BANCA D'ITALIA

Economic Bulletin

Number 25 October 1997

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The international economy

Economic activity continued to expand in the main areas of the world during the first half of 1997, albeit at different rates. The cyclical disparity between the United States and Japan became more pronounced. While growth in the States accelerated without generating inflationary pressures, the Japanese recovery, which had already faltered in the second half of 1996, came to a halt in the first half of this year, and the latest indicators are not encouraging. The situation in the European Union was generally better than last year, with inflation remaining low. In continental Europe activity was sustained by exports. In Germany and France, in particular, adverse labour market conditions impinged on wage growth, thereby limiting the expansion of private consumption. Economic activity is more robust in the United Kingdom, Spain and the smaller economies, including Ireland, Finland and the Netherlands.

Growth remained rapid in Asia as a whole, but from the summer onwards some South-East Asian economies with marked external imbalances and fragile banking and financial systems, particularly Thailand, were hit by violent foreign exchange crises. These episodes, which bear some similarities to the Mexican crisis of 1994-95, are confirmation that while the integration of financial markets facilitates resource allocation, it also exacerbates the risk that foreign exchange crises arising in one country will spread to others in which macroeconomic conditions are considered to be broadly similar.

Output in Russia is expected to increase for the first time since the transition to a market economy began. In Latin America and Africa, with a few exceptions, growth remains rapid.

World trade continued to expand at a rate of nearly 8 per cent, thanks mostly to the performance of demand in North and South America and the newly industrialized Asian economies.

Marked differences in labour market conditions persist in the industrial countries. In the United States and the United Kingdom the unemployment rate declined further, falling below 5 per cent in the United States thanks to the creation of more than 2 million jobs in the first nine months of the year. The situation in continental Europe remains grave, with the average unemployment rate in the EU at 10.6 per cent in July, only just below the figure of 10.8 per cent recorded in December 1996. In Germany unemployment rose sharply, reaching 11.7 per cent in September, with a seasonally adjusted total of nearly 4.5 million unemployed. In June the European Council called an extraordinary session for November to promote active labour policies.

Measures to adjust the public finances and reduce budget deficits continued in all the industrial countries. According to recent IMF estimates, the average general government deficit of the leading industrial countries should fall from 2.9 to 1.6 per cent of GDP this year, thanks to the sharp reduction of the component linked to discretionary measures from 2.1 to 0.9 per cent of GDP. In the United States and the United Kingdom, however, the decrease in the deficit was largely the result of the continuing growth in activity. In Japan fiscal policy has been tightened in order to bring the budget deficit down to sustainable levels following the large expansion of recent years. European governments have renewed their efforts to adjust the public finances, partly in order to meet the criteria for membership of Economic and Monetary Union (EMU).

Monetary policy was tightened in the early part of the year in the United States and subsequently in the United Kingdom, where the inflationary potential was greatest. Interest rates in Europe are converging as the launch of the single currency approaches. In Italy, Portugal and Spain the fall in inflation allowed official rates to be reduced. In the rest of Europe the prolonged relaxation of monetary policy seems to have come to an end. The strong growth in output in Finland, Ireland and the Netherlands already led the central banks of those countries to begin tightening monetary conditions in the spring. On 9 October the Bundesbank raised its official rates in response to fears that prices would accelerate in connection with the recent recovery in activity and the depreciation of the German mark; the French, Dutch, Danish, Belgian and Austrian central banks followed suit. In the third week of October short-term yield differentials vis-à-vis Germany were more than 120 basis points lower than at the beginning of the year in Italy and almost 170 basis points lower in Portugal and Spain.

In Japan, where the prospect of an upturn in growth is becoming increasingly dubious, monetary policy has remained distinctly expansionary.

Inflation has declined further in the leading industrial countries, thanks to the favourable performance of labour costs and raw materials prices and to the firmness of monetary policy. In the United States and Italy the twelve-month inflation rates in September were about one percentage point lower than in December 1996 (2.2 and 1.4 per cent respectively, compared with 3.3 and 2.6 per cent), while inflation in Germany was 0.5 percentage points higher, at 1.9 per cent. Substantial progress in bringing down inflation was also made in Russia, Latin America and Africa.

Cyclical disparities between the United States and the other leading economies, which were reflected in short-term interest rate differentials, and substantial purchases of private US financial assets by foreign investors – as well as the foreign exchange crises in South-East Asia – were contributory factors in the strengthening of the dollar, whose volatility steadily increased. The depreciation of the German mark vis-à-vis the dollar helped to maintain stability among the ERM currencies.

Share indices have risen further during 1997, reaching new peaks in almost all the leading stock markets, with the important exception of Japan. The bull phase ended in August and was followed by a period of erratic price fluctuations. In the third week of October share prices in France and Germany were respectively 7 and 9 per cent lower than the peaks recorded in the summer. Nominal long-term yields have been falling in all the leading industrial countries, after rising at the beginning of the year in the United States, where fears of a resurgence of inflation had emerged. Real yields remain high at around 4 per cent in all the other leading economies except Japan.

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

Economic growth in the United States accelerated further in the first half of 1997, with output rising at an annual rate of 4.3 per cent by comparison with the preceding half-year (Table 1). The main stimulus came from households' consumption, which was boosted by a rise in disposable income and the wealth effect of the sharp increases in share prices. Against a background of favourable expectations regarding domestic demand, investment grew at an annual rate of almost 6 per cent. The growth in exports of goods and services, which has still not been affected by the appreciation of the dollar, remained extremely rapid, exceeding that achieved by other major industrial countries.

Output continued to increase briskly in the summer (Figure 1 and Table a2); however, international organizations are predicting a slowdown in the last few months of the year, largely on account of a rundown of stocks.

Fears about job security have held down the rate of wage growth in the United States. In the first six months of the year private-sector hourly wages, before deduction of social security contributions, were 1.9 per cent higher than in the preceding half-year, while productivity gains kept the increase in unit labour costs below 1 per cent. The twelve-month rate of consumer price inflation has fallen by about one percentage point since the end of last year, to stand at around 2.2 per cent in September (Figure 2).

Table 1

GDP and domestic demand in the major industrial countries (1)

(annualized percentage changes on preceding period)

	1996	1996 H2	1997 H1	1997 (2)
United States				
GDP	2.8	3.1	4.3	3.7
Domestic demand	3.0	3.5	4.4	4.1
Japan				
GDP	3.5	1.3	0.7	1.1
Domestic demand	4.5	0.6	–0.8	..
Germany				
GDP	1.4	2.9	1.8	2.3
Domestic demand	0.8	1.5	0.9	1.3
France				
GDP	1.5	1.7	1.9	2.2
Domestic demand	1.0	1.3	–0.2	1.3
Italy				
GDP	0.7	0.4	0.9	1.2
Domestic demand	0.2	..	2.8	1.3
United Kingdom				
GDP	2.3	2.8	4.0	3.3
Domestic demand	2.7	2.5	4.1	3.8
Canada				
GDP	1.5	2.8	3.8	3.7
Domestic demand	1.6	5.6	5.9	5.7
EU				
GDP	1.7	2.4	2.3	2.5
Domestic demand	1.4	1.6	1.8	2.0

Sources: OECD, Istat and national statistics.

(1) At constant prices. – (2) For Italy, *Relazione previsionale e programmatica per il 1997*; for the other countries, forecasts from IMF, *World Economic Outlook*, October 1997.

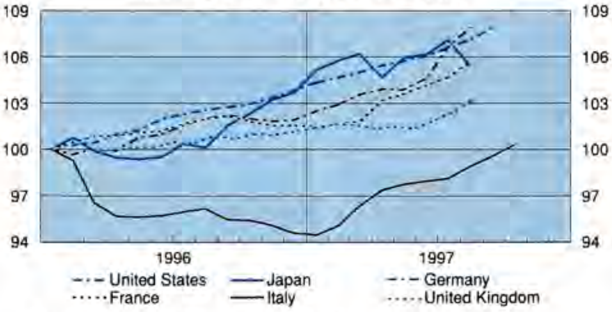
In Japan the recovery came to a halt in the first half of this year, notwithstanding the stimulus from export demand. GDP grew at an annual rate of barely 0.7 per cent and domestic demand fell by 0.8 per cent, depressed by the restrictive budgetary measures introduced in April. Cutbacks in public works programmes led to a strong contraction in the construction industry, creating a critical financial situation for a sector that was already suffering as a result of the level of corporate debt and the continuous fall in land prices.

Foreign demand played a fundamental role in sustaining activity in Japan. Exports of goods and services grew at an annual rate of 13.3 per cent in volume terms in the first half of the year, mostly to the benefit of large manufacturing firms, which increased production and investment. The weakness of activity was confirmed by the fact that consumer prices showed no further change after the one-off increase of 2 per cent between March and April due to the raising of the VAT rate from 3 to 5 per cent; the twelve-month rate of growth remained at around 2 per cent (Table a3).

Figure 1

Industrial production (1)

(indices, January 1996 = 100)



Sources: Based on Istat and national statistics.

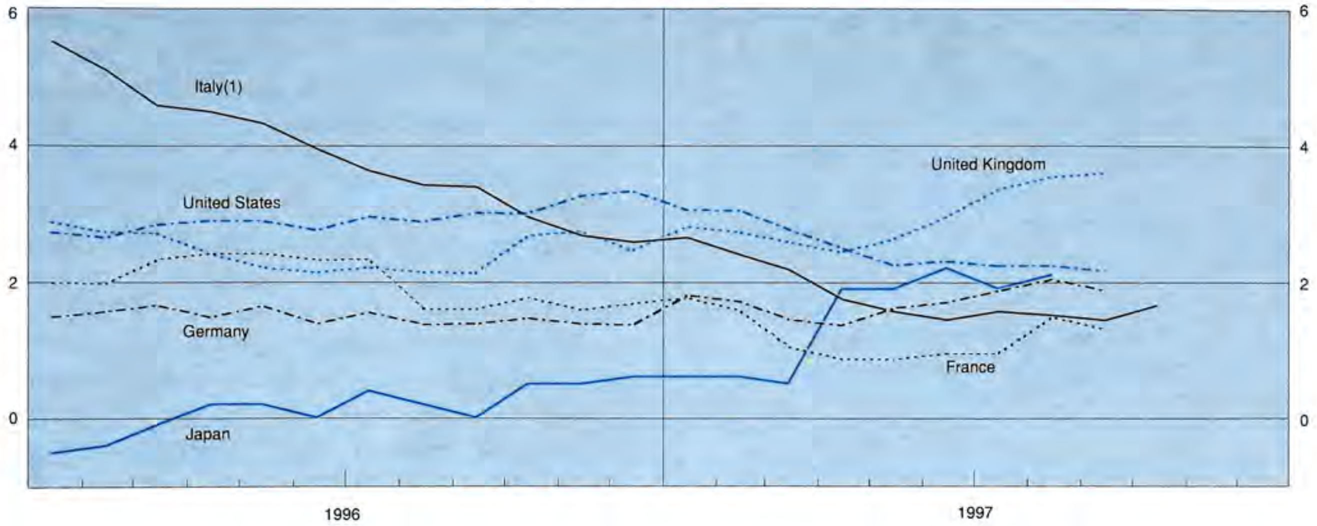
(1) Moving averages for the 3 months ending in the reference month.

In continental Europe economic activity is showing stronger signs of recovery, with the stimulus from foreign demand now apparently being flanked by an upturn in domestic demand. In Germany and France output grew at an annual rate of just under 2 per cent in the first half-year (Table 1); net exports accounted for almost 50 per cent of the increase in Germany and for practically all of it in France. Over the same period investment fell at annual rates of 3.4 and 2.5 per cent in the two countries respectively, but private consumption picked up in the second quarter in Germany and during the summer in France.

Figure 2

Consumer prices

(percentage changes on year-earlier month)



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

Households' consumer spending is still the main driving force behind the increase in demand in the United Kingdom, accounting for 70 per cent of GDP growth in the first six months. Investment also expanded briskly, at an annual rate of 5.6 per cent. In recent months business surveys have revealed a marked contrast between the services sector, which is expanding exceptionally rapidly, and manufacturing, where both production and orders are stagnating under the effect of the appreciation of sterling.

The recovery was much stronger in the remaining EU countries than in the three leading continental economies; growth was particularly strong in Ireland and Spain and high in Finland, Greece, Portugal, the Netherlands and Denmark.

Inflation remained low throughout the EU, although the strength of the economic expansion has put pressure on prices in the United Kingdom and some of the smaller economies. Based on the harmonized consumer prices indices, in August only Greece recorded a rate of price increase above the 2.6 per cent threshold calculated in accordance with the convergence criteria for membership of EMU.

In Germany the acceleration of consumer price inflation in the first nine months of the year reflected increases in regulated prices and the effect of the appreciation of the dollar on the cost of imported goods. In France prices slowed down further, particularly in the early months of the year; the twelve-month rate of inflation fell from 1.7 per cent in December 1996 to 0.9 per cent in May, rising again to 1.3 per cent in October, just below the Italian rate. In the United Kingdom inflation has accelerated by over one percentage point this year to reach 3.6 per cent in September, although it fell slightly if mortgage interest payments are excluded. Signs of price pressure are appearing in the services sector, which is expanding strongly.

The external imbalances of the world's two leading economies began to increase again in the first half of 1997, mostly as a result of the persistence of cyclical differences. The US current account deficit rose from $68 million in the first half of 1996 to $79 billion in the corresponding period of this year (Table a1). The deterioration stems mainly from the increase in the trade deficit, which rose to just under $97 billion, owing primarily to a widening of the deficits vis-à-vis China and Japan. Japan's current account surplus rose sharply from April onwards to total $43 billion for the first half-year. The acceleration in exports pushed the trade surplus up to $46 billion, the highest level since 1995. In addition, the surplus on investment income increased further as a result of the gradual accumulation of substantial net foreign assets.

The current account surplus of the EU is expected to continue to grow this year, albeit more slowly than in 1996, to around $90 billion. It is attributable mostly to Italy, France, the Netherlands and Belgium. The German current account deficit, which has persisted since unification, decreased further owing to the strong rise in exports.

Economic policies

In the United States the federal budget deficit for the fiscal year that ended in September fell from $107 billion to $23 billion, or from 1.4 to 0.3 per cent of GDP. The contraction was due mainly to the strong growth of the economy. In August the President signed the medium-term plan to balance the budget by 2002, which has already received Congressional approval.

In Japan the general government deficit for the year ending in March should fall from 4 to 2.8 per cent of GDP, or from 6.9 to 5.3 per cent net of the surplus of the social security system. The latter has been declining since the beginning of the nineties, however, as a result of the rapid aging of the population. The overall improvement in the public finances for the first time in six years is attributable to the tax increases that took effect in April and rigorous control of spending, including a reduction of about 15 per cent in allocations for public works. In June the authorities began to implement a medium-term plan to reduce the deficit (net of the surplus of the social security system) to 3 per cent of GDP by 2003, mainly by making substantial reductions in public expenditure.

According to estimates from the European Commission, the average general government deficit of the EU countries should fall from 4.3 to 2.7 per cent of GDP this year (Table 2), almost entirely owing to discretionary restrictive measures aimed at meeting the convergence criteria for membership of EMU. The ratio of debt to GDP is expected to stabilize at around 72 per cent.

Estimates published by the German authorities indicate that Germany's budget deficit should fall from 3.4 to 3 per cent of GDP, thanks to an intensification of expenditure restrictions, which from July onwards have been extended to the Länder and local authorities, particularly as regards staffing and welfare. The continuing weakness of the labour market could nevertheless make the budget target difficult to achieve; even the revised unemployment forecast, which in July was raised to an average of about 4.3 million this year, could prove optimistic.

In France, according to the Government's programme, the general government deficit should decrease from 4.1 to 3.1 per cent of GDP as a result of further budget measures approved in July, which entail a correction of FF 32 billion (0.4 per cent of GDP); FF 22 billion stems from temporary increases in taxes on large companies and FF 10 billion represents cuts in budget allocations already made to various ministries, especially the Ministry of Defence.

In 1997 the general government deficit in the United Kingdom is forecast to decrease from 4.9 to 2 per cent of GDP, thanks to the good state of the economy and the effects of tax measures introduced in July.

In the United States the Federal Reserve raised the federal funds target rate to 5.5 per cent at the end of March to avert inflationary pressures that seemed likely to develop, given the prolonged expansion in activity; the subsequent absence of price tensions made it possible to keep monetary conditions unchanged, despite continuing strong economic growth. The money market, which had already discounted the increase in March, held steady. The monetary authorities recently expressed concern at the signals coming from the US labour market, as in their view the unemployment rate had reached such a low level that it was likely to exert pressure on labour costs.

In the United Kingdom clear signs of overheating of the economy caused the Bank of England to increase the base rate to 7 per cent in four steps between May and August; at this level it is the highest rate among the major industrial countries (Figure 3).

Table 2

The main international macroeconomic variables

	1996	1997 (1)	1998 (1)		1996	1997 (1)	1998 (1)
GDP (2)	*percentage changes on previous year*			**Consumer prices**	*percentage changes on previous year*		
Industrial countries	2.4	2.9	2.7	Industrial countries	2.3	2.0	2.1
United States	2.8	3.7	2.6	United States	2.9	2.4	2.8
Japan	3.5	1.1	2.1	Japan	0.1	1.6	0.7
EU	1.7	2.5	2.8	EU	2.5	1.9	2.2
Germany	1.4	2.3	2.8	Germany	1.5	1.9	2.3
Asian NIEs (3)	6.4	5.9	6.0	Asian NIEs (3)	4.3	4.0	3.9
Developing countries	6.5	6.2	6.2	Developing countries	13.2	10.0	8.9
Central and Eastern Europe and former USSR	0.1	1.8	4.1	Central and Eastern Europe and former USSR	40.4	32.3	14.1
					percentage changes on previous year		
Unemployment rate	*percentages*			**World trade** (5)	6.3	7.7	6.8
Industrial countries	7.7	7.5	7.3				
United States	5.4	5.1	5.3	**Exports**			
Japan	3.4	3.4	3.2	Industrial countries	5.2	8.1	6.3
EU	10.9	10.7	10.3	Asian NIEs (3)	7.6	8.6	8.8
Germany	10.4	11.3	11.2	Developing countries	8.6	7.5	7.0
Budget balances	*as a percentage of GDP*			**Imports**			
United States	–1.1	–0.3	–0.3	Industrial countries	5.9	7.2	6.1
Japan	–4.4	–2.7	–2.3	Asian NIEs (3)	7.4	7.2	8.2
EU	–4.3	–2.7	–2.2	Developing countries	8.7	8.4	7.8
Short-term interest rates (4)	*percentages*			**Current account balances**	*billions of dollars*		
United States	5.6	5.9	6.3	Industrial countries	21.5	9.0	–7.0
Japan	0.7	0.7	1.1	United States	–148.2	–176.1	–204.6
Germany	3.3	3.3	4.0	Japan	65.8	98.9	98.1
				Germany	–13.1	–10.0	0.9

Sources: IMF, OECD and national statistics.

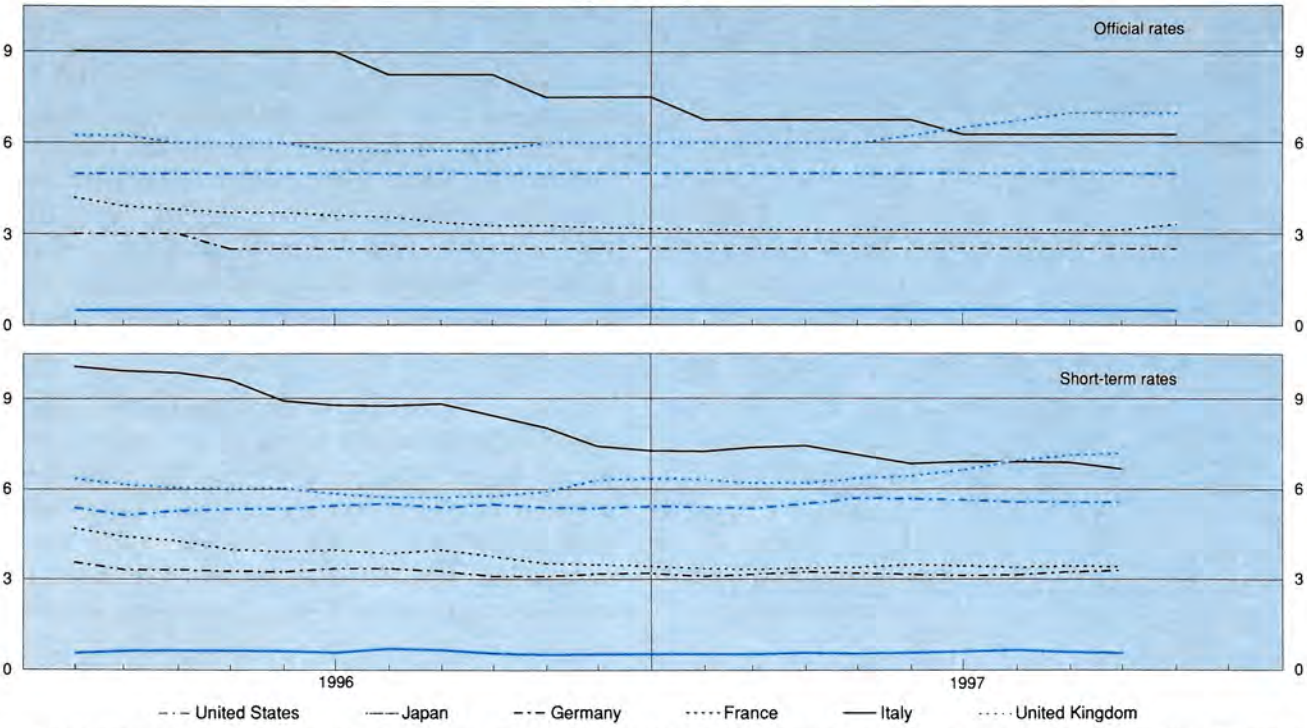
(1) IMF forecasts: *World Economic Outlook*, October 1997; for the unemployment rate and the budget balances of the EU, European Commission forecasts, October 1997. – (2) At constant prices. – (3) Hong Kong, Korea, Singapore and Taiwan. – (4) Averages; 6-month interbank rates on the London market. – (5) Goods and services at constant prices.

In Japan expectations that interest rates would rise before the end of the year receded recently when activity showed signs of weakening, inducing the authorities to maintain an extremely expansionary monetary policy stance. Many credit institutions are still wrestling with the problem of bad loans, owing partly to the worsening of the difficulties of firms in the construction sector.

In Germany the repo rate was increased from 3 to 3.3 per cent in October, coming into line with market expectations prevailing during the summer, but the discount and lombard rates were kept unchanged. The slight tightening of monetary conditions was dictated by the need to prevent a resurgence of inflation during the critical start-up of EMU. On 12 August the Bundesbank decided to change temporarily from

Figure 3

Official and short-term interest rates (1)
(percentages)



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

fortnightly to weekly auctions of liquidity to the banking system in order to signal to the markets the particular attention with which the monetary authorities are following economic developments. The growth in the M3 money supply in relation to the average for the last quarter of 1996 has gradually declined from the high levels recorded at the beginning of the year, and in June moved back within the target range of 3.5-6.5 per cent.

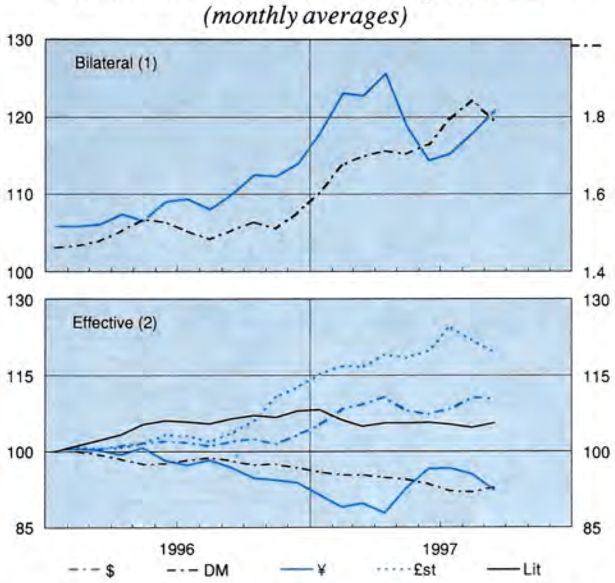
Exchange rates and the financial markets

The dollar continued to draw strength from the cyclical disparity between the United States and the other leading economies, which was reflected in short-term interest rate differentials. This outweighed the effect of the structural weakness represented by the high level of foreign debt, which reached 11 per cent of GDP. The dollar appreciated further against the mark during the summer, although part of the rise was reversed in September (Figure 4). A number of special factors were responsible for the appreciation, including the increase in foreign investment in private securities in the United States and the currency turmoil in South-East Asia. In the third week of October the dollar showed an effective appreciation of 6.3 per cent in relation to its level at the beginning of the year. The volatility of the dollar exchange rate increased steadily from May onwards.

The depreciation of the yen, which had begun in the second half of 1995, came to a temporary halt in May after the Group of Seven expressed concern at the widening external imbalances of the major countries, but resumed in the summer. In effective terms the yen was worth 0.4 per cent less in the third week of October than at the beginning of the year.

Figure 4

Nominal exchange rates of leading currencies
(monthly averages)



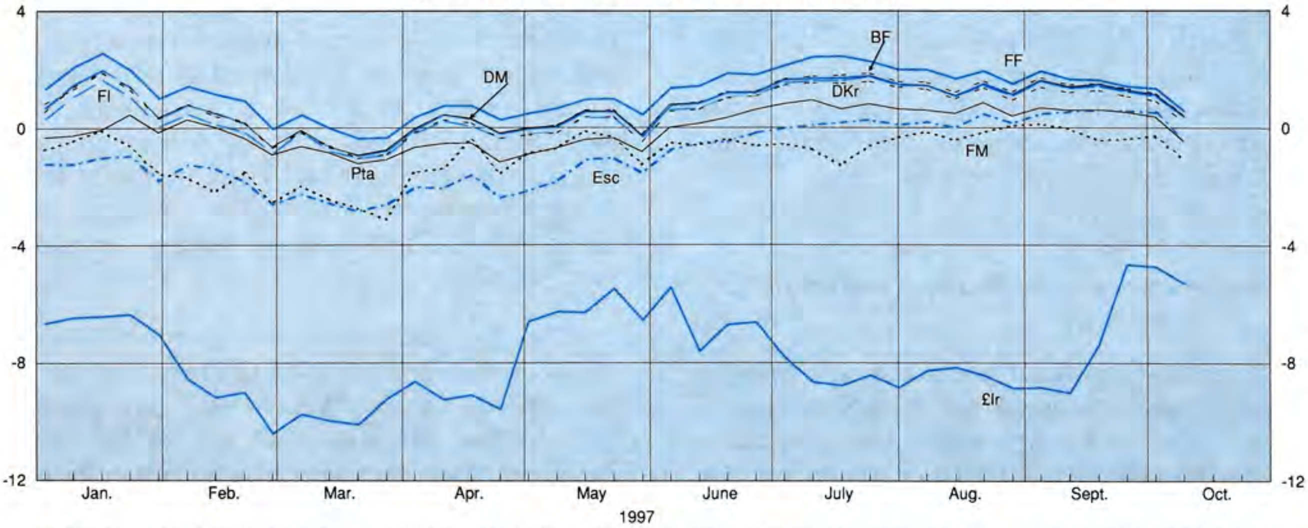
(1) Units of each currency per dollar. – (2) Vis-à-vis a trade-weighted average of 14 other currencies; indices: January 1996=100. A rise corresponds to an appreciation of the currency.

In Germany the persistent weakness of domestic demand and the widening of interest rate differentials in favour of the dollar led to a fall in the external value of the mark in the first half of the year; in the third week of October the effective exchange rate showed a depreciation of 4.2 per cent since the beginning of the year. As on previous occasions, the weakening of the mark against the dollar was accompanied by a period of exchange rate stability among the ERM currencies (Figure 5). Excluding the Irish pound, the dispersion among the ERM currencies remained within bilateral margins of 2 per cent. The appreciation of the pound sterling against the mark came to an end in August after the Bank of England announced that the series of interest rate increases was to be considered to have been concluded.

The strengthening of expectations that EMU would begin on the date laid down in the Maastricht Treaty was reflected in a reduction in differentials between the short-term interest rates expected to apply in the ERM countries in December 1998. Such expectations appear to have benefited further from the announcement in September that the bilateral exchange rates between participating currencies to be used for determining the rates for converting into euros at the start of the third stage will be notified in May 1998 together with the list of participating countries. In Germany yields on 10-year bonds

Figure 5

Exchange rates of the lira vis-à-vis other ERM currencies (1)
(percentage divergences from central parities)



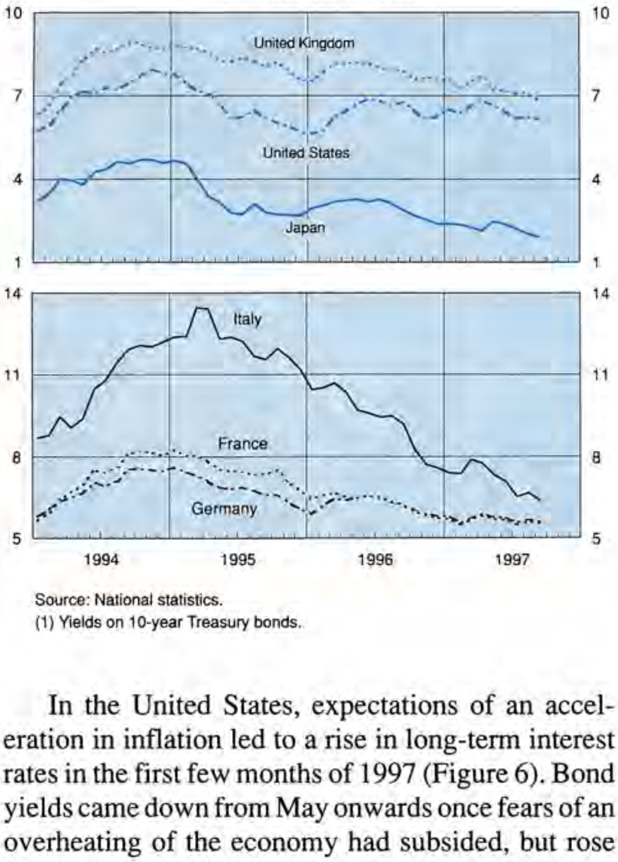
(1) End-of-week data. Positive values indicate an appreciation of the lira. The position of the Austrian schilling coincides with that of the German mark, apart from negligible divergences.

decreased by about 40 basis points between January and July and continued to fluctuate around that level in subsequent months. In the other European countries long-term interest rates moved in line with those in Germany. The decline was larger in Italy and Spain, so that differentials with Germany decreased further to 55 and 40 basis points respectively in the first half of October.

Figure 6

Long-term interest rates (1)

(monthly averages)



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

In the United States, expectations of an acceleration in inflation led to a rise in long-term interest rates in the first few months of 1997 (Figure 6). Bond yields came down from May onwards once fears of an overheating of the economy had subsided, but rose again slightly in October after the monetary authorities warned that the rapid growth in GDP could prove unsustainable. In mid-October long-term interest rates were nevertheless about 40 basis points lower than at the beginning of the year. Yield differentials in relation to comparable securities in other leading countries widened in the early part of this year but subsequently narrowed again, the differential with Germany returning to the level recorded in the last few months of 1996 and that with Japan remaining above that level.

Developments in the rest of the world

Growth in the developing countries as a whole and in the newly industrialized Asian countries is estimated at around 6 per cent this year, slightly less than in 1996. Economic activity in the countries of Central and Eastern European and the former Soviet Union should rise by almost 2 per cent overall, the first such increase since the beginning of the reform process. All the main developing areas made further progress in reducing inflation, which should average 10 per cent in 1997, compared with 13.2 per cent in 1996.

According to the IMF, the currency crisis that recently swept through several countries in South-East Asia should not have a serious impact on GDP growth in the region, which should remain above 7 per cent this year. In Thailand, where the crisis was most severe, growth is expected to slow down from 6.4 to 2.5 per cent. China managed to curb the inflationary pressures that had been an accompaniment to its development in recent years, while nevertheless maintaining exceptionally rapid growth of 9.5 per cent. The economic situation in India should also improve this year, with GDP increasing by more than 6 per cent and inflation falling to 7 per cent. In Latin America, where growth should accelerate slightly to 4.1 per cent, progress is being made in reducing inflation, especially in Mexico, Venezuela and Brazil. Current account deficits are increasing further in some countries, however, particularly Brazil and Argentina. In Africa growth will not exceed about 3.7 per cent this year, mainly on account of the drought in Morocco and the political upheavals in the Congo region.

In Central and Eastern Europe, economic activity has strengthened in Poland, the Baltic states, the republics of the former Yugoslavia, and Hungary, some of which have recorded growth rates of more than 5 per cent. In the area as a whole, however, growth is unlikely to reach 3 per cent, owing to the sharp fall in output in Albania, Bulgaria and Romania after the recent financial crises. Following the episodes of serious currency instability in the spring, the Czech Republic and Slovakia adopted measures to correct their substantial external imbalances, but at the cost of damping growth. In Russia output should increase for the first time since 1989, rising by an estimated 3 per cent, while in Ukraine, where structural reform is encountering greater difficulty, GDP is expected to contract by a further 3 per cent.

Despite the financial turbulence in the Asian markets, the developing countries as a whole should continue to record net inflows of capital, owing partly to the large positive interest rate differential in relation to the industrial countries, although the scale of the capital movements is likely to be smaller. On the basis of preliminary data from the World Bank, gross international bond issues by emerging countries amounted to $55 billion in the first half of 1997, 45 per cent more than a year earlier; syndicated loans rose by 25 per cent to $57 billion.

The Italian economy and the balance of payments

The stagnation that was a feature of 1996 continued in the first quarter of this year, when GDP declined by 0.3 per cent compared with the previous period. In the second quarter, however, output rose by 1.6 per cent, thanks to the expansion in industry. In the first six months of the year GDP was 0.4 per cent higher than in the previous half-year and 0.7 per cent more than in the corresponding period of 1996. The recovery, the moderate pace of which was confirmed by the latest trend indicators, benefited from the disinflation of the economy. It was sustained by domestic purchases of durable goods – especially motor vehicles – and exports, but dampened by increased imports of goods and services.

Demand for durable goods began to increase again after a long period of stagnation, fueled mainly but not exclusively by car purchases, which were boosted by government incentives. The expansion is attributable to an increase in households' real purchasing power, due in part to the decline in inflation. By contrast, the uncertain outlook for the growth of demand in the early part of the year caused capital formation to slow down. It was only in the second quarter that the fall in fixed investment over the previous five quarters finally came to a halt. After a slack period, exports began to grow again in the second quarter as demand in Italy's leading trading partners expanded and the appreciation of the dollar improved the price competitiveness of Italian goods. However, the recovery in output in the quarter also coincided with a sharp rise in imports in both volume and value terms. The national accounts show that stocks were being replenished, contributing to the large overall increase in domestic demand in the second quarter.

In the first half of the year employment remained unchanged at the 1996 level on a seasonally adjusted basis; an increase in the Centre and North was offset by a decline in the South.

In the first six months of 1997 the large surplus on the current account of the balance of payments was broadly unchanged. The trade surplus declined, but was still considerable. The reduction was almost entirely offset by a fall in the deficit on invisible items. It is estimated that Italy's net external position returned to balance in the summer for the first time since 1984.

Consumption and disposable income

Purchases of durable goods increased by an average of 8.1 per cent in the first half of the year compared with the same period of 1996 (Table 3). The increase in sales generated by government incentives for the scrapping of old cars was greater than the industry had forecast at the end of 1996, when an annualized rise of the order of 10 per cent had been predicted; between January and September 1,866,000 new cars were registered, 38 per cent more than in the same period of 1996. According to industry estimates, about half of buyers took advantage of the incentives. Spending on durables other than cars also increased (by 3 per cent according to initial estimates), banishing fears that the incentives would crowd out other expenditure. Spending on services continued to grow relatively strongly, while that on non-durable and semi-durable goods was virtually unchanged.

Overall household consumption in the first six months of the year was 1.7 per cent higher than in the previous half, increasing steadily over the period.

While the cost of living rose by only 2.0 per cent in the first six months of 1997 compared with the same period a year earlier, the pre-tax wage bill increased by 3.8 per cent at current prices, reflecting a comparable rise in per capita earnings and unchanged employment. The slower growth in gross operating profits, which increased by 2.2 per cent, signaled a more moderate rise in income from self-employment and investment income. Net interest payments to households continued to be affected by the decline in nominal yields. The fall was nevertheless more than offset by the reduction in the erosion of the purchasing power of net financial assets thanks to the decline in inflation. Given the small wage rises agreed for 1997 in recently signed contracts, it was primarily rapid and sustained disinflation that allowed households to increase their real purchasing power, despite the heavier tax burden.

The behaviour of private spending may have reflected not only more rapid growth in real disposable income but also a gradual improvement in households' perceptions of current and future economic conditions. In January Isco's index of household confidence had already recouped much of the decline recorded in the second half of 1996. After stabilizing at the January level for the remainder of the first half of 1997, the index rose sharply during the summer, reaching levels similar to those recorded before the crisis in 1992 (Figure 7).

Table 3

Resources and uses of income

(seasonally adjusted data at constant prices; percentage changes on previous period except where otherwise indicated)

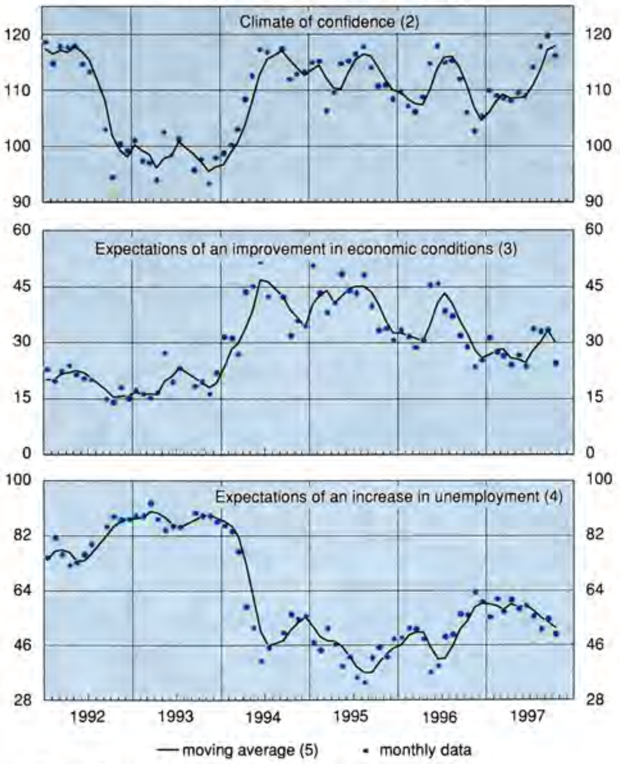
	1996					1997			
	Year	Q1	Q2	Q3	Q4	Q1	Q2	H1 (1)	H1 (2)
Resources									
Gross domestic product	0.7	0.6	–0.9	0.7	–0.2	–0.3	1.6	0.7	–
Imports	–2.6	–2.4	–4.1	2.7	3.2	–3.5	11.7	6.1	–1.2
Goods	–3.6	–1.9	–4.8	2.5	2.6	–2.8	11.9	5.8	–1.1
Services	5.8	–6.7	2.0	4.1	7.7	–8.8	9.6	8.2	–0.1
Total resources	0.1	0.1	–1.4	1.1	0.4	–0.8	3.3	1.6	–
Uses									
Gross fixed investment	1.2	–0.4	–0.3	–0.5	–0.5	–0.4	..	–1.5	–0.3
Construction	1.1	..	–0.8	..	–0.5	–1.8	–0.8	–3.2	–0.3
Machinery, equipment and sundry products	1.3	0.2	0.8	–1.7	–1.2	0.7	0.2	–1.7	–0.1
Transport equipment	1.4	–4.5	–1.9	2.4	2.4	1.9	3.0	7.4	0.1
Households' consumption	0.7	0.2	0.1	0.2	0.5	0.7	0.5	1.7	1.1
Non-durables	0.5	..	0.4	0.1	0.1	0.1	–0.3	0.3	0.1
Semi-durables	–1.6	–0.8	–0.1	–0.7	0.8	–0.2	–0.2	–0.2	..
Durables	–0.4	–0.7	–0.3	0.8	1.6	3.6	4.0	8.1	0.5
Services	2.6	1.0	0.2	0.5	0.4	0.7	0.5	2.1	0.5
Other domestic uses	–2.7	–0.9	–10.8	3.6	3.1	–1.9	9.4	3.4	0.6
Total domestic demand	0.2	–0.1	–2.0	0.6	0.8	..	2.0	1.4	1.4
Exports	–0.3	0.9	0.8	2.7	–1.0	–4.1	8.8	2.2	0.5
Goods	–0.3	0.5	2.0	2.3	–0.8	–5.1	9.4	1.9	0.4
Services	0.1	3.8	–7.2	5.7	–2.6	2.4	4.9	3.9	0.1
Memorandum item:									
Global demand (3)	–0.8	–0.2	–2.7	2.0	0.3	–2.5	7.3	2.3	–

Source: Based on Istat data.

(1) Percentage change on the corresponding period of 1996. – (2) Contribution to GDP growth on the corresponding period of 1996; percentage points. – (3) Exports of goods and services and components of domestic demand weighted according to import content calculated from the 1988 input-output tables.

Figure 7

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 improvement in the economic situation of the country in the subsequent 12 months. – (4) Percentage of those interviewed who expected an increase in unemployment in the subsequent 12 months. – (5) Three-month moving average ending in the reference month.

Investment and stocks

The decline in real gross fixed investment over the previous five quarters came to a halt in the second quarter of 1997 (Table 3). In the first six months of the year purchases of capital goods were 1.5 per cent lower than in the first half of 1996. The stagnation of capital formation reflected the waning of the effects of past tax relief on reinvested profits and the still uncertain outlook for growth in demand.

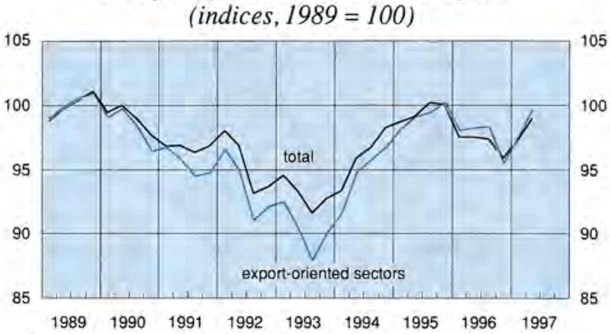
Growth in total investment was dampened in the first half of 1997 by a renewed decline in investment in construction and public works, which contracted by 3.2 per cent compared with the same period a year earlier. By contrast, investment in machinery and equipment increased in both quarters, although it was still 1.7 per cent lower than in the first half of 1996. Investment in transport equipment, which had begun to recover in the second half of last year, continued to grow, increasing by 7.4 per cent compared with the year-earlier period.

The improvement in business confidence signaled by Isco's survey of business opinion in the second quarter of 1997 and the increase in capacity utilization, which returned to levels close to the peak recorded in 1995 (Figure 8), point to a recovery in investment in the second half of the year. This is confirmed by surveys of the state of the economy and the Bank of Italy's recent survey of manufacturing firms.

Figure 8

Composite indicator of capacity utilization in industry (1)

(indices, 1989 = 100)



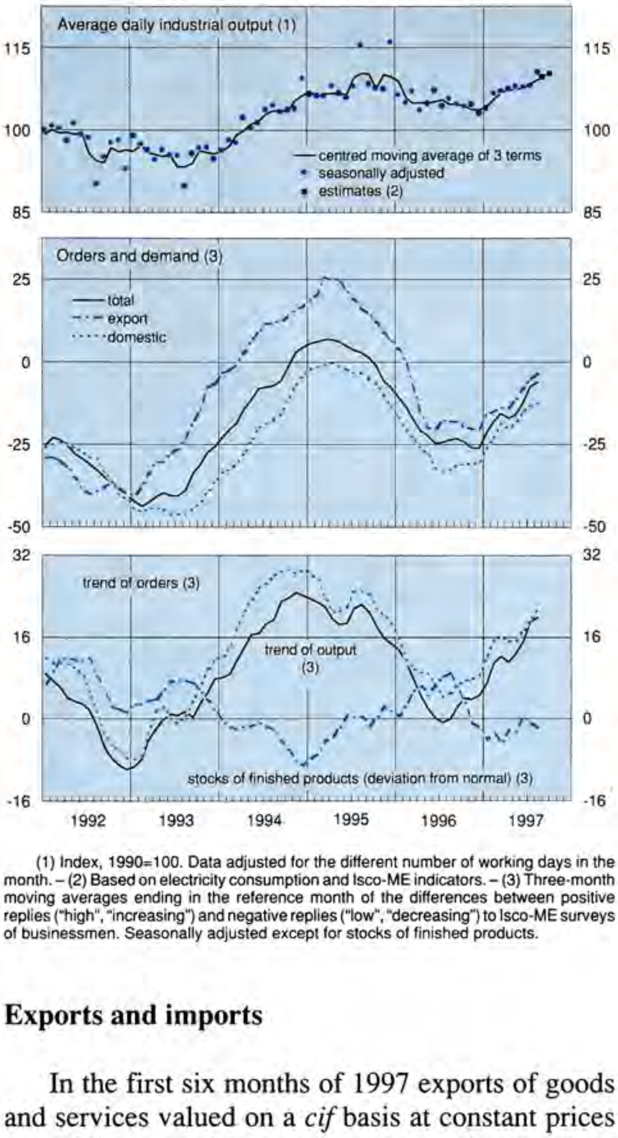
Sources: Based on Istat and Isco data.

(1) Arithmetic mean of the Bank of Italy (Wharton) and Isco indicators.

Stocks were broadly unchanged in the first quarter but increased considerably in the second. Stockbuilding during the first six months of the year as a whole accounted for two thirds of the growth in GDP in relation to the corresponding period of 1996. Until March a majority of industrial firms indicated that their stocks of finished products were lower than desired, but the proportion declined in subsequent months (Figure 9). Similarly, while a majority of firms reported lower-than-normal stocks of primary products and semi-finished goods in the first quarter, the number reporting stocks to be excessive increased in the second. These trends were evident in industries producing intermediate and consumer goods, whereas a majority of producers of capital goods reported higher-than-normal stocks throughout the period.

Figure 9

Industrial output, demand and stocks



(1) Index, 1990=100. Data adjusted for the different number of working days in the month. – (2) Based on electricity consumption and Isco-ME indicators. – (3) Three-month moving averages ending in the reference month 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.

Exports and imports

In the first six months of 1997 exports of goods and services valued on a *cif* basis at constant prices were 2.2 per cent higher than a year earlier, but there were wide variations during the period (Table 3). The contraction that had begun in the last part of 1996 persisted in the first quarter, as the effects of the erosion of price competitiveness due to the gradual appreciation of the lira in 1996 continued to be felt.

Exports began to grow again in the second quarter, aided by the strengthening of economic recovery in the other EU countries and the only moderate rise in lira export prices (the export deflator was 0.4 per cent higher than in the first quarter), which caused competitiveness to improve slightly, as the nominal exchange rate also fell. According to available figures, in the third quarter exports remained near the level reached in the second.

Merchandise exports increased by 2.7 per cent in the first half of the year by comparison with a year earlier; the growth was primarily in intermediate and consumer goods, especially textiles, clothing and food products (Table 4); by contrast, exports of office machinery and transport equipment declined. According to preliminary figures, exports of motor vehicles fell by about 20 per cent. This result mainly reflects the slight fall in new car registrations in the European market, which accounts for more than 80 per cent of Italian car exports; it may partly be a consequence of a decision by domestic producers to give priority to meeting strong domestic demand.

Imports of goods and services were 6.1 per cent higher in real terms in the first six months of this year than in the same period of 1996 (Table 3). The pattern during the period was similar to that in exports, a fall of 3.5 per cent in the first quarter being followed by a rise of 11.7 per cent in the second.

The decline in imports in the first quarter despite a recovery in industrial production and a fall in the prices of imported manufactures in relation to those of domestic goods was a consequence of the weakness of domestic investment (office machinery, metal products and agricultural and industrial machinery; Table 4). Imports of consumer goods such as food products and beverages also decreased. The decline also coincided with a reduction in stocks of raw materials and semi-finished goods. The fall in exports, which stimulate imports to a considerable degree, may have contributed to the contraction.

Imports rose sharply in the second quarter, however, boosted by the spread of the recovery in economic activity to nearly every sector of the economy and the strong demand for cars. Car imports rose from 352,000 in the first quarter to 393,000 in the second and increased from 56.3 to 57.1 per cent of new vehicle registrations. Excluding motor vehicles, the volume of merchandise imports increased by 12.4 per cent by comparison with the first quarter, and the growth spread to all sectors (Table 4).

Table 4

Exports and imports of manufactures in 1997, by sector

(at constant prices)

	Exports				Imports			
	Percentage of total in 1996 (1)	Percentage changes			Percentage of total in 1996 (4)	Percentage changes		
		Q1 (2)	Q2 (2)	H1 (3)		Q1 (2)	Q2 (2)	H1 (3)
Ferrous and non-ferrous ores and metals .	4.9	–2.5	5.1	10.4	11.5	0.8	13.2	11.4
Non-metallic minerals	4.2	–9.1	15.6	4.4	1.7	–5.8	14.7	5.9
Chemical products	8.6	–6.0	13.8	8.1	12.4	–4.4	15.1	8.4
Metal products	5.7	–5.7	3.4	–0.4	1.8	–4.1	14.9	6.3
Agricultural and industrial machinery	16.8	–9.5	15.1	2.1	5.8	–3.5	14.4	–2.8
Office machines	3.4	–12.8	4.7	–9.9	4.4	–6.9	11.8	9.8
Electrical equipment	8.5	–0.7	3.2	3.3	7.1	–0.7	9.0	7.3
Motor vehicles	6.4	–4.1	4.2	–5.8	7.4	4.3	21.2	16.5
Other transport equipment	1.4	9.7	8.6	–5.1	1.0	9.0	16.5	–1.3
Food, beverages and tobacco products ...	4.6	–2.4	8.0	4.1	7.1	–5.8	9.0	–1.1
Textiles and clothing	11.1	–3.1	5.7	5.3	5.7	3.2	12.1	11.5
Leather and footwear	5.7	–8.2	8.0	–2.9	2.0	–5.4	8.0	3.2
Wood and furniture	3.4	–2.0	4.0	4.6	1.9	–0.9	9.9	8.1
Paper and printing	2.4	–0.6	5.3	10.7	2.7	–6.7	14.2	23.5
Rubber and plastic	4.2	–3.7	11.1	5.9	2.2	–2.8	11.7	6.3
Total ...	**94.4**	**–5.0**	**8.3**	**2.7**	**76.1**	**–2.0**	**13.3**	**8.2**

Source: Based on Istat data.

(1) Percentage of total *fob* merchandise exports. – (2) Percentage change on previous period, seasonally adjusted. – (3) Percentage change on year-earlier period. – (4) Percentage of total *cif* merchandise imports.

Industrial production and value added

The decline in industrial output that had characterized 1996 came to a halt in February of this year and the recovery gradually strengthened in subsequent months (Figure 9). In the first eight months of the year the uncorrected index of industrial production rose by an average of only 0.3 per cent compared with the same period a year earlier, whereas the index corrected for the number of working days increased by 1.5 per cent; transport equipment accounted for about a third of the rise. Estimates based on electricity consumption and Isco's trend indicators suggest that seasonally adjusted average daily industrial production continued to increase in September and October.

