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The international economy

The international stage has been dominated in recent months by the economic and financial crisis in South-East Asia. The situation gradually worsened in the countries that had suffered currency and stock exchange turbulence at the beginning of the summer (Thailand, Malaysia, Indonesia and the Philippines). In mid-November the tension spread to South Korea, and the financial centres of Hong Kong, Singapore and Taiwan were also affected.

The crisis exposed the fragile side of these countries' recent development: investment in sectors with low profitability or high risk, largely financed by bank loans, most of them in foreign currency; rigid pegging of local currencies to the US dollar, leading to a loss of competitiveness and substantial balance-of-payments deficits; serious shortcomings in the banking sector, unmasking the inadequacy of banking supervision, and in the whole system of corporate governance.

In January the situation in Indonesia worsened dramatically, bringing the depreciation of the currency against the dollar to more than 80 per cent since the first half of 1997. The rescue packages for South Korea, Indonesia and Thailand put together by the International Monetary Fund with the assistance of the World Bank, the Asian Development Bank and several countries included plans for macroeconomic adjustment and restructuring of the financial systems. Enormous sums in excess of $100 billion were promised. In order to reinforce these plans, the cooperation of the international banks in temporarily maintaining existing loans was sought and obtained; this has helped to improve the situation in South Korea, in particular, since mid-January. The fact that the Hong Kong dollar and the Chinese currency maintained their parities was decisive in preventing the spread of the crisis.

The Japanese economy, which was already shaken by signs of instability in the banking and financial system, was adversely affected by the crisis in South-East Asia, owing partly to its close commercial and financial ties with the region. The Tokyo stock exchange began to slide last summer and more recently the yen depreciated sharply against the dollar; in addition, the last quarter of 1997 saw a fall in production. The sudden deterioration in economic conditions and the large exposure towards the crisis-stricken economies have exacerbated the difficulties of Japanese banks, whose balance sheets still show the effects of the bursting of the financial bubble in the early nineties. The budget policy pursued last year has proved to be excessively restrictive. The Government's programme to stimulate the economy, which was launched in mid-December but has not yet been wholly approved by Parliament, currently envisages measures of the order of half a percentage point of GDP, which international organizations consider inadequate. A plan to support the banking system has also been approved; it provides for an injection of up to ¥30 trillion of public funds, equal to 6 per cent of GDP. Monetary policy has remained expansionary against a background of persistently weak domestic demand and doubts about the adequacy of fiscal stimulus. The worsening situation in Japan is of particular concern on account of the size of the Japanese economy (the second largest in the world), Japan's creditor position with the rest of the world and the unusual length of the present period of stagnation. Japan's economic policy strategy is a crucial factor in the development of the crisis in the region. For that reason, it was at the centre of discussions during the recent G-7 meeting. The final communiqué expressed the conviction that recovery from the critical economic situation called for substantial fiscal stimulus.

The currency and financial markets of the leading industrial countries were also affected by the Asian crisis. The dollar has appreciated against all the leading currencies since the end of October, thanks to its status as a hedge currency. Fears that the crisis would cause a slowdown in world growth and the massive transfers of funds away from that area to the bond markets of the leading industrial countries prolonged the decline in nominal long-term yields. After falling at the end of October, share prices have recovered in all the leading industrial countries except Japan.

In the United States and the United Kingdom activity continued to expand briskly in the second half of 1997. In continental Europe the recovery gained strength and in France there were visible signs of a pick-up in domestic demand.

The external imbalances of the two largest economies increased further, mainly on account of the pronounced disparity in the growth of domestic demand. In the first three quarters of 1997 the current account deficit of the United States amounted to $160 billion on an annual basis, or about 2.2 per cent of GDP, while net external debt was close to 12 per cent of GDP. Japan's current account surplus for the year as a whole was just under $95 billion (compared with $66 billion in 1996), about 2.3 per cent of GDP, so that the country's net external creditor position increased further to about 22.5 per cent of GDP. The current account surplus of the EU is expected to be around $90 billion, or about 1.1 per cent of GDP.

In the United States the budget was virtually balanced for the first time since the beginning of the seventies, thanks to particularly strong growth. The majority of EU countries succeeded in reducing their budget deficits to 3 per cent of GDP, as required for membership of Economic and Monetary Union (EMU).

Inflation was brought down further in the leading industrial countries, reflecting the firm stance of monetary and budgetary policies and the favourable trend of labour costs and the international prices of raw materials. The latter declined sharply in the last quarter of 1997, partly on account of the Asian crisis; the price of oil fell from $20 to $15 per barrel between October and February. In the United States the twelve-month rate of inflation slowed to 1.7 per cent in December, giving an average rate of 2.3 per cent for the year, compared with 2.9 per cent in 1996. In Germany, Italy and Spain inflation stood at 1.3, 1.6 and 2.0 per cent respectively in January of this year.

Anxieties linked to the Asian crisis have affected the monetary policies of some of the major industrial countries, leading to a pause in the tightening of conditions that had begun in early 1997. Only in the United Kingdom did the central bank again raise the base rate, in November, to bring inflation back in line with the target. In the United States, where short-term rates came down at the beginning of 1998, the markets are expecting the present monetary stance to be maintained in the coming months. As the launch of EMU approaches, in Europe the convergence of inflation rates is reflected in that of short and long-term interest rates. In Italy, Spain and Portugal the long-term yield differentials vis-à-vis Germany have narrowed to less than one half of a percentage point.

The development of the financial crisis in Asia

After the first speculative assaults on the Thai currency between May and July last year the crisis spread rapidly to the Philippines, Indonesia and Malaysia, and also had repercussions on the more solid newly industrialized economies in the region (South Korea, Hong Kong, Singapore and Taiwan). At this point the IMF coordinated the first financial support measures, which did not, however, prevent the crisis from deepening and spreading further. By mid-October the Taiwanese authorities were also obliged to allow the yuan to fluctuate, notwithstanding their substantial reserves of foreign currency. In the next few days the speculation quickly shifted to the Hong Kong dollar, causing interest rates to rise sharply and share prices to plunge. Indonesia and South Korea also requested assistance from the international financial community. In mid-December the situation in Indonesia deteriorated further, owing partly to the news that the new budget law would not comply with the objectives agreed with the IMF. At the end of January the Indonesian Government announced the establishment of a body to restructure the banks and the introduction of a state guarantee to protect depositors; it also ordered a de facto moratorium on the servicing of the foreign debt of national enterprises.

The crisis was exacerbated by the high incidence of illiquidity or insolvency among firms and financial institutions caused by currency depreciation and the collapse of share and real estate prices. The fragility of these countries' financial systems was revealed. The assets side of the banks' balance sheets shows a concentration of investments in securities and real estate, often yielding low returns, and loans either to buy real estate or with real estate as collateral; on the liabilities side they are weighed down by substantial short-term foreign debts. These capital structures are the result of highly risky and rather opaque operational strategies, which have led to an inefficient allocation of credit.

In the middle of 1997 the overall gross debt owing to banks and other non-resident investors amounted to about 30 per cent of GDP in South Korea, Indonesia and the Philippines and exceeded 40 per cent of GDP in Malaysia and Thailand. In Indonesia and Thailand 90 per cent of the debt was owed to foreign banks; in South Korea and Malaysia the proportion was about 70 per cent (Table 1).

At the end of February the exchange rates of the Philippine peso and the Malaysian ringgit against the US dollar were respectively 34 and 32 per cent lower than the average for the first half of 1997; the Korean won and the Thai baht had lost about 46 per cent and the Indonesian rupiah 73 per cent. The currencies of Singapore and Taiwan also depreciated, albeit less markedly, by about 12 and 14 per cent. The Hong Kong dollar maintained its parity against the US dollar. The fall in share prices was equally impressive, averaging 25 per cent over the same period. The authorities of these countries increased interest rates drastically in their attempts to staunch the outflow of funds (Figure 1).

No reliable estimate of the effects of the crisis on the area's output last year is yet available. According to the latest IMF estimates, which seem optimistic, growth was less than 1 per cent in Thailand last year, compared with 6.4 per cent in 1996, and probably slowed down in Indonesia and the Philippines as well (Table 2).

Table 1

External debt exposure of certain Asian countries

(billions of dollars, at end-June 1997)

	Towards foreign banks (1) (A)				In securities held by non-residents (B)	Total (A)+(B)	
	Total	Interbank market	Percentage change between end-1995 and end-June 1997 (2)	Percentage of debt maturing in 1 year or less			As a percentage of GDP (3)
South Korea	103.4	67.3	37.1	67.9	47.2	150.6	31.1
Philippines	14.1	5.5	104.3	58.8	7.7	21.8	26.0
Indonesia	58.7	12.4	38.1	59.0	7.2	65.9	29.0
Malaysia	28.8	10.5	71.4	56.4	11.7	40.5	40.8
Thailand	69.4	26.1	19.0	65.7	11.1	80.5	44.8

Sources: National bulletins, IMF and BIS.
(1) BIS reporting banks. – (2) Adjusted for exchange rate changes. – (3) GDP in 1996.

Table 2

Main economic indicators for certain Asian countries

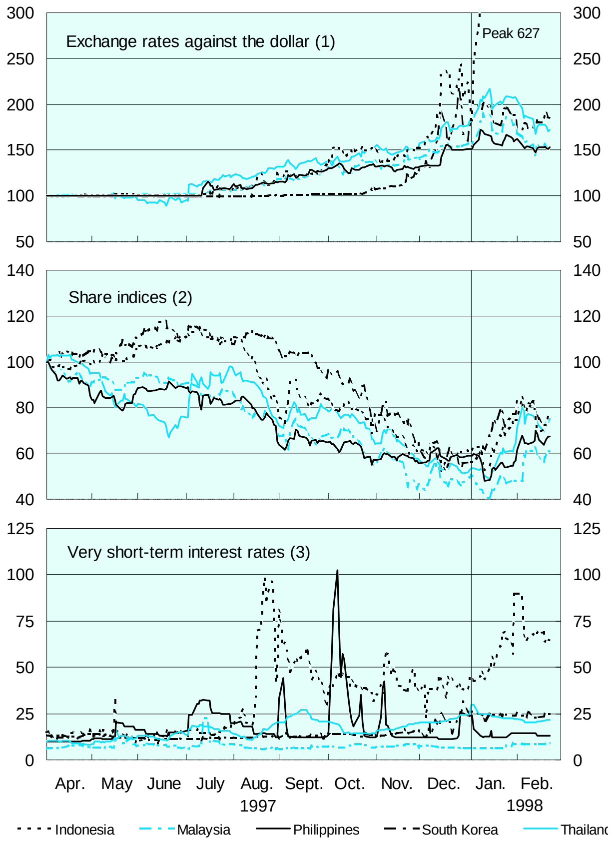
	GDP (1)		Consumer price inflation (2)		General government balance (3)		Current account balance (3)		Exports (1)		Imports (1)	
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
South Korea	7.1	6.0	4.9	4.3	0.0	0.0	–4.9	–2.9	14.1	22.0	14.8	6.0
Philippines	5.7	4.3	8.4	5.2	–0.4	–0.9	–4.7	–4.5	20.4	15.6	20.6	13.6
Indonesia	8.0	5.0	7.9	8.3	1.4	2.0	–3.3	–2.9	5.5	14.9	7.8	9.7
Malaysia	8.6	7.0	3.5	3.7	4.2	1.6	–4.9	–5.8	7.2	8.6	4.2	9.7
Thailand	6.4	0.6	5.9	6.0	1.6	–0.4	–7.9	–3.9	2.6	11.5	2.8	–2.6

Sources: IMF, *World Economic Outlook, Interim Assessment,* December 1997; for trade, IMF internal estimates.
(1) Percentage changes at constant prices. – (2) Percentage changes. – (3) As a percentage of GDP.

Figure 1

Exchange rates, share indices and interest rates in certain Asian countries

(daily data)



Source: Datastream.
(1) Currency units per dollar; indices, 1 April 1997=100. - (2) Indices, 1 April 1997=100. - (3) Percentages.

The substantial shifts in competitiveness resulting from the depreciation of currencies and the slowdown in growth have already affected trade flows. According to IMF estimates, the current account deficits of South Korea and Thailand already declined considerably last year, as a result of both faster growth in exports and a decline in imports.

The solution of the South-East Asian crisis hinges on the implementation of the programmes agreed with the IMF and on the debt-restructuring agreements with foreign banks. The situation confronting the IMF was uncharacteristic on account of both the causes of the crisis, which were not strictly attributable to macroeconomic imbalances, and the number of countries and private businesses involved. In these circumstances it was difficult not only to prepare plans of action but also to set precisely measurable criteria to be met as a condition for benefiting from them. While progress in the macroeconomic sphere is fairly easy to monitor, albeit less crucial on this particular occasion, it is very difficult to ensure the implementation and ascertain the quality of measures to reform the financial system, the effects of which are slower to emerge.

The programmes drawn up by the IMF envisage first and foremost distinctly restrictive fiscal and monetary policies to restore inflows of foreign capital and strengthen exchange rates. Structural measures in the banking and financial sector are also contemplated. In the immediate future some insolvent financial institutions will inevitably fail or be taken over by other resident or foreign establishments. In the medium term it will be necessary to ensure greater transparency and competitiveness in the credit market and strengthen supervisory systems. Radical reforms in the field of corporate governance have also been agreed, particularly with South Korea.

Exchange rates and the financial markets

Following several months of stability, the dollar again began to appreciate against the German mark and the yen at the end of October. An important factor was the worsening of the crisis in South-East Asia and increased political and military tensions concerning Iraq, which triggered a massive shift of portfolio capital towards the US market. At the end of February the dollar was 3.4 per cent higher in nominal effective terms than the average for October (Figure 2).

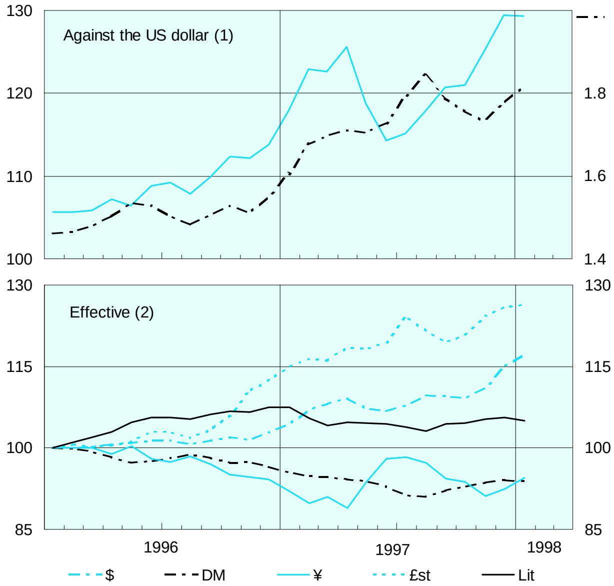
The depreciation of the yen that began in the second half of 1995 has continued and become more pronounced in recent months. The yen has been severely affected by the deterioration of cyclical conditions associated with the crisis in the region and by the increasingly difficult situation of the banking system. Notwithstanding the Bank of Japan's intervention to support the currency, in mid-January it was 9 per cent lower against the dollar than last October. It recovered slightly in the second half of the month, following the announcement of additional measures to support the economy. At the end of February it showed a nominal effective depreciation of 1.4 per cent vis-à-vis the currencies of the world's leading exporters of manufactures compared with October. By contrast, on the basis of an effective exchange rate indicator that also includes the currencies of other Asian countries with which Japan has close trading ties (accounting for about 25 per cent of overall trade), the yen had appreciated by about 3.5 per cent since October.

In December the German mark also lost ground against the dollar, falling by up to 4.6 per cent compared with October. In effective terms, however, there was no significant change. The ERM currencies continued to enjoy a period of stability; the Irish punt, which had appreciated strongly last year, also joined the general trend towards convergence (Figure 3). Sterling appreciated against the mark until the end of the year, emulating the dollar, but the waning of expectations of a further tightening of monetary conditions subsequently led to a slight weakening of the British currency.

Figure 2

Nominal exchange rates of leading currencies

(monthly averages)

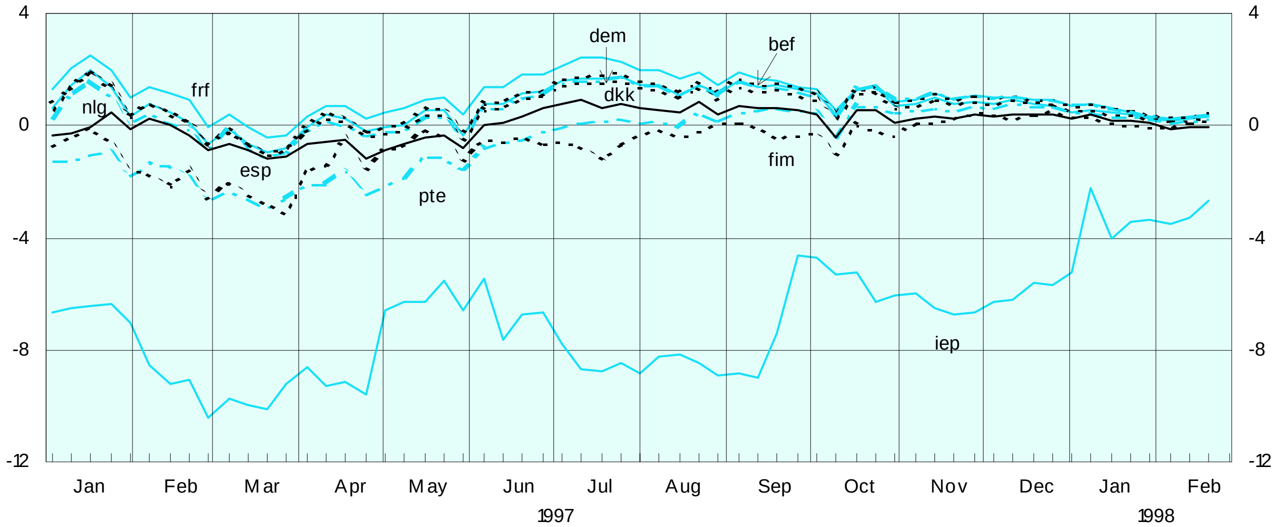


(1) Units of each currency per dollar; yen, left-hand scale; DM, right-hand scale. - (2) Vis-à-vis a trade-weighted average of 24 other currencies; indices, January 1996=100. A rise corresponds to an appreciation of the currency.

Between the beginning of November and the end of February long-term interest rates declined in all the industrial countries except Japan, where they already were, and still are, exceptionally low at around 1.6 per cent. The fall amounted to 0.2 percentage points in the United States, 0.6 points in the United Kingdom and 0.7 points in Germany (Figure 4); in the remaining EU countries rates came down in line with those in Germany. In Italy and Spain the reduction was more marked, and the differentials vis-à-vis German rates narrowed further to 0.4 and 0.2 percentage points respectively at the end of February. As a result of these developments, the average of real interest rates in the leading industrial countries fell to less than 4 per cent.

Figure 3

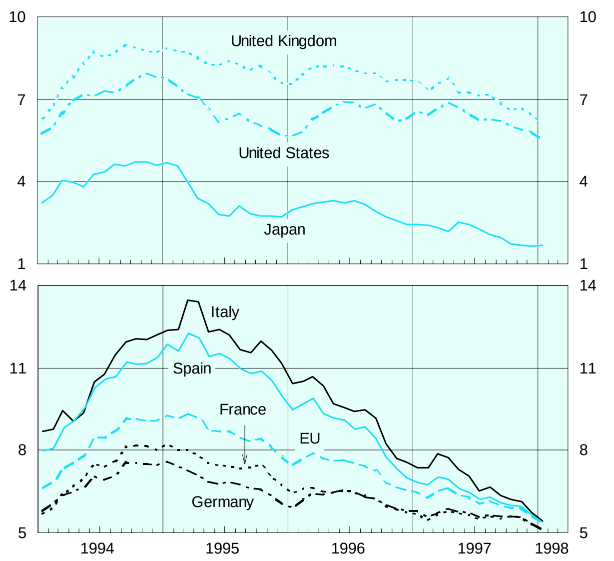
Exchange rates of the lira vis-à-vis other ERM currencies (1)
(percentage divergences from central parities)



(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.

Figure 4

Long-term interest rates (1)
(monthly averages)

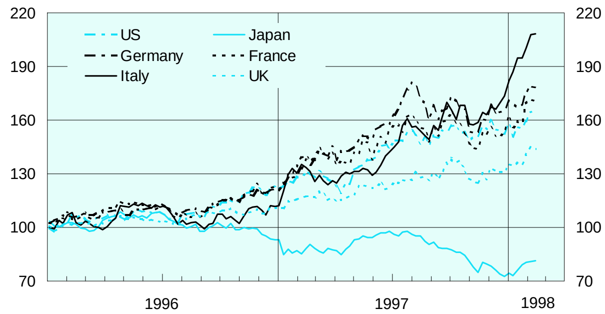


Source: National statistics.
(1) Yields on 10-year government bonds. The EU rate is the average for all member countries except Greece.

Share prices in Germany, the United Kingdom and France were affected by the fall in the Asian stock exchanges at the end of October, but they subsequently recovered strongly (by roughly 19, 15 and 19 per cent respectively) and exceeded the historical peaks recorded in mid-October (Figure 5). Share prices also showed a substantial recovery of about 14 per cent in the United States, despite the very considerable presence of US multinational companies in South-East Asia. In Japan the downturn in the market that began in the middle of last year continued until mid-January, bringing the fall in share prices since the beginning of 1997 to 16.6 per cent.

Figure 5

Indices of share prices on the main international stock exchanges
(end-of-week data; indices, 29 December 1995=100)



Source: Reuters.

Economic activity and inflation in the leading industrial countries

In Japan a partial recovery in activity in the third quarter of last year was followed by a marked worsening in economic conditions. Households' real spending fell and orders for machinery plummeted by 15 per cent between September and November. Industrial output fell by 2.3 per cent between the third and fourth quarters and consumer and business confidence declined again.

The US economy continued to grow vigorously in the second half of last year; output increased at an annual rate of 3.4 per cent between the first and second halves, accelerating in the final months of the year (Table 3). Production was again fueled by domestic demand, particularly investment, which increased at an annual rate of more than 10 per cent.

Growth fostered a further decline in the unemployment rate, which stood at 4.7 per cent in January. Wage and salary increases nevertheless remained moderate; thanks partly to productivity gains, unit labour costs were only 1.5 per cent higher in the second six months than in the same period of 1996. In January consumer price inflation fell to a twelve-month rate of 1.6 per cent (compared with 3.0 per cent in January 1997; see Table a3), thanks to the fall in the international prices of raw materials and the appreciation of the dollar.

In continental Europe the recovery gained strength. In the second half of the year Germany and France recorded annual rates of growth of GDP of 2.3 and 2.6 per cent respectively, with net exports continuing to make a large contribution, especially in Germany, where they accounted for more than 70 per cent of growth. The most recent surveys of German businesses indicate an increase in domestic orders and a further improvement in confidence. In France all the components of domestic demand picked up in the third quarter; investment, in particular, recorded an annualized increase of 8 per cent over the preceding period. Private consumption continued to pick up in the final months of the year.

In the United Kingdom GDP grew at an annual rate of 2.9 per cent in the second half of the year; the contribution of the external sector was highly negative, owing to the appreciation of sterling. Domestic demand continued to expand briskly (5.3 per cent on an annual basis), thanks to private consumption.

Table 3

GDP and domestic demand in the major industrial countries

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

	1996	1997 (1)	1997	
			H1	H2 (1)
United States				
GDP	2.8	3.8	4.3	3.4
Domestic demand	3.0	4.1	4.4	3.9
Japan				
GDP	3.9	1.0	2.3	−1.3
Domestic demand	4.8	−0.1	0.6	−1.7
Germany				
GDP	1.4	2.2	1.9	2.3
Domestic demand	0.8	1.1	1.1	0.6
France				
GDP	1.5	2.4	2.1	3.6
Domestic demand	1.0	1.0	−0.3	3.1
Italy				
GDP	0.7	1.5	1.6	3.4
Domestic demand	0.2	2.4	3.6	2.8
United Kingdom				
GDP	2.3	3.5	4.2	2.9
Domestic demand	2.7	3.9	3.9	5.3
Canada				
GDP	1.2	3.7	4.0	3.9
Domestic demand	1.1	5.7	5.0	7.6
EU				
GDP	1.8	2.6	2.6	3.1
Domestic demand	1.4	2.1	2.2	2.3

Sources: IMF, Istat, Isco and national statistics.

(1) For the United States, Germany and France, provisional; for Italy, data from Istat (GDP) and Isco (domestic demand); for the other countries, IMF forecasts, December 1997.

Differences in the performance of the labour market in the leading industrial countries became more marked. In the United States and the United Kingdom the unemployment rates fell to the lowest levels since 1980 (4.7 and 5.0 per cent respectively in

January). Last year the US economy created almost 3 million new jobs. In continental Europe the situation did not improve: the average unemployment rate remained virtually unchanged at 11.6 per cent between January and October. In Germany it reached 11.8 per cent in December, corresponding to more than 4.5 million unemployed, with the figure close to 20 per cent in the eastern regions. In France the rate came down slightly between October and December, from 12.5 to 12.2 per cent.

Inflation remained low throughout the EU. Based on the harmonized consumer price indices, only Greece recorded a rate of inflation above the 2.7 per cent convergence threshold for membership of EMU.

In Germany consumer price inflation recorded a twelve-month peak of 2.1 per cent last August before falling; in January it stood at 1.3 per cent. The reduction was helped by the decline in oil prices that began last October. Prices also slowed down in France in the second half of last year, with inflation falling from 1.5 per cent in August to 0.5 per cent in January. In the United Kingdom the twelve-month change in retail prices excluding mortgage interest payments remained at around 2.8 per cent until December, exceeding the 2.5 per cent target set by the Government, despite the tightening of monetary conditions from May onwards.

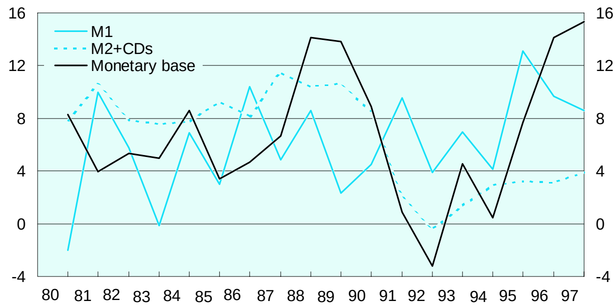
Economic policies

Last year Japanese budget policy proved excessively restrictive; the general government deficit, net of social security, appears to have fallen from 6.6 to 5.9 per cent of GDP in the financial year ending in March 1998. The measures recently approved by Parliament to counter the adverse cyclical conditions are of very modest proportions, comprising reductions in income tax amounting to about ¥1 trillion (0.2 per cent of GDP) and a comparable increase in public sector investment. The budget law for the financial year that begins in April is currently before Parliament; it maintains a restrictive stance which is in line with the objectives of the medium-term adjustment plan but does not appear consistent with the needs of the domestic or international economy. Nor does the additional tax relief amounting to about ¥2 trillion (0.4 per cent of GDP), which was announced by the Government last December but has not yet been approved by Parliament, seem adequate to counteract the weakness of the economy and the crisis in consumer confidence.

Overnight rates in Japan have been very low since the second half of 1995; since last July they have been below the discount rate of 0.5 per cent. In the three-year period 1995-97 monetary base expanded by an average of more than 12 per cent per year; nonetheless, the annual increase in the M2+CDs aggregate, which the monetary authorities use as a reference, was little more than 3 per cent (Figure 6). The smallness of the growth in banks' liabilities is attributable primarily to the stagnation in lending; last year the volume of loans to the private sector was virtually unchanged.

Figure 6

Monetary base and monetary aggregates in Japan
(annual percentage changes)



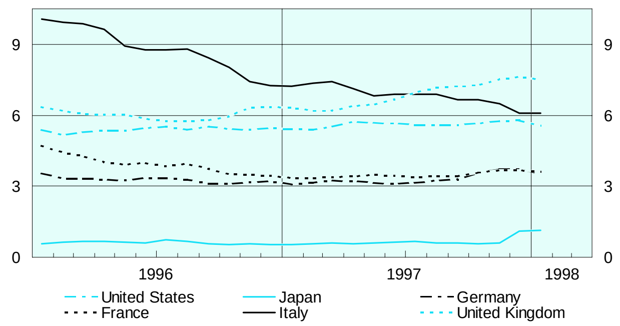
Source: Bank of Japan.

The stagnation in bank lending also reflects the urgent need to write off the bad and doubtful debts that have accumulated during the nineties in order to restore profitability and efficiency. The accounts of the 19 largest Japanese banks show that at the end of last September doubtful debts, calculated in accordance with national criteria, had declined significantly to 4.5 per cent of total lending. Using a broader definition that includes non-performing assets, the Ministry of Finance estimates that the percentage would be about 12 per cent, which is not exceptionally high by international standards. Nonetheless, these estimates are not entirely reliable and still take only limited account of the effects of the Asian crisis on the quality of banks' assets.

Short-term interest rates have risen to 1.7 per cent since the beginning of December, following the failure of a number of financial institutions (Figure 7); the increase in the differential in relation to the corresponding Euroyen rate (of about 0.5 per cent) indicates the inclusion of a substantial premium to cover the risk of insolvency of Japanese banks. The latest business survey carried out by the Bank of Japan reveals a decline in banks' willingness to grant credit, particularly to small firms.

Figure 7

Short-term interest rates (1)
(percentages)



(1) Average monthly data. For sources and definitions, see Notes to Statistical Table a5.

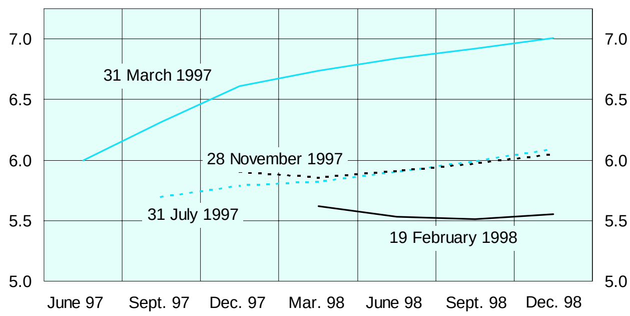
In order to restore confidence, a broad-ranging plan to bolster the financial system has been launched. It has two objectives: to underwrite the entire deposits of the insolvent financial institutions up to March 2001 by increasing the funds available to the Deposit Insurance Corporation (DIC) by ¥17 trillion (3.4 per cent of GDP); and to recapitalize the banks by placing ¥13 trillion in a new account with the DIC, to be used to buy preferred stock or subordinated loans issued by these banks. To date, however, neither the timetable nor the criteria for allocating public funds have been decided.

In the United States the federal budget deficit was almost eliminated in the fiscal year that ended last September; it amounted to only $22 billion, or 0.3 per cent of GDP. The objective of balancing the budget envisaged in the medium-term plan approved last August could be achieved in 1999, three years ahead of schedule. The Administration has announced that the budgetary savings deriving from the favourable performance of the economy will be used to fund the social security system until a structural reform of the pensions system can be implemented.

The Federal Reserve has kept monetary conditions unchanged. Although activity continued to be brisk during the final months of 1997, concern at the potential deflationary effects of the Asian crisis and fears of a sudden large fall in share prices remained dominant. In January short-term interest rates declined from 5.8 to 5.5 per cent and in mid-February futures contracts on the Euromarket signalled expectations that monetary conditions would remain unchanged until the end of this year (Figure 8).

Figure 8

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



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

In Germany the general government deficit is estimated to have declined from 3.4 to 2.7 per cent of GDP in 1997. After the restrictions imposed last year, budgetary policy is aimed at maintaining the results achieved. The 1998 budget law, which was approved by Parliament in December, provides for an increase of one percentage point in VAT in April (in place of the increase in social security contributions previously proposed by the Government) in order to counter the deterioration of the social security balance. The "solidarity tax" introduced in 1994 to finance the cost of reunification was reduced at the beginning of the year, bringing the surtax on all forms of income down from 7.5 to 5.5 per cent. The impact on revenue is supposed to be offset by reducing transfers to enterprises. Very preliminary estimates put this year's deficit at 2.8 per cent of GDP.

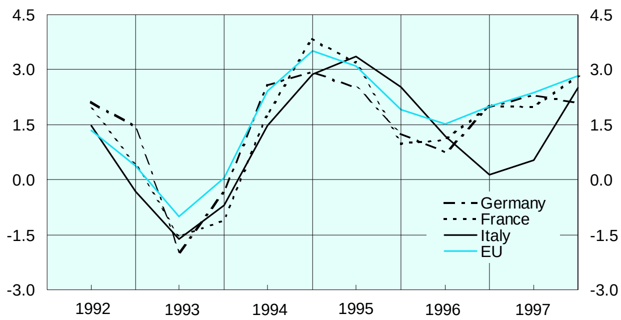
Monetary conditions also remained unchanged in Germany, after the slight increase in the repo rate in October. In January money market rates came down from 3.7 to 3.5 per cent. In the final quarter of 1997 the growth in the M3 reference aggregate in relation to the average for the corresponding period of 1996 was 4.8 per cent, thus remaining within the target range of 3.5-6.5 per cent. The Bundesbank has set a target of 3-6 per cent for this year, partly to forestall any inflationary potential on the eve of the third stage of EMU.

The Italian economy and the balance of payments

GDP rose by 1.5 per cent in real terms in 1997. Despite the restrictive stance of fiscal policy, the recovery that started in the spring gradually strengthened, benefiting from the continuance of low inflation and the decline in interest rates. After stagnating in the first quarter, GDP picked up in the following six months and grew briskly, rising by 1.7 per cent compared with the previous six months. The growth was nonetheless slower than in the other leading European countries (Figure 9); above all, it was not sufficient to increase employment, which remained basically unchanged year on year, although it began to rise in the Centre and North from the summer onwards. Since unemployment increased in the South, the gap between the two halves of the country widened further.

Figure 9

GDP in Italy and selected EU countries (1)
(six-monthly seasonally adjusted data at constant prices; percentage changes on previous six months)



Sources: Based on Istat and IMF data and national statistics.
(1) Second half of 1997: for France and Germany, national statistics; for Italy, preliminary estimate of GDP released in Istat's press communiqué of 27.2.1998; for the EU, IMF estimates.

The rise in production during the year was sustained by purchases of transport equipment and stockbuilding. Exports, weakened by the loss of price competitiveness in 1996, benefited only in part from the strong growth in world trade. Exports and imports together made a sizable negative net contribution to the expansion in economic activity owing to the sharp rise in the latter.

The growth in private consumption was most pronounced for durable goods. Owing in part to the slowdown in inflation, purchasing power rose in real terms and this encouraged households to make the replacements of obsolete goods that they had been postponing. The phenomenon was especially pronounced for cars as a result of the tax incentives introduced by the Government: domestic demand for motor vehicles, including purchases by one person businesses, contributed around 0.4 percentage points to the increase in GDP. The growth in the other components of private consumption, especially of non-durables, was much less pronounced. Investment in machinery, equipment and transport equipment stagnated in the early part of the year but subsequently picked up in line with the expansion in economic activity and the improvement in the climate of confidence. By contrast, investment in buildings and public works failed to improve on the weak performance of the last two years.

Turning to the balance of payments, a contraction in the trade surplus was partly offset by an improvement in the balance on invisibles. The current account surplus consequently declined slightly, but was still more than 3 per cent of GDP. The country's external position came into balance.

Consumption and disposable income

The sharp rise in purchases of durable goods in the first nine months of last year contributed to an increase of around 2 per cent in households' consumption compared with the corresponding period in 1996 (Table 4). Households' disposable income is

Table 4

Resources and uses of income (1)

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

	1996					1997				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	9 months (2)	Year
Resources										
Preliminary estimate of GDP (3)	0.7	−0.9	0.4	−0.4	0.7	. .	1.9	0.6	1.1	1.5
GDP	0.6	−0.9	0.5	. .	0.7	−0.2	1.9	0.4	1.2	–
Imports	−2.0	−4.6	2.2	3.9	−2.6	−3.0	12.8	5.9	11.5	–
Goods	−1.4	−5.4	2.1	3.2	−3.6	−2.2	11.8	5.1	10.2	–
Services	−6.6	2.2	2.5	9.3	5.8	−8.8	21.7	11.9	21.8	–
Total resources	0.2	−1.5	0.8	0.6	0.1	−0.7	3.7	1.5	2.9	–
Uses										
Gross fixed investment	−0.6	−0.3	−0.5	−0.5	1.2	−0.3	1.2	0.7	−0.2	–
Construction	−0.2	−0.6	. .	−0.4	1.1	−1.7	1.5	−0.1	−1.4	–
Machinery, equipment and sundry products	−0.1	0.6	−1.8	−1.4	1.3	0.7	0.1	0.4	−1.5	–
Transport equipment	−4.5	−1.9	2.2	2.3	1.4	2.1	4.4	5.4	10.4	–
Households' consumption	0.2	. .	0.1	0.7	0.7	0.7	0.4	0.4	1.9	–
Non-durables	0.1	0.2	. .	0.1	0.5	. .	−0.6	−0.4	−0.4	–
Semi-durables	−0.6	0.1	−1.9	1.6	−1.6	. .	−0.1	0.1	0.3	–
Durables	−0.9	−0.4	1.4	1.7	−0.4	4.8	5.1	4.8	12.9	–
Services	1.1	−0.1	0.8	0.4	2.6	0.5	0.2	−0.1	1.6	–
Other domestic uses	−0.1	−10.8	3.0	2.8	−2.7	−1.5	10.9	−2.3	5.6	–
Total domestic demand	. .	−2.1	0.5	0.8	0.2	0.1	2.4	. .	2.2	–
Exports	0.8	0.7	1.9	. .	−0.3	−4.0	9.0	7.1	5.8	–
Goods	0.4	1.7	1.8	0.1	−0.3	−5.0	9.4	5.6	4.8	–
Services	3.5	−6.2	3.3	−1.0	0.1	3.4	6.8	17.4	13.4	–
Memorandum item:										
Aggregate demand (4)	0.1	−2.6	1.2	1.0	−0.4	−1.5	6.3	1.7	4.1	–

Source: Based on Istat data.

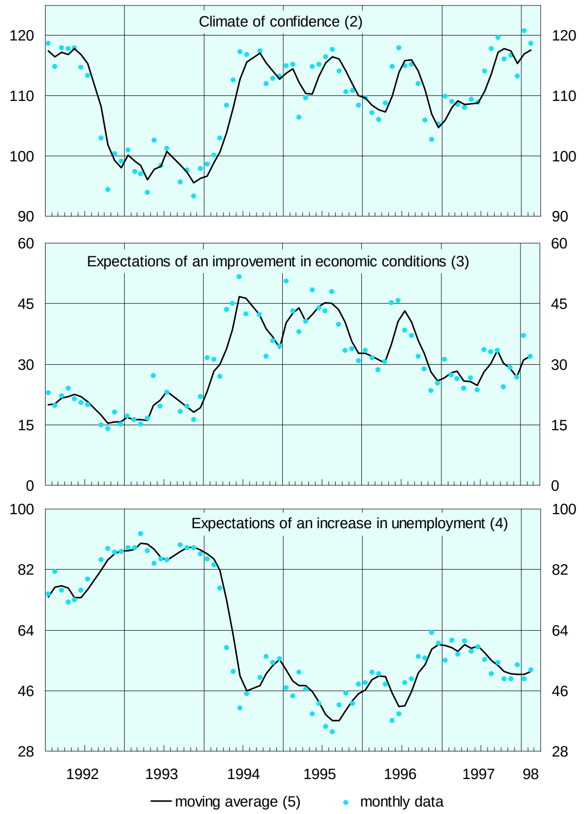
(1) Provisional national accounts data up to the third quarter of 1997, released on 31 December 1997. – (2) Percentage change on the corresponding period of 1996. – (3) See the Istat press communiqué of 27.2.1998. – (4) Exports of goods and services and components of domestic demand weighted according to import content calculated from the 1988 input-output tables.

estimated to haven risen by around one per cent in real terms, owing in part to the increase of around 5 per cent in employees' pretax earnings at current prices. Since employment was unchanged, the increase in unit earnings was on the same order. The income of the self-employed and that from capital rose less. Households' income was sustained by the rapid fall in the inflation rate during the year, which had the effect of limiting the loss of purchasing power of the sector's net financial assets. The reduction in net interest payments to households and the increase in taxation had the opposite effect.

The increase in consumption of durable goods, which had begun in the second half of 1996, was not restricted to motor vehicle purchases, which were boosted by tax incentives, but extended to other durables, spending on which rose by around 5 per cent at constant prices in the first nine months compared with the corresponding period of 1996. With interest rates lower in both nominal and real terms and households more optimistic (Isco's index of the climate of confidence rose to a cyclical peak last September; Figure 10), it is plausible to assume that the latter were encouraged by their increased spending power to make the replacements of both motor vehicles and other types of durable good that they had postponed in the preceding years. Consumption of non-durable and semi-durable goods was stagnant, dipping 0.1 per cent in the first nine months, while that of services rose by 1.6 per cent.

Figure 10

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



Source: Based on Isco data.

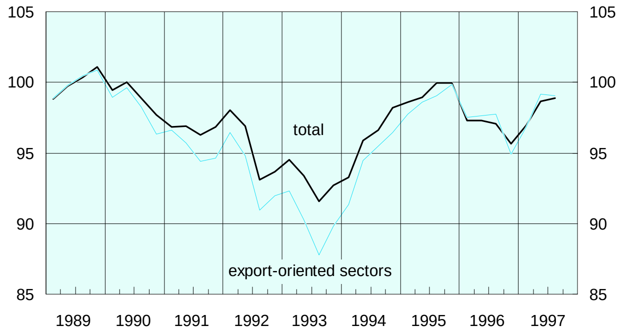
(1) Until 1994 no survey was conducted in August; the data for that month were calculated as simple averages of adjacent data. From January 1995 onwards interviews have been conducted by telephone and the interviewee is no longer necessarily the head olof household but any adult member who contributes to the income of the househd. - (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

Gross fixed investment showed a small decline of 0.2 per cent in the first nine months compared with the corresponding period of 1996 (Table 4); purchases of machinery, equipment and transport equipment rose by 0.9 per cent, while investment in buildings and public works fell by 1.4 per cent. Capital spending on transport equipment benefited to some extent from the tax incentives introduced by the Government and rose by 10.4 per cent at constant prices, with an acceleration during the year. The weak performance of investment in machinery and equipment was not sufficient to make good the decline that had occurred in the second half of 1996. In the first six months of last year firms responded to the upturn in economic activity by exploiting existing capacity, and the capacity utilization rate rose to its highest level in this cycle (Figure 11). In the following months the consolidation of the recovery, the less uncertain outlook for demand, good earnings prospects and the fall in interest rates created the conditions for a recovery in capital formation, as is confirmed by the rise in the indicator of orders for machine tools compiled by the machine tool manufacturers' association (UCIMU).

