BANCA D'ITALIA

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The international economy

Output continued to increase at a steady pace in the United States and the United Kingdom last year, whereas growth in the other EU economies was sluggish, notwithstanding an improvement in the second half of the year; in Japan the recovery gathered momentum, although there was uncertainty about its sustainability. The composition of aggregate demand differed widely; in the Anglo-Saxon countries the largest contribution to growth came from consumption and private investment, while in continental Europe it stemmed from foreign demand and in Japan from expansionary fiscal policy.

The increase in economic activity created jobs only in the United States and the United Kingdom, thanks not only to faster growth but also to greater labour market flexibility as a result of a succession of regulatory and organizational changes. In the other European countries, in contrast, economic growth failed to prevent a further destruction of jobs and a rise in the unemployment rate.

Inflation remained low in all the industrial countries, permitting an easing of monetary policies at a time when the economic climate was determined by measures to reduce budget deficits. The aggregate general government deficit of the industrial countries is now equal to their interest payments; as real interest rates remain far higher than growth rates, primary balances close to zero were not sufficient to stabilize the ratio of public debt to GDP.

Outside the most industrialized countries, economic activity continued to grow briskly, despite the effects of less accommodating monetary policies, which reduced the average rate of inflation.

Exchange rate volatility among the leading currencies diminished to close to the low levels recorded at the end of the seventies. The dollar appreciated considerably, boosted by the strength of the US economy and the widening of favourable short-term interest rate differentials vis-à-vis the other leading currencies. Stable exchange rate conditions prevailed in Europe, where the fluctuation band of the ERM was little used, except by the Irish pound, which appreciated substantially. On 25 November the lira resumed full participation in the ERM (see the chapter "The Italian economy and the balance of payments").

At its meeting in Dublin last December the European Council confirmed that the third stage of Economic and Monetary Union (EMU) would begin on 1 January 1999. It defined the broad outline of the exchange rate mechanism between the euro and the currencies of member states not participating in the single currency, laid down the main elements of a new and stricter approach to budget discipline (the so-called Stability and Growth Pact) and specified the steps that needed to be taken to define the legal framework for the use of the euro.

Against the background of the rapid growth of the US economy, long-term interest rates in the United States began to rise at the start of last year; since April they have again been almost 1 percentage point higher than German rates for the same maturity. Bond yields did not decline in Germany, despite low inflation and weak growth, but they did fall in the other European economies where they had been highest, including Italy, reflecting primarily the reduction in inflation and the improving trend in the public finances. Closer convergence has strengthened market perception of progress towards EMU.

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

In the United States the economic upturn continued for the fifth year in succession. Provisional data indicate that GDP grew by 2.5 per cent in 1996, with an acceleration in the last few months of the year fostered by the improvement in business and consumer confidence (Table 1). Investment remained the most dynamic component of expenditure, fueled by the promising outlook for demand and good profitability. Private consumption made a valuable contribution to growth, benefiting from the rise in employment and the increase in households' financial wealth, which was partly due to higher share prices.

The pattern of industrial output in 1996 confirms the acceleration in activity in the last few months of the year, with a rate of growth of 3.8 per cent in the fourth quarter by comparison with the same period a year earlier (Figure 1).

Growth continued to generate employment in 1996, with the creation of 2.6 million jobs, 400,000 more than in the previous year. The unemployment rate fell to 5.3 per cent in the twelve months to December, a further decline of three tenths of a point.

Labour market conditions are the aspect of the economy that most distinguishes the United States from Europe, even in a long-term perspective. Growth in the two areas has been virtually the same over the last ten years; in Europe there was an increase of 8 per cent in the number of jobs, mainly in the early years of the period, but unemployment rose to an average of 11.4 per cent in 1996, whereas in the United States the percentage increase in the number of jobs was almost double, causing unemployment to fall to 5.4 per cent.

In contrast to previous cycles, the achievement of a high level of employment in the United States has not led to a more rapid increase in labour costs. Inflation has been contained; the twelve-month rate of increase in the consumer price index did not exceed 3 per cent between January and October, rising to 3.3 per cent in the last two months of the year (Figure 2). The acceleration was attributable mainly to the rise in energy prices; excluding the prices of energy and food products, the twelve-month rate of inflation in December was 2.6 per cent, compared with 3.0 per cent in December 1995.

Table 1

GDP and domestic demand in the leading industrial countries (1)
(annualized percentage changes on preceding period)

	1995	1996 (2)	1996 H1	1996 H2 (2)
United States				
GDP	2.0	2.5	2.2	3.4
Domestic demand	2.0	2.6	2.7	3.7
Japan				
GDP	1.4	3.6	5.2	1.3
Domestic demand	2.2	4.7	6.6	1.3
Germany				
GDP	2.1	1.1	0.7	2.3
Domestic demand	2.2	0.8	0.5	1.4
France				
GDP	2.2	1.3	1.8	1.6
Domestic demand	2.0	0.9	0.6	1.4
Italy				
GDP	3.0	0.8	0.6	0.7
Domestic demand	2.3	0.7	–0.8	1.3
United Kingdom				
GDP	2.5	2.4	2.4	3.0
Domestic demand	1.5	2.6	2.3	4.0
Canada				
GDP	2.3	1.5	1.1	3.3
Domestic demand	1.0	1.0	0.5	3.6

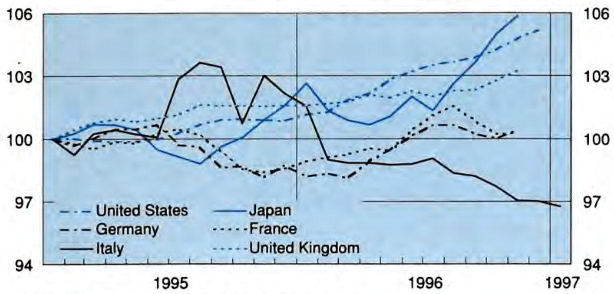
Sources: OECD, Istat and national statistics.

(1) At constant prices. – (2) For the United States, provisional data; for Italy, *Relazione previsionale e programmatica per il 1996*; for the other countries, forecasts from OECD, *Economic Outlook*, December 1996.

Figure 1

Industrial production (1)

(indices: January 1995=100)



Sources: Based on Istat and national statistics.
(1) Centred 3-month moving averages.

In Japan the recovery that began in the second half of 1995 is proving slow to take hold. In the first quarter the strong budgetary stimulus was accompanied by a rapid increase in output, at an annual rate of 8.4 per cent; however, growth came to a halt in mid-year and available estimates indicate a figure of 3.6 per cent for the year as a whole. An increase of around 10 per cent in private investment, especially in machinery, also gave strong impetus to economic activity. Private consumption, by contrast, marked time following an expansion in the first quarter. The latest indications are contradictory; on the one hand, consumer confidence has deteriorated, while on the other industrial output has increased considerably. The contribution to growth from net exports fluctuated sharply during the year, and finally proved to be negative by just over 1 percentage point for 1996 as a whole.

The failure of the recovery to take hold had implications for employment, with only modest job creation taking place. The unemployment rate therefore remained at historically high levels for Japan, reaching 3.3 per cent in December.

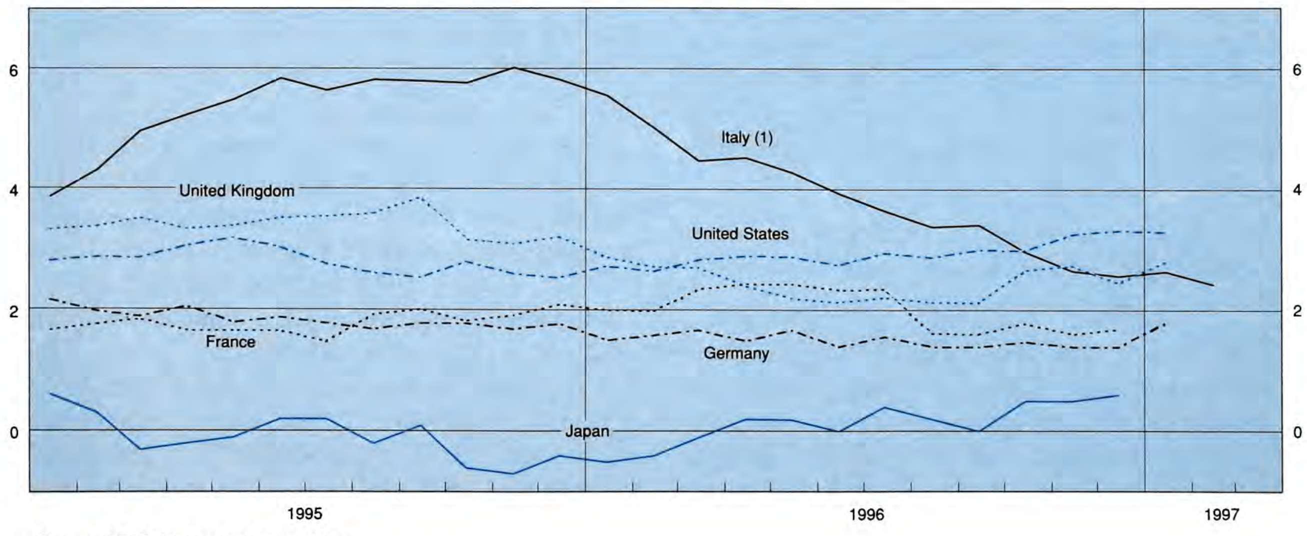
Uncertainty about the strength of the recovery was reflected in price developments. After having fallen in 1995, consumer prices began to rise again, but the twelve-month rate of increase was consistently less than 0.5 per cent; producer prices declined for the fifth year in succession, at an annual rate of nearly 1 per cent.

According to preliminary estimates, output in the European Union grew by 1.6 per cent last year; an improvement in the second half appears to have kept the slowdown in comparison with 1995 to less than 1 percentage point. However, the overall picture masks wide differences among countries.

Figure 2

Consumer prices

(percentage changes on year-earlier period)

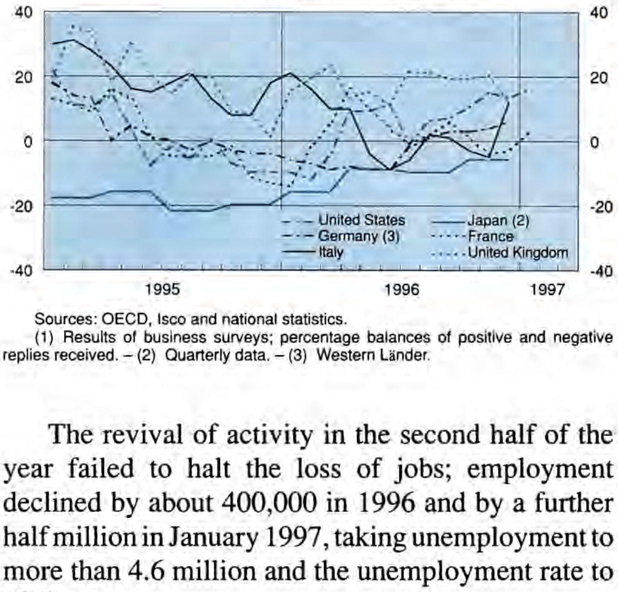


Sources: OECD, Istat and national statistics.
(1) Cost-of-living index; for February 1997, provisional.

By the summer Germany appeared to have emerged from stagnation, with output growing at an annual rate of 3.3 per cent between the second and third quarters. Growth for the year as a whole is estimated at 1.1 per cent. The recovery was fostered by external demand, aided by the depreciation of the mark. Private consumption remained depressed owing to the deterioration in labour market conditions and the decline in households' confidence. The climate of uncertainty led to a contraction of 2.2 per cent in investment in the year as a whole, with most of the decrease occurring in the first quarter. Business confidence nonetheless picked up considerably from the summer onwards (Figure 3).

Figure 3

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



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

The revival of activity in the second half of the year failed to halt the loss of jobs; employment declined by about 400,000 in 1996 and by a further half million in January 1997, taking unemployment to more than 4.6 million and the unemployment rate to 11.3 per cent.

Inflation remained low: in December consumer prices were 1.4 per cent higher than a year earlier, while producer prices were unchanged.

In France economic activity stagnated in mid-year but later recovered, thanks mainly to external demand; an improvement in consumer confidence generated an increase in private consumption, and investment also began to pick up. Growth in 1996 as a whole is put at 1.3 per cent. Inflation remained around 2 per cent.

The modest expansion in activity was accompanied by a worsening of labour market conditions in France as well; the unemployment rate rose to 12.7 per cent in December, 1 percentage point higher than a year earlier.

Growth continued apace in the United Kingdom, propelled by vigorous domestic demand. According to provisional estimates, output grew at an annual rate of 3.0 per cent in the second half, bringing the figure for 1996 to 2.4 per cent. Private consumption continued to increase rapidly (by 2.9 per cent), sustained by the rise in disposable incomes that accompanied the further decline in unemployment; investment also made a modest contribution to growth, increasing by 3.4 per cent. The impact of net exports, by contrast, was slightly negative.

The growth in activity led to a further large increase in jobs, bringing the unemployment rate down by more than 1 percentage point over the year to 6.5 per cent in January 1997. This was principally the result of labour market flexibility, achieved by means of a succession of regulatory and organizational changes begun more than a decade ago; recent examples are the introduction of incentives for those actively seeking a job and more stringent conditions for entitlement to unemployment benefit.

Although the twelve-month rate of increase in consumer prices never exceeded 2.9 per cent during 1996, that in the index excluding mortgage loans rose to 3.1 per cent in December, overshooting the Government's target of 3 per cent.

Cyclical disparities and the strengthening of the dollar slowed down the reduction in the external imbalances of the leading economies that had begun in the second half of 1995. According to provisional figures, the US current account deficit that has persisted since 1982 widened last year to $164 billion, or 2.2 per cent of GDP, compared with $148 billion in 1995. The reduction in Japan's current account surplus came to a halt in the second half of the year; it is estimated to have totaled $66 billion in 1996, equal to 1.4 per cent of GDP compared with 2.2 per cent in 1995. Germany's current account deficit is likely to have decreased slightly, notwithstanding a sharp deterioration in net investment income.

It is estimated that the current account surplus of the EU as a whole rose from $61 billion in 1995 to $89 billion last year, reflecting the large increase in the trade surplus, which is put at $160 billion, equal to just under 2 per cent of GDP. Half of the $28 billion increase in the current account surplus was due to the improvement in Italy's external accounts; France also made a significant contribution.

Economic policies

According to recent estimates, the average general government deficit in the industrialized countries declined by three tenths of a point last year, to 3.2 per cent of GDP, the same percentage as interest payments. In view of the persistent divergence between real interest rates and the rate of growth of GDP, the fact that primary balances were close to zero did not prevent a further increase in the ratio of public debt to GDP from 72.5 to 74.0 per cent.

The US federal budget deficit declined from 2.2 to 1.4 per cent of GDP last year, the lowest level since 1974, owing to the reduction in discretionary expenditure and the strong growth in output. According to the Administration's estimates, the deficit should rise to $126 billion this year, equal to 1.6 per cent of GDP, partly as a result of the expected fall in revenue from the taxation of capital gains on shares.

In Japan the general government deficit for the fiscal year that ended in March is expected to increase from 3.3 to 4.1 per cent of GDP (or from 6.2 to 6.9 per cent net of the surplus of the social security system), partly as a result of the tax concessions for investment income introduced at the beginning of last year. The supplementary budget approved in December includes a new programme of public works totaling ¥1,200 billion, or 0.3 per cent of GDP, to complete the reconstruction of the Kobe area damaged by the earthquake in 1995. The budget presented in the same month will have a highly restrictive impact as a result of the abolition of tax allowances on personal incomes and an increase in the rate of consumption tax, as foreseen in the 1994 tax reform, as well as the introduction of strict measures to curb expenditure. In the twelve months ending in March 1998 the deficit should decline by almost 2 points, to 2.6 per cent of GDP (5.3 per cent net of the surplus of the social security system).

Despite the slowdown in economic activity, the average general government deficit of the EU countries fell from 5.0 to 4.4 per cent of GDP last year, thanks to vigorous adjustment measures to meet the requirements for entry to the single currency area laid down in the Maastricht Treaty. Net of interest payments, a surplus of 1 per cent of GDP was achieved, more than half of which was attributable to Italy. Last year Luxembourg, Ireland, Denmark and the Netherlands met the budget deficit requirement, set at 3 per cent of GDP, while in France, the United Kingdom and Luxembourg public debt was less than 60 per cent of GDP.

In Germany the weakness of economic activity caused the budget deficit to increase from 3.5 to 3.9 per cent of GDP, despite the expenditure cuts decided in March and September. On the basis of the budget law approved in November, which included additional savings in expenditure compared with those originally proposed (see *Economic Bulletin*, No. 23, October 1996), the Government estimates that the deficit will decline to 2.9 per cent of GDP in 1997, on the assumption of 2.5 per cent growth and no further deterioration in the labour market.

In France the general government deficit fell from 4.8 to 4.0 per cent of GDP, with additional spending cuts more than offsetting the effects of slower growth. On the basis of the new finance law, the deficit for 1997 should decline by more than 1 percentage point, to 3 per cent of GDP. Spending is forecast to remain unchanged in nominal terms as a result of cuts in the allocations and staff of most ministries; extraordinary revenue equal to about 0.5 per cent of GDP should be guaranteed by payments from France Télécom to cover the social security liabilities transferred to the public purse under the terms of the company's privatization; direct tax revenue is expected to decline as a result of the tax reform introduced at the same time as the finance law, which envisages a reduction in the highest rate of tax from 56.8 to 47.0 per cent over five years and a widening of the tax base.

The general government deficit in the United Kingdom is expected to decline from 5.0 to 4.0 per cent of GDP in the financial year ending on 5 April 1997, thanks partly to faster-than-expected growth. On the basis of the Finance Act presented last November, the deficit should decline to 2.5 per cent of GDP in the 1997/98 financial year; the loss of revenue as a result of increasing personal tax allowances and thresholds should be more than offset by increases in some indirect taxes on tobacco and road fuels and by spending cuts, which are concentrated in the public works and social security sectors.

Monetary policy remained generally relaxed in the leading countries, reflecting the absence of inflationary pressures.

In the United States, despite fears of overheating and concern at the sharp rise in share prices, the Federal Reserve left monetary conditions unchanged, with the discount and federal funds rates steady at 5 and 5.25 per cent respectively, following the quarter-point reduction in January 1996 (Figure 4). Yields on financial assets indicate expectations of a modest rise in policy interest rates, the timing of which would depend on the actual emergence of price pressures.

In Japan the monetary stance continues to be expansionary, with the official discount rate unchanged at 0.5 per cent since September 1995, both to support the recovery, which may falter as a result of the weakening of fiscal stimuli, and to foster the still unfinished recapitalization of the banking system.

Monetary conditions in Germany remained unchanged following the reduction in official rates in April and the lowering of repo rates to 3 per cent in August; there was no sign of a rise in inflation, despite a strengthening of economic activity in the summer and an expansion of 8.1 per cent in the M3 money supply, compared with the target range of 4-7 per cent. The Bundesbank has announced a target range of 3.5-6.5 per cent for this aggregate in 1997; in order to reduce uncertainty in the financial markets in the run-up to the third stage of EMU, it has also set a medium-term target of 5 per cent annual growth in the money supply in both 1997 and 1998.

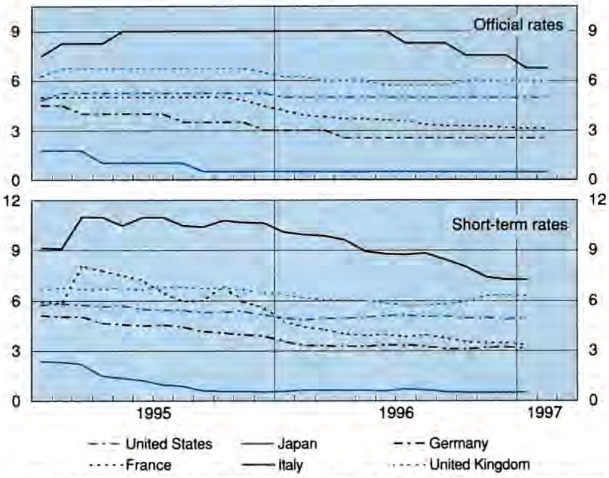
The decline in French interest rates resumed in December, with the intervention rate being reduced to 4.6 per cent and that on repurchase agreements for 5-10 days to 3.1 per cent. The M3 money supply contracted by 1.5 per cent over the year, compared with a growth target of 5 per cent. The target has been kept unchanged for 1997, this figure being considered consistent with an inflation rate of 2 per cent or less.

In the United Kingdom the acceleration in growth and the overshooting of the Government's inflation target led the monetary authorities to increase the cost of refinancing slightly; the base rate, which had been lowered to 5.75 per cent in June, was raised to 6 per cent in October.

Figure 4

Official and short-term interest rates (1)

(percentages)



(1) For short-term rates, average monthly data. For official rates, end-of-month data; for February 1997, latest daily data available. For sources and definitions, see Notes to Appendix Table a5.

Exchange rates and the financial markets

Trading on the foreign exchange markets was orderly throughout 1996; the exchange rate volatility of the major currencies was only half as great as in the previous year and the lowest since the end of the seventies.

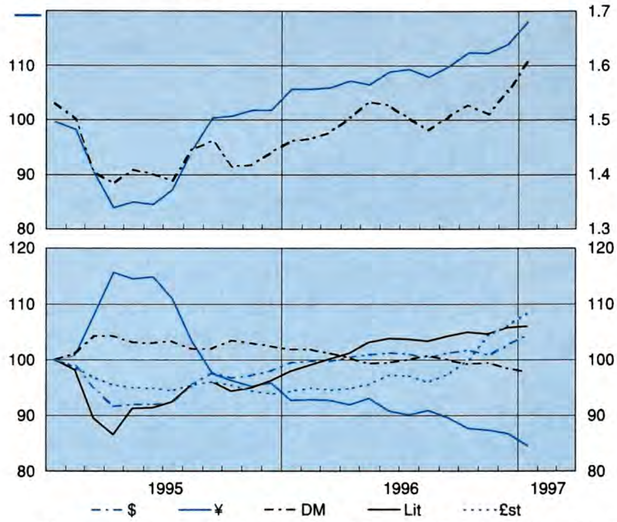
The appreciation of the dollar that had begun in the second half of 1995 continued and became far more pronounced from December 1996 onwards: the yen depreciated by 8.3 per cent and the mark by 8.9 per cent vis-à-vis the dollar in little more than two months. In mid-February the effective exchange rate of the dollar was 20.1 per cent higher than the low recorded in the spring of 1995, while the yen and the mark depreciated over the same period by 31.3 and 8.5 per cent respectively (Figure 5). In view of the low level of inflation in the industrial countries, disparities between real and nominal exchange rates were small.

Movements in exchange rates between the dollar and the other leading currencies were consistent with changes in short-term interest rate differentials in favour of the dollar; differentials in both spot and forward rates widened, reflecting the comparative strength of US economic activity and the more relaxed monetary policy stance in Europe and Japan. However, any further appreciation of the dollar would cause exchange rates to diverge from the values described as appropriate in a recent public statement by the Group of Seven.

Europe also enjoyed exchange rate stability last year. The appreciation of the dollar caused most European currencies to strengthen against the mark, especially those not participating in the ERM. The dispersion of ERM currencies within the fluctuation band was narrow; only the Irish pound recorded a large appreciation of almost 10 per cent against the other currencies, influenced by the strength of sterling (Figure 6).

Figure 5

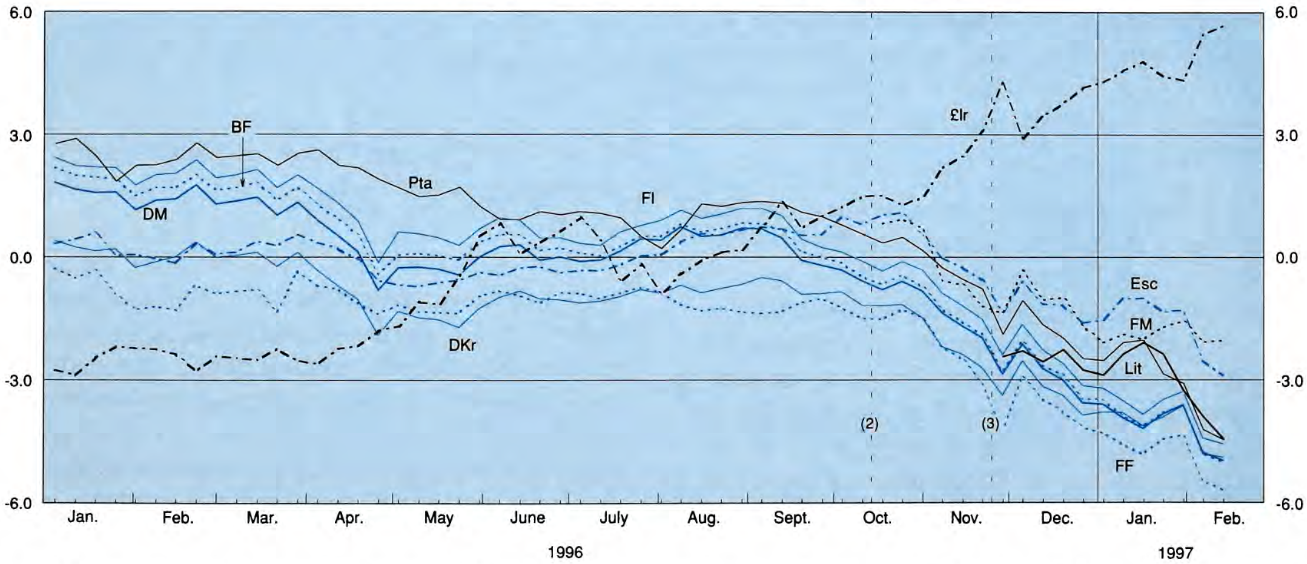
Bilateral exchange rates against the dollar (1) **and nominal effective rates of leading currencies** (2)



(1) Expressed in units of each currency per dollar. – (2) Vis-à-vis a trade-weighted average of 14 other currencies; indices, January 1995=100. A rise corresponds to an appreciation of the currency.

Figure 6

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. The position of the Austrian schilling within the band coincided with that of the German mark, apart from negligible divergences. – (2) The Finnish markka joined the Exchange Rate Mechanism on 14 October 1966. – (3) The Italian lira resumed full participation in the Exchange Rate Mechanism on 25 November 1996.

In this climate of stability, the Italian authorities' request to resume full participation in the ERM, following the suspension of compulsory intervention on 17 September 1992, was granted on 25 November. Participation in the mechanism is one of the requirements laid down in the Treaty of Maastricht for joining the single currency area. The new central rate is 1,906.5 lire against the ecu, 990 against the mark and 295.2 against the French franc, with corresponding upper and lower intervention limits of 15 per cent (1,149.6 and 852.6 vis-à-vis the mark and 342.8 and 254.2 against the French franc).

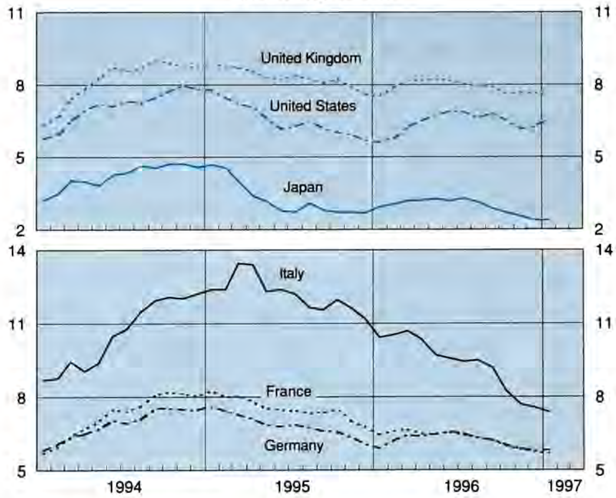
US bond yields increased in the early months of last year owing to fears of overheating but subsequently fell back in view of the low level of inflation. Corresponding variations occurred in the other leading countries, but they differed widely in magnitude: by the end of 1996 long-term interest rates were 70 basis points higher in the United States and 50 and 20 basis points lower in Japan and Germany respectively. These changes are consistent with the marked contrast in cyclical conditions: a hesitant recovery in Japan, modest growth in Germany and a vigorous expansion in the United States (Figure 7).

Renewed fears of a rise in inflation in the United States resulted in an increase in long-term US yields in December. This had the effect of temporarily halting the decline in comparable Japanese and German yields. The yield differential between 10-year US and German bonds, which had turned positive in April, widened further to almost 1 percentage point.

In Europe, long-term interest rates declined considerably from April onwards in the countries where they were highest, falling by 310 basis points in Italy, 260 in Spain and 160 in Sweden over the year as a whole. The differential in relation to mark-denominated assets of the same maturity narrowed accordingly to stand at 180, 120 and 90 basis points respectively at the end of the year. The decisive factors in this development were the stringency of monetary policy and progress in adjusting the public finances, at a time when the prospects for EMU were brighter (see the box "The behaviour of the yield curve in 1996").

Figure 7

Nominal long-term interest rates (1)
(monthly data)



Source: National statistics.
(1) Yields on 10-year Treasury bonds.

Share prices rose sharply in the leading countries except Japan, where they fell by 4 per cent. The increase was particularly marked in the United States, Germany and the United Kingdom, where considerable gains had already been recorded in 1995. Over the last two years the indices in these countries have risen by 61, 37 and 34 per cent respectively, benefiting from more relaxed monetary conditions (see the box "The recent performance of the Italian stock exchange by international comparison").

Central and Eastern Europe, Russia, Asia and the developing countries

Growth in the rest of the world remained brisk, with smaller differences between the major regions. Inflows of foreign capital increased, particularly to the most dynamic economies. Serious disequilibria and sizable pockets of underdevelopment nonetheless remain. The continuing contraction of output in many former planned economies, especially Russia, is a cause for concern.

Economic activity increased in most of the Central and Eastern European countries, albeit more slowly than in 1995, mainly owing to the poorer performance of exports, which were affected by the modest growth in the principal European markets, particularly Germany. The most dynamic economies in the region – Poland, the Czech Republic and Slovakia – recorded growth rates of over 5 per cent. Except in Bulgaria and Romania, inflation continued to fall throughout the region, thanks to tight monetary policies and continuing efforts to adjust the public finances.

The economic situation is still critical in Bulgaria, where the currency depreciated dramatically, output fell by 9 per cent and inflation rose to over 200 per cent. Romania also continues to face difficulties in the wake of the 1995 currency crisis; growth slowed down and inflation accelerated to a twelve-month rate of more than 50 per cent in December, compared with 28 per cent a year earlier.

In Russia and Ukraine, which have been in recession for many years, the expected upturn failed to materialize. Economic activity declined again in both countries (by 4 and 7 per cent respectively), inflation remained high (25 and 50 per cent) and budget deficits substantial (5 and 4 per cent of GDP). Their external accounts improved, with Russia expected to record a current account surplus of 5 per cent of GDP and Ukraine reducing its deficit to 2 per cent.

In Turkey a high rate of growth of 8 per cent was accompanied by inflation of around 80 per cent and a current account deficit of almost 3 per cent of GDP. Although the planned wide-ranging privatization programme should bring down the public sector borrowing requirement, inflation expectations remain high.

Economic growth continued at a brisk pace in the dynamic Asian economies, although the rate slowed down from 10.2 to 9.5 per cent in China and from 6.9 to 6.1 per cent on average in the other countries, owing partly to the more restrictive monetary policies adopted in many countries to combat inflation and partly to a slowdown in exports. In China the current account swung from a surplus of $2 billion to a deficit of $9 billion, while the aggregate deficit of the other economies rose from $6.5 to 10 billion. The weakness of these economies' exports is due to a combination of factors: the appreciation of their currencies against the yen, the weakening of demand both in the industrial countries and within the region, and the worldwide downturn in the electronics industry, whose products represent more than 20 per cent of exports for many of these nations.

In Latin America the adjustment of the public finances was slower than expected, which contributed to keeping interest rates high. Growth in the region was a modest 2.7 per cent, albeit more than half a point above the figure for 1995. In Mexico output grew by 4 per cent, following the sharp contraction of 7 per cent in 1995 as a result of the financial crisis. Inflation in the region declined further. In Brazil, two years after the reform that entailed the introduction of a new currency and the abolition of wage indexation, the rate of increase in consumer prices fell from an annual average of 210 per cent in 1995 to one of 16 per cent in 1996. However, there was no significant improvement in these countries' current account balances, principally owing to a deterioration in their terms of trade and the continuing high cost of debt servicing.

Net flows of private capital into the former socialist economies and developing countries, particularly those in Asia and Latin America, were again substantial last year, rising to $227 billion, compared with $181 billion in 1995. According to preliminary figures, international bond issues by borrowers in these countries totaled almost $100 billion, nearly double the figure for 1995. Share issues are also estimated to have risen, from $11 to 16 billion, whereas syndicated loans appear to have been virtually unchanged.

The outlook

Growth in the industrialized economies should continue in 1997 and 1998 and should be more synchronized than in the recent past. According to forecasts by international organizations, output should rise overall by 2.4 per cent this year and by 2.7 per cent in 1998 (Table 2).

The expansion in domestic demand in the United States will probably slacken somewhat in connection with the inventory cycle and weaker investment. The slowdown in economic activity in Japan is expected to be more marked in 1997 on account of the elimination of fiscal stimulus in the latest budget. A recovery is thought likely in 1998, fueled by a pick-up in domestic demand, owing primarily to a revival of households' confidence. The economic situation in the European Union, which is especially important in view of the imminent decision as to which countries meet the requirements for admission to the euro area laid down in the Treaty of Maastricht, should improve; the signs of increasing economic strength that appeared at the end of 1996 should consolidate in the next two years. Exports should continue to make a major contribution to growth. Domestic demand should also strengthen, but this will depend crucially on an improvement in confidence.

Table 2

The main international macroeconomic variables

	1996 (1)	1997 (2)	1998 (2)		1996 (1)	1997 (2)	1998 (2)
GDP (3)	*percentage changes on previous year*			**Current account balances**	*billions of dollars*		
OECD countries	2.4	2.4	2.7	OECD countries	–15.7	2.9	14.3
United States	2.5	2.2	2.0	United States	–164.1	–160.7	–161.4
Japan	3.6	1.6	3.7	Japan	66.0	64.0	70.2
EU	1.6	2.4	2.7	Germany	–15.3	–5.2	–1.2
Germany	1.1	2.2	2.6				
Consumer price deflator	*percentage changes on previous year*			**Unemployment rate**	*percentages*		
OECD countries	4.4	3.7	3.3	OECD countries	7.8	7.7	7.5
United States	2.1	2.2	2.3	United States	5.4	5.4	5.5
Japan	..	0.6	0.3	Japan	3.4	3.2	3.1
EU	2.6	2.1	2.0	EU	11.4	11.3	10.9
Germany	1.7	1.5	1.5	Germany	10.4	10.4	10.1
					percentage changes on previous year		
Budget balances	*as a percentage of GDP*			**World trade** (5)	6.1	6.7	7.3
United States	–1.6	–1.8	–1.8	**Exports**			
Japan	–4.1	–2.6	–2.3	OECD countries	4.9	6.6	7.1
Germany	–4.1	–3.4	–2.6	LDCs	8.1	6.8	7.4
Short-term interest rates (4)	*percentages*			**Imports**			
United States	5.0	5.3	5.3	OECD countries	5.1	6.2	6.9
Japan	0.6	0.6	0.9	LDCs	9.8	8.2	8.4
Germany	3.3	3.1	3.7				

Sources: OECD, *Economic Outlook*, December 1996, and national statistics.
(1) Estimates. – (2) Forecasts. – (3) At constant prices. – (4) Averages; for the United States, 3-month Treasury bill rate; for Japan, rate on certificates of deposit at between 3 and 6 months; for Germay, 3-month interbank rate. – (5) Goods at constant prices.

Despite the pick-up in economic activity, inflation should remain at the present modest level, thanks to moderate increases in labour costs and primary product prices. The 19 per cent increase in the dollar price of oil last year should be reversed during 1997, and an even larger fall is expected in the prices of non-energy raw materials. Against this background, the forecasts of international organizations and those based on financial indicators agree that a more accommodating monetary policy stance can be expected; the relaxation may be less pronounced only in the United States, where the margins of idle capacity are smallest.

Given the revival of economic activity, the growth in world trade is expected to accelerate to 6.7 per cent in 1997 and 7.3 per cent in 1998. The largest increase is likely to be in trade between developing and industrialized countries, which should benefit from progress in the implementation of international trade agreements. However, the acceleration is not expected to be accompanied by progress in the adjustment of the current account imbalances of the leading countries, which are forecast to remain broadly unchanged in relation to GDP: 2 per cent in the case of the US deficit, 1.4 per cent in that of the Japanese surplus and just over 1 per cent in that of the overall EU surplus.

This scenario is nonetheless subject to a number of uncertainties. In particular, domestic demand in the EU countries except the United Kingdom could be affected by the weakness of both consumption and investment. Consumption is still depressed as a result of the high level of unemployment, which has continued to rise despite the revival of activity in the second half of last year and is expected to decline only slowly and marginally, even on the most favourable assumptions; it is also affected by uncertainty about future income associated with the current debate about the reform of social security systems. Planned investment is being restrained by the continued modest expectations regarding demand and the persistently high level of real long-term interest rates, which still average around 4.5 per cent in the leading EU countries, despite their recent decline and the weakness of economic growth. Moreover, if the benefits of the recovery in confidence are slow to materialize, the budgetary adjustment measures being taken in all the EU countries aiming to join the single currency area in 1999 could still have a prejudicial effect on activity and employment in the short term.

The Italian economy and the balance of payments

The Italian economy and the balance of payments

Economic activity slowed down sharply in 1996: annual average GDP growth fell to about 1 per cent, compared with 3 per cent the previous year, owing to a deceleration both in domestic demand, as in most of the European countries, and in exports.

The growth in private consumption was curbed by the smallness of the increase in disposable income, which reflected the employment situation, and by persistent uncertainty about the economic outlook. Fixed investment was held down by the gradual lapsing of tax incentives and by heightened uncertainty about the strength of demand. Thanks to the good performance of trade with non-EU countries, overall exports of goods and services remained at the previous year's level, notwithstanding the weakness of activity in European markets and the considerable appreciation of the lira.

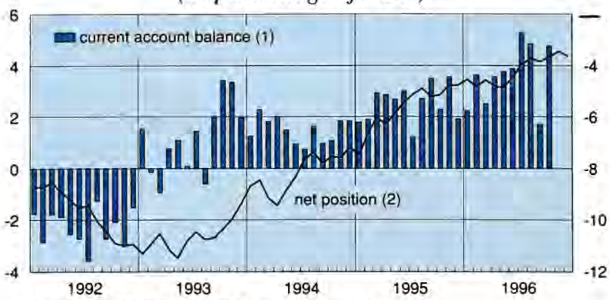
The scant recovery in employment is the most critical aspect of the economy's recent performance: despite the rapid growth in output over the past two years, the number of people in employment in 1996 was only slightly higher than in 1995 and still more than a million below the peak recorded in 1991. The slowdown in industrial activity during 1996 halted and ultimately neutralized the limited job creation that had taken place in manufacturing industry in the first six months of the year. Owing to the growth in the labour force, and particularly the rise in female participation, the unemployment rate increased further, to reach 12.2 per cent in October.

The exchange rate of the lira and the resumption of participation in the Exchange Rate Mechanism

On 25 November Italy resumed full participation in the Exchange Rate Mechanism, thereby satisfying one of the requirements for membership of the Monetary Union. This was made possible by the improvement in the fundamental condition of the Italian economy. The twelve-month inflation rate fell to 2.6 per cent in November, compared with 6.0 per cent a year earlier. The differential between Italian and German long-term interest rates declined from around 6 percentage points in the spring of 1995 to less than 2 points last November. The current account of the balance of payments, which had shown a deficit for the five years up to 1992 (culminating in a shortfall of more than 35 trillion lire, or 2.3 per cent of GDP), recorded an estimated surplus of just under 70 trillion lire in 1996, equal to more than 3.5 per cent of GDP. Between 1992 and 1996 Italy's net external liabilities declined from 10.9 to 3.6 per cent of GDP (Figure 8), while the primary surplus on the general government accounts grew considerably and reached 3.6 per cent of GDP.

Figure 8

Balance of payments on current account and Italy's net external position
(as percentage of GDP)



Source: For GDP, Istat; 1996 data are estimated.
(1) Seasonally adjusted and annualized. Left-hand scale. – (2) Right-hand scale.

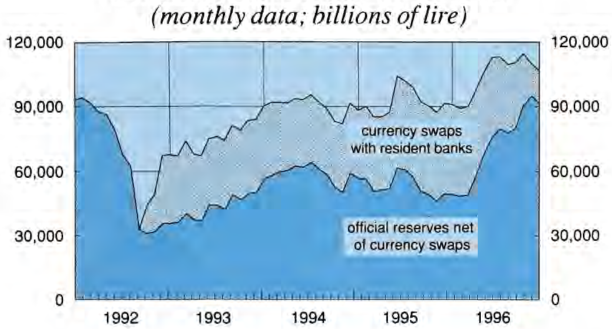
Following the plunge in its external value in early 1995, the lira made a slow, uneven but substantial recovery. By May of last year its exchange rate against the ecu had returned to the level of August 1994; against the background of a large current account surplus, the improvement was attributable primarily to the stringency of monetary policy, which caused inflation expectations to stabilize and subsequently to decline.

From April 1996 onwards exchange market intervention was carried out with the twofold objective of rebuilding the reserves and reducing exchange rate variability, in ways designed to avoid interrupting the gradual strengthening of the lira. Between April and June this policy resulted mainly in an increase in the reserves, partly with a view to repurchasing official ecus from other central banks; in July and August, by contrast, it made it possible to counter a depreciation of the lira induced by the temporary weakness of the dollar against the mark. In the ensuing months purchases of foreign exchange by the central bank were directed towards gradually unwinding the currency swaps concluded with resident banks immediately after the devaluation of the lira in September 1992 (Figure 9).

Figure 9

Official reserves of the central bank

(monthly data; billions of lire)



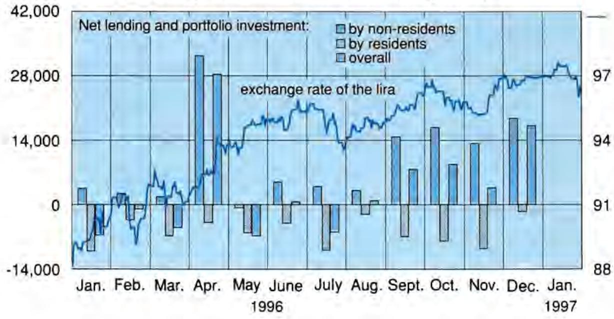
From June onwards the exchange rate stabilized at just above 1,910 lire to the ecu (or around 1,000 to the mark), owing partly to massive inward portfolio investment totaling nearly 67.4 trillion lire between June and November (Figure 10). The more far-reaching fiscal adjustment measures, the continuous improvement of inflation expectations and forecasts of a further reduction in interest rates were contributory factors in this.

In the third week of November the approval of the fiscal package for 1997 by the Chamber of Deputies and the official initiation of the procedures for the resumption of full participation in the Exchange Rate Mechanism gave impetus to the lira's renewed appreciation. On Sunday 24 November the EU Council of Economic and Finance Ministers set the lira's new central rate at 1,906.5 lire to the ecu, equal to 990 lire to the mark (8 lire less than the market rate prevailing on the previous Friday). These parities placed the real effective exchange rate of the lira close to the average for the fourth quarter of 1992 (Figure 11).

Figure 10

The exchange rate of the lira and main items in movements of non-bank capital

(nominal effective exchange rate index, 1993=100; monthly balances in billions of lire)

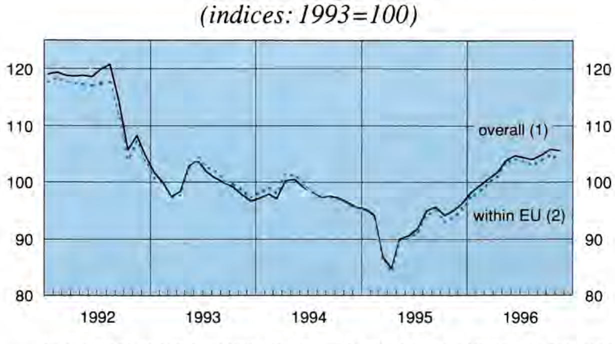


The lira fluctuated in the days following its re-entry to the ERM but was generally above its central parities. In the second half of December the appreciation of the dollar helped the lira to firm to around 1,896 lire to the ecu (and 984 to the mark). The strength of the currency was attributable partly to the further decline in inflation, continued expectations of lower interest rates and, as a result, massive purchases of Italian securities by foreign investors, amounting to 17.3 trillion lire in December. After the turn of the year, with the dollar appreciating, the lira first strengthened slightly against the main European currencies and then weakened, falling back to a level close to its central rate in the second half of February.

Figure 11

Real effective exchange rate of the lira

(indices: 1993=100)



(1) In relation to the currencies of Italy's 14 main trading partners, on the basis of producer prices. A rise corresponds to an appreciation of the lira. – (2) In relation to the currencies of the other EU countries, on the basis of producer prices.

Output and demand

GDP declined by nearly 0.5 per cent between the first and second quarters but grew by 0.6 per cent in the third, owing in part to the three additional working days in the quarter (Table 3). In the first nine months of the year output was 0.9 per cent higher than in the corresponding period of 1995.

Imports of goods and services contracted by 1.6 per cent in volume in the first nine months owing to the weakness of demand, while exports diminished by 0.2 per cent. Foreign trade in goods and services thus contributed about three tenths of a percentage point of the growth in GDP; the remaining six tenths are attributable to the increase in domestic demand, including the change in stocks.

On the basis of the results for the first nine months and the performance of the cyclical indicators in the fourth quarter, GDP growth for the year as a whole probably amounted to almost 1 per cent.

Consumption and disposable income

An important factor in the slow growth in GDP was the weakness of households' consumption, which rose by barely 0.2 per cent at constant prices in both the second and the third quarters (Table 3). In the first nine months of the year domestic consumption was 0.6 per cent higher than in the same period of 1995. Spending on non-durable goods, semi-durables and services increased by 0.6, 0.9 and 0.8 per cent respectively, while purchases of durables declined by 0.6 per cent overall, primarily as a result of a fall of 4.2 per cent in spending on transport equipment. Since the balance on foreign travel deteriorated in real terms, national consumption can be estimated to have grown slightly more than domestic consumption.

According to data for the first nine months, total wages and salaries were 3.7 per cent higher at current prices than in the same period of the previous year; per capita earnings increased by practically the same percentage, since the number of standard labour units employed was basically unchanged. As regards the other sources of household income, preliminary estimates point to a slightly larger growth in income from self-employment and property income; social security benefits on the one hand and current taxes on income and wealth on the other are estimated to have increased in both nominal and real terms.

Table 3

Resources and uses of income

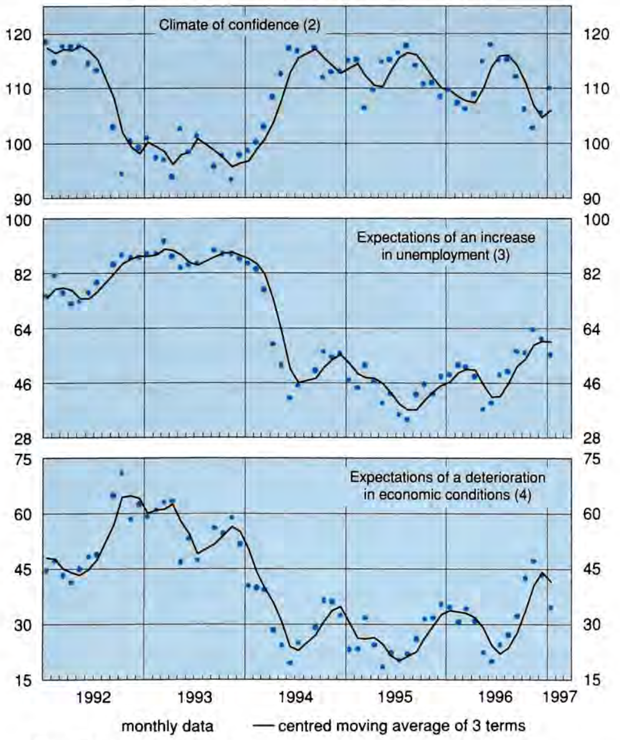
(seasonally adjusted data at constant prices; annualized percentage changes on previous period)

	1995					1996			
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jan-Sept. (1)
Gross domestic product	3.0	1.5	0.1	0.6	0.1	0.5	–0.4	0.6	0.9
Imports	9.6	0.3	3.4	2.8	–0.4	–1.5	–4.4	1.1	–1.6
Total resources	4.1	1.3	0.7	1.0	..	0.1	–1.1	0.7	0.4
Gross capital formation	5.9	2.3	1.7	1.0	1.5	–0.4	–0.1	0.2	2.3
Construction	0.5	1.0	0.4	0.5	1.5	–0.2	–0.5	0.7	1.6
Machinery, equipment and transport equipment	11.5	3.6	2.9	1.5	1.5	–0.6	0.3	–0.3	3.0
Households' consumption	1.7	0.7	0.7	0.3	–0.1	0.1	0.2	0.2	0.6
Other domestic uses	1.1	–2.6	–4.8	5.2	2.3	0.4	–8.5	1.1	–1.1
Total domestic demand	2.3	0.3	–0.2	1.3	0.6	0.1	–1.5	0.4	0.6
Exports	11.6	5.5	4.2	–0.2	–2.6	0.2	0.4	2.0	–0.2

Source: Based on Istat data.
(1) Percentage changes on the corresponding period of 1995.

Figure 12

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



Source: Based on Isco data.

(1) Until 1994 no survey was conducted in August; the data for that month were calculated as simple averages of adjacent data. From January 1995 onwards interviews have been conducted by telephone and the interviewee is no longer necessarily the head of household but any adult member who contributes to the income of the household. – (2) Index (1980=100). – (3) Percentage of those interviewed who expected an increase in unemployment in the subsequent 12 months. – (4) Percentage of those interviewed who expected a deterioration in the economic situation of the country in the subsequent 12 months.

Over the year as a whole, the disposable income of the private sector may have grown by more than 4 per cent at current prices. The increase in private consumption thus appears to have been broadly in line with that in disposable income; the ratio between the two aggregates should therefore have remained virtually unchanged. If the loss of purchasing power on nominal net financial assets due to inflation is subtracted from disposable income, it can be seen that income grew faster than consumption, as the loss due to inflation was far smaller in 1996 than in 1995. Households do not appear to have perceived the full extent of this phenomenon, as they expected inflation to fall more gradually than it did.

Consumer spending was dampened by uncertainty about the economic outlook (Figure 12). This uncertainty was evident from the swings in Isco's indicator of household confidence: after deteriorating sharply from the summer until November, households' expectations improved in December and, more markedly, in January 1997.

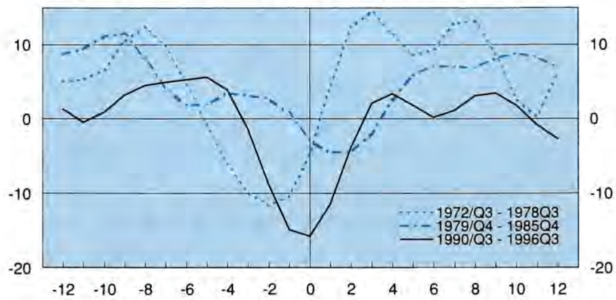
Consumer caution had its greatest impact on real spending on durable goods, the replacement of which can be deferred by prolonging the use of existing ones. Whereas in the recessions of 1974-75 and 1982-83 the sizable fall in spending on durables had been followed by a rapid and sustained recovery, during the current cycle the large contraction recorded in 1993 was followed by stagnation, which turned into a fresh decline after only two years. Consequently, the average age of the durable goods owned by households increased further (Figure 13).

This situation is highlighted by the figures on new car registrations, which rose by 0.4 per cent in 1996, owing solely to the upturn in the fourth quarter. The incentives introduced by the Government at the end of 1996 should have an appreciable effect this year; according to industry estimates, the tax concessions should boost car sales by around 10 per cent. This would add between two and three tenths of a percentage point to the growth in consumption at constant prices.

Figure 13

Purchases of durable goods in three economic cycles

(seasonally adjusted quarterly data at 1990 prices; percentage changes on year-earlier period)



Source: Based on Istat data.

(1) Zero on the horizontal axis corresponds to the trough of the GDP cycle.

Investment and stocks

Gross fixed investment rose by 0.2 per cent in real terms between the second and third quarters, reversing the negative tendency of the previous two quarters

(Table 3). The slight overall increase was entirely due to investment in buildings and public works, which rose by 0.7 per cent; purchases of machinery and equipment remained at the level of the second quarter, while those of transport equipment fell by 1.7 per cent, their third successive quarterly decline.

On the basis of national accounts data, gross fixed investment was 2.3 per cent higher in the first nine months of the year than in the same period of 1995; according to preliminary estimates, the increase for the year as a whole was smaller. Taking account of the steep decline in capital spending in manufacturing industry (around 6 per cent, according to the sample survey conducted by Isco in October), investment was concentrated in the services sector.

Spending on machinery and equipment rose by 3.4 per cent, although it fluctuated in the course of the year. The indicator of domestic orders for machine tools, calculated by the machine tool manufacturers' association (UCIMU), fell markedly in the first half, recovered sharply in the third quarter and fell back equally abruptly in the fourth. After contracting in the first six months of the year, investment in construction grew again in the third quarter and showed an increase of 1.6 per cent in the first nine months compared with the same period of 1995.

These modest gains continued to reflect the effects of the tax incentives introduced by Law 489 of 8 August 1994 (known as the Tremonti Law); Law 549 of 28 December 1995 had extended their validity to April 1996 for most firms (subject to specific conditions) and until the end of 1996 for small firms and for companies located in depressed areas. Notwithstanding these lagged effects, the expiry of almost all of the incentives reinforced the negative impact of the slowdown in demand on capital spending, reflected by the steady deterioration in business sentiment recorded by Isco.

National accounts data indicate that stocks of finished products increased in the third quarter after having contracted in the second. In the first nine months changes in stocks are estimated to have accounted for less than 0.1 percentage points of the growth in GDP. According to Isco's monthly survey, in the second half of the year a diminishing proportion of firms considered their stocks to be above normal. This trend seems to have involved mainly producers of intermediate goods, whereas a majority of manufacturers of consumer goods still reported holding excess inventory.

Exports and imports

In the first nine months of 1996 exports of goods and services were 0.2 per cent lower in volume terms than in the corresponding period of 1995 (Table 3). In the first half of the year they had declined by 0.8 per cent compared with the previous six months, owing to the weak growth in Italy's leading trading partners and the loss of competitiveness caused by the appreciation of the lira and the simultaneous rise in the average unit values of Italian exports (see the box "The geographic specialization and growth of Italian exports"). In the third quarter exports showed renewed growth of 2.0 per cent on the previous quarter, thanks to the improvement of business conditions in the main export markets (in France and Germany the contraction of imports in the second quarter gave way to increases of 2.0 and 0.7 per cent respectively in the third). Moreover, the increase in the average unit values of Italian manufactures in foreign currency, which had risen at an annual rate of more than 15 per cent between the second half of 1995 and the first half of 1996, came to a halt.

Incomplete data for the autumn suggest that exports continued to grow in the fourth quarter; the smallness of the rise estimated for the year as a whole means that there was a marked erosion of Italy's market shares in real terms.

In the first nine months of the year the contraction in merchandise exports at constant prices compared with the same period of 1995 amounted to 2.2 per cent (Table 4) and was concentrated in the branches producing intermediate goods and certain non-food consumer goods (Table 5). By contrast, exports of agricultural and industrial machinery increased, even though orders had been slowing down appreciably since the first quarter of the year. Growth may have picked up in the fourth quarter, when, according to UCIMU, export orders for machine tools were considerably higher than in the previous three months.

Table 4

Balance of trade in goods and services *cif-fob*
(percentage changes on year-earlier period)

	1995					1996			
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jan.-Sept.
Exports of goods									
At current prices	22.3	17.3	27.2	25.0	19.7	10.4	1.4	–0.5	3.6
Average unit values	9.3	4.3	8.5	11.3	13.0	11.9	5.1	1.4	6.0
At constant prices	11.9	12.4	17.2	12.4	6.0	–1.1	–3.4	–1.8	–2.2
Imports of goods									
At current prices	22.0	21.5	27.2	25.0	15.4	6.8	–7.4	–9.3	–3.4
Average unit values	12.3	10.1	14.4	13.7	11.1	5.7	–0.5	–2.4	0.8
At constant prices	8.7	10.3	11.1	10.1	3.8	1.2	–6.9	–7.2	–4.3
Export/import ratios									
At current prices	0.2	–3.5	–	–	3.7	3.4	9.5	9.7	7.2
Average unit values (terms of trade)	–2.7	–5.3	–5.2	–2.1	1.7	5.9	5.6	3.9	5.2
At constant prices	2.9	1.9	5.5	2.1	2.1	–2.3	3.8	5.8	2.2
Memorandum items:									
Real exchange rate of the lira (1)									
Overall	–5.5	–5.4	–11.5	–3.5	–1.4	7.9	16.9	10.9	11.8
Exports	1.3	3.7	–5.5	5.1	2.0	4.0	14.5	8.1	8.7
Imports	–4.5	–4.1	–10.2	–2.6	–1.0	7.7	16.1	11.1	11.6
Domestic demand	2.3	3.7	1.2	2.2	2.1	1.8	0.5	–0.5	0.6

Sources: Based on Istat, OECD and IMF data.
(1) 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.

Exports of motor vehicles were somewhat lower in the first nine months of 1996 than in the same period of the previous year as a result of the contrasting performance of Italian sales to non-EU countries on the one hand and to the EU on the other. The former contracted, while the latter grew strongly (by 17.7 per cent, according to figures from the motor manufacturers' association), leading to an increase in Italian manufacturers' market shares that counterbalanced the decrease in their share of domestic sales. The growth in foreign demand for motor vehicles had a beneficial effect on exports by the rubber and plastics industries.

In the first nine months of 1996 imports of goods and services were 1.6 per cent lower than in the corresponding period of 1995 (Table 3), against the background of little growth in domestic demand and notwithstanding the fall in the prices of imported manufactures in relation to those of domestic products. The decline partly reflected the running-down of stocks of raw materials and semi-finished goods. (According to Isco data, the percentage of firms with higher-than-normal stocks declined from 19 per cent in the third quarter of 1995 to 11 per cent a year later.) Whereas total imports of manufactures decreased by 4.3 per cent in the first nine months of the year (Table 5), those of raw materials, excluding energy products and agricultural commodities, fell by 6.2 per cent and those of semi-finished goods by 8.0 per cent.

The geographic specialization and growth of Italian exports

Italian merchandise exports contracted by 2.2 per cent in volume in the first nine months of 1996 compared with the same period of 1995. Estimates for the year as a whole indicate no change or a marginal increase on 1995.

According to OECD estimates, the volume of world trade grew by 6.4 per cent in the first nine months of last year. Italy's share of world exports in volume, which had risen from 3.5 to 4.0 per cent between 1992 and 1995, fell back to 3.7 per cent, equal to its 1993 level. By contrast, its share in value terms (i.e. at current prices and exchange rates), which declined from 4.6 to 4.4 per cent in 1993, has risen continuously since then and reached 4.7 per cent in the first half of 1996.

The contraction in Italy's market share in volume terms was due not only to the loss in competitiveness – Italy's price competitiveness deteriorated by around 9 per cent as measured by the average unit values of exports and by around 12 per cent on the basis of producer prices in the first nine months of 1996 compared with a year earlier – but also to an unfavourable geographic and sectoral pattern of world trade. In the short run, the change in a country's exports is influenced by the specific geographic and sectoral composition of its exports as well as by price and non-price competitiveness and world demand. Thus, for any given overall change in competitiveness and world trade, a country's export growth will be enhanced (penalized) if its initial specialization is strong (weak) in the sectors and countries where the growth in world demand is concentrated.

The effect of competitiveness alone on volume share can be measured using an indicator of export performance consisting of the ratio of the growth in a country's exports to the overall growth in its outlet markets (by country of destination and product group). The latter term is calculated on the basis of the increases in the absolute value of the imports of each country of destination and each group, weighted with the exporting country's corresponding market shares. The indicator makes it possible to assess the extent to which the exports of the country in question would have changed if its shares in each country of destination and product group had remained constant, in other words, if the geographic and sectoral pattern of world demand had conformed perfectly to the country's initial model of specialization. In the short run, the ratio of actual to "potential" growth provides an approximation of only the effect of competitiveness on export volumes.

As some data on world trade by product group are currently unavailable, the present exercise had to be restricted to an analysis by country of destination.

Table 1

Italy's export performance

(percentage changes in volume on year-earlier period)

	1994	1995	1996 (1)
World imports	9.9	8.6	6.4
Italy's exports (a)	11.7	11.9	–2.2
Export market growth (b) (2)	8.1	7.0	5.3
Export performance (a/b)	3.3	4.6	–7.1

Sources: Based on Istat and OECD data.

(1) January-September; the figures for world trade and export market growth are estimated. – (2) Sum of each country's imports at constant prices and exchange rates, weighted in accordance with Italy's market shares in 1992.

Table 1 compares Italy's actual exports with the total imports of its specific outlet markets (corresponding to the "potential" external demand for Italian products).

Between the first nine months of 1995 and the same period of 1996 this "potential" demand grew by 5.3 per cent, while world imports increased by 6.4 per cent; the geographic pattern of world demand therefore penalized Italy by more than 1 percentage point.

Since Italy's exports contracted by 2.2 per cent in volume terms, the combination of competitiveness and the composition by product group (which it is not possible to isolate) is estimated to have had a negative impact of more than 7 percentage points on export growth.

The unfavourable geographic composition of demand has long reflected the concentration of world trade in areas where Italy's market share is structurally lower (Table 2). In 1996 the imports of OECD countries, where Italy has a 5 per cent market share, increased at half the rate of those of other countries, where Italy's market share is 4 per cent.[1] Moreover, within the OECD area the increase in imports was led by the non-European countries (North America and the industrial economies of the Pacific), where Italian products account for a smaller proportion of imports. Similar considerations hold for the non-OECD countries. The countries of Central and Eastern Europe, whose strong growth sustained Italian exports, constitute a notable exception.

(1) This estimate is made by comparing the growth in markets at constant prices with an Italian market share measured in value terms. Strictly speaking, the comparison could be distorted if the ranking of outlet markets calculated on the basis of shares at constant prices were very different from that based on shares at current prices.

Table 2

Italy's market shares and growth in imports by geographic area

	Italy's market share (in value) *(percentage)*			Imports by area (in volume) *(percentage changes on previous year)*		
	1994	1995	1996 (1)	1994	1995	1996
OECD	4.7	4.9	5.0	10.2	6.2	5.4
EU	7.1	7.2	7.4	8.4	5.1	4.2
of which: Germany	8.3	8.3	8.3	7.9	2.1	2.8
France	9.5	9.5	10.0	7.3	5.7	2.0
United Kingdom	4.5	4.0	4.6	6.3	2.4	5.5
Spain	8.9	9.1	9.6	15.2	10.4	7.4
EFTA	8.0	8.1	8.6	12.9	7.2	4.5
of which: Switzerland	9.9	10.1	10.6	8.4	4.0	2.9
United States	2.2	2.2	2.3	13.5	9.1	6.0
Canada	1.3	1.5	1.1	13.6	9.8	4.8
Pacific OECD countries	1.9	2.0	2.1	13.6	12.2	8.2
of which: Japan	1.8	1.9	1.9	13.6	12.5	8.6
Other OECD countries	2.9	3.7	4.6	–0.7	–5.6	12.2
Non-OECD	3.7	3.6	4.0	9.2	12.8	10.7
OPEC countries	5.7	5.1	5.6	–6.8	6.0	5.1
Africa	5.1	5.9	6.4	4.0	9.2	6.7
Asian NIEs (2)	1.7	1.7	1.9	13.3	15.0	12.7
Other Asian countries	2.7	2.6	2.7	13.3	15.5	13.8
Latin America	4.3	3.9	4.6	15.4	13.1	4.7
Central and Eastern Europe	7.2	7.4	8.0	5.0	7.7	10.4
Overall	**4.4**	**4.5**	**4.7**	**9.9**	**8.6**	**7.0**
Memorandum items:						
Italy's overall share in volume terms	3.9	4.0	3.7 (3)			
World imports in value terms				13.9	18.9	5.1 (1)

Sources: Based on IMF-DOTS and OECD data.
(1) January-June. – (2) Hong Kong, Singapore, South Korea and Taiwan. – (3) January-September.