The quickening of industrial activity reduced idle capacity; in the first six months of the year capacity utilization gradually approached the high levels recorded in 1995, especially in export-oriented sectors (Figure 8).

The growth in household spending stimulated a significant rise in the production of consumer goods, while the output of intermediate goods rose at a more modest pace. By contrast, the output of capital goods declined. The greatest increases were recorded in transport equipment, which showed a year-on-year rise of 6.5 per cent in the first eight months of the year, and in a number of branches producing primarily intermediate goods, such as paper and printing products (9.0 per cent), petroleum products (5.3 per cent) and rubber and plastic products (4.3 per cent).

Real value added at market prices in industry excluding construction continued to decline in the first quarter but recovered in the second, so that in the first six months as a whole it equalled the level recorded in the first half of 1996. Despite having shown signs of recovery in 1996 from the deep recession of previous years, the construction industry suffered a new setback in the first half of 1997, with value added falling by 1.8 per cent by comparison with the same period of 1996. Against a background of overall decline in the sector, estimates by the Economic and Sociological Market Research Centre confirm the increasing prevalence of restoration and renovation work compared with new building.

The value added of market services at constant prices increased by 2.7 per cent in the first half of 1997. According to Istat, retail sales gradually accelerated in the first half of the year to reach a twelve-month rate of growth of 3.2 per cent at current prices in July. The average year-on-year rise in the first seven months amounted to 2.3 per cent, with sales of food products increasing by 3.1 per cent and those of non-food products by 1.8 per cent. The redistribution of market shares in the sector continues; large stores recorded an increase in sales of 4.4 per cent while smaller outlets achieved one of only 1.8 per cent. The increases were positively correlated with the number of employees per firm, ranging from 1.6 per cent for firms with up to 2 employees to 4.5 per cent for those with 20 or more.

The improvement in the international economic situation and the recovery of the Italian economy helped to boost activity in the tourist industry in recent months. According to Istat's "snapshot" sample survey of hotel activity conducted five times a year, both arrivals and overnight stays declined during the Christmas and Easter periods. In the second week of June, which marks the beginning of the summer season, arrivals were 1.7 per cent higher than a year earlier whereas overnight stays showed a small decline of 0.6 per cent, which was entirely due to a fall in the number of Italian tourists. In the mid-August holiday week, arrivals rose by 3.2 per cent and overnight stays by 2.7 per cent by comparison with the same period of 1996; in both cases the increases were higher for Italians than for foreigners (overnight stays by Italians increased by 3.2 per cent, compared with 1.7 per cent for foreign tourists).

The growth in industrial output sustained activity in the transport sector. In the first half of the year rail freight and heavy goods vehicle traffic on motorways were respectively 6.6 and 2.0 per cent higher than in the same period of 1996. As regards passenger transportation, a small decline of 1.3 per cent in railway traffic contrasted with a further sharp increase in domestic air traffic, which jumped by 13.7 per cent after having increased by an average of 10.9 per cent in 1996.

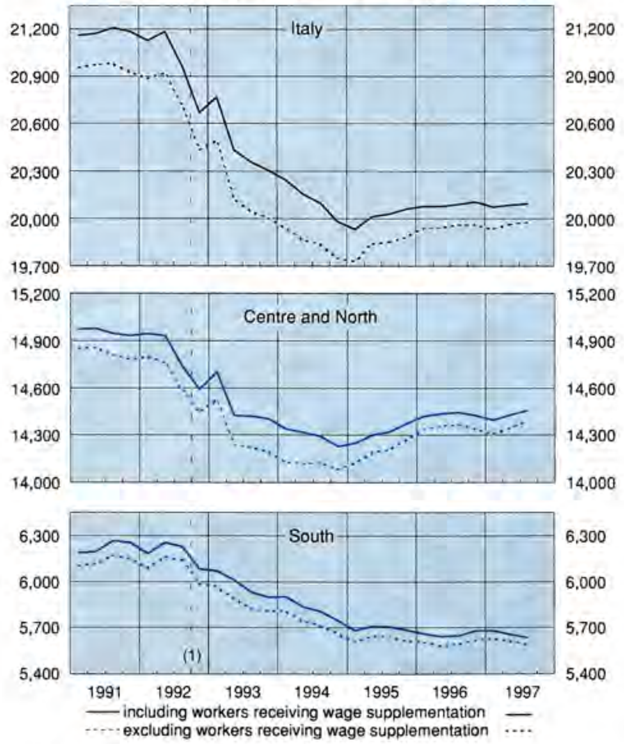
Employment

With the recovery in economic activity still modest, total employment was broadly unchanged on a seasonally adjusted basis (Figure 10). After falling in the second half of 1996, employment in the Centre and North showed a slight improvement in April and, above all, July. In the South the contraction in employment in the first half of the year cancelled out the slight increase recorded in the second half of last year.

Figure 10

Employment

(seasonally adjusted; thousands of persons)



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

(1) Surveys are taken in January, April, July and October. Since October 1992 the survey has been conducted on the basis of a new questionnaire; data up to July 1992 have been adjusted to take account of the changes.

The overall supply of labour appears to have stabilized in recent months; the structural increase in female employment in the Centre and North continues. In July the average national unemployment rate was 11.7 per cent; although the figure was lower than that for April, it showed no improvement on that for July 1996. The decline in the rate in the Centre and North both on a twelve-month basis and by comparison with April contrasted with an increase in the South, where the proportion of those who have been unemployed for more than 12 months continued to rise.

Employment in manufacturing declined until April, when it was 2.5 per cent lower than a year earlier (Table 5). However, in the spring industrial firms were already signaling their intention to increase their workforce; the improvement in the outlook mainly concerned the North-West, which is home to a large proportion of firms operating in the automobile sector. The recovery in industrial activity was initially reflected only in a rise in the number of man-hours worked; recourse to ordinary wage supplementation diminished and overtime working increased. In July manufacturing employment showed a seasonally adjusted increase of about 75,000 compared with April, with gains in all areas of the country. In the same month overtime reached an all-time high in firms with more than 500 employees.

Employment in the services sector increased until April, albeit at a slower pace than in 1996. In July, however, it was 44,000 less than in April, continuing to rise only in sundry business services while remaining unchanged in transportation and declining in banking and insurance and communications. Beginning in the last few months of 1996, the increase in the number of employees in wholesale and retail distribution was more than offset by the large and accelerating decline in the number of self-employed, who account for more than 60 per cent of employment in the sector.

The composition of employment by gender and age continued to change. Since the beginning of 1995 the female component has increased in the Centre and North and remained stable in the South; male employment has remained unchanged in the North and decreased slightly in the South (Figure 11). In July the number of employed males aged between 55 and 59 was 53,000 lower than twelve months earlier, a contraction of 5.7 per cent overall, with a maximum decline of 8.5 per cent in the North. The reduction may have been due to workers taking early retirement in expectation of new pension restrictions and probably involved mainly teachers.

Recourse to part-time work and fixed-term contracts increased in 1997: in July they represented 7.0 per cent of total employment relationships and 8.8 per cent of salaried positions, an increase of nearly 2 percentage points in both figures compared with the end of 1992. The use of these types of contract, which are still much less common than in the other European countries, may be increased by recent legislative changes.

Table 5

Employment by branch of activity and area of residence in 1997 (1)
(percentage changes on year-earlier period)

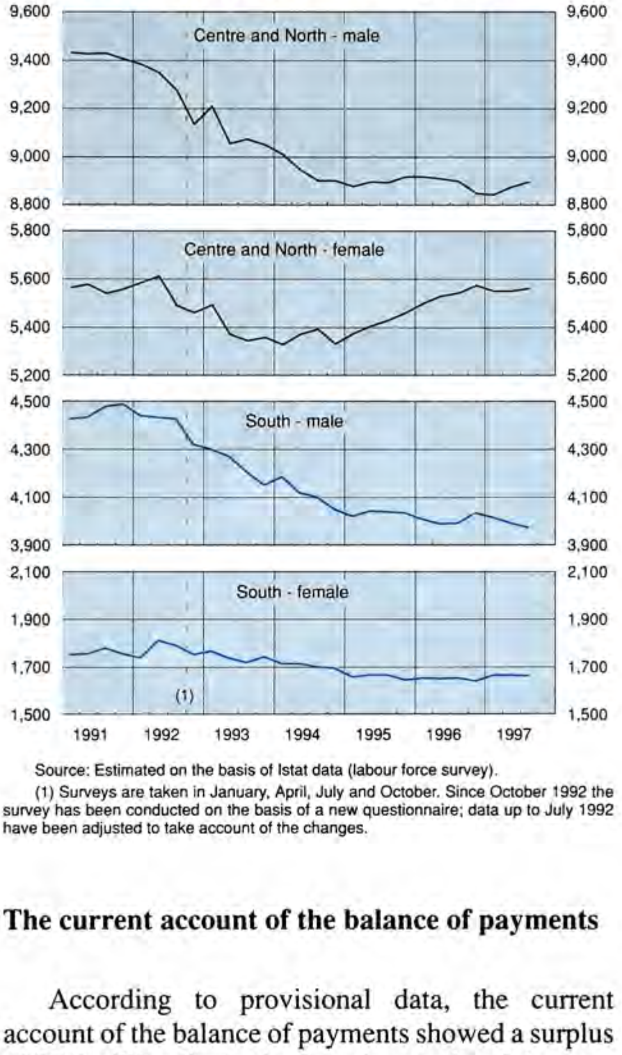
	North-East		North-West		Total North		Centre		South and Islands		Total Italy			
	Average (2)	July	Average (2)	July	Average (2)	July	Average (2)	July	Average (2)	July	Average (2)	January	April	July
Agriculture	–0.7	2.4	–4.7	..	–2.5	1.4	–1.7	0.5	–2.9	–6.5	–2.6	–3.3	–1.7	–2.8
Industry excl. construction	1.3	2.7	–3.1	–1.1	–1.3	0.4	–1.7	0.7	1.1	2.6	–1.0	–1.3	–2.5	0.8
Construction	–0.2	1.9	–1.4	2.3	–0.9	2.1	–0.5	3.9	–1.0	–2.7	–0.9	–4.2	1.0	0.7
Total service activities	0.8	–0.5	1.5	–0.5	1.2	–0.5	0.2	–0.4	0.7	0.9	0.8	1.4	1.1	–0.1
distribution	*–0.8*	*–1.4*	*–1.3*	*–4.1*	*–1.1*	*–3.0*	*–4.8*	*–5.8*	*–2.1*	*1.2*	*–2.1*	*–0.6*	*–3.3*	*–2.4*
Total economy	0.8	0.8	–0.4	–0.5	0.1	0.1	–0.4	0.1	0.1	–0.2	..	–0.1	..	..
Unemployment rate (3)	5.6	4.9	7.3	6.8	6.6	6.0	10.2	9.4	22.1	21.9	12.2	12.4	12.5	11.7

Source: Istat labour force survey.
(1) Not adjusted for workers receiving wage supplementation. – (2) Average of surveys taken in January, April and July. – (3) Percentages.

Figure 11

Employment by gender and geographic area

(seasonally adjusted; thousands of persons)



Source: Estimated on the basis of Istat data (labour force survey).
(1) Surveys are taken in January, April, July and October. Since October 1992 the survey has been conducted on the basis of a new questionnaire; data up to July 1992 have been adjusted to take account of the changes.

The current account of the balance of payments

According to provisional data, the current account of the balance of payments showed a surplus of 26.3 trillion lire in the first six months of the year, virtually the same as in the first half of 1996 (Table 6).

The trade surplus came to nearly 36.6 trillion lire on an *fob-fob* basis, compared with 42.4 trillion in the first half of last year. This slight contraction, together with a decline in the surplus on tourism and an increase in the deficit on transport services, was offset by a decrease in the net deficit on other services, public and private transfers and investment income.

The trade surplus was also lower in July and August, although in the latter month only vis-à-vis non-EU countries. On a *cif-fob* basis, the overall surplus for the first seven months of the year was some 7 trillion lire less than in the corresponding period of 1996 (Table 7). Almost all of the decline occurred in intra-EU trade. The surplus on trade with Germany contracted by nearly 3 trillion lire and that with France by almost 1.6 trillion; as mentioned above, these reductions were largely attributable to the situation in the new car market in Italy. By contrast, the surplus on trade with the United States increased by more than 1.3 trillion lire, thanks to strong US import demand and improved competitiveness owing to the appreciation of the dollar, which mainly benefited Italy's exports of agricultural and industrial machinery, clothing and textiles. The deficit vis-à-vis the OPEC countries increased, owing primarily to the rise in oil prices, which were 11.8 per cent higher in the first half of the year than in the same period of 1996.

Table 6

Balance of payments

(net, in billions of lire)

	1996			1997
	Year	H1	H2	H1
Current account	**63,194**	**26,520**	**36,674**	**26,338**
Goods	93,630	42,369	51,261	36,579
Invisibles	–30,436	–15,849	–14,587	–10,241
Services	3,134	1,565	1,569	1,456
Foreign travel	22,352	11,382	10,970	11,094
Transport	–13,116	–6,258	–6,858	–7,065
Other	–6,102	–3,559	–2,543	–2,573
Income	–23,134	–13,282	–9,852	–11,977
Employment income	791	298	493	322
Investment income	–23,925	–13,580	–10,345	–12,299
Transfers	–10,436	–4,132	–6,304	280
EU	*–7,248*	*–3,012*	*–4,236*	*1,972*
Capital movements	**–9,284**	**9,448**	**–18,732**	**–12,113**
Bank capital	–47,394	4,545	–51,939	–18,225
Non-bank capital	38,110	4,903	33,207	6,112
Errors and omissions	**–33,313**	**–11,472**	**–21,841**	**–16,436**
Change in official reserves (1)	**–20,597**	**–24,496**	**3,899**	**2,211**

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

Table 7

Merchandise trade *cif-fob* by country and area at current prices

(January-July)

	Exports		Imports		Balance	
	Percentage change	Percentage of total	Percentage change	Percentage of total	Billions of lire 1996	Billions of lire 1997
EU countries (1)	**0.4**	**55.0**	**6.4**	**60.3**	**14,754**	**7,960**
Austria	–0.4	2.3	6.2	2.2	1,229	946
Belgium-Luxembourg	–0.2	2.7	7.3	4.7	–2,405	–3,063
Denmark	3.0	0.8	–1.0	0.8	299	370
Finland	6.5	0.5	21.8	0.6	156	17
France	–1.9	12.3	3.8	13.4	3,502	1,951
Germany	–4.0	16.7	3.4	18.0	5,739	2,871
Greece	3.3	1.9	–6.7	0.7	2,819	3,057
Ireland	–4.9	0.4	8.1	1.0	–1,050	–1,252
Netherlands	–2.0	2.9	11.9	6.0	–3,894	–5,322
Portugal	4.0	1.3	–2.4	0.4	2,106	2,250
Spain	4.8	5.1	20.4	4.7	3,687	2,641
Sweden	0.5	1.0	5.8	1.4	–238	–377
United Kingdom	13.5	7.1	7.8	6.4	2,804	3,871
Non-EU countries	**4.0**	**45.0**	**5.8**	**39.7**	**25,772**	**25,465**
United States	10.2	7.8	3.8	5.1	6,771	8,095
Japan	–3.9	2.1	5.6	2.1	1,183	759
EFTA (2)	–3.0	4.1	–1.6	4.4	871	718
Eastern European countries (3)	9.2	6.1	8.3	5.9	2,081	2,367
China	–8.4	0.9	14.5	2.1	–1,410	–2,155
Asian NIEs (4)	–2.5	4.0	6.7	1.5	6,843	6,406
OPEC (5)	6.4	3.6	15.4	6.4	–3,411	–4,653
Other countries	4.5	16.4	2.3	12.2	12,844	13,928
Total . . .	**2.0**	**100.0**	**6.2**	**100.0**	**40,526**	**33,425**

(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, Iran, Poland, Romania, Slovakia, republics of the former USSR and the former Yugoslavia. – (4) Hong Kong, Singapore, South Korea and Taiwan. – (5) Algeria, Ecuador, Gabon, Indonesia, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

The first-half deficit on invisibles was 5.6 trillion lire less than in 1996. The decrease reflected a reduction in net transfers abroad as a result of an appreciable improvement in the balance with the EU, which swung from an outflow of 3 trillion lire to an inflow of almost 2 trillion. Much of the improvement derived from increased transfers from the Regional Development Fund (3.6 trillion lire), as EU disbursements to Italian regions resumed in view of renewed progress in the implementation of multi-year projects, which had marked time in 1996.

The deficit on investment income fell by 1.3 trillion lire, reflecting the reduction of Italy's foreign debt and the narrowing of interest rate differentials between lira-denominated instruments, which make up the bulk of liabilities, and those denominated in the main foreign currencies. For several years now the reduction of the deficit has been checked by the increasing proportion of foreign portfolio investment (essentially in Italian government securities), the yield on which has admittedly declined but is still higher on average than that on external liabilities.

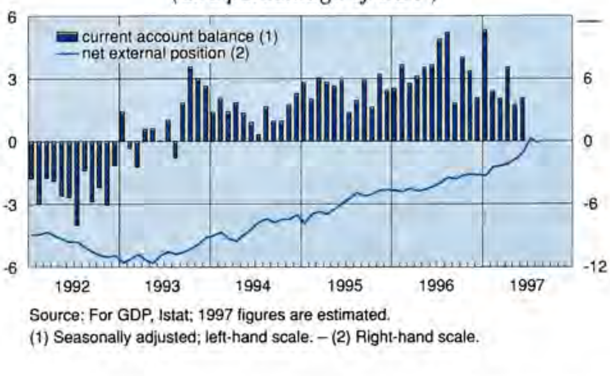
There was a further decrease in the surplus on foreign travel, which had begun to decline in the summer of 1996 with the recovery in residents' spending abroad on tourist services. In the first six months of this year the latter rose by 12.6 per cent in nominal terms, whereas foreign exchange receipts from foreign visitors in Italy rose by 4.7 per cent.

Italy's external position, the exchange rate of the lira and capital movements

Provisional estimates indicate that the country's net external debtor position had been eliminated by the end of August, after thirteen years (Table 8 and Figure 12). The progressive reduction of net external liabilities, which had peaked at the end of 1992 at 164 trillion lire (10.9 per cent of GDP), is the fruit of increasing current account surpluses recorded since early 1993. At the end of 1996 the net debtor position still stood at more than 60 trillion lire (3.2 per cent of GDP). The substantial improvement this year is attributable to net purchases of external assets amounting to more than 28 trillion lire and to the appreciation of the dollar, which led to an increase in the lira value of dollar-denominated securities, which make up a large proportion of assets.

Figure 12

Italy's balance of payment on current account and net external position
(as a percentage of GDP)



Source: For GDP, Istat; 1997 figures are estimated.
(1) Seasonally adjusted; left-hand scale. – (2) Right-hand scale.

Between the beginning of the year and 20 October the nominal effective exchange rate of the lira fell by 2.2 per cent, essentially because of the dollar's sharp appreciation of 11.6 per cent vis-à-vis the lira, whereas against the ERM currencies the lira appreciated by 0.6 per cent (Figure 13). The lira was weak in the early part of the year. Between the end of December and the middle of March the nominal effective exchange rate declined by 3.3 per cent, reflecting the strong appreciation of the dollar against all the leading currencies and market uncertainty concerning the prospects for economic and monetary union. In subsequent months, despite further depreciation against the dollar, the lira more than recouped its earlier losses against the ERM currencies, confirming the credibility of the central rate fixed in November.

During 1997 the variability of the nominal effective exchange rate has continued to decrease (Figure 13). A contributory factor has been the further strengthening of the fundamentals of the Italian economy: not only the series of current account surpluses but also the reduction in inflation and the pronounced improvement in the public finances.

Figure 13

Exchange rates of the lira
(indices, 1993=100)

(1) The ERM countries are Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands and Spain. – (2) A rise in the index corresponds to an appreciation of the lira. – (3) Standard deviation of the rate of change in the nominal effective exchange rate of the lira in the previous 60 working days.

In the first eight months of the year foreign portfolio investment in Italian securities gave rise to net inflows of 95.2 trillion lire (Table 9); three quarters of this amount was concentrated in the period from April to August and most of it was used to purchase fixed-rate Treasury bonds. The inflows were triggered by expectations of a decline in Italian interest rates in connection with the fall in inflation and the prospect of Italian participation in monetary union from the outset.

Foreign investors continued to hedge the exchange risk connected with lira-denominated securities, but less than in the past. Net lending to non-residents by resident non-banks (virtually all at short term and in lira) amounted to more than 27 trillion lire. In addition, resident banks made net lira loans of just over 2 trillion to non-residents. The reasons for the decline in hedging included the greater stability of the lira and the fall in yields on medium and long-term assets in relation to the cost of short-term funds.

Table 8

Italy's net external position

(billions of lire)

	Stocks in December 1996 (1) (a)	January-August 1997			Stocks in August 1997 (1) (e)=(a)+(d)
		Flows (2) (b)	Adjustments (3) (c)	Change in stocks (d)=(b)+(c)	
			Non-banks		
Assets	**669,992**	**117,073**	**66,990**	**184,063**	**854,055**
Direct investment	179,598	13,264	31,367	44,631	224,229
Portfolio investment	337,815	72,215	33,474	105,689	443,504
Loans and trade credit	152,579	31,594	2,149	33,743	186,322
Liabilities	**786,153**	**109,916**	**31,345**	**141,261**	**927,414**
Direct investment	114,242	5,137	14,230	19,367	133,609
Portfolio investment	510,327	95,197	14,654	109,851	620,178
Government securities	397,937	80,751	7,399	88,150	486,087
Treasury bills	24,169	6,503	65	6,568	30,737
Treasury bonds	189,851	72,593	490	73,083	262,934
Ecu Treasury credit certificates	30,981	–1,279	87	–1,192	29,789
Other government securities	70,801	–5,813	–470	–6,283	64,518
Republic of Italy issues	82,135	8,747	7,227	15,974	98,109
Loans and trade credit (4)	161,584	9,582	2,461	12,043	173,627
Net non-bank position	**–116,161**	**7,157**	**35,645**	**42,802**	**–73,359**
			Banks		
Assets	328,344	–12,231	14,350	2,119	330,463
Liabilities	379,171	–18,696	25,688	6,992	386,163
Net position	**–50,827**	**6,465**	**–11,338**	**–4,873**	**–55,700**
			Bank of Italy-UIC		
Net position	**106,741**	**14,727**	**4,791**	**19,518**	**126,259**
NET OVERALL POSITION	**–60,247**	**28,349**	**29,098**	**57,447**	**–2,800**

(1) At end-of-period prices and exchange rates. – (2) At the securities prices and exchange rates prevailing on the date of the transaction. A minus sign indicates a decrease in the relevant assets or liabilities. – (3) Corrections to calculate flows net of the portion due exclusively to changes in prices or exchange rates.

In the first eight months of the year Italian investors, primarily households and financial enterprises, made net purchases of foreign securities totaling 72.2 trillion lire, far more than in the whole of 1996. This investment went mainly into bonds, especially the lira-denominated paper of the EIB and the IBRD, and foreign government securities in other currencies. In contrast to developments in the past, transfers to foreign deposits and current accounts were very small. The outflow of capital was related to the decline in yields on Italian public debt instruments, which prompted residents to increase the foreign component of their securities portfolios, given the limited alternatives to government securities offered by the Italian financial system.

Overall, including the excess of Italian direct investment abroad over foreign direct investment in Italy, non-bank capital movements resulted in a net outflow of slightly more than 7 trillion lire in the first eight months of the year.

Resident banks' net foreign currency assets vis-à-vis residents (including the Bank of Italy) decreased by 3.7 trillion lire between the end of 1996 and the end of August 1997 (Table 10). Their net foreign exchange repayments to non-resident counterparties were larger, amounting to almost 8.6 trillion lire (at current prices and exchange rates). Part of this outflow may thus have been used to limit the rise in the lira value of their net external foreign currency debt resulting from the appreciation of the dollar.

Table 9

Capital movements
(net flows in billions of lire)

	1996					1997 (1)			
	Q1	Q2	Q3	Q4	Year	Q1	Q2	July-Aug. (2)	Jan.-Aug. (2)
Non-bank capital flows	**–15,631**	**20,534**	**507**	**32,700**	**38,110**	**–13,042**	**19,154**	**–13,269**	**–7,157**
Foreign	8,210	37,520	18,553	52,822	117,105	29,857	53,021	27,038	109,916
Investment	6,619	41,186	28,781	54,217	130,803	24,895	50,722	24,717	100,334
portfolio	*6,317*	*39,144*	*26,766*	*53,122*	*125,349*	*23,790*	*49,225*	*22,182*	*95,197*
Loans	1,160	–2,004	–6,147	–2,121	–9,112	–602	2,677	2,024	4,099
Trade credit	431	–1,662	–4,081	726	–4,586	5,564	–378	297	5,483
Italian	–23,841	–16,986	–18,046	–20,122	–78,995	–42,899	–33,867	–40,307	–117,073
Investment	–19,029	–13,157	–15,760	–14,172	–62,118	–34,437	–22,193	–28,849	–85,479
portfolio	*–16,894*	*–11,680*	*–11,607*	*–11,962*	*–52,143*	*–31,541*	*–17,467*	*–23,207*	*–72,215*
Loans	–3,350	–2,346	–5,871	–4,323	–15,890	–6,608	–9,469	–11,154	–27,231
Trade credit	–1,462	–1,483	3,585	–1,627	–987	–1,854	–2,205	–304	–4,363
Bank capital flows	**19,010**	**–14,465**	**–11,401**	**–40,538**	**–47,394**	**24,493**	**–42,718**	**11,760**	**–6,465**
In lire	7,577	–5,447	–4,929	–27,453	–30,252	9,273	–24,979	17,840	2,134
In foreign currency	11,433	–9,018	–6,472	–13,085	–17,142	15,220	–17,739	–6,080	–8,599
Total	**3,379**	**6,069**	**–10,894**	**–7,838**	**–9,284**	**11,451**	**–23,564**	**–1,509**	**–13,622**

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

Table 10

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)

	1996	1997			
		Q1	Q2	July-Aug. (2)	Jan.-Aug. (2)
			End-of-period stocks (3)		
External position	–50,827	–81,599	–39,708	–55,700	–55,700
In lire	52,230	42,957	67,936	50,096	50,096
In foreign currency	–103,057	–124,556	–107,644	–105,796	–105,796
Domestic position in foreign currency	47,783	54,236	47,566	48,750	48,750
Overall position in foreign currency (4)	113	–1,240	–867	2,123	2,123
			Changes (5)		
External position	47,394	–24,493	42,718	–11,760	6,465
In lire	30,252	–9,273	24,979	–17,840	–2,134
In foreign currency	17,142	–15,220	17,739	6,080	8,599
Domestic position in foreign currency	–450	3,940	–6,573	–1,102	–3,735
Overall position in foreign currency (4)	11,077	228	880	306	1,414

(1) Including the Italian branches of foreign banks. – (2) Provisional. – (3) At end-of-period exchange rates and securities prices. – (4) Spot and forward transactions (including domestic currency swaps and commitments to be settled within 2 days) and loans indexed to foreign currencies. – (5) At constant exchange rates and securities prices. A minus sign indicates an inflow of bank capital.

In the first six months of the year the "errors and omissions" item of the balance of payments showed an outflow of 16.4 trillion lire, presumably in part as a result of errors in the statistical reporting of capital movements in January (Table 6).

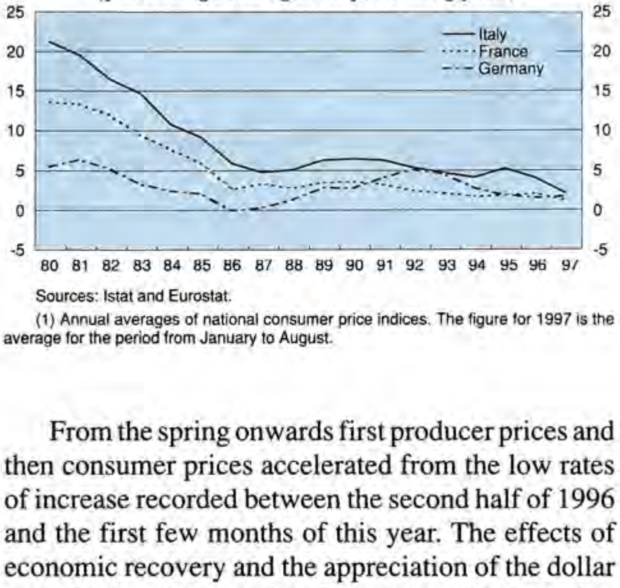
Since the beginning of the year the Bank of Italy has made net purchases of external assets worth nearly 15 trillion lire at current exchange rates (Table 8); most of the acquisitions consisted of German marks. The strong appreciation of the dollar helped to increase the lira value of the Bank's net external assets by a further 4.8 trillion lire, bringing total official reserves to 126.3 trillion lire at the end of August. Holdings of convertible currencies amounted to 64.2 trillion lire, while residual currency swaps with resident banks came to 14.1 trillion, 1.1 trillion less than at the beginning of the year. The improvement in the net external position occurred in the context of a gradual reduction in the central bank's foreign currency liabilities, especially short-term liabilities to resident banks.

Prices

The process of eradicating inflation from the Italian economy was consolidated in 1997. The rate of increase in consumer prices fell to less than 2 per cent, after having fluctuated around the 5 per cent level for about a decade. The difference between expected and actual inflation, which has been consistently positive since the beginning of 1996, steadily narrowed. The inflation differential in relation to the main EU countries decreased further (Figure 14).

Figure 14

Consumer prices in Italy, Germany and France (1)
(percentage changes on preceding year)



Sources: Istat and Eurostat.

(1) Annual averages of national consumer price indices. The figure for 1997 is the average for the period from January to August.

From the spring onwards first producer prices and then consumer prices accelerated from the low rates of increase recorded between the second half of 1996 and the first few months of this year. The effects of economic recovery and the appreciation of the dollar were felt by all the leading European economies, but in Italy they were compounded by an acceleration in labour costs as a result of the new labour agreements concluded in late 1996 and early 1997. The restructuring of VAT rates is also generating additional one-off effects.

These pressures should prove to be no more than temporary, given the current economic situation and rigorous control of monetary conditions.

The substantial reduction in the size of wage increases agreed in the summer compared with those agreed earlier in the year and the impact that the decline in inflation and the increased credibility of the inflation targets will have on the next wage round may permit a sharp slowdown in wage growth. The current improvement in productivity will also help reduce the rise in unit labour costs. If this objective is to be achieved, any change in employment legislation must not lead to an acceleration in hourly wage costs. The effect of the appreciation of the US dollar on the prices of imported raw materials will tend to wane in the next few months. The scale of the recovery in economic activity does not pose a threat to continued low inflation.

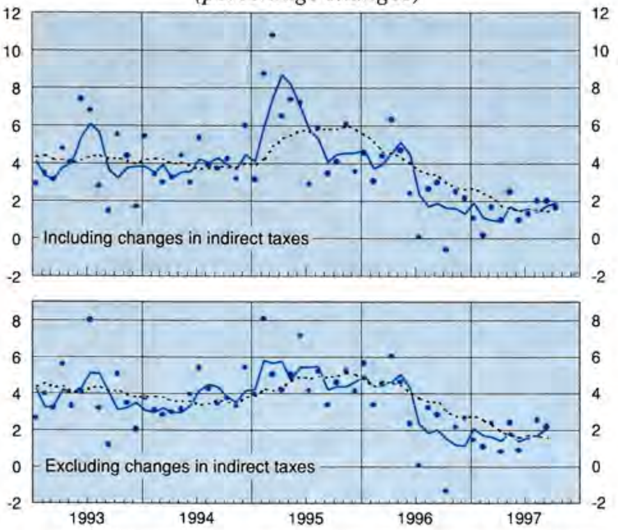
Consumer prices

Until the beginning of the summer the seasonally adjusted annualized three-month changes in the cost of living remained at the extremely low rates reached in mid-1996, averaging just under 1.5 per cent; during the three months from August to October they rose to almost 2 per cent (Figure 15).

The figure for October was affected only marginally by the rise in prices caused by the changes in VAT rates announced at the end of September; according to estimates based on the survey results for sample towns, no more than 0.1 percentage points of the increase in the index can be attributed to this factor, possibly reflecting the fact that the change in rates came just after the revision of price lists for clothing, to which around half of the changes in VAT rates apply, and was followed by requests for measures to offset the effects of the changes or to phase them in gradually. More generally, the smallness of the recovery in the consumption of non-durable goods and uncertainty whether it would last may have discouraged firms from passing on the tax increase, at least for the time being. There is evidence of these factors in the behaviour of prices in the Istat expenditure item "Clothing and footwear", which showed increases in line with those recorded in the same month of the preceding year.

Figure 15

Cost of living (1)
(percentage changes)



• on preceding month (2) —— on 3 months earlier (2) ······ on 12 months earlier (3)

Source: Based on Istat data.

(1) Index of consumer prices for worker households, excluding tobacco products. The index is rounded to two decimal points and is calculated from data on the component items approximated to one decimal point. – (2) Annualized and seasonally adjusted with the TRAMO-SEATS procedure using a "modified" index that takes account of both the gradualness with which changes in indirect taxes are passed through to final prices and the impact of changes in prices subject to official control. 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 December 1995 and January 1996 for the items included in both baskets of goods, aggregated with the new weights. – (3) For 1996, comparison is with the old index (base 1992=100) reset to 100 for the 1995 average.

Assuming that both the increases and the reductions in VAT rates are passed on in full, the effect of the measures is estimated at about 0.7 percentage points when fully implemented.

The smallness of the increase in the cost of living in the first half of this year was the result of a slowdown in unregulated prices that offset an acceleration in those subject to official control (Figure 16). Despite a further decrease in air fares and telephone charges due to keener competition and a continued slowdown in rent increases (Table a16), regulated prices accelerated noticeably after having slowed down sharply in 1996. As regards unregulated prices, the rise in the prices of goods was particularly small, falling back below the rate of increase in the prices of services. This reflected mainly the fall in the prices of fresh food from the middle of last year onwards and an extremely small seasonally adjusted annualized increase of around 1 per cent in the prices of products other than food and energy (Figure 17).

Figure 16

Cost of living: main components (1)
(percentage changes on 12 months earlier)

Source: Based on Istat data.

(1) Including changes in indirect taxes. – (2) Excluding rents.

The slowdown in the prices of processed food products, which had contributed greatly to containing inflation from the spring of 1996 onwards, was reversed in May, mainly in connection with the appreciation of the dollar and the rise in the international prices of beverages; the upward trend became more pronounced in the summer. In addition, the prices of goods other than food and energy began to rise more rapidly in July, with the monthly variation increasing to a seasonally adjusted annual rate of 1.8 per cent in September.

Figure 17

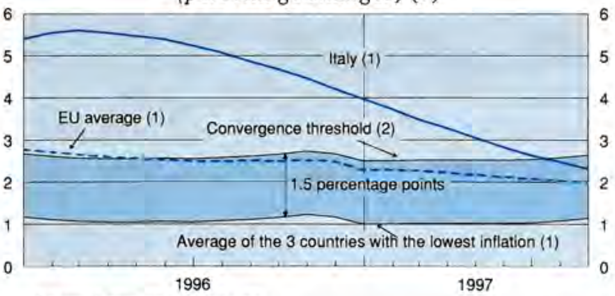
Cost of living: prices of consumer goods not subject to official control (1)
(annualized percentage changes on 3 months earlier)

Source: Based on Istat data.

(1) Including changes in indirect taxes. – (2) Seasonally adjusted.

Figure 18

Harmonized consumer price index: convergence criterion
(percentage changes) (1)

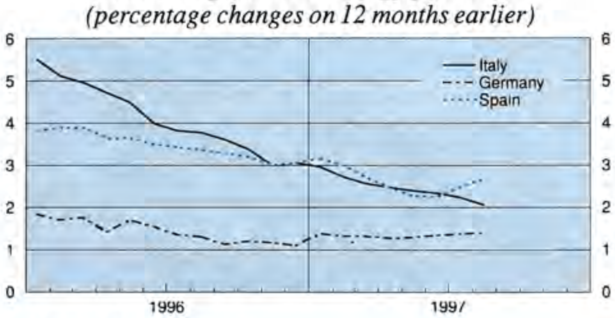


Source: Based on Eurostat data.
(1) Changes in the average of the harmonized consumer price index adopted in the EU for the last 12 months in relation to the average for the preceding 12 months. – (2) Average of the changes in the 3 EU countries with the lowest inflation (calculated as indicated in note (1)) plus 1.5 percentage points.

The rate of consumer price inflation continued to converge with that recorded in the European countries with the lowest inflation. From July onwards the average change shown in the preceding twelve months by the harmonized index adopted by the EU was below the "convergence threshold" laid down in the Maastricht Treaty (Figure 18). The differentials in relation to both the EU average and Germany (measured in terms of twelve-month rates of change in the harmonized index) became slightly negative, whereas last December they had been positive, at 0.5 and 1.6 percentage points respectively. The disparity remains significant, however, if calculated on the basis of the harmonized index net of food and energy prices (Figure 19), which better reflects underlying inflation trends, as food prices showed a particularly small rise in the Mediterranean European countries between mid-1996 and mid-1997.

Figure 19

Harmonized consumer price index, excluding food and energy products
(percentage changes on 12 months earlier)



Source: Based on Eurostat data.

Producer prices and the export and import prices of manufactures

As foreshadowed at the beginning of the year by the findings of the Isco survey of industrial firms (Figure 20), the producer prices of manufactures sold in the domestic market gradually accelerated from the spring onwards (Table a17), thus reversing the trend observed in 1996, when they had benefited from the appreciation of the lira. The change reflected the growth in demand and the impact on costs of the renewal of labour agreements, the appreciation of the US dollar from the beginning of 1997 onwards and the rise in the dollar prices of some of the most important raw materials among Italian industry's inputs. The three-month rise in the producer price index net of energy products was marginally negative in the first few months of the year but gradually rose to a seasonally adjusted annual rate of 2.5 per cent in August (Figure 21).

Figure 20

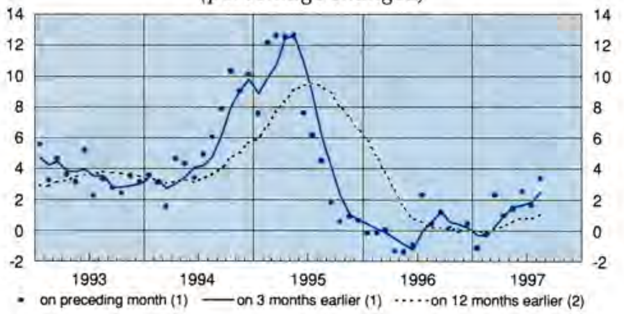
Intended changes in producer prices and firms' expectations regarding orders in the subsequent three or four months (1)
(percentages)

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 3 months ending in the month indicated.

The acceleration first became apparent in the prices of intermediate goods, which were made more expensive by the appreciation of the dollar and the recovery in demand; it subsequently spread to the prices of final investment and consumer goods (Figure 22). Among the latter, there was a particularly rapid rise in food prices, which increased at seasonally adjusted annualized three-month rates of more than 4 per cent in July and August. The prices of goods other than food and energy rose less sharply, mainly owing to reductions in the prices of motor vehicles since the beginning of the year; in August the monthly change on a seasonally adjusted annual basis rose to 2 per cent.

Figure 21

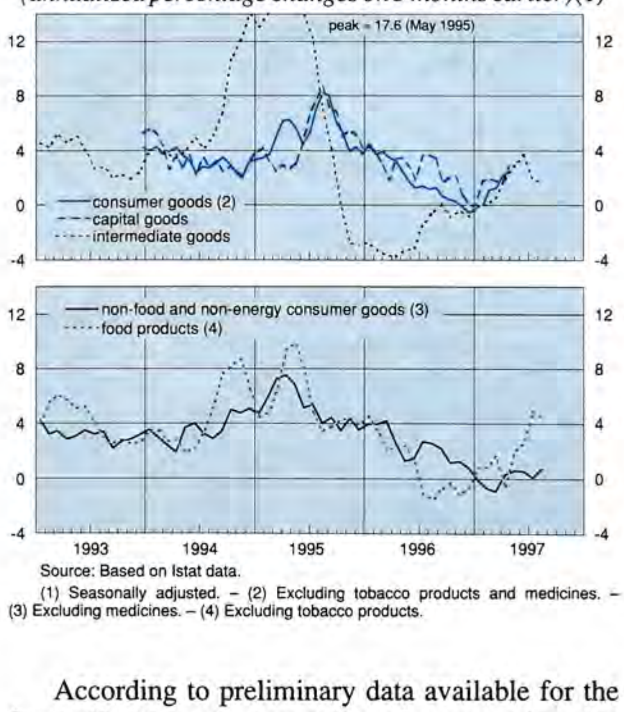
Index of the producer prices of manufactures for the domestic market, excluding energy products
(percentage changes)



(1) Annualized, seasonally adjusted using the TRAMO-SEATS procedure. – (2) For 1996, comparison is between the new index (base 1995=100) and the old index (1990=100) reset to 100 for the 1995 average.

Figure 22

Components of the index of the producer prices of manufactures for the domestic market, excluding energy products
(annualized percentage changes on 3 months earlier)(1)



Source: Based on Istat data.
(1) Seasonally adjusted. – (2) Excluding tobacco products and medicines. – (3) Excluding medicines. – (4) Excluding tobacco products.

According to preliminary data available for the first half of the year, domestic producers continued to reduce the lira prices of exported manufactures, paring them by an annual average of 1.5 per cent in relation to the second half of 1996. The average unit values in lire of imported manufactures other than energy products declined slightly with respect to the preceding period, again on a seasonally adjusted basis. As with producer prices, the largest rise during the period under consideration was in intermediate goods and food products (Table a18).

Manufacturing firms' costs and profit margins

On the basis of the information available, manufacturing industry's unit variable costs increased at a seasonally adjusted annual rate of 2.1 per cent between the second half of 1996 and the first half of this year, compared with 1.0 per cent between the two halves of 1996 (Table 11). Uncertainty about the breadth of the recovery in activity offset the effect of the rise in costs on the prices of manufacturing output as a whole, which were unchanged in relation to the preceding half-year on a seasonally adjusted annual basis. Profit margins therefore continued to decline slightly in the first half of the year, as confirmed by estimates based on the national accounts.

The behaviour of unit variable costs was the net result of a slowdown in the prices of domestic inputs and an acceleration in those of imported inputs and unit labour costs.

The general index of the dollar prices of non-energy raw materials was broadly unchanged in the first half of 1997 by comparison with the preceding half-year (Figure 23), but the equivalent values in lire rose owing to the appreciation of the US dollar by 9.4 per cent against the lira over the same period. The largest increases were in the lira prices of metals (which have a greater impact than other input prices on Italian industry's costs) and beverages, which also rose substantially in dollar terms; these two items were 10.0 and 37.4 per cent higher than in the second half of 1996. The lira prices of other unprocessed food products and non-food agricultural products also rose, but less sharply; the latter decreased by about 2 per cent in dollar terms. The impact of the increases in the lira prices of non-oil raw materials does not yet appear to have worked fully through to the costs of imported inputs, which continued to decrease in the first half as a whole, albeit by much less than in the preceding period.

Table 11

Unit variable costs and final prices in manufacturing (1)

(annualized percentage changes on preceding period) (2)

	Percentage weights (3)	1995	1996			1997
		Year	H1	H2	Year	H1
Unit variable costs	**100.0**	**4.9**	**2.9**	**1.0**	**3.3**	**2.1**
Input costs	**50.1**	**10.0**	**–0.2**	**–0.6**	**1.9**	**1.2**
Domestic	28.8	7.8	4.4	2.9	4.9	2.5
Foreign	21.3	14.0	–7.8	–6.7	–3.4	–1.3
Unit labour costs	**49.9**	**–0.5**	**6.6**	**2.8**	**4.9**	**3.1**
Labour costs ...	–	5.6	5.0	3.7	4.8	5.3
Productivity	–	6.2	–1.5	0.9	–0.1	2.2
Output prices ...	**100.0**	**7.8**	**0.6**	**–0.6**	**2.0**	**0.0**
Domestic	72.0	7.3	0.7	0.5	1.9	0.4
Foreign	28.0	8.9	0.2	–3.1	2.3	–0.9

Sources: Based on Istat and ENI data.

(1) Excluding transport equipment other than motor vehicles. – (2) Seasonally adjusted. – (3) Calculated on the basis of the input-output table for 1988, at 1980 prices; weighted net of intrasectoral transactions.

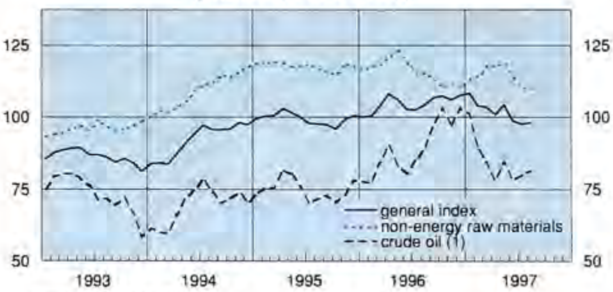
The fall in the dollar price of oil on the world market by an average of 10.4 per cent in the first half of the year more than offset the effect of the appreciation of the US dollar during the period, leading to a slowdown in energy-related costs.

On the basis of estimates drawn from the national accounts, unit labour costs in manufacturing industry increased at a seasonally adjusted annual rate of 3.1 per cent in the first half of the year by comparison with the preceding period, compared with one of 2.8 per cent in the second half of 1996; the disparity in relation to France and Germany, which had re-appeared in the middle of last year, widened further. The acceleration was due to the increase in the rate of wage growth as a result of labour contracts renewed in late 1996 and early 1997. The increase in the index of minimum contractual wage rates in relation to a year earlier rose from 3.2 per cent in the second half of 1996 to 4.1 per cent in the first half of this year. Earnings showed a slightly larger increase, owing mainly to one-off payments that are not included in the index of minimum contractual rates.

Figure 23

Dollar prices of internationally traded raw materials

(indices, 1990=100)



Source: Based on IMF data.

(1) Average for the three main grades.

Barring legislative changes that automatically raise hourly earnings, the increase in labour costs should slow down appreciably from next year onwards. The contracts signed in manufacturing industry in recent months – in the textile and food industries – provide for wage increases which, when fully applied, will be less than those previously agreed in the engineering industry, reflecting the sharp deceleration in prices and firmer prospects of stability in the next few years. The temporary effect of one-off payments will also disappear.

In 1998, in the light of these developments and the probable continuation of the recovery in productivity during a period of growing activity, the rise in unit labour costs should tend to slow down markedly.

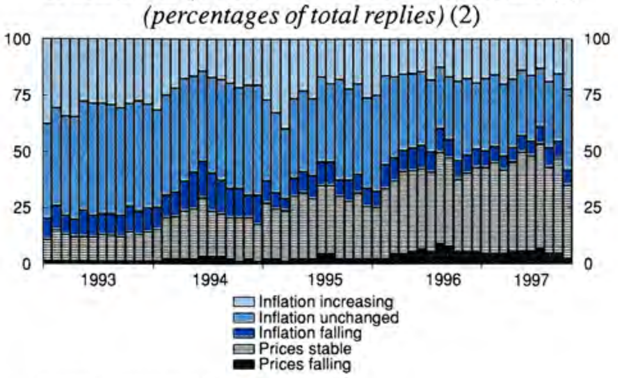
Consumer price expectations

The various indicators of inflation expectations have shown an almost continuous improvement this year, over all time-spans. Although the markets continue to predict a larger rise in inflation than in

France and Germany in 1998, the differential is tending to close in long-term expectations, indicating market confidence in the structural nature of the disinflation taking place in Italy.

Figure 24

Households' expectations of the behaviour of consumer prices in the next twelve months (1)
(percentages of total replies) (2)

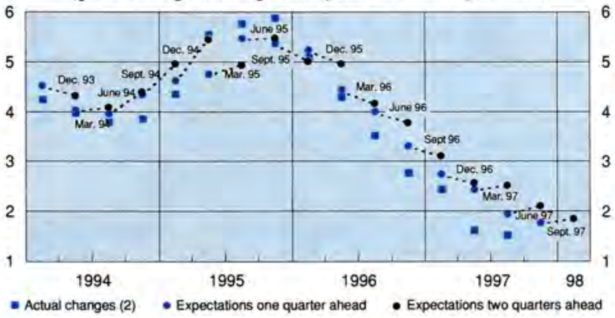


Source: Based on Isco data.

(1) Some aspects of the survey were changed in January 1995. – (2) Excluding replies of "don't know".

Figure 25

Forum-ME expectations of consumer price inflation in the next two quarters (1)
(percentage changes on year-earlier quarter)



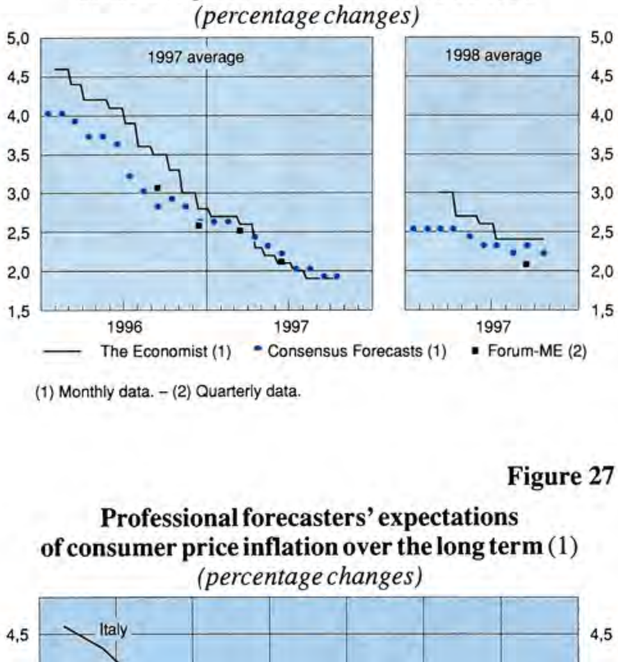
Sources: Based on Istat and Forum-ME data.

(1) The dates given in the figure refer to the survey date. Some aspects of the survey were changed in March 1995. The expectations recorded are those of a panel of businessmen and economic observers. – (2) Cost-of-living index, excluding tobacco products.

Until the end of July Isco's surveys of households showed an increase in the combined proportion of those expecting a decline in inflation or stable or falling prices in the subsequent twelve months; the proportion declined in later months (Figure 24). At the same time, the percentage of households expecting prices to accelerate increased from August onwards. The survey taken in September by Forum-Mondo Economico indicates expectations of a slight acceleration in the twelve-month inflation rate between the last quarter of this year and the first of 1998, albeit beginning from a lower level than that expected in the June survey (Figure 25). The surveys of professional forecasters carried out by *Consensus Forecasts* and *The Economist* reveal expectations of a modest rise in the annual average inflation rate as well, from 1.9 per cent in 1997 to 2.2 and 2.4 per cent respectively in 1998 (Figure 26). These surveys indicate positive inflation differentials of the order of 0.6 and 0.2 percentage points in relation to France and Germany.

Figure 26

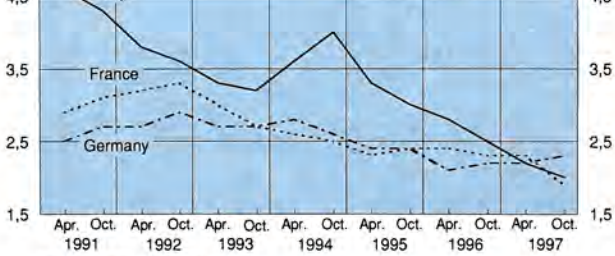
Expectations of professional forecasters and businessmen concerning average consumer price inflation in 1997 and 1998
(percentage changes)



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

Figure 27

Professional forecasters' expectations of consumer price inflation over the long term (1)
(percentage changes)

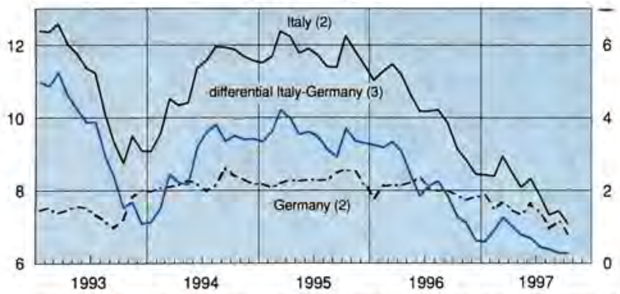


Source: Consensus Forecasts.