Figure 11

Composite indicator of capacity utilization in industry (1)
(indices, 1989 = 100)

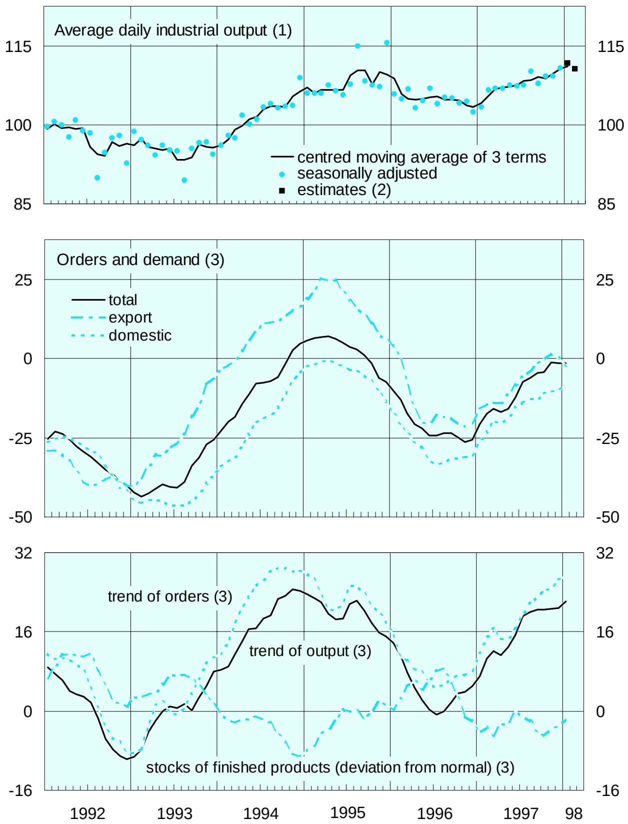


Sources: Based on Istat and Isco data.
(1) Arithmetic mean of the Bank of Italy (Wharton) and Isco indicators.

Apart from a temporary upturn in the second half of 1997, investment in buildings and public works continued to follow the downward trend registered since the beginning of 1996. According to estimates prepared by the Centre for economic and sociological research on the building market (Cresme), the fall was due to the weakness in the construction of new buildings, since spending on the refurbishing and restructuring of residential buildings increased. Activity in the latter field may be boosted by the incentives provided for in the budget for 1998.

Figure 12

Industrial output, demand and stocks



Sources: Based on Istat and Isco-ME data.

(1) Index, 1990=100. Data adjusted for the different number of working days in the month. - (2) Based on electricity consumption and Isco-ME indicators. - (3) Three-month moving averages of the percentage difference between positive replies ("high", "increasing") and negative replies ("low", "decreasing") to Isco-ME business opinion surveys. Seasonally adjusted except for stocks of finished products.

At the beginning of 1997 the recovery in economic activity, expectations of its continuing and the favourable exchange rate of the lira against the dollar led firms to start rebuilding their stocks. Istat data show that the growth in demand apart from stockbuilding was less pronounced than that in supply; stockbuilding contributed 0.9 percentage points to the growth in GDP in the first nine months of last year, in line with the movements in the indicators compiled by Isco for finished products (Figure 12) and raw materials.

Exports and imports

Exports and especially imports accelerated sharply in real terms from the second quarter onwards. Exports benefited from the expansion of Italy's main markets and imports from the strengthening of domestic demand. The services sector, as defined in the national accounts, recorded substantial increases in trade in both directions: exports rose by 13.4 per cent and imports by 21.8 per cent (Table 4).

The overall increase in exports of goods and services in the first nine months amounted to 5.8 per cent. The fall that occurred in the first quarter was followed by a sharp rise of 10.6 per cent in the six months ending in September compared with the preceding six months. The outcome was due to the exceptional growth in world demand, the effect of which was partly offset by the loss of price competitiveness registered in 1996.

The recovery in domestic economic activity, which extended to many sectors, the increase in purchases of foreign motor vehicles and the rebuilding of stocks were the main reasons for the surge in imports of goods and services in the first nine months of last year, when they rose by 11.5 per cent, or twice as much as exports. Over the year the pattern was similar to that of exports, with a slowdown in the first quarter followed by a very sharp spurt in the following months (Table 4).

Industrial production and value added by economic sector

The acceleration in GDP growth during the year was largely attributable to manufacturing industry, where production rose sharply from the spring onwards. Value added in industry excluding construction rose by 1.3 per cent in the first nine months of 1997, while that of construction showed a small decline of 0.4 per cent.

The year-on-year increase in industrial production in 1997 amounted to 2.2 per cent (2.8 per cent on the basis of the same number of working days), confirming the indications provided by monthly surveys of firms' domestic and foreign orders (Figure 12). The downward trend of industrial production adjusted for seasonal factors and the number of working days that had set in roughly a year earlier was reversed in February and gave way to a slow but steady rise in the index. The effect of the Government's incentives on the output of motor vehicles, bodies, components and tyres was to boost industrial production; the overall effect, including the spillover on other branches, is estimated to have contributed around one third of the total rise in the index. Estimates based on cyclical indicators and electricity consumption show that production continued to increase in January and February, in line with forecasts made by businessmen at the end of 1997.

The value added of market services grew by 1.6 per cent in real terms in the first nine months of last year. In the distribution sector, retail sales rose by 2.4 per cent at current prices in the first eleven months, with fairly uniform increases for all the various product categories. The expansion in sales of large-scale distribution was twice that of shops with a surface area of less than 400 square metres, respectively 4.4 and 2.1 per cent.

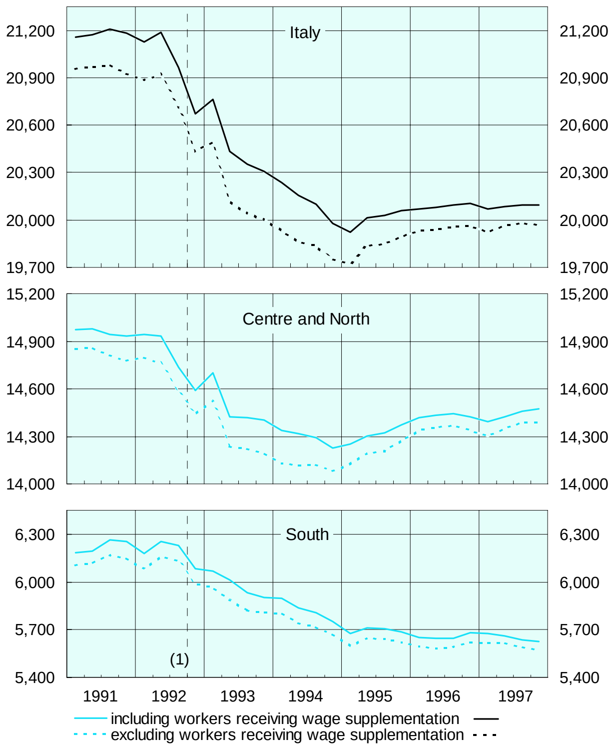
In the transport sector, freight traffic rose in line with the recovery in manufacturing industry. Air passenger traffic continued to grow, buoyed by the expansion in supply following the increase in competition between carriers, while railway passenger traffic declined slightly.

Employment

Average employment in 1997, as measured by the quarterly labour force survey, remained essentially unchanged with respect to 1996 (Figure 13). In industry and in the regions of the Centre and North, following the decline that lasted from mid-1996 to the early part of last year, the number of persons in employment resumed growth, thanks to the consolidation of the economic recovery (Table 5). The composition of the overall work force continued to shift, albeit less rapidly, in favour of women, workers younger than 55 and the central and northern regions. Unemployment increased further from an annual average rate of 12.1 per cent in 1996 to 12.3 per cent last year; the rate in the South rose from 21.7 to 22.2 per cent, while that in the rest of the country held constant at 7.6 per cent.

Figure 13

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 expansion of activity during the first half of the year produced an increase in the number of hours worked in industry. This did not affect employment, which remained basically unchanged at the low level of October 1996. The number of persons employed in industry began to grow again in the summer (Table 5), with a seasonally adjusted gain of 100,000 between

Table 5

Employment by branch of activity and geographical area in 1997 (1)

(percentage changes on year-earlier period)

	North-East		North-West		Total North		Centre		South and Islands		Total Italy			
	Annual average	October	Annual average	October	Annual average	October	Annual average	October	Annual average	October	Annual average	April	July	October
Agriculture	−1.4	−3.2	−2.8	2.2	−2.0	−0.9	−0.1	4.6	−3.0	−3.1	−2.3	−1.7	−2.8	−1.2
Industry excl. construction	2.0	4.0	−1.9	1.5	−0.4	2.5	−1.4	−0.6	0.5	−1.4	−0.4	−2.5	0.8	1.4
Construction	−0.8	−2.4	−0.8	1.0	−0.8	−0.5	1.3	6.9	−0.6	0.9	−0.4	0.9	0.7	1.2
Total service activities . . .	0.4	−0.9	1.1	−0.2	0.8	−0.5	−0.1	−0.8	0.4	−0.7	0.5	1.1	−0.1	−0.6
distribution	*−0.9*	*−1.3*	*−1.4*	*−1.5*	*−1.2*	*−1.5*	*−4.4*	*−3.0*	*−1.2*	*1.4*	*−1.9*	*−3.3*	*−2.4*	*−1.0*
Total economy	**0.6**	**0.3**	**−0.2**	**0.6**	**0.2**	**0.4**	**−0.3**	**. .**	**−0.1**	**−0.9**	**. .**	**. .**	**. .**	**. .**
Unemployment rate (2) .	5.6	5.7	7.3	7.3	6.6	6.6	10.2	10.2	22.2	22.6	12.3	12.5	11.7	12.4

Source: Istat labour force survey.

(1) Not adjusted for workers receiving wage supplementation. Annual average of surveys taken in January, April, July and October. – (2) Percentages.

April and October. The number of hours compensated by ordinary Wage Supplementation, which is more cyclically sensitive than extraordinary benefits, declined further to the equivalent of fewer than 30,000 full time workers in the fourth quarter. This represents less than 1 per cent of total industrial employment, near the all-time low (Figure 14). Istat's survey of industrial enterprises with more than 500 workers continues to report a high level of effective hours worked per capita (the latest available data are for November).

The growth of employment in the services, which had underpinned overall employment growth in 1995 and 1996, halted in mid-1997. There was a reduction of some 100,000 jobs between April and October, unequally distributed among the various branches.

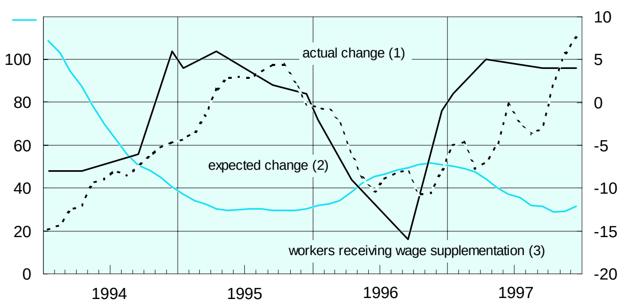
In the distributive trades the employment contraction that began in the second half of 1996 continued until July. There was a seasonally adjusted drop of 130,000 (3.9 per cent) between April 1996 and July 1997, made good only to a very small extent by a gain of 13,000 between July and October. The decline was entirely accounted for by self-employed workers, who still make up 59 per cent of the work force in this branch. Salaried employment was an average of 1.1 per cent higher in 1997 than in 1996, thanks to the contribution of large firms, whose payrolls expanded by 1.9 per cent over the first eleven months, according to an Istat survey of firms employing more than 500 persons.

In banking and insurance employment fell by 1.8 per cent on average for the year. In the large enterprises in this segment, Istat recorded a contraction of 2.4 per cent in the first eleven months compared with the same period of 1996. Employment at large transport firms declined by 3.5 per cent in this period and the reduction appears likely to continue given the planned streamlining at the State Railways.

Figure 14

Employment in manufacturing firms

(seasonally adjusted)



Sources: Based on Isco and INPS data.

(1) Percentage difference between positive replies ("increasing") and negative replies ("decreasing") concerning employment in the reference month. Moving average for the three months ending in the reference month. Right-hand scale. - (2) Percentage difference between positive replies ("increasing") and negative replies ("decreasing") concerning employment in the quarter subsequent to the reference quarter. Moving average for the three quarters ending in the reference quarter. Right-hand scale. - (3) Thousands of workers equivalent to the number of hours of ordinary wage supplementation, calculated with reference to contractual working hours. Left-hand scale.

Table 6

Balance of payments
(balances in billions of lire)

	1996			1997 (1)		
	Year	H1	H2	Year	H1	H2 (1)
Current account	**63,355**	**27,587**	**35,768**	**61,921**	**26,453**	**35,468**
Goods	93,753	43,444	50,309	80,126	36,745	43,381
Invisibles	−30,398	−15,857	−14,541	−18,205	−10,292	−7,913
Services	3,061	1,556	1,505	3,597	1,412	2,185
Foreign travel	22,352	11,382	10,970	22,747	11,094	11,653
Transport	−13,159	−6,259	−6,900	−15,254	−7,242	−8,012
Other	−6,132	−3,567	−2,565	−3,896	−2,440	−1,456
Income	−23,123	−13,275	−9,848	−20,099	−11,997	−8,102
Employment income	802	305	497	415	302	113
Investment income	−23,925	−13,580	−10,345	−20,514	−12,299	−8,215
Transfers	−10,336	−4,138	−6,198	−1,703	293	−1,996
EU	*−7,198*	*−3,012*	*−4,186*	1,237	*1,966*	−729
Capital movements	**−9,837**	**9,446**	**−19,283**	**−11,470**	**−10,469**	**−1,001**
Bank capital	−47,394	4,545	−51,939	11,584	−18,225	29,809
Non-bank capital	37,557	4,901	32,656	−23,054	7,756	−30,810
Errors and omissions	**−32,921**	**−12,537**	**−20,384**	**−27,623**	**−18,195**	**−9,428**
Change in official reserves (2)	**−20,597**	**−24,496**	**3,899**	**−22,828**	**2,211**	**−25,039**

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

The labour force participation rate held steady at an average of 47.6 per cent for the year, the female rate rising from 34.6 to 34.8 per cent and the male rate dipping from 61.5 to 61.3 per cent. The expansion of the female labour force offset the contraction of the male force, which itself reflected the exit of workers older than 55, presumably due to retirement.

The increase in unemployment was concentrated in the South, where the number of job-seekers rose by 80,000 between January and October on a seasonally adjusted basis. Joblessness in the South worsened for all labour force components, including young people; the unemployment rate for those under age 24 reached 57.4 per cent in October, two points higher than a year earlier. In the Centre and North, this youth unemployment rate came down by more than two points, from 24.5 to 22.0 per cent, thanks to a pickup in generational turnover.

The current account of the balance of payments

Provisional data indicate that Italy registered a surplus of 61.9 trillion lire on the current account of the balance of payments in 1997, 1.4 trillion less than in 1996 (Table 6). A reduction of 13.6 trillion lire in the trade surplus (*fob-fob*) was essentially offset by a contraction of 12.2 trillion in the deficit on invisibles. Current account transactions with EU countries and institutions generated a surplus of 16 trillion lire, compared with 15.7 trillion in 1996. The surplus with the rest of the world diminished from 47.1 to 45.9 trillion.

Table 7

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 (1)	Percentage changes			
		Q1 (2)	Q2 (2)	Q3 (2)	Jan.-Nov. (3)		Q1 (2)	Q2 (2)	Q3 (2)	Jan.-Nov. (3)
Ferrous and non-ferrous ores and metals	3.8	−0.7	6.2	4.0	8.8	8.8	0.7	14.0	4.5	5.3
Non-metallic minerals	3.9	−8.7	18.2	2.4	4.6	1.8	−5.8	15.4	7.2	9.3
Chemical products	8.2	−6.6	14.1	1.5	6.3	14.2	−4.6	16.3	8.6	12.1
Metal products	6.2	−5.2	6.1	10.2	3.2	2.2	−3.7	15.6	11.4	11.4
Agricultural and industrial machinery	18.2	−8.7	16.8	0.9	3.7	7.5	−3.5	15.9	6.0	4.8
Office machines	3.3	−12.8	4.7	12.3	−7.2	5.2	−6.1	13.3	−5.4	9.4
Electrical equipment	9.2	−0.7	6.2	13.4	9.4	9.7	−0.3	10.5	7.3	12.0
Motor vehicles	7.3	−3.6	7.4	11.1	−0.6	9.7	4.1	22.6	8.4	26.5
Other transport equipment	2.7	5.0	7.4	−19.8	−5.8	1.5	12.0	13.5	−2.3	12.1
Food, beverages and tobacco products	4.2	−2.3	9.4	7.4	6.6	7.6	−5.7	10.3	−0.1	−0.7
Textiles and clothing	11.3	−3.1	7.2	2.4	4.7	5.1	3.1	13.4	5.0	14.6
Leather and footwear	5.6	−5.9	9.4	5.5	−0.4	2.1	−4.9	8.9	9.1	8.2
Wood and furniture	3.3	−1.3	6.0	8.2	6.6	1.6	−0.6	9.9	1.1	10.3
Paper and printing	2.2	−0.5	5.9	−0.7	7.3	2.7	−5.9	15.3	−2.0	15.5
Rubber and plastic products	3.6	−2.9	12.3	10.6	8.6	2.3	−3.3	13.1	3.3	8.4
Total	**96.0**	**−4.6**	**10.0**	**5.8**	**4.4**	**83.6**	**−1.9**	**14.5**	**4.8**	**11.9**

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.

The trade surplus at current prices shrank by 16.1 trillion lire for the year, on a *cif-fob* basis, as the growth of exports (4.4 per cent) was far outweighed by a 10.3 per cent expansion of imports. By volume, exports of manufactures expanded by 4.4 per cent in the first eleven months, the growth being accounted for mainly by intermediate and consumer goods. Export sales of office machinery and transport equipment declined, while imports of the latter rose exceptionally fast (Table 7).

Most of the reduction in the trade surplus came in respect of EU member countries (12.1 trillion lire in the first eleven months; Table 8). The surplus diminished significantly vis-à-vis France (2.4 trillion) and especially Germany (5.3 trillion); Italian export sales to Germany declined by 2.9 per cent, not least because of that country's sluggish domestic demand.

Merchandise trade with Japan, China and the new industrial economies of Asia also evolved unfavourably. The overall surplus with these countries fell by 4.0 trillion lire, as imports rose sharply (17.6 per cent) while exports diminished (-4.5 per cent). The export contraction was especially pronounced vis-à-vis Japan (-6.4 per cent). An increase of 1.6 trillion lire was registered in the trade surplus with the United States, thanks to the continuing US economic expansion and the appreciation of the dollar, and one of 600 billion with the countries of Latin America.

The improvement on invisibles reflects the performance of transfers to and from the European Union, which shifted from a deficit of 7.2 trillion lire in 1996 to a surplus of 1.2 trillion last year. A major factor in the turnaround was a substantial increase in disbursements to Italy by the Regional Development Fund, which rose from 1.0 trillion to 5.2 trillion lire, ending a decline that had lasted for three years. The deficit on investment income also narrowed, by 3.4 trillion lire, reflecting the further diminution in Italy's foreign debt and the narrowing of interest rate differentials between the lira and other currencies. The contribution of "other services" and "foreign travel" decreased, though these items still recorded surpluses of 2.2 trillion and 400 billion lire respectively.

Table 8

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

	Exports		Imports		Balance (Billions of lire)	
	Percentage change	Percentage of total	Percentage change	Percentage of total	1996	1997
EU countries (1)	**2.0**	**54.6**	**9.1**	**60.4**	**20,797**	**8,746**
Austria	–0.1	2.3	9.3	2.3	1,841	1,215
Belgium-Luxembourg	1.0	2.7	6.7	4.7	–4,146	–4,985
Denmark	2.4	0.8	0.3	0.8	360	424
Finland	7.4	0.5	21.8	0.6	177	–34
France	0.7	12.2	6.9	13.1	5,389	2,978
Germany	–2.9	16.4	6.4	18.0	8,529	3,249
Greece	5.6	1.9	–4.9	0.6	4,547	5,029
Ireland	–4.6	0.4	9.9	1.0	–1,493	–1,846
Netherlands	–0.2	2.9	12.8	6.1	–6,740	–8,981
Portugal	4.8	1.3	3.8	0.5	3,280	3,450
Spain	8.5	5.1	24.9	4.7	5,354	3,835
Sweden	3.3	1.0	9.6	1.4	–426	–693
United Kingdom	13.7	7.1	11.6	6.6	4,125	5,105
Non-EU countries	**5.8**	**45.4**	**10.8**	**39.6**	**43,649**	**40,479**
United States	12.3	8.0	11.1	5.0	11,737	13,350
Japan	–6.4	2.0	15.6	2.1	2,366	956
EFTA (2)	–1.8	4.0	0.5	4.3	1,205	863
Eastern European countries (3)	12.6	6.3	11.8	5.9	3,626	4,220
China	–3.0	1.1	20.4	2.2	–1,776	–3,080
Asian NIEs (4)	–4.0	4.0	16.4	1.5	11,083	9,773
OPEC (5)	7.4	3.5	16.7	6.5	–5,719	–7,804
Latin America	9.0	4.4	9.9	2.4	7,819	8,455
Other countries	6.0	12.1	7.7	9.7	13,308	13,746
Total	**3.7**	**100.0**	**9.7**	**100.0**	**64,446**	**49,225**

(1) The figures on trade with EU countries refer only to firms with intra-Community purchases and sales in excess of 50 million lire in the two periods considered. They thus cover only a part of the total trade of Italian exporting and importing firms. – (2) Iceland, Norway and Switzerland. – (3) Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, republics of the former USSR and the former Yugoslavia. – (4) Hong Kong, Singapore, South Korea and Taiwan. – (5) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

Capital movements and Italy's external position

Overall, capital transactions generated net outflows of 11.5 trillion lire in 1997, compared with 9.8 trillion in 1996 (Table 9). The official reserves increased by 26.9 trillion lire at average prices and exchange rates.

The achievement, for the fifth consecutive year, of a substantial current account surplus brought the country's net external position close to balance (Figure 15). According to initial estimates Italy's net external debtor position was reduced last year by about 50 trillion lire to 9.3 trillion (0.5 per cent of GDP) on 31 December (Table 10). The net position fluctuated markedly in the second half of the year, primarily because of changes in the lira's exchange rate with the dollar.

Improvement in the net external positions of non-bank residents and of the central bank, by 47.2 trillion and 26.9 trillion lire, respectively, more than offset an increase in the net external liabilities of the banking system of 23.4 trillion, including 3.7 trillion in foreign currency liabilities (Table 11). Counting domestic spot and forward positions, domestic currency swaps and lira lending indexed to foreign currencies, the banks' overall foreign currency position remained in balance. At the end of the year the official reserves amounted to 133.6 trillion lire, including 37.6 trillion worth of gold. Virtually all of the improvement since December 1996 was accounted for by foreign currency assets, holdings of which grew by 24.9 trillion lire. The increase was curbed during the year by profitable early liquidation of long-term debtor positions in foreign currency. Reclassifying the data according to the origin of the demand for foreign exchange, the banking system turns out to have held a net external creditor position of 3 trillion lire in October, compared with a net debtor position of 135.1 trillion for non-bank residents.

Table 9

Capital movements
(net flows in billions of lire)

	1996					1997 (1)				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4 (2)	Year (2)
Non-bank capital flows	**–15,636**	**20,537**	**434**	**32,222**	**37,557**	**–13,057**	**20,813**	**–5,492**	**–25,318**	**–23,054**
Foreign	8,212	37,519	18,541	52,761	117,033	29,920	54,603	41,962	5,859	132,344
Investment	6,619	41,186	28,781	54,217	130,803	24,895	50,722	44,657	4,476	124,750
portfolio	*6,317*	*39,144*	*26,766*	*53,122*	*125,349*	*23,790*	*49,225*	*42,901*	*2,003*	*117,919*
Loans	1,160	–2,004	–6,147	–2,121	–9,112	–602	2,677	1,425	1,547	5,047
Trade credit	433	–1,663	–4,093	665	–4,658	5,627	1,204	–4,120	–164	2,547
Italian	–23,848	–16,982	–18,107	–20,539	–79,476	–42,977	–33,790	–47,454	–31,177	–155,398
Investment	–19,029	–13,157	–15,760	–14,172	–62,118	–34,437	–22,193	–41,988	–29,554	–128,172
portfolio	*–16,894*	*–11,680*	*–11,607*	*–11,962*	*–52,143*	*–31,541*	*–17,467*	*–34,883*	*–24,116*	*–108,007*
Loans	–3,356	–2,340	–5,904	–4,290	–15,890	–6,274	–9,170	–9,224	–1,397	–26,065
Trade credit	–1,463	–1,485	3,557	–2,077	–1,468	–2,266	–2,427	3,758	–226	–1,161
Bank capital flows	**19,010**	**–14,465**	**–11,401**	**–40,538**	**–47,394**	**24,493**	**–42,718**	**14,782**	**15,027**	**11,584**
In lire	7,577	–5,447	–4,929	–27,453	–30,252	9,273	–24,979	14,414	21,030	19,738
In foreign currency	11,433	–9,018	–6,472	–13,085	–17,142	15,220	–17,739	368	–6,003	–8,154
Total	**3,374**	**6,072**	**–10,967**	**–8,316**	**–9,837**	**11,436**	**–21,905**	**9,290**	**–10,291**	**–11,470**

(1) Provisional. – (2) For trade credit, data through October only.

Table 10

Italy's net external position
(billions of lire)

	Stocks in December 1996 (1) (a)	January-December 1997			Stocks in December 1997 (1) (e)=(a)+(d)
		Flows (2) (b)	Adjustments (3) (c)	Change in stocks (d)=(b)+(c)	
			Agents other than resident banks		
Assets	**670,278**	**155,398**	**84,229**	**239,627**	**909,905**
Direct investment	179,598	20,165	39,681	59,846	239,444
Portfolio investment	337,815	108,007	42,452	150,459	488,274
Loans and trade credit (4)	152,865	27,226	2,096	29,322	182,187
Liabilities	**786,079**	**132,344**	**60,128**	**192,472**	**978,551**
Direct investment	114,242	6,831	24,851	31,682	145,924
Portfolio investment	510,327	117,919	32,406	150,325	660,652
Government securities	*397,936*	*102,173*	*14,927*	*117,100*	*515,036*
BOTs	*24,169*	*10,680*	*142*	*10,822*	*34,991*
BTPs	*189,851*	*73,496*	*9,206*	*82,702*	*272,553*
CTEs	*30,981*	*−1,847*	*481*	*−1,366*	*29,615*
Other government securities	*70,800*	*15,874*	*−570*	*15,304*	*86,104*
Republic of Italy issues	*82,135*	*3,970*	*5,668*	*9,638*	*91,773*
Loans and trade credit (4)	161,510	7,594	2,871	10,465	171,975
Net non-bank position	**−115,801**	**23,054**	**24,101**	**47,155**	**−68,646**
			Resident banks		
Assets	328,344	4,825	13,951	18,776	347,120
Liabilities	379,171	16,409	25,790	42,199	421,370
Net position	**−50,827**	**−11,584**	**−11,839**	**−23,423**	**−74,250**
			Bank of Italy-UIC		
Net position (including gold)	**106,741**	**22,828**	**4,065**	**26,893**	**133,634**
			Italy		
NET OVERALL POSITION	**−59,887**	**34,298**	**16,327**	**50,625**	**−9,262**

(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) Calculated on the basis of the composition according to currency and financial instrument. – (4) For 1997, data on trade credit are for January-October.

Table 11

Stocks at current exchange rates and changes at constant exchange rates in the external position, domestic foreign currency position and total foreign currency position of Italian banks (1)

(billions of lire)

	1996	1997	1997 Q1	1997 Q2	1997 Q3	1997 Q4 (2)
Stocks (3)						
External position	−50,827	−74,250	−81,599	−39,708	−54,832	−74,250
In lire	52,230	32,492	42,957	67,936	53,522	32,492
In foreign currency	−103,057	−106,742	−124,556	−107,644	−108,354	−106,742
Domestic position in foreign currency	47,783	48,503	54,236	47,566	45,891	48,503
Overall position in foreign currency (4)	113	−535	−1,240	−854	985	−535
Changes (5)						
External position	47,394	−11,584	−24,493	42,718	−14,782	−15,027
In lire	30,252	−19,738	−9,273	24,979	−14,414	−21,030
In foreign currency	17,142	8,154	−15,220	17,739	−368	6,003
Domestic position in foreign currency	−450	−5,065	3,940	−6,573	−2,205	−227
Overall position in foreign currency (6)	11,077	5,718	929	2,142	2,819	−172

(1) Including the Italian branches of foreign banks. – (2) Provisional. – (3) At current exchange rates. End-of-period data. – (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 monthly average exchange rates. A minus sign indicates an inflow of bank capital. – (6) Spot and forward transactions, including domestic currency swaps, and commitments to be settled within 2 days.

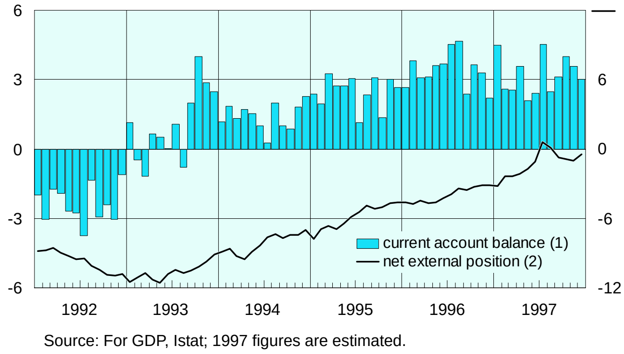
The diversification of Italian investors' portfolios into foreign assets intensified in the course of 1997, owing in part to the declining yields on domestic financial instruments. Outward portfolio investment amounted to 108 trillion lire, twice the figure recorded in 1996. In the first ten months, financial companies, households and investment funds made net purchases of 68.2 trillion lire worth of foreign shares, bonds and government securities, compared with 26.8 trillion in 1996. Investment in shorter-term foreign assets, such as bank deposits, declined by nearly two thirds, from 18.5 trillion in 1996 to 7 trillion last year.

Attracted by the greater stability of the exchange rate and by expectations of interest rate reductions in Italy, foreign operators continued to effect substantial net inward portfolio investment (117.9 trillion lire, following an inflow of 125.4 trillion in 1996).

Figure 15

Italy's balance of payments 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.

In the first ten months, foreign investors purchased Italian government securities worth 104.4 trillion lire and shares worth 15.8 trillion, compared with 69.6 trillion and 10.4 trillion in the same period of 1996. Fixed rate government paper drew a net inflow of 74.4 trillion lire, as against 43.3 trillion in the same months of 1996. Investment in shares was encouraged by the decline in long-term bond yields. Thanks to improved confidence in the prospects for the Italian economy, non-resident investors were less inclined than in the past to hedge their exchange rate risk. Initial data indicate that the reverse repurchase agreements on Italian securities contracted by resident intermediaries (including non-banks) amounted to 22.9 per cent of non- residents' portfolio investment, compared with 33.4 per cent in the year-earlier period. Loan activity generated net capital outflows of almost 21 trillion lire in 1997, consisting mostly of private residents' payments to foreign counterparties, which totaled 28.8 trillion in the first ten months, much of it in connection with repurchase agreements. Net repayment of publicly contracted loans continued, giving rise to an outflow of 2.6 trillion lire over the period.

Direct outward investment doubled from 10 trillion lire in 1996 to 20.2 trillion, rising from 3.2 to 6.1 per cent of Italian gross fixed capital formation. This investment was effected mainly by financial companies and other private Italian corporations. Most of these funds continued to be directed to the industrial countries; the remainder went to increase equity stakes in Latin American corporations. Foreign direct investment in Italy resulted in a net capital inflow of 6.8 trillion lire, 33 per cent more than in 1996. Two thirds of this investment was in Italian non-financial firms.

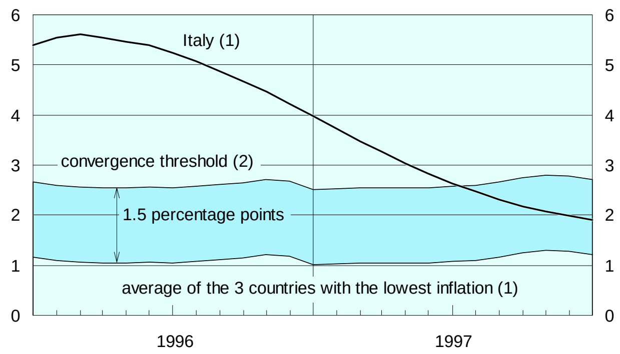
The increase in imports resulted in the resumption of growth in trade credits granted by foreign suppliers, which produced net inflows of 2.5 trillion lire over the first ten months, while credits granted by residents generated outflows of nearly 1.2 trillion.

Prices

In 1997 the average rate of inflation in Italy was virtually in line with that for the European Union countries. The differential in relation to France and Germany narrowed markedly. Since July 1997 the average variation in the harmonized consumer price index has been below the convergence "threshold" established by the Maastricht Treaty (Figure 16). Consumer price expectations improved steadily; those for 1998 have recently fallen to 2 per cent.

Figure 16

Harmonized consumer price index: convergence criterion
(percentage changes)



Source: Based on Eurostat data.
(1) Changes in the average of the EU harmonized consumer price index 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.

During the year, the upwards pressure on costs exerted by the strengthening of the dollar and the pick-up in economic activity caused first producer prices and then consumer prices in the leading continental European countries to accelerate moderately from the especially low levels recorded in 1996.

In Italy, the lag in the beginning of the recovery, the related uncertainty and the persistence of the effects of the strengthening of the exchange rate the previous year delayed the impact of inflationary pressures until the spring for producer prices and the summer for retail prices. In addition to the inflationary factors present in all the European economies, the large wage increases agreed to within the framework of contract renewals and the effects of the increase in VAT rates, although small so far, also contributed to the upwards pressure on prices.

The annualized, seasonally adjusted three-month percentage change in the producer prices of non-energy manufactures gradually increased, peaking at 2.7 per cent in October and November; that in the consumer price index for worker and employee households (the so-called cost-of-living index) rose, on the basis of the survey results for sample cities, from slightly less than 1.5 per cent in the first half of 1997 to 2.8 per cent in February 1998.

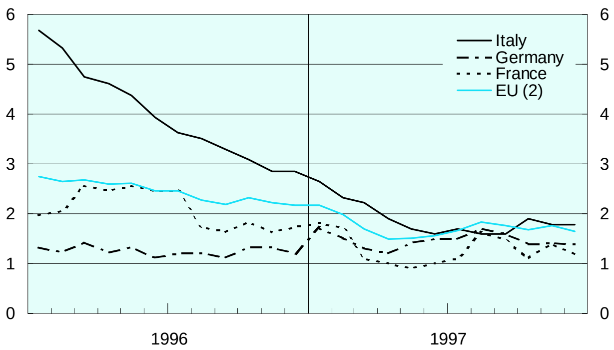
The available information appears to support the assessment expressed in the *Economic Bulletin* last October of the temporary nature of the moderate inflationary impulses. In the rest of Europe inflation has already begun to slow down, while in Italy the upwards pressure on prices should ease during 1998 as a result of the continued rigour of monetary policy, the significant fall in the rate of wage growth in the private sector, large productivity gains and the fall in the prices of raw materials, partly in connection with the crisis in Asia. For producer price inflation, the results of the Isco business surveys suggest an inversion in the trend since November 1997; this appears to be confirmed by the slowdown in the index last December. For consumer prices, which tend to adjust to changes in producer prices with a lag, upwards pressure could persist longer, owing in part to the possible residual effects of the pass-through of higher VAT rates. In any case, achieving a positive inflation situation depends on ensuring that any legislative changes in working hours do not raise firms' unit costs.

Consumer prices

The average annual rise in the index of consumer prices for worker and employee households, excluding tobacco products, declined from 3.9 per cent in 1996 to 1.7 per cent last year, the lowest figure since 1968 (Table a16); the rise in the broader general index of consumer prices, which is a more representative measure as it refers to consumption for the whole population and includes tobacco products, was slightly larger at 2.0 per cent, compared with 4.0 per cent in 1996. The harmonized consumer price index used for European comparisons rose by 1.9 per cent, as against 4.0 per cent the previous year.

Figure 17

Harmonized consumer price index in Italy, France, Germany and the EU (1)
(percentage changes on 12 months earlier)



Sources: Based on OECD and Eurostat data.
(1) It is not possible to obtain seasonally adjusted values of these indicators since the raw data have only been available since January 1995. - (2) Calculated on the basis of the geometric mean of the harmonized indices of the EU countries, weighted using average final consumption translated into the same currency in the period 1993-95.

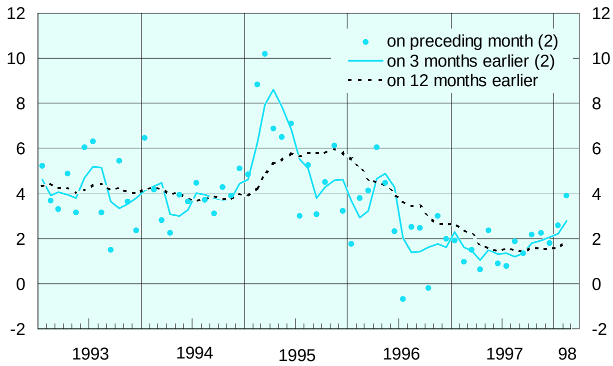
The slowdown in the average rate of inflation in the EU, calculated on the basis of the weighted average of the member countries' harmonized consumer price indices, was much less pronounced, with the rate falling from 2.4 to 1.7 per cent. Accordingly, the differential between Italian inflation and the EU average, which had been 1.6 percentage points in 1996, narrowed to 0.2 points; the differentials vis-à-vis France and Germany remain wider at 0.6 and 0.4 points respectively.

The average inflation rate in the EU and the other leading countries of continental Europe, calculated on the basis of the twelve-month changes in the harmonized indices, reached a low in the spring of 1997 but then accelerated moderately owing to pressures on producer prices (Figure 17). These minor pressures subsided during the fourth quarter of 1997 and the early part of this year.

As mentioned, the inflationary pressures emerged in Italy with a lag of several months. On the basis of the survey results for sample cities, the annualized, seasonally adjusted three-month rise in the consumer price index for worker and employee households gradually increased, reaching 2.8 per cent in February this year (Figure 18). The acceleration was in part due to the effects of the changes in indirect taxes that were adopted in September 1997. These effects have been limited so far (they are estimated to have contributed slightly more than 0.2 percentage points to the rise in the index) and further pass-through of the tax increases may occur in the coming months with the seasonal repricing of clothing, which bears about half of the burden of the tax revision, and the revival in consumption.

Figure 18

Consumer price index for worker and employee households (1)
(percentage changes)



Source: Based on Istat data.
(1) The so-called "cost-of-living" index; excluding tobacco products but including changes in indirect taxes. The index is rounded to two decimal places and is calculated from data on the component items rounded to one decimal place. - (2) Annualized and seasonally adjusted.

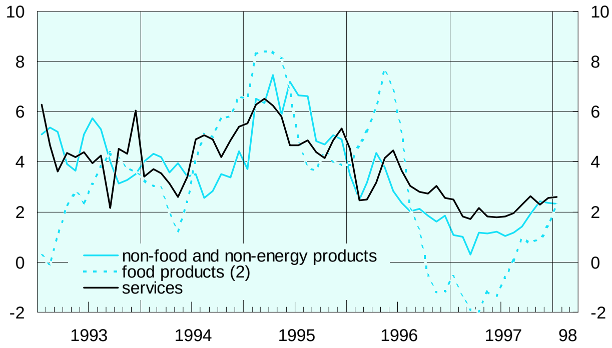
The twelve-month changes in the index, which only reflect trend changes with a lag, hit a low of 1.4 per cent last September; since then they have risen slowly, reaching 1.8 per cent in February.

The acceleration in consumer prices reflects that in the prices of all goods and services not subject to controls. The annualized, seasonally adjusted three-month increase in the prices of goods other than food and energy products rose from about 1 per cent to above 2 per cent in the last part of the year (Figure 19). Their behaviour reflected, with the usual lag, the acceleration in the corresponding producer prices

(Figure 20) and the effects of the changes in VAT rates. The annualized, seasonally adjusted rate of increase in the prices of services not subject to controls also appear to have accelerated from the autumn onwards. The prices of food products started to rise again owing to an increase first in the producer prices of processed foods and then a sharp rise in the prices of fresh products.

Figure 19

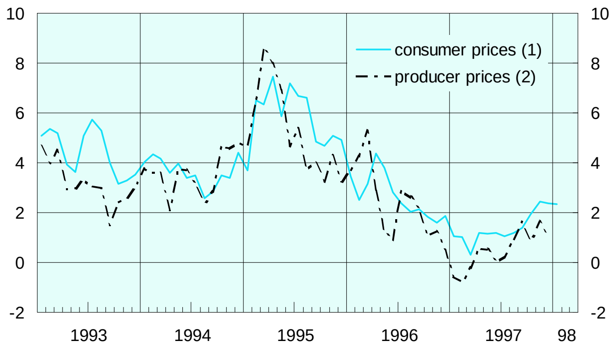
Consumer price index for worker and employee households: components not subject to official price controls (1)
(seasonally adjusted; annualized percentage changes on 3 months earlier)



Source: Based on Istat data.
(1) Including changes in indirect taxes. - (2) Excluding tobacco products.

Figure 20

Consumer and producer prices not subject to official control of non-food and non-energy products
(seasonally adjusted; annualized percentage changes on 3 months earlier)



Source: Based on Istat data.
(1) Consumer price index for worker and employee households. - (2) Index of the producer prices of manufactures for the domestic market.

