025*	682	113,569	130,168	85,032	25,455
24,384	*10,404*	1,051	85,236	89,675	18,554	11,401
35,240	*14,241*	1,140	102,079	110,093	26,516	15,748
41,912	*18,133*	1,670	120,688	129,954	36,784	21,869
36,970	*19,586*	1,469	122,975	136,231	29,481	8,983
36,657	*20,079*	860	120,768	134,390	9,900	–1,609
37,289	*20,025*	682	113,569	130,168	8,867	–3,788
35,795	*20,251*	799	113,411	126,386	11,487	–4,275
33,507	*18,615*	869	112,906	124,741	11,066	–4,081
(29,733)	*(18,673)*	....	....	(125,607)	(10,752)	(–1,753)
36,657	*20,079*	860	120,768	134,390	2,917	–1,704
36,443	*20,319*	896	118,070	131,600	3,029	–1,450
36,763	*20,189*	900	114,842	130,877	3,001	–1,170
37,289	*20,025*	682	113,569	130,168	2,837	–1,168
33,076	*18,800*	817	115,114	129,228	3,825	–1,141
34,761	*19,829*	774	116,585	128,225	3,624	–885
35,795	*20,251*	799	113,411	126,386	4,038	–2,249
35,172	*19,404*	864	115,637	127,266	2,874	–1,554
33,364	*18,949*	909	113,944	126,763	4,616	–1,096
33,507	*18,615*	869	112,906	124,741	3,576	–1,431
33,143	*19,184*	969	114,572	125,561	3,725	–950
32,652	*18,823*	980	115,906	126,465	3,193	–
(29,733)	*(18,673)*	....	....	(125,607)	(3,834)	(–803)

Portfolio management

(end-of-period market values

		Government securities			Bonds (1)	
		of which:				
		BOTs	*BTPs*	*CCTs*	Italian	Foreign (2)
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 (4)	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 (4)	91,106	*5,339*	*19,470*	*62,265*	13,979	9,582
Total ...	**103,771**	***6,299***	***24,592***	***68,292***	**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 (4)	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 (4)	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.						
Securities firms	13,284	*276*	*4,019*	*7,420*	8,151	2,005
Trust companies	9,278	*1,435*	*2,500*	*5,175*	1,315	1,986
Banks (4)	102,507	*5,597*	*27,935*	*65,491*	14,200	8,207
Total ...	**125,069**	***7,308***	***34,454***	***78,086***	**23,666**	**12,198**
1995 - 1st qtr.						
Securities firms	(13,363)	*(407)*	*(4,291)*	*(7,280)*	(8,015)	(2,636)
Trust companies	(8,769)	*(1,691)*	*(2,452)*	*(4,353)*	(1,297)	(1,929)
Banks (4)	(102,725)	*(9,203)*	*(26,493)*	*(63,526)*	(12,572)	(7,881)
Total ...	**(124,857)**	***(11,301)***	***(33,236)***	***(75,159)***	**(21,884)**	**(12,446)**
1995 - 2nd qtr.						
Securities firms	*(14,709)*	*(276)*	*(5,396)*	*(8,028)*	*(7,244)*	*(2,781)*
Trust companies	*(8,715)*	*(1,594)*	*(2,305)*	*(4,503)*	*(1,263)*	*(1,747)*
Banks (4)	*(100,181)*	*(9,789)*	*(24,925)*	*(61,637)*	*(11,635)*	*(8,658)*
Total ...	***(123,605)***	***(11,659)***	***(32,626)***	***(74,168)***	***(20,142)***	***(13,186)***

(1) Including CDs for terms of more than 18 months. – (2) Including foreign government securities. – (3) Quarterly flows. – (4) Services provided directly by banks.

Table a38

services

in billions of lire)

Shares		Other financial assets	Total portfolio	Total managed funds	Memorandum items	
Italian	Foreign				Gross fund-raising (3)	Net fund-raising (3)
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	664
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**	**7,982**
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**
2,032	867	1,165	27,505	29,094	2,858	1,353
1,725	134	3,066	17,504	18,854	2,402	–671
5,211	556	2,248	132,929	140,193	6,105	–3,679
8,968	**1,557**	**6,479**	**177,938**	**188,141**	**11,365**	**–2,997**
(1,925)	(847)	(1,135)	(27,921)	(29,924)	(2,601)	(280)
(1,600)	(118)	(3,021)	(16,734)	(18,068)	(2,111)	(–914)
(4,724)	(575)	(2,532)	(131,009)	(136,382)	(12,580)	(–4,570)
(8,249)	**(1,540)**	**(6,688)**	**(175,664)**	**(184,374)**	**(17,292)**	**(–5,204)**
(2,049)	*(1,469)*	*(1,080)*	*(29,333)*	*(31,672)*	*(3,851)*	*(1,242)*
(1,666)	*(124)*	*(2,895)*	*(16,408)*	*(17,911)*	*(1,820)*	*(–495)*
(4,368)	*(321)*	*(2,309)*	*(127,473)*	*(134,153)*	*(7,526)*	*(–2,280)*
(8,083)	***(1,914)***	***(6,284)***	***(173,214)***	***(183,736)***	***(13,197)***	***(–1,533)***

Table a39

Net issues of securities

(billions of lire)