(1) Average inflation expected between 5 and 10 years after the year of the survey (e.g. average inflation expected between 2003 and 2007, expressed in the surveys carried out in 1997). Surveys are taken at half-yearly intervals.

Figure 28

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 October 1997, the average for the first twenty days of the month. – (2) Left-hand scale. – (3) Percentage points. Right-hand scale.

The *Consensus Forecasts* half-yearly surveys of expectations of price behaviour over the long term also provide indications of the nature of the current decline in inflation (Figure 27). After rising in 1994, long-term expectations began to decline in the spring of 1995; by this April they had fallen to around 2 per cent, eliminating the differentials with France and Germany. These indications are consistent with the behaviour of the one-year forward interest rate nine years ahead implicit in the yields on Eurolira interest rate swaps, which fell to new lows in October, both in absolute terms (7.1 per cent) and in terms of the differential with corresponding German yields (0.3 percentage points, Figure 28).

The public finances

Considerable progress has been made in budgetary consolidation this year. The behaviour of the budget balances in the first nine months was in line with the objective of reducing general government net borrowing from 6.8 per cent of GDP in 1996 to 3 per cent, as required in order to participate in the third stage of EMU. The primary surplus for the year is expected to reach the exceptional level of 6.6 per cent of GDP.

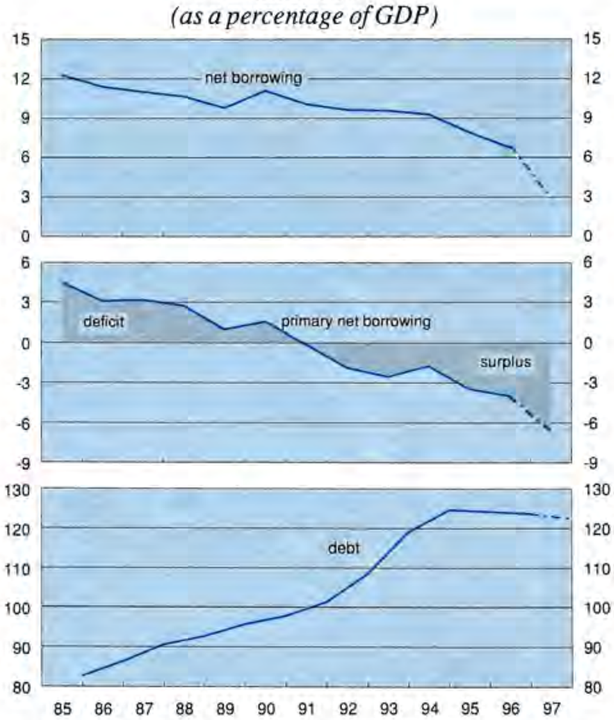
In a year of modest economic growth, the considerable improvement in the public finances is attributable primarily to the discretionary action taken by the authorities. Measures that are forecast to produce an overall adjustment of more than 3 per cent of GDP were taken in two stages, initially in the Finance Law for 1997 and subsequently in the supplementary budget adopted in March. In addition, the changes in accounting rules agreed with Eurostat will reduce net borrowing by around 1 per cent of GDP, slightly more than the decrease they produced in 1996. The large fall in interest rates since the beginning of last year has also contributed to the reduction in the budget deficit: as a ratio to GDP, interest payments this year should be more than one percentage point less than in 1996. Expenditure on social benefits, by contrast, has had an adverse effect on the public finances; in line with the trend of the last few years, it is expected to rise by 0.4 percentage points in relation to GDP.

The results achieved in 1997 are an important contribution to the process of budgetary adjustment. In the middle of the eighties Italy's public finances exhibited much more serious imbalances than those of the other leading European countries: net borrowing had risen to 12.3 per cent of GDP, four times the average of the other fourteen EU countries. The process of correcting the imbalances, which began in Italy in the second half of the eighties, accelerated considerably from 1992 onwards. General government net borrowing still amounted to 10.1 per cent of GDP in 1991. The primary balance moved from a deficit of around 4.5 per cent of GDP in 1985 to virtual equilibrium in 1991 and has improved further in the nineties, with a surplus of 4 per cent of GDP being recorded in 1996 (Figure 29).

Figure 29

General government net borrowing, primary net borrowing (1) and debt

(as a percentage of GDP)



Sources: Based on Istat data and, for debt, Bank of Italy data; for the three years 1995-97, based on data and forecasts in *Relazione previsionale e programmatica per il 1998.*

(1) Net borrowing excluding interest payments. A minus sign indicates a surplus.

The improvement in the budget balance excluding interest payments has been due primarily to the increase in total revenue, which rose from 38.8 per cent of GDP in 1985 to 46.4 per cent in 1996; expenditure excluding interest payments declined over the same period from 43.3 to 42.4 per cent of GDP. The curbing of expenditure has been restrained by the rising trend of social security disbursements.

The improvement in the public finances has been brought about both by temporary measures and, since 1993, by structural reforms, including that of the pension system.

The net borrowing of most EU countries should be close to 3 per cent of GDP in 1997. Although they have achieved convergence in this regard, there are large differences in their primary balances: the figure of 6.6 per cent of GDP expected for Italy compares with an average of less than 2 per cent for the other EU countries.

The increase in the primary surplus made it possible to halt the rise in the ratio of the public debt to GDP in 1995, after it had reached 124.9 per cent in 1994. The ratio should decline in 1997 for the third successive year. The expected fall of more than one percentage point compared with the end of 1996 reflects both the large primary surplus and the decrease in the average interest rate on the debt. This will decline further in the coming years, even if market rates remain unchanged, owing to the lag with which movements in market rates affect interest payments.

In the first nine months of the year the state sector borrowing requirement was held down to around 51.6 trillion lire, compared with 96.5 trillion in the corresponding period in 1996 (Table 12 and Figure 30). The improvement reflects the large reductions in both primary expenditure and interest payments and the increase of 7.9 per cent in revenue compared with the first three quarters of 1996.

According to the forecasts published by the Government in the summer of 1996 and largely confirmed in last June's Economic and Financial Planning Document, this year's objective for net borrowing was compatible with an increase in revenue on the order of 10 per cent accompanied by virtually no change in primary expenditure. Revenue does not appear to have grown as rapidly as forecast, although it should accelerate in the latter part of the year. The good performance of the public finances this year has been produced by a larger-than-expected decrease in expenditure. Cuts have been made in transfers to public utilities and across-the-board restrictions imposed on cash disbursements.

Table 12

State sector borrowing requirement and general government net borrowing

(billions of lire)

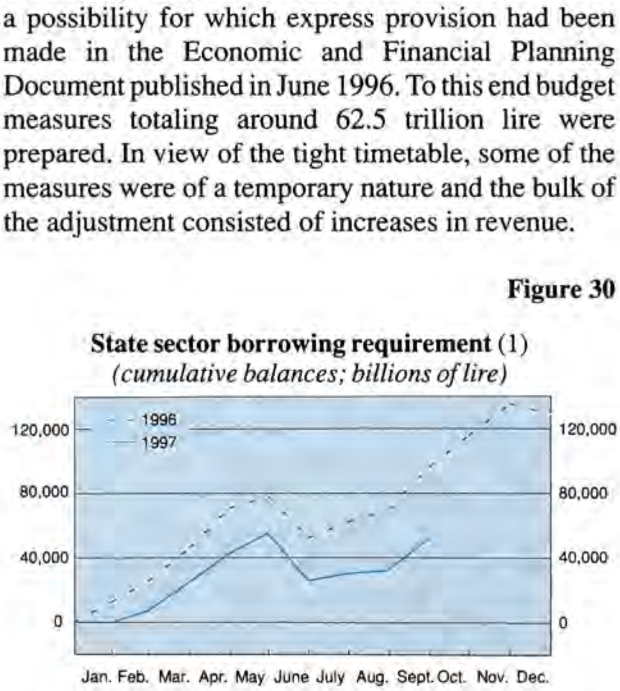
	1994	1995	1996	1997 (1)
	Net state sector borrowing requirement (2)			
First six months ...	72,077	57,409	52,075	25,310
January-September	114,774	101,277	96,489	51,586
	Gross state sector borrowing requirement			
First six months ...	72,459	60,506	55,552	33,943
January-September	111,544	103,681	103,234	48,738
	General government net borrowing (3)			
First six months ...	70,941	61,952	55,793	40,872

(1) Provisional. – (2) Excluding settlements of past debts and privatization receipts. – (3) Including settlements of past debts and privatization receipts.

When the Government tabled its budget proposals for 1997 in September of last year, it decided to bring forward the achievement of the net borrowing criterion for participation in the third stage of EMU by one year compared with the original plan, a possibility for which express provision had been made in the Economic and Financial Planning Document published in June 1996. To this end budget measures totaling around 62.5 trillion lire were prepared. In view of the tight timetable, some of the measures were of a temporary nature and the bulk of the adjustment consisted of increases in revenue.

Figure 30

State sector borrowing requirement (1)
(cumulative balances; billions of lire)



(1) Excluding settlements of past debts and privatization receipts.

The budget approved at the end of last year provided for around 28 trillion lire of additional revenue and roughly 18.5 trillion of reductions in expenditure. The remaining 16 trillion consisted of the effects of accounting changes agreed with Eurostat. In addition to measures to curb tax avoidance and rationalize the tax system, the most important revenue-raising measure was the special Eurotax, comprising a personal income surtax and a levy on the funds firms have set aside against severance pay liabilities. On the expenditure side, the bulk of the savings consisted in reductions in transfers to public utilities and local authorities. The budget legislation also granted the Government a number of authorizations to reorganize the tax system.

In March more cautious assessments of the effects of the budget and slower-than-expected economic growth meant that additional measures amounting to some 16 trillion lire were necessary in order to achieve the objective for the year. The supplementary revenue, estimated at about 10 trillion lire, was raised by increasing the levy on companies' severance pay provisions and changing the procedures for paying certain taxes, thereby bringing forward their collection. On the expenditure side, the disbursement of severance pay to public employees was postponed and the cash allocations of some ministries curtailed.

The total effect of the temporary adjustment measures adopted is estimated at around 1.5 per cent of GDP. The figure falls to just over 1 per cent when account is taken of the expiry of other temporary measures that reduced revenue or increased expenditure during the year, such as the additional social security contributions relief granted to firms in the South, which is being progressively withdrawn.

In the first nine months of the year the state sector borrowing requirement, including settlements of past debts and privatization receipts, amounted to 48.7 trillion lire, as against 103.2 trillion in the corresponding period in 1996 (Table 12). Net privatization receipts amounted to around 4.7 trillion lire, compared with 500 billion lire in the first nine months of 1996. The 12.8 trillion from the sale of another tranche of ENI shares was used to finance part of the consideration the Treasury paid for IRI's interest in STET. The latter was subsequently merged with Telecom Italia, which in turn was privatized in October. Settlements of past debts amounted to 1.8 trillion lire in the first nine months of the year, compared with 7.2 trillion in the first three quarters of 1996.

The borrowing requirement for the first nine months was financed entirely through issues of medium and long-term securities, which totaled 92.1 trillion lire, 43.4 trillion more than the borrowing requirement of 48.7 trillion, as debt management policy continued to be directed towards reducing the proportion of short-term securities; as a corollary, there were net redemptions of Treasury bills amounting to 57.6 trillion. The breakdown of issues of medium and long-term securities shows a reduction in net sales of Treasury credit certificates, from 33.9 to 11.8 trillion, and a sharp rise in net issues of Treasury bonds, from 45.1 to 60.2 trillion, and in zero-coupon Treasury certificates. Calculating both gross issues and redemptions of such securities on the basis of their issue price, net issues of the latter rose from 39.1 trillion lire to around 45.5 trillion. The balances on the Treasury's accounts with the Bank of Italy increased and the share of the state sector borrowing requirement funded abroad rose slightly, from 11.1 to 13.8 per cent.

Tax revenue in the first nine months of 1997

The tax revenue of the state sector amounted to 376 trillion lire in the first nine months of the year, compared with 348.4 trillion in the corresponding period in 1996, an increase of 7.9 per cent (Table 13). The increase was primarily due to the effects of the budget measures, more than 70 per cent of which are aimed at increasing direct tax revenue. This helps to explain the difference between the results for direct and indirect tax receipts, which rose by 10.7 and 4.6 per cent respectively.

Preliminary estimates of the outturn for 1997 suggest that the ratio of tax receipts to GDP (on the basis of the definition used here, which excludes tax collection commissions and accounting transactions but includes amounts set aside for tax refunds) is likely to be one percentage point higher than the value of 26.9 per cent recorded in 1996.

Table 13

State sector tax revenue (1)

(billions of lire)

	January-June			January-September		
	1996	1997 (2)	% change	1996	1997 (2)	% change
Direct taxes						
Personal income tax	89,051	95,661	7.4	119,342	130,315	9.2
of which: withholding tax on state sector wages and salaries	*14,966*	*16,003*	*6.9*	*20,843*	*23,145*	*11.0*
withholding tax on pensions and private sector wages and salaries	*48,819*	*53,864*	*10.3*	*69,463*	*77,013*	*10.9*
self-assessed balances	*7,834*	*7,665*	*–2.2*	*8,195*	*8,124*	*–0.9*
self-assessed payments on account	*8,602*	*9,122*	*6.0*	*8,781*	*9,350*	*6.5*
Corporate income tax	12,485	13,593	8.9	18,948	24,287	28.2
of which: self-assessed balances	*6,029*	*5,702*	*–5.4*	*9,121*	*11,103*	*21.7*
self-assessed payments on account	*6,278*	*7,657*	*22.0*	*9,497*	*12,886*	*35.7*
Local income tax	7,868	8,415	7.0	11,100	13,375	20.5
of which: self-assessed personal income tax	*1,847*	*1,786*	*–3.3*	*1,891*	*1,855*	*–1.9*
self-assessed corporate income tax	*5,768*	*6,352*	*10.1*	*8,835*	*11,150*	*26.2*
Withholding tax on interest income	15,785	10,961	–30.6	26,776	24,933	–6.9
of which: in respect of bank deposits	*1,614*	*631*	*–60.9*	*6,708*	*6,050*	*–9.8*
Tax on companies' net worth	4,250	3,270	–23.1	5,881	4,652	–20.9
Withholding tax on dividends	1,927	2,021	4.9	2,707	2,941	8.6
Other (3)	4,251	4,436	4.4	5,058	9,563	89.1
Total	**135,617**	**138,357**	**2.0**	**189,812**	**210,066**	**10.7**
Indirect taxes						
VAT (4)	52,277	52,663	0.7	80,330	82,373	2.5
Other business taxes	20,138	22,096	9.7	26,911	30,681	14.0
Excise duties on oil products	18,919	19,458	2.8	27,556	28,353	2.9
Other excise duties and sales taxes (5)	7,982	8,206	2.8	11,640	11,531	–0.9
Monopolies	5,046	4,851	–3.9	7,880	7,894	0.2
Lotteries	2,668	2,817	5.6	4,265	5,085	19.2
Total	**107,030**	**110,091**	**2.9**	**158,582**	**165,917**	**4.6**
Total tax revenues	**242,647**	**248,448**	**2.4**	**348,394**	**375,983**	**7.9**

Sources: Based on Bank of Italy, Treasury Ministry and Finance Ministry data

(1) Net of tax collection commission and accounting transactions with the Sicily and Sardinia regions. – (2) Provisional. – (3) Includes receipts of inheritance taxes, which are recorded under Business taxes and duties in the accounts of the state sector. The figures for 1996 include instalment payments in respect of the tax conciliation scheme (1,487 billion in the first nine months), while those for 1997 include the receipts of the Eurotax personal income surtax (2,764 billion in the first nine months) and levy on companies' severance pay provisions (3,349 billion in the first nine months). – (4) Includes the VAT accruing to the EU and refunds effected via tax accounts. – (5) Includes the proceeds of surtaxes on electricity consumption recorded under non-tax revenue.

The rapid growth in direct tax receipts reflects the large increase in the tax withheld from employee incomes, which appears consistent with the pattern of rising earnings that has emerged during the year as major wage agreements have come into effect. It was also due to the decision not to adjust the majority of tax credits in line with inflation to offset fiscal drag. In fact, this year the adjustment was confined to employees with incomes of 9.1 million lire or less.

Receipts of corporate income taxes were boosted by the measures concerning the determination of business income introduced in the budget. The jump of 27.5 per cent in these taxes was also due to the increase in the size of the payment on account for this year, which was enacted when the withholding tax on the income from bonds held by corporate entities was abolished by Legislative Decree 239 of 1 April 1996. The change will result in a reduction in receipts of withholding tax on interest income and an increase in self-assessed corporate income taxes. In order to compensate for the loss of revenue caused in the first year by the differences in the time of payment of the different taxes, the payment on account in respect of the self-assessed taxes was increased. The effect of this measure, which is calculated on the basis of the bonds held in 1996, has been significant above all for banks and the Bank of Italy.

Receipts of withholding tax on interest income declined by around 1.8 trillion lire, or 6.9 per cent, as a result of the changes in regulations enacted between June 1996 and January 1997 and the fall in interest rates. The tax paid on bond income was affected by the changes in tax treatment described above. The withholding tax on bank deposit interest, of which banks made a payment on account in June, also contracted sharply, falling by 9.8 per cent, despite the increase in the size of the payment from 50 to 78 per cent. The decrease was due to the substantial volume of tax credits accumulated in 1996 as a result of the fall in interest rates and the reduction in the tax rate from 30 to 27 per cent.

Receipts of the tax on firms' net worth declined by around 1.2 trillion lire as a result of the increase in the size of the payment on account made in 1996, a change enacted in last year's budget.

The growth in direct tax revenue was also boosted by the receipts of the special Eurotax. In the first nine months of the year the personal income surtax raised 2.8 trillion lire, while the levy on companies' severance pay provisions raised around 3.3 trillion, compared with a forecast of 4.5 trillion. This revenue more than offset the absence of instalments under the tax conciliation scheme, which had generated around 1.5 trillion of revenue in the first nine months of 1996.

Indirect tax receipts in the first nine months of the year were 4.6 per cent higher than in the corresponding period in 1996. The pattern of revenue reflects the recovery in economic activity that began in the second quarter. VAT receipts rose by 2.5 per cent, notwithstanding the sharp decline recorded in the first quarter. The yield from excise duties on mineral oils has also shown signs of picking up in the last few months; the increase was modest in the early part of the year, despite the budget measures that should have resulted in substantial payments being brought forward to that period. The increase of 14 per cent in other business taxes reflects the new procedures for paying inheritance taxes introduced in March in the supplementary budget.

The exceptional increase in lottery revenue reflects the delays in recording receipts in 1996. When the figures are adjusted to take account of this factor, the yield in the first nine months was sharply down on that of the corresponding period in 1996.

State sector expenditure in the first six months of 1997

State sector spending amounted to 336.2 trillion lire in the first six months of the year, 3.8 per cent less than in the corresponding period of 1996 (Table 14). All the main items contributed to the fall, except for wages and salaries. There were particularly sharp decreases of 31.9 and 18 per cent respectively in purchases of goods and services and capital and financial expenditure.

One third of the reduction in total expenditure was due to the decline in current transfers from 151.2 to 146.8 trillion lire, a fall of 2.9 per cent. The restrictions imposed on non-state public bodies' withdrawals from their centralized Treasury accounts contributed in this regard. In particular, the reduction from 13.2 to 8.8 trillion in current transfers to municipalities and provinces reflects the fact that the banks acting as treasurers for small municipalities were required to draw first on the balances the latter held with them when making payments on their behalf. By contrast, the decline in transfers to social security institutions was exclusively the consequence of accounting leads and lags.

Interest payments on the debt of the state sector diminished by 4.9 per cent, from 96.4 to 91.7 trillion lire, despite the increase in the debt itself. Expenditure was curbed by the steady decline in interest rates from the beginning of 1996 onwards and the policy of reducing the volume of Treasury bills, the interest on which is entered in the accounts at issue. The total was boosted, by contrast, by the entry in the accounts of 5.3 trillion of interest on Treasury zero-coupon certificates; interest on these two-year instruments, which have been issued since 1995, is recorded at redemption.

Wages and salaries rose by 3 per cent to 47.2 trillion lire. This increase is about 2 percentage points less than that estimated for the whole year, which will reflect the rises granted in the latest wage agreements. Expenditure was held down, moreover, by the tardiness of government departments in paying contributions to the civil servants' social security institution (INPDAP).

Spending on goods and services fell dramatically, from 8.7 to 5.9 trillion lire. This was partly due to the cuts in spending authorizations made in the budget at the end of last year and in the supplementary measures adopted in March, but also reflected the restrictions imposed on the use of some budget appropriations.

Capital expenditure decreased by 6.9 per cent, from 17.7 to 16.4 trillion lire, as a result of the reduction in transfers to enterprises. Loans and advances decreased by 14.9 per cent, from 7.9 to 6.7 trillion.

The fall of 53.6 per cent in investments was largely due to the reduction in the contribution to the capital of the State Railways from 2.9 to 1.5 trillion lire. However, for the year as a whole the latter item is expected to increase, since the entire allocation for 1996 was disbursed in the first six months, whereas this year only one third of the allocation had been disbursed by the end of June.

Table 14

Main expenditure items of the state sector (1)

(billions of lire)

	1996 H1	1997 H1	% change
Current expenditure	**318,152**	**310,569**	**–2.4**
Wages and salaries	45,822	47,205	3.0
Goods and services	8,701	5,929	–31.9
Current transfers	151,184	146,822	–2.9
to: social security institutions	*48,215*	*44,841*	*–7.0*
regions	*51,119*	*52,542*	*2.8*
municipalities and provinces	*13,236*	*8,824*	*–33.3*
households	*17,808*	*17,258*	*–3.1*
enterprises	*3,287*	*2,734*	*–16.8*
former autonomous government agencies	*7,719*	*8,726*	*13.0*
recipients abroad	*4,346*	*4,605*	*6.0*
other	*5,454*	*7,292*	*33.7*
Net interest payments	96,385	91,689	–4.9
Tax refunds	9,791	12,525	27.9
Other	6,269	6,399	2.1
Capital expenditure	**17,657**	**16,443**	**–6.9**
of which: fixed capital	*1,315*	*1,485*	*12.9*
capital transfers	*16,312*	*14,958*	*–8.3*
Financial expenditure	**13,612**	**9,207**	**–32.4**
of which: investments	*4,718*	*2,189*	*–53.6*
loans and advances	*7,913*	*6,734*	*–14.9*
TOTAL EXPENDITURE	**349,421**	**336,219**	**–3.8**

Source: *Relazione sulla stima del fabbisogno di cassa*, presented by the Minister of the Treasury on 16 October 1997.

(1) Net of tax collection commissions and accounting transactions with the Sicily and Sardinia regions.

Monetary policy, banking and the financial markets

The severity of the monetary policy stance has been eased during the year, while remaining consistent with the counterinflationary strategy pursued since 1994. That strategy, which is directed towards creating the conditions for lasting stability of the value of the lira, has helped to bring long-term yields down steadily since mid-1995 to levels close to those prevailing in the other major European countries. The Bank of Italy has progressively reduced the stringency of monetary policy as confirmation of the slowdown in inflation in a context of economic recovery has emerged. Official interest rates were lowered in two stages by a total of 1.25 percentage points, following reductions amounting to 1.5 points in 1996 (Figure 31). Bank of Italy repo rates gradually declined.

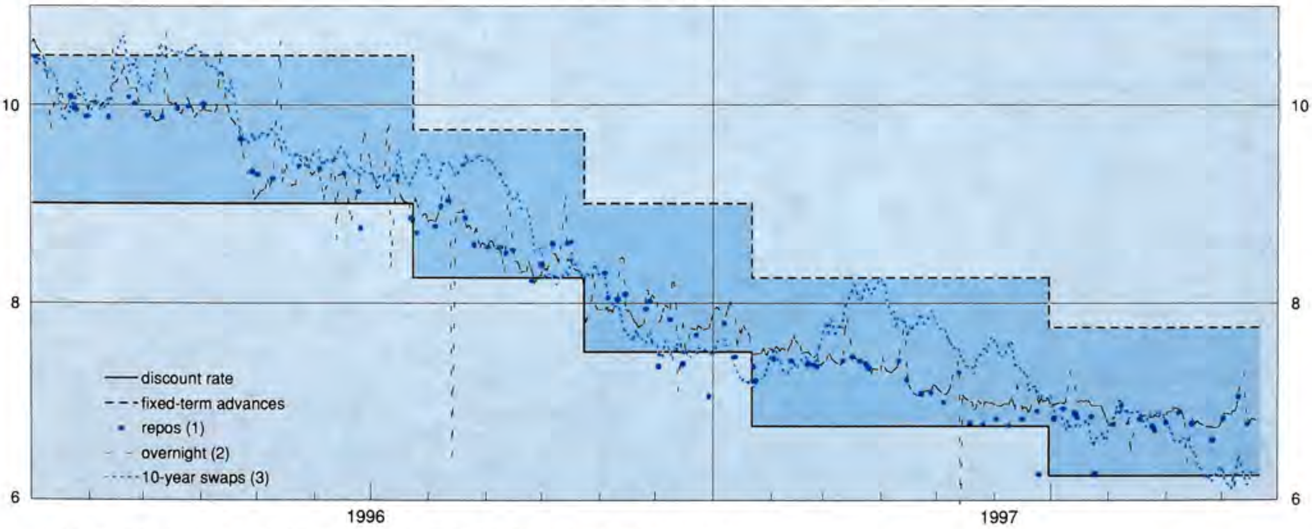
The downward movement of long-term interest rates accelerated at the beginning of the summer; in October the rates on benchmark 10-year Treasury bonds and the differential with corresponding securities denominated in German marks reached historic lows, largely on account of the progress made in reducing both actual and expected inflation, growing international confidence that Economic and Monetary Union would start on time with a substantial number of participating countries, and expectations of adjustment of Italy's public finances. The lira remained stable against the mark, slightly above its central parity within the ERM.

In September signs that the recovery was stronger than expected began to affect yield curves in the leading European countries and their positive slope steepened at the short end. The yield curve in Italy, by contrast, remained negatively sloped and shifted further downwards: the effect of the prospect of economic recovery was more than offset by the improvement in inflation and the public finances; the convergence of yields towards those of the other countries grew more pronounced. The expected end-1998 differential between Italian and German short-term interest rates approached 20 basis points in October.

Figure 31

Official interest rates and money and financial market rates

(percentages)



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

The growth in credit and total financial assets has remained broadly in line with that in nominal income and with the forecasts made last autumn (Table 15). On the other hand, the M2 money supply has expanded rapidly, at a rate exceeding the target for the year. To a significant extent, the behaviour of the monetary aggregates is attributable to the reform of the taxation of interest on bank deposits and to the large reduction in the supply of Treasury bills. A contributory factor has been the considerable shift in private sector portfolios towards managed savings instruments; this continuing reallocation is tending to increase the volume of short-term bank deposits, which are held both on a temporary basis during the transition from one form of investment to another and in order to compensate in part for the lesser liquidity of the remaining portfolio.

Monetary policy

The first cut in the discount rate and the rate on fixed-term advances this year, one of 0.75 percentage points, was made on 22 January in the light of the behaviour of prices during the preceding months and the favourable direction of market expectations. In May the Bank of Italy set a target inflation rate of no more than 2 per cent for 1998. The second reduction in official rates, a half-point cut in the discount rate and the rate on fixed-term advances to 6.25 and 7.75 per cent respectively, was made on 30 June; at the same time the interest rate on banks' compulsory reserves was reduced from 5.5 to 4.5 per cent. The adjustment took account of the favourable trend in inflation, which was consistent with the targets. The Bank of Italy gradually eased monetary conditions during the year; the average repo rate fell from 7.7 per cent at the end of December 1996 to 6.8 per cent in mid-October.

Short-term interest rates responded to the easing of monetary conditions. In the first nine months of the year the rate on 3-month interbank funds declined by around 0.7 percentage points to 6.5 per cent; deflated with the increase in consumer prices in the preceding three months, the rate decreased by 1.3 points (Figure 32).

Table 15

Credit and financial assets

(percentage changes and shares)

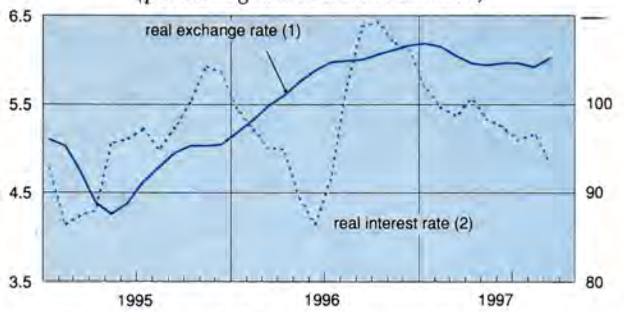
	12-month rates of change			Share of outstanding stocks	
	1996		1997	1996	1997
	Jan.-Aug. (1)	Year	Jan.-Aug. (1)	Aug.	Aug.
Total credit	**5.4**	**5.4**	**3.2**	**100.0**	**100.0**
Finance to the non-state sector	3.7	3.2	3.6	35.2	35.3
from banks	*3.7*	*3.5*	*3.6*	*30.9*	*31.1*
bonds	*1.8*	*–5.4*	*–30.7*	*0.6*	*0.4*
foreign finance	*4.5*	*2.0*	*9.0*	*3.7*	*3.8*
Financial assets (2)	**5.5**	**5.1**	**7.6**	**100.0**	**100.0**
Domestic	4.0	3.5	4.5	92.6	90.0
liquid assets	–0.3	–2.3	–4.8	55.2	48.3
M2 (3)	*1.1*	*3.8*	*11.1*	*25.9*	*26.6*
medium and long-term government securities	5.5	0.8	–2.7	31.8	32.0
investment fund units and other (4)	5.3	45.9	74.7	5.6	9.7
Foreign	28.2	27.1	44.5	7.4	10.0

(1) Calculated from seasonally adjusted annualized data. – (2) Held by the non-state sector; net of shares. – (3) M2 includes CDs for terms of 18 months or more in 1996; it excludes them in 1997. Percentage changes are calculated from monthly averages. – (4) Investment fund units, other non-state sector assets with banks, surety deposits of firms, atypical securities and Republic of Italy bonds held by the non-state sector.

Figure 32

Real interest rate on 3-month funds and the real effective exchange rate of the lira

(percentages and index numbers)



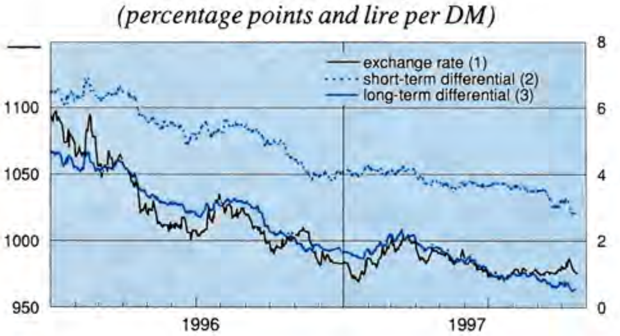
(1) Right-hand scale. Real effective exchange rate of the lira against the currencies of Italy's 14 main trading partners; index, 1993=100. Moving average for the three months ending in the month indicated. An increase indicates an appreciation. – (2) Left-hand scale. Interest rate on 3-month Eurolira deposits, deflated using the annualized change in the seasonally adjusted cost-of-living index net of indirect taxes over the preceding three months. Moving average for the three months ending in the month indicated.

The decline in long-term rates during this period, amounting to 1.4 percentage points in the case of the benchmark 10-year Treasury bond, was larger than that in short-term rates; it was interrupted in the first four months of the year, owing in part to fears that the launch of EMU might be postponed, but resumed in April.

Figure 33

Interest rate differentials vis-à-vis Germany and the lira/DM exchange rate

(percentage points and lire per DM)



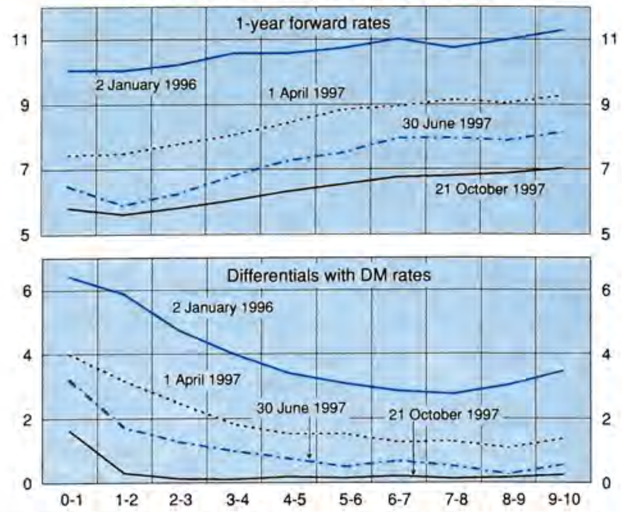
(1) Left-hand scale. – (2) Difference between 3-month Libor in lire and in marks. Right-hand scale. – (3) Difference between rates on 10-year interest rate swaps in lire and in marks. Right-hand scale.

The decline in yields was favoured by the consolidation of a positive outlook for inflation, with the abatement of current inflation being followed by a gradual downward revision of inflation expectations; the prospects for adjustment of the public finances, influenced in part by the approval of the Italian convergence plan by the Council of Finance Ministers of the EU in July, also played an important role. Confidence that monetary union would begin as planned with a substantial number of participating countries steadily increased; it was strengthened in June when the new French Government reaffirmed the objective of launching EMU according to schedule. Long-term yields also fell in the United States and the leading European countries from the end of May onwards.

Figure 34

Yield curve of 1-year forward rates implicit in swap rates (1)

(percentages and percentage points)



(1) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated. The first value of each curve is the 1-year spot rate on the contract date.

The decline in Italian yields grew more pronounced in September, especially following the meeting of EU Finance Ministers in Luxembourg, reflecting expectations that Italy would participate in EMU. The differential between the benchmark 10-year Italian Treasury bond and the corresponding German government security fell to around 0.5 percentage points on 22 October, compared with 1.8 points at the end of 1996 and a peak of 2.3 in March of this year (Figure 33). The yield curve for Eurolira deposits reflects the strengthening of expectations of convergence of short-term rates within the first half of 1998 (Figure 34).

In February the yield on 10-year Treasury bonds moved within the convergence range laid down in the

Bank of Italy intervention in the money market

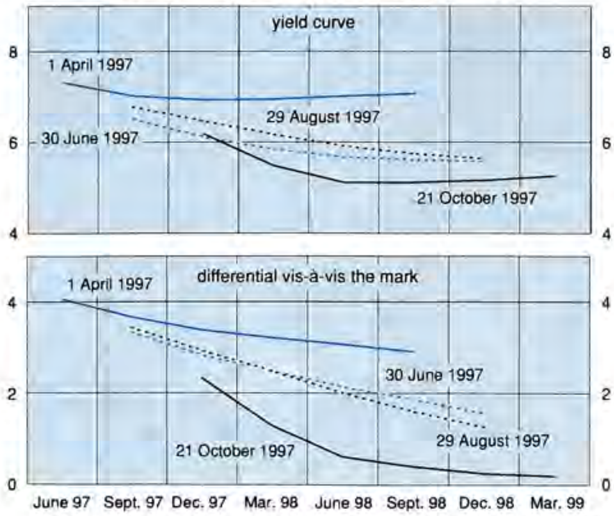
Over the first ten months of the year both the allotment rate for securities repurchase agreements and the overnight rate declined by about one percentage point, to 6.8 per cent. The fall in very short-term money market rates was pronounced in the spring and continued during the summer, albeit more slowly, in response to positive signs on the inflation front.

The firmness of monetary policy encouraged a gradual downward shift in forward yield curves, both for contracts due to take effect in the near future (Figure 1) and for those beginning further ahead (Figure 34 in the text). The decline in actual and expected inflation and the prospect of adopting the single currency strengthened expectations that lira yields would move closer to those on DM assets. In the wake of the meeting of the EU Council of Finance Ministers in mid-September there was a marked reduction in forward rates, particularly for contracts beginning after the spring of 1998. At the end of October the differential between three-month forward rates in lire and German marks for operations beginning in December 1998 stood at about 0.2 percentage points (5.0 per cent compared with 4.8).

Between the end of May and the end of September the Bank of Italy continued to manage liquidity mainly by the use of securities repurchase agreements, effecting twenty repo operations involving a gross total of some 180 trillion lire and with an average maturity of 23 days. On average, the allotment rates were lowest for operations with the longest maturities, reflecting the slope of the forward yield curve. For small operations the Bank of Italy again resorted to outright purchases and sales of Treasury bills through multiple price auctions open to primary dealers on the MTS; a total of 17 purchases and one sale were made in the first nine months of the year, creating net liquidity of 32.9 trillion lire, 21.5 trillion more than in the corresponding period of 1996.

Figure 1

Yield curve for futures contracts on 3-month Eurolira deposits (1)
(percentages and percentage points)



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

The banking system's debtor position with the Bank of Italy in respect of repos (Figure 2) fell to nil in May but rose again in June in parallel with the

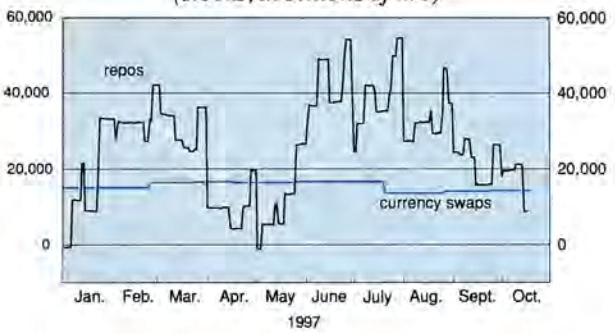
Maastricht Treaty (the average of long-term yields in the three countries with lowest inflation, plus 2 percentage points; Figure 35). The differential in relation to the three countries with the lowest inflation narrowed further in subsequent months. Italy also meets the Maastricht convergence criteria for inflation and the exchange rate (currencies must remain within the normal ERM fluctuation band for at least two years, without realignment of their central rates).

The exchange rate of the lira has been highly stable during the year, in spite of the large fluctuations of the leading currencies against the dollar. From the time of the lira's return to the ERM in November 1996 to mid-October, its fluctuations around its bilateral *substantial absorption of funds by the Treasury due to the receipt of self-assessed income tax. The banks' debtor position declined gradually in the following months in accordance with the usual seasonal pattern, but it was also affected by the strong creation of monetary base through the external sector (about 21.5 trillion between July and September).*

Figure 2

Central bank financing

(stocks, in billions of lire)



Foreign currency swaps were offered mostly to renew maturing operations, although in mid-July one operation in German marks was not renewed, partly in view of substantial inflows of liquidity through the external sector. Demand for funds at the auctions was consistently strong, particularly for operations in German marks.

In June the Treasury used the sinking fund for the redemption of government securities to purchase shares in STET worth 2.2 trillion lire, as it had done at the end of last year and in March 1997. In the same month it paid about 300 billion lire received from the privatization of Istituto Bancario S. Paolo di Torino into its payments account with the Bank of Italy and in October transferred this amount to the sinking fund. The proceeds from the sale of the third tranche of ENI shares, amounting to 12.8 trillion lire, were credited to the payments account in July and similarly transferred to the sinking fund in October.

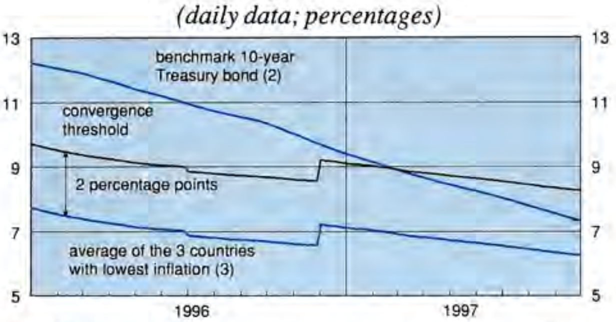
In the last week of June the new BI-REL gross settlement system was launched, in preparation for participation in the European TARGET payment system. Until the end of this year the new system will be used to settle payments originating from the procedures for exchanging large-value and foreign payments (equal to about 30 per cent of the number of wholesale interbank payments and 5 per cent of their total value). The system will become fully operational next January, when it will begin to handle the settlement of the remaining types of wholesale payment as well. In the first three months of operation (from 23 June to 22 September) the average daily volume of settlements was about 15,000 and the average daily throughput 31.9 trillion lire. The Bank of Italy has created two instruments to provide the intraday liquidity the system needs, namely intraday advances and the intraday mobilization of compulsory reserves (up to a maximum of 10 per cent of the required reserve in addition to the 12.5 per cent already mobilizable at the end of the day). In the first three months of operation average daily recourse to intraday liquidity amounted to 600 billion lire, 380 billion of which was provided in the form of advances.

central rate vis-à-vis the mark ranged between an appreciation of 2.1 per cent and a depreciation of 1.7 per cent. Since the beginning of the year the effective exchange rate of the lira has weakened by 2.1 per cent owing to the trend of the dollar.

Monetary base, adjusted for seasonal factors and the change in the average compulsory reserve ratio, grew at an annual rate of 10.5 per cent in the first nine months of the year (Table 16). Both bank reserves and currency in circulation increased. Without seasonal adjustment, liquidity creation via the foreign sector (19.3 trillion lire; Table 17), due mainly to the favourable performance of the balance of payments, was outweighed by liquidity destruction on the part of the Treasury (37.3 trillion), resulting from the growth in the balances on the Treasury's accounts with the Bank of Italy (7.2 trillion) and large redemptions of government securities held by the latter (30.1 trillion). Open market operations by the Bank injected 18.7 trillion of liquidity into the system.

Figure 35

Long-term interest rates: EU convergence criterion (1)
(daily data; percentages)



(1) The data for the last two months are provisional. – (2) Average yield for the 12 months ending on the day indicated. – (3) Simple average of the 10-year yield in the three EU countries with lowest inflation in the 12 months ending on the day indicated.

Total finance to the non-state sector grew at a seasonally adjusted annual rate of 3.6 per cent in the first eight months of the year, a slight increase compared with 3.2 per cent in 1996 as a whole (Figure 36). The marked reduction in the state sector borrowing requirement during the same period more than offset the growth in finance to the non-state sector, causing the rate of increase in total credit to decelerate to 3.2 per cent, compared with 5.4 per cent in all of 1996.

Figure 36

Monetary and credit aggregates (1)
(12-month percentage changes)

(1) Rates of change calculated on monthly averages for M2 and on end-of-month data for the other aggregates. M2 does not include CDs for terms of 18 months or more.

Total financial assets grew by 7.6 per cent, compared with 5.5 per cent in the same period of 1996; large-scale asset substitution occurred, particularly in households' portfolios. The fall in short-term yields, the positive showing of the stock markets and the reduction in the supply of government securities greatly accentuated the shift from government securities to managed savings: net purchases of investment fund units by the non-state sector totaled 89 trillion lire in the first eight months, more than in 1996 as a whole, while portfolio management services recorded a net inflow of 57 trillion. Portfolio adjustment gave impetus to an increase in the quantity of money, which was held both temporarily and in order to compensate partially for the lesser liquidity of the new instruments. The M2 money supply rose at an annual rate of 11.1 per cent in the first nine months, overshooting the target rate of 5 per cent set in September 1996 (Figure 37). The growth, which reflected an increase in bank current accounts and short-term certificates of deposit, was fueled by a number of factors in addition to those mentioned above, including a decline in the yield differential in favour of the closest substitutes for M2 assets, the reduction in the supply of Treasury bills and the effects of the change in the rates of tax on interest on bank deposits (see the box "The behaviour of bank deposits and the money supply").

Table 16

Monetary variables (1)
(percentage changes)

	1996		1997 (2)
	Jan.-Sept. (3)	Year	Jan.-Sept. (3)
Monetary base (4) ...	3.1	2.6	10.5
Currency	1.8	3.4	7.4
Bank reserves (4) .	3.8	2.0	14.3
Short-term bank deposits	2.3	4.8	12.3
Money supply (M2) ..	1.7	3.8	11.1

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

The large expansion in M2 was not matched by a similar increase in either total bank deposits, which grew by 6.9 per cent in the twelve months to August, or total liquid assets, which actually contracted by 4.8 per cent; within the latter aggregate, the increase in M2 was offset by a sharp fall in CDs for terms of 18 months or more and in Treasury bills.

Table 17

Monetary base (1)

(changes in billions of lire)

	1996		1997 (2)
	Jan.-Sept.	Year	Jan.-Sept.
		Sources	
Foreign sector	**21,951**	**20,449**	**19,275**
foreign currency swaps	*-9,162*	*24,227*	*-2,921*
Treasury	**-9,208**	**-6,464**	**-37,312**
Treasury payments account	4,222	8,371	-6,430
Sinking fund for redemption of government securities	-5,096	8,999	-817
Other BI-UIC operations with the Treasury (3)	-8,334	-23,834	-30,065
Open market	**-13,210**	**6,291**	**18,664**
Repos (4)	-20,405	12,389	-19,731
Outright Treasury bill operations	11,390	9,140	32,880
Other outright transactions	-4,195	-15,238	5,515
Refinancing	**-5,617**	**-5,647**	**-371**
Other sectors	**-6,282**	**-10,477**	**4,001**
Total	**-12,366**	**4,152**	**4,256**
		Uses	
Currency in circulation	**-4,831**	**1,826**	**154**
Bank reserves	**-7,535**	**2,326**	**4,102**
compulsory reserves (5)	*-7,023*	*-1,779*	*7,771*

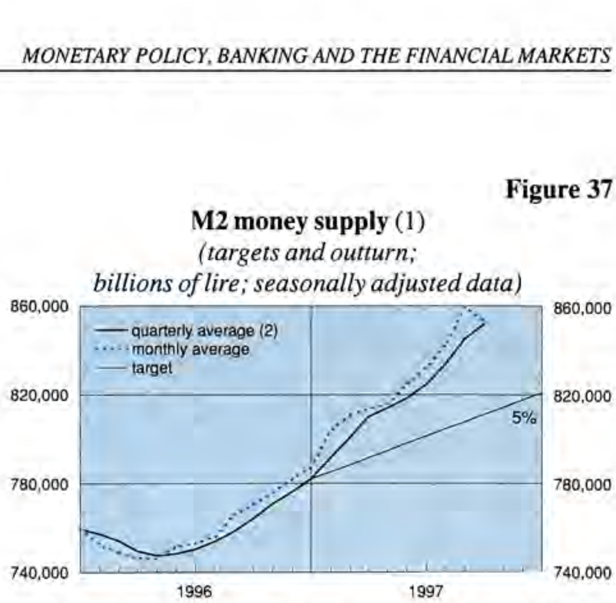
(1) Rounding may cause discrepancies in totals. – (2) Provisional – (3) Net redemptions of government securities in the BI-UIC portfolio and other items. – (4) At book value. – (5) Average reserve requirement during the mid-month to mid-month reserve maintenance period.

The foreign component of financial assets grew by 66.5 trillion lire in the first eight months. The bulk of the increase consisted of households' investment in foreign bonds, including Eurolira issues, and short-term lira loans from non-bank intermediaries to non-residents, who used the proceeds to finance purchases of Italian government securities.

Figure 37

M2 money supply (1)

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



(1) Does not include CDs for terms of 18 months or more. – (2) Average for the three months ending in the reference month.

Banking

Bank credit has grown more rapidly than last year, especially in the second quarter (Table 18). Lending rose by 7.5 trillion lire in the first eight months, or by 4.5 per cent on a seasonally adjusted annual basis; in the same period of 1996 it had diminished by 5.4 trillion, which corresponded to seasonally adjusted annualized growth of 2.8 per cent. Credit terms gradually became more favourable for borrowers: the fall in lending rates, which was steeper than that in Treasury bill rates, was accompanied by an increase in lending commitments.

The dynamics of lending differed markedly according to branch of economic activity. The twelve months ending in June saw an increase in lending to private sector firms, granted both directly to non-financial enterprises operating in industry and services and indirectly via holding companies, which are classified among financial companies (Table 19); credit demand was sustained by the recovery in investment, particularly in inventories, given a narrowing of profit margins in the first quarter. On the other hand, there was a further sharp contraction in lending to the construction industry, together with a more pronounced reduction in borrowing by state-controlled enterprises and holding companies as a result of restructuring. Lending to consumer households and general government rose rapidly, the latter owing in part to special public works for the Jubilee.

The behaviour of bank deposits and the money supply

Bank deposits and borrowed funds grew at a moderate annual rate of 4.1 per cent in the first eight months of 1997; at the same time there was a strong shift in composition towards bonds and short-term deposits. Current accounts grew by 15.0 per cent, CDs for terms of less than 18 months and savings deposits rose by 17.2 per cent, CDs for terms of 18 months or more decreased by 46.5 per cent, and the volume of bank bonds in issue rose by 35.9 per cent.

The expansion in short-term deposits was greater in the South (14.4 per cent in the twelve months to August) than in the North and Centre (11.9 and 12.9 per cent respectively), whereas the reduction of about 12 percentage points in CDs for terms of 18 months or more as a share of total deposits was uniform throughout the country.

One of the factors behind the strong growth in short-term deposits was the decline in money market rates and the consequent reduction in opportunity cost. The differential between average yields on Treasury bills and the rate on current accounts, adjusted for the difference in tax treatment, fell from an average of 3.6 percentage points in 1996 to one of 2.9 points in the first half of this year. Following the reduction of official rates at the end of June and the simultaneous lowering of the interest rate paid on compulsory reserves from 5.5 to 4.5 per cent, current account deposit rates fell by 0.4 percentage points, with the result that the differential rose again to 3.1 points in August before falling back in September following the decline in Treasury bill rates.

The narrowing of the differential was attributable partly to the substantial net redemption of Treasury bills as part of the Treasury's strategy to lengthen the average maturity of the public debt, and partly to the banks' interest rate policy aimed at enticing savers back towards short-term deposits, which are less costly than bonds. A study of a sample of 96 banks confirms that those that recorded the largest expansion in short-term deposits were those that had reduced their current account rates the least.

The growth in short-term deposits was nonetheless faster than would have been expected on the basis of estimates of the demand for money derived from historical data. The increase in the propensity to hold liquidity in the form of current accounts is partly a result of structural changes in the public's portfolio preferences following the decline in nominal yields on government securities to all-time lows. Savers are turning to alternatives to investment in government paper; in the twelve months ending in August there were large increases in subscriptions of investment fund units and managed portfolios (see the table and the box "Managed savings in 1997"). The shift in portfolio composition towards these forms of saving may involve a brief switching of funds into bank deposits, the stock of which therefore tends to increase temporarily; moreover, the lower liquidity of the new types of investment and their greater yield volatility may call for permanently larger holdings of liquidity. Finally, uncertainty whether inflation and nominal yields will remain at present levels may have reduced the propensity to invest in long-term government securities.