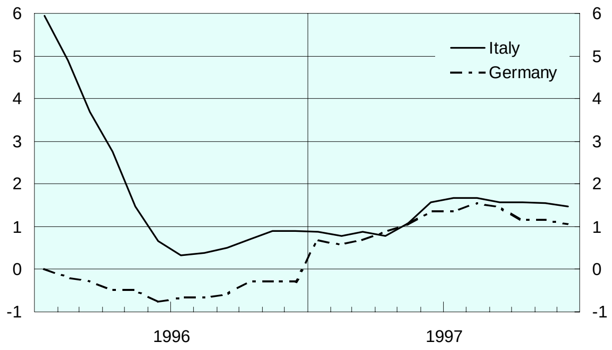
Looking ahead, the consolidation of the low rate of inflation that has been achieved will be assisted by the further deregulation of several public services, the recent measure reorganizing the fuel distribution network and the steps taken to liberalize shop licences and reform a number of professional associations.

Producer prices and the import and export prices of manufactures

The producer prices of manufactures for the domestic market rose on average by 1.3 per cent in 1997 (1.9 per cent in 1996; Table a17) - the smallest increase since 1986 - as a result of a rise of 0.8 per cent in non-energy prices and of 4.3 per cent in energy prices (respectively 1.7 and 3.4 per cent in 1996).

Figure 21

Index of the producer prices of manufactures for the domestic market in Italy and Germany
(percentage changes on 12 months earlier)



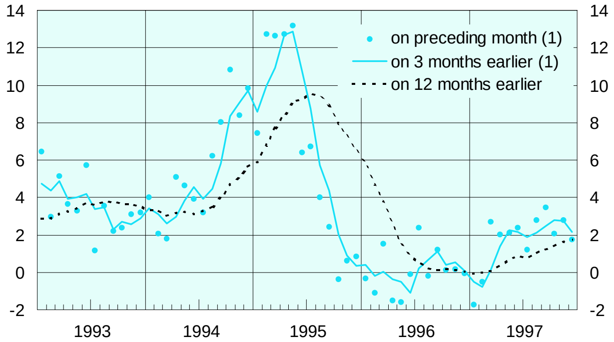
Sources: Istat and national statistics.

The outcome for the year primarily reflected the sharp deceleration in producer price inflation in 1996 and the early months of 1997 associated with the recovery of the lira and the stagnation of domestic demand. From the spring onwards the restraining force of these factors diminished and the pressure exerted on prices by the strengthening of the dollar and the one-off effects of new wage agreements caused producer prices to accelerate slightly; the figures for December suggest that producer prices may have reversed their trend. The pattern corresponds, with a lag of some months, to that registered in the other leading continental European countries: an acceleration from the beginning of the year until the summer, followed by a slowdown. The producer price inflation differential with respect to Germany, which had been around one percentage point in the second half of 1996, disappeared in the second and third quarters of 1997; it reappeared towards the end of the year with values of around 0.5 percentage points, or slightly more than the consumer price differential (Figure 21).

The annualized three-month changes in the seasonally adjusted index excluding energy products increased from small negative values at the beginning of the year to a maximum of 2.7 per cent in October and November; the figure for December was significantly lower, 2.2 per cent (Figure 22).

Figure 22

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

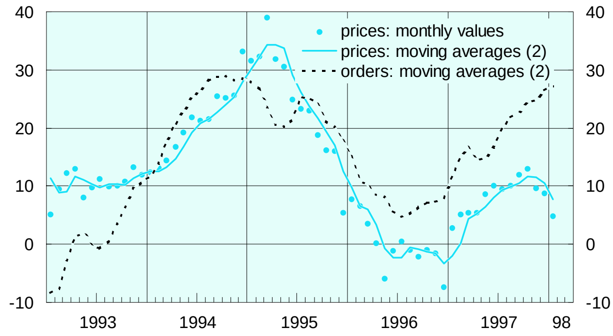


Source: Based on Istat data.
(1) Annualized and seasonally adjusted.

The gradual easing of the pressures on industrial firms' costs in recent months should help to attenuate the effects of the expansion in economic activity. This is suggested by the Isco survey of industrial firms, the results of which at the beginning of 1997 had correctly anticipated the acceleration in output prices (Figure 23). The survey shows that, despite the sharp improvement in expectations concerning orders, the difference between the number of firms intending respectively to raise and lower their prices in the short term has declined on a seasonally adjusted basis since November 1997 after increasing almost continuously for ten months. In addition, the present level of producer price inflation is lower than in comparable phases of earlier cycles: the capacity utilization rate is at its maximum level since 1990 (Figure 24) and profit margins are historically high. The structural nature of Italy's disinflation is thus confirmed.

Figure 23

Intended changes in producer prices and firms' expectations for orders in the following 3-4 months
(seasonally adjusted; percentages) (1)

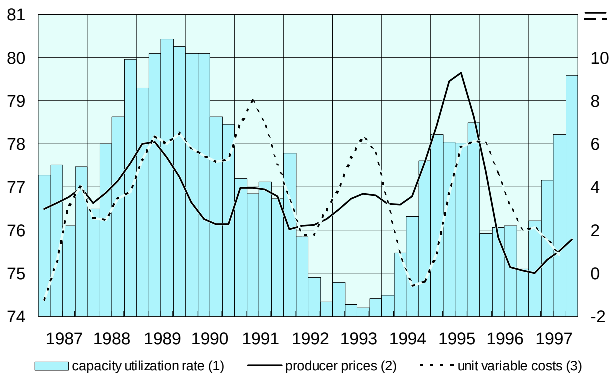


Source: Based on Isco data.
(1) Balance between the percentage of positive replies ("increase") and that of negative replies ("reduction"). - (2) Moving averages of the three months ending in the month indicated.

At the sectoral level, the rise in the prices of intermediate products, which had been the first to accelerate, appears to have come to a halt; the indications provided by the Isco survey mentioned earlier corroborate this view. Turning to consumer goods, the annualized three-month changes in the seasonally adjusted index excluding food and energy products, which is less affected by short-term fluctuations in the prices of basic commodities and provides a more accurate picture of the underlying trend of inflation, gradually increased over the year,

Figure 24

Capacity utilization, producer prices and costs in manufacturing
(percentage shares and percentage changes)



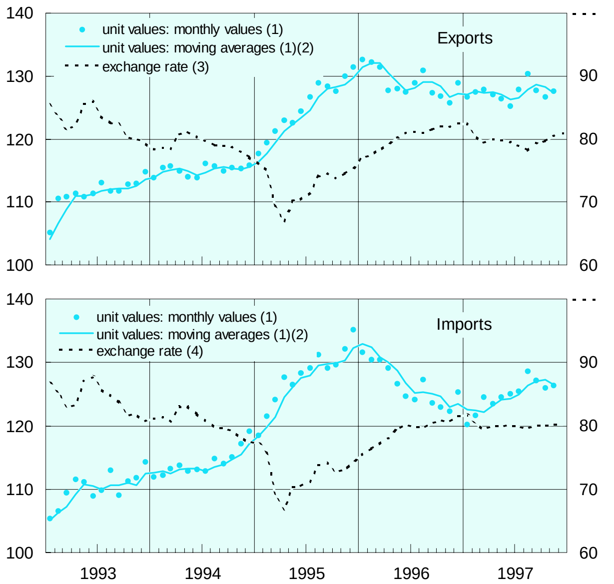
Sources: Based on Istat, ENI and Isco data.
(1) Seasonally adjusted. Left-hand scale. - (2) Index of the producer prices of manufactures for the domestic market, excluding energy products. Changes on year-earlier quarter. Right-hand scale. - (3) Excluding intrasectorial transactions; energy products and transport equipment other than motor vehicles are excluded from the aggregate for industry. Changes on year-earlier quarter; moving averages of the reference quarter and the preceding quarter. Right-hand scale.

from nearly zero to more than 1.5 per cent, and then declined to just over 1 per cent in December. The prices of food products show a similar pattern to those of the relevant commodities in international markets: an acceleration until the summer, followed by a slowdown.

The average unit value in lire of exports of manufactures excluding energy products declined by 1.3 per cent in the first eleven months compared with the corresponding period of 1996 (Table a18). Since there was virtually no change in the export-weighted exchange rate of the lira in this period, this reflects the intention of Italian manufacturers to make good the previous year's loss of competitiveness by accepting a narrowing of their profit margins in foreign markets. Examination of the behaviour of the index over the year shows that export unit values bottomed in the summer (Figure 25) and that in November the twelve-month rise amounted to 1.4 per cent.

Figure 25

Export and import unit values in lire of manufactures, excluding energy products, and the exchange rate of the lira
(indices, 1992=100)



(1) Left-hand scale. - (2) Moving averages of the three months ending in the month indicated. - (3) Nominal effective exchange rate of the lira for exports; an increase indicates an appreciation. Right-hand scale. - (4) Nominal effective exchange rate of the lira for imports; an increase indicates an appreciation. Right-hand scale.

The average unit value in lire of imports of manufactures excluding energy products declined by 1.3 per cent overall in the first eleven months compared with the corresponding period of 1996 (Table a19). This result was due entirely to the sharp fall registered in 1996 in connection with the strong recovery of the lira. Average unit values of imports rose in the first three quarters of the year, but the increase subsequently came to a halt, in line with the behaviour of the producer prices of Italy's main trading partners. The twelve-month rate of growth in the index increased steadily and reached 3.2 per cent in November, 1.6 percentage points more than the rise in the domestic producer prices of the corresponding aggregate.

Manufacturing firms' costs and profit margins

On the basis of provisional estimates, manufacturing industry's unit variable costs increased at an average rate of 2.1 per cent in 1997, compared with 3.3 per cent the previous year (Table 12). Unlike 1996, the deceleration is attributable to

Table 12

Unit variable costs and final prices in manufacturing (1)
(percentage changes on preceding period)

	Percentage weights (2)	1996		1997		
		H2 (3)	Year	H1 (3)	H2 (3) (4)	Year (4)
Unit variable costs	**100.0**	**1.0**	**3.3**	**2.1**	**1.7**	**2.1**
Input costs	**50.1**	**–0.8**	**1.9**	**1.5**	**2.8**	**1.2**
Domestic	28.8	2.9	4.9	2.6	1.9	2.5
Foreign	21.3	–7.3	–3.4	–0.6	4.5	–1.1
Unit labour costs	**49.9**	**3.1**	**4.9**	**2.8**	**0.5**	**2.3**
of which:						
labour costs . .	–	*3.7*	*4.8*	*5.3*	*4.1*	*4.6*
productivity . .	–	*0.6*	*–0.1*	*2.6*	*3.5*	*2.3*
Output prices ...	**100.0**	**–0.6**	**2.0**	**0.0**	**2.4**	**0.5**
Domestic	72.0	0.4	1.9	0.4	2.0	0.8
Foreign	28.0	–3.0	2.3	–0.9	3.4	–0.4

Sources: Based on Istat and ENI data.

(1) Net of intrasectoral transactions; energy products and transport equipment other than motor vehicles are excluded from the aggregate for industry. – (2) Calculated on the basis of the input-output table for 1988 at 1980 prices. – (3) Annualized and seasonally adjusted. – (4) Partly estimated.

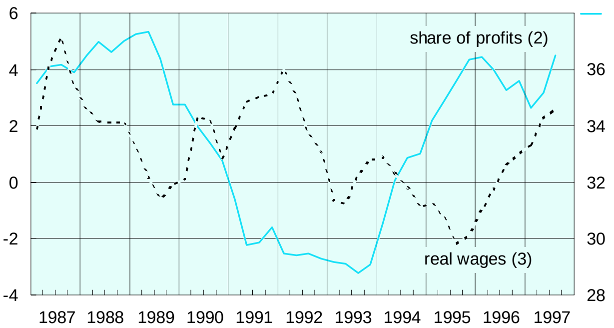
the behaviour of domestic costs. Costs behaved differently in the two halves of the year, accelerating in the first before slowing down in the second, mainly owing to the sharp slowdown in unit labour costs.

Changes in the share of profits in the value added of the manufacturing sector were negatively correlated with those in costs (Figure 26). Given the uncertainty of the recovery in output, in the first half of last year firms absorbed the rise in costs by allowing margins to narrow, leaving output prices unchanged overall; they subsequently widened unit margins as the recovery strengthened, although the increase was modest, partly in view of their already high level. The average share of profits in value added fell slightly in 1997 as a whole, although it remains at a historically high level.

Figure 26

Share of profits in value added and real wages in manufacturing

(percentage points and percentage changes) (1)



Source: Based on Istat data.

(1) Moving averages of the reference quarter and the preceding quarter. - (2) Share of gross operating profits in the value added of manufacturing industry, calculated by attributing the same unit incomes to the self-employed as those earned by employees. Right-hand scale. - (3) Gross earnings per employee deflated using the consumer price index for worker and employee households. Percentage changes on year-earlier quarter. Left-hand scale.

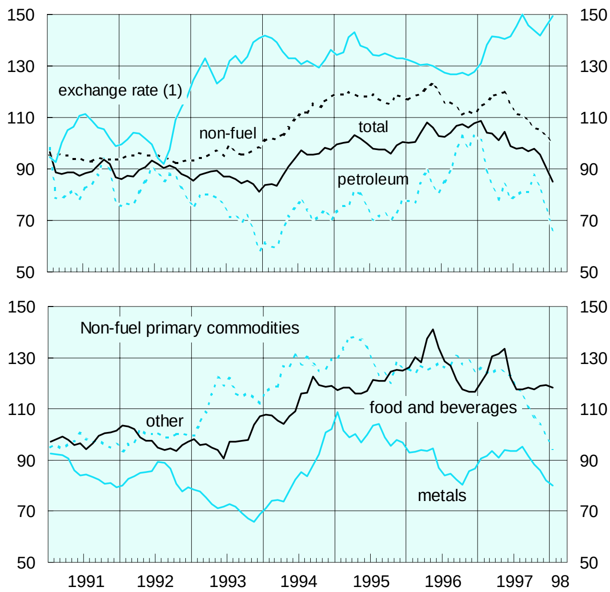
The prices of imported inputs fell by an average of 1.1 per cent in 1997, owing to the progressive decline recorded in 1996. A small decline in the first half of the year was followed by sharp rise in the second, reflecting with a lag the appreciation of the dollar, which until the third quarter more than offset the fall in the dollar prices of raw materials (Figure 27); the values in lire also declined, but not until the final months of the year.

The dollar and lira prices of oil fell sharply from their levels at the end of 1996. The excess supply underlying the decline increased further in the last few months of the year and is expected to persist in the first half of 1998, as OPEC raised its production ceiling at its December meeting in Djakarta, while demand has fallen off in the countries of Southeast Asia. The dollar prices of non-energy raw materials (especially those of food products, beverages and metals) increased in the first half of 1997 but subsequently declined, partly owing to the worsening of the Asian crisis.

Figure 27

Dollar prices of primary commodities and the lira/dollar exchange rate

(indices, 1990=100)



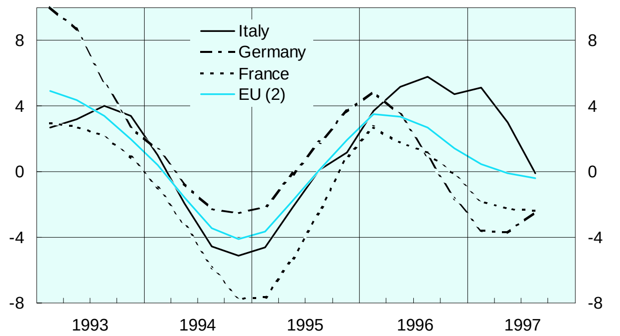
Source: Based on IMF data.

(1) An increase indicates a depreciation of the lira against the dollar.

The prices of domestic inputs rose by an average of 2.5 per cent last year, compared with 4.9 per cent in 1996. Unit labour costs increased by 2.3 per cent, compared with 4.9 per cent the previous year; in the second half of the year the slowdown in the rate of wage growth, which fell to an annualized, seasonally adjusted 3.1 per cent from 5.2 per cent in the first half, and the consolidation of the recovery in productivity allowed labour costs to move towards the level of those in the other leading European countries, from which they had diverged at the beginning of 1996 (Figure 28). In the last few months unit labour costs have slowed nearly to a halt.

Figure 28

Unit labour costs in manufacturing in Italy, France, Germany and the EU
(percentage changes on year-earlier period) (1)



Sources: Based on Istat and OECD data.

(1) Moving averages of the reference quarter and the preceding quarter. - (2) Calculated on the basis of the geometric mean of unit labour costs in the following countries: Belgium, Denmark, France, Germany, Italy, the Netherlands, Spain and the United Kingdom; weighted using average GDP translated into the same currency in the period 1993-95.

Nearly 80 per cent of labour contracts in manufacturing industry and 50 per cent in market services were renewed last year. After the agreement reached with metal and engineering workers in February 1997, contract renewals in the manufacturing sector (construction, food products, textiles and footwear, leather and leather products) fully incorporated the decline in inflation expectations, significantly reducing wage increases. In addition, the dispute over the difference between actual and planned inflation in 1995 and 1996 was resolved without introducing automatic mechanisms to recoup lost purchasing power. Real wages in manufacturing began to rise again in the second half of 1996, increasing by an average of 2.4 per cent over the first three quarters of 1997 compared with the same period a year earlier; before taxes, the rise offset the decline in previous years. The bargaining round had a markedly different outcome in the main public utilities, where wage increases appear large, especially in consideration of the sector's need to restructure and contain unit costs.

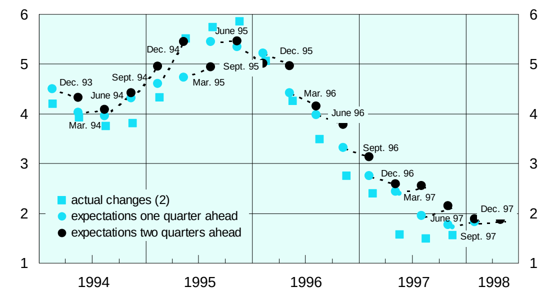
Inflation expectations

Inflation expectations improved steadily over all time-spans throughout 1997 and into early 1998, converging towards the level in the other leading European countries.

The various indicators available continued to signal expectations of a slight increase in consumer price inflation for the first part of 1998. The December surveys carried out by *Consensus Forecasts* and *Forum-Mondo Economico* showed expectations of a small rise in the twelve-month rate of consumer price inflation in the first two quarters of 1998 from its level in the last quarter of 1997 (Figure 29). The Isco survey of households pointed to a slight increase in the second half of 1997 in the proportion of those expecting an increase in inflation in the subsequent twelve months (Figure 30), especially following the increase in VAT at the beginning of October last year; the survey at the beginning of 1998 showed expectations improving again.

Figure 29

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

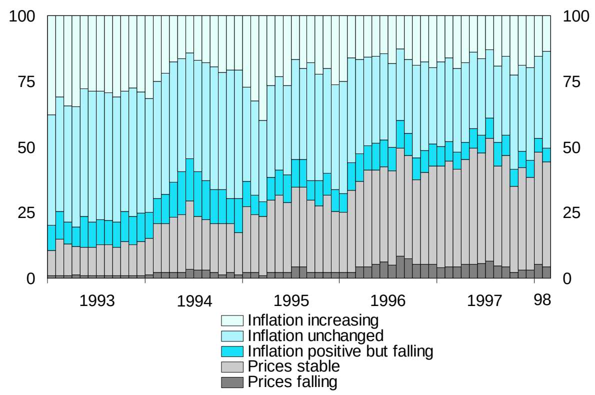


Sources: Based on Istat and Forum-ME data.

(1) The dates in the figure indicate the survey period. Some aspects of the survey were changed in March 1995. The expectations recorded are those of a panel of businessmen and economic observers. - (2) Consumer price index for worker and employee households, excluding tobacco products.

Figure 30

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

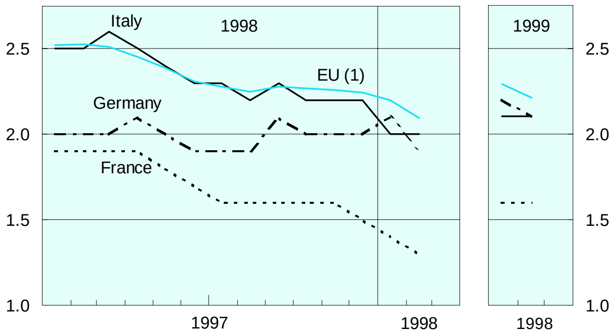


Source: Based on Isco data.

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

Figure 31

Expectations of professional forecasters concerning average consumer price inflation in 1998 and 1999 in Italy, France, Germany and the EU
(percentage changes)



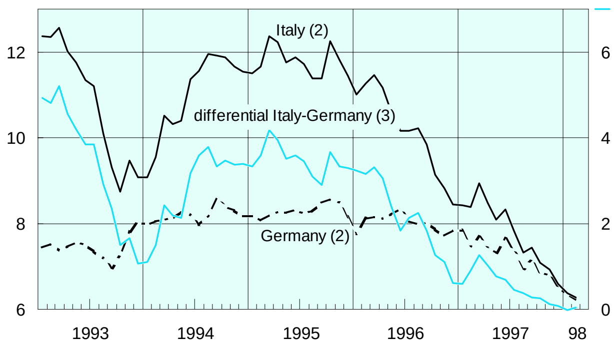
Sources: Consensus Forecasts and OECD.
(1) Average of the forecasts for the national consumer price indices (for Italy, the consumer price index for worker and employee households) for the EU, excluding Luxembourg; weighted using average final consumption translated into the same currency in the period 1993-95.

The surveys of professional forecasters made by *Consensus Forecasts* reveal expectations of a gradual reduction in consumer price inflation in Italy in 1998. The February survey, conducted in the first half of the month, showed expected inflation at 2 per cent, lower than the average rate forecast for the European Union and slightly higher than that for Germany and France (Figure 31). Initial expectations for 1999, contained in the January survey, are for inflation in Italy to remain broadly stable at the levels expected for this year.

The behaviour of the one-year forward rate nine years ahead provides an indication of investors' assessment of the durability of the disinflationary process. In February, the indicator fell to a new low in both absolute terms (6.3 per cent) and in terms of the differential with corresponding German yields, which is now nil (Figure 32).

Figure 32

Forward interest rates in Italy and Germany (1)
(percentages)



(1) 1-year forward rates between nine and ten years ahead, calculated on the basis of the rates on Eurolira and Euromark interest rate swaps. Monthly averages of daily data; for February, the average of the first two ten-day periods. - (2) Left-hand scale. - (3) Percentage points. Right-hand scale.

The public finances

Results in 1997

The adjustment of Italy's public finances made considerable progress in 1997 notwithstanding the limited growth of the economy. According to the official figures released by Istat, general government net borrowing was 52.2 trillion lire, or 2.7 per cent of GDP, which is within the limit of 3 per cent established by the Maastricht Treaty; compared with 1996, it fell by 4 percentage points. The reduction of the public debt in relation to GDP gathered pace; the ratio declined from 124 per cent in 1996 to 121.6 per cent (Table 13).

Table 13

General government net borrowing and debt
(billions of lire)

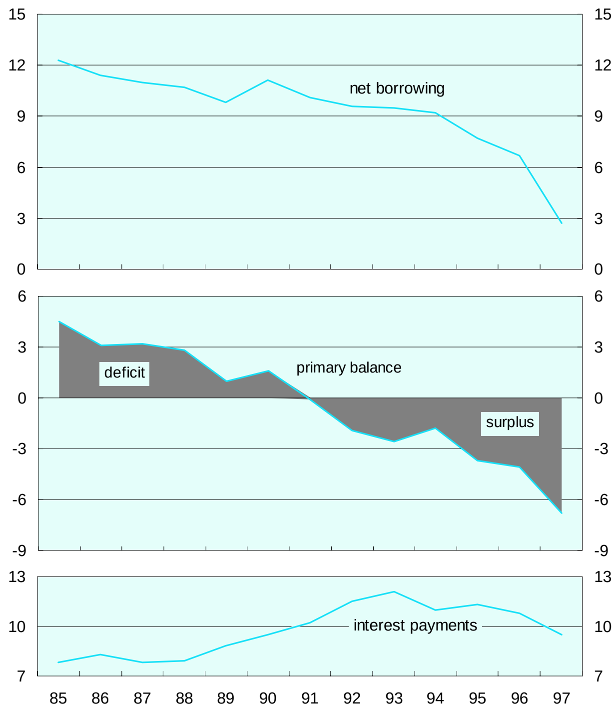
	1995	1996	1997
Net borrowing	136,377	125,148	52,220
as a percentage of GDP . .	*7.7*	*6.7*	*2.7*
Primary surplus	64,755	77,214	132,943
as a percentage of GDP . .	*3.7*	*4.1*	*6.8*
Interest payments	201,132	202,362	185,163
as a percentage of GDP . .	*11.3*	*10.8*	*9.5*
Debt as a percentage of GDP	124.2	124.0	121.6

Source: For net borrowing and its components, based on Istat data.

The figure for net borrowing, which does not include the tax revenue arising on UIC's sale of gold to the Bank of Italy, was achieved through an increase in the primary surplus and a reduction in interest payments. The large budget correction resulted in the primary surplus rising from 77.2 to 132.9 trillion lire and from 4.1 to 6.8 per cent of GDP. The fall in lira yields brought a reduction in interest payments from 10.8 to 9.5 per cent of GDP (Figure 33).

Figure 33

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



Source: Based on Istat data.

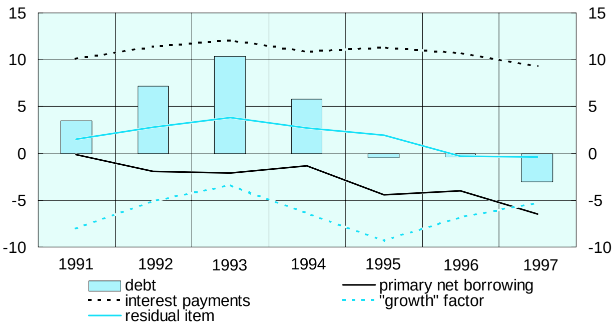
The effects of the budget are estimated at around three percentage points of GDP, or only a little less than planned. The measures mainly concerned revenue, which rose from 46.5 per cent of GDP in 1996 to 48.8 per cent, a value close to the peak registered in 1993 and about 2 percentage points above the EU average. The contribution of spending cuts to the increase in the primary surplus was small: expenditure excluding interest payments declined by 0.3 percentage points to 42 per cent of GDP. Capital expenditure fell from 4 to 3.5 per cent of GDP, while current expenditure excluding interest payments rose from 38.3 to 38.5 per cent.

The reduction in net borrowing produced by temporary measures is estimated to have been about 1 percentage point of GDP.

The fall of 2.4 percentage points in the ratio of the public debt to GDP followed that of nearly one point in the two preceding years taken together (Figure 34). Privatization receipts contributed to the result, while the limited growth in GDP and the increase in the lira equivalent of the debt denominated in foreign currency, primarily owing to the appreciation of the dollar, acted in the opposite direction.

Figure 34

Change in the ratio of general government debt to GDP and its components (1)
(percentage points)



(1) The change in the debt-to-GDP ratio can be decomposed in: primary net borrowing in relation to *GDP*, where a minus sign indicates a surplus; interest payments in relation to *GDP;* the “growth” factor, obtained by multiplying the debt-to-*GDP* ratio of the previous year by the rate of increase in nominal *GDP;* a residual item, expressed as a ratio to *GDP* and comprising primarily the issue discounts on government securities, the effects of exchange rate changes on the debt denominated in foreign currencies, privatization receips, settlements of past debts and financial items.

Receipts of direct taxes, which do not include the personal income surtax or the levy on severance pay provisions introduced in the budget and accounted for as capital revenue, rose by 9 per cent, or more than twice as much as nominal GDP (4.2 per cent). The increase reflected the rapid growth in earnings following the implementation of new wage agreements and the effects of the budget for 1997 (see *Economic Bulletin* no. 24, 1997). Receipts of indirect taxes rose by 7.7 per cent and social security contributions by 6.8 per cent as a result of the budget, the recovery in economic activity and the increase in VAT rates introduced in October.

Taken together, direct and indirect taxes, social security contributions and capital taxes rose from 42.4 per cent of GDP in 1996 to 44.3 per cent in 1997.

The adjustment on the expenditure side consisted primarily of reductions in transfer payments to non-state public bodies and public utilities and measures to curb outlays on health services and public employment. The latest data available suggest that the reductions in expenditure achieved were basically in line with the objectives embodied in the *Relazione trimestrale di cassa* published in April 1997, the first official document to incorporate the accounting changes approved by Eurostat (see *Economic Bulletin* no. 24, 1997) and the estimated effects of the budget.

The restrictions on appropriations and spending authorizations, certain types of local authority expenditure and withdrawals by non-state public bodies from their centralized Treasury accounts helped to curb expenditure. In addition, it was decided to block budget transfers to these accounts if the balances exceeded given thresholds, thereby sharply reducing the amounts immediately spendable (see *Economic Bulletin* no. 25, 1997). The firm action with regard to cash outlays led, notwithstanding the aforementioned limits on appropriations, to an expansion in expenditure arrears in the accounts of the state sector and presumably in those of non-state public bodies. The Government has recently adopted measures aimed at reducing such arrears and modifying the mechanisms governing both their formation and their transferability from one financial year to another.

General government expenditure excluding interest payments rose by 3.4 per cent, which was less than in 1966 (6 per cent) and below the growth in nominal GDP. The result was nonetheless influenced by the contraction of around 9 per cent in capital expenditure in connection with the fall in investment grants and the drying up of tax refunds. Current expenditure excluding interest payments rose by 4.7 per cent.

General government intermediate consumption rose moderately and production subsidies declined, but spending on social security benefits grew faster than GDP. Notwithstanding the curb imposed by the reforms introduced since 1992, this item increased by

The main items of the general government accounts

Expenditure

According to Istat's preliminary estimates, general government expenditure amounted to just under 1,005 trillion lire, an increase of 1 per cent on 1996. Interest payments fell by 8.5 per cent, while primary expenditure rose by 3.4 per cent, as against 6 per cent in 1996; this aggregate nonetheless declined slightly in relation to GDP, from 42.3 to 42 per cent.

The large reduction of 17.2 trillion lire in interest payments, which had remained virtually unchanged between 1995 and 1996, does not reflect the full effect of the fall in yields at issue in 1996 and was only marginally due to their further fall in 1997 (the average gross yield on the three maturities of Treasury bills fell from 10.5 per cent in December 1995 to 6.7 per cent in December 1996 and to 4.9 per cent in December 1997). A contribution to the reduction in interest payments was made by the large volume of net redemptions of Treasury bills (around 83 trillion lire), the interest on which is recorded at issue.

As regards primary expenditure, the fall of 10 per cent in investment grants and production subsidies was coupled with relatively large increases in social security benefits (6.2 per cent), compensation of employees (5.3 per cent) and investment (7.4 per cent). Other capital expenditure declined significantly, from 8.6 to 1.8 trillion lire, as a result of the drying up of tax refunds in securities.

Social security benefits rose from 19.2 to 19.6 per cent of GDP. The increase of 6.2 per cent in disbursements, down from 7.5 per cent in 1996, was due to the rise in pension outlays, while unemployment benefits and severance payments are estimated to have remained basically unchanged. Pension outlays were boosted not only by the annual inflation adjustment but also by the large number of persons retiring on length-of service pensions and the increase in benefits paid by the pension funds of public employees and the self-employed.

The rise in compensation of employees dropped from 8.4 to 5.3 per cent. The growth in this item reflected the substantial rise (12 per cent) in the social security contributions paid by general government owing to the harmonization of contribution rates as part of the reform of the pension system and the large increase in the payment made to finance the deficit of the Social Security Institute for Public Employees (INPDAP). Gross per capita earnings in general government grew by around 2.8 per cent. This result was influenced by the contributions referring to prior years paid by central government departments in 1996. Excluding these one-off payments, the growth in per capita earnings was about 4.3 per cent. The number of employees is estimated to have fallen further, by around 1 per cent; compared with the peak in 1992, public employment has declined by 4.5 percentage points.

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

	1996	1997	1996/1995	1997/1996
EXPENDITURE				
Compensation of employees	218,039	229,494	8.4	5.3
Intermediate consumption .	87,148	88,537	5.2	1.6
Social security benefits . . .	360,039	382,524	7.5	6.2
Production subsidies	29,214	27,244	4.9	−6.7
Interest payments	202,362	185,163	0.6	−8.5
Other current expenditure .	23,699	24,004	28.1	1.3
Current expenditure	**920,501**	**936,966**	**6.2**	**1.8**
as a percentage of GDP .	*49.2*	*48.0*		
Current expenditure, net of interest payments . .	**718,139**	**751,803**	**7.9**	**4.7**
as a percentage of GDP .	*38.3*	*38.5*		
Investment	42,524	45,656	9.7	7.4
Investment grants	23,600	20,314	0.2	−13.9
Other capital expenditure . .	8,581	1,816	−57.6	−78.8
Capital expenditure	**74,705**	**67,786**	**−9.5**	**−9.3**
TOTAL EXPENDITURE	**995,206**	**1,004,752**	**4.9**	**1.0**
as a percentage of GDP .	*53.1*	*51.5*		
Total expenditure, net of interest payments . .	**792,844**	**819,589**	**6.0**	**3.4**
as a percentage of GDP .	*42.3*	*42.0*		
REVENUE				
Direct taxes	284,344	309,855	9.5	9.0
Indirect taxes	221,463	238,521	5.7	7.7
Social security contributions	282,796	301,889	8.0	6.8
Other current revenue	72,430	84,069	8.7	16.1
Current revenue	**861,033**	**934,334**	**7.9**	**8.5**
as a percentage of GDP .	*46.0*	*47.9*		
Capital revenue	**9,025**	**18,198**	**−39.3**	**101.6**
TOTAL REVENUE	**870,058**	**952,532**	**7.1**	**9.5**
as a percentage of GDP .	*46.5*	*48.8*		
Net borrowing	**125,148**	**52,220**	**−8.2**	**−58.3**
as a percentage of GDP .	*6.7*	*2.7*		
Primary surplus	**77,214**	**132,943**	**19.2**	**72.2**
as a percentage of GDP .	*4.1*	*6.8*		
Memorandum item:				
GDP	1,872,635	1,950,680	5.7	4.2

Source: Based on Istat data.

cont. ➤

The fall in production subsidies and investment grants and the virtual stability of intermediate consumption reflect the nature of the corrective action taken in 1997. The restrictions introduced on budget disbursements are likely to have had a particularly pronounced effect on central government intermediate consumption, while the first two items were curbed by the decrease in transfer payments to public enterprises, especially the former autonomous government agencies and the Government Agency for Intervention on the Agricultural Market (AIMA). In order to make good the shortfall, public enterprises substantially reduced the balances they held with the system of centralized Treasury accounts and the banking system. The fall in production subsidies was partly offset by the sum paid to the State Railways to bolster its pension fund. This disbursement did not affect general government net borrowing since the State Railways transferred the entire amount to the pension fund.

The increase in investment (7.4 per cent, as against 9.7 in 1996) was the result of a rise in disbursements by local authorities and a fall in those by central government. The increase was smaller than in 1996 and left investment almost unchanged in relation to GDP.

Revenue

General government revenue grew by 9.5 per cent compared with 1996. Current revenue expanded by 8.5 per cent or more than 73 trillion lire and capital revenue by nearly 9 trillion lire, primarily in connection with the large receipts of one-off taxes. The ratio of current revenue to GDP rose by nearly 2 percentage points, with all the main items contributing to the increase. Compared with nominal GDP growth of 4.2 per cent, direct taxes grew by 9 per cent, indirect taxes by 7.7 per cent and social security contributions by 6.8 per cent. Other current revenue grew by 16.1 per cent, of which around two thirds was due to the payment made to the pension fund of the State Railways discussed above.

Direct tax revenue rose from 15.2 to 15.9 per cent of GDP. The increase of nearly 9 per cent in Irpef receipts reflected the growth in the tax base, the incomplete offsetting of fiscal drag and the reduction in tax relief for medical expenses and mortgage interest. Irpeg and Ilor receipts were boosted by the increase in the base in 1996 as a consequence of changes in the deductibility of certain expenses and the large profits banks earned on securities as a result of the fall in interest rates. Another positive factor was the increase in the size of the payment on account when the taxation of the bond income of legal persons was revised. Receipts of the flat-rate tax on interest income fell by more than 11 per cent owing to the exclusion from the base of the bond income of legal persons and the fall in interest rates.

Indirect tax revenue rose from 11.8 to 12.2 per cent of GDP, with business taxes increasing by 7.3 per cent. VAT receipts rose by more than 5 per cent, as a consequence of the recovery in economic activity and the rate changes introduced on 1 October 1997. Receipts of other business taxes rose as a result of the introduction during the year of a requirement for tax farmers to make payments on account. Excise duties and sales taxes rose by just over 2 per cent, notwithstanding the fall in the yield from mineral oil products in the first half of the year owing to the decline in consumption. Gaming taxes yielded an additional 21 per cent following the increase in the frequency of closing dates. Revenue from products subject to state monopoly remained virtually unchanged.

Social security contributions rose from 15.1 to 15.5 per cent of GDP. Since the base expanded in line with GDP, the rise was due to the increase in rates for public and private sector employees and the self-employed. The receipts produced by the contributions condonation scheme declined from more than 3.5 trillion lire to just over 2 trillion. The increase of a little more than 5 per cent in contributions for private sector employees benefited from the reduction of 4.6 percentage points in the social security contributions relief granted to firms in the South and the diminution in health contributions relief, which differed by region and sector of production. The factors underlying the large rise in the contributions for public employees (12 per cent) have been analyzed above in the comment on compensation of employees. The contributions of the self-employed are estimated to have risen by slightly less than 8 per cent as a result of the increase in the rates payable by artisans and wholesalers and retailers and the full-year receipts of contributions to the new fund run by INPS for quasi-employee free-lance workers.

Capital revenue virtually doubled, rising from 9 to 18.2 trillion lire owing to the attribution of the receipts of the so-called Europe tax. These were less than had been expected but nonetheless amounted to 11.4 trillion lire, of which 6.6 trillion generated by the levy on severance pay provisions and 4.8 trillion by the personal income surtax.

The fiscal ratio, defined as the ratio to GDP of direct taxes, indirect taxes, social security contributions and capital taxes, rose by 1.9 percentage points, from 42.4 to 44.3 per cent.

6.2 per cent and rose from 19.2 to 19.6 per cent of GDP. Public sector wages and salaries grew by 5.3 per cent; part of the increase was due to the raising of the social security contribution rates paid by public employers. When the data are adjusted to exclude some purely accounting items, the increase in per capita earnings in the public sector was 4.3 per cent (see box).

Table 14

State sector balances
(billions of lire)

	1995	1996	1997 (1)
Financial balances net of settlements of past debts and privatization receipts			
Borrowing requirement	126,867	128,934	52,693
as a percentage of GDP ...	*7.2*	*6.9*	*2.7*
Primary surplus	66,446	63,632	126,331
as a percentage of GDP ...	*3.7*	*3.4*	*6.5*
Memorandum items:			
Settlements of past debts (in securities and cash)	4,085	13,502	–409
Privatization receipts	8,354	6,226	21,179

(1) Provisional.

The state sector borrowing requirement, excluding settlements of past debts and privatization receipts, amounted to 52.7 trillion lire, or around 76 trillion less than in 1996 (Table 14). The Treasury was able to drastically curtail its financing through the issue of securities in the domestic market. Issue policy aimed at further lengthening the average maturity of the debt. Sales of Treasury bills were cut back substantially and the share of Treasury credit certificates in net issues of longer-term securities was reduced (see the Chapter on Monetary Policy, Banking and the Financial Markets). The success in increasing the proportion of the debt consisting of Treasury bonds in recent years has reduced the sensitiveness of interest payments to movements in lira yields. Today, a one percentage point change in interest rates results in a change in the cost of the debt over one year of around 0.3 per cent of GDP.

Budgetary policy in 1997

The objective of keeping the ratio of net borrowing to GDP within the limit of 3 per cent was pursued by providing in the Finance Law and the accompanying measures for an adjustment of 46.5 trillion lire, of which 28 trillion in the form of additional revenue.

The fiscal adjustment was completed by the introduction of supplementary measures amounting to around 16 trillion lire at the end of March in response to the poorer-than expected performance of the economy and a more cautious assessment of the effects of the measures contained in the budget. The total planned adjustment thus amounted to 62.5 trillion lire and comprised 38 trillion of additional revenue and 24 trillion of expenditure cuts. Accounting changes led to a further reduction in net borrowing of around 16 trillion lire.

According to the information currently available, the overall effect of the adjustment measures was slightly less than predicted. Most of the difference concerned revenue, notably receipts of the personal income surtax and the levy on severance pay provisions.

The results for 1997 benefited from around 1.4 trillion lire of extra revenue as a result of the increase in VAT rates introduced in the last quarter. Although this measure had originally been planned as part of the budget for 1998, the date for its entry into force was brought forward to 1 October 1997 in order to bolster revenue. A further boost was provided by the faster-than-expected growth in economic activity in the last few months of the year.

The accounts also reflect the effects of temporary measures, which, taken together, are estimated to have reduced the budget deficit by around 1 percentage point of GDP, as mentioned earlier. The temporary measures in the budget for 1997 reduced net borrowing by around 1.1 percentage points. Some two thirds of the reduction was attributable to measures that will not have any effect in subsequent years (primarily the personal income surtax), while the others will have a negative effect (notably the levy on severance pay provisions). On the other hand, around 0.1 percentage points of the 1997 deficit can be attributed to prior-year measures that reduced revenue last year but whose effects will wane in the coming years (part of the social security contributions relief granted to firms in the South and investment subsidies).

The public finances of the leading EU countries (1)

In 1991, the year in which the convergence criteria were established at Maastricht, net borrowing in Italy exceeded 10 per cent of GDP. In France and the United Kingdom the budget deficit was less than 3 per cent of GDP, in Germany it was 3.3 per cent (Table 15). The trend in Italy was nonetheless different from that of the other three countries.

In Italy, while net borrowing remained basically stable, from the mid-eighties onwards there was a progressive improvement in the balance excluding interest payments as a result of the rise in revenue; primary expenditure remained virtually unchanged. In the other three countries the situation deteriorated to a varying degree from a position of near balance at the end of the eighties (Figure 35). The deterioration was largely determined by the slowdown in economic activity, which took place earlier in the United Kingdom, and in Germany's case also by the cost of the country's reunification. In all three countries primary expenditure rose (Figure 36), while in the United Kingdom revenue continued to decline (Figure 37). Interest payments increased everywhere.

In 1993 Italy intensified its adjustment effort. Faced with severe tensions in the foreign exchange and financial markets, measures were adopted to bring the budget deficit under control and impose curbs of a structural nature on the expansion of the main expenditure items. In the other leading European countries the worsening of the budget balances continued.