In the third quarter, however, imports of goods and services rose by 1.1 per cent compared with the previous quarter, possibly marking the end of the downturn that had begun in the autumn of 1995.

Table 5

Exports and imports of manufactures in 1996, by sector

(at constant prices; percentage changes on year-earlier period)

	Exports (Jan.-Sept.)	Imports (Jan.-Sept.)
Ferrous and non-ferrous ores and metals	–5.9	–10.7
Non-metallic minerals	–2.7	–5.4
Chemical products	–2.8	–9.2
Metal products	–1.8	4.4
Agricultural and industrial machinery	4.5	4.3
Office machines	–4.2	–8.6
Electrical equipment	2.1	–6.9
Motor vehicles	–0.9	0.6
Other transport equipment	2.5	1.4
Food, beverages and tobacco products	1.2	1.1
Textiles and clothing	–2.6	–6.8
Leather and footwear	1.0	4.4
Wood and furniture	–7.6	1.6
Paper and printing	0.4	–13.0
Rubber and plastic	5.0	–4.2
Total manufacturing industry	**–2.2**	**–4.3**

Source: Based on Istat data.

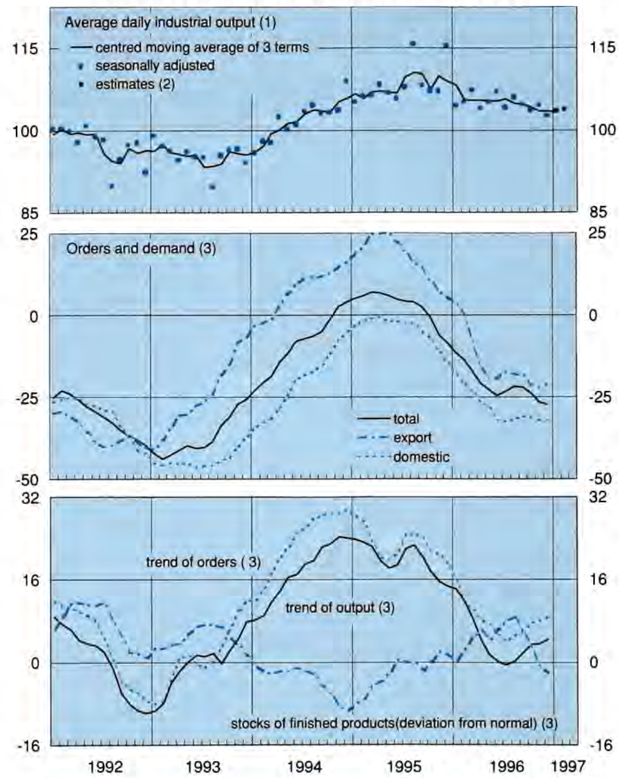
Industrial production and value added by economic sector

Almost all of the moderate growth in GDP in the first nine months of 1996 was attributable to market services; the contribution of construction was slightly positive, that of industry excluding construction slightly negative.

The value added of the manufacturing sector at market prices was 0.4 per cent lower in real terms than in the year-earlier period. Over the year as a whole, industrial production fell by an average of 1.7 per cent; the decline is appreciably larger (2.8 per cent) if adjustment is made for the fact that there were three more working days in 1996. Seasonally adjusted average daily output fell considerably in the first three months of the year with respect to the previous quarter, but stabilized in the second and third quarters; it declined again in the fourth, by 1.4 per cent, owing to the particularly bad result for December, a month when activity is affected by flexibility in the periods of plant closures for the holidays. Estimates based on electricity consumption and cyclical indicators show a slight rebound in January and February, broadly confirming the stagnation in industrial production (Figure 14).

Figure 14

Industrial output, demand and stocks



Source: 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-ME indicators. – (3) Three-month moving averages 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.

In the closing months of 1996 the slackness of orders and uncertainty about the direction they would take prompted firms to cut back their production plans and to meet demand partly by destocking. Mixed signals for the months ahead emerge from the most recent Isco monthly surveys of industrial firms:

an improvement in the forecasts for orders is accompanied by persistent uncertainty about the performance of output.

The stagnation of manufacturing activity affected the capacity utilization rate, which stabilized in the first nine months of 1996 at levels that were still high but significantly lower than in the previous year. The production of capital goods rose by 0.7 per cent over the year as a whole, while that of consumer goods and intermediate goods declined by 1.4 and 2.3 per cent respectively.

The economy's moderate expansion was fueled by the construction industry and the services sector, especially the latter. After the acute difficulties of recent years, the recovery in investment in construction gave rise to a real increase of 1.7 per cent in the sector's value added at market prices in the first nine months of the year. The value added of market services grew by the same amount, with rather wide differences among the various branches.

In the distribution sector, retail sales rose by only 1.5 per cent at current prices between January and September. The stagnation of consumption was reflected in a fall of 0.7 per cent in the value of sales of non-food products and a modest rise of 4.0 per cent in those of food products. The restructuring that has been taking place in the sector in recent years continued: in large-scale distribution (i.e. firms with more than 19 employees), sales rose by 5.9 per cent, while in small and medium-sized units they increased by less than 1 per cent.

The tourist industry continued to perform well. The total number of overnight stays was 3.7 per cent higher in the first seven months than in the year-earlier period; the increase was 6.2 per cent for foreign tourists, compared with 1.8 per cent for Italians.

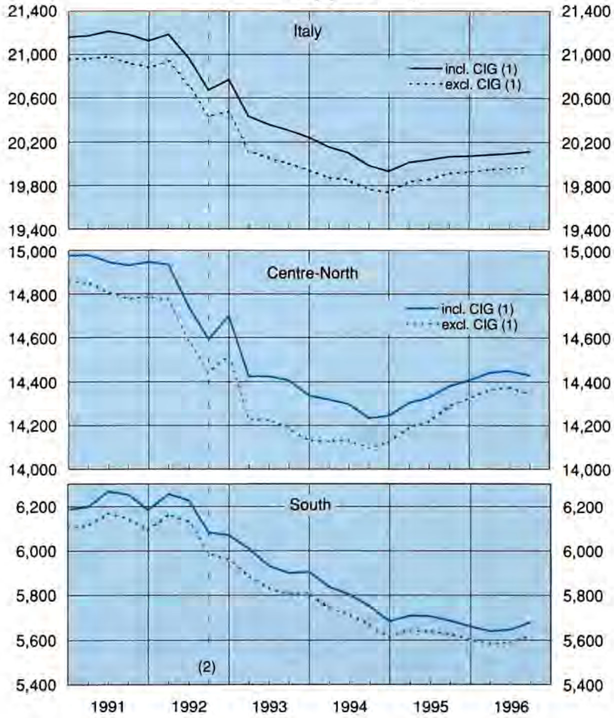
In the transport sector, the sluggish pace of industrial production and the decline in the volume of foreign trade led to a reduction in freight traffic, but passenger traffic rose. Rail freight was on average 5.1 per cent lower in the first eleven months of the year than in the same period of 1995, while domestic air freight declined by 0.3 per cent on the same basis of comparison in the first ten months; road freight traffic alone showed moderate growth, with heavy goods vehicle traffic on motorways increasing by 2.7 per cent in the first eleven months. The good performance of tourism and the new pricing and product differentiation policies presumably contributed to the strong growth in air passenger traffic – domestic passenger traffic rose by an average of 9.2 per cent between January and October. Rail passenger traffic grew less vigorously, increasing by 1.9 per cent in the first nine months.

Employment

According to the labour force survey, the net job creation that had begun in 1995 gradually lost momentum during 1996. The quarterly rate of growth in employment, seasonally adjusted and excluding workers on wage supplementation, fell from 0.5 per cent in April 1995 to 0.1 per cent in April 1996 and zero in October. On average, employment rose by 0.4 per cent in 1996 (Table 6 and Figure 15).

Figure 15

Employment according to the labour force survey
(corrected, seasonally adjusted data; thousands of persons)



Source: Estimated on the basis of Istat data.
(1) Workers on wage supplementation. – (2) Surveys are taken in January, April, July and October. Since October 1992 the survey has been conducted on the basis of a new questionnaire.

All of the gain in employment in 1996 occurred in the services sector: the number of persons employed rose by 0.3 per cent in non-market services and by 2.5 per cent in market services. There were increases of 1.3 per cent in distribution and 2.2 per cent in the transport sector, reversing the downward trend caused by radical restructuring. Employment growth remained very strong in banking, real estate and business services (5.8 per cent).

In industry excluding construction, the pronounced expansion of activity in 1994 and 1995 allowed firms gradually to reinstate workers who had been put on wage supplementation, but it did not have a positive impact on employment levels until the first half of 1996; the stagnation of output in the following months led to a fresh decline in employment, which for the year as a whole was 0.1 per cent lower than in 1995. There are signs that the slowdown in industrial activity may continue to have repercussions on employment in the first few months of 1997: recourse to ordinary wage supplementation has begun to rise again, and both overtime and hours worked per employee (even excluding those receiving wage supplementation) are continuing to decline in firms with more than 500 employees. However, in the last quarter Isco's monthly surveys showed a sharp fall in the proportion of companies planning to shed labour within three or four months.

The slight increase in employment in construction recorded at the beginning of the year was followed by a larger reduction in the second half, with the result that the number of workers in the sector fell by 1.0 per cent over the year as a whole. Employment in agriculture plunged by 6.0 per cent: the secular contraction in the agricultural workforce was accentuated by the retirement of a large number of workers who satisfied the minimum pension requirements.

As in the past, there were regional disparities in employment trends. Industrial employment declined slightly in the North-West and the Centre, which were more severely affected by the slowdown in manufacturing activity than the North-East, whereas it rose by 2.0 per cent in the latter. Employment in construction also grew solely in the North-East. Thanks to the growth in services, total employment in the Centre and the North nevertheless increased. In the South, by contrast, the average number in employment fell further in 1996, notwithstanding a seasonally adjusted rise of 0.6 per cent between July and October.

Table 6

Employment according to the labour force survey, by branch of activity and area of residence (1)
(percentage changes)

	North-East		North-West		Total North		Centre		South and Islands		Total Italy	
	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
Agriculture	–2.2	–7.0	–2.5	–6.1	–2.3	–6.6	–7.7	–5.2	–6.7	–5.7	–5.2	–6.0
Industry excl. construction	0.6	2.0	–2.7	–0.1	–1.5	0.7	0.7	–0.1	–1.4	–3.1	–1.1	–0.1
Construction	–1.9	2.2	0.5	–2.0	–0.6	0.6	2.0	–4.0	–6.6	–0.7	–2.4	–1.0
Total service activities	1.3	2.0	1.6	1.8	1.5	1.8	0.2	1.8	–0.6	0.9	0.7	1.6
Distribution and hotels (2)	–1.7	–0.6	0.2	1.5	0.1	1.8	0.5	0.1	–0.8	1.4	–0.1	1.3
Transport	....	....	....	....	–0.4	3.2	–3.7	4.2	–3.7	–1.2	–2.0	2.2
Misc. market services (3)	....	....	....	....	7.3	4.0	4.8	7.4	0.9	8.8	5.4	5.8
Non-market services	....	....	....	....	1.0	0.6	–0.7	0.8	–0.2	–0.4	0.2	0.3
Total economy	0.6	1.3	–0.1	0.6	0.2	0.9	..	0.6	–2.2	–0.7	–0.5	0.4

Source: Istat; average of quarterly surveys.
(1) Not adjusted for workers receiving wage supplementation. – (2) Only distribution in the North-East and North-West. – (3) Banking, insurance, real estate activities, business services and other market services.

The unemployment rate averaged 12.1 per cent in 1996. The deterioration of 0.1 points compared with 1995 was caused by an increase of 117,000 in the labour force, which more than counterbalanced the increase in the demand for labour. The regional gap widened further: the unemployment rate decreased from 7.8 to 7.7 per cent in the Centre and the North, whereas it increased from 21.0 to 21.7 per cent in the South.

The supply of labour was increased by the rise in female participation in the Centre and the North, in line with a tendency that had been evident for more than two years; by contrast, the male component of the labour force remained stable over the year as a whole. In 1996 the unemployment rate among women averaged 16.6 per cent, over 7 percentage points higher than that for men; however, the differential had been 0.3 points larger in 1995.

In the market goods and services sector, value added at factor cost per standard labour unit was 0.8 per cent higher at constant prices in the first nine months of 1996 than in the same period of 1995. Despite an improvement in the third quarter, the growth in labour productivity in industry excluding construction slowed down markedly in the first nine months as a whole to barely 0.4 per cent, compared with 7.6 per cent in the same period a year earlier. Productivity decreased by 0.2 per cent in the services sector but increased by 5.3 and 4.2 per cent respectively in agriculture and construction.

The current account of the balance of payments

The balance of payments on current account continued to improve in 1996, recording a surplus equal to 3.5 per cent of GDP in the first three quarters of the year. Over the first ten months the surplus amounted to 56.3 trillion lire (Table 7) and was due entirely to a substantial trade surplus of 79.5 trillion lire on an *fob-fob* basis, 20.4 trillion more than in the same period of 1995.

Table 7

Balance of payments
(net, in billions of lire)

	1995			1996		Jan.-Oct.	
	Year	H1	H2	H1	H2	1995	1996
Current account	**44,583**	**18,427**	**26,156**	**26,656**	**....**	**36,609**	**56,279**
Goods	71,744	30,977	40,767	42,510	....	59,144	79,513
Invisibles	–27,161	–12,550	–14,611	–15,854	....	–22,535	–23,234
Services	2,776	1,035	1,741	2,836	....	2,574	5,343
Foreign travel	24,487	11,850	12,637	12,164	....	21,400	20,988
Transport	–13,614	–6,449	–7,165	–5,540	....	–11,828	–9,817
Other services	–8,097	–4,366	–3,731	–3,788	....	–6,998	–5,828
Income	–25,224	–13,474	–11,750	–13,790	....	–21,296	–20,158
Employment income	1,153	632	521	331	....	972	620
Investment income	–26,377	–14,106	–12,271	–14,121	....	–22,268	–20,778
Transfers	–4,713	–111	–4,602	–4,900	....	–3,813	–8,419
EU	*–1,966*	*933*	*–2,899*	*–3,695*	....	*–2,334*	*–6,207*
Capital movements	**–6,586**	**5,698**	**–12,284**	**8,102**	**–15,904**	**–3,513**	**2,703**
Bank capital	–58,102	–5,461	–52,641	4,529	–47,028	–29,839	–12,565
Non-bank capital	51,516	11,159	40,357	3,573	31,124	26,326	15,268
Errors and omissions	**–35,087**	**–16,293**	**–18,794**	**–10,262**	**....**	**–33,041**	**–31,331**
Change in official reserves (1)	**–2,910**	**–7,832**	**4,922**	**–24,496**	**3,981**	**–55**	**–27,651**

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

The increase in the trade surplus stemmed from opposite movements in imports and exports. Imports were 3.9 per cent lower in value terms in the first eleven months than in the same period of 1995 owing to the cyclical slowdown in economic activity in Italy and the substantial appreciation of the lira, while exports increased by 3.3 per cent, entirely as a result of the rise in their lira prices (Table 8). For the first time since 1992 the increase in the trade surplus was due mainly to better terms of trade, which improved by 5.2 per cent in the first nine months of the year (Table 4).

Table 8

Merchandise trade *cif-fob* by country and area at current prices
(January-November)

	Exports		Imports		Balance	
	Percentage change	Percentage of total	Percentage change	Percentage of total	Billions of lire 1995	1996
EU countries (1)	**0.3**	**55.2**	**–3.2**	**60.4**	**13,441**	**19,770**
Austria	3.4	2.4	–4.7	2.2	1,227	1,823
Belgium-Luxembourg	–1.8	2.7	–3.2	4.8	–4,535	–4,260
Denmark	0.9	0.8	–4.4	0.9	203	350
Finland	9.5	0.5	–10.4	0.5	–153	177
France	–1.3	12.4	–6.8	13.4	2,761	5,026
Germany	–4.0	17.5	–6.5	18.5	7,061	8,178
Greece	4.0	1.9	–0.1	0.7	4,229	4,486
Ireland	1.1	0.4	6.9	1.0	–1,334	–1,507
Netherlands	4.0	3.0	3.8	5.9	–6,434	–6,654
Portugal	4.0	1.3	18.6	0.5	3,287	3,245
Spain	4.9	4.9	1.0	4.1	4,650	5,342
Sweden	8.5	1.0	–3.0	1.4	–829	–427
United Kingdom	7.3	6.4	4.9	6.5	3,308	3,991
Non-EU countries	**7.2**	**44.8**	**–4.9**	**39.6**	**27,057**	**43,650**
United States	4.2	7.4	–2.5	5.0	10,304	11,741
Japan	0.4	2.3	–15.9	2.0	1,256	2,366
EFTA (2)	2.7	4.2	–6.0	4.8	–84	1,204
Eastern European countries (3)	23.0	5.8	–10.7	5.9	–2,274	3,626
China	2.5	1.1	–2.6	2.0	–2,032	–1,776
Asian NIEs (4)	9.8	4.3	–8.9	1.5	9,307	11,083
OPEC (5)	7.3	3.4	8.7	6.1	–5,122	–5,727
Other countries	5.5	16.3	–6.3	12.3	15,702	21,133
Total . . .	**3.3**	**100.0**	**–3.9**	**100.0**	**40,498**	**63,420**

(1) The figures on trade with EU countries 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 Switzerland. – (3) Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, republics of the former USSR and the former Yugoslavia.– (5) Hong Kong, Singapore, South Korea and Taiwan. – (5) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

The geographical pattern of the trade surplus reflected the cyclical disparities among the major economic areas. Trade with non-EU countries represents little more than two fifths of Italy's total foreign trade, but it accounted for 16.6 trillion of the increase of 22.9 trillion in the *cif-fob* surplus in the first eleven months of the year. The developing countries contributed 6.9 trillion lire to the improvement, those of Central and Eastern Europe 5.9 trillion and industrialized non-EU countries more than 3.8 trillion. The surplus with other EU countries rose by 6.3 trillion; despite the appreciation of the lira, the surplus on trade with France increased very sharply, by 2.3 trillion lire, and that with Germany by 1.1 trillion.

Italy's trade surplus with the United States widened by 1.4 trillion lire in the first eleven months of the year, thanks to increased exports of food and chemical products and reduced imports of transport equipment. The surplus with Japan also improved (by 1.1 trillion), owing essentially to a decrease of 15.9 per cent in the value of imports, especially those of metal products and machinery. More than a third of the increase in the surplus vis-à-vis non-EU countries was generated by trade with Central and Eastern Europe; the growth of 23.0 per cent in exports involved all product groups, but particularly metal products and machinery. At the same time, there was a sharp contraction in imports of semi-finished steel products, especially from Russia, with which the bilateral balance improved considerably. Despite a loss of competitiveness, exports of machinery and some traditional manufactures to Asian NIEs (primarily South Korea, Singapore and Hong Kong) continued to expand rapidly.

The surplus vis-à-vis the other EU countries also increased in the first eleven months, as imports contracted by 3.2 per cent while exports remained broadly stable. The decline in imports involved nearly all manufacturing product groups; it was especially pronounced in intermediate goods and traditional manufactures. On the export side, only food products and transport equipment showed any appreciable growth. Transport equipment accounted for a significant part of Italian exports to Spain and, to an even greater extent, to France, where it benefited from a surge in demand spurred by tax incentives.

The deficit on invisibles increased by 700 billion lire in the first ten months of the year, as larger net outflows on account of unrequited transfers were only partly offset by an increase in the surplus on services and a fall in the net outflow of investment income.

The surplus on foreign travel diminished slightly, a 3.3 per cent reduction in Italian tourist expenditure abroad being insufficient to offset a 2.5 per cent contraction in foreign tourists' spending in Italy. The deficit on transport services contracted by 2 trillion lire, after two years of pronounced deterioration, thanks to increased receipts for air passenger services and auxiliary maritime transport services.

The continuing reduction in Italy's foreign debt and the narrowing of interest rate differentials between lira and foreign currency assets resulted in a substantial decline in debt servicing costs. The net outflow of investment income diminished by nearly 1.5 trillion lire in the first ten months, more than the total decline registered over the previous three years.

The deficit in respect of unrequited transfers grew by more than 4.6 trillion lire in the first ten months. This was due largely to an increase of 3.9 trillion in net official transfers to the EU to a total of 6.2 trillion. Increased transfers in respect of VAT (800 billion lire) and EU budget contributions as a proportion of GNP (3.9 trillion) were offset only in part by larger transfers from the guarantee section of the EAGGF (1.8 trillion), while those from the Regional Development Fund and the European Social Fund fell sharply (by 700 and 500 billion lire respectively).

Capital movements and the net external position

Capital movements generated a net outflow of more than 7.8 trillion lire in 1996 (Table 9). The official reserves increased by 20.5 trillion (Table 10). As in 1995, the net accumulation of external financial assets (at average monthly exchange rates and prices) was substantially less than the current account surplus. In the first ten months of the year "errors and omissions" showed a negative balance of 31.3 trillion lire (Table 7), bringing the total on this residual item to 100 trillion lire since 1992.

Table 9

Capital movements
(net flows in billions of lire)

	1995					1996 (1)				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4 (2)	Year (2)
Non-bank capital flows .	**–9,327**	**20,486**	**9,725**	**30,632**	**51,516**	**–16,139**	**19,712**	**845**	**30,279**	**34,697**
Foreign	1,126	29,769	17,497	36,054	84,446	8,179	36,918	19,955	51,574	116,626
Investment	–3,393	18,911	20,137	33,681	69,336	5,566	40,782	28,929	52,381	127,658
portfolio	*–5,112*	*17,549*	*19,507*	*29,546*	*61,490*	*5,609*	*38,470*	*27,111*	*51,139*	*122,329*
Loans	–2,299	10,703	915	337	9,656	1,874	–2,186	–5,523	–2,307	–8,142
Trade credit	6,818	155	–3,555	2,036	5,454	739	–1,678	–3,451	1,500	–2,890
Italian	–10,453	–9,283	–7,772	–5,422	–32,930	–24,318	–17,206	–19,110	–21,295	–81,929
Investment	–5,961	–4,456	–7,979	–2,806	–21,202	–18,985	–12,089	–16,404	–15,987	–63,465
portfolio	*–4,918*	*–682*	*–6,329*	*64*	*–11,865*	*–16,759*	*–10,870*	*–12,821*	*–14,565*	*–55,015*
Loans	30	–1,499	–2,618	–357	–4,444	–3,726	–3,535	–6,473	–4,856	–18,590
Trade credit	–4,522	–3,328	2,825	–2,259	–7,284	–1,607	–1,582	3,767	–452	126
Bank capital flows	**4,928**	**–10,389**	**–19,564**	**–33,077**	**–58,102**	**19,461**	**–14,932**	**–10,882**	**–36,146**	**–42,499**
In lire	5,537	–3,746	–5,053	–16,122	–19,384	8,021	–5,911	–4,762	–26,497	–29,149
In foreign currency	–609	–6,643	–14,511	–16,955	–38,718	11,440	–9,021	–6,120	–9,649	–13,350
Total ...	**–4,399**	**10,097**	**–9,839**	**–2,445**	**–6,586**	**3,322**	**4,780**	**–10,037**	**–5,867**	**–7,802**

(1) Provisional. – (2) For trade credit, partly estimated.

Initial estimates indicate that year-end exchange rate and valuation adjustments will increase Italy's net external liabilities by 11.8 trillion lire. The decline in the lira value of gross external liabilities as a result of the currency's appreciation was outweighed by the decrease in that of assets, which are mostly denominated in foreign currencies. After this adjustment, the overall external net debtor position is estimated to have improved from 84.5 trillion lire at the end of 1995 to 68 trillion at the end of 1996, or from 4.8 to 3.6 per cent of GDP.

Capital transactions by operators other than resident banks gave rise to net inflows of 34.7 trillion lire. Net inward portfolio investment increased to 122.3 trillion lire, the largest figure on record. By the end of the year the stock of Italian securities held by non-residents had reached 509.7 trillion lire; their holdings of government paper alone amounted to 389.1 trillion, or more than 20 per cent of total outstanding issues.

The internationalization of non-bank residents' portfolios gathered momentum last year. Their net outward investment soared from 11.9 to 55 trillion lire (to which presumably part of the amount recorded under "errors and omissions" should be added). The narrowing of yield differentials between Italian and foreign securities was probably a contributory factor. The shortest-term component, that is to say deposits and current accounts, made up slightly less than a third of the outflow; part of it may have been used later for longer-term investment. Data for the first ten months of the year indicate that about two thirds of net Italian purchases of foreign securities was attributable to households, either directly or through investment funds, and to financial enterprises. Considerable sums were also invested by insurance companies and public enterprises. By contrast, the outflows generated by private firms were modest. The stock of foreign securities held by Italian non-bank investors increased by 43 trillion lire in 1996, reaching 334 trillion lire at the end of the year.

Table 10

Italy's net external position
(billions of lire)

	Stocks in December 1995 (1) (a)	January-December 1996			Stocks in December 1996 (1) (e)=(a)+(d)
		Flows (2) (b)	Adjustments (3) (c)	Change in stocks (d)=(b)+(c)	
		Agents other than resident banks			
Assets	**594,350**	**81,929**	**–9,175**	**72,754**	**667,104**
Direct investment	168,492	8,450	4,395	12,845	181,337
Portfolio investment	290,967	55,015	–11,981	43,034	334,001
Loans and trade credit (4)	134,891	18,464	–1,589	16,875	151,766
Liabilities	**661,799**	**116,626**	**10,109**	**126,735**	**788,534**
Direct investment	103,561	5,329	5,892	11,221	114,782
Portfolio investment	374,653	122,329	12,671	135,000	509,653
Government securities	291,709	91,624	5,744	97,368	389,077
Treasury bills	10,355	15,763	89	15,852	26,207
Treasury bonds	108,221	53,493	12,678	66,171	174,392
Ecu Treasury credit certificates	33,850	–1,420	–1,054	–2,474	31,376
Other government securities	61,823	11,160	496	11,656	73,479
Republic of Italy issues	77,460	12,628	–6,465	6,163	83,623
Loans and trade credit (4)	183,585	–11,032	–8,454	–19,486	164,099
Net non-bank position	**–67,449**	**–34,697**	**–19,284**	**–53,981**	**–121,430**
		Resident banks			
Assets	257,430	78,406	–8,995	69,411	326,841
Liabilities	365,965	35,907	–21,675	14,232	380,197
Net position of the banks	**–108,535**	**42,499**	**12,680**	**55,179**	**–53,356**
		Bank of Italy-UIC			
Net position of the Bank of Italy (incl. gold)	**91,476**	**20,515**	**–5,218**	**15,297**	**106,773**
NET OVERALL POSITION	**–84,508**	**28,317**	**–11,822**	**16,495**	**–68,013**

(1) At end-of-period prices and exchange rates. – (2) At the prices and exchange rates prevailing on the date of the transaction. A minus sign indicates a decrease in the relevant assets or liabilities. – (3) Calculated on the basis of the composition according to currency and financial instrument. – (4) The November and December figures for trade credit are estimated.

Net lending to non-residents amounted to 18.6 trillion lire and consisted mostly of credit supplied by Italian investment firms to foreign investors to hedge exchange risk on purchases of lira-denominated securities. Repayments of foreign loans produced a net outflow of 8.1 trillion lire, due entirely to the redemption of government borrowings, an operation that became less costly as a result of the appreciation of the lira.

Provisional data indicate that the net inflow of foreign direct investment declined by more than 30 per cent, from 7.8 to 5.3 trillion lire; the corresponding Italian outflow also diminished, from 9.4 to 8.5 trillion lire.

The contraction in imports and the appreciation of the lira caused the balance on trade credit granted by non-residents to change from an inflow of 5.5 trillion lire in 1995 to an outflow of 2.9 trillion lire last year, according to preliminary estimates. Net trade credit granted by residents declined by more than 7.4 trillion.

Resident banks generated net capital outflows of 42.5 trillion lire (Table 11). Gross external assets in lire, consisting largely of loans to non-residents for the purchase of Italian securities, increased by 63.7 trillion lire, including 30.7 trillion worth of reverse repos. At average monthly exchange rates, the banks' net external foreign currency position improved by 13.4 trillion (not including a gain of12.7 trillion from exchange rate adjustments). The net foreign currency position vis-à-vis residents, including currency swaps with the Bank of Italy, worsened by 25.7 trillion; it follows that during the year resident banks converted the equivalent of more than 12 trillion lire of foreign currency assets into lire.

At the end of 1996 Italian banks' net external liabilities amounted to 53.4 trillion lire, 55.2 trillion less than a year earlier. Their foreign currency liabilities came to 104.5 trillion lire. Initial estimates indicate that their spot and forward foreign currency position, including domestic currency swaps, was more or less in balance, whereas a year earlier it had been long in lire by 7.6 trillion.

On 31 December the official reserves were valued at 106.8 trillion lire (Table 10), an increase of 15.3 trillion over the year; at year-end exchange rates and prices, currency swaps with resident banks decreased by 26.6 trillion over the same period, from 41.8 to 15.2 trillion.

If the portion of banks' external liabilities against which they hold domestic assets in foreign currency (or in lire but indexed to foreign currencies) is imputed directly to non-bank residents, the latter's net external position worsened by 43.7 trillion lire during the year, while that of banks and of the Bank of Italy improved by 18.3 and 41.9 trillion respectively.

Table 11

Stocks and changes in the external position, domestic position in foreign currency and overall position in foreign currency of Italian banks (1)

(billions of lire)

	1995	1996	1996			
			Q1	Q2	Q3	Q4 (2)
Stocks (3)						
External position	–108,535	–53,356	–124,371	–104,419	–92,744	–53,356
In lire	21,978	51,127	13,957	19,868	24,630	51,127
In foreign currency	–130,513	–104,483	–138,328	–124,287	–117,374	–104,483
Domestic position in foreign currency	52,613	47,224	51,670	46,524	46,782	47,224
Overall position in foreign currency (4)	–7,611	–108	–3,867	216	–1,210	–108
Changes (5)						
External position	58,102	42,499	–19,461	14,932	10,882	36,146
In lire	19,384	29,149	–8,021	5,911	4,762	26,497
In foreign currency	38,718	13,350	–11,440	9,021	6,120	9,649
Domestic position in foreign currency	–33,454	–1,499	685	–3,115	540	391
Overall position in foreign currency (6)	9,426	5,313	4,977	4,186	–256	–3,594

(1) Including the Italian branches of foreign banks. – (2) Provisional. – (3) At current exchange rates. End-of-period data. – (4) Spot and forward, including domestic currency swaps, commitments to be settled within 2 days and loans indexed to foreign currencies. – (5) At average monthly exchange rates. 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.

Prices

Consumer prices

Against a background of economic stagnation and declining foreign input prices, the maintenance of the restrictive monetary stance fostered a sharp fall in both inflation and inflation expectations in the second half of 1996.

The average annual increase in the cost of living, excluding tobacco products, declined from 5.4 per cent in 1995 to 3.9 per cent last year (and from 4.6 to 3.8 per cent net of changes in indirect taxes, in line with the objective of a rise of less than 4 per cent set by the Governor of the Bank of Italy in May 1995.

Inflation declined more markedly in Italy than in the other European countries. Measured in terms of twelve-month changes in the harmonized consumer price index provisionally adopted by the European Union, inflation differentials narrowed to 0.5 percentage points with respect to the EU average and 1.4 points in relation to Germany in December, compared with averages of 2.4 and 3.9 points respectively in 1995 (Table 12). The differential with respect to the average for the three EU countries with the lowest inflation narrowed from 4.2 to 1.6 points.

The annualized seasonally adjusted three-month rise in the cost of living averaged less than 2 per cent in the second half of 1996, compared with more than 4 per cent in the first half (Figure 16). Inflation remained low in the first two months of 1997. In particular, estimates for February show virtually no change in seasonally adjusted consumer prices in relation to the preceding month, with the twelve-month rate of increase falling to 2.4 per cent.

The annualized seasonally adjusted three-month increase in the prices of unregulated non-food and non-energy products, which are the least erratic component of the cost-of-living index, remained at just over 2 per cent from mid-1996 to January of this year, more than a percentage point less than in the first half of last year. The average annual rate of increase was 3.9 per cent, compared with 5.0 per cent in 1995 (Table 13).

Table 12

Consumer price inflation differentials (1)

(percentage points)

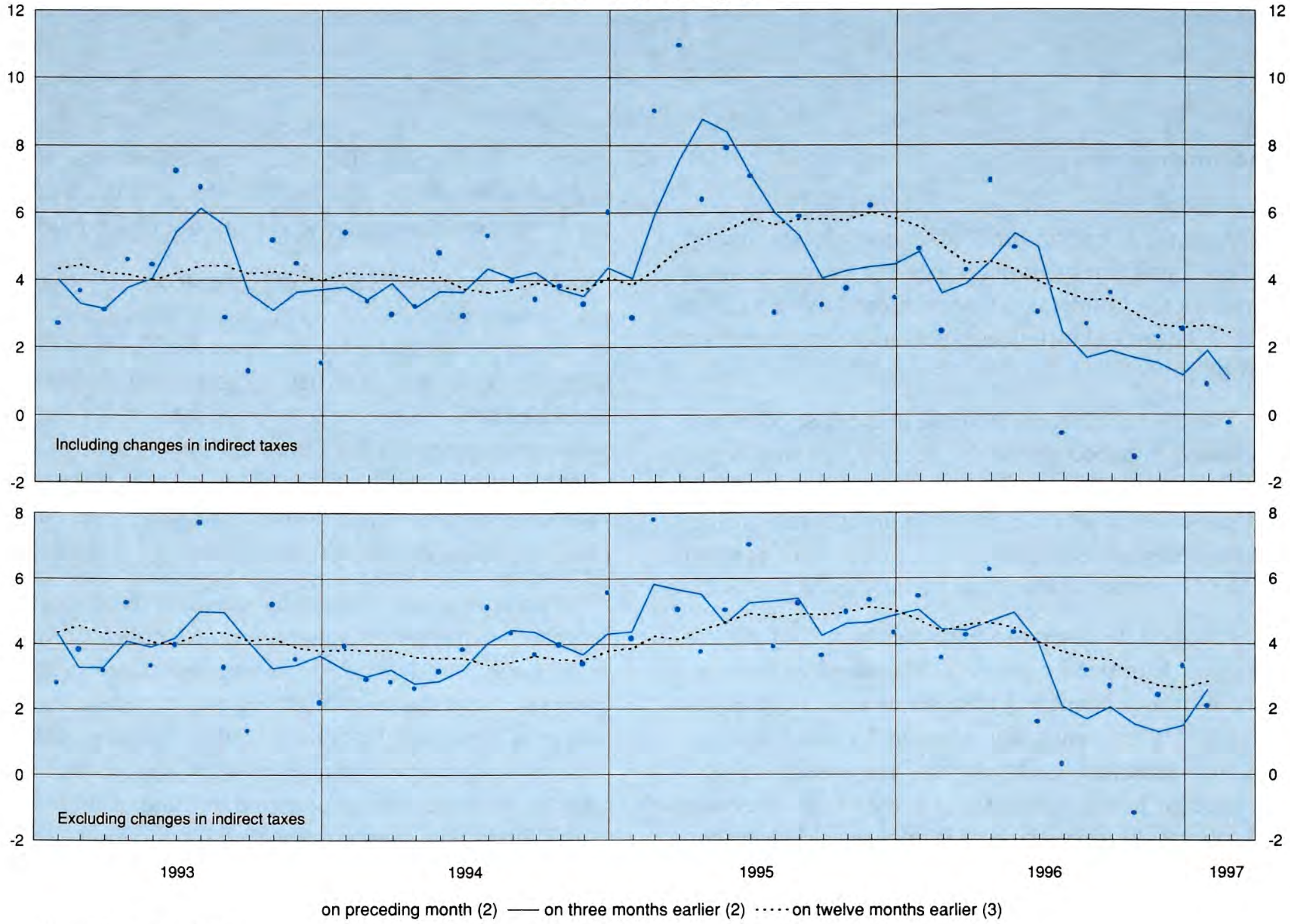
	1995					1996					
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	December	Year
France	2.8	4.0	4.0	3.8	3.7	2.9	1.8	1.7	1.2	0.9	1.9
Germany	2.7	3.9	4.4	4.4	3.9	3.7	3.0	2.3	1.6	1.4	2.6
United Kingdom	1.6	2.7	2.6	2.5	2.3	2.0	1.4	0.7	−0.1	−0.1	1.0
EU average	1.5	2.5	2.9	2.9	2.4	2.3	1.7	1.1	0.6	0.5	1.4
Average of three EU countries with lowest inflation (2)	2.8	4.2	5.0	5.1	4.2	4.0	3.1	2.5	1.9	1.6	2.8

(1) Based on changes on year-earlier period in the provisional harmonized consumer price index adopted by the EU, which in the case of Italy differs from the Italian cost-of-living index excluding tobacco products primarily because it includes the latter and excludes health services. (2) Q1 1995: the Netherlands, France and Germany; Q2, Q3 and Q4 1995: Finland, the Netherlands and Belgium; Q1 1996: Finland, Luxembourg and the Netherlands; Q2, Q3 and Q4 1996: Sweden, Finland and Germany.

3

Figure 16

Cost of living (1)
(percentage changes)



Source: Based on Istat data.
(1) Index of consumer prices for worker households, excluding tobacco products. – (2) Annualized; seasonally adjusted with the TRAMO-SEATS, procedure using a "modified" index that takes account of the gradualness with which changes in indirect taxes are passed through to final prices. In order to compare monthly changes in the index with base year 1992 with those in the index with base year 1995, a reconciliation factor was estimated between the two series on the basis of the raw monthly change between January and December for the items included in both baskets of goods, aggregated with the new weights. – (3) For 1996, comparison is with the old index reset to 100 for the 1995 average.

About 0.3 percentage points of the decline in average inflation in 1996 can be attributed to stable or, in some cases, lower public utility charges and regulated prices. Part of the reduction in charges for certain goods and services (such as drinking water, pharmaceuticals, railway transport and motorway tolls) is likely to be reversed in 1997, whereas the decline could prove permanent in important sectors such as air transport and telephony, which are gradually being opened to greater competition. By contrast, there was an increase in rents, which have not come fully into line with market prices, a process that began with the introduction of leases not subject to rent control. Overall, the annual average rate of increase in the prices of goods and services subject to official control fell from 5.1 to 3.4 per cent in 1996.

Producer prices and the import prices of manufactures

The annualized seasonally adjusted three-month rate of change in the domestic output prices of manufactures, net of intrasectoral transactions, slowed down exceptionally sharply until the spring of 1996, picked up moderately in the summer and then

Table 13

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

	Percentage weights (base year 1995=100)	1994	1995					1996 (2)				
		Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
General index	**100**	**3.9**	**4.4**	**5.5**	**5.7**	**5.9**	**5.4**	**5.0**	**4.2**	**3.5**	**2.7**	**3.9**
Food	19.7	3.4	5.1	6.6	6.4	5.9	6.0	5.1	4.9	4.6	3.3	4.5
unprocessed	*8.5*	*2.1*	*3.3*	*4.5*	*4.7*	*4.5*	*4.2*	*4.0*	*5.0*	*4.8*	*2.9*	*4.2*
Energy products	3.7	4.6	4.2	10.4	8.2	9.5	8.1	7.5	2.6	3.4	4.4	4.5
Non-food. non-energy products	35.6	3.8	4.0	4.8	5.5	5.8	5.0	5.2	4.4	3.4	2.7	3.9
Services	25.2	3.9	4.6	5.3	5.2	5.2	5.1	4.3	3.9	3.5	3.0	3.7
Total goods and services not subject to price controls	**84.2**	**3.8**	**4.4**	**5.6**	**5.8**	**5.8**	**5.4**	**5.0**	**4.3**	**3.7**	**3.0**	**4.0**
Goods subject to price controls (3)	2.6	0.8	–4.6	–6.6	–5.8	–4.5	–5.4	2.0	3.0	0.4	–0.2	1.3
Public utility charges	9.8	3.7	3.9	6.0	6.5	7.0	5.9	5.0	3.0	0.1	–0.3	1.9
Rents	3.4	8.3	7.0	7.5	7.7	7.9	7.5	7.8	9.3	10.1	9.7	9.2
Total goods and services subject to price controls	**15.8**	**4.8**	**3.9**	**5.1**	**5.5**	**6.0**	**5.1**	**5.4**	**4.4**	**2.3**	**1.7**	**3.4**

Source: Based on Istat data.

(1) Index of consumer prices for worker households, excluding tobacco products. – (2) For 1996, comparison is with the old index reset to 100 for the 1995 average. – (3) Pharmaceuticals and pasta. For pharmaceuticals, Istat's entire aggregate, about one third of which is not subject to price controls. Not including drinking water, electricity and piped gas, which are included among public utility charges.

stabilized at just under 1.5 per cent (Figure 17). The producer prices of non-food non-energy products not subject to official control, the behaviour of which tends to foreshadow that of the corresponding consumer prices, increased at an annualized seasonally adjusted monthly rate of slightly less than 2 per cent in the last few months of 1996 (Figure 18).

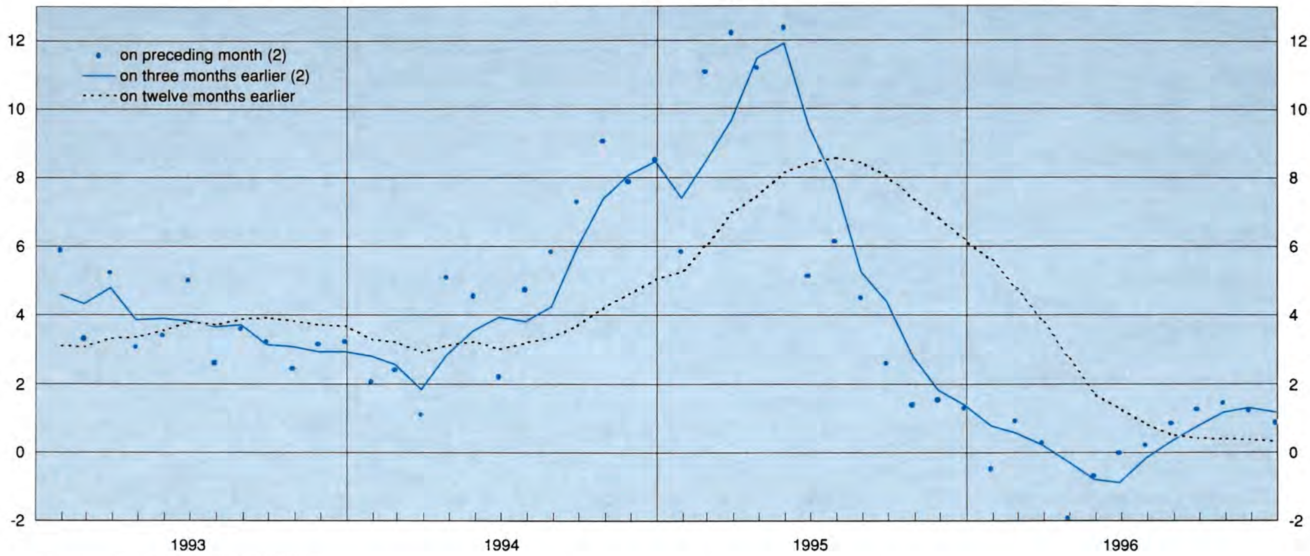
The durability of the decline in inflation was also confirmed by Isco's December survey of industrial firms. Despite the gradual waning of the positive effects of the appreciation of the lira, the percentage of firms reporting that they intended to raise their prices in the subsequent three or four months remains slightly smaller than that of those who plan to reduce them (Figure 19).

Producer price inflation differentials with the other leading European countries remain large. On the basis of twelve-month rates, the differential with France was 2 percentage points in November and that with Germany 1.3 points. Although the economic climate was better in these two countries than in Italy, producer prices declined in France and were virtually unchanged in Germany.

The prices of imported manufactures fell in 1996, whereas they had increased by an average of 12 per cent in 1995 (Table 14). The potential disinflationary effect of the appreciation of the lira was attenuated by the pricing policies of suppliers in Italy's main trading partners; with the foreign currency prices of manufactures remaining virtually stationary on

Figure 17

Output prices of manufactures for the domestic market (1)
(percentage changes)



Sources: Based on Istat and ENI data.
(1) Excluding intrasectoral transactions. Transportation equipment other than motor vehicles has been excluded from the aggregate. – (2) Annualized and seasonally adjusted.

Figure 18

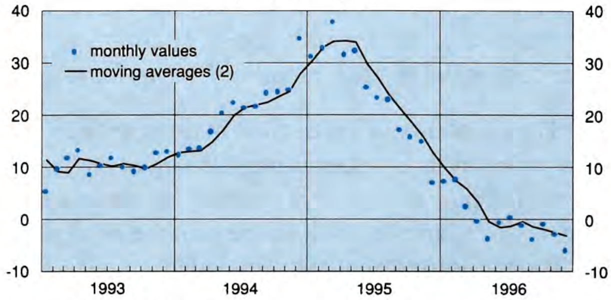
Prices of non-food non-energy products not subject to official control
(percentage changes) (1)

Source: Based on Istat data.
(1) On three months earlier; annualized and seasonally adjusted. – (2) Index for worker households.

international markets, they reduced the lira prices of their exports to Italy by 3.6 per cent year-on-year in the third quarter, compared with a year-on-year appreciation of the lira of about 10 per cent in the same period. They thus offset the erosion of their profit margins that had occurred over the previous three years, during which they had raised their prices on the Italian market by less than the amount of the depreciation of the lira, which helped lessen the inflationary impact of the decline in the exchange rate. The relative prices of imported manufactures in Italy with respect to prices in foreign markets have now almost entirely recouped the decline recorded since 1992 (Figure 20). Nevertheless, they are still about two percentage points lower than their average for the period from 1971 to 1991.

Figure 19

Intended changes in producer prices in the subsequent three or four months (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. – (2) Moving average for the 3 months ending in the month indicated.

Table 14

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

	1994	1995					1996				
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Primary products (2)											
domestic	5.0	11.2	14.3	14.2	8.3	12.0	3.1	–2.3	–4.9	–3.9	–2.1
imported	6.9	11.0	16.5	18.0	15.3	15.2	7.4	–1.8	–5.0	...	...
Intermediate and capital goods (3)											
domestic	3.1	6.5	9.4	10.3	8.6	8.7	6.0	2.5	0.2	0.2	2.2
imported	4.3	5.9	9.2	13.3	12.8	10.3	9.4	1.2	–3.7	...	...
Motor vehicles											
domestic	6.0	5.7	5.0	5.1	5.3	5.3	5.2	5.7	6.1	4.7	5.4
imported	–1.3	6.5	10.7	10.2	6.8	8.5	4.3	1.2	4.6	...	...
Food products											
domestic	3.3	4.8	6.7	6.8	6.2	6.1	5.1	2.1	1.4	0.4	2.2
imported	4.6	9.8	13.4	8.5	6.1	9.4	–1.2	–4.6	–4.5	...	...
Other consumer goods (4)											
domestic	3.3	4.8	5.7	5.7	5.3	5.4	3.7	2.2	1.5	0.9	2.1
imported	0.9	6.0	14.0	13.0	10.5	10.8	5.1	–3.8	–4.1	...	...
Total manufactures											
domestic	3.6	6.1	8.0	8.3	6.8	7.3	4.7	1.9	0.6	0.4	1.9
imported	3.8	8.2	12.5	14.3	12.9	12.0	6.8	–0.8	–3.6	...	...

Sources: Based on Istat, OECD and IMF data.
(1) For domestic manufactures: prices of output sold on the domestic market, excluding intrasectoral transactions; transportation equipment other than motor vehicles has been excluded from the aggregate. For imports: average unit values. – (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.

In 1996 Italian firms delayed reducing the lira prices of their exports in response to the appreciation of the lira, and when they did so it was by considerably less than the change in the exchange rate, thus resisting the narrowing of their profit margins; in the third quarter, the reduction in relation to the same period a year earlier amounted to only a few tenths of a point. The consequent large rise in foreign currency prices (about 10 per cent year-on-year in the third quarter) erased much of the gain in competitiveness achieved in the last few years. The differential between the output prices of manufactures for the domestic market and those of exports is currently about 8 points smaller than before the devaluation in 1992, as is the difference in relation to the average differential for the period 1971-91.

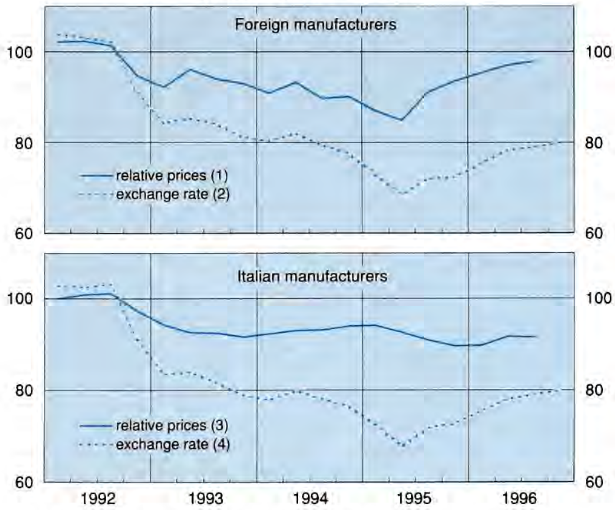
Firms' costs and wages

According to preliminary estimates, the variable unit costs of manufacturing firms increased by an average of 3.8 per cent in 1996, compared with 4.8 per cent in 1995 (Table 15). The slowdown was attributable to a decline of 1.8 per cent in the cost of foreign inputs (compared with an increase of 14 per cent in 1995) as a result of the appreciation of the lira and, to a lesser degree, a decline in the prices of non-energy raw materials. By contrast, domestic costs rose rapidly, with unit labour costs increasing by more than 5 per cent, after having fallen by a total of 4 per cent over the previous two years.

Figure 20

Exchange rate of the lira and price differentiation by market

(indices, 1992=100)



Sources: Based on Istat, OECD, ENI and IMF data.

(1) Ratio between average unit values in lire of imports of manufactures into Italy and those of the total exports of manufactures of Italy's 14 main trading partners (weighted according to their share of the Italian market) expressed in lire at current exchange rates. Partially estimated for the third quarter of 1996. – (2) Nominal effective exchange rate of the lira for imports. An increase indicates an appreciation. – (3) Ratio between output prices of manufactures produced for the domestic market, net of intrasectoral transactions, and those of exports. – (4) Nominal effective exchange rate of the lira for exports. An increase indicates an appreciation.

The general index of the dollar prices of raw materials increased by an annual average of about 5 per cent in 1996, although there were opposing movements in its components. The prices of non-energy raw materials, which had been rising since late 1993, began to decline in the third quarter of 1996 (Figure 21), falling by an average of 1.2 per cent for the year as a whole. By contrast, crude oil prices rose by an average of 19 per cent, peaking at more than $24 a barrel in the first few days of 1997 before slipping back. The gradual rebuilding of stocks, the low level of which made crude prices especially sensitive to even temporary imbalances between supply and demand last year, suggests that prices will continue to decline during the rest of 1997.

Table 15

Unit variable costs and final prices in manufacturing

(percentage changes on year-earlier period)

	1994	1995	1996 (1)
Input costs	**4.0**	**9.9**	**2.5**
Domestic	3.1	7.7	6.1
energy	*4.7*	*8.2*	*4.6*
services	*2.7*	*6.8*	*6.7*
agricultural products	*4.0*	*12.0*	*5.0*
Foreign	5.8	14.0	–1.8 (2)
energy	*0.9*	*11.1*	3.8 (2)
Unit labour costs	**–3.3**	**–0.7**	**5.6 (2)**
Unit variable costs	**0.4**	**4.8**	**3.8**
Output prices	**3.4**	**7.8**	**2.3**
Domestic	*3.6*	*7.3*	*1.9*

Sources: Based on Istat and ENI data.

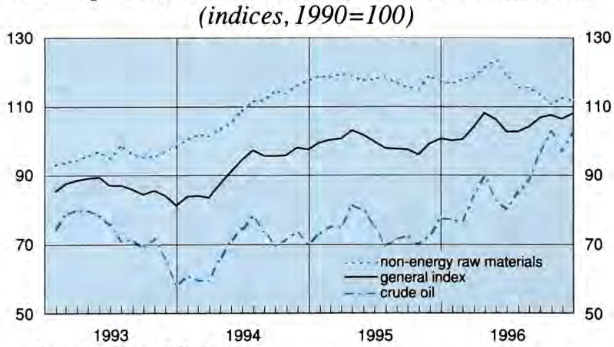
(1) Partly estimated. – (2) First three quarters.

The cost of domestic inputs rose by 6.1 per cent, compared with 7.7 per cent in 1995, buoyed by increases in the prices of energy products and, above all, services.

Figure 21

Dollar prices of internationally traded raw materials

(indices, 1990=100)



Source: Based on IMF data.

The resumption of the rise in unit labour costs is attributable to a slowdown in the growth of productivity per employee, which was broadly unchanged in 1996 after two years of gains averaging 6.3 per cent a year, and an increase in labour costs per employee of about 6 per cent, similar to that in 1995.

Table 16

Unit labour costs, productivity and earnings per employee in the private sector (1)
(percentage changes on year-earlier period)

	Unit labour costs					Productivity	Earnings per employee	*Memorandum item:* consumer price inflation
	1993	1994	1995	1996 (2)	1993-96 (2)	1993-96 (2)	1993-96 (2)	1993-1996 (3)
France	2.4	–1.5	0.6	1.3	0.7	1.7	2.4	1.9
Germany	3.1	–0.3	0.9	0.6	1.1	2.3	3.0	2.5
Italy	1.5	–1.2	2.0	4.7	1.8	2.9	4.2	4.4
United Kingdom	0.5	0.8	0.9	0.8	0.8	1.9	3.0	2.5

Sources: OECD and Istat for Italy.
(1) Market goods and services. – (2) For 1996, OECD estimates; for Italy, Bank of Italy estimates. – (3) Since 1995, based on the provisional harmonized consumer price index adopted by the EU.

The latter figure comprises an increase of about 5 per cent in actual per capita earnings and higher social security contributions, partly owing to the elimination of some contribution relief for firms in the South.

The improvement in the competitiveness of foreign producers due to the appreciation of the lira, the weakness of the domestic economy and the increase in unit labour costs caused profit margins to narrow slightly. According to national accounts data, the ratio of gross profits to value added in manufacturing, which increased by 7 percentage points between 1993 and 1995, fell by about 1 point in the first nine months of 1996.

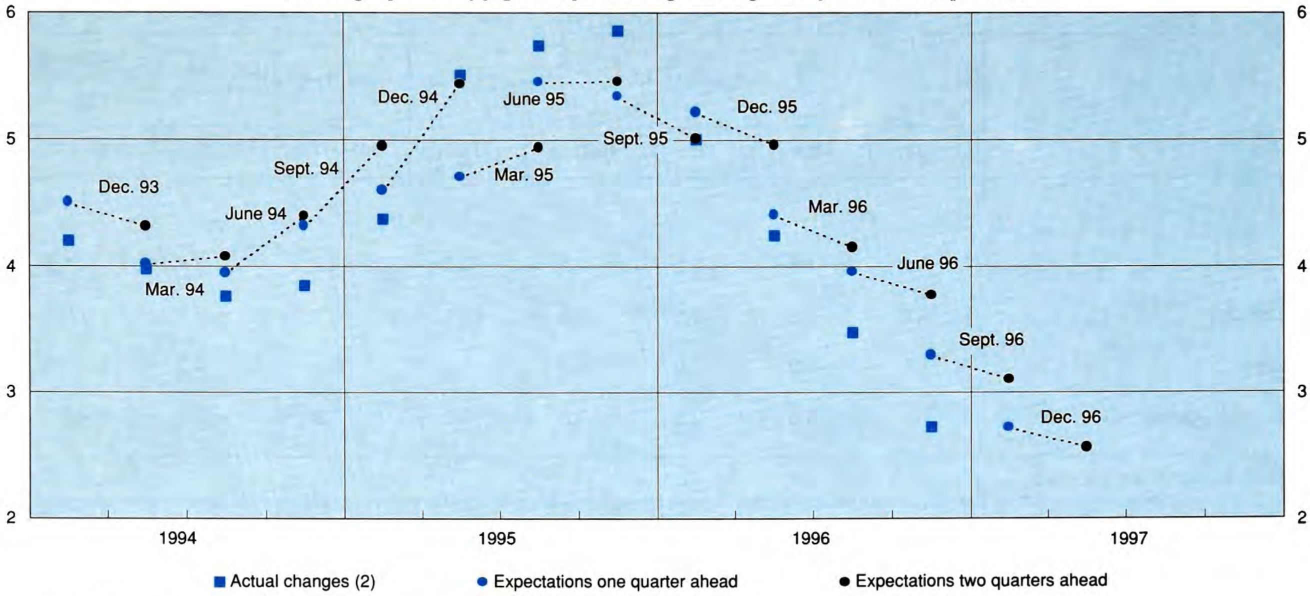
The acceleration in unit labour costs affected the entire private sector (Table 16). As a result of the large rise last year, the increase over the four years from 1993 to 1996 was more rapid in Italy than in the other leading European countries owing to the faster growth in nominal wages, which exceeded even the large gains in productivity. However, the inflationary boost imparted by the depreciation of the lira caused real wages to decline slightly, compared with modest increases in the other countries.

National labour contracts covering about 40 per cent of workers in the private sector were renewed during 1996. In the first two months of 1997 major settlements involving more than 20 per cent of employees were also signed, while contracts affecting a further 10 per cent have expired but not yet been renegotiated. If the effects of company-level settlements are also taken into account, 1996 and 1997 will have seen a rise in real wages after the declines recorded in previous years. The contract signed with metal and engineering workers in the first week of February, more than seven months after the previous agreement had expired, acquired symbolic importance. The final settlement extended the contract by six months until 31 December 1998. The wage increase will average 200,000 lire per month when fully implemented, but its impact in 1997 and 1998 was attenuated by postponing some instalments to March and October 1998. The settlement will increase actual earnings by just over 6 per cent. However, this figure does not take into account other components of wage growth. Although discussed during the negotiations, the question of parallel company-level and national settlements was left unresolved; the final accord merely reiterated the general principle stated in the July 1993 agreement on incomes policy that the two levels should deal with different issues and postponed the wage effects of any new company-level agreements to 1998.

Figure 22

Forum-ME survey of business expectations: consumer price inflation (1)

(average quarterly figures; percentage changes on year-earlier period)



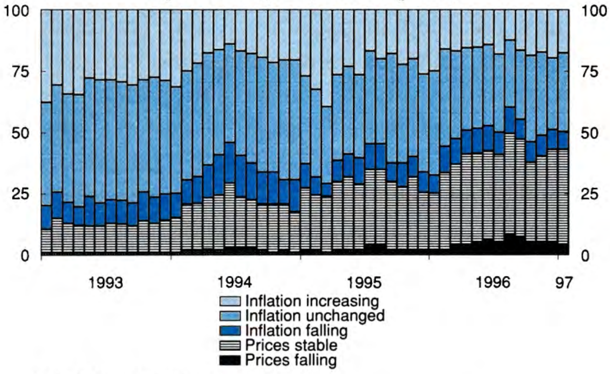
Sources: Based on Istat and Forum-ME data.

(1) Some aspects of the survey were changed in March 1995. – (2) Cost-of-living index excluding tobacco products.

Figure 23

Households' expectations of the behaviour of consumer prices in the next twelve months (1)

(percentages of total replies)



Source: Based on Isco data.

(1) Some aspects of the survey were changed in January 1995.

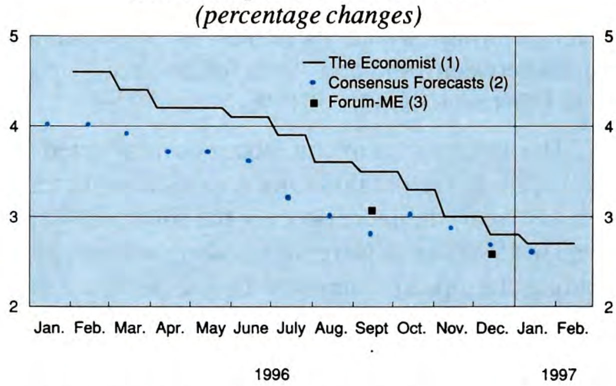
Consumer price expectations

The improvement in inflation expectations that began in early 1996 and grew more pronounced towards the end of the year is becoming structural in nature. The steady decline indicates the progress that rigorous monetary policy has achieved in eradicating the inflation mentality within the framework of the new wage bargaining system. However, expectations have continued to lag behind the slowdown in actual inflation, especially over the longest time-spans.

Figure 24

Expectations of average consumer price inflation in 1997

(percentage changes)



(1) Weekly data. – (2) Monthly data. – (3) Quarterly data.

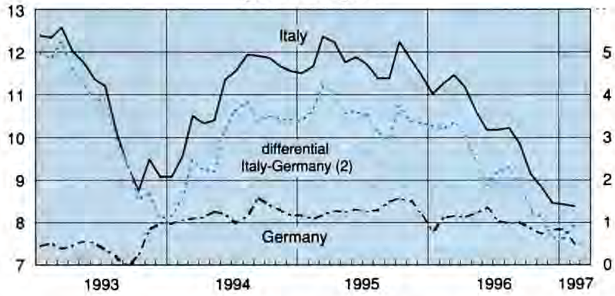
The Forum-Mondo Economico survey of businessmen showed a decline in short-term inflation expectations in the second half of 1996 (Figure 22).

Expectations followed the downward trend in inflation but remained higher than actual price changes, especially for expected inflation two quarters ahead: inflation in the last quarter of 1996 was overestimated by 1 percentage point in the June survey and 0.5 points in September. In the latest survey, conducted in December, businessmen stated that they expected average twelve-month inflation rates of 2.7 per cent in the first quarter of 1997 and 2.5 per cent in the second.

Figure 25

Forward rates in Italy and Germany (1)

(percentages)



(1) 1-year forward rates nine years ahead, calculated on the basis of the rates on Eurolira and Euromark interest rate swaps. Monthly averages of daily data; for February 1997, the average for the first twenty days of the month. – (2) Percentage points.

Isco's survey of households in January revealed expectations of a further decline in inflation in the subsequent twelve months. The distribution of replies was strongly skewed, with 48 per cent of respondents expecting inflation to fall in the coming year and only 17 per cent expecting it to increase (Figure 23).

Figure 24 shows medium-term expectations for average annual inflation in 1997 revealed by the Forum-Mondo Economico survey, the Consensus Forecasts survey of research centres and firms based in Italy and the Economist survey of international investors. Only in the last two months of 1996 were all the forecasts revised downwards to well below 3 per cent, in line with the objective indicated by the Governor of the Bank of Italy in his Concluding Remarks to the Bank's Annual Meeting of Shareholders in May last year. The expectations measured by the Consensus Forecasts and Forum-Mondo Economico surveys reached that threshold more quickly than those in the Economist survey.

Expectations for longer-term inflation also showed signs of improvement: 1-year forward rates 9 years ahead implicit in Eurolira interest rate swaps fell to an average of 8.4 per cent in the first twenty days of February 1997, 1.5 percentage points lower than in September 1996; they had fallen by the same amount in the first nine months of last year. Over the same period, the differential with the corresponding German rate narrowed by 1 point to 0.8 points. These developments would suggest that international investors are increasingly confident that the process of disinflation is structural rather than cyclical.

Public finances

The adjustment of the public finances marked time in 1996. According to preliminary data prepared by the Ministry of the Treasury on the basis of the accounting rules recently agreed by Eurostat, general government net borrowing rose from 123.5 trillion lire in 1995 to 127.5 trillion in 1996, while declining from 7 to 6.8 per cent of GDP (Figure 26). The reduction in interest expenditure offset only part of the decrease in the primary surplus from 73.5 to 68 trillion lire and from 4.1 to 3.6 per cent of GDP (Table 17).

Interest payments, which declined from 11.1 to 10.4 per cent of GDP, benefited from the fall in interest rates; the average gross yield on Treasury bills fell from 10.4 per cent in December 1995 to 8.3 per cent in June 1996 and 6.8 per cent at the end of the year. The deterioration in the primary balance reflected the fact that non-interest expenditure rose even more rapidly than revenue; according to the preliminary outturn prepared by Isco, the former increased by 8.7 per cent and the latter by 7 per cent, compared with 1.7 and 8.1 per cent respectively in 1995.

General government net borrowing is the aggregate considered for verifying compliance with the convergence criteria for participation in the third stage of EMU. It is therefore bound to be the principal parameter for assessing the public finances. It nonetheless needs to be borne in mind that focusing attention on this aggregate rather than the borrowing requirement of the state sector considerably lengthens the time before the state of the public finances can be accurately evaluated. At present quarterly estimates of the consolidated general government income statement are not prepared and the outturn for the year is not usually available until the end of March owing to the time needed to obtain data from local authorities and other non-state public bodies, which are not part of the state sector.