The shift from long-term to short-term CDs was also due partly to the revised tax treatment of interest on deposits introduced in June 1996 (see the box "Changes in the tax treatment of interest on bank deposits", in Economic Bulletin, *No. 23, October 1996). Between June 1996 and August 1997 CDs for terms of 18 months or more, on which the rate of withholding tax was raised, declined by 129.8 trillion lire, while the volume of bonds in issue rose by 118.6 trillion; the total of short-term CDs and savings deposits, which had been declining for more than four years, rose by 31.1 trillion lire.*

These exceptionally large and rapid structural changes in banks' deposits and borrowed funds confirm the correctness of last autumn's decision to exclude CDs for terms of 18 months or more from the definition of the M2 money supply; based on the old definition, this aggregate fell by 3.6 per cent in the first eight months of the year, and dropped to a new low in relation to GDP in the first half-year.

The same changes nonetheless caused M2, as newly defined, to grow by much more than the annual 5 per cent ceiling fixed last autumn. On the basis of seasonally adjusted average monthly data, it increased at an annual rate of 13.6 per cent in the first eight months of the year. The figures for September indicate a slowdown to 11.1 per cent, which could bring the year-end rate of growth to around 10 per cent.

On the basis of the foregoing considerations, it can be argued that the value of M2 as a leading indicator of inflationary pressures has diminished during the year and that the risks associated with overshooting the target for this aggregate are therefore limited. This view is corroborated by the performance of domestic liquid assets, financial assets and credit. Domestic liquid assets (comprising not only M2 but also long-term CDs, banks' repos with customers, post office savings certificates and Treasury bills held by the non-state sector) contracted at an annual rate of 4.8 per cent in the first eight months, while the growth in financial assets and credit was in line with the forecasts made last autumn (see "Statement of the Governor to the Interministerial Committee for Economic Planning", in Economic Bulletin, *No. 23, October 1996).*

Financial assets of the non-state sector (1)
(billions of lire and percentage shares)

	Flows				Percentage composition of stocks (2)	
	12 months ending in:		From start of year to:			
	August 1996	August 1997	August 1996	August 1997	August 1996	August 1997
Liquid assets	**27,014**	**–85,054**	**–52,963**	**–98,640**	**55.2**	**48.3**
M2	6,168	83,873	–70,347	–15,651	25.9	26.6
bank current accounts	*8,674*	*49,897*	*–49,707*	*–22,933*	*14.7*	*15.2*
short-term CDs and savings deposits	*–3,744*	*24,991*	*–5,373*	*13,700*	*6.1*	*6.4*
Other liquid assets	20,846	–168,926	17,384	–82,989	29.3	21.7
Treasury bills	*–36,061*	*–71,020*	*–26,743*	*–34,606*	*10.6*	*7.6*
CDs for terms of 18 months or more	*38,557*	*–118,142*	*21,000*	*–87,443*	*10.2*	*5.7*
Medium and long-term securities	**47,956**	**72,823**	**51,468**	**50,754**	**31.8**	**32.0**
Bonds	27,989	104,768	26,356	63,345	7.3	9.9
Government securities	19,967	–31,945	25,111	–12,591	24.6	22.1
Investment fund units	**27,156**	**118,881**	**28,340**	**88,995**	**5.4**	**9.5**
Other financial assets	**1,159**	**2,417**	**1,230**	**1,128**	**0.2**	**0.2**
External financial assets	**40,747**	**83,756**	**34,370**	**66,467**	**7.4**	**10.0**
Total	**144,032**	**192,822**	**62,445**	**108,704**	**100.0**	**100.0**

(1) Excluding shares. Rounding may cause discrepancies in totals. – (2) End-of-period data.

The revival in lending occurred mainly in the lira component; foreign currency lending, which had declined continuously between 1993 and 1996, remained virtually unchanged. Medium and long-term loans grew more swiftly than total lending.

The banks' bad debts at nominal value diminished in the first eight months of the year both in absolute terms and as a proportion of total lending. The decline is attributable to the transfer of bad debts from Banco di Napoli to its non-bank subsidiary SGA under its corporate restructuring plan. Even if these are included among banks' bad debts, the twelve-month rate of growth in the aggregate slowed down to 8.6 per cent, 3 points less than at the end of 1996. The gradual improvement in loan quality is confirmed by the decline both in substandard loans (loans to customers in temporary difficulty) and in loans newly marked down as bad debts (about a fifth less than in the second half of 1996). Bad loans to financial companies and industry excluding construction fell significantly, while the growth in those to the construction industry and consumer households remained high. The improvement in credit risk was paralleled by a strengthening of banks' capital bases (Table a50).

Bank lending rates continued to come down, reflecting the fall in yields in the money and financial market. Between the beginning of the year and September, the average short-term lira lending rate decreased by 1.5 percentage points to 9.4 per cent; the differential vis-à-vis the yield on Treasury bills narrowed from 4.1 to 3.0 percentage points in August, before widening by 0.5 points in September owing to the further decrease in Treasury bill rates. Since December 1995, when the decline in yields on government securities began, all the main bank lending rates have fallen by around 3.5 percentage points, about 1 point less than the reduction in Treasury bill yields and three quarters of a point more than that in official interest rates (Figure 38).

Table 18

Main items in the banks' balance sheets

(percentage changes on corresponding period of previous year)

	1994	1995	1996	1997		
				March	June	August (1)
Assets						
Securities (2)	10.0	–8.7	8.9	6.0	0.1	–4.0
government securities (2)	*10.6*	*–7.8*	*10.8*	*8.2*	*0.9*	*–4.1*
Loans (3) (4) (5)	1.0	2.7	2.4	2.3	3.5	3.6
short-term (4)	*–4.3*	*3.2*	*0.9*	*2.0*	*2.4*	*2.7*
medium and long-term (5)	*7.3*	*2.1*	*4.0*	*2.6*	*4.7*	*4.7*
Bad debts	29.8	21.0	11.7	4.9	1.5	1.0
Liabilities						
Domestic deposits and bonds (averages) (6)	2.0	1.4	8.3	8.3	6.5	6.9
deposits	*0.6*	*1.7*	*2.9*	*0.7*	*–3.5*	*–3.6*
current accounts	*3.2*	*0.6*	*6.0*	*10.9*	*10.8*	*13.8*
short-term CDs	*–19.5*	*–14.1*	*12.3*	*27.4*	*42.0*	*33.1*
medium and long-term CDs	*4.0*	*16.2*	*–1.5*	*–18.9*	*–32.8*	*–38.2*
bonds	*11.1*	*–0.2*	*30.2*	*38.4*	*46.4*	*46.7*
Net external liabilities (3)	17.0	–37.9	–43.7	–33.8	–67.2	–52.2
Repos with resident non-banks	–8.4	44.5	–5.6	–2.9	7.9	7.9

(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) Adjusted for the effects of the transactions in January 1997 between Banco di Napoli and the non-bank company SGA. – (6) For deposits, monthly averages of daily data; for bonds, end-of-period data; for medium and long-term CDs until 1994, average of end-month data for the reference month and the previous month.

Table 19

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

(percentages)

	General government (2)	Finance and insurance (3)		Non-financial enterprises				Households		*Memorandum item:*	Total (3) (6)
			Holding companies		Industry excl. construction	Construction	Services	Consumer (4)	Sole traders	*State-controlled enterprises* (5)	
							12-month percentage changes in lending				
1995 – December	3.0	–5.6	–15.9	4.5	7.0	–3.1	5.1	6.1	5.5	3.4	3.4
1996 – June	2.9	0.5	–10.5	1.9	5.3	–3.5	0.2	3.5	7.1	–8.0	2.7
1996 – December	3.6	5.2	–5.8	0.1	3.5	–5.0	–1.9	3.2	4.6	–18.2	2.2
1997 – March	3.4	10.2	–13.3	0.0	2.8	–8.0	–0.3	3.3	2.6	–32.6	2.3
1997 – June	7.1	12.6	–3.5	0.6	2.8	–8.3	1.4	5.3	1.4	–32.1	3.5
							12-month percentage changes in bad debts				
1995 – December	36.5	0.0	–3.2	22.3	6.8	53.0	23.8	24.8	20.8	24.9	21.3
1996 – June	37.2	6.9	1.1	16.0	2.6	47.3	13.1	14.3	17.4	–6.8	15.7
1996 – December	–31.3	18.4	19.6	10.6	1.1	26.8	8.6	15.6	12.7	–19.2	11.8
1997 – March	–33.4	6.1	27.0	3.4	–5.1	16.9	3.7	11.7	4.6	–5.0	4.8
1997 – June	–35.8	–8.8	–0.7	–0.6	–6.8	8.3	–0.5	17.1	–1.8	–24.3	1.3
							Ratio of bad debts to total lending (7)				
1995 – December	1.1	3.5	4.4	10.1	7.6	15.9	9.4	9.9	15.8	1.3	9.3
1996 – June	1.1	4.1	5.4	10.6	7.5	18.0	10.1	10.3	16.3	1.2	9.8
1996 – December	0.7	4.0	5.6	11.1	7.5	20.2	10.4	11.0	16.9	1.3	10.1
1997 – March	0.7	3.6	6.9	10.6	7.1	20.0	9.9	10.9	16.2	1.8	9.7
1997 – June	0.6	3.2	5.5	10.5	6.8	20.6	9.9	11.3	15.8	1.4	9.6
							Percentage composition of lending				
1996 – June	9.8	11.7	4.1	49.5	23.0	7.2	18.5	15.7	13.3	5.5	100
1997 – June	10.1	13.2	3.8	47.9	22.7	6.3	18.0	15.9	12.9	3.6	100

Source: Banking supervision returns.

(1) Lending to non-bank residents. 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) Percentage changes in lending are adjusted for the effects of the transactions in January 1997 between Banco di Napoli and the non-bank company SGA. – (4) Includes private social institutions. – (5) Comprises state holding companies and state-controlled companies classified in the table among holding companies and non-financial enterprises respectively. – (6) Any disparities between the data reported in this table and those in Table 18 are due to discrepancies in banks' statistical reports. – (7) The denominator includes bad debts.

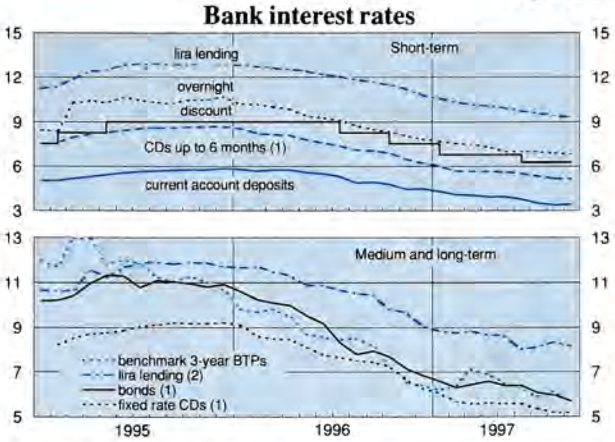
Deposit rates have fallen less than lending rates. In the first nine months of the year the average rate on current accounts declined by 1.1 percentage points to 3.5 per cent; 0.4 points of the decline followed the reduction in the discount rate and the rate of interest on compulsory reserves on 30 June.

There was a significant change in the composition of banks' deposits and borrowed funds, whose twelve-month rate of increase slowed down from 8.3 per cent at the end of 1996 to 6.9 per cent in August: rapid growth in short-term instruments and repurchase agreements contrasted with a reduction in medium and long-term funds, accompanied by a shift from long-term CDs to bonds (see the box "The behaviour of bank deposits and the money supply"). Overall, these shifts led to only slight variations in the average maturity of borrowed funds.

In the first eight months of the year the banks' net foreign liabilities decreased by 6.5 trillion lire net of exchange rate adjustments. Lira-denominated foreign assets and liabilities both continued to increase (Figure 39) in parallel with the growing importance of lira transactions in international markets. Part of the growth in assets was connected with the financing of massive purchases of Italian securities by non-residents.

Figure 38

Bank interest rates



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

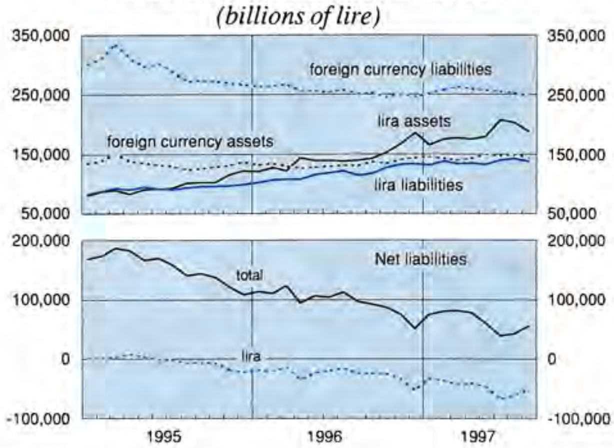
The banks' aggregate securities portfolio has contracted by 29.3 trillion lire since the beginning of the year. Most of the decrease was due to sales of 26.3 trillion lire of Treasury bills to customers, prompted by the difficulty of purchasing Treasury bills at auction owing to the reduction in issue volumes. There were substantial net purchases of Treasury bonds in the first quarter (13.7 trillion lire), a time of weak bond prices, but they were almost fully offset by disposals in the second quarter, when prices rose again.

Banks' gross income was 1.0 per cent lower in the first half of 1997 than in the same period a year earlier and fell from 3.73 to 3.50 per cent of total assets on an annualized basis. A decline in net interest income was only partly offset by a rise in other income. The fall in net interest income reflects the narrowing of the interest rate spread between short-term lira loans and deposits and the growth in the proportion of medium and long-term operations. Spreads on the latter are structurally smaller because of the higher cost of funds and lower lending rates, given the higher degree of collateralization. Among other income, that derived from managed savings services increased considerably.

Banks' operating costs continued to rise and were 1.1 per cent higher than in the first half of 1996. Staff costs did not fall, despite a decrease of 2.3 per cent in the number of staff, as costs per employee rose by 2.0 per cent. Net income declined from 1.22 to 1.10 per cent of total assets; profits fell more sharply (from 0.60 to 0.38 per cent before tax and from 0.22 to 0.08 per cent after tax) on account of the large increase in value adjustments to balance sheet assets.

Figure 39

Banks' foreign assets and liabilities
(billions of lire)



Source: Banks' foreign exchange returns to UIC.

The financial markets

The considerable reduction in the Treasury's borrowing requirement caused net issues of government securities, including Republic of Italy offerings, to fall from 102.3 trillion lire in the first nine months of 1996 to 36.8 trillion in the same period of this year, a contraction of around two thirds (Table 20). There was a sharp decline in the volume of Treasury bills in circulation and a corresponding increase in net issues of zero-coupon Treasury certificates (18-month certificates, whose features and term most closely resemble those of Treasury bills, were introduced in January); issues of Treasury bonds for all maturities, from 3 to 30 years, were substantial. Accordingly, the average maturity of new issues lengthened significantly, as did the average residual maturity of the public debt, which increased from 36 months at the beginning of the year to 40

Table 20

Issues of government securities and composition of stocks

	1993	1994	1995	1996 Jan.-Sept.	1997 Jan.-Sept.
			Gross issues (1) *(billions of lire)*		
BOTs	737,345	679,500	714,250	507,023	393,500
CTZs	–	–	47,217	45,986	83,333
CCTs (2)	46,000	60,767	121,899	87,326	60,904
BTPs	145,452	167,574	118,484	113,220	157,867
CTOs and other lira securities	9,541	5,594	3,165	5,031	–
CTEs and BTEs	19,984	17,665	6,769	3,913	–
Republic of Italy issues	27,292	18,115	18,769	14,328	12,481
Total (3)	**985,614**	**949,215**	**1,030,553**	**776,828**	**708,084**
			Net issues (1) *(billions of lire)*		
BOTs	6,480	19,155	–1,500	–12,703	–57,560
CTZs	–	–	38,299	39,138	38,729
CCTs (2)	10,698	37,629	–29,781	33,898	11,799
BTPs	117,485	104,458	95,925	45,148	60,150
CTOs and other lira securities	658	–6,378	–7,581	–10,620	–19,925
CTEs and BTEs	–1,394	–4,708	–8,163	–3,389	–4,354
Republic of Italy issues	18,748	16,059	16,927	10,860	7,965
Total (3)	**152,675**	**166,216**	**104,125**	**102,333**	**36,804**
			Stocks (1) *(percentage composition)*		
BOTs	*26.4*	*24.7*	*23.0*	*21.1*	*16.7*
CTZs	–	–	*2.6*	*40.9*	*7.9*
CCTs (2)	*34.0*	*32.7*	*28.9*	*29.2*	*28.7*
BTPs	*27.1*	*30.9*	*34.6*	*35.1*	*37.7*
CTOs and other lira securities	*5.5*	*4.5*	*3.8*	*3.0*	*2.0*
CTEs and BTEs	*3.8*	*3.3*	*2.7*	*2.2*	*1.9*
Republic of Italy issues	*3.2*	*3.8*	*4.4*	*4.4*	*5.2*
Total (3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memorandum item:					
Total in billions of lire	**1,493,659**	**1,671,699**	**1,793,177**	**1,893,367**	**1,956,803**

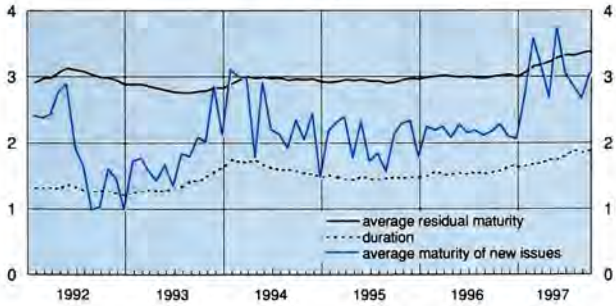
(1) The securities issued in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy (76,206 billion lire) and those issued in December 1993 to finance the Treasury payments account (31,000 billion lire) are not included. Gross issues at nominal value. Rounding may cause discrepancies in totals. – (2) Variable-rate only. – (3) Includes Republic of Italy issues.

months at the end of September (Figure 40). Net fund-raising by the Treasury on international markets amounted to about 8 trillion lire and was distributed across a wide range of currencies.

Figure 40

Average maturity of outstanding government securities and of new issues

(years)



Net purchases of government securities differed markedly according to category of investor. In the first seven months of the year the portfolios of banks and the non-state sector decreased by 18.2 and 45.1 trillion lire respectively; however, the amount held indirectly through investment funds by the non-state sector (especially households) grew by 28.2 trillion, primarily on account of net purchases of zero-coupon Treasury certificates. By far the largest net purchases were those made by non-resident investors, which more than doubled from the already high figure of a year earlier to 80.8 trillion lire, including around 70 trillion of Treasury bonds. Foreign demand was stimulated by expectations of declining interest rates and by the elimination of withholding tax for non-residents in January of this year: purchases constantly exceeded redemptions from January onwards, even when the market was relatively weak. A little less than half of these positions were hedged against exchange rate risk by borrowing at short term in lire.

The fall in inflation, the stability of the lira, the market's perception of a higher likelihood of Italian participation in EMU and the large reduction in net issues by the Treasury benefited the demand for and supply of lira-denominated Eurobonds. Gross issues, largely by non-residents from both the private and the public sectors, amounted to 44.6 trillion lire in the first nine months, 47 per cent more than in the same period of 1996. They included a number of step-down fixed-rate issues, with coupons set at a higher level for an initial period (normally up to 1998) and then reduced in order to approximate market expectations of interest rate trends in view of the launch of the third phase of EMU and to increase the fungibility of the securities with other bonds once they are converted into euros. Some of these issues contained an explicit clause for convertibility into the single currency.

Both volume and prices rose sharply on all the spot and futures markets. The growth in activity was favoured by expectations of declining interest rates; whereas in the past it had been attributable to an increase in expected volatility, on this occasion volatility gradually decreased. After rising in February, the expected volatility of Treasury bonds implicit in options prices tended to diminish, converging towards the volatility recorded for Bunds, whose fluctuations it followed (Figure 41); that of the yields on 3-month Eurolira deposits also decreased, but in this case there was no correlation with the volatility of the comparable Euromark instrument.

Figure 41

Volatility of Treasury bonds, Bunds and interest rates in lire and marks on the Euromarket (1)

(percentage points on an annual basis)

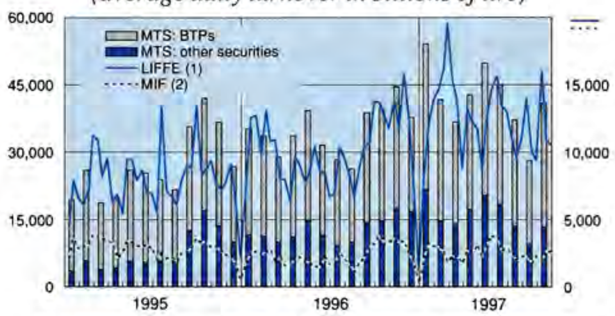
(1) The trend lines were generated using the Hodrick and Prescott method. – (2) Volatility implicit in the prices of options on 10-year Treasury bond futures and Bund futures quoted on LIFFE. – (3) Volatility implicit in the prices of options on 3-month futures quoted on LIFFE.

Activity on the screen-based market in government securities was 26.3 per cent higher in the first nine months of 1997 than in the same period of 1996 (Figure 42). There was a further decline in the concentration of trading on the most recent issues, partly as a result of the introduction of eligibility requirements for specialist dealers. Fully phased in from July 1996 onwards, these requirements had beneficial effects on the market's liquidity and the significance of prices; trading in what used to be less active securities, such as Treasury bills and zero-coupon Treasury certificates, also increased.

Figure 42

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; left-hand scale. – (2) Turnover in futures contracts on 5 and 10-year Treasury bonds; right-hand scale.

Trading in 10-year Treasury bond futures on LIFFE was 39 per cent higher in the first nine months of 1997 than a year earlier. After declining for two years, trading on MIF also revived, albeit more moderately (by 21.9 per cent). Both markets decided to adjust the nominal yield on the notional Treasury bond underlying the futures contract in order to align it with market rates and foster arbitrage with the securities traded on the spot market. The yield was lowered from 12 to 6 per cent on MIF in March and to 8 per cent on LIFFE in June; in August the yield on MIF was aligned with that on LIFFE in order to encourage arbitrage between the two markets.

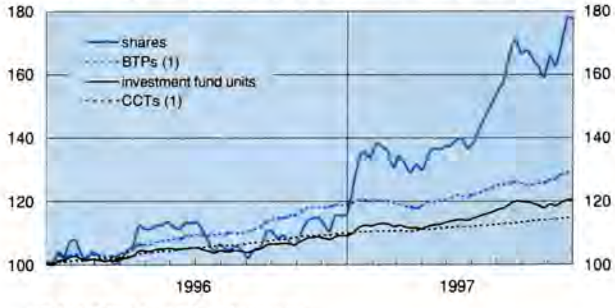
Trading in 3-month Eurolira futures on LIFFE more than doubled with respect to 1996. Trading in futures on Italian 1-month interbank deposit rates commenced on 2 June; turnover in these contracts was smaller than that in 3-month Eurolira futures on LIFFE, but it was considerable in relation to the underlying market.

Prices and volume also rose sharply on the Italian stock exchange. The share price index gained 52.1 per cent between the beginning of the year and September, the highest yield of all lira-denominated financial instruments (Figure 43) and larger than the increases recorded in France, Germany, the United Kingdom and the United States (29.4, 37.5, 22.2 and 24.9 per cent respectively); over the last two years the yield on the Italian stock exchange has been in line with that on the other major exchanges, which had previously been considerably higher (Figure 44; see the box "The recent performance of the Italian stock exchange by international comparison", *Economic Bulletin*, No. 24, February 1997). In the first nine months the decline in the average earnings/price ratio was correspondingly larger than in the other countries, falling to a three-year low of less than 4 per cent in September (Figure 45).

Figure 43

Securities market: indices of total return

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



(1) Net of 12.5 per cent withholding tax.

Share prices fluctuated quite widely, but the general trend was upwards, reflecting the improved outlook for growth, the behaviour of interest rates and the performance of the main international stock exchanges. They surged in January, fell in February and March, steadied over the next two months and resumed rising in June and July, gaining a total of 21.6 per cent in these two months; they faltered in August, reflecting fears of a tighter monetary stance in the major countries, but moved ahead again in September and October, albeit with large fluctuations due to uncertainty about the political situation.

Managed savings in 1997

Net fund-raising by investment funds and portfolio management services recorded an exceptional increase in the first nine months of the year, rising to 167.8 trillion lire compared with 67 trillion in the corresponding period in 1996 (Table 1). Most of the increase accrued to investment funds, which recorded net subscriptions of 100.9 trillion lire; as in 1996 bond funds were the most popular and accounted for almost three quarters of total net fund subscriptions. Equity funds also achieved substantial net subscriptions of 22.3 trillion lire, compared with net redemptions of 4 trillion in the whole of 1996. Funds specializing in foreign securities accounted for nearly one quarter of total net fund subscriptions, divided almost equally between equity and bond funds. The growth in the resources entrusted to portfolio management services mainly concerned those run by banks; the market shares of those run by investment firms and trust companies declined.

At the end of September the resources managed by the industry amounted to just over 665 trillion lire, over 207 trillion lire more than at the end of 1996. The greater part of the increase was attributable to the inflow of funds, while the rise in the prices of securities and the reinvestment of income contributed just under one fifth. The resources administered by investment funds and portfolio management services at the end of September are estimated to have amounted to just over one fifth of the stock of financial assets held by consumer households, an increase of nearly 8 percentage points compared with the end of 1996.

As on other occasions in the past, a large volume of resources flowed towards the managed savings industry in a period that was generally favourable for financial markets. In particular, the strong rise of the Italian and leading foreign stock markets contributed to the growth in equity funds' subscriptions and the very large increase in investment funds' overall average rate of return, which rose from 7.4 to 13.1 per cent on an annual basis in the first nine months of the year. The greater volatility of securities prices compared with 1996 does not appear to have curbed the growth in fund-raising, except for the temporary slowdown in the second quarter, when market uncertainty was most pronounced.

The substantial increase in the proportion of foreign bonds held by investment funds and portfolio management services contributed to the lengthening of the duration of their combined portfolio by six months to 2.4 years at the end of September. Moreover, as the proportion of equities in the portfolio rose from 12.1 to 15.7 per cent over the period, it appears that the industry's propensity to incur risk increased, reinforcing a tendency that had been evident in 1996. The increase in duration lengthened the average maturity of households' financial assets, notwithstanding the rapid rise in current account deposits and repos in the first nine months of the year.

Table 1

Securities investment funds and portfolio management services (1)
(billions of lire)

	Flows			End-of-period stocks					
	Net fund-raising			Portfolio		Liquidity (2)		Net assets	
	1996	1996 Jan.-Sept.	1997 Jan.-Sept.	1996	1997 Sept.	1996	1997 Sept.	1996	1997 Sept.
Securities investment funds	**58,226**	**31,748**	**100,857**	**180,251**	**281,117**	**17,293**	**39,100**	**197,544**	**320,217**
Bond	64,757	37,007	74,219	135,639	196,985	14,023	33,205	149,662	230,190
Mixed	–2,566	–2,081	4,300	12,131	18,122	738	1,583	12,869	19,705
Equity	–3,965	–3,178	22,338	32,480	66,010	2,533	4,312	35,013	70,322
Portfolio management services (3)	**50,436**	**35,218**	**66,968**	**244,082**	**305,000**	**16,502**	**40,000**	**260,584**	**345,000**
of which: provided by banks	35,607	26,922	55,000	175,817	226,000	11,654	39,000	187,471	265,000
Total	**108,662**	**66,966**	**167,825**	**424,333**	**586,117**	**33,795**	**79,100**	**458,128**	**665,217**
Memorandum item:									
Total financial assets of the non-state sector (3)	146,564	77,331	119,000	–	–	–	–	3,036,305	3,195,000

(1) Rounding may cause discrepancies in total. – (2) The difference between the portfolio and net assets; comprises bank deposits, repos and accrued coupons. – (3) The figures for 1997 are partly estimated.

Rising securities prices do not appear to have been the only cause of the growth in fund-raising, however. The structural supply-side factors that had emerged in the second half of 1996 continued to encourage households to transfer resources into professionally managed instruments. In particular, the introduction of new bond-oriented products in the investment fund sector, promoted mainly by management companies controlled by banks, accounted for around one quarter of the increase in subscriptions, while the spread of portfolio management products specializing in investment fund units generated nearly a quarter of the increase in that sector's fund-raising.

The rapid expansion of managed savings significantly modified the composition of households' financial assets. The greatest change occurred in households' direct holdings of government securities, which are estimated to have fallen by 85 trillion lire in the first nine months of 1997, equal to 13 per cent of the total held at the beginning of the year. Net purchases of such assets by investment funds and portfolio management services amounted to 66 trillion and thus did not fully offset the fall. The share of households' financial assets consisting of government securities held directly or indirectly consequently declined, making room for increases in the shares of bank bonds (for the most part held directly), foreign securities (held both directly and via investment funds) and listed shares (acquired primarily via investment funds; Table 2). Net purchases of foreign securities by investment funds and portfolio management services were especially large, amounting to just under 48 trillion lire; their purchases of foreign shares came to more than 17 trillion, whereas those of Italian shares amounted to only 2.8 trillion.

Table 2

Securities investment funds and portfolio management services: portfolio composition and breakdown of net purchases of securities

(percentages)

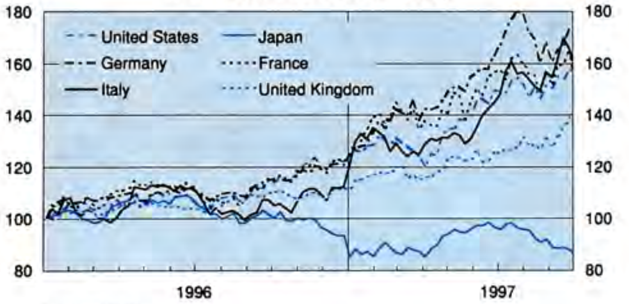
	Portfolio (end-of-period stocks)						Net purchases		
	1996			1997 (Sept.) (1)			1997 (Jan.-Sept.) (1)		
	Investment funds	Portfolio management services	Total	Investment funds	Portfolio management services	Total	Investment funds	Portfolio management services	Total
Italian bonds and government securities	**70.8**	**81.3**	**76.8**	**57.7**	**75.1**	**66.8**	**52.4**	**53.4**	**52.7**
Short-term and variable rate	33.7	43.0	39.1	17.5	33.3	25.7	–12.5	–19.4	–14.9
BOTs	14.3	7.4	10.3	7.5	5.7	6.6	–8.7	–3.1	–6.7
CCTs	19.4	35.7	28.7	10.0	27.6	19.2	–3.9	–16.3	–8.2
Medium and long-term	37.1	38.2	37.8	40.2	41.8	41.0	64.9	72.8	67.6
CTZs	11.2	7.0	8.7	18.5	8.7	13.4	33.6	22.7	29.8
BTPs	23.2	24.0	23.7	18.4	23.8	21.2	13.2	23.4	16.8
Other	2.7	7.3	5.3	3.3	9.4	6.5	18.1	26.7	21.1
Italian shares	**11.5**	**4.8**	**7.7**	**11.8**	**5.1**	**8.3**	**3.0**	**–0.2**	**1.9**
Foreign securities	17.2	8.5	12.2	27.8	9.6	18.4	45.5	10.8	33.4
Bonds	8.5	7.0	7.7	14.3	7.9	11.0	27.5	10.4	21.6
Shares	8.7	1.5	4.5	13.6	1.7	7.4	18.0	0.4	11.9
Other financial assets (2)	**0.6**	**5.4**	**3.3**	**2.7**	**10.2**	**6.6**	**–0.9**	**36.1**	**11.9**
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Total portfolio (in billions of lire)	**180,247**	**244,084**	**424,335**	**281,117**	**305,000**	**586,117**	**94,182**	**50,000**	**144,182**
of which: bonds	*142,917*	*215,561*	*358,478*	*209,447*	*253,375*	*462,822*	*75,223*	*31,875*	*107,098*
shares	*36,351*	*15,339*	*51,690*	*71,251*	*20,616*	*91,867*	*19,769*	*94*	*19,863*
Memorandum item:									
Total consolidated portfolio (billions of lire) (3)	**180,247**	**231,271**	**411,518**	**281,117**	**274,602**	**555,719**	**94,182**	**35,812**	**129,994**

(1) Partly estimated. – (2) Includes units of investment funds. – (3) Obtained by excluding the units of Italian investment funds held in the portfolios of portfolio managent services.

The massive increase in stock exchange trading involved both the spot and the futures markets. For the first time since the introduction of the FIB30 futures contract on the MIB30 stock index, turnover on the spot market rose at a rate comparable to that of futures trading (Figure 46). Turnover in the option on the most heavily-traded futures contract more than quadrupled.

Figure 44

Indices of share prices on the main international stock exchanges
(29 December 1995=100)



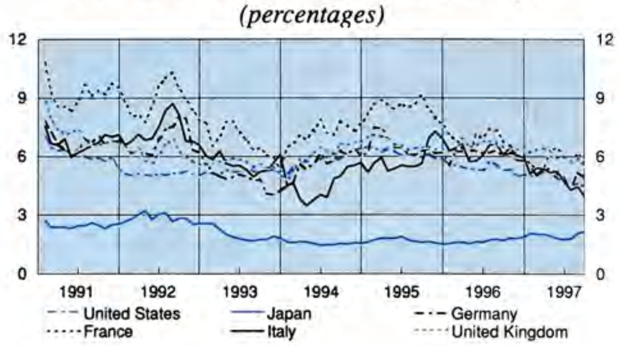
Source: Reuters.

In spite of these developments, the amount of equity capital raised on the stock exchange in the first nine months of 1997 was even smaller than in 1996. Gross share issues by existing listed companies totaled 1.28 trillion lire, compared with 3.97 trillion in the same period of the previous year, while ten newly-listed companies contributed 10.4 trillion to total stock market capitalization, compared with 13.8 trillion in 1996.

The privatization of the Italian markets – the stock exchange, the screen-based market in government securities (MTS) and the Italian futures market (MIF) – is nearing completion. Two limited companies have been formed to manage MTS and MIF; the new regulations governing these two markets, which will be issued by the Treasury, will be completed with the approval of the rules prepared by the new management companies. The shares of the stock exchange management company were sold by means of a multiple price auction and allotted to 59 bidders, including 17 banks, 23 Italian securities firms and 13 stockbrokers.

Figure 45

Earnings/price ratios on the main international stock exchanges
(percentages)

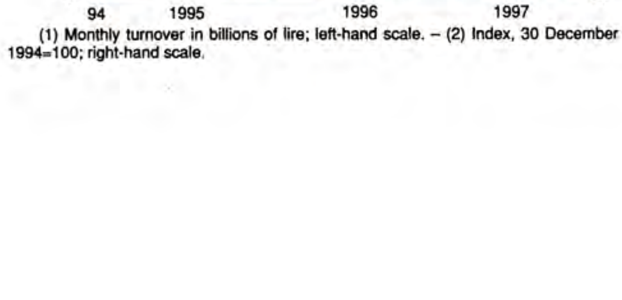


Source: Datastream.

The net inflow of funds to investment funds and portfolio management services was exceptionally large, rising from 31.7 and 35.2 trillion lire respectively in the first nine months of 1996 to 100.9 and 67.0 trillion in the same period of this year (see the box "Managed savings in 1997"). The average yield on investment funds rose from 7.4 to 13.1 per cent between the two periods, thanks to the large rise in the yield on equity and mixed funds, which more than outweighed the decline in that on bond funds.

Figure 46

Italian stock exchange: spot and futures share market



(1) Monthly turnover in billions of lire; left-hand scale. – (2) Index, 30 December 1994=100; right-hand scale.

Short-term economic prospects, prices and monetary policy

Trends in 1997

According to IMF estimates, the growth in output in the industrial countries in 1997 is likely to work out at 2.9 per cent, compared with 2.4 per cent last year. This result, which is higher than expected, reflects exceptionally rapid growth in the United States and the strengthening of the recovery in continental Europe. In Japan, by contrast, the upturn that had only begun in mid-1995 came to a halt in the first half of this year. The developing countries continued to record growth rates of around 6 per cent. Output in Central and Eastern Europe and the countries of the former Soviet Union increased overall for the first time this decade.

As regards employment, there continues to be a sharp contrast between the situation in the United States and the United Kingdom and the still very unfavourable conditions in continental Europe.

The industrial countries made further progress in containing inflation, which fell to an annual average of 2 per cent, aided by the continued moderate rise in commodity prices and labour costs and the firmness of monetary and budgetary policies. The dispersion of inflation rates in the leading economies declined to its lowest level in decades. Despite rapid growth, inflation also fell in the areas outside the OECD.

In the European Union the intensification of efforts to adjust the public finances as the date for deciding which countries will participate in monetary union approaches is expected to reduce the average general government budget deficit from 4.3 per cent of GDP in 1996 to 2.7 per cent this year. The ratio of public debt to GDP is likely to average 72 per cent at the end of the year, only half a percentage point less than in 1996.

The Italian economy began to grow again in the second quarter, later than the rest of Europe.

The upturn in economic activity reflects the increase in the consumption of durable goods, especially automobiles, purchases of which were boosted by government incentives. The consumption of non-durables remained virtually unchanged. The effect of the increase in the tax burden on households' disposable income and on consumption was attenuated by faster-than-expected disinflation, which contributed to the increase in real earnings and limited the erosion of the purchasing power of financial assets. After declining in 1996, stocks were replenished this year, making a significant contribution to the growth in output. Gross fixed investment continued to fall in the first half of the year, but showed signs of recovery in subsequent months. Exports and imports increased considerably; their net contribution to GDP growth was nevertheless negative.

Exports benefited from the growth in the economies of Italy's leading trading partners and a pronounced slowdown in export prices, which partially offset the decline in competitiveness recorded in 1996. Imports were stimulated by the acceleration in economic activity and those of automobiles increased.

The decline in the trade surplus was offset by a reduction in the deficit on invisibles as a result of the disappearance of the deficit on unrequited transfers and the fall in net interest payments. The current account surplus, much of which was generated by trade with non-EU countries, remained high, and is expected to amount to 3.4 per cent of GDP for the year as a whole. Italy's net foreign debt, which had been declining since the end of 1992, when it had reached nearly 11 per cent of GDP, has been eliminated this year. The lira remained broadly stable in relation to other EU currencies, maintaining the exchange rates at which it re-entered the ERM.

Despite the acceleration forecast for the second half of the year, the average rate of GDP growth in

1997 will remain low, at just over 1 per cent, in line with the estimate in the Forecasting and Planning Report for 1998 (Table 21).

Table 21

Actual and forecast outturns for the Italian economy

	1996	1997 (1)	1998 (1)
	(percentage changes)		
Real aggregates			
Gross domestic product	0.7	1.2	2.0
Domestic demand	0.2	1.3	1.8
Imports (2)	–2.6	4.4	5.7
Exports (2)	–0.3	3.3	5.7
Deflators			
Gross domestic product	5.1	2.6	1.8
Private consumption	4.4	2.2	1.8
Imports (2)	–1.8	1.9	2.2
Exports (2)	2.0	1.4	1.9
	(percentage ratios)		
In relation to GDP			
General government net borrowing	6.8	3.0	2.8
Balance-of-payments surplus on current account	3.4	3.4	3.6

(1) Estimates and forecasts contained in *Relazione previsionale e programmatica per l'anno 1998*. – (2) National accounts data.

Employment is expected to remain unchanged this year; an increase in the number of jobs in the private services sector should offset declines in industry, agriculture and general government.

The average rise in consumer prices will be below the target of 2.5 per cent set by the Government in 1996. The inflation differential with Germany and France has narrowed further; the rate of increase in consumer prices is now within the convergence range laid down in the Maastricht Treaty. Inflation expectations have been steadily revised downwards during the year and are now close to the level of actual inflation.

Since the spring the rate of increase in prices has been affected by the appreciation of the dollar, the continuing cyclical recovery and the rise in labour costs resulting from the wage settlements agreed last autumn and winter; these factors influenced first producer prices and then consumer prices. The revision of VAT rates had a further inflationary impact from October onwards. The rapid elimination of these pressures requires conduct and economic policies consistent with the objectives that have been set.

On the basis of current trends, it appears that the Government's aim of limiting general government net borrowing in 1997 to 3 per cent of GDP will be achieved. The decline from 6.8 per cent in 1996 mainly reflects the increase in the primary surplus from 4 to 6.6 per cent of GDP, the result of a rise of nearly two percentage points in the ratio of tax and social security receipts to GDP and a reduction of just over half a percentage point in that of expenditure. The improvement in the primary surplus is attributable first and foremost to budgetary measures, whose impact is estimated at 3 per cent of GDP. The fall in interest rates is expected to reduce the cost of debt servicing from 10.8 to 9.6 per cent of GDP.

The economic outlook for 1998 and budgetary policy

The latest IMF forecasts for 1998, which were formulated before the worsening of the crisis in South-East Asia and the recent instability in world stock markets, put the rate of growth in the industrial countries at 2.7 per cent. Growth in the United States is expected to slow down from 3.7 to 2.6 per cent. Economic activity in the EU countries is forecast to improve further, with the rate of growth rising from 2.5 to 2.8 per cent, benefiting from a revival in domestic demand as well as from the stimulus provided by exports. In Japan the growth rate is thought likely to reach 2 per cent. The increase in output in the developing countries is estimated at 6 per cent, the same as this year; the recovery in the countries of Central and Eastern Europe and the former Soviet Union should strengthen considerably. World trade is expected to continue to expand at a rate of nearly 7 per cent.

Inflation in the industrial countries should remain close to 2 per cent in 1998, continuing to be held in check by moderate wage and commodity price trends and rigorous monetary and budgetary policies. Cause for concern is emerging in the United States, where the rapid economic expansion that has now lasted for six years could begin to conflict with price stability.

In the industrial countries as a whole, general government net borrowing is forecast to decline from 1.6 to 1.3 per cent of GDP in 1998. In continental Europe the acceleration in growth will facilitate the reduction of budget deficits, as has already happened in the United States and the United Kingdom. According to estimates from the European Commission, the deficit of the EU as a whole should fall to 2.2 per cent of GDP next year.

These forecasts are subject to uncertainty, not only on account of the risks associated with the repercussions of the crisis in South-East Asia and the turbulence in share prices but also for a number of specific reasons.

In Japan the economic indicators are giving contradictory signals. Economic activity is still affected by the legacy of the difficulties that have arisen in recent years in the banking system, the property sector and the stock market.

In the leading economies of continental Europe, the recovery in domestic demand is still modest. Households' confidence, though improving, continues to reflect uncertainty about future income in view of the reform of social security systems and an awareness that the growth in production will have only a limited effect on employment in the short run. Corporate investment is still being held back by the high level of real long-term interest rates, among other factors.

Europe's growth prospects may be affected as early as 1998 by the institutional change that transition to the third stage of EMU represents. The stimulus some countries will derive from the decline in interest rates towards the common level may be augmented by the creation of new investment opportunities. These positive factors will continue to be countered by the restrictive effects of budgetary adjustment.

In Italy the progress achieved in curbing inflation and restoring sound public finances has laid the basis for consolidation of the economic recovery in conditions of stability.

The growth in world demand should provide scope for an acceleration in exports. In the present situation of restored price and exchange rate stability and rapid improvement in the public finances, investment should benefit from rising foreign demand and the strengthening of domestic consumer spending as well as from the prospect of lower interest rates, reinforced by expectations of Italian participation in monetary union from the outset. The growth in output will be limited by such factors as the expiry of government incentives for new car purchases and the maintenance of a budget policy that is rigorous, although less restrictive than this year. In this situation, in which economic growth will continue to be slower than in the other leading industrial countries, the balance-of-payments surplus on current account will remain substantial.

According to the indications contained in the Forecasting and Planning Report, GDP growth in 1998 could be of the order of 2 per cent. The unemployment rate is expected to remain very high. The Government has set a target of 1.8 per cent for the annual average rise in consumer prices, based on the assumption of a sharp slowdown in wage growth and a rise of around 1 per cent in unit labour costs, thanks primarily to the productivity gains connected with the expansion of activity.

The 1998 budget is designed to consolidate the progress made this year and to continue with the gradual reduction of net general government borrowing, in keeping with the country's European commitments. The Government's targets project a decline in net borrowing to 2.8 per cent of GDP in 1998. Given the expected reduction in interest payments by slightly more than 1 per cent of GDP, a primary surplus of 5.6 per cent of GDP – or 1 point less than the estimate for 1997 – will be enough to achieve this objective.

The budgetary correction, together with privatization proceeds, will accelerate the reduction of the ratio of public debt to GDP that has been under way since 1995. Given the prospect of steady GDP

The budget for 1998

The budget proposals put forward by the Government last September are designed to reduce general government net borrowing from 3 per cent of GDP, the result expected this year, to 2.8 per cent. Since interest payments are expected to fall by more than one percentage point in relation to GDP, achieving this target is compatible with a reduction of one percentage point in the primary surplus compared with the forecast for this year of 6.6 per cent of GDP. According to the Forecasting and Planning Report for 1998, the effect of the budget proposed by the Government would be to improve the general government primary balance by a total of 25 trillion lire with respect to the estimate on a current programmes basis. The planned adjustment comprises 14 trillion lire of expenditure cuts and 11 trillion of additional revenue. The official estimates also expect the adjustment to result in a saving of 1.5 trillion in interest payments. The budgetary measures are contained in the Finance Bill, an accompanying bill and a decree law introducing "urgent tax measures" that came into force on 1 October.

Revenue

The budget sets out to increase tax receipts by 10.6 trillion lire and other revenue by 500 billion lire. It should also be noted that the Finance Bill estimates that the measures to compensate for fiscal drag will cost around 650 billion.

***VAT.** – More than half the increase in tax revenue, or around 5.7 trillion lire, is expected to arise from the revision of VAT rates enacted in Decree Law 328 of 29 September 1997.*

As a further step in the process of harmonizing VAT within the European Union, the number of rates was reduced from four to three (4, 10 and 20 per cent) by abolishing the 16 per cent rate. Among the goods previously subject to this intermediate rate, food products are now taxed at 10 per cent and the other goods and services at 20 per cent. At the same time the top rate was raised from 19 to 20 per cent.

These changes are expected to produce 7 trillion lire of additional revenue on an annual basis. However, provision had already been made for the VAT rate on beef and pork and related products to be raised to 16 per cent with effect from 1 January 1998, whereas it is now proposed to leave it at 10 per cent. Since the increase in the rate had been expected to raise 1.3 trillion lire and this figure had been included in the current programmes forecast for 1998, the budget will result in VAT receipts only rising by around 5.7 trillion compared with that forecast.

Lastly, another 250 billion of additional revenue should be raised as a result of the application of VAT to

Effects of the budget on the consolidated general government income statement (1)
(billions of lire)

INCREASE IN REVENUE	**11,100**
Tax revenue	**10,600**
VAT measures	5,950
Withholding tax on incomes of the self-employed	2,000
Measures to combat tax evasion	550
Flat-rate tax on capital gains	150
Vehicle licence fee and registration tax	100
Administrative measures (still to be defined)	2,000
Other	–150
Other revenue	**500**
Increase in health contributions	450
Charges for use of the seashore and port dues	50
REDUCTION IN EXPENDITURE	**13,900**
Health care, pensions and welfare	**5,850**
Health care	650
Disability pensions	200
Social expenditure measures provided for in the Finance Bill	5,000
Wages and salaries	**950**
Local finances	**2,500**
Transfer payments to public utilities	**2,000**
Other	**2,600**
TOTAL EFFECT OF THE BUDGET ON THE PRIMARY BALANCE	**25,000**
Consequent decrease in interest payments	**1,500**

(1) Based on official estimates (see *Relazione previsionale e programmatica per l'anno 1998*).

goods that customers acquire through competitions and trading-stamp schemes and to recycled materials.

Other tax revenue. *– The bill accompanying the Finance Bill provides for additional receipts of around 4.7 trillion lire. The most important measures are those revising the rules for levying withholding tax on the earnings of the self-employed, which are expected to produce around 1.2 trillion lire of additional revenue in 1998. In particular, the fees for services provided by one self-employed person to another, the incomes such persons pay to their collaborators and the fees paid to the administrators of condominiums will become subject to withholding tax at the rate of 20 per cent. The withholding tax on revenues arising from door-to-door sales is to be raised from 10 to 19 per cent and the standard rate of withholding tax from 19 to 20 per cent, which is expected to produce around 800 billion lire of additional revenue in 1998.*

A series of administrative measures are to be introduced to increase the efficiency of the assessment, control and collection of taxes; the combined effect of these measures is estimated at 550 billion lire. The tax on driving licences is to be abolished in conjunction with a revision of vehicle tax rates, which will now increase with the actual horsepower. The resulting net increase in revenue is estimated at 100 billion. Another 150 billion of additional receipts should be raised by the increase from 7 to 14 per cent in the flat-rate tax on capital gains arising from the sale of other than "qualified" shareholdings. Lastly, a series of minor measures are expected to result in a net reduction in revenue of around 150 billion.

The Government intends to introduce a number of administrative measures – as yet unspecified, but which will have to be adopted by 31 December 1997 – that will bring in additional receipts of at least 2 trillion lire.

Non-tax revenue. *– The bill accompanying the Finance Bill envisages more than 500 billion lire of additional non-tax receipts. The increase from 6.5 to 8.5 per cent in the contribution to the national health service levied on third-party vehicle insurance premiums is expected to raise 450 billion, while the remaining part should be raised by measures concerning use of the seashore and port dues.*

Expenditure

Health care, pensions and welfare. *– The bill accompanying the Finance Bill contains measures serving to rationalize purchases of goods and services in the health service (forecast saving 300 billion lire), impose restrictions on physiotherapy treatment (250 billion), revise the position of specialists in casualty and out-patient departments (100 billion) and carry out further checks on the legitimacy of the disability benefits being disbursed (200 billion). The Government has also expressly stated that it intends to introduce other measures regarding health care, pensions and welfare in the budget and has forecast their effects in the Finance Bill by including a special negative item of 5 trillion lire among the allocations of funds for contingencies.*

Wages and salaries. *– The bill accompanying the Finance Bill provides for expenditure savings of around 950 billion lire. In particular, it introduces annual recruitment plans for public employees. In the case of the school system, the objective is to reduce the number of staff in service by 3 per cent over the two years 1998-99, while for the rest of central government the planned reduction is 1.5 per cent. The estimated savings amount to 440 and 360 billion respectively.*

Local finances. *– The budget makes cuts totaling 2.5 trillion lire in the funding of local authorities, universities and the main public research organizations. Provisions have been renewed restricting withdrawals by non-state public bodies from their centralized Treasury accounts and budget transfers to bodies with large balances on their accounts.*

Public utilities. *– Reductions in transfer payments on the order of 2 trillion lire are envisaged. In particular, the Finance Bill and the accompanying bill provide for cuts to be made in the funding of the Post Office amounting to respectively 440 and 550 billion lire.*

Other measures. *– Additional savings of 2.6 trillion lire are expected as a result of a series of measures which, among other things, concern intermediate consumption.*

growth and real interest rates in line with those in the rest of Europe, primary surpluses of the order of magnitude projected will rapidly reduce the public debt in relation to GDP.

The adjustment in the primary budget balance for 1998 is set at 25 trillion lire, equal to about 1.2 per cent of GDP. The measures should raise additional revenue of 11 trillion lire, deriving mainly from the revision of VAT rates, the bringing forward of some taxes, action against tax evasion, and more efficient administration. On the expenditure side they should produce savings of 14 trillion as a result of reductions in transfers to local authorities and public corporations and cuts in ministry spending, staff costs and social benefits. The consequent decrease in the borrowing requirement should reduce interest payments by 1.5 trillion (see the accompanying box).

The proposed reductions in social benefits represent about half of the adjustment that would be required to stabilize the ratio of this item to GDP at the average for 1996 and 1997, the objective laid down in the Economic and Financial Planning Document for 1998-2000.