(1) The discussion of the budget balances in this section refers throughout to their values in relation to GDP.

Table 15

General government accounts of the leading EU countries (1)
(as percentage of GDP)

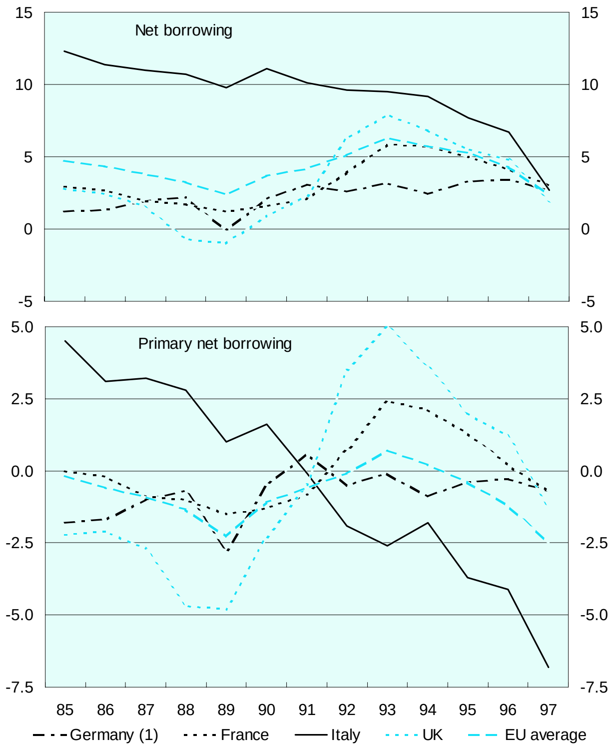
	1985	1989	1991	1993	1997
Italy					
Revenue	38.7	41.8	43.6	48.1	48.6
Primary expenditure	43.2	42.8	43.5	45.5	41.8
Primary net borrowing	4.5	1.0	−0.1	−2.6	−6.8
Interest payments	7.8	8.8	10.2	12.1	9.5
Net borrowing	12.3	9.8	10.1	9.5	2.7
Germany (2)					
Revenue	46.1	45.2	44.9 (44.4)	46.4	45.2
Primary expenditure	44.3	42.4	45.5 (45.0)	46.6	44.6
Primary net borrowing	−1.8	−2.8	0.6 (0.6)	−0.1	−0.7
Interest payments	3.0	2.7	2.7 (2.8)	3.3	3.7
Net borrowing	1.2	−0.1	3.3 (3.4)	3.2	2.7
France					
Revenue	50.2	49.1	49.5	50.1	51.4
Primary expenditure	50.1	47.6	48.6	52.5	50.8
Primary net borrowing	0.0	−1.5	−0.8	2.4	−0.7
Interest payments	2.9	2.7	2.9	3.4	3.8
Net borrowing	2.9	1.2	2.1	5.8	3.0
United Kingdom					
Revenue	41.5	39.5	38.4	36.0	38.2
Primary expenditure	39.3	34.8	38.0	41.0	36.9
Primary net borrowing	−2.2	−4.8	−0.5	5.0	−1.3
Interest payments	5.0	3.8	2.8	2.9	3.3
Net borrowing	2.8	−1.0	2.3	7.9	1.9
EU average					
Revenue	44.7	44.6	45.0	46.1	46.2
Primary expenditure	44.5	42.3	44.4	46.9	44.0
Primary net borrowing	−0.2	−2.3	−0.6	0.7	−2.5
Interest payments	4.9	4.6	4.8	5.6	5.2
Net borrowing	4.7	2.4	4.2	6.3	2.4

Sources: Based on Istat data for Italy. For the other countries, European Commission data (autumn 1997 forecasts) and, exclusively for net borrowing in 1997, communiqués released in February 1998 by national statistical institutions; consequently the net borrowing aggregate is not consistent with its components.

(1) In order to enhance international comparability, the official data have been modified. In particular, revenue does not include capital revenue other than capital taxes, which are deducted from primary expenditure. For the debt figures a minus sign indicates a surplus. – (2) Until 1989 the figures refer to West Germany. For 1991 the figures for the western regions are given in brackets.

Figure 35

Net borrowing and primary net borrowing in the leading EU countries
(as a percentage of GDP)



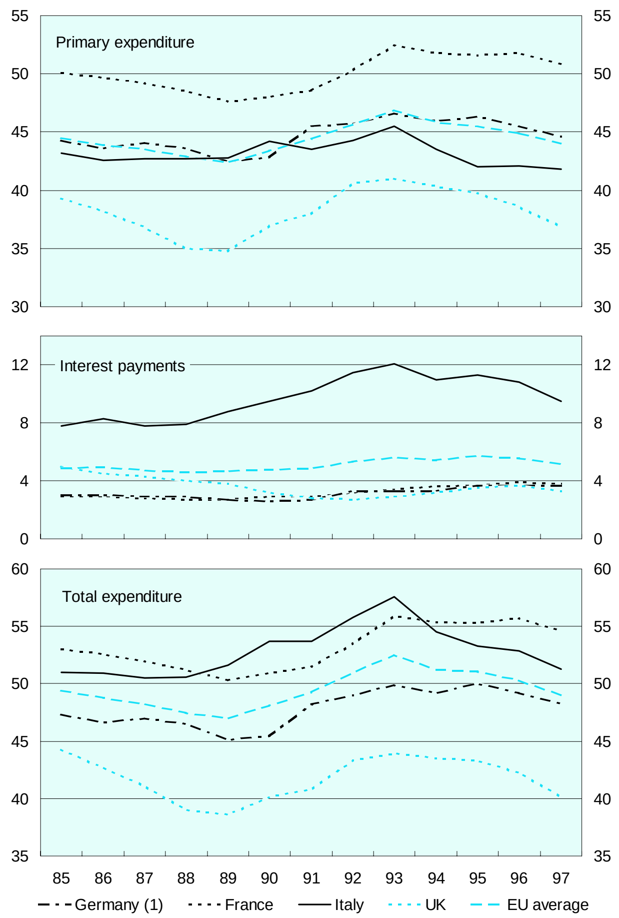
Sources: Based on Istat data (for Italy) and European Commission data.
(1) Western regions until 1990.

In the years that followed, the rigorous measures adopted and the more favourable economic conditions enabled Italy to reduce the relative size of its budget deficit, even though progress was irregular. The situation also improved in the other three countries.

In the United Kingdom the deterioration in the public finances came to a halt in 1994 and the budget deficit subsequently returned to its level at the beginning of the nineties, close to 2 per cent of GDP. The improvement reflected an increase in revenue coupled with a reduction in expenditure from the peak registered in 1993. The budget deficit also declined in France from 1994 onwards as a result of an increase in revenue and a reduction in expenditure. In 1997 it came into line with the convergence criterion. In Germany net borrowing was close to 3 per cent of

Figure 36

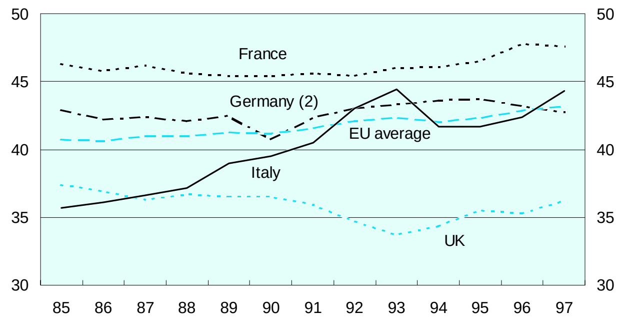
Primary expenditure, interest payments and total expenditure in the leading EU countries
(as a percentage of GDP)



Sources: Based on Istat data (for Italy) and European Commission data.
(1) Western regions until 1990.

Figure 37

Fiscal revenue in the leading EU countries (1)
(as a percentage of GDP)



Sources: Based on Istat data (for Italy) and European Commission data.
(1) Fiscal revenue comprises: taxes, social security contributions and capital taxes. - (2) Western regions until 1990.

GDP in 1993; in view of the subsequent fall in revenue and increase in interest payments, the achievement of a ratio of 2.7 per cent in 1997 was accompanied by a fall of about 2 percentage points in primary expenditure.

In Italy the efforts made to consolidate the budget radically modified the size of the main aggregates of the public finances. In 1997 the ratio of revenue to GDP was some 10 percentage points higher than in the mid-eighties and exceeded the EU average by around 2 points. Over the same period primary expenditure fell by 1.4 percentage points to below the EU average. Despite the sharp fall in interest payments since 1993, in 1997 they were 1.7 points higher than in 1985 and some 4 points above the EU average.

In Germany and France, by contrast, the changes in revenue and primary expenditure were relatively small, apart from short-term fluctuations; interest payments nonetheless increased in both countries.

The United Kingdom was the only country of the four considered to reduce the size of the budget. Between 1985 and 1997 revenue fell by more than 3 percentage points of GDP to 38 per cent, some 8 points below the EU average.

Monetary policy, banking and the financial markets

As the improvement in expectations confirmed the curbing of inflation and the public finances proved to be in line with the Government's objectives, monetary conditions were made less restrictive in 1997 against the background of a recovery in economic activity.

The caution with which monetary policy was eased helped contain the inflationary pressures stemming from the appreciation of the dollar, the sustained rise in labour costs and the increase in indirect taxes; it also curbed the excessive growth in the monetary aggregates and fostered a further narrowing of the long-term interest rate differential between Italy and the leading European countries. The Italian financial and foreign exchange markets were only marginally affected by the turbulence emanating from the Asian crisis and by political events at home and abroad. The lira remained slightly above its central exchange rate against the German mark.

Growing confidence in the improvement in Italian economic fundamentals on the part of the international financial markets, fostered *inter alia* by the prudent monetary policy stance, stimulated foreign demand for government securities, especially Treasury bonds. In February 1997 the yield on 10-year bonds fell below the convergence threshold set in the Maastricht Treaty, and by the end of the year it was almost one percentage point below that level. The yield differential in relation to corresponding German securities declined from 1.8 to 0.3 percentage points in the course of the year; at the end of February 1998 it amounted to 0.4 points. Towards the end of last year the forward differential between Italian and German interest rates became negligible for periods after 1 January 1999 and the forward lira/DM exchange rate for that date approached the central EMS rate. In January renewed uncertainty about EMU led to a modest increase in the forward differentials and a slight depreciation of the lira.

Bank interest rates continued to fall throughout the year. The average rate on short-term lira loans came down by almost 4 percentage points in real terms and by 1.8 points in nominal terms; the nominal deposit rate decreased by a comparable amount.

The M2 money supply increased by 9.8 per cent in 1997, a rate of growth in line with the provisional figures prepared at the end of the summer but well above both the forecasts made in 1996 and the increase in nominal GDP. In the last four months of the year the growth in the aggregate came to a halt, owing partly to the easing of the uncertainty that had favoured the earlier acceleration (see *Economic Bulletin* no. 25, October 1997).

Italian households further increased their recourse to institutions specializing in asset management in 1997. Investment funds and portfolio management services recorded a net inflow of about 230 trillion lire, more than twice the figure for 1996, which had itself been substantial. The international diversification of Italian portfolios also continued and intensified. In the first three quarters of 1997 direct investment abroad by households amounted to 24.5 trillion lire and investment funds purchased foreign assets worth 42.8 trillion. Foreign financial assets rose from 4.7 per cent of households' portfolios at the end of 1996 to 5.6 per cent in September, owing partly to the appreciation of the dollar and the strong performance of international stock markets; in the case of investment funds the ratio rose from 15.7 to 25.1 per cent.

Total credit to the non-state sector increased by 5.2 per cent, a rate broadly in line with the forecasts (Table 16); lending accelerated towards the end of the year in connection with the recovery in economic activity and investment and the reduction in real bank lending rates; demand for short-term loans to finance the purchase of financial assets was also a contributory factor.

Preliminary data suggest that bank profitability remained very low in 1997. The decrease in net interest income appears to have been offset by an increase in income from services; the indications are that operating costs rose slightly. As operating profit appears to have been virtually unchanged, net profit may have been lower than in 1996, given the substantial charges some banks made against asset items.

Monetary policy and the exchange rate of the lira

The easing of monetary policy became more pronounced towards the end of the year. The cut of 0.75 percentage points in the discount rate and the rate on fixed-term advances on 23 December brought the overall reduction in official rates in 1997 to 2 points (Figure 38). Real 3-month interest rates continued to decline, falling by 0.4 percentage points in the final quarter of the year (Figure 39).

Table 16

Credit and financial assets

(percentages; end-of-period data)

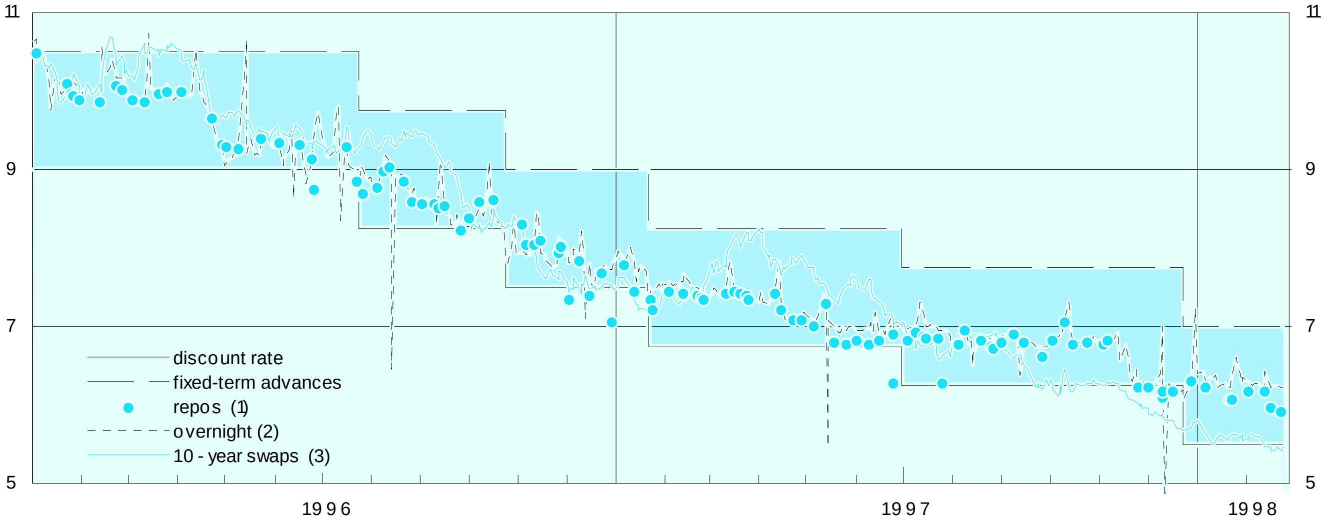
	12-month rates of change		Share of outstanding stocks	
	Dec. 1996	Dec. 1997 (1)	Dec. 1996	Dec. 1997 (1)
Total credit	**5.2**	**3.5**	**100.0**	**100.0**
Finance to the non-state sector	*2.8*	*5.2*	*35.4*	*36.3*
from banks	3.5	5.4	31.3	32.2
bonds	−5.4	−29.3	0.5	0.3
foreign finance	−1.4	8.6	3.6	3.8
Financial assets of the non-state sector (2)	**5.1**	**5.5**	**100.0**	**100.0**
Domestic	3.5	3.0	92.1	89.8
liquid assets	−2.3	−7.4	54.0	46.7
M2 (3)	*3.8*	*9.1*	*28.4*	*28.7*
medium and long-term government securities	8.4	6.3	31.4	31.5
investment fund units and other (4)	46.4	71.4	6.7	11.6
Foreign	27.1	33.8	7.9	10.2

(1) Provisional. – (2) Net of shares. – (3) Growth rates are calculated from monthly averages. – (4) Investment fund units, non-state sector assets with banks, surety deposits of firms, atypical securities and Republic of Italy bonds held by the non-state sector.

Figure 38

Official interest rates and money and financial market rates

(percentages)

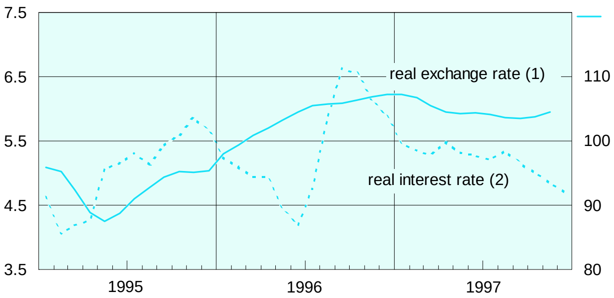


(1) Marginal allotment rate. - (2) Actual rate on the interbank deposit market. - (3) Euromarket rate.

Figure 39

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

(percentages and index numbers)



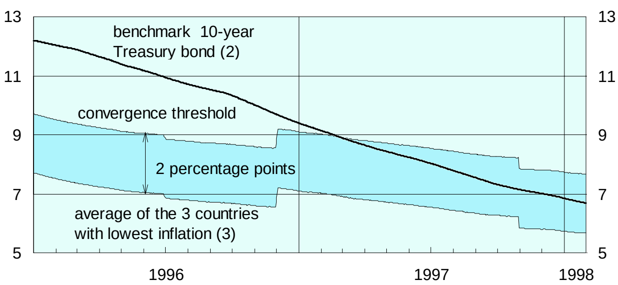
(1) Right-hand scale. Index, 1993=100. An increase indicates an appreciation. Moving averages for the three months ending in the month indicated. For the methodology, see the article *"Nuovi indicatori di tasso di cambio effettivo nominale e reale"*, in Banca d'Italia, *Bollettino Economico*, no. 30, 1998. - (2) Left-hand scale. Interest rate on 3-month Eurolira deposits, deflated using the annualized change over the preceding three months in the seasonally adjusted cost-of-living index net of indirect taxes. Moving average for the three months ending in the month indicated.

The differential between Italian and German 3-month interbank rates narrowed by 1.8 percentage points during the year to 2.3 points as a result of a modest increase in DM rates and a substantial decrease of 1.2 points in lira rates. In October the Bundesbank raised its repo rate by 0.3 percentage points, whereas lira rates remained broadly unchanged. At the end of November Italian repo rates fell by about half a point to 6.2 per cent; they currently stand at around 6 per cent.

Figure 40

Long-term interest rates: EU convergence criterion (1)

(daily data; percentages)



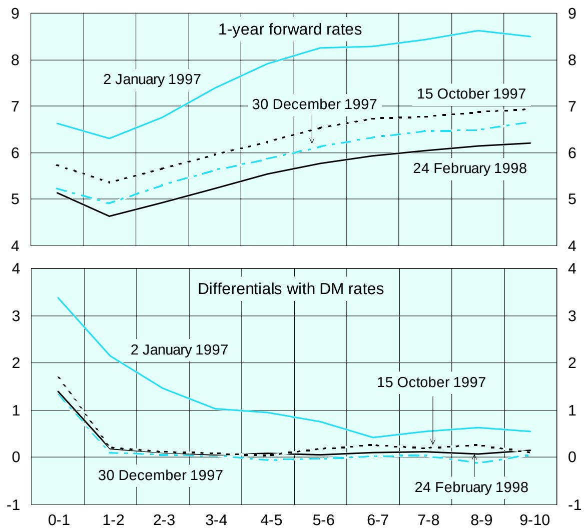
(1) The data for the last two months are provisional. - (2) Average yield for the 12 months ending on the day indicated. - (3) Simple average of the 10-year yield in the three EU countries with lowest inflation in the period indicated (measured as the change in the average of the harmonized consumer price index with respect to the average of the 12 preceding months).

Long-term rates declined further. Between the end of September 1997 and the end of February 1998 the yield on 10-year benchmark Treasury bonds fell by 0.9 percentage points to 5.3 per cent; a contributory factor was the downward trend in international interest rates, influenced from October onwards by the worsening of the financial crisis in South-East Asia. Since February 1997 the yield on 10-year benchmark Treasury bonds, calculated as a 12-month moving average, has been below the threshold value set in the Maastricht Treaty (Figure 40). In the final quarter of the year, as expectations of Italian participation in EMU from January 1999 onwards strengthened, forward interest rate differentials in relation to the German mark became negligible for periods after 1998 (Figure 41).

Figure 41

Yield curve of 1-year forward rates implied by swap rates (1)

(percentages and percentage points)

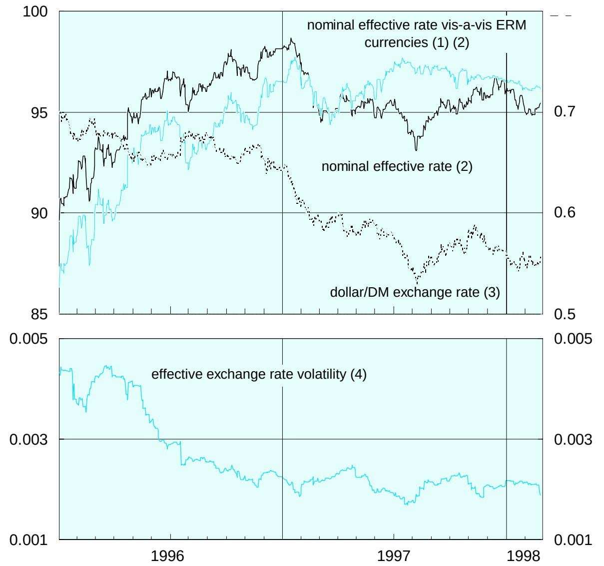


(1) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated. The first value of each curve is the 1-year spot rate on the contract date.

The effective exchange rate of the lira against the ERM currencies remained broadly stable in 1997, while that in relation to the currencies of all our trading partners declined by 2.1 per cent owing to the appreciation of the dollar (Figure 42). On an annual average basis, the lira appreciated by 3.9 per cent against the ERM currencies and by 0.3 per cent against the trade-weighted basket. In the second half of the year the lira depreciated by 0.6 per cent against both the mark and the ERM currencies as a whole, although remaining above its central rate against the mark; this development was accompanied by a narrowing of the differential between short-term lira and DM interest rates (Figure 43).

Figure 42

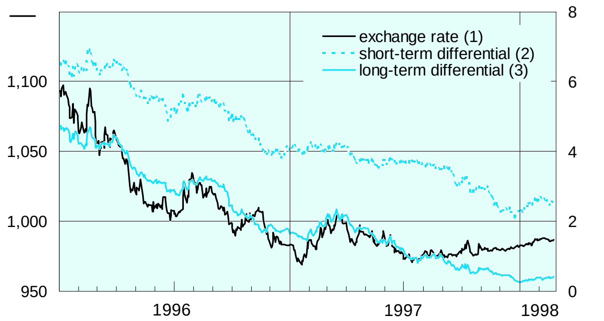
Exchange rates of the lira
(indices, 1993=100)



(1) The ERM countries are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal and Spain. - (2) Left-hand scale. A rise in the index corresponds to an appreciation of the lira. For the methodology, see the article *"Nuovi indicatori di tasso di cambio effettivo nominale e reale"*, in Banca d'Italia, *Bollettino Economico*, no. 30, 1998. - (3) Dollars per DM. Right-hand scale. - (4) Standard deviation of the rate of change in the nominal effective exchange rate of the lira in the previous 60 working days.

Figure 43

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

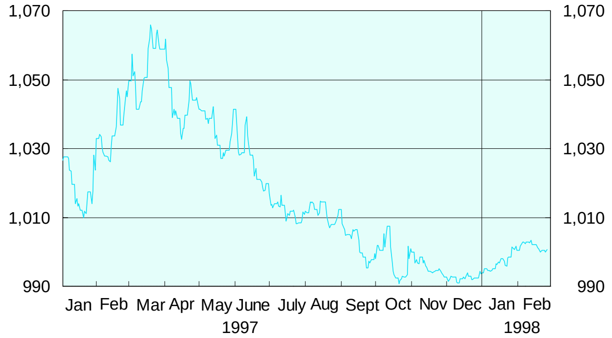


(1) Left-hand scale. - (2) Difference between 3-month Libor in lire and in marks. Right-hand scale. - (3) Difference between the yield on benchmark 10-year BTPs and the corresponding German yield. Right-hand scale.

The forward lira/DM exchange rate for settlement at the end of 1998 implied by the spot rate and the interest rate differential was still above 1,050 lire to the mark in March 1997. It came down steadily in later months, reaching about 990 lire in December (Figure 44); it then rose slightly, to 997 lire at the end of February, in response to doubts expressed in some countries about Italy's participation in EMU from the outset.

Figure 44

Implied forward lira/DM exchange rate at 1 January 1999 (1)
(lire per DM)



(1) Assumes that the depreciation of the exchange rate over the period is equal to the differential between lira and DM interest rates, calculated on the basis of Libor and swap rates and Euromarket futures.

In 1997 monetary base increased at a sustained rate of 8.9 per cent (Table 17). The growth occurred both in bank reserves and in notes and coin, which rose by 7.1 per cent (compared with 3.4 per cent in 1996) in conjunction with the fall in bank deposit rates and a modest revival in consumption. The

Table 17

Monetary variables (1)
(percentage changes)

	1996		1997 (2)	
	Oct.-Dec. (3)	Year	Oct.-Dec. (3)	Year
Monetary base (4) . . .	0.9	2.6	4.2	8.9
Currency	8.5	3.4	6.7	7.1
Bank reserves (4) .	–3.4	2.0	1.3	11.3
Short-term bank deposits	12.1	5.0	2.4	9.9
Money supply (M2)				
monthly average . .	9.3	3.8	1.5	9.1
quarterly average (5)	9.8	3.1	1.7	9.8

(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. – (5) Average for the quarter ending in the last month of the reference period.

Bank of Italy operations in the money market

The allotment rate for securities repurchase agreements and the overnight rate continued to decline in the final part of 1997; both came down by approximately 0.6 percentage points to stand at about 6.2 per cent at the end of November. The differential between 3-month rates in lire and in German marks narrowed from around 3 to 2.3 percentage points between the end of October and the end of December.

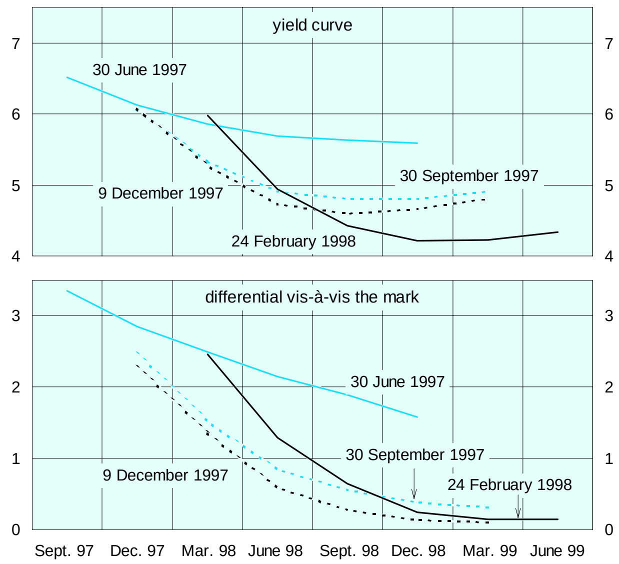
The curve of 3-month rates implied by Eurolira futures contracts recorded a significant downward shift following the Ecofin Council meeting of 13-14 September, where the decision was made to bring forward the irrevocable locking of exchange rates for monetary union to May 1998. The curve continued to move downwards, albeit with fluctuations, for the rest of the year: in December the rate implied by the contract maturing in March 1998 was equal to around 5.3 per cent and the differential with the corresponding rate in marks amounted to 1.5 percentage points. In January the curve started to record a gradual upward movement for periods up to June 1998 and a more marked shift in the opposite direction for subsequent ones (Figure 1); the differential between lira and mark rates for contracts maturing in March consequently widened to 2.5 points at the end of the month. These developments have had a smaller impact on the differentials for contracts with settlement after June: that for December 1998 contracts remains close to its end-1997 level of around 0.2 percentage points. The expected yield on 3-month funds in lire next December has steadily diminished, reflecting the trend of money market rates in the other European countries, and now stands at about 4.2 per cent.

The volatility of 3-month interest rates in lire, calculated from the prices of options on 3-month futures, remains broadly in line with that of the corresponding rate in marks (Figure 2).

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 Bank of Italy continued to manage liquidity principally through securities repurchase agreements (Figure 3) and, for smaller amounts, using outright purchases of Treasury bills by means of multiple price

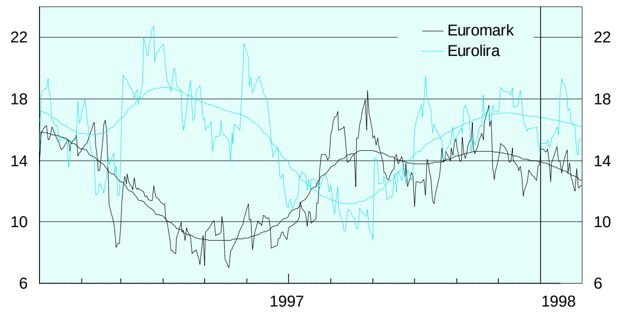
cont.

external sector again made a large contribution to monetary base creation (22.8 trillion lire, compared with 20.4 trillion in 1996; Table 18), reflecting the good performance of the balance of payments on current account. In addition, the Bank of Italy created 32 trillion by means of open market operations. The substantial destruction of monetary base by the Treasury (49.5 trillion), which was due mainly to the reduction in the borrowing requirement and substantial privatization proceeds, was thus offset.

The M2 money supply grew by 9.8 per cent in 1997, reflecting primarily the expansion in bank current accounts. It increased rapidly until August (Figure 45), when the twelve-month growth rate reached 12.4 per cent; in the last few months of the *auctions open to the primary dealers on MTS. Between November and January there were eleven repo operations totaling around 113 trillion lire and one reverse repo of 4.5 trillion. Demand for funds at these auctions was consistently strong; the negative slope of the yield curve was reflected in the allotment rates, which were lower for the operations with longer maturities. Foreign currency swaps, which have only been transacted in dollars since July 1997, were managed with a view to renewing maturing operations.*

Figure 2

Implied volatility of
3-month Eurolira and Euromark rates (1)
(percentage points on an annual basis)

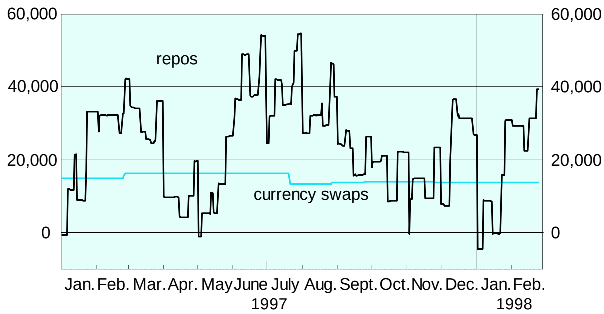


(1) Standard deviaton of the probability distribution of the changes in the futures rate, implied by price of the at-thr money option closest to expiry. The trend lines were generated using the Hodrick and Prescott method.

In the last two months of 1997 receipts from the privatization of Telecom resulted in the Treasury absorbing a very large amount of monetary base (around 19 trillion lire); almost 13 trillion of liquidity was supplied to the system through open market operations. The banks' debtor position vis-à-vis the central bank, which had averaged around 30 trillion in November, increased by about 10 trillion in December (Figure 3). In the first few days of January the banks' position temporarily turned positive in the wake of the operations the Bank of Italy carried out with a view to absorbing the liquidity created by Treasury disbursements.

Figure 3

Central bank financing
(stocks, in billions of lire)



In November the Treasury payments fund was credited with receipts of 1.6 trillion lire from the privatization of SEAT and 19.9 trillion from that of Telecom; a further 2.5 trillion from the privatization of Telecom was received in January. The Treasury used the sinking fund in order to buy back government securities (6.8 trillion in November and 2.8 trillion in December), redeem maturing Treasury bonds (15 trillion in December) and pay for the purchase of STET shares (7.6 trillion between December and January).

year the seasonally adjusted growth came to a halt in conjunction with a pronounced lessening of uncertainty about the prospects for long-term interest rates.

Total financial assets increased at a slightly faster rate than in 1996, rising by 5.5 per cent compared with 5.1 per cent, as a net result of a modest slowdown in the growth of domestic assets and a pronounced expansion of 33.8 per cent in the foreign component. There was a sharp contraction of 7.4 per cent in liquid assets, chiefly on account of a reduction in holdings of medium and long-term bank CDs; the counterpart to this was a marked shift towards managed savings (holdings of investment fund units increased by 143.3 trillion lire) and medium and long-term assets, especially bank bonds.

Credit to the non-state sector increased by 5.2 per cent during the year (compared with 2.8 per cent in 1996), mainly reflecting an increase in finance from abroad in the form of bank loans and purchases of bonds and, especially in the final quarter, a marked acceleration in domestic bank loans. Total credit grew more slowly than in 1996, however, owing to the considerable reduction in the state sector borrowing requirement.

Table 18

Monetary base (1)

(changes in billions of lire)

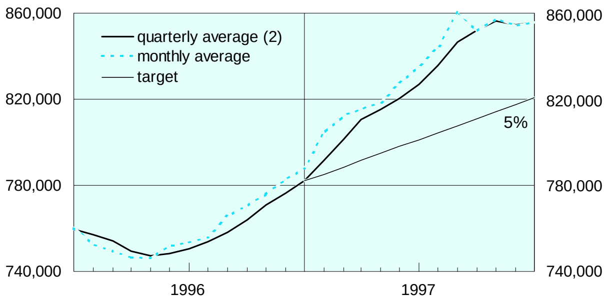
	1996		1997 (2)	
	Oct.-Dec.	Year	Oct.-Dec.	Year
		Sources		
Foreign sector	**–1,502**	**20,449**	**3,566**	**22,841**
foreign currency swaps	*–15,065*	*–24,227=*	*. .=*	*–2,921*
Treasury	**2,744**	**–6,464**	**–12,217**	**–49,522**
Treasury payments account . . . . =	4,149	8,371	7,634	1,204
Sinking fund for redemption of government securities	14,095	8,999	–3,407	–4,224
Other BI-UIC operations with the Treasury (3)	–15,500	–23,834	–16,444	–46,502
Open market	**19,502**	**6,291**	**13,444**	**32,024**
Repos (4)	32,794	12,389	462	–19,270
Outright Treasury bill operations	–2,250	9,140	9,750	42,630
Other outright transactions	–11,042	–15,238	3,232	8,664
Refinancing	**–30**	**–5,647**	**1,233**	**862**
Other sectors	**–4,195**	**–10,477**	**3,220**	**7,220**
Total	**16,518**	**4,152**	**9,245**	**13,425**
		Uses		
Currency in circulation	**6,657**	**1,826**	**7,416**	**7,246**
Bank reserves	**9,861**	**2,326**	**1,829**	**6,179**
compulsory reserves (5)	*5,244=*	*–1,779=*	*2,898=*	*10,669*

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Net redemptions of government securities in the BI-UIC portfolio and other items (see Notes to Statistical Table a25). – (4) At book value. – (5) Average reserve requirement during the mid-month to mid-month reserve maintenance period.

Figure 45

M2 money supply (1)

(target 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 lending rose by 5.4 per cent in 1997, compared with 2.4 per cent in 1996 (Table 19), and grew in real terms for the first time since 1992. The banks accommodated the revival in credit demand that accompanied the pick-up in productive activity and investment by further reducing their lending rates in both real and nominal terms and substantially increasing the volume of credit granted, which expanded more than that actually drawn. Lending to industrial firms (Table 20), mortgage loans to consumer households and credit granted to consumer finance companies and leasing companies, the latter fueled by higher spending on durable consumer goods and investment, rose more rapidly than the loan portfolio as a whole.

Medium and long-term lira lending grew by 7.2 per cent, expanding steadily in the course of the year. Short-term lira lending increased by 5.7 per cent, with a significant acceleration in the fourth quarter, when the aggregate grew at an annualized seasonally adjusted rate of 13.7 per cent. The acceleration, which mainly involved loans other than current account overdrafts, was partly attributable to demand for credit to finance purchases of financial assets.

Table 19

Main items in the banks' balance sheets (1)

(percentage changes on corresponding period of previous year; billions of lire)

	1995	1996	1997				Stocks December 1997
			March	June	September	December	
Assets							
Securities (2)	–8.7	8.9	6.0	0.1	–4.9	–10.2	344,300
government securities (2)	*–7.8*	*10.8*	*8.2*	*0.9*	*–4.6*	*–11.2*	*296,772*
Loans (3) (4) (5)	2.7	2.4	2.3	3.5	3.7	5.4	1,160,948
short-term (4)	*3.2*	*0.9*	*2.0*	*2.4*	*2.7*	*5.5*	*590,665*
medium and long-term (5)	*2.1*	*4.0*	*2.6*	*4.7*	*4.8*	*5.3*	*570,283*
Bad debts	21.0	11.7	4.9	1.5	–1.5	–2.9	119,504
External assets in lire (6)	50.8	53.0	44.5	49.6	41.9	2.4	189,869
External assets in foreign currency (3) (6)	–4.5	11.5	5.6	7.1	2.9	0.3	157,251
Liabilities							
Domestic deposits and bonds (averages) (7)	1.4	8.3	8.3	6.5	5.6	2.4	1,212,071
deposits	*1.7*	*2.9*	*0.7*	*–3.5*	*–5.1*	*–7.6*	*834,171*
current accounts	*0.6*	*6.0*	*10.9*	*10.8*	*11.4*	*9.4*	*495,961*
short-term CDs	*–14.1*	*12.3*	*27.4*	*42.0*	*30.2*	*27.5*	*86,468*
medium and long-term CDs	*16.2*	*–1.5*	*–18.9*	*–32.8*	*–40.2*	*–48.6*	*139,701*
bonds	*–0.2*	*30.2*	*38.4*	*46.4*	*44.5*	*34.9*	*377,901*
External liabilities in lire (6)	27.6	34.2	23.9	17.3	26.3	18.1	157,377
External liabilities in foreign currency (3) (6)	–15.1	–0,6	–2.3	–5.1	–4.5	–3.1	263,993
Repos with resident non-banks	44.5	–5.6	–2.9	7.9	7.3	11.1	132,906

(1) The figures for December 1997 are provisional. The adjustments described in notes 2-5 relate only to the percentage changes. – (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) Source, UIC. – (7) 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.

Net of exchange rate adjustments, total foreign currency lending diminished. However, the short-term component increased in view of the substantial stability of the lira and, especially in the first half of the year, the existence of a wide differential between short-term rates in lire and in the main foreign currencies.

The banks' bad debts, which had grown by 11.7 per cent in 1996, contracted by 2.9 per cent. The aggregate increased by 6.7 per cent if the bad debts transferred by Banco di Napoli to the non-bank company SGA and those retained on the books of Sicilcassa in liquidation are included. The decline in bad debts from 10.1 to 9.3 per cent of total loans was entirely due to these two operations.

The volume of loans newly marked down as bad debts was about 20 per cent smaller than in 1996. There was an improvement in loan quality with regard to financial companies and industry excluding construction; credit risk remains high on loans to the construction sector, consumer households and sole traders. The banks' exposure to the Asian countries involved in the financial crisis is limited.

The exposure of Italian banks towards countries in South-East Asia

The total loans and lending commitments of Italian banks towards Asian countries affected by the financial crisis (South Korea, the Philippines, Indonesia, Malaysia and Thailand) amounted to about 3.55 trillion lire in December 1997, of which 160 billion was guaranteed by residents of OECD countries, for the most part banks (Table 1). Three-quarters of the positions were at short term; the counterparties to 60 per cent of the total were banks, while private sector companies accounted for 30 per cent and public debtors for an extremely limited proportion. The loans were concentrated in the portfolios of the very small number of Italian institutions with international operations; five banks accounted for almost 70 per cent of the total. The overall exposure towards the countries in question was equal to 0.3 per cent of the total lending of Italian banks and 0.9 per cent of that of the five largest Italian creditors. The exposure decreased in the second half of the year, after having reached a peak in June 1997.

In that month the Italian banks' share of total foreign lending to the five countries amounted to 0.9 per cent, substantially less than their share of claims on LDCs as a whole, which was itself low (Table 2). At the same date German, French and British banks accounted for respectively 11.5, 8.9 and 5.9 per cent of foreign lending to the five countries. Japanese banks had the largest exposure, with a share of 35.4 per cent.

Lending by BIS reporting banks to Asian developing countries increased at an annual rate of 23 per cent from 1993 to June 1997, compared with a rise of 13 per cent a year in lending to LDCs as a whole; over the same period the market share of European banks rose from 36 to 44 per cent (and from 48 to 52 per cent in the case of lending to all LDCs), while that of Italian banks remained more or less unchanged. The exposure of US banks decreased from 9 to 8 per cent of the total and the share held by Japanese banks fell from 38 to 32 per cent.

Table 1

Exposure of the Italian banking system towards Asian countries in financial difficulty
(loans and lending commitments; billions of lire, at end-December 1997)

	Total	Secured (1)	Unsecured		
				short-term	medium and long-term
South Korea . . .	1,610	75	1,535	1,186	349
Philippines	215	4	211	93	118
Indonesia	537	37	500	397	103
Malaysia	480	22	458	365	93
Thailand	708	23	685	479	206
Total	**3,550**	**161**	**3,389**	**2,520**	**869**

Source: Banking supervision returns on country risk exposure.
(1) Amount of exposure guaranteed by residents of OECD countries and international organizations.

cont.

Bank interest rates fell along with money market rates throughout the year; the decline in bank rates accelerated moderately following the reductions in official rates (Figure 46). The average rate on short-term lira loans came down by 1.8 percentage points to 9 per cent in 1997; deflated with the quarterly changes in producer prices, the average lending rate fell by nearly 4 percentage points. The average deposit rate declined by 1.6 points to 4.2 per cent; that on current accounts ended the year at 3.4 per cent. The yield on bank bonds fell by 1.4 points to 5.4 per cent.

Banks' deposits and borrowed funds expanded by 2.4 per cent, compared with 8.3 per cent in 1996. The slowdown was accompanied by pronounced changes in the composition of liabilities by maturity and type of instrument. Short-term deposits rose by 10 per cent thanks to the rapid growth in short-term CDs (27.5 per cent) and current accounts (9.4 per

The reduction in the role of US banks by comparison with their European counterparts can be attributed to their more cautious lending policies, induced partly by past debt crises in Latin America, and to the structural decline in the banks' position among US financial institutions. The decrease in Japan's relative exposure was due partly to the difficulties being experienced by the domestic banking system.