Figure 26

General government net borrowing, interest payments and primary balance
(as a percentage of GDP)

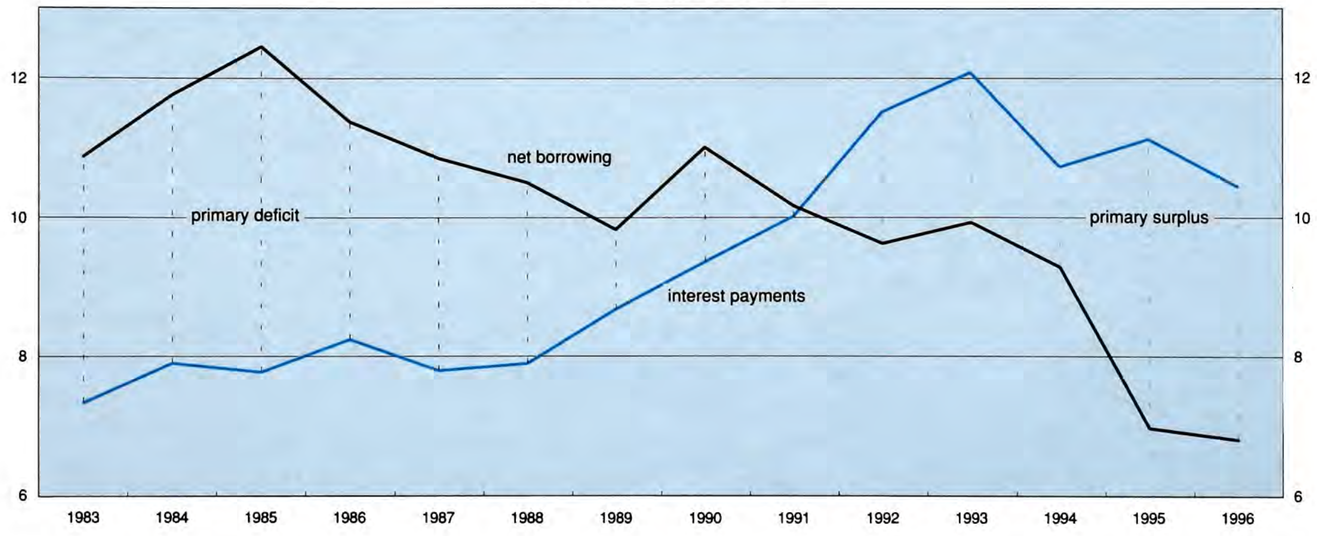


Table 17

General government net borrowing and primary balance (1)
(billions of lire)

	1994	1995	1996
Net borrowing	152,050	123,458	127,500
as a percentage of GDP	*9.3*	*7.0*	*6.8*
Primary balance (surplus: –)	–24,191	–73,466	–68,046
as a percentage of GDP	*–1.5*	*–4.1*	*–3.6*

(1) Source: Ministry of the Treasury.

Eurostat's recent decisions regarding accounting methods are intended to ensure that EU member states uniformly apply the rules of the European system of integrated economic accounts (ESA 79). They also entail a revision of the accounts for earlier years. In particular, they concern the switch from an accruals to a cash basis for recording the interest on postal savings certificates and the effects of attributing a large part of the debt of the State Railways to the Treasury. As regards the state sector, the Treasury has reinserted the national road agency (Anas) in its definition of the sector, thereby making this closer to the one used by the Bank of Italy and to the concept of central government in the national accounts.

Calculated in accordance with the new rules, the state sector borrowing requirement, net of settlements of past debts and privatization proceeds, rose from 127.9 trillion lire in 1995 to 131.9 trillion in 1996; as a ratio to GDP it declined from 7.2 to 7 per cent (Table 18). The inclusion of Anas, which had made substantial borrowings in 1995, contributed about 0.2 percentage points to the decline in the ratio.

The Government's objectives for 1996 had been set in terms of the state sector borrowing requirement and on the basis of the earlier accounting rules. The target for the borrowing requirement was initially pitched at 109.4 trillion lire in the summer of 1995. The figure was revised in April 1996 and again in June and then finally set at 123 trillion in the Forecasting and Planning Report published in September. The outturn for the year exceeded the original objective by nearly 30 trillion lire.

The overshoot was due to the deterioration in economic conditions and the fact that the budgetary measures adopted at the end of 1995 and in June 1996 proved less effective than had been expected. It was also affected by a number of events that had not been foreseen when budgetary policy was formulated. The divergence was more pronounced on the expenditure side, especially as regards health expenditure and transfers to municipalities and provinces. By contrast, interest payments were only a little higher than originally forecast.

Table 18

State sector balances
(billions of lire)

	1994	1995	1996
Financial balances net of settlements of past debts and privatization receipts			
Borrowing requirement	153,022	127,933	131,874
as a percentage of GDP	*9.3*	*7.2*	*7.0*
Primary balance (surplus: –)	–20,089	–65,348	–60,193
as a percentage of GDP	*–1.2*	*–3.7*	*–3.3*
Memorandum items:			
Settlements of past debts (in securities and cash)	6,442	3,185	10,402
Privatization receipts	–5,921	–8,354	–6,087

The macroeconomic scenario underlying the original forecast envisaged real growth in GDP and private consumption of 3 and 1.9 per cent respectively, virtually the same rates as in 1995. The accounts were expected to benefit from a recovery in employment and the compensation of employees, with total earnings forecast to rise by just under 6 per cent. Instead, according to Isco's preliminary estimates for 1996, GDP and consumption grew by 0.8 and 0.7 per cent respectively and total earnings by 4.6 per cent. The lower-than-expected growth contributed nearly three quarters of a percentage point to the overshoot in relation to GDP.

The budgetary adjustment proved less effective than forecast. The measures adopted by the Government between the autumn of 1995 and last June were meant to increase the primary surplus in 1996 by 50 trillion lire or 2.7 per cent of GDP compared with that on a current programmes basis. The adjustment fell short of this objective by one percentage point. In particular, the measures to curb transfers to local authorities and reduce health expenditure and to bring undisclosed income and turnover into the tax net appear to have had less effect than expected.

The state sector borrowing requirement was also affected by exceptional factors: a recapitalization in the banking sector, smaller net inflows of funds from the EU (owing to the early recording of some in December 1995 and the late recording of others in January 1997) and net repayments of loans by Anas and the State Railways, which led to their drawing more heavily on their balances with the Treasury.

State sector expenditure increased rapidly from the beginning of the year onwards; non-interest expenditure rose by around 11 per cent in the first three months, boosted by the postponement of outlays in 1995. The latest data available show a rise of 5 per cent in the first nine months of 1996. The increase appears to have been larger at the end of the year. These results compare with an original forecast of a rise of 1.7 per cent, which not only took account of all the expenditure savings the budget was expected to produce (around 2 per cent of GDP) but was also based on an estimated increase in expenditure on a current programmes basis of around 4 per cent.

Budgetary policy and the management of state sector debt

According to the Economic and Financial Planning Document published in June 1995, the objective for the state sector borrowing requirement of 109.4 trillion lire (determined on the basis of the earlier accounting rules) was to be achieved by making adjustments totaling 32.5 trillion. The saving in interest payments as a result of the budget measures was expected to produce a further reduction of 1.6 trillion in the borrowing requirement. The Planning and Forecasting Document published in September 1995 confirmed these figures.

Under the budget measures approved by Parliament at the end of December 1995 the adjustment in the state sector accounts was divided equally between revenue increases and expenditure cuts. The bulk of the increase in revenue was to be produced by bringing undeclared income and turnover into the tax net, while the saving in expenditure was to be achieved primarily by reducing transfers to non-state public bodies. In the case of the National Social Security Institute (INPS), the reduction was to be offset by higher contributions, to be introduced on the basis of the pension reform law, and in the case of local authorities by allocating a share of the excise duty on petrol to the regions. By contrast, the reduction in transfers to the National Health Fund was intended to produce an actual reduction in expenditure on goods and services.

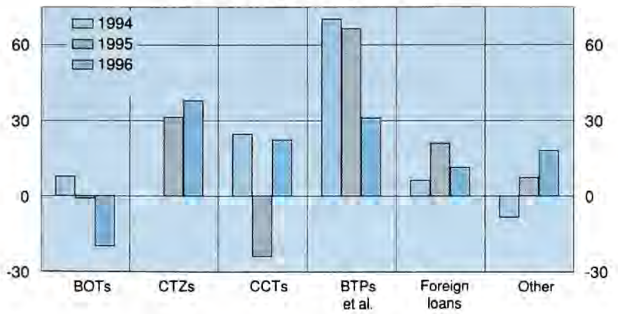
During the first half of the year it became increasingly clear that the weakening of economic activity and the acceleration in the growth of expenditure would prevent the achievement of the original objective. At the end of June the new Government formed after the elections introduced additional measures amounting to 16 trillion lire with the aim of keeping the state sector borrowing requirement for the year down to 113 trillion.

These supplementary measures were designed primarily to reduce expenditure by freezing certain spending commitments, cancelling the funds available for legislation to be approved during the year and revising the list of prescribable medicines. On the revenue side, the major increases were to be produced by bringing forward the payment of a number of taxes.

The effects of the freeze on spending commitments were slow to appear, however. The Forecasting and Planning Report published in September lowered the forecast for GDP growth to 0.8 per cent and raised the objective for the state sector borrowing requirement to 123 trillion lire.

Figure 27

Financing of the state sector borrowing requirement
(percentage composition)



The manner of financing the borrowing requirement was modified somewhat in 1996. Including privatization proceeds and settlements of past debts, the amount to be funded was equal to 136.2 trillion lire on the basis of the new accounting rules (Table a20). The aim of debt management policy was to reduce issues of short-term securities and to increase the proportion of medium-term securities issued in the form of discounted paper. Redemptions of Treasury bills exceeded issues by 27.45 trillion lire and net issues of Treasury zero-coupon certificates (CTZs) amounted to 51.5 trillion (Figure 27). The share of foreign borrowings declined sharply from 20.9 to 11.2 per cent. The importance of Post Office funding diminished slightly, whereas withdrawals from the Treasury's payments and debt redemption accounts with the Bank of Italy increased, causing the balances to fall by 8.4 and 9 trillion lire respectively. The debt redemption account receives the proceeds of privatizations, which are not included in the net borrowing requirement on which budgetary policy focuses. General government debt as defined by the European Union decreased slightly in relation to GDP for the second consecutive year.

The main items of the general government accounts

According to Isco's preliminary estimates (Table 19), total expenditure net of interest payments rose by 8.7 per cent, a much larger increase than in the four preceding years, when the average increase was 4.2 per cent. Current expenditure rose by 6 per cent, compared with 4.5 per cent in 1995; excluding interest payments, it rose by 8.1 per cent.

The growth in social security expenditure jumped from 4.6 per cent in 1995 to 8.9 per cent as a result of the sharp acceleration in spending on pensions, the effect of which was only attenuated by the slower growth in health service outlays and unemployment benefits. Pension expenditure was affected by the adjustment for 1995 inflation, the ending of the freeze on new long-service pensions that had been in force since 1993 and the payment of current liabilities arising from the judgements of the Constitutional Court on reversion and the topping-up of pensions to the minimum level.

Wages and salaries rose by 6.7 per cent, compared with 2.8 per cent in 1995. Since the number of employees was basically unchanged, the acceleration was primarily due to the rise in per capita earnings, which in turn reflected the effects of the 1996-98 wage agreement.

Intermediate consumption increased by 8 per cent, compared with 1.1 per cent in 1995. The upward pressure came mainly from spending in the health sector, where disbursements picked up as the new health units came into full operation following the reorganization of the service.

Notwithstanding the increase in the stock of debt, interest payments diminished slightly as a consequence of the fall in interest rates on government securities, the large net redemptions of Treasury bills, on which interest is recorded at issue, and the increase in issues of CTZs, the interest on which is recorded at redemption.

Capital expenditure increased by 16.2 per cent as a result of an acceleration in all the main items (investment, investment grants and tax refunds). The growth in investment spending, from 40 to

44.5 trillion lire overall, appears to be attributable primarily to municipalities and provinces, for which the increase up to the end of September was equal to 10.2 per cent. Investment grants rose from 19.5 to 23.1 trillion lire, primarily in connection with projects in depressed areas. Tax refunds in the form of securities also increased substantially, rising from 0.7 to 5.4 trillion lire.

Table 19

General government revenue and expenditure
(billions of lire; percentage changes)

	1995	1996	1995/1994	1996/1995
EXPENDITURE				
Wages and salaries	202,354	216,000	2.8	6.7
Intermediate consumption	85,178	92,000	1.1	8.0
Social security benefits	334,102	364,000	4.6	8.9
Production subsidies	28,683	26,700	–12.5	–6.9
Debt interest	195,698	194,000	11.0	–0.9
Other current expenditure	37,500	44,240	3.4	18.0
Current expenditure	**883,515**	**936,940**	**4.5**	**6.0**
as a percentage of GDP	*49.9*	*50.0*	–	–
Investment	39,956	44,500	4.3	11.4
Investment grants	19,547	23,100	0.2	18.2
Other capital expenditure	5,326	7,700	–56.9	44.6
Capital expenditure	**64,829**	**75,300**	**–7.6**	**16.2**
TOTAL EXPENDITURE	**948,344**	**1,012,240**	**3.5**	**6.7**
as a percentage of GDP	*53.6*	*54.0*	–	–
Total expenditure, net of interest payments	**752,646**	**818,240**	**1.7**	**8.7**
as a percentage of GDP	*42.5*	*43.7*	–	–
REVENUE				
Direct taxes	260,604	285,000	6.4	9.4
Indirect taxes	209,196	224,000	8.8	7.1
Social security contributions	260,833	283,000	6.8	8.5
Other current revenue	80,221	84,240	6.6	5.0
Current revenue	**810,854**	**876,240**	**7.1**	**8.1**
as a percentage of GDP	*45.8*	*46.7*	–	–
Capital revenue	**15,258**	**8,000**	**111.9**	**–47.6**
TOTAL REVENUE	**826,112**	**884,240**	**8.1**	**7.0**
as a percentage of GDP	*46.6*	*47.2*	–	–

Source: Based on Isco data estimate in accordance with the accounting rules recently approved by Eurostat.

Revenue grew by 7 per cent, with the current component rising by 8.1 per cent, as against 7.1 per cent in 1995, and the capital component declining. Direct taxes increased more rapidly than indirect taxes, with increases of 9.4 and 7.1 per cent respectively. As a ratio to GDP, direct taxes rose from 14.7 to 15.2 per cent and indirect taxes from 11.8 to 12 per cent. It is worth noting, however, that the budget measures appear to have had a greater impact on indirect taxes than on direct taxes, equal to around 0.4 per cent of GDP for the former and around 0.1 per cent for the latter. The increase in direct tax receipts can be explained by the lag with which they respond to changes in economic conditions.

Most of the increase in direct tax revenue came from corporate income taxes and the flat-rate withholding tax on interest income. Receipts of the former rose by 25 per cent as a result of the increase in non-financial companies' profits in 1995, which more than offset the effects of the tax relief for reinvested profits and the legislation providing for more favourable tax treatment of loan losses.

In a year marked by a general decline in interest rates, the large 19.9 per cent increase in the flat-rate withholding tax on investment income needs to be set in relation to the abnormally small yield from this tax in 1995, when substantial tax credits emerged. Moreover, around 1.6 trillion lire of the increase was due to the requirement for banks to pay larger percentages on account, which was introduced last June in connection with the revision of the rates of this tax.

The increase in direct taxes was affected by the relatively moderate rise of 7 per cent in self-assessed personal income tax, evidence of the limited effectiveness of the measures intended to bring undeclared income into the tax net by applying new parameters for assessing the incomes of the self-employed and small businesses.

As regards indirect taxes, there was an increase of 4.3 per cent in VAT receipts, net of settlements with special statute regions, refunds and the part accruing to the European Union. The effect of the weakness of the growth in private consumption was compounded by a composition effect owing to the relatively smaller increase in the prices of durable and semi-durable goods, which are mostly taxed at the standard rate (the highest in force at present).

Receipts of other business taxes rose by more than 13 per cent as a result of the increases enacted in the budget, in particular for stamp duty, the tax on mortgages and government licence fees. The rise of 6.6 per cent in excise duties and sales taxes reflected the good performance of those on electricity and methane, the rates of which were both increased. Gaming taxes yielded an additional 35.6 per cent as a result of the strengthening of the sales networks for the *lotto* and instant lotteries.

Social security contributions increased by 8.5 per cent and outstripped the growth in the contributory base, thanks in part to the receipts of 3 trillion lire produced by the related condonation scheme and some rate increases. Other factors included the steady reduction in the health and pension contributions relief granted in the South, the new rules on overtime contributions and the rate increases introduced at the end of 1995 to finance the last tranche of the revaluation of long-standing pensions.

Capital revenue declined from 15.2 to 8 trillion lire, primarily as a result of the fall in receipts produced by one-off measures. The yield of those enacted in the 1996 budget – the extension of the tax reconciliation scheme to 1994 incomes and the condonation scheme for formal errors – was negligible, but the instalments of the reconciliation scheme introduced in the 1995 budget contributed 2.5 trillion lire.

The ratio of direct and indirect taxes (excluding amounts accruing to the European Union), social security contributions and capital taxes to GDP rose by 0.8 percentage points from 41.7 to 42.5 per cent, compared with an average of 42.8 per cent for the other European countries.

Monetary policy, banking and the financial markets

Monetary policy has been kept restrictive in recent months in order to ensure lasting price stability. Long-term yields have continued to fall, encouraged partly by purchases of Italian securities by non-residents, and the Bank of Italy has regulated liquidity so as to allow a gradual decline in shorter-term rates as well. Against this background, the lira's re-entry to the Exchange Rate Mechanism on 25 November was achieved without upsetting the foreign exchange and financial markets. The lira appreciated moderately against the other ERM currencies in the first half of January 1997, in parallel with a pronounced strengthening of the US dollar; uncertainty about monetary unification in subsequent weeks led to an adjustment in long-term yields and caused the lira to move back close to its central parity against the mark.

Inflation has continued to fall in recent months. Initial data for 1997 confirm that both the actual rate of price increase and inflation expectations are consistent with the objective. On 21 January the Bank of Italy lowered the official discount rate from 7.5 to 6.75 per cent and the rate on fixed-term advances from 9 to 8.25 per cent; this was the third reduction of 0.75 percentage points following those of July and October 1996 (Figure 28).

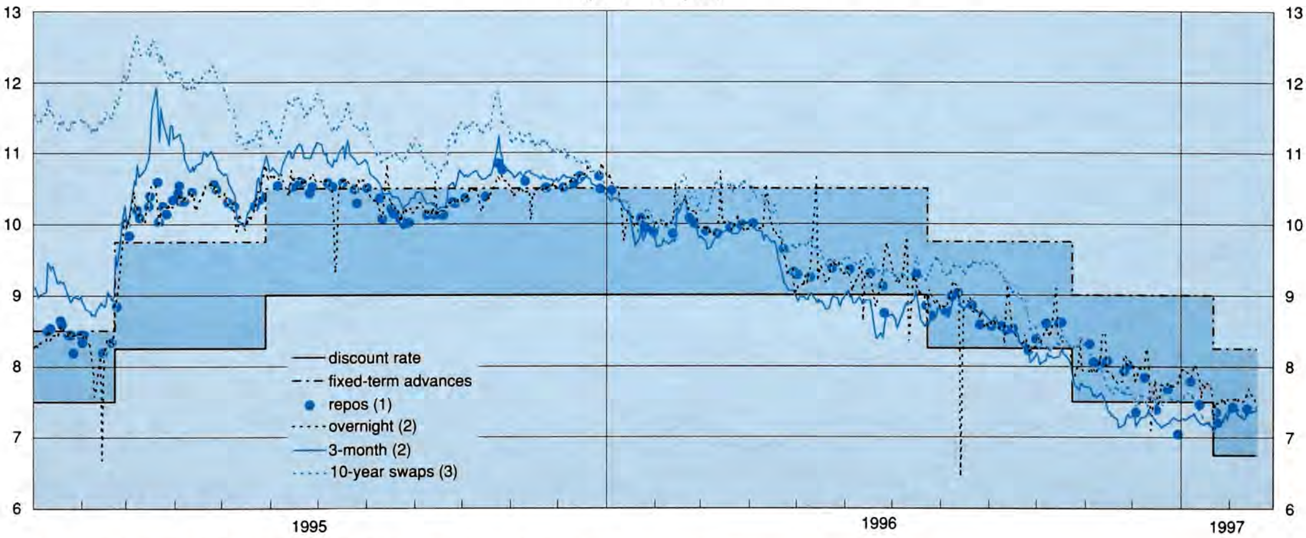
Between the end of August 1996 and the end of January 1997 the yield on 10-year Treasury bonds fell from 9.5 to 7.3 per cent, a decline of 2.2 percentage points, and the differential in relation to comparable German government bonds fell by 1.6 percentage points to 1.5 points (Figure 29). Over the same period real short-term interest rates remained high and the real effective exchange rate of the lira rose (Figure 30).

The M2 money supply grew by 2.6 per cent in 1996, compared with 1.9 per cent in 1995; this was still below the target ceiling, however, and negative in real

Figure 28

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.

terms (Table 20). Two significant developments occurred in the composition of the financial assets of the private sector. First, the slowness of the banks in adjusting interest rates on sight deposits encouraged a recovery in current accounts, which was also boosted for a time by capital inflows from abroad. Secondly, a substantial volume of funds was channeled into managed assets; the net flow received by investment funds and portfolio management services amounted to 111.4 trillion lire, almost equal to the total increase in domestic financial assets (Table 21). More recently, saver preferences have begun to switch back to investments in shares; net monthly subscriptions of equity funds, which had been persistently negative since February 1995, turned positive in December and reached a high level in January.

Table 20

Monetary variables (1)
(percentage changes)

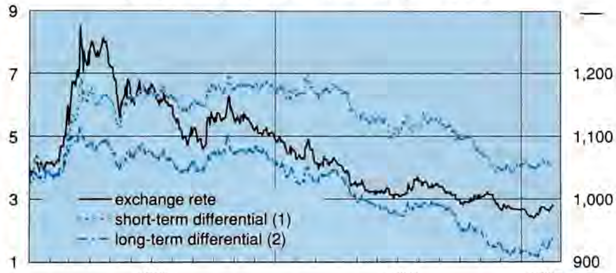
	1995		1996 (2)	
	Oct.-Dec. (3)	Year	Oct.-Dec. (3)	Year
Currency	–3.6	0.8	4.7	3.2
Bank reserves (4) .	1.2	1.4	–2.9	2.0
Monetary base (4) .	–0.5	1.2	0.1	2.5
Bank deposits	4.8	1.2	–1.8	3.1
Money supply (M2)	4.7	1.9	–0.8	2.6

(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. – (2) Provisional. – (3) Annualized and seasonally adjusted. – (4) Adjusted for the change in the average compulsory reserve ratio.

In parallel with the slowdown in economic activity and investment, total finance to the non-state sector continued to increase at a modest pace, growing by 2.8 per cent, compared with 2.3 per cent in 1995. High levels of self-financing and a reduction in firms' holdings of liquid assets moderated corporate credit demand. Firms also continued to lengthen the contractual maturity of their bank borrowing in view of the banks' policy of reducing interest rates on short-term loans more slowly than on medium and long-term lending.

Figure 29

Interest rate differentials vis-à-vis Germany and the lira/DM exchange rate
(percentage points and lire per DM)

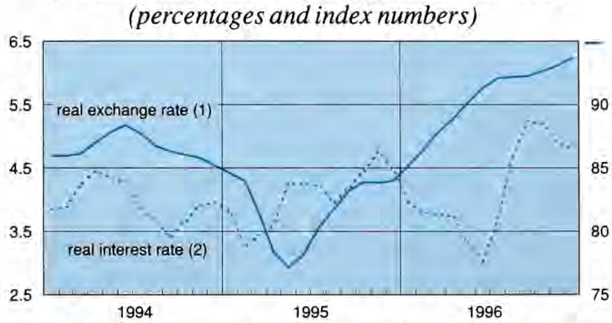


(1) Difference between 3-month Libor in lire and in marks. – (2) Difference between rates on 10-year interest rate swaps in lire and in marks.

The narrowing of the spread between average lending and deposit rates, owing partly to the shift towards medium and long-term lending, reduced the banks' net interest income; according to preliminary data, it declined from 2.84 to 2.67 per cent of total assets. A contributory factor was the continued rapid increase in bad and doubtful debts, which rose to 10.1 per cent of lending in December. Gross income declined less markedly (from 3.83 to 3.81 per cent of total assets), largely on account of capital gains on fixed rate long-term securities. Operating expenses, the largest item of which is staff costs, remained broadly unchanged at 2.24 per cent of total assets; operating profit rose from 1.56 to 1.57 per cent of the same aggregate.

Figure 30

Real interest rate on 3-month Treasury bills and the real effective exchange rate of the lira
(percentages and index numbers)



(1) Real effective exchange rate of the lira against the currencies of Italy's 14 main trading partners; index, 1987=100. Moving average for the three months ending in the month indicated. An increase indicates an appreciation. – (2) Moving average for the three months ending in the month indicated. Net compound interest rate on 3-month Treasury bills, deflated using the annualized change in the seasonally adjusted cost-of-living index net of indirect taxes over the preceding three months.

4

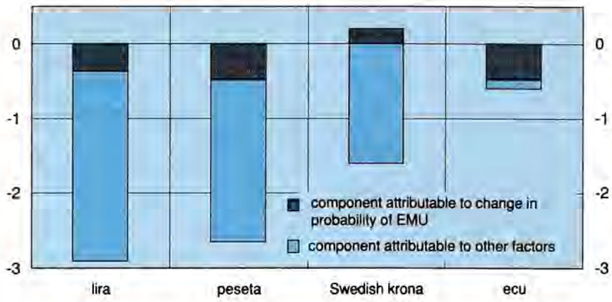
The behaviour of the forward yield curve in 1996

The sharp decline in Italian interest rates last year was fairly uniform across the maturity range. Ten-year Eurobond yields fell by 3.1 percentage points, and the differential vis-à-vis comparable German yields narrowed by 2.9 percentage points. For maturities of less than 1 year the reduction in the differential was slightly smaller, as German short-term rates decreased by more than long-term rates. The decline in Italian rates was not affected by the fluctuations in long-term interest rates in the leading economies. Neither the pace nor the scale of the decline varied significantly between the first and second halves of the year (Figure 31), despite greater volatility in international rates in the second half.

The fall in Italian rates was mainly a reflection of expectations of lower future yields; the risk premium for fluctuations in securities prices appears to have played only a minor role, as can be seen by the fact that the volatility implicit in the prices of options on 10-year Treasury bond futures was only slightly lower than at the end of 1995 (Figure 38). The downward shift in the forward yield curve occurred at a time when both inflation and inflation expectations were declining sharply, aided by the firm monetary policy stance, the recovery of the lira and the Government's decision to take supplementary measures to reduce the 1997 budget deficit.

The narrowing of the differential vis-à-vis German rates was more pronounced in Italy than in other European economies with high nominal yields (the so-called high yielders), such as Sweden and Spain, where measures to adjust the public finances are also being taken. The larger reduction in forward rates in Italy by comparison with Spain was mainly in those on contracts due to mature before the beginning of the third stage of EMU (1 January 1999) and more than five years ahead, for which the difference between the respective differentials with German rates was greater.

Breakdown of the change in the 10-year yield differential with Euro-DM swaps in 1996
(percentage points)



If, for the sake of simplicity, it is assumed that the reduction in the forward differential with Germany for maturities after 1 January 1999 essentially reflects expectations of joining EMU, it is possible to estimate the role that these expectations played last year

Monetary policy

In recent months monetary policy has continued to be directed towards permanently eliminating the inflation differential in relation to the countries with more stable currencies. The cautious easing of monetary conditions abetted the decline in long-term yields, which reflected primarily the improvement in inflation expectations but was also fostered by the Government's increased commitment to fiscal adjustment in 1997 and the generally favourable tone of the international financial markets.

The conspicuous narrowing of the interest rate differential between the lira and the mark during 1996 was attributable mainly to domestic factors, first and foremost the progress achieved in reducing inflation and inflation expectations; to a smaller extent it was also due to the independent effect of the strengthening of expectations of joining EMU.

in determining the decline in the 10-year yield differential. [1]

The result, illustrated in the figure, refers to yields on 10-year swaps in three European currencies (lire, pesetas and Swedish kronor) and ecus. It shows that expectations of joining EMU were only a minor factor last year in the convergence of yields on the three currencies considered. In the case of Italy they accounted for less than 40 basis points of the overall decline of 290 basis points in the 10-year differential. The figure for the peseta is similar, whereas changing expectations regarding participation in EMU appear to have had the opposite effect on Swedish yields, leading to a slight widening of the differential. [2] *On this basis, the reduction in the yield differential between the mark and these three currencies can therefore be attributed chiefly to other factors, first and foremost the independent impact of expectations concerning disinflation and budgetary stabilization.*

The convergence of yields in ecus, in contrast, would appear attributable primarily to expectations regarding EMU, as forward yields on contracts maturing after 1999 (the date for converting ecus into euros at par) became almost identical with DM yields last year. However, the same cannot be said of 1998; yields on contracts for this maturity were seriously affected by uncertainty as to which countries will be able to adopt the single currency and exchange their currencies at par with the euro.

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1 The change in a given interval in the 10-year yield differential can be approximated by:

$$\Delta s^{10} = \frac{1}{10}\sum_{j=0}^{9} \Delta f^j, \qquad [1]$$

where f^j is the differential on 1-year assets with reference to the time horizon j (f^0 is the corresponding spot differential). On the assumption of risk neutrality on the part of market participants, after 1 January 1999, it can be expressed as:

$$f^j = p^j r^j_U + (1 - p^j)\, r^j_N, \qquad [2]$$

where r^j_U, r^j_N are the spot differentials expected in the event of Italy's respectively joining and not joining EMU in year j and p^j is the probability of its joining in year j. The change in the forward differential, assuming $r^j_U = 0$ after 1 January 1999, can be written as:

$$\Delta f^j = (1 - p^j)\Delta r^j_N - r^j_N \Delta p^j, \qquad [3]$$

where the second term on the right is the effect attributable to the change over time in the probability of joining EMU. Approximating this (after 1 January 1999) by:

$$p^j = 1 - \frac{f^j(1 - p^{j-1})}{f^{j-1}} \qquad [4]$$

and obtaining r^j_N from [2], it is possible to calculate the component of [1] that is attributable to the expectation of joining EMU.

2 The results do not change materially if other recently proposed methods are used to estimate the probability of Italy's joining EMU.

The yield on 10-year Treasury bonds fell by about 2 percentage points between the beginning of September and the end of November, to stand at 7.5 per cent, and the differential in relation to comparable German bonds narrowed from 315 to 190 basis points. The lira appreciated against the mark and the French franc, remained stable against the US dollar and depreciated against sterling; in effective terms it appreciated by 2.2 per cent. During this period the Bank of Italy allowed a gradual decline in repo rates (see the box "Bank of Italy intervention in the money market"); on 23 October it reduced official rates by 0.75 percentage points. Three-month interbank rates declined by 140 basis points between the end of August and the end of November, to 7.3 per cent. The lira's re-entry to the exchange rate mechanism of the EMS at the end of November, which was largely anticipated by the markets and foreshadowed by a sharp decline in rates in the preceding weeks, did not provoke significant changes in expectations, as

Table 21

Net fund-raising by investment funds and portfolio management services

(in billions of lire)

	Flows						Stocks	
	1995		1995	1996		Year (1)	Dec. 1995	Dec. 1996 (1)
	H1	H2		H1	H2 (1)			
Investment funds (2)	–8,400	–2,100	–10,500	16,900	41,300	58,200	126,800	197,600
Portfolio management services (2) (3)	–6,300	8,000	1,700	23,500	29,700	53,200	192,400	267,000
Total	**–14,700**	**5,900**	**–8,800**	**40,400**	**71,000**	**111,400**	**319,200**	**464,600**
Memorandum item:								
Domestic financial assets (4)	67,400	83,700	151,100	34,400	80,800	115,200	2,687,000	2,802,000

(1) Provisional. – (2) Flows of net fund-raising and stocks of net assets at market values. – (3) The figure for the second half of 1996 is partly estimated. – (4) Assets of the non-state sector, net of shares.

reflected in the yield curve. The lira strengthened to a position close to what was to become the new central rate against the mark (990 lire) and subsequently exceeded it.

Interest rates held more or less steady in December, but in the first few weeks of January the cyclical disparity between the US and German economies and monetary policy expectations in the two countries created the conditions for a strong appreciation of the dollar against the mark. As in similar circumstances in the past, this favoured the relaxation of financial market conditions in Italy, where the decline in interest rates resumed, aided by the consolidation of expectations of convergence and by the fact that activity was weaker than in Germany. The yield on 10-year Treasury bonds decreased by about 30 basis points during this period to 7.3 per cent. The differential with Bunds of the same maturity touched 143 basis points, an all-time low; the differential in relation to Spanish and Swedish securities declined slightly and that in relation to British bonds turned negative, albeit only marginally. The fall in long-term yields came to a halt in the last ten days of January; despite international uncertainties, the correction was modest, confirming that the decline in long-term rates in 1996 was due primarily to the improvement in the underlying state of the Italian economy.

In the first few weeks of this year Bank of Italy repo rates remained close to the level of around 7.5 per cent recorded in December. On 21 January, as inflation and inflation expectations were in line with the target for this year, the Bank of Italy reduced the discount rate and the rate on fixed-term advances by a further 0.75 percentage points to 6.75 and 8.25 per cent.

The beneficial effect of the monetary stance on market expectations is clearly evident from the yield curve. In the first three weeks of this year yields continued to shift downwards across the entire maturity range. Despite the subsequent correction, at the end of February 1997 the yield curve for futures contracts on 3-month Eurolira deposits indicated expectations that 3-month rates would come down by 1 percentage point to around 6 per cent by the end of this year; at the end of last August a rate of 7.9 per cent had been expected for the close of 1997. At the furthest end of the forward yield curve, the 1-year forward rate nine years ahead implicit in Euromarket swap contracts declined by 1.8 percentage points between the end of August and the end of January, to 8.4 per cent; the differential with the corresponding German yields over the same time-span fell by 100 basis points to 0.9 percentage points (Figure 31).

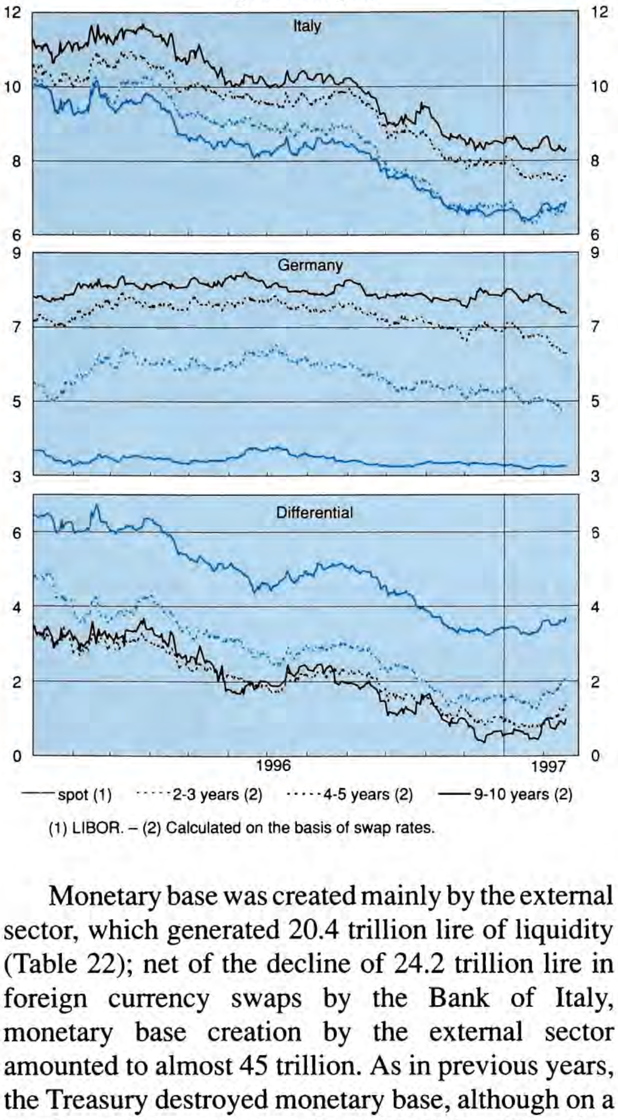
Adjusted for the change in reserve requirements, the growth in monetary base amounted to 2.5 per cent in 1996, compared with 1.2 per cent in 1995.

Currency in circulation increased by 3.2 per cent, against 0.8 per cent in 1995, contracting in the first part of the year and expanding at a sustained pace in the last few months. The growth in bank reserves remained moderate, at 2.0 per cent, compared with 1.4 per cent in 1995.

Figure 31

1-year spot and forward rates

(percentages)



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

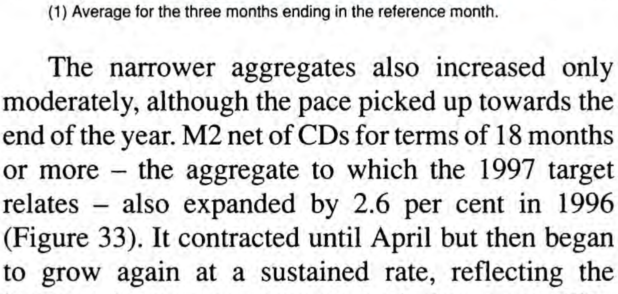
Monetary base was created mainly by the external sector, which generated 20.4 trillion lire of liquidity (Table 22); net of the decline of 24.2 trillion lire in foreign currency swaps by the Bank of Italy, monetary base creation by the external sector amounted to almost 45 trillion. As in previous years, the Treasury destroyed monetary base, although on a much smaller scale than in 1995 (5.8 trillion lire, compared with 33.4 trillion); the difference was attributable primarily to drawings of 8.4 trillion on the Treasury payments account and 9 trillion from the sinking fund, whereas in 1995 there had been inpayments of 5.1 and 3.1 trillion lire. The net increase in monetary base creation via these channels was offset by a reduction in net open market purchases of securities by the Bank of Italy (3.7 trillion lire, compared with 15.5 trillion in 1995). The Bank made outright sales of securities amounting to 8.7 trillion, compared with purchases totaling 23.4 trillion in 1995; the repo portfolio increased by 12.4 trillion, whereas it had contracted by 7.9 trillion the previous year.

The growth in the monetary aggregates was slightly faster than in 1995 (Table 20 and Figure 32). On the basis of average quarterly data, the M2 money supply (including certificates of deposit for terms of 18 months or more) increased by 2.6 per cent, 0.7 percentage points more than in 1995 but less than the limit of 5 per cent set in the autumn of that year. Until the summer it grew at a rate close to the limit but the expansion was then curbed by the decline in CDs for terms of 18 months or more, which were penalized by the revision of tax rates on interest income.

Figure 32

Money supply (M2)

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



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

The narrower aggregates also increased only moderately, although the pace picked up towards the end of the year. M2 net of CDs for terms of 18 months or more – the aggregate to which the 1997 target relates – also expanded by 2.6 per cent in 1996 (Figure 33). It contracted until April but then began to grow again at a sustained rate, reflecting the increase in current accounts and short-term CDs, which was due to the narrowing of the yield differential in relation to short-term assets not included in M2 (such as Treasury bills and repos) and was also fueled for a time by inflows of foreign exchange, especially in April and the last four months of the year.

Table 22

Monetary base (1)

(changes in billions of lire)

	1995		1996 (2)	
	Oct.-Dec.	Year	Oct.-Dec.	Year
		Sources		
Foreign sector	**1,630**	**2,915**	**–1,506**	**20,446**
foreign currency swaps	*1,107*	*10,592*	*–15,065*	*–24,227*
Treasury	**–5,729**	**–33,369**	**3,435**	**–5,774**
Treasury payments account	*146*	*–5,104*	*4,149*	*8,371*
sinking fund for redemption of government securities	*–1,894*	*–3,091*	*14,095*	*8,999*
other BI-UIC operations with the Treasury (3)	*–3,981*	*–25,174*	*–14,809*	*–23,143*
Open market	**5,010**	**15,455**	**16,949**	**3,739**
repos (4)	*1,663*	*–7,906*	*32,794*	*12,389*
Refinancing	**5,064**	**4,857**	**–31**	**–5,648**
Other sectors	**1,264**	**–1,786**	**–2,330**	**–8,612**
Total ...	**7,240**	**–11,928**	**16,517**	**4,151**
		Uses		
Currency in circulation	**5,756**	**2,060**	**6,663**	**1,832**
Bank reserves	**1,484**	**–13,988**	**9,855**	**2,319**
compulsory reserves (5)	*–881*	*–18,728*	*5,245*	*–1,779*

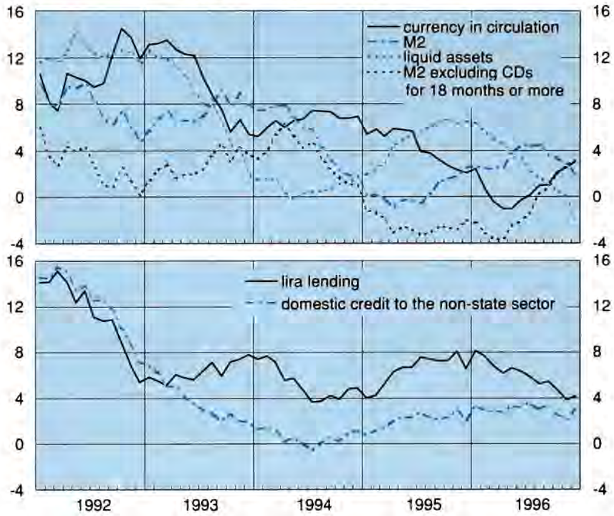
(1) Rounding may cause discrepancies in the totals. – (2) Provisional. – (3) Net redemptions of government securities in the BI-UIC portfolio and other items (see note to Table a22 in *Notes to the tables*). – (4) At book value. – (5) Average reserve requirement during mid-month to mid-month reserve maintenance period.

The total financial assets of the non-state sector increased by 5.7 per cent in 1996, in line with the expansion of recent years. Within the aggregate, the growth in domestic assets slowed down, while that in foreign assets accelerated from 7.9 per cent in 1995 to more than 28 per cent (Table 23). The portfolio of government securities held directly by the non-state sector, which had increased by 68.2 trillion lire in 1995, contracted by 34.1 trillion in 1996 in view of the pronounced decline in yields during the year. The contraction was reflected in substantial sales of securities to other sectors, in particular investment funds and foreign investors; purchases of investment fund units were particularly large in 1996 (58.2 trillion lire, compared with net sales of 10.5 trillion in 1995). Purchases of bonds came to 63.7 trillion, against 1.9 trillion in 1995, mainly on account of the large issues of such securities by banks in the second half of the year to replace medium and long-term CDs.

Figure 33

Money and credit aggregates (1)

(percentage changes)



(1) Twelve-month rates of increase, based on average monthly data for currency in circulation and M2 and on month-end data for liquid assets and the credit aggregates.

Total credit increased by 5.2 per cent in 1996, similar to the rate recorded the preceding year; finance to the non-state sector grew by 2.8 per cent, reflecting an increase of 5.0 per cent in medium and long-term bank lending and virtually no change in short-term credit, which was affected by the economic slowdown.

Banking

Bank lending increased moderately in 1996, rising by 2.4 per cent in the twelve months to December, slightly less than in 1995 (Table 24); in real terms it contracted by 1.8 per cent on an annual average basis, compared with 2.9 per cent the previous year. The nominal growth in lira lending slowed down from 6.7 per cent in 1995 to 3.2 per cent, but the contraction in foreign currency lending abated (Table a35). Short-term credit increased by 1.2 per cent, compared with 3.2 per cent in 1995; medium and long-term lending, on the other hand, recovered somewhat, rising by 3.8 per cent, compared with 2.1 per cent the previous year.

The breakdown of credit according to branch of economic activity reveals a resurgence in borrowing by financial and insurance companies, partly owing to the smaller reduction in lending to holding companies; in December the twelve-month rate of increase for the sector as a whole was 5.2 per cent, compared with a contraction of 5.6 per cent a year earlier (Table 25). Among non-financial companies, lending to the services sector and the construction industry decreased. Lending to producer households grew by more than the average.

Bad and doubtful debts increased by 11.6 per cent last year, whereas in 1995 they had risen by 21.0 per cent. The slowdown was pronounced until April and intensified again towards the end of the year. In December bad debts at nominal value amounted to 123.1 trillion lire, equal to 10.1 per cent of total lending. At realizable value (in other words, excluding the amount of loans that the lending bank judges to be irrecoverable), the aggregate rose by 2.7 per cent in the twelve months to December to total 75.8 trillion lire. The slowdown involved lending to all branches of activity except finance and insurance. The twelve-month rate of growth in bad debts fell to 1.3 per cent for industry excluding construction, 8.8 per cent for services and 12.8 per cent for producer households. The increase for the construction industry fell by almost half by comparison with 1995, but it was still extremely high (26.9 per cent); here the ratio of bad debts to total lending rose to 20.2 per cent, more than 4 percentage points higher than a year earlier.

With money market rates declining, bank lending rates moved downwards throughout 1996; the trend strengthened at the time of the two reductions in official rates in the second half of the year. The rate on short-term lira loans fell from 12.9 per cent at the end of 1995 to 11.9 per cent in August and 10.8 per cent at the end of December (Figure 34). The differential in relation to the average yield on Treasury bills nevertheless widened from 2.4 percentage points at the end of 1995 to 4.1 points a year later.

Table 23

Credit and financial assets

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

	12-month rates of change		Share of outstanding stocks	
	Dec. 1995	Dec. 1996	Dec. 1995	Dec. 1996
Total credit	**5.0**	**5.2**	**100.0**	**100.0**
Finance to the non-state sector	2.3	2.8	36.3	35.3
from banks	2.4	3.2	31.8	31.1
bonds	−15.3	−19.1	0.6	0.5
foreign finance	4.6	2.6	4.0	3.7
Financial assets (1)	**5.5**	**5.7**	**100.0**	**100.0**
Domestic	5.3	4.1	93.4	92.1
liquid assets	6.5	−2.1	58.3	53.6
M2 (2)	2.5	1.9	38.7	37.1
medium and long-term securities	5.2	9.6	30.6	31.8
invstment fund units and other (3)	−8.0	46.2	4.6	6.7
Foreign	7.9	28.5	6.6	7.9

(1) Net of shares. – (2) Percentage changes are calculated from monthly averages. – (3) 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.

Bank of Italy intervention in the money market

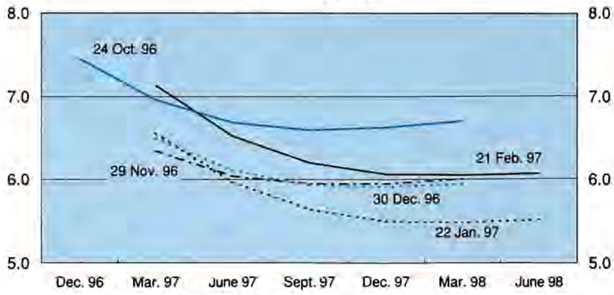
Money market rates gradually declined in the last two months of 1996 and the first two months of 1997. Bank of Italy intervention was carried out against the background of a primarily downward trend in rates across the entire yield curve.

Securities repurchase agreements, which in October and the first twenty days of November had been used to absorb liquidity to offset the creation of monetary base through the Treasury payments account, were again used to supply finance to the banking system in the last week of November. As a result, the banks' net position with the Bank of Italy in respect of temporary operations in securities turned negative, with indebtedness totaling 32.3 trillion lire at the end of the first twenty days of February. At the same date, outstanding currency swaps stood at 15 trillion lire, 9.3 trillion less than at the beginning of November, while recourse to fixed-term advances was nil. Treasury bills were auctioned in the secondary market mainly on the final day of the banks' reserve maintenance period. Other outright operations in the secondary market absorbed a total of 6.3 trillion lire in monetary base.

In November very short-term rates stabilized at around 8 per cent, 0.5 points lower than their level before the reduction in official rates on 23 October (Figure 28). The 3-month interbank rate fell more than 0.5 points below that on overnight funds, in line with the downward trend in yields on futures on 3-month Eurolira deposits (Figure 1). The yield differential between 3-month Eurolira and Euromark deposits, which had narrowed by 0.5 points in the last ten days of October, gradually fell by another 0.5 points during the month to 4 percentage points.

Figure 1

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 twenty days of November substantial monetary base creation by the Treasury was offset by means of temporary sales of securities (Figure 2). The exercise was facilitated by the reduction of the banks' foreign currency swaps with the Bank of Italy and the absorption of liquidity by the sale of the second instalment of ENI shares, amounting to about 7.4 trillion lire. Towards the end of the month, following the Bank of Italy's decision not to renew a maturing currency swap operation and in conjunction with the destruction of monetary base by the Treasury, the banks' position in

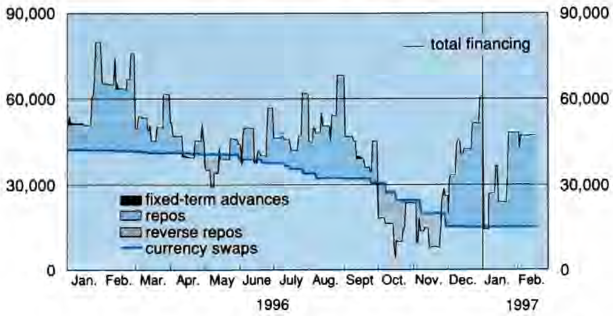
In the second half of the year short-term lending rates declined more slowly than in the past. Firms that borrowed at medium and long term, usually subject to the provision of greater collateral, benefited from a more rapid reduction in the cost of credit; the rate on corporate loans fell by 2.6 percentage points in the course of the year, half a point more than the rate on short-term lending (Figure 35).

The average deposit rate increased in the first few months of 1996 but declined from April onwards; the downward trend intensified following the reduction in official rates. At the end of the year it stood at 5.8 per cent, compared with 6.9 per cent twelve months earlier. Net of withholding tax, the differential between the average yield on Treasury bills and the average rate on current account deposits narrowed from 4.9 to 2.6 percentage points over the same period. Rates on bond issues came down by more than 4 percentage points in the course of the year; in December they stood at 6.8 per cent, close to the gross yield on 3-year benchmark Treasury bonds.

respect of repos turned negative again; at the end of November their indebtedness with the Bank totaled 10.9 trillion lire.

Figure 2

Central bank financing
(stocks, in billions of lire)



Repo rates fell slightly in December to stand at around 7.7 per cent at the auction just before Christmas; a lower rate was recorded for two operations with unusually long maturities (30 and 17 days). Considerable monetary base destruction by the Treasury in the second half of the month caused the banks' indebtedness with the Bank of Italy in respect of repurchase operations to increase to 46 trillion lire at the end of the year, 10.3 trillion more than at the end of 1995. The repo rate declined to 7.1 per cent at the year-end auction owing to incidental factors primarily related to a smaller-than-expected flow of bank payments to the Treasury, which reduced the demand for liquidity.

The overnight rate began to decline again in mid-January. Yields on 3-month Eurolira futures fell by nearly 0.5 points for maturities from the end of the year onwards. On 21 January official rates were reduced by 0.75 points, bringing the discount rate to 6.75 per cent and that on fixed-term advances to 8.25 per cent. At the two subsequent repo auctions allotment rates declined to about 7.3 per cent.

In the last ten days of January and in February repo yields were about 7.4 per cent. The tensions that affected the exchange rate and yields on medium and long-term government securities were also reflected in the yield curve for futures on 3-month Eurolira deposits, with yields on contracts maturing in December 1997 and later rising back to the level recorded in the last two months of 1996.

The government securities sinking fund was used for a number of operations in the last quarter of 1996, giving rise to monetary base creation of about 13.4 trillion lire and reducing the balance on the account to zero at the end of the year. The nature of the operations varied, involving a debt buy-back of 1.5 trillion lire in the second half of October, the redemption of 9 trillion lire of maturing securities in October and November, a buy-back of 700 billion lire of securities held by the Bank of Italy at the end of the year (although this did not create monetary base) and the purchase of 3 trillion lire of STET shares in the second half of December, which the Treasury was permitted to carry out by Decree Law 598 of 21 November 1996 (ratified as Law 662 of 23 December 1996).

The gradualness of the decline in deposit rates contributed to the acceleration in deposit growth in the first half of the year. The twelve-month rate of increase rose to 5.2 per cent in June (Table 24); the changes in tax rates on interest income, which were decided on 21 June, subsequently caused medium and long-term CDs to be replaced by short-term deposits and bonds, especially the latter (see the box "Changes in the tax treatment of interest on bank deposits", *Economic Bulletin*, No. 23, October 1996). Deposits grew by 2.5 per cent in 1996 as a whole; the vigorous recovery in short-term deposits – especially current accounts and short-term CDs – contrasted with a reduction in CDs for terms of 18 months or more, which had increased considerably in 1995. Bond issues, which had remained broadly unchanged the preceding year, grew by 27.3 per cent. The volume of repo transactions with residents declined, whereas it had increased considerably in 1995.

Net of exchange rate adjustments, the banks' net external liabilities declined by 42.5 trillion lire; in

Table 24

Main items in the banks' balance sheets

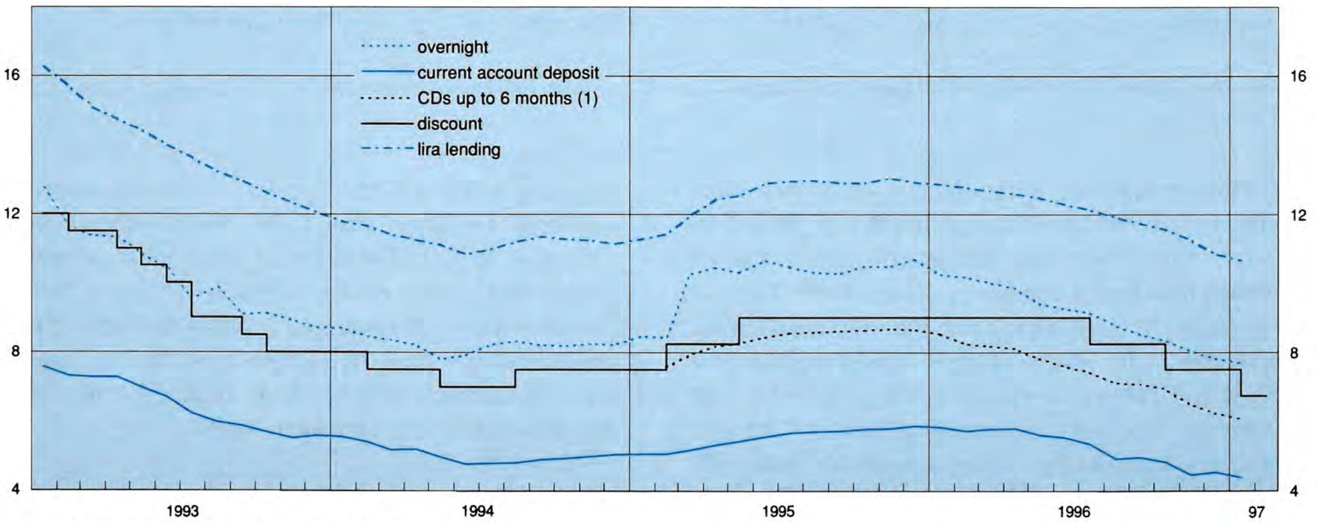
(percentage changes on corresponding period of previous year)

	1994	1995	1996			
			March	June	September	December (1)
Assets						
Securities (2)	10.0	–8.7	–2.3	–0.3	4.2	8.8
government securities (2)	10.6	–7.8	–0.9	3.4	6.3	10.6
Loans (3) (4)	1.0	2.7	2.8	2.7	2.9	2.4
short-term (3) (4)	–4.3	3.2	1.1	1.2	1.6	1.2
medium and long-term (3)	7.3	2.1	4.7	4.4	4.2	3.8
Bad debts	29.8	21.0	14.8	15.8	14.3	11.6
Liabilities						
Domestic deposits and bonds (averages) (5)	2.7	1.4	2.2	5.1	5.8	7.4
deposits (5)	0.6	1.7	2.3	5.2	4.3	2.5
current accounts	3.2	0.6	–2.0	1.0	3.1	5.9
short-term CDs	–19.5	–14.1	–20.2	–17.6	1.0	11.5
medium and long-term CDs (5)	4.0	16.2	21.5	24.4	11.8	–1.7
bonds (5)	11.8	0.1	1.8	4.7	11.8	27.3
Net external liabilities (3)	17.0	–37.9	–23.3	–28.3	–27.5	–39.2
Repos with resident non-banks	–8.4	44.5	32.5	14.7	7.1	–5.7

(1) Provisional. – (2) Net of loan conversion securities. – (3) The foreign currency component is net of exchange rate adjustments. – (4) Including loans converted into securities and settlements of storage agency bills. – (5) For medium and long-term CDs until 1994 and for bonds for the entire period, average of end-month data for the reference month and the previous month.

Figure 34

Short-term bank interest rates



(1) Figures relate to issues made during the period.

Table 25

Bank lending and bad debts by branch of economic activity (1)
(percentages)

	General govern-ment (2)	Finance and insurance		Non-financial enterprises					Households		Total (5)
			Holding companies		Industry excl. construction		Construc-tion	Services	Consumer (4)	Producer	
						Exporting branches (3)					
				12-month percentage changes in lending							
1995 – June	3.1	–9.3	–21.7	5.0	6.5	7.3	1.8	4.9	8.1	2.3	3.0
1995 – December .	3.0	–5.6	–15.9	4.5	7.0	9.0	–3.1	5.1	6.1	5.5	3.4
1996 – June	2.9	0.5	–10.7	1.9	5.3	9.0	–3.5	0.2	3.5	7.1	2.7
1996 – December .	3.0	5.2	–5.7	0.2	3.5	4.7	–4.9	–1.6	3.3	4.6	2.1
				12-month percentage changes in bad debts							
1995 – June	4.8	25.1	33.8	25.8	14.6	18.8	42.2	31.7	29.6	21.9	25.2
1995 – December .	36.5	..	–3.2	22.3	6.8	9.4	53.0	23.8	24.8	20.8	21.3
1996 – June	37.2	6.9	1.1	16.0	2.6	5.1	47.3	13.1	14.3	17.4	15.7
1996 – December .	–31.1	17.3	18.8	10.7	1.3	–0.2	26.9	8.8	15.9	12.8	11.9
				Ratio of bad debts to total lending (6)							
1995 – June	0.8	3.8	4.8	9.3	7.6	7.0	12.5	8.9	9.3	14.9	8.7
1995 – December .	1.1	3.5	4.4	10.1	7.6	7.0	15.9	9.4	9.9	15.8	9.3
1996 – June	1.1	4.1	5.4	10.6	7.5	6.8	18.0	10.1	10.3	16.3	9.8
1996 – December .	0.8	3.9	5.6	11.1	7.6	6.8	20.2	10.3	11.0	16.9	10.1
				Percentage composition of lending							
1995 – December .	9.7	12.1	4.6	49.9	22.5	6.4	7.2	19.2	15.5	12.8	100
1996 – December .	9.8	12.5	4.2	48.8	22.7	6.6	6.7	18.4	15.7	13.2	100

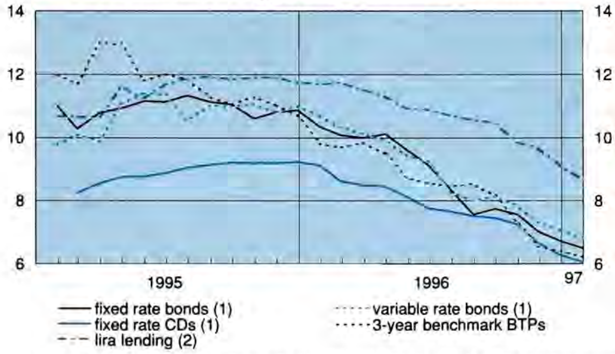
(1) Lending to non-bank residents. The figures for December 1996 are provisional. Lending is net of bad debts. Changes in the foreign currency component are net of exchange rate adjustments. – (2) Conventionally includes several publicly-owned service companies that formerly operated as autonomous government agencies. – (3) Agricultural and industrial machinery, office and data processing machines, electrical goods and supplies, transport equipment and rubber and plastic products. – (4) Includes private social institutions. – (5) Inconsistencies between the figures reported here and those contained in Table 24 are due to discrepancies in statistical reporting. – (6) The denominator includes bad debts.

1995 they had fallen by 58.1 trillion. The decrease was due partly to the reduction of 13.4 trillion in net foreign currency liabilities, more than twice the contraction in foreign currency lending to residents. It also reflected the accumulation of substantial net lira assets vis-à-vis non-residents (51.1 trillion, more than double the figure of twelve months earlier) in connection with the large increase in non-residents' purchases of government securities, primarily Treasury bonds.

The banks increased their securities holdings again last year, after having reduced them considerably in 1995. During the year the proportion of securities in their aggregate portfolio of securities and loans rose by more than 1 percentage point to 26 per cent. Data on the composition of the portfolio show a decrease in the share of Treasury bonds and an increase in that of Treasury credit certificates. With securities prices rising significantly, banks reduced the proportion of Treasury bonds held as financial fixed assets – and hence valued at cost rather than market value – from 40 per cent at the end of 1995 to 29 per cent. Net sales of Treasury bonds were concentrated in two periods of the year: in the second quarter, when securities prices began to rise, and in November and December, when they reached their 1996 peaks.

Figure 35

Medium and long-term bank interest rates



(1) Figures relate to issues during the period. – (2) Average rate on loans disbursed during the month to resident firms.

According to preliminary data, banks' profit margins remained broadly unchanged in 1996, owing largely to the rise in bond prices. Operating profits increased moderately (by 5.3 per cent in relation to the low level of 1995), and slightly faster than the growth of 4.7 per cent in total assets. The continued growth in bad debts and the high level of loan write-offs suggest that overall profitability in 1996 may be not dissimilar to the meagre results of the last two years.

The narrowing of interest rate spreads on short-term operations and the increased proportion of medium and long-term transactions, on which spreads are smaller, led to a decline in net interest income, which fell by 1.5 per cent in nominal terms and diminished in relation to total assets. Gross income, on the other hand, was 4.3 per cent higher than in 1995, thanks to the increase of 61.5 per cent in income from securities trading. The payment of salary increases agreed in the last round of contract renewals in the banking sector caused staff costs to rise by 5.1 per cent; operating costs as a whole increased by 3.7 per cent, as general administrative costs remained more or less unchanged.

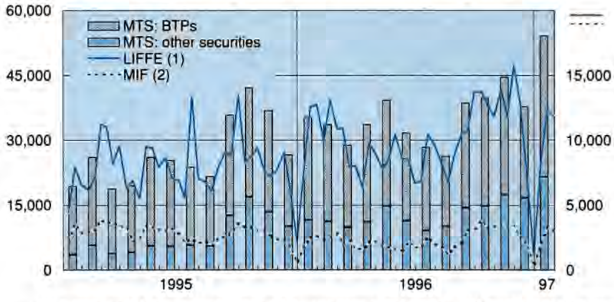
The financial markets

Against a background of falling yields, trading on the screen-based market in government securities (MTS) increased by a further 31 per cent in 1996, after having expanded by 70 per cent the preceding year. Average daily turnover rose from 26.9 to 34.7 trillion lire (Figure 36). The largest increase (60 per cent) was in trading in Treasury credit certificates, boosted by the growth in asset swap operations between the domestic and Eurolira markets, mainly by non-residents. Such arbitrage operations have not yet been affected by the sharp decline in Treasury bill rates (the baseline for determining the coupon on Treasury credit certificates) to a level below LIBOR, a decline due partly to net redemptions by the Treasury. The proportion of trades in Treasury credit certificates increased to 32 per cent of the total in the second half of the year and continued to rise in early 1997. Treasury bond trading benefited particularly strongly from expectations of a fall in interest rates. Competition among dealers intensified after the revision of the criteria for achieving and retaining the status of specialist dealer introduced in 1996 (see the article "Developments in the screen-based market in government securities", *Economic Bulletin*, No. 23, October 1996); the narrowing of bid-offer spreads became more pronounced and extended to less liquid securities, where spreads decreased from an average of 17.4 to 9.0 basis points.

Figure 36

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.