	Issuers			Total bonds and government securities	Investors				Shares
	Public sector	Banks	International companies and supranational institutions		BI-UIC	Banks	Investment funds	Other	
1989	108,460	8,205	35	116,699	564	–4,723	–4,169	125,027	18,370
1990	116,592	5,985	–2,592	119,985	–4,205	–1,295	3,776	121,709	21,246
1991	126,946	15,939	3,813	146,697	–973	52,952	6,727	87,991	18,363
1992	136,045	10,848	–3,464	143,429	14,483	52,426	1,500	75,020	16,194
1993	162,608	26,213	–2,341	186,480	11,557	25,409	17,042	132,472	20,276
1994	230,257	22,259	–2,070	250,446	108,187	35,005	12,619	94,635	....
1993 – 2nd qtr.	39,398	4,610	–1,567	42,442	–4,365	10,836	2,554	33,417	5,358
3rd "	24,120	5,083	–366	28,837	–7,042	5,436	8,077	22,366	2,189
4th "	54,238	12,560	216	67,014	22,891	25,403	7,408	11,312	10,334
1994 – 1st qtr.	45,141	9,511	–195	54,457	9,542	19,651	14,394	10,870	....
2nd "	41,248	7,333	–642	47,939	3,436	14,600	5,571	24,332	....
3rd "	24,324	2,314	511	27,149	11,429	–6,409	–1,771	23,900	....
4th "	119,545	3,102	–1,744	120,902	83,780	7,163	–5,575	35,534	....
1995 1st qtr.	29,662	(3,312)	(–2,057)	(30,917)	–3,517	(3,525)	2,965	(34,994)	....
2nd "	18,830	(140)	(–995)	(17,975)	4,254	(–4,812)	219	(18,314)	....
1994 – Aug.	12,638	775	151	13,564	6,517	2,304	–1,899	6,642	....
Sept.	6,240	710	–462	6,489	–1,808	–2,641	523	10,415	....
Oct.	16,798	100	–404	16,494	435	3,163	–542	13,438	....
Nov.	89,781	1,185	–41	90,925	79,908	–3,075	–3,883	17,975	....
Dec.	12,966	1,817	–1,299	13,484	3,438	7,075	–1,150	4,121	....
1995 – Jan.	13,639	(2,580)	(–3)	(16,215)	–928	(–9,846)	4,070	(22,919)	....
Feb.	15,656	(1,168)	(–1,404)	(15,420)	–4,762	(2,455)	1,157	(16,570)	....
Mar.	367	(–436)	(–650)	(–718)	2,173	(3,865)	–2,262	(–4,494)	....
Apr.	10,535	(546)	(–925)	(10,157)	1,462	(1,303)	1,140	(6,252)	....
May	1,310	(541)	(54)	(1,905)	864	(–8,850)	–944	(10,835)	....
June	6,985	(–947)	(–125)	(5,913)	1,929	(2,735)	23	(1,226)	....
July	3,388	(357)	(–258)	(3,486)	–889	(–7,376)	970	(10,781)	....
Aug.	9,863	(1,149)	(–5)	(11,007)	(190)	(4,307)	1,863	(4,647)	....

Table a40

Issue conditions of Treasury bonds

Code	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Coupon	
					gross	net		gross	net
36717	BTP	1.4.05	2.5.95	87.30	13.18	11.55	1,509	5.25	4.5935
36715	BTP	15.4.98	3.5.95	96.05	12.47	10.90	2,740	5.25	4.5935
36716	BTP	1.4.00	3.5.95	93.50	12.64	11.06	2,151	5.25	4.5935
36717	BTP	1.4.05	17.5.95	94.35	11.78	10.24	1,500	5.25	4.5935
36715	BTP	15.4.98	18.5.95	98.95	11.20	9.66	1,501	5.25	4.5935
36716	BTP	1.4.00	18.5.95	97.20	11.54	10.00	1,501	5.25	4.5935
36717	BTP	1.4.05	1.6.95	92.20	12.20	10.63	1,650	5.25	4.5935
36715	BTP	15.4.98	2.6.95	98.05	11.61	10.06	1,500	5.25	4.5935
36716	BTP	1.4.00	2.6.95	96.30	11.81	10.26	1,500	5.25	4.5935
36717	BTP	1.4.05	19.6.95	91.20	12.40	10.82	1,100	5.25	4.5935
36715	BTP	15.4.98	20.6.95	97.00	12.09	10.53	1,515	5.25	4.5935
36716	BTP	1.4.00	20.6.95	94.65	12.32	10.75	1,090	5.25	4.5935
36717	BTP	1.4.05	3.7.95	91.45	12.35	10.77	1,009	5.25	4.5935
36715	BTP	15.4.98	4.7.95	96.70	12.24	10.67	2,200	5.25	4.5935
36716	BTP	1.4.00	4.7.95	94.40	12.40	10.83	1,650	5.25	4.5935
36717	BTP	1.4.05	18.7.95	93.20	12.01	10.45	1,003	5.25	4.5935
36715	BTP	15.4.98	19.7.95	97.55	11.86	10.30	1,650	5.25	4.5935
36716	BTP	1.4.00	19.7.95	95.85	11.96	10.40	1,650	5.25	4.5935
36717	BTP	1.4.05	1.8.95	93.75	11.91	10.36	1,505	5.25	4.5935
36727	BTP	15.7.98	2.8.95	98.25	11.52	10.05	1,650	5.25	4.5935
36728	BTP	15.7.00	2.8.95	96.50	11.75	10.26	1,650	5.25	4.5935
36717	BTP	1.4.05	18.8.95	96.25	11.44	9.91	1,001	5.25	4.5935
36727	BTP	15.7.98	21.8.95	99.20	11.10	9.65	1,500	5.25	4.5935
36728	BTP	15.7.00	21.8.95	98.20	11.26	9.79	1,001	5.25	4.5935
36731	BTP	1.9.05	1.9.95	95.50	11.57	10.11	1,650	5.25	4.5935
36727	BTP	15.7.98	4.9.95	99.15	11.14	9.68	2,114	5.25	4.5935
36728	BTP	15.7.00	4.9.95	97.90	11.35	9.88	1,623	5.25	4.5935
36731	BTP	1.9.05	19.9.95	98.60	11.01	9.58	1,516	5.25	4.5935
36727	BTP	15.7.98	20.9.95	100.25	10.65	9.21	2,002	5.25	4.5935
36728	BTP	15.7.00	20.9.95	99.75	10.82	9.37	1,501	5.25	4.5935
36731	BTP	1.9.05	2.10.95	94.80	11.70	10.23	1,650	5.25	4.5935
36727	BTP	15.7.98	3.10.95	99.00	11.20	9.75	3,300	5.25	4.5935
36728	BTP	15.7.00	3.10.95	97.70	11.41	9.94	2,200	5.25	4.5935