Table 2

Distribution of international bank lending to Asian countries in financial difficulty according to the nationality of the reporting bank (1)
(millions of dollars and percentage shares, at end-June 1997)

	South Korea	Philip-pines	Indonesia	Malaysia	Thailand	Total		Memorandum item: Asian LDCs		Memorandum item: Total LDCs	
							Share		Share		Share
Italy	1,369	97	187	314	431	2,398	*0.9*	4,994	*1.3*	22,092	*3.0*
Japan	23,732	2,109	23,153	10,489	37,749	97,232	*35.4*	123,827	*31.8*	144,714	*19.4*
United States	9,964	2,816	4,591	2,400	4,008	23,779	*8.7*	32,291	*8.3*	103,510	*13.9*
Germany	10,794	1,991	5,610	5,716	7,557	31,668	*11.5*	47,181	*12.1*	99,575	*13.4*
France	10,070	1,678	4,787	2,934	5,089	24,558	*8.9*	40,386	*10.4*	77,315	*10.4*
United Kingdom	6,064	1,076	4,332	2,011	2,818	16,301	*5.9*	29,685	*7.6*	56,509	*7.6*
Netherlands	1,736	1,018	2,823	1,059	1,634	8,270	*3.0*	12,792	*3.3*	31,702	*4.3*
Spain	546	178	225	7	134	1,090	*0.4*	2,462	*0.6*	29,565	*4.0*
Other (2)	39,157	3,152	13,018	3,890	9,962	69,179	*25,2*	95,823	*24.6*	179,570	*24.1*
Total (2)	**103,432**	**14,115**	**58,726**	**28,820**	**69,382**	**274,475**	***100.0***	**389,441**	***100.0***	**744,552**	***100.0***

Source: BIS, *The maturity, sectoral and nationality distribution of international bank lending.*

(1) The BIS reporting banks are those in the Group of Ten countries plus Austria, Denmark, Finland, Ireland, Luxembourg, Norway and Spain and their foreign affiliates. – (2) Loans by banks resident in reporting countries but with their head office outside the reporting area.

cent), whereas medium and long-term borrowed funds contracted by 6.2 per cent owing to the fall in CDs for terms of 18 months or more, which was only partly offset by net issues of bonds.

The banks' net foreign liabilities increased by 11.6 trillion lire net of exchange rate variations; there was a large rise of 24.2 trillion in interbank deposits in lire, to which the banks had recourse in order to compensate for the slowdown in fund-raising in the domestic market. Italian banks financed a much smaller portion than in the past of non-residents' massive net purchases of lira-denominated government securities, which totaled 100.1 trillion lire; repos with foreign investors amounted to 9.5 trillion lire, compared with 30 trillion in 1996. As a whole, the banks' lira-denominated foreign assets grew by 4.4 trillion.

The banks' aggregate securities portfolio contracted by 39.3 trillion lire in 1997. Treasury bills accounted for more than half of the decline. Large purchases of Treasury bonds in the first quarter, when prices dipped temporarily, gave way in the following months to net disposals of more than 26.8 trillion; the overall balance was negative by 13.1 trillion.

Table 20

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

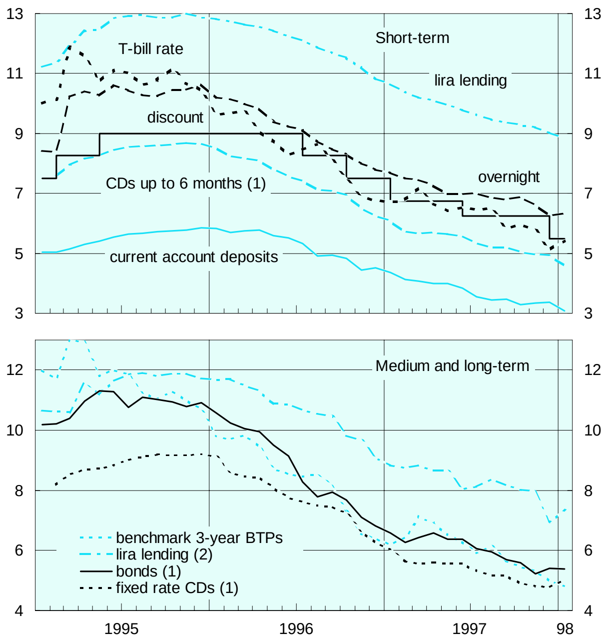
(percentages)

	General govern-ment (2)	Finance and insurance (3)		Non-financial enterprises				Households		*Memo-randum item:*	Total (3) (6)
			Holding companies		Industry excl. construc-tion	Construc-tion	Services	Consumer (4)	Sole traders	State-controlled enterpri-ses (5)	
					12-month percentage changes in lending						
1996 – June	–1.3	0.5	–10.5	2.8	5.3	–3.5	2.5	3.5	7.1	–8.0	2.7
1996 – September . .	–2.0	4.0	–6.5	2.6	5.5	–5.4	2.5	3.8	6.0	–7.8	2.9
1996 – December . . .	–2.2	5.3	–5.7	1.3	3.5	–5.0	1.1	3.2	4.6	–18.2	2.2
1997 – June	0.4	12.4	–3.9	1.8	2.6	–8.5	4.9	5.4	1.4	–32.1	3.4
1997 – September . .	–0.2	10.4	–3.8	2.5	4.0	–7.2	4.5	6.3	2.1	–35.6	3.7
1997 – December . . .	1.9	14.1	2.8	4.0	6.8	–5.3	4.1	7.7	2.4	–33.9	5.4
					12-month percentage changes in bad debts						
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 – September . .	23.3	21.0	19.7	14.1	1.5	43.6	10.0	13.1	14.3	–15.8	14.4
1996 – December . . .	–31.3	18.3	19.6	10.7	1.1	26.9	8.6	15.7	12.8	–19.2	11.9
1997 – June (7)	–35.8	–7.9	–0.7	–0.3	–6.6	9.2	–0.5	17.7	–1.8	–20.0	1.6
	(–31.4)	*(2.4)*	*(2.5)*	*(9.0)*	*(0.9)*	*(21.0)*	*(6.3)*	*(21.8)*	*(5.1)*	*(–20.0)*	*(9.5)*
1997 – September (7)	–46.2	–16.7	–16.6	–4.4	–8.4	–2.1	–1.7	15.7	–2.4	–16.0	–1.6
	(–33.0)	*(–4.6)*	*(–10.3)*	*(8.3)*	*(–0.2)*	*(19.1)*	*(6.3)*	*(19.7)*	*(4.9)*	*(–16.0)*	*(8.4)*
1997 – December (7)	–22.9	–16.7	–16.0	–5.5	–8.1	–2.7	–3.3	12.1	–5.3	–24.5	–3.1
	(–4.3)	*(–4.2)*	*(–9.5)*	*(6.8)*	*(0.0)*	*(17.3)*	*(4.5)*	*(15.9)*	*(1.7)*	*(–24.5)*	*(6.6)*
					Ratio of bad debts to total lending (8)						
1996 – June	1.0	4.1	5.4	10.7	7.5	18.0	10.3	10.3	16.3	1.2	9.8
1996 – September . .	1.0	4.3	6.1	11.0	7.7	18.9	10.5	10.6	16.6	1.2	10.1
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 – June (7)	0.7	3.2	5.6	10.5	6.9	20.8	9.8	11.3	15.8	1.4	9.6
	(0.7)	*(3.6)*	*(5.7)*	*(11.4)*	*(7.4)*	*(22.5)*	*(10.4)*	*(11.7)*	*(16.7)*	*(1.4)*	*(10.3)*
1997 – September (7)	0.6	3.2	5.3	10.3	6.8	19.7	9.9	11.4	16.0	1.5	9.5
	(0.7)	*(3.6)*	*(5.7)*	*(11.5)*	*(7.4)*	*(23.0)*	*(10.6)*	*(11.7)*	*(17.0)*	*(1.5)*	*(10.4)*
1997 – December (7)	0.6	2.8	4.6	10.1	6.5	20.6	9.7	11.4	15.8	1.4	9.3
	(0.7)	*(3.2)*	*(5.0)*	*(11.3)*	*(7.0)*	*(23.8)*	*(10.4)*	*(11.7)*	*(16.8)*	*(1.4)*	*(10.2)*
					Percentage composition of lending						
1996 – December . . .	9.9	12.5	4.2	48.7	22.7	6.7	18.4	15.7	13.2	4.9	100
1997 – December . . .	9.5	14.0	4.1	47.9	22.9	6.0	18.0	15.9	12.7	3.1	100

(1) Lending to resident non-banks. Changes in the foreign currency component are net of exchange rate adjustments. The figures for December 1997 are provisional. – (2) Includes loans raised by the State Railways with the costs borne by the government, as agreed with Eurostat. – (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 19 are due to discrepancies between the “*Dati settorizzati*” and the “*Dati patrimoniali*” in banks’ automated prudential returns. – (7) The figures in parentheses give the indicators obtained after reattributing the bad debts transferred from Banco di Napoli to SGA and those retained on the books of Sicilcassa in liquidation. – (8) The denominator includes bad debts.

Figure 46

Bank interest rates



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

Daily turnover on the screen-based interbank deposit market averaged 31.1 trillion lire, 3.6 trillion more than in 1996. The gross settlement system for interbank payments became fully operative on 26 January of this year.

According to preliminary data on the banks' profit and loss accounts for 1997, net interest income appears to have fallen by around 4 per cent, despite the pick-up in lira lending, owing to the decline in the spread between the average return on assets and the average cost of funds. Other income rose, especially that from managed savings services, offsetting the decrease in net interest income. Operating costs appear to have increased slightly. Staff costs, including the extraordinary charges arising from early severance incentives, are estimated to have remained basically unchanged, despite the number of staff declining by 2.3 per cent.

The bond and Eurolira market

Net issues of government securities fell sharply to 27.2 trillion lire in 1997; taking account of early redemptions by the Treasury using privatization receipts, the net increase in the amount outstanding came to 17.8 trillion lire, compared with 112.1 trillion in 1996 (Table 21).

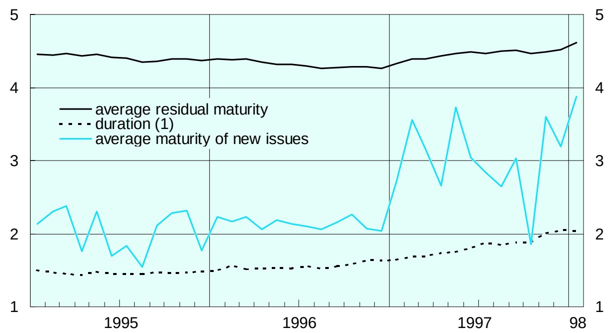
The contraction mainly involved Treasury bills, with net redemptions totaling 82.3 trillion lire, whereas Treasury bonds and zero-coupon Treasury certificates recorded net issues of respectively 68.6 and 41.5 trillion. During the year the average residual maturity of the public debt lengthened from 52 to 56 months (Figure 47); in 1993 it had been equal to 33 months. The duration of listed issues increased from 20 to 24 months. The Treasury also significantly reduced its fund-raising in the international markets, concentrating its net issues of 6.3 trillion in the early part of the year.

The Eurolira bond market was extremely active in 1997: gross issues rose by 45 per cent to 54.3 trillion lire. Activity was fostered by the stability of the lira and the substantial decrease in net issues of government securities. In particular, there was an increase in placements by public and private sector issuers from the emerging-market countries and further diversification of the characteristics of the securities offered.

Figure 47

Average maturity of outstanding government securities and of new issues

(years)



(1) Calculated from securities listed on MTS.

The improvement in the prospects of monetary stability fueled non-residents' demand for Italian government securities, most notably for medium and long-term fixed rate paper (Table 22); a contributory factor was the abolition of withholding tax for foreign investors. The share of government securities held by non-residents rose from 20 per cent at the end of 1996 to around 25 per cent. Among Italian investors, the decline of 102.5 trillion lire in the government securities held by firms, insurance companies and households was accompanied by net purchases by investment funds amounting to 68 trillion and consisting mostly of Treasury bonds and zero-coupon certificates. The banks, which had made net purchases in 1996, reduced their holdings by 38.4 trillion.

Table 21

Issues of government securities and composition of stocks (1)

	1994	1995	1996	1997
		Gross issues (2) *(billions of lire)*		
BOTs	679,500	714,250	665,023	506,000
CTZs	0	47,217	59,924	105,905
CCTs	60,767	121,899	105,945	64,404
BTPs	167,574	118,484	148,917	190,596
CTOs and other lira securities	5,594	3,165	10,395	71
CTEs and BTEs	17,665	6,769	3,913	0
Republic of Italy issues	18,115	18,769	17,870	12,481
Total	**949,215**	**1,030,553**	**1,011,987**	**879,457**
		Net issues (2) (3) *(billions of lire)*		
BOTs	19,155	–1,500	–27,453	–82,310
CTZs	0	38,299	51,515	41,484
CCTs	37,629	–29,781	30,460	7,982
BTPs	104,458	95,925	57,652	68,590
CTOs and other lira securities	–6,378	–7,581	–9,786	–19,854
CTEs and BTEs	–4,708	–8,163	–4,734	–4,354
Republic of Italy issues	16,059	16,927	14,480	6,291
Total	**166,216**	**104,125**	**112,135**	**17,828**
		Stocks (2) (4) *(percentage composition; end-of-period data)*		
BOTs	*24.7*	*23.0*	*20.2*	*15.6*
CTZs	*0.0*	*2.6*	*5.6*	*8.2*
CCTs	*32.7*	*28.9*	*28.8*	*28.7*
BTPs	*30.9*	*34.6*	*35.6*	*38.5*
CTOs and other lira securities	*4.5*	*3.8*	*3.1*	*2.0*
CTEs and BTEs	*3.3*	*2.7*	*2.2*	*1.9*
Republic of Italy issues	*3.8*	*4.4*	*4.5*	*5.1*
Total	**100.0**	**100.0**	**100.0**	**100.0**
Memorandum item:				
Total in billions of lire	**1,671,699**	**1,793,177**	**1,902,303**	**1,939,269**

(1) Gross issues and stocks at face value; net issues at issue price. For CCTs, floating rate issues only. Total includes Republic of Italy issues. Rounding may cause discrepancies in totals. – (2) Excludes 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). – (3) Difference between gross issues and redemptions, which include buy-back operations by the Treasury. – (4) Excludes the securities issued in December 1993 to finance the Treasury payments account (31,000 billion lire).

The implied volatility of Treasury bonds nearly touched 10 per cent at the beginning of the year but diminished steadily thereafter and fell below that of Bunds in December (Figure 48). The sharp increase in the implied volatility of German yields recorded in October in connection with the raising of short-term rates by the Bundesbank did not spread to Italian yields.

Turnover on the screen-based market in government securities (MTS) grew by 16.3 per cent in 1997 (Figure 49). There was a further reduction in the concentration of trading by type of security. Turnover was up most sharply for Treasury bills and zero-coupon Treasury certificates (by 35 and 19 per cent respectively), and more modestly for Treasury credit certificates (by 5.5 per cent). On 12 December trading in repos on government securities began on MTS: these transactions involve contracts with a maturity ranging from two days to three months and

Table 22

Stocks and net purchases of securities (1)

	Public sector						Corporate bonds	Total government securities and corporate bonds	Listed shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Stocks *(billions of lire)*				
December 1997									
BI-UIC	14,331	219	7,817	52,234	77,642	152,243	510	152,753	6,522
Banks	33,465	20,542	148,011	83,808	11,104	296,930	50,207	347,137	3,450
Investment funds	16,104	68,635	41,607	66,496	1,555	194,397	5,222	199,619	39,409
Non-residents (3)	34,991	10,156	80,491	272,553	121,388	519,579	. .	519,579	87,729
Other (4)	203,359	59,219	289,038	291,897	55,559	899,072	352,824	1,251,896	455,612
Total	**302,250**	**158,771**	**566,964**	**766,988**	**267,248**	**2,062,221**	**408,763**	**2,470,984**	**592,722**
					(percentage shares)				
BI-UIC	4.7	0.1	1.4	6.8	29.0	7.4	0.1	6.2	1.1
Banks	11.1	12.9	26.1	10.9	4.2	14.4	12.3	14.0	0.6
Investment funds	5.3	43.3	7.3	8.7	0.6	9.4	1.3	8.1	6.6
Non-residents (3)	11.6	6.4	14.2	35.5	45.4	25.2	. .	21.0	14.8
Other (4)	67.3	37.3	51.0	38.1	20.8	43.6	86.3	50.7	76.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
					Net purchases *(billions of lire)*				
Jan.-Dec. 1997									
BI-UIC	12,641	−1,581	−10,629	−11,850	−2,146	−13,565	−129	−13,694	2,003
Banks	−22,792	−975	2,952	−13,116	−4,439	−38,370	585	−37,785	884
Investment funds	−10,929	24,071	7,564	29,429	17,909	68,044	1,524	69,568	6,362
Non-residents (3)	10,680	4,543	11,331	73,496	−1,847	104,549	. .	104,549	13,363
Other (4)	−71,910	15,426	−3,236	−9,369	−27,098	−102,533	94,763	−7,770	−14,783
Total	**−82,310**	**41,484**	**7,982**	**68,590**	**−17,622**	**18,125**	**96,743**	**114,868**	**7,829**

(1) Stocks of government securities and corporate bonds are stated at nominal value, while those of shares are stated at market value; net purchases are stated at market value. – (2) Includes Republic of Italy issues, whose attribution is partly estimated. – (3) For CTZs, partly estimated; CCTs include all Treasury credit certificates. – (4) Households, enterprises, the Treasury, social security institutions, the Deposits and Loans Fund, securities investment firms and insurance companies; shares are partly estimated.

The Bank of Italy's real time gross settlement system: launch of the second stage

*The real time gross interbank settlement system instituted by the Bank of Italy, designated BI-REL, reached full operating status on 26 January. BI-REL is the Italian segment of the comparable EU-wide TARGET system. All large-value interbank transactions are now settled directly in real time via the banks' accounts with the Bank of Italy. Low-value and securities transactions continue to be handled by the clearing system (BI-COMP). The full phasing-in of BI-REL was completed with the transfer to it of settlement of liabilities on the screen-based interbank deposit market (MID) and wholesale interbank transactions with non-residents - the procedure for interbank external payments and the lira portion of foreign exchange transactions (GEC) - which together account for 95 per cent of the value of interbank payments (*Economic Bulletin *no. 25, October 1997, insert on "Bank of Italy intervention in the money market"). Since 26 January the average daily value handled by the clearing system has fallen from 281 trillion lire to 49 trillion, 30 per cent of it in connection with securities settlement.*

In its first four weeks of full-scale operation, BI-REL has handled more than 40,000 payments a day, for an average volume of over 250 trillion lire. More than half of these payments involve the larger banks. The GEC procedure accounted for the lion's share of transaction volume, an average of 160 trillion lire a day, followed by MID at 50 trillion, the large-value domestic payment order procedure (BIR) at 11 trillion and the cross-border payment order procedure (BOE) at 1 trillion.

To ensure proper functioning of BI-REL, the Bank of Italy supplies intraday liquidity via mobilization of up to 10 per cent of banks' compulsory reserves, in addition to the 12.5 per cent that they may already mobilize on a daily basis, and via intraday advances on current account consisting in a tacitly renewable credit line that is fully collateralized by elilgible securities and authorized for a maximum of four months. Ordinarily these funds are not rationed.

The system provides for queuing of payments temporarily lacking financial cover. The queued payments are released into the system according to a set of priorities (high, medium, ordinary) depending on their nature. Within each priority class, the criterion is first in, first out.

As of 26 January, of the 785 participants in BI-REL, 140 banks were eligible for intraday advances. If the funds are not repaid at the end of the day, the Bank of Italy charges a penalty rate equal to the top overnight rate on MID for that day plus 10 percentage points.

In the first four weeks, average drawings of intraday liquidity amounted to 5.4 trillion lire a day, or 17.5 per cent of the funds available and just over 2 per cent of the value of all payments made. The larger banks and Italian branches of foreign banks made the greatest recourse to intraday liquidity in relative terms, drawing respectively 19 and 25 per cent of the funds at their disposal.

cont.

delivery of either generic securities (general collateral) or specific securities (special repo).

Despite a slight let-up in the final months of the year, trading in Treasury bond futures on LIFFE increased by 23.1 per cent with respect to 1996, thanks in part to expectations of lower interest rates; trading on MIF grew to a smaller extent (by 7.2 per cent). The share of total transactions effected on the Italian market declined from 18.6 to 16.4 per cent. On both markets the nominal yield on the notional Treasury bond underlying the futures contract was reset at 8 per cent.

Average daily turnover in 3-month Eurolira futures on LIFFE amounted to 48.3 trillion lire, almost double the figure for 1996. In Italy, trading in the new futures contract on the 1-month interbank rate got off to a good start in June; activity began to slacken at the end of October, but the new contract helped to increase the liquidity of the underlying market.

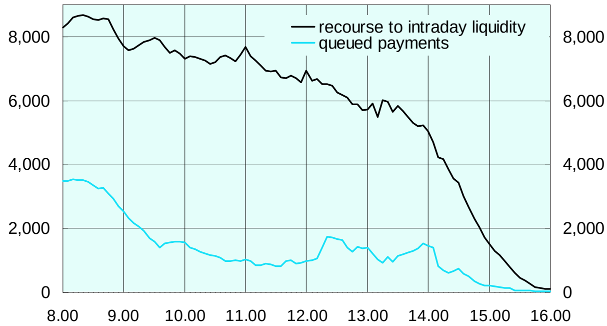
The system's settlement capacity, defined as the ratio between the payments settled and those entered, measured at five-minute intervals throughout the day, has averaged 98 per cent. The value of queued payments has averaged 1.55 trillion lire a day, or less than 1 per cent of total payment volume. Average stay in the queue has been just over 3 minutes.

The peak value of payments in the queue coincides with the start of the business day at 8.00 a.m., when the MID payments falling due are automatically entered. On some days there have also been queuing peaks corresponding to the settlement of clearing balances at 1.00 p.m. (see figure).

Queuing has been concentrated at the larger banks and the Italian branches of foreign banks, which respectively accounted for 19 and 53 per cent of the total queued payment volume. This pattern, together with the small utilization of intraday liquidity by other bank categories, suggests that so far no mechanism of redistribution of disposable intraday reserves among banks has operated. The result was an increase in requests for intraday advances in the first few days of the new system's operation.

In this initial period, the extension of gross settlement to all large-value interbank payments does not appear to have affected very-short-term interbank rates. Only at the launch of the new settlement system was there greater than normal variability of the overnight rate, owing in part to very substantial bank payments falling due. Over the next few days intraday variability gradually subsided, demonstrating the prompt adjustment of banks' treasury departments to the new system and the adequacy of the provisions for queuing and intraday liquidity.

Volume of queued payments and recourse to intraday liquidity by time of day (1)
(billions of lire)



(1) Daily averages, 26 January-20 February 1998.

In the course of the working day, the times of greatest variability in the overnight rate have basically coincided with morning opening and the closure of the gross settlement procedure. During these phases, however, the greater variability is explained by the relatively small volume of funds changing hands.

The share market and professional asset management

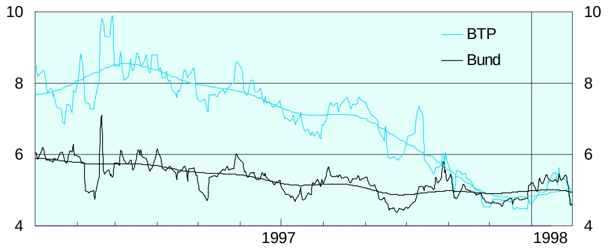
The capitalization of the Italian stock market stood at 593 trillion lire at the end of 1997, equal to 30.4 per cent of GDP, compared with 20.6 per cent in 1996. The increase was due almost entirely to a rise of 58.1 per cent in share prices, the largest since 1986; only a small proportion was attributable to share issues and new listings. In January 1998 share prices surged by a further 12.2 per cent.

The rise in the Italian market was far larger than that in the leading international exchanges (39.1 per cent in Germany, 31 per cent in the United States, 29.4 per cent in France, 19.7 per cent in the United Kingdom and 20.1 per cent in Japan), whereas in the two previous years the Italian market had grown less rapidly. The most significant differences between

Italy and the other countries occurred close to the time of reductions in Italian official interest rates.

Figure 48

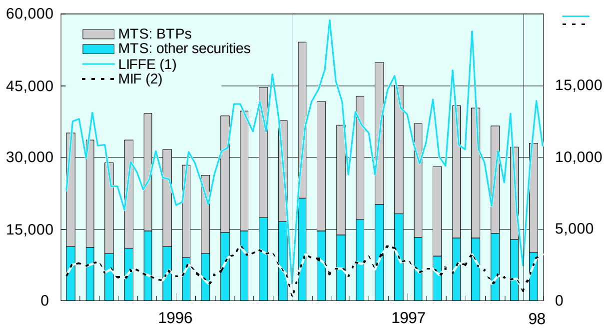
Implied volatility of Treasury bonds and Bunds listed on LIFFE (1)
(percentage points on an annual basis)



(1) Standard deviation of the probability distribution of the percentage changes in the price of 10-year futures, implied by the price of the at-the-money option closest to expiry. The trend lines were generated using the Hodrick and Prescott method.

Figure 49

Turnover in government securities on the spot and futures markets
(average daily turnover in billions of lire)



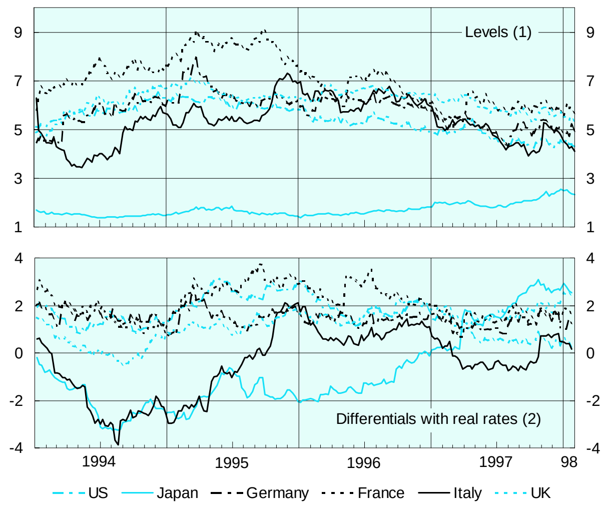
(1) Turnover in futures contracts on 10-year BTPs. Right-hand scale. - (2) Turnover in futures contracts on 5 and 10-year BTPs. Right-hand scale.

In October the crisis in Asia caused share prices in the leading financial markets to weaken and become more volatile. The Italian stock market was less affected; after faltering briefly that month, when the effects of the worsening of the Asian crisis were compounded by increased uncertainty on the domestic political scene, share prices rose more rapidly in Italy than in all the other major markets.

Despite heightened expectations regarding the profits of quoted Italian companies, the stock market's earnings/price ratio decreased almost continuously throughout the year, falling from 6 to 4.6 per cent, and decreased further to 4.1 per cent in January. At its current level, the ratio is comparable to that in the United States and lower than in the other major countries except Japan (Figure 50). At the end of January 1998 the differential between the earnings/price ratio and real long-term interest rates in Italy was only marginally positive and less than the figure in the other major countries.

Figure 50

Expected earnings/price ratios and differentials with real interest rates on the main international stock exchanges
(percentages and percentage points)



Source: Datastream.

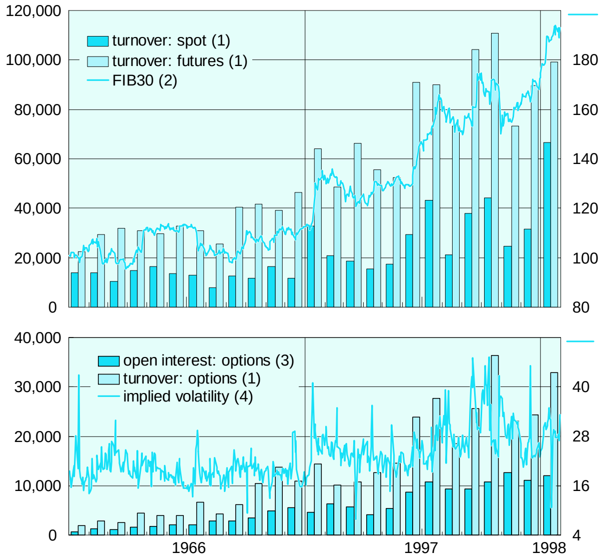
(1) In France, Germany and Italy, earnings are estimates of expected earnings for the current year; in Japan, the United Kingdom and the United States, they are drawn from the most recent published financial statements. - (2) The real interest rate is equal to the difference between the yield on long-term bonds and actual inflation over the previous 12 months.

In Italy the gain in share prices was most pronounced in the services and banking sectors, where the indices rose by 135 and 101 per cent respectively. The largest increases were in the shares of banks that have either embarked upon or announced mergers or restructuring.

Share trading increased substantially in 1997 (Figure 51). Average monthly turnover was more than twice as high as in 1996; it rose from 13 to 28 trillion lire in the spot market and from 33 to 77 trillion in the futures market. Trading in options on the stock exchange index more than trebled, rising from 46 to 72 per cent of the volume of spot trades.

Figure 51

Italian stock exchange: spot and futures markets



(1) Monthly turnover in billions of lire. Left-hand scale. - (2) Index, 29 December 1995=100. Right-hand scale. - (3) Billions of lire. Left-hand scale. - (4) Standard deviation of the probability distribution of the percentage changes in the FIB30 index, implied by the price of the at-the-money option closest to expiry. Right-hand scale.

Despite the steep rise in share prices, gross share issues were only slightly higher than in 1996, increasing from 5.5 to 7.8 trillion lire. The rise in market capitalization resulting from the listing of 15 new companies amounted to 14.2 trillion, not far different from the 1996 figure. The delisting of 19 companies during the year caused the number of listed shares to fall to 301.

Privatizations, which were carried out mainly by means of public share flotations, generated revenue of almost 37.5 trillion lire for the Treasury; the largest were the Telecom offering (19.9 trillion lire) and the third tranche of ENI shares (12.8 trillion).

On 20 February 1998 the Government gave final approval to the Consolidated Law on Financial Markets. The most important changes include the introduction of rules for a new type of intermediary (the asset management company) and, in the field of company law, provisions to strengthen the protection of minority shareholders, partly by introducing new rules on take-overs and proxy voting.

Investment funds and portfolio management services experienced extremely rapid growth in 1997. Investment funds received net subscriptions of 143.3 trillion lire, compared with 58.2 trillion in 1996; a large proportion went into bond funds. The funds' net assets under management rose to 368.4 trillion lire, an increase of 54 per cent. Apart from government securities, their net purchases consisted of foreign shares and bonds. In 1997 performance differed widely according to type of fund; thanks to the exceptional rise in share prices, equity and mixed funds yielded 30.3 and 24.8 per cent respectively, whereas the bond fund index rose by 6.6 per cent.

The net inflow of resources to portfolio management services was also large: 64.4 billion in the first nine months of the year, compared with 35.2 trillion in the same period of 1996. The average annual performance achieved by the sector is estimated at around 9 per cent.

Short-term economic prospects, prices and monetary policy

International developments

Economic activity in the industrial countries accelerated in 1997. In the area as a whole GDP rose by 2.8 per cent, compared with 2.5 per cent the previous year, although there were differences of performance between countries. Inflation fell from 2.3 per cent in 1996 to 2 per cent, the lowest level since the end of the sixties.

The US economy grew at a particularly rapid rate of 3.8 per cent. In the European Union GDP increased by 2.6 per cent, almost one point more than in 1996. In Japan, by contrast, the rate of growth fell sharply, from 3.6 to 1 per cent. The economies of developing countries continued to grow at an average rate of around 6 per cent. World trade rose by nearly 9 per cent, drawing strength from the expansion in the US market.

In contrast with the situation in the United States and the United Kingdom, labour market conditions in continental Europe remained grave.

Fiscal policies in the EU countries continued to be directed towards consolidating the public finances; budget deficits were reduced on average from 4.2 per cent of GDP to 2.4 per cent by means of adjustment measures that were particularly severe in some countries and aimed partly at ensuring compliance with the criteria for participation in EMU.

Raw materials prices - which remained broadly stable in the early months of the year and declined in the second half, partly as a result of the Asian crisis - and wage restraint in all the major industrial countries made a decisive contribution to the fall in inflation; the firm stance of monetary policy was also a factor.

At the beginning of 1997 fears of an upturn in inflation in the United States led the Federal Reserve to raise the federal funds rate by 0.25 percentage points. In the latter part of the year the absence of price pressures and the Asian crisis diminished the likelihood of an imminent further tightening of monetary conditions.

The decline in yields in international financial markets that began in the middle of 1997 was fostered by the slowdown in inflation and the ample supply of funds; in the last part of the year the Asian crisis also contributed.

The origins of the crisis lie in the impetuous flood of investment, financed in large part with short-term foreign capital and not always based on accurate assessments of risks and returns. The banking systems of the countries involved have a high level of exposure to the troubled sectors and very large borrowings in dollars. At the instigation of the international community, which provided substantial financial support to the countries affected by the crisis, far-reaching reforms have been initiated with the aim of strengthening their financial institutions and markets.

The outlook for the international economy is clouded today by the uncertainty regarding the recovery prospects of the Japanese economy and the course of the crisis in the Asian countries.

The IMF forecasts prepared in December show growth rates for the latter that are still positive, in a context marked by a relatively moderate acceleration of inflation. More recent private forecasts are less optimistic (Table 23).

The factors underlying the growth of these economies in the longer run remain favourable. In order to overcome the crisis rapidly, a vigorously expansionary fiscal policy in Japan will be necessary, as emerged at the recent G-7 summit in London. In the absence of additional stimuli, Japanese domestic demand would contract and economic activity stagnate in 1998.

Table 23

Actual and forecast performance of selected international macroeconomic variables
(percentage changes on previous year)

	1997	1998			
		IMF	Private forecasts		
			(a)	(b)	(c)
GDP (1)					
Industrial countries	2.8	2.4	2.3	2.4	2.4
United States	*3.8*	*2.4*	*2.7*	*2.8*	*2.9*
Japan	*1.0*	*1.1*	*0.1*	*. .*	*0.3*
EU	*2.6*	*2.7*	*2.7*	*3.1*	*2.7*
Germany	*2.2*	*2.6*	*2.7*	*3.1*	*2.5*
Developing countries	5.9	4.9	na	na	3.5
ASEAN-4 (2)	*4.0*	*1.7*	*1.3*	*–0.6*	*–1.6*
South Korea	6.0	2.5	–0.2	–2.0	–2.9
Central and Eastern Europe and former USSR	1.9	3.4	na	na	na
Consumer prices					
Industrial countries	2.0	2.1	1.8	1.6	1.7
United States	*2.3*	*2.6*	*2.1*	*2.1*	*1.9*
Japan	*1.7*	*0.8*	*0.6*	*–0.2*	*0.5*
EU	*1.9*	*2.1*	*2.0*	*na*	*1.8*
Germany	*1.8*	*2.3*	*1.9*	*1.9*	*1.8*
Developing countries	9.0	8.1	na	na	8.9
ASEAN-4 (2)	*6.4*	*na*	*14.7*	*11.2*	*17.9*
South Korea	4.3	na	9.8	12.0	9.5
Central and Eastern Europe and former USSR	29.2	14.6	na	na	na
World trade (3)	8.6	6.2	na	7.0	na
Current account balances (4)					
Industrial countries	17	–46	na	na	na
United States	*–178*	*–230*	*–192*	*–208*	*–215*
Japan	*94*	*99*	*101*	*107*	*133*
EU	*99*	*89*	*na*	*105*	*98*
Germany	*–6*	*–5*	*4*	*6*	*3*
ASEAN-4 (2)	–22	–12	–1	2	na
South Korea	–14	–2	3	17	na
Budget balances (5)					
United States	–0.3	–0.3	. .	0.2	0.8
Japan	–2.9	–2.9	–3.3	–2.5	–3.1
Germany	–2.7	–2.9	–2.7	–2.9	–2.8

Sources: National statistics, IMF, *World Economic Outlook. Interim Assessment.* December 1997. Consensus. *Consensus Forecasts*. February 1998. J.P. Morgan. *World Financial Markets. First Quarter 1998. January* 1998; Goldman Sachs. *The International Economics Analyst*. February 1998.

(a): Consensus; (b): J.P. Morgan; (c): Goldman Sachs.

(1) At constant prices. - (2) Indonesia, Malaysia, the Philippines and Thailand. - (3) Goods and services in volume terms. - (4) Billions of dollars. - (5) As a percentage of GDP.

The effects of the Asian crisis on the other industrial countries, which are less closely linked to the countries in question, appear to be limited. According to the latest forecasts, the outlook remains positive for the United States and Europe, which stand to benefit from the fall in the prices of merchandise imports and the decline in interest rates. The IMF expects the US economy to grow by 2.4 per cent and that of the EU by 2.7 per cent. The imports of the industrial countries should sustain the growth in world trade, which is expected to remain appreciable, albeit less rapid than in 1997.

The contrast between labour market conditions in the Anglo-Saxon countries and continental Europe will remain. In particular, there is as yet no sign of a significant recovery in employment in Germany or the other leading continental countries.

The current account imbalances between the main areas will tend to become more pronounced in 1998, with a consequent expansion in international capital flows. The considerable increase expected in the US deficit will correspond in part to an improvement in the external balances of the Asian countries affected by the crisis. The surpluses of Japan and the EU will remain basically unchanged.

In Europe, against a background of slightly stronger growth, monetary policies will continue to be directed towards consolidating price stability and achieving the objective of introducing the single currency at the beginning of 1999. Markets are expecting the short-term interest rates of the EMU candidate countries to converge towards 4 per cent, a lower level than was foreseen last autumn.

Economic developments and fiscal policy in Italy

As occurred on earlier occasions, Italy entered the present expansionary phase of the cycle later than the other leading European economies. After stagnating in 1996, the Italian economy began to grow again last spring; GDP rose by 1.5 per cent in 1997. Employment remained basically unchanged; it showed signs of increasing in the Centre and North from the summer onwards, while in the South there was a further small decrease. The unemployment rate for the country as a whole rose from 12.1 to 12.3 per cent.

The recovery was sustained by the growth in the consumption of durable goods, especially that of motor vehicles, which was boosted by government incentives. By contrast, the rise in other types of consumption was limited. Disposable income, measured at constant prices and taking account of the erosion of the purchasing power of financial assets by inflation, increased broadly in line with real GDP; the positive effect of the decline in inflation was counterbalanced by the increase in taxation.

Gross fixed investment stagnated: the recovery in spending on machinery, equipment and transport equipment was accompanied by a fall in investment in buildings and construction. There was a substantial increase in stocks, especially of raw materials. Exports grew much less than imports, handicapped by the loss of competitiveness resulting from the appreciation of the lira in 1996.

The contraction in the trade surplus was partly offset by the improvement in invisibles. The current account surplus remained large (3.2 per cent of GDP) and made it possible to complete the elimination of Italy's net external debt.

In 1998 the Italian economy will grow by more than 2 per cent, sustained by the recovery in gross fixed investment and a reduction in the spillover of demand abroad. Spending on machinery, equipment and transport equipment is expected to rise in response to the high levels of capacity utilization and the fall in nominal and real interest rates; investment in buildings and construction will benefit from the tax incentives introduced by the Government for the restructuring of residential property. By contrast, the rise in consumption will ease slightly: faster growth in spending on services and non-durable goods will be coupled with a slowdown in that on durables as the effects of the incentives diminish. The growth in exports should be similar to that recorded in 1997; the slower expansion in foreign demand is likely to be offset by the waning of the adverse effects of the lira's appreciation in 1996, which is also expected to help slow the growth in imports. In relation to GDP, the current account surplus is forecast to remain at much the same level as in 1997.

Employment is not expected to improve significantly overall, despite a small increase in the non-farm private sector.

Last year it proved possible to reconcile the recovery in economic activity with an acceleration in budgetary consolidation. The fiscal adjustment, which amounted to around 3 per cent of GDP and was achieved in part by means of determined action to control budget outlays and drawings on centralized Treasury accounts, increased the general government primary surplus from 4.1 to 6.8 per cent of GDP. This, together with the substantial fall in interest payments produced by the decline in interest rates, brought net borrowing down from 6.7 per cent of GDP in 1996 to 2.7 per cent in 1997, below the threshold of 3 per cent stipulated for participation in EMU.

The reduction in the budget deficit, together with substantial privatization proceeds, accentuated the fall in the ratio of the public debt to GDP, which came down from 124.9 per cent at the end of 1994 to 124 per cent in 1996 and 121.6 per cent at the end of last year.

The large reduction in net borrowing was achieved primarily by increasing taxes and social security contributions in relation to GDP; the ratio rose by nearly two percentage points to match the previous high of around 44 per cent recorded in 1993. Current expenditure excluding interest payments remained almost unchanged in relation to GDP; social security benefits, and especially pensions, rose further in relative terms. Capital expenditure decreased by around half a percentage point of GDP as a consequence of the reduction in investment grants and other items. In order to give additional impetus to the adjustment of the public finances, recourse was made to temporary measures amounting to around 1 per cent of GDP.

The budget for 1998, which follows the lines set out in the Economic and Financial Planning Document for 1998-2000 and the convergence plan drawn up for the EU, is intended to consolidate the improvement in general government net borrowing achieved in 1997. The ratio of taxes and social security contributions to GDP is expected to fall.

Last September the Government tabled budget proposals aimed at increasing the primary surplus on a current programmes basis by around 25 trillion lire in 1998. The adjustment approved by Parliament was of the same overall size and, as indicated in the Forecasting and Planning Report, should result in a primary surplus equal to 5.6 per cent of GDP, about one percentage point less than last year. The contribution from temporary measures will decline to around 0.3 per cent of GDP. The further reduction in interest payments as a result of the gradual narrowing of the gap between the average cost of the debt and the current level of yields at issue should ensure that net borrowing is stabilized. The fall in the ratio of the public debt to GDP is expected to be larger than last year.

The reduction Parliament made in the cuts in social security expenditure compared with the original proposals was offset by an increase in some contribution rates. The resulting increase in revenue was thus 13 trillion lire instead of 11 trillion, and the contraction in expenditure 12 trillion instead of 14 trillion. The revenue measures include: the revision of VAT rates, implemented last October; increases in some contribution rates; the bringing forward of some tax payments; and a number of administrative measures (see the box). The expenditure measures include reductions in transfers to local authorities and public enterprises and in the spending of government departments and staff costs, as well as cuts in the fields of health care and pensions. In order to ensure that expenditure plans are respected, the limits on non-state public bodies' withdrawals from their centralized Treasury accounts have been renewed.