Trading on LIFFE in futures contracts on 10-year Treasury bonds rose by 25 per cent on an annual average basis in 1996. The increase was accompanied by strong growth in spot trades and towards the end of the year was also fueled by operations to hedge the risk of changes in securities prices.

Trading on MIF was down by comparison with 1995; futures contracts on 5 and 10-year securities fell from 26 to 19 per cent of the total transacted on LIFFE and MIF, owing mainly to the virtual absence of trading in the contract on 5-year paper in the first half of the year. The average daily turnover of options on Treasury bonds on the screen-based options market edged upwards to 910 billion lire, in line with the rise in trading in the underlying 10-year future; it slipped slightly as a proportion of trading on LIFFE, to 12 per cent. Trading on MIF picked up in the third quarter, however; investor interest in the domestic market was revived partly by measures being implemented by the Management Committee of MTS to encourage market making.

Trading in futures contracts on 3-month Eurolira deposits on LIFFE increased by 60 per cent, benefiting from the rapid growth in Eurolira bond issues and hedging demand associated with the increase in arbitrage on Treasury credit certificates. Turnover in the corresponding options, in which trading began in May 1995, more than doubled; the increase between the last seven months of 1995 and the same period of 1996 was 70 per cent.

In 1996 the policy regarding issues of government securities was aimed at keeping both the duration and average residual maturity of public debt stable; the former was 1 year and 230 days and the latter 3 years and 4 days at the end of December. By contrast, the average maturity of new issues, excluding Treasury bills, lengthened slightly to just over 5 years and 6 months. Fixed rate issues were concentrated between 2 and 5 years, the segment of the yield curve where the cost is lowest for the issuer, while the proportion of Treasury credit certificates in the total debt remained unchanged (Table 26). Maturing Treasury bills were partly replaced by 2-year zero-coupon Treasury certificates, net issues of which amounted to 51.5 trillion lire, compared with 38.3 trillion in 1995. At the beginning of this year 30-year Treasury bonds were issued for the first time since March 1995 and a new 18-month zero-coupon certificate was introduced.

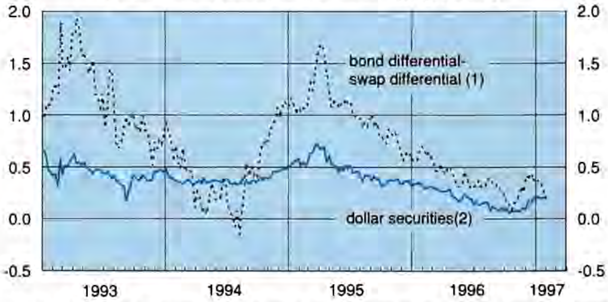
Net foreign currency fund-raising by the Treasury on international markets amounted to 14.5 trillion lire, not far different from the high level of 1995; as in the previous year, issues were predominantly in US dollars and yen. By contrast, there were net redemptions of ecu-denominated Treasury bills and credit certificates amounting to 4.7 trillion lire. The Treasury carried out six buybacks of government securities involving 28 issues with a total nominal value of 4.1 trillion.

The announcement of the terms of the measure abolishing the 12.5 per cent withholding tax for firms and foreign investors, which came into effect at the beginning of 1997, contributed marginally to the reduction in the 10-year bond yield differential with Germany from the beginning of 1996 onwards. At the 10-year maturity the yield differential between securities and swap contracts traded on the Eurolira market declined by about 25 basis points and that between Italy's foreign currency securities and those of other prime sovereign issuers came down by about 10 basis points to just under 20 basis points (Figure 37).

Figure 37

Yield differentials between government securities and securities of other issuers

(end-week data, in percentage points)



(1) Difference between the yield on 10-year Treasury bonds and Bunds less the differential between 10-year lira and mark swap rates. – (2) Differential between the yield on the Republic of Italy issue maturing on 02.08.01 and the World Bank issue maturing on 03.01.01.

Long-term interest rates declined sharply in the latter part of the year, despite the fact that the expected volatility of 10-year securities implicit in options prices had in the meantime risen significantly and approached the high levels of the preceding year. The volatility of lira securities decreased again towards the end of the year, whereas that of mark securities began to rise; this convergence became more pronounced at the beginning of 1997 (Figure 38). The volatility of securities generally mirrored that of

The recent performance of the Italian stock exchange by international comparison

Between the beginning of 1995 and the end of 1996 the stock markets of the main industrial countries recorded very large price rises, ranging from 23.1 per cent in France, 34.4 per cent in the United Kingdom and 37.1 per cent in Germany to 61.3 per cent in the United States. The exceptions were the Japanese market, where prices fell by 3.0 per cent, and the Italian exchange, where they increased by only 3.7 per cent (Figure 1).

Figure 1

Indices of share prices on the main international exchange

(31 December 1994 = 100)

Source: Reuters.

The performance of the Italian market was affected by the combination of persistently weak economic activity and relatively high, albeit declining, interest rates. In addition, poor profitability in the banking sector depressed the prices of bank shares, which alone account for 15 per cent of total stock market capitalization.

Share prices continued to rise rapidly in international markets in January 1997. In Italy they surged by 19 per cent, benefiting from the reduction in real interest rates and the inflow of liquidity, part of which was channeled through investment funds specializing in equities. Only in Japan did prices decline.

The performance of international share markets also exhibits considerable differences over longer time-spans. Between the beginning of 1973 and the end of 1996 the share price indices of the leading countries increased by multiples ranging from a minimum of around 6 to a maximum of 47, corresponding to average annual yields of 9 and 18 per cent respectively. Deflated with the average change in the consumer price index for the period, yields ranged from 3.4 per cent in Italy to 10.3 per cent in the United Kingdom (Table 1).

Table 1

Average annual nominal and real yields of the main stock exchanges between 1973 and 1996

(percentages)

	United States	Japan	Germany	United Kingdom	France	Italy
Nominal .	13.5	9.0	10.7	18.3	14.8	13.9
Real	9.0	6.7	9.8	10.3	9.1	3.4

Sources: Datastream and national statistics.

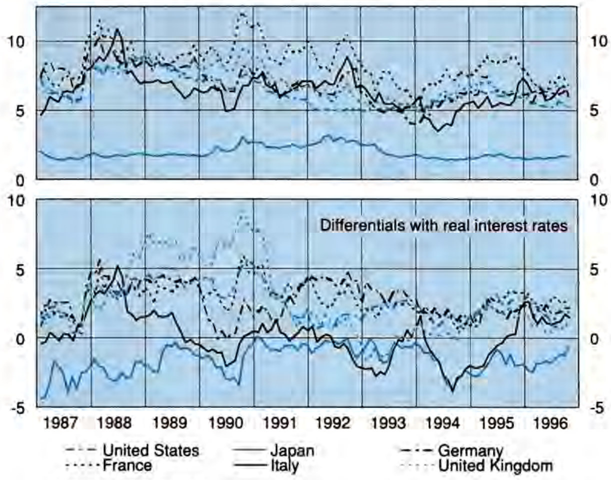
Theory holds that the performance of share prices is linked to the behaviour of the relevant fundamental variables, chiefly corporate earnings and long-term interest rates. In particular, a firm's inverse price/earnings ratio should be in line with the real rate on long-term securities, after allowing for a premium to compensate the investor for the greater riskiness of

short-term interest rates as deduced from the prices of options on 3-month Eurolira deposits, which also rose considerably towards the end of 1996. At the beginning of this year the volatility of Italian short-term interest rates continued to decline, albeit subject to large fluctuations.

The prospects for lower inflation in Italy meant that demand for long-term lira securities also remained high in the Euromarket, despite the decline in nominal interest rates. In 1996 issues of Eurolira bonds amounted to 37.5 trillion lire, more than twice the figure for 1995. In the second half of the year they *shares. In the last fifteen years this relationship is confirmed by the strong positive correlation between the two variables in the six countries considered.*

Figure 2

Inverse price/earnings ratios
(percentages and percentage points)



Source: Datastream.

Over shorter time-spans, however, the relationship may be significantly altered by random factors that decouple the behaviour of share prices from that of the fundamental variables, although eventually the link tends to be re-established: periods characterized by divergence between inverse price/earnings ratios and long-term real rates have been followed by rapid adjustments in share prices. In the United States, this happened in the periods leading up to October 1987, October 1990 and March 1994, when share prices fell sharply. Similar occurrences can also be found in the United Kingdom.

The relationship between the inverse price/earnings ratio and real interest rates also differs considerably from country to country: between 1987 and 1996 the differential between the two variables averaged 1.5 percentage points for the six countries as a group, but ranged from –1.7 per cent in Japan to 2.8 per cent in France (Figure 2). These differences reflect institutional features, such as the accounting and tax rules applied in determining profit, the incidence of cross shareholding and the degree of market liquidity; the last-mentioned factor influences price volatility and hence the risk premium demanded by investors. In the case of the Italian stock market, the greater volatility of share prices is attributable not only to low market capitalization and thus liquidity, but also to the high concentration of listed companies in several sectors, such as banking and insurance, which limits the scope for diversifying equity investment (Table 2).

Table 2

Percentage weight of selected sectors in the share price indices of the leading countries (1)

	United States	Japan	Germany	United Kingdom	France	Italy
Banking .	8.1	19.4	12.1	11.9	8.6	14.7
Insurance	3.1	1.4	11.4	2.1	5.8	14.1
Industry .	27.7	43.2	45.0	16.1	28.0	15.7

(1) The figures are calculated on the basis of the sample of firms selected by Datastream.

came to 25 trillion and were concentrated mainly in the period when interest rates were falling. The proportion of issues for terms of more than ten years and discounted securities was higher than in 1995.

The rise in the prices of government securities contributed to the strong growth in net purchases by non-resident investors; in 1996, excluding Euromarket issues, net purchases by foreigners amounted to 79 trillion lire, compared with 33.9 trillion in 1995, with almost 70 per cent consisting of Treasury bonds. Investment funds and banks also made substantial purchases of government securities

Table 26

Government securities: issues and composition of stocks

	1990	1993	1994	1995	1996
			Gross issues (1) *(billions of lire)*		
BOTs	559,196	737,345	679,500	714,250	665,023
CTZs	–	–	–	47,217	59,924
CCTs (2)	75,538	46,000	60,767	121,899	105,945
BTPs	74,460	145,452	167,574	118,484	148,917
CTOs and other lira securities	31,743	9,541	5,594	3,165	10,395
CTEs and BTEs	14,125	19,984	17,665	6,769	3,913
Republic of Italy issues	7,570	27,292	18,115	18,769	17,870
Total (3)	**762,632**	**985,614**	**949,215**	**1,030,553**	**1,011,987**
			Net issues (1) *(billions of lire)*		
BOTs	44,640	6,480	19,155	–1,500	–27,440
CTZs	–	–	–	38,299	51,515
CCTs (2)	54,214	10,698	37,629	–29,781	30,460
BTPs	–13,347	117,485	104,458	95,925	57,652
CTOs and other lira securities	26,564	658	–6,378	–7,581	–9,788
CTEs and BTEs	3,029	–1,394	–4,708	–8,163	–4,734
Republic of Italy issues	6,414	18,748	16,059	16,927	14,480
Total (3)	**121,515**	**152,675**	**166,216**	**104,125**	**112,145**
			Stocks (1) *(percentage composition)*		
BOTs	*31.5*	*26.4*	*24.7*	*23.0*	*20.2*
CTZs	–	–	–	*2.6*	*5.6*
CCTs (2)	*40.5*	*34.0*	*32.7*	*28.9*	*28.8*
BTPs	*15.6*	*27.1*	*30.9*	*34.6*	*35.6*
CTOs and other lira securities	*6.2*	*5.5*	*4.5*	*3.8*	*3.1*
CTEs and BTEs	*4.5*	*3.8*	*3.3*	*2.7*	*2.2*
Republic of Italy issues	*1.7*	*3.2*	*3.8*	*4.4*	*4.5*
Total (3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memorandum item:					
Total, in billions of lire	**1,043,663**	**1,493,659**	**1,671,699**	**1,793,177**	**1,902,317**

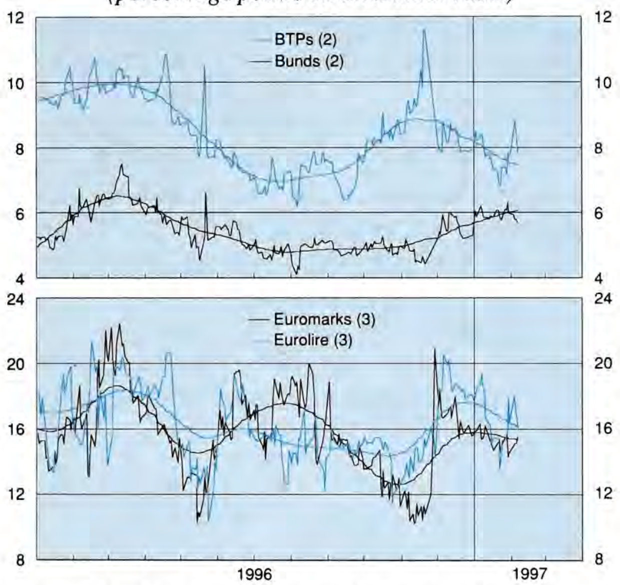
(1) The securities issued in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy (76,206 billion lire) and those issued in December 1993 to finance the Treasury payments account (26,000 billion lire) are not included. Gross issues at nominal value. Rounding may cause discrepancies in the totals. – (2) Variable-rate only. – (3) Includes Republic of Italy issues.

(56.4 and 29.3 trillion lire respectively). Purchases by banks differed from those by non-resident investors in that a larger proportion consisted of indexed securities and paper with a relatively short duration. Treasury bonds made up 38 per cent of purchases by investment funds. Banks made net sales of 7.9 trillion of such paper; very large purchases in the first quarter gave way to sales as prices rose. The Bank of Italy and the non-state sector – households, enterprises, insurance companies and pension institutions – made net disposals of securities amounting to 34.1 and 32.9 trillion respectively.

Figure 38

Expected volatility of Treasury bonds, Bunds and Eurocurrency rates (1)

(percentage points on an annual basis)



(1) The trend lines were generated using the Hodrick and Prescott method. – (2) Volatility implicit in the prices of options on 10-year Treasury bond futures and Bund futures quoted on LIFFE. – (3) Volatility implicit in the prices of options on 3-month Eurolira and Euromark futures quoted on LIFFE.

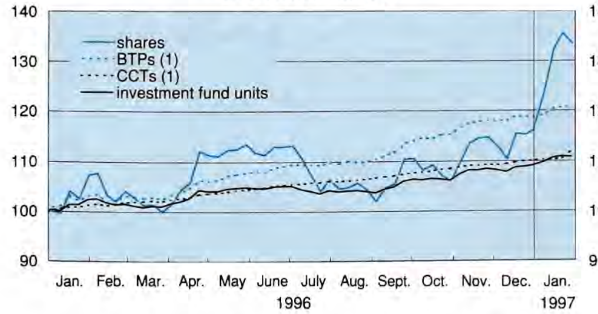
The marked decline in interest rates in the second half of 1996 fostered a recovery in share prices. The share price index rose by 11.7 per cent in the course of the year, with all of the increase occurring in the last four months; the trend continued even more strongly in January 1997, when share prices rose by 19 per cent (see the box "The recent performance of the Italian stock exchange by international comparison"). The rise in the equity market occurred somewhat later in Italy than in other continental European countries, where indices rose more evenly during the year, in parallel with developments in the United States. As in 1995, there were marked differences between sectors. Shares of companies in the services sector, which includes public utilities, and in industry, which includes the telecommunications sector, significantly outperformed the general index, rising by 44 and 19 per cent respectively (Figure 39). By contrast, banking and financial shares remained almost unchanged, while insurance shares declined by 16 per cent. The fluctuations in share prices in the first half of the year were among the factors that curbed share issues by quoted companies, which fell from 8.5 trillion lire in 1995 to 5.5 trillion in 1996; operations were bunched in the last quarter. Fourteen new companies, mostly in the insurance, banking and services sectors, were added to the stock exchange list during the year.

Figure 39

Indices of total return

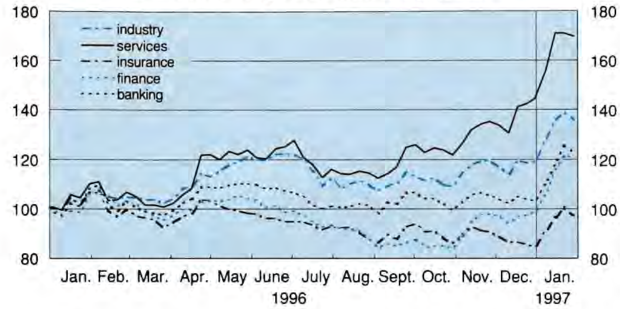
(end-of-week data; 29 December 1995=100)

Securities market



(1) Net of 12.5 per cent withholding tax.

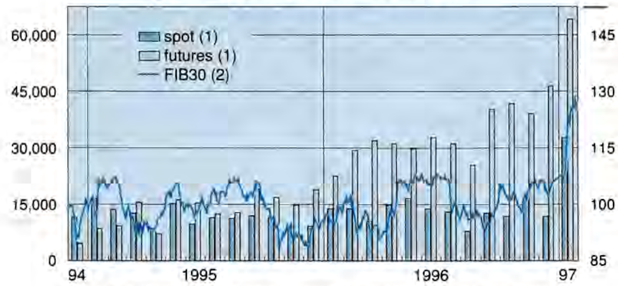
Stock market performance by sector



Trading in equity futures and options increased rapidly in the second half of the year, whereas spot trading stagnated at a monthly average of 13 trillion lire. In the fourth quarter the average daily turnover in futures was 40 per cent higher than the average for the first nine months of the year; in the same period the ratio of futures to spot trades rose from 2.4:1 to 3:1 (Figure 40). Trading in options on the MIB30 index, which began in November 1995, also increased considerably in the fourth quarter, when the volume of the most common contracts, those relating to the at-the-money option on the future, was more than three times the average for the first nine months of the year.

Figure 40

Italian stock exchange: spot and futures share market



(1) Monthly turnover in billions of lire. – (2) Index, 30 December 1994=100.

Net subscriptions of investment fund units amounted to 58.2 trillion in 1996, the highest level since 1984; in 1995 there had been net redemptions of 10.5 trillion. Assets under management rose by almost 71 trillion to 197.6 trillion lire. The inflow was entirely into bond funds, which had net subscriptions of nearly 65 trillion, whereas equity and mixed funds recorded net redemptions of 3.9 and 2.7 trillion. Money market funds, most of which are controlled by banks, received more than 75 per cent of the subscriptions to non-equity funds. In connection with the surge in Italian share prices at the end of the year, equity funds showed net subscriptions for the first time in almost two years. There were no significant differences in average yields between the three types of fund: 9.4 per cent in the case of both bond and mixed funds and 8.2 per cent in that of equity funds. The returns were lower than the corresponding yields in the Italian financial market, partly owing to the below-average performance of funds specializing in foreign currency securities, the yield on which was adversely affected by the appreciation of the lira.

The net inflow of funds to portfolio management services amounted to 35.2 trillion lire in the first nine months of 1996, compared with an outflow of 1.9 trillion in the same period of 1995 (Table a38). In the course of the year the value of assets under management rose by more than 47 trillion lire to 239.7 trillion at the end of September. Funds entrusted to banks increased by 25 per cent and those managed by securities investment firms by 30 per cent.

Short-term economic prospects, prices and monetary policy

Growth in the industrial countries averaged 2.4 per cent in 1996, compared with 2.0 per cent in 1995. The acceleration reflected the strengthening of economic activity in the United States and the recovery in Japan, though the latter was concentrated in the first half of the year. In the European Union, by contrast, the rate of growth slackened from 2.5 to 1.6 per cent; the slowdown was particularly marked in Germany, France and especially Italy, with the aggregate output of these three countries rising by little more than 1 per cent. The sluggishness of growth in Europe reflected the weakness of domestic demand, which was affected by the decline in employment and restrictive fiscal policies aimed at speeding up the adjustment of the public finances; there was no material improvement in the climate of confidence among households and firms.

World trade in goods and services expanded by 6.1 per cent; imports by the other EU countries, which account for more than half of Italy's total exports, rose by less than 4 per cent. The dollar prices of non-oil raw materials remained broadly unchanged, but those of oil increased by almost 19 per cent. The currency markets displayed a high degree of stability and there were no significant changes in the balance-of-payments positions of the leading countries. Inflation remained subdued in the industrial countries as a whole, allowing an easing of monetary policies.

In Italy, according to Isco's preliminary estimates, GDP grew by 0.8 per cent in 1996, compared with 3.0 per cent in 1995. Industrial production, which had risen by 5.4 per cent in 1995, fell by 1.7 per cent (by 2.8 per cent after adjustment for the number of working days); the closing months of the year brought no signs of improvement. The economy's overall growth was due to a slight increase in the output of the services and construction sectors.

The marked weakness of private consumption, which rose by 0.7 per cent, was compounded by a sharp slowdown in gross fixed investment due to the unpromising outlook for demand and the diminishing effects of tax incentives, and above all by the waning of the export sector's exceptional contribution to growth. Sales abroad were affected not only by the low level of activity in European markets but also by the appreciation of the lira.

The modest growth in output was accompanied by disappointing progress on the employment front, which in recent years has been the most worrying aspect of the economy's performance, both in Italy and in Europe in general. The total number of persons in employment increased only marginally in 1996; since the labour force expanded, the unemployment rate rose to an annual average of 12.1 per cent nationwide and 21.7 per cent in the South. The unemployment rate in the EU as a whole, including Italy, averaged 11.4 per cent.

The combination of the decline in the volume of Italian imports, the stagnation of exports and the large improvement in Italy's terms of trade as a result of the appreciation of the lira produced a further increase in the current account surplus, which is estimated to have exceeded 3.5 per cent of GDP in 1996. Correspondingly, Italy's net foreign debt fell to 3.6 per cent of GDP.

Measured by the cost-of-living index, inflation fell to an average annual rate of 3.9 per cent, compared with 5.4 per cent in 1995. The slowdown during the year was more pronounced: the annualized monthly rise in the index came down from around 4 per cent at the beginning of the year to below 2 per cent in the second half. The differential between the twelve-month rate of increase in consumer prices in Italy and the EU average declined from 2.3 percentage points in the first quarter of 1996 to 0.5 points in December. These were the results which the restrictive monetary policy stance was intended to achieve; adopted in mid-1994, it succeeded in reducing inflation expectations, thereby aiding the

The implementing provisions of the 1997 budget

Parliament's approval of the budget measures, the promulgation of the year-end fiscal decree and the application of the decisions adopted by Eurostat on a number of accounting changes, completed the definition of the budget adjustment for 1997.

The overall adjustment of around 62.5 trillion lire originally announced by the Government has been confirmed, but the mix of measures has been modified. The extent of the rebalancing differs between the state sector and general government (as defined in the national accounts). The analysis that follows refers to the latter, which is the aggregate considered for the EU excessive deficit procedure.

The updating of the estimates published in the Forecasting and Planning Report for 1997 shows that the scaling-back of the measures originally proposed has been offset by an increase in the scope of the selective measures to curb net borrowing, consisting of changes in the method of accounting for some budget items. These changes, whose effects amount to 15.8 trillion lire compared with the original figure of 12.5 trillion, concern the treatment of interest on Post Office savings, the expenditure arising from decisions by the Constitutional Court concerning pensions and some other items mainly relating to transfers to the State Railways.

The Government's decision not to effect the 3.5 trillion lire of tax credit refunds in securities originally planned for 1997 will also benefit the public finances. It will produce a reduction of the same size in general government net borrowing by reducing expenditure on capital account, but it will not affect the state sector borrowing requirement since this is computed net of such transactions.

The other measures to reduce net borrowing are expected to raise 27.8 trillion lire of additional revenue, compared with a forecast of 27.3 trillion in September – with the special "Europe" levy contributing 11.5 instead of 12.5 trillion – and produce 18.5 trillion of expenditure savings, instead of 22.7 trillion.

Effects of the budget on the state sector borrowing requirement and general government net borrowing
(billions of lire; based on official estimates)

	State sector	General govt.
INCREASES IN REVENUE	**25,240**	**27,770**
Direct taxes	**7,900**	**7,900**
Deductibility of medical expenses	650	650
Determination of employee and self-employed income	350	350
Determination of corporate income	4,600	4,600
Failure to offset fiscal drag	1,200	1,200
Delegated powers and other measures	1,100	1,100
Indirect taxes	**5,840**	**5,840**
Lotteries	1,000	1,000
VAT	840	840
Bringing forward payment of excise duties	3,000	3,000
Tobacco products	500	500
Other	500	500
Special "Europe" levy	**11,500**	**11,500**
Income surtax	5,500	5,500
Payment on account of tax on severance pay	3,500	3,500
Speeding up collection of taxes	2,500	2,500
Social contributions	–	**2,530**
REDUCTIONS IN EXPENDITURE	**24,840**	**18,540**
Social security	**5,180**	**500**
Deferment of disbursement of severance pay	810	810
Disincentives for early retirement of military personnel	450	450
Harmonization of arrangements for public employees	2,480	–
Contributions condonation scheme	2,200	–
Increases in family allowances	–1,200	–1,200
Other	440	440
Health services	**1,200**	**1,200**
Public employment	**1,500**	**1,500**
Part-time, reduced overtime, freeze on recruitment	800	800
Schools and defence	700	700
Transfers to municipalities and provinces	**1,840**	**1,840**
Public enterprises	**5,000**	**5,000**
State Railways (FS)	4,300	4,300
Post Office and other	700	700
Other current and capital expenditure	**6,520**	**8,500**
Measures to foster employment	–2,150	–
Rescheduling of EU investments	1,000	1,000
Other	7,670	7,500
Financial items	**3,600**	–
Extension centralized Treasury accounts system	3,000	–
Rescheduling of capital contributions to FS	1,100	–
Investments in banks	–500	–
ACCOUNTING CHANGES	**11,590**	**15,790**
Interest on Post Office savings	5,900	5,900
Reclassification of FS and other debt	5,690	5,690
Constitutional Court decisions	–	4,200
TOTAL	**61,670**	**62,100**

The budget measures are contained in the Finance Law (Law 663 of 23 December 1996), the accompanying legislation (Law 662 of 23 December 1996) and the year-end fiscal decree (Decree Law 669 of 31 December 1996). Another three Government bills currently before Parliament also relate to the budget, although they will not produce immediate benefits for the public finances. Their purpose is to increase administrative decentralization, streamline the legal framework governing municipalities and provinces and revise the accounting structure of the budget.

Current taxes. *– Parliament slightly increased the amount of additional current tax receipts from 12.4 to 13.7 trillion lire, primarily as a result of the decision to offset the effects of fiscal drag only in 1996 for recipients of smaller pensions.*

Some of the changes introduced by Parliament concerned the delegated powers that the Government had requested to reform various aspects of the tax system. In particular, the request for such powers with respect to the accounting requirements for small business taxpayers was withdrawn. Marginal changes were made to the provisions on the winding up of shell companies, the preferential treatment of dwellings for the purposes of the municipal tax on buildings (ICI) and the lotto lottery.

At the end of 1996 Decree Law 669 implemented the statutory commitment to raise the 4.3 trillion lire of additional revenue needed to complete the adjustment for 1997. Most of this revenue will come from indirect taxes. More than one third of the increase in gross receipts reflects the bringing-forward of payment dates for the specific taxes on mineral oils, methane and electricity, and will therefore accrue only this year. The decree provided for a two-year extension of the increase of 18.8 lire per litre in the excise tax on unleaded petrol, originally introduced for one year to finance Italy's participation in the peace-keeping mission in Bosnia. The time limit for invoking the conciliation procedure for the 1994 fiscal year, which had produced negligible receipts in 1996, was extended to 30 April by a parliamentary amendment. The VAT rates on beef and extraordinary maintenance of residential buildings were temporarily reduced from 16 and 19 per cent respectively to 10 per cent in order to stimulate demand.

Measures producing lasting effects included bringing the VAT rates on methane distributed in Southern Italy into line with those in the rest of the country and raising the VAT rates on pharmaceutical products chargeable to the health service from 4 to 10 per cent. The related increase in the allocation to the health fund will be financed by the one-off increase in the regions' share of the excise tax on petrol produced by bringing forward the payment dates. Significant additional revenue is expected from the steps taken to curb the evasion of VAT in the scrap metal industry. Overall, the VAT measures should raise several hundred billion lire of additional revenue. Another 500 billion will come from an administrative measure concerning the sales tax on tobacco products.

The special "Europe" levy. *– This consists of three measures that will apply this year only and are designed to raise 11.5 trillion lire of additional revenue to help meet the criteria for participation in stage three of EMU from the outset.*

The special levy on personal incomes, which is expected to yield 5.5 trillion lire, takes the form of a temporary surtax on taxable income; the rate structure is highly progressive and the surtax will not be a deductible expense. Companies are required to make payments on account from the funds they have set aside against severance pay liabilities; these payments are expected to amount to 3.5 trillion lire and will be deductible from the withholding tax to be paid when severance pay is disbursed. The third measure is designed to speed up the collection of taxes that have already been assessed but not yet paid; it applies to VAT, direct taxes and health service contributions by the self-employed and is expected to yield an additional 2.5 trillion lire.

Social contributions. *– Law 662 provides for a new condonation scheme and for contributors who had already taken advantage of earlier schemes to* *make their payments according to the new time limits. Receipts are expected to amount to 2.2 trillion lire in 1997. Another 2.1 trillion are expected to come from the harmonization of public employees' contributions. The estimated reduction in the budget deficit as a result of this measure is based on the assumption that public bodies will offset the increase in staff costs by making corresponding reductions in other expenditure.*

The rate relief granted to companies in disadvantaged areas of the country has been extended for one year, but reduced to six percentage points. The cost of this measure is estimated at 2.15 trillion lire.

***Expenditure.** – The cuts in general government expenditure appear to be about 4.2 trillion lire less than estimated last October, mainly as a result of changes in accounting methods. In particular, the savings deriving from the harmonization of public employees' contributions have been reclassified as increases in revenue. Furthermore, the effects of rescheduling the allocations to the equity capital of the State Railways and of extending the system of centralized Treasury accounts to municipalities with fewer than 5,000 inhabitants have been included among financial items, with the result that net borrowing is unaffected. The increase in family allowances, which was introduced by Parliament, has been offset by not implementing the planned increase in tax credits, which had been intended to offset fiscal drag.*

In order to tighten control over disbursements, the year-end decree set limits on the spending commitments and cash outlays of a series of public bodies, although their effects on the budget deficit were not quantified. In particular, the power to make spending commitments for non-compulsory items has been restricted to 10 per cent of the corresponding annual allocation in any two-month period. Public bodies with centralized Treasury accounts (except for local authorities, some social security institutions, bodies within the national health service, and to some extent the Post Office) may not withdraw more than 90 per cent of their total withdrawals in 1996. Budget transfers to municipalities and provinces have been suspended until the balances on their centralized Treasury accounts fall to 20 per cent of the amounts outstanding at the end of 1996. The Government intends to introduce control procedures to ensure that the monthly growth in the final spending of local authorities does not exceed the target rate of inflation. If the limits are exceeded, it may resort to statutory measures.

Similar action has been taken for municipalities with fewer than 5,000 inhabitants, which were brought into the system of centralized Treasury accounts at the beginning of the year. Budget transfers have been suspended until the balances on their treasury accounts at the end of 1996 have been exhausted.

***The accounting changes that reduce net borrowing.** – As mentioned above, the methodological correctness of the changes in the accounting treatment of certain budgetary items has recently been confirmed by Eurostat. The overall effect of the changes is to reduce general government net borrowing by 15.8 trillion lire, made up as follows: a) 5.9 trillion as a result of accounting for interest on Post Office savings on a cash instead of an accruals basis; b) 5.7 trillion owing to the reclassification of loan repayment instalments, primarily as a result of the attribution to the Treasury of loans contracted by the State Railways, which were already serviced through budget transfers; the reduction in the latter is only offset in part by the resulting increase in interest payments since the redemptions of principal are considered as serving to meet the financial borrowing requirement and accordingly do not affect net borrowing; and c) 4.2 trillion as a result of attributing expenditure to bring pensions up to the minimum to the years in which the Constitutional Court handed down the judgements that gave rise to the payments.*

recovery of the lira, which resumed full participation in the Exchange Rate Mechanism in November. The last time inflation in Italy was as low as at the end of 1996 was in the sixties.

The main task for economic policy now lies in the field of public finance. The improvement in the public accounts that began in the nineties came to a temporary halt last year and the targets were exceeded by a significant margin. General government net borrowing, calculated by the Treasury in accordance with the accounting rules recently established at EU level, rose in nominal terms to 127.5 trillion lire; it diminished a little in relation to GDP, to 6.8 per cent. The decline in interest payments only partly compensated for the contraction in the primary surplus from 4.1 per cent of GDP in 1995 to 3.6 per cent last year.

Economic prospects and fiscal policy

According to the latest OECD estimates, output in the industrial countries should grow by 2.4 per cent in 1997, the same as last year, but differences in growth rates in the leading economies will be markedly smaller. While output in the United States is expected to increase by 2.2 per cent, the rate of growth in the European Union should rise from 1.6 to 2.4 per cent as a result of the recovery in domestic demand, especially investment, and the strengthening of foreign demand. By contrast, growth in Japan is expected to slow sharply to 1.6 per cent after the strong but brief recovery in 1996. Thanks to sustained expansion in the developing countries, especially in Asia, world trade should grow by 6.7 per cent. Balance-of-payments disequilibria in the main OECD areas are expected to decrease slightly.

With labour costs rising slowly and the world market prices of primary products and crude oil only slightly above their 1996 average, inflation in the industrial countries should remain low, allowing a continuation of the generally relaxed monetary policy stance. Fiscal policies are likely to remain stringent, especially in the EU countries, and Japan is expected to adopt a more restrictive stance during the year.

The world economic situation presents areas of uncertainty that are of special importance to the Italian economy, notably the growth rates forecast for Italy's European partners, and Germany in particular. The European countries that are likely to participate in monetary union are simultaneously implementing severe fiscal adjustment measures; these could weaken the recovery in consumption and investment that began in the second half of 1996 and which must continue and spread in 1997 if growth in the region as a whole is to reach the forecast of 2.4 per cent.

In fact, the most recent confidence indicators in France and Germany signal a continued climate of uncertainty, primarily on account of the adverse employment situation, which has been confirmed by early figures for 1997. The continental European countries need to take incisive measures to increase labour flexibility, reform social security systems and improve education and professional training if they are to achieve a significant increase in employment over the medium term.

In its Forecasting and Planning Report published last September the Italian Government revised its targets for the public finances, bringing forward to 1997 the achievement of a ratio of general government net borrowing to GDP of 3 per cent, in line with the criterion laid down in the Maastricht Treaty. To that end, the Report outlines corrective measures totaling 62.5 trillion lire, compared with the 37.5 trillion initially proposed in the Economic and Financial Planning Document. The announcement of the more stringent measures helped boost the confidence of the financial markets, significantly accentuating the decline in long-term yields.

Parliament modified the composition of the adjustment measures when approving the 1997 budget but made no significant changes in the expected impact on the public finances. Accounting changes now figure more prominently in the correction, with their estimated contribution to reducing the deficit rising from 12.5 trillion lire to almost 16 trillion.

The adjustment measures will permit a significant reduction in the deficit in 1997. Nevertheless, the objective may prove difficult to achieve on account of a number of factors: output may grow more slowly than assumed in the Government estimates, the impact of the measures – especially those designed to reduce spending by non-state public bodies and bring forward tax and contribution receipts – may be smaller than officially estimated, and the overshooting of the deficit target for 1996 may have consequences for this year's results.

In compensation, interest payments will be smaller than expected, as recent months have seen a more rapid fall in interest rates than had been forecast in September. Nevertheless, the improvement will not fully offset the adverse impact of the above-mentioned factors. The ratio of general government net borrowing to GDP may therefore be higher than the target. On the basis of current figures, and in the absence of further adjustment measures, the ratio may be reduced by no more than 3 percentage points.

The Italian economy may grow only a little faster in 1997 than it did last year. Given the limited contribution expected to come from exports, any acceleration will depend on stronger growth in household consumption. The impact on employment is likely to be small. The current account surplus may increase further: the reduction in the deficit on investment income associated with the continued improvement in Italy's net external position and the fall in interest rates should more than offset any decline in the trade surplus.

Prices and monetary policy

In recent months monetary policy has allowed the decline in long-term yields made possible by the significant slowdown in prices and the improvement in inflation expectations to be accompanied by a gradual reduction in short-term interest rates. The official discount rate and the rate on fixed-term advances were lowered to 6.75 and 8.25 per cent on 22 January.

With inflation expectations steadily improving, the cost-of-living index rose at a seasonally adjusted annual rate of less than 2 per cent in the three months ending in February.

Increases in firms' costs, especially labour costs, are exerting upward pressure on prices. While they are consistent with the system of industrial relations established by the agreement of 1993 and moderated by the heightened credibility of official inflation targets, the wage settlements embodied in the renewal of the main national labour contracts and the company-level agreements reached to date will lead to significant increases in labour costs in the months ahead. However, they are compatible with an annual inflation rate of less than 3 per cent, assuming a modest narrowing of firms' profit margins.

The appreciation of the dollar in recent weeks and the corresponding nominal effective depreciation of the lira virtually preclude any further improvement in the terms of trade this year, a factor which contributed greatly to curbing the rise in prices from the fourth quarter of 1995 onwards. To achieve the inflation target, it will be necessary to maintain a stable exchange rate.

Monetary policy continues to be directed to ensuring that the reduction in inflation is durable, by fostering an improvement in expectations and seeking to forestall risks. Money market yields are still high, despite having declined significantly in the last year. The short-term differential vis-à-vis Germany is nearly 4 percentage points and the long-term differential just over 1.5 points. Short-term yields will also decline as disinflation becomes permanent. To this end, substantial progress in the structural adjustment of the public finances is essential.

The growth in the M2 money supply, net of CDs for terms of eighteen months or more, should not exceed 5 per cent in 1997, in line with the forecast growth in nominal GDP. Money supply growth accelerated sharply in the last four months of 1996, owing in part to the delayed response of bank deposit rates to the decline in market rates. The expansion should be curbed over the next few months by the reduction in deposit rates that has now begun.

Based on information available at 25 February.

Articles

The financial structure of six leading industrial countries: a comparison based on their financial accounts

1. Introduction

The development and characteristics of the financial system influence economic growth by affecting the incentives to save, the efficiency of the allocation of capital and the cost of financial intermediation. In order to analyze these effects systematically, it is necessary to compare countries with financial systems having different characteristics. Such comparisons are nonetheless extremely complex owing to the lack of homogeneous, and hence truly comparable, data.

This article reports on a preliminary study carried out on the basis of the financial accounts of the OECD countries. Even though some precautions were necessary and the data had to be supplemented with others of a more disaggregated nature, these accounts make it possible to highlight some of the characteristics of the various financial systems as regards composition by sector and type of instrument and the main changes that have occurred in recent years.

The analysis, which covers six leading industrial countries (France, Germany, Japan, Italy, the United Kingdom and the United States) and the period 1980-94, shows how the differences in financial deepening of the economies considered are linked to the development of their financial intermediaries, which is influenced in turn by a number of structural factors. There remains the basic distinction between the financial structures of "market-oriented" and "bank-oriented" countries, as regards both the most active types of intermediary and the most widespread financial instruments. Where there are signs of convergence, they are not particularly strong. France and Italy, which could be counted in the second group at the beginning of the period, developed some distinctive features in the fifteen years considered. In Italy, general government financial liabilities (primarily government securities) acquired directly by households grew significantly in importance, with a consequent disintermediation of the banking system. In France, the rapid development of financial intermediaries and markets brought the country closer to those with a market orientation.

2. Methodological issues

The financial accounts published by the OECD[1] constitute the main source of information on the stocks of financial assets and liabilities and were used to obtain the data on France, Germany, Japan and the United States. For the United Kingdom, reference was made to the statistics published by the Central Statistical Office, aggregated so as to make them as comparable as possible with those produced by the OECD. In the case of Italy, reference was made to more recent statistics compiled by the Bank of Italy and, for the period 1982-88, to the preliminary results of a reconstruction of the financial accounts that is under way. For the purposes of this reconstruction, the definition of non-financial enterprises is different from that used from 1989 onwards in the Bank of Italy's financial accounts; in particular, the sector includes sole proprietorships and partnerships, which have been treated as a separate sector since 1989.

Although the OECD accounts are the result of an effort to harmonize individual nations' financial accounts, the homogeneousness achieved is inadequate in several respects, so that it was necessary to aggregate some data and make a number of methodological adjustments.

The twelve institutional sectors for which the OECD publishes statistics are not homogeneous across the six countries. In the first place, financial institutions had to be regrouped into only two sub-sectors – the banking system, including the central bank, and other financial institutions[2] – and the data reaggregated accordingly. Furthermore, general government had to be considered as a single sector.

In the second place, households and non-financial enterprises refer to different aggregates. France, Japan and the United Kingdom include all sole proprietorships and partnerships under households, whereas Germany, Italy and the United States exclude all forms of productive enterprise from the household sector.[3] Consequently, there are differences in the behaviour of sole proprietorships and partnerships with respect to households and enterprises that cannot be captured.

In the third place, the information on shares is not homogeneous because the data are estimated using different methods and samples.[4] As regards trade credits, only those granted to the rest of the world were considered (and allocated to non-financial enterprises), even where data were available on domestic commercial lending.

Lastly, the six countries use different methods to "net" transactions. In France, Italy and the United Kingdom, consolidation within sectors is on a small scale.[5] On the other hand, in Germany, Japan and the United States consolidation results in financial assets not including interbank deposits,[6] which leads to a corresponding reduction in the value of the financial assets of monetary institutions.

In view of the high cost of modifying the methods used in producing financial accounts, they have remained basically unchanged for the last thirty years, apart from the inclusion of new types of financial instrument and intermediary.[7]

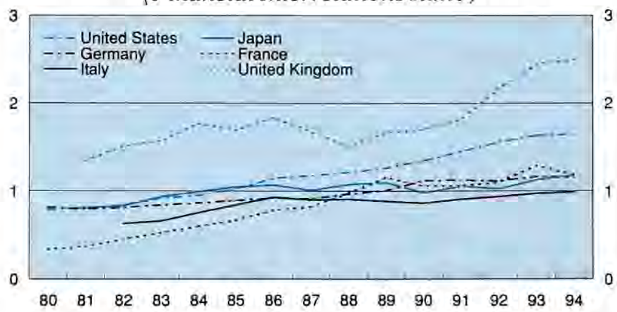
In compiling the data on tangible assets, an attempt was made to reproduce the aggregates defined by Goldsmith (1985);[8] accordingly, the estimates included stocks of consumer durables.[9] In order to take account of the differences in the definitions of the various sectors in each country, reference was made as far as possible to real aggregates (tangible assets and disposable income) based on the same definitions. Specifically, for the data on disposable income and GDP reference was made to the statistics published by the OECD and the IMF respectively.

3. The aggregate indicators

One of the indicators used in the literature to measure a country's financial deepening is the ratio of gross financial assets to tangible assets, known as the Financial Interrelations Ratio or FIR.[10] Over the fifteen years considered, the value of this ratio rose in all six countries, with a tendency for the values for France, Germany, Japan and Italy to converge, while those of the United Kingdom and the United States were considerably higher at the end of the period (Figure 1).

Figure 1

Ratio of gross financial assets to tangible assets
(Financial Interrelations Ratio)



Sources: Based on OECD data and national statistics.

The ratios of gross financial assets and liabilities to tangible assets and those to GDP (Tables 1 and 2) reflect not only households' propensity to save and the financing choices of non-financial enterprises but also the development of financial intermediaries.

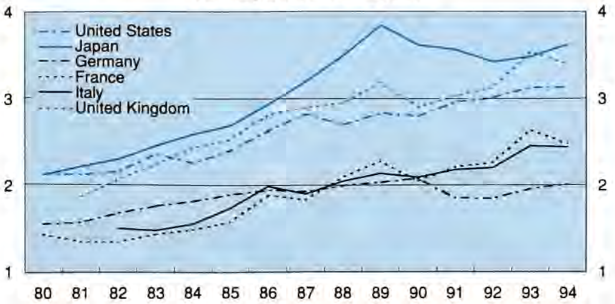
Other differences between the six economies, which are not reflected directly in the aggregate indicators, are revealed by analyzing the importance of the various institutional sectors and that of the most widespread financial instruments.

4. Households' financial assets and liabilities

In terms of the ratio of households' financial assets to disposable income (Figure 2), there is a clear division between countries in which households possess substantial financial assets (Japan, the United Kingdom and the United States) and those in which such holdings are much smaller. To some extent the division reflects the difference between pension systems; where a larger proportion of pensions are public, households' direct holdings of financial assets are much smaller. The countries with a higher ratio of households' financial assets to disposable income also have a much higher ratio of households' financial liabilities to disposable income (Figure 3).[11]

Figure 2

Ratio of households' financial assets to disposable income

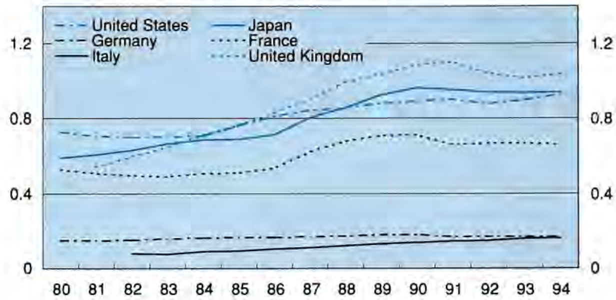


Sources: Based on OECD and Istat data and national statistics.

There are also differences across the six countries with regard to the types of financial instrument held by households. At the beginning of the eighties deposits accounted for the bulk of households' financial assets in the continental European countries and Japan. In the United Kingdom and the United States they accounted for around 30 per cent of the total, but "other financial instruments" (claims on pension funds, insurance companies and collective investment undertakings) were equally important. The direct ownership of shares and other equity was only widespread among US and Italian households, albeit with the major difference that in the United States the shares were mainly listed, whereas in Italy they were mainly unlisted.

Figure 3

Ratio of households' financial liabilities to disposable income



Sources: Based on OECD and Istat data and national statistics.

The fifteen years considered saw substantial changes in nearly all the sample countries, although they had only a limited effect in reducing the differences between their financial systems. The importance of deposits declined in almost every country, while that of "other financial instruments" increased. The former nonetheless remained the main form of financial investment by households in Germany and Japan, while in the Anglo-Saxon countries the growth in claims on pension funds, insurance companies and collective investment undertakings outstripped that of the other countries. France stands out for the very rapid increase in households' portfolios of shares following the reform of the stock market and privatizations, while Italy is notable for the increase in the proportion of households' financial assets consisting of government securities, at the expense of nearly every other type of financial instrument.

5. Financial intermediaries

There are also cross-country differences in terms of the importance and characteristics of the various types of financial intermediary to be found.

Table 1

Ratio of gross financial assets to GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Households															
France	1.01	0.99	0.98	1.03	1.05	1.11	1.30	1.25	1.41	1.53	1.39	1.51	1.57	1.86	1.72
Germany	1.01	1.05	1.11	1.13	1.17	1.21	1.22	1.23	1.26	1.27	1.31	1.22	1.21	1.30	1.30
Japan	1.51	1.57	1.63	1.75	1.81	1.86	2.02	2.17	2.33	2.56	2.39	2.36	2.29	2.38	2.50
Italy	–	–	1.16	1.16	1.19	1.31	1.49	1.42	1.51	1.58	1.57	1.64	1.67	1.80	1.76
United Kingdom	–	1.30	1.42	1.52	1.67	1.73	1.95	1.96	1.99	2.18	2.00	2.14	2.28	2.58	2.40
United States	1.52	1.51	1.57	1.70	1.64	1.74	1.91	2.04	1.96	2.05	2.06	2.19	2.17	2.24	2.22
Non-financial enterprises															
France	0.46	0.44	0.45	0.56	0.65	0.76	1.04	0.98	1.27	1.63	1.36	1.62	1.68	2.36	2.05
Germany	0.45	0.48	0.51	0.53	0.55	0.59	0.58	0.56	0.59	0.65	0.66	0.61	0.61	0.66	0.67
Japan	0.61	0.64	0.63	0.70	0.75	0.80	1.00	1.16	1.33	1.53	1.20	1.21	1.00	0.99	1.02
Italy	–	–	0.34	0.34	0.35	0.39	0.43	0.43	0.42	0.47	0.49	0.50	0.50	0.54	0.53
United Kingdom	–	0.42	0.45	0.47	0.49	0.46	0.51	0.52	0.54	0.58	0.56	0.57	0.60	0.65	0.65
United States	0.30	0.31	0.32	0.32	0.33	0.33	0.35	0.36	0.37	0.37	0.37	0.37	0.35	0.34	0.33
General government															
France	0.36	0.32	0.33	0.32	0.31	0.30	0.27	0.29	0.27	0.27	0.25	0.25	0.26	0.27	0.23
Germany	0.23	0.23	0.24	0.24	0.23	0.24	0.24	0.23	0.23	0.23	0.31	0.28	0.25	0.17	0.12
Japan	0.22	0.24	0.25	0.26	0.26	0.27	0.28	0.34	0.34	0.34	0.36	0.33	0.35	0.36	0.38
Italy	–	–	0.24	0.24	0.23	0.24	0.24	0.24	0.24	0.24	0.24	0.23	0.23	0.25	0.26
United Kingdom	–	0.35	0.34	0.34	0.36	0.35	0.35	0.34	0.34	0.32	0.29	0.29	0.28	0.27	0.24
United States	0.18	0.17	0.17	0.18	0.18	0.20	0.22	0.22	0.21	0.20	0.20	0.21	0.19	0.18	0.15
Monetary institutions															
France	2.02	2.02	2.10	2.15	2.24	2.19	2.15	2.27	2.28	2.34	2.30	2.26	2.28	2.44	2.34
Germany	1.51	1.56	1.63	1.65	1.69	1.73	1.73	1.74	1.76	1.79	1.99	1.85	1.84	2.04	2.01
Japan	0.88	0.91	0.95	1.01	1.05	1.10	1.20	1.28	1.37	1.60	1.52	1.47	1.42	1.43	1.44
Italy	–	–	1.45	1.47	1.45	1.43	1.37	1.34	1.30	1.30	1.27	1.32	1.45	1.51	1.44
United Kingdom	–	1.97	2.27	2.37	2.70	2.48	2.73	2.56	2.57	2.76	2.70	2.54	2.75	2.71	2.73
United States	0.89	0.86	0.88	0.90	0.92	0.95	0.99	1.01	1.01	0.99	0.96	0.91	0.85	0.84	0.84
Other financial institutions															
France	0.11	0.11	0.12	0.17	0.21	0.26	0.34	0.35	0.43	0.48	0.51	0.57	0.62	0.74	0.68
Germany	0.19	0.20	0.23	0.24	0.26	0.28	0.29	0.30	0.31	0.32	0.34	0.31	0.32	0.37	0.36
Japan	1.36	1.42	1.51	1.67	1.74	1.81	2.06	2.27	2.48	2.46	2.22	2.22	2.23	2.37	2.47
Italy	–	–	0.06	0.06	0.09	0.13	0.20	0.19	0.19	0.21	0.22	0.23	0.25	0.29	0.30
United Kingdom	–	0.64	0.72	0.83	1.05	1.12	1.32	1.29	1.33	1.58	1.40	1.55	1.77	2.26	2.03
United States	0.80	0.82	0.90	0.97	0.96	1.08	1.28	1.41	1.39	1.49	1.55	1.69	1.73	1.85	1.88
Rest of the world															
France	0.40	0.43	0.45	0.54	0.59	0.55	0.58	0.53	0.64	0.74	0.74	0.75	0.83	0.99	0.88
Germany	0.30	0.33	0.34	0.35	0.36	0.39	0.41	0.40	0.41	0.45	0.46	0.44	0.47	0.57	0.58
Japan	0.01	0.02	0.03	0.19	0.20	0.24	0.30	0.36	0.39	0.48	0.54	0.48	0.42	0.39	0.38
Italy	–	–	0.28	0.30	0.32	0.32	0.29	0.29	0.31	0.36	0.38	0.41	0.49	0.56	0.57
United Kingdom	–	1.16	1.34	1.41	1.68	1.47	1.62	1.50	1.51	1.75	1.66	1.66	1.95	2.18	2.08
United States	0.15	0.16	0.16	0.17	0.18	0.20	0.24	0.27	0.28	0.31	0.33	0.34	0.34	0.36	0.38
TOTAL ASSETS															
France	4.36	4.30	4.45	4.78	5.06	5.17	5.67	5.66	6.29	6.99	6.54	6.96	7.23	8.66	7.91
Germany	3.69	3.85	4.05	4.14	4.27	4.44	4.47	4.45	4.56	4.72	5.07	4.71	4.69	5.11	5.04
Japan	4.59	4.80	4.98	5.57	5.81	6.08	6.86	7.58	8.24	8.98	8.23	8.07	7.71	7.91	8.19
Italy	–	–	3.53	3.59	3.64	3.81	4.02	3.90	3.98	4.18	4.18	4.35	4.61	4.98	4.91
United Kingdom	–	5.84	6.55	6.94	7.96	7.62	8.47	8.17	8.29	9.18	8.61	8.75	9.63	10.64	10.13
United States	3.83	3.82	4.00	4.24	4.21	4.49	4.98	5.30	5.22	5.40	5.46	5.71	5.62	5.81	5.81

Sources: Based on OECD, IMF and Istat data and national statistics.

Table 2

Ratio of gross financial liabilities to GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Households															
France	0.37	0.37	0.36	0.35	0.36	0.36	0.37	0.42	0.46	0.48	0.48	0.45	0.46	0.47	0.46
Germany	0.10	0.10	0.10	0.10	0.10	0.11	0.10	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Japan	0.42	0.43	0.45	0.47	0.48	0.48	0.49	0.55	0.57	0.62	0.64	0.63	0.63	0.64	0.65
Italy	–	–	0.06	0.06	0.07	0.07	0.08	0.08	0.09	0.10	0.10	0.11	0.11	0.12	0.12
United Kingdom	–	0.38	0.41	0.44	0.49	0.52	0.57	0.61	0.67	0.71	0.75	0.78	0.76	0.74	0.73
United States	0.52	0.50	0.51	0.51	0.51	0.55	0.59	0.61	0.62	0.64	0.65	0.67	0.63	0.64	0.66
Non-financial enterprises															
France	1.07	1.00	0.97	1.12	1.22	1.38	1.73	1.58	2.01	2.43	1.99	2.34	2.42	3.20	2.76
Germany	1.28	1.32	1.36	1.40	1.41	1.50	1.48	1.40	1.43	1.50	1.51	1.40	1.38	1.45	1.44
Japan	1.31	1.34	1.33	1.48	1.53	1.62	1.96	2.24	2.64	3.14	2.53	2.51	2.17	2.19	2.30
Italy	–	–	1.01	0.99	0.99	1.06	1.12	1.06	1.07	1.11	1.14	1.17	1.17	1.22	1.21
United Kingdom	–	0.92	0.99	1.04	1.15	1.17	1.36	1.41	1.47	1.71	1.57	1.72	1.84	2.10	1.96
United States	1.04	0.95	1.01	1.06	1.01	1.11	1.20	1.22	1.24	1.34	1.27	1.43	1.39	1.41	1.33
General government															
France	0.33	0.32	0.36	0.37	0.40	0.41	0.42	0.44	0.44	0.44	0.44	0.45	0.49	0.58	0.57
Germany	0.32	0.36	0.40	0.41	0.42	0.43	0.43	0.44	0.44	0.41	0.46	0.45	0.46	0.52	0.52
Japan	0.71	0.77	0.81	0.88	0.89	0.89	0.91	0.85	0.82	0.79	0.76	0.74	0.75	0.80	0.88
Italy	–	–	0.75	0.80	0.84	0.92	0.96	1.00	1.03	1.06	1.08	1.12	1.18	1.29	1.35
United Kingdom	–	0.58	0.64	0.65	0.66	0.65	0.65	0.63	0.57	0.51	0.47	0.48	0.53	0.62	0.59
United States	0.41	0.40	0.43	0.47	0.49	0.53	0.58	0.61	0.61	0.61	0.64	0.67	0.68	0.70	0.69
Monetary institutions															
France	1.97	1.95	2.05	2.13	2.22	2.18	2.20	2.25	2.30	2.36	2.31	2.32	2.37	2.62	2.45
Germany	1.45	1.49	1.58	1.60	1.64	1.67	1.68	1.69	1.70	1.72	1.90	1.75	1.75	1.97	1.93
Japan	0.89	0.92	0.96	1.00	1.08	1.15	1.29	1.43	1.56	1.81	1.64	1.59	1.51	1.53	1.54
Italy	–	–	1.31	1.30	1.28	1.29	1.28	1.23	1.22	1.32	1.27	1.34	1.42	1.47	1.42
United Kingdom	–	1.96	2.23	2.32	2.67	2.45	2.64	2.48	2.48	2.68	2.62	2.48	2.68	2.63	2.65
United States	0.85	0.83	0.86	0.88	0.89	0.92	0.96	0.98	0.98	0.96	0.93	0.89	0.83	0.81	0.81
Other financial institutions															
France	0.11	0.12	0.13	0.17	0.21	0.27	0.40	0.40	0.48	0.61	0.64	0.70	0.73	0.86	0.81
Germany	0.20	0.21	0.22	0.24	0.25	0.26	0.28	0.29	0.30	0.31	0.35	0.32	0.32	0.36	0.36
Japan	1.32	1.39	1.48	1.62	1.69	1.75	1.95	2.15	2.26	2.17	2.14	2.15	2.22	2.35	2.44
Italy	–	–	0.08	0.08	0.10	0.16	0.28	0.24	0.24	0.25	0.24	0.26	0.30	0.37	0.31
United Kingdom	–	0.72	0.79	0.90	1.09	1.17	1.38	1.40	1.45	1.72	1.54	1.67	1.88	2.37	2.10
United States	0.77	0.79	0.87	0.94	0.93	1.04	1.23	1.36	1.34	1.43	1.49	1.63	1.67	1.78	1.82
Rest of the world															
France	0.51	0.53	0.57	0.64	0.64	0.56	0.56	0.57	0.61	0.67	0.69	0.69	0.76	0.93	0.86
Germany	0.35	0.37	0.38	0.40	0.44	0.46	0.51	0.53	0.59	0.66	0.68	0.61	0.62	0.70	0.68
Japan	0.00	0.00	0.00	0.23	0.26	0.35	0.40	0.46	0.50	0.58	0.66	0.60	0.57	0.55	0.55
Italy	–	–	0.28	0.32	0.34	0.30	0.28	0.27	0.29	0.31	0.31	0.33	0.38	0.47	0.47
United Kingdom	–	1.27	1.46	1.56	1.91	1.66	1.87	1.64	1.64	1.85	1.65	1.65	1.96	2.19	2.10
United States	0.23	0.23	0.24	0.23	0.23	0.21	0.22	0.22	0.22	0.23	0.24	0.24	0.22	0.23	0.23
TOTAL LIABILITIES															
France	4.36	4.30	4.45	4.78	5.06	5.17	5.67	5.66	6.29	6.99	6.54	6.96	7.23	8.66	7.91
Germany	3.69	3.85	4.05	4.14	4.27	4.44	4.47	4.45	4.56	4.72	5.07	4.71	4.69	5.11	5.04
Japan	4.59	4.80	4.98	5.57	5.81	6.08	6.86	7.58	8.24	8.98	8.23	8.07	7.71	7.91	8.19
Italy	–	–	3.53	3.59	3.64	3.81	4.02	3.90	3.98	4.18	4.18	4.35	4.61	4.98	4.91
United Kingdom	–	5.84	6.55	6.94	7.96	7.62	8.47	8.17	8.29	9.18	8.61	8.75	9.63	10.64	10.13
United States	3.83	3.82	4.00	4.24	4.21	4.49	4.98	5.30	5.22	5.40	5.46	5.71	5.62	5.81	5.81

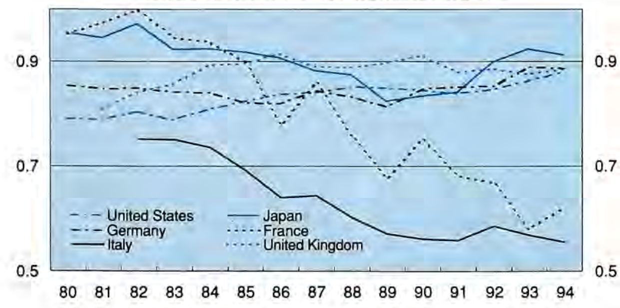
Sources: Based on OECD, IMF and Istat data and national statistics.

The financial assets held by monetary institutions and other financial intermediaries are larger in relation to GDP in Japan, the United Kingdom and the United States; the ratio is particularly low for Italy. The nature of the pension system also affects the development of financial intermediaries; where it is primarily public, non-bank intermediaries, especially pension funds and insurance companies, are less important.

It is possible, furthermore, to group the six countries on the basis of the importance of each category of intermediary in terms of its holdings of financial assets. At the beginning of the period banks predominated in France, Germany, Italy and the United Kingdom, while non-bank financial institutions came first in Japan and the United States. It should be noted, however, that in Japan "other financial institutions" include cooperative credit institutions as well as pension funds. In the United Kingdom nearly 50 per cent of banks' financial assets consist of loans to the rest of the world.[12] When these two factors are taken into account, the six countries can be divided into two groups on the basis of the importance of the various types of financial institution: in France, Germany, Japan and Italy banks held the largest share of financial assets; in the United Kingdom and the United States, other financial institutions.

Figure 4

Financial intermediation ratio



Sources: Based on OECD data and national statistics.

Although the latter grew faster than banks in almost all of the six countries in the period considered, this did not produce a change in the country groupings. Italy and France nonetheless showed some distinctive features. In both countries there was a process of financial disintermediation, as can be seen from the trend of the ratio of the financial assets of financial intermediaries to those of the non-financial domestic sector and the rest of the world (Figure 4). The fall in the Italian ratio was almost entirely due to the substitution of bank deposits with public sector securities in households' portfolios;[13] that in the French ratio, to the development of the share market and privatizations, which increased the proportion of shares held directly by households.[14]

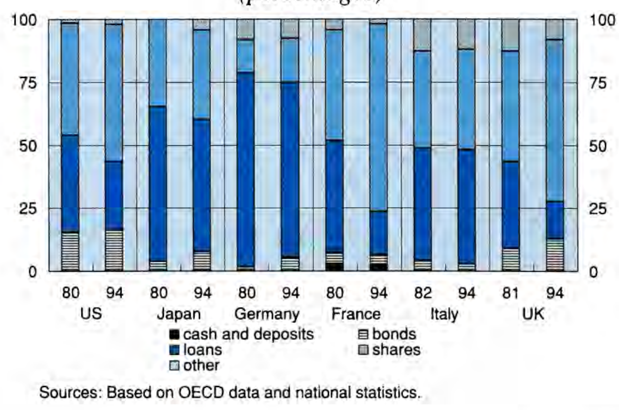
6. Financing of non-financial enterprises

In 1980 a clear division of the six countries into three groups could be made on the basis of the prevalent method of financing non-financial enterprises: the first group comprised Germany and Japan, where the bulk of financing was in the form of bank debt; the second, the United Kingdom and the United States, where shares and bonds, issued mostly by listed companies, accounted for the lion's share; and the third, France and Italy, where the ratio of bank debt to (unlisted) equity was close to one and the contribution of bonds negligible (Figure 5).

Figure 5

Composition of non-financial enterprises' financial liabilities

(percentages)



Sources: Based on OECD data and national statistics.

The changes in the situation were again similar in all the countries over the fifteen years considered, with a reduction in the importance of bank debt and an increase in that of bonds, except in Italy. The shift was particularly pronounced in France, where the composition of non-financial enterprises' financial liabilities in 1994 was comparable to those of the United States and the United Kingdom.

There nonetheless continues to be a clear divide between these three countries and Germany and Japan, where bank debt is still the main source of financing.

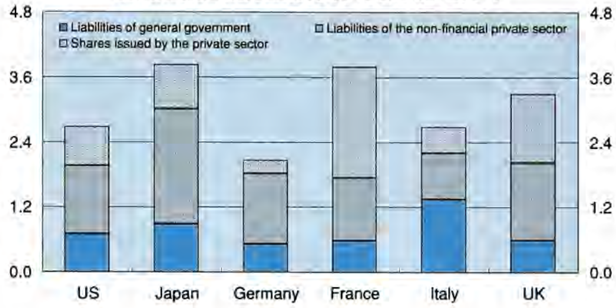
7. The role of general government

An important factor in the comparative analysis of financial deepening is the relative size of the stocks of general government financial assets and liabilities. In general, the ratio of this sector's financial assets to GDP is fairly low and does not present large cross-country differences (Table 1). The corresponding ratio of liabilities, by contrast, shows significant differences.