Issue conditions of Treasury certificates in ecus

Code	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
36710	CTE	24.1.00	24.1.95	95.20	9.75	8.55	744	1,994.95	8.50	7.4375
36719	CTE	24.5.00	24.5.95	99.70	8.32	7.28	500	2,147.95	8.25	7.2185
36718	CTE	29.5.98	29.5.95	99.40	7.72	6.76	500	2,145.82	7.50	6.5625
36733	CTE	26.9.98	26.9.95	98.45	7.07	6.19	500	2,096.40	6.50	5.6875
36734	CTE	26.9.00	26.9.95	97.65	7.83	6.86	500	2,096.40	7.25	6.3438

Issue conditions of Treasury credit certificates

Code	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Spread	First coupon	
					gross	net			gross	net
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
36706	CCT	1.12.01	17.2.95	97.70	10.61	9.26	3,300	0.30	4.75	4.1560
36712	CCT	1.2.02	1.3.95	95.95	11.76	10.28	11,260	0.30	4.75	4.1560
36712	CCT	1.2.02	17.3.95	95.60	12.85	11.24	2,503	0.30	4.75	4.1560
36713	CCT	1.4.02	3.4.95	95.35	13.72	11.99	5,500	0.30	5.50	4.8125
36713	CCT	1.4.02	19.4.95	95.45	12.91	11.28	2,750	0.30	5.50	4.8125
36713	CCT	1.4.02	2.5.95	95.25	13.37	11.68	11,000	0.30	5.50	4.8125
36713	CCT	1.4.02	17.5.95	97.90	11.45	9.96	2,000	0.30	5.50	4.8125
36720	CCT	1.6.02	1.6.95	97.35	12.07	10.54	3,850	0.30	5.50	4.8125
36720	CCT	1.6.02	19.6.95	97.90	12.04	10.50	1,500	0.30	5.50	4.8125
36720	CCT	1.6.02	3.7.95	97.60	12.21	10.65	7,335	0.30	5.50	4.8125
36720	CCT	1.6.02	18.7.95	98.00	12.02	10.48	1,511	0.30	5.50	4.8125
36726	CCT	1.8.02	1.8.95	98.70	11.96	10.44	2,018	0.30	5.50	4.8125
36726	CCT	1.8.02	18.8.95	99.30	11.63	10.14	1,507	0.30	5.50	4.8125
36726	CCT	1.8.02	1.9.95	98.75	11.47	10.01	9,341	0.30	5.50	4.8125
36726	CCT	1.8.02	19.9.95	99.25	11.16	9.73	2,750	0.30	5.50	4.8125
36735	CCT	1.10.02	2.10.95	98.70	11.87	10.36	13,750	0.30	5.50	4.8125

Issue conditions of zero-coupon Treasury certificates

Code	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)
					gross	net	
36711	CTZ	28.2.97	28.2.95	81.10	11.03	9.71	3,500
36711	CTZ	28.2.97	15.3.95	79.15	12.63	11.29	2,500
36711	CTZ	28.2.97	30.3.95	79.55	12.59	11.26	2,056
36711	CTZ	28.2.97	14.4.95	80.20	12.37	11.04	2,000
36714	CTZ	28.4.97	28.4.95	78.60	12.78	11.26	2,750
36714	CTZ	28.4.97	15.5.95	81.50	10.99	9.50	2,027
36714	CTZ	28.4.97	30.5.95	81.05	11.53	10.03	2,096
36714	CTZ	28.4.97	15.6.95	80.85	11.93	10.42	1,628
36724	CTZ	30.6.97	30.6.95	80.05	11.75	10.35	2,200
36724	CTZ	30.6.97	14.7.95	80.65	11.54	10.14	2,123
36724	CTZ	30.6.97	31.7.95	81.15	11.44	10.05	2,126
36724	CTZ	30.6.97	14.8.95	82.05	11.01	9.62	2,200
36730	CTZ	29.8.97	30.8.95	81.45	10.80	9.51	2,200
36730	CTZ	29.8.97	15.9.95	82.15	10.55	9.26	2,200
36730	CTZ	29.8.97	29.9.95	81.80	10.99	9.69	2,171

Table a41

Securities market: expected yields and total return indices

	Expected yields (net)					Total return indices (net)				
	Treasury credit certificates	Treasury certificates in ecus	Treasury bonds	Treasury option certificates	Other bonds	Treasury credit certificates	Treasury certificates in ecus	Treasury bonds	Treasury option certificates	Investment 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
1993 – 3rd qtr.	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
1995 – 1st qtr.	10.11	8.68	10.67	10.38	10.33	671.89	379.29	366.26	184.11	283.50
2nd "	10.54	8.89	10.72	10.41	10.81	687.21	404.86	376.31	188.59	290.38
3rd "	10.08	7.54	10.02	9.73	10.20	707.73	396.96	393.66	193.88	296.79
1994 – Sept.	10.01	7.42	10.38	10.27	10.14	644.26	364.15	351.27	177.14	281.53
Oct.	9.82	7.48	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	657.99	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	282.71
Feb.	9.67	7.98	10.31	10.01	10.13	673.43	375.60	369.78	185.16	284.73
Mar.	10.83	9.96	11.30	10.95	10.79	674.45	391.29	363.15	184.00	283.15
Apr.	11.04	9.61	11.22	10.91	11.09	679.02	410.27	367.37	185.67	287.26
May	10.27	9.14	10.39	10.11	10.72	688.34	396.88	379.76	189.01	292.14
June	10.32	7.91	10.54	10.22	10.63	694.27	407.42	381.78	190.55	291.18
July	10.31	7.83	10.39	10.13	10.36	700.84	404.67	386.52	191.91	294.02
Aug.	10.09	7.59	9.92	9.67	10.16	707.80	392.55	394.88	193.75	297.72
Sept.	9.85	7.20	9.75	9.38	10.09	714.56	393.65	399.59	195.97	298.60