The effects of the pension measures are estimated to amount to 3.2 trillion lire in 1998; compared with the present trend of spending, they should bring annual savings on the order of 0.2 percentage points of GDP over the next ten years. Nonetheless, the official estimates show the cost of pensions rising by half a percentage point of GDP between 1997 and 2010.

With a view to the start of EMU and fulfilment of the commitments arising from the Stability and Growth Pact, the aim of fiscal policy in 1998 is to consolidate the results achiered and in subsequent years to advance towards a balanced budget. Progress in this direction will make it possible to speed up the reduction in the ratio of debt to GDP, an undertaking to which the privatization of public enterprises can make an important contribution.

Future reductions in the budget deficit will have to be achieved by means of structural measures.

Looking ahead, the return to a balanced budget will have to be accompanied by a significant reduction in the size of the budget itself, made all the more necessary by the increasing integration of international markets.

The present level of taxation, which is particularly onerous for taxpayers who meet their obligations in full, is likely to distort economic choices significantly in the long run and hinder efforts to bring the hidden economy into the open. Enlargement of the tax base, first and foremost by reducing evasion, erosion and avoidance, may provide scope for a lowering of tax rates.

Monetary policy and inflation

The progress made in curbing inflation in 1997 permitted a gradual easing of monetary policy, within the framework of a strategy aimed at ensuring price stability.

The annual inflation rate, as measured by the index of consumer prices for worker and employee households, fell by more than two percentage points to 1.7 per cent and was below the objective set by the Government. The convergence criterion established by the Maastricht Treaty was satisfied. Inflation expectations improved continuously during the year.

Producer prices accelerated moderately in the spring of 1997, consumer prices in the summer. The lag with which inflation rose compared with the other leading European countries can be attributed to the later start of the economic recovery in Italy and to the effects of the lira's appreciation in 1996. As regards producer prices, the intentions expressed by enterprises since November point to an easing of the pressure, and initial confirmation of this is to be found in the slowdown in the rise in the index in December.

The implementing provisions of the 1998 budget

The budget for 1998 approved by Parliament is expected to increase the general government primary surplus on a current programmes basis by around 25 trillion lire. The size of the adjustment is unchanged compared with that of the proposals submitted by the Government in September (see the box "The budget for 1998" in Economic Bulletin *no. 25, 1997). According to the officlal estimates, the increase in the primary surplus will reduce interest payments by 1.5 billion lire.*

The composition of the measures was nonetheless modified slightly. The expenditure resulting from the introduction of employment incentives and support for the population of the areas hit by earthquakes in 1997 was offset by additional revenue and an increase in the projected savings arising from measures concerning public employment and health services. The reduction of 5 trillion lire in social expenditure included in the original proposals was translated into measures concerning pensions and health services amounting to nearly 4.6 trillion, of which around 0.9 trillion in the form of increases in social security contributions. Consequently, the additional revenue generated by the budget will be around 13 trillion lire instead of just over 11 trillion and the reduction in expenditure will be around 12 trillion instead of nearly 14 trillion.

The adjustment measures are contained in the Finance Law (Law 450 of 27 December 1997), the accompanying legislation (Law 449 of 27 December 1997) and the law ratifying Decree Law 328 of 29 September 1997 containing tax measures (Law 410 of 29 November 1997).

Law 449 of 27 December 1997 contains provisions which impose restrictions on budget outlays and with-drawals from the system of centralized Treasury accounts similar to those introduced for 1997 in Law 30 of 28 February 1997. In line with the procedure adopted last year, the official estimates of the effects of the budget do not include any reduction in expenditure as a result of these provisions.

Revenue

The budget adjustment measures approved by Parliament are officially estimated to have increased the amount of additional revenue by around 1.9 trillion lire compared with the original proposals. In particular, tax

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

Increase in revenue	**13,000**
Tax revenue	**11,100**
VAT measures	5,850
Withholding tax on incomes of the self-employed	2,000
Measures to combat tax evasion	550
Flat-rate tax on capital gains	150
Vehicle taxes	100
Administrative measures (still to be defined)	2,500
Other	350
Reductions in revenue	–400
Other revenue	**1,900**
Increase in social security contributions	1,800
Charges for use of the seashore and port dues	50
Other	50
Reduction in expenditure	**12,000**
Pensions	3,250
Health care	1,250
Wages and salaries	1,100
Local government	2,500
Transfer payments to public enterprises	2,000
Other	1,900
Total effect of the budget on the primary balance	**25,000**
Consequent decrease in interest payments	**1,500**

(1) Based on official estimates.

cont.

revenue was increased by 0.5 trillion and non-tax revenue by 1.4 trillion.

The receipts from administrative measures, which still have to be specified, were increased by 0.5 trillion.

Other measures still to be specified concerning the retail prices of goods subject to state monopoly are expected to raise another 0.4 trillion.

The increase in tax revenue will be partly offset by the reduction in receipts, estimated at around 0.4 trillion lire, that will occur as the indirect result of the measures adopted to curb expenditure.

In approving Law 449 of 27 December 1997, Parliament introduced reliefs which are officially estimated to have no net effect on receipts.

In particular, provision was made for tax credits to cover part of the cost of repairing or restructuring buildings, including agricultural buildings and public works, in areas where the risk of earthquakes is high. Provision was also made for the transformation of business associations into general partnerships, limited partnerships or limited companies subject to the assignment to members of registered immovable and movable goods that are not used in the business and the payment of a tax in lieu of income tax and the regional tax on productive activities (Irap). The VAT rate on certain horticultural products was reduced from 16 to 10 per cent and extra time given for the payment of VAT by retailers of textiles, clothing and footwear.

Of the 1.4 trillion lire of additional non-tax revenue, 0.45 trillion is to be generated by the further increase in the health care contribution charged on motor third-party liability insurance (the rate was increased from 6.5 to 10.5 per cent rather than 8.5 per cent as originally proposed) and more than 0.9 trillion by the increase in the contribution rate for the pension schemes of artisans and wholesalers and retailers (from 15 to 15.8 per cent) and of those for the schemes of quasi-employee free-lance workers, owner-occupier farmers, sharecroppers and tenant farmers; provision was also made for an increase in the fixed contribution payable by self-employed agricultural workers to the National Industrial Accidents Insurance Institute (INAIL).

Expenditure

Pensions *- The measures regarding pensions included in Law 449 of 27 December 1997 mainly concern: a) the more rapid harmonization of retirement requirements in the public sector with those in the private sector; b) the immediate harmonization of the rules of special pension schemes with those governing the Employee Pension Fund; c) a more rapid raising of the retirement age for some categories compared with the timetable established in the 1995 reform; among others, the measure does not apply to blue-collar workers or to persons who started paying contributions at a young age; d) the postponement of retirement dates for new length-of-service pensions in 1998; and e) the suspension, complete in 1998 and partial in the three following years, of automatic cost-of-living adjustments for pensions exceeding five times the minimum pension.*

The technical report presented by the Government shows that the savings deriving from these measures are expected to increase up to 2007 and then decline rapidly in the following years. Subsequently, for a period of about twenty years, expenditure on pensions is set to increase.

Health care *- It has been made obligatory for the regions to establish objectives for each Local Health Agency to achieve expenditure savings equal to at least 2.25 per cent of the expenditure reported in their statements of account for 1996, revalued by the target rate of inflation for the two years 1997-98.*

Staff costs *- The appropriations for the payment of overtime to central government employees have been reduced by 12.01 per cent, except for some categories such as policemen and firemen.*

As regards consumer prices, the seasonally adjusted and annualized three-month rise in the index for worker and employee households gradually increased from an average of just under 1.5 per cent in the first half of 1997 to 2.8 per cent in February 1998, according to the preliminary results obtained for the sample of large cities.

During the year the task of curbing the present pressures on consumer prices should be made easier by the trend of international prices, a sharp increase in productivity and a slowdown in per capita earnings in the private sector.

Economic policies must be directed towards accelerating the elimination of these pressures.

The prudence with which monetary policy was eased in 1997 has prevented strains in international financial markets and domestic political events from having adverse repercussions on the lira; it fostered a further decline in long-term interest rates, which fell below the convergence threshold in February, and reduced uncertainty regarding their future course; and it contributed to the sharp slowdown in the growth of the monetary aggregates in the last four months of the year after the rapid rise recorded in the first eight months.

A firm monetary policy stance remains a condition for building lasting confidence in the stability of the lira. Annual inflation is still forecast to be close to 2 per cent in 1998.

The monetary policy being pursued is aimed at ensuring that short-term interest rates decrease towards the levels prevailing in economies with a longer tradition of monetary stability, with a view to approaching EMU with the exchange rate at a level consistent with the central parity.

The growth in the monetary and credit aggregates must remain moderate, in line with the target values indicated last autumn. The recent acceleration in bank lending reflects the recovery in production and investment; the Bank of Italy is monitoring developments closely to ensure the expansion in credit remains compatible with the objectives for inflation.

Based on information available at 27 February.

Articles

The recent reform of the tax system

The implementation of the delegated tax powers contained in the provisions accompanying the Finance Law for 1997 changed important aspects of the Italian tax system. The main innovations are: *a)* the introduction of a new regional tax on business activities (Irap); *b)* the simultaneous abolition of a series of taxes and contributions; *c)* the revision of the structure of personal income tax (Irpef); *d)* the reorganization of withholding tax on income from financial assets; and *e)* the introduction of a new system for taxing corporate income, termed Dual Income Tax (DIT).

The purpose of the changes is to rationalize and simplify the tax system, which will bring improvements in efficiency and equity. In particular, they are aimed at increasing the fiscal autonomy of lower levels of government, making taxation more neutral as regards its impact on companies' decisions, giving greater relief to large families and simplifying the formalities to be completed by taxpayers. Although no revenue objectives are mentioned, one requirement of the change is considered to be that Irap should generate the same volume of revenue as the taxes it replaces.

According to government estimates, the elimination of National Health Service contributions, local income tax (Ilor), the tax on companies' net worth, the VAT registration tax, the municipal tax on businesses and the self-employed (Iciap) and certain other municipal taxes is likely to lead to a loss of revenue of about 70.6 trillion lire (Table 1). The expected yield from Irap is estimated at about 52.3 trillion lire. The difference will be offset by the increase in the yield from Irpef and corporate income tax (Irpeg) as a result of the abolition of the various contributions and duties, which were deductible (10.7 trillion in total), and by the adjustments in Irpef tax brackets and credits (around 7.6 trillion).

Table 1

Changes in the composition of revenue as a result of the introduction of Irap

Loss of revenue due to abolition of duties	**70,600**
NHS contributions	41,300
Ilor	19,000
Tax on companies' net worth	7,000
VAT registration tax	800
ICIAP and other municipal taxes	2,500
Increase in revenue from Irpef and Irpeg	**18,300**
Increase in Irpeg revenue due to increase in tax base	5,500
Increase in Irpef revenue due to increase in tax base	5,200
Increase in Irpef revenue due to changes in tax brackets and credits	7,600
Loss of revenue to be offset by Irap	**52,300**

Source: Technical report accompanying Legislative Decree 446/1997.

The remainder of this article analyzes the economic effects of the changes.

The introduction of Irap

The introduction of Irap implements the main recommendations made in 1996 by the "Gallo" Commission set up at the Finance Ministry to draft proposals on “fiscal federalism”. The Commission, recommended an increase in the proportion of local authority revenue from local government taxes accompanied by a reduction in that of revenue-sharing with central government and proposed the introduction of a new regional tax of sufficient size to meet the regions’ financial needs. The expected revenue from the new tax is equal to about 40 per cent of the regions’ current expenditure. The regions will also receive the revenue from the Irpef surtax, which also came into effect this year.

The increase in the regions’ tax-levying powers will be gradual. Once the system is fully operational, the regions will be able to increase the standard rate of Irap set by central government by up to 1 percentage point and to apply different rates for different categories of taxpayer and branches of activity. They will also play an active part in tax assessment and collection. During the transitional phase, however, central government will have sole responsibility for setting tax rates, assessing tax liabilities and collecting revenue. Initially, the uses to which revenue can be put will be largely fixed: 90 per cent will be earmarked to finance the National Health Service, which accounts for the bulk of regional expenditure.

In designing Irap, account was taken of a number of more general reform proposals that had emerged during the debate on taxation policy, thus steering the changes taking place in the tax system towards *a)* simplification, *b)* broadening of the tax base, *c)* greater tax neutrality as regards companies’ decisions on sources of finance and on the mix of production factors, and *d)* a reduction in the tax component of labour costs, at the same time transferring the financing of part of social security expenditure from contributions to general taxation.

Irap is a tax on business activities; liability arises solely from the performance of a productive activity, without affecting the taxation of the personal income of the person performing it. The tax base is determined from the value of net output (value added), net of depreciation; in the case of productive activities with establishments in more than one region, the regional division of value added is based on the payroll. The tax is proportional and the standard rate has been set at 4.25 per cent.[1]

As mentioned above, Irap is being introduced at the same time as a number of taxes on individual factors of production are being abolished. The changeover to a single tax simplifies the formalities to be performed by taxpayers. By levying the tax on a very broad tax base instead of the narrow bases of the previous duties it is possible to charge a relatively low rate, thus reducing the benefit of tax evasion.

The broadening of the tax base goes some way towards reducing interference from the tax system in corporate decisions. Under the previous system, one type of distortion affected the choice of the optimum mix of production factors. The old duties altered relative factor costs because they had a different impact on the cost of each factor. In particular, Ilor and the tax on companies’ net worth influenced the cost of capital, whereas health contributions impinged on labour costs. The new tax, by contrast, has a uniform effect on the cost of both. Another type of distortion relates to companies’ financial decisions: both Ilor and Irpeg contributed to tax discrimination between the sources of corporate finance, because they were levied on all income from equity capital, whereas interest on debt was excluded. Irap subjects both income from capital and interest on debt to taxation.

The overall tax burden arising from the previous taxes depended on the technical characteristics of the activity being performed, as reflected in the structure of the firm’s profit and loss account, and on the chosen method of financing. Irap, by contrast, gives rise to a tax liability irrespective of the combination of production factors used and the structure of liabilities.

The redistribution of the tax burden as a result of the changeover to the new system will bring relative advantages for firms which *a)* are highly capitalized (in view of the relative weight of the tax on net worth in the old system), *b)* have relatively low interest expenses (since interest payments are not deductible for the purposes of Irap, whereas under the previous system they could be set against income for the purposes of Ilor), *c)* have high overall profits in relation to value added (again on account of the high incidence of Ilor under the old system) and *d)* did not enjoy relief from health contributions and therefore suffered higher tax on labour costs.

The impact of the redistribution of the tax burden has been phased in gradually only where there is a substantial increase in liability; this has been done by applying a “safeguard clause” during the first three years after the introduction of the tax.

For self-employed persons, the redistribution of the tax burden associated with the introduction of Irap is reflected in the distribution of net income: for them, the levy on business activity is linked with personal taxation. In order to minimize such redistribution effects, the introduction of the new tax has been accompanied by changes in Irpef (see the section *The reform of personal income tax*).

Irap has been shaped in such a way that it can be used as an instrument of economic policy. Expenditure on apprentices and 70 per cent of expenditure on staff hired on work training contracts is deductible from taxable income, while remaining staff expenses are fully taxable. Moreover, in order to maintain the effects of certain contribution reliefs and exemptions from Ilor that applied in depressed areas, there is provision for certain regional and sectoral concessions and a special incentive for new business activities.

The impact of the introduction of Irap on labour costs

The abolition of health contributions reduces employers’ social security costs. The reduction is offset, however, by the part of the new tax on value added that relates to incomes from employment. According to an estimate from the Ministry of Finance, the reduction in labour costs for the economy as a whole should amount to about 1 percentage point once the system is fully operational. However, there are considerable differences in the size and sign of the offsetting amounts for different types of taxpayer, reflecting differences in the actual incidence of health contributions under the previous system.

Before the introduction of Irap, unit labour costs comprised the following elements:

$$[1]\ \textit{Labour costs} = W\,[1 + os + cs(1-\alpha)]$$

where W stands for gross earnings and os social security charges excluding health contributions (pension contributions and allocations to severance pay funds). The term $cs(1\text{-}\alpha)$ represents employers’ actual health contributions; cs is the standard rate of health contributions, α the reduction in the standard rate due either to tax relief[2] or to the level of earnings, given the regressive structure of the tax. After the introduction of Irap, the cost becomes:

$$[2]\ \textit{Labour costs} = W\,(1 + os)\,(1 + \tau_r)$$

where τ_r represents the rate of Irap. The difference in costs due to the switch to the new system is therefore:

$$[3]\ \Delta\ \textit{Labour costs} = W\,[\tau_r(1 + os) - cs(1-\alpha)]$$

The standard rate - which changes from cs, equal to 11.46 per cent,[3] to τ_r, equal to 4.25 per cent - reflects only part of the change in labour costs. Formula [3] shows that the change in labour costs is also a positive function of α and os; under the new arrangements, the latter is taken into account when calculating the tax base.

The percentage change in labour costs is not uniform across all sectors of the economy (Table 2).[4] It is larger in those that enjoyed little or no relief from health contributions, such as small building and distribution firms. The reduction is smaller in the case of sectors in which such relief was large, such as manufacturing.[2] For manufacturing firms in the South, which benefited from higher relief than those in the North, the effective rate of Irap is reduced for the first two years. Application of the standard rate to these firms as well would have brought forward to 1998 the increase in labour costs that they would suffer in any case from 2000 onwards owing to the reduction in contribution relief, as already agreed at the Community level. This would have increased labour costs by 0.9 per cent. Finally, the contribution that the level of earnings makes to the change in labour costs is evident from analysis of the banking sector, which enjoyed no contribution relief whatsoever. For non-managerial employees with average gross earnings of 70 million lire a year, the new system guarantees a reduction in unit costs, even at the higher rate applied for the first year. The sign of the change is inverted, albeit only in the first year, in the case of employees in managerial grades, whose annual average earnings are 160 million lire; for them, the regressivity of the health contribution significantly reduced the relative size of their actual contributions.

Table 2

Changes in unit labour costs due to the introduction of Irap
(percentage changes)

Worker without contribution relief (1)	–3.5
Manufacturing: (2)	
employee in a firm in the North	–0.5
employee in a firm in the South (3)	–1.1
Building industry: (2)	
employee in a firm with fewer than 15 employees	–2.4
Distributive trades: (2)	
employee in a small firm (4)	–3.1
Banking:	
employee with earnings of 70 million lire (5)	–1.1
employee with earnings of 70 million lire (6)	–2.2
employee with earnings of 160 million lire (5)	0.4
employee with earnings of 160 million lire (6)	–0.7

(1) Worker with gross annual earnings of not more than 40 million lire paying Irap at the standard rate of 4.25 per cent. – (2) Calculated on gross annual earnings of not more than 40 million lire. – (3) Calculated at the reduced Irap rate of 2.25 per cent; at the standard rate, labour costs would rise by 0.9 per cent. – (4) Firms with between 8 and 15 workers. – (5) Calculated at the higher Irap rate of 5.4 per cent. – (6) Calculated at the standard Irap rate.

It should be remembered that if one wished to analyze the profitability of employing a worker, rather than unit labour costs, it would be necessary to use the marginal cost of labour, which in the new system is also affected by the increase in the tax burden due to the fact that Irap is not deductible for purposes of Irpeg. Moreover, to the extent that a profit margin is associated with the employment of a worker account should also be taken of the change in the taxation of profits (see the section on the Dual Income Tax system).

The reform of personal income tax

The abolition of health contributions, which were deductible from taxable income for purposes of Irpef, affects the distribution of individuals' net incomes; in the case of self-employed persons, the distribution is also altered by the introduction of Irap. The changes in Irpef tend to counterbalance these redistributive effects and are also aimed at easing the tax burden for large families. The first need is met by the revision of tax brackets, rates and tax credits for employees and self-employed persons, and the second by the changes in tax credits in respect of dependent children and relatives.

In Table 3 the changes in net income due to the introduction of Irap and the simultaneous revision of Irpef[5] are shown separately for employees and self-employed workers.

Analysis of the case of a worker without dependent relatives makes it possible to isolate the effects of the change in tax brackets, rates and credits for employees and self-employed workers. In the absence of such changes, employees would see their net income rise owing to the abolition of the health contributions for which they were liable (see hypothesis B in Table 3). The raising of the rate for the lowest tax brackets is aimed at offsetting this effect; the revision of the tax credit for employees forms part of the adjustment, and at the same time reduces the tax burden on those on medium and low incomes. The new structure of Irpef guarantees that the net income of a worker with annual gross earnings of 40 million lire will increase. The benefit diminishes as gross earnings rise, as the tax credit for employees is on a reducing sliding scale (see hypothesis C in Table 3).

Table 3

Impact of the introduction of Irap and the changes in Irpef on net income

	Before introduction of Irap (Hypothesis A)		With Irap but without changes in Irpef (Hypothesis B)		With Irap and changes in Irpef (Hypothesis C)	
	Without family dependents	With family dependents (1)	Without family dependents	With family dependents (1)	Without family dependents	With family dependents (1)
	Employee on gross annual earnings of 40 million lire					
Net income	28,179,000	29,519,000	28,443,000	29,783,000	28,405,000	30,039,000
As percentage of gross annual earnings	*70.4*	*73.8*	*71.1*	*74.5*	*71.0*	*75.1*
	Employee on gross annual earnings of 70 million lire					
Net income	45,761,000	47,029,000	46,174,000	47,442,000	45,908,000	47,470,000
As percentage of gross annual earnings	*65.4*	*67.2*	*66.0*	*67.8*	*65.6*	*67.8*
	Self-employed person on gross annual income of 40 million lire					
Net income	24,170,000	25,510,000	24,213,000	25,553,000	24,097,000	25,731,000
As percentage of gross annual income	*60.4*	*63.8*	*60.5*	*63.9*	*60.2*	*64.3*
	Self-employed person on gross annual income of 70 million lire					
Net income	39,931,000	41,271,000	39,609,000	40,949,000	39,620,000	41,254,000
As percentage of gross annual income	*57.0*	*59.0*	*56.6*	*58.5*	*56.6*	*58.9*

(1) Married worker with two dependent children.

The effects of abolishing health contributions and introducing Irap are more complex in the case of self-employed persons. The abolition of health contributions increases net income, while the increase in taxation due to the introduction of the new tax reduces it. Again taking the case of a worker without dependent relatives, the net result of the two effects depends on the level of gross income because of the regressivity of health contributions (see hypothesis B in Table 3), which reduced the effective rate of the health contribution for a worker with a gross annual income of 70 million lire by comparison with that for a self-employed worker with one of 40 million. The introduction of the new tax, which is proportional, increases the tax burden for the worker on the higher income.

The reform of Irpef now enters the picture, bringing an increase in the lowest tax rate and graduating the tax credit for the self-employed according to tax bracket and limiting them to taxable incomes of not more than 60 million lire. The structure of the tax credit increases net income by comparison with the previous arrangements for gross incomes of less than about 37 million lire. It should be remembered, however, that the calculations do not take account of the effects of abolishing Iciap and the VAT registration tax. Moreover, they relate to taxpayers who derive no tax benefit from the abolition of the other duties as they were not subject to Ilor and did not pay the tax on companies' net worth.

For employees with dependent relatives, the revision of the related tax credits magnifies the increase in net income resulting from the changes in Irpef. In the case of self-employed persons, the increase in tax credits in respect of dependent relatives partly offsets the increase in tax due to the reform. This offsetting effect diminishes as income rises, however, since tax credits for children are fixed amounts.

The reform of the taxation of income from capital

The current reform of the taxation of income from capital, which will come into effect on 1 July 1998, is part of a process initiated some time ago with the aim of gradually standardizing the rates of tax on different types of savings. It tends to increase the neutrality of taxation of income from capital, whether derived from financial assets or from business activities.

To that end, the changes are based on five fundamental points: *a)* a reduction in the number of rates to two: a reduced rate of 12.5 per cent, which is applicable mainly to income on government securities, and a standard rate of 27 per cent, which is levied on interest on bank deposits, for example; *b)* a broadening of the tax base by making capital gains and income from trading in derivatives taxable; *c)* the taxation of capital gains on an accruals basis, rather on a realization basis; *d)* in the case of savings entrusted to financial intermediaries for management, the introduction of the possibility of opting for tax to be paid on the net profit earned on the investor's portfolio; and *e)* in the case of assets entrusted to financial intermediaries for administration, the introduction of the possibility of opting for tax to be paid at source by the intermediary at the time of each transaction. Many of these innovations give financial intermediaries a greater role as tax-collection agents.

The taxation model described in point *d)* (the "managed savings" model) is a novelty at the international level. By taxing the net profit on the portfolio, it makes it possible to offset any capital losses on securities either against capital gains on any type of financial instrument (hence, including offsetting between shares and bonds) or against income flows generated by the portfolio (interest and dividends, etc.). Moreover, this arrangement involves taxing capital gains on an accruals basis. In the case of collective investment undertakings it replaces the previous tax on net worth.

Under the system described in point *e)* (the "administered assets" model), capital gains are taxed when they are actually realized; however, the intermediary is required to adjust the tax base by applying an appropriate correction coefficient (the "equalizer", set by ministerial decree), which adjusts capital gains and losses in order to bring the tax into line with that which would have been paid on an accruals basis. Offsetting between gains and losses takes place only within the investor's deposit with the asset manager.

The "normal" tax regime continues to be that based on the income tax return; the "equalizer" is applied here too. This regime has been made obligatory in the event of the sale of "significant" shareholdings (in other words, the taxpayer cannot opt for either of the other two methods).

In all cases, the taxpayer may carry forward any capital losses for a maximum of four tax years.

The Dual Income Tax system

From the 1997 tax year onwards, entrepreneurial income will be subject to a new tax regime, called Dual Income Tax, which changes the method of determining taxes on the entrepreneurial incomes of individuals and corporate entities (Irpef and Irpeg) by introducing a reduced rate of tax on a tranche of such incomes. Banks and insurance companies will not be subject to the new system until the year 2000.

The DIT regime is designed to reduce the tax discrimination between different sources of finance that occurred under the previous system, which favoured debt capital over equity capital. This distortion, which is present in the tax systems of many countries, had become more pronounced in Italy in the eighties owing to the raising of tax rates, which increased the tax savings from the full deductibility of interest expenses. Between 1980 and 1997 the tax rate on corporate income increased from 36.3 to 53.2 per cent. The abolition of Ilor and the introduction of Irap now brings the rate of tax on profits down to 41.25 per cent and interest expenses are subject to Irap at the rate of 4.25 per cent.

Application of the concessionary provisions of the DIT regime further reduces the discrimination in favour of debt capital, thus reducing the rate of tax on profits below 41.25 per cent. The mechanism operates by dividing taxable income into two components: “normal” income, ascribable to new capital, which is taxed at a reduced rate of 19 per cent, and “residual” income, which in the case of corporate entities is taxed at the standard rate of 37 per cent.[6] “Normal” income is calculated by applying an imputed official yield to the capital accumulated by the enterprise since September 1996. “Residual” income therefore consists of two components: any profit attributable to the new capital over and above “normal” income and profit attributable to existing capital.

Confining the analysis to corporate entities, the average tax rate τ_g^m is the result of applying the reduced rate of 19 per cent to “normal” income (which represents a share of q of total profits) and the ordinary rate of 37 per cent to the “residual” profit:

$$[4]\ \tau_g^m = .37\,(1-q) + .19\,q$$

The rate is nevertheless subject to a minimum of 27 per cent, so that it may assume a value of between 27 and 37 per cent, depending on q. Companies admitted to stock exchange listing are granted larger concessions for a period of three years, which take the form of a reduced rate of 7 per cent and a minimum average rate of 20 per cent.

Limiting the concession to increases in capital creates an incentive to strengthen the enterprise’s capital base. By making eligibility for the concession conditional on the financial choices made by the firm, this limitation gives a tax advantage for investment made by issuing equity rather than debt capital. This further reduces the discrimination in favour of debt; as well as lessening the tax advantage as a result of the mechanical effect of the reduction in the tax rate, it generates a further tax advantage for increases in equity capital. However, the setting of a minimum average rate of 27 per cent, which is justified by the need for revenue, neutralizes the incentive effect when the enterprise reaches a particular liability mix.

The ceiling of 27 per cent is reached where q equals 55.5 per cent of total profit. Assuming an actual yield on capital equal to the imputed rate used for calculating the “normal” yield (we represent both by r), this percentage also represents the ratio of new capital to total capital. By labeling the increase in capital C_n and the initial capital C_v, it is possible to calculate the rate of growth in equity capital required to coincide with the minimum average rate:

$$\begin{aligned}
&\textit{“normal” income} = U_n = r\,C_n \\
&\textit{total profit} = U = r\,(C_n + C_v) \\
&q = U_n / U \\
&k = C_n / C_v
\end{aligned}$$

By substituting the expressions in the first three lines into the last, we obtain:

$$[5]\ k = q / (1-q)$$

which, for a value of q of 55.5 per cent, gives a k of 122.2 per cent. In other words, on the hypotheses regarding rates of return, the 27 per cent tax rate would be reached if capital increases more than doubled the firm’s initial capital.[7]

As q increases towards 55.5 per cent, the average tax rate falls gradually from 37 to 27 per cent. In this case, there is an effective incentive to increase own funds, as income on the new capital is subject to a marginal rate of 19 per cent, thus reducing the average rate τ_g^m.

If the scale of capital increases is such that q exceeds 55.5 per cent, the incentive disappears, since τ_g^m has already reached its lower limit; the marginal rate on investment, however financed, is 27 per cent.

The incentive implicit in DIT during the transitional period is likely to have a greater effect on less highly capitalized firms; they potentially have greater scope to take advantage of the new concessions by increasing their equity capital.

Finally, assuming the same initial capital situation (and hence the same average overall Irpeg rate) and fresh injections of capital (and

3consequently "normal" income imputed to such capital), the effect of the concessions depends on the profitability of the firm, and in particular on the difference between the actual yield and the imputed rate used to calculate the "normal" yield. Higher actual yields signify higher overall increases in profits and lead to the application of a higher τ_g^m. This gives a relative advantage to less profitable firms: the average rate falls more rapidly towards the 27 per cent minimum and the capital increases needed to reach that level are smaller.[7]

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1 Special transitional arrangements have been made for agriculture (a reduced rate of 2.5 per cent in 1998, rising gradually to 4.25 per cent in 2002) and for the banking and insurance sectors (a higher rate of 5.4 per cent in 1998, gradually declining to 4.25 per cent in 2001).

2 For manufacturing firms in the Centre and North, the rate of the abolished contributions was reduced from 11.46 to 6.76 per cent, while for firms in the same sector but situated in the South it came down to 4.76 per cent; for building firms the reduced rate was 9.86 per cent and for distribution firms it varied between 9.1 and 10.56 per cent, depending on the size of firm. The level of health contribution relief in the South was to have been brought into line with those applying in the rest of the country by the year 2000 in accordance with agreements reached at the Community level.

3 Equal to the sum of the National Health Service contribution (9.6 per cent), part of the TB contribution (1.66 per cent) and the contribution for pensioners' health assistance (0.2 per cent). It was applied to gross annual earnings of up to 40 million lire. The NHS contribution was regressive, having been levied at 9.6 per cent on the first 40 million lire, 3.8 per cent on income between 40 and 150 million, above which no further contribution was due.

4 The calculations take no account of contributions for compulsory accident insurance (INAIL contributions), as the contribution rate depends on the specific risk associated with the type of work and the company's accident record. Their inclusion would not, however, substantially affect the change in labour costs due to the introduction of the new system as they do not form part of the Irap tax base. Estimates from the Ministry of Finance have been used for the rate of allocations to severance pay funds.

5 Half a percentage point of the new rates consists of the regional Irpef surtax.

6 In the case of sole traders and partnerships, the "normal" income imputed from new own capital is also taxed separately at 19 per cent (the same rate as for the first Irpef tax bracket), whereas "residual" income is taxed in the same way as personal income. For determining the rate to be applied, the tranche of income taxed separately is added back into total income in order to take account of the progressivity of Irpef. The standard rate will therefore vary according to the taxpayer's total income.

7 If the actual rate of return on capital r is higher than the imputed rate, the value of k will also be higher; in that case the minimum average rate would become a constraint if increases in own capital were even larger. The opposite occurs if the rate of return is lower than the imputed rate.

The National Financial Changeover Plan: the transition to the euro in the Italian financial system (*)

1. Introduction[1]

In November 1997 the Finance Subcommittee - the part of the Euro Committee[2] coordinating activities for the transition to the euro in the Italian financial system - approved the second edition of the National Financial Changeover Plan, which sets out guidelines for the various participants in the Italian financial system to ensure an orderly changeover from the lira to the euro while safeguarding the competitive position of the Italian financial system.[3]

The Plan is primarily aimed at operators in the financial sector and represents Italy's application of the guidelines for the transition scenario that were formulated at the Madrid European Council in 1995 and subsequently elaborated on in two Council Regulations.[4]

These guidelines establish a number of features of the transition that will be the same across the European Union but leave the individual countries and economic operators free to decide the other aspects of the changeover to the euro. The Plan covers many issues for which decisions must be taken by national authorities and the Italian business community[5] and identifies some problems, such as the redenomination of financial instruments, that will be addressed in the legislative decrees provided for in the enabling law[6] for the introduction of the euro. The publication of the new version of the Plan marks the end of the period of analysis and planning and the beginning of implementation.

2. Essential features

The Madrid scenario provides for a transition period from 1 January 1999 to 31 December 2001 during which economic operators, on the basis of the principle of "no compulsion, no prohibition", will be free to use both the euro and national denominations of the euro, represented by the currencies of the countries participating in Stage Three of Economic and Monetary Union (EMU).

The Plan incorporates this principle and summarizes the key aspects of the transition to the euro in the financial sector into the following five basic propositions regarding the four main areas of activity:

Payments. - From 1 January 1999 financial market participants and the general public will be able to use the euro for all payment and collection operations where coins and banknotes are not required;

Markets. - From 1 January 1999 transactions on the money and financial markets will take place in euros.

Financial instruments. - From 1 January 1999 all government securities will be denominated in euros. On that date, government securities such as Treasury bills, Treasury credit certificates, Treasury bonds and any other transferable government security will be converted into euros. Non-transferable government securities, such as Post Office saving certificates, will be converted into euros on 1 January 2002.

Other financial instruments will be converted in stages. A programmed redenomination of the securities will be facilitated by measures to reduce the cost of conversion to the issuers.

Statistics. - From 1 January 1999 all intermediaries required to submit reports to the authorities for supervisory and statistical purposes may denominate them in euros. Statistics produced by these authorities will be denominated in euros.

(*) Prepared by the Foreign Department.

3. Areas of intervention

One or more macro-projects have been identified for each of the above areas. The division of the areas into macro-projects is intended to permit the identification of the actions that need to be taken, under the direction of one entity, in order to define and adopt appropriate solutions. A *lead organization* has been appointed to coordinate activities for each macro-project.

The “**Payments**” area covers the payment system (the infrastructure for transfers of money) and will be highly affected by the introduction of the euro. Because of its pyramidal shape, with the trading of goods and services between economic agents at the base, payment services provided by the banking and postal systems in the middle and the Bank of Italy at the top for the final settlement of transactions, the area has been divided into two macro-projects:

1) *Bank of Italy - financial intermediaries* (lead organization: Bank of Italy);

2) *The banking and postal system - customers (*lead organization: ABI).

The Bank of Italy has the leading role in the first macro-project, since transactions between intermediaries change the balances on the accounts they hold with the Bank of Italy. The second macro-project regards financial services provided by intermediaries to customers.

One of the projects included in the first macro-project, the Italian gross settlement system (BI-REL),[7] has been completed and is already operational. It began functioning in June 1997 and commenced full operations in January 1998, allowing the real-time settlement of the large-value transactions in the markets and interbank procedures that previously flowed through the clearing system.

BI-REL enables intermediaries to broaden their range of products and improve the quality of service offered to customers, who can now make and receive real-time payments in lire and, from the beginning of Stage Three of EMU, in euros. Testing of the Interlinking system between BI-REL and the European Monetary Institute and other national gross settlement systems is currently under way.

The second macro-project in the “Payments” area is aimed at enabling customers to use payment services for operations in either lire or euros for collection and payment services from the beginning of the transition period. It will therefore be possible to effect collections and payments in either currency through current accounts or with credit or payment instruments other than cash. Debtors will be able to choose the currency in which they make payments if the debt can be paid by crediting the creditor’s account. If the creditor has an account in a currency other than the payment currency, the intermediary will credit the equivalent amount after conversion.

This project is based on a specific interbank agreement that commits all banks to accepting and processing both paper-based and electronic euro operations received through the interbank system. This will provide individual banks with the necessary certainty to execute payment and collection orders denominated in euro on behalf of customers, since, as a participant in the agreement, the final destination bank will be required to handle the order.

The agreement specifies the exact moment in the process that any conversions from lire to euros or vice-versa are to be made: the intermediary originating the transaction and any intermediate entity, including “transit banks”, will transmit the value of the operation in the currency originally specified by the customer so that any conversion is carried out only at the time the final beneficiary’s account is credited. This will prevent multiple conversion and reconversion of the amount as the transaction passes from one intermediary to another so as to avoid generating inaccuracies due to rounding. The agreement also requires participants to report any information returned to the payment sender in the original currency in order to enable automatic matching with the original orders.

Non-bank intermediaries that operate in the interbank network may also participate in the agreement given their major role in the payment systems.

The agreement came into force in October 1997 in order to allow sufficient time for completion of the many measures needed for the changeover before 1 January 1999, including the modification of interbank procedures.

The "**Markets**" area regards the trading of monetary and financial instruments, an activity whose "production cycle" is divided into two main parts: negotiation, when the contracting parties agree to the essential elements of the transaction (price, quantity, maturity); and settlement, when the transaction is concluded with the actual exchange of securities for money. Two macro-projects have been identified within this area:

1) *The foreign exchange market, the money market (MID), and the wholesale (MTS) and forward (MIF-MTO) markets in government securities* (lead organization: ABI);

2) *The Stock Exchange* (lead organization: Borsa Italiana S.p.A.)

The Madrid Council did not lay down a specific frame of reference for the introduction of the euro in this area, i.e., the structures where price formation, exchange and settlement take place. The decisions will accordingly be made at the national level.

Unlike the "Payments" area, it was considered essential for trading in financial instruments to provide for the use of only one currency and a simultaneous changeover to the euro by all markets. The fundamental reasons for this choice lie in the need to:

- avoid market segmentation, which could undermine the competitiveness of the Italian financial market;
- ensure efficiency and curb trading costs.

Given its close connection with the single monetary policy, the foreign exchange market will change over to the euro at the beginning of the transition period. The Bank of Italy will quote only the euro against the currencies of EU countries that do not participate in Stage Three of EMU and non-EU currencies. As this is a strictly over-the-counter market, no timetable for action is envisaged.

The interbank deposit market will be considerably affected by the introduction of the euro, both technically and strategically. In fact, from 1 January 1999:

- monetary policy will be conducted in euros by the European System of Central Banks (ESCB);
- European interbank transactions will be settled in euros within the TARGET system;
- the centralized settlement accounts of commercial banks at the national central banks will also be denominated in euros.

All banks in the euro area will thus be required to handle flows in the new unit of account and will have to compete with other banks, including those in other countries, for financing in central bank money from the ESCB.

With the adoption of the euro in transactions on the interbank deposit market, as things currently stand the Rome Interbank Borrowed Rate (RIBOR) will cease to exist. The European Banking Federation (EBF) has made known its view that retaining the individual national benchmark rates might generate confusion among market participants. These considerations have prompted the EBF to take EURIBOR as a new, single internal interbank rate for the entire euro area, supplanting today's national rates (RIBOR, PIBOR, FIBOR, etc.).

The EBF has suggested using the reference bank method for determining the new rate. The banks selected (by each participating country) would be required to report daily to the EBF the quote (indicative or binding) at which they are prepared to do business.

The EBF has yet to make a definitive decision on the method of calculation. In any case, further study of the legal implications of the substitution of EURIBOR for the national interbank reference rates is required.

The introduction of the euro on the secondary market in government securities (MTS) does not appear to create any special problems given the characteristics of the wholesale market and the flexibility of its screen-based trading systems. Redenomination will only involve the nominal value of securities and will not affect the characteristics of the loans (duration, interest rate, coupon payment dates, repayment terms and issuing procedures), which on the basis of the continuity of contracts principle will remain unaltered. In order to avoid the problem of odd lots created with the redenomination of securities, the minimum subscription lot at auction will be changed from the current 5 million lire to 1,000 euros.

The dematerialization of financial instruments will have a much greater impact, with their circulation being ensured by means of changes in accounting entries carried out by intermediaries. The project is the culmination of a process aimed at gradually reducing the volume of physical securities in circulation and increasing their centralization with the central securities depositories (Monte Titoli and the Bank of Italy).

The measure that will introduce this major innovation into Italian law is currently being prepared, pursuant to Articles 7 and 10 of the enabling law.

The implementation of EMU and the adoption of the single currency will have a multitude of far-reaching effects on the Italian Stock Exchange. As regards trading procedures for financial instruments, the preliminary version of the National Financial Changeover Plan in June defined and set out plans for a “big bang” transition, with a simultaneous launch of the use of the euro for all financial instruments as from 1 January 1999. The stock market, including the trading, settlement and clearing system, can therefore be compared to a “black box”: intermediaries will operate normally with customers on the outside while trading and settlement will function in euros on the inside. Customers orders will be denominated in euros, while, on the basis of the “no compulsion, no prohibition” principle, customer relationships with intermediaries can be denominated in their currency of choice, presumably the euro for professional investors and the lira for the general public.

The “**Financial instruments**” area covers issues regarding the redenomination of lira-denominated financial instruments into euros. For reasons similar to those for the “Markets” area it was also decided to create two macro-projects:

1) *The redenomination of public debt* (lead organization: Ministry of the Treasury)*;*

2) *The redenomination of other financial instruments* (lead organization: Borsa Italiana S.p.A.).

The redenomination of public debt has been studied with regard to both transferable and non-transferable government securities.

The existence of two parallel markets for transferable government securities, one denominated in lire, the other in euros, could seriously compromise the efficiency of both, with repercussions for the competitiveness of the Italian bond market. The Ministry of the Treasury has therefore decided to proceed immediately in redenominating all transferable government securities in issue, regardless of their residual maturity. All lira-denominated transferable government debt will therefore be redenominated in euros on 1 January 1999. Payments of interest and principal will be determined with reference to the euro value of the securities and executed in euros. This means that financial relationships, both between the Treasury and the Bank of Italy and between the latter and the banking system, will be denominated entirely in euros.