In 1994 Italy had the largest stock of general government liabilities in relation to GDP (Figure 6). Over the fifteen years considered, it rose from 0.7 to 1.3 per cent of GDP, whereas in the three countries where the ratio had been lowest in 1980,[15] it rose to between 0.5 and 0.7 per cent. In Japan and Germany, where the opening situation had been similar to that in Italy, the increase was very small.

Figure 6

Ratio of the domestic sector's financial liabilities to GDP in 1994



Sources: Based on OECD, IMF and Istat data and national statistics.

The fact that in Italy the government partly replaced financial intermediaries in raising funds from final investors helps to explain the country's lower levels of financial deepening.

It should be noted, however, that the ratio of the private sector's liabilities to GDP is lower in Italy than in the other five countries, with only Germany in a comparable position. In 1994 the ratio for the other countries ranged between 2 per cent in the United States and 3.2 per cent in France. Consequently, the Italian domestic sector's total financial liabilities were similar in relation to GDP to those of the five other countries.

Table 3

Percentage of total financial assets held by non-residents

	Instruments											
	Cash and deposits		Securities		Loans		Shares		Other financial assets		Total financial assets	
	1980	1994	1980	1994	1980	1994	1980	1994	1980	1994	1980	1994
France	13.1	17.9	8.3	14.4	1.8	5.3	12.3	9.0	28.0	13.0	9.3	11.2
Germany	10.1	14.2	4.4	22.3	6.1	6.2	11.1	8.4	12.0	7.3	8.1	11.6
Japan	–	–	–	8.8	–	–	2.8	5.0	–	15.4	0.3	4.7
Italy (1)	6.8	11.6	4.8	12.1	11.4	14.4	5.7	8.0	14.7	10.6	7.8	11.7
United Kingdom (1)	45.0	43.0	5.7	11.1	0.4	1.1	19.8	26.7	8.1	14.6	19.8	20.5
United States	2.4	1.4	8.3	10.7	0.1	4.4	8.0	9.4	2.3	2.8	4.0	6.5

Sources: Based on OECD data and national statistics.

(1) For Italy the first year for which data are available is 1982; for the United Kingdom, 1981.

Table 4

Percentage of total financial liabilities issued by non-residents

	Instruments											
	Cash and deposits		Securities		Loans		Shares		Other financial assets		Total financial assets	
	1980	1994	1980	1994	1980	1994	1980	1994	1980	1994	1980	1994
France	12.2	18.4	3.0	8.8	5.8	7.1	7.6	7.4	26.7	16.3	11.6	10.8
Germany	3.5	12.0	12.6	12.2	8.6	13.3	13.5	19.0	18.6	11.2	9.4	13.6
Japan	–	–	–	–	–	–	–	–	–	33.0	–	6.6
Italy (1)	8.2	9.3	2.0	6.7	2.5	5.7	4.1	13.8	25.1	16.0	8.0	9.5
United Kingdom (1)	–	–	21.8	45.2	50.2	41.5	25.6	15.9	8.7	11.7	21.7	20.7
United States	1.6	6.3	2.7	2.6	4.8	1.1	20.9	9.8	1.1	1.5	6.1	4.1

Sources: Based on OECD data and national statistics.
(1) For Italy the first year for which data are available is 1982; for the United Kingdom, 1981.

8. The rest of the world

The importance of the financial assets (and liabilities) of the rest of the world tended to increase in all six countries. The rising trend appears to have been most pronounced for Italy, especially after the removal of exchange controls, and for Japan. In Italy's case, the fastest growing component consisted of bonds issued domestically (mostly by the government), while the largest component consisted of international loans to residents (Tables 3 and 4).

The rest of the world plays a major role in the case the United Kingdom. In 1994 it accounted for 20.5 per cent of total assets and 20.7 per cent of total liabilities. This feature of the UK financial system is above all a reflection of the large volume of funds raised in international markets by banks located in London. In fact deposits account for more than 50 per cent of the rest of the world's financial claims on the United Kingdom. On the liabilities side, the main items are loans and securities. The link with the rest of the world contributes significantly to the high value of the UK's financial interrelations ratio.

1 The methods adopted in compiling the OECD financial accounts are based on *System of National Accounts 1968* with some modifications, primarily as regards the grouping by institutional sector and type of financial instrument (OECD, *Financial Statistics, Methodological Supplement*, Paris, 1991-92, pp. 117-41).

2 Pension funds, insurance companies, collective investment undertakings and other financial intermediaries.

3 Italy is the only country to have produced separate statistics since 1989 for households, non-financial corporate and quasi-corporate enterprises, and sole proprietorships.

4 The figures for France and Italy are estimated on the basis of data published by their Central Balance Sheet Data Offices and includes both shares and other equity. In France, the face value of the equity capital of enterprises is revalued on the basis of stock market capitalization. In Italy, market value is used for listed enterprises, while for the others reference is made to the shareholders' equity shown in the annual accounts. For the United Kingdom, the estimates refer to a sample of leading companies; for Germany, only to companies limited by shares. For the United States, enterprises' shares on the liabilities side are not included in the statistics published by the OECD; recourse was therefore made to the original data published by the Federal Reserve. For Japan, the OECD statistics refer to all listed companies but only to some unlisted companies; they have therefore been replaced by those compiled by the Economic Planning Agency, which contain an estimate for all unlisted

companies. The data on shares for France and the United States include the shares of collective investment undertakings.

5 Specifically, transactions within the central bank and general government sectors are consolidated.

6 Japan consolidates deposits and loans within the sectors of banks and other financial institutions; the United States consolidates short-term interbank deposits and the shares of non-financial enterprises; Germany consolidates all the sectors except for transactions involving shares and fixed income securities.

7 Italy is the only country to have carried out a complete revision, with the aim of adapting its financial accounts to ESA 1979. To the best of our knowledge, the historical series of the financial accounts of the other countries are homogeneous as regards consolidation within sectors.

8 R. Goldsmith, *Comparative National Balance Sheets*, Chicago, The University of Chicago Press, 1985.

9 For Italy, the data were computed within the Research Department of the Bank of Italy. For France, reference was made to INSEE, *Comptes et indicateurs économiques. Rapport sur les comptes de la Nation*, Paris; for Germany, to Statistische Bundesamt, *Statistische Jahrbuch für die Bundesrepublik*; for Japan, to EPA, *Annual Reports on National Accounts*; for the United Kingdom, to Central Statistical Office, *United Kingdom National Accounts*; for the United States, to Board of Governors of the Federal Reserve System, *Balance Sheets for the U.S. Economy.* For some countries (France, Germany and the United States), the data had to be adjusted and partially estimated.

10 See R. Goldsmith, *Financial Structure and Development*, New Haven, Yale University Press, 1969, and R. Goldsmith (1985), op. cit.

11 These countries have large numbers of intermediaries that allow households to take out large loans for the purchase of dwellings. France, which combines a relatively low level of financial assets with a relatively high level of financial liabilities, is an exception in this respect.

12 Analogously, nearly 50 per cent of their liabilities consist of deposits from the rest of the world.

13 Financial accounts data do not allow account to be taken of the custody and administration services provided by banks in respect of such securities.

14 Another possible reason lies in the growth in collective investment undertakings, which in France involve instruments that are indistinguishable from shares.

15 The values were 0.3 per cent for France and Germany and 0.4 per cent for the United States.

Speeches

Address by the Governor, Antonio Fazio,

to the Association of Italian Savings Banks on the occasion of the 72nd World Savings Day, celebrated in the Capitol in the presence of the President of the Republic

Rome, 31 October 1996

From June to September of this year the average monthly rate of inflation was below 3 per cent on an annualized and seasonally adjusted basis. In October the increase in prices with respect to September was equal to zero.

Current trends and favourable expectations have allowed a gradual easing of monetary and credit policy. The discount rate was lowered from 9 to 8.25 per cent at the end of July, to 7.5 per cent last week.

In the early months of 1996, in line with the tendency that had developed in the summer of 1995, the appreciation of the lira and the decline in the yields on longer-term securities signalled an improvement in expectations which became more marked in April.

Even though both consumer and investment demand were slowing down, the improvement was not fully reflected in retail prices. Until May inflation slowed only a little, to an insufficient extent in comparison with the second half of 1995. Various factors prevented prices from decelerating, indicating the persistence of a widespread inflationary bias, competitive weaknesses and cost rigidities.

Monetary policy accordingly remained restrictive, although it lent support to a gradual decline in interest rates in the money and financial markets.

The slowdown in inflation that has been under way since the middle of the year reflects the weakening of demand and the strengthening of the lira. Firms expecting reductions in their sales prices now match those expecting increases. Since May there have been reductions in producer prices in several sectors. Since June the improvement has also been evident in consumer prices.

Inflation should remain below 3 per cent in the last quarter of this year. The objective remains an average rate of inflation well below that limit next year as well, in line with the values prevailing in the other leading industrial countries.

Saving

The stability of the purchasing power of money is the primary safeguard of the saving accumulated by households and firms, a good that is defended by the Constitution.

Households' saving is considerable in Italy in comparison with other countries. It is a characteristic feature, a fundamental value, from which the economy draws strength and competitiveness, notwithstanding an excessive absorption of resources by the public sector, underdevelopment and economic depression in large parts of the country and inefficiency in some sectors of industry and distribution.

During the eighties, despite the high saving rate, Italy lived beyond its means. Private saving was insufficient to meet the heavy demands of the public sector and to finance investment, even though this was down on the previous decade.

The budget deficit became extremely large; the public debt grew rapidly. Inflation, which was extremely high at the beginning of the decade, was gradually and efficiently brought down by monetary and exchange rate policy.

Production costs that remained too high gradually undermined Italy's international competitiveness.

The large budget imbalances and the loss of competitiveness led to trade deficits and the accumulation of a substantial net external debt, which by 1992 had risen to 11 per cent of GDP.

The gross saving rate of the private sector declined steadily and significantly over the decade. After adjusting for inflation, it fell on average in the eighties compared with the two previous decades; in relation to disposable income it dropped from 29 to 26 per cent.

Action to curb the imbalances in the public finances began in the late eighties; it has been stepped up since 1993; the downturn in both public and private investment has become more pronounced. The saving rate of households and enterprises declined by another 2-3 percentage points in the first half of the nineties compared with the average of the eighties.

Following the lira's withdrawal from the Exchange Rate Mechanism, increasingly large current account surpluses have been recorded since 1993, reflecting the pronounced slowdown in economic activity, the fall in consumption and the stability of unit labour costs.

By the end of 1997 Italy's net external assets and liabilities should be back in balance.

The adjustment has been accompanied by a fall in employment amounting, between 1992 and today, to the equivalent of around 1,100,000 full-time jobs. Similarly large falls have also occurred in other European countries: in France employment has fallen by around 400,000 units, in Germany by nearly one million.

The loss of jobs has been more marked in the South, where the unemployment rate has risen to 22 per cent. It has also affected the Centre and North; however, this part of the country, which is where by far the greater part of Italian industry is located, benefited from the cyclical recovery that began at the end of 1993 and continued through 1995. Unemployment there remained at a relatively low level of 7-8 per cent.

By contrast, productive activity has stagnated on average in the South during the last four years.

The decline in the saving rate in Italy is in line with a broad trend under way in most of the industrial countries.

It is the result of demographic and social changes, but also, and above all, of the slowdown in economic growth.

Absorbing the large numbers of those without a job, especially among young people, will require policies and measures aimed at raising the level of investment, as well as changes in the composition of output and the structure of employment.

Failing such action, the Italian economy is bound to grow at a modest pace, which will not be sufficient to increase employment significantly. This remains true even on the assumption of favourable developments in world trade and fulfilment of the indispensable condition of a return to monetary and financial stability.

A vigorous industrial sector is needed to maintain a high level of exports and to satisfy, at falling costs, the final demand for goods of those employed in the other sectors. Industry, however, like agriculture in earlier decades, is no longer able to absorb additional labour; it requires more and more highly qualified workers, in decreasing numbers despite the increase in output.

The importance of the services sector in the Italian economy is still limited.

The countries where the unemployment rate is lowest have developed not only sophisticated services, providing support for production and trade and able to offer high levels of pay to a relatively small work force, but also services with a low value added, which are nonetheless able to provide considerable employment.

In Italy and in the rest of Europe, it will be difficult, in the absence of a substantial shift in the composition of output, to return to levels of employment comparable to those of the early nineties, even in the medium term.

An increase in the volume of investment and saving is the condition for improving the outlook for growth and employment. In the short term resources can be made available mainly by reducing government borrowing.

In Italy budgetary adjustment efforts will have to be concentrated on curbing expenditure, through structural reforms able to ensure the long-run equilibrium which will foster a reduction in the cost of money and which is necessary for full participation in the process of European integration and unification.

It is worth repeating once more that in Italy the problem of unemployment has special features related to the dualism of the economy.

The creation of employment in the Mezzogiorno requires specific policies to reduce the cost and improve the organization of labour, as well as investment in both tangible and intangible infrastructure to increase the competitiveness of the productive system and action, including a more effective functioning of government, to raise the level of the economy and that of society.

In addition to the defence of the internal and external value of the currency, the stability of the banking industry and the existence of a large and efficient financial market are of fundamental importance for the formation of saving, its protection, its profitable use and the growth of the economy and employment.

In its role of supervisory authority the Bank of Italy is actively committed to the exercise of supervision over the banking system, to which households and enterprises, directly or indirectly, entrust a large part of their savings.

In the coming years the Italian banking system will have to take action to modernize its operations and improve its efficiency in an increasingly competitive and internationally open market.

The sound and prudent management of saving does not only require professional competence and proper lending procedures but also effective cost management. The expenses incurred by the Italian banking system are extremely high. The slow pace of economic growth and domestic and international competition will permit only moderate increases in the volume of business and income. Substantial savings will have to be made, especially in staff costs. Determined action, concerted between management and unions, is urgently needed to tackle this problem.

The pension arrangements adopted in the early decades of the postwar period – years of rapid growth and a more favourable demographic structure – are depressing the propensity to save; they have led to benefits that are a major and increasingly important factor contributing to the budget deficit and the growth of the public debt, with negative consequences for long-term interest rates.

A credible, secure and widespread system of supplementary pensions could help return saving to a higher level.

In other countries such funded pension schemes are more developed and contribute to the efficient management of the saving accumulated.

Economic developments

First and foremost the cyclical slowdown under way in Italy reflects the stagnation of economic activity in the countries of continental Europe: since 1993 industrial production in Germany has remained constantly below the levels reached in the early nineties; in France it is now only just above the level reached in 1990.

The restrictive stance of monetary policy aimed at fostering disinflation tended to hold back economic activity in Italy in 1995 and the first half of 1996.

Thanks in part to tax incentives, investment gathered pace last year, with beneficial effects on productivity and competitiveness; that expansionary phase is now petering out.

Growth in 1997 will not be very different from the unsatisfactory level achieved this year. The smallness of the rise in households' disposable income limits consumer demand; the perception of uncertain growth in aggregate demand is a brake on investment.

Merchandise exports to the rest of Europe have been affected by the weakness of demand, but exporters have succeeded in increasing prices and earnings further by exploiting the remaining reserves of competitiveness. The demand of the newly industrializing countries has remained strong and they account for more than 40 per cent of total sales abroad.

The trade balance will continue to be in surplus in the coming years; Italy will become an external net creditor again. Together with the adjustment of the public finances, this is the necessary condition for consolidating the lira's external value and definitively stabilizing its domestic purchasing power.

The stability of the monetary yardstick, the consequent lasting reduction in interest rates and the abandonment of behaviour that seeks gains from rising prices could produce the necessary recovery in domestic demand, for both consumption and investment.

Turning to wages, an excessive increase in costs would cause the economy to diverge from the objective of keeping inflation below 3 per cent, a goal that is now within reach; it would be an obstacle to the gradual easing of the conditions on which credit is supplied. Even within the framework of nominal wage moderation, conditions exist for earnings to rise in real terms in line with productivity, thereby fostering a recovery in consumption.

Monetary stability and the consolidation of the public finances are indispensable in order to overcome the present phase of stagnation and the prospect of weak growth.

* * *

In the last few years Italy has made important progress in controlling inflation, thereby permitting a significant reduction in the interest rate differential with abroad. The improvement is attributable to fiscal policy, which has curbed the budget deficit, to incomes policy and wage moderation, and to the firmness of monetary policy.

The next few years will be fraught with difficulties and especially demanding in view of the important deadlines in Europe. Disinflation will have to be completed, the structural consolidation of the public finances implemented and room for manoeuvre restored to the budget.

The results achieved so far are a spur to continue on the present course. Decisions will have to be made that will allow the economy to move to a path of stable and rapid growth.

The strong point of the Italian economy remains the high level of saving, notwithstanding the retrenchments of the eighties and nineties.

The supply of saving is likely to expand if the factors of uncertainty hindering its productive use are removed, if the economy, with the assistance of the political sphere, succeeds in establishing a virtuous circle of increased investment, faster growth and greater saving.

Achievement of these goals is the key to the development of the backward areas of the country, the entry of the young into the productive economy and their full participation in society, in short, the key to the prospects for the wellbeing of Italy.

Exchange rates and growth in Europe

Address by the Governor, Antonio Fazio,
to the 6th Frankfurt European Banking Congress "Currency Arrangements between EMU and its Neighbours"

Frankfurt, 22 November 1996

In the long run the exchange rate of a country reflects the underlying state of the economy: its competitiveness and prospects for growth, the stance and credibility of economic policy.

Movements in the exchange rate have major effects on economic activity: a continuous rise puts a brake on exports and hinders the growth of income; a fall stimulates production but generates inflationary pressures.

There is a visible correlation between industrial production and the real effective exchange rate, that is competitiveness. You can see this in the figures for the United States, Japan, Germany and Italy (Figures 1-4).

Econometric analyses have been made in which both the cyclical and the underlying performance of industrial production are "explained" by the real effective exchange rate and indicators of monetary and fiscal policy.

These estimates confirm the adverse effects on economic activity of a rise in the real effective exchange rate, that is of a loss of competitiveness; the time horizon over which these effects make themselves felt may be a long one. They are especially important for European countries and Japan, less important for the United States.

An increase in real short-term interest rates affects production with a lag of around two years.

The short-term impact of fiscal policy is pronounced in Japan, statistically significant in Italy and weak in France and Germany.

In the United States in the first half of the eighties a fiscal policy that was increasingly expansionary in real terms was accompanied by a restrictive monetary policy. The rise in the budget deficit was reflected in the external accounts, with a growing current account deficit (the twin deficits). High interest rates led to substantial inflows of capital and to an exceptional strengthening of the dollar. The stimulus imparted by the budget was partly offset by the slowdown in exports and investment, which was caused by the high level of the exchange rate. The outlook for the growth of the economy deteriorated.

In the second half of the eighties a start was made on correcting the budget deficit and monetary policy became less restrictive. The dollar weakened; in 1988 the real effective exchange rate was well below its average level at the start of the decade.

In the nineties the American economy has continued to record declining, but still large, twin deficits. The tendency for the US currency to depreciate has been curbed by the increased demand for dollars on the part of the newly industrialized economies. The persistence in the future of large external deficits will inevitably lead to the supply of dollars exceeding demand.

The vicious circle may be broken by the adjustment plan designed to balance the budget in the medium term, which enjoys bipartisan political support.

In the Federal Republic of Germany fiscal policy became restrictive at the start of the eighties and monetary policy remained oriented towards the control of inflation. The real effective exchange rate declined; the competitiveness of German industry was enhanced. Large current account surpluses were recorded, partly owing to the strength of US demand.

In the second half of the decade, in connection with the weakening of the dollar, the mark appreciated, to the detriment of economic activity.

In the wake of the country's reunification a new phase began, in which the policy mix was analogous to that of the United States in the first half of the eighties. The expansion of public expenditure was designed to promote the reconversion of the country's eastern regions. The mark continued to appreciate in real terms.

Since the middle of 1995 the policy mix has been different: fiscal adjustment has been accompanied by a less restrictive monetary policy.

In Italy the continued existence of exchange controls in the eighties, together with high interest rates, permitted the recurrent external deficits to be financed; the lira appreciated in real terms. The fiscal adjustments enacted were not sufficient to return the economy to equilibrium. Wage pressure, though decreasing, remained strong. Inflation slowed considerably in the second half of the decade but remained above that of the other leading industrial countries.

In September 1992, in connection with the currency turmoil that beset the European Monetary System, the lira depreciated drastically: between August of that year and the early months of 1993, the real effective exchange rate fell by around 20 per cent on the basis of consumer prices, returning to its level in 1979 before the start of the EMS (Figure 5). In October 1996 it had recovered by nearly 3 per cent on the basis of consumer prices and by 6 per cent on the basis of producer prices.

The policy mix adopted in the eighties depressed the outlook for growth by causing the composition of demand to become biased towards consumption, at the expense of investment. The rise in the real effective exchange rate entailed a large loss of competitiveness; this slowed the growth in exports while accelerating that in imports. The budget deficit continued to fuel the growth in economic activity.

At the beginning of the eighties a major restructuring of industry was undertaken in response to the shifts in relative prices of the previous decades. The growth in investment spending was held back by the restrictive monetary policy that had to be maintained in view of the large budget deficits. In the nineties investment has declined further in relation to GDP.

The currency crisis in the early months of 1995 was largely due to factors not of a strictly economic nature. It gave renewed, but short-lived, impetus to exports and thus indirectly to economic activity; the side effect was an increase in inflation.

We reacted by tightening monetary policy further. Against a background of wage stability and more rigorous fiscal policies, the exchange rate responded by rising in just over a year by more than 20 per cent in comparison with its level in the spring of 1995. It is necessary to go back to the immediate postwar period, to 1947, to find a comparable rise.

After the sharp, and worrying, upturn in prices in 1995, monetary policy is now bringing inflation down. This has permitted a start to be made on a gradual, prudent easing of monetary conditions. It will be necessary to maintain the present course of fiscal consolidation and moderation with respect to all incomes. We trust that the average rate of inflation in 1997 will be kept between 2 and 3 per cent.

As progress is made in righting the public finances, policies to give a significant boost to investment appear increasingly necessary, to take full advantage of Italy's considerable saving capacity.

Exchange rates play a decisive role in the performance of economies everywhere. Keeping fluctuations within a narrow range requires a coordination of monetary and fiscal policies; something it is not always easy for the countries concerned to agree on.

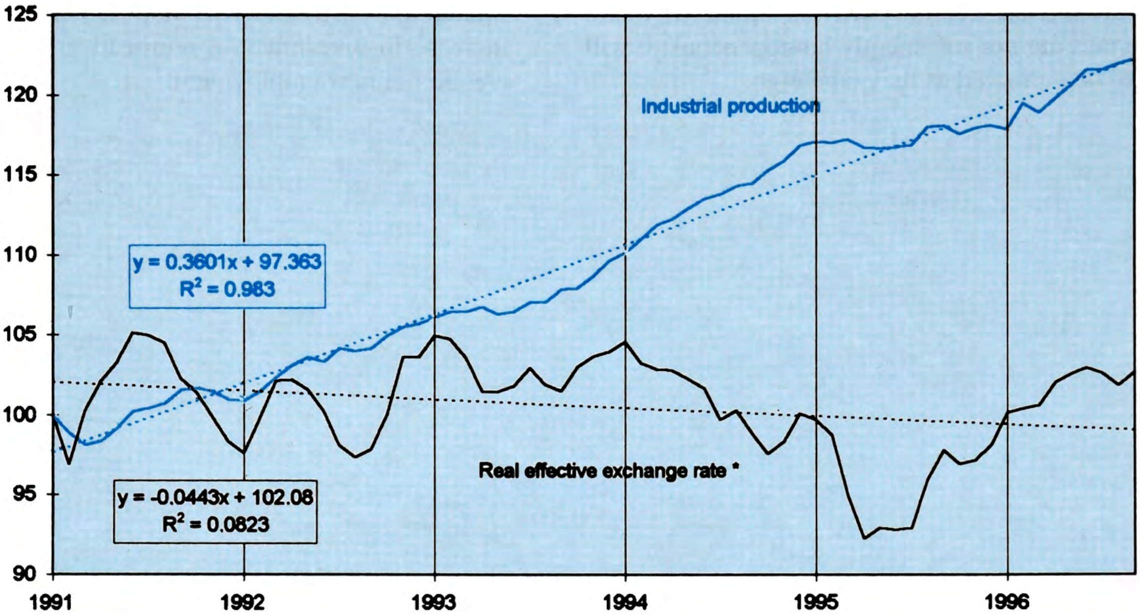
At the regional level the introduction of rigid constraints on exchange rates calls in the first place for strict budgetary discipline. For Europe to become an optimal currency area it will be necessary to overcome the still considerable differences in productive structures, tax regimes and institutions.

The cross-border mobility of goods and capital is high, that of labour inadequate. As things stand today, the free movement of persons is also hindered by economic stagnation. A relatively wide fluctuation band around the central parity is desirable where economies are not sufficiently homogeneous; it will have to be narrowed as they converge.

The success of economic and monetary integration requires policies that will reinvigorate the efforts to harmonize economic conditions in the countries of the European Union, in order to lay the foundations, in a context of monetary stability, for an increase in investment, a return to growth and the creation of new employment.

Figure 1

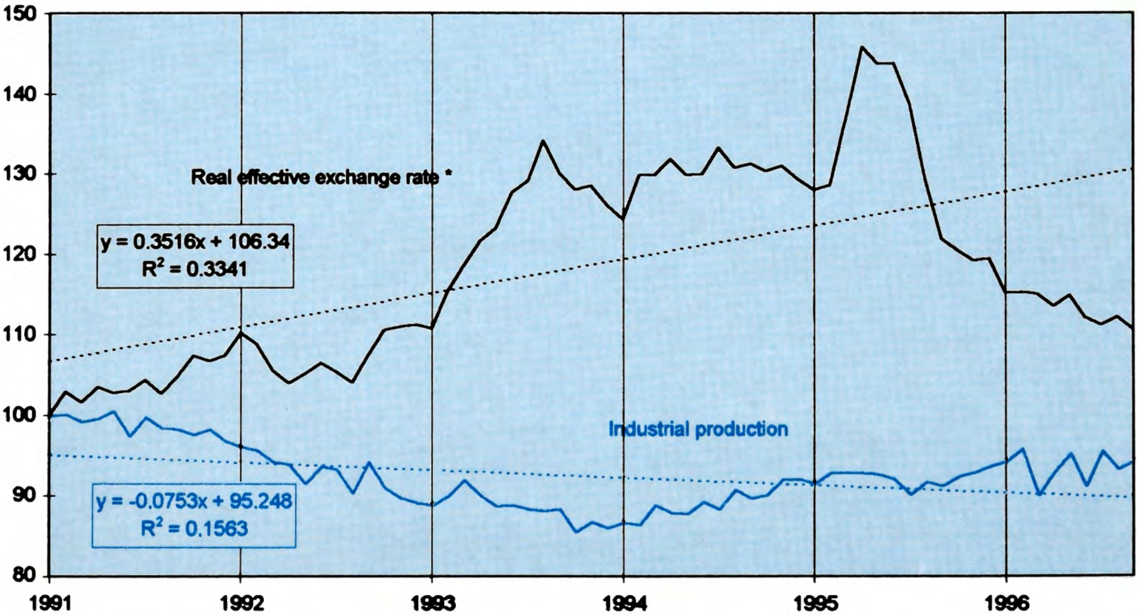
USA: Real effective exchange rate and industrial production
January 1991 - September 1996; monthly data
(January 1991=100)



(*) September '96 data are partly estimated.

Figure 2

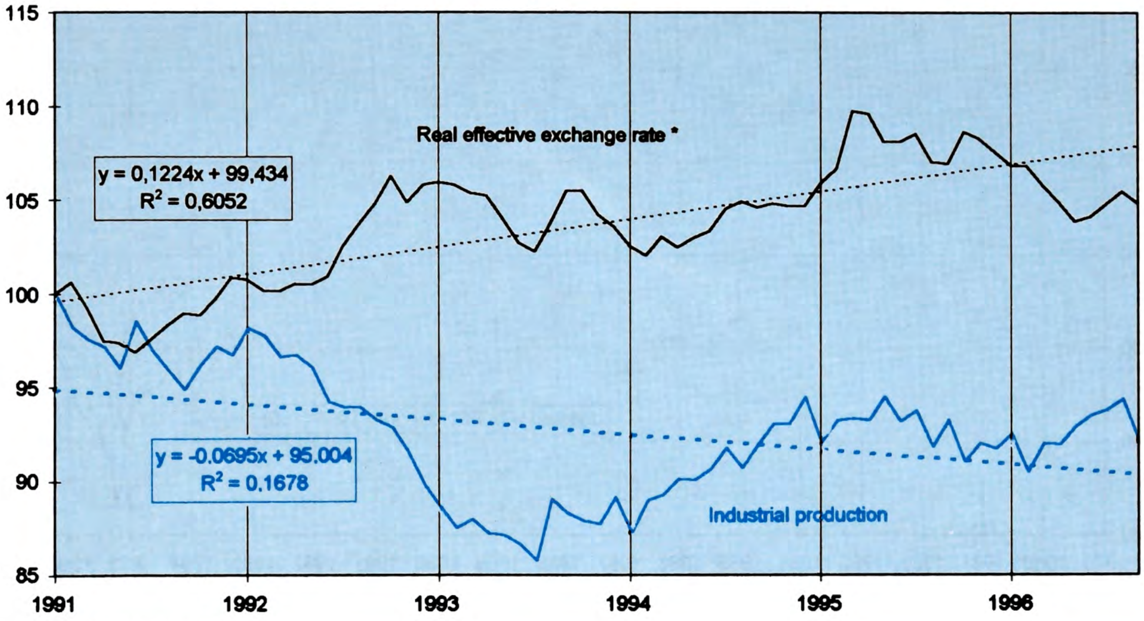
Japan: Real effective exchange rate and industrial production
January 1991 - September 1996; monthly data
(January 1991=100)



(*) September '96 data are partly estimated.

Figure 3

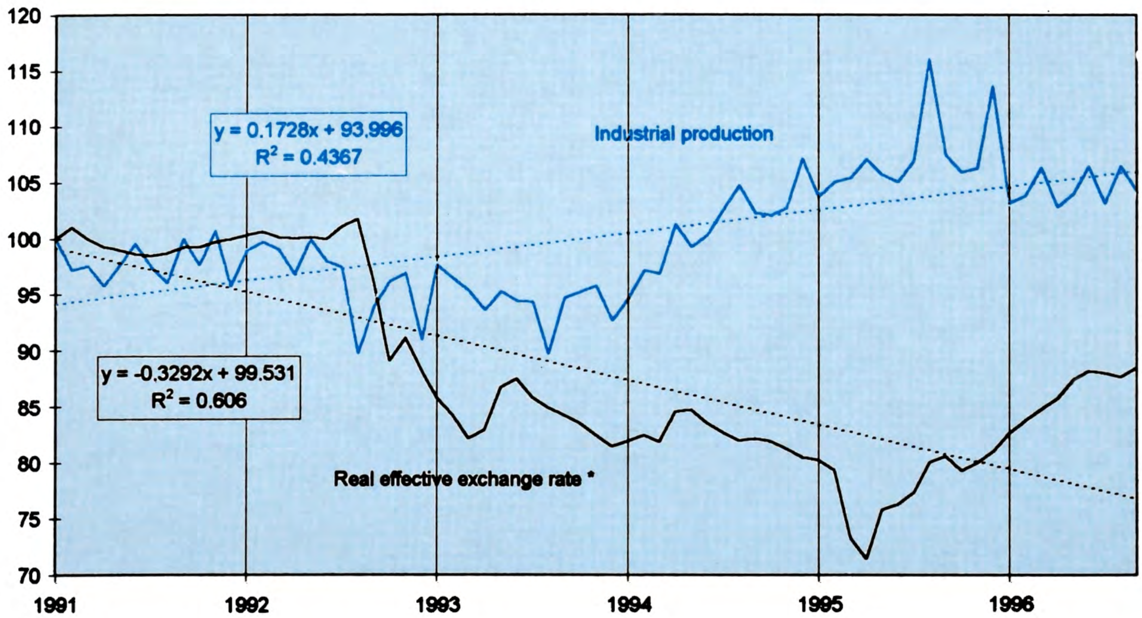
Germany: Real effective exchange rate and industrial production
January 1991 - September 1996; monthly data
(January 1991=100)



(*) September '96 data are partly estimated.

Figure 4

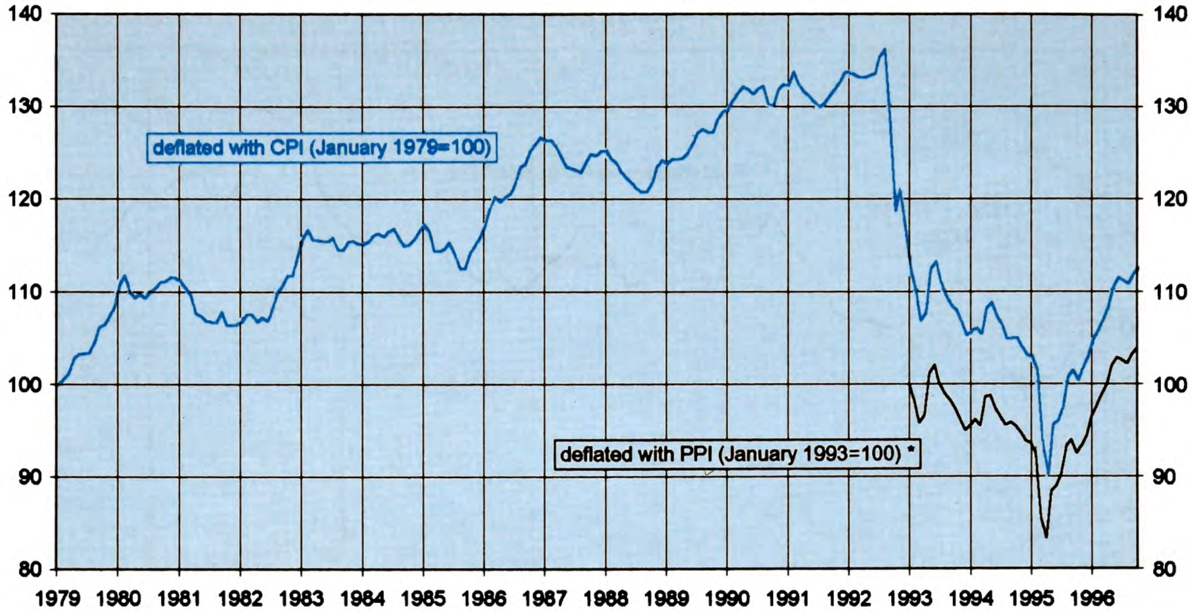
Italy: Real effective exchange rate and industrial production
January 1991 - September 1996; monthly data
(January 1991=100)



(*) September '96 data are partly estimated.

Figure 5

Real effective exchange rate
January 1979 - October 1996; monthly data



(*) September and October '96 data are partly estimated.

The progress of the Italian economy: stability and recovery

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

Milan, 25 January 1997

Yesterday the effective exchange rate of the lira was 5 per cent higher than in December 1994. Compared with the low point reached in the March 1995 currency crisis, the lira has appreciated by 25 per cent. To find a period in which the lira recovered to such an extent and so fast, it is necessary to go back fifty years to 1947.

Inflation, measured on the basis of the cost-of-living index, fell to less than 4 per cent on average in 1996; between June and December it was around 2 per cent on an annual basis. According to preliminary figures, inflation in January of this year was less than 2 per cent.

The net external position of the Bank of Italy, excluding gold reserves, improved from $28 billion at 31 December 1993 to $45 billion at the end of last year.

In 1994 purchases of foreign currency in the market, primarily in the first half of the year, amounted to $7 billion; in 1995 there were net sales totaling $7 billion. In 1996 purchases were renewed, at an accelerating pace from March onwards. Yesterday the foreign currency reserves of the Bank of Italy and the UIC amounted to $35 billion, after using $21 billion to repurchase official ecus and redeem foreign currency swaps and other short-term liabilities.

Foreign exchange interventions have been carried out in such a way as to avoid interrupting the appreciation of the lira. Between 1 March and 22 November 1996 the effective exchange rate rose by 4.7 per cent; the lire needed to buy one German mark decreased from 1,056 to 998.

The lira's re-entry in the European Exchange Rate Mechanism on 25 November 1996 was at the central rate of 990 against the mark and 1,906 against the ecu. The new rate corresponds to a depreciation of 19 per cent compared with that obtaining before the September 1992 currency crisis.

The lira re-entered the ERM after the performance of the economy and an appropriate combination of policies had re-equilibrated Italy's external position, brought a sharp slowdown in inflation and improved the outlook for the public finances.

The surplus on the current account of Italy's balance of payments and the return to external equilibrium provide a solid foundation for the maintenance of the internal and external stability of the lira.

1. The balance of payments

The actions to reduce the budget deficit, the new level of the exchange rate, wage moderation and the stabilization of prices have produced a shift in the composition of demand since 1993 that has permitted growing surpluses on the external current account after a long series of deficits.

The surplus in 1996 is estimated to have been around 70 trillion lire, or 3.7 per cent of GDP. The surplus on goods and services was on the order of 90 trillion and in absolute terms was the largest recorded by the leading industrial countries. The increase of 18 trillion lire compared with 1995 was due to the improvement in the terms of trade, estimated at 4.7 percentage points.

Exports of goods and services, after rising in volume by 10 per cent on average in each of the three previous years, remained basically unchanged. Sales of goods and services to the other EU countries diminished as a result of the weakness of demand, whereas exports to the emerging countries continued to increase at a good pace.

The share of Italian exports in world trade declined compared with the previous year, partly owing to a loss of competitiveness but mainly because of the unfavourable cyclical situation in Europe, where more than half of Italy's exports are directed.

Imports dropped by 2 per cent in volume, compared with increases of 9 per cent in both 1994 and 1995 and a decrease of 8 per cent in 1993; they were affected by the weakness of domestic demand for consumer and investment goods.

The competitiveness of Italian products has diminished compared with 1995, but still shows a large improvement on the period before the September 1992 currency crisis. Measured in terms of producer prices, the real exchange rate of the lira shows a gain of competitiveness of 10 per cent compared with the first half of 1992. In terms of labour costs, the gain is on the order of 18 per cent.

The marked appreciation of the lira in 1996 made a decisive contribution to the stabilization of domestic costs and prices.

The effect of the good trade performance on the exchange rate and market interest rates was reinforced by that of the surplus on capital movements. Portfolio investment abroad continued regularly, generating an outflow of 53 trillion lire; foreign investment in Italy increased substantially to 122 trillion.

2. Italy's external position. The exchange rate of the lira

At the end of 1992 the country's net liabilities amounted to 11 per cent of GDP; at the end of 1996 the ratio was well below 4 per cent.

The current account surpluses that are forecast will bring the net external position roughly into balance by the end of this year and then make Italy a net creditor. Part of the item "errors and omissions" consists of capital outflows that are not recorded in the capital account; accordingly, the country's external position is almost certainly already in balance.

In September 1996 non-residents' holdings of Italian government securities denominated in lire and foreign currency totaled 350 trillion lire, as against 290 trillion at the end of 1995 and 100 trillion in December 1992.

This progression is evidence of foreign investors' growing interest in the Italian securities market, but it is also the result of a policy aimed at diversifying the sources of Treasury finance. It exposes the domestic market, albeit deep and efficient, and government funding to interest rate movements in international markets and to the evaluations and decisions of international investors.

The growing volume of public debt placed abroad is matched by the steady and substantial improvement in the external balance of the private sector. Starting from a net external debtor position of around 90 trillion lire at the end of 1992, by September of last year households and enterprises had built up a net creditor position of around 200 trillion.

The 1992 currency crisis caught Italian households and enterprises severely off balance; the latter, in particular, had built up substantial foreign currency liabilities, trusting in the stability of the exchange rate, even though this confidence was at odds with the expectations implicit in the significantly lower cost of borrowing in foreign currency compared with that in lire.

The depreciation of the lira resulted in Italian firms incurring heavy losses. In the last few months of 1992 they began to reduce their foreign currency liabilities and build up their foreign currency assets and continued to do so on a major scale in the following years. The private sector's gross external liabilities, about three quarters of which consisted of borrowings by non-financial enterprises, remained virtually unchanged at around 450 trillion lire; their composition changed, however, as the foreign currency share fell sharply.

On the other hand, the external assets of enterprises, households and other non-bank operators rose from 370 trillion lire at the end of 1992 to 650 trillion in September 1996, with a significant increase in the proportion denominated in foreign currency.

The recovery of the lira began in the spring of 1995, partly in response to domestic agents' perception of the return to a balanced external position in foreign currency.

Compared with a net external debtor position in foreign currency of 52 trillion lire in 1992, at the end of 1995 households and enterprises had already built up a net creditor position of 118 trillion. In September 1996 this had risen to 126 trillion.

In 1996 a major contribution to the improvement in the exchange rate came from the net sales of foreign currency against lire by non-residents for portfolio investment purposes.

In the 1992 currency crisis the official reserves, acquired in connection with short-term capital inflows, proved evanescent in defending the exchange rate.

The central bank's foreign currency reserves are now part of an external position that is balanced overall and in surplus for the private sector.

The domestic savings accumulated in Italy over the years is now again equal to, and in prospect will exceed, the sum of the country's capital stock, created through public and private investment, and its huge public debt, contracted principally to finance the current spending of the public sector.

3. The global market

The growing international integration of the Italian economy has profoundly affected the composition of financial assets and liabilities.

The share of foreign assets, which accounted for 9.7 per cent of internal sectors' total assets at the end of 1989, has risen in the nineties and was equal to 14 per cent at the end of the second quarter of 1996.

The proportion in Italy is now similar to that in France; in Germany it is higher, at around 20 per cent. Neither in these two countries nor in the other leading industrial countries has it changed significantly in the nineties.

The ratio of residents' foreign financial assets to GDP is around 50 per cent in Italy, 90 per cent in France and 80 per cent in Germany.

The diversification of Italian saving through investment abroad will continue in line with the development of the financial system.

The growth in Italy's foreign assets in the last few years has been accompanied by a rapid increase in its foreign liabilities.

The total financial assets of the leading industrial countries rose from 510 to 550 per cent of GDP between 1989 and 1994. Most saving and investment in these countries still has a domestic counterpart; the share of total financial assets with a foreign counterpart is around 10 per cent and equal to around 50 per cent of GDP.

The total of the six leading countries' holdings of foreign bonds and shares is equal to some $4 trillion, or roughly one quarter of their GDP.

International financial integration has led, especially in the nineties, to the emergence of a single, world market for currencies and securities linking all the leading national markets.

In this global market the pricing and trading of financial instruments are affected by the underlying performance of the international economy as a whole. The pattern appears to depend above all on the tendency prevailing among instruments denominated in dollars.

The influence exerted by US financial markets, and to an even greater extent by dollar-denominated instruments, predominates in the world economy.

The financial assets and liabilities of the United States, including those with both domestic and foreign counterparts, account for nearly 40 per cent of the corresponding totals for the six leading industrial countries. Japan's share is only slightly smaller, while Germany accounts for around 8 per cent of the total and Italy 4 per cent.

The close links with the dollar of the currencies of Latin America and many of the emerging South-East Asian countries increase the importance of the US currency in determining the international financial cycle.

The correlation between the yields on medium and long-term securities across national markets appears to be close. Differentials tend to be larger during currency crises; when conditions are calmer and inflation rates converge, yields become more closely correlated and differentials smaller.

The yields on short-term assets are controlled by national monetary policies. In recent years there has been a notable reduction in the power of central banks to control long-term yields directly.

Superimposed on the underlying pattern of long-term rates in international markets there is a set of differentials that reflect the inflation expectations present in each country and the related medium-term expectations concerning the exchange rate.

The response of long-term yields to a change in official rates depends on the conditions in the economy, the economic policies in force and, in particular, on the stance and firmness of monetary policy.

The experience of the last few years in financially open economies with exchange rate flexibility between the major areas confirms the effectiveness of monetary policy in controlling inflation. This, in turn, exerts an influence on expectations and yield differentials, and thereby on the level of long-term interest rates.

The mechanism is well known in monetary theory. To the extent that monetary control is effective, it is able to influence inflation expectations and thereby interest rate differentials and hence the nominal yields on long-term securities.

At the beginning of 1995 we announced our intention of raising short-term rates with the aim of curbing, reversing, the increase in the very high yields on long-term securities.

In the currency crisis of spring 1995 the yield differential between long-term Italian and German securities widened to 660 basis points. The budget adjustment measures adopted, the performance of the external accounts and the improvement in inflation expectations caused the gap to narrow over the rest of the year.

In January of last year the yield differential with respect to Germany was still around 450 basis points; the more stable political climate and the further improvement in inflation expectations resulted in its narrowing to around 300 basis points at the end of May. The substantial budget adjustment announced in the autumn of last year, the approval of the Finance Law for 1997 and the further slowdown in inflation have reduced the differential to around 150 basis points.

As things stand today a reduction in official rates by a country's central bank is effective if it is ratification of more favourable inflation expectations. These, in turn, must be rooted in the performance of the public finances and costs. History shows many cases where the inconsistency of other policies with the objectives has resulted in longer-term rates rising instead of falling in the wake of an easing of monetary policy.

4. Market participants and the allocation of funds in the international market

The growing openness of national financial systems has accelerated the development of the market for Eurocurrencies, especially that for cross-border deposits and loans. Institutional investors, banks and the other participants in the global market need liquid funds to carry out their financial transactions.

Dollar deposits outside the United States are equal to 70 per cent of the US money stock. The ratio for the mark is slightly lower at 63 per cent; for the pound sterling and the French franc it is 13 and 16 per cent respectively.

Following the complete liberalization of Italian short-term capital movements, in the spring of 1990 the Eurolira market also began to expand rapidly. It is now larger than the corresponding markets for the Swiss franc, the French franc and the pound sterling.

At the end of the second quarter of 1996 the stock of Eurolire amounted to 340 trillion lire, or 30 per cent of the Italian money stock. London accounts for a major part of this market.

The mass of lire traded in the international financial market reflects a demand for financial transactions that focuses mainly on the secondary market for Italian government securities, though the demand for Eurolira bonds and derivatives is growing. The rapid expansion of this market and the size it has grown to, despite the reduction in yield differentials, are evidence of market participants' increased confidence in the lira.

The last few years have seen the activity of institutional investors in the global market grow at a rapid pace. At the end of 1995 such intermediaries in the United States, Europe, Asia and Oceania with balance sheets of at least $10 billion had total assets of $21 trillion.

These intermediated funds are equal to about one fifth of the estimated value of the six leading industrial countries' total financial assets with domestic and foreign counterparts, and equal to three times the GDP of the United States and twenty times that of Italy.

Institutional investors place the bulk of the funds they raise in their national markets; they are nonetheless of considerable importance in the international allocation of funds in view of how they make their investment choices and the scale of their investments.

In Italy, as in other leading countries, a large part of the funds invested abroad by enterprises and especially households is channeled through such intermediaries. They reallocate their resources according to the importance of the various economies, taking account of exchange rate expectations, yields and risks.

The proportion invested in each country is determined on the basis of portfolio optimization criteria; the amounts involved are large enough to affect securities prices even in medium-sized financial markets.

At the end of 1995 European institutional investors had raised $7.5 trillion. They are estimated to have invested 78 per cent of their resources, or $6 trillion, in shares and bonds. Around $2 trillion, or roughly a quarter of the total volume of intermediated funds, was invested outside the intermediary's home country.

The funds raised by US institutional investors amounted to $8 trillion at the same date and they had invested 80 per cent of the total in shares and bonds, a figure close to that for European institutional investors. In view of the depth and diversification of the US market, the greater part of these intermediaries' resources was invested in domestic securities; nonetheless, 11 per cent, or around $900 billion, was invested in shares and bonds in foreign markets.

Although institutional investors in Asia and Oceania had also invested domestically most of the nearly $5 trillion of funds they had raised at the end of 1995, their international investments in shares and bonds are nonetheless estimated to have amounted to $400 billion.

Taken together, these institutional investors held more than $15 trillion of domestic and foreign shares and bonds at the end of 1995, corresponding to around 35 per cent of the stocks of such instruments issued by the leading industrial countries.

These intermediaries' investments in shares and bonds issued outside their home countries exceeded $3 trillion.

The configuration of exchange rates and interest rates generated in international markets interacts with the financial variables of national markets. In addition to the fundamentals of each economy, an important role is played by all the information permitting the assessment of the authorities' ability to implement policies aimed at achieving growth in conditions of stability.

5. The 1995 currency crisis and the control of inflation

In the early months of 1995 the Mexican crisis and the weakening of the US dollar prompted substantial and sudden shifts of funds out of the weaker currencies into those considered to be stronger. In addition to the US dollar, the Canadian dollar, the pound sterling, the Swedish krona and the Spanish peseta also weakened considerably. The lira was hit hard: between mid-February and mid-March it depreciated by 15 per cent.

The identification of a currency as weak or strong is linked to the general conditions in the economy, notably as regards the state of the public finances, the external position and the solidity of the country's institutions. In the background there are the stability of the currency's purchasing power, competitiveness, the outlook for economic growth and the availability of saving and the uses to which it is put.

In Italy wage moderation made it possible to avoid a cost-price spiral, but the increase in consumer prices and the depreciation of the lira caused a marked deterioration in expectations. Opinion surveys revealed that a surge in inflation was expected.

At the same time as supplementary budget measures were adopted in February 1995, we raised the official discount rate and the rate on fixed-term advances; in May we raised them again.

Monetary growth was drastically curbed.

At the General Meeting of the Bank's shareholders on 31 May 1995 we announced the objective of slowing inflation in the second half of the year; we pointed out that it was both possible and essential to reduce inflation to less than 4 per cent on average in 1996.

Towards the middle of the year inflation expectations began to improve significantly.

Market yields on government securities started to come down, especially for longer maturities; the lira strengthened, partly owing to the appreciation of the dollar.

On 31 May 1996, in addition to confirming that the conditions existed for inflation to fall below 4 per cent in 1996, we stated that it would be possible to achieve a more ambitious target in 1997: an inflation rate of less than 3 per cent.

Between May and December of last year the average monthly rate of inflation on an annual basis was close to 2 per cent.

The survey of consumer price expectations carried out last September indicated a rate of inflation of between 3 and 3.5 per cent in the first quarter of 1997. The survey carried out in December indicated a rate of between 2.5 and 3 per cent for the first half of this year.

6. The outlook

After the breakdown of the gold exchange standard all countries' currencies became of a purely fiat nature. This is a new epoch in monetary history.

International capital movements tend to expand, with a multiplication of money and credit at the global level that makes it increasingly difficult for authorities to exercise quantitative control.

The volume of funds traded, the rapidity with which they can be shifted and the sensitiveness of market participants to economic and metaeconomic information can generate tensions in financial markets and influence the quotations of currencies and securities, with significant effects on economic activity and prices, even in medium-sized economies.

Greater monetary stability in Europe not only benefits individual economies but also contributes to the solidity of the international financial system.

The weakness of the economic cycle and the curbing of inflation have led to a fall in interest rates. Easier monetary conditions have been a major factor underlying the rise in bond and share prices.

Monetary stability, public finances in order and flexible productive structures and factor markets are necessary to protect individual economies from destabilizing speculative movements, to enable them to share in the benefits of the global market and economic and financial integration in Europe.

This is the context in which policies must be implemented to permit the full employment of all the available resources of labour, saving and physical capital.

In the last four years Italy has made significant progress in re-equilibrating its external position, curbing the budget deficit and controlling inflation.

In 1996 the slowdown in inflation permitted a substantial fall in interest rates; the Treasury's spending on this item declined in absolute terms, despite the increase of 6 per cent in the stock of debt. The improvement in the budget deficit suffered a setback, however. The overall borrowing requirement grew in absolute terms and remained unchanged in relation to GDP at 7.4 per cent. The supplementary budget measures adopted in the middle of the year failed to prevent a large overshoot on the order of 30 trillion lire compared with the original target set in September 1995.

In the Forecasting and Planning Report published last September the Government increased the 1997 budget adjustment to 62.5 trillion lire, compared with 37.5 trillion envisaged in the Economic and Financial Planning Document. This is a demanding commitment that is already having beneficial effects on government securities prices and the financial markets.

As I pointed out in my Parliamentary hearing on the Finance Law, the forecasts of the borrowing requirement in 1997 reflect highly favourable assessments concerning the primary surplus; these are only compensated for in part by the significantly better-than-forecast behaviour of interest rates.

The lower level of the primary surplus in 1996, with a shortfall of around 20 trillion lire compared with last September's estimates, will have repercussions on the results in 1997; these will also be affected by the cyclical slowdown that started at the beginning of 1996 and became more pronounced in the last part of the year.

The adjustment of the budget deficit will have to be pursued by curbing the growth in expenditure. On the revenue side it will be necessary to reduce tax avoidance and evasion. Further fiscal tightening would have adverse effects on domestic demand and prices.

In order to create confidence in a return to equilibrium in the medium term, budget adjustment measures will have to be of a structural nature.

There is an urgent need to revive growth.

Italy, like many other leading European countries, is far from making full use of its resources of saving, labour and entrepreneurial ability, with consequent economic and social costs.

In cyclical terms the level of economic activity remains unsatisfactory.

According to the latest forecasts, the growth in GDP in 1997 will be just over 1 per cent.

The trade surplus will remain large, as will the surplus on the current account of the balance of payments, thereby contributing to a further improvement in the country's external position and providing support for the lira.

It will be necessary to modify the composition of public expenditure, by reducing that on current account, in order to release the resources needed to return public investment to a normal level. In the last few years this component has fallen by around one percentage point of GDP. Investment will need to be directed to the areas and sectors where the shortfall in public infrastructure is greatest, to the benefit of productivity and, above all, of employment.

The latest reduction in official rates, following that enacted in 1996, was made possible by the improvement in both actual and expected inflation. Together with the ample availability of saving, it also creates the conditions for a higher level of private investment.

The fall in market interest rates will be locked in only if permanent price stability is achieved.

Monetary stability, consolidation of the public finances and economic growth are three closely interrelated objectives. The experience of recent years shows that failing to achieve even one of them necessarily jeopardizes the other two.

The establishment and maintenance of the virtuous circle is likely to be interrupted by the reappearance of inflationary pressures, which can be engendered by labour costs, pricing policies that are shortsighted and unresponsive to competitive stimuli, by an insufficient reduction or excessive expansion of the budget deficit.

Monetary policy will remain firmly directed towards producing an expansion of money and credit that will permit balanced growth of the economy in conditions of broadly stable prices.

The rise in the incomes of those already working must not hinder the creation of employment. A smaller absorption of saving by the public sector will make resources available for investment. These are the conditions for removing the most acute, most socially unacceptable, forms of unemployment, which have been aggravated by the events of the last few years. They will allow a host of young people with qualifications and a desire to contribute to the development of our economy and society to become active members of the labour force.

Evolving supervisory standards in advanced market economies

Remarks by the Deputy Director General of the Bank of Italy and Chairman of the Basle Committee on Banking Supervision, Tommaso Padoa-Schioppa, to the International Monetary Fund Seminar on Banking Soundness and Monetary Policy in a World of Global Capital Markets

Washington, D.C., 28 January 1997

1. The Basle Committee's structure and work

Only a very small proportion of the Bank of Italy's staff (around 100 people out of 9,500) is directly involved in monetary policy, compared with over 60 per cent assigned to payment system functions and some 10-20 per cent dealing with supervisory matters. I imagine the situation at other central banks charged with supervisory tasks is similar. Nevertheless, international cooperation in the fields of both payment systems and banking supervision started much later than that in the field of monetary policy. In fact, it was not until the middle of the 1960s that an international banking system came into existence and international financial markets began to develop.

The Basle Committee on Banking Supervision was established in 1975 by the central-bank Governors of the Group of Ten countries, in the aftermath of serious banking crises that jeopardized financial stability worldwide. The key event that prompted the creation of the Committee was the Herstatt bank crisis in Germany, and the resulting instability. In my view, the underlying reason for the Herstatt failure was basically the same as that which led to the collapse of the Bretton Woods system: the replacement of the authorities by international banks in the functions of determining capital flows and exchange rates.

The emergence of an international banking system and the growth of international financial markets profoundly changed the monetary order that had been established at Bretton Woods after the Second World War. They also caused banking supervision, which until then had been a domestic matter, to become a matter of increasing international concern.

The Basle Committee consists of senior representatives of central banks and banking supervisory authorities from the G-10 countries, Luxembourg and Switzerland (around 25 people altogether). Government officials do not take part in the Committee's quarterly meetings, which are normally held at the Bank for International Settlements (BIS).

The Committee works through sub-groups and task forces of members, charged with thrashing out the technical aspects of its decisions, and has a permanent Secretariat, located at the BIS, which provides administrative and technical support.

In seven of the twelve countries represented (Belgium, Canada, Germany, Japan, Sweden, Switzerland and the United States) banking supervisory functions are shared between the central bank and a separate agency. The involvement of non-central-bank institutions gives the Committee a very special status. Although the central-bank Governors are regularly briefed on its work and their approval is sought for all its major initiatives, the Committee is not formally subject to the Governors and accordingly adopts its own decisions and publishes documents in its own name and not as BIS or central-bank papers.

The task of the Committee was originally rather vague: to develop cooperation among supervisory bodies and improve methods for detecting symptoms of financial fragility at international banks. During its 22 years of activity, the Committee has increased its authority and it is now recognized as the international rule-making body in the field of banking supervision.

Today, I would say that the Committee's key objective is to strengthen international cooperation and improve the quality of banking supervision worldwide. This is by no means easy to achieve; there are many different ways in which the goal can be pursued and many variables that have to be taken into account.

2. The Committee's main accomplishments

Over the years the Committee has produced documents with a varying degree of "normative" force: reports, recommendations and "best practices", which leave individual authorities free to implement the detailed arrangements best suited to their own national systems, and agreements of a binding nature, whereby member countries commit themselves to implement and enforce the rules laid down by the Committee.

A wide range of issues has been covered, including: the management of banks' international lending (1982); the prevention of criminal use of the banking system for the purpose of money-laundering (1988); the relationship between banking supervisors and external auditors (1989); the measurement and control of large credit exposures (1991); asset transfers and securitizations (1992); a framework for measuring and managing liquidity (1992); risk management guidelines for derivatives (1994), the framework for supervisory information about the derivatives activities of banks and securities firms (1995), the public disclosure of the trading and derivatives activities of banks and securities firms (1995 and 1996); the supervision of financial conglomerates (1995); the management of interest rate risk (1997). Among the documents with "hard" normative status, two stand out for their scope and impact: the Basle Concordat and the Capital Accord.

The *Concordat* was drawn up in 1975, revised in 1983 (in the wake of the Banco Ambrosiano affair) and again in 1990. Its main purpose was to allocate responsibilities for the supervision of banks' foreign establishments between home- and host-country supervisors. In 1992 (after the BCCI crash), the Committee added its so-called minimum standards, i.e. the basic principles for the supervision of international banking groups. Just as diseases bring advances in medicine, banking crises bring advances in supervision.

The adoption of consolidated supervision is one of the key aspects of the Concordat, with its corollary of free flows of information between home- and host-country supervisors. The underlying principle is that the individual components of a banking group cannot be supervised only on a solo basis, because public policy would be seriously weakened if some subsidiaries were able to escape control.

The principle of consolidated supervision first took on importance in international cooperation, but it was quickly incorporated into domestic arrangements. No system could feel safe if that "rule" was not complied with. But it is not an obvious principle, and in many countries it is still not adopted outside the field of banking supervision. In the United States, for instance, there are the so-called unregulated subsidiaries of securities firms, which can carry on business without having to comply with the regulatory requirements laid down for their parent companies.

The issue of supervising international banks has recently been addressed again in the Committee's paper on the *Supervision of cross-border banking*, which was released in October 1996 with twenty-nine recommendations aimed at removing obstacles to effective consolidated supervision. The supervisors from 140 countries gathered at the International Conference of Banking Supervisors held in Stockholm in June 1996 endorsed the document and stated their intention to seek changes in national legislation where necessary in order to facilitate implementation. This is in line with the Lyon Summit recommendations concerning the stability of the global financial system. Provision has been made for a review of progress in 1998.

The *Capital Accord* was adopted in 1988 in response to the growing concern of most of the members of the Basle Committee that the capital base of internationally active banks was being dangerously eroded. Prior to its introduction there had been major disparities in national supervisory practices regarding capital adequacy. The absence of a common system of measurement meant that it was nearly impossible to make meaningful cross-country comparisons and difficult to raise prudential standards without creating competitive distortions.

Against this background, the Accord set out to achieve two important objectives: first, to strengthen the soundness and stability of the international banking system by requiring banks to hold adequate capital and, second, to remove the competitive inequality arising from differences in national supervisory requirements. It has been successful in establishing a generally-accepted yardstick for measuring capital adequacy and has provided a global "superhighway" for monitoring the capital adequacy of banks.

The extension of the capital requirement to off-balance-sheet items was a key aspect of the Accord, just as consolidated supervision had been a key aspect of the Concordat. In some countries using only the leverage ratio to measure capital adequacy had actually provided an incentive for banks to expand their off-balance-sheet business.

The focus of the Accord was primarily on capital adequacy in relation to credit risk, i.e. the risk of the counterparty of a bank failing to meet its obligations. To arrive at a common framework, the Committee devised a "tiered" capital framework, requiring banks to hold minimum levels of core and supplementary capital in relation to their on- and off-balance-sheet assets, weighted according to broad categories of relative riskiness.

In January 1996 the Committee amended the 1988 Accord to apply capital charges to *market risks*. The aim was to provide an explicit capital cushion against losses arising from movements in market prices on both on- and off-balance-sheet positions. These risks typically concern debt and equity instruments in the trading book and related off-balance-sheet contracts, as well as foreign exchange and commodities trading. Banks must incorporate the new market risk capital charge into their risk-based capital ratios by the end of 1997.

The amendment to the Accord requires banks to calculate a capital charge for market risk using either a risk-weighting process developed by the Committee (the standardized approach) or their own internal risk-measurement models. In order to ensure a sufficient degree of prudence, transparency and consistency of capital requirements, the Committee has imposed a number of quantitative and qualitative criteria for banks wishing to use their own internal models. The market-risk amendment also allows banks, at the discretion of national supervisors, to extend the definition of capital to include short-term subordinated debt subject to a lock-in clause (tier 3 capital).

The introduction of an explicit capital charge for such risks is an important further step in the process of strengthening the soundness and stability of the international banking system and financial markets in general. It is also an example of the flexible regulatory approach with which the Committee has responded to the challenge posed by the many changes that have occurred in the financial environment in the last decade. By "going with the grain of the market", it takes advantage of the latter's expertise and innovative drive to carry out supervisory tasks more effectively. I will come back to this issue later.

3. Priorities for future work

The dramatic changes that have occurred over the last two decades in technology, market practices and regulatory approaches have blurred the boundaries that used to segment the financial industry. The key concepts are globalization, unrestricted capital flows, continuous financial innovation, and instant communication and data processing. These developments have tilted the balance of power from governments to markets and posed new challenges for supervisors and regulators. The Basle Committee has responded with a gradual but significant shift of emphasis in its priorities. Without abandoning its "core business", the prudential supervision of the banking industry, the Committee is focusing on four issues. Two I will touch on in only a cursory way (widening the scope from international banks to all kinds of banks and strengthening prudential standards beyond G-10 countries), while I shall look more closely at the other two (bringing banking supervision closer to the market and increasing cooperation with other supervisors).

4. Growing attention to domestic banks

The Basle Committee originally addressed supervisory problems arising in connection with the international banks of G-10 countries. Its rules were aimed at ensuring a level playing field and at discouraging "competition in laxity" so as to reduce potential causes of financial instability and risks of contagion.

Over time, Basle-related prudential standards came to be increasingly applied by national regulators to all kinds of banks, irrespective of the domestic or international nature of their activities, since it proved easier to monitor the compliance of the banking system with just one set of rules than to establish two different standards. This has helped to improve supervisory standards and foster fairer competition at the national level. It has also reduced the risk of a major international crisis arising as a result of instability in a domestic banking system.

5. Strengthening prudential standards beyond the G-10

A similar rationale underlies the Committee's effort to help countries promote sound banking through supervision. In a global financial market, multiple channels of transmission of financial instability make each national system vulnerable to problems originating elsewhere.

The Basle standards were originally designed for, and applied to, the internationally active banks of the industrial countries represented in the Committee. From its early years, however, the Committee has played a leading role in the worldwide development of prudential standards through various forms of cooperation with supervisors outside the G-10: bilateral relationships with other countries, regular contacts with regional groups of non-G-10 banking supervisors (of which there are nearly ten today), and training courses. A survey conducted in advance of the 9th International Conference of Banking Supervisors held in June 1996, showed that 92 per cent of the more than 130 countries in the sample followed a Basle-like risk-weighted approach to capital adequacy and that around 80 per cent consolidated financial and prudential information on banks' global operations.