The money

(stocks in

	End-of-period					
	Notes and coin	Sight deposits		Other assets	M1	Short-term CDs
		Banks	Post Office			
1987	52,718	297,686	10,213	11,609	372,225	31,590
1988	57,167	324,071	7,696	12,200	401,133	44,619
1989	67,644	356,375	9,388	18,681	452,088	57,568
1990	69,449	388,409	7,825	17,068	482,751	74,688
1991	76,354	435,150	7,017	19,429	537,950	81,164
1992	85,617	434,823	9,337	16,011	545,788	92,390
1993 – Aug.	82,129	400,902	9,509	10,689	503,229	88,274
Sept.	83,339	416,327	9,563	12,686	521,915	87,981
Oct.	84,011	417,100	9,574	12,921	523,607	86,966
Nov.	85,064	414,616	9,316	15,942	524,937	86,767
Dec.	89,769	465,071	9,583	14,760	579,182	87,286
1994 – Jan.	86,169	429,037	12,448	13,571	541,226	88,193
Feb.	85,472	435,050	10,669	11,633	542,823	87,074
Mar.	88,562	449,550	9,862	13,837	561,811	87,401
Apr.	87,413	444,128	9,995	11,808	553,344	84,718
May	87,910	440,617	10,374	13,096	551,997	82,517
June	87,329	449,505	9,851	16,504	563,190	79,906
July	92,508	429,741	9,792	14,309	546,350	77,355
Aug.	87,896	427,440	9,405	9,289	534,031	76,150
Sept.	89,541	438,194	9,504	11,977	549,216	74,419
Oct.	89,248	434,760	9,665	11,741	545,414	73,162
Nov.	90,829	425,043	9,935	13,150	538,956	72,566
Dec.	96,221	478,258	6,817	15,728	597,024	71,602
1995 – Jan.	91,143	439,012	(9,773)	(13,397)	(553,324)	78,594
Feb.	90,080	441,530	(8,524)	(13,149)	(553,283)	75,848
Mar.	92,654	439,249	(7,517)	(12,996)	(552,416)	75,926
Apr.	92,974	440,848	(6,454)	(12,808)	(553,083)	73,382
May	92,500	434,726	(8,000)	(13,479)	(548,705)	72,120
June	92,408	442,993	(7,457)	(15,513)	(558,370)	69,956
July	(94,783)	429,131	(7,772)	(13,691)	(545,377)	68,409
Aug.	(90,735)	424,738	(7,834)	(9,463)	(532,769)	67,041
Sept.	(92,419)	....	*(8,334)*	*(11,709)*	....	....

Table a42

supply

billions of lire)

data				Average data			
CDs with a maturity of at least 18 months	Saving deposits	Postal savings accounts	M2	M1	M2	M2 net of CDs with a maturity of at least 18 months	Extended M2
25,931	201,359	13,434	644,540	350,845	613,861	588,738	614,231
50,112	192,167	16,372	704,404	376,337	672,368	623,054	673,077
76,798	182,090	19,733	788,277	415,018	744,577	668,520	745,576
105,405	178,384	23,589	864,817	442,428	814,224	709,331	816,497
139,457	161,798	26,924	947,293	488,712	888,538	750,765	892,149
180,328	146,967	29,057	994,531	492,082	930,167	751,789	935,563
219,197	134,491	29,473	974,664	493,080	960,083	741,557	964,638
221,634	135,464	29,630	996,623	502,116	971,451	751,036	976,136
223,580	136,637	29,715	1,000,504	511,110	983,437	760,830	988,398
224,506	135,853	29,957	1,002,020	519,386	993,550	769,507	998,652
226,074	144,091	30,852	1,067,485	529,612	1,005,657	780,367	1,011,434
230,965	141,995	32,442	1,034,821	548,787	1,036,276	807,757	1,042,277
233,358	138,522	32,907	1,034,684	527,461	1,016,811	784,649	1,022,314
233,468	138,302	33,349	1,054,331	535,142	1,022,935	789,521	1,028,489
233,287	138,273	33,759	1,043,381	546,013	1,033,608	800,230	1,038,811
236,230	134,851	34,039	1,039,633	545,233	1,030,295	795,536	1,035,535
236,923	134,294	34,291	1,048,603	537,696	1,020,268	783,691	1,025,312
235,346	133,714	34,686	1,027,451	541,143	1,023,066	786,932	1,027,310
232,727	132,786	35,328	1,011,023	522,392	1,000,046	766,010	1,004,204
231,458	133,971	35,508	1,024,572	527,407	1,001,158	769,065	1,005,834
231,928	133,415	35,859	1,019,779	532,136	1,005,183	773,490	1,011,075
234,159	132,687	36,530	1,014,898	538,281	1,011,429	778,386	1,017,972
236,932	138,297	39,143	1,082,997	546,534	1,023,103	787,557	1,030,105
240,976	125,430	(39,971)	(1,038,296)	(553,249)	(1,036,099)	(797,391)	(1,043,947)
244,548	123,761	(40,701)	(1,038,141)	(536,107)	(1,018,903)	(775,762)	(1,027,228)
248,324	121,318	(41,366)	(1,039,351)	(538,088)	(1,021,626)	(775,303)	(1,030,530)
250,405	121,424	(41,765)	(1,040,059)	(540,915)	(1,024,847)	(776,435)	(1,034,211)
253,388	118,658	(41,960)	(1,034,831)	(544,029)	(1,027,981)	(776,481)	(1,037,625)
256,917	118,656	(41,984)	(1,045,883)	(532,866)	(1,016,871)	(761,931)	(1,026,037)
257,772	116,732	(41,838)	(1,030,128)	(536,117)	(1,018,825)	(762,824)	(1,027,761)
261,819	116,186	(42,593)	(1,020,409)	(520,621)	(1,004,324)	(745,135)	(1,013,795)
....	....	*(42,893)*	*(1,045,855)*	*(528,860)*	*(1,013,590)*	*(752,302)*	....