The situation for non-transferable government securities is as follows:

- conversion into euros will take place on 1 January 2002;
- as from 1 January 1999, investors will be able to purchase Post Office saving certificates (BPF) in euros;
- until 1 January 2002 at the latest, old lira-denominated saving certificates can be sold at Post Office

branches at the express request of investors until stocks have run out.

As regards deposits and withdrawals of savings with the Post Office in forms other than cash, the general principles for the payment system as a whole will hold during the transition period: users will be able to choose between the euro and the lira for both payments and receipts.

As far as the public debt as a whole is concerned, given the principle of continuity of contracts, all lira-denominated government securities in certificate form will automatically be considered euro-denominated securities converted at the fixed conversion rate (as from 1 January 1999 if transferable and 1 January 2002 if non-transferable) without requiring them to be reprinted or explicitly stamped with their new euro value.

The Plan does not establish a fixed timetable for the redenomination of other financial instruments, as it was necessary to comply with the principle of "no compulsion, no prohibition" and take account of the presence of a vast and diversified group of issuers. The main problem in this area is that the adoption of the single currency will require that all financial accounts, including the nominal values of securities and all information produced for external users, be converted into euros.

The "**Statistics**" area regards the reports that intermediaries must regularly submit to the supervisory authorities and the UIC. The corresponding macro-project, *Statistical and supervisory reports* (lead organization: Bank of Italy), is intended to decide whether data should be compiled in euros or lire.

The macro-project essentially covers the procedures that the Bank of Italy, the UIC, Consob and ISVAP, as institutions receiving statistical and supervisory reports, will follow in managing the changeover to reporting in euros.

During the transition period institutions required to send reports to the supervisory authorities will be able to select either the lira or the euro as the reporting currency, subject to the constraints of consistency of reports transmitted to the different authorities and the irreversibility of the changeover to the euro.

In accordance with this decision, other problems raised by the changeover to the single currency for the collection and management of credit and financial statistics were addressed within this framework.

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1 This article is an extract of the full National Financial Changeover Plan, published on 10 December 1997. The information contained here is accurate as of that date.

2 The Euro Committee, chaired by Treasury under-secretary Roberto Pinza, was established in June 1996 on the order of the President of the Council of Ministers with the task of coordinating actions connected with the introduction of the single currency. Preparatory work for the adoption of the euro by Italy had already begun prior to the constitution of the Euro Committee:
- at the Ministry of the Treasury, with a working group for the adjustment of the public financial structure to the introduction of the euro;
- at the Bank of Italy, with a Coordination Committee for Economic and Monetary Union;
- at the Italian Bankers' Association (ABI), with a plan for EMU (the so-called EMU Project).

The establishment of the Euro Committee ensures that all these initiatives are linked in a unified effort. The Committee set up three subcommittees responsible for the following areas: "Government", "Finance" (the monetary and financial system, including insurance) and "Enterprises" (industrial, commercial, craft and agricultural enterprises). The Finance Subcommittee, coordinated by Tommaso Padoa-Schioppa, chairman of the Companies and Stock Exchange Commission, began its work in early December 1996. The organizations participating in the Committee are: ABI, ANIA (the National Association of Insurance Companies), the Bank of Italy, the Stock Exchange Council (now Borsa Italiana S.p.A.), Consob (the Companies and Stock Exchange Commission), the Post Office, ISVAP (the Supervisory Authority for the Insurance Industry), the Ministry for Industry, the Ministry of the Treasury, the UIC (the Italian Foreign Exchange Office), Assonime (National Association of Companies Limited by Shares), Cassa Depositi e Prestiti (Deposits and Loans Fund) and Monte Titoli (the central securities depository).

3 The first edition of the National Financial Changeover Plan was presented in the pamphlet "From the lira to the euro", published by the Euro Committee in June 1997, which identified a series of issues regarding the changeover to the euro in each of the three areas into which the Committee is divided (see note 1).

4 The first regulation (no. 1103/97 of 17 June 1997, which was published in the Official Journal of the European Communities of 19 June 1997 and came into force the following day), adopted under Article 235 of the Treaty, contains the provisions regarding the replacement of the ECU

with the euro in legal documents, the principle of the continuity of contracts, procedures for conversion between national currencies and between the latter and the euro, and the rules on rounding. The second, which will complete the legal framework for the use of the euro on the basis of Article 109l of the Treaty, will be issued in the spring of 1998 in concomitance with the selection of the countries that will participate in Stage Three as from 1 January 1999, the date the euro will become a currency in its own right and the official ECU basket will cease to exist.

5 In particular, Article 8 (4) of the regulation adopted under Article 109l allows Member States to adopt measures during the transition period to:
- redenominate existing government securities in euros;
- permit the use of the euro for trading, clearing and settlement of financial instruments;
- permit the use the euro for the ordinary exchange, clearing and settlement of payments;
- redenominate in euros any public debt issued in the currency of another Member State and the financial instruments of private-sector issuers.

6 Law 433 of 17 December 1997 (“Delega al Governo per l’introduzione dell’Euro”) was published in the *Gazzetta Ufficiale della Repubblica italiana* no. 295 of 19 December 1997.

7 See the box: “The Bank of Italy’s real time gross settlement system: launch of the second stage”.

Survey of the compliance of Italian banks' information systems with euro and Year 2000 requirements (*)

1. The international and domestic situation

For banks, the introduction of operations denominated in euros and the start of the new millennium will necessitate a substantial effort to revise and adapt their information systems. In the case of the euro, all automated procedures will have to be adjusted to handle the new unit of account (e.g., the conversion of amounts in national currencies into euros or the handling of decimals);[1] in the case of the Year 2000 problem, all information systems that use only two digits to indicate the year (and are therefore unable to distinguish one century from another) have to be identified and corrected.

The importance of these two problems and the fact that they must be dealt with at virtually the same time mean that the process of analyzing, modifying and testing the procedures involved will be particularly onerous in both economic and organizational terms.

In addition to addressing the technological aspects of these issues, the banks' top management will have to weigh the operational and legal risks very carefully, as well as those involving their reputations. Another factor to be considered is the possibility that the inadequacy of borrowers' information systems may cause them operating problems, thereby exposing lender banks to credit risk.

The interest of the supervisory authorities in these issues is prompted by the major effort required of intermediaries.

As part of a series of initiatives concerning the Year 2000, the Basle Committee on Banking Supervision has issued a recommendation drawing the banks' attention to the risks involved and the actions to be taken. So far as the change of date is concerned, national supervisory authorities are currently carrying out checks, including inspections, to verify the proper functioning of information systems.[2]

European banks will also have to evaluate the implications of their decisions regarding operations in euros. The European Council of Madrid established that intermediaries will be free to choose whether or not to offer services in euros to their customers during the transition period from 1 January 1999 to 31 December 2001.

Italian banks have agreed a partial departure from that principle, signing an agreement that commits signatories to accept and process transactions in euros originating in the interbank circuit from the start of the transition period.

As part of cooperative efforts between ABI (the Italian Bankers' Association) and CIPA (the Interbank Convention on Automation) - as within the "Payments" area of the Euro Committee at the Ministry of the Treasury - directives have been issued that address both the euro and Year 2000 problems in relation to payment system procedures.[3] The modification of interbank procedures to cope with the euro and the Year 2000 is at an advanced stage.

2. The Bank of Italy survey

In November 1997 the Banking Supervision Department sent a questionnaire on the impact of the euro and the Year 2000 on information systems to all 939 banks operating in Italy. The survey focused particularly on the banks' internal procedures, the adjustment of which is left to their discretion.

(*) Prepared by the Banking Supervision Department.

The aim of the questionnaire was to discover how aware top management is of the problems and the state of progress with related plans, as well as to apprise operators of the key risks involved.

The survey is part of a broader effort by the Banking Supervision Department to ascertain the adequacy of banks' organizational and technical structures.

The survey comprised two forms: a more detailed questionnaire addressed to banks that manage and develop their own information systems; and a simplified version for banks that either already outsource these services or expect to do so in the near future.

By the end of January this year 884 replies had been received, 76 per cent of which referred to the simplified questionnaire.[4]

The replies reveal that almost all banks plan to engage in euro-denominated operations on a large scale from the start of the transition period; top management took part in planning the strategies for the euro in 89 per cent of cases and for the Year 2000 in 84 per cent.

The more detailed replies received from banks with in-house EDP centres show that 11 per cent approved the related plans of action in the first six months of last year, more than 40 per cent did so in the second half of 1997 and a further 16 per cent expect to do so during 1998.

Nearly one half of these banks - representing 13 per cent of the banking system's total assets - have not yet formalized their plans in a single document. The delay is frequently attributed to uncertainty regarding Italy's participation in EMU from its inception; planning in other cases is reported to have been suspended or slowed down to await the outcome of mergers or changes in ownership.

3. Organizational issues

In general, banks with in-house EDP centres plan to address the problems by appointing a specific manager for them (for both the euro and the Year 2000 in 59 per cent of cases, for the euro alone in 28 per cent), by engaging the services of consultancies (52 per cent), or by drawing up an inventory of the procedures to be adapted (95 per cent).

An equal number of respondents reported strategies based either on the substantial renewal of information systems or the modification of existing procedures. A limited number of banks (6 per cent) indicated they were planning to outsource, mainly to other group companies.

In 65 per cent of cases the adjustment of systems to the euro and the Year 2000 is to be carried out jointly; for banks planning to manage the modifications separately, 19 per cent plan to give the projects equal priority, while 14 per cent plan to focus on the euro and 2 per cent on the Year 2000.

The planned actions involve applications software in 100 per cent of cases, central hardware in 58 per cent, personal computers in 37 per cent, system software in 55 per cent, networks in 15 per cent, ATMs and POSs in 73 per cent and auxiliary equipment such as form and cheque scanners, sensors, security systems and telephone switchboards in 55 per cent.

Some banks have no plans to introduce changes in their branch systems (10 per cent) or control procedures (35 per cent).

Adjustments for the Year 2000 will affect both procedures and databases in 73 per cent of cases, while 27 per cent of banks will modify procedures only.

Banks that outsource their information processing reported actions involving control procedures (78 per cent), personal computers and departmental systems (78 per cent), ATMs and POSs (15 per cent for the Year 2000 only and 68 per cent for the euro also), and auxiliary equipment (75 per cent).

All the banks declared their strong commitment to training personnel: more than 90 per cent have already begun or intend to introduce initiatives to prepare staff for the operational problems posed by the transition to the euro and the Year 2000.

Table 1

Joint euro-Year 2000 projects: timetable of measures
(percentage of banks)

		1997		1998		1999		2000	2001
		H1	H2	H1	H2	H1	H2		
Current accounts	start	15	23	34	19	8	1		
	end			5	70	19	1		5
Fund-raising and lending	start	14	25	32	9	19	1		
	end			5	52	15	8	14	6
Finance	start	9	36	17	30	8			
	end			3	73	18	1	1	4
Foreign	start	16	32	31	13	8			
	end			5	57	32	1		5
Accounting	start	13	30	43	12		1	1	
	end			10	76	11	1	1	1
Management control	start	13	6	42	21	1	16	1	
	end			9	40	23	4	21	2
Financial statements	start	6	28	31	34	1			
	end			12	54	17	14	1	1
Credit and debit cards	start	7	17	48	28				
	end			3	76	19	1		1
Other interbank procedures	start	7	35	53	5				
	end		1	3	84	6	1	1	5

4. Target dates

Analysis of the starting and ending dates for the euro and Year 2000 projects shows that 1998 is a key year, during which analysis and renovation of major procedures will be concentrated and the testing and implementation of applications will begin.

In most projects priority is being given to adjusting interbank and management procedures, while those involving accounting and internal control procedures have generally been postponed, albeit not beyond the second half of 1999 (Table 1).

Only a small number of banks (5 per cent) plan to implement two-stage strategies: renovation of main applications by the end of 1998 and subsequent completion of the project at the end of the transition period.

Banks that are tackling the Year 2000 problem separately from the euro adjustment have generally begun their efforts earlier and, in some cases, claim that their systems are already in compliance (more than 40 per cent for accounting and management control applications and 33 per cent for current account procedures). On the other hand, a third of banks with separate Year 2000 programmes plan to complete adjustment by the end of 1999.

5. Estimated costs

A total of 46 per cent of banks have estimated costs for their euro and Year 2000 projects, while 16 per cent have estimated them for the euro alone and 1 per cent for Year 2000 alone.

The banks that have quantified their costs account for 75 per cent of the banking system’s total assets. The overall amount is about 2.7 trillion lire, equal to an average of 5.5 per cent of those banks’ operating costs (48 trillion lire in 1996 - Table 2).

Table 2

Adjustment costs

(as a percentage of 1996 operating costs)

	Banks by total assets				Average	
	less than 1 trillion	from 1.001 trillion to 5 trillion	from 5.001 trillion to 10 trillion	over 10 trillion	simple	weighted
Modification of existing procedures	11.48	12.50	6.39	7.37	9.33	4.81
Outsourcing: increased fees or cost of shift to outsourcing	2.06	4.80	2.83	2.44	2.23	2.73
Substantial renovation	9.17	13.19	10.72	7.65	9.92	8.11
Average	**3.27**	**9.85**	**7.92**	**6.95**	**4.52**	**5.48**

The cost figure does not include some large banks with in-house EDP centres, 26 per cent of which say they have not yet completed their evaluations, and 41 per cent of banks that outsource their data processing operations, which have reported that they either do not yet know what the increase in costs will be or do not forecast an increase in fees.

For all banks, the majority of costs have been allocated to the profit and loss account for the current financial year and, to a lesser extent, that for 1999 (Table 3).

Banks with in-house EDP centres report that 65 per cent of costs are associated with adjustments for the euro, 18 per cent with the Year 2000 problem and the remaining 17 per cent with the implementation of new functions or improvements.

These banks have divided the costs of modifications between internal resources (24 per cent), external resources (26 per cent) and the acquisition and upgrading of software packages (49 per cent).

Divided by operational phase, 18 per cent of costs are imputed to analysis, 43 per cent to renovation and 38 per cent to testing.

Banking procedures absorb the largest portion of resources (60 per cent), while management and control procedures account for 21 per cent and interbank applications for 18 per cent.

Non-EDP spending includes staff training (46 per cent), customer information (22 per cent) and sundry expenditure on forms and other items (31 per cent).

Table 3

Distribution of costs by type and year for banks with in-house EDP centres

(percentages)

	1997	1998	1999	2000	2001	2002	Total
Adjustment of hardware and system software	0.3	3.4	1.1	0.7	0.9	0.2	6.6
Modification of procedures	3.8	42.2	18.3	7.5	6.4	2.0	80.1
Shift to outsourcing or facility management	–	0.4	0.2	0.2	0.1	–	0.8
Non-EDP costs	0.5	6.7	2.7	1.1	1.1	0.4	12.5
Total	**4.6**	**52.7**	**22.3**	**9.5**	**8.5**	**2.6**	**100.0**

6. Risk assessment

The euro and Year 2000 projects have had a significant impact on the growth of bank automation in recent years: 30 per cent of banks with in-house EDP centres report having postponed other planned projects.

Only 30 per cent of banks express concern about a shortage of information technology resources: it is possible that the difficulties that could arise are not yet fully appreciated.

As regards risk control, 58 per cent of banks with in-house EDP centres and 63 per cent of those using outsourcing have assessed the operating risk they face; 30 per cent of banks have evaluated the legal risk deriving from possible legal action brought by customers over failed transactions or brought against technology suppliers for delays in bringing procedures and systems into compliance.

Most banks that outsource their data processing plan to verify procedures even if their suppliers provide certification of compliance, while 36 per cent of banks with in-house EDP centres have no plans to test programs purchased from third-party suppliers.

Only a small number of banks have assessed the risk of a transaction not being completed owing to the failure of external non-bank systems: 9 per cent have addressed the issue with their largest customers and 24 per cent with providers of financial services.

Of banks with in-house EDP centres, 75 per cent have made provision for controls in addition to those normally carried out, while only a third of all banks have prepared emergency plans.

The Banking Supervision Department is following the issues raised by the adjustment problems closely and will intensify its monitoring of the process, in part by promoting initiatives in collaboration with the various actors involved, in order to prevent the risks associated with any inadequacies or delays in adjustment programmes.

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1 During the transition period until 31 December 2001, banks will have to adopt the so-called *duality* principle, processing amounts in both lire and euros.

2 See, among others, Basle Committee on Banking Supervision, “The Year 2000: a Challenge for Financial Institutions and Bank Supervisors”, September 1997; United States Securities and Exchange Commission, “Report to the Congress on the Readiness of the US Securities Industry and Public Companies to meet the Information Processing Challenge of the Year 2000”, June 1997; Federal Financial Institution Examination Council, “Safety and Soundness Guidance Concerning the Year 2000 Business Risk”, December 1997; IOSCO, “Statement of the IOSCO Technical Committee on Year 2000”, June 1997; Board of Governors of the Federal Reserve System, “Guidance Regarding the Federal Reserve’s Year 2000 Supervision Program and Possible Supervisory Follow-up Actions”, November 1997.

3 CIPA, “Rapporto conclusivo del Gruppo di lavoro sul cambio data anno 2000”, November 1996; ABI, “EuroABI Blue Book - Strumenti per la moneta unica”, Bancaria Editrice, latest update December 1997; Ministry of the Treasury, the Budget and Economic Planning-Euro Committee/Finance Sub-Committee, “Schema nazionale di piazza”, 2nd ed., November 1997.

4 No replies have been received from banks in the process of merging, some branches of foreign banks, and some banks which advised they were unable to add any useful information to that already supplied by their parent companies. The missing banks account for 2.5 per cent of total banking assets.

Speeches

Address by the Governor, Antonio Fazio,

to the Association of Italian Savings Banks on the occasion of the 73rd World Savings Day, celebrated in the presence of the President of the Republic

Rome, 31 October 1997

The revolution in information technology and telecommunications, the possibility of transmitting information and statistical data and transferring funds from one point of the globe to another instantly and at very low costs, and the complete liberalization of movements have led to the formation of a single, worldwide currency and financial market.

The opening-up of finance is a natural complement of trade liberalization; it encourages investment in the economies whose growth prospects are enhanced by their abundance of resources, especially labour. Freedom of capital movements also fosters a better allocation of the savings of countries with higher incomes and more plentiful financial resources. Many economies have advanced from backwardness to occupy a significant position in world finance and trade within the span of a decade.

The growth of economic activity and industrial output in Europe has been modest, particularly in the nineties. Continental Europe's loss of competitiveness has been a factor. The ageing of the population is a brake on innovation and dims the prospects of growth; demand for certain mass consumer goods is stagnant; high living standards translate into high production costs.

Organizational and institutional rigidities diminish our firms' ability to respond to international demand that is evolving rapidly in terms of both quality and quantity.

In the nineties the economies of continental Europe have grown on average by 2 per cent a year, a lower rate than that achieved by the United States. Total employment has fallen in Europe by around 1 million, primarily as a result of widespread job destruction in industry. In the United States employment has increased by more than 12 million, entirely in the services sector; some of the new jobs are precarious and poorly paid. Industry has succeeded in limiting the reduction in jobs.

The most striking and worrying aspect of the labour market in continental Europe is the trend in long-term unemployment, which has been higher than in the United States since the mid-eighties. The overall unemployment rate now stands at 12 per cent in Europe, compared with 5 per cent in the United States. Although the European economy does not appear able to grow fast enough to ensure full employment, the balance of payments shows only a modest current account surplus; in the absence of structural changes in markets, a return to higher rates of growth will entail a rapid deterioration in the external accounts.

The growth and control of financial activity

In the nineties the growth in international financial transactions has far outpaced that in industrial production and trade, despite these having expanded rapidly.

The enormous volume of financial activity has at times turned from being a factor of wealth creation into a factor of economic destabilization. This has occurred where economies presented imbalances, weaknesses in the macroeconomic fundamentals; in some cases sudden large swings in exchange rates have had adverse effects on the equilibrium of firms and financial intermediaries, the currency's purchasing power, the prices of securities.

The events of the past few years, the close interdependence of currency crises, the value of money and the stability of financial and banking systems underscore the importance of the functional link between monetary policy and banking supervision.

While one major European country has entrusted banking supervision to an institution other than the central bank, the leading industrial country in Asia, affected by major difficulties in the credit sector, has taken the opposite course and given the central bank stronger powers of supervision and intervention in the banking system.

The new configuration of the international financial markets, the enormous growth in foreign exchange and securities trading, and the intensification of competition have had major consequences for the operations of national banking systems. The squeeze on profit margins has accentuated the weaknesses of banks already marked by inadequate methods of risk measurement, excessive costs and lack of strategic vision.

According to the International Monetary Fund, in the last fifteen years around 130 countries have had to cope with the consequences of bank crises, some of them severe and extensive.

The authorities have responded primarily by encouraging the acquisition of the troubled banks by more solid and efficient institutions. Recourse has been made to public funds where the stability of the financial system and the level of economic activity were threatened.

The public funds disbursed in the United States to deal with the crisis of the savings and loan institutions amounted to $161 billion, almost 3 per cent of gross domestic product. In Norway and Sweden the cost of intervention amounted to respectively 2.2 and 4.2 per cent of GDP, and in Finland to 9.3 per cent. In France the burden the state and public shareholders will have to shoulder to deal with the crises of major credit institutions is expected to be around 1.5 per cent of GDP, or 40 trillion lire. In Spain and the United Kingdom the costs have been borne by the shareholders and the banking system, without significant outlays of public money.

In Italy, the overall cost to the public finances of banking crises in the nineties amounts to around 6 trillion lire, or 0.3 per cent of current GDP. The banking system has contributed to the resolution of crises through the Interbank Deposit Protection Fund. The scale of the expense incurred by the banking system suggests it is time to reconsider the mechanisms governing the Fund's operations.

The cyclical downturn and the structural slowdown in growth have been a major factor in the crises of the large southern banks by contributing to the stagnation of economic activity in the region in the last five years. The difficulties have been tackled with vigorous restructuring plans geared primarily to reducing operating costs, with changes in top management and the entry of new shareholders.

The disbursement of public funds has been made conditional on the adoption of corrective measures, which are a prerequisite for subsequent sale. The effects of the interventions have been seen in the first half of this year with reductions - pronounced in some cases - in personnel costs and numbers of staff; gross income has shown signs of recovering.

At the national level, far-reaching changes are taking place in the size of banks and their ownership structures.

Since the start of the nineties the number of banks has fallen by 237, to 939. The process of concentration, which at first mainly concerned small distressed banks, is spreading swiftly, especially in the more highly developed regions, to profitable medium-sized institutions.

The Bank of Italy is closely monitoring the structural evolution of the credit system. An increase in the size of banks will allow them to carry out the investment necessary to develop advanced banking services. Rigidity in the use of the factors of production and insufficient clarity as to objectives sometimes impede the integration of different corporate realities and cultures.

A notable contribution to the reorganization of the system can and must come from privatization. The completion of the initiatives under way will reduce the share of bank assets held by the public sector to less than 40 per cent, compared with more than two thirds at the end of the eighties.

In the first six months of 1997 Italian banks made net profits of 1 trillion lire, a decline of 1.6 trillion compared with the first half of 1996. Total revenues from traditional banking intermediation fell further since lending rates came down by nearly one percentage point more than deposit rates.

The effects of the decline in revenues from bank intermediation were compounded by the continued riskiness of assets. Allocations to provisions and value adjustments, mainly for loans, totaled 8.9 trillion lire, an increase of 1.6 trillion compared with the first six months of 1996. A large proportion of the adjustments were made by just a few banks as part of restructuring programmes.

Total operating costs increased despite the fact that staff costs were broadly unchanged, as the number of employees declined by 2.3 per cent while unit costs rose by 2.0 per cent.

In the first half of 1997 the ratio of staff costs to gross income was 44 per cent, about 7 points higher than the average in the leading European countries between 1993 and 1995.

The banking system can hardly sustain a situation in which costs are increasing faster than income.

The negotiations between labour and employers, launched with the mediation of the Government, have the urgent task of achieving the concrete results needed to ensure the sound and lasting development of the banking industry.

Every delay reduces the ability of Italian banks to meet the challenge of international competition, worsens the outlook for employment in the sector and generates high costs for the entire economy.

The readjustment of the public finances

A stable, competitive and efficient banking system is essential for the proper allocation of saving to productive investments.

A lasting correction of the public finances is needed to increase the share of savings channeled into investment, both by firms to expand output and by general government.

The downward trend of the ratio between gross fixed investment and national income has become more pronounced in the nineties. To varying degrees, the decline reflects reductions in all the components of capital formation: government investment, housing purchases and spending on machinery, equipment and transport equipment.

The large balance-of-payments surpluses recorded in recent years have created the conditions for investment to increase more rapidly without jeopardizing Italy’s external balance.

Italy should achieve a balanced budget on current account this year. In 1996 the public sector deficit on current account amounted to more than 3 per cent of GDP.

The primary surplus will rise to 6.6 per cent of GDP this year, an increase of 2.6 percentage points compared with 1996. The increase reflects a rise in the ratio to GDP of taxes and social security contributions of around 2 percentage points and a reduction of about half a point in that of primary expenditure. Interest payments are expected to fall in relation to GDP. General government net borrowing will decline from 6.8 to 3 per cent of GDP. The public debt will decline in relation to GDP for the third year in succession.

Containing the budget deficit has been facilitated by the ceilings placed on the drawings that non-state public bodies may make from their centralized Treasury accounts and central government spending commitments. In the short term these measures have reduced purchases of goods and services and capital spending. In the long term regulating cash flows produces a permanent reduction in government spending only if it induces greater efficiency in the use of resources. If the tendency of expenditure to expand is to be curbed permanently, there is no alternative to structural measures that reorganize the tasks of the various levels of government, increase the efficiency of government operations and revise the laws determining the services the public sector provides to the public.

The target set for 1998 is for general government net borrowing to be equal to 2.8 per cent of GDP.

Budgetary policy must be designed to render permanent the results achieved in reducing the deficit. If this occurs, the size of the primary surplus means that we can expect a significant decline in the ratio between public debt and GDP in the coming years.

In a broader perspective, it is necessary to address the issue of the size to which the budget has grown in Italy. In the nineties, faced with an already large public debt, the deficit has been contained above all by increasing revenues; current expenditure net of interest payments has remained unchanged as a proportion of GDP. Total general government spending is equal to 51 per cent of GDP in Italy. Among the major European countries only France has a higher value of this ratio; in Germany it is 48 per cent, in the United Kingdom 40 per cent.

Demographic changes and the needs and expectations of citizens have pushed up spending on pensions and health care. In the absence of an adjustment, it will rise in relation to GDP in the coming years. Reforms are needed to safeguard the fundamental objectives of the public social security system: to protect the vulnerable and those excluded from the productive economy and to ensure that future generations will be able to enjoy the benefits of the system.

A reduction in the high level of expenditure and measures to improve its quality and composition will foster rather than hinder the growth of the economy over the medium term. It is necessary to curb the expansionary trend of expenditure and the burden of taxes and social security contributions, thereby removing some of the barriers that limit Italy's competitiveness and economic development.

The lower competitiveness of continental Europe is at least in part a consequence of organizational and institutional rigidities, the high cost of labour and the high level of taxes and social security contributions.

The Italian tax system is marked by higher rates than are in force in other countries; they are not matched by a higher level of revenue. The tax burden is greatest for those taxpayers who meet their obligations in full. A reduction in tax evasion is an important objective. It would allow the burden to be distributed more uniformly; looking ahead, it might allow rates to be lowered. The results achieved over the years in the fight against tax evasion have not been entirely satisfactory. In recent years instruments have been put in place to improve the criteria used for the inductive assessment of income. The budget for 1998 contains measures designed to enhance the efficiency of the governmental bodies responsible for checking and collecting taxes.

Financial flows and monetary policy

The first nine months of 1997 saw the financial assets of households and enterprises increase by around 7 per cent on an annual basis; the expansion in the credit granted to enterprises and the public sector was around 3 per cent, basically in line with the forecasts and the growth in GDP. Italy's net external debt was eliminated.

The most liquid component of domestic financial assets, consisting primarily of short-term bank deposits, grew very rapidly, expanding at a rate of more than 10 per cent and overshooting the planned monetary growth. Managed savings also increased at a very fast pace and were mostly oriented towards long-term forms of investment.

Italian residents' purchases of foreign assets almost completely offset the surplus on the current account of the balance of payments and the inflow of foreign capital.

Foreign investors' purchases of Italian securities were far larger than the net issues made by the public sector. Against a background of favourable expectations for the Italian economy, fueled in part by the prospect of its participation in the Economic and Monetary Union, these purchases allowed domestic yields to converge towards those prevailing in the countries with a longer history of price stability and a lower level of public debt.

Most of the flow of households' financial savings has been channeled towards the international markets, both directly and through specialized intermediaries. Italians' investments abroad are likely to increase further in the coming years. The outlook for the economy and the financial system must enhance Italy's attractiveness as a home for savings of both domestic and foreign origin.

The developments I have just described are being carefully analyzed for their implications for Italy's financial structure and the growth of its economy and for their possible influence on the conduct of monetary policy.

Internal and external stability of the currency is the fundamental condition for the defence of saving, its rapid accumulation, its profitable use in broadening the productive base of the economy.

Monetary stability creates the conviction in workers, employers and financial intermediaries that increases in income cannot be achieved through inflationary gains, which are inevitably at the expense of other economic agents, but can only come from increases in economic activity.

From the middle of 1996 onwards, the abatement of inflation has permitted a steady reduction in short-term interests rates. In the early part of this year the decline in expected and actual inflation led the central bank to attenuate the restrictiveness of the monetary stance and thus encourage the financing of the nascent recovery in production.

The firm management of liquidity has been accompanied by a basically stable exchange rate and a further fall in medium and long-term yields, notwithstanding political and economic events, both domestic and international, that could have had a serious impact on these variables.

A number of factors tending to exert upward pressure on prices and costs have emerged during the year. Since March the domestic producer prices of manufactures have accelerated, albeit slightly. The upward pressure that the increase in indirect taxation in the budget will exert on consumer prices is, in principle, of a temporary nature; it must be dissipated in the next few months.

The pressures must be rapidly reduced by ensuring that all the aspects of economic policy are consistent, especially budgetary and incomes policy. We trust that the budget will be approved without any impairment of its macroeconomic impact and that structural measures will be adopted able to generate increasingly large savings in social expenditure in the future.

In such conditions we believe it will be possible to proceed with the policy of reflation, thereby fostering the convergence of Italy's short-term interest rates towards the level that expectations of monetary union are engendering in the leading European countries.

Italy and Europe in a world of global finance

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

Naples, 24 January 1998

The expansion of trade and the globalization of markets have maintained the rate of growth of the world economy at a high level in the last ten years. The pace has been particularly rapid in the countries where labour is most abundant and least costly and in the industrial countries whose economies are marked by a high degree of flexibility and rising productivity.

The liberalization of trade in goods and services, the improvement in communications and the reduction in transport costs increase the efficiency of the allocation of resources in the world. The gains from trade, the new wealth created are unequally divided among the countries involved; they also result in a redistribution of productive capacity and an increase in specialization and concentration.

The globalization of finance allows saving to be allocated and managed more efficiently at world level; it has made a significant contribution to sustaining productive investment in the fastest growing economies.

In the six leading industrial countries the volume of financial assets rose between 1982 and 1995 from \$30 trillion to \$124 trillion and from four to six times their annual GDP at current prices. In the industrial countries the huge rise in public debt contributed to the increase in the supply of financial instruments. Stock markets have grown very rapidly in recent years, especially in the emerging countries. The activity of non-bank intermediaries operating on a global scale and investing primarily in shares and bonds and other widely traded assets has developed, rapidly reaching a very substantial volume.

Financial intermediaries, including banks, tend to behave according to operating models that are based on the same theoretical paradigms; sometimes, however, by reacting uniformly to important new information or to changes in expectations concerning individual economies, they shift funds very rapidly from one economy to another; they can take positions with very-short time horizons in foreign exchange or securities of a size that heavily influences countries with less solid financial structures.

1. The Asian crisis

Foreign investment in the emerging markets by banks and institutional and private investors rose from \$50 billion in 1990 to \$240 billion in 1996.

In mid-1997 the foreign debts of eight emerging Asian economies, including Hong Kong, Singapore and China, amounted to \$900 billion or about 40 per cent of the area's GDP; some two thirds of the total was due to mature within one year.

The crisis, which has affected five countries in particular - Thailand, Indonesia, Malaysia, the Philippines and South Korea - is basically the result of the persistence of large external current account deficits ranging from 3 to 6 per cent of GDP and the consequent rapid accumulation of foreign debt.

These countries' budgets are generally close to balance and their public debt is limited. The disequilibria are attributable to an excess of private and public sector investment in relation to the albeit high rate of saving. The returns on investment projects have not always been adequate in terms of profitability and exports, partly owing to inefficiencies in the allocation of credit. Competitiveness was eroded by the 40 per cent devaluation of the Chinese currency in 1994.

Firms' growing dependence on foreign loans, denominated mostly in dollars, the preponderantly short-term nature of the debt and shortcomings in the supervision of financial intermediaries made financial systems more fragile. The uncertain performance of the Japanese economy and financial system exerted a negative influence.

The crisis started and spread when market participants came to recognize the difficulty of sustaining exchange rates in the face of the sharp and continuing appreciation of the dollar and expectations of increases in interest rates in the United States. The possibility emerged of heavy losses by firms; growth prospects were scaled back, with further adverse effects on stock markets.

It is surprising, in this crisis as well, how fast the climate of opinion changed among investors; it suggests a formation of expectations based on the performance of the macro-economic variables only in the short run and on the attitudes of other market participants. The extrapolative nature of expectations compounds fluctuations in exchange rates and securities prices.

Once again there was a failure to make a thorough analysis of the underlying conditions of each economy. To be sure, the shortness of the average maturity of the debt indicated uncertainty among investors regarding long-term growth prospects; nonetheless, until mid-1997 the flow of capital to the area remained substantial.

Notwithstanding the interventions organized by the IMF, the crisis deepened in December and the early days of this year. The falls in share prices and exchange rates against the dollar in the five countries mentioned since early 1997 have reached respectively 40 and 50 per cent on average; expressed in dollars, share prices have fallen to less than one third of the initial level. The markets, and especially the stock markets, of Singapore, Taiwan and Hong Kong have been caught up in the crisis.

Events in the markets and the poorer prospects for the economies of the countries hit by the crisis have adversely affected the already delicate balance of Japan's capital market and the quality of its banking system's assets.

The Chinese economy has not been drawn into the crisis, owing to its initially strong competitive position, relatively underdeveloped financial system and the preference given to direct inward investment over portfolio investment.

The volume of financing mobilized by the IMF, other international organizations and the nations working to cope with the crisis is without precedent. The World Bank and the Asian Development Bank have been called upon to contribute to objectives beyond the scope of their respective institutional mandates. Total disbursements of around $110 billion have either been made or are envisaged.

Banks will have to help in containing the effects of the crisis by rolling over existing loans.

The intensity of the crisis and the fear of systemic repercussions have produced a disarray in the measures and decisions adopted that suggests the present arrangements for international cooperation are inadequate in the face of the challenges posed by the globalization of markets.

2. International monetary developments

The backdrop to the Asian crisis is the persistent problem of the uncertain performance of the Japanese economy and the excessive burden placed on monetary policy.

This situation is an inheritance from the Mexican crisis in the early months of 1995, which led initially to an abnormal appreciation of the yen and to fears of a prolonged decline of the dollar.

The lowering of interest rates in Japan to near zero led in the second half of 1995 to a fall on the order of 20 per cent in the effective exchange rate of the yen. The economy did not benefit sufficiently in terms of growth, while the imbalance associated with Japan's large external credit position was aggravated. The weakness of the exchange rate tended to depress share prices, thereby contributing to the contraction in domestic bank credit.

Fiscal policy, even after the recent announcement of a small reduction in taxation, continues to be directed towards the undeniably desirable objective of containing the public debt in the long term. A further reduction in the budget deficit is expected in 1998; there does not appear to be sufficient concern about the deflationary implications of this course in the short term.

The measures now before the Japanese Parliament provide for a limited stimulus to domestic demand based on tax reductions that should amount to around half a percentage point of GDP. The package also includes a plan for shoring up and rescuing the financial and banking system involving very substantial resources, some $240 billion or 6 per cent of GDP.

The long period of expansionary monetary policy in Japan, especially from the spring of 1995 onwards, has substantially increased the supply of yen and lowered the cost of yen financing. Japanese banks have considerably increased their supply of credit to international markets; their external liabilities have fallen substantially and they have become large net creditors.

The expansion in the credit provided by the Japanese banking system has occurred in a period which has been marked by a very large US current account deficit, at present on the order of $180 billion a year, coupled with a persistently high level of direct investment abroad by American firms. The relatively slack economic conditions in most of the industrial countries made it easier to finance the external deficits of the countries affected by the crisis.

In a context of low inflation, both actual and expected, the supply of money at very low interest rates has been reflected in long-term yields in Japan and the other leading markets. The yields on long-term Japanese securities fell to 2.1 per cent in 1997. Japanese overseas portfolio investment amounted to more than $80 billion in 1994 and 1995, twice the level of the preceding years; it rose further in 1996 and the early part of 1997; around one fifth of the outflow goes directly to the US market.

Foreign investment in US securities amounted to more than $300 billion in 1996, an increase of 50 per cent on 1994 and 1995; compared with three years earlier it more than doubled. Annual disinvestment is on the order of $100 billion. The yield on ten-year US securities fell from 6.4 per cent in 1996 to 5.8 per cent at the end of 1997.

The European financial system also received much larger portfolio investment inflows in 1996 and 1997 than in the preceding years. More than $200 billion flowed into Germany in 1996, compared with $125 billion in 1995 and $76 billion in 1994. In 1997 the yields on medium-term securities fell faster in Germany than in the United States, reaching 5.3 per cent.

In some respects the abundance of liquidity in the international market appears to be a replay of the situation in the early nineties, up to the beginning of 1994, following the prolonged US monetary expansion. The Federal Reserve held short-term rates close to 3 per cent for nearly two years. In these circumstances the yields on medium and long-term securities in the leading markets declined steadily and substantially until the last few months of 1993. Those on ten-year US Treasury bonds fell from 7 per cent at the beginning of 1992 to just over 5 per cent in October 1993; the yields on German securities fell from 8 per cent to below 6 per cent at the end of 1993. The yields on ten-year Italian Treasury paper fell from over 14 per cent in the autumn of 1992 to below 9 per cent in the early months of 1994, after reaching 15 per cent during the EMS crisis.

From February 1994 onwards, in connection with the shift in the stance of US monetary policy, interest rates rose rapidly everywhere; securities prices fell to their level of two years earlier.

After the Mexican crisis, medium-term interest rates declined gradually again in all the main markets from the spring of 1995 onwards. Monetary policy was tightened moderately during 1997 in all the industrial countries except Italy and Spain. The upward pressures on interest rates are now being neutralized by the need to facilitate the solution of the Asian crisis and the expectations of slower growth in the United States.

The funds that have been withdrawn from the Asian economies have flowed to the financial markets of the industrial countries, above all that of the United States, providing support for share and bond prices and the exchange rate of the dollar.

The yen has been constantly weak, but in general outside Asia the pattern of exchange rates has remained orderly.

On several occasions during the nineties the Japanese government announced plans for fiscal expansion. Although they were substantial, the composition of the measures, their temporary nature and incomplete implementation meant that they produced effects of limited size and duration. The Japanese economy appears to be dominated by negative expectations for the medium and long term connected with the prospective ageing of the population. The large fall in property and share prices at the beginning of the nineties created difficulties for the banking system, which have now been aggravated by the crisis of South Korea and the countries of South-East Asia, which have close commercial, financial and entrepreneurial ties with Japan.

The way to overcome the impasse - given the size of the Japanese economy and its actual and potential strength in terms of productive capacity and saving - appears to be to provide an effective stimulus to domestic demand. Monetary policy, with interest rates close to zero, appears to have shot its bolt.

The plan now under discussion, if it is approved by Parliament in its entirety, appears to be on a sufficiently large scale as regards the rehabilitation of the financial system. By contrast, the stimulus for economic activity appears still to be small. More incisive budgetary measures, possibly with short time horizons, could improve the outlook for growth in Japan without having adverse long-term effects on its public finances.

The levels reached by share prices in the economies affected by the crisis, in conjunction with the stabilization plans drawn up for some of them with the support of the IMF, mean that there are likely to be profitable investment opportunities.

In the present phase the international economy is exposed to the risk of systemic instability, with consequent widespread deflationary effects. International portfolio investment flows have been of unprecedented size in the last few years; it is necessary at least to monitor them and to some extent to govern them.

A recovery in domestic demand and an improvement in the prospects for growth in Japan would also underpin the yen; they would bring direct benefits for the Asian countries and indirect benefits for the world economy. There is an increasingly urgent need for a new comprehensive approach to these problems conforming with the configuration of global markets and today’s international financial system.

3. Europe in the global market

Europe’s markets are increasingly integrated with the international market in finance.

The international opening of the Italian and French financial systems has proceeded apace in the nineties. Germany had already been playing an important role in international markets; at the same time the share of finance coming from abroad has steadily grown and the large net external credit position built up above all in the eighties is tending to diminish. The international openness of the United Kingdom remains pronounced, reflecting the presence of the world’s leading financial centre.

The recent monetary developments have had a significant effect on all the markets of continental Europe. The last three years have seen substantial flows of portfolio investment into Germany, France and Italy as well as smaller countries. The fall in long-term yields, which occurred simultaneously everywhere, has reflected the stability of prices and the reduction in government deficits within Europe; more immediately it is the consequence of the large inflows of funds that have been a feature of all the European markets.

Policies must be designed to maintain in the European Union financial investments that tend to be of a temporary nature. The small inflow of direct investment into some continental European countries, coupled with growth in EU outward direct investment, is a cause for concern. There is a need to develop conditions of competitiveness and profitability in productive systems that will attract the funds of international investors on a permanent basis.

The competitiveness of the financial industry in continental Europe is relatively low. Costs are high; the quality of the services provided is still inadequate. Small markets and the chronic weakness of some currencies have been a brake on the development of a more modern financial industry able to compete in the global market.

In 1996 the current account of the European Union's balance of payments showed a surplus of $86 billion or 1 per cent of the area's GDP. From 1990 onwards the external accounts of the EU countries fluctuated between deficit and surplus against a background of rapid growth of the world economy and moderate growth of domestic demand within the area.