In the wake of that Conference, and in agreement with the IMF, the Committee decided to prepare a document laying down the *Core Principles* for both G-10 and non-G-10 countries to comply with in order to have a sound supervisory system. The document is being drafted by a joint group of Basle Committee and emerging market supervisors, and comments will be invited from the supervisors of other countries. The Committee has also decided to prepare a *Compendium* of the major policy documents it has produced in recent years for the convenience of supervisors worldwide.

6. Bringing supervision closer to the market

Globalization, the lifting of restrictions on capital movements, continuous financial innovation and the shift in the balance of power from governments to markets have shown that coercive regulatory measures aimed at preventing undesirable behaviour can produce perverse incentives and be excessively burdensome for the industry. The approach to supervision adopted in response to the banking crises of the 1930s was based on administrative controls, market segmentation, limits to competition and sectoral barriers. In the end, if not actually detrimental, it proved ill-suited to a financial environment undergoing rapid change. A more fruitful response is *market-friendly supervision*, which seeks to enhance the market's ability to produce satisfactory equilibria.

Under this approach, supervisory measures aimed at ensuring financial stability have to be developed within rather than outside the market. Such measures are justified where the results produced by the market are inefficient and where the regulator uses instruments that minimize interference with entrepreneurial choices, imitate market discipline and create incentives for banks to avoid excessive risk and prevent fraud. Market discipline is sometimes lacking because the market itself is missing. This does not necessarily entail financial instability — sometimes the opposite is true — but it is generally agreed that the creation of new markets yields efficiency gains for the economy as a whole.

Market-friendliness was the approach that supervisors decided to follow when banks' cross-border activities began to expand rapidly in the 1980s. The internationalization of banking business was taken for granted; instead of a non-cooperative response aimed at restoring national barriers, the Committee decided to match increased international banking with increased international cooperation and strove to establish sound supervisory standards on a worldwide basis. Since the Committee was faced with different regulations in member countries, it was natural for it to proceed by drawing on the banking industry's best practices in risk control and providing the right incentives.

The involvement of the regulated industry in the process of designing supervisory standards is another essential part of our method. The proposals put forward by the Committee over the years were developed by working groups with close links to the banking industry and formal consultation with market participants and other interested parties has become a common procedure and an important help. This process, far from making supervisory authorities the "hostages" of the regulated institutions, encourages pragmatic solutions consistent with market discipline and best industry practices.

The *Capital Accord* — and especially the January 1996 amendment — can be seen as a major innovative step towards greater neutrality, transparency, consistency and flexibility in the relationship between banks and regulatory requirements. It is a much more market-oriented approach to banking supervision than the previous one, based on direct case-by-case authorization. The Capital Accord is a complete change in this respect since it leaves banks entirely free to choose the assets they acquire and fully responsible for their choices.

In planning its work for the years to come, the Committee has recently decided to increase its initiatives to spur the regulated industry to produce antibodies against excessive risk, at the level of both individual firms and the market. This will be achieved by requiring effective *internal controls* and promoting *market discipline* through more extensive disclosure of information. Internal controls, market discipline and *capital adequacy* are the three main fronts on which banking stability can be pursued. The more is achieved on the first two, the less will be left for more traditional supervisory instruments to do. The three sub-committees that support our work have recently been restructured to reflect this three-pronged approach.

A number of special topics will also be addressed. They have been chosen either because they are of immediate concern to supervisors or because they indirectly affect the outcome on the three main fronts mentioned above. Innovations in *payment systems* and *electronic money* and *banking* fall in the first category. The Committee intends to identify the supervisory problems — if any — to which such developments give rise. *Accounting standards* fall in the second category. The Committee feels that weak and heterogeneous accounting standards risk undermining prudential requirements and market discipline. It therefore plans to start working in this field.

7. Increasing cooperation with non-bank supervisors

Inter-agency cooperation has become necessary, if not imperative, in view of the dramatic changes that have occurred in the financial industry. The simple environment we were familiar with (three basic types of financial contract: debt, equity and insurance; three basic types of financial institution: banks, securities firms and insurance companies) no longer exists. Not only do geographical frontiers now count for little but the traditional functional and institutional boundaries have become increasingly blurred. This is especially true for the banking and securities industries. In order to preserve financial stability, the only feasible response — short of establishing a global supervisor, which hardly appears realistic — is to work together to develop common minimum standards. Accordingly, information flows among supervisory authorities need to be as unrestricted as possible, at both the national and the international levels. Another key objective should be to develop a set of principles for the effective supervision of financial conglomerates.

Cooperation between authorities responsible for different segments of the financial industry has been under way for a number of years, notably between the Basle Committee and the Technical Committee of IOSCO, which have issued joint documents on exchanges of information between banking and securities supervisors, risk management guidelines for derivatives, supervisory reporting for derivatives and disclosure of trading and derivatives activities. Some years ago an attempt was made to find common ground on capital requirements for trading books. Despite considerable efforts on both sides, no agreement was reached on that occasion. However, the lines of communication established between the Basle Committee and IOSCO have permitted the exchange of information on ongoing projects and some joint work has been done on the use of internal models. The Committee remains convinced that attaining a consistent approach among bank and securities supervisors depends on progress in this key area, as has now been recognized within the European Union. A breakthrough does not appear imminent, but the Committee and IOSCO will continue to work together.

The issue of inter-agency cooperation has attracted the attention of heads of state. The Halifax and Lyon G-7 Summits both addressed this subject and the Halifax communiqué called for "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". In response to this call, the Basle Committee and IOSCO sent a Joint Statement to G-7 Ministers in May 1996, confirming their intention to cooperate in the supervision of global markets and announcing a Joint Initiative to "promote additional collaborative arrangements in the supervision of diversified financial groups". The implementation of the initiative is now under way in the Joint Forum on Financial Conglomerates, consisting of members of the Basle Committee, IOSCO and the International Association of Insurance Supervisors (IAIS). The Joint Forum is currently "mapping" the structure of several international conglomerates in order to gain an insight into their organization and formulating basic principles for the accurate assessment of the capital adequacy of conglomerates on a group-wide basis.

Cooperation and information-sharing among supervisors of different countries and different segments of the financial industry have made considerable progress, in spite of all the obstacles. Much remains to be done, however, especially in the areas of financial conglomerates and capital requirements for market risks, and it has to be acknowledged that substantial progress does not appear to be within easy reach. Before becoming really effective, the process that has been set in motion will have to overcome many difficulties, largely as a result of the significant institutional differences between sectors, which are often of a domestic nature and embodied in legislation.

8. Conclusion

In the field of banking supervision, the Basle Committee has responded to the need for international cooperation and common prudential standards created by the breakdown of the Bretton Woods system and the transition from government-determined exchange rates and segmented financial markets to a world where capital flows and exchange rates are determined by market forces.

The experience of the last two decades shows that the institutional traits and working methods of the Basle Committee have been well suited to the task of grappling with the problems raised by the internationalization of banking. Looking ahead, the Committee is ready to go on playing its role to the full and to meet the expectations of the financial community.

Italy in 1997: the economy in perspective (*)

Remarks by the Deputy Director General, Tommaso Padoa-Schioppa, to the Italian Chamber of Commerce for France

Paris, 10 March 1997

I should like to begin by thanking the Italian Chamber of Commerce for France and its eminent chairman for inviting me here this evening. Your presence testifies to your interest in my country and in the prospects for its economy.

If I had the right to an elective fatherland in addition to that determined by language and by passport, a natural choice would be France, for both family and professional reasons.

My paternal grandmother belonged to a French family that had left Saint Germain en Laye in Napoleonic times to move to the Naples of Joachim Murat. She herself spent ten years in Paris, where my grandfather ran the French branches of Assicurazioni Generali. For myself, I owe to the French friendships I established in youth my choice of a public service career, not a common one in my northern Italian milieu. Many years later, at the European Commission in Brussels and in Italy, my mentors in the life of the European Community were François Xavier Ortoli and Jacques Delors.

In Italy, when we speak of the French we often call them "our cousins beyond the Alps"; and you often refer to Italians in the same way. This is an expression that neither you nor we apply to any other people and that testifies to our historical ties and the cultural affinity that unites us.

Not only has each of our countries been marked by the other in the most diverse spheres; each has frequently been the active agent and discloser of its neighbour's talents. Who knows if Italo Svevo and Luigi Pirandello would have been celebrated without the reviews of Valéry Larbaud and Benjamin Crémieux, which revealed these authors to the Italians themselves? We feel flattered by the fact that Stendhal called himself "Milanese", and it is hard to imagine the painting of Poussin or Corot without the Roman light. And Modigliani — who, we are amused to learn, was a "French painter born in Livorno" — would not have been what he was without Paris and France. Carlo Goldoni and Giacomo Casanova wrote their memoirs in French. But Montaigne and Charles de Brosses would not have had the same impact had they not lived in Italy. The same holds for such diverse figures as Mazarin and Yves Montand.

Relations between cousins are complicated; they may range from attraction to incomprehension, or swing back and forth between the two. "Latin sisters", we say; similar yet different.

Thus, where France is centred on its capital and moulded by the State, administered by an impeccable civil service that recruits the country's most talented people, Italy has its "hundred capitals", its dynamic provincial life, its bountiful and untrammeled productive creativity. On the one hand there is an industrial structure dominated by large firms, on the other a flexible network of small and medium-sized enterprises adapting quickly to shifts in demand and capable of actually seizing world leadership in specific industries.

I. Progress in convergence

The Italian economy has made remarkable progress in the last few years towards macroeconomic stability. Foreign public opinion and the international press have not always fully perceived the advances made (Table 1).

(*) *Translated from the original speech given in French.*

First of all, price stability: since the summer of 1996 the rate of inflation has come down to 2 per cent; at the end of 1995 it was around 6 per cent, after rising to nearly 10 per cent during the spring. Italy has not seen such price stability for thirty years.

Secondly, the budget situation: compared with a peak of 12.4 per cent of GDP in 1985, the general government borrowing requirement was 6.8 per cent last year. The figure remains very high but is nonetheless better than any Italy had recorded since the first half of the seventies. The primary balance (i.e. net of interest expenditure), which had been in deficit until 1991, recorded a surplus of 3.6 per cent of GDP in 1996, one of the largest in Europe. The public debt has begun to decline in relation to GDP, after rising uninterruptedly for 15 years.

When examining Italy's debt and budget situation, there are two factors that must not be overlooked. First, the primary surplus has been offset by disproportionately high debt servicing costs. The interest burden is very heavy and could ease significantly. In 1996 the government spent 10.4 per cent of GDP on interest payments, while Belgium, with a ratio of debt to GDP higher than Italy's, spent only 8 per cent. A decline in Italian interest rates to the level of other countries, which is now possible thanks to the fall in inflation, will automatically ease the debt service burden.

The second factor is private sector saving. The saving rate in Italy is one of the highest in the world. This willingness to save is decisive in making the Italian public debt "sustainable". It results in Italian households possessing much greater financial wealth than their counterparts in most other industrial countries. Even if it is not among the Maastricht standards, the saving rate is an important indicator of an economy's stability.

Italy's economic progress must naturally be set in the framework of convergence towards Monetary Union, not only because compliance with the Maastricht criteria dominates economic policy discussion but also because this enables us to examine each country's performance in a broader perspective.

Table 1

Italy: main economic variables

	Latest value	Worst recent performance	Most recent previous comparable value
Inflation (1)	2.4 (February)	6.0 (November 1995)	1969
Long-term interest rate (2)	7.6 (7.3.1997)	13.4 (March 1995)	1974
Government deficit (3)	6.8 (1996)	9.9 (1993)	1974
Public debt (4)	123.7 (1996)	125.1 (1994)	1979-80*
Balance of payments on current account (4)	3.5 (1996)	–2.3 (1992)	1965
Net external position (4)	–3.6 (1996)	–10.9 (1992)	1988-89
Exchange rate variation (5)	21 (17.3.1995-6.3.97)	–38 (August 1992-17.3.95)	1947**

(1) Consumer price index. – (2) Gross yield on 10-year Treasury bonds. – (3) General government borrowing requirement as a percentage of GDP. – (4) As a percentage of GDP. – (5) Nominal effective exchange rate vis-à-vis 14 major industrial trading partners. A minus sign indicates a depreciation.

* Year in which the ratio of debt to GDP decreased.

** Year in which there was an appreciation of the lira comparable to the most recent upswing.

The Maastricht standards have been analyzed and discussed at great length. The academic world has questioned whether the variables selected and especially the critical thresholds established are reasonable; markets regard them as a touchstone and continuously evaluate the various countries' chances of participating in EMU from the outset; policymakers use them to explain and justify adjustment measures.

When the present period is studied some years hence, the most striking feature, I think, will be the speed of convergence in inflation rates, budget deficits and interest rates. It will be recognized that this convergence was not caused exclusively by the Treaty imperatives and each country's efforts to comply. What is certain is that we have already come a very long way and that very important results have been achieved. In 1991 the difference between the highest and lowest inflation rates in the Union was 9 percentage points; last year it was 4 points (excluding Greece and Luxembourg). The differential for budget deficits narrowed from 9 to 5 points over the same period; that for interest rates, from 6 to 4 points.

In many countries, including Italy, the effort to attain the Maastricht objectives responds to a combination of factors: a clearer awareness of economic constraints, the increased pressure of financial markets and a sort of national pride. Public opinion surveys show that Italians consider it a point of honour to belong to the Union; but they also show that Italians consider the Maastricht requirements perfectly consistent with what is "in itself good" for the country. This is why the stepped-up convergence effort has achieved so much in recent years.

The progress does not appear to depend on a transitory political and social conjuncture. The very fact that it has been made during five years of intense political change (since 1992 Italy has had three general elections, five prime ministers, two reversals of the parliamentary majority and three treasury ministers) testifies to its solidity. The trade unions have changed fundamental attitudes that they had held for 25 years; so have employers. An inflation rate of 2 per cent, in a country in which the overwhelming majority of the population has no memory of such a situation, is a historical change, a mutation in the habitual orders of magnitude of households, union leaders, shopkeepers and employers.

With an additional adjustment effort and economic discipline, it will be possible to achieve the Maastricht thresholds in 1997. Support for this drive appears to be considerable in the country and in political circles it extends beyond the Government's majority. However, the difficulties are not negligible. In English, people speak of "adjustment fatigue"; more effort is required to tighten a bolt at the end than at the start.

II. Italy's external position and the lira

Last year the surplus on Italy's external current account was around 3.5 per cent of GDP, the highest figure since the mid-sixties. Four consecutive surplus years have reduced the country's net debtor position from 11 per cent of GDP in 1992 to under 4 per cent in 1996, and a net creditor position could emerge by the end of this year. As competitiveness and the balance of payments are sometimes a topic of conversation between cousins, let me point out that over the same period France also recorded growing current account surpluses and now has the second largest balance-of-payments surplus in Europe. From 1993 to 1995 France's net external position improved by more than 220 billion francs per year (3 per cent of GDP).

Italy's current account surplus led to a revaluation of the lira, which was reinforced by capital movements. Foreigners' portfolio investment in Italy increased substantially in 1996, with an inflow of 122 trillion lire, while Italian investment abroad amounted to 55 trillion. External assets now make up 14 per cent of total Italian financial assets, about the same proportion as in France.

From the beginning of 1996 onwards, and especially since September, when the Government decided to speed up the adjustment of Italy's public finances, the foreign exchange and government securities markets have rewarded the convergence effort.

The lira has risen by about 25 per cent by comparison with the minimum registered in March 1995. Of course, that low point came in the middle of a political crisis that had nothing to do with the real state of the Italian economy. But we all know how easy it is, in such cases, for a vicious circle of self-fulfilling prophecy to develop that makes the damage irreversible. In fact, a comparable recovery had occurred only once before in the modern history of Italy, in 1947.

In the government securities market, the yield differential between ten-year Italian and German paper, which had widened to 660 basis points in March 1995, narrowed to 350 points last April and now stands at 199. Not since 1974 has the Italian Treasury been able to get long-term financing at nominal rates of close to 7 per cent.

The return of the lira to the ERM after four years of floating was made possible by the progress in convergence. I believe that the jointly agreed central rate preserves the competitiveness of Italian industry while eliminating both the risk of inflation and the disputes over competitiveness provoked by the earlier excessive depreciation. In terms of producer prices, Italy's gain in competitiveness since the first half of 1992 is estimated at about 10 per cent.

With a view to our participation in the Euro, the parity of the lira safeguards the results attained on the inflation front while maintaining competitive prices in the European and world markets.

III. A changing economic constitution

Ten years ago exchange controls and restrictions on capital movements isolated the Italian financial system from the rest of the world. Administrative ceilings on credit had been abolished, but there was little competition in banking. Wage negotiations were conducted in the absence of uniform rules, and their scope was curtailed by full price indexation. A substantial part of manufacturing, virtually all basic industry (steel, electricity) and all public services were state-owned. So were banks and life insurance companies. The legal form of the company limited by shares, a crucial instrument for achieving efficiency and transparency in a modern economy, had been adopted by only a relatively small part of the economy. Nationwide wage equality that ignored differences in productivity and external economies was a dogma; employment contracts were rigid, set in the mould of the large industrial enterprise, and more concerned with job protection than job creation.

Like, and perhaps more than, other continental European countries, Italy has yet to complete the transformation of its economy. The high unemployment rate signals, simultaneously, both how far we have come and the distance still to be covered. But the recent evolution of the Italian economy cannot be understood without considering the change in the economic constitution that has accompanied and encouraged it. This change has been produced by a twofold force: the endogeneous drive of an industrial economy in transformation together with the impulse of European law. A few examples will suffice.

First of all, there is competition policy. Since 1990 a "Competition Authority" created by law has actively safeguarded competition according to the model of the Treaty of Rome. Little by little, new rules of the game have emerged. The prevention and repression of market abuses are increasingly perceived by economic agents and by public opinion as an essential instrument for protecting consumers and increasing efficiency.

Second has come the deregulation of public services and a major privatization programme. In the same way as antitrust policy, this programme aims at improving economic efficiency. It is only at an initial stage and implementation is not proving easy. Air transport, railways, energy, postal services and telecommunications — in each of these sectors important steps have been taken to reduce losses, cut overstaffing, adopt the legal form of the limited company and separate the provision of services, which can be left to the private sector, from the control function that government must exercise, as well as to sell shares on the domestic and international markets. None of these sectors is yet under private control, but the course has been set and a significant part of the journey accomplished. The Government has scheduled the privatization of telecommunications for this year and that of electricity for next year; the oil industry began its privatization programme at the end of 1995.

Third is the independence of the central bank. The inflation of the seventies, which in Italy lingered until the mid-eighties, persuaded the world that central bank independence was a key factor in the pursuit of macroeconomic stability on the price front. Independence was already part of the Italian tradition but had not been fully recognized in law. Under the impulse of the Treaty of Maastricht, the essential levers of monetary control (the setting of official rates and the management of compulsory reserves) were transferred formally from the Minister of the Treasury to the Governor of the Bank of Italy. The Bank's resolute and effective exercise of these powers unquestionably helped the country to achieve an inflation rate at the end of 1996 that met the Maastricht requirement. Yet even more than this achievement, important as it is, what must be emphasized is the social transformation that has occurred in Italy. For many years price stability had ceased to be a shared value for Italian society. The consensus in support of the central bank's action over the past three years, even when monetary policy was most rigorous, shows clearly how attitudes have changed. In particular, all forms of wage indexation have been eliminated and replaced by a tripartite incomes policy combining free collective bargaining with the objective of stability. This policy has proved a powerful counterinflationary instrument.

Fourth, the Italian banking industry and financial system have been transformed. The 1993 Banking Law, which marks the completion of a reform programme stretching over some fifteen years, removed all internal and external segmentation within the banking industry and laid the basis for the development of competition. The playing field, which until the mid-eighties corresponded essentially to the Italian province, now extends to the European single market, and beyond that to the global market. For firms that borrow and households that save, this is a change of enormous import that will continue to produce benefits in the years to come. Of course, the game has winners and losers; it is up to the supervisory authorities to make sure that the disappearance from the market of banks that succumb to competition does not become a cause of systemic instability.

The non-bank component of the financial system is also now on the eve of a revolution. Access barriers have just been eliminated. Within months the stock exchange will be privatized, and a new law on non-bank financial intermediation is due to be enacted shortly. The Italian financial market will have to find a space and a role for itself in a European setting in which the sole remaining form of segmentation, the multiplicity of currencies, will soon cease to exist.

IV. Job creation and solidarity

Rooting out inflation, adjusting the public finances, and creating an environment conducive to competition and economic efficiency are goals that, at various stages of advancement, all the countries of Europe are pursuing in the nineties. For most, the prospect of Monetary Union is a potent catalyst for their efforts. But comparing the European economy with those of North America and East Asia, the most striking feature is the high European unemployment rate: 11.4 per cent as against 5.4 per cent in the United States and 3.4 per cent in Japan. The continent where industrial production was invented, where the social question was raised most forcefully and where the institutions of collective solidarity were created seems incapable today of providing what the Italian Constitution, in decreeing that "Italy is a republic founded upon labour", establishes as a fundamental value of the social compact.

The unemployment rates in our two countries (12.7 per cent in France and 12.2 per cent in Italy) are similar and not far from the EU average. Unemployment is much less evenly distributed in Italy than in France, however. It is appreciably lower than the European average in the Centre and North of the country, but more than 20 per cent of the labour force is unemployed in the South. Thus in Italy the problem of joblessness is intertwined with the "Southern question", the secular problem of Italy's geographical and economic dualism. Output per worker averages 20 per cent less in the South than in the rest of Italy because of unfavourable location, inefficient public administration and inadequate social and economic infrastructure.

The question is whether the convergence criteria laid down by the Maastricht Treaty and the efforts to meet them according to a timetable that the Treaty also established are not the real cause of unemployment. Paraphrasing a celebrated dictum, Italians are asking "Why die for Maastricht?".

Undeniably, no policy aimed at curbing inflation and adjusting the budget can avoid slowing down economic activity, hurting jobs. To carry the defence of macroeconomic stabilization so far as to deny this effect would be to stretch a valid case beyond the truth. But to assert that European unemployment is caused by Maastricht is clearly false, for a number of reasons.

Fist of all, let me recall that unemployment has been higher in Europe than in the United States since 1984.

Second, some European countries have succeeded in lowering the jobless rate towards "American" levels, even while meeting the Maastricht standards. The example of the Netherlands, in particular, shows that it actually is possible to reconcile rigorous fiscal policy and maintain the welfare system of which Europe is rightly proud with an unemployment rate of 6.4 per cent. Thanks to a ten-year-old social agreement that has survived a number of political changes, real wages have declined slightly since 1992 and indirect labour costs have decreased as well. At the same time, however, the Netherlands has enjoyed growth rates more than a point higher than the average for the major European countries. Ireland, where the unemployment rate reached 17 per cent in 1986, is now on the same track, and the number of jobless is declining rapidly.

The right response to the problem of unemployment in Europe is not, in my opinion, to postpone or abandon Maastricht. Monetary union and the stability pact bar the way to two false solutions that were adopted all too often in the past: currency depreciation, which merely redistributes unemployment within Europe but does not reduce it; and budget deficits, which in some countries, including Italy, led to financial imbalances that were no longer sustainable. On this score Maastricht fosters the right solution, which consists above all in correcting the labour market rigidities that discourage job creation. In Italy, especially in the South, this implies greater wage flexibility, new forms of employment, the reform of social spending, investment that will raise economic productivity and the improvement of public services.

The concept of solidarity, which has such great value in our society and in the European edifice, was long applied in favour of the weakest workers. Even the trade unions, whose purpose is to defend the weakest workers, found and still find it hard to see that the weakest are those without a job. In each of our countries a whole series of laws, regulations and collective bargaining agreements conceived to protect workers now effectively constitute an obstacle to the creation of new jobs. In Italy, where the state apparatus is less efficient, one response to these rigidities has been the development of an underground economy, based on off-the-books employment, which field studies indicate to be widespread in some regions.

Job creation policy appears likely to remain largely within the sphere of national powers, if not actually those of regions and provinces. A certain degree of competition between different approaches is desirable and beneficial. But this does not rule out a Community dimension to the problem. In 1993 the Delors Plan suggested several ways of encouraging employment: relaunching public investment, especially in infrastructure (transportation, energy, telecommunications and the environment) and providing for greater labour market flexibility by simplifying national rules and easing existing constraints. The fundamental points of the plan have lost none of their relevance and the political value of relaunching these proposals, which are perfectly compatible with the Maastricht criteria, would be all the greater today.

V. Conclusion

No description of the Italian economy is possible outside the Community framework. Your own interest in Italy is bound up with our common participation in one large market and the prospect of the single currency. The latter powerfully influences the actions as well as the expectations of governments and economic agents. A "national road" to economic health and the adjustment of the public finances is no longer conceivable. No government considers acting in a manner that would conflict with the notion of European compatibility. European macroeconomic solidarity is already reality.

Yet all this is only part of a broader development whose economic substance in no way alters its quintessentially political character. The intertwined destinies of France and Italy well illustrate some aspects.

You, in France, were far ahead of us in forging a nation-state, which determined the course of your history over the centuries. From the fall of the Roman Empire until the nineteenth century, the civilization of Italy was not tied to this form of state. There, perhaps, lies the greatest historical difference between our two countries, a difference that enriches the construction of the new European order in which we have participated for what will soon be half a century.

If the "descent" of Charles VIII into Italy in 1494 shattered the hopes for political union of a country that was then the richest and most artistically, philosophically and scientifically advanced in Europe, three centuries later a second "descent", that of Napoleon Bonaparte (whose genius could not have been deployed as it was had the happenstance of history not made him a French citizen), injected into Italian tissues the germs of the Risorgimento and national unification. Half a century later Cavour (who, incidentally, thought and wrote in French, so that his command of Italian was not flawless) founded the Kingdom of Italy with the support of Napoleon III. To make Rome the capital, however, the Savoyard general Raffaele Cadorna had to do battle with Papal troops under the command of the de Charette brothers.

Today, your Minister of Foreign Affairs, who bears the same name, is doing battle for European Union with an admirable consistency that, as my own modest testimony can confirm, is not of recent date. I first met Hervé de Charette in the early sixties as a student at the summer session of the Olivaint conference on Port Cros Island. The topic of the session was "Europe between East and West".

8

Appendix

Statistical tables

In the following tables the figures for "Germany" refer to the western regions of the country unless otherwise specified. See the Notes to the Tables.

Unless indicated otherwise, the figures in the tables have been computed by the Bank of Italy.

Symbols and conventions:

— the phenomenon in question does not occur.

.... the phenomenon occurs but its value is not known.

.. the value is known but is less than the minimum figure considered significant.

( ) provisional.

( ) estimated.

Gross domestic product, GDP deflator and current account balance

	US	Japan	Germany	France (1)	Italy	UK	Canada
				Real GDP (% changes on previous period; seasonally adjusted data)			
1991	–1.0	3.8	....	0.8	1.1	–2.0	–1.8
1992	2.7	1.0	1.8	1.2	0.6	–0.5	0.8
1993	2.3	0.3	–1.2	–1.3	–1.2	2.1	2.2
1994	3.5	0.6	3.0	2.8	2.1	3.8	4.1
1995	2.0	1.4	2.1	2.2	3.0	2.5	2.3
1996	(2.5)	....	....	....	....	....	....
1995 – 3rd qtr.	0.9	0.3	..	0.2	0.6	0.4	0.3
4th "	0.1	1.3	0.1	–0.5	0.1	0.5	0.2
1996 – 1st qtr.	0.5	2.0	–0.4	1.2	0.5	0.6	0.3
2nd "	1.1	–0.3	1.5	–0.2	–0.4	0.7	0.3
3rd "	0.5	0.1	0.8	0.9	0.6	0.4	0.8
4th "	(1.2)	....	....	....	....	....	....
				GDP deflator (% changes on previous period; seasonally adjusted data)			
1991	4.0	2.7	....	3.3	7.7	6.6	2.9
1992	2.7	1.7	5.5	2.1	4.7	4.6	1.3
1993	2.6	0.6	3.8	2.5	4.4	3.2	1.0
1994	2.3	0.2	2.2	1.5	3.5	1.9	0.7
1995	2.5	–0.6	2.2	1.7	5.0	2.4	1.5
1996	....	....	....	....	....	....	....
1995 – 3rd qtr.	0.6	0.3	0.5	0.3	1.4	0.4	0.5
4th "	0.5	–0.4	0.3	0.4	1.3	0.7	0.1
1996 – 1st qtr.	0.6	0.5	0.4	0.4	1.1	0.9	..
2nd "	0.5	–0.2	–0.2	0.4	0.7	0.5	0.5
3rd "	0.4	0.2	..	0.1	0.8	0.9	0.7
4th "	....	....	....	....	....	....	....
				Current account balance (billions of dollars; seasonally adjusted data)			
1991	–9.5	68.4	–17.5	–6.0	–24.1	–14.3	–23.6
1992	–62.6	112.3	–19.5	4.9	–28.6	–18.4	–21.6
1993	–99.9	132.0	–13.5	9.6	11.1	–16.2	–22.4
1994	–148.4	130.6	–20.2	6.5	15.2	–3.5	–16.3
1995	–148.2	111.4	–16.7	16.1	27.4	–6.2	–8.0
1996	....	66.0	....	....	....	....	....
1995 – 3rd qtr.	–37.7	30.0	–4.9	1.3	7.6	–2.8	–1.7
4th "	–30.4	22.9	–8.6	3.1	7.1	–1.9	–0.2
1996 – 1st qtr.	–34.9	15.4	–3.8	7.7	8.6	–1.7	–1.2
2nd "	–40.2	15.1	–7.9	4.0	10.3	0.5	0.8
3rd "	–48.0	18.7	–2.5	4.8	13.1	–0.1	0.4
4th "	....	16.8	....	....	....	....	....

(1) Following changes in the methods of collecting balance-of-payments data, from 1994 onwards the figures for the current account balance are not comparable with those of earlier years.

Table a2

Industrial production

(percentage changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	Italy	UK	Canada
1991	–2.0	1.8	....	–1.2	–0.9	–3.7	–4.2
1992	3.2	–6.1	–2.6	–1.3	–0.2	–0.1	1.1
1993	3.4	–4.5	–7.3	–3.9	–2.4	2.1	4.5
1994	5.0	0.8	3.6	4.0	5.2	5.0	7.0
1995	3.3	3.5	2.0	1.6	5.4	2.6	3.4
1996	2.8	2.6	0.2	....	....	1.2	....
1994 – 4th qtr.	1.4	2.0	2.1	0.7	0.6	..	1.9
1995 – 1st qtr.	0.9	1.1	–0.5	–0.6	0.7	0.7	0.6
2nd "	–0.2	0.2	0.8	..	0.6	0.3	–0.8
3rd "	0.8	–1.6	–0.9	0.4	4.1	0.8	0.3
4th "	0.2	2.1	–1.5	–1.8	–1.3	–0.1	–0.2
1996 – 1st qtr.	0.4	0.4	0.2	0.7	–2.7	0.1	0.3
2nd "	1.5	–0.3	1.2	0.3	–0.4	0.3	0.4
3rd "	0.8	1.6	1.2	2.2	0.9	0.3	2.0
4th "	1.1	3.1	–0.2	....	....	0.9	....
1996 – Jan.	–0.4	0.6	1.1	–0.3	–6.2	–0.7	0.5
Feb.	1.2	1.6	–2.2	0.3	–0.4	0.4	0.2
Mar.	–0.5	–6.0	1.6	0.6	2.1	0.7	–0.7
Apr.	1.0	3.2	..	–0.5	–3.1	–0.7	0.6
May	0.4	2.4	0.9	0.8	1.3	1.1	0.2
June	0.6	–4.3	0.6	–0.7	1.8	–0.8	0.3
July	..	4.9	0.4	2.8	–2.2	0.7	1.5
Aug.	0.3	–2.3	0.5	..	3.6	–0.6	0.3
Sept.	0.2	1.5	–0.9	–1.4	–2.7	0.7	..
Oct.	0.2	3.9	–0.8	–0.7	–0.8	0.1	0.2
Nov.	0.8	–1.4	1.1	0.2	0.4	0.6	1.2
Dec.	0.5	0.1	0.8	....	....	0.6	....
1997 – Jan.	..	....	....	....	....	....	....

Table a3

Consumer prices

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1991	4.2	3.3	....	3.2	6.4	5.9	5.6
1992	3.0	1.7	5.1	2.4	5.4	3.7	1.5
1993	3.0	1.2	4.5	2.1	4.2	1.6	1.8
1994	2.6	0.7	2.7	1.7	3.9	2.5	0.2
1995	2.8	–0.1	1.8	1.8	5.4	3.4	2.2
1996	2.9	0.1	1.5	2.0	3.9	2.4	1.6
1994 – 4th qtr.	2.7	0.8	2.6	1.6	3.8	2.6	..
1995 – 1st qtr.	2.8	0.2	2.0	1.7	4.4	3.4	1.6
2nd "	3.1	..	1.9	1.6	5.5	3.4	2.7
3rd "	2.6	..	1.7	1.8	5.7	3.7	2.4
4th "	2.7	–0.6	1.7	1.9	5.9	3.2	2.1
1996 – 1st qtr.	2.7	–0.3	1.6	2.1	5.0	2.8	1.4
2nd "	2.8	0.1	1.5	2.4	4.2	2.3	1.4
3rd "	2.9	0.2	1.4	1.8	3.5	2.2	1.4
4th "	3.2	0.5	1.4	1.7	2.7	2.6	2.0
1996 – Jan.	2.7	–0.5	1.5	2.0	5.5	2.9	1.6
Feb.	2.7	–0.4	1.6	2.0	5.0	2.7	1.3
Mar.	2.8	–0.1	1.7	2.3	4.5	2.7	1.4
Apr.	2.9	0.2	1.5	2.4	4.5	2.4	1.4
May	2.9	0.2	1.7	2.4	4.3	2.2	1.5
June	2.8	..	1.4	2.3	3.9	2.1	1.4
July	3.0	0.4	1.6	2.3	3.6	2.2	1.2
Aug.	2.9	0.2	1.4	1.6	3.4	2.1	1.4
Sept.	3.0	..	1.4	1.6	3.4	2.1	1.5
Oct.	3.0	0.5	1.5	1.8	3.0	2.7	1.8
Nov.	3.3	0.5	1.4	1.6	2.6	2.7	2.0
Dec.	3.3	0.6	1.4	1.7	2.6	2.5	2.2
1997 – Jan.	3.0	....	1.8	....	2.6	2.8	....

Table a4

Producer prices of manufactures

(precentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
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	–0.5	4.0	3.7	3.3
1994	1.4	–1.7	0.6	0.7	3.6	2.9	5.7
1995	4.0	–0.7	2.2	2.7	7.7	3.4	8.1
1994 – 3rd qtr.	2.2	–1.7	0.7	0.8	3.5	2.5	6.6
4th "	2.9	–1.1	1.5	2.0	4.7	2.9	7.5
1995 – 1st qtr.	4.5	–0.7	2.3	2.8	6.4	2.9	9.9
2nd "	5.2	–0.5	2.5	3.1	8.7	3.2	9.0
3rd "	3.6	–0.7	2.4	2.9	8.7	3.7	7.7
4th "	2.7	–0.7	1.7	1.9	7.3	3.9	5.8
1996 – 1st qtr.	1.7	–0.9	0.6	0.2	5.3	3.9	1.7
2nd "	0.9	–0.9	..	–1.1	2.2	3.5	0.4
3rd "	0.9	–0.8	–0.2	–1.6	1.0	2.6	..
1995 – Nov.	2.5	–0.7	1.6	....	7.2	3.7	5.7
Dec.	2.6	–0.9	1.5	....	6.8	4.0	5.2
1996 – Jan.	2.2	–0.9	0.8	....	6.3	3.9	2.6
Feb.	1.6	–1.0	0.6	....	5.4	3.9	1.9
Mar.	1.3	–1.0	0.4	....	4.1	3.9	0.6
Apr.	1.2	–1.0	0.2	....	3.1	3.7	0.5
May	0.9	–0.9	0.1	....	2.1	3.5	1.0
June	0.5	–1.0	–0.2	....	1.5	3.3	–0.2
July	0.7	–0.9	–0.2	....	1.1	2.9	–0.5
Aug.	0.8	–0.8	–0.3	....	0.9	2.5	0.2
Sept.	1.1	–0.9	–0.2	....	0.9	2.4	0.2
Oct.	1.3	–0.9	..	....	1.4	2.1	–0.2
Nov.	2.0	–0.7	0.1	....	1.4	2.2	–0.5

Table a5

Short-term interest rates

	US	Japan	Germany	France	Italy	UK	Canada
				Official reference rates *(end-of-period data)*			
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	4.75	1.75	4.50	5.00	7.50	6.25	7.43
1995	5.25	0.50	3.00	4.45	9.00	6.50	5.79
1996 – Jan.	5.00	0.50	3.00	4.20	9.00	6.25	5.37
Feb.	5.00	0.50	3.00	3.90	9.00	6.25	5.50
Mar.	5.00	0.50	3.00	3.80	9.00	6.00	5.25
Apr.	5.00	0.50	2.50	3.70	9.00	6.00	5.00
May	5.00	0.50	2.50	3.70	9.00	6.00	5.00
June	5.00	0.50	2.50	3.60	9.00	5.75	5.00
July	5.00	0.50	2.50	3.55	8.25	5.75	4.75
Aug.	5.00	0.50	2.50	3.35	8.25	5.75	4.25
Sept.	5.00	0.50	2.50	3.25	8.25	5.75	4.25
Oct.	5.00	0.50	2.50	3.25	7.50	6.00	3.50
Nov.	5.00	0.50	2.50	3.20	7.50	6.00	3.25
Dec.	5.00	0.50	2.50	3.15	7.50	6.00	3.25
1997 – Jan.	5.00	0.50	2.50	3.10	6.75	6.00	3.25
				Money market rates *(period averages)*			
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
1995	5.49	1.25	4.48	6.58	10.46	6.68	5.54
1996	5.01	0.62	3.27	3.94	8.82	6.03	2.80
1996 – Jan.	5.00	0.58	3.56	4.70	10.07	6.37	5.12
Feb.	4.83	0.65	3.30	4.41	9.93	6.17	5.18
Mar.	4.96	0.67	3.30	4.27	9.85	6.06	5.03
Apr.	4.95	0.66	3.27	4.00	9.62	6.01	4.73
May	5.02	0.65	3.25	3.90	8.92	6.03	4.65
June	5.09	0.60	3.34	3.97	8.77	5.85	4.70
July	5.15	0.72	3.34	3.84	8.75	5.74	4.43
Aug.	5.05	0.67	3.27	3.96	8.81	5.75	4.03
Sept.	5.09	0.57	3.10	3.75	8.44	5.78	3.96
Oct.	4.99	0.54	3.10	3.51	8.02	5.94	3.19
Nov.	5.03	0.55	3.17	3.47	7.41	6.31	2.69
Dec.	4.91	0.55	3.21	3.44	7.25	6.36	2.80
1997 – Jan.	5.03	0.55	3.09	3.35	7.23	6.33	2.84

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond rates			
1993	5.87	4.03	6.45	6.78	11.17	7.47	7.25
1994	7.08	4.20	6.99	7.22	10.53	8.17	8.37
1995	6.58	3.29	6.94	7.53	12.21	8.24	8.16
1996	6.44	3.01	6.25	6.31	9.41	7.82	7.23
1996 – Jan.	5.65	2.97	5.87	6.44	10.43	7.45	7.09
Feb.	5.81	3.08	6.31	6.59	10.52	7.78	7.24
Mar.	6.27	3.20	6.51	6.64	10.69	8.07	7.62
Apr.	6.51	3.25	6.41	6.50	10.34	8.07	7.70
May	6.74	3.30	6.45	6.46	9.70	8.10	7.77
June	6.91	3.22	6.57	6.55	9.57	8.06	7.81
July	6.87	3.31	6.54	6.44	9.43	7.93	7.71
Aug.	6.64	3.16	6.35	6.34	9.48	7.85	7.31
Sept.	6.83	2.90	6.24	6.23	9.17	7.83	7.34
Oct.	6.53	2.73	5.99	5.97	8.23	7.56	6.64
Nov.	6.20	2.59	5.89	5.83	7.69	7.61	6.14
Dec.	6.30	2.43	5.82	5.74	7.57	7.56	6.39
1997 – Jan.	6.58	2.43	5.76	5.68	7.38	7.55	6.63
				Share price indices			
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
1995	203.93	64.67	164.56	149.78	118.82	176.91	134.24
1996	252.40	75.40	189.35	166.52	119.39	203.43	159.49
1996 – Jan.	231.29	75.06	178.23	155.73	114.45	195.30	150.41
Feb.	244.51	74.83	181.63	157.94	116.89	197.56	149.38
Mar.	243.59	73.56	184.00	159.14	113.52	197.16	150.50
Apr.	243.62	78.69	187.21	167.82	118.19	203.22	155.81
May	248.91	78.61	186.23	169.33	126.95	202.95	158.84
June	251.61	79.33	188.82	169.28	126.38	201.35	152.71
July	242.46	76.95	186.51	162.66	120.44	198.09	149.23
Aug.	249.46	74.36	187.17	160.21	115.46	203.97	155.72
Sept.	254.05	74.02	190.37	164.70	114.80	208.15	160.19
Oct.	264.06	74.42	197.37	172.32	118.90	211.97	169.51
Nov.	276.94	73.64	200.78	179.11	122.65	209.60	182.16
Dec.	279.79	70.67	206.50	181.68	124.87	212.23	179.44
1997 – Jan.	288.44	64.74	215.08	191.86	141.71	219.28	184.97

Interest rates on international markets and US dollar premium/discount

(period average)

	US dollar	Japanese yen	German mark	Lira	Pound sterling	US dollar	Japanese yen	German mark	Lira	Pound sterling
	Rates on 3-month Eurodeposits					**Rates on 12-month Eurodeposits**				
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
1995	5.92	1.07	4.38	10.24	6.64	6.13	1.11	4.58	10.79	7.12
1996	5.40	0.41	3.18	8.67	5.98	5.66	0.66	3.29	8.31	6.23
1996 – Jan.	5.41	0.35	3.47	9.92	6.34	5.17	0.50	3.33	9.66	6.16
Feb.	5.16	0.45	3.21	9.69	6.14	4.98	0.70	3.26	9.43	6.05
Mar.	5.28	0.44	3.24	9.60	6.02	5.46	0.64	3.33	9.40	6.18
Apr.	5.37	0.47	3.18	9.44	5.98	5.68	0.79	3.27	9.11	6.29
May	5.37	0.48	3.17	8.76	5.99	5.80	0.87	3.25	8.42	6.30
June ...	5.46	0.44	3.26	8.69	5.77	6.03	0.80	3.49	8.34	6.08
July	5.53	0.51	3.27	8.55	5.70	6.05	0.93	3.52	8.18	5.93
Aug.	5.42	0.44	3.17	8.67	5.71	5.82	0.74	3.35	8.36	5.97
Sept. ...	5.51	0.36	3.02	8.41	5.74	6.03	0.58	3.21	8.14	6.01
Oct.	5.42	0.36	3.01	7.86	5.87	5.72	0.52	3.14	7.37	6.25
Nov.	5.38	0.37	3.07	7.39	6.20	5.56	0.50	3.18	6.85	6.77
Dec.	5.46	0.28	3.11	7.07	6.28	5.64	0.40	3.18	6.49	6.82
1997 – Jan.	5.44	0.33	3.01	7.01	6.28	5.81	0.38	3.11	6.37	6.74
	3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**				
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
1995		4.85	1.54	–4.32	–0.72		5.02	1.55	–4.66	–0.99
1996		4.99	2.22	–3.27	–0.58		5.00	2.37	–2.65	–0.57
1996 – Jan.		5.06	1.94	–4.51	–0.93		4.67	1.84	–4.49	–0.99
Feb.		4.71	1.95	–4.53	–0.98		4.28	1.72	–4.45	–1.07
Mar.		4.84	2.04	–4.32	–0.74		4.82	2.13	–3.94	–0.72
Apr.		4.90	2.19	–4.07	–0.61		4.89	2.41	–3.43	–0.61
May		4.89	2.20	–3.39	–0.62		4.93	2.55	–2.62	–0.50
June ...		5.02	2.20	–3.23	–0.31		5.23	2.54	–2.31	–0.05
July		5.02	2.26	–3.02	–0.17		5.12	2.53	–2.13	0.12
Aug.		4.98	2.25	–3.25	–0.29		5.08	2.47	–2.54	–0.15
Sept. ...		5.15	2.49	–2.90	–0.23		5.45	2.82	–2.11	0.02
Oct.		5.06	2.41	–2.44	–0.45		5.20	2.58	–1.65	–0.53
Nov.		5.01	2.31	–2.01	–0.82		5.06	2.38	–1.29	–1.21
Dec.		5.18	2.35	–1.61	–0.82		5.24	2.46	–0.85	–1.18
1997 – Jan.		5.11	2.43	–1.57	–0.84		5.43	2.70	–0.56	–0.93

Table a8

Lira exchange rates and the price of gold

	Lire per unit of currency								Gold (dollars per ounce)
	US dollar	Japanese yen	German mark	French franc	Pound sterling	Swiss franc	SDR	Ecu	
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	2,164.1	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
1995	1,628.9	17.4525	1,137.99	326.63	2,571.6	1,379.87	2,471.0	2,107.2	386.75
1996	1,543.0	14.2043	1,026.25	301.75	2,408.1	1,250.94	2,240.0	1,932.7	369.25
1994 – 4th qtr.	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	2,442.6	2,095.6	384.00
4th "	1,598.3	15.7608	1,123.15	324.27	2,495.6	1,389.92	2,385.8	2,062.5	386.75
1996 – 1st qtr.	1,573.4	14.8843	1,071.79	312.54	2,409.1	1,322.31	2,305.4	1,977.2	396.35
2nd "	1,555.4	14.4770	1,022.09	301.57	2,370.6	1,251.07	2,249.4	1,923.3	382.00
3rd "	1,521.3	13.9588	1,015.95	298.66	2,364.8	1,244.55	2,209.2	1,918.5	379.00
4th "	1,522.1	13.4982	994,72	294.17	2,488.7	1,184.89	2,197.3	1,911.2	369.25
1996 – Jan.	1,583.8	14.9941	1,083.92	316.45	2,423.8	1,342.88	2,324.7	1,999.1	405.55
Feb.	1,572.4	14.8890	1,072.86	311.97	2,415.4	1,315.89	2,305.6	1,971.0	400.60
Mar.	1,563.3	14.7646	1,058.02	309.01	2,387.5	1,307.19	2,285.3	1,960.6	396.35
Apr.	1,565.6	14.6031	1,041.31	306.79	2,373.7	1,285.38	2,271.5	1,947.6	391.30
May	1,558.1	14.6434	1,015.77	300.14	2,360.9	1,241.50	2,250.9	1,912.9	390.55
June	1,542.3	14.1680	1,009.83	297.93	2,378.2	1,227.30	2,225.4	1,910.5	382.00
July	1,526.7	13.9762	1,015.20	299.77	2.372.5	1,238.53	2,213.8	1,917.8	385.65
Aug.	1,516.6	14.0618	1,023.27	299.67	2,350.6	1,261.36	2,211.6	1,924.3	386.45
Sept.	1,520.2	13.8367	1,009.47	296.44	2,370.5	1,234.34	2,201.4	1,913.5	379.00
Oct.	1,524.6	13.5700	997.72	295.06	2,417.4	1,211.70	2,194.9	1,911.4	379.50
Nov.	1,513.1	13.4875	1,001.11	295.80	2,517.7	1,187.16	2,198.5	1,922.7	373.00
Dec.	1,528.4	13.4266	984.86	291.53	2,541.8	1,151.78	2,198.1	1,899.3	369.25
1997 – Jan.	1,568.1	13.2977	976.76	289.43	2,601.0	1,126.31	2,219.6	1,896.1	345.50

Table a9

Nominal effective exchange rates

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1991	99.5	79.7	95.0	95.0	124.3	114.0	113.1	99.4
1992	97.8	84.0	97.5	97.7	120.0	109.6	106.1	97.4
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	98.5	108.7	100.0	100.7	95.4	100.2	93.6	106.5
1995	93.0	114.9	105.2	103.6	85.9	95.7	91.4	114.0*
1996	98.0	99.6	102.7	103.7	94.0	97.5	93.4	112.1
1994 – 4th qtr.	96.0	110.6	101.5	101.6	93.0	100.3	92.6	108.3
1995 – 1st qtr.	95.3	113.3	104.4	102.4	87.8	98.3	89.6	110.8
2nd "	89.5	126.6	106.1	103.4	82.2	95.0	90.4	114.5
3rd "	92.6	114.4	105.0	104.2	86.7	95.2	92.5	113.8
4th "	94.7	105.4	105.6	104.4	87.2	94.4	93.0	116.8
1996 – 1st qtr.	97.0	102.1	104.2	104.2	90.7	94.5	92.7	115.1
2nd "	98.1	101.1	102.3	103.7	94.0	95.7	93.4	112.3
3rd "	98.1	99.2	102.8	103.6	95.0	96.7	92.9	112.9
4th "	98.9	96.0	101.6	103.1	96.2	103.2	94.5	108.3
1996 – Jan.	96.8	102.0	104.5	104.6	89.7	94.1	92.8	115.9
Feb.	97.1	102.2	104.4	104.0	90.7	94.8	92.2	114.6
Mar.	97.1	102.0	103.8	104.0	91.6	94.4	93.0	114.9
Apr.	97.7	101.1	102.9	104.2	92.6	94.6	93.7	114.0
May	98.1	102.5	101.9	103.6	94.4	95.5	93.0	111.8
June	98.5	99.9	102.0	103.4	95.1	97.0	93.4	111.2
July	98.3	99.1	102.6	104.0	94.9	96.9	93.0	112.2
Aug.	97.6	100.0	103.2	103.6	94.6	95.8	92.6	114.0
Sept.	98.5	98.5	102.5	103.3	95.5	97.3	93.0	112.4
Oct.	99.0	96.5	101.8	103.3	96.0	99.8	94.5	110.8
Nov.	98.1	96.0	101.9	103.2	95.7	104.0	95.1	108.2
Dec.	99.8	95.5	101.0	102.6	96.8	105.8	93.9	105.8
1997 – Jan.	101.6	93.1	100.2	102.0	97.0	108.3	95.4	103.4

Table a10

Real effective exchange rates

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1990	100.8	77.5	94.9	100.7	117.6	102.6	111.5	104.1
1991	98.6	83.7	94.6	97.9	118.0	107.4	110.9	100.9
1992	97.4	86.6	98.2	99.1	115.6	106.5	103.9	98.0
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	98.1	104.9	99.2	99.8	97.9	101.8	97.7	104.8
1995	93.1	105.8	103.3	102.0	92.5	97.4	99.7	108.5
1994 – 3rd qtr.	96.7	106.2	100.2	100.5	97.6	100.4	96.9	106.3
4th "	95.8	105.0	100.2	100.7	96.4	101.7	98.4	105.7
1995 – 1st qtr.	95.0	105.7	102.8	101.1	92.1	99.6	97.5	106.9
2nd "	90.0	116.4	103.9	101.7	88.5	96.1	98.0	109.1
3rd "	92.8	104.7	102.9	102.5	94.2	96.9	101.1	108.0
4th "	94.6	96.5	103.5	102.6	95.1	97.1	102.1	110.1
1996 – 1st qtr.	97.4	92.9	101.9	101.3	99.4	98.3	101.0	107.4
2nd "	99.5	91.5	99.8	100.1	103.4	100.0	100.9	104.1
3rd "	99.4	89.6	100.4	100.0	104.4	101.1	100.8	104.0
1995 – Nov.	94.3	96.1	103.6	103.2	95.0	96.7	102.3	110.4
Dec.	95.3	96.3	102.9	102.2	96.2	96.9	101.5	109.3
1996 – Jan.	97.2	92.9	102.3	101.6	98.2	97.7	101.5	108.6
Feb.	97.4	93.0	102.2	101.1	99.5	98.6	100.7	106.7
Mar.	97.7	92.8	101.2	101.4	100.7	98.4	100.9	106.8
Apr.	99.0	91.5	100.4	100.8	101.8	98.7	100.9	106.0
May	99.5	92.6	99.4	99.9	103.8	99.7	100.9	103.3
June	99.9	90.3	99.6	99.7	104.7	101.5	101.0	102.9
July	99.7	89.6	100.3	99.9	104.4	101.5	100.5	103.7
Aug.	98.8	90.4	100.9	99.9	104.0	100.3	100.6	104.9
Sept.	99.6	88.8	100.0	100.1	104.8	101.7	101.2	103.3
Oct.	100.4	86.9	99.1	100.6	105.8	104.1	102.2	101.8
Nov.	99.9	86.4	99.3	100.1	105.6	108.7	102.3	98.8

Table a11

Real effective intra-EU exchange rates

(period averages; indices, 1993=100)

	Germany	France	Italy	UK	Spain	Netherlands	Belgium
1990	91.2	98.7	116.3	99.0	113.6	100.7	102.1
1991	91.7	96.3	117.3	105.1	113.7	98.9	99.5
1992	94.5	96.8	113.8	102.5	110.8	98.2	99.8
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	99.7	100.1	98.1	102.2	96.3	99.7	102.3
1995	102.9	101.3	91.6	95.8	97.7	102.7	105.0
1994 – 3rd qtr.	100.3	100.4	97.5	100.1	96.7	100.0	103.3
4th "	100.1	100.5	96.1	101.1	96.6	101.2	102.9
1995 – 1st qtr.	102.8	100.7	91.5	98.5	95.2	103.2	104.2
2nd "	104.5	101.5	87.8	95.0	97.7	104.0	106.1
3rd "	102.2	101.7	93.2	95.1	98.9	102.1	104.7
4th "	102.3	101.4	93.9	94.6	98.9	101.5	105.1
1996 – 1st qtr.	100.4	100.2	98.4	95.9	100.5	101.4	104.0
2nd "	98.3	99.2	102.7	98.2	99.8	101.1	102.8
3rd "	98.4	98.6	103.4	98.6	98.8	101.4	102.3
1995 – Nov.	102.2	102.0	93.7	94.1	98.9	101.6	105.0
Dec.	101.8	101.2	95.1	94.6	99.4	101.2	105.1
1996 – Jan.	100.9	100.5	97.1	95.4	100.6	101.7	104.0
Feb.	100.6	99.8	98.3	96.1	100.6	101.4	103.8
Mar.	99.7	100.2	99.7	96.1	100.1	101.0	104.1
Apr.	98.9	99.8	101.0	96.7	100.5	101.6	103.7
May	98.1	99.1	103.3	98.2	100.0	101.0	102.7
June	98.0	98.7	103.9	99.6	98.7	100.8	102.0
July	98.4	98.7	103.4	99.1	98.8	101.0	101.9
Aug.	98.9	98.5	102.9	97.7	98.9	101.5	102.6
Sept.	97.8	98.7	103.7	99.1	98.7	101.6	102.6
Oct.	96.6	99.2	104.7	101.5	98.1	100.8	101.9
Nov.	96.3	98.4	104.1	105.6	97.9	100.8	100.6

Table a12

External position of the Italian banking system

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

	1996 Q1	1996 Q2	1996 Q3
Industrial countries	326,829	329,844	338,592
OPEC countries	9,726	9,412	8,970
Other developing countries	21,375	21,644	21,660
Latin America	*14,127*	*14,418*	*14,556*
Africa	*1,103*	*1,067*	*734*
Asia	*5,607*	*5,615*	*5,812*
Middle East	*539*	*564*	*558*
Eastern Europe	11,350	10,929	10,522
Offshore centres	32,652	32,616	34,145
International organizations	5,383	6,161	5,668
Total	**407,314**	**410,626**	**419,556**
Memorandum items:			
Albania	118	120	119
Argentina	5,697	5,450	5,651
Bolivia	5	3	1
Brazil	3,292	3,514	3,533
Bulgaria	503	478	429
Chile	534	496	492
Colombia	744	724	699
Croatia	88	91	98
Czech Republic	308	241	259
Ecuador	116	161	137
Hungary	378	366	342
Ivory Coast	24	23	21
Mexico	2,395	2,338	2,318
Morocco	431	415	164
Nigeria	743	688	686
Peru	432	908	903
Philippines	79	83	84
Poland	700	684	599
Romania	433	432	451
Russia	8,747	8,490	8,193
Slovenia	141	134	146
Uruguay	461	456	461
Venezuela	1,149	1,089	1,039

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed investment					
	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total	House-holds' consump-tion	Other domestic uses	Exports
				At 1990 prices					
1990	2.2	8.9	3.2	3.5	3.8	3.6	2.4	1.8	6.8
1991	1.1	2.7	1.4	1.4	0.2	0.8	2.7	–0.1	–0.8
1992	0.6	5.4	1.4	–2.4	–1.2	–1.8	1.0	1.5	5.9
1993	–1.2	–8.1	–2.3	–6.3	–19.5	–12.8	–2.4	–2.6	9.1
1994	2.1	8.9	3.2	–5.8	7.5	0.2	1.5	3.3	10.5
1995	3.0	9.6	4.1	0.5	11.5	5.9	1.7	1.1	11.6
1994 – 3rd qtr. ...	0.8	2.2	1.0	–1.5	2.8	0.6	0.2	0.6	4.1
4th " ...	0.4	4.7	1.1	–0.4	2.3	1.0	0.3	2.1	2.4
1995 – 1st qtr. ...	1.5	0.3	1.3	1.0	3.6	2.3	0.7	–2.6	5.5
2nd " ...	0.1	3.4	0.7	0.4	2.9	1.7	0.7	–4.8	4.2
3rd " ...	0.6	2.8	1.0	0.5	1.5	1.0	0.3	5.2	–0.2
4th " ...	0.1	–0.4	..	1.5	1.5	1.5	–0.1	2.3	–2.6
1996 – 1st qtr. ...	0.5	–1.5	0.1	–0.2	–0.6	–0.4	0.1	0.4	0.2
2nd " ...	–0.4	–4.4	–1.1	–0.5	0.3	–0.1	0.2	–8.5	0.4
3rd " ...	0.6	1.1	0.7	0.7	–0.3	0.2	0.2	1.1	2.0
				Implicit prices					
1990	7.6	–0.5	6.3	10.2	2.9	6.5	6.3	10.1	2.6
1991	7.7	–0.3	6.4	7.9	2.7	5.4	6.9	9.2	2.9
1992	4.7	1.1	4.0	5.2	2.4	3.9	5.6	1.6	1.6
1993	4.4	11.6	5.5	3.2	5.6	4.6	5.1	3.7	10.1
1994	3.5	5.2	3.7	3.5	3.2	3.2	4.6	3.1	2.3
1995	5.0	11.8	6.1	3.4	6.2	4.6	5.7	4.7	9.6
1994 – 3rd qtr. ...	0.7	2.3	0.9	0.5	0.8	0.6	1.1	0.8	0.7
4th " ...	1.0	2.2	1.2	0.4	1.4	0.9	1.3	1.3	1.0
1995 – 1st qtr. ...	1.3	4.4	1.8	1.3	1.8	1.6	1.4	2.4	2.8
2nd " ...	1.8	4.8	2.3	1.3	1.7	1.5	1.8	3.0	3.9
3rd " ...	1.4	0.7	1.3	0.4	1.8	1.1	1.5	–1.7	3.2
4th " ...	1.3	0.2	1.1	0.6	1.6	1.1	1.3	–1.2	2.4
1996 – 1st qtr. ...	1.1	–1.3	0.7	–0.5	0.5	..	0.9	0.4	0.7
2nd " ...	0.7	–1.5	0.3	..	0.5	0.3	1.0	–0.8	–1.3
3rd " ...	0.8	0.3	0.7	1.7	0.7	1.2	0.6	2.7	–0.6

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	Industrial production				Isco business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Changes in level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					Domestic	Foreign	Total		
	(indices, 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	11.2	8.5
1992	98.9	101.1	92.1	99.7	–32.0	–36.9	–32.0	1.9	7.2
1993	96.5	98.7	88.9	97.7	–43.1	–21.7	–35.6	2.8	4.6
1994	101.5	104.1	92.2	103.0	–18.0	8.9	–7.0	25.1	–4.3
1995	107.0	107.7	105.0	107.2	–5.7	16.6	1.3	21.8	–1.2
1996					–29.7	–16.9	–22.8	7.5	3.8
1991 – 1st qtr. ...	98.8	100.6	97.6	98.5	–28.2	–34.8	–27.5	9.5	9.7
2nd " ...	98.8	98.9	95.9	99.3	–28.1	–32.6	–27.8	11.0	9.7
3rd " ...	99.0	100.3	95.3	99.9	–26.6	–30.1	–24.9	12.7	8.3
4th " ...	99.7	101.8	94.7	99.8	–27.3	–28.6	–26.7	11.6	6.3
1992 – 1st qtr. ...	101.2	102.9	95.2	101.8	–24.7	–30.4	–23.9	10.6	11.3
2nd " ...	100.9	101.9	94.0	101.8	–27.4	–38.9	–29.2	8.4	11.0
3rd " ...	96.1	98.9	88.7	98.4	–34.1	–37.9	–34.8	–3.6	5.3
4th " ...	97.2	100.8	90.5	96.9	–42.0	–40.4	–40.3	–7.9	1.0
1993 – 1st qtr. ...	98.8	102.3	93.2	98.7	–44.7	–34.4	–42.6	–2.9	3.3
2nd " ...	96.6	97.8	89.6	97.8	–46.2	–27.9	–40.2	–0.2	7.0
3rd " ...	94.6	97.6	86.3	96.4	–44.8	–17.8	–33.4	3.4	6.7
4th " ...	96.0	97.0	86.5	97.9	–36.9	–6.7	–26.3	11.0	1.3
1994 – 1st qtr. ...	97.5	100.8	86.2	99.1	–31.1	–1.5	–18.5	17.7	–2.3
2nd " ...	101.2	104.1	92.4	102.3	–19.9	8.8	–7.8	25.1	–1.0
3rd " ...	103.4	106.6	94.7	104.9	–15.7	12.1	–5.1	28.8	–4.7
4th " ...	104.0	104.7	95.7	105.7	–5.1	16.0	3.4	28.6	–9.3
1995 – 1st qtr. ...	104.7	106.2	97.0	106.1	–1.0	24.5	7.0	23.7	–4.7
2nd " ...	105.3	106.9	100.3	106.3	–2.2	21.6	5.0	21.3	0.3
3rd " ...	109.7	110.1	109.2	109.5	–5.3	14.7	2.2	24.2	–1.7
4th " ...	108.2	107.7	113.7	106.9	–14.4	5.6	–9.0	18.0	1.3
1996 – 1st qtr. ...	105.3	104.7	106.3	105.2	–23.2	–8.6	–16.9	10.3	5.0
2nd " ...	104.9	105.5	106.9	104.6	–32.1	–20.2	–24.2	5.4	6.3
3rd " ...	105.8	107.8	105.1	105.5	–31.6	–17.9	–22.2	6.6	5.7
4th " ...					–31.8	–21.1	–27.7	7.9	–2.0

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				
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
1995	1,492	4,878	1,614	12,025	20,009	2,724	22,733	12.0	40.1
1996	1,402	4,876	1,599	12,211	20,088	2,764	22,851	12.1	40.3
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
4th "	1,493	4,880	1,642	12,070	20,086	2,769	22,855	12.1	40.3
1996 – 1st qtr.	1,356	4,857	1,606	12,013	19,833	2,756	22,589	12.2	39.8
2nd "	1,333	4,925	1,571	12,248	20,078	2,816	22,894	12.3	40.4
3rd "	1,454	4,870	1,628	12,357	20,308	2,691	23,000	11.7	40.5
4th "	1,465	4,851	1,590	12,226	20,132	2,791	22,922	12.2	40.4