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	Banker's acceptances	Total liquid assets
1987	644,540	2,650	59,870	*(163,371)*	2,375	*(872,805)*
1988	704,404	4,267	70,426	212,464	2,121	993,682
1989	788,277	5,065	80,659	256,422	1,612	1,132,034
1990	864,817	8,199	91,011	284,993	1,540	1,250,560
1991	947,293	46,942	100,368	298,373	2,104	1,395,080
1992	994,531	86,904	107,382	356,178	1,925	1,546,920
1993 – July	979,287	102,391	106,992	353,518	1,897	1,544,086
Aug.	974,664	105,637	107,124	347,935	2,007	1,537,367
Sept.	996,623	96,136	107,160	340,073	2,058	1,542,050
Oct.	1,000,504	102,693	107,367	329,178	1,921	1,541,664
Nov.	1,002,020	106,730	107,561	326,894	1,972	1,545,177
Dec.	1,067,485	89,566	117,865	313,472	1,554	1,589,942
1994 – Jan.	1,034,821	105,899	118,493	311,452	1,826	1,572,490
Feb.	1,034,684	111,780	119,115	302,514	1,645	1,569,739
Mar.	1,054,331	102,032	119,642	297,771	1,736	1,575,512
Apr.	1,043,381	103,605	120,207	297,433	1,761	1,566,388
May	1,039,633	101,469	120,759	299,028	1,681	1,562,571
June	1,048,603	90,063	121,297	300,607	1,699	1,562,269
July	1,027,451	99,590	121,866	306,300	1,691	1,556,898
Aug.	1,011,023	103,960	122,482	308,969	1,787	1,548,220
Sept.	1,024,572	93,849	122,861	313,549	1,605	1,556,436
Oct.	1,019,779	101,957	123,256	315,959	1,640	1,562,591
Nov.	1,014,898	105,772	123,671	319,575	1,626	1,565,544
Dec.	1,082,997	90,341	136,553	312,725	1,139	1,623,755
1995 – Jan.	(1,038,296)	103,755	(137,374)	325,236	1,533	(1,606,194)
Feb.	(1,038,141)	109,967	(138,011)	329,104	1,593	(1,616,817)
Mar.	(1,039,351)	110,901	(138,404)	335,325	1,597	(1,625,578)
Apr.	(1,040,059)	120,287	(138,376)	339,295	1,566	(1,639,583)
May	(1,034,831)	121,887	(138,440)	345,916	1,601	(1,642,674)
June	(1,045,883)	116,123	(138,299)	343,558	1,851	(1,645,713)
July	(1,030,128)	124,413	(138,530)	348,507	2,003	(1,643,581)
Aug.	(1,020,409)	130,802	(138,830)	348,493	2,019	(1,640,553)

Table a44

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				
1987	*(872,805)*	*(250,666)*	*(6,967)*	*(54,058)*	59,454	*(1,937)*	*(1,245,887)*	....
1988	993,682	311,403	6,579	62,423	51,565	*(1,502)*	*(1,427,154)*	*(1,475,404)*
1989	1,132,034	378,171	7,492	72,686	49,165	2,004	1,641,551	1,691,371
1990	1,250,560	449,494	11,426	83,560	47,379	4,848	1,847,268	1,917,040
1991	1,395,080	491,874	12,262	108,591	56,191	4,011	2,068,009	2,173,468
1992	1,546,920	490,567	15,232	112,914	60,663	2,826	2,229,122	2,365,483
1993 – July	1,544,086	532,308	14,241	133,788	78,532	3,010	2,305,965	2,438,726
Aug.	1,537,367	536,084	13,068	137,107	85,609	3,138	2,312,373	2,443,566
Sept.	1,542,050	539,026	12,965	140,163	89,675	3,569	2,327,448	2,457,463
Oct.	1,541,664	543,376	13,859	148,482	97,141	3,115	2,347,635	2,481,063
Nov.	1,545,177	539,173	13,596	151,441	101,900	3,386	2,354,673	2,492,788
Dec.	1,589,942	547,830	13,032	151,570	110,093	2,904	2,415,370	2,556,850
1994 – Jan.	1,572,490	532,689	14,641	156,863	120,132	3,367	2,400,182	2,547,265
Feb.	1,569,739	539,546	14,462	160,950	125,485	3,640	2,413,821	2,568,255
Mar.	1,575,512	542,569	14,387	161,270	129,954	3,887	2,427,579	2,584,890
Apr.	1,566,388	553,305	14,490	164,918	136,259	3,621	2,438,981	2,596,694
May	1,562,571	567,714	15,667	166,660	137,481	3,693	2,453,786	2,614,329
June	1,562,269	581,757	15,940	167,459	136,231	3,565	2,467,221	2,629,696
July	1,556,898	588,960	15,952	169,316	138,027	3,918	2,473,072	2,639,201
Aug.	1,548,220	599,857	15,959	169,896	136,804	4,109	2,474,846	2,641,394
Sept.	1,556,436	612,575	15,714	168,574	134,390	4,112	2,491,801	2,660,271
Oct.	1,562,591	624,124	15,739	167,961	131,600	4,193	2,506,208	2,677,788
Nov.	1,565,544	626,761	15,781	169,322	130,877	4,190	2,512,475	2,691,604
Dec.	1,623,755	639,251	15,758	169,512	130,168	4,518	2,582,961	2,764,148
1995 – Jan.	(1,606,194)	648,108	*(16,121)*	*(172,823)*	129,228	(3,353)	*(2,575,828)*	*(2,758,005)*
Feb.	(1,616,817)	666,937	*(16,306)*	*(172,397)*	128,225	(3,526)	*(2,604,207)*	*(2,784,552)*
Mar.	(1,625,578)	670,045	*(16,436)*	*(171,341)*	126,386	(3,701)	*(2,613,487)*	*(2,796,456)*
Apr.	(1,639,583)	673,414	*(15,583)*	*(171,798)*	127,266	(4,007)	*(2,631,650)*	*(2,815,204)*
May	(1,642,674)	677,836	*(15,582)*	*(172,437)*	126,763	(3,936)	*(2,639,228)*	*(2,823,237)*
June	(1,645,713)	689,120	*(15,707)*	*(171,676)*	124,741	(4,100)	*(2,651,058)*	*(2,836,596)*
July	(1,643,581)	694,980	*(15,417)*	*(174,079)*	125,561	(4,115)	*(2,657,733)*	*(2,843,808)*
Aug.	(1,640,553)	692,475	*(15,485)*	*(175,202)*	126,465	(4,116)	*(2,654,296)*	*(2,841,450)*