The savings in overall expenditure will come largely from reductions in transfers to local authorities and public utilities and from the maintenance of limits on drawings from centralized Treasury accounts by public bodies. The effectiveness of these measures in 1998 and their contribution to a lasting adjustment of the public finances and more efficient spending depend on the conduct of administrators. Unless the tasks of the various spending bodies are redefined, there is a risk that the next few years will see increased recourse to bank loans and supplier credit and a deterioration in the services provided.

The structural adjustment of the budget deficit must be reinforced. The planned measures regarding pensions should be promptly translated into agreements between management and labour that ensure rising savings over time.

Using the powers delegated to it in the 1997 finance law, the Government has initiated a reform of the tax system designed to ensure neutrality as regards resource allocation, to broaden the tax base and curb evasion, to favour families with several dependents and to simplify the tasks of taxpayers. A number of levies, such as local income tax, health contributions and the tax on corporate equity, will be abolished and replaced by a regional tax on value added. A lower corporate income tax rate will be applied to retained profits allocated to increase firms' equity. Personal income tax brackets and deductions will be extensively reformed. Substantial changes in the tax treatment of income from financial assets are also planned.

Monetary policy

Monetary policy continues to be aimed at consolidating disinflation. The firm action taken on the monetary front in recent years has permitted a substantial reduction in expected inflation and actual inflation, which is now in line with the EU convergence criterion. Nevertheless, after two decades of high and variable inflation, expectations of lasting price stability must be further strengthened in the minds of all economic agents. The gradual easing of the monetary stance – against a background of rigorous budgetary policy and continued wage moderation – is compatible with this objective.

The conditions exist for underlying inflation to remain close to 2 per cent next year. However, if the price pressures that have emerged in the last few months are to be no more than temporary, both management and labour must show restraint and appropriate economic policies must be pursued.

If the greater credibility of the inflation objectives is reflected in the wage agreements to be reached in the coming months, the increase in unit labour costs is likely to slow down to a rate close to the official estimates. The consolidation of the decline in inflation also assumes that any legislation to reduce working hours will not generate price pressures.

The Bank of Italy remains vigilant to ensure that potential causes of inflationary pressure do not influence expectations or cause prices to accelerate again.

Table 22

Financial flows

(trillions of lire and percentages)

	GDP at current prices		Total lending to the non-state sector		Gross state sector borrowing requirement		*Memorandum item:* net borrowing requirement		Total credit (1)			Financial assets of the non-state sector (2)			Money supply M2 (3)		
		% var.		% var. (4)		% of GDP		% of GDP		% var. (4)	% of GDP		% var. (4)	% of GDP (5)		% var. (6)	% of GDP (5)
1989 ...	1,192.0	*9.4*	126,5	*20.3*	128.3	*10.8*	126.8	*10.6*	254.3	*15.8*	*21.3*	201.1	*14.1*	*142.1*	83.9	*8.6*	*66.1*
1990 ...	1,310.7	*10.0*	149,0	*20.0*	138.6	*10.6*	133.8	*10.2*	283.1	*15.2*	*21.6*	219.2	*12.9*	*146.7*	76.5	*10.7*	*66.0*
1991 ...	1,427.6	*8.9*	138,8	*15.9*	146.5	*10.3*	148.5	*10.4*	285.3	*13.4*	*20.0*	242.5	*12.8*	*152.8*	82.5	*8.5*	*66.4*
1992 ...	1,502.5	*5.2*	80,6	*8.1*	162.8	*10.8*	162.7	*10.8*	243.4	*10.1*	*16.2*	185.1	*8.6*	*158.4*	47.2	*5.9*	*66.2*
1993 ...	1,550.3	*3.2*	22,3	*1.9*	157.8	*10.2*	147.0	*9.5*	176.7	*6.5*	*11.4*	137.3	*5.8*	*165.5*	71.5	*8.2*	*68.9*
1994 ...	1,638.5	*5.7*	8,1	*0.7*	153.1	*9.3*	149.7	*9.1*	163.8	*5.6*	*10.0*	171.4	*6.8*	*175.6*	16.4	*1.9*	*66.1*
1995 ...	1,771.0	*8.1*	26,1	*2.3*	122.6	*6.9*	126.9	*7.2*	154.6	*5.0*	*8.7*	148.7	*5.5*	*171.2*	27.8	*1.9*	*62.8*
1996 ...	1,873.5	*5.8*	35,3	*3.0*	136.2	*7.3*	128.9	*6.9*	172.7	*5.3*	*9.2*	144.0	*5.0*	*153.6*	16.9	*2.8*	*60.2*
1997 (7)	1,944.2	*3.8*	59,3	*4.9*	....	....	63.7 (8)	*3.3*	129.3	*3.8*	*6.7*	184.3	*6.1*	*165.4*	86.0	*10.0*	*45.0*

(1) Gross state sector borrowing requirement, lending to the non-state sector and other minor items. – (2) Excluding shares. – (3) From 1997 onwards M2 does not include CDs with maturities of 18 months or more. The annual variations in 1989 and 1990 have been adjusted to take account of the effects of bank strikes. – (4) Calculated on year-end stocks. – (5) Ratios of year-end stocks to GDP at current prices. – (6) Calculated on three-month averages. – (7) Preliminary outturn. For GDP and the borrowing requirement, estimates published in *Relazione previsionale e programmatica per l'anno 1998*. – (8) In the estimates published by the Government this figure is consistent with a ratio of general government net borrowing to GDP of 3 per cent.

As European monetary union draws closer, there will be less and less scope for national monetary authorities to pursue autonomous policies; the convergence of Italian interest rates towards those of the other leading European countries will become more pronounced from next spring onwards as remaining doubts about the start of EMU are dispelled. The predominant view in the market is that the bilateral exchange rates for the currencies participating in the Union will coincide with the present EMS central parities; these correspond to balanced competitive conditions among the leading economies.

In order to ensure that the rate of increase in prices remains moderate in Italy, structural budgetary equilibrium will be even more important than in the past, as will the absence of inflationary pressures from the supply side, especially as regards labour costs.

This year the monetary aggregates have increased by more than the objective of 5 per cent set last autumn (Table 22), largely reflecting major changes in portfolio composition that have occurred in a context of basically stable monetary conditions. Both these shifts and the approach of EMU make for a wide margin of error in forecasting the growth in the money supply in 1998 and reduce the relevance of this aggregate as an indicator of income growth and inflation. Special care will therefore have to be taken in analyzing not only the monetary aggregates but also the other components of financial flows, so that signs of incipient tensions that could affect prices are detected promptly.

On the basis of the information currently available, M2 can be expected to grow by around 5 per cent if the transitory forces that gave rise to the acceleration this year dissipate rapidly. The growth in the private sector's financial assets in 1998 is expected to be around 5 per cent and the rise in total lending to the same sector around 4 per cent. Diversification within these aggregates is set to continue, both domestically and internationally.

Based on information available at 29 October.

5

Articles

The new rules governing securities intermediaries (*)

In transposing the EEC investment services directive into Italian law, Legislative Decree 415 of 23 July 1996 provides for broad recourse to secondary as opposed to primary legislation with the aim of facilitating the adaptation of the regulatory framework to the changing financial system.

The regulation of investment services is on two different levels. The first level — statute law — establishes principles and attributes powers, while the second — administrative regulation under powers delegated to the supervisory authorities — is assigned the task of actually laying down the rules.

The first application of the regulatory powers granted to the Bank of Italy consisted in the adoption of three administrative measures on 29 November and 24 December 1996 and 25 February 1997 (published in the *Gazzetta Ufficiale* of 7 December 1996, 23 January 1997 and 8 March 1997)[1].

A fourth measure, adopted on 30 September 1997, completes the adaptation to Community legislation of the regulations issued by the Bank. Some of the new rules cover matters which had already been addressed in Law 1 of 2 January 1991 but which required revision in view of the changed frame of reference. The others represent an innovation with respect to the earlier regulations.

The first group consists of the provisions on intermediaries' administrative and accounting procedures and internal controls and those concerning the permissible holdings of Italian investment firms. The second comprises the provisions on the performance of investment services by financial companies entered in the special register referred to in Article 107 of the 1993 Banking Law.

1. Administrative and accounting procedures and internal controls of Italian investment firms and banks that engage in securities intermediation

The legislative decree grants the Bank of Italy general powers concerning the regulation of the organization of securities intermediaries. In particular, Article 25.1(a) requires the Bank to issue rules on "administrative and accounting procedures and internal control mechanisms".

This replaces the provisions of Law 1/1991, which required the Bank of Italy to lay down "accounting and organizational principles" for securities intermediaries "ensuring the separation between the various activities engaged in and between the corresponding managerial responsibilities". Banks were also required to keep each securities intermediation activity "separate from the others and from the other activities they engage in, with regard to their accounts and internal organization".

(*) Prepared by the Supervision of Financial Intermediaries Department.

1 See *"La nuova regolamentazione degli intermediari in valori mobiliari derivante dal recepimento delle direttive comunitarie sui servizi di investimento"*, Banca d'Italia, *Bollettino Economico*, No. 28, February 1997.

The new regulatory system broadens the focus from the circumscribed problem of conflicts of interest to the wider issue of the efficiency and stability of intermediaries. The broader approach of the new law is based on the principle, in keeping with the view that has emerged in international fora, that stability also depends on reliable internal organizational structures.

This relationship, which applies to all intermediaries, is especially important in the case of securities firms, which work in a constantly evolving market. As a general instrument, prudential rules concerning market risks set minimum standards for determining the risk connected with securities business and the related capital requirement. Prudential rules do not eliminate such risk, nor can they guarantee stability in a situation of great variability in environmental factors, unless they are flanked by effective organizational arrangements and internal control mechanisms.

Organizational efficiency also depends on the functional relationships between operational structures. Italian and foreign experience in this field laid the groundwork for a broad reconsideration of the rules issued pursuant to Law 1/1991 that led to the application of the principle of organizational and accounting separation being restricted to specified areas.

In this connection, the measure enacted by the Bank of Italy establishes the rules governing:

a) the minimum requirements for the information and accounting system, which must match the complexity of the environment in which the intermediary operates, the range and types of services that it provides, and its size and geographical spread. To these ends the information and accounting system must ensure the necessary reliability and security, with due regard to the need to:
   - implement the rules on the segregation of assets, with the requisite measures for distinguishing at all times the assets of the customer from those of the intermediary;
   - be able to reconstruct all the transactions carried out for each customer and his or her overall position;
   - know the volume of business of each investment service and the related costs and revenues;

b) risk management procedures. Intermediaries must clearly establish their criteria for risk taking and the related powers and responsibilities. The board of directors and the top management must be actively involved in establishing the risk management procedures and must be kept constantly informed of the intermediary's level of risk, by means, *inter alia*, of regular reports.

Special organizational requirements are placed on investment firms that engage in high-risk business (trading and placement involving the assumption of risk for own account, derivatives business, etc.);

c) internal controls. Internal control mechanisms are assigned an especially important role. The organ responsible for internal control, which must be independent, functional and efficient, is required to verify compliance with the rules governing investment services both for own account and on behalf of third parties, correct keeping of the accounting records and the viability of information systems and risk management procedures;

d) administrative and accounting separation. In accordance with the principles of Legislative Decree 415/1996, the measure seeks to enhance the freedom of intermediaries to utilize their own resources by restricting the separation requirement to the portfolio management sector alone.

This decision is justified by the greater danger of conflicts of interest in this activity and the consequent need to ensure greater operating independence to portfolio management than to other investment services. As to the procedures for meeting the separation requirement, the measure provides for rules designed primarily to ensure the independence of the portfolio management unit from all the others.

The new rules also cover banks authorized to provide portfolio management services, and their obligation to keep other investment services separate from banking activities has accordingly been eliminated.

2. Permissible holdings of Italian investment firms

The legislative decree also required the Bank of Italy to regulate the "permissible holdings" of Italian investment firms, removing the constraints enacted by Law 1/1991, which allowed them to hold equity interests exclusively in companies engaging in related and instrumental activities.

The attribution to the supervisory authorities of this general regulatory power marks the abandonment of the approach of Law 1/1991, whose rules on permissible holdings sought to confine investment firms' business to securities intermediation services.

The legislative decree's abolition of operational segmentation, enabling Italian investment firms to engage not only in investment services, accessory services and related or instrumental activities but also in "other financial activities", led the Bank to enact rules that do not interfere with intermediaries' organizational choices, recognizing their right to adopt the group model where they deem this to be appropriate for the development of their business.

In drafting the new rules account was also taken of the EU investment services and capital adequacy directives, which set no limits on permissible equity interests, save the requirement that the investment firm's supervisory capital be reduced by the amount of any such holding if the investee company belongs to a group not subject to consolidated supervision.

The rules issued by the Bank of Italy on investment firms' permissible holdings provide for:

a) no limits on the acquisition of equity interests in companies engaging in financial or instrumental activities. However, if the investment firm intends to acquire control of the investee company, it is required to give prior notice to the Bank of Italy, which will assess the impact of the acquisition on the intermediary's profitability and balance sheet situation;

b) the possibility of acquiring equity interests in non-financial enterprises up to 15 per cent of the investee company's capital. The acquisition of control of such companies is prohibited, regardless of whether the control is direct, indirect or by way of voting agreements;

c) a ceiling on equity interests; the total value of Italian investment firms' equity interests may not exceed the most stable component of their supervisory capital (core and supplementary capital).

3. The provision of investment services by financial intermediaries entered in the special register referred to in Article 107 of the 1993 Banking Law

With a view to the integration of financial markets and the gradual elimination of operational specialization, the legislative decree permits the intermediaries entered in the "special register" referred to in Article 107 of the 1993 Banking Law to provide certain investment services to the general public. In particular, it provides that in the cases and under the conditions laid down by the Bank of Italy in cooperation with the Consob such intermediaries may engage in trading for own account in derivative instruments and in the placement of financial instruments, with or without firm commitment underwriting or standby commitments to issuers.

In the drafting of the implementing regulations, account was taken of the indications provided by the decree, which did not grant financial intermediaries generalized authorization to do business in the area of investment services but restricted the types of services that can be provided and made authorization subject to particular conditions and to compliance with rules to be established administratively.

This approach has produced secondary legislation that allows a financial company to provide investment services only when the type of intermediation requested is related to its principal activity. Under this standard the regulatory authority has:

a) authorized derivatives trading for own account by companies that exercise any form of lending or deal in foreign exchange as well as by intermediaries that engage in merchant banking, considering that such business ordinarily forms part of the provision of overall financial support for investee companies;

b) restricted securities placement to companies that provide financing to enterprises and those that engage in merchant banking, for which such services are a natural extension of their core business.

In regulating the conditions for engaging in such activities and implementing the decree's provisions concerning the intermediaries in question, the aim has been to ensure uniform treatment between financial companies and other institutions providing the same investment services (banks and investment firms). Accordingly, the decree (and obviously its implementing provisions) apply to all financial intermediaries in the following spheres:

- experience requirements for corporate officers;
- provision of services (general criteria, form and content of contracts, segmentation of assets, door-to-door selling, etc.);
- arrangements for the depositing and sub-depositing of customers' funds and financial instruments;
- rules of conduct vis-à-vis customers (for which Consob is responsible);
- membership of investor compensation systems;
- pecuniary administrative sanctions and related procedures (the application of the provisions in question is explicitly provided for by the decree).

Moreover, financial companies that do securities intermediation business are subject to prudential regulations on a par with those governing banks and investment firms. In particular, such intermediaries must have sufficient capital to cover the following risks:

a) the position risk, settlement risk and counter-party risk arising on their trading portfolios;

b) the exchange rate risk on the totality of their balance sheets.

This risk coverage must be calculated using the same rules as apply to banks and investment firms.

Speeches

Monetary policy and inflation

Statement by the Governor, Antonio Fazio,
to the Interministerial Committee for Economic Planning

Rome, 27 September 1997

1. Developments in the international economy and in Italy

According to the forecasts from international organizations, the world economy will remain on a path of sustained, non-inflationary growth in 1997-98. GDP is expected to increase at an annual rate of more than 4 per cent and world trade to grow nearly twice as fast. The financial crises in South-East Asia should not significantly affect trade or economic activity in the leading countries, with the important exception of Japan. Inflation is under control in the industrial countries and declining in the developing countries; for the time being, neither the supply nor the prices of commodities are expected to come under pressure.

In the second quarter of this year GDP continued to grow rapidly in the United States, sustained by a sharp acceleration in investment and exports. Consumer spending also appears to have picked up during the summer. In 1998 the growth in the US economy is expected to slow down, but it will still be above 2.5 per cent. The Federal Reserve is maintaining a moderately restrictive stance; the forward yield curve is indicating expectations of an increase of more than half a percentage point in three-month interest rates by the end of next year.

In the European Union domestic demand is now contributing to the recovery initially stimulated by exports. In continental Europe the expansion is less pronounced and has come later than in the United Kingdom, whose economy tends to mirror developments in the United States more closely. GDP growth in Germany is expected to be around 2.3 per cent this year, an increase of 1 percentage point on the figure for 1996 and similar to the rate forecast for France. This still represents only moderate growth that falls short of the two countries' potential and is not sufficient to have an impact on unemployment. The rate of growth should accelerate to almost 3 per cent next year. Monetary policy in both countries will tend to become more restrictive in the coming months owing to the signs of a possible rise in inflation, attributable in part to the appreciation of the dollar. The yield curves suggest that three-month rates are expected to rise by around 1 percentage point by the end of 1998.

Economic recovery began later in Italy than in the other major European countries. On the basis of cyclical indicators, a significant proportion of the increase in economic activity can be attributed to the demand for cars on the part of both households and firms. There are also signs of an upturn in imports. Industrial output continued to rise slowly but steadily in the first seven months of the year; the increase by comparison with the same period of 1996 amounted to 1.4 per cent, of which about one third was due to the transport equipment sector. Estimates of industrial output in August and September based on electricity consumption and information on companies' order books indicate that the growth is continuing. In the light of these developments, we endorse the estimate of 1.2 per cent GDP growth given in the Planning and Forecasting Report.

According to evidence that emerged this week from Istat's labour force survey, employment remains more or less stable. Short-term indicators point to some strengthening of industry's demand for labour.

2. The balance of payments

The improvement that has been achieved in the external accounts since 1992 is impressive. In the five years from 1993 to 1997 the current account of the balance of payments has shown a surplus averaging around 2.5 per cent of GDP; according to preliminary estimates, Italy's net external debt, which had risen to nearly 11 per cent of GDP in 1992, has been eliminated in the last few months.

The adjustment of Italy's external position is a source of strength for the economy and helps to maintain the stability of the lira. It is the result of the re-establishment of fair conditions of competitiveness and the curbing of domestic demand. Today, the recovery in demand and the lagged effects of the appreciation of the lira in 1996 are gradually reducing the trade surplus: in the first six months of this year it was almost 6 trillion lire less than in the corresponding period in 1996. Looking ahead, the strength of Italy's balance-of-payments position will depend on the competitiveness of the economy being maintained, first and foremost by containing labour costs; the increases in income and employment made possible by the current account surplus must be achieved without jeopardizing stability.

The elimination of Italy's external debt was accompanied by rapid growth in both inflows and outflows of capital, especially from 1990 onwards. In the eighties the accumulation of foreign assets by the private sector averaged around 0.5 per cent of GDP per year; between 1991 and 1996 it averaged 1.5 per cent and in 1996-97 nearly 4 per cent. The acceleration may be partly a consequence of an inadequate domestic supply of diversified financial products. On the liabilities side, foreign purchases of government securities are increasing rapidly; last year they amounted to three quarters of the state sector borrowing requirement. Purchases on this scale, on which investors have increasingly borne the lira exchange rate risk since last year, indicate renewed confidence in Italian government securities and in the lira.

Overall, the stock of foreign financial assets, which are held almost exclusively by households and firms, is now equal to the stock of external liabilities, of which around one third represents claims on firms and the remainder claims on the public sector and banks. These assets and liabilities both amount to around 65 per cent of GDP; in 1990 foreign assets were equal to 33 per cent of GDP and external liabilities to 40 per cent. The structure of the Italian financial system is beginning to resemble that of the other leading European countries, which display a greater degree of international openness. According to OECD data, the gross external financial assets and liabilities of the other leading European countries average well over 100 per cent of GDP.

The internationalization of the Italian financial system must take place in a balanced manner; Italian financial institutions must meet the demand for portfolio diversification on the part of households and firms by offering a wider range of products and services. In this way the international opening-up of the financial market will be an opportunity for the Italian financial system to grow and not a cause of weakness or destabilizing capital movements.

In the first seven months of 1997 the overall balance of payments, which includes capital transactions, showed a surplus of 24 trillion lire. The Bank of Italy strengthened its external position by a corresponding amount, to the benefit of the underlying stability of the lira.

3. Costs, prices and inflation expectations

The results achieved on the inflation front have been substantial. The average rise in the cost of living was 3.9 per cent in 1996; given current trends, it should be below 2 per cent this year. The indicators of inflation expectations confirm this forecast: over the year expected inflation has declined and drawn close to actual inflation.

The positive price developments have permitted a gradual easing of monetary policy; official interest rates, which were reduced in two stages by a total of 1.5 percentage points in 1996, were lowered again in January and June of this year by a total of 1.25 percentage points. The rates on the Bank of Italy's temporary refinancing operations, which had already decreased significantly in 1996, declined further in the first nine months of this year, by a total of around 1 percentage point.

It should be noted that producer prices have shown a slight tendency to rise since the spring; the index of industrial output prices, which was virtually stationary at the beginning of the year, has risen since the spring at a seasonally adjusted annual rate of close to 2 per cent. The acceleration was due to a combination of factors, including the recovery in demand, the rise in labour costs and the depreciation of the effective exchange rate of the lira owing to the behaviour of the dollar. The increase in inflation caused by the appreciation of the dollar since the beginning of 1997 has been small so far. The increase in the cost of living has also accelerated again recently: in the first seven months of the year the index rose by 1.4 per cent on a seasonally adjusted annual basis; in August and September the average increase was well above 2 per cent.

Labour costs have generated fairly strong inflationary pressure. The Forecasting and Planning Report estimates that per capita earnings will increase by more than 4 per cent this year in the private sector and by more than 5 per cent in the public sector. The expected rise in unit labour costs of between 3 and 4 per cent follows the already large increase recorded in 1996.

4. The monetary and credit aggregates

A year ago I told this Committee that the rate of increase in credit to the private sector and total financial assets could be expected to accelerate gradually in 1997. For the M2 money supply I indicated a target growth rate of not more than 5 per cent, not dissimilar to the projected rate of increase in nominal GDP. The definition of the aggregate itself was revised at that time to exclude bank certificates of deposit for terms of eighteen months or more, which were penalized by the tax reform of June 1996.

Developments during the year bear out the forecasts I submitted to you for financial assets and credit; they diverge sharply from them as regards the money supply.

The financial assets of the non-state sector should increase by 6 per cent this year, compared with 5 per cent in 1996. A considerable part of the acceleration stems from the acquisition of foreign financial assets, primarily in the form of foreign bonds purchased by households and short-term lira loans granted by non-bank intermediaries to non-resident borrowers. As for credit, lending to firms and households is likely to grow by nearly 5 per cent, compared with 3 per cent in 1996. Bank lending rose by 5 per cent in the first eight months of the year, with medium and long-term loans increasing more markedly.

By contrast, M2 grew at an annual rate of nearly 13 per cent in the first eight months. This exceptional expansion, which was inconsistent with the behaviour of the normal determinants of this aggregate, was largely due to the reform of the taxation of interest on bank deposits and to the Treasury's issuance policy, which led to a sharp reduction in the supply of Treasury bills. It also reflects the impact of two other factors, namely the structural changes taking place in the allocation of households' savings and the movements in interest rates.

In the first seven months of the year the private sector reduced its holdings of government securities by more than 70 trillion lire and increased those of managed savings instruments by significantly more than 100 trillion. These very substantial shifts make Italy's financial structure more similar to that of the other leading industrial countries, where institutional investors handle a larger proportion of savings. At the same time, portfolio adjustment has led to more rapid growth in bank deposits, which are held both on a temporary basis, as a vehicle for the transition from one form of investment to another, and on a permanent basis, as a means of compensating for the lesser liquidity of the new instruments.

The fall in rates on government securities has narrowed the yield differential between M2 and its closest substitutes. In the last twelve months the yield on Treasury bills has fallen by more than 2 percentage points and those on Treasury credit certificates and 10-year Treasury bonds by 2.3 and 2.9 points respectively. Over the same period the average yield on deposits has declined by 1.7 points and that on bank current accounts by 1.4 points. With the fall in inflation, net rates on current account deposits have turned positive in real terms. Yield volatility may also have fed the precautionary demand for liquidity at various times during the year.

The rate of growth in M2 should slow down in the next few months and approach 10 per cent at the end of the year. We consider that the structural change in portfolio composition during the year has reduced the value of M2 as a leading indicator of inflationary pressure; the risk arising from overshooting the target for this aggregate therefore appears to have decreased. This assessment is reinforced if one looks at the growth in both financial assets and credit, which are in line with the forecasts. Nevertheless, experience shows that over the long term excessive money supply growth tends to have adverse effects on the exchange rate and prices. The Bank of Italy is continuing to monitor the behaviour of flows of funds closely in order to detect any sign of pressure without delay.

5. Economic and Monetary Union

In recent months Italy came within the convergence range of the two Treaty requirements that most directly measure monetary stability, that is to say the criteria for inflation and long-term interest rates. The positive interaction of fiscal and monetary policies aimed at bringing down both actual and expected inflation and reducing the risk premium incorporated in Italian long-term yields has made a decisive contribution in this regard.

Italy's resumed participation in the Exchange Rate Mechanism last November and the stability of the lira since then ensure that a further requirement for adoption of the single currency will be satisfied. Between January and September of this year the exchange rate between the lira and the mark remained broadly stable; in effective terms the lira depreciated by an average of 2 per cent owing to the appreciation of the dollar.

The state sector borrowing requirement contracted by nearly one half in the first nine months of the year compared with the same period of 1996. Efforts to curb spending will have to be maintained in the months ahead if the objective for the year is to be achieved. The ratio of public debt to GDP will decline for the third consecutive year.

Preparations for Economic and Monetary Union are also intensifying outside the public sector, notably on the part of the banks, which are most directly affected from the organizational standpoint and most exposed to the greater competition that the introduction of the single currency will generate. The Bank of Italy is actively engaged in this process; in the matters for which it has direct responsibility it is cooperating with the other central banks in the European Monetary Institute.

6. The prospects for 1998

6.1 *Growth and employment*

According to the forecasting scenario presented to this Committee today, GDP growth will accelerate from 1.2 per cent this year to 2 per cent next year. The main stimulus should continue to come from domestic demand, which is likely to increase by 1.8 per cent. Investment is expected to accelerate, while consumption should continue to grow at the same pace as in 1997, albeit with a slowdown in the durable goods sector. The current account of the balance of payments should continue to show a surplus on the order of 3.5 per cent of GDP. The Bank of Italy's assessments, like those published recently by other forecasting institutions, essentially endorse this scenario.

The Forecasting and Planning Report predicts that payroll employment in the private sector will rise by 0.7 per cent in 1998, a larger increase than that recorded in 1996, despite the effects that year of a strong expansion in output in 1995. However, experience indicates that employment tends to increase only if the growth in output is faster than that forecast for 1998. The high saving rate in Italy creates the conditions for sustained growth in productive potential. The permanent restoration of sound public finances is a crucial prerequisite for that potential to be realized.

6.2 *Price stability and monetary policy*

We are aiming for an inflation rate of less than 2 per cent again in 1998. The long-standing objective of lasting price stability is within reach.

Current international price trends are favourable. Concern aroused by the appreciation of the dollar is waning; domestically, the stage is set for a slowdown in labour costs from the rapid rate of increase of the last two years.

The inflation target for next year is attainable, but its achievement could be jeopardized by increases in indirect taxation and administered prices.

Economic policy must continue to be directed towards budgetary adjustment by curbing the growth of current public expenditure. In my statement to the joint session of the Budget, Treasury and Planning Committees of the Senate and the Chamber of Deputies on 12 June I discussed the budget targets for 1998, which were announced in May in the Economic and Financial Planning Document and which the budget measures presented by the Government today are designed to achieve. The measures must set the public finances on a path of equilibrium and stability consistent with Italy's European commitments.

Financial markets are discounting a fall in Italian short-term interest rates, especially next spring in connection with the designation of the countries that will launch the euro and the announcement of the conversion rates for the various currencies. The markets expect the conversion rates to coincide with today's ERM central rates, at least as far as the main currencies are concerned. It would be inadvisable to disappoint that expectation. The convergence of exchange rates towards the central rates must be consistent with the progressive narrowing of interest rate differentials.

Market expectations must be substantiated by the behaviour of management and labour and the enactment of budgetary measures that will ensure structural adjustment of the public finances. Monetary policy will continue to be directed towards the permanent control of inflation.

7. Conclusions

Present economic trends at home and abroad lay the basis for non-inflationary growth in the years to come. In Italy, the progress made in reducing external imbalance, curbing inflation and redressing the public finances creates the conditions for more rapid growth and rising employment. The key to the return to a path of stable growth remains a strong recovery in investment.

Major changes are taking place in the allocation of savings and are gaining added impetus from the new climate of stability. The growth in the monetary aggregates by more than the target rate is one symptom of these changes. However, if the money supply continues to increase at an excessive rate for long it will entail risks for exchange rate and price stability that must be carefully watched.

The approach of Economic and Monetary Union will bring about a progressive convergence of interest rates in Europe. The Bank of Italy is coordinating its action with that of the other European central banks.

Monetary policy is directed towards attaining the inflation target.

We shall continue to monitor closely the performance of the real economy and the growth in the monetary and credit aggregates. The target set for the budget deficit and the balance-of-payments forecast are consistent with growth of 5 per cent in the financial assets of the private sector in 1998 and an expansion of 4 per cent in total lending to the sector. Recent shifts in portfolio composition and the approach of Monetary and Economic Union create a degree of uncertainty with regard to the forecasts for the monetary aggregates. If the exceptional factors that have affected the demand for monetary assets this year drop out in the near future, the rate of growth in M2 in 1998 is likely to be around 5 per cent, slightly higher than that in nominal GDP and in line with medium-term trends.

Fact-finding preliminary to the examination of the budget for 1998-2000

Statement by the Governor, Antonio Fazio,
to the Joint Session of the Fifth Committees of the Italian Senate and Chamber of Deputies

Rome, 21 October 1997

1. The public finances in 1997

In the Forecasting and Planning Report the Government has confirmed that it expects general government net borrowing in 1997 to be equal to 3 per cent of GDP, the objective established in the Economic and Financial Planning Document presented last May.

The performance of the public finances in the first nine months of the year is consistent with this objective. The state sector borrowing requirement, net of settlements of past debts and privatization receipts, amounted to 51.6 trillion lire, compared with 96.5 trillion in the same period a year earlier. The very large reduction in the borrowing requirement reflects above all a substantial increase in the primary budget surplus, i.e. the balance net of interest payments. According to preliminary estimates, in the first nine months the primary surplus rose from 51 to 87.9 trillion lire while interest payments fell by 8 trillion. The recent revision of value-added tax rates will lower the borrowing requirement by 1.4 trillion in the last quarter of the year; the increase in receipts is equal to 0.7 per cent of consumption.

According to the Planning Report, the primary surplus for 1997 as a whole will amount to 6.6 per cent of GDP, compared with 4 per cent in 1996. The growth in the primary surplus is attributable to an increase of nearly 2 percentage points in tax and social security receipts in relation to GDP and a decrease of just over half a point in the ratio of non-interest expenditure. Interest payments are forecast to total 9.6 per cent of GDP, a reduction of more than 1 percentage point compared with 1996. Overall, the ratio of net borrowing to GDP is expected to drop by 3.7 percentage points, from 6.7 to 3 per cent. The public debt is forecast to fall in relation to output for the third consecutive year.

When I appeared before these committees last June to offer an assessment of the medium-term fiscal policy guidelines, I pointed out that the adjustment to the primary balance on a current programmes basis planned for this year, equal to 80 trillion lire, was marked by the prevalence of revenue measures and the fact that some were of a temporary nature. The impact of the latter on the borrowing requirement can be estimated at 1.5 percentage points of GDP; the figure falls to just above 1 percentage point when account is taken of the temporary increases in spending and reductions in revenue that were already incorporated in the current programmes data. The accounting adjustment to budgetary items under the rules defined at EU level resulted in a reduction in the deficit of around 1 percentage point of GDP in 1997 and 0.7 points in 1996. The contribution provided by structural measures so far is limited.

Tax revenue has been growing more moderately than envisaged in the planning scenario. This is due not to any inefficacy of the measures adopted but to the initial overestimation of the trends. The shortfall in revenue is likely to be equal to 0.3 per cent of GDP. Personnel costs are slightly higher than forecast. Since the savings in interest payments generated by a sharper-than-expected fall in rates do not fully offset the shortfall in revenue and the overshoot of personnel costs, the achievement of the budget objective appears to be mainly attributable to tighter curbs on purchases of goods and services and on capital outlays. The limits placed both on local authorities' drawings on their centralized Treasury accounts and on central government departments' spending commitments and disbursement authorizations have helped to compress these items of expenditure.

The action to control the ouflows from the centralized Treasury account must be considered favourably insofar as it helps to determine a permanent reduction in public expenditure by fostering greater efficiency in the use of resources by spending units. However, the expansionary trend of public expenditure in the medium term must be dealt with through measures that permanently redefine the tasks of the various levels of government, improve their organizational structure and revise the rules governing the benefits and services that the public sector provides to the population.

According to the Forecasting and Planning Report, general government investment in 1997 will be affected by the administrative brake on spending; it is expected to grow by 3.5 per cent at current prices, compared with 8.1 per cent in 1996. The curb placed on capital spending may prove incompatible with the objective of remedying the shortcomings of public infrastructure, which are especially serious in the less developed regions.

2. The economy and budgetary policy for 1998

Productive activity is recovering after reaching a low at the end of 1996, but it is being supported in good measure by brisk car sales, stimulated by public incentives. Average daily industrial production, estimated on the basis of electricity consumption and other sectoral indicators, was more than 1.5 per cent higher in the third quarter of this year than in the second on a seasonally adjusted basis. In the first nine months of 1997 industrial production is estimated to have risen by 1.3 per cent compared with the same period of 1996. Stockbuilding contributed significantly to the positive result.

After declining in the last quarter of 1996 and the first quarter of this year, gross domestic product has been growing; the increase for the year as a whole can be put at 1.2 per cent, in line with the Government's forecasts.

The public finance objectives for 1998 are based on the forecast of 2 per cent GDP growth contained in the Forecasting and Planning Report. A pick-up in investment growth from 1.6 per cent in 1997 to 4.6 per cent in 1998 is expected to contribute to the higher level of economic activity; export growth is also forecast to accelerate from 3.3 to around 6 per cent. Spending on capital goods is expected to be encouraged by lower interest rates, improving expectations and the recovery of exports.

The Finance Bill for 1998 and the accompanying measures aim to reduce general government net borrowing to 2.8 per cent of GDP. The ratio of public debt to GDP would fall appreciably with respect to 1997.

Taking into account the lapsing of the effects of the temporary measures, the Government plans a budget correction of 25 trillion lire, made up, according to available information, of 10.5 trillion of additional revenue and 14.5 trillion of expenditure savings. In addition, 1.5 trillion of savings on interest payments are expected as a result of the budgetary measures.

The action on the spending side is to be focused on current expenditure excluding interest payments. The increase in revenue is set to compensate for only part of the lapsing of the effects of the temporary measures; the ratio of tax and social security receipts to GDP should fall by around half a percentage point.

As I remarked to these committees last June in my statement on the Planning Document for the years 1998-2000, the planned containment of current expenditure, except for the interest component, is less rigorous than was envisaged in the Planning Document which the Government presented in 1996. The growth in current expenditure in 1997 was set at 1 per cent; it is now expected to be just under 4 per cent. The increase in 1998 was set at 2 per cent; it is now forecast to be on the order of 3 per cent.

It must also be noted that revenue in 1998, in line with the less favourable trend recorded in 1997, will be lower than the figure assumed in the Planning Document; personnel costs in 1998 will probably be higher, albeit only a little, than those on which the official forecasts are based.

Estimated on current trends, interest payments will be lower than those indicated in the Planning Document, but the savings could be insufficient to make up for the deficit-increasing factors just mentioned.

To cope with this overshoot the Government will continue in its administrative action of regulating cash flows; in order to give lasting efficacy to the containment of spending, it is necessary to act through measures of a structural nature.

2.1 *Social security spending and pension reform*

The Programming Document presented by the Government in May envisaged reductions of 9.6 trillion lire in social spending in 1998. Most of the cuts were to come in pension outlays. The Document stated that reducing the rate of increase in such spending was a key element in the restructuring of Italy's public finances.

The Government's budget proposals for 1998 now provide for a reduction of 5.6 trillion lire in social security spending, with 1.1 trillion in lower health spending and 4.5 trillion in as-yet-unspecified cuts in social spending. For the moment, the latter are stated in the Finance Bill as negative amounts that will curtail other spending if the reductions are not implemented.

Measures with a lasting impact on the equilibria of the Italian public finances are needed to place them on a sustainable path over the medium and long term. Such measures must reduce the size of the budget adjustments that will be necessary in the coming years to keep the budget in broad balance, as required by European agreements.

Measures to rein in social security spending have proved difficult to introduce in all the Western countries. There are three factors that make reform of the Italian pension system an especially arduous task: the relative generosity of the pension legislation in force until the early nineties, the consolidated expectations of future pensioners and the stagnation of employment. While important, the reforms of 1992 and 1995 are not sufficient to ensure that pension spending will remain a stable proportion of GDP in the coming years. The transition to the system that was the goal of the 1995 reform must take place more rapidly.

2.2 *The other expenditure measures*

The general objectives of the measures to reduce expenditure in areas other than pensions are to rationalize disbursements, in part by granting greater financial autonomy to non-state public bodies, and reorganize the financing of companies providing public services.

The planned cut in state-sector allocations to the national health service is currently 1.1 trillion lire. Slightly less than half the reduction will be the result of increasing the health service contributions incorporated in automobile insurance premiums. Achieving the expected savings of 650 billion lire from rationalizing expenditure on goods and services and instituting more restrictive rules on specialist medical treatment will require consistent action by health service administrators.

Expenditure on public employees is to be cut by 900 billion lire. The savings are almost entirely the result of a considerable reduction in the number of central government employees, especially in the state school system. The Government expects further savings to come from restrictions on overtime and spending on travel.

Savings of 3.4 trillion lire are expected from reductions in state sector budget appropriations. In particular, the allocations to the Ministry of Defence and the Post Office will be reduced by 1 trillion and 400 billion lire respectively, while the rescheduling of multi-year expenditure laws and other measures is forecast to produce savings of 2 trillion lire.

The revision of the criteria governing transfers to public utilities plays an important role in the budget proposals and, together with other minor measures, should reduce outlays by 1.1 trillion lire. The Finance Bill also provides for a reduction of 1 trillion lire in transfers to the State Railways.

The Government will continue to maintain close control over the cash flows of non-state public bodies in 1998. It intends to set a new limit on the funds they can withdraw from the centralized Treasury account. Savings of 2.5 trillion lire are expected.

Although reducing transfers to public utilities helps to curb net borrowing, it tends to foster increases in the prices of the services they provide and may encourage greater recourse to external financing. In the long term it may cause service quality to deteriorate.

2.3 *The revenue measures*

The revenue measures planned by the Government hinge on an increase in indirect taxes that was implemented by decree on 1 October. The new structure of VAT rates provides for three bands: a rate of 4 per cent for essential goods, a reduced rate of 10 per cent and an ordinary rate of 20 per cent. The earlier intermediate rate of 16 per cent has been abolished. VAT on clothing has been raised from 16 to 20 per cent, while that on numerous products including a number of widely consumed durable goods (automobiles, household appliances, televisions, telephones) has been increased from 19 to 20 per cent.

It should be noted that the current programmes forecast of revenue in 1998 was based on the assumption that VAT on meat would be raised to 16 per cent, thereby generating 1.6 trillion lire of additional revenue. Instead the rate will now remain unchanged at 10 per cent.

Compared with the rates in force until the end of September, the revised VAT structure will generate 7.3 trillion lire of additional revenue on an annual basis. Compared with the base-line revenue forecast, the new rates are expected to raise an additional 5.7 trillion lire next year.

Other revenue measures provide for the reorganization and rationalization of a number of taxes and charges, set to produce 1.7 trillion lire of additional revenue, and an enlargement of the tax base, expected to generate 3.7 trillion. The latter result is to be achieved by countering tax evasion and avoidance with a comprehensive set of administrative measures aimed at increasing the efficiency of tax assessments, inspections and collection. The measures also provide for an "ecotax" on industrial emissions of a number of harmful substances.

In view of their qualitative importance, mention needs to be made of tax relief measures aimed at increasing employment in the depressed areas of the country and stimulating activity in the building sector, and of the measures in favour of handicapped individuals. The reduction in revenue due to these provisions is estimated at 700 billion lire.

Overall, the revenue measures are expected to generate an additional 10.5 trillion lire.

3. An assessment

The 1998 budget is designed to implement the plans outlined in the Economic and Financial Planning Document, thereby completing the difficult task of restoring the public finances to a sound footing. The curbing of expenditure, particularly in the welfare sector, must be directed at restructuring the system so that the benefits of future generations are also safeguarded; it will be necessary to reduce costs and remove the factors leading to distortions and inefficiency.

As in the past, some of the 1998 budget measures aimed at curbing expenditure are of a temporary nature.

The raising of indirect taxation will lead to a rise in prices. The effect, which will be felt in the next few months, is expected to be on the order of 0.7 per cent. Economic policies will have to be consistent with the need to prevent the rise in prices, which in principle is of a one-off nature, from being transformed into a resurgence of inflation.

Monetary policy, in particular, is on its guard to ensure that the increase in taxes does not lead to a worsening of inflation expectations.

The objective, established in the Finance Bill, of accompanying financial adjustment with measures to stimulate employment and growth is a step in the right direction. The incentives for productive activity and the measures to foster employment in the disadvantaged areas need to be set within a broader plan that gives priority to structural measures in correcting the disequilibria in the public finances, reduces the excessive presence of the State in the economy, promotes flexibility in labour contracts and competition in markets, and removes the obstacles that undermine the competitiveness of the Italian economy and lower its long-term rate of growth.

* * *

Since 1993 the Italian economy has made major progress as regards the external accounts, controlling inflation and righting the public finances. These positive results, the fruit of the combined action of budgetary policy, monetary policy and wage moderation, have made it possible for both short and long-term interest rates to come down.

The reduction of the budget deficit was initially achieved by raising taxes, but since 1993 a start has been made on the structural reform of the main items of expenditure.

The objective of the 1998 budget is to bring general government net borrowing down to 2.8 per cent of GDP. The Government's revenue-raising provisions will nonetheless only partly offset the lapsing of the effects of earlier temporary measures, since the aim is to reduce the tax burden by around half a percentage point. The corrections to welfare spending are on a smaller scale than indicated in the Planning Document, and the measures regarding pensions that have been announced will have to be clearly spelt out in the agreements to be negotiated between the Government and the social partners. It is essential that expenditure on pensions be stabilized in relation to GDP.

The credibility of the action to adjust the public finances is a necessary condition for the resumption of economic development. The considerable potential in terms of labour, saving and technical and managerial ability make it possible for the Italian economy to return to annual rates of growth that already next year could exceed 2 per cent. Additional investment is required if this potential is to be realized, and this will certainly be helped by the decline in interest rates that has occurred.

As European monetary union draws closer, a reduction in the tax burden, a revival of investment and greater flexibility in the use of the factors of production are the indispensable prerequisites for maintaining competitiveness, accelerating growth and creating new employment.

If prices and costs are stable, faster growth will not hinder, but actually help, the effort to achieve a lasting adjustment of the public finances and a reduction in the public debt.

6

Table 1

State sector balances (1)

(billions of lire)

	Year			First 9 months	
	1994	1995	1996	1996	1997 (2)
Primary balance (surplus: –)	**24,068**	**66,446**	**63,573**	**51,011**	**87,914**
as a percentage of GDP	*1.5*	*3.8*	*3.4*		
Borrowing requirement net of settlements of past debts and privatization receipts	**149,677**	**126,867**	**128,933**	**96,489**	**51,586**
as a percentage of GDP	*9.1*	*7.2*	*6.9*		
Settlements of past debts (3)	**9,342**	**4,085**	**13,502**	**7,239**	**1,818**
Privatization receipts (4)	**–5,921**	**–8,354**	**–6,226**	**–494**	**–4,666**
Total borrowing requirement	**153,099**	**122,598**	**136,209**	**103,234**	**48,738**
as a percentage of GDP	*9.3*	*6.9*	*7.3*		
FINANCING					
Medium and long-term securities	**225,608**	**88,677**	**126,939**	**105,507**	**92,142**
Treasury bills in lire and ecus	**11,706**	**–1,506**	**–27,453**	**–12,703**	**–57,560**
Treasury current accounts with BI	**–109,474**	**–8,195**	**17,370**	**–874**	**–7,248**
Other BI-UIC financing	**–2,245**	**–244**	**304**	**1,188**	**708**
PO funds	**21,738**	**15,791**	**13,263**	**4,510**	**7,022**
of which: current accounts	*–429*	*–735*	*–1,219*	*446*	*–578*
Bank lending	**–3,900**	**2,224**	**–9,853**	**–6,076**	**6,815**
Other domestic financing	**97**	**253**	**259**	**183**	**151**
Foreign loans	**9,569**	**25,598**	**15,380**	**11,498**	**6,707**

(1) Based on Eurostat accounting rules. – (2) Provisional data. – (3) Includes Local Health debts. – (4) Includes Treasury purchases of shareholdings in STET drawing on the sinking fund for the redemption of government securities: 3,000 billion lire in December 1996, 6,300 billion lire in March 1997 and 2,200 billion lire in June 1997.

Table 2

Estimated effects of the 1998 budget

(billions of lire)

Reductions in expenditure	
Health services	1,100
Public employment	924
Local finances	2,500
Other measures	1,110
Total	**5,634**
Welfare reforms	**4,500**
Rescheduling of transfer payments to the State Railways	**1,000**
Reduction in government department appropriations	**1,440**
Other reductions in cash outlays, reschedulings, etc.	**1,926**
TOTAL REDUCTION IN EXPENDITURE	**14,500**
Increases in revenue	
Value added tax	5,725
Subsidies	–726
Reorganizations and rationalization measures	1,717
Measures to reduce tax avoidance and evasion	3,674
"Ecotax"	110
TOTAL INCREASE IN REVENUE	**10,500**
TOTAL EFFECT OF THE BUDGET	**25,000**

Source: Government press release and subsequent amendments.

Table 3

Main indicators of the public finances (1)

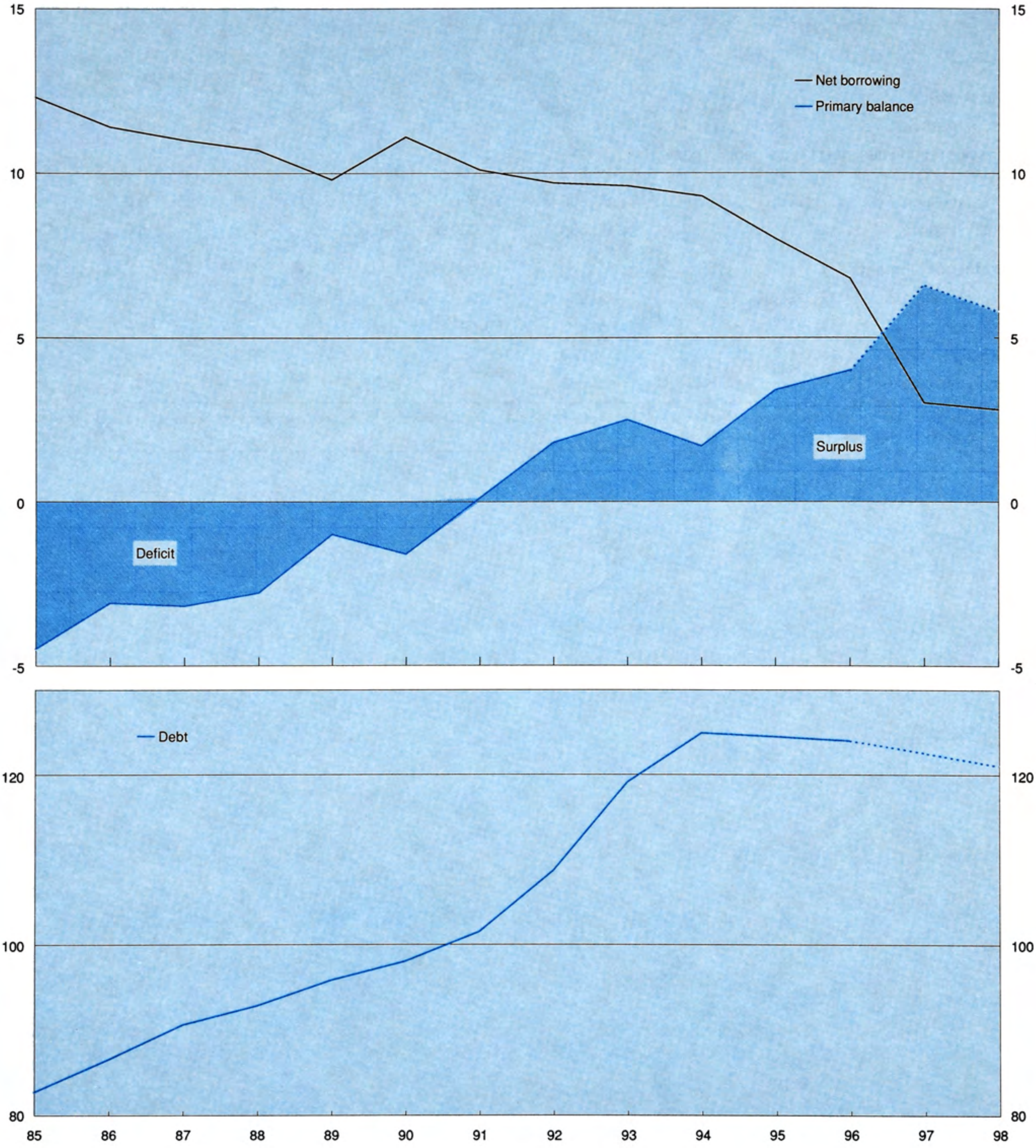
(billions of lire and percentages)

	1996	1997	1998	1996	1997	1998
	Billions of lire			*As a percentage of GDP*		
State sector						
Current balance	–74,431	–14,604	n.a.	–4.0	–0.8	n.a.
Borrowing requirement net of settlements of past debts	128,852	63,700	64,700	6.9	3.3	3.2
Interest payments	192,506	179,500	164,700	10.3	9.2	8.1
Primary balance	63,654	115,800	100,000	3.4	6.0	4.9
General government						
Current balance	–60,940	–2,069	n.a.	–3.3	–0.1	n.a.
Net borrowing	126,325	58,391	56,890	6.7	3.0	2.8
Interest payments	201,713	186,050	174,019	10.8	9.6	8.6
Primary balance	75,388	127,659	117,129	4.0	6.6	5.8

Sources: For 1996 and 1997, the *Relazione previsionale e programmatica 1998*; for 1998, the *Documento di Programmazione economico-finanziaria per gli anni 1998-2000.*
(1) Outturn for 1996; projected outturn for 1997; forecast for 1998.