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

Wholesale and consumer prices

(percentage changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living
	Consumer goods	Investment goods	Intermediate goods	Total	Food	Non-food products	Services	Total	
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	3.0	4.0	3.7	3.8	3.5	3.9	4.4	4.0	3.9
1995	8.5	5.8	11.7	10.2	6.1	4.7	5.2	5.2	5.4
1994 – 3rd qtr.	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 "	8.3	6.3	12.8	11.3	6.5	5.2	5.6	5.6	5.7
4th "	8.7	7.7	11.4	10.5	6.0	5.4	5.6	5.6	5.9
1996 – 1st qtr.	7.4	8.1	7.8	7.7	....	....	....	....	5.0
2nd "	4.5	6.8	2.8	3.5	....	....	....	....	4.2
3rd "	3.1	5.3	1.3	2.0	....	....	....	....	3.5
4th "	....	....	....	....	....	....	....	....	2.7
1995 – Oct.	8.6	7.7	12.0	10.8	6.3	5.2	5.5	5.5	5.8
Nov.	8.9	7.5	11.3	10.4	6.1	5.5	5.7	5.7	6.0
Dec.	8.7	7.8	10.8	10.1	5.8	5.5	5.6	5.6	5.8
1996 – Jan.	8.3	8.3	10.0	9.4	....	....	....	....	5.5
Feb.	7.4	8.1	8.5	8.2	....	....	....	....	5.0
Mar.	6.7	7.7	5.0	5.6	....	....	....	....	4.5
Apr.	4.8	7.3	4.2	4.5	....	....	....	....	4.5
May	4.5	7.2	2.9	3.5	....	....	....	....	4.3
June	4.1	6.0	1.4	2.4	....	....	....	....	3.9
July	4.4	5.9	1.7	2.6	....	....	....	....	3.6
Aug.	3.3	5.7	1.2	2.0	....	....	....	....	3.4
Sept.	1.5	4.2	1.1	1.3	....	....	....	....	3.4
Oct.	1.1	4.6	2.3	2.1	....	....	....	....	3.0
Nov.	....	....	....	....	....	....	....	....	2.6
Dec.	....	....	....	....	....	....	....	....	2.6
1997 – Jan.	....	....	....	....	....	....	....	....	2.6

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						
1994	57,193	3,053	–26,625	–9,292	24,329	–43,867	21,594	–22,273	1,253	–3,309
1995	71,744	2,776	–25,224	–4,713	44,583	(51,516)	–58,102	(–6,586)	(–35,087)	–2,910
1996	....	....	....	....	....	(*34,697*)	(–42,499)	(*–7,802*)	....	(–20,515)
1994 – 4th qtr. ..	13,482	1,236	–6,326	–1,590	6,802	6,435	–10,722	–4,287	–3,300	785
1995 – 1st qtr. ..	12,877	–1,144	–7,923	2,422	6,232	–9,327	4,928	–4,399	–13,429	11,596
2nd " ..	18,100	2,179	–5,551	–2,533	12,195	20,486	–10,389	10,097	–2,864	–19,428
3rd " ..	21,161	893	–5,532	–2,109	14,413	9,725	–19,564	–9,839	–11,142	6,568
4th " ..	19,606	848	–6,218	–2,493	11,743	(30,632)	–33,077	(–2,445)	(–7,652)	–1,646
1996 – 1st qtr. ..	17,068	–700	–6,427	–615	9,326	(–16,139)	19,461	(3,322)	(–12,232)	–416
2nd " ..	25,442	3,536	–7,363	–4,285	17,330	(19,712)	–14,932	(4,780)	(1,970)	–24,080
3rd " ..	27,177	1,916	–4,692	–2,654	21,747	(845)	–10,882	(–10,037)	(–12,951)	1,241
4th " ..	....	....	....	....	....	(*30,279*)	(–36,146)	(*–5,867*)	....	(2,740)
1994 – Dec.	4,519	496	–1,728	63	3,350	6,386	–3,781	2,605	1,692	–7,647
1995 – Jan.	3,445	–1,106	–3,304	–215	–1,180	–4,267	9,938	5,671	–8,218	3,727
Feb.	3,636	–689	–1,412	1,414	2,949	1,962	–6,526	–4,564	583	1,032
Mar.	5,796	651	–3,207	1,223	4,463	–7,022	1,516	–5,506	–5,794	6,837
Apr.	5,997	38	–2,437	–484	3,114	4,518	–1,655	2,863	–3,869	–2,108
May	5,898	720	–1,891	–552	4,175	8,526	–9,914	–1,388	1,074	–3,861
June	6,205	1,421	–1,223	–1,497	4,906	7,442	1,180	8,622	–69	–13,459
July	9,719	–122	–2,836	–687	6,074	–2,988	–5,401	–8,389	2,098	217
Aug.	5,646	625	–1,241	–637	4,393	12,104	–15,506	–3,402	–3,337	2,346
Sept.	5,796	390	–1,455	–785	3,946	609	1,343	1,952	–9,903	4,005
Oct.	7,006	646	–2,290	–1,593	3,769	5,442	–4,814	628	–5,606	1,209
Nov.	6,467	379	–1,310	–1,206	4,330	(11,346)	–15,015	(–3,669)	(–3,606)	2,945
Dec.	6,133	–177	–2,618	306	3,644	(13,844)	–13,248	(596)	(1,560)	–5,800
1996 – Jan.	2,854	–499	–2,654	–430	–729	(–5,476)	7,473	(1,997)	(–1,275)	7
Feb.	6,658	66	–978	–66	5,680	(–1,701)	–505	(–2,206)	(–4,391)	917
Mar.	7,556	–267	–2,795	–119	4,375	(–8,962)	12,493	(3,531)	(–6,566)	–1,340
Apr.	6,778	1,299	–2,228	–1,524	4,325	(27,177)	–26,877	(300)	(3,418)	–8,043
May	9,668	503	–2,088	–1,560	6,523	(–8,193)	13,351	(5,158)	(–2,414)	–9,267
June	8,996	1,734	–3,047	–1,201	6,482	(728)	–1,406	(–678)	(966)	–6,770
July	14,272	1,821	–2,107	–922	13,064	(–9,805)	2,907	(–6,898)	(–6,489)	323
Aug.	7,994	–64	–195	–720	7,015	(3,918)	–11,016	(–7,098)	(–2,725)	2,808
Sept.	4,911	159	–2,390	–1,012	1,668	(6,732)	–2,773	(3,959)	(–3,737)	–1,890
Oct.	9,826	591	–1,676	–865	7,876	(10,850)	–6,212	(4,638)	(–8,118)	–4,396
Nov.	....	....	....	....	....	(*2,717*)	(–10,169)	(*–7,452*)	....	(4,176)
Dec.	....	....	....	....	....	(*16,712*)	(–19,765)	(*–3,053*)	....	(2,960)

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)						
1993 – Dec. . . .	35,596	7,382	410	43,388	985	2,581	2,382	1,644	3,687	36,910	83,937
1994 – Dec. . . .	39,197	7,554	204	46,955	790	2,290	1,817	1,671	3,314	41,338	91,436
1995 – Dec. . . .	38,377	9,377	–	47,754	2,462	4,470	3,533	1,655	3,112	40,257	91,476
1996 – Jan. . . .	38,168	9,142	–	47,310	2,406	4,439	3,518	1,631	3,067	40,257	91,036
Feb. . . .	36,571	9,059	27	45,657	2,821	4,695	3,787	1,604	3,016	40,257	89,200
Mar. . . .	36,235	11,080	27	47,342	3,137	5,002	4,090	1,610	3,027	39,542	90,166
Apr. . . .	43,133	11,221	27	54,381	2,625	5,203	4,305	1,592	2,993	39,542	97,902
May . . .	46,783	15,501	8	62,292	2,334	5,483	4,577	1,569	2,936	39,542	106,350
June . .	50,923	15,528	13	66,464	286	5,668	4,770	1,556	2,900	39,479	112,669
July . . .	49,994	16,689	117	66,800	186	5,695	4,789	1,564	2,915	39,479	113,139
Aug. . . .	46,660	16,506	121	63,287	207	5,773	4,875	1,551	2,893	39,479	109,674
Sept. . .	48,460	16,363	110	64,933	209	5,629	4,727	1,543	2,869	38,723	110,402
Oct. . . .	52,221	16,537	52	68,810	275	6,038	5,079	1,539	2,861	38,723	114,618
Nov. . . .	47,524	16,388	43	63,955	225	6,225	5,434	1,536	2,833	38,723	109,975
Dec. . . .	44,886	16,323	45	61,254	364	6,224	5,430	1,546	2,839	38,366	106,773
					(millions of dollars)						
1993 – Dec. . . .	20,890	4,332	241	25,462	578	1,515	1,398	965	2,164	23,593	51,191
1994 – Dec. . . .	24,052	4,635	125	28,812	485	1,405	1,115	1,025	2,034	26,342	57,082
1995 – Dec. . . .	24,217	5,917	–	30,134	1,554	2,821	2,229	1,044	1,964	25,654	57,975
1996 – Jan. . . .	23,858	5,714	–	29,572	1,504	2,775	2,199	1,020	1,917	25,654	57,395
Feb. . . .	23,515	5,825	17	29,358	1,814	3,019	2,435	1,031	1,939	25,654	57,125
Mar. . . .	23,096	7,062	17	30,175	1,999	3,188	2,607	1,026	1,929	26,184	58,451
Apr. . . .	27,600	7,180	17	34,797	1,680	3,329	2,755	1,019	1,915	26,184	63,527
May . . .	30,206	10,008	5	40,220	1,507	3,540	2,955	1,013	1,896	26,184	69,319
June . .	33,164	10,113	8	43,285	186	3,691	3,106	1,013	1,889	25,533	73,199
July . . .	32,910	10,986	77	43,973	122	3,749	3,153	1,030	1,919	25,533	74,023
Aug. . . .	30,819	10,902	80	41,801	137	3,813	3,220	1,024	1,911	25,533	71,897
Sept. . .	31,750	10,721	72	42,543	137	3,688	3,097	1,011	1,880	25,368	72,331
Oct. . . .	34,467	10,915	34	45,416	182	3,985	3,352	1,016	1,888	25,368	75,461
Nov. . . .	31,400	10,828	28	42,256	149	4,113	3,590	1,015	1,872	25,368	72,446
Dec. . . .	29,326	10,664	29	40,020	238	4,066	3,548	1,010	1,855	24,630	69,323

Table a19

State sector borrowing requirement (1)

(billions of lire)

	Budget			Treasury operations	Total Treasury borrowing requirement	Settlements of past debts (–)	Privatization receipts (–)	Net Treasury borrowing requirement	Borrowing requirement of ANAS and the State Forests	Borrowing requirement of other bodies borne by the govt.	Net borrowing requirement
	Receipts	Payments (–)	Balance								
1990	406,858	535,440	–128,582	–3,448	–132,030	–4,831	–	–127,199	811	–7,753	–134,141
1991	445,914	576,566	–130,652	–11,694	–142,346	–73	2,100	–144,372	–1,223	–2,905	–148,501
1992	499,612	609,930	–110,318	–43,884	–154,203	–31	–	–154,172	–3,263	–4,331	–161,765
1993	470,685	617,736	–147,051	–13,408	–160,459	–10,837	–	–149,622	511	2,077	–147,033
1994	477,160	620,928	–143,768	–8,599	–152,368	–6,442	5,921	–151,846	–667	–509	–153,022
1995	523,332	643,650	–120,317	1,448	–118,869	–3,185	8,354	–124,038	–2,542	–1,353	–127,933
1996	549,712	685,482	–135,770	–1,607	–137,377	–10,402	6,087	–133,062	1,115	74	–131,874
1995 – 1st qtr.	106,216	171,622	–65,405	23,505	–41,901	–2,588	2	–39,315	7	–2,682	–41,990
2nd "	140,047	152,197	–12,150	–2,564	–14,714	–81	–	–14,632	–1,598	–143	–16,374
3rd "	109,900	127,265	–17,365	–26,436	–43,801	–	913	–44,714	12	614	–44,088
4th "	167,170	192,567	–25,397	6,943	–18,454	–516	7,438	–25,377	–962	858	–25,481
1996 – 1st qtr.	108,683	124,888	–16,204	–28,575	–44,779	–	–	–44,779	8	–229	–45,000
2nd "	148,963	170,938	–21,975	11,675	–10,300	–2,007	–	–8,293	425	1,056	–6,811
3rd "	116,202	163,483	–47,281	–804	–48,085	–3,031	493	–45,547	12	–1,304	–46,839
4th "	175,864	226,173	–50,309	16,096	–34,213	–5,363	5,594	–34,444	670	551	–33,223
1996 – Jan.	44,910	40,479	4,430	–16,978	–12,548	–	–	–12,548	8	–669	–13,209
Feb.	29,933	40,742	–10,810	–2,253	–13,063	–	–	–13,063	–	1,714	–11,349
Mar.	33,841	43,666	–9,825	–9,343	–19,168	–	–	–19,168	–	–1,274	–20,442
Apr.	37,907	84,986	–47,079	21,426	–25,654	–	–	–25,654	263	1,507	–23,883
May	43,492	41,186	2,305	–11,670	–9,365	–2,007	–	–7,357	–	–1,193	–8,550
June	67,565	44,766	22,799	1,919	24,718	–	–	24,718	162	742	25,622
July	46,634	63,653	–17,019	5,325	–11,694	–2,031	493	–10,156	8	–1,488	–11,636
Aug.	43,088	40,632	2,457	–12,115	–9,659	–1,000	–	–8,659	–	187	–8,472
Sept.	26,480	59,198	–32,718	5,986	–26,733	–	–	–26,733	4	–3	–26,732
Oct.	36,414	84,783	–48,369	24,227	–24,142	–3,167	–	–20,975	285	1,602	–19,088
Nov.	52,072	47,809	4,264	–16,427	–12,163	–	7,436	–19,599	–	1,078	–18,521
Dec.	87,377	93,581	–6,204	8,297	2,093	–2,196	–1,842	6,131	384	–2,129	4,386

(1) Based on preliminary data and the accounting rules recently approved by Eurostat. See the notes to the tables hereinafter.

Table a20

Financing of the state sector borrowing requirement (1)

(billions of lire)

	Medium and long-term securities	BOTs and BTEs	BI-UIC financing other than securities purchases		PO deposits	Foreign loans	Other	Gross borrowing requirement
			Current accounts	Other				
1990	69,799	40,515	2,909	–97	7,485	14,914	3,447	138,972
1991	113,915	11,589	2,011	461	7,036	5,506	5,956	146,474
1992	91,121	46,479	7,706	–590	9,111	173	7,797	161,797
1993	163,120	5,577	–35,244	732	8,922	12,374	2,391	157,871
1994	225,609	11,706	–109,474	–2,245	21,215	9,569	–2,835	153,544
1995	88,640	–1,506	–8,195	–244	14,672	25,598	3,799	122,764
1996	127,049	–27,453	17,370	271	10,733	15,281	–7,062	136,188
1995 – 1st qtr.	26,321	3,244	5,931	981	5,024	413	2,661	44,576
2nd "	19,353	500	–28,214	–670	2,975	19,896	2,615	16,455
3rd "	23,503	–3,250	15,835	432	3,704	2,690	261	43,175
4th "	19,463	–2,000	–1,747	–988	2,969	2,600	–1,738	18,558
1996 – 1st qtr.	27,708	–4,288	19,810	1,085	373	2,801	–2,488	45,000
2nd "	41,355	–3,463	–32,667	–1,076	1,560	4,987	–1,877	8,818
3rd "	36,441	–4,952	11,984	1,179	1,052	3,725	–51	49,378
4th "	21,545	–14,750	18,244	–917	7,748	3,768	–2,646	32,992
1996 – Jan.	5,801	–1,287	5,293	566	2,218	695	–77	13,209
Feb.	14,117	–1,501	1,659	–321	–596	–165	–1,844	11,349
Mar.	7,791	–1,500	12,858	840	–1,249	2,270	–568	20,442
Apr.	20,247	–713	4,865	–114	–431	2,036	–2,007	23,883
May	18,984	–500	–10,248	–403	1,654	–144	1,215	10,557
June	2,123	–2,250	–27,284	–559	336	3,096	–1,085	–25,622
July	19,302	–2,750	–5,616	1,209	–370	1,531	–131	13,174
Aug.	12,142	–940	–2,333	–14	781	–150	–14	9,472
Sept.	4,998	–1,262	19,933	–17	641	2,344	94	26,732
Oct.	2,061	–4,500	19,362	–32	6,873	–382	–1,126	22,255
Nov.	4,247	–4,500	10,530	34	–433	1,192	16	11,085
Dec.	15,237	–5,750	–11,648	–918	1,308	2,959	–1,535	–348

(1) Based on preliminary data and the accounting rules recently approved by Eurostat. See the notes to the tables hereinafter.

Table a21

The state sector debt (1)

(end-of-period face value; billions of lire)

	Medium and long-term securities excluding BI-UIC	BOTs and BTEs excluding BI-UIC	PO deposits	Lending by banks	Other domestic debt	Total domestic debt excluding BI-UIC	Borrowing from BI-UIC	Foreign debt	Total
1989	550,426	287,698	81,677	18,279	2,086	940,165	142,112	34,975	1,117,253
1990	635,360	323,405	89,162	21,473	2,339	1,071,739	140,091	48,997	1,260,826
1991	751,527	338,665	96,198	27,182	2,586	1,216,158	141,763	54,909	1,412,830
1992	826,193	395,378	105,308	34,665	2,900	1,364,444	165,979	64,509	1,594,932
1993	980,060	401,230	114,230	36,836	3,120	1,535,477	144,484	85,449	1,765,409
1994	1,126,646	399,207	135,445	33,905	3,216	1,698,419	137,787	95,981	1,932,187
1995	1,224,406	408,686	150,117	37,450	3,470	1,824,129	129,877	119,245	2,073,251
1996	1,387,466	382,875	160,850	30,141	3,717	1,965,049	114,525	125,328	2,204,903
1994 – 1st qtr.	1,021,716	396,430	119,241	38,330	3,167	1,578,884	143,300	85,402	1,807,586
2nd "	1,061,547	399,547	123,147	38,004	3,216	1,625,462	127,124	84,560	1,837,145
3rd "	1,084,669	397,767	127,149	38,587	3,276	1,651,449	141,271	88,135	1,880,855
4th "	1,126,646	399,207	135,445	33,905	3,216	1,698,419	137,787	95,981	1,932,187
1995 – 1st qtr.	1,163,360	408,099	140,470	36,505	3,277	1,751,710	142,127	107,989	2,001,826
2nd "	1,182,248	408,175	143,444	39,040	3,357	1,776,264	118,304	124,124	2,018,692
3rd "	1,205,271	409,192	147,149	39,228	3,430	1,804,270	132,405	119,354	2,056,029
4th "	1,224,406	408,686	150,117	37,450	3,470	1,824,129	129,877	119,245	2,073,251
1996 1st qtr.	1,256,685	404,630	150,490	34,891	3,541	1,850,237	146,964	119,092	2,116,292
2nd "	1,302,130	391,652	152,050	32,955	3,600	1,882,387	119,508	119,937	2,121,833
3rd "	1,341,767	391,004	153,102	32,851	3,653	1,922,376	127,543	122,692	2,172,611
1996 – Oct.	1,351,997	387,379	159,975	31,701	3,677	1,934,728	138,524	121,880	2,195,132
Nov.	1,364,938	383,032	159,542	31,701	3,692	1,942,905	139,944	122,562	2,205,411
Dec.	1,387,466	382,875	160,850	30,141	3,717	1,965,049	114,525	125,328	2,204,903

(1) Based on preliminary data and the accounting rules recently approved by Eurostat. See the notes to the tables hereinafter.

Monetary base

(flows in billions of lire)

	Sources								Uses				
	Foreign sector		Treasury accounts	Other BI-UIC operations with the Treasury	Open market	Refinancing	Other sectors	Total	Currency in circulation	Bank reserves			
		of which: currency swaps								Deposits with the Bank of Italy	*of which: compulsory reserves*	Other	Total
1994	3,297	−813	−33,269	−21,474	47,451	238	−6,154	−9,911	6,452	−16,566	−13,332	202	−16,364
1995	2,915	10,592	−8,195	−25,174	15,455	4,857	−1,786	−11,928	2,060	−15,310	−18,728	1,322	−13,988
1996	20,446	−24,227	17,370	−23,143	3,739	−5,648	−8,612	4,151	1,832	684	−1,779	1,635	2,319
1996 – Jan.	−138	..	5,293	157	−5,768	−4,616	−1,793	−6,866	−6,275	1,290	−1,649	−1,881	−591
Feb.	−916	..	1,659	−337	567	37	−1,240	−230	−2,161	1,808	1,039	123	1,931
Mar.	1,330	..	12,858	403	−12,354	25	−1,639	623	2,495	−1,688	−3,982	−184	−1,872
Apr.	8,042	..	4,865	−844	−16,554	−1,096	−934	−6,522	−1,603	−5,593	−350	673	−4,920
May	9,267	−1,558	−10,248	−1,007	4,602	−30	−838	1,746	1,230	672	−1,350	−156	516
June	6,773	−1,010	−27,284	−2,161	20,108	−47	2,332	−279	1,041	−792	1,310	−528	−1,320
July	−325	−3,557	−5,616	−709	7,848	76	−1,266	9	1,845	−2,845	−1,903	1,009	−1,837
Aug.	−2,812	−1,517	−2,333	−1,661	8,265	48	−370	1,137	−2,399	4,327	913	−791	3,536
Sept.	731	−1,520	19,933	−2,175	−19,925	−15	−534	−1,985	995	−3,836	−1,052	857	−2,979
Oct.	5,381	−5,986	19,362	−3,161	−21,858	−58	−1,898	−2,232	−844	−900	2,035	−488	−1,388
Nov.	−2,943	−9,079	10,530	(−3,567)	7,419	−42	−1,805	(9,592)	(3,794)	5,499	1,951	298	5,798
Dec.	−3,944	..	−11,648	(−8,080)	31,388	69	1,373	(9,158)	(3,713)	2,743	1,259	2,702	5,445

Financing of the Treasury

(flows in billions of lire)

	Gross state sector borrowing requirement	Non-monetary financing							Treasury accounts	Other BI-UIC operations with the Treasury
		Net sales of securities on the primary market					Other	Total		
		Treasury bills	Treasury credit certificates	Treasury bonds	Other	Total				
1994	153,544	−36,729	−37,630	−105,721	−367	−180,448	−27,840	−208,287	−33,269	−21,474
1995	122,764	−21,957	26,922	−100,043	−22,651	−117,729	−38,404	−156,132	−8,195	−25,174
1996	136,188	14,356	−35,575	−65,985	−40,207	−127,411	−14,551	−141,962	17,370	−23,143
1996 – Jan.	13,209	1,002	−2,893	−16	−3,040	−4,947	−2,812	−7,759	5,293	157
Feb.	11,349	1,486	−1,131	−12,147	−850	−12,642	2,614	−10,028	1,659	−337
Mar.	20,442	1,498	−8,394	6,169	−6,005	−6,732	−449	−7,181	12,858	403
Apr.	23,883	−3	−4,594	−11,308	−4,364	−20,269	407	−19,862	4,865	−844
May	10,557	155	−4,720	−9,090	−5,443	−19,098	−2,715	−21,813	−10,248	−1,007
June	−25,622	1,833	−5,080	−585	201	−3,631	−192	−3,823	−27,284	−2,161
July	13,174	1,075	−3,607	−11,506	−4,442	−18,479	−1,020	−19,499	−5,616	−709
Aug.	9,472	−705	−3,068	−3,617	−5,462	−12,851	−615	−13,466	−2,333	−1,661
Sept.	26,732	−365	−2,886	−5,026	2,373	−5,904	−3,070	−8,974	19,933	−2,175
Oct.	22,255	1,856	2,953	−350	−6,583	−2,124	−3,931	−6,054	19,362	−3,161
Nov.	11,085	1,987	−12	−6,999	1,675	−3,348	−774	−4,122	10,530	(−3,567)
Dec.	−348	4,538	−2,144	−11,512	−8,267	−17,385	−1,996	−19,381	−11,648	(−8,080)

Monetary base

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

	Sources										
	Foreign sector	of which: currency swaps	Govern-ment securities	Treasury overdraft with BI	Treasury payments account	Sinking fund for govern-ment securities	Other	of which: coins in circulation	Credits & debits from temporary operations	Refi-nancing	Other sectors
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	2,581	–74,269
1994	91,572	32,129	192,911	..	–58,018	–5,921	2,903	1,816	43,741	2,819	–80,517
1995	91,617	41,791	193,582	..	–63,122	–9,012	2,794	1,951	35,836	7,676	–81,808
1996 – Jan.	91,045	41,672	187,209	..	–57,382	–9,458	3,384	1,975	34,413	3,060	–81,574
Feb.	89,210	40,665	187,262	..	–55,723	–9,458	3,073	1,985	34,900	3,098	–81,895
Mar.	90,166	40,998	188,133	..	–37,110	–15,214	3,918	1,990	21,234	3,123	–83,160
Apr.	97,901	40,396	187,311	..	–32,245	–15,214	3,809	1,995	4,767	2,027	–83,787
May	106,349	38,443	190,470	..	–42,493	–15,214	3,416	2,005	5,596	1,997	–83,806
June	112,671	37,167	194,613	..	–72,027	–12,965	2,865	2,013	19,951	1,950	–81,023
July	113,139	33,609	191,835	..	–76,994	–13,614	4,083	2,022	28,649	2,026	–83,082
Aug.	109,670	31,898	189,912	..	–79,327	–13,614	4,071	2,024	37,188	2,074	–82,794
Sept.	109,239	30,359	189,577	..	–58,900	–14,108	4,064	2,033	15,431	2,059	–82,166
Oct.	114,441	24,216	180,967	..	–45,537	–8,109	4,041	2,043	–955	2,002	–83,886
Nov.	110,928	15,067	172,418	..	–39,449	–3,666	(4,074)	(2,043)	11,412	1,960	–85,121
Dec.	106,741	15,193	159,096	..	–54,751	–13	(3,892)	(2,043)	48,225	2,028	–83,504

	Uses	Bank reserves				Total monetary base
	Currency in circulation	Deposits with the Bank of Italy	of which: compulsory reserves	Other	Total	
1992	85,617	127,543	129,927	5,721	133,263	218,880
1993	89,769	103,942	105,796	5,691	109,633	199,402
1994	96,221	87,377	92,464	5,893	93,270	189,490
1995	98,281	72,067	73,736	7,215	79,282	177,562
1996 – Jan.	92,006	73,357	72,087	5,334	78,691	170,697
Feb.	89,845	75,164	73,127	5,457	80,621	170,467
Mar.	92,341	73,476	69,144	5,273	78,750	171,090
Apr.	90,738	67,883	68,795	5,947	73,830	164,568
May	91,968	68,555	67,445	5,791	74,346	166,314
June	93,009	67,764	68,755	5,262	73,026	166,035
July	94,854	64,918	66,852	6,271	71,189	166,044
Aug.	92,455	69,245	67,765	5,480	74,726	167,181
Sept.	93,450	65,409	66,713	6,337	71,746	165,196
Oct.	92,606	64,509	68,748	5,849	70,358	162,964
Nov.	(96,400)	70,008	70,699	6,147	76,156	(172,556)
Dec.	(100,113)	72,751	71,958	8,850	81,601	(181,713)

Monetary base and BI operations:

(stocks in billions

	Monetary base						
	Currency in circulation	Bank reserves					
		Deposits with the Bank of Italy	*of which: excess reserves*	Vault cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)
1994 – Dec.	96,140	92,619	151	5,732	198	98,549	0.7
1995 – Dec.	96,929	73,921	202	7,187	179	81,287	1.4
1996 – Jan.	92,674	72,236	150	5,114	170	77,520	0.8
Feb.	90,198	73,283	156	5,241	158	78,682	0.9
Mar.	91,922	69,304	160	5,283	157	74,744	1.3
Apr.	91,050	68,978	183	5,594	206	74,778	1.4
May	92,132	68,229	774	5,666	262	74,157	1.7
June	92,734	68,846	91	5,148	400	74,394	1.9
July	94,357	67,034	182	6,211	258	73,503	2.4
Aug.	93,413	67,924	159	5,314	209	73,447	2.5
Sept.	92,930	66,865	152	6,092	235	73,193	3.0
Oct.	92,915	68,898	150	5,726	215	74,839	2.2
Nov.	96,207	70,965	266	6,104	310	77,379	2.1
Dec.	100,070	72,202	244	8,145	359	80,707	2.0

Table a24

averages of daily data

of lire)

		BI operations					
		Temporary operations					
		Securities					
TOTAL	Percentage changes (over 12 months)	Purchases	Sales	Total	Foreign currency purchases	Fixed-term advances	TOTAL
194,689	2.8	36,428	1,231	35,197	31,386	200	66,783
178,216	1.2	15,852	1,277	14,575	42,143	3,819	60,537
170,194	0.9	23,394	981	22,413	41,847	65	64,325
168,880	0.4	19,671	1,177	18,494	41,394	48	59,936
166,666	0.5	10,228	1,459	8,768	40,914	34	49,716
165,828	0.1	3,633	5,335	–1,701	40,636	127	39,062
166,289	0.8	6,228	1,438	4,790	39,551	..	44,340
167,128	1.2	9,744	1,345	8,399	37,496	..	45,896
167,861	1.8	16,465	1,091	15,374	33,888	..	49,262
166,860	2.1	21,710	1,330	20,380	32,078	56	52,514
166,123	2.3	5,083	6,144	–1,061	30,032	29	29,000
167,754	2.2	..	7,600	–7,600	23,182	8	15,590
173,586	2.4	11,638	4,453	7,186	17,181	..	24,367
180,777	2.5	23,853	571	23,282	14,933	..	38,214

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	
	Subscrip-tions	Redemptions	Net subscriptions						
					Total				
1995	110	25,175	–25,065	23,361	–1,704	–7,575	–331	–7,906	–9,610
1996	(202)	(24,444)	(–24,242)	(–8,651)	(–32,893)	(11,782)	(608)	(12,389)	(–20,503)
1996 – Jan.	12	445	–434	–4,346	–4,779	–1,927	504	–1,423	–6,202
Feb.	9	35	–26	80	54	901	–414	487	541
Mar.	5	446	–441	1,312	870	–13,151	–515	–13,666	–12,795
Apr.	6	741	–735	–87	–822	–16,649	181	–16,467	–17,289
May	6	620	–614	3,773	3,159	966	–138	829	3,988
June	9	1,619	–1610	5,753	4,143	14,270	85	14,355	18,499
July	6	1,933	–1,928	–851	–2,778	8,239	459	8,698	5,920
Aug.	5	1,655	–1,650	–274	–1,923	8,806	–267	8,539	6,616
Sept.	115	2,283	–2,168	1,833	–335	–21,574	–183	–21,758	–22,092
Oct.	11	3,149	–3,138	–5,472	–8,610	–16,923	537	–16,386	–24,996
Nov.	11	3,612	–3,601	–4,948	–8,549	12,121	246	12,368	3,818
Dec.	(8)	(7,906)	(–7,898)	(–5,425)	(–13,323)	(36,702)	(111)	(36,813)	(23,490)
				of which:	***Treasury bills (BOTs)***				
1995	..	23,456	–23,456	12,490	–10,967	–8,983	..	–8,983	–19,951
1996	..	(13,097)	(–13,097)	(11,466)	(–1,631)	(4,459)	..	4,459	(2,828)
1996 – Jan.	..	285	–285	–1,900	–2,185	–1,376	..	–1,376	–3,561
Feb.	..	15	–15	–3	–18	15	..	15	–3
Mar.	..	2	–2	1,979	1,977	–1,734	..	–1,734	243
Apr.	..	716	–716	896	180	–1,729	..	–1,729	–1,549
May	..	345	–345	4,452	4,107	723	..	723	4,830
June	..	417	–417	5,675	5,258	1,563	..	1,563	6,821
July	..	1,675	–1,675	–916	–2,591	1,255	..	1,255	–1,336
Aug.	..	1,645	–1,645	–530	–2,175	394	..	394	–1,781
Sept.	..	1,626	–1,626	2,097	470	–3,273	..	–3,273	–2,803
Oct.	..	2,644	–2,644	1,764	–880	–867	..	–867	–1,747
Nov.	..	2,513	–2,513	2,358	–155	1,437	..	1,437	1,282
Dec.	..	(1,213)	(–1,213)	(–4,406)	(–5,619)	8,051	..	8,051	(2,432)

BI-UIC operations in government securities

(billions of lire)

	Outright operations					Temporary operations			Total
	Primary market			Open market	Total	Purchases	Sales	Net purchases	
	Subcrip- tions	Redemptions	Net subsciptions						
				of which: ***Treasury credit certificates (CCTs)***					
1995	44	1,217	−1,173	−1,529	−2,702	−1,163	1	−1,162	−3,864
1996	(17)	(2,803)	(−2,787)	(−1,984)	(−4,770)	1,355	−139	1,216	(−3,554)
1996 – Jan.	2	15	−13	−1,027	−1,040	−1,849	3	−1,846	−2,886
Feb.	2	13	−11	−44	−55	1,823	47	1,870	1,815
Mar.	1	11	−10	−188	−197	−5,802	−16	−5,818	−6,015
Apr.	1	24	−23	106	83	−3,573	−105	−3,678	−3,595
May	1	5	−4	−70	−74	1,110	121	1,231	1,157
June	2	10	−8	136	128	3,362	−182	3,180	3,308
July	1	251	−250	−32	−282	377	115	492	210
Aug.	1	4	−3	98	95	1,966	57	2,023	2,118
Sept.	1	5	−4	10	6	−6,734	−74	−6,808	−6,802
Oct.	2	383	−381	−319	−700	−610	84	−526	−1,226
Nov.	2	398	−397	−21	−417	1,602	−15	−1,587	1,170
Dec.	(1)	(1,684)	(−1,683)	(−634)	(−2,317)	9,683	−174	9,509	(7,192)
				of which: ***Treasury bonds (BTPs)***					
1995	66	340	−275	11,380	11,105	554	−331	223	11,328
1996	(75)	(7,163)	(−7,088)	(−19,780)	(−26,868)	5,953	747	6,700	(−20,167)
1996 – Jan.	10	139	−129	−1,012	−1,141	2,202	534	2,736	1,595
Feb.	7	..	7	−19	−12	−1,254	−489	−1,743	−1,755
Mar.	3	433	−430	−454	−884	−3,454	−598	−4,052	−4,936
Apr.	5	..	5	−924	−919	−7,994	382	−7,612	−8,531
May	5	257	−252	−527	−779	−422	−151	−573	−1,352
June	8	1,185	−1,177	−135	−1,312	5,699	158	5,857	4,545
July	4	..	4	96	100	3,990	369	4,359	4,459
Aug.	4	5	−1	5	5	5,778	−301	5,477	5,482
Sept.	4	8	−4	−262	−266	−6,688	−133	−6,821	−7,087
Oct.	9	122	−113	−6,889	−7,002	−12,363	429	−11,934	−18,936
Nov.	9	14	−5	−7,357	−7,362	5,649	296	5,945	−1,416
Dec.	(7)	(5,000)	(−4,993)	(−2,304)	(−7,297)	14,810	251	15,061	(7,764)

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										
1996 – mid-Feb.	5,250	..	5,250	4,750	90	8,382	4,750	97.85	8.01	9.21
end "	13,000	..	13,000	12,500	92	17,147	12,500	97.59	8.82	10.16
mid-Mar.	5,500	..	5,500	5,000	91	9,490	5,000	97.74	8.34	9.60
end "	14,000	..	14,000	13,750	91	17,585	13,750	97.66	8.65	9.96
mid-Apr.	5,500	..	5,500	5,500	91	7,734	5,500	97.75	8.30	9.56
end "	14,193	20	14,213	14,000	92	16,447	14,000	97.81	7.98	9.18
mid-May	4,740	10	4,750	4,750	91	7,620	4,750	97.87	7.84	9.02
end "	12,309	191	12,500	12,250	91	15,932	12,250	97.89	7.76	8.93
mid-June	4,978	22	5,000	4,500	94	8,229	4,500	97.86	7.62	8.76
end "	13,385	365	13,750	13,000	94	15,627	13,000	97.98	7.17	8.25
mid-July	5,500	..	5,500	5,000	92	7,797	5,000	97.92	7.56	8.70
end "	13,225	775	14,000	13,000	92	14,550	13,000	97.95	7.45	8.56
mid-Aug.	4,617	133	4,750	4,500	93	7,687	4,500	97.90	7.55	8.69
end "	11,890	360	12,250	12,000	91	13,003	12,000	97.94	7.57	8.71
mid-Sept.	4,500	..	4,500	4,250	91	7,373	4,250	98.07	7.07	8,13
end "	12,946	54	13,000	13,000	91	13,652	13,000	98.08	7.03	8.09
mid-Oct.	4,995	5	5,000	4,000	92	8,286	4,000	98.13	6.76	7.78
end "	12,855	145	13,000	12,000	92	14,398	12,000	98.16	6.65	7.65
mid-Nov.	4,500	..	4,500	3,500	91	6,968	3,500	98.28	6.27	7.21
end "	11,637	363	12,000	11,250	91	12,753	11,250	98.31	6.16	7.08
mid-Dec.	4,250	..	4,250	3,250	88	7,994	3,250	98.37	6.14	7.05
end "	12,818	182	13,000	11,000	88	14,346	11,000	98.40	6.02	6.92
1997 – mid-Jan.	3,995	5	4,000	3,000	90	8,929	3,000	98.48	5.58	6.41
end "	11,380	620	12,000	10,750	87	17,129	10,750	98.37	6.21	7.14
mid-Feb.	3,490	10	3,500	3,000	90	9,835	3,000	98.52	5.43	6.23
6-month										
1996 – mid-Feb.	6,250	..	6,250	6,000	181	9,037	6,000	95.75	7.94	9.15
end "	14,000	..	14,000	14,000	183	15,740	14,000	95.38	8.58	9.89
mid-Mar.	6,500	..	6,500	6,500	185	9,199	6,500	95.45	8.35	9.62
end "	14,500	..	14,500	14,250	185	14,989	14,250	95.36	8.52	9.83
mid-Apr.	6,000	..	6,000	5,500	183	8,240	5,500	95.56	8.22	9.48
end "	15,141	359	15,500	15,500	184	16,895	15,500	95.81	7.69	8.86
mid-May	5,750	..	5,750	5,750	184	7,288	5,750	95.85	7.61	8.77
end "	13,750	..	13,750	13,500	182	16,681	13,500	95.97	7.47	8.60
mid-June	5,500	..	5,500	5,000	185	7,199	5,000	95.93	7.42	8.54
end "	13,000	..	13,000	12,500	185	14,865	12,500	96.09	7.11	8.19
mid-July	6,500	..	6,500	6,000	184	7,644	6,000	95.98	7.36	8.48
end "	13,892	108	14,000	13,500	184	15,329	13,500	95.98	7.36	8.48
mid-Aug.	6,000	..	6,000	6,000	184	7,021	6,000	95.88	7.56	8.70
end "	13,382	618	14,000	13,750	182	13,560	13,560	95.92	7.56	8.71
mid-Sept.	6,360	140	6,500	6,000	179	7,824	6,000	96.15	7.24	8.33
end "	13,441	809	14,250	13,250	179	16,555	13,250	96.24	7.06	8.13
mid-Oct.	5,478	22	5,500	5,000	182	8,603	5,000	96.33	6.76	7.79
end "	14,269	1,231	15,500	13,500	179	17,915	13,500	96.53	6.49	7.47
mid-Nov.	5,604	146	5,750	5,000	181	8,524	5,000	96.65	6.18	7.11
end "	12,316	1,184	13,500	12,250	182	16,538	12,250	96.72	6.01	6.92
mid-Dec.	4,840	160	5,000	4,250	182	6,524	4,250	96.72	6.01	6.92
end "	12,362	138	12,500	11,500	182	13,970	11,500	96.80	5.86	6.74
1997 – mid-Jan.	5,970	30	6,000	5,000	181	8,588	5,000	96.87	5.76	6.62
end "	13,300	200	13,500	12,500	181	19,850	12,500	96.77	5.95	6.85
mid-Feb.	5,891	109	6,000	5,000	181	7,398	5,000	96.85	5.80	6.67

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					
1996 – mid-Feb.	7,250	..	7,250	7,000	365	11,000	7,000	91.55	7.98	9.23
end "	14,985	15	15,000	15,000	365	17,917	15,000	91.10	8.45	9.77
mid-Mar.	5,498	2	5,500	5,500	364	8,403	5,500	91.35	8.21	9.50
end "	13,500	..	13,500	13,000	364	14,604	13,000	91.20	8.37	9.68
mid-Apr.	4,500	..	4,500	4,500	365	7,205	4,500	91.40	8.14	9.41
end "	12,163	337	12,500	12,500	363	14,572	12,500	92.05	7.52	8.68
mid-May	4,856	144	5,000	5,000	365	6,985	5,000	92.00	7.53	8.70
end "	10,500	..	10,500	10,500	364	15,821	10,500	92.25	7.29	8.42
mid-June	3,975	25	4,000	4,500	367	8,594	4,500	92.10	7.39	8.53
end "	10,495	5	10,500	10,000	367	13,548	10,000	92.50	6.99	8.06
mid-July	4,920	80	5,000	5,000	365	9,379	5,000	92.30	7.22	8.34
end "	12,539	711	13,250	13,000	365	15,859	13,000	92.30	7.22	8.34
mid-Aug.	5,428	72	5,500	5,500	365	8,015	5,500	92.15	7.38	8.52
end "	11,538	462	12,000	12,000	364	18,598	12,000	92.15	7.40	8.54
mid-Sept.	5,991	9	6,000	6,500	364	11,978	6,500	92.45	7.09	8.19
end ", ...	13,886	615	14,500	14,500	365	22,894	14,500	92.65	6.87	7.93
mid-Oct.	6,282	218	6,500	7,000	365	18,978	7,000	93.00	6.52	7.53
end "	15,977	1,023	17,000	16,500	365	24,048	16,500	93.30	6.23	7.18
mid-Nov.	6,750	250	7,000	6,500	364	16,412	6,500	93.50	6.05	6.97
end "	12,680	570	13,250	13,000	364	21,392	13,000	93.80	5.75	6.63
mid-Dec.	4,451	49	4,500	4,500	364	8,722	4,500	93.75	5.80	6.68
end "	14,317	683	15,000	14,000	365	17,053	14,000	93.85	5.69	6.55
1997 – mid-Jan.	7,210	290	7,500	6,000	365	12,359	6,000	93.90	5.64	6.50
end "	16,255	495	16,750	14,750	364	29,682	14,750	93.85	5.70	6.57
mid-Feb.	6,991	9	7,000	6,000	367	9,624	6,000	93.85	5.66	6.52
					Total					
1996 – mid-Feb.	18,750	..	18,750	17,750	–	28,420	17,750	–	7.97	9.20
end "	41,985	15	42,000	41,500	–	50,804	41,500	–	8.61	9.93
mid-Mar.	17,498	2	17,500	17,000	–	27,093	17,000	–	8.30	9.58
end "	42,000	..	42,000	41,000	–	47,178	41,000	–	8.52	9.83
mid-Apr.	16,000	..	16,000	15,500	–	23,179	15,500	–	8.23	9.49
end "	41,497	716	42,213	42,000	–	47,913	42,000	–	7.74	8.91
mid-May	15,346	154	15,500	15,500	–	21,894	15,500	–	7.65	8.82
end "	36,559	191	36,750	36,250	–	48,433	36,250	–	7.52	8.66
mid-June	14,453	47	14,500	14,000	–	24,022	14,000	–	7.47	8.61
end "	36,880	370	37,250	35,500	–	44,040	35,500	–	7.10	8.18
mid-July	16,920	80	17,000	16,000	–	24,819	16,000	–	7.38	8.50
end "	39,656	1,595	41,250	39,500	–	45,738	39,500	–	7.34	8.46
mid-Aug.	16,045	205	16,250	16,000	–	22,723	16,000	–	7.50	8.64
end "	36,810	1,440	38,250	37,750	–	45,161	37,560	–	7.51	8.66
mid-Sept.	16,851	149	17,000	16,750	–	27,175	16,750	–	7.14	8.22
end "	40,273	1,477	41,750	40,750	–	53,101	40,750	–	6.98	8.05
mid-Oct.	16,755	245	17,000	16,000	–	35,867	16,000	–	6.66	7.67
end "	43,101	2,399	45,500	42,000	–	56,361	42,000	–	6.43	7.41
mid-Nov.	16,854	396	17,250	15,000	–	31,904	15,000	–	6.14	7.07
end "	36,633	2,117	38,750	36,500	–	50,683	36,500	–	5.96	6.87
mid-Dec.	13,541	209	13,750	12,000	–	23,239	12,000	–	5.97	6.87
end "	39,497	1,003	40,500	36,500	–	45,369	36,500	–	5.84	6.72
1997 – mid-Jan.	17,175	325	17,500	14,000	–	29,875	14,000	–	5.67	6.52
end "	40,935	1,315	42,250	38,000	–	66,661	38,000	–	5.93	6.82
mid-Feb.	16,372	128	16,500	14,000	–	26,857	14,000	–	5.66	6.51

Table a27

Bank of Italy repurchase agreements

DATE OF AUCTION	Amount		Maturity (days)		Allotment rates	
	offered	taken up	minimum	maximum	marginal	weighted average
			Purchases			
1996 – Mar. 26	12,000	12,000	8	8	9.98	10.00
1996 – Apr. 3	7,500	7,500	9	9	10.00	10.01
1996 – Apr. 23	6,000	6,000	14	14	9.65	9.68
1996 – Apr. 29	6,000	6,000	1	1	9.32	9.39
1996 – May 10	4,750	4,750	4	4	9.25	9.27
1996 – May 24	7,000	7,000	10	10	9.38	9.39
1996 – June 4	12,500	12,500	9	10	9.35	9.37
1996 – June 17	4,000	4,000	14	14	9.30	9.31
1996 – June 25	6,500	6,500	6	6	9.12	9.16
1996 – June 26	10,500	10,385	20	20	8.75	8.97
1996 – July 16	7,500	7,500	23	23	9.28	9.30
1996 – July 23	5,000	5,000	21	21	8,85	8.86
1996 – July 26	16,500	16,500	6	6	8.70	8.88
1996 – Aug. 5	5,000	5,000	15	15	8.77	8.81
1996 – Aug. 8	7,500	7,500	25	25	8.97	8.99
1996 – Aug. 12	7,000	7,000	21	21	9.03	9.05
1996 – Aug. 21	9,000	9,000	22	22	8.85	8.86
1996 – Aug. 26	14,000	14,000	7	7	8.58	8.70
1996 – Sept. 2	7,000	7,000	7	7	8.56	8.59
1996 – Sept. 9	5,500	5,500	7	7	8.56	8.57
1996 – Sept. 12	3,000	3,000	7	7	8.50	8.52
1996 – Sept. 16	5,500	5,500	15	15	8.53	8.55
1996 – Sept. 26	10,500	10,500	5	5	8.22	8.26
1996 – Nov. 26	6,500	6,500	6	6	7.93	7.95
1996 – Nov. 28	5,000	5,000	14	15	8.01	8.03
1996 – Dec. 3	14,000	14,000	29	30	7.35	7.45
1996 – Dec. 9	12,000	12,000	6	7	7.83	7.90
1996 – Dec. 16	14,000	14,000	17	17	7.38	7.58
1996 – Dec. 23	9,000	9,000	10	11	7.67	7.76
1996 – Dec. 30	10,500	9,598	3	3	7.05	7.72
1997 – Jan. 7	12,500	12,500	8	8	7.79	7.85
1997 – Jan. 13	9,500	9,500	30	30	7.45	7.47
1997 – Jan. 23	8,500	8,500	11	11	7.35	7.38
1997 – Jan. 24	16,000	16,000	28	28	7.21	7.29
1997 – Feb. 3	7,500	7,500	28	28	7.43	7.46
1997 – Feb. 12	9,500	9,500	28	28	7.41	7.43
1997 – Feb. 21	11,000	11,000	28	28	7.38	7.40
			Sales			
1996 – May 2	10,000	10,000	12	12	9.29	9.23
1996 – Oct. 1	11,000	11,000	6	6	8.38	8.35
1996 – Oct. 7	10,000	10,000	10	10	8.59	8.54
1996 – Oct. 15	9,000	9,000	10	10	8.60	8.56
1996 – Oct. 17	4,500	4,500	6	6	8.61	8.59
1996 – Nov. 4	14,000	14,000	2	2	8.30	8.10
1996 – Nov. 6	5,000	5,000	5	5	8.05	8.02
1996 – Nov. 11	4,000	4,000	15	15	8.03	8.03
1996 – Nov. 15	7,000	7,000	10	10	8.08	8.05

Table a28

Bank of Italy foreign currency swaps

DATE OF AUCTION	Amount offered	Amount taken up	Maturity in days	Spot exchange rate	Forward points marginal	Forward points weighted average	Yields marginal	Yields weighted average
				Purchases of US dollars				
1995 – Sept. 5	4,000	4,000	91	1,625.50	17.68	17.75	10.24	10.26
1995 – Oct. 24	5,000	5,000	92	1,616.50	20.58	20.63	10.99	11.01
1995 – Nov. 20	5,000	5,000	92	1,597.50	18.63	18.68	10.44	10.46
1995 – Nov. 28	4,000	4,000	91	1,595.50	18.10	18.14	10.43	10.44
1995 – Dec. 5	4,000	4,000	91	1,598.50	18.82	18.86	10.54	10.55
1996 – Jan. 24	5,000	5,000	91	1,595.25	16.32	16.43	9.60	9.63
1996 – Feb. 20	5,000	5,000	29	1,587.00	6.27	6.30	10.24	10.26
1996 – Feb. 27	4,000	4,000	92	1,555.75	17.95	17.99	9.86	9.87
1996 – Mar. 5	4,000	4,000	61	1,550.50	10.57	10.98	9.53	9.54
1996 – Mar. 20	5,000	5,000	94	1,556.50	17.26	17.29	9.74	9.75
1996 – Apr. 23	5,000	5,000	91	1,550.50	13.77	13.85	9.03	9.05
1996 – May 3	4,000	4,000	92	1,565.00	13.15	13.20	8.87	8.88
1996 – May 29	3,000	3,000	91	1,555.50	12.69	12.71	8.77	8.78
1996 – June 20	5,000	5,000	92	1,530.50	10.45	10.59	8.27	8.31
1996 – July 24	4,000	4,000	31	1,510.00	4.05	4.09	8.57	8.59
1996 – Aug. 5	3,000	3,000	92	1,515.50	11.52	11.57	8.55	8.56
1996 – Aug. 22	4,000	4,000	92	1,518.00	12.49	12.52	8.76	8.77
1996 – Aug. 28	3,000	3,000	92	1,514.50	12.05	12.11	8.72	8.74
1996 – Sept. 20	4,000	4,000	62	1,526.00	6.93	7.03	8.22	8.26
1996 – Nov. 21	4,000	4,000	92	1,493.00	6.38	6.44	7.20	7.21
1996 – Nov. 22	4,000	4,000	92	1,498.50	6.20	6.31	7.14	7.17
1997 – Feb. 21	4,000	4,000	28	1,667.50	2.55	2.57	7.35	7.37
				Purchases of German marks				
1996 – Feb. 14	4,000	4,000	31	1,075.50	6.01	6.04	9.88	9.92
1996 – Mar. 6	4,000	4,000	32	1,048.50	5.75	5.76	9.54	9.55
1996 – Mar. 8	4,000	4,000	31	1,056.50	5.65	5.66	9.60	9.61
1996 – Mar. 14	4,000	4,000	31	1,068.50	5.90	5.90	9.81	9.81
1996 – Apr. 3	4,000	4,000	30	1,056.50	5.68	5.68	9.84	9.85
1996 – Apr. 10	4,000	4,000	31	1,049.50	5.68	5.70	9.68	9.70
1996 – Apr. 16	4,000	4,000	32	1,044.50	5.96	5.97	9.81	9.82
1996 – May 7	4,000	4,000	31	1,021.50	5.07	5.08	8.98	8.99
1996 – May 9	4,000	4,000	31	1,031.00	5.05	5.06	9.08	9.09
1996 – May 15	4,000	4,000	31	1,015.00	4.88	4.90	8.97	8.99
1996 – June 5	4,000	4,000	30	1,010.25	4.76	4.78	9.04	9.07
1996 – June 11	4,000	4,000	32	1,010.50	5.08	5.09	9.05	9.06
1996 – June 18	3,000	3,000	32	1,015.25	4.99	5.00	8.98	8.99
1996 – July 8	3,000	3,000	33	1,003.50	5.08	5.08	8.91	8.92
1996 – July 11	3,000	3,000	32	1,006.75	5.11	5.12	9.10	9.11
1996 – July 18	3,000	3,000	14	1,022.25	2.21	2.22	8.94	8.96
1996 – Aug. 1	3,000	3,000	31	1,029.50	4.73	4.75	8.73	8.74
1996 – Aug. 8	3,000	3,000	31	1,023.00	4.86	4.88	8.88	8.90
1996 – Aug. 13	3,000	3,000	31	1,025.00	4.86	4.88	8.90	8.92
1996 – Sept. 3	3,000	3,000	32	1,018.00	4.83	4.84	8.48	8.49
1996 – Sept. 10	3,000	3,000	33	1,009.75	4.87	4.88	8.40	8.41
1996 – Sept. 12	3,000	3,000	30	1,010.50	4.42	4.42	8.39	8.39
1996 – Oct. 10	3,000	3,000	31	997.25	4.42	4.42	8.25	8.25
1996 – Nov. 13	3,000	3,000	31	1,007.50	3.94	3.95	7.68	7.69
1996 – Dec. 12	3,000	3,000	31	988.25	3.62	3.65	7.58	7.61
1997 – Jan. 14	3,000	3,000	33	973.25	3.75	3.76	7.34	7.36
1997 – Feb. 13	3,000	3,000	28	982.00	3.22	3.24	7.41	7.44

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 – 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
19 October	1,500	1,651	1,500	104	194	9.96	10.09
3 November	–1,450	–5,470	–1,450	56	56	10.58	10.54
1996 – 12 January	–1,700	–5,000	–1,700	19	48	10.30	10.24
2 February	750	1,607	750	56	88	9.25	9.36
15 February	–2,000	–3,730	–2,000	29	106	10.29	10.39
27 February	1,000	1,056	1,000	78	122	9.40	9.52
13 March	1,000	2,453	1,000	79	170	9.31	9.44
25 March	1,000	2,116	1,000	67	158	9.30	9.36
9 April	1,250	1,896	1,250	21	113	9.26	9.36
11 April	1,000	2,212	1,000	64	172	9.26	9.29
30 April	–1,500	–4,635	–1,500	31	31	9.21	9.21
3 May	–2,000	–4,420	–2,000	56	119	9.20	9.14
17 May	2,000	4,986	2,000	75	167	8.61	8.68
27 May	2,000	3,320	2,000	65	157	8.50	8.55
28 May	1,500	2,051	1,500	111	185	8.41	8.47
11 June	1,000	1,682	1,000	17	80	8.43	8.52
13 June	1,000	3,220	1,000	77	168	8.53	8.53
14 June	1,500	1,340	1,340	77	168	8.25	8.40
28 June	1,500	2,187	1,500	94	185	7.91	8.04
5 July	–1,000	–4,185	–1,000	56	56	8.93	8.87
13 August	750	2,235	750	48	139	8.40	8.50
13 September	2,500	3,844	2,500	108	196	8.04	8.10
14 October	2,500	4,774	2,500	46	228	7.51	7.64
22 October	–1,500	–6,740	–1,500	129	129	7.95	7.91
23 October	–1,500	–6,800	–1,500	84	114	7.84	7.81
14 November	2,000	2,628	2,000	15	92	6.95	7.04
13 December	–3,750	–5,350	–3,750	49	105	7.59	7.51
1997 – 14 January	2,750	5,746	2,750	17	104	6.52	6.86
29 January	1,500	3,535	1,500	30	121	6.80	6.86
10 February	2,000	3,364	2,000	18	140	6.75	6.78
17 February	2,500	2,246	2,246	39	164	6.50	6.62

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
1996 – July 24	8.25	8.25	1.50	9.75
Oct. 24	7.50	7.50	1.50	9.00
1997 – Jan. 22	6.75	6.75	1.50	8.25

Table a31

Interest rates

	BI operations								Gross Treasury bill yields			
	Discount	Fixed-term advances	Currency swaps		Repos				3-month	6-month	12-month	Average
					Purchases		Sales					
			minimum	average	minimum	average	maximum	average				
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
1995	9.00	10.50	10.13	10.15	10.08	10.12	–	–	10.73	10.85	10.96	10.85
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
Oct. ..	9.00	10.50	10.57	10.58	10.59	10.62	–	–	11.13	11.24	11.16	11.18
Nov. ..	9.00	10.50	10.39	10.41	10.54	10.57	–	–	10.76	10.69	10.61	10.69
Dec. ..	9.00	10.50	10.48	10.50	10.59	10.65	–	–	10.56	10.43	10.34	10.44
1996 – Jan. ..	9.00	10.50	10.08	10.11	10.07	10.11	–	–	9.80	9.64	9.47	9.63
Feb. ..	9.00	10.50	9.89	9.90	9.98	10.04	–	–	9.90	9.67	9.60	9.71
Mar. ..	9.00	10.50	9.64	9.65	9.93	9.94	–	–	9.86	9.76	9.63	9.75
Apr. ..	9.00	10.50	9.59	9.61	9.66	9.69	–	–	9.29	9.02	8.87	9.07
May ..	9.00	10.50	8.93	8.95	9.32	9.33	9.29	9.23	8.96	8.65	8.51	8.71
June .	9.00	10.50	8.84	8.86	9.13	9.20	–	–	8.38	8.29	8.21	8.30
July ..	8.25	9.75	8.88	8.90	8.94	9.01	–	–	8.60	8.48	8.34	8.47
Aug. ..	8.25	9.75	8.76	8.77	8.84	8.88	–	–	8.70	8.71	8.53	8.65
Sept. .	8.25	9.75	8.37	8.39	8.47	8.50	–	–	8.10	8.19	8.01	8.10
Oct. ..	7.50	9.00	8.25	8.25	–	–	8.55	8.51	7.68	7.56	7.28	7.48
Nov. ..	7.50	9.00	7.34	7.36	7.97	7.99	8.12	8.05	7.11	6.98	6.74	6.93
Dec. ..	7.50	9.00	7.58	7.61	7.46	7.68	–	–	6.95	6.79	6.58	6.76
1997 – Jan. ..	6.75	8.25	7.34	7.36	7.45	7.50	–	–	6.98	6.78	6.55	6.74

Table a32

Bank interest rates: domestic fund-raising in lire

(percentages)

	Deposits			Certificates of deposit			Bonds	
	Current account average	Overall average	Maximum	Overall average	Average for issues with maturities of less than 6 months	Average for issues with maturities of from 18 to 24 months	Overall average	Average for fixed rate issues
1992	7.80	8.69	10.75	....	....	....	....	....
1993	5.55	6.95	7.88	....	....	....	....	....
1994	5.03	5.90	6.88	....	....	....	....	....
1995 – Nov.	5.78	6.81	8.52	8.82	8.67	9.15	11.15	10.81
Dec.	5.86	6.87	8.62	8.86	8.66	9.20	11.06	10.86
1996 – Jan.	5.83	6.88	8.54	8.90	8.53	9.10	10.97	10.33
Feb.	5.70	6.87	8.31	8.91	8.24	8.59	10.95	10.06
Mar.	5.75	6.90	8.40	8.89	8.17	8.46	10.92	10.00
Apr.	5.78	6.90	8.46	8.84	8.11	8.44	10.78	10.11
May	5.60	6.79	8.24	8.80	7.82	8.10	10.73	9.60
June	5.52	6.74	8.22	8.73	7.59	7.75	10.61	9.11
July	5.33	6.56	7.99	8.62	7.43	7.65	10.16	8.34
Aug.	4.91	6.28	7.62	8.51	7.13	7.51	10.06	7.56
Sept.	4.94	6.23	7.64	8.43	7.08	7.46	9.85	7.74
Oct.	4.82	6.10	7.44	8.34	6.95	7.24	9.59	7.56
Nov.	4.45	5.81	7.05	8.24	6.52	6.65	9.43	7.00
Dec.	4.51	5.80	7.11	8.13	6.24	6.26	9.08	6.70

Table a33

Bank interest rates: lira loans to resident customers

(percentages)

	Outstanding loans				Disbursements		ABI prime rate
	Minimum for short-term loans	Average for short-term loans	Average for overdrafts	Average for medium and long-term loans	Average for medium and long-term to firms	Average for medium and long-term loans to consumer households	
1992	13.37	16.93	17.15	....	....	....	14.00
1993	9.05	11.99	12.26	....	....	....	9.88
1994	8.31	11.10	11.47	....	....	....	9.38
1995 – Nov.	10.25	13.00	13.36	12.49	11.87	13.88	11.50
Dec.	10.18	12.88	13.22	12.45	11.71	13.55	11.50
1996 – Jan.	10.13	12.82	13.18	12.29	11.67	13.65	11.50
Feb.	9.93	12.73	13.09	12.29	11.70	13.62	11.50
Mar.	9.83	12.64	13.01	12.27	11.49	13.57	11.50
Apr.	9.74	12.55	12.91	12.20	11.31	13.56	11.50
May	9.43	12.43	12.82	12.20	10.89	13.38	11.50
June	9.14	12.24	12.67	12.12	10.87	13.17	11.50
July	8.87	12.11	12.56	11.84	10.68	12.99	10.88
Aug.	8.73	11.89	12.32	11.65	10.54	12.70	10.75
Sept.	8.55	11.69	12.14	11.54	10.45	12.72	10.75
Oct.	8.27	11.53	12.02	11.41	9.83	12.40	10.13
Nov.	7.91	11.22	11.72	11.31	9.67	12.00	10.00
Dec.	7.48	10.82	11.35	11.02	9.10	11.22	9.88

Principal assets and liabilities of banks

(billions of lire)

	Assets									
	Bank reserves	Loans to resident	Securities	Shares	Participating interest	Repos	Bad debts and protested bills	Interbank accounts	Interest-bearing external-assets	*Memorandum item:* estimated realizable value of bad debts
1992	131,957	989,183	327,513	3,020	38,743	12,511	54,729	157,849	165,187	*(33,067)*
1993	108,514	1,028,446	349,770	3,172	40,255	30,351	70,185	171,104	229,057	*(41,197)*
1994	92,691	1,039,792	385,969	3,392	46,675	16,846	91,108	165,436	201,953	*(59,994)*
1995	78,996	1,073,410	352,260	1,661	49,544	14,771	110,269	151,979	231,119	73,797
1996 – Jan. ..	78,395	1,066,235	351,616	1,623	53,541	14,384	110,845	141,645	221,780	72,377
Feb. ..	80,301	1,060,330	361,788	1,659	52,774	18,397	111,503	146,301	229,511	68,991
Mar. ..	78,462	1,059,117	364,587	1,652	53,235	18,726	111,876	150,225	221,592	65,563
Apr. ..	74,530	1,057,097	351,748	1,551	53,505	19,420	113,060	154,853	237,586	65,350
May ..	74,040	1,062,818	359,412	2,044	54,305	21,209	115,454	152,117	237,373	68,151
June ..	72,702	1,073,587	356,254	1,738	54,283	20,392	116,764	159,279	242,825	69,503
July ..	70,868	1,081,837	364,734	1,802	54,427	19,667	117,828	150,487	239,548	70,702
Aug. ..	74,383	1,062,193	369,125	1,749	54,616	19,690	118,368	153,731	239,716	71,122
Sept. .	71,412	1,063,245	368,259	1,764	55,026	22,323	119,097	163,890	252,208	72,503
Oct. ..	69,991	1,058,534	371,276	2,284	54,845	21,054	120,132	167,106	259,085	73,493
Nov. ..	75,656	1,061,224	378,351	2,468	54,878	23,071	120,741	167,996	277,151	74,154
Dec. ..	(80,886)	(1,091,242)	(383,297)	(2,336)	(55,154)	(22,426)	(123,066)	(181,409)	(296,542)	(75,753)

	Liabilities									
	Deposits	Bonds	Public fund	Loans from BI-UIC	Repos	Interbank accounts	Capital and reserves	Interest-bearing external liabilities	Other	*Memorandum item:* supervisory capital
1992	852,840	166,407	4,074	8,936	141,951	159,320	189,993	367,496	–10,325	155,130
1993	919,115	194,113	5,204	2,722	140,386	179,086	206,017	369,979	14,231	167,188
1994	923,371	215,676	5,644	2,834	132,680	166,671	219,387	375,663	1,937	173,721
1995	935,199	215,286	2,272	7,989	164,501	166,069	232,439	343,580	–3,326	171,776
1996 – Jan. ..	895,993	218,082	2,320	3,242	182,531	154,916	243,844	343,644	–4,507	175,432
Feb. ..	895,085	219,235	2,344	3,120	194,956	159,573	247,825	350,601	–10,175	178,790
Mar. ..	906,004	220,640	2,371	2,981	176,945	164,284	249,782	352,512	–16,049	176,267
Apr. ..	919,094	221,520	2,356	2,972	164,708	167,266	250,367	343,382	–8,314	177,783
May ..	908,837	224,153	2,425	1,972	163,012	165,796	250,370	351,459	10,746	177,664
June ..	927,690	225,799	2,434	1,972	165,604	173,288	251,647	352,725	–3,335	177,203
July ..	907,345	228,227	2,471	1,972	176,962	164,215	251,498	358,010	9,849	177,367
Aug. ..	899,378	234,489	2,511	1,970	190,339	168,392	249,309	347,533	–349	180,189
Sept. .	918,403	244,611	2,492	1,970	158,755	178,780	248,872	352,331	11,012	179,761
Oct. ..	909,764	257,941	2,497	1,771	154,845	181,221	248,390	353,964	13,914	180,148
Nov. ..	905,983	269,459	2,495	1,991	161,718	182,891	248,072	362,846	26,079	180,570
Dec. ..	(959,247)	(279,385)	(2,484)	(1,861)	(173,714)	(194,462)	(250,032)	(364,950)	(10,225)	(180,884)