Cre

(end-of-period stocks

	Finance to the non-state sector				
	Short-term bank loans	Medium and long-term bank loans	Bonds placed domestically	Total domestic finance	Foreign finance
1987	268,968	201,591	*(33,804)*	*(504,363)*	*(56,124)*
1988	319,581	227,649	25,719	572,949	51,036
1989	393,132	258,198	25,638	676,967	68,029
1990	455,998	299,215	23,453	778,666	93,504
1991	513,853	345,842	25,109	884,804	107,686
1992	570,944	383,144	20,510	974,598	128,680
1993 – Aug.	557,849	428,520	32,558	1,018,927	142,354
Sept.	548,046	434,051	32,523	1,014,620	141,248
Oct.	548,968	438,443	33,143	1,020,555	140,594
Nov.	543,916	442,032	33,118	1,019,066	141,931
Dec.	559,308	454,371	31,778	1,045,457	139,560
1994 – Jan.	550,409	448,085	33,874	1,032,367	138,093
Feb.	543,610	453,369	33,396	1,030,375	136,742
Mar.	531,032	458,084	33,210	1,022,326	133,353
Apr.	523,919	461,516	32,188	1,017,624	132,040
May	515,793	466,479	34,286	1,016,558	132,829
June	524,325	473,338	34,401	1,032,065	132,952
July	526,438	469,170	35,213	1,030,821	132,281
Aug.	517,828	471,732	35,348	1,024,909	133,658
Sept.	514,657	472,919	34,726	1,022,302	131,708
Oct.	518,223	472,618	34,276	1,025,117	130,619
Nov.	515,099	(475,905)	34,065	(1,025,069)	132,214
Dec.	535,157	(488,685)	32,646	(1,056,489)	132,911
1995 – Jan.	534,761	(475,949)	*(32,695)*	*(1,043,405)*	*(131,389)*
Feb.	539,988	(480,410)	*(31,420)*	*(1,051,818)*	*(132,060)*
Mar.	543,828	(484,877)	*(31,578)*	*(1,060,283)*	*(130,932)*
Apr.	548,740	(482,034)	*(29,632)*	*(1,060,407)*	*(133,784)*
May	543,348	(482,444)	*(29,551)*	*(1,055,343)*	*(139,497)*
June	552,408	(488,197)	*(29,555)*	*(1,070,159)*	*(139,966)*
July	555,663	(484,917)	*(28,817)*	*(1,069,396)*	*(140,823)*
Aug.	540,247	*(484,867)*	*(28,729)*	*(1,053,842)*	*(140,864)*
Sept.	....	....	*(28,729)*	*(1,050,537)*	....

Table a45

dit

in billions of lire)

Total finance	Finance to the state sector: Domestic finance	Foreign finance	Total	Credit: Total domestic	Total
(560,487)	*(860,603)*	23,322	*(883,925)*	*(1,364,966)*	*(1,444,412)*
623,985	983,138	28,586	1,011,724	1,556,087	1,635,709
744,996	1,111,284	34,979	1,146,263	1,788,252	1,891,259
872,170	1,246,050	48,799	1,294,849	2,024,716	2,167,018
992,489	1,396,833	54,720	1,451,553	2,281,636	2,444,042
1,103,277	1,572,122	64,653	1,636,774	2,546,720	2,740,052
1,161,281	1,617,672	62,872	1,680,544	2,636,599	2,841,824
1,155,867	1,639,462	70,709	1,710,171	2,654,081	2,866,038
1,161,149	1,656,947	70,304	1,727,250	2,677,501	2,888,399
1,160,997	1,678,560	74,623	1,753,183	2,697,626	2,914,180
1,185,017	1,694,963	73,084	1,768,047	2,740,419	2,953,064
1,170,460	1,694,240	77,516	1,771,756	2,726,608	2,942,216
1,167,117	1,706,811	77,038	1,783,849	2,737,186	2,950,966
1,155,679	1,733,624	73,243	1,806,867	2,755,949	2,962,546
1,149,664	1,753,409	71,500	1,824,909	2,771,033	2,974,573
1,149,387	1,773,788	70,319	1,844,106	2,790,346	2,993,493
1,165,017	1,760,736	72,070	1,832,805	2,792,800	2,997,822
1,163,102	1,760,229	77,308	1,837,537	2,791,049	3,000,638
1,158,567	1,768,679	75,854	1,844,533	2,793,588	3,003,099
1,154,010	1,799,498	75,239	1,874,737	2,821,800	3,028,748
1,155,736	1,828,578	73,470	1,902,047	2,853,695	3,057,783
(1,157,283)	1,853,258	75,308	1,928,566	(2,878,327)	(3,085,849)
(1,189,400)	1,854,261	83,084	1,937,345	(2,910,749)	(3,126,745)
(1,174,794)	(1,867,097)	82,496	(1,949,593)	*(2,910,502)*	*(3,124,388)*
(1,183,878)	(1,881,987)	87,462	(1,969,449)	*(2,933,805)*	*(3,153,327)*
(1,191,215)	(1,907,473)	93,219	(2,000,692)	*(2,967,755)*	*(3,191,907)*
(1,194,191)	(1,921,517)	96,931	(2,018,449)	*(2,981,924)*	*(3,212,639)*
(1,194,840)	(1,931,122)	98,298	(2,029,420)	*(2,986,464)*	*(3,224,259)*
(1,210,125)	(1,906,373)	109,581	(2,015,954)	*(2,976,582)*	*(3,226,080)*
(1,210,219)	(1,910,586)	107,601	(2,018,187)	*(2,979,982)*	*(3,228,406)*
(1,194,706)	(1,921,132)	104,552	(2,025,684)	*(2,974,975)*	*(3,220,391)*
....	*(1,945,174)*	(105,695)	*(2,050,869)*	*(2,995,710)*	....