Figure 1

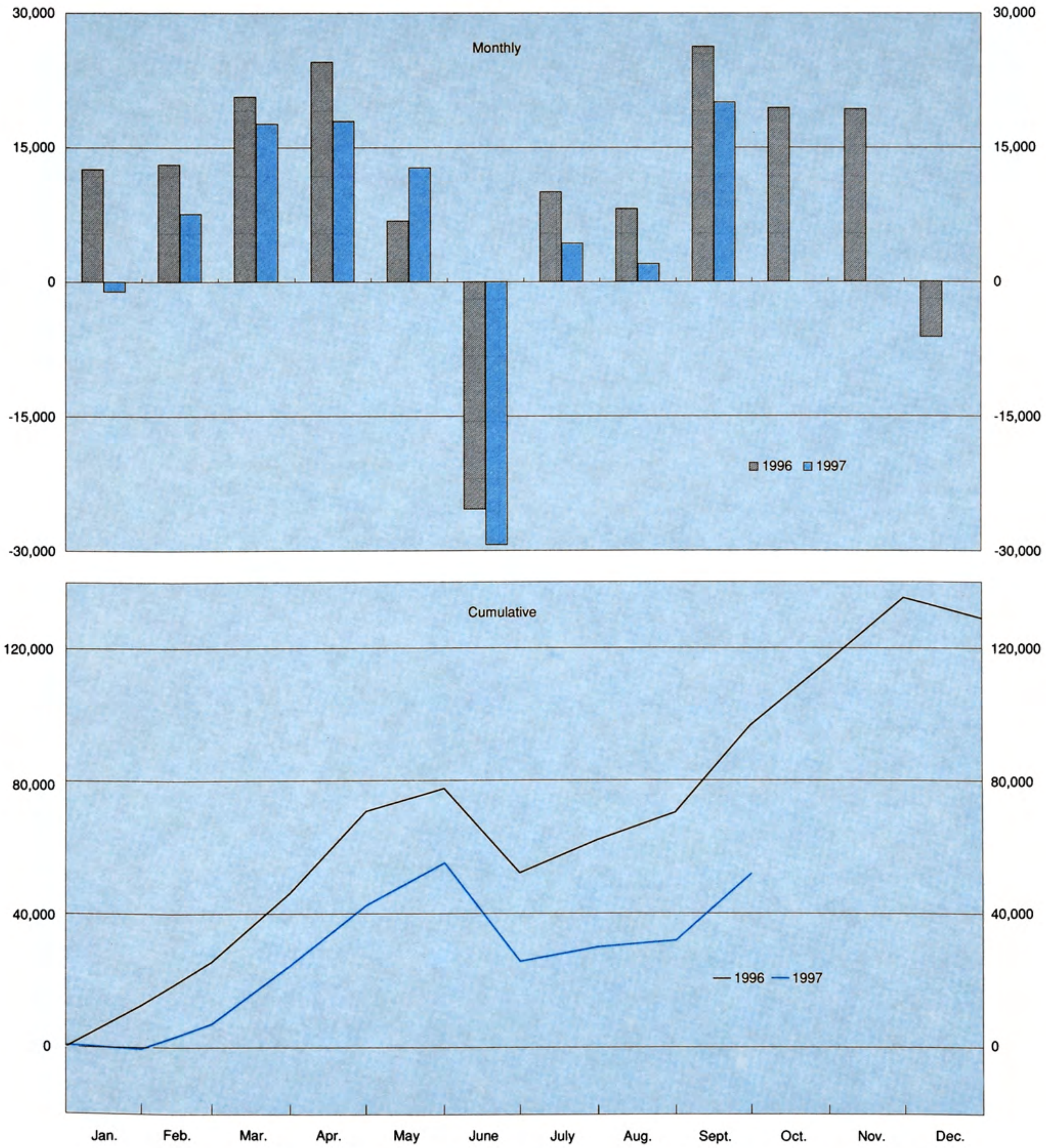
General Government net borrowing, primary balance and debt (1)
(as a percentage of GDP)



(1) For 1997 and 1998 forecasts contained in *Relazione previsionale e programmatica* (September 1997).

Figure 2

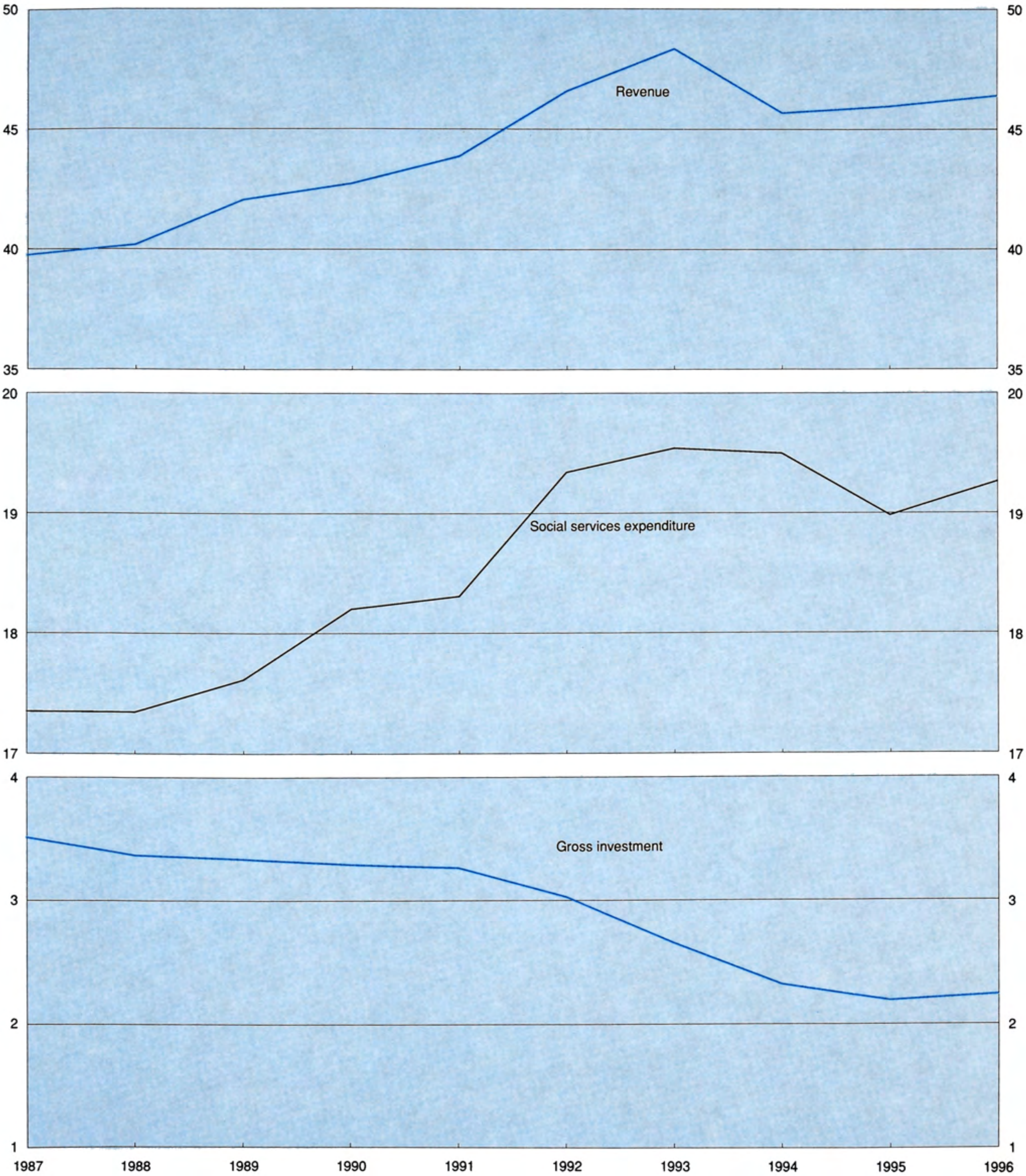
State sector borrowing requirement in 1996 and 1997 (1)
(billions of lire)



(1) Net of settlements of past debts and privatization receipts.

Figure 3

General Government revenue, social services expenditure and gross investment
(as a percentage of GDP)



Appendix

Statistical tables

In the following tables the figures for "Germany" refer to the western regions of the country unless otherwise specified. See the Notes to the Tables.

Unless indicated otherwise, the figures in the tables have been computed by the Bank of Italy.

Symbols and conventions:

— the phenomenon in question does not occur.

.... the phenomenon occurs but its value is not known.

.. the value is known but is less than the minimum figure considered significant.

( ) provisional.

( ) estimated.

Table a1

Gross domestic product, GDP deflator and current account balance

	US	Japan	Germany	France (1)	Italy	UK	Canada
				Real GDP (% changes on previous period; seasonally adjusted quarterly data)			
1991	–0.9	3.8	....	0.8	1.1	–2.0	–1.8
1992	2.7	1.0	2.2	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	2.7	2.8	2.2	4.3	4.1
1995	2.0	1.4	1.8	2.1	2.9	2.7	2.3
1996	2.8	3.5	1.4	1.5	0.7	2.3	1.5
1996 – 1st qtr.	0.4	2.0	–0.2	1.3	0.6	0.6	0.3
2nd "	1.5	–0.3	1.6	–0.2	–0.9	0.6	0.4
3rd "	0.3	0.3	0.5	0.8	0.7	0.6	0.8
4th "	1.1	0.9	0.2	0.2	–0.2	1.1	0.7
1997 – 1st qtr.							
2nd "							
				GDP deflator (% changes on previous period; seasonally adjusted quarterly data)			
1991	4.0	2.7	....	3.3	7.7	6.6	2.9
1992	2.7	1.7	5.6	2.1	4.7	4.6	1.3
1993	2.6	0.6	4.0	2.5	4.4	3.2	1.0
1994	2.4	0.2	2.4	1.5	3.5	1.6	0.7
1995	2.5	–0.6	2.1	1.6	5.0	2.5	1.5
1996	2.3	..	1.0	1.2	5.1	3.0	1.2
1996 – 1st qtr.	0.6	0.1	0.3	0.2	0.7	0.8	0.5
2nd "	0.5	–0.5	0.1	0.1	0.9	1.0	0.6
3rd "	0.5	0.5	0.7	0.2	0.5	0.2	0.1
4th "	0.4	1.0	–0.3	0.4	0.5	0.6	–0.3
1997 – 1st qtr.							
2nd "							
				Current account balance (billions of dollars; seasonally adjusted quarterly data)			
1991	–9.5	68.4	–17.5	–6.0	–24.2	–14.3	–22.2
1992	–56.4	112.3	–19.5	6.5	–29.3	–18.4	–20.8
1993	–90.8	132.0	–14.2	11.7	10.0	–15.5	–21.7
1994	–133.5	130.6	–21.1	7.4	14.2	–2.3	–14.7
1995	–129.1	111.4	–23.6	10.8	26.8	–5.9	–5.4
1996	–148.2	65.8	–13.1	20.5	41.1	–0.5	2.8
1996 – 1st qtr.	–32.9	16.8	–4.0	4.9	8.8	–1.9	0.3
2nd "	–35.6	16.0	–4.5	3.5	10.3	1.1	1.8
3rd "	–42.8	16.6	–2.3	6.2	12.5	–0.7	1.1
4th "	–36.9	16.4	–2.9	6.0	9.5	0.8	–0.4
1997 – 1st qtr.	–40.0	15.4	–7.1	8.4	11.5	2.2	–0.6
2nd "	–39.0	26.4	1.4	11.2	6.9	1.5	–2.3

(1) Following changes in the methods of collecting balance-of-payments data, from 1992 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	....	–1.3	–0.9	–3.3	–4.2
1992	3.2	–6.1	–2.6	–1.1	–0.2	0.3	1.1
1993	3.4	–4.5	–7.2	–3.8	–2.4	2.2	4.5
1994	5.0	0.8	3.6	3.8	5.2	5.4	7.0
1995	3.3	3.5	2.0	2.1	5.4	2.1	3.4
1996	2.8	2.7	0.5	0.5	–1.7	1.1	1.7
1995 – 3rd qtr.	0.8	–1.6	–0.9	0.4	4.3	0.8	0.3
4th "	0.2	2.1	–1.3	–2.0	–0.8	–0.1	–0.2
1996 – 1st qtr.	0.4	0.6	0.6	1.3	–2.7	0.2	0.6
2nd "	1.5	–0.4	0.9	0.4	–0.5	0.2	0.3
3rd "	0.8	2.1	1.2	1.0	1.0	0.7	2.0
4th "	1.1	2.1	–0.3	–0.6	–2.4	0.4	0.5
1997 – 1st qtr.	1.1	2.5	1.6	0.3	1.6	..	0.7
2nd "	1.0	–0.1	1.0	2.5	1.7	0.6	1.6
3rd "	1.7	....	....	....	....	....	....
1996 – Sept.	0.2	1.4	–0.6	–0.7	–3.2	0.6	0.3
Oct.	0.2	2.2	–0.6	–0.3	–0.8	–0.3	–0.1
Nov.	0.9	–1.0	0.8	0.1	0.4	0.5	1.2
Dec.	0.4	0.1	–0.1	0.3	–3.1	0.5	–1.2
1997 – Jan.	0.1	5.3	1.0	–0.7	1.5	–0.2	0.9
Feb.	0.5	–3.5	0.3	1.2	2.9	–0.4	0.4
Mar.	0.3	–0.3	0.5	–0.2	0.5	–0.2	–0.2
Apr.	0.4	–0.5	0.3	3.2	0.4	0.8	1.5
May	0.2	4.5	–0.9	–1.3	..	–0.9	0.3
June	0.3	–3.2	2.6	0.1	..	1.8	–0.2
July	0.8	1.7	4.1	2.8	..	1.0	2.0
Aug.	0.5	–3.0	–2.8	..	....	–0.4	....
Sept.	0.7	....	....	....	....	....	....

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
1995 – 3rd qtr.	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
1997 – 1st qtr.	2.9	0.6	1.7	1.5	2.4	2.7	2.1
2nd "	2.3	2.0	1.6	0.9	1.6	2.7	1.6
3rd "	2.2	....	1.9	1.3	1.5	3.5	....
1996 – 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	0.6	1.8	1.8	2.6	2.8	2.2
Feb.	3.0	0.6	1.7	1.6	2.4	2.7	2.2
Mar.	2.8	0.5	1.5	1.1	2.2	2.6	2.0
Apr.	2.5	1.9	1.4	0.9	1.7	2.4	1.7
May	2.2	1.9	1.6	0.9	1.6	2.6	1.5
June	2.3	2.2	1.7	1.0	1.4	2.9	1.8
July	2.2	1.9	1.9	1.0	1.6	3.3	1.8
Aug.	2.2	2.1	2.1	1.5	1.5	3.5	1.8
Sept.	2.2	....	1.9	1.3	1.4	3.6	....

Table a4

Producer prices of manufactures

(precentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1991	0.7	1.1	2.2	0.8	3.5	5.5	–1.0
1992	0.8	–0.9	1.6	–0.3	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	0.7	0.7	3.6	2.5	5.7
1995	4.0	–0.7	2.2	1.6	7.7	3.9	8.1
1996	1.4	–0.8	0.2	–1.1	2.4	3.0	0.5
1995 – 2nd qtr.	5.2	–0.6	2.5	1.9	8.7	3.7	9.0
3rd "	3.6	–0.8	2.4	1.8	8.7	4.2	7.7
4th "	2.8	–0.8	1.7	1.2	7.3	4.3	5.8
1996 – 1st qtr.	1.7	–1.0	0.7	0.1	5.2	3.9	1.7
2nd "	0.9	–0.9	0.1	–1.0	2.2	3.5	0.4
3rd "	1.0	–0.8	–0.2	–1.7	1.1	2.6	..
4th "	2.1	–0.6	0.1	–1.8	1.3	2.1	–0.1
1997 – 1st qtr.	1.9	–0.3	0.2	–1.4	0.6	1.3	0.1
2nd "	–0.2	1.8	0.5	–0.7	0.5	1.4	1.1
1996 – July	0.7	–0.8	–0.2	....	1.3	2.8	–0.5
Aug.	1.0	–0.7	–0.3	....	1.1	2.5	0.3
Sept.	1.2	–0.8	–0.2	....	1.1	2.3	0.2
Oct.	1.4	–0.8	0.1	....	1.5	2.1	..
Nov.	2.0	–0.6	0.1	....	1.2	2.3	–0.2
Dec.	2.8	–0.4	0.2	....	1.1	1.8	–0.3
1997 – Jan.	3.0	–0.4	0.2	....	0.9	1.6	–0.3
Feb.	2.1	–0.3	0.2	....	0.6	1.3	..
Mar.	0.6	–0.2	0.3	....	0.3	1.2	0.7
Apr.	–0.3	1.9	0.3	....	0.3	1.3	1.6
May	–0.5	1.8	0.5	....	0.5	1.4	0.8
June	..	1.9	0.8	....	0.7	1.5	1.0
July	..	2.0	0.9	....	0.8	1.4	1.1

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 – 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
Feb.	5.00	0.50	2.50	3.10	6.75	6.00	3.25
Mar.	5.00	0.50	2.50	3.10	6.75	6.00	3.25
Apr.	5.00	0.50	2.50	3.10	6.75	6.00	3.25
May	5.00	0.50	2.50	3.10	6.75	6.25	3.25
June	5.00	0.50	2.50	3.10	6.25	6.50	3.25
July	5.00	0.50	2.50	3.10	6.25	6.75	3.50
Aug.	5.00	0.50	2.50	3.10	6.25	7.00	3.50
Sept.	5.00	0.50	2.50	3.10	6.25	7.00	3.50
			Money market rates *(period averages)*				
1993	3.17	3.01	7.24	8.59	10.20	5.94	5.04
1994	4.63	2.28	5.31	5.85	8.51	5.51	5.54
1995	5.92	1.25	4.48	6.58	10.46	6.68	7.13
1996	5.39	0.62	3.27	3.94	8.82	6.03	4.45
1996 – Sept.	5.51	0.57	3.10	3.75	8.44	5.78	4.08
Oct.	5.41	0.54	3.10	3.51	8.02	5.94	3.52
Nov.	5.38	0.55	3.17	3.47	7.41	6.31	3.02
Dec.	5.45	0.55	3.21	3.44	7.25	6.36	3.12
1997 – Jan.	5.43	0.55	3.09	3.35	7.23	6.33	3.15
Feb.	5.37	0.55	3.16	3.33	7.36	6.20	3.12
Mar.	5.53	0.59	3.24	3.36	7.43	6.20	3.22
Apr.	5.71	0.57	3.21	3.40	7.13	6.38	3.46
May	5.70	0.61	3.15	3.48	6.83	6.45	3.32
June	5.66	0.64	3.11	3.43	6.88	6.66	3.27
July	5.60	0.69	3.13	3.39	6.89	6.96	3.53
Aug.	5.60	0.61	3.24	3.43	6.87	7.15	3.64
Sept.	5.60	0.60	3.29	3.41	6.66	7.21	3.63

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	6.50	6.78	11.19	7.55	7.25
1994	7.08	4.20	6.88	7.21	10.52	8.15	8.37
1995	6.58	3.29	6.85	7.53	12.21	8.32	8.16
1996	6.44	3.01	6.21	6.31	9.40	7.94	7.23
1996 – Sept.	6.83	2.90	6.23	6.23	9.17	7.95	7.34
Oct.	6.53	2.73	6.01	5.97	8.23	7.64	6.64
Nov.	6.20	2.59	5.86	5.83	7.69	7.69	6.14
Dec.	6.30	2.43	5.79	5.74	7.57	7.68	6.39
1997 – Jan.	6.58	2.43	5.80	5.68	7.38	7.66	6.63
Feb.	6.42	2.39	5.55	5.46	7.36	7.29	6.30
Mar.	6.69	2.31	5.71	5.65	7.87	7.55	6.54
Apr.	6.89	2.18	5.87	5.80	7.74	7.74	6.78
May	6.71	2.53	5.76	5.69	7.32	7.25	6.57
June	6.49	2.44	5.72	5.65	7.07	7.24	6.27
July	6.22	2.26	5.56	5.47	6.52	7.13	5.96
Aug.	6.30	2.08	5.66	5.58	6.66	7.17	5.99
Sept.	6.21	1.96	5.59	5.52	6.36	6.88	5.88
				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 – 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
Feb.	300.81	65.07	230.80	207.23	148.47	226.13	186.43
Mar.	298.01	64.44	242.60	211.00	142.47	227.56	177.12
Apr.	287.57	64.58	241.81	205.74	144.86	224.73	180.94
May	313.61	69.99	256.16	215.55	148.30	236.61	193.22
June	329.87	71.73	265.68	220.29	152.76	237.10	194.90
July	348.32	71.69	291.58	237.35	172.11	243.75	208.23
Aug.	349.24	69.39	294.95	235.62	172.67	249.52	200.18
Sept.	352.74	66.24	282.89	235.48	181.03	253.00	213.15

Table a7

Interest rates on international markets and US dollar premium/discount

(period averages)

	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	8.65	5.98	5.66	0.66	3.29	8.31	6.23
1996 – 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	7.83	5.87	5.72	0.52	3.14	7.37	6.25
Nov.	5.38	0.37	3.07	7.23	6.20	5.56	0.50	3.18	6.85	6.77
Dec.	5.46	0.28	3.11	7.05	6.28	5.64	0.40	3.18	6.49	6.82
1997 – Jan.	5.44	0.33	3.01	7.09	6.28	5.81	0.38	3.11	6.37	6.74
Feb.	5.38	0.34	3.05	7.17	6.18	5.70	0.38	3.14	6.64	6.58
Mar.	5.51	0.37	3.15	7.29	6.16	5.98	0.45	3.26	6.72	6.66
Apr.	5.73	0.40	3.13	6.95	6.33	6.25	0.52	3.27	6.64	6.90
May	5.71	0.43	3.07	6.72	6.40	6.15	0.67	3.25	6.61	6.86
June ...	5.68	0.44	3.03	6.75	6.62	6.02	0.68	3.18	6.50	7.02
July	5.63	0.45	3.05	6.71	6.91	5.91	0.60	3.25	6.42	7.36
Aug.	5.60	0.44	3.20	6.74	7.11	5.92	0.52	3.49	6.46	7.42
Sept. ...	5.60	0.45	3.20	6.54	7.18	5.90	0.49	3.58	6.03	7.42
		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	–3.26	–0.58		5.00	2.37	–2.65	–0.57
1996 – Sept. ...		5.15	2.49	–2.90	–0.23		5.45	2.82	–2.11	0.02
Oct.		5.06	2.41	–2.41	–0.45		5.20	2.58	–1.65	–0.53
Nov.		5.01	2.31	–1.85	–0.82		5.06	2.38	–1.29	–1.21
Dec.		5.18	2.35	–1.59	–0.82		5.24	2.46	–0.85	–1.18
1997 – Jan.		5.11	2.43	–1.65	–0.84		5.43	2.70	–0.56	–0.93
Feb.		5.04	2.33	–1.79	–0.80		5.32	2.56	–0.94	–0.88
Mar.		5.14	2.36	–1.78	–0.65		5.53	2.72	–0.74	–0.68
Apr.		5.33	2.60	–1.22	–0.60		5.73	2.98	–0.39	–0.65
May		5.28	2.64	–1.01	–0.69		5.48	2.90	–0.46	–0.71
June ...		5.24	2.65	–1.07	–0.94		5.34	2.84	–0.48	–1.00
July		5.18	2.58	–1.08	–1.28		5.31	2.66	–0.51	–1.45
Aug.		5.16	2.40	–1.14	–1.51		5.40	2.43	–0.54	–1.50
Sept. ...		5.15	2.40	–0.94	–1.58		5.41	2.32	–0.13	–1.52

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
1995 – 3rd qtr.	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
1997 – 1st qtr.	1,637.8	13.5215	987.69	292.67	2,670.0	1,140.27	2,280.7	1,917.5	348.10
2nd "	1,690.1	14.1656	986.21	292.49	2,764.4	1,169.78	2,336.2	1,924.4	334.55
3rd "	1,761.6	14.9522	975.37	289.55	2,864.1	1,183.82	2,402.0	1,918.7	332.10
1996 – 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	13.4874	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	2,219.4	1,896.1	345.50
Feb.	1,655.2	13.4660	988.20	292.70	2,691.1	1,138.67	2,291.2	1,918.4	358.60
Mar.	1,693.5	13.8120	998.67	296.05	2,721.2	1,156.52	2,333.9	1,939.1	348.10
Apr.	1,692.9	13.4831	989.66	293.86	2,758.5	1,158.17	2,321.8	1,930.9	340.15
May	1,682.4	14.1813	987.62	292.88	2,747.5	1,176.04	2,330.4	1,925.1	345.60
June	1,694.9	14.8323	981.35	290.74	2,787.1	1,175.13	2,356.5	1,917.3	334.55
July	1,744.2	15.1467	973.56	288.57	2,915.3	1,177.75	2,402.2	1,920.1	326.35
Aug.	1,798.8	15.2649	976.91	289.84	2,882.9	1,188.55	2,435.5	1,922.0	325.35
Sept.	1,746.1	14.4645	975.87	290.31	2,793.6	1,185.87	2,373.7	1,914.3	332.10

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
1995 – 3rd qtr.	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
1997 – 1st qtr.	104.0	91.7	99.8	101.6	95.5	109.2	95.4	103.1
2nd "	105.1	94.1	98.5	100.7	94.7	112.0	93.7	104.8
3rd "	106.1	96.7	96.4	99.1	94.3	114.7	94.2	105.4
1996 – 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
Feb.	104.7	90.7	99.6	101.4	95.3	109.8	95.9	102.7
Mar.	105.6	91.4	99.5	101.5	94.1	109.7	94.9	103.2
Apr.	107.0	89.5	99.1	101.3	94.7	112.0	93.6	103.9
May	104.5	94.5	98.7	100.8	94.7	111.4	94.0	105.4
June	103.7	98.4	97.8	100.0	94.7	112.7	93.5	105.2
July	104.7	98.5	96.3	98.8	94.4	117.1	94.3	104.8
Aug.	106.9	97.4	96.0	98.7	93.9	114.7	94.1	105.2
Sept.	106.8	94.2	97.0	99.8	94.7	112.5	94.2	106.1

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Table a10

Real effective exchange rates

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1991	98.7	83.7	94.5	97.8	118.1	107.5	110.9	100.9
1992	97.5	86.6	98.1	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	99.3	99.9	97.9	101.4	97.8	104.8
1995	93.1	105.8	103.5	100.9	92.6	97.5	99.7	108.6
1996	99.4	90.0	100.6	99.0	103.6	101.9	101.2	103.7
1995 – 2nd qtr.	90.0	116.4	104.1	100.6	88.6	96.2	98.1	109.2
3rd "	92.8	104.7	103.2	101.4	94.4	97.0	101.1	108.1
4th "	94.7	96.5	103.8	101.5	95.3	97.2	102.1	110.2
1996 – 1st qtr.	97.5	92.8	102.2	100.4	99.5	98.4	101.1	107.4
2nd "	99.5	91.5	100.1	99.1	103.6	100.1	100.9	104.1
3rd "	99.6	89.6	100.7	98.7	104.8	101.2	100.7	104.0
4th "	101.1	86.3	99.5	97.6	106.4	108.1	101.9	99.2
1997 – 1st qtr.	106.5	82.3	97.6	95.9	105.2	114.9	102.7	94.6
2nd "	105.1	86.5	96.3	94.8	104.4	118.1	102.4	96.5
1996 – July	99.7	89.6	100.5	99.1	104.7	101.5	100.4	103.7
Aug.	99.1	90.4	101.2	98.7	104.4	100.4	100.5	104.9
Sept.	99.9	88.8	100.3	98.4	105.3	101.8	101.1	103.3
Oct.	100.6	86.9	99.7	98.3	106.3	104.3	102.3	101.9
Nov.	100.0	86.4	99.9	97.6	105.9	109.1	102.7	99.1
Dec.	102.8	85.5	98.9	96.9	106.8	110.9	100.8	96.7
1997 – Jan.	105.4	83.0	98.0	95.6	107.0	113.7	101.8	94.6
Feb.	107.4	81.2	97.5	95.9	105.0	115.5	103.1	94.2
Mar.	106.6	82.6	97.4	96.3	103.7	115.7	103.2	94.9
Apr.	106.9	82.4	96.8	95.6	104.3	118.1	102.3	95.5
May	104.4	86.8	96.3	94.8	104.3	117.3	102.8	97.1
June	103.9	90.3	95.6	94.1	104.5	118.8	101.9	97.0
July	104.9	90.5	94.3	92.1	104.4	123.3	102.7	96.8

Table a11

Real effective intra-EU exchange rates

(period averages; indices, 1993=100)

	Germany	France	Italy	UK	Spain	Netherlands	Belgium
1991	91.7	96.2	117.4	105.2	113.8	98.9	99.5
1992	94.5	96.7	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	99.9	100.1	98.1	101.8	96.4	99.7	102.3
1995	103.2	100.3	91.9	96.0	98.0	102.8	105.2
1996	98.8	97.7	102.6	99.7	99.6	101.2	102.8
1995 – 2nd qtr.	104.8	100.4	88.1	95.2	98.0	104.2	106.3
3rd "	102.6	100.6	93.5	95.3	99.2	102.2	104.9
4th "	102.6	100.3	94.1	94.8	99.2	101.6	105.3
1996 – 1st qtr.	100.7	99.2	98.5	96.0	100.7	101.5	104.2
2nd "	98.7	98.2	103.0	98.3	100.0	101.2	103.0
3rd "	98.7	97.4	103.8	98.8	99.1	101.5	102.6
4th "	97.0	96.1	105.2	105.6	98.4	100.4	101.5
1997 – 1st qtr.	95.7	95.0	104.7	114.0	96.8	99.3	100.3
2nd "	95.0	94.4	104.4	118.3	96.2	98.9	100.1
1996 – July	98.6	97.8	103.8	99.2	99.0	101.1	102.0
Aug.	99.2	97.4	103.4	97.9	99.2	101.6	102.8
Sept.	98.3	97.0	104.3	99.3	99.1	101.9	102.9
Oct.	97.4	96.9	105.3	101.9	98.7	100.9	102.4
Nov.	97.2	95.9	104.6	106.2	98.6	100.5	101.3
Dec.	96.4	95.4	105.8	108.7	98.0	99.8	100.9
1997 – Jan.	95.7	94.4	106.3	112.1	97.6	99.9	100.5
Feb.	95.7	95.1	104.6	114.7	96.4	98.6	100.4
Mar.	95.6	95.6	103.3	115.0	96.3	99.4	100.1
Apr.	95.1	94.8	104.0	117.6	96.4	98.8	99.9
May	95.0	94.3	104.3	117.4	96.4	99.6	100.6
June	94.9	94.0	104.8	119.9	95.9	98.3	99.9
July	94.1	92.4	105.4	125.8	95.4	97.4	99.8

Table a12

External position of the Italian banking system

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

	1996 Q4	1997 Q1	1997 Q2
Industrial countries	388,020	371,803	409,726
OPEC countries	8,918	9,136	8,497
Other developing countries	23,725	26,788	28,457
Latin America	*15,771*	*17,665*	*19,083*
Africa	*1,007*	*971*	*668*
Asia	*6,405*	*7,772*	*8,220*
Middle East	*542*	*379*	*487*
Eastern Europe	9,896	9,581	9,922
Offshore centres	35,517	39,778	41,019
International organizations	6,322	8,504	8,065
Total	**472,399**	**465,590**	**505,687**
Memorandum items:			
Albania	121	132	133
Argentina	6,045	6,451	6,741
Bolivia	1	5	1
Brazil	3,995	4,837	5,336
Bulgaria	395	393	357
Chile	569	667	787
Colombia	783	855	899
Croatia	74	73	145
Czech Republic	245	288	236
Ecuador	137	141	147
Hungary	399	427	457
Ivory Coast	22	23	23
Mexico	2,407	2,535	2,839
Morocco	405	427	154
Nigeria	586	472	374
Peru	1,050	1,263	1,360
Philippines	86	189	165
Poland	592	597	569
Romania	436	359	368
Russia	7,562	7,280	7,686
Slovenia	117	327	306
Uruguay	465	634	646
Venezuela	1,009	1,046	1,053

Table a13

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed investment					
	GDP	Imports	Total	Building	Machinery equipment and vehicles	Total	House-holds' consump-tion	Other domestic uses	Exports
					At 1990 prices				
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	2.2	8.4	3.2	–5.9	8.2	0.5	1.4	2.9	10.7
1995	2.9	9.6	4.0	0.7	13.4	6.9	1.8	–0.5	11.6
1996	0.7	–2.6	0.1	1.1	1.3	1.2	0.7	–2.7	–0.3
1995 – 2nd qtr. ..	–0.1	1.7	0.2	0.4	2.5	1.5	0.7	–4.6	1.8
3rd " ..	0.6	1.1	0.6	0.7	2.4	1.6	0.3	5.8	–2.7
4th " ..	0.2	–0.2	0.1	1.9	0.9	1.4	–0.1	3.6	–2.5
1996 – 1st qtr. ..	0.6	–2.4	0.1	..	–0.8	–0.4	0.2	–0.9	0.9
2nd " ..	–0.9	–4.1	–1.4	–0.8	0.2	–0.3	0.1	–10.8	0.8
3rd " ..	0.7	2.7	1.1	..	–0.9	–0.5	0.2	3.6	2.7
4th " ..	–0.2	3.2	0.4	–0.5	–0.5	–0.5	0.5	3.1	–1.0
1997 – 1st qtr ..	–0.3	–3.5	–0.8	–1.8	0.9	–0.4	0.7	–1.9	–4.1
2nd " ..	1.6	11.7	3.3	–0.8	0.8	..	0.5	9.4	8.8
					Implicit prices				
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	5.1	3.7	3.5	3.5	3.3	4.6	3.3	1.8
1995	5.0	12.2	6.2	3.7	6.6	5.0	5.7	4.3	10.2
1996	5.1	–1.8	3.8	2.5	3.5	3.0	4.4	5.0	2.0
1995 – 2nd qtr. ..	1.8	4.8	2.3	1.3	1.9	1.6	1.7	2.5	4.2
3rd " ..	1.4	1.0	1.3	0.4	1.8	1.1	1.5	–1.8	3.3
4th " ..	1.4	–0.1	1.1	0.6	1.5	1.1	1.3	..	1.7
1996 – 1st qtr. ..	1.6	–1.8	1.0	0.3	0.6	0.5	1.0	3.7	–0.8
2nd " ..	0.8	–1.7	0.4	0.2	0.3	0.2	0.9	1.6	–1.7
3rd " ..	0.7	–0.4	0.5	1.6	0.6	1.1	0.8	–0.1	..
4th " ..	0.9	..	0.7	0.7	–0.5	0.1	0.6	2.0	0.6
1997 – 1st qtr. ..	0.5	–1.0	0.3	–0.2	0.3	..	0.6	0.8	–0.7
2nd " ..	0.5	0.1	0.4	0.1	0.4	0.3	0.2	1.2	0.4

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	Industrial production				Isco business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Changes in level of orders: Domestic	Changes in level of orders: Foreign	Changes in level of orders: Total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices, 1990=100)				*(average balance of monthly responses)*				
1991	99.1	100.4	95.9	99.4	–27.5	–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	–17.9	8.9	–6.9	25.1	–4.3
1995	107.0	107.7	105.0	107.2	–5.7	16.6	1.3	21.8	–1.2
1996	105.2	106.2	105.7	104.6	–29.7	–16.9	–22.7	7.5	3.8
1991 – 1st qtr.	98.7	100.5	97.5	98.5	–28.2	–34.7	–27.4	9.6	9.7
2nd "	98.7	99.0	96.0	99.2	–28.2	–32.7	–27.9	11.0	9.7
3rd "	99.0	100.1	95.3	99.8	–26.6	–30.2	–25.0	12.7	8.3
4th "	99.9	102.0	94.7	100.0	–27.2	–28.5	–26.6	11.6	6.3
1992 – 1st qtr.	101.2	102.9	95.1	101.8	–24.7	–30.3	–23.7	10.7	11.3
2nd "	100.9	102.0	94.0	101.7	–27.5	–39.0	–29.4	8.4	11.0
3rd "	96.0	98.6	88.7	98.3	–34.1	–38.0	–35.0	–3.7	5.3
4th "	97.4	101.1	90.6	97.2	–41.9	–40.3	–40.1	–7.9	1.0
1993 – 1st qtr.	98.8	102.2	93.2	98.7	–44.7	–34.1	–42.5	–3.0	3.3
2nd "	96.6	97.8	89.6	97.6	–46.4	–28.1	–40.4	–0.2	7.0
3rd "	94.5	97.2	86.2	96.2	–44.8	–18.0	–33.8	3.4	6.7
4th "	96.2	97.4	86.5	98.2	–36.6	–6.6	–25.7	11.1	1.3
1994 – 1st qtr.	97.5	100.7	86.3	99.1	–31.2	–1.0	–18.5	17.4	–2.3
2nd "	101.0	104.1	92.5	102.1	–20.2	8.5	–8.0	25.3	–1.0
3rd "	103.3	106.3	94.5	104.7	–15.7	11.8	–5.7	28.7	–4.7
4th "	104.2	105.2	95.6	106.1	–4.7	16.2	4.5	28.9	–9.3
1995 – 1st qtr.	104.6	106.1	97.1	106.0	–1.2	25.2	6.8	23.2	–4.7
2nd "	105.1	106.6	100.3	106.0	–2.5	21.0	4.8	21.7	0.3
3rd "	109.6	109.8	109.0	109.2	–5.3	14.2	1.4	24.1	–1.7
4th "	108.6	108.4	113.8	107.6	–13.8	6.0	–7.6	18.4	1.3
1996 – 1st qtr.	105.7	104.8	107.1	105.5	–23.6	–7.8	–17.3	9.6	5.0
2nd "	105.2	105.4	107.8	104.6	–32.4	–20.7	–24.4	6.0	6.3
3rd "	106.2	108.0	105.7	105.6	–31.6	–18.5	–23.2	6.2	5.7
4th "	103.7	106.6	102.0	102.8	–31.1	–20.6	–26.1	8.3	–2.0
1997 – 1st qtr.	105.4	107.7	102.3	104.9	–19.3	–14.2	–15.7	16.0	–5.0
2nd "	107.2	108.4	104.1	107.5	–15.6	–8.3	–12.3	16.9	..

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				
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
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
1997 – 1st qtr.	1,310	4,794	1,538	12,182	19,823	2,809	22,634	12.4	39.8
2nd "	1,311	4,804	1,585	12,388	20,087	2,875	22,962	12.5	40.4
3rd "	1,413	4,909	1,638	12,350	20,310	2,688	22,998	11.7	40.5

Table a16

Cost of living

(percentage changes on corresponding period) (1)

	Goods and services with unregulated prices							Goods and services with regulated prices				Overall index
	Goods other than food and energy	Food products			Energy products	Services	Total	Goods (3)	Utility charges	Rents	Total	
		Processed	Not processed	Total								
Weights (2)	*35.6*	*10.0*	*9.7*	*19.7*	*3.7*	*23.6*	*82.6*	*2.6*	*11.4*	*3.4*	*17.4*	*100.0*
1991	5.5	6.7	7.1	6.9	9.3	7.8	6.7	6.8	4.1	6.1	4.9	6.4
1992	4.3	5.0	4.2	4.6	0.9	7.5	5.1	2.4	7.4	6.5	6.7	5.4
1993	4.3	4.4	–0.2	2.1	5.9	5.5	4.2	6.1	2.8	8.1	4.7	4.2
1994	3.8	4.0	2.9	3.4	4.6	4.0	3.8	0.8	3.5	8.3	4.6	3.9
1995	5.0	6.9	5.1	6.0	8.1	5.2	5.4	–5.4	5.5	7.5	5.0	5.4
1996	3.9	5.1	3.8	4.5	4.5	3.9	4.1	1.3	1.7	9.3	3.1	3.9
1995 – 1st qtr.	4.0	5.4	4.7	5.1	4.2	4.7	4.4	–4.6	3.7	7.0	3.8	4.4
2nd "	4.8	6.9	6.2	6.6	10.2	5.4	5.6	–6.6	5.7	7.5	4.9	5.5
3rd "	5.5	7.7	5.1	6.4	8.2	5.3	5.8	–5.8	6.2	7.7	5.4	5.7
4th "	5.8	7.5	4.3	5.9	9.6	5.3	5.9	–4.5	6.6	7.9	5.8	5.9
1996 – 1st qtr.	5.2	6.6	3.6	5.1	7.6	4.5	5.1	2.0	4.6	7.8	5.0	5.0
2nd "	4.4	5.8	4.0	4.9	2.6	4.1	4.4	3.0	2.6	9.3	4.0	4.2
3rd "	3.4	4.8	4.5	4.6	3.4	3.8	3.8	0.4	0.0	10.1	2.1	3.5
4th "	2.7	3.5	3.1	3.3	4.4	3.3	3.1	–0.2	–0.4	9.7	1.4	2.7
1997 – 1st qtr.	2.1	2.1	1.5	1.8	4.1	3.0	2.4	2.7	0.6	9.1	2.6	2.4
2nd "	1.5	0.7	–1.3	–0.3	1.0	2.4	1.3	3.7	1.3	7.2	2.9	1.6
3rd "	1.2	0.3	–2.3	–0.9	1.6	2.2	1.0	5.1	2.9	6.2	4.0	1.5
1996 – June .	3.9	5.7	4.1	4.9	1.8	4.2	4.1	1.5	1.7	9.3	3.3	3.9
July ..	3.7	5.1	4.7	4.9	3.2	3.8	4.0	0.6	–0.2	10.1	1.9	3.6
Aug. ..	3.3	4.8	4.5	4.6	3.4	3.7	3.7	0.7	–0.1	10.1	2.0	3.4
Sept. .	3.3	4.4	4.3	4.3	3.6	3.8	3.7	–0.2	0.3	10.1	2.2	3.4
Oct. ..	3.0	3.8	3.4	3.6	4.3	3.6	3.4	–0.2	–0.8	9.7	1.1	3.0
Nov. ..	2.5	3.5	3.1	3.3	4.7	3.2	3.0	–0.2	–0.2	9.7	1.6	2.6
Dec. ..	2.5	3.1	2.9	3.0	4.3	3.1	2.9	–0.1	–0.2	9.7	1.5	2.6
1997 – Jan. ..	2.4	2.8	2.2	2.5	4.3	3.0	2.7	2.3	0.5	9.1	2.4	2.6
Feb. ..	2.1	2.0	1.4	1.7	4.6	3.0	2.4	2.6	0.4	9.1	2.5	2.4
Mar. ..	1.8	1.5	0.9	1.2	3.6	2.9	2.0	3.2	0.9	9.1	2.9	2.2
Apr. ..	1.6	1.1	–0.2	0.4	0.5	2.8	1.6	3.5	0.6	7.2	2.4	1.7
May ..	1.4	0.6	–1.6	–0.5	1.0	2.4	1.3	3.6	1.7	7.2	3.1	1.6
June .	1.4	0.4	–2.2	–0.8	1.7	2.2	1.1	3.9	1.7	7.2	3.2	1.4
July ..	1.3	0.3	–2.3	–1.0	1.5	2.3	1.0	4.8	3.3	6.2	4.1	1.6
Aug. ..	1.2	0.3	–2.3	–1.0	2.0	2.1	1.0	4.8	3.1	6.2	4.0	1.5
Sept. .	1.2	0.3	–2.1	–0.9	1.3	2.1	0.9	5.8	2.4	6.2	3.7	1.4

Source: Based on Istat data.

(1) Index of consumer prices for worker and employee households, excluding tobacco products (sundry bases). For 1996 the comparison is with the old index, with the average for 1995 set equal to 100. – (2) Weights with reference to 1995=100. – (3) Medicines and pasta foodstuffs. In the case of medicines, the reference is to the aggregate calculated by Istat; around one third of this consists of products in the so-called "C band", the prices of which are unregulated. Water, electricity and gas are included under utility charges.

Table a17

Producer prices

(percentage changes on corresponding period) (1)

	Goods with unregulated prices				Investment goods	Non-energy intermediate goods	Total non-energy goods with unregulated prices	Energy goods	Goods with regulated prices (3)	Overall index
	Goods other than food and energy		Food products	Total						
		of which: cars								
Weight (2)	*18.5*	*2.1*	*12.3*	*30.8*	*9.5*	*41.0*	*81.3*	*14.6*	*4.1*	*100.0*
1991	2.3	2.8	5.3	3.8	3.3	5.5	4.3	–2.4	1.9	3.3
1992	3.2	4.6	3.8	3.4	3.3	1.0	2.1	–0.4	5.3	1.9
1993	3.1	6.0	3.9	3.4	3.6	3.2	3.3	6.3	6.0	3.8
1994	3.2	7.0	3.6	3.3	2.9	4.2	3.7	3.2	5.0	3.7
1995	5.1	5.4	6.0	5.4	5.0	10.7	8.2	6.4	4.4	7.9
1996	3.4	5.3	2.8	3.2	3.6	–0.1	1.6	3.4	3.5	1.9
1995 – 1st qtr.	4.3	6.0	5.1	4.6	3.8	9.0	6.8	4.3	5.9	6.5
2nd "	5.1	5.0	6.8	5.8	5.0	12.1	9.1	8.0	4.5	8.8
3rd "	5.5	5.2	6.5	5.9	5.5	12.8	9.5	6.7	3.9	9.0
4th "	5.3	5.5	5.6	5.4	5.8	9.0	7.4	6.7	3.4	7.2
1996 – 1st qtr.	4.7	5.2	5.1	4.9	4.9	4.5	4.8	5.0	4.4	4.8
2nd "	3.5	5.8	3.4	3.5	3.7	–0.3	1.5	1.5	3.6	1.6
3rd "	3.0	6.0	2.1	2.7	3.3	–2.3	0.1	1.4	3.4	0.4
4th "	2.4	4.2	0.9	1.8	2.7	–2.0	–0.1	5.5	2.6	0.8
1997 – 1st qtr.	1.1	1.0	0.3	0.8	2.1	–1.2	0.0	6.0	0.2	0.9
2nd "	0.8	–1.5	0.2	0.6	1.9	0.4	0.5	4.7	0.7	1.1
1996 – May	3.4	5.2	3.4	3.4	3.6	–0.7	1.4	1.3	3.4	1.5
June	3.3	6.3	2.8	3.1	3.5	–1.5	0.7	–0.1	3.2	0.7
July	3.2	6.3	2.5	2.9	3.6	–2.0	0.4	–0.5	3.5	0.3
Aug.	3.1	5.9	2.2	2.7	3.1	–2.5	0.0	1.9	3.5	0.4
Sept.	2.9	5.8	1.6	2.4	3.1	–2.5	0.0	2.98	3.3	0.5
Oct.	2.6	4.9	1.4	2.1	2.9	–2.2	0.0	4.3	3.0	0.7
Nov.	2.3	3.9	0.8	1.7	2.6	–1.9	–0.1	6.1	2.4	0.9
Dec.	2.2	3.9	0.5	1.5	2.7	–2.0	–0.1	6.0	2.3	0.9
1997 – Jan.	1.6	2.1	0.5	1.1	2.3	–1.6	–0.1	6.5	–0.1	0.9
Feb.	1.1	1.2	0.1	0.7	2.1	–1.1	–0.1	6.0	–0.2	0.8
Mar.	0.8	–0.2	0.4	0.7	1.8	–0.9	0.1	5.4	0.9	0.9
Apr.	1.0	–0.3	–0.3	0.5	1.9	–0.1	0.3	3.7	0.6	0.8
May	0.9	–1.0	0.1	0.6	1.9	0.4	0.5	4.4	0.8	1.1
June	0.6	–2.8	0.7	0.7	1.8	0.8	0.8	6.0	0.8	1.6
July	0.3	–3.4	1.2	0.7	1.4	0.7	0.7	7.2	0.8	1.7
Aug.	0.5	–3.1	1.5	0.9	1.7	1.0	1.0	5.5	0.7	1.7

Source: Based on Istat data.

(1) Index of producer prices of industrial products (sundry bases). For 1996 the comparison is with the old index, with the average for 1995 set equal to 100. – (2) Weights with reference to 1995=100. – (3) Includes tobacco products and medicines, the prices of which are subject to official control. In the absence of elementary indexes for medicines, the reference is to the Istat aggregate "Chemical, pharmaceutical and medical products", which includes goods with unregulated prices.

Table a18

Import prices

(percentage changes on corresponding period) (1)

	Goods with unregulated prices				Investment goods	Non-energy intermediate goods	Total non-energy goods with unregulated prices	Energy goods	Goods with regulated prices (2)	Overall index
	Goods other than food and energy		Food products	Total						
		of which: cars								
1991	1.6	3.9	0.3	1.3	2.1	–2.9	–0.3	–1.7	5.6	–0.2
1992	3.0	8.6	5.1	3.8	2.1	–2.0	0.8	–8.3	10.3	–0.7
1993	6.4	4.8	10.5	7.3	22.3	8.9	9.8	19.5	9.6	11.2
1994	–1.0	–1.1	4.9	0.8	3.2	7.5	4.1	4.7	–12.0	4.8
1995	9.1	10.1	9.4	9.3	3.1	17.1	12.3	15.5	–3.1	13.2
1996	4.7	5.1	–3.8	2.0	3.3	–6.1	–1.5	3.7	15.6	–0.3
1995 – 1st qtr.	4.0	8.0	10.0	5.5	2.4	12.6	8.4	18.1	–9.7	10.4
2nd "	9.6	14.7	13.3	10.9	2.4	19.1	13.5	24.9	–16.5	15.4
3rd "	13.1	11.7	8.2	11.7	2.3	20.0	14.3	13.2	2.3	14.8
4th "	10.0	6.2	6.1	9.1	5.2	16.5	13.0	6.4	11.8	12.2
1996 – 1st qtr.	11.1	7.2	–1.7	7.5	7.2	6.4	7.5	0.3	20.1	6.2
2nd "	4.6	1.9	–4.2	1.8	2.7	–5.4	–1.3	–2.5	31.1	–0.9
3rd "	3.1	7.5	–3.8	0.4	4.0	–11.3	–4.5	3.0	16.4	–3.2
4th "	0.3	4.0	–5.7	–1.6	–0.6	–12.9	–7.0	15.0	–0.1	–3.1
1997 – 1st qtr.	–4.4	–1.6	–1.3	–3.7	–5.4	–9.5	–6.9	9.4	–3.6	–3.6
2nd "	–3.0	–5.1	–0.9	–2.1	0.9	–2.9	–2.0	3.9	0.5	–0.3
1996 – May	6.6	0.5	–4.8	2.9	1.9	–5.1	–0.9	–4.4	50.1	–0.8
June	0.9	2.7	–3.2	–0.6	2.3	–8.1	–3.7	–2.8	26.9	–2.8
July	1.9	5.9	–3.9	–0.1	2.7	–11.0	–4.9	0.0	29.0	–3.0
Aug.	3.7	7.2	–2.8	0.6	4.7	–11.0	–3.7	5.4	8.6	–3.1
Sept.	3.6	9.5	–4.7	0.8	4.8	–11.9	–4.8	3.8	14.6	–3.6
Oct.	4.0	11.7	–6.3	0.8	2.4	–12.7	–5.7	14.0	9.3	–2.4
Nov.	0.0	1.3	–5.4	–1.6	–1.8	–13.7	–7.6	17.1	–7.2	–3.5
Dec.	–3.0	–0.6	–5.3	–3.9	–2.3	–12.2	–7.6	13.7	–1.8	–3.3
1997 – Jan.	–3.6	0.1	–3.9	–4.1	–6.8	–12.9	–8.9	10.4	–10.7	–5.2
Feb.	–4.1	–3.1	–0.8	–3.6	–6.7	–9.0	–7.0	12.4	–3.6	–3.8
Mar.	–5.4	–1.9	0.8	–3.5	–2.5	–6.6	–4.8	5.6	4.5	–1.9
Apr.	–3.2	–4.0	–2.6	–2.8	–4.0	–5.0	–4.2	4.5	–8.2	–1.8
May	–4.6	–6.4	0.8	–2.9	3.5	–2.8	–1.9	4.8	0.8	–0.2
June	–1.1	–4.7	–0.7	–0.7	3.3	–0.7	0.1	2.3	10.0	1.1

Source: Based on Istat data.