Table a35

Banks: loan and securities portfolios

(billions of lire)

	Loans to residents						Loans to non-residents
	Short-term		Medium and long-term		Total		
		of which: in lire		*of which: in lire*		*of which: in lire*	
1992	571,745	456,661	417,438	354,216	989,183	810,877	17,036
1993	559,308	468,053	469,138	404,495	1,028,446	872,549	22,312
1994	535,159	458,553	504,633	449,277	1,039,792	907,830	17,901
1995 – Dec.	556,942	496,539	516,468	472,383	1,073,410	968,922	16,124
1996 – Jan.	553,904	494,876	512,331	469,821	1,066,235	964,697	14,987
Feb.	545,485	487,212	514,641	472,814	1,060,330	960,026	15,347
Mar.	539,417	480,932	519,407	477,736	1,059,117	958,668	15,793
Apr.	539,418	484,234	517,544	477,452	1,057,097	961,686	16,837
May	542,432	487,061	520,331	481,119	1,062,818	968,180	17,470
June	551,026	496,228	522,561	484,508	1,073,587	980,736	15,455
July	561,126	502,753	520,711	480,815	1,081,837	983,568	16,107
Aug.	540,351	485,334	521,842	482,457	1,062,193	967,792	14,557
Sept.	540,320	485,400	522,924	484,371	1,063,245	969,771	15,737
Oct.	534,886	479,513	523,648	487,865	1,058,534	967,377	13,597
Nov.	533,567	478,569	527,656	492,117	1,061,224	970,687	13,338
Dec.	(557,835)	(501,086)	(533,407)	(499,228)	(1,091,242)	(1,000,314)	(17,861)

	Securities						
	Government securities				Other		Total
		of which:				*of which: bond issued by banks*	
		short-term	*CCTs*	*BTPs*			
1992	261,568	31,217	162,862	64,106	65,945	57,825	327,513
1993	294,657	74,863	140,032	76,766	55,113	49,206	349,770
1994	326,992	68,456	134,351	119,663	58,977	50,842	385,969
1995 – Dec.	301,552	44,650	133,268	107,090	50,708	47,576	352,260
1996 – Jan.	301,793	37,631	137,406	109,217	49,823	46,875	351,616
Feb.	311,950	37,611	141,416	114,725	49,838	46,897	361,788
Mar.	314,443	36,723	143,388	115,656	50,153	46,722	364,587
Apr.	301,925	38,570	139,206	103,801	49,823	47,058	351,748
May	310,743	38,657	142,263	106,263	48,669	46,130	359,412
June	311,161	38,624	145,754	101,953	45,092	43,163	356,254
July	318,687	41,590	146,426	100,611	46,046	44,107	364,734
Aug.	323,139	42,070	148,250	102,784	45,987	44,126	369,125
Sept.	321,328	41,532	148,961	99,669	46,932	45,090	368,259
Oct.	325,373	39,233	151,924	102,624	45,903	44,104	371,276
Nov.	332,178	45,355	154,999	102,301	46,172	44,409	378,351
Dec.	(333,627)	(52,900)	(154,931)	(99,225)	(49,671)	(47,380)	(383,297)

Table a36

Banks: deposits

(billions of lire)

	Residents' lira deposits – end-of-period data						Residents' foreign currency deposits	Deposits of non-residents
	Current accounts	Savings accounts	Certificates of deposit	*of which: short-term*	*of which: medium and long-term*	Total		
1992	432,085	144,762	275,994	92,399	183,595	852,840	11,274	21,191
1993	462,160	141,747	315,207	87,291	227,916	919,115	14,178	20,291
1994	478,186	135,806	309,379	71,778	237,601	923,371	14,830	13,858
1995 – Dec.	477,407	118,429	339,363	58,895	280,468	935,199	20,548	12,574
1996 – Jan.	432,101	113,796	350,096	58,841	291,255	895,993	20,703	12,480
Feb.	427,037	111,856	356,192	57,978	298,215	895,085	20,942	12,910
Mar.	434,312	111,746	359,936	56,923	303,013	906,004	21,181	13,327
Apr.	444,035	110,415	364,645	55,809	308,836	919,094	21,016	12,851
May	429,231	108,902	370,704	54,925	315,779	908,837	20,251	13,456
June	444,288	110,427	372,975	54,105	318,870	927,690	20,289	14,170
July	430,559	109,241	367,545	58,405	309,141	907,345	20,360	13,154
Aug.	427,025	110,098	362,255	60,432	301,823	899,378	21,445	12,701
Sept.	451,404	110,871	356,128	62,730	293,398	918,403	20,770	12,966
Oct.	449,662	109,101	351,000	64,542	286,458	909,764	20,883	15,046
Nov.	452,050	110,517	343,416	65,344	278,072	905,983	20,572	14,011
Dec.	(506,552)	(115,072)	(337,624)	(66,664)	(270,959)	(959,247)	(19,997)	(14,644)

	Residents' lira deposits – averages				
	Current accounts	Certificates of deposit	*of which: short-term*	*of which: medium and long-term*	Total
1992	378,350	273,777	91,057	182,720	789,042
1993	412,173	315,746	87,356	228,390	857,127
1994	425,175	307,792	70,281	237,511	862,415
1995 – Dec.	427,748	336,382	60,402	275,980	877,376
1996 – Jan.	436,458	343,804	59,927	283,877	896,165
Feb.	414,399	352,377	59,544	292,833	880,197
Mar.	416,340	357,178	58,621	298,557	884,362
Apr.	418,761	360,514	57,636	302,878	889,345
May	428,931	366,490	56,588	309,902	905,180
June	421,627	372,228	55,648	316,580	900,614
July	424,414	368,134	57,950	310,184	899,029
Aug.	416,015	363,118	60,955	302,162	885,589
Sept.	426,037	357,751	63,415	294,336	890,611
Oct.	435,722	351,832	65,229	286,603	894,056
Nov.	443,048	343,575	66,533	277,042	893,073
Dec.	(452,930)	(338,324)	(67,324)	(271,313)	(898,916)

Italian investment funds: securities

(end-of-period balance sheet

	Lira securities						
	Government securities				Bonds	Shares	Total
		of which:					
		BOTs	*BTPs*	*CCTs*			
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	75,599
1995	63,459	10,285	23,408	26,375	2,683	18,921	85,063
1996	123,819	25,764	41,897	34,931	3,863	20,651	148,334
1994 – 4th qtr.	52,400	6,981	20,551	22,960	2,600	20,598	75,599
1995 – 1st qtr.	54,899	12,322	16,323	23,505	2,649	19,269	76,818
2nd "	56,004	11,123	17,948	25,058	2,587	19,939	78,530
3rd "	58,816	9,939	21,844	24,140	2,672	19,296	80,785
4th "	63,459	10,285	23,408	26,375	2,683	18,921	85,063
1996 – 1st qtr.	66,344	11,472	22,597	26,890	2,960	18,333	87,637
2nd "	82,931	11,766	31,722	31,717	3,121	19,507	105,559
3rd "	100,868	16,543	37,200	33,435	3,379	18,678	122,055
4th "	123,819	25,764	41,897	34,931	3,863	20,651	148,334
1995 – Dec.	63,459	10,285	23,408	26,375	2,683	18,921	85,063
1996 – Jan.	66,150	10,296	25,076	27,320	2,749	20,287	89,186
Feb.	68,184	11,170	25,344	27,564	2,826	19,427	90,437
Mar.	66,344	11,472	22,597	26,890	2,960	18,333	87,637
Apr.	73,451	11,853	25,442	29,811	3,044	20,536	97,031
May	78,565	12,695	28,565	30,220	3,113	20,377	102,055
June	82,931	11,766	31,722	31,717	3,121	19,507	105,559
July	88,481	12,126	33,271	33,071	3,200	18,181	109,862
Aug.	92,875	15,379	31,899	33,755	3,138	17,867	113,880
Sept.	100,868	16,543	37,200	33,435	3,379	18,678	122,926
Oct.	107,218	20,722	38,552	33,085	3,284	18,201	128,703
Nov.	116,131	22,995	41,289	33,218	3,611	19,843	139,586
Dec.	123,819	25,764	41,897	34,931	3,863	20,651	148,334

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
35,240	14,241	1,140	102,079	110,093	67,776	33,462
37,289	20,025	682	113,570	130,168	85,032	25,455
30,905	17,675	739	116,706	126,802	46,978	–10,490
30,813	15,589	980	180,126	197,544	123,936	58,226
37,289	20,025	682	113,570	130,168	8,867	–3,788
35,795	20,251	799	113,412	126,386	11,487	–4,275
33,507	18,615	869	112,905	124,741	11,066	–4,081
32,486	18,731	924	114,194	125,602	10,757	–1,764
30,905	17,675	739	116,706	126,802	13,668	–370
30,142	17,299	959	118,738	133,608	21,704	6,267
28,642	16,460	1,002	135,203	149,603	27,831	10,547
29,230	16,062	1,066	153,222	165,733	28,159	14,934
30,813	15,589	980	180,126	197,544	46,242	26,478
30,905	17,675	739	116,706	126,802	4,447	525
31,635	18,179	824	121,645	130,675	6,532	1,595
29,887	17,249	856	121,179	131,903	8,035	2,627
30,142	17,299	959	118,738	133,608	7,137	2,045
29,869	17,716	958	127,858	139,806	7,409	1,953
29,064	16,821	994	132,113	144,887	10,792	4,210
28,642	16,460	1,002	135,203	149,603	9,630	4,384
27,787	15,347	892	138,541	153,811	12,501	6,882
28,078	14,942	1,012	142,970	159,056	7,702	4,644
29,230	15,837	1,066	153,222	165,733	7,956	3,408
28,834	14,991	1,012	158,549	173,962	14,797	7,951
30,702	15,715	1,062	171,349	187,084	15,835	9,331
30,813	15,589	980	180,126	197,544	15,610	9,196

Portfolio management

(end-of-period market values

		Government securities			Bonds	
		of which:				
		BOTs	*BTPs*	*CCTs*	Italian	Foreign
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	94,685	7,613	24,800	59,002	11,640	7,631
Total ...	**116,817**	**9,711**	**31,543**	**70,635**	**20,952**	**12,196**
1995 - 2nd qtr.						
Securities firms	14,563	256	5,452	7,883	7,086	2,904
Trust companies	8,451	1,563	2,241	4,362	1,267	1,740
Banks	95,410	8,337	24,210	59,230	11,073	8,865
Total ...	**118,424**	**10,156**	**31,903**	**71,475**	**19,426**	**13,510**
1995 - 3rd qtr.						
Securities firms	17,038	268	7,501	8,787	7,254	3,148
Trust companies	8,834	1,553	2,499	4,366	1,276	1,490
Banks	97,838	9,573	24,820	58,982	10,588	8,405
Total ...	**123,710**	**11,394**	**34,820**	**72,135**	**19,118**	**13,043**
1995 - 4th qtr.						
Securities firms	19,052	269	7,929	10,241	7,025	3,827
Trust companies	9,962	1,704	2,492	5,103	1,336	1,389
Banks	100,408	9,750	27,581	57,898	10,402	8,011
Total ...	**129,422**	**11,723**	**38,002**	**73,242**	**18,763**	**13,227**
1996 - 1st qtr.						
Securities firms	19,987	200	7,725	11,326	6,997	4,387
Trust companies	10,630	1,795	2,607	5,474	1,204	1,408
Banks	108,038	10,588	31,791	60,059	10,718	7,994
Total ...	**138,655**	**12,583**	**42,123**	**76,859**	**18,919**	**13,789**
1996 - 2nd qtr.						
Securities firms	(23,865)	(608)	(10,151)	(12,290)	(6,952)	(4,735)
Trust companies	(11,141)	(2,051)	(2,511)	(5,651)	(1,331)	(1,406)
Banks	(115,671)	(12,475)	(33,345)	(63,984)	(12,458)	(8,560)
Total ...	**(150,677)**	**(15,134)**	**(46,007)**	**(81,925)**	**(20,741)**	**(14,701)**
1996 - 3rd qtr.						
Securities firms	(25,527)	(595)	(11,756)	(12,254)	(6,821)	(4,824)
Trust companies	(11,341)	(1,937)	(2,704)	(5,508)	(1,414)	(1,446)
Banks	(124,766)	(13,080)	(34,419)	(69,270)	(13,088)	(8,718)
Total ...	**(161,634)**	**(15,612)**	**(48,879)**	**(87,032)**	**(21,323)**	**(14,988)**

Table a38

services

in billions of lire)

Shares		Other financial assets	Total portfolio	Total managed funds	*Memorandum items*	
Italian	Foreign				Gross fund-raising	Net fund-raising
1,925	847	1,135	27,921	29,924	2,601	280
1,600	134	3,021	16,734	18,068	2,111	–914
4,537	555	2,419	121,466	182,552	12,358	–4,529
8,062	**1,520**	**6,575**	**166,121**	**176,544**	**17,070**	**–5,163**
2,105	1,419	1,014	29,092	31,564	3,929	1,200
1,661	125	2,829	16,073	17,941	1,835	–487
4,352	321	2,333	122,353	129,029	7,331	–1,804
8,118	**1,866**	**6,176**	**167,518**	**178,534**	**13,095**	**–1,092**
2,524	1,768	1,448	33,180	36,091	4,818	3,333
1,615	83	2,563	16,118	18,047	1,655	–230
4,609	334	2,663	124,437	131,497	8,850	1,246
8,748	**2,186**	**6,674**	**173,735**	**185,635**	**15,323**	**4,349**
2,584	1,503	1,591	35,582	38,029	3,595	1,271
1,531	74	2,524	16,816	18,858	3,363	545
4,406	353	3,634	127,214	135,551	12,226	2,145
8,521	**1,930**	**7,749**	**179,612**	**192,438**	**19,184**	**3,691**
2,388	1,883	1,832	37,474	40,652	4,954	1,856
1,397	74	2,350	17,063	19,110	2,667	83
4,201	365	4,020	135,336	143,394	14,387	5,445
7,986	**2,322**	**8,202**	**189,873**	**203,156**	**22,008**	**7,384**
(3,385)	(2,695)	(2,340)	(43,972)	(47,421)	(7,819)	(4,675)
(1,456)	(74)	(2,383)	(17,791)	(19,732)	(2,441)	(25)
(6,051)	(312)	(5,684)	(148,736)	(157,273)	(21,582)	(11,458)
(10,892)	**(3,081)**	**(10,407)**	**(210,499)**	**(224,426)**	**(31,842)**	**(16,158)**
(3,739)	(2,585)	(2,604)	(46,100)	(49,562)	(4,157)	(1,356)
(1,367)	(71)	(2,349)	(17,988)	(20,289)	(2,335)	(301)
(5,658)	(374)	(7,295)	(159,899)	(169,822)	(19,830)	(10,019)
(10,764)	**(3,030)**	**(12,248)**	**(223,987)**	**(239,673)**	**(26,322)**	**(11,676)**

Table a39

Net issues of securities

(billions of lire)

	Issuers			Total bonds and government securities	Investors				Shares
	Public sector	Banks	International companies and supra-national institutions		BI-UIC	Banks	Investment funds	Other	
1991	126,946	17,053	3,813	147,812	–973	52,952	6,727	89,106	4,497
1992	136,045	12,055	–3,464	144,635	14,483	52,376	1,500	76,276	3,368
1993	162,608	27,340	–2,341	187,607	11,557	25,409	17,042	133,599	15,230
1994	230,258	21,276	–2,070	249,464	108,187	34,926	12,619	93,732	12,982
1995	85,978	–521	–2,492	82,966	–1,702	–31,804	11,541	104,931	8,515
1996	(100,763)	(63,789)	(45)	(164,717)	(–32,943)	29,444	57,510	(110,706)	5,545
1994 – 4th qtr.	119,544	2,384	–1,744	120,184	83,780	7,034	–5,575	34,945	3,154
1995 – 1st qtr.	29,647	–276	–1,657	27,714	–3,517	–10,992	2,965	39,258	2,264
2nd "	18,830	–1,018	–995	16,817	4,255	–17,749	219	30,092	1,032
3rd "	20,333	–65	764	21,032	–2,797	–2,297	2,878	23,248	1,196
4th "	17,169	838	–603	17,403	357	–766	5,478	12,334	4,022
1996 – 1st qtr.	(23,554)	(5,307)	(423)	(29,284)	–3,909	13,047	6,723	(13,423)	855
2nd "	(38,219)	(5,110)	(–27)	(43,302)	6,445	–7,881	18,202	(26,536)	526
3rd "	(31,805)	(18,758)	(513)	(51,076)	–5,035	8,633	19,118	(28,360)	2,658
4th "	(7,186)	(34,614)	(–864)	(40,935)	(–30,444)	15,645	13,468	(42,386)	1,506
1995 – Dec.	5,304	–432	–624	4,248	253	6,844	1,024	–3,873	1,067
1996 – Jan.	(4,594)	(2,778)	(. .)	(7,372)	–4,856	–1,869	2,749	(11,348)	646
Feb.	(12,700)	(1,141)	(422)	(14,263)	48	12,286	3,611	(–1,682)	208
Mar.	(6,260)	(1,389)	(1)	(7,649)	899	2,630	363	(3,757)	2
Apr.	(19,770)	(860)	(2)	(20,632)	–836	–13,338	7,196	(27,610)	2
May	(18,536)	(2,620)	(56)	(21,212)	3,142	7,299	6,255	(4,516)	40
June	(–88)	(1,630)	(–85)	(1,457)	4,139	1,842	4,751	(–5,591)	484
July	(16,747)	(3,058)	(638)	(20,444)	–2,782	9,398	6,434	(7,394)	502
Aug.	(11,277)	(5,607)	(. .)	(16,884)	–1,922	4,483	4,837	(9,486)	1
Sept.	(3,781)	(10,093)	(–125)	(13,749)	–331	–5,248	7,846	(11,482)	2,155
Oct.	(–2,223)	(13,311)	(–970)	(10,118)	–8,626	3,110	6,456	(9,178)	409
Nov.	(–236)	(11,453)	(66)	(11,283)	–8,539	7,021	–852	(13,653)	52
Dec.	(9,645)	(9,849)	(40)	(19,534)	(–13,279)	5,513	7,864	(19,436)	1,044

Issue conditions of Treasury bonds (BTPs)

Code	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Coupon	
					gross	net		gross	net
36768	BTP	1.7.06	1.796	98.50	9.17	8.01	1,500	4.38	3.8280
36766	BTP	1.7.99	2.7.96	100.40	8.26	7.19	2,200	4.13	3.6095
36767	BTP	1.7.01	2.7.96	99.40	8.56	7.48	2,200	4.13	3.6095
36768	BTP	1.7.06	18.7.96	96.30	9.53	8.35	2,750	4.38	3.8280
36766	BTP	1.7.99	19.7.96	100.00	8.41	7.34	1,505	4.13	3.6095
36767	BTP	1.7.01	19.7.96	98.90	8.69	7.60	1,500	4.13	3.6095
36768	BTP	1.7.06	1.8.96	96.75	9.46	8.28	2,200	4.38	3.8280
36766	BTP	1.7.99	5.8.96	100.30	8.29	7.22	2,200	4.13	3.6095
36767	BTP	1.7.01	5.8.96	99.25	8.61	7.52	2,200	4.13	3.6095
36768	BTP	1.7.06	21.8.96	97.50	9.34	8.16	1,650	4.38	3.8280
36766	BTP	1.7.99	22.8.96	100.25	8.31	7.24	1,500	4.13	3.6095
36767	BTP	1.7.01	22.8.96	99.00	8.67	7.58	1,500	4.13	3.6095
36768	BTP	1.7.06	2.9.96	96.90	9.44	8.26	1,650	4.38	3.8280
36766	BTP	1.7.99	3.9.96	100.35	8.28	7.21	2,500	4.13	3.6095
36767	BTP	1.7.01	3.9.96	99.00	8.68	7.59	2,613	4.13	3.6095
36768	BTP	1.7.06	18.9.96	99.60	8.99	7.84	1,530	4.38	3.8280
36766	BTP	1.7.99	19.9.96	100.95	8.02	6.95	2,574	4.13	3.6095
36767	BTP	1.7.01	19.9.96	100.20	8.36	7.27	2,200	4.13	3.6095
36768	BTP	1.7.06	1.10.96	103.20	8.42	7.30	1,511	4.38	3.8280
36777	BTP	1.10.99	2.10.96	100.45	7.46	6.50	2,750	3.75	3.2810
36778	BTP	15.9.01	2.10.96	100.70	7.71	6.71	2,743	3.88	3.3905
36768	BTP	1.7.06	17.10.96	105.30	8.10	6.99	1,500	4.38	3.8280
36777	BTP	1.10.99	18.10.96	101.35	7.11	6.15	2,000	3.75	3.2810
36778	BTP	15.9.01	18.10.96	102.05	7.36	6.38	2,005	3.88	3.3905
36781	BTP	1.11.06	4.11.96	100.80	7.77	6.78	2,508	3.88	3.3905
36777	BTP	1.10.99	5.11.96	102.45	6.67	5.72	1,520	3.75	3.2810
36778	BTP	15.9.01	5.11.96	103.15	7.09	6.10	2,000	3.88	3.3905
36781	BTP	1.11.06	19.11.96	104.60	7.22	6.24	1,573	3.88	3.3905
36777	BTP	1.10.99	20.11.96	103.80	6.13	5.18	2,500	3.75	3.2810
36778	BTP	15.9.01	20.11.96	105.50	6.50	5.53	2,000	3.88	3.3905
36781	BTP	1.11.06	2.12.96	104.05	7.29	6.32	2,184	3.88	3.3905
36777	BTP	1.10.99	3.12.96	103.20	6.34	5.40	2,200	3.75	3.2810
36778	BTP	15.9.01	3.12.96	104.50	6.73	5.76	2,200	3.88	3.3905
36781	BTP	1.11.06	19.12.96	103.70	7.34	6.36	1,500	3.88	3.3905
36777	BTP	1.10.99	20.12.96	103.35	6.26	5.32	1,500	3.75	3.2810
36778	BTP	15.9.01	20.12.96	104.55	6.71	5.74	1,503	3.88	3.3905
36781	BTP	1.11.06	2.1.97	102.80	7.47	6.49	4,369	3.88	3.3905
36785	BTP	1.1.00	7.1.97	99.95	6.10	5.33	5,611	3.00	2.6250
36784	BTP	1.1.02	7.1.97	99.20	6.54	5.71	5,212	3.13	2.7345
36781	BTP	1.11.06	17.1.97	104.85	7.17	6.20	2,000	3.88	3.3905
36785	BTP	1.1.00	20.1.97	100.30	5.96	5.19	3,695	3.00	2.6250
36784	BTP	1.1.02	20.1.97	100.25	6.28	5.46	2,515	3.13	2.7345
108655	BTP	1.2.07	3.2.97	98.40	7.09	6.20	2,500	3.38	2.9530
108656	BTP	1.11.26	3.2.97	99.45	7.42	6.48	2,000	3.63	3.1720
36785	BTP	1.1.00	4.2.97	99.75	6.18	5.40	3,300	3.00	2.6250
36784	BTP	1.1.02	4.2.97	99.60	6.44	5.62	2,750	3.13	2.7345

Table a40 cont.

Issue conditions of Treasury credit certificates (CCTs)

Code	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Spread	First coupon	
					gross	net			gross	net
36773	CCT	1.7.03	18.7.96	100.85	8.89	7.74	2,140	0.30	4.30	3.7625
36773	CCT	1.7.03	1.8.96	100.80	8.90	7.76	5,500	0.30	4.30	3.7625
36773	CCT	1.7.03	21.8.96	100.60	9.14	7.96	2,009	0.30	4.30	3.7625
36773	CCT	1.7.03	2.9.96	100.55	9.15	7.98	7,700	0.30	4.30	3.7625
36775	CCT	1.9.03	18.9.96	101.45	8.72	7.58	3,095	0.30	4.55	3.9810
36775	CCT	1.9.03	1.10.96	101.30	8.56	7.44	7,050	0.30	4.55	3.9810
36775	CCT	1.9.03	17.10.96	101.65	8.10	7.03	1,500	0.30	4.55	3.9810
36775	CCT	1.9.03	4.11.96	101.85	7.76	6.74	3,516	0.30	4.55	3.9810
36782	CCT	1.11.03	19.11.96	101.35	7.19	6.25	2,500	0.15	3.80	3.3250
36782	CCT	1.11.03	2.12.96	100.95	7.07	6.16	2,503	0.15	3.80	3.3250
36782	CCT	1.11.03	19.12.96	100.95	7.06	6.15	1,550	0.15	3.80	3.3250
36782	CCT	1.11.03	2.1.97	100.35	6.99	6.09	9,350	0.15	3.80	3.3250
36788	CCT	1.1.04	17.1.97	100.65	6.79	5.92	3,002	0.15	3.45	3.0185
36788	CCT	1.1.04	3.2.97	100.30	7.05	6.15	5,002	0.15	3.45	3.0185

Issue conditions of zero-coupon Treasury certificates (CTZs)

Code	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)
					gross	net	
36764	CTZ	30.6.98	28.6.96	85.95	7.84	6.89	2,678
36764	CTZ	30.6.98	15.7.96	86.00	7.98	7.03	2,006
36764	CTZ	30.6.98	31.7.96	86.10	8.08	7.13	2,506
36764	CTZ	30.6.98	14.8.96	86.00	8.30	7.35	2,529
36774	CTZ	31.8.98	30.8.96	85.35	8.23	7.24	2,750
36774	CTZ	31.8.98	16.9.96	86.00	7.99	7.00	2,750
36774	CTZ	31.8.98	30.9.96	86.85	7.58	6.60	2,600
36774	CTZ	31.8.98	15.10.96	88.00	6.98	6.00	2,000
36779	CTZ	30.10.98	31.10.96	88.10	6.55	5.75	2,124
36779	CTZ	30.10.98	15.11.96	88.80	6.24	5.45	2,500
36779	CTZ	30.10.98	29.11.96	89.10	6.17	5.38	2,556
36779	CTZ	30.10.98	16.12.96	89.10	6.31	5.51	2,750
36779	CTZ	30.10.98	30.12.96	89.55	6.14	5.34	2,008
36787	CTZ	15.7.98	15.1.97	91.75	5.92	5.19	2,000
36783	CTZ	15.1.99	15.1.97	88.85	6.09	5.35	2,500
36787	CTZ	15.7.98	31.1.97	91.15	6.59	5.86	1,679
36783	CTZ	15.1.99	31.1.97	89.25	5.98	5.25	2,500

Table a41

Securities market: yield to maturity and total return indices

	Yield to maturity (net)					Total return indices (net)				
	CCTs	CTEs	BTPs	CTOs	Bank bonds	CCTs	CTEs	BTPs	CTOs	Investment funds
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
1995	10.16	7.80	10.28	9.97	10.35	698.65	396.28	385.63	191.27	291.50
1996	7.81	5.38	7.50	7.20	8.03	776.10	384.07	456.22	212.78	313.64
1994 – 4th qtr.	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	296.77
4th "	9.91	6.08	9.72	9.37	10.04	727.75	404.03	406.30	198.80	295.60
1996 – 1st qtr.	8.88	5.56	8.63	8.38	9.08	748.86	391.53	428.37	205.23	304.64
2nd "	8.15	5.58	7.91	7.52	8.47	767.37	381.19	446.15	210.71	312.96
3rd "	7.68	5.45	7.44	7.11	7.83	784.63	380.72	461.04	215.06	313.79
4th "	6.54	4.94	6.02	5.79	6.75	803.53	382.85	489.32	220.25	323.43
1996 – Jan.	9.06	5.99	8.63	8.46	9.18	743.70	393.26	425.64	203.75	303.47
Feb.	8.66	5.61	8.56	8.32	9.00	749.22	390.03	429.11	205.37	306.26
Mar.	8.91	5.09	8.69	8.36	9.07	753.68	391.30	430.36	206.62	304.26
Apr.	8.70	5.47	8.41	8.12	8.94	759.33	386.39	436.98	208.41	308.54
May	7.99	5.65	7.75	7.31	8.39	768.36	378.73	448.26	211.11	314.66
June	7.74	5.61	7.58	7.14	8.09	774.42	378.45	453.21	212.58	315.51
July	7.59	5.55	7.47	7.13	7.85	780.23	379.94	457.55	213.82	313.61
Aug.	7.81	5.46	7.57	7.27	7.89	784.12	381.18	459.44	214.91	313.11
Sept.	7.65	5.34	7.29	6.92	7.76	789.54	381.05	466.15	216.58	314.66
Oct.	7.04	5.17	6.49	6.26	7.11	797.35	381.33	480.11	218.69	320.02
Nov.	6.42	5.02	5.88	5.66	6.69	804.65	385.03	491.33	220.58	324.43
Dec.	6.16	4.64	5.70	5.46	6.44	808.60	382.19	496.51	221.79	326.52
1997 – Jan.	5.98	4.56	5.53	5.43	6.34	814.35	382.51	502.22	222.89	331.78

The money

(stocks in

	End-of-period					
	Notes and coin	Sight deposits		Other assets	M1	Short-term CDs
		Banks	Post Office			
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	89,769	465,071	9,479	14,760	579,078	87,286
1994 – Nov.	90,829	425,043	9,737	13,150	538,758	72,566
Dec.	96,221	478,258	7,641	15,728	597,848	71,602
1995 – Jan.	91,143	439,012	10,114	11,840	552,109	77,927
Feb.	90,080	441,530	8,994	11,587	552,191	75,772
Mar.	92,654	439,243	8,142	11,799	551,838	75,926
Apr.	92,974	440,797	7,144	10,406	551,321	73,382
May	92,500	434,745	8,808	11,318	547,370	72,121
June	92,407	443,028	8,211	13,505	557,152	69,942
July	94,786	428,950	8,238	11,491	543,465	68,407
Aug.	90,772	424,521	8,114	6,958	530,365	66,847
Sept.	92,525	441,844	8,854	9,796	553,018	65,339
Oct.	90,403	439,410	8,145	9,110	547,067	65,214
Nov.	92,641	426,129	7,339	10,805	536,914	64,250
Dec.	98,281	482,902	(7,418)	15,971	(604,572)	63,518
1996 – Jan.	92,006	437,798	(9,335)	11,273	(550,413)	63,707
Feb.	89,845	432,672	(8,285)	9,098	(539,899)	62,958
Mar.	92,341	440,180	(6,711)	8,869	(548,101)	62,023
Apr.	90,738	449,636	(6,086)	(8,136)	(554,596)	60,975
May	91,968	434,327	(7,655)	(8,858)	(542,808)	59,952
June	93,009	448,032	(7,885)	(11,531)	(560,457)	59,084
July	94,854	435,316	(6,777)	(10,206)	(547,153)	63,792
Aug.	92,455	433,188	(6,454)	(6,172)	(538,269)	65,902
Sept.	93,450	455,777	(6,372)	(9,028)	(564,626)	68,059
Oct.	(92,606)	453,685	(6,653)	(10,193)	(563,137)	69,791
Nov.	(96,400)	456,331	(6,776)	(11,624)	(571,131)	70,506
Dec.	(100,113)	505,932	(4,562)	(13,125)	(623,731)	71,771

supply

billions of lire)

data				Average data			
CDs with a maturity of at least 18 months	Savings deposits	Postal savings deposits	M2	M1	M2	M2 net of CDs with a maturity of at least 18 months	Extended M2
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
226,074	144,091	30,861	1,067,389	529,612	1,005,610	780,319	1,011,386
234,159	132,687	36,546	1,014,716	538,127	1,011,291	778,247	1,017,833
236,932	138,297	39,152	1,083,831	546,848	1,023,429	787,883	1,030,431
241,657	125,430	40,050	1,037,173	554,758	1,036,251	797,539	1,044,099
244,663	123,746	40,800	1,037,172	536,448	1,017,914	774,226	1,026,240
248,335	121,315	41,457	1,038,871	538,861	1,020,724	774,383	1,029,628
250,427	121,419	41,842	1,038,391	541,372	1,023,812	775,392	1,033,177
253,343	118,661	41,903	1,033,397	544,379	1,026,348	774,876	1,035,992
256,630	118,816	42,012	1,044,551	535,071	1,016,795	762,009	1,025,961
257,576	116,756	41,875	1,028,079	536,460	1,016,833	761,065	1,025,770
261,557	116,088	42,734	1,017,591	520,606	1,001,821	741,977	1,011,268
265,794	116,920	42,874	1,043,944	528,652	1,013,186	749,460	1,023,536
271,097	114,877	42,965	1,041,220	532,815	1,020,282	752,645	1,030,927
274,929	114,685	42,676	1,033,454	538,600	1,029,320	756,732	1,040,506
279,114	121,047	43,997	(1,112,248)	(553,810)	(1,048,753)	(772,116)	(1,060,154)
289,814	116,368	44,638	(1,064,939)	(556,900)	(1,063,285)	(779,064)	(1,075,407)
296,707	114,755	44,685	(1,059,005)	(530,046)	(1,043,009)	(750,258)	(1,056,720)
301,379	115,042	44,577	(1,071,122)	(529,295)	(1,044,815)	(746,189)	(1,060,297)
307,147	113,437	44,559	(1,080,715)	(531,774)	(1,049,869)	(746,861)	(1,067,053)
314,080	111,873	44,255	(1,072,968)	(541,769)	(1,065,231)	(755,130)	(1,083,451)
317,161	113,422	43,684	(1,093,808)	(536,102)	(1,061,860)	(745,688)	(1,079,817)
307,367	112,397	43,331	(1,074,040)	(539,917)	(1,060,959)	(750,253)	(1,077,123)
299,995	113,426	43,950	(1,061,543)	(530,110)	(1,046,436)	(743,947)	(1,061,703)
291,590	114,092	43,900	(1,082,267)	(538,302)	(1,049,938)	(755,469)	(1,065,563)
284,695	112,883	(43,362)	(1,073,868)	(548,837)	(1,054,203)	(767,524)	(1,070,959)
276,358	114,378	(44,375)	(1,076,749)	(559,395)	(1,057,053)	(777,455)	(1,073,885)
269,297	118,630	(46,501)	(1,129,931)	(573,524)	(1,068,604)	(796,636)	(1,083,905)

Table a43

Liquid assets

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

	M2	Securities acquired under repos	PO savings certificates	BOTs and BTEs	Banker's acceptances	Total liquid assets
1988	704,404	4,421	46,539	212,464	2,121	969,949
1989	788,277	8,208	52,099	256,422	1,612	1,106,617
1990	864,817	13,712	57,219	284,993	1,540	1,222,280
1991	947,293	53,346	61,865	298,373	2,104	1,362,982
1992	994,531	99,571	66,575	356,177	1,925	1,518,779
1993	1,067,389	95,746	72,162	313,471	1,554	1,550,324
1994 – Nov.	1,014,716	107,118	83,683	319,576	1,626	1,526,719
Dec.	1,083,831	89,935	87,049	312,727	1,139	1,574,682
1995 – Jan.	1,037,173	108,416	88,538	325,254	1,533	1,560,914
Feb.	1,037,172	110,537	89,664	328,917	1,593	1,567,883
Mar.	1,038,871	111,967	90,616	335,106	1,597	1,578,157
Apr.	1,038,391	122,612	91,326	339,102	1,566	1,592,998
May	1,033,397	123,645	92,158	345,764	1,601	1,596,565
June	1,044,551	118,817	92,852	343,479	1,851	1,601,550
July	1,028,079	127,367	93,561	347,563	1,999	1,598,569
Aug.	1,017,591	133,902	94,389	348,442	2,019	1,596,344
Sept.	1,043,944	123,960	95,065	345,977	1,943	1,610,888
Oct.	1,041,220	138,052	95,707	346,634	1,918	1,623,532
Nov.	1,033,454	142,760	96,054	347,058	1,857	1,621,183
Dec.	(1,112,248)	126,864	(97,145)	339,059	900	(1,676,215)
1996 – Jan.	(1,064,939)	146,703	(97,804)	347,888	1,074	(1,658,408)
Feb.	(1,059,005)	153,156	(98,355)	342,374	990	(1,653,880)
Mar.	(1,071,122)	146,194	(98,772)	339,415	1,078	(1,656,581)
Apr.	(1,080,715)	150,100	(99,081)	334,629	1,101	(1,665,626)
May	(1,072,968)	147,331	(99,496)	331,142	1,129	(1,652,065)
June	(1,093,808)	135,392	(99,899)	324,337	850	(1,654,286)
July	(1,074,040)	139,980	(100,581)	318,581	848	(1,634,030)
Aug.	(1,061,543)	144,509	(101,557)	314,489	808	(1,622,906)
Sept.	(1,082,267)	133,705	(102,320)	311,417	714	(1,630,422)
Oct.	(1,073,868)	145,323	(109,027)	301,789	655	(1,630,658)
Nov.	(1,076,749)	139,748	(108,072)	286,758	518	(1,611,844)
Dec.	(1,129,931)	118,452	(108,944)	(273,729)	*(517)*	*(1,631,572)*

Table a44

Financial assets

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

	Liquid assets	Medium and long-term securities: Government securities	Medium and long-term securities: Bonds of Crediop and autonomous govt. agencies	Medium and long-term securities: Other bonds	Units of investment funds	Other financial assets	Total domestic financial assets	Total financial assets
1988	969,949	311,579	6,579	61,577	51,565	*(1,502)*	*(1,402,751)*	*(1,451,001)*
1989	1,106,617	378,456	7,492	71,902	49,165	2,004	1,615,635	1,665,454
1990	1,222,280	450,724	11,426	81,985	47,379	4,848	1,818,643	1,888,416
1991	1,362,982	493,665	12,262	108,035	56,191	4,011	2,037,146	2,142,606
1992	1,518,779	492,263	15,231	113,564	60,663	2,825	2,203,325	2,339,680
1993	1,550,324	549,433	13,032	153,347	110,093	2,904	2,379,134	2,520,574
1994 – Nov.	1,526,719	627,976	15,834	171,227	130,877	4,192	2,476,825	2,655,990
Dec.	1,574,682	640,491	15,811	170,306	130,168	4,404	2,535,861	2,717,096
1995 – Jan.	1,560,914	647,394	15,854	170,528	129,228	3,241	2,527,160	2,708,543
Feb.	1,567,883	667,641	15,972	170,405	128,225	3,412	2,553,538	2,741,673
Mar.	1,578,157	670,816	16,004	168,155	126,386	3,592	2,563,111	2,759,862
Apr.	1,592,998	674,344	15,137	167,721	127,266	3,899	2,581,365	2,775,951
May	1,596,565	678,754	15,178	168,484	126,763	3,871	2,589,615	2,778,891
June	1,601,550	690,217	15,255	167,437	124,741	4,035	2,603,236	2,793,433
July	1,598,569	696,969	15,082	169,020	125,561	4,129	2,609,330	2,795,558
Aug.	1,596,344	694,957	15,264	169,444	126,465	4,261	2,606,736	2,792,082
Sept.	1,610,888	695,484	15,428	170,385	125,602	4,305	2,622,093	2,812,884
Oct.	1,623,532	696,075	15,494	172,382	123,540	4,275	2,635,297	2,825,849
Nov.	1,521,183	692,352	14,854	173,280	123,604	4,195	2,629,468	2,821,734
Dec.	(1,676,215)	692,627	14,872	172,248	126,802	4,190	2,686,955	2,877,572
1996 – Jan.	(1,658,408)	688,930	(14,988)	(176,356)	130,675	4,423	(2,673,781)	(2,871,046)
Feb.	(1,653,880)	695,826	(15,050)	(178,127)	131,903	4,696	(2,679,482)	(2,876,538)
Mar.	(1,656,581)	703,344	(16,455)	(179,113)	133,608	4,633	(2,693,734)	(2,898,735)
Apr.	(1,665,626)	702,357	(16,878)	(179,627)	139,806	4,796	(2,709,090)	(2,914,701)
May	(1,652,065)	709,341	(17,014)	(183,368)	144,887	4,882	(2,711,557)	(2,922,806)
June	(1,654,286)	711,259	(17,022)	(184,160)	149,603	5,022	(2,721,352)	(2,933,617)
July	(1,634,030)	716,936	(17,091)	(189,348)	153,811	5,138	(2,716,354)	(2,936,666)
Aug.	(1,622,906)	722,641	(17,117)	(195,542)	159,056	5,296	(2,722,558)	(2,944,882)
Sept.	(1,630,422)	711,720	(17,123)	(204,079)	165,733	5,910	(2,734,987)	(2,963,189)
Oct.	(1,630,658)	700,709	*(17,095)*	*(217,520)*	173,962	*(6,290)*	*(2,746,234)*	*(2,980,600)*
Nov.	(1,611,844)	699,820	*(16,052)*	*(227,169)*	187,084	*(6,306)*	*(2,748,275)*	*(2,988,901)*
Dec.	*(1,631,572)*	(715,215)	*(17,335)*	*(234,183)*	197,544	*(6,330)*	*(2,802,179)*	*(3,042,940)*

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
1988	330,870	216,360	25,719	572,949
1989	393,132	258,198	25,638	676,967
1990	455,998	299,215	23,453	778,666
1991	513,853	345,842	25,109	884,804
1992	570,944	383,644	20,510	975,098
1993	558,508	432,896	24,783	1,016,187
1994 – Nov	512,176	459,521	23,171	994,867
Dec.	530,302	475,325	21,873	1,027,500
1995 – Jan.	529,931	460,036	22,003	1,011,971
Feb.	535,167	464,426	20,451	1,020,044
Mar.	538,966	468,629	20,136	1,027,731
Apr.	542,417	466,646	19,382	1,028,445
May	537,027	467,458	19,587	1,024,072
June	547,024	472,055	19,284	1,038,363
July	550,350	468,639	19,261	1,038,250
Aug.	534,955	468,668	19,399	1,023,022
Sept.	531,558	471,767	19,254	1,022,579
Oct.	531,225	473,705	19,672	1,024,602
Nov.	533,806	478,160	19,095	1,031,061
Dec.	549,387	485,837	18,409	1,053,633
1996 – Jan.	549,725	(478,433)	(18,650)	(1,046,808)
Feb.	541,306	(482,814)	(18,627)	(1,042,746)
Mar.	535,238	(488,252)	(18,687)	(1,042,177)
Apr.	534,268	(489,229)	(18,640)	(1,042,137)
May	536,744	(491,281)	(18,413)	(1,046,438)
June	545,196	(494,701)	(18,057)	(1,057,954)
July	555,151	(493,138)	(18,268)	(1,066,557)
Aug.	534,377	(494,305)	(18,305)	(1,046,987)
Sept.	534,549	(495,109)	(18,183)	(1,047,842)
Oct.	530,735	(495,363)	*(16,531)*	*(1,042,628)*
Nov.	529,406	(499,381)	*(15,970)*	*(1,044,757)*
Dec.	553,656	(506,849)	*(15,332)*	*(1,075,837)*

Table a45

dit

in billions of lire)

		State sector debt		Credit	
Foreign finance	Total finance		*of which:* domestic	Total domestic	Total
51,036	623,985	987,832	959,265	1,532,214	1,611,818
68,029	744,996	1,117,253	1,082,277	1,759,245	1,862,249
93,504	872,170	1,260,826	1,211,829	1,990,495	2,132,996
107,686	992,489	1,412,830	1,357,920	2,242,724	2,405,319
128,680	1,103,778	1,594,932	1,530,423	2,505,521	2,698,710
131,547	1,147,734	1,765,409	1,679,960	2,696,147	2,913,143
124,139	1,119,006	1,933,141	1,844,884	2,839,751	3,052,146
124,660	1,152,160	1,932,187	1,836,206	2,863,706	3,084,347
123,444	1,135,414	1,947,112	1,851,741	2,863,711	3,082,527
127,312	1,147,356	1,968,329	1,867,341	2,887,385	3,115,685
128,568	1,156,299	2,001,826	1,893,838	2,921,569	3,158,126
128,025	1,156,470	2,019,326	1,908,274	2,936,720	3,176,396
127,526	1,151,598	2,031,256	1,918,225	2,942,297	3,182,854
129,398	1,167,760	2,018,692	1,894,568	2,932,931	3,186,453
129,134	1,167,383	2,020,608	1,898,864	2,937,114	3,187,991
128,156	1,151,178	2,028,177	1,909,953	2,932,975	3,179,355
128,681	1,151,260	2,056,029	1,936,675	2,959,254	3,207,289
127,317	1,151,919	2,078,035	1,957,517	2,982,119	3,229,954
128,027	1,159,088	2,097,064	1,978,611	3,009,672	3,256,152
129,596	1,183,229	2,073,251	1,954,006	3,007,639	3,256,480
(130,453)	(1,177,261)	2,083,407	1,965,526	(3,012,334)	(3,260,668)
(130,899)	(1,173,645)	2,093,999	1,977,788	(3,020,535)	(3,267,645)
(132,007)	(1,174,184)	2,116,292	1,997,201	(3,039,378)	(3,290,476)
(130,794)	(1,172,930)	2,139,264	2,019,220	(3,061,357)	(3,312,195)
(131,806)	(1,178,244)	2,148,014	2,030,103	(3,076,541)	(3,326,258)
(130,453)	(1,188,407)	2,121,833	2,001,895	(3,059,850)	(3,310,240)
(127,442)	(1,193,998)	2,137,758	2,015,136	(3,081,693)	(3,331,756)
(126,545)	(1,173,531)	2,146,398	2,025,177	(3,072,163)	(3,319,929)
(124,832)	(1,172,674)	2,172,611	2,049,919	(3,097,761)	(3,345,285)
(123,920)	*(1,166,549)*	2,195,132	2,073,252	*(3,115,880)*	*(3,361,681)*
(123,321)	*(1,168,078)*	2,205,411	2,082,849	*(3,127,605)*	*(3,373,489)*
(124,881)	*(1,200,718)*	2,204,903	2,079,574	*(3,155,411)*	*(3,405,621)*

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	Others
1991	82,476	–8,674	–39,369	*(120,955)*	*(66,867)*	*(–57,303)*
1992	47,238	–32,591	–12,187	*(74,694)*	*(82,411)*	*(–65,089)*
1993	71,513	2,564	84,589	*(54,453)*	*(14,025)*	*(–84,119)*
1994	16,442	3,297	–21,594	6,035	30,649	–1,944
1995	28,416	2,915	58,102	38,601	–26,894	–44,308
1996	17,683	20,446	42,499	(41,512)	(7,952)	(–94,726)
1994 – Nov.	–4,967	–2,531	8,086	132	11,128	–21,781
Dec.	69,115	7,669	3,781	3,325	–17,985	42,326
1995 – Jan.	–46,659	–3,741	–9,938	–20,288	–11,802	–890
Feb.	..	–1,034	6,526	6,544	–12,677	641
Mar.	1,699	–6,767	–1,516	1,355	21,734	–13,106
Apr.	–480	2,046	1,655	3,479	–795	–6,864
May	–4,994	3,866	9,914	2,122	–5,032	–15,863
June	11,154	13,474	–1,180	15,405	–34,453	17,907
July	–16,473	–255	5,401	1,632	–8,565	–14,686
Aug.	–10,487	–2,336	15,506	–10,793	2,950	–15,814
Sept.	26,353	–3,967	–1,343	–2,713	23,350	11,027
Oct.	–2,724	–1,194	4,814	2,323	14,574	–23,241
Nov.	–7,766	–2,948	15,015	7,964	8,472	–36,270
Dec.	(78,794)	5,772	13,248	31,571	–24,650	(52,853)
1996 – Jan.	(–47,308)	–138	–7,473	(–6,830)	(–1,442)	(–31,425)
Feb.	(–5,934)	–916	505	(–5,335)	(11,401)	(–11,590)
Mar.	(12,117)	1,330	–12,493	(2,497)	(15,767)	(5,015)
Apr.	(9,593)	8,042	26,877	(1,289)	(–10,433)	(–16,182)
May	(–7,747)	9,267	–13,351	(11,113)	(2,371)	(–17,148)
June	(20,840)	6,773	1,406	(10,579)	(–25,487)	(27,570)
July	(–19,768)	–325	–2,907	(7,713)	(2,856)	(–27,105)
Aug.	(–12,497)	–2,812	11,016	(–18,446)	(866)	(–3,120)
Sept.	(20,724)	731	2,773	(3,723)	(13,203)	(294)
Oct.	(–8,399)	5,381	6,212	(–5,825)	(15,143)	(–29,309)
Nov.	(2,880)	–2,943	(10,169)	(6,651)	(9,221)	(–20,217)
Dec.	(53,182)	–3,944	(19,765)	(34,383)	(–25,514)	(28,492)

Notes to the tables

Table a1

Sources: OECD, Istat and national statistics.

The annual figures for the current account balance may not coincide with the sum of the quarterly figures.

Table a2

Sources: Istat and national statistics.

For Italy, see the notes to Table a14.

Table a3

Sources: Istat, OECD and national statistics.

For Italy, the cost-of-living index; see the notes to Table a16.

Table a4

Sources: OECD, calculations based on ENI and Istat data and national statistics.

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 statistics.

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 Canada, end-of-period rate on 3-month Treasury bills.

Table a6

Sources: national statistics.

Bond yields (gross). For the United States, 10-year Treasury notes and bonds (secondary market); for Japan, Germany, France, the United Kingdom and Canada, 10-year public sector bonds (secondary market); for Italy, yield on 10-year benchmark BTPs listed on the screen-based market.

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 statistics.

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 and OECD data and national statistics.

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 and OECD data and national statistics.

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 banking 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" include government consumption and changes in stocks.

Table a14

Sources: Based on Istat and Isco data.

The indices of industrial production 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 economic use; the aggregate index may therefore differ from the weighted average of the disaggregated indices. Raw data are shown for stocks of finished goods.

Table a15

Source: Istat.

The figures, which are not seasonally adjusted, present major discontinuities, so 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 determining the coefficients used to relate the sample results to the total population. Since 1992 the coefficients 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 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 national 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 overall 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

The table shows the state sector borrowing requirement on the basis of the definition of the sector that comprises the budget and Treasury operations, the Deposits and Loans Fund, the Southern Italy Development Agency (suppressed in April 1993), the National Road Agency (ANAS) and the former State Forests. To the extent that the different natures of the two balances and the availability of the necessary information permit, the changes in accounting rules recently agreed with Eurostat for general government net borrowing in the national accounts have been applied in calculating the state sector borrowing requirement. In particular, recognizing the part of the debt of the State Railways that gives rise to payments of principal and interest by the government as an integral part of the state sector borrowing requirement makes the new sector practically identical for the past to that which included all the former autonomous government agencies.

The Treasury borrowing requirement is determined as the sum of the budget deficit and the balance of Treasury operations. The budget deficit excludes accounting items that are offset under Treasury operations, loan disbursements and repayments and settlements of debts involving state sector bodies or which merely result in accounting transactions between the budget and Treasury operations. On the other hand, changes in the special VAT accounts are included, together, as of 1994, with VAT refunds channeled through taxpayers' tax accounts. As of 1996, budget revenues exclude the share of the receipts of the excise duty on petrol allocated to the ordinary statute regions. The interest on postal savings certificates is included under Treasury operations and determined on a cash basis, instead of on an accruals basis as in the past. The items "Settlements of past debts" and "Privatization receipts plus debt sinking fund income" permit the reconciliation of the total funding requirement and the definition of the borrowing requirement currently used to determine the objectives for fiscal policy. The state sector borrowing requirement is obtained by summing the Treasury borrowing requirement, the net market borrowing of ANAS and the former State Forests, shown in the table as "Borrowing requirement of ANAS and the State Forests", and the "Borrowing requirement of other bodies borne by the government" (in practice, the borrowing of the State Railways, excluding the part for which the costs are not borne by the government). The figures for the last year are provisional.

Table a20

The table shows the financing of the state sector borrowing requirement (see the notes to Table a19). "Foreign loans" comprise only those raised abroad directly by the Italian government and state sector bodies (including those raised by the State Railways with the costs borne by the government); 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 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 under Law 483/1993) and the sinking fund for the redemption of government securities set up under Law 432/1993, as amended by Decree Law 6/1996. The Treasury's current account with the Bank of Italy was closed on 31 December 1993 and the overdraft at that date transferred to the 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 76,206 billion lire of BTPs issued under a Ministerial Decree of 15.11.1994. These securities are included under "Medium and long-term securities". Pursuant to the ruling by Eurostat, a) postal savings certificates are included under "PO deposits" at their face value at issue (previously they were accounted for at their redemption value) and b) "Medium and long-term securities", "Foreign loans" and "Other" include the corresponding financial instruments related to operations entered into by the State Railways with the costs borne by the government. The figures for the last year are provisional.

Table a21

The table shows the state sector debt and its composition (see the notes to Table a19). The state sector debt (end-of-period data) is stated at face 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-UIC", "Treasury bills in lire and ecus excluding BI-UIC", "Total domestic debt excluding BI-UIC" 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 Treasury payments to municipalities and provinces that are held with the PO. Postal savings certificates are included at their face value at issue. As of 1989, lending by banks has been based on Bank of Italy Central Credit Register data. 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.

Pursuant to the ruling by Eurostat, foreign loans are translated into lire on the basis of the currency in which the debt was originally contracted, regardless of subsequent swap transactions. As for the borrowing requirement, "Medium and long-term securities", "Lending by banks" and "Foreign debt" include the corresponding financial instruments related to operations entered into by the State Railways with the costs borne by the government. The figures for the last year are provisional.

Table a22

As of the October 1995 issue of the Bulletin (no. 21), 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.

As of December 1994, the data on the Bank of Italy's outright and temporary operations are obtained directly from the relevant items of the Bank's accounts, which were modified in that month to comply with 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. From January 1994 onwards the item "Treasury accounts" coincides with the movements on the Treasury payments account; as of December 1994 it also includes changes in the sinking fund for the redemption of government securities. The 1994 "Treasury accounts" figure excludes the movement associated with the conversion into securities in November of that year of the Bank of Italy's claim in respect of the overdraft on the Treasury's former current account.

"Other BI-UIC operations with the Treasury" include BI-UIC net redemptions at maturity of government securities held by BI-UIC, the early redemption of government securities held by BI-UIC, 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 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 compulsory reserves and free deposits, including those of banks not subject to the compulsory reserve requirement. The subitem "Compulsory reserves" refers to the average reserve requirement in the maintenance period (from the 15th of the month indicated 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 settlements of past debts and privatization proceeds and other income accruing to the sinking fund for the redemption of government securities. As of this issue of the Economic Bulletin, the definition of the gross state sector borrowing requirement has been modified (see the notes to Tables a19 and a20).

"Net sales of securities on the primary market" comprise total net subscriptions excluding those of BI-UIC (a minus sign indicates net purchases). The item "Other" comprises 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 securities retired by the Treasury are included in this item with a positive sign.

Table a23

For a description of the methodological changes made, see the notes 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-of-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 under Law 483/1993 to consolidate the Bank of Italy's claim in respect of the overdraft on the Treasury's former current account. The year-end figures include unrealized capital gains and losses on securities and the 30.67 trillion lire of securities issued by the Treasury in December 1993 to establish the "Treasury payments account". The balance of this account is shown with a negative sign to indicate that it is a Bank of Italy liability towards the Treasury. The "Sinking fund for the redemption of government securities" was established at the Bank of Italy under Law 432/1993. As of 1994, privatization receipts, which were initially recorded in the Treasury payments account, have been recorded in this account. As of 1995 the Treasury has drawn on the fund to buy back government securities. Decree Law 598/1996, ratified as Law 662/1996, provides that the fund may also be used to acquire shares held by companies wholly owned by the Treasury. In addition to coins in circulation, the item "Other" includes claims in respect of compulsory stockpiling bills, coins held by the Bank of Italy, and PO securities to be redeemed. It also includes sundry services on behalf of the state and other BI-UIC financing, net of banknotes held by the Treasury.

For the items "Deposits with BI" and "Other", see the notes to Table a22.

Table a24

Average of the daily data in the maintenance period (from the 15th of the month indicated to the 14th of the next). The figures for "Vault cash" are partly estimated.

"Deposits with BI" comprise the reserve account and the free deposits of banks not subject to the compulsory reserve requirement. 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 1995 – Note metodologiche*).

"Repurchase agreements", stated in nominal terms, comprise those with primary dealers on the screen-based secondary market for government securities.

Table a25

For the methodological changes concerning the data on the Bank of Italy's operations, see the notes to Table a22.

The December 1996 figure for the redemptions of CCTs includes the Treasury's buyback of 653 billion lire of such securities drawing on the sinking fund for the redemption of government securities.

"Temporary operations" comprise finance granted to primary dealers on the screen-based secondary market for government securities.

Table a26

Multiple price auctions. Prices and yields are expressed in percentages, amounts in billions of lire. Yields are shown before and after withholding tax levied at 12.5 per cent. Those for 3 and 6-month bills are compound. 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 for purchases and the maximum allotment rate for sales.

Table a28

Multiple price auctions based on the spread (forward points) between the spot and forward exchange 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 German marks or US dollars; spot rates and forward points are stated in lire.

The yields are calculated with reference to the spread between the spot and forward rates 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 for the operations concluded in the period.

BOT yields are the average of the allotment rates at auction (compound yields for 3 and 6-month bills); they are shown 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 figures are based on the new 10-day surveys introduced in January 1995 and are computed as centred monthly averages. The sample consists of the banks participating in the survey at each reference date. The pre-1995 figures are partially estimated on the basis of the previous 10-day survey results.

Table a33

The figures are based on the new 10-day surveys introduced in January 1995 and are computed as centred monthly averages. The sample consists of the banks participating in the survey at each reference date. The pre-1995 figures are partially estimated on the basis of the previous 10-day survey results.

Table a34

The annual data refer to the month of December.

The figures for "Loans from BI-UIC" are based on the accounts of the Bank of Italy. Those for "Bank reserves" are also partly based on the same source 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-bearing external assets and liabilities refer to aggregates that do not coincide exactly with those included in the foreign exchange statistics.

For further information, see *Relazione annuale per il 1995 – Note metodologiche.*

Table a35

The annual data refer to the month of December.

"Loans" do not include those granted by branches abroad. "Government securities" include those denominated in ecus.

"Other" securities refer to banks' holdings of lira and foreign currency bonds issued by residents.

Table a36

The annual data refer to the month of December.

The subitem "Short-term certificates of deposit" refers to lira-denominated CDs with a maturity at issue of less than 18 months.

Prior to 1995 residents' foreign currency deposits and deposits of non-residents do not include those of the former special credit institutions.

The data on average deposits prior to 1995 include estimates of those of the former special credit institutions calculated as moving averages of end-of-period data.

Table a37

"Foreign currency securities" include government securities denominated in foreign currencies and Eurolira bonds. "Other financial assets" include CDs, banker's acceptances and commercial paper. The difference between "Total securities portfolio" and "Total net assets" consists of other net assets (mainly liquidity). Rounding may cause discrepancies in totals.

Table a38

"Italian bonds" include CDs with a maturity of more than 18 months. "Foreign bonds" include foreign government securities. "Net fund-raising" is calculated as the sum of monthly flows. The item "Total managed funds" refers to portfolio management services provided directly by banks.

Table a39

Investors' portfolios are not affected by repo sales and purchases.

The issues made 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 under Law 483/1993 to consolidate the overdraft on the Treasury's former current account with the Bank of Italy. "Listed shares" refer to issues of shares by companies listed on the Italian stock exchange, gross of double counting. 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 onwards for BTPs and from 18 July 1994 onwards for CCTs, the amount taken up includes the amounts subscribed of issues restricted to the specialists operating on the screen-based government securities market.

From 1 January onwards the new International Securities Identification Number (ISIN) coding system entered into force. The new code has twelve elements and uses the old UIC codes. For example, the ISIN code for the 30-year BTP with UIC code 36665 is IT000036665x, where "x" is the numerical control code.

Table a41

The expected yields of CCTs assume no change in interest rates. Those of CTEs refer to an investment in ecus and are therefore not comparable with the expected returns on lira investments. The expected yields of CTOs are based on the assumption that the securities are not redeemed early.

The net expected yields are averages of daily data calculated for securities listed on the Italian 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.

As of January 1993, the non-state sector includes the former autonomous government agencies which have been transformed into *società per azioni* (the State Railways, the Monopolies and the Telephone Company). This causes a statistical discontinuity in the stock series.

"Bank current accounts" comprise demand deposits in lire and foreign currency.

The "Other assets" in M1 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.

The average figures are calculated as the monthly averages of daily data, except for PO deposits and some minor items, which are calculated as two-term moving averages of end-of-month data.

"Extended M2" includes residents' deposits with the foreign branches of Italian banks.

Table a43

For the definition of non-state-sector liquid assets, see the section "Statistical aggregates" in the Appendix. For the definition of the non-state sector, see the notes to Table a42.

"Securities acquired under repos" include foreign currency securities.

Starting from this issue of the Economic Bulletin, postal savings certificates are accounted for at their face value at issue (previously they were included at their redemption value; see the notes to Table a20).

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 available from December 1988. For the definition of the non-state sector, see the notes to Table a42.

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

"Government securities" comprise CCTs, BTPs, CTZs, 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 refers to securities acquired outright.

"Crediop and autonomous government agency bonds". The item refers to securities acquired outright.

"Other bonds" include bonds issued by public and private sector enterprises and Italian banks and local authorities. They include the non-state sector's repo sales of bonds but not its repo purchases.

"Other financial assets" comprise the current accounts of stockpiling agencies, the claims on banks of social security institutions, insurance companies, local authorities and individuals; bank current accounts of agricultural consortia, enterprises' surety deposits, atypical securities and Republic of Italy issues held by the non-state sector.

"Total financial assets" include deposits with the foreign branches of Italian banks, foreign securities and loans to non-residents.

Table a45

For the definition of the non-state sector, see the notes to Table a42.

Starting from this issue of the Economic Bulletin, the part of the debt of the State Railways that gives rise to payments of principal and interest by the government is included in the item "State sector debt" (see the notes to Table a19) and accordingly excluded from the item "Finance to the non-state sector". The items "State sector debt" and "Total credit" are also affected by the change in the accounting treatment of postal savings certificates (see the notes to Table a43).

"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; they do not include 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.

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 notes to Table a42.

"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

Monetary aggregates

M1: *currency in circulation, residents' current accounts with banks in lire and foreign currency, current accounts with the post office, current accounts with other bodies, banker's drafts issued by the Bank of Italy and by banks.*

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.*

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, including compulsory reserves;*
- *banks' unused overdraft facilities with the Bank of Italy.*

General government[1]

- *state sector*
- *non-state public bodies.*

State sector (new definition)

- *central government (budget and Treasury operations)*
- *Deposits and Loans Fund*
- *Southern Italy Development Agency (until April 1993)*
- *ANAS and the former state forests.*[2]

Deposits and Loans Fund

A public body under the Treasury, its resources consist of funds placed with the post office and its lending is primarily to local authorities.

Non-state sector

- *households*
- *non-financial corporate and quasi-corporate public and private enterprises*
- *financial institutions (excluding investment funds and banks)*
- *insurance enterprises*
- *non-state public bodies*
- *state railways, monopolies and telephone company.*

Non-state public bodies

- *local authorities (regions, provinces and municipalities)*
- *social security institutions*
- *some minor central government entities.*

Public enterprises

- *ENEL and the state-controlled companies*
- *former autonomous government agencies producing maket goods and services*
- *municipal companies.*

Former autonomous government agencies

The railways, the monopolies and the telephone company, the post office, the national road agency (ANAS) and the state forests.

Private sector

- *households*
- *non-financial corporate and quasi-corporate public and private enterprises*
- *banks*
- *insurance enterprises*

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.*

Total credit

Total domestic credit and foreign finance to the non-state sector and the state sector.

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1 *The reference aggregate for the excessive deficit procedure provided for in the Treaty on Monetary Union.*

2 *Not included in the new definition used by the Treasury.*

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 have previously worked only in self-employment and have voluntarily not worked for over a year and who are currently looking for a job.

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. 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" benefits cover short-term layoffs (up to three months) due to cyclical factors; "extraordinary" benefits (up to two years) cover restructuring procedures. In no case is the worker's formal employment relationship terminated.

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
CTZ	—	*Certificati del Tesoro* zero-coupon 2-year zero coupon Treasury 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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