Table a46

M2 and its counterparts

(changes in billions of lire)

	M2	Counterparts				
		Official reserves	Net foreign position of banks	Credit to the non-state sector	Credit to the state sector	Other
1989	83,873	14,971	–14,979	....	*(10,010)*	....
1990	76,540	15,458	–22,976	*(110,330)*	*(11,176)*	*(–37,449)*
1991	82,476	–8,674	–39,369	*(121,057)*	*(66,867)*	*(–57,405)*
1992	47,238	–32,591	–12,187	*(76,086)*	*(82,251)*	*(–66,321)*
1993	71,608	2,564	84,589	*(47,979)*	*(16,925)*	*(–80,449)*
1994	15,512	3,297	–21,594	8,473	27,409	–2,072
1993 – July	–6,626	–1,230	6,832	*(3,329)*	*(–4,090)*	*(–11,467)*
Aug.	–4,623	–1,985	8,551	*(–9,701)*	*(502)*	*(–1,990)*
Sept.	21,960	7,661	–4,922	*(–224)*	*(20,265)*	*(–821)*
Oct.	3,881	–2,820	2,851	*(6,491)*	*(17,545)*	*(–20,186)*
Nov.	1,516	2,476	18,839	(–3,870)	*(11,519)*	*(–27,449)*
Dec.	65,464	–2,237	14,042	*(33,469)*	*(2,776)*	*(17,414)*
1994 – Jan.	–32,664	5,178	13,580	–17,486	–11,971	–21,965
Feb.	–137	1,417	5,975	–4,472	2,264	–5,320
Mar.	19,647	–2,347	–17,091	–1,734	32,550	8,268
Apr.	–10,951	–235	–7,793	–5,021	12,733	–10,634
May	–3,747	2,162	–3,268	–4,873	1,447	785
June	8,970	–1,093	–8,845	11,494	–18,179	25,593
July	–21,152	3,361	–8,602	881	–8,468	–8,324
Aug.	–16,428	–3,218	–116	–5,993	81	–7,183
Sept.	13,550	–1,119	–6,156	–1,116	15,107	6,834
Oct.	–4,794	–5,947	–1,145	3,406	9,597	–10,705
Nov.	–4,880	–2,531	8,086	(132)	11,391	–21,958
Dec.	68,099	7,669	3,781	(33,254)	–19,142	42,538
1995 – Jan.	(–44,701)	–3,741	–9,938	(–21,778)	(–12,015)	(2,771)
Feb.	(–154)	–1,034	6,526	(6,416)	(–9,907)	(–2,154)
Mar.	(1,210)	–6,767	–1,516	(1,870)	(24,768)	(–17,145)
Apr.	(708)	2,046	1,655	(4,377)	(4,331)	(–11,700)
May	(–5,229)	3,866	9,914	(1,556)	(–217)	(–20,347)
June	(11,052)	13,474	–1,180	(13,565)	(–30,476)	(15,669)
July	(–15,755)	(591)	(2,728)	(3,371)	(–4,937)	(–17,508)
Aug.	(–9,720)	(–1,835)	(17,436)	(–11,480)	(7,189)	(–21,030)

Notes to the tables

Table a1

Sources: National bulletins, IMF and OECD.

Real GNP: GDP for the United States, Germany, France, Italy, the United Kingdom and Canada; GNP for Japan.

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.

The figures for Germany refer to the country's western regions. For Italy, see the notes to Table a14.

Table a3

Sources: National bulletins and OECD.

The figures for Germany refer to the country's western regions. For Italy, see the notes to Table a16.

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 Germany, the figures refer to the country's western regions; for Italy, the series refers to producer prices of manufactures, extended to include energy sources and their derivatives.

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, Italy and the United Kingdom, 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 Treasury notes and bonds (secondary market); for Japan, Germany, France and the United Kingdom, 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 (1988=100). For the United States, Standard and Poor's composite index; for Japan, Topix; for Germany, FAZ Aktien; for France, CAC 40; for Italy, MIB; for the United Kingdom, FT All-Share; 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, 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 Germany, the country's western regions). For the methodology, see the articles "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, 1989, and "The Bank of Italy's Real Exchange Rate Indicators', in Banca d'Italia, *Economic Bulletin*, no. 15, 1992.

Table a11

Sources: Based on IMF, OECD and national bulletin data.

The countries included in the EU aggregate are Germany, France, Italy, the United Kingdom, Spain, the Netherlands, Belgium, Denmark and Ireland. For the methodology, see the articles "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, 1989, and "The Bank of Italy's Real Exchange Rate Indicators", in Banca d'Italia, *Economic Bulletin*, no. 15, 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. From the first quarter of 1991 onwards Istat took account of registry data on the composition of the population by age-group and sex in relating the sample results to the total population. Since 1992 the latter have been aligned with the results of the 1991 census, updated on the basis of registry data. In 1992 the second quarter survey was conducted in May instead of April, while a different questionnaire, implying a different sectoral composition of employment, has been used since the fourth quarter survey (October 1992). At the same time a more restrictive definition of job seekers and the labour force was adopted (for October 1992 the table shows both the results based on the old definition but the new questionnaire and the new series).

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, former autonomous government agencies 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 some of the former autonomous government agencies (the state railways, monopolies and telephone company and the post office). 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. The item "Other transactions" includes the balance of other Treasury operations, the expenditure of the former autonomous government agencies 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 the former 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 (-). 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 BOTs and other government securities acquired by non-residents, which are included in the respective categories of domestic debt. The item also includes CTEs 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, as amended by Decree Law 372/1995. 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". 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 some of the former autonomous government agencies (the state railways, monopolies and telephone company and the post office). 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. CTEs that are not stamped as being for circulation abroad and BTEs are included in the domestic debt. Medium and long-term securities include bonds issued by Crediop on behalf of the Treasury and the former autonomous government agencies. 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, automated 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 CTEs that are stamped as being for circulation abroad. The figures for the last year are provisional.