(1) Import unit values in lire. – (2) Includes tobacco products and medicines, the prices of which are subject to official control. In the absence of elementary indexes for medicines, the reference is to the Istat aggregate "Chemical, pharmaceutical and medical products", which includes goods with unregulated prices.

Table a19

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	57,181	1,755	–26,855	–9,266	22,815	–43,867	21,594	–22,273	2,767	–3,309
1995	72,882	1,011	–25,533	–4,680	43,680	51,790	–58,102	–6,312	–34,458	–2,910
1996	93,630	3,134	–23,134	–10,436	63,194	(38,110)	–47,394	(–9,284)	(–33,313)	–20,597
1995 – 2nd qtr. ..	18,673	2,206	–5,636	–2,533	12,710	20,587	–10,389	10,198	–3,480	–19,428
3rd " ..	20,197	1,383	–5,559	–2,109	13,912	9,813	–19,564	–9,751	–10,729	6,568
4th " ..	18,914	–357	–6,251	–2,462	9,844	30,800	–33,077	–2,277	–5,921	–1,646
1996 – 1st qtr. ..	16,985	–1,156	–6,000	18	9,847	–15,631	19,010	3,379	–12,810	–416
2nd " ..	25,384	2,721	–7,282	–4,150	16,673	20,534	–14,465	6,069	1,338	–24,080
3rd " ..	27,064	2,194	–4,669	–2,229	22,360	(507)	–11,401	(–10,894)	(–12,707)	1,241
4th " ..	24,197	–625	–5,183	–4,075	14,314	(32,700)	–40,538	(–7,838)	(–9,134)	2,658
1997 – 1st qtr. ..	16,870	–400	–5,186	3,164	14,448	(–13,042)	24,493	(11,451)	(–26,395)	496
2nd " ..	19,709	1,856	–6,791	–2,884	11,890	(19,154)	–42,718	(–23,564)	(9,959)	1,715
1995 – Aug.	4,810	735	–1,246	–601	3,698	12,121	–15,506	–3,385	–2,659	2,346
Sept.	4,845	716	–1,465	–831	3,265	644	1,343	1,987	–9,257	4,005
Oct.	6,735	82	–2,309	–1,584	2,924	5,501	–4,814	687	–4,820	1,209
Nov.	6,669	–22	–1,344	–1,212	4,091	11,405	–15,015	–3,610	–3,426	2,945
Dec.	5,510	–417	–2,598	334	2,829	13,894	–13,248	646	2,325	–5,800
1996 – Jan.	2,817	–335	–2,662	–151	–331	–4,592	7,450	2,858	–2,534	7
Feb.	6,632	–404	–775	118	5,571	–2,106	–550	–2,656	–3,832	917
Mar.	7,536	–417	–2,563	51	4,607	–8,933	12,110	3,177	–6,444	–1,340
Apr.	6,737	221	–2,174	–1,416	3,368	27,743	–26,808	935	3,740	–8,043
May	9,650	602	–1,987	–1,561	6,704	–8,218	13,151	4,933	–2,370	–9,267
June	8,997	1,898	–3,121	–1,173	6,601	1,009	–808	201	–32	–6,770
July	14,206	1,617	–2,170	–735	12,918	(–10,357)	6,933	(–3,424)	(–9,817)	323
Aug.	7,976	320	–191	–587	7,518	(3,979)	–15,024	(–11,045)	(719)	2,808
Sept.	4,882	257	–2,308	–907	1,924	(6,885)	–3,310	(3,575)	(–3,609)	–1,890
Oct.	9,902	–89	–1,690	–1,173	6,950	(10,496)	–5,718	(4,778)	(–7,332)	–4,396
Nov.	7,860	–482	–1,005	–1,086	5,287	(4,504)	–10,748	(–6,244)	(–1,585)	2,542
Dec.	6,435	–54	–2,488	–1,816	2,077	(17,700)	–24,072	(–6,372)	(–217)	4,512
1997 – Jan.	4,179	–88	–1,594	4,632	7,129	(–10,583)	22,076	(11,493)	(–13,248)	–5,374
Feb.	6,027	–131	–1,124	–928	3,844	(1,454)	263	(1,717)	(–7,524)	1,963
Mar.	6,664	–181	–2,468	–540	3,475	(–3,913)	2,154	(–1,759)	(–5,623)	3,907
Apr.	6,450	40	–1,969	–409	4,112	(–2,263)	–4,343	(–6,606)	(348)	2,146
May	7,083	374	–2,322	–1,182	3,953	(14,624)	–17,029	(–2,405)	(23)	–1,571
June	6,176	1,442	–2,500	–1,293	3,825	(6,793)	–21,346	(–14,553)	(9,588)	1,140
July	....	....	....	....	....	*(–896)*	(–1,988)	*(–2,884)*	....	(–12,126)
Aug.	....	....	....	....	....	*(–12,373)*	(13,748)	*(1,375)*	....	(–4,812)

Table a20

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	0	47,754	2,462	4,470	3,533	1,655	3,112	40,257	91,476
1996 – 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. . . .	49,041	16,388	43	65,472	227	6,220	5,248	1,536	2,833	38,723	111,485
Dec. . . .	44,846	16,323	45	61,214	366	6,234	5,259	1,546	2,839	38,366	106,741
1997 – Jan. . . .	52,228	15,510	66	67,804	179	6,405	5,411	1,579	2,821	38,366	113,638
Feb. . . .	51,408	15,744	61	67,213	285	6,976	5,934	1,641	2,926	38,366	113,555
Mar. . . .	47,662	15,782	56	63,500	309	6,739	5,694	1,629	2,855	37,491	108,647
Apr. . . .	46,111	15,844	54	62,009	121	6,725	5,676	1,640	2,873	37,491	107,337
May . . .	47,711	15,841	65	63,617	240	6,804	5,755	1,653	2,889	37,491	108,908
June . .	46,473	15,707	67	62,247	235	6,704	5,655	1,660	2,889	38,301	108,246
July . . .	60,525	15,167	92	75,784	368	6,826	5,947	1,706	2,997	38,301	121,834
Aug. . . .	64,157	15,167	97	79,421	279	7,470	6,601	1,686	3,032	38,301	126,259
					(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	0	30,134	1,554	2,821	2,229	1,044	1,964	25,654	57,975
1996 – 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. . . .	32,402	10,828	28	43,259	150	4,110	3,467	1,015	1,872	25,368	73,444
Dec. . . .	29,300	10,664	29	39,993	239	4,073	3,436	1,010	1,855	24,630	69,302
1997 – Jan. . . .	32,397	9,621	41	42,059	111	3,973	3,356	979	1,750	24,630	71,322
Feb. . . .	30,475	9,333	36	39,844	169	4,135	3,518	973	1,735	24,630	69,202
Mar. . . .	28,419	9,410	33	37,863	184	4,018	3,395	971	1,702	24,272	66,700
Apr. . . .	26,962	9,264	32	36,258	71	3,932	3,319	959	1,680	24,272	65,113
May . . .	28,221	9,370	38	37,630	142	4,025	3,404	978	1,709	24,272	66,515
June . .	27,303	9,228	39	36,571	138	3,939	3,322	975	1,697	22,463	63,556
July . . .	33,858	8,485	51	42,394	206	3,819	3,327	954	1,677	22,463	69,192
Aug. . . .	36,463	8,620	55	45,138	159	4,246	3,752	958	1,723	22,463	72,453

Table a21

State sector borrowing requirement

(billions of lire)

	Budget: Receipts	Budget: Payments (–)	Budget: Balance	Treasury operations	Lending by the Deposits and Loans Fund	ANAS, the State Forests and other bodies	Gross borrowing requirement	Settlements of past debts (–)	Privatization receipts (–)	Net borrowing requirement
1990	406,858	535,441	–128,583	–315	–10,683	960	–138,621	–4,831	–	–133,790
1991	445,914	576,566	–130,652	–10,274	–4,498	–1,087	–146,512	–73	2,100	–148,538
1992	499,612	609,933	–110,321	–45,269	–3,515	–3,674	–162,779	–31	–	–162,748
1993	470,685	615,237	–144,552	–2,662	–11,094	521	–157,787	–10,837	–	–146,950
1994	477,160	616,426	–139,266	2,064	–15,346	–550	–153,099	–9,342	5,921	–149,677
1995	523,486	639,846	–116,360	9,200	–12,923	–2,515	–122,598	–4,085	8,354	–126,867
1996	549,538	682,686	–133,148	5,675	–10,086	1,349	–136,209	–13,502	6,226	–128,933
1996 – 1st qtr.	108,581	124,786	–16,204	–27,724	–2,297	–19	–46,244	–	–	–46,244
2nd "	149,363	171,338	–21,975	15,500	–3,268	436	–9,308	–3,477	–	–5,831
3rd "	116,317	163,598	–47,281	2,580	–2,987	6	–47,682	–3,761	493	–44,414
4th "	175,277	222,964	–47,687	15,320	–1,533	925	–32,975	–6,263	5,733	–32,445
1997 – 1st qtr.	110,045	102,243	7,802	–36,595	–1,594	6	–30,381	–	–6,297	–24,084
2nd "	155,839	118,176	37,664	–39,568	–2,093	435	–3,562	–451	–1,885	–1,226
3rd "	149,572	176,244	–26,672	12,835	–963	5	–14,796	–1,367	12,848	–26,277
1996 – Sept.	26,489	59,207	–32,718	6,901	–618	4	–26,432	–200	–	–26,232
Oct.	36,449	84,827	–48,378	25,772	–534	280	–22,860	–3,467	–	–19,393
Nov.	52,040	47,767	4,273	–15,686	–647	–	–12,061	–200	7,436	–19,297
Dec.	86,788	90,370	–3,582	5,235	–352	645	1,946	–2,596	–1,703	6,245
1997 – Jan.	44,897	33,218	11,679	–10,044	–502	6	1,139	–	3	1,135
Feb.	34,206	38,911	–4,705	–2,388	–506	–	–7,599	–	–	–7,600
Mar.	30,942	30,114	829	–24,163	–585	–	–23,920	–	–6,300	–17,620
Apr.	37,579	37,617	–38	–17,371	–767	264	–17,911	–	–	–17,911
May	46,030	33,742	12,287	–24,512	–675	–	–12,900	–218	37	–12,719
June	72,230	46,816	25,415	2,314	–651	171	27,249	–233	–1,922	29,404
July	64,841	91,840	–27,000	34,659	159	1	7,818	–757	12,848	–4,273
Aug.	48,504	37,447	11,056	–12,907	–463	–	–2,314	–330	–	–1,984
Sept.	36,228	46,957	–10,729	–8,917	–658	4	–20,300	–280	–	–20,020

Table a22

Financing of the state sector borrowing requirement

(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	3,096	138,621
1991	113,915	11,589	2,011	461	7,036	5,506	5,994	146,512
1992	91,121	46,479	7,706	–590	9,111	173	8,779	162,779
1993	163,120	5,577	–35,244	732	8,922	12,374	2,307	157,787
1994	225,608	11,706	–109,474	–2,245	21,738	9,569	–3,803	153,099
1995	88,677	–1,506	–8,195	–244	15,791	25,598	2,477	122,598
1996	126,939	–27,453	17,370	304	13,263	15,380	–9,594	136,209
1996 – 1st qtr.	27,702	–4,288	19,810	1,085	373	2,801	–1,239	46,244
2nd "	41,369	–3,463	–32,667	–1,076	1,560	4,973	–1,387	9,308
3rd "	36,437	–4,952	11,984	1,179	2,577	3,725	–3,267	47,682
4th "	21,432	–14,750	18,244	–884	8,753	3,882	–3,701	32,975
1997 – 1st qtr.	41,309	–19,560	1,897	–1,814	4,278	1,173	3,096	30,381
2nd "	20,885	–18,250	–8,818	2,244	1,791	2,185	3,526	3,562
3rd "	29,947	–19,750	–325	278	953	3,349	344	14,796
1996 – Sept.	4,998	–1,262	19,933	–17	798	2,344	–363	26,432
Oct.	2,060	–4,500	19,362	–33	7,057	–381	–705	22,860
Nov.	4,247	–4,500	10,530	2	–433	1,192	1,022	12,061
Dec.	15,125	–5,750	–11,648	–854	2,129	3,072	–4,019	–1,945
1997 – Jan.	483	–7,750	–846	427	3,123	–5	3,429	–1,139
Feb.	19,273	–5,810	–6,949	–395	1,199	–90	371	7,599
Mar.	21,553	–6,000	9,692	–1,846	–43	1,267	–703	23,920
Apr.	1,375	–6,000	16,217	2,265	394	–610	4,271	17,911
May	15,428	–6,250	1,185	–1,335	334	2,795	742	12,900
June	4,082	–6,000	–26,221	1,314	1,063	–1	–1,487	–27,249
July	19,378	–6,250	–23,491	162	–984	3,444	–78	–7,818
Aug.	–4,555	–5,500	11,707	37	373	–13	265	2,314
Sept.	15,125	–8,000	11,458	79	1,564	–82	156	20,300

The state sector debt

(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
1988	494,362	240,324	70,986	12,098	1,925	819,694	139,571	28,568	987,832
1989	550,426	287,698	81,677	17,800	2,086	939,686	142,112	34,975	1,116,774
1990	635,360	323,405	89,162	20,643	2,339	1,070,909	140,091	48,997	1,259,997
1991	751,527	338,665	96,198	26,390	2,586	1,215,366	141,763	54,909	1,412,037
1992	826,193	395,378	105,308	34,855	2,900	1,364,634	165,979	64,509	1,595,122
1993	980,060	401,230	114,230	36,943	3,120	1,535,583	144,484	85,449	1,765,516
1994	1,126,646	399,207	135,968	33,043	3,216	1,698,080	137,787	95,981	1,931,848
1995 – 1st qtr.	1,163,360	408,099	140,993	35,681	3,278	1,751,409	142,127	107,989	2,001,525
2nd "	1,182,248	408,175	144,487	37,096	3,357	1,775,363	118,304	124,124	2,017,791
3rd "	1,205,269	409,192	148,752	36,726	3,430	1,803,369	132,405	119,354	2,055,128
4th "	1,224,404	408,686	151,759	35,266	3,470	1,823,585	129,877	119,245	2,072,707
1996 – 1st qtr.	1,256,686	404,629	152,132	33,957	3,541	1,850,945	146,964	119,092	2,117,000
2nd "	1,302,126	391,651	153,692	32,510	3,600	1,883,580	119,508	119,937	2,123,025
3rd "	1,341,771	390,991	156,269	29,190	3,653	1,921,874	127,542	122,688	2,172,105
4th "	1,387,465	382,862	165,022	25,413	3,729	1,964,491	114,559	125,325	2,204,375
1997 – Jan.	1,389,929	371,511	168,146	28,813	3,758	1,962,157	116,538	127,828	2,206,523
Feb.	1,408,594	362,520	169,344	29,173	3,769	1,973,400	113,045	131,699	2,218,143
Mar.	1,430,293	353,718	169,301	28,450	3,788	1,985,550	125,258	132,101	2,242,909
Apr.	1,440,330	348,488	169,694	32,700	3,809	1,995,021	134,676	132,005	2,261,701
May	1,461,273	340,788	170,028	33,421	3,830	2,009,340	132,187	136,721	2,278,249
June	1,467,617	329,817	171,091	31,930	3,835	2,004,290	109,703	136,987	2,250,980
July	1,498,014	321,453	170,108	31,829	3,858	2,025,261	78,567	143,397	2,247,225
Aug.	1,493,806	318,455	170,480	32,081	3,871	2,018,693	86,423	141,862	2,246,978
Sept.	1,512,625	310,453	172,044	32,228	3,880	2,031,229	94,764	139,805	2,265,798

Table a24

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	20,449	–24,227	17,370	–23,834	6,291	–5,647	–10,477	4,152	1,826	684	–1,779	1,641	2,326
1996 – Sept. ..	731	–1,520	19,933	–2,175	–19,925	–15	–534	–1,985	994	–3,836	–1,052	857	–2,979
Oct. ...	5,382	–5,986	19,362	–3,161	–21,858	–58	–1,899	–2,232	–845	–900	2,035	–487	–1,388
Nov. ...	–2,922	–9,079	10,530	–3,592	7,419	–42	–1,826	9,568	3,768	5,499	1,951	300	5,799
Dec. ...	–3,963	..	–11,648	–8,746	33,940	70	–470	9,183	3,733	2,743	1,259	2,707	5,450
1997 – Jan. ...	5,363	..	–846	–2,493	–8,171	–146	–1,065	–7,358	–3,773	–397	1,866	–3,189	–3,586
Feb. ...	–1,608	..	–6,949	–3,204	16,388	31	378	5,036	–614	5,863	5,889	–212	5,651
Mar. ...	–4,262	..	9,692	–3,576	167	–36	–331	1,654	3,608	–2,858	–3,202	904	–1,954
Apr. ...	–2,131	..	16,217	–2,275	–14,349	–18	–1,395	–3,951	–2,459	–1,286	289	–205	–1,491
May ...	1,571	..	1,185	4,146	7,716	–22	159	6,463	2,481	4,089	515	–106	3,982
June ..	–1,139	..	–26,221	–3,915	19,978	12	7,802	–3,483	–1,661	–2,184	1,729	362	–1,822
July ...	12,134	–2,921	–23,491	(–2,549)	24,721	7	–1,699	(9,121)	(3,698)	5,336	–882	87	5,423
Aug. ...	4,804	..	11,707	(–2,123)	–20,377	–114	..	(–6,101)	(–2,524)	–3,027	1,832	–550	–3,577
Sept. ..	4,544	..	11,458	(–5,784)	(–7,410)	–85	152	(2,876)	(1,398)	1,246	–265	(231)	(1,478)

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	153,099	–36,729	–37,630	–105,721	–367	–180,448	–27,394	–207,842	–33,269	–21,474
1995	122,598	–21,957	26,922	–100,043	–22,688	–117,766	–38,200	–155,967	–8,195	–25,174
1996	136,209	14,356	–35,575	–65,985	–40,097	–127,302	–15,372	–142,673	17,370	–23,834
1996 – Sept. ...	26,432	–365	–2,886	–5,026	2,373	–5,904	–2,770	–8,674	19,933	–2,175
Oct.	22,860	1,856	2,953	–350	–6,583	–2,124	–4,536	–6,660	19,362	–3,161
Nov.	12,061	1,987	–12	–6,999	1,675	–3,348	–1,774	–5,122	10,530	–3,592
Dec.	–1,946	4,538	–2,144	–11,512	–8,154	–17,272	–1,177	–18,449	–11,648	–8,746
1997 – Jan	–1,139	6,110	–7,409	8,271	–2,629	4,343	–6,543	–2,200	–846	–2,493
Feb.	7,599	3,366	1,184	–19,308	–1,520	–16,278	–1,474	–17,752	–6,949	–3,204
Mar.	23,920	4,302	–1,871	–14,720	–5,000	–17,289	–516	–17,804	9,692	–3,576
Apr.	17,911	3,036	–852	–2,349	244	80	–4,049	–3,969	16,217	–2,275
May	12,900	4,599	–2,368	–7,448	–6,780	–11,996	–3,865	–15,861	1,185	–4,146
June ...	–27,249	4,832	–2,210	–8,718	2,777	–3,319	432	–2,887	–26,221	–3,915
July	–7,818	3,532	1,461	–14,095	–6,737	–15,839	–2,383	–18,223	–23,491	(–2,549)
Aug.	2,314	3,998	–204	4,687	–586	7,896	–625	7,271	11,707	(–2,123)
Sept. ...	20,300	(4,552)	(–1,694)	(–11,687)	(–4,159)	(–12,988)	–1,638	(–14,626)	11,458	(–5,784)

Monetary base

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

	Sources										
	Foreign sector	*of which: currency swaps*	Government securities	Treasury overdraft with BI	Treasury payments account	Sinking fund for government securities	Other	*of which: coins in circulation*	Credits & debits from temporary operations	Refinancing	Other sectors
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 – 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	4,050	2,050	11,412	1,960	–85,121
Dec.	106,733	15,193	165,665	–	–54,751	–13	3,201	2,055	48,225	2,029	–89,376
1997 – Jan.	113,619	15,857	166,452	–	–55,143	–468	3,633	2,059	34,741	1,884	–90,363
Feb.	113,891	16,486	170,350	–	–53,647	–8,911	3,244	2,065	44,416	1,914	–91,865
Mar.	108,628	16,411	174,752	–	–50,252	–2,615	1,403	2,070	38,445	1,878	–91,194
Apr.	107,333	16,652	165,963	–	–33,747	–2,903	3,673	2,076	20,889	9,313	–93,425
May	108,903	16,504	163,874	–	–32,561	–2,903	2,345	2,082	27,876	9,291	–93,267
June	108,242	16,545	166,949	–	–60,982	–703	3,667	2,090	39,542	9,303	–85,943
July	121,836	14,301	159,061	–	–84,347	–830	(3,829)	(2,090)	58,333	20,416	–89,102
Aug.	126,253	14,076	155,165	–	–72,639	–830	(3,866)	(2,090)	39,693	20,302	–88,715
Sept.	130,798	13,811	153,091	–	–61,181	–830	(3,945)	(2,090)	28,494	20,217	–88,563

	Uses					
		Bank reserves				
	Currency in circulation	Deposits with the Bank of Italy	*of which: compulsory reserves*	Other	Total	Total monetary base
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 – Sept.	93,450	65,409	66,713	6,337	71,746	165,196
Oct.	92,606	64,509	68,748	5,850	70,359	162,964
Nov.	96,373	70,008	70,699	6,149	76,158	172,531
Dec.	100,107	72,751	71,958	8,856	81,607	181,714
1997 – Jan.	96,334	72,354	73,823	5,667	78,022	174,356
Feb.	95,720	78,217	79,712	5,455	83,672	179,392
Mar.	99,327	75,359	76,509	6,359	81,718	181,046
Apr.	96,868	74,073	76,798	6,154	80,227	177,095
May	99,349	78,162	77,313	6,047	84,209	183,558
June	97,688	75,978	79,042	6,409	82,387	180,076
July	(101,386)	81,314	78,161	6,496	87,810	(189,197)
Aug.	(98,862)	78,286	79,993	5,846	84,232	(183,095)
Sept.	(100,260)	79,531	79,729	(6,178)	(85,710)	(185,970)

Monetary base and BI operations:

(stocks in billions

	Monetary base						
		Bank reserves					
	Currency in circulation	Deposits with the Bank of Italy	*of which: excess reserves*	Vault cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)
1994 – Dec.	96,236	92,619	151	5,636	198	98,453	0.7
1995 – Dec.	98,380	73,921	202	5,736	179	79,836	0.6
1996 – Sept.	93,105	66,865	152	5,972	235	73,073	3.0
Oct.	93,298	68,898	150	5,389	215	74,502	2.2
Nov.	96,635	70,965	266	5,699	310	76,973	2.2
Dec.	101,768	72,202	244	6,494	359	79,056	2.0
1997 – Jan.	96,348	74,089	266	6,118	189	80,396	5.6
Feb.	95,846	79,992	280	5,396	197	85,584	8.5
Mar.	98,101	76,769	260	5,670	187	82,626	10.0
Apr.	97,079	77,055	257	5,939	222	83,216	10.4
May	98,925	77,584	271	5,781	182	83,547	9.8
June	98,550	79,309	267	5,711	237	85,257	11.0
July	101,532	78,499	338	5,868	219	84,586	11.7
Aug.	99,465	80,320	327	5,908	307	86,535	13.1
Sept.	100,283	80,019	291	5,922	222	86,163	13.4

Table a26

averages of daily data

of lire)

		BI operations					
		Temporary operations					
		Securities				Fixed-term advances	Total
Total	Percentage changes (over 12 months)	Purchases	Sales	Total	Foreign currency purchases		
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
166,178	2.4	5,083	6,145	–1,061	30,032	29	29,000
167,800	2.2	..	7,600	–7,600	23,182	8	15,590
173,608	2.4	11,638	4,453	7,186	17,181	..	24,367
180,823	2.6	23,853	571	23,282	14,933	..	38,214
176,743	4.8	26,636	722	25,913	14,887	..	40,801
181,431	7.3	34,661	952	33,708	15,748	8	49,464
180,727	8.1	21,807	1,309	20,498	16,352	16	36,866
180,295	8.2	8,651	1,190	7,460	16,356	..	23,816
182,472	8.3	28,506	1,232	27,275	16,376	13	43,663
183,807	8.4	41,205	1,280	39,925	16,374	7	56,305
186,118	9.0	38,202	1,147	37,054	13,998	..	51,053
186,001	9.5	31,727	1,226	30,501	13,702	..	44,204
186,446	10.2	20,269	729	19,539	14,025	..	33,564

Table a27

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	–6,099	–30,341	11,782	608	12,389	–17,951
1996 – 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	–2,873	–10,770	36,702	111	36,813	26,042
1997 – Jan.	11	2,936	–2,925	5,313	2,388	–13,211	–273	–13,484	–11,096
Feb.	7	2,822	–2,815	6,713	3,898	9,634	41	9,675	13,573
Mar.	8	1,743	–1,735	6,137	4,402	–5,570	–400	–5,971	–1,568
Apr.	7	4,552	–4,546	3,208	–1,338	–17,969	412	–17,556	–18,894
May	23	2,841	–2,818	729	–2,089	7,149	–162	6,987	4,898
June	8	5,244	–5,237	8,312	3,075	12,077	–410	11,666	14,742
July	..	2,718	–2,711	5,930	3,218	18,699	92	18,791	22,009
Aug.	7	2,166	–2,159	–1,737	–3,896	–18,639	–1	–18,640	–22,536
Sept.	..	(5,863)	(–5,863)	(3,789)	(–2,074)	–12,107	–686	–11,190	(–13,273)
					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	11,461	–1,636	4,459	..	4,459	2,823
1996 – 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	–4,411	–5,624	8,051	..	8,051	2,427
1997 – Jan.	..	1,640	–1,640	5,259	3,619	–4,014	..	–4,014	–395
Feb.	..	2,444	–2,444	5,633	3,189	–742	..	–742	2,447
Mar.	..	1,698	–1,698	4,507	2,809	–1,451	..	–1,451	1,358
Apr.	..	2,964	–2,964	2,186	–779	–2,832	..	–2,832	–3,611
May	..	1,651	–1,651	3,102	1,452	933	..	933	2,385
June	..	1,168	–1,168	6,141	4,973	–84	..	–84	4,889
July	..	2,718	–2,718	4,830	2,112	879	..	879	2,992
Aug.	..	1,502	–1,502	–1,003	–2,505	–1,204	..	–1,204	–3,709
Sept.	..	(3,448)	(–3,448)	(3,451)	(3)	–853	..	–853	(2,147)

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						
				*of which: **Treasury 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	–1,211	–3,998	1,355	–139	1,216	–2,782
1996 – 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	139	–1,544	9,683	–174	9,509	7,965
1997 – Jan.	2	7	–5	128	123	–3,358	36	–3,322	–3,199
Feb.	1	257	–256	–3	–259	3,319	148	3,467	3,208
Mar.	1	34	–33	1	–32	–4,175	5	–4,170	–4,202
Apr.	..	766	–766	183	–583	–2,375	..	–2,375	–2,958
May	6	173	–167	–234	–401	2,844	..	2,844	2,443
June	..	23	–22	302	280	1,797	..	1,797	2,077
July	..	..	..	106	106	5,106	..	5,106	5,211
Aug.	..	12	–11	–5	–17	–5,327	..	–5,327	–5,344
Sept.	..	(902)	(–902)	(122)	(–780)	–2,707	116	–2,823	(–3,605)
				*of which: **Treasury bonds (BTPs)***					
1995	66	340	–275	11,380	11,105	554	–331	223	11,328
1996	75	7,163	–7,088	–17,375	–24,463	5,953	747	6,700	–17,763
1996 – Aug.	4	5	..	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	101	–4,892	14,810	251	15,061	10,169
1997 – Jan.	10	509	–499	–32	–532	–5,824	–310	–6,134	–6,666
Feb.	6	..	6	1,106	1,112	7,952	–105	7,847	8,959
Mar.	7	..	7	1,371	1,378	2,363	–406	1,957	3,335
Apr.	7	175	–168	533	365	–12,057	411	–11,646	–11,281
May	17	1,016	–999	–1,891	–2,889	349	–161	188	–2,701
June	7	2,241	–2,234	1,529	–706	12,160	–411	11,749	11,043
July	6	..	6	926	931	9,734	91	9,825	10,765
Aug.	6	595	–588	–977	–1,566	–10,345	..	–10,345	–11,911
Sept.	..	(745)	(–745)	(101)	(–644)	–6,725	–802	–5,923	(–6,567)

Table a28

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-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
end "	10,706	544	11,250	10,500	91	11,617	10,500	98.35	6.01	6.90
mid-Mar.	3,250	..	3,250	3,000	94	5,473	3,000	98.48	5.34	6.13
end "	10,673	327	11,000	10,000	94	12,418	10,000	98.18	6.43	7.39
mid-Apr.	3,000	..	3,000	3,500	91	5,804	3,500	98.52	5.37	6.16
end "	10,441	309	10,750	9,750	94	12,708	9,750	98.30	5.99	6.88
mid-May	2,985	15	3,000	4,000	91	6,256	4,000	98.40	5.82	6.68
end "	10,150	350	10,500	8,000	91	9,312	8,000	98.50	5.44	6.25
mid-June	3,000	..	3,000	3,500	91	6,705	3,500	98.39	5.86	6.73
end "	10,000	..	10,000	8,000	92	11,712	8,000	98.40	5.75	6.61
mid-July	3,500	..	3,500	3,500	92	6,235	3,500	98.40	5.75	6.61
end "	9,244	506	9,750	8,000	92	10,096	8,000	98.43	5.64	6.48
mid-Aug.	3,843	157	4,000	3,500	92	6,889	3,500	98.39	5.79	6.65
end "	8,000	..	8,000	7,000	91	11,392	7,000	98.45	5.63	6.47
mid-Sept.	3,482	8	3,500	3,500	91	7,330	3,500	98.53	5.33	6.12
end "	7,950	50	8,000	6,500	91	11,622	6,500	98.64	4.92	5.65
mid-Oct.	3,371	129	3,500	3,500	92	8,372	3,500	98.43	5.64	6.48
					6-month					
1996 – 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
end "	12,762	798	13,560	12,000	182	13,923	12,000	96.70	6.05	6.96
mid-Mar.	5,950	50	6,000	4,500	185	7,377	4,500	96.88	5.61	6.45
end "	12,830	420	13,250	12,000	186	14,816	12,000	96.37	6.54	7.53
mid-Apr.	4,990	10	5,000	4,000	183	7,301	4,000	97.08	5.30	6.09
end "	12,354	1,146	13,500	11,000	186	14,227	11,000	96.74	5.84	6.72
mid-May	4,855	145	5,000	4,500	183	6,757	4,500	96.93	5.58	6.42
end "	11,865	385	12,250	10,500	182	11,652	10,500	96.92	5.63	6.48
mid-June	4,120	130	4,250	3,750	182	5,309	3,750	96.87	5.73	6.59
end "	11,335	165	11,500	10,000	183	11,901	10,000	96.89	5.66	6.50
mid-July	4,995	5	5,000	4,500	184	6,726	4,500	96.88	5.64	6.49
end "	11,805	695	12,500	11,000	183	15,263	11,000	96.83	5.77	6.64
mid-Aug.	4,656	344	5,000	4,500	186	9,670	4,500	96.76	5.81	6.68
end "	11,565	435	12,000	11,000	182	16,385	11,000	96.92	5.63	6.48
mid-Sept.	4,475	25	4,500	4,000	182	9,635	4,000	97.02	5.44	6.26
end "	11,795	205	12,000	10,500	182	21,097	10,500	97.22	5.06	5.82
mid-Oct.	4,000	..	4,000	3,500	167	5,857	3,500	97.29	5.39	6.19

Table a28 cont.

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-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
end "	14,026	974	15,000	14,000	364	18,520	14,000	93.70	5.85	6.74
mid-Mar.	5,374	126	5,500	5,000	367	10,449	5,000	93.55	5.95	6.86
end "	12,225	775	13,000	11,500	368	14,652	11,500	93.05	6.42	7.41
mid-Apr.	4,305	195	4,500	4,000	365	6,430	4,000	93.85	5.69	6.55
end "	11,196	1,304	12,500	11,000	367	15,470	11,000	93.55	5.95	6.86
mid-May	4,686	314	5,000	4,500	365	9,229	4,500	93.85	5.69	6.55
end "	10,058	442	10,500	8,500	364	11,338	8,500	94.00	5.56	6.40
mid-June	3,831	669	4,500	4,000	364	10,642	4,000	93.75	5.80	6.68
end "	9,796	204	10,000	8,000	365	15,589	8,000	94.05	5.49	6.33
mid-July	4,825	175	5,000	4,500	365	12,199	4,500	94.05	5.49	6.33
end "	11,663	1,337	13,000	11,000	365	17,050	11,000	94.00	5.54	6.38
mid-Aug.	4,934	566	5,500	5,000	365	12,497	5,000	93.90	5.64	6.50
end "	12,000	..	12,000	10,000	367	16,341	10,000	93.95	5.56	6.40
mid-Sept.	5,681	819	6,500	5,000	365	10,474	5,000	94.20	5.35	6.16
end "	12,160	2,341	14,500	11,500	365	18,821	11,500	94.75	4.81	5.54
mid-Oct.	6,482	518	7,000	5,000	365	10,879	5,000	94.30	5.25	6.04
					Total					
1996 – mid-Oct.	16,755	245	17,000	16,000	–	35,867	16,000	–	6.65	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
end "	37,494	2,316	39,810	36,500	–	44,060	36,500	–	5.96	6.86
mid-Mar.	14,574	176	14,750	12,500	–	23,299	12,500	–	5.68	6.54
end "	35,728	1,522	37,250	33,500	–	41,886	33,500	–	6.47	7.45
mid-Apr.	12,295	205	12,500	11,500	–	19,535	11,500	–	5.45	6.27
end "	33,991	2,759	36,750	31,750	–	42,405	31,750	–	5.93	6.82
mid-May	12,526	474	13,000	13,000	–	22,242	13,000	–	5.69	6.54
end "	32,073	1,177	33,250	27,000	–	32,302	27,000	–	5.55	6.39
mid-June	10,951	799	11,750	11,250	–	22,655	11,250	–	5.79	6.67
end "	31,131	369	31,500	26,000	–	39,202	26,000	–	5.64	6.48
mid-July	13,320	180	13,500	12,500	–	25,160	12,500	–	5.62	6.47
end "	32,712	2,538	35,250	30,000	–	42,410	30,000	–	5.65	6.50
mid-Aug.	13,433	1,067	14,500	13,000	–	29,056	13,000	–	5.74	6.60
end "	31,565	435	32,000	28,000	–	44,117	28,000	–	5.61	6.45
mid-Sept.	13,648	852	14,500	12,500	–	27,439	12,500	–	5.37	6.18
end "	31,905	2,596	34,500	28,500	–	51,540	28,500	–	4.93	5.67
mid-Oct.	13,853	647	14,500	12,000	–	25,107	12,000	–	5.42	6.21

Table a29

Bank of Italy repurchase agreements

DATE OF AUCTION	Amount		Maturity (days)		Allotment rates	
	offered	taken up	minimum	maximum	marginal	weighted average
			Purchases			
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
1997 – Feb. 24	5,500	5,500	16	16	7,37	7,40
1997 – Feb. 26	9,500	9,500	26	26	7,37	7,40
1997 – Mar. 12	8,500	8,500	5	5	7,41	7,42
1997 – Mar. 17	6,500	6,500	15	15	7,45	7,45
1997 – Mar. 21	10,000	10,000	11	11	7,41	7,43
1997 – Mar. 24	10,000	10,000	8	8	7,38	7,41
1997 – Mar. 26	11,000	11,000	16	16	7,34	7,37
1997 – Apr. 11	11,000	11,000	4	4	7,41	7,42
1997 – Apr. 15	5,500	5,500	17	17	7,22	7,23
1997 – Apr. 23	6,000	6,000	9	9	7,08	7,09
1997 – Apr. 28	9,000	9,000	4	4	7,09	7,11
1997 – May 5	6,500	6,500	28	28	6,99	7,01
1997 – May 13	5,500	5,500	2	2	7,29	7,34
1997 – May 19	8,000	8,000	28	28	6,78	6,83
1997 – May 26	13,000	13,000	21	21	6,77	6,81
1997 – June 2	17,000	17,000	27	28	6,82	6,89
1997 – June 9	12,500	12,500	23	23	6,76	6,82
1997 – June 16	9,500	9,500	29	29	6,82	6,83
1997 – June 24	5,000	5,000	21	21	6,90	6,93
1997 – June 25	15,000	11,319	36	37	6,26	6,69
1997 – July 3	7,500	7,500	29	29	6,83	6,85
1997 – July 8	10,000	10,000	6	6	6,93	6,96
1997 – July 14	8,500	8,500	18	18	6,88	6,94
1997 – July 15	9,000	9,000	20	20	6,85	6,87
1997 – July 23	6,000	6,000	26	27	6,85	6,87
1997 – July 25	13,500	13,500	35	38	6,27	6,58
1997 – Aug. 4	9,000	9,000	25	25	6,77	6,79
1997 – Aug. 8	5,000	5,000	10	10	6,96	6,98
1997 – Aug. 18	8,000	8,000	14	14	6,82	6,85
1997 – Aug. 25	5,000	5,000	18	18	6,75	6,77
1997 – Aug. 26	12,000	12,000	20	20	6,71	6,76
1997 – Sept. 1	8,500	8,500	30	30	6,79	6,81
1997 – Sept. 8	4,000	4,000	7	7	6,89	6,90
1997 – Sept. 15	8,500	8,500	17	17	6,78	6,80
1997 – Sept. 26	10,000	10,000	19	19	6,61	6,65
1997 – Oct. 2	10,000	10,000	8	8	6,83	6,85
1997 – Oct. 10	11,500	11,500	5	5	7,05	7,06
1997 – Oct. 15	9,000	9,000	19	19	6,77	6,78
			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 a30

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				
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
1997 – Feb. 24	4,000	4,000	90	1,659.00	7.29	7.32	7.25	7.26
1997 – Mar. 21	4,000	4,000	92	1,690.00	7.15	7.23	7.40	7.42
1997 – May 22	4,000	4,000	92	1,668.00	3.57	3.61	6.66	6.67
1997 – June 23	4,000	4,000	92	1,689.25	4.22	4.26	6.77	6.78
1997 – Aug. 25	4,000	4,000	93	1,779.50	4.75	4.90	6.76	6.79
1997 – Sept. 23	4,000	4,000	95	1,745.50	2.73	2.75	6.30	6.31
				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
1997 – Mar. 14	3,000	3,000	31	996.25	3.49	3.51	7.33	7.35
1997 – Apr. 16	3,000	3,000	32	985.75	3.33	3.34	7.03	7.05
1997 – May 15	3,000	3,000	31	986.00	3.12	3.13	6.83	6.85
1997 – June 18	3,000	3,000	31	980.50	3.17	3.19	6.85	6.88

Table a31

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
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
5 March	2,000	7,092	2,000	117	300	6.76	6.82
14 March	2,000	5,467	2,000	108	291	6.86	6.87
2 April	1,500	3,685	1,500	120	240	6.80	6.86
23 May	4,500	9,711	4,500	69	342	6.37	6.41
20 June	2,500	5,304	2,500	38	311	6.37	6.46
26 June	3,000	2,884	2,884	35	187	6.06	6.28
11 July	2,500	4,028	2,500	20	203	6.19	6.26
29 July	2,000	2,485	2,000	31	154	6.05	6.11
5 August	1,500	2,071	1,500	24	147	6.10	6.17
12 August	–2,000	–5,175	–2,000	17	17	6.92	6.88
20 August	2,000	4,700	2,000	72	191	6.17	6.24
4 September	1,000	2,934	1,000	26	148	6.21	6.27
5 September	1,000	1,910	1,000	25	147	6.12	6.22
11 September	1,000	2,748	1,000	141	231	6.02	6.09
6 October	1,500	2,842	1,500	25	116	5.80	5.95
7 October	1,000	3,482	1,000	24	143	5.95	5.95
13 October	1,000	3,002	1,000	109	228	6.00	6.02

Table a32

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
June 30	6.25	6.25	1.50	7.75

Table a33

Interest rates

(percentages)

	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				
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
1996	7.50	9.00	8.85	8.86	9.07	9.13	8.65	8.60	8.61	8.48	8.32	8.46
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
Feb. ..	6.75	8.25	7.34	7.36	7.39	7.41	–	–	6.75	6.87	6.67	6.76
Mar. ..	6.75	8.25	7.37	7.39	7.40	7.42	–	–	7.10	7.24	7.24	7.20
Apr. ..	6.75	8.25	7.03	7.05	7.20	7.21	–	–	6.69	6.55	6.78	6.67
May ..	6.75	8.25	6.75	6.76	6.96	7.00	–	–	6.39	6.46	6.45	6.44
June .	6.25	7.75	6.81	6.83	6.71	6.83	–	–	6.65	6.52	6.45	6.54
July ..	6.25	7.75	–	–	6.77	6.85	–	–	6.52	6.60	6.37	6.49
Aug. ..	6.25	7.75	6.76	6.79	6.80	6.83	–	–	6.53	6.54	6.43	6.50
Sept. .	6.25	7.75	6.30	6.31	6.77	6.79	–	–	5.81	5.94	5.73	5.82

Table a34

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
1993	5.55	6.95	7.88	....	....	....	....	....
1994	5.03	5.90	6.88	....	....	....	....	....
1995	5.86	6.87	8.62	8.86	8.66	9.20	11.06	10.86
1996 – Aug.	4.91	6.28	7.62	8.51	7.12	7.50	10.06	7.56
Sept.	4.94	6.23	7.64	8.43	7.08	7.45	9.85	7.74
Oct.	4.83	6.10	7.44	8.34	6.94	7.25	9.59	7.56
Nov.	4.45	5.81	7.05	8.24	6.51	6.64	9.43	7.00
Dec.	4.51	5.80	7.10	8.13	6.24	6.26	9.08	6.70
1997 – Jan.	4.36	5.60	6.85	7.99	6.08	6.04	8.65	6.42
Feb.	4.11	5.39	6.52	7.82	5.72	5.65	8.55	6.14
Mar.	4.07	5.28	6.45	7.69	5.67	5.58	8.36	6.19
Apr.	4.01	5.18	6.39	7.56	5.69	5.59	8.19	6.18
May	3.99	5.10	6.36	7.45	5.64	5.58	8.03	6.19
June	3.84	4.95	6.26	7.34	5.56	5.57	7.90	6.03
July	3.55	4.69	5.96	7.24	5.36	5.34	7.77	5.91
Aug.	3.44	4.55	5.86	7.12	5.21	5.17	7.69	5.75

Table a35

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	
1993	9.05	11.99	12.26	....	....	....	9.88
1994	8.31	11.10	11.47	....	....	....	9.38
1995	10.18	12.88	13.22	12.45	11.71	13.35	11.50
1996 – 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
1997 – Jan.	7.31	10.64	11.18	10.58	8.84	11.50	9.63
Feb.	7.20	10.37	10.92	10.43	8.74	11.27	9.50
Mar.	7.15	10.20	10.72	10.37	8.84	11.27	9.38
Apr.	7.08	10.10	10.61	10.23	8.66	11.14	9.38
May	6.96	9.96	10.48	10.24	8.67	11.00	9.38
June	6.81	9.78	10.32	10.06	8.04	10.73	9.38
July	6.73	9.61	10.18	9.85	8.12	10.46	9.00
Aug.	6.67	9.46	9.99	9.78	8.35	10.54	9.00

Table a36

Principal assets and liabilities of banks

(billions of lire)

	Assets									
	Bank reserves	Loans to residents	Securities	Shares	Participating interest	Repos	Bad debts and protested bills	Interbank accounts	Interest-bearing external assets	*Memorandum item:* estimated realizable value of bad debts
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	72,370
1996 – Aug. ..	74,383	1,062,009	369,066	1,747	54,650	17,384	118,402	153,929	238,945	69,797
Sept. .	71,412	1,063,140	367,983	1,759	55,026	19,622	119,091	164,054	250,196	71,149
Oct. ..	69,991	1,058,639	371,456	2,292	54,830	21,059	120,102	167,163	259,072	72,103
Nov. ..	75,658	1,061,475	378,339	2,468	54,879	23,071	120,779	168,038	276,630	72,830
Dec. ..	80,892	1,090,928	383,583	2,565	55,101	22,264	123,117	182,128	295,728	74,231
1997 – Jan. ..	77,437	1,094,693	380,157	2,505	54,963	21,335	114,776	164,582	274,788	67,009
Feb. ..	82,933	1,095,694	384,000	2,817	54,570	22,276	115,671	156,331	283,072	67,378
Mar. ..	81,056	1,087,863	386,502	2,791	54,116	22,086	117,319	151,705	279,423	67,012
Apr. ..	79,557	1,093,013	377,051	2,950	54,422	19,484	117,410	150,504	282,738	65,699
May ..	83,489	1,095,852	377,854	3,613	54,802	21,457	118,096	157,324	292,920	67,951
June ..	84,138	1,119,360	360,901	3,090	55,204	20,858	118,458	160,922	312,503	69,408
July ..	86,901	1,127,010	359,524	2,903	55,402	23,351	119,260	149,213	317,404	70,451
Aug. ..	83,269	1,109,681	354,333	3,597	55,332	21,487	119,590	146,802	291,322	71,043

	Liabilities									
	Residents deposits in lire	Bonds	Public fund	Loans from BI-UIC	Repos	Interbank accounts	Capital and reserves	Interest-bearing external liabilities	Other	*Memorandum item:* supervisory capital
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 – Aug. ..	899,371	234,347	2,511	2,068	191,562	168,116	248,731	346,653	–2,844	180,189
Sept. .	918,400	244,572	2,492	2,055	158,612	178,782	248,861	352,202	6,308	179,761
Oct. ..	909,635	258,068	2,495	1,999	154,717	181,766	248,390	353,541	13,993	180,148
Nov. ..	905,969	269,564	2,495	1,957	161,767	183,568	248,048	362,828	25,142	180,674
Dec. ..	959,577	280,213	2,486	1,897	174,006	193,714	250,188	364,080	10,147	182,305
1997 – Jan. ..	919,505	288,856	2,514	1,881	174,287	176,839	254,969	362,373	4,011	182,305
Feb. ..	912,620	298,384	2,539	1,915	192,492	170,051	255,092	373,305	–9,033	182,305
Mar. ..	900,406	305,468	2,456	1,877	189,614	164,737	256,362	375,223	–13,282	183,101
Apr. ..	890,821	313,222	2,485	1,849	178,973	162,799	258,970	370,332	–2,322	182,765
May ..	890,330	321,916	2,411	1,835	189,404	168,407	257,578	368,507	5,020	182,873
June ..	897,890	329,774	2,396	1,835	184,700	174,944	258,696	370,704	14,495	182,785
July ..	871,333	335,563	2,278	1,817	209,498	164,556	257,934	369,578	28,411	182,519
Aug. ..	857,166	343,818	2,283	1,674	202,090	161,824	256,956	364,772	–5,169	183,453

Table a37

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*	
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	556,942	496,539	516,468	472,383	1,073,410	968,922	16,124
1996 – Aug.	540,165	485,550	521,845	482,617	1,062,009	968,167	12,507
Sept.	540,277	485,865	522,864	484,218	1,063,140	970,082	12,700
Oct.	534,828	479,470	523,811	488,243	1,058,639	967,713	13,559
Nov.	534,016	478,985	527,459	492,001	1,061,475	970,987	13,328
Dec.	556,364	502,124	534,565	498,854	1,090,928	1,000,978	17,854
1997 – Jan.	555,783	494,753	539,910	506,566	1,094,693	1,001,319	17,052
Feb.	555,430	491,435	540,265	507,763	1,095,694	999,199	17,089
Mar.	548,909	483,658	538,954	506,654	1,087,863	990,312	15,675
Apr.	547,033	484,027	545,980	512,937	1,093,013	996,964	17,429
May	545,926	484,013	549,926	516,887	1,095,852	1,000,899	16,720
June	565,701	505,050	553,659	521,263	1,119,360	1,026,313	22,190
July	573,247	507,487	553,763	522,050	1,127,010	1,029,537	19,472
Aug.	556,641	493,755	553,040	522,021	1,109,681	1,015,776	18,134

	Securities							
	Government securities					Other		Total
		of which:						
		BOTs and BTEs	*CTZs*	*CCTs*	*BTPs*		*of which: bond issued by banks*	
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	301,552	44,650	10,222	133,268	107,090	50,708	47,576	352,260
1996 – Aug.	323,175	42,056	22,485	148,541	102,775	45,892	44,020	369,066
Sept.	321,353	41,532	23,671	149,288	99,669	46,630	44,787	367,983
Oct.	325,343	39,297	24,414	151,986	102,643	46,113	44,311	371,456
Nov.	332,347	45,356	22,528	155,080	102,384	45,992	44,214	378,339
Dec.	334,173	52,957	19,636	155,306	99,331	49,411	47,050	383,583
1997 – Jan.	332,707	44,207	20,590	165,200	95,176	47,451	45,267	380,157
Feb.	337,144	41,340	20,965	164,933	102,911	46,856	44,672	384,000
Mar.	340,137	36,118	21,708	162,345	113,047	46,365	43,826	386,502
Apr.	330,944	32,959	21,260	162,790	106,827	46,106	43,593	377,051
May	331,704	32,140	22,204	163,394	107,164	46,150	43,489	377,854
June	314,914	28,558	21,599	158,187	100,058	45,987	43,469	360,901
July	317,665	27,992	21,656	154,452	107,482	41,860	39,242	359,524
Aug.	310,003	26,678	19,650	154,097	103,601	44,330	41,758	354,333

Table a38

Banks: deposits and bonds

(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					
			short-term	medium and long-term	total			
1993	462,160	141,747	87,291	227,916	315,207	919,115	14,178	20,291
1994	478,186	135,806	71,778	237,601	309,379	923,371	14,830	13,858
1995	477,407	118,429	58,895	280,468	339,363	935,199	20,548	12,574
1996 – Aug.	427,040	109,958	60,431	301,942	362,374	899,371	21,466	12,710
Sept.	451,406	110,749	62,730	293,514	356,245	918,400	20,797	12,971
Oct.	449,723	109,100	64,549	286,264	350,813	909,635	20,880	15,051
Nov.	452,073	110,500	65,370	278,025	343,395	905,969	20,522	14,008
Dec.	506,682	114,841	67,013	271,042	338,055	959,577	19,962	14,644
1997 – Jan.	475,242	113,136	70,324	260,804	331,128	919,505	19,704	14,424
Feb.	477,326	112,761	72,060	250,474	322,533	912,620	20,698	14,994
Mar.	473,496	113,009	73,679	240,222	313,901	900,406	21,395	15,380
Apr.	474,080	111,507	75,431	229,804	305,234	890,821	21,391	14,757
May	482,609	110,959	77,054	219,709	296,763	890,330	23,430	15,476
June	497,537	111,547	78,111	210,695	288,806	897,890	23,672	15,756
July	484,733	111,521	79,198	195,881	275,079	871,333	25,150	16,014
Aug.	480,239	113,396	80,386	183,145	263,531	857,166	25,094	17,682

	Residents' lira deposits – averages					Bonds	
	Current accounts	Certificates of deposit				fixed rate	variable rate
		short-term	medium and long-term	total			
1993	412,173	87,356	228,390	315,746	857,127	86,526	107,587
1994	425,175	70,281	237,511	307,792	862,415	98,981	116,695
1995	427,748	60,402	275,980	336,382	877,376	89,138	126,147
1996 – Aug.	416,003	60,933	302,327	363,259	885,534	94,531	139,816
Sept.	426,040	63,440	294,367	357,807	890,668	100,175	144,397
Oct.	435,828	65,234	286,410	351,645	893,973	107,107	150,961
Nov.	443,030	66,535	277,030	343,566	896,028	115,534	154,030
Dec.	453,358	67,830	271,703	339,533	903,068	121,102	159,111
1997 – Jan.	482,835	69,931	262,929	332,860	930,146	125,708	163,148
Feb.	461,987	70,887	255,075	325,962	900,443	130,590	167,794
Mar.	461,887	74,703	242,251	316,954	890,737	134,184	171,283
Apr.	463,528	76,366	232,330	308,696	883,422	135,094	178,128
May	473,304	77,613	222,042	299,654	883,985	139,667	182,249
June	467,270	78,950	212,855	291,805	869,391	145,189	184,585
July	475,082	79,933	199,902	279,835	886,045	152,404	183,160
Aug.	473,298	81,104	186,816	267,919	853,575	156,264	187,554

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Italian investment funds: securities

(end-of-period balance sheet

	Lira securities							
	Government securities					Bonds	Shares	Total
		of which:						
		BOTs	*CTZs*	*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	2,247	23,408	26,375	2,683	18,921	85,063
1996	123,819	25,764	20,125	41,897	34,931	3,833	20,651	148,304
1995 – 3rd qtr. ..	58,816	9,939	1,642	21,844	24,140	2,672	19,296	80,785
4th " ..	63,459	10,285	2,247	23,408	26,375	2,683	18,921	85,063
1996 – 1st qtr. ..	66,344	11,472	4,256	22,597	26,890	2,960	18,333	87,637
2nd " ..	82,931	11,766	6,420	31,722	31,717	3,121	19,507	105,559
3rd " ..	100,868	16,543	12,547	37,200	33,435	3,404	18,678	122,950
4th " ..	123,819	25,764	20,125	41,897	34,931	3,833	20,651	148,304
1997 – 1st qtr. ..	138,572	27,708	31,090	46,806	31,867	4,555	24,216	167,343
2nd " ..	145,998	21,778	45,614	48,880	28,780	4,921	26,994	177,912
3rd " ..	(162,229)	(21,084)	(52,800)	(51,726)	(28,112)	(5,000)	(33,157)	(200,386)
1996 – Sept.	100,868	16,543	12,547	37,200	33,435	3,404	18,678	122,950
Oct.	107,218	20,722	13,723	38,552	33,085	3,308	18,201	128,727
Nov.	116,131	22,995	17,591	41,289	33,218	3,605	19,843	139,580
Dec.	123,819	25,764	20,125	41,897	34,931	3,833	20,651	148,304
1997 – Jan.	136,943	28,336	24,525	47,589	35,403	3,975	24,545	165,463
Feb.	138,147	28,328	27,902	47,848	32,974	4,405	24,205	166,756
Mar.	138,572	27,708	31,090	46,806	31,867	4,555	24,216	167,343
Apr.	141,320	26,815	35,117	44,899	33,417	4,759	24,767	170,845
May	139,662	23,322	39,880	45,182	30,720	4,907	24,416	168,985
June	145,998	21,778	45,614	48,880	28,780	4,921	26,994	177,912
July	151,955	18,875	48,016	55,428	28,459	4,979	30,968	187,901
Aug.	153,956	18,124	50,451	53,518	30,693	4,966	28,664	187,587
Sept.	(162,229)	(21,084)	(52,800)	(51,726)	(28,112)	(5,000)	(33,157)	(200,386)

Table a39

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
30,967	15,707	980	180,251	197,544	123,936	58,226
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
29,227	15,826	1,066	153,243	165,733	28,159	14,934
30,967	15,707	980	180,251	197,544	46,242	26,478
44,202	20,581	302	211,847	239,243	72,931	39,511
59,067	28,548	168	237,206	268,315	46,760	17,745
(80,312)	(38,094)	(419)	(281,117)	(320,217)	82,697	43,613
29,227	15,826	1,066	153,243	165,733	7,956	3,408
28,915	15,070	1,012	158,654	173,962	14,797	7,951
30,832	15,814	1,062	171,473	187,084	15,835	9,331
30,967	15,707	980	180,251	197,544	15,610	9,196
36,255	17,467	806	202,525	219,985	28,850	18,508
41,591	19,889	810	209,157	234,226	26,473	14,978
44,202	20,581	302	211,847	239,243	17,608	6,025
49,170	22,292	236	220,252	247,480	13,668	4,968
53,212	24,678	204	222,400	255,338	14,823	5,702
59,067	28,548	168	237,147	268,315	18,269	7,075
72,447	36,189	178	260,526	291,563	32,645	16,013
74,285	35,389	167	262,038	300,994	26,609	15,776
(80,312)	(38,094)	(419)	(281,117)	(320,217)	(23,443)	(11,874)

Italian securities

(billions

	Securities denominated in lire				
	Government securities				
		of which:			
		BOTs	*CTZs*	*BTPs*	*CCTs*
1993	17,730	995	–	18,239	–1,420
1994	12,054	4,562	–	5,338	4,762
1995	11,407	2,177	2,262	3,731	4,005
1996	66,349	15,893	18,508	21,287	10,493
1995 – 3rd qtr.	2,793	–1,382	966	3,947	–755
4th "	5,524	393	676	1,912	2,655
1996 – 1st qtr.	6,449	1,563	2,121	1,400	1,337
2nd "	18,058	571	2,461	9,679	5,148
3rd "	18,798	4,710	6,175	5,833	2,170
4th "	23,043	9,048	7,751	4,376	1,839
1997 – 1st qtr.	17,072	1,884	11,188	6,603	–2,600
2nd "	5,626	–6,228	14,364	1,002	–2,992
3rd "	(17,404)	(–3,817)	(6,080)	(4,872)	(1,939)
1996 – Sept.	7,609	1,100	2,022	4,960	–235
Oct.	6,575	4,129	1,321	1,336	–251
Nov.	8,845	2,273	3,908	2,329	409
Dec.	7,624	2,646	2,522	711	1,681
1997 – Jan.	13,461	2,510	4,529	5,847	594
Feb.	2,068	84	3,433	815	–2,272
Mar.	1,544	–710	3,225	–60	–922
Apr.	2,043	–1,027	3,763	–2,245	1,581
May	–1,637	–3,593	4,751	355	–3,089
June	5,220	–1,608	5,850	2,892	–1,485
July	5,476	–2,976	2,300	6,208	–284
Aug.	2,558	–841	3,780	–1,336	2,223
Sept.	(9,370)	....	....	....	....

investment funds

of lire)

			Foreign currency securities		Other financial assets	Total portfolio
Bonds	Shares	Total		*of which: shares*		
–1,682	2,190	18,238	15,532	4,528	367	34,137
–3,997	8,863	16,920	6,112	7,083	–338	22,694
–2,043	125	9,489	–6,051	–2,862	284	3,722
–14,776	128	51,701	4,723	–400	1,260	57,684
1,467	–692	3,568	–864	–143	87	2,791
–438	781	5,867	505	–219	49	6,421
–1,289	–155	5,005	1,201	92	616	6,822
–428	–787	16,843	241	–95	529	17,613
–4,392	308	14,714	1,942	168	155	16,811
–8,667	762	15,138	1,340	–565	–40	16,438
–1,179	1,324	17,217	10,804	3,194	–690	27,331
6,556	122	12,304	11,254	4,823	–123	23,435
(3,849)	(1,378)	(22,631)	(20,788)	(8,931)	(4)	(43,423)
–864	–155	6,590	662	330	87	7,339
–4,249	307	2,633	–134	–602	–19	2,480
–1,989	114	6,970	1,274	66	29	8,273
–2,429	342	5,537	200	–29	–50	5,687
–2,391	643	11,713	3,798	791	–217	15,294
351	630	3,049	3,727	1,352	–187	6,589
860	50	2,454	3,279	1,050	–286	5,447
1,220	–266	2,997	4,215	1,157	–52	7,160
3,753	–41	2,075	2,649	1,104	–29	4,695
1,583	429	7,232	4,389	2,562	–43	11,578
3,009	1,077	9,562	9,366	4,800	18	18,946
840	–504	2,894	5,838	2,522	–14	8,718
....	(805)	(10,175)	(5,584)	(1,609)	....	(15,759)

Portfolio managemen

(end-of-period market value.

	Government securities				Bonds	
		of which:				
		BOTs	*BTPs*	*CCTs*	Italian	Foreign
1995 - 4th qtr.						
Securities firm	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 firm	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 firm	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 firm	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**
1996 - 4th qtr.						
Securities firm	27,161	995	12,894	12,286	6,715	5,669
Trust companies	11,738	2,266	3,108	4,986	1,510	1,518
Banks	136,942	14,624	42,172	69,786	14,302	10,006
Total ...	**175,841**	**17,885**	**58,174**	**87,058**	**22,527**	**17,193**
1997 - 1st qtr. (2)						
Securities firm	28,183	865	14,424	11,559	6,774	7,981
Trust companies	11,938	2,617	3,107	4,652	1,478	2,082
Banks	148,295	14,892	47,213	66,981	12,618	11,430
Total ...	**188,416**	**18,374**	**64,744**	**83,192**	**20,870**	**21,493**
1997 - 2nd qtr. (2)						
Securities firm	28,420	637	16,995	9,433	6,576	8,569
Trust companies	13,379	2,470	3,721	4,968	1,453	2,081
Banks	153,224	13,399	47,785	65,188	13,562	12,242
Total ...	**195,023**	**16,506**	**68,501**	**79,589**	**21,591**	**22,892**

(1) See the notes to the tables hereinafter. – (2) Provisional.

Table a41

services (1)
in billions of lire

Shares		Other financial assets	Total portfolio	Total managed funds	*Memorandum items:*	
Italian	Foreign				Gross fund-raising	Net fund-raising
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**	**3,961**
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	21,581	11,458
10,892	**3,081**	**10,407**	**210,499**	**224,426**	**31,841**	**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**
4,096	3,079	2,888	49,608	52,659	4,649	1,070
1,473	92	2,326	18,657	20,454	2,649	39
6,206	393	7,968	175,817	187,471	25,934	14,130
11,775	**3,564**	**13,182**	**244,082**	**260,584**	**33,232**	**15,239**
4,196	3,255	3,939	54,328	58,080	8,352	4,520
1,594	96	2,814	20,002	22,348	4,183	1,457
7,031	591	14,841	194,806	209,253	35,477	22,339
12,821	**3,942**	**21,594**	**269,136**	**289,681**	**48,012**	**28,316**
5,303	3,976	4,940	57,784	62,209	5,283	1,513
1,788	152	4,386	23,239	25,179	4,960	1,960
7,483	786	20,395	207,692	225,273	26,069	11,688
14,574	**4,914**	**29,721**	**288,715**	**312,661**	**36,312**	**15,161**

Table a42

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	85,976	–521	–2,492	82,964	–1,702	–31,804	11,541	104,929	8,515
1996	100,784	64,715	1,205	166,704	–30,407	29,703	67,465	99,943	5,507
1995 – 2nd qtr.	18,830	–1,018	–995	16,817	4,255	–17,749	219	30,092	1,032
3rd "	20,331	–65	764	21,030	–2,797	–2,297	2,878	23,246	1,196
4th "	17,169	838	–603	17,403	357	–766	5,478	12,334	4,022
1996 – 1st qtr.	23,556	5,310	715	29,582	–3,909	13,047	6,723	13,721	783
2nd "	38,218	4,538	318	43,074	6,445	–6,785	18,202	25,212	526
3rd "	31,799	19,292	597	51,688	–5,035	7,536	19,116	30,071	2,658
4th "	7,211	35,575	–426	42,361	–27,908	15,905	23,424	30,940	1,539
1997 – 1st qtr.	(20,067)	(25,205)	(1,195)	(46,468)	10,468	(5,577)	17,777	(12,646)	540
2nd "	(–64)	(24,236)	(–2,114)	(22,058)	–7,287	(–27,387)	5,954	(50,778)	619
1996 – Aug.	11,277	6,045	6	17,328	–1,922	4,182	4,837	10,231	1
Sept.	3,771	10,195	–64	13,903	–331	–1,354	7,845	7,743	2,155
Oct.	–2,223	13,478	–839	10,416	–8,626	3,844	6,455	8,743	409
Nov.	–236	11,484	112	11,360	–8,539	6,011	9,129	4,759	52
Dec.	9,670	10,613	302	20,585	–10,743	6,050	7,840	17,438	1,078
1997 – Jan.	(–7,288)	(8,626)	(–2)	(1,336)	2,173	(–3,612)	13,580	(–10,805)	327
Feb.	(11,666)	(9,513)	(1,847)	(23,026)	3,900	(5,213)	2,503	(11,410)	129
Mar.	(15,690)	(7,067)	(–650)	(22,106)	4,395	(3,976)	1,694	(12,041)	84
Apr.	(–6,237)	(7,728)	(. .)	(1,491)	–8,331	(–11,446)	2,235	(19,033)	156
May	(9,255)	(8,677)	(61)	(17,993)	–2,032	(1,263)	–1,477	(20,239)	56
June	(–3,083)	(7,831)	(–2,174)	(2,574)	3,076	(–17,204)	5,195	(11,507)	407
July	(13,445)	(5,764)	(–15)	(19,184)	–7,586	(–195)	5,509	(21,456)	105
Aug.	(–11,716)	(8,239)	(–6)	(–3,484)	(–3,883)	(–6,914)	2,557	(4,756)	16

Issue conditions of Treasury bonds (BTPs)

Code	Date of maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (lire billion)	Coupon	
				gross	net		gross	net
108655	1.02.2007	3.2.1997	98.40	7.09	6.20	2,500	3.375	2.953
108656	1.11.2026	3.2.1997	99.45	7.42	6.48	2,000	3.625	3.172
108655	1.02.2007	17.2.1997	98.60	7.06	6.17	2,001	3.375	2.953
108656	1.11.2026	17.2.1997	95.90	7.74	6.77	2,000	3.625	3.172
109236	15.2.2000	18.2.1997	99.95	6.11	5.33	2,750	3.000	2.625
108655	1.02.2007	3.3.1997	97.50	7.22	6.32	2,196	3.375	2.953
108656	1.11.2026	3.3.1997	93.70	7.94	6.95	1,630	3.625	3.172
109236	15.02.2000	4.3.1997	98.70	6.58	5.80	2,500	3.000	2.625
109649	1.03.2002	4.3.1997	98.15	6.80	5.94	2,500	3.125	2.734
108655	1.02.2007	17.3.1997	94.40	7.69	6.78	1,650	3.375	2.953
108656	1.11.2026	17.3.1997	89.20	8.39	7.35	1,100	3.625	3.172
109236	15.02.2000	18.3.1997	97.55	7.04	6.26	2,200	3.000	2.625
109649	1.03.2002	18.3.1997	96.50	7.22	6.35	1,505	3.125	2.734
108655	1.02.2007	1.4.1997	93.40	7.86	6.93	2,500	3.375	2.953
109236	15.02.2000	2.4.1997	96.65	7.43	6.64	4,950	3.000	2.625
109649	1.03.2002	2.4.1997	94.80	7.67	6.80	4,400	3.125	2.734
108655	1.02.2007	17.4.1997	95.70	7.50	6.59	2,200	3.375	2.953
109236	15.02.2000	18.4.1997	98.60	6.64	5.86	2,700	3.000	2.625
109649	1.03.2002	18.4.1997	97.75	6.91	6.05	2,550	3.125	2.734
108655	1.02.2007	2.5.1997	94.65	7.66	6.75	2,200	3.375	2.953
108656	1.11.2026	2.5.1997	90.25	8.28	7.26	3,300	3.625	3.172
109236	15.02.2000	5.5.1997	98.55	6.67	5.89	2,750	3.000	2.625
109649	1.03.2002	5.5.1997	97.35	7.02	6.16	3,300	3.125	2.734
108655	1.02.2007	19.5.1997	97.70	7.19	6.30	2,020	3.375	2.953
109649	1.03.2002	20.5.1997	99.15	6.56	5.71	2,000	3.125	2.734
111950	15.05.2000	20.5.1997	99.60	6.24	5.45	3,003	3.000	2.625
108655	1.02.2007	2.6.1997	97.00	7.30	6.40	1,650	3.375	2.953
108656	1.11.2026	2.6.1997	93.20	7.99	7.00	2,200	3.625	3.172
111950	15.05.2000	3.6.1997	98.75	6.57	5.78	2,200	3.000	2.625
112425	15.05.2002	3.6.1997	97.75	6.90	6.04	3,300	3.125	2.734
108655	1.02.2007	18.6.1997	99.10	6.99	6.10	1,505	3.375	2.953
111950	15.05.2000	19.6.1997	99.80	6.16	5.37	2,200	3.000	2.625
112425	15.05.2002	19.6.1997	99.90	6.37	5.51	2,750	3.125	2.734
113209	1.07.2007	1.7.1997	100.55	6.78	5.91	4,400	3.375	2.953
111950	15.05.2000	2.7.1997	100.45	5.90	5.12	1,500	3.000	2.625
112425	15.05.2002	2.7.1997	100.90	6.12	5.27	1,500	3.125	2.734
108656	1.11.2026	17.7.1997	100.95	7.29	6.36	2,200	3.625	3.172
111950	15.05.2000	17.7.1997	100.40	5.92	5.14	2,200	3.000	2.625
112425	15.05.2002	17.7.1997	101.20	6.04	5.20	2,200	3.125	2.734
113209	1.07.2007	1.8.1997	103.40	6.38	5.53	4,400	3.375	2.953
111950	15.05.2000	4.8.1997	100.75	5.78	5.00	2,000	3.000	2.625
112425	15.05.2002	4.8.1997	101.85	5.88	5.04	2,000	3.125	2.734
108656	1.11.2026	20.8.1997	100.55	7.33	6.39	1,650	3.625	3.172
111950	15.05.2000	20.8.1997	99.95	6.10	5.32	1,597	3.000	2.625
112425	15.05.2002	20.8.1997	100.35	6.25	5.40	2,200	3.125	2.734
113209	1.07.2007	1.9.1997	101.20	6.68	5.82	4,400	3.375	2.953
111950	15.05.2000	2.9.1997	100.10	6.05	5.26	2,502	3.000	2.625
112425	15.05.2002	2.9.1997	100.70	6.17	5.32	2,500.5	3.125	2.734
108656	1.11.2026	18.9.1997	105.45	6.93	6.03	2,155	3.625	3.172
115638	15.09.2000	18.9.1997	100.70	5.31	4.61	3,300	2.750	2.406
115639	15.09.2002	18.9.1997	101.25	5.53	4.80	3,300	2.875	2.516
113209	1.07.2007	1.10.1997	104.95	6.16	5.31	3,115	3.375	2.953
115638	15.09.2000	2.10.1997	101.10	5.15	4.45	2,500	2.750	2.406
115639	15.09.2002	2.10.1997	101.60	5.44	4.71	2,000	2.875	2.516

Table a43 cont.

Issue conditions of Treasury credit certificates (CCTs)

Code	Date of maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (lire billion)	Spread	First coupon	
				gross	net			gross	net
36788	1.01.2004	17.1.1997	100.65	6.79	5.92	3,002	0.15	3.450	3.019
36788	1.01.2004	3.2.1997	100.30	7.05	6.15	5,002	0.15	3.450	3.019
36788	1.01.2004	17.2.1997	100.00	7.01	6.12	4,543	0.15	3.450	3.019
36788	1.01.2004	3.3.1997	99.65	7.27	6.35	4,674	0.15	3.450	3.019
110123	1.03.2004	17.3.1997	99.10	7.01	6.12	2,200	0.15	3.550	3.106
110123	1.03.2004	1.4.1997	99.00	7.99	6.98	8,389	0.15	3.550	3.106
110123	1.03.2004	17.4.1997	99.40	6.56	5.72	3,300	0.15	3.550	3.106
111536	1.05.2004	2.5.1997	99.05	7.19	6.28	6,993	0.15	3.450	3.019
111536	1.05.2004	15.5.1997	99.20	6.87	6.00	3,300	0.15	3.450	3.019
111536	1.05.2004	2.6.1997	99.00	7.01	6.12	2,148	0.15	3.450	3.019
111536	1.05.2004	18.6.1997	99.25	7.05	6.16	1,503	0.15	3.450	3.019
111536	1.05.2004	1.7.1997	99.30	6.94	6.06	1,550	0.15	3.450	3.019
111536	1.05.2004	1.8.1997	99.55	6.99	6.10	1,650	0.15	3.450	3.019
114537	1.09.2004	1.9.1997	99.75	6.85	5.99	3,300	0.15	3.350	2.931
114537	1.09.2004	1.10.1997	100.50	6.04	5.26	2,000	0.15	3.350	2.931

Issue conditions of zero-coupon Treasury certificates (CTZs)

Code	Date of maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (lire billion)
				gross	net	
111427	14.05.1999	15.5.1997	88.15	6.52	5.73	2,750
111427	14.05.1999	30.5.1997	88.55	6.41	5.62	2,200
111427	14.05.1999	16.6.1997	88.70	6.48	5.69	2,200
111427	14.05.1999	30.6.1997	89.55	6.08	5.29	3,300
112820	30.12.1998	30.6.1997	91.55	6.06	5.31	2,200
112820	30.12.1998	15.7.1997	91.90	5.96	5.21	1,517
113288	15.07.1999	15.7.1997	89.20	5.88	5.16	2,020
112820	30.12.1998	31.7.1997	92.00	6.06	5.32	2,104
113288	15.07.1999	31.7.1997	89.25	5.99	5.27	2,162
112820	30.12.1998	14.8.1997	92.00	6.24	5.49	1,649
113288	15.07.1999	14.8.1997	89.20	6.14	5.43	1,650
112820	30.12.1998	29.8.1997	92.25	6.22	5.48	2,200
113288	15.07.1999	29.8.1997	89.35	6.18	5.47	3,300
113288	15.07.1999	15.9.1997	90.10	5.86	5.15	1,503
115110	15.03.1999	15.9.1997	91.80	5.89	5.16	2,584
115110	15.03.1999	30.9.1997	92.90	5.19	4.47	1,528
115559	30.09.1999	30.9.1997	90.55	5.09	4.47	2,571
115110	15.03.1999	15.10.1997	92.45	5.71	4.99	1,500
115559	30.09.1999	15.10.1997	89.95	5.56	4.93	1,500

Table a44

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	209.73
1992	13.70	9.00	11.90	11.51	12.04	497.70	299.19	276.02	139.69	225.19
1993	10.55	6.57	9.60	9.49	10.10	575.03	361.95	327.46	163.39	283.01
1994	8.81	6.45	8.98	8.89	8.95	638.10	366.74	359.85	179.19	279.26
1995	10.16	7.80	10.28	9.97	10.35	698.65	396.28	385.63	191.27	296.97
1996	7.81	5.38	7.50	7.20	8.03	776.10	384.07	456.22	212.78	326.00
1995 – 3rd qtr.	10.08	7.54	10.02	9.73	10.20	707.73	396.96	393.66	193.88	297.60
4th "	9.91	6.08	9.72	9.37	10.04	727.75	404.03	406.30	198.80	296.97
1996 – 1st qtr.	8.88	5.56	8.63	8.38	9.08	748.86	391.53	428.37	205.23	303.78
2nd "	8.15	5.58	7.91	7.52	8.47	767.37	381.19	446.15	210.71	315.01
3rd "	7.68	5.45	7.44	7.11	7.83	784.63	380.72	461.04	215.06	314.16
4th "	6.54	4.94	6.02	5.79	6.75	803.53	382.85	489.32	220.25	326.00
1997 – 1st qtr.	6.16	4.57	5.86	5.76	6.52	815.83	385.50	500.03	223.44	335.39
2nd "	6.19	4.34	5.90	5.66	6.56	825.94	389.38	507.81	226.61	346.14
3rd "	5.96	4.35	5.22	5.57	6.10	840.08	389.72	528.23	229.83	357.91
1996 – Sept.	7.65	5.34	7.29	6.92	7.76	789.54	381.05	466.15	216.58	314.16
Oct.	7.04	5.17	6.49	6.26	7.11	797.35	381.33	480.11	218.69	319.51
Nov.	6.42	5.02	5.88	5.66	6.69	804.65	385.03	491.33	220.58	323.91
Dec.	6.16	4.64	5.70	5.46	6.44	808.60	382.19	496.51	221.79	326.00
1997 – Jan.	5.98	4.56	5.53	5.43	6.34	814.35	382.51	502.22	222.89	333.48
Feb.	6.13	4.58	5.72	5.69	6.49	816.28	385.42	502.45	223.48	337.70
Mar.	6.36	4.57	6.33	6.15	6.72	816.85	388.57	495.43	223.96	335.39
Apr.	6.35	4.52	6.17	5.82	6.71	821.93	388.72	500.37	225.40	336.55
May	6.08	4.32	5.85	5.54	6.53	826.39	389.91	508.57	226.75	341.87
June	6.13	4.19	5.67	5.61	6.46	829.51	389.52	514.48	227.69	346.14
July	6.03	4.35	5.25	5.59	6.08	834.65	388.98	525.21	228.75	355.80
Aug.	6.07	4.23	5.41	5.55	6.13	840.33	391.23	524.96	229.85	357.13
Sept.	5.76	4.47	5.00	5.55	6.08	845.25	388.96	534.53	230.95	357.91

The money

(stocks in

	End-of-period					
	Notes and coin	Sight deposits		Other items	Total: M1	Short-term CDs
		Banks	Post Office			
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	96,221	478,258	8,160	15,728	598,367	71,602
1995 – Aug.	90,772	424,521	9,712	6,958	531,963	66,847
Sept. ...	92,525	441,844	10,452	9,796	554,617	65,339
Oct.	90,403	439,410	9,744	9,110	548,666	65,214
Nov.	92,641	426,129	8,939	10,805	538,514	64,250
Dec.	98,281	482,902	8,493	15,971	605,647	63,518
1996 – Jan.	92,006	437,798	10,410	11,273	551,488	63,709
Feb.	89,845	432,672	9,359	9,098	540,974	62,961
Mar.	92,341	440,180	7,786	8,869	549,176	62,027
Apr.	90,738	449,636	7,161	8,136	555,671	60,979
May	91,968	434,327	8,730	8,858	543,883	59,956
June ...	93,009	447,973	8,954	11,531	561,467	59,088
July	94,849	435,279	8,740	10,201	549,068	63,808
Aug.	92,456	433,195	8,897	6,171	540,719	65,905
Sept. ...	93,450	455,779	8,972	9,028	567,228	68,063
Oct.	92,605	453,742	9,437	10,191	565,975	69,798
Nov.	96,373	456,305	9,561	11,652	573,891	70,538
Dec.	100,107	506,025	7,275	13,144	626,551	72,084
1997 – Jan.	96,334	475,796	9,283	11,167	592,580	75,439
Feb.	95,720	477,620	9,278	12,197	594,815	77,396
Mar.	99,327	474,107	8,070	9,616	591,121	78,999
Apr.	96,868	476,290	7,280	9,260	589,698	80,567
May	99,349	485,207	6,492	9,349	600,396	82,449
June ...	97,688	497,756	7,498	12,691	615,633	83,517
July	101,386	487,631	6,116	11,943	607,076	84,521
Aug.	98,862	483,092	5,972	6,557	594,484	85,578

Table a45

supply

billions of lire)

data			Average data		
Savings deposits	Postal savings deposits	Total: M2 (net of CDs with a maturity of at least 18 months)	M1	M2 (net of CDs with a maturity of at least 18 months)	Extended M2
182,090	19,733	711,479	415,018	668,520	669,519
178,384	23,589	759,412	442,428	709,331	711,604
161,798	26,924	807,836	488,712	750,765	754,376
146,967	29,057	814,203	492,082	751,789	757,185
144,091	30,861	841,316	529,612	780,319	786,096
138,297	39,152	847,418	547,354	788,390	795,392
116,088	42,734	757,632	522,124	743,525	752,971
116,920	42,874	779,749	530,250	751,058	761,408
114,877	42,965	771,722	534,414	754,243	764,888
114,685	42,676	760,125	540,199	758,331	769,517
121,047	43,936	834,148	555,147	773,423	784,824
116,368	44,577	776,142	557,975	780,079	792,202
114,755	44,625	763,315	531,121	751,275	764,986
115,042	44,516	770,761	530,370	747,206	762,688
113,437	44,499	774,586	532,849	747,878	765,062
111,873	44,194	759,906	542,844	756,148	774,367
113,414	43,623	775,591	537,138	746,619	764,579
112,277	43,270	768,423	541,426	751,269	767,435
113,287	43,889	763,800	532,314	745,945	761,215
113,970	43,839	793,100	540,835	757,881	773,508
112,882	43,301	791,956	551,651	770,135	786,894
114,361	44,314	803,104	562,121	783,210	800,020
118,399	46,290	863,324	576,638	802,956	818,027
117,014	46,647	831,680	600,121	834,172	848,699
117,023	47,423	836,657	577,855	813,741	829,879
117,479	47,720	835,319	577,664	815,291	831,503
116,186	48,015	834,467	578,728	818,098	834,790
116,198	48,231	847,275	589,704	830,895	846,794
116,778	48,452	864,380	583,629	825,826	841,075
116,794	48,311	856,702	593,756	837,693	853,564
118,605	49,006	847,673	591,305	838,181	853,289

Table a46

Liquid assets

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

	M2	CDs with a maturity of at least 18 months	Securities acquired under repos	PO savings certificates	BOTs and BTEs	Banker's acceptances	Total liquid assets
1989	711,479	76,798	8,208	52,099	256,422	1,612	1,106,617
1990	759,412	105,405	13,712	57,219	284,993	1,540	1,222,280
1991	807,836	139,457	53,346	61,865	298,373	2,104	1,362,982
1992	814,203	180,328	99,571	66,575	356,177	1,925	1,518,779
1993	841,316	226,074	95,746	72,162	313,471	1,554	1,550,324
1994	847,418	236,932	89,935	87,053	312,727	1,139	1,575,205
1995 – July	772,001	257,576	127,367	93,565	347,563	1,999	1,600,071
Aug.	757,632	261,557	133,902	94,393	348,442	2,019	1,597,946
Sept.	779,749	265,794	123,960	95,069	345,977	1,943	1,612,491
Oct.	771,722	271,097	138,052	95,712	346,634	1,918	1,625,135
Nov.	760,125	274,929	142,760	96,058	347,058	1,857	1,622,787
Dec.	834,148	279,114	126,864	97,773	339,059	900	1,677,857
1996 – Jan.	776,142	289,814	146,703	98,432	347,888	1,074	1,660,053
Feb.	763,315	296,707	153,156	98,983	342,373	990	1,655,524
Mar.	770,761	301,379	146,194	99,400	339,371	1,078	1,658,183
Apr.	774,586	307,147	150,100	99,709	333,995	1,101	1,666,638
May	759,906	314,080	147,331	100,123	330,327	1,129	1,652,897
June	777,591	317,159	135,749	100,527	323,206	840	1,655,072
July	768,423	307,462	140,307	101,209	317,157	842	1,635,400
Aug.	763,800	300,114	145,671	102,185	312,736	807	1,625,314
Sept.	793,100	291,707	133,754	102,947	309,419	711	1,631,639
Oct.	791,956	284,501	145,121	109,651	299,955	657	1,631,841
Nov.	803,104	276,311	140,722	108,700	288,146	501	1,617,485
Dec.	863,324	269,416	118,782	110,614	275,659	443	1,638,238
1997 – Jan.	831,680	259,195	134,530	111,514	268,895	347	1,606,160
Feb.	836,657	248,926	141,556	112,414	262,792	326	1,602,671
Mar.	835,319	238,724	141,351	113,264	259,516	321	1,588,495
Apr.	834,467	228,422	148,828	114,114	258,990	328	1,585,148
May	847,275	218,376	150,832	114,964	255,193	444	1,587,084
June	864,380	209,420	143,402	114,764	248,542	291	1,580,798
July	856,702	194,659	148,405	114,764	242,600	320	1,557,450
Aug.	847,673	181,973	153,441	115,114	240,830	344	1,539,374

Financial assets

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

	Liquid assets	Medium and long-term securities			Units of investment funds	Other financial assets	Total domestic financial assets	Total financial assets
		Government securities	Bonds of Crediop and autonomous govt. agencies	Other bonds				
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	1,575,205	640,491	15,811	170,306	130,168	4,404	2,536,384	2,717,620
1995 – July	1,598,569	696,969	15,080	169,020	125,561	4,129	2,609,328	2,795,558
Aug.	1,596,344	694,957	15,262	169,444	126,465	4,261	2,606,734	2,792,082
Sept.	1,610,888	695,484	15,426	170,385	125,602	4,305	2,622,091	2,812,884
Oct.	1,623,532	696,075	15,492	172,382	123,540	4,275	2,635,295	2,825,849
Nov.	1,621,183	692,352	14,852	173,280	123,604	4,195	2,629,466	2,821,734
Dec.	1,676,215	692,627	14,870	172,248	126,802	4,190	2,686,953	2,877,572
1996 – Jan.	1,658,411	687,746	14,987	175,578	130,675	4,422	2,671,818	2,868,005
Feb.	1,653,882	693,930	15,049	177,449	131,903	4,766	2,676,978	2,872,327
Mar.	1,656,541	702,299	16,449	178,583	133,608	3,973	2,691,453	2,894,693
Apr.	1,664,996	702,731	16,867	179,354	139,806	4,137	2,707,892	2,911,782
May	1,651,255	710,623	17,003	183,153	144,887	4,275	2,711,196	2,919,238
June	1,653,430	708,740	17,010	183,490	149,603	4,872	2,717,146	2,926,145
July	1,632,870	717,306	17,084	190,069	153,811	5,281	2,716,420	2,933,006
Aug.	1,622,304	723,554	16,977	196,601	159,056	5,420	2,723,913	2,941,821
Sept.	1,628,472	710,357	16,770	205,305	165,733	6,022	2,732,659	2,956,295
Oct.	1,628,490	701,989	16,751	219,239	173,962	6,396	2,746,827	2,979,355
Nov.	1,614,134	693,550	15,699	226,723	187,084	6,738	2,743,928	2,983,648
Dec.	1,634,066	703,427	17,148	234,381	197,544	6,709	2,793,274	3,032,133
1997 – Jan.	1,606,160	686,181	17,297	244,181	219,985	6,723	2,780,527	3,031,379
Feb.	1,602,671	688,137	17,615	253,941	234,226	6,867	2,803,458	3,067,954
Mar.	1,588,495	690,509	17,610	260,941	239,243	7,070	2,803,867	3,078,743
Apr.	1,585,148	690,770	17,690	268,545	247,480	7,122	2,816,756	3,101,343
May	1,587,084	692,238	18,150	277,160	255,338	7,873	2,837,844	3,121,906
June	1,580,798	686,371	18,083	282,611	268,315	7,801	2,843,979	3,138,018
July	1,557,450	700,861	18,178	292,070	291,563	7,824	2,867,946	3,173,979
Aug.	1,539,374	702,227	18,220	297,523	300,994	7,837	2,866,175	3,184,580

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
1989	393,132	259,137	25,638	677,906
1990	455,998	300,485	23,453	779,936
1991	513,853	347,054	25,109	886,016
1992	570,944	383,854	20,510	975,308
1993	558,508	433,169	24,783	1,016,460
1994	530,302	476,245	21,873	1,028,420
1995 – Aug.	534,955	470,627	19,399	1,024,981
Sept.	531,558	473,727	19,254	1,024,539
Oct.	531,225	475,665	19,672	1,026,561
Nov.	533,806	480,121	19,095	1,033,022
Dec.	549,387	487,856	18,409	1,055,652
1996 – Jan.	549,725	481,103	18,717	1,049,545
Feb.	541,306	483,784	18,794	1,043,883
Mar.	535,238	489,022	18,973	1,043,233
Apr.	534,268	488,499	19,183	1,041,950
May	536,744	492,051	19,004	1,047,799
June	545,228	495,495	18,760	1,059,482
July	554,845	496,189	19,232	1,070,266
Aug.	534,190	497,847	19,022	1,051,058
Sept.	534,505	499,045	18,752	1,052,302
Oct.	530,678	499,100	17,496	1,047,273
Nov.	529,855	501,758	17,794	1,049,407
Dec.	552,185	513,045	17,857	1,083,086
1997 – Jan.	551,604	513,990	17,898	1,083,492
Feb.	551,250	514,986	17,712	1,083,948
Mar.	544,730	514,398	17,407	1,076,535
Apr.	542,854	517,174	17,096	1,077,124
May	541,747	520,399	16,850	1,078,996
June	561,522	525,623	14,449	1,101,594
July	569,068	525,828	14,029	1,108,924
Aug.	552,462	524,853	13,706	1,091,020

dit

in billions of lire)

		State sector debt		Credit	
Foreign finance	Total finance		*of which: domestic*	Total domestic	Total
68,029	745,935	1,116,744	1,081,798	1,759,705	1,862,709
93,504	873,439	1,259,997	1,211,000	1,990,935	2,133,436
107,686	993,701	1,412,037	1,357,128	2,243,144	2,405,739
128,680	1,103,987	1,595,122	1,530,613	2,505,921	2,699,110
131,547	1,148,007	1,765,516	1,680,067	2,696,527	2,913,523
124,660	1,153,080	1,931,848	1,835,867	2,864,287	3,084,928
128,156	1,153,137	2,027,245	1,909,052	2,934,033	3,180,382
128,681	1,153,220	2,055,128	1,935,774	2,960,313	3,208,348
127,317	1,153,879	2,076,935	1,956,616	2,983,178	3,230,814
128,027	1,161,049	2,095,886	1,977,710	3,010,732	3,256,935
129,596	1,185,248	2,072,707	1,953,462	3,009,714	3,257,956
130,505	1,180,050	2,082,940	1,965,035	3,013,880	3,262,291
130,952	1,174,835	2,093,415	1,977,296	3,022,179	3,269,250
131,233	1,174,466	2,115,800	1,996,708	3,041,142	3,291,466
129,825	1,171,775	2,138,653	2,018,723	3,063,372	3,313,128
131,399	1,179,197	2,147,304	2,029,605	3,078,604	3,327,702
130,055	1,189,538	2,121,825	2,001,888	3,062,570	3,312,563
126,821	1,197,087	2,137,776	2,015,146	3,085,212	3,334,663
125,413	1,176,471	2,146,416	2,025,186	3,076,044	3,322,687
123,751	1,176,053	2,172,605	2,049,917	3,101,719	3,348,157
123,175	1,170,448	2,194,883	2,073,250	3,120,624	3,365,431
121,491	1,170,898	2,205,053	2,082,822	3,133,330	3,377,052
122,955	1,206,041	2,204,375	2,079,050	3,162,137	3,410,416
124,721	1,208,213	2,206,523	2,078,695	3,162,187	3,414,737
126,736	1,210,684	2,218,143	2,086,444	3,170,392	3,428,827
126,314	1,202,849	2,242,909	2,110,808	3,187,343	3,445,758
126,933	1,204,057	2,261,701	2,129,696	3,206,820	3,465,758
127,926	1,206,922	2,278,249	2,141,528	3,220,524	3,485,170
129,064	1,230,658	2,250,980	2,113,993	3,215,587	3,481,638
130,952	1,239,876	2,247,225	2,103,828	3,212,752	3,487,101
131,448	1,222,469	2,246,978	2,105,116	3,196,136	3,469,447

Table a49

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	48,424	–8,674	–39,369	120,898	66,925	91,355
1992	6,366	–32,591	–12,187	73,691	83,413	105,960
1993	25,767	2,564	84,589	53,606	14,872	129,864
1994	6,103	3,297	–21,594	10,201	27,002	12,803
1995	–13,271	2,915	58,102	37,723	–25,521	86,490
1996	29,176	20,449	47,394	51,106	3,113	92,886
1995 – July	–16,960	–255	5,401	2,160	–8,634	–14,696
Aug.	–14,368	–2,336	15,506	–10,683	2,840	19,795
Sept.	22,117	–3,967	–1,343	–2,635	23,272	6,789
Oct.	–8,027	–1,194	4,814	2,716	14,181	–28,544
Nov.	–11,597	–2,948	15,015	9,162	7,275	–40,102
Dec.	74,023	5,772	13,248	30,545	–24,248	48,667
1996 – Jan.	–58,006	–138	–7,450	–6,824	–1,448	–42,145
Feb.	–12,827	–916	550	–3,613	9,680	–18,527
Mar.	7,446	1,330	–12,110	2,652	15,612	–39
Apr.	3,825	8,042	26,808	3,136	–12,279	–21,881
May	–14,680	9,267	–13,151	10,022	3,462	–24,280
June	17,685	6,773	808	11,424	–25,896	24,577
July	–9,168	–325	–6,933	4,320	–2,071	–5,047
Aug.	–4,623	–2,812	15,024	–18,324	599	409
Sept.	29,300	731	3,310	3,704	17,318	4,081
Oct.	–1,144	5,382	5,718	–857	13,666	–25,238
Nov.	11,148	–2,922	10,748	7,223	9,317	–13,219
Dec.	60,220	–3,963	24,072	35,713	–24,847	28,424
1997 – Jan.	–31,644	5,363	–22,076	–18,958	5,135	–1,108
Feb.	4,977	–1,608	–263	378	2,117	4,354
Mar.	–1,338	–4,262	–2,154	–6,661	13,445	–1,706
Apr.	–852	–2,131	4,343	–288	4,030	–6,805
May	12,808	1,571	17,029	4,326	–5,530	–9,564
June	17,105	–1,139	21,346	25,926	–39,430	10,401
July	–7,677	12,134	1,988	5,938	–29,747	2,009
Aug.	–9,029	4,804	–13,748	–17,824	5,131	12,608

Supervisory capital and capital adequacy (1)

(billions of lire)

	Core capital	Supplementary capital	of which: subordinated liabilities	Supervisory capital	Solvency ratio	Excess capital	Capital shortfalls: Number of banks	Capital shortfalls: Amount	Capital shortfalls: Share of loan market
June 1994									
Banks in the Centre and North	145,874	26,600	9,825	166,705	13.5	67,144	11	193	11.1
Banks in the South	16,911	5,176	2,949	21,534	11.7	6,790	11	225	5.8
Total ...	**162,785**	**31,777**	**12,775**	**188,239**	**13.3**	**73,933**	**22**	**419**	**16.9**
December 1994									
Banks in the Centre and North	146,874	25,780	11,686	167,062	13.3	65,382	11	825	19.6
Banks in the South	16,422	4,171	2,962	19,928	11.1	5,583	12	424	7.9
Total ...	**163,296**	**29,951**	**14,648**	**186,991**	**13.0**	**70,965**	**23**	**1,249**	**27.5**
June1995									
Banks in the Centre and North	151,104	30,407	17,577	175,198	12.9	65,810	12	811	11.1
Banks in the South	15,321	4,201	3,071	18,767	10.1	3,828	13	2,255	5.6
Total ...	**166,425**	**34,608**	**20,649**	**193,966**	**12.6**	**69,638**	**25**	**3,066**	**16.7**
December 1995									
Banks in the Centre and North	151,840	33,211	18,769	178,832	13.0	67,005	9	590	8.7
Banks in the South	15,441	3,271	2,279	17,826	10.3	3,836	8	2,416	6.0
Total ...	**167,281**	**36,482**	**21,048**	**196,658**	**12.7**	**70,841**	**17**	**3,006**	**14.7**
June 1996									
Banks in the Centre and North	155,799	34,102	18,556	183,807	13.2	71,211	5	308	4.9
Banks in the South	14,355	3,088	1,957	16,746	9.7	2,915	11	3,587	7.5
Total ...	**170,155**	**37,190**	**20,513**	**200,553**	**12.8**	**74,126**	**16**	**3,895**	**12.4**
December 1996									
Banks in the Centre and North	157,795	34,188	18,164	186,205	13.3	73,294	6	301	4.2
Banks in the South	13,828	3,091	2,040	16,029	10.3	3,600	8	3,661	6.6
Total ...	**171,623**	**37,279**	**20,204**	**202,234**	**13.0**	**76,893**	**14**	**3,962**	**10.8**
March 1996									
Banks in the Centre and North	152,043	33,338	18,898	179,160	13.1	68,474	6	494	4.6
Banks in the South	15,149	3,281	2,333	17,547	10.2	3,711	10	2,479	8.0
Total ...	**167,192**	**36,618**	**21,231**	**196,707**	**12.7**	**72,185**	**16**	**2,973**	**12.6**
March 1997									
Banks in the Centre and North	159,001	34,036	18,092	187,304	13.2	72,678	5	153	5.2
Banks in the South	13,779	2,992	2,000	16,073	11.2	4,633	7	2,555	4.8
Total ...	**172,780**	**37,028**	**20,092**	**203,377**	**13.0**	**77,311**	**12**	**2,708**	**10.0**

(1) The figures refer to the whole of the banking system except for the branches of banks located in other Community countries and other countries that apply supervisory rules comparable to those in force in Italy.

Notes to the statistical 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 the other countries, discount rate.

Money market rates. For the United States, rate on 3-month CDs; 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, rate on 3-month prime corporate paper.

Table a6

Sources: National statistics.

Bond yields (secondary market, gross). For the United States, 10-year Treasury notes and bonds; for Germany, 9-10 year public sector bonds; for Japan, 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 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 October 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.

The table reflects the introduction of the new base (1995=100), which replaces that previously used by Istat (1992=100).

As of February 1992 the consumer price index for worker and employee households excludes 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 index).

Table a17

Source: Istat.

The table reflects the introduction of the new base (1995=100), which replaces that previously used by Istat (1992=100).

Table a18

Source: Istat.

Average unit values of imported manufactures in lire. Each good is allocated entirely to the category in the table corresponding to the predominant economic use of that good.

Table a19

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 a20

The dollar balances may not coincide with the sum of the component items owing to rounding.

Table a21

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 agreed with Eurostat in 1997 for general government net borrowing in the national accounts have been applied in calculating the state sector borrowing requirement (see the notes to Table a22).

The Treasury borrowing requirement comprises 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" permit the reconciliation of the total funding requirement and the definition of the borrowing requirement currently used to determine the objectives for fiscal policy. Starting from this issue of the Economic Bulletin, "Settlements of past debts" include those in cash of Local Health Agency debts. 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 a22

The table shows the financing of the state sector borrowing requirement (for the definition of the state sector, see the notes to Table a21). "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 a23

The table shows the state sector debt and its composition (for the definition of the state sector, see the notes to Table a21). 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 a22. 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 a24

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 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, collateral for banker's drafts 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. A new definition of the gross state sector borrowing requirement was adopted in *Economic Bulletin* no. 24 (February 1997).

"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 a25

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.

As of April 1997, the item "Refinancing" includes the special advances granted under Decree Law 497/1996, ratified as Law 588/1996.

For the "Uses" items "Deposits with the Bank of Italy" and "Other", see the notes to Table a24.

Table a26

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, collateral for banker's drafts 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 the section "Note metodologiche" in the Appendix to the *Relazione annuale per il 1996*).

"Repurchase agreements", stated in nominal terms, comprise those with primary dealers on the screen-based secondary market for government securities.

Table a27

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 a28

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 Treasury bills are compound. The "Total" yields are averages weighted on the basis of the quantities sold. Following the introduction of the possibility of reopening Treasury bill auctions in several tranches, as of 22 September 1997 the net yields are calculated by applying the 12.5 per cent withholding tax to the amount of interest determined with reference to the average allotment rate of the first tranche.

Table a29

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 a30

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 a31

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 a33

The discount rate and the rate on fixed-term advances are end-of-period figures.

The rates on foreign currency swaps and repurchase agreements are simple averages of the operations concluded in the period.

Treasury bill 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 a34

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 a35

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 a36

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 branches. "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 the section "Note metodologiche" in the Appendix to the *Relazione annuale per il 1996*.

Table a37

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 a38

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 a39

"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 a40

"Foreign currency securities" include government securities denominated in foreign currencies and Eurolira bonds. "Other financial assets" include CDs, banker's acceptances and commercial paper. Rounding may cause discrepancies in totals.

Table a41

"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 amounts shown for "Banks" refer only to the portfolio management services that they provide directly.

Table a42

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 a43

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.

As of 1 January the new International Securities Identification Number (ISIN) coding system has been in 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 a44

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 Italian stock exchange and are averages of daily data.

Table a45

For the definition of non-state-sector monetary aggregates, see the section "Statistical aggregates" in the Appendix.

"Bank current accounts" comprise demand deposits in lire and foreign currency.

The "Other items" in M1 comprise banker's drafts issued by the Bank of Italy and other credit institutions and current account deposits of non-state public bodies 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.

"M2" does not include bank CDs with maturities of more than 18 months (see the section "Note metodologiche" in the Appendix to the *Relazione annuale per il 1996*).

"Extended M2" includes residents' deposits with the foreign branches of Italian banks.

Table a46

For the definition of non-state-sector liquid assets, see the section "Statistical aggregates" in the Appendix.

"Securities acquired under repos" include foreign currency securities.

As of *Economic Bulletin* no. 24 (February 1997), postal savings certificates are accounted for at their face value at issue (previously they were included at their redemption value).

BOTs and BTEs are stated at face value. Net repo purchases are excluded.

Table a47

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.

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" comprise bonds issued by Crediop on behalf of the Treasury and autonomous government agencies and the like. The item includes the non-state sector's repo sales of such bonds but not its repo purchases.

"Other bonds" include bonds issued by public and private sector enterprises and Italian banks and local authorities. include the non-state sector's repo sales of such 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 a48

As of *Economic Bulletin* no. 24 (February 1997), 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" 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 a46).

"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 a49

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.

"Official reserves" and the "Net foreign position of banks" 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, banks' shareholders' equity, and CDs with maturities of more than 18 months.

Table a50

Source: Supervisory returns.

The data refer to supervisory capital and to the solvency ratio calculated on a solo basis.

Supervisory capital is determined as the algebraic sum of a series of positive and negative items, whose inclusion in core or supplementary capital is admitted, with or without restrictions, according to the item. The total of core and supplementary capital is then reduced by the amount of unconsolidated equity interests in banks and financial institutions exceeding 10 per cent of the capital of the investee company.

Paid-in capital, reserves and provisions for general banking risks – net of any own shares or capital parts held, intangible assets and loss for the year – are the elements of core capital, which is included in the calculation of supervisory capital without restriction. Revaluation reserves, loan loss provisions and subordinated liabilities – less any revaluation deficits in respect of securities held as financial fixed assets and other negative items – are the elements of supplementary capital, which is included in the calculation of supervisory capital up to the amount of core capital.

The regulations governing the solvency ratio require all banks, except for the branches of banks located in other EU or G-10 countries, to satisfy a minimum capital requirement based on the ratio of their supervisory capital to the total of their weighted on- and off-balance-sheet assets, determined using weights that reflect the potential riskiness of the different categories of asset.

The calculation of the excess amounts and shortfalls of supervisory capital ("Excess capital" and "Capital shortfalls") is based on the assumption of a minimum capital requirement of 8 per cent for all banks, including those belonging to banking groups, for which the supervisory regulations provide for a requirement of 7 per cent provided that the group as a whole satisfies the 8 per cent requirement.

As of 1995 the solvency ratio figures take account of the prudential requirements for market risks.

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 with a maturity of less than 18 months 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, banker's acceptances, post office savings certificates, certificates of deposit with a maturity of 18 months or more and 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

- *central government (budget and Treasury operations)*
- *Deposits and Loans Fund*
- *Southern Italy Development Agency (until April 1993)*
- *ANAS and the former state forests.*

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.*

Private sector

- *households, including sole proprietorships*
- *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.

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.

1 *The reference aggregate for the excessive deficit procedure provided for in the Treaty on Monetary Union.*

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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