Table a22

Starting with this issue of the Bulletin, the uses of monetary base include the deposits with the Bank of Italy and the vault cash of the former special credit institutions; the aggregate accordingly refers to the whole of the banking sector. On the sources side, "Refinancing" includes amounts granted to the former special credit institutions. Previously, the balance of the latter's claims on and liabilities to the Bank of Italy were included among "Other sectors". These changes, which have only a small impact on the figures previously published, are consistent with the provisions of the 1993 Banking Law, which came into effect on 1 January 1994. The data have been reconstructed from 1988 onwards to bring the monetary base and banking statistics into line. Methodological changes have also been made with regard to the Bank of Italy's outright and temporary operations. As of December 1994, the data are obtained directly from the relevant items of the Bank's accounts, which were modified in that month to comply with the provisions of the EEC Directive on banks' annual accounts. The value of the portfolio of government securities in the period up to December 1994 has been obtained by deducting temporary sales (reconstructed on the basis of quoted prices for 1993 and face values theretofore) from the old accounting value of the whole portfolio, which included temporary purchases of securities net of temporary sales.

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; as of December 1994 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 partial 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). In September 1995 an additional 913 billion lire arising from the sale of other IMI shares was credited to the sinking fund after being initially credited to the Treasury payments account in July 1995. The sinking fund figure for December 1993 excludes the movement associated with the establishment of the Treasury payments account. That for November 1994 excludes the movement associated with the conversion into securities 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 in respect 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 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 and the post office.

"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, surety deposits with the Deposits and Loans Fund, and bank loans to the former autonomous government agencies included in the state sector; the item includes an adjustment to take account of privatization proceeds.

Table a23

For a description of the methodological changes made, see the note to Table a22.

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 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 "Account under Law 473/1993" comprises the balance of the Treasury's overdraft with the Bank of Italy at 31 December 1993. This claim on the Treasury 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 partial privatizations of IMI and INA were credited to this account (respectively 1,593 billion lire in July and 4,502 billion in September). In July 1995 a further 913 billion lire arising from the sale of additional IMI shares was credited to this account. 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 372/1995. In December 1994 the 5,921 billion lire of proceeds from the partial privatizations of IMI and INA were transferred to this fund from the Treasury payments account to which they had initially been credited, followed in September 1995 by the 913 billion arising from the sale of additional IMI shares. "Other items", in addition to coins in circulation, include claims in respect of compulsory 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 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 banks 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. For a description of the procedure adopted, see *Relazione annuale per il 1994 - Note metodologiche.*

"Repurchase agreements", stated in nominal terms, comprise those with primary dealers in the screen-based secondary market for government securities; until December 1993 "Purchases" also include finance granted in connection with Treasury bill auctions.

Table a25

For the methodological changes concerning the data on the Bank of Italy's operations, see the note to Table 22.

The December 1993 figures for subscriptions include the CCTs and BTPs, 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.

"Temporary 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 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 rates on CDs refer to issues denominated in lire with original maturities of respectively not more than six months and between 18 and 24 months; 1995 is the first year for which such data are available. 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 data for banks accepting short-term funds include those for the former special credit institutions and sections that have been absorbed into their parent banks.

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 and comprise lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, collateral for banker's drafts and the deposits with the Bank of Italy of banks accepting medium and long-term funds.

"Securities" are stated at book value. Owing to the need for uniformity with the system of automated prudential returns, the data on loans for banks raising medium and long-term funds have been recalculated up to December 1994 to include overdue instalments and the principal amounts of other instalments that have fallen due and to exclude the component of bad debts consisting of principal amounts of loans still to mature; overdue instalments and the principal amounts of loans still to mature have been respectively deducted from and added to the item "Bad debts and overdue and protested bills". "Capital and reserves" are those defined for supervisory purposes until November 1991; since then they have comprised own funds, loan loss provisions and the subordinated liabilities of domestic and foreign offices. "Interbank accounts" 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.

Table a35

The data refer to all the former special credit institutions and sections that are still separate legal entities.

"Securities" include those denominated in ecus, while those issued by non-residents denominated in foreign currencies are included in the item "Interest-earning external 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 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 CCTs 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 BTPs and from 18 July 1994 for CCTs, 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 CCTs assume no change in interest rates. Those of CTEs are not comparable with the expected returns on lira investments. The expected yields of CTOs 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 BTP 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.

Following the changes made in January 1995 to the system of automated prudential returns in order to standardize the returns of the former "banks" and "special credit institutions", M2 now includes the CDs issued by the latter.

As of January 1993, the non-state sector that includes the former autonomous government agencies which have been transformed into *società per azioni* (the state railways, monopolies and telephone company). This causes a statistical discontinuity in the series.

"Bank current accounts" comprise demand deposits in lire and foreign currency.

"Other items" include banker's drafts issued by the Bank of Italy and other credit institutions and current account deposits with the Treasury.

"Bank savings deposits" comprise savings and time deposits in lire and foreign currency.

"Extended M2" includes the deposits of Italian banks with the branches of Italian banks abroad.

The average figures are calculated as the monthly averages of daily data, except for PO 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. For the definition of the non-state sector, see the note to Table a42.

As of January 1990 "Securities acquired under repos" include foreign currency securities issued by residents but exclude securities issued by non-residents.

BOTs and BTEs 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 1994 - Note metodologiche*, Tables aD36-aD39); the new data are available from December 1988. For the definition of the non-state sector, see the note to Table a42. 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 better 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 raising 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

As of 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 1994 - Note metodologiche*, Tables aD36-aD39). For the definition of the non-state sector, see the note to Table a42.

In order to avoid a statistical discontinuity, the data on the lending of the former special credit institutions obtained from prudential returns have been adjusted for the period from December 1974 to November 1992.

"Short-term bank loans" and "Medium and long-term bank loans" comprise loans in lire and foreign currency, overdue instalments and the principal amounts of other instalments that have fallen due, and exclude the component of bad debts consisting of principal amounts of loans still to mature.

"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. For the definition of the non-state sector, see the note to Table a42.

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 claims of banks on the non-state sector.

"Loans to the state sector" comprise the claims of banks and the Bank of Italy on the state sector.

"Other items" comprise fund-raising repos, the financing provided by banks and the Bank of Italy to other banks, the "Other sectors" of the monetary base and residual items of banks' balance sheets.

Statistical aggregates

Former autonomous government agencies

The state railways, monopolies and telephone company, the post office, the national road agency and the state forests.

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)*
- *former 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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