The limited increase in output, the steady decline in industrial employment and the rise in unemployment are indicators of insufficient competitiveness with respect to the rest of the world. The markets for goods and above all the market for labour are more rigid in continental Europe; unit labour costs in industry are comparable with those of the United States and Japan, but much higher than those of newly industrialized countries in Asia, Latin America and eastern Europe. The tax burden, and especially that relative to employee workers, is high.

Population ageing will profoundly alter the balance between the economically active and inactive members of society. The low level of economic growth depresses the propensity to invest.

The prospect of economic and monetary union has forced European countries to take determined action to put their public finances back on a sound footing. To a large extent the effort required to adjust budget deficits has been made. A high degree of monetary stability has been restored. In several cases, however, the tax burden has increased further.

Monetary stability is the primary objective of the unification; it serves to create conditions conducive to investment and growth.

The parameters for government deficits and public debts are playing a key role in achieving monetary stability in the area; they were nonetheless conceived in a context in which the implications of the globalization of commerce and finance were still not sufficiently clear; it is also necessary to try and reduce the burden on the economy of some items of the public finances and the ratio of taxes and social security contributions to GDP.

To seek to enhance the Union's competitiveness through the exchange rate would be in contrast with the objective of monetary stability. Competitiveness is in the first place a reflection of the share of resources absorbed - directly in the form of wages, indirectly via some items of public expenditure - by labour. It must therefore be enhanced through a cost of labour, a flexibility in its use and a level of direct and indirect taxation that are compatible with today's greater international openness of the markets for goods, services and especially finance.

Increasing the size and diversification of the capital market can make a decisive contribution to monetary stability and ultimately to the prosperity of the economy.

Europe as a whole is a net creditor with respect to the rest of the world. The creation of a single financial market that is no longer segmented by different currencies, in a context of price stability and greater competitiveness, will offer considerable scope for growth in the issue and trading of corporate bonds and shares, and for the development of related capital market activities, benefiting enterprises and economic activity and supporting their extension to world markets.

Looking ahead, the international monetary system will increasingly be divided into three large blocs: those of the dollar, the yen and the European currency. The currencies of smaller countries will tend to be grouped around, and refer to, the three of greatest importance.

The strength of each currency will depend on the credibility of the monetary policies adopted. In the background there will be a tendency for the productivity and competitiveness of the real economy to take on renewed importance. It is necessary to foresee a recomposition of the area's value added in the medium term at the expense of more traditional industries and to the benefit of more advanced services, especially financial services.

Important opportunities are opening up for Italian and European operators that they must succeed in grasping by updating strategies and professional skills and by correctly assessing the related risks through the application of more advanced and complete models.

4. Italy

Italy recorded another surplus on its external current account in 1997, on the order of 60 trillion lire or just over 3 per cent of GDP.

Towards the end of the year the country's net external position returned to near balance. Some 470 trillion lire of net government liabilities vis-à-vis non-residents (mostly short and medium-term lira paper purchased on the Italian market, but with about one fifth consisting of foreign currency bonds issued abroad) were matched by net assets of more than 350 trillion held by the non-bank private sector, about 100 trillion held by the Bank of Italy and smaller amounts held by banks and other financial operators.

The Bank of Italy's gold reserves amount to 2,500 tonnes; in addition the central bank's external position improved from 51 trillion lire at the end of 1995 to 96 trillion at the end of last year.

Households and firms have converted Italy's substantial current account surpluses into external financial assets. They first repaid foreign currency debts taken on in earlier years and then increased their holdings abroad. Their overall position in foreign currency improved from near balance in 1993 to a surplus of more than 200 trillion lire last September.

Capital outflows in the form of portfolio investment increased from a monthly average of 4.5 trillion lire in 1996 to one of about 9 trillion last year. This reflects a propensity for portfolio diversification aimed at achieving a better combination of risk and return, a process that is structural and that is bound to become more pronounced over the next few years. Increasingly, these outflows are being channeled through Italian and foreign intermediaries specialized in asset management.

Despite the large volume of capital outflows in 1997, the net supply of foreign currency in exchange for lire remained very substantially positive, enabling the Bank of Italy to achieve the build-up in its foreign exchange reserves referred to earlier at stable exchange rates.

The supply of foreign currency derived not only from the trade surplus but also from a large volume of inward portfolio investment by institutional investors, banks and private operators. In response to more favourable domestic conditions and abundant international liquidity, the foreign investors continued to make very large purchases in 1997: 118 trillion lire, in line with the previous year. At the same time, the improved climate of confidence was reflected in a sharp reduction in the share of purchases foreign investors financed in lire in order to hedge the exchange risk.

Net purchases of Italian government securities by non-residents exceeded issues by a wide margin. The economy's regained credibility, the prospects for the consolidation of the public finances, low inflation and the upward trend in bond prices encouraged investment and accentuated the decline in yields on medium and long-term securities, which are now comparable to those in the markets with the most stable currencies.

Italian savers directed the bulk of their investment to the various forms of managed savings; through this channel they increased their purchases of foreign assets and Italian shares. Problems may arise in this connection with respect to the risks that households and firms may sometimes run with this new configuration of their portfolios. The declining yields on Italian government paper and the lower liquidity of these alternative instruments also strengthened the demand for money, and in particular for current account deposits.

The climate of confidence that has prevailed in the markets has also been reflected in the surge in share prices, which has continued even after the outbreak of the Asian crisis. Financial conditions facilitated major privatizations of public sector banks, coupled with their recapitalization, along lines we had frequently suggested.

Economic activity remained weak in the first half of 1997, bearing out the forecasts we made at the end of 1996 and early last year. In 1997 the growth in GDP, which had been a disappointing 0.7 per cent in 1996, would have been just over 1 per cent. Incentives for the purchase of consumer durables stimulated economic activity despite the further fiscal tightening and permitted annual growth estimated at about 1.5 per cent.

Investment in plant and machinery has shown signs of picking up, partly in response to favourable conditions in Europe; by contrast, the construction sector continues to stagnate.

The situation with regard to employment is not improving, however; in fact, in the more depressed regions it is deteriorating further. Growth in consumer spending is still hesitant, owing to the uncertain prospects for employment and the slow increase in households' income.

Monetary policy has continued to be firmly directed to stabilizing inflation.

Consumer price inflation fell below 1.5 per cent on a seasonally adjusted annual basis in the second half of 1996 and remained at that level until the summer of 1997. In the fourth quarter of last year it rose to around 2 per cent, reflecting the upturn in producer prices that had occurred in the second quarter.

The expectations regarding inflation have improved continuously and now indicate a rate of 2 per cent for 1998 and 1999.

The lowering of official interest rates from the middle of 1996 onwards was calibrated in relation to actual and expected inflation and the outlook for the adjustment of the public finances, the condition for a lasting return to stability, with constant attention to the changes in residents' portfolios and the inflows of foreign capital.

We have kept the exchange rate consistent with the lira's central parity, with no need for support intervention in the moments of tension of international origin or related to domestic political developments.

The reduction in the official rates, the discount rate and the rate on advances, decided at the end of last year is helping to sustain conditions that, thanks in part to the good performance of exports, are likely to foster investment. The growth in GDP in 1998 could exceed 2 per cent.

Italy is still faced with difficulties that will have to be overcome, thereby laying the foundations for improvements tomorrow; there is a need for behaviour and policies that will ensure the saving available is used to strengthen productive investment at home. Over the last five years direct investment by Italian firms expanded substantially; the inflow remained virtually unchanged; the balance showed a deficit of 30 trillion lire.

The quest for higher profits in a climate of renewed confidence in stability and economic growth can be directed towards expanding the scale of production and investment, with a view to creating employment.

Wage moderation must be maintained, thereby permitting a reduction in unit labour costs; the albeit limited pressure on prices - particularly producer prices - must not be allowed to increase.

Last year saw substantial progress towards the consolidation of the public finances. On the basis of the latest data, general government net borrowing should be less than 3 per cent of GDP. A start has been made on reforms aimed at improving the working of the public administration and rationalizing the tax system. Cuts have been made in some expenditure items and transfers to non-state public bodies reduced.

What is needed now is action of a structural nature to consolidate the results achieved. Public services must be made more efficient and provide effective support for productive activity.

There is a manifest need for flexible formulas in the use of labour that will enhance its productivity. Unit labour costs must be brought down substantially in the less developed regions, where both youth unemployment and the underground economy are present on a large and growing scale and where the labour force participation rate, particularly among women, is very low. It is indispensable to eliminate the rigidities in the economic relations between employers and employees, which prevent wages and salaries and other contractual conditions from adjusting to the level of productivity and the demand for labour. Excessively high labour costs lead to forms of hidden employment; they prevent most young people from embarking on a career in the regular economy and, together with high tax rates, give rise to evasion of abnormal proportions.

A lack of effective demand is increasingly evident. A low level of investment is common to all the European economies; it lies at the root of the decline in employment in certain sectors and the rise in unemployment. It is serious in the more depressed regions, particularly in southern Italy; together with high labour costs, the fall in private and public sector investment is adversely affecting the economic and productive fabric. Appropriate policies are required to restore higher rates of investment. Lower unit labour costs and increased competitiveness provide fertile ground for a recovery in investment.

I have spoken at length elsewhere of the potential and actual availability of private saving in Italy. I have endeavoured to show that a higher level of economic activity and faster growth, combined with monetary and wage stability, can accelerate progress towards the lasting adjustment of the public finances.

The price stability that we have regained with a monetary policy that at times has had to be extremely rigorous, must be bolstered by a competitive and expanding real economy.

By pursuing a stable policy from the summer of 1994 onwards we brought the rate of inflation back into line with that of the leading industrial countries. Wage moderation, the drastic reduction in the Treasury borrowing requirement in 1997 and the weakness of prices in international markets have helped considerably in the curbing of inflation; as a consequence, long-term interest rates have come down. These results, obtained through an unwavering commitment, have made a major contribution to the convergence of Italy’s economy towards those of our European partners with a more firmly established tradition of stability.

The months from now until the decisions connected with the launch of Monetary Union, but also the second part of this year, will prove especially delicate for the entire system of European exchange rates. In these circumstances monetary policy, while it will continue to guarantee moderate medium-term inflation expectations, is now focused more on the stability of the exchange rate.

If economic agents’ behaviour is consistent, Italy will be able to maintain the international position it has so arduously regained, to the benefit of present and future generations.

The Bank of Italy and the ESCB. Legal convergence

Statement by the Governor, Antonio Fazio, to the Treasury, Budget and Planning Committee of the Chamber of Deputies

Rome, 12 February 1998

The results the Italian economy has achieved in the past five years are attributable to the combined operation of fiscal and monetary policy and to wage moderation.

In late 1992 and early 1993 the restrictive stance of monetary policy prevented expectations of rising prices, fueled by the decline in the external value of the lira and the abrupt change in the exchange rate regime, from translating into actual inflation. A substantial contribution to this result came from low wage growth and budgetary measures that impinged on the structure of the main components of government spending.

Conditions in the economy became difficult again during 1994: the state sector borrowing requirement was overshooting the targets and demand was growing rapidly, with the result that inflationary pressures developed. In December 1994 and the first few months of 1995 domestic political factors and the repercussions of the Mexican crisis on the foreign exchange and financial markets aggravated the situation. Official rates were raised three times: in August 1994, at the first manifestation of price tensions; in February 1995, in conjunction with supplementary fiscal measures; and in May of the same year, when doubts arose about the curbing of inflation.

The monetary tightening, the fiscal measures of early 1995 and the stabilization of the exchange rate had a positive influence on inflation expectations and long-term interest rates.

Monetary policy maintained a restrictive stance throughout 1995 and in the first half of 1996, with the aim of subduing inflation expectations and bringing the rate of increase in prices into line with that prevailing in the other leading industrial countries.

In July 1996 a start was made on lowering the official rates. The reduction was prudent and calibrated above all in relation to the decline in expected and actual inflation. This approach resulted in a constant inflow of funds from abroad for purchases of government securities; by offsetting the large outflows of Italian capital generated by the need for portfolio diversification, these inflows contributed to the stability of the exchange rate of the lira.

The progress achieved made it possible for the lira to rejoin the exchange rate mechanism of the EMS in November 1996.

The caution employed in relaxing monetary conditions meant that Italy's financial and foreign exchange markets were not affected more than marginally in 1997 by the tensions that emerged at the international level in connection with the crisis in East Asia and the vicissitudes of some important European countries or by those attributable to domestic political developments.

Today the Bank of Italy's reserves comprise more than 2,500 tonnes of gold and foreign assets, net of repurchase agreements, worth 82 trillion lire, compared with 6 trillion in 1992. Underlying the lira's solidity is the return to balance between Italy's external assets and liabilities.

At the end of 1992 Italy had external claims of 600 trillion lire and external liabilities amounting to 770 trillion. The net debt of 170 trillion was equal to 11 per cent of GDP. Thanks to the succession of surpluses recorded on the current account of the balance of payments, at the end of 1997 Italy's overall net external position was once more broadly in balance.

Last September some 470 trillion lire of government foreign debt, consisting mostly of government securities held by non-residents, were matched by net external assets of more than 350 trillion held by the non-bank private sector, about 100 trillion held by the Bank of Italy and smaller amounts held by banks and other financial operators.

The Bank of Italy and the European System of Central Banks

It has been agreed within the Community that the decisions concerning the start of monetary union — in particular, those involving the countries that will adopt the single currency from the start — will be taken in the early part of the month of May.

With the introduction of the single currency, the task of formulating monetary policy will be transferred to the European System of Central Banks, comprising the central banks of all the participating countries and the European Central Bank.

The Treaty establishing the European Community, as amended at Maastricht, provides a broad outline of the internal organization of the ESCB. The preparatory work carried out by the European Monetary Institute since the signing of the Treaty has focused on these aspects.

The national central banks will be entrusted with the task of implementing within each country the monetary policy decided at the Community level.

The central banks of the participating countries will continue to be responsible for all the functions entrusted to them under national laws; in Italy these include banking supervision, the supervision of markets, the safeguarding of competition in the credit market and, jointly with the European Central Bank, oversight of the payments system.

The systemic crises in foreign markets have strengthened the view that banking supervision complements monetary policy in determining conditions of stability in financial and credit markets.

The primary objective of the common monetary policy is price stability. The mandate, clear and unequivocal, given to the European System of Central Banks is based on two tenets held by the drafters of the Treaty: that the stability of the value of money is a public good which does not hinder, but rather fosters, sustainable growth of the real economy; and that maintaining stability depends crucially on the operation of monetary policy.

The European System of Central Banks will enjoy complete autonomy; it will regularly provide information on its activities and report on them to the other Community institutions. In particular, the European Central Bank will be required, pursuant to Article 109b of the Treaty and Article 15 of the Statute of the European System of Central Banks, to publish periodic reports on the activities of the ESCB, with a description of the current and future stance of monetary policy. The European Parliament will be able to debate these matters and invite the President and the other members of the Executive Board of the European Central Bank to be heard by its competent committees.

In particular, the need for a “single” monetary policy will have to be reconciled with the principle of “subsidiarity”, which has also been embodied in the Statute of the ESCB and is intended to permit the highest possible degree of decentralization in operational terms.

More specifically, provision is made for a division of tasks along the following lines:

- the decision-making powers in monetary policy matters, especially with regard to interest rates and compulsory reserves, will be centralized in the European Central Bank. The ECB will exercise these powers through the Governing Council, comprising the Governors of the national central banks and the Executive Board, composed of the President, the Vice-President and four other members. The Executive Board will be responsible for implementing the decisions of the Governing Council on a continuous basis;

- the operational implementation of monetary policy will be entrusted to the national central banks.

Each national central bank will thus have two tasks: it will contribute, through its Governor, to the decisions of the Governing Council; and it will implement these decisions in its own country.

Operations in the money and foreign exchange markets will normally be carried out by the national central banks.

Within this framework, the Bank of Italy will continue to carry out all the operational functions that it currently performs. The procedures for conducting monetary control operations will be different in part from those used today; the draft legislative decree currently under discussion in Parliament is designed to permit the necessary changes.

Legal convergence

The Treaty requires each member state to make its national legislation, and especially the provisions concerning its central bank, compatible with the Treaty and the Statute of the European System of Central Banks. In particular, the Treaty requires each member state to ensure that its central bank is independent from the government and all other political bodies; the necessary reforms must be enacted before the introduction of the single currency.

Within the general framework laid down in the Treaty, the European Monetary Institute and the Commission have done valuable work in analyzing and interpreting the relevant provisions and providing clear indications of the criteria to be followed in adapting national legislation to Community law, not least in view of the need for the latter's uniform application throughout the European Union.

The key requirements of central bank independence with a view to a country's adoption of the single currency are:

- the task of pursuing price stability as the primary objective;
- complete autonomy in the management of the monetary instruments, interest rates and monetary and credit aggregates, for the purpose of defending the internal and external value of the currency.

Some of the provisions of the draft legislative decree are aimed at strengthening the Bank of Italy's independence, the essentials of which are in fact already provided for in Italian legislation.

At a higher level there is the proposal of the Joint Parliamentary Committee on constitutional reform for the Bank of Italy to be given constitutional status by affirming the central bank's independence and autonomy in the performance of its monetary and supervisory functions in the Constitution.

The integration of the national central banks in the European System of Central Banks is to be achieved by linking the implementation at national level of measures concerning official interest rates, compulsory reserves and open-market operations with the decisions adopted by the European Central Bank.

It is important to stress that, in conformity with the Statute of the European System of Central Banks, the participation of the Bank of Italy in the System will not affect the performance of the other tasks that it is assigned under national legislation, especially those related to banking supervision.

The draft legislative decree contains the provisions needed to ensure the compatibility of Italian legislation with the Treaty and the Statute of the European System of Central Banks. As well as being submitted to the competent Italian Parliamentary committees, it has been submitted, as required, to the European Monetary Institute for its opinion. The provisions guaranteeing the integration of the Bank of Italy in the ESCB will mostly come into force at the time the single currency is adopted.

The Statute of the Bank of Italy will be modified in accordance with the legislative decree under discussion. The Bank's Board of Directors has already approved the proposed amendments, which will be put to the Extraordinary General Meeting of

Shareholders to be held on 19 March; they will be rendered compatible with the final text of the legislative decree.

The amendments to the Bank's Statutes will then follow the procedure laid down for their approval by the President of the Republic.

* * *

In Italy the monetary policy approach that has been followed in the last few years, and will be maintained in the coming years, is aimed at convincing market participants, workers and businessmen that increases in income can only be achieved by expanding economic activity.

The action taken on the monetary front, of necessity extremely rigorous at times, has made a major contribution to the convergence of Italy's economy towards those of European countries with a more firmly established tradition of stability.

The decisions that will be taken by the European Central Bank will have the maintenance of price stability as their objective.

Labour market, incomes and fiscal policies will increasingly be the only ones available to promote the competitiveness and profitability of Italy's enterprises, as well as growth in production and employment. They will have to give renewed impetus to productive investment. The ample availability of savings, of which a large part is invested abroad at present, makes this possible.

The revival of economic activity in Europe as a whole cannot be based on manoeuvres to enhance competitiveness through the exchange rate of the common currency; such action would be in conflict with the primary objective of monetary stability. This will have to be underpinned by a strong productive system, to be achieved by curbing budgets and taxes, boosting investment and making more flexible use of the factors of production. These are the indispensable conditions for achieving faster growth and creating new employment.

The consolidated law on financial intermediation

Statement by the Deputy Director General, Pierluigi Ciocca, to the Finance Committee of the Chamber of Deputies

Rome, 27 January 1998

The Bank of Italy is of the view that the bill proposed by the Committee represents a significant advance in the regulation of financial intermediaries and markets in Italy. The proposed Financial Services Law joins the 1993 Banking Law in forming a modern legal framework for these two areas, which are of key importance for the Bank of Italy. The measures will enable the Italian banking and financial industry to compete on an equal footing with those of other countries. Both laws are founded on the same principles: banking and finance as entrepreneurial activities, international openness, competition, self-regulation and supervision that is not excessively burdensome and which focuses on efficiency and stability as well as disclosure, transparency and proper conduct; principles that the Bank of Italy, with its different historical background, has emphasized and practised over the last ten years. The new framework delineates a regulated competitive market, the key to growth for banks and financial firms that are able to earn a profit by offering high quality services while minimizing costs. At the same time, the measures provide greater direct and indirect protection for savings, in accordance with the provisions of Article 47 of the Italian Constitution.

In the area of company law, the Committee has had to work within two constraints. The first is contained in the mandate the Government received from Parliament, which refers to Italian companies that "issue securities in regulated markets" in Italy or another EU country. The second is the fact that while preparatory work had been in progress for more than a decade in banking and finance, there was a very wide gap between reality and any desirable model in the corporate world; so wide was the gap that it appeared advisable to proceed gradually, avoiding sterile attempts to pursue narrow economic policy objectives through a partial reform of company law.

The measures proposed in the latter area thus need to be assessed pragmatically. Overall, they are appropriate, marking a significant step forward in the protection of "savings and minority shareholders", as specified in the enabling law. They are in line with trends in the international financial community, which a special survey conducted by the Bank of Italy in London and New York helped to identify. They reflect an underlying approach with which the Bank agrees and which makes the reform of company law proposed by the Committee coherent, albeit necessarily incomplete. There will certainly be other opportunities to address the general questions concerning company law. Such action should be based on the principle that competition and the contestability of ownership, management autonomy and the protection of shareholders and creditors are objectives that should be pursued jointly and which, ultimately, are not in conflict with each other. The enabling law focuses on the third of these aims, especially the direct protection of minority shareholders with specific legal instruments. This precise indication by Parliament was obviously followed by the Committee. Greater protection of minority interests is consistent with distributive justice. It also broadens the market, increases competition and the contestability of ownership, and lowers the cost of capital. However, the key to protecting creditors and minority shareholders is the firm's profitability, which is entrusted to managers enjoying autonomy in a system that is efficient partly because it includes regulated and competitive financial markets and is underpinned by good company law.

It is therefore the Committee's intention that the three parts of the bill - financial markets, financial intermediaries and company law - should constitute a whole. In the case of company law, even where the letter and spirit of the mandate have led to rules providing much greater protection of minority interests than is currently available, it is necessary to consider the supplementary or mitigating effects, serving to increase contestability and entrepreneurial autonomy, of other provisions not only in the field of company law but also concerning financial intermediaries and markets.

The remainder of this statement is devoted to a summary outline of the salient points of the bill. The descriptive document submitted to the Committee provides a more detailed analysis of the proposed changes.

Market regulation

In the area of financial markets the draft bill sanctions and completes the highly innovative measures introduced with Legislative Decree 415/1996, which implemented the Community directive on investment services in Italy.

Competition between markets, heightened by financial globalization and European integration, calls for greater entrepreneurship in the provision of innovative financial services at competitive prices. The Stock Exchange and the securities markets have been transformed from public institutions into companies limited by shares charged with managing the markets and equipped with self-regulatory powers.

A sharp distinction has been drawn between the management of privatized markets, entrusted to market participants, and the supervision for which the authorities are responsible. The management companies of the Stock Exchange and the other markets have been given a role in the regulatory process. They enjoy powers of self-regulation in the areas instrumental to the pursuit of their corporate purpose and may perform supervisory functions, either within the scope of their own authority or because authorized by Consob.

Self-regulation regards the admission of financial instruments and intermediaries to the markets and their exclusion and suspension, trading rules and the disclosure of information on trading. The manner of exercising these powers is established in the market rules, which the management companies submit for approval to the authorities. The public supervisory bodies verify the consistency of self-regulation with general supervisory principles, which are aimed at preserving the integrity of the markets and safeguarding investors.

Part of this framework is already in place. Consob has approved the rules submitted by Borsa Italiana S.p.A. for the management of the markets for equities, bonds (MOT), derivatives based on the Mib30 index and options on individual securities. As regards government securities, the Ministry of the Treasury - which has issued a framework decree on the operation of the market - will approve the management rules that MTS S.p.A. and MIF S.p.A. are drafting for wholesale and derivatives trading. The coordination between the management companies (Borsa Italiana, MTS and MIF) and the reorganization of the markets are being defined. It is now up to market participants to choose the most appropriate, least costly, most functional and competitive arrangements.

Supervision of the regulated markets is the responsibility of Consob, which may take over the functions of the management companies in cases of extreme need and as a matter of urgency (Article 88).

Partly in preparation for the establishment of a single central bank for Europe, the Bank of Italy has been formally made responsible for supervising markets that are important for monetary policy: markets in which the Bank has always taken a close interest and in which the term structure of interest rates is determined. These currently comprise the screen-based market in government securities (MTS; Article 98) and the interbank deposit market (MID; Article 112). In view of the key role of the wholesale markets for government securities in the public finances, the Treasury Ministry has been assigned the related powers of authorization, regulation and approval of management rules.

The Bank's new supervisory powers will be aimed at ensuring orderly market conditions, the liquidity of trading, equal access for all intermediaries and the efficient dissemination of information for the proper transmission of monetary policy impulses. In carrying out these activities, the Bank will seek to minimize the cost of regulation for itself and above all for intermediaries.

In addition to the day-to-day operation of markets, the centralized management of financial instruments and government securities will also be liberalized. The function is currently performed by Monte Titoli S.p.A. and the CAT system of centralized government securities accounts run by the Bank of Italy, which have custody respectively of 286 trillion lire of shares and bonds and 1,900 trillion lire of government securities (nominal values at 31 December 1997). Liberalization will involve the elimination of the monopoly on the centralized management of private securities currently assigned by law to Monte Titoli S.p.A. The Bank of Italy's share of the company will be disposed of gradually. The Treasury Ministry is also empowered to regulate the centralized management of government securities, including the persons involved and the arrangements for carrying on the activity.

The Bank of Italy and Consob are responsible for supervising the management companies for the centralized management of financial instruments, with the aim of "ensuring transparency, orderly provision of services and the protection of investors". The creation of a number of competing management companies is not an inevitable outcome, however. A structural link may be formed between the two existing central securities depositories (Monte Titoli and CAT), partly in relation to connections between European central depositories, which would counsel the creation of a "single national access point" for the settlement of cross-border transactions. For government securities, the transfer of the procedures for managing the centralized accounts should be implemented over a long enough span to avoid wasting the investments already made and reducing the ability of the system to provide an efficient service, which is important for the financing of the Treasury. It is no coincidence that other European central banks (in Belgium, the United Kingdom, Greece and Spain) act as central securities depositories for government securities.

The definition of the structure of future centralized securities depositories should take account of the forthcoming regulations on the dematerialization of financial instruments, which will be compulsory for listed securities and optional for others. The regulations will be issued within the framework of the delegated legislation provided for in the law governing the introduction of the euro (Law 433/1997). In countries where dematerialization has been introduced by law provision has also been made for a single centralized depository.

The regulation of intermediaries

The need for a review of the legislation is felt particularly strongly in the managed savings industry. This is expanding rapidly but is threatened by potentially tough foreign competition. More than half of the 1300-odd investment funds and sectors of open-ended investment companies (SICAVs) operating in Italy at the end of 1997 were controlled by non-residents.

The share of Italian households' financial assets under management grew from 10 per cent in 1990 to 33 per cent last year, when it amounted to 1,000 trillion lire, of which just over one third consisted of individual portfolios. The proportion is nonetheless lower than the average of 41 per cent for the G-7 countries.

The expansion in managed savings is basically driven by a twofold process that has long been under way elsewhere and which has developed in Italy in the last ten years. On the one hand a growing share of the flow of domestic saving (more than one third) is generated by employees and pensioners and their households. On the other hand a growing share of this component of saving is being invested in financial assets - deposits yesterday, securities today and tomorrow - rather than in real estate. The financial wealth of these households today accounts for about 70 per cent of the total financial wealth of Italian households (3,500 trillion lire). Between 1987 and 1995 households' financial wealth rose on average from 37 to 67 million lire per employee household and from 47 to 142 million lire per pensioner household (see Banca d'Italia, *Relazione annuale*, 1997, Table D6, p. 196). The comparatively small size of individual asset holdings and the cost of administering them directly, coupled with the enormous scale of the aggregate total, make it increasingly advantageous for worker-rentiers to entrust their funds to professional investors.

The professional skills required to manage assets on a collective or an individual basis are much the same. Nonetheless, under present legislation the two activities cannot be carried out by the same person, but must be handled by separate entities:

- investment firms, banks and trust companies for the management of individual portfolios;
- collective investment schemes (open- and closed-end investment funds and SICAVs) for the management of assets on a collective basis.

The range of products is limited, moreover, by legislation that establishes in detail the various aspects of portfolio management and the types of collective investment schemes admitted, so that the introduction of new types requires special laws.

The bill proposed by the Committee solves both these problems.

The segmentation of activities is overcome by creating a single manager (Article 34). Asset management companies are to be granted the right to provide, jointly and on an exclusive basis, individual portfolio management services and collective management services (investment funds and pension funds). Investment firms, banks and trust companies will continue to be able to provide only individual portfolio management services. The barring of asset management companies from engaging in other types of investment services limits the risk of conflicts of interest between managers and customers.

The new approach brings the Italian system closer to those of other countries, where similar solutions were adopted some years ago: it also anticipates the planned Community directive on the collective management of assets under discussion by the European Union.

The centralization of asset management functions is also to be permitted for the management of investment funds on their own. By abolishing the existing provisions, under which a fund can be managed only by the company that established it, intermediaries will be free to entrust the promotion and management of funds to separate companies according to their organizational requirements.

The unification of asset management functions is reflected in the authorization of asset management companies; there is to be a single licence covering the management company instead of the authorization of individual funds. The technical nature of the related controls is confirmed by the transfer of responsibility for granting authorizations from the Ministry of the Treasury to the Bank of Italy after consulting Consob.

The distinction between management on an individual and a collective basis is retained. The element of trust inherent in both takes on special importance in the latter. In the case of management on a truly individual basis, it is up to investors to define the contents of the management contract and to participate in the choice of the types of securities to be invested in. It follows that the control of this type of activity has to consist primarily in rules to ensure the provision of information to customers, the proper conduct of business and the transparency of transactions - rules that Consob is institutionally empowered to establish and enforce. In the case of management on a collective basis, instead, it is the manager who plays the pre-eminent role; investors can only accept the manager's proposals or withdraw by redeeming or selling their units. It follows that prudential supervision becomes more important in the protection of investors.

The bringing of both types of managed savings under a single umbrella will make it possible to stamp out the widespread practice of individual management that is only formally personalized and to enhance the distinctive features of the two types of service. The reduction in costs made possible by economies of scale will lower the threshold for truly individual management, while the ability to provide both types of service jointly will allow intermediaries to direct investors towards the one that best meets their requirements. The broader powers of supervision attributed to the authorities will help to ensure that the distinction is maintained.

By entrusting the regulation of the collective management of assets to secondary rather than primary legislation - following the course adopted in the 1993 Banking Law and Legislative Decree 415/1996 (the Eurosim decree) - the existing provisions establishing the different types of investment fund are to be replaced by others that delegate the definition of all the aspects associated with functioning of such undertakings to the administrative authorities. The related regulatory powers are divided between the Ministry of the Treasury (Article 38), Consob and the Bank of Italy (Article 10).

The Treasury Ministry will be responsible for defining the operating guidelines and key features of the different types of product offered by open- and closed-end investment fund management companies and SICAVs.

Consob will be responsible for establishing the conduct rules of and information requirements for asset management companies and SICAVs, in accordance with the principles of proper conduct and transparency.

The Bank of Italy is given the task of regulating the aspects concerning the management of collective investment schemes’ portfolios, which is currently governed mainly by primary legislation. The Bank’s other responsibilities with regard to the prudential supervision and the administrative and accounting procedures of collective investment vehicles and management companies are confirmed. This approach appeared desirable in consideration of:

- the need to reassure investors that the risks assumed by a fund are consistent with the nature of the investment selected;
- the close relationship between the prudential regulations applying to a fund and the stability of the intermediary: even though the investment risk is borne by the investor, a management company’s failure to comply with operating limits makes it liable for the harm caused to investors by transactions inconsistent with the declared investment policy;
- the fact that the majority of Italian management companies belong to banking groups (35 of the 54 operating at the end of 1997). Episodes of mismanagement in the administration of funds thus risk affecting the reputation and, in extreme cases, the stability of Italian banking groups, which are currently going through a delicate stage of transition with their profit margins squeezed by fierce competition and high costs.

The separation of supervisory responsibilities according to their aims applies to all intermediaries: risk limitation and financial stability are entrusted to the Bank of Italy, transparency and proper conduct to Consob (Article 3).

The growing importance of banking groups in financial business and the related need for stronger prudential controls have led to the draft decree providing for the consolidated supervision of financial groups that include investment firms or asset management companies.

Corporate governance

The new provisions of company law undoubtedly mark an advance as regards the protection of minority interests through the introduction of forms of direct protection. The amendments primarily concern: the reduction in the shareholding requirements established by the Civil Code for the calling of general meetings, the lodging of complaints with the board of auditors and the reporting of alleged irregularities to the tribunal; the granting of the right to a qualified minority of shareholders to bring derivative actions to enforce the liability of directors; the appointment by minority shareholders of one or more members of the board of auditors; the application to extraordinary general meetings of new quorums designed to protect "active" minorities.

The proposed amendments also aim at increasing the effectiveness of the control exercised by the board of auditors on the running of the company, without its interfering in the merit of individual operating decisions and without introducing institutions such as the supervisory committee of German law. The powers of the board of auditors to obtain information are strengthened, as is the cooperation between the board and the external auditors. The inclusion of members of the board of auditors chosen by the minority shareholders - without prejudice to the autonomy and impartiality of the board - contributes to the dialectic within companies. The relationship between companies' operations and their accounting records requires the members of the board of auditors to exercise close control on the adequacy and reliability of administrative and accounting procedures, while the testing of the accounts is entrusted to the external auditors, supervised by Consob, thereby eliminating the duplications that currently exist.

The amendments concerning the crime of insider trading - renamed abuse of inside information - increase the severity of the penalties and clarify the behaviour that constitutes a violation of the law. The principal offence involves persons "making use" of inside information in carrying out transactions involving financial instruments; there has to be a causal link between the possession of the inside information and the carrying out of the transaction.

The innovations concerning cross-shareholdings, solicitations to invest, proxy votes and shareholder agreements move decidedly in the direction of promoting competition and the efficiency of the securities market and the productive system, and of increasing the contestability of ownership.

The Committee opts for maintaining the existing limits on cross-shareholdings. The threshold of 2 per cent both for the notification of significant shareholdings and for cross-shareholdings between listed companies is confirmed as the general rule. It is nonetheless proposed that, subject to authorization by the general meetings of both companies, the limit on cross-shareholdings be raised to 5 per cent. Although this would make it less difficult to arrive at industrial agreements by means of cross-shareholdings, the limits remain more stringent than in other countries (10 per cent in France, 25 per cent in Germany). Priority is given to increasing the contestability of control. The solution takes account of the important role still played in Italy by the holders of even small blocks of shares through shareholder agreements and other forms of concerted action.

The preference with regard to solicitations to invest is to increase the information provided to the market. The most significant innovations consist in the lengthening of the duration of the information requirements for issuers (from the time of the solicitation, fixed in the prospectus, to the entire life of the securities distributed among the public) and the subjecting of unlisted companies with widely distributed shares to the rules on public disclosure and to the powers of Consob in matters of reporting and on-site controls.

The new rules also provide for the elimination of the existing exemption of offers of bonds issued by banks where listing is not envisaged. The financial instruments issued by banks for the purpose of raising redeemable funds would thus be subjected to the rules on solicitation, albeit in an attenuated form to be established by Consob after consulting the Bank of Italy. The existing exemption is based on a provision of Community law which refers to the existence of forms of public control aimed at the protection of savings. Other countries - Germany, Belgium, the Netherlands and Spain - have invoked, albeit in different ways, the right of exemption granted by Community law. The particular nature of banking suggests that it is necessary to proceed with great caution in assimilating the information requirements applicable to banks with those applicable to other companies. The Consob regulation will need to be selective in determining the requirements concerning the provision of information on a continuous basis to the subscribers of bonds and other financial instruments issued by banks.

The proposed legislation on proxy votes is largely based on solutions put forward in earlier bills. It is commendable for the involvement of minority shareholders in the important affairs of the company, for the transparency of the procedures for gaining support, and for the possibility offered by the proxy instrument of replacing managements.

In addition to removing the statutory provisions that had placed quantitative and qualitative restrictions on the use of proxies in the general meeting, the proposed legislation sets out a transparent and flexible procedure for the solicitation and collection of proxies. It provides for solicitation to be organized by one or more shareholders with a qualified interest in the company (1 per cent) and for associations of small shareholders satisfying certain requirements to collect proxies from their members by means of a simplified procedure and express their uniform or diversified preferences in the general meeting. The task of controlling transparency and correctness in matters concerning proxies - particularly in the solicitation and collection phases - is to be entrusted to Consob.

The personalized nature of the cooperative sector is eroded by its being subjected to the provisions on proxies designed for private and public limited companies. The Committee nonetheless preferred to apply the rules in a general way to all the companies listed in Italian and Community regulated markets, including cooperative banks. For such banks, which play an important role in the Italian banking system, it would be possible simply to broaden the scope of the existing civil law provisions governing the representation of shareholders in the general meetings of cooperative companies.

Consideration is also given in connection with the regulation of proxies to the interests of shareholders who do not intend to participate in the affairs of the company, even by means of proxies, and therefore prefer a higher and more certain return on securities. The text proposed by the Committee appropriately leaves ample margins of autonomy in drawing up companies’ bylaws to the definition of the favourable conditions to be applied to savings shares in order to compensate for the lack of voting rights.

The proposed legislation on shareholder agreements is designed to increase the transparency of the control of companies and facilitate the replacement of controllers. It contains precise rules on the public disclosure of such agreements (on pain of nullity), establishes a maximum duration of three years and provides for the right of withdrawal in the event of one of the parties accepting a takeover bid.

The institution that more than any other risks involving a conflict between the two fundamental aims - the protection of minority shareholders and the contestability of ownership - is naturally the takeover bid. The risk appears more serious when the legislation proposed by the Committee for takeover bids is considered in isolation. If one leaves out of the picture the powerful impact that other rules and institutions in the draft decree have on transparency, the efficiency of the financial markets and competition, and hence on the contestability of ownership, the solution with regard to takeover bids is likely to appear to reduce such contestability by providing “excessive” protection for minority shareholders.

In 1992 the Italian Parliament passed legislation that, drawing on the experience of most of the other European countries, introduced the mandatory partial takeover bid at the full price for the transfer of the control of a listed company. The rules immediately revealed serious weaknesses: the complexity and hence the costliness of acquisitions; major shortcomings, such as the failure to consider concerted acquisitions; the excessive detail and limited flexibility, which permitted frequent elusion; the absence of coordination with the controls on the ownership of certain categories of firm, including banks; and the lack of powers to issue regulations implementing the primary legislation, with the result that the solution of delicate questions such as the admissibility of raising bids, could be given only at the level of individual cases. The linkage in the existing law between the obligation to make a takeover bid and the acquisition of control results in the verification of the thresholds of significant shareholdings being costly and sometimes unreliable. The current partial nature of takeover bids provides inadequate protection for shareholders who do not have confidence in the new controllers.

On the other hand, the obligation to pay minority shareholders the full price increases the cost of transferring control.

The text drawn up by the Committee provides for a desirable and drastic simplification that results in a high degree of certainty. The cases in which a takeover bid is mandatory have been reduced and the procedures for making takeover bids have been removed from the scope of primary legislation and made subject in large part to regulations to be issued by Consob.

Under the proposed new rules, the total nature of takeover bids serves to protect minority shareholders, while the efficiency of the market for corporate control is pursued through the determination of a price that, with account also being taken of market prices, is lower than that provided for under the existing rules.

In terms of fairness, it does not go without saying that minority shareholders have a right to share in full the premium for the acquisition of the controlling interest. The price paid for control is likely to include the discounted additional profits that the buyer expects better management to generate. This explains why the institution of the mandatory takeover bid does not exist in some advanced financial systems, such as that of the United States.

The introduction of a threshold resolves the problems associated with the difficulty of determining the existence of control on a case-by-case basis. It is necessarily a blunt instrument since it is to be applied in a dual system marked by a preponderance of companies with highly concentrated ownership structures and a very small number of large public companies. The Committee proposes fixing the threshold at 30 per cent of the capital (as in the United Kingdom and compared with 33 per cent in France). However, in view of the situation with regard to public companies, it authorizes Consob to reduce the limit to 15 per cent. These solutions are undoubtedly reasonable but at the same time they are questionable. Fixing a mandatory higher threshold would increase the contestability of control by widening the margins for acquiring shareholdings without having to make a takeover bid; fixing a lower threshold would have the opposite effect. Analogously, the contestability of control would be increased by a further, possible, reduction in the price compared with that envisaged in the draft decree.

The obligation to make a takeover bid does not apply to persons who acquire a significant shareholding as a result of a voluntary public offer to acquire the entire capital. If the exemption were extended to voluntary partial bids, the efficiency of the market for corporate control would benefit, at the expense, however, of the protection of investors and the certainty and simplicity of the law.

The other important innovations in this field include the application of the rules to shareholders who make concerted acquisitions, the introduction of the right of the controller to acquire the remaining capital mandatorily when it amounts to less than 2 per cent (known as squeeze-out), the admissibility of auctions where there are competing bidders, and the possibility for the general meeting to authorize defensive tactics in the event of hostile bids.

Conclusions

In conclusion, the outcome of the Committee’s work is positive.

The modernization of the rules governing markets and intermediaries inherent in the proposed new financial services legislation increases the potential competitiveness, efficiency and transparency of the Italian financial system.

The changes in the field of company law, formulated in accordance with a criterion of gradualness that takes account of the present configuration of companies, strengthen the protection of minority shareholders and of savings, both through specific legal institutions and by fostering the market and competition. The inclusion of the amendments in the text of a consolidated law does not mean that the solutions are final or preclude the possibility of other reforms involving other aspects of company law.

Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

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

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

Symbols and conventions:

- — the phenomenon in question does not occur.
- .... the phenomenon occurs but its value is not known.
- .. the value is known but is less than the minimum figure considered significant.
- ( ) provisional.
- *( )* estimated.

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 seasonally adjusted quarterly figures.

Table a2

Sources: Istat and national statistics.

For Italy, see the notes to Table a14.

Table a3

Sources: Istat and national statistics.

For Italy, the cost-of-living index; see the notes to Table a16.

For the United Kingdom, consumer prices excluding mortgage interest.

Table a4

Sources: OECD, calculations based on ENI and Istat data and national statistics.

Includes energy sources and products. 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 products.

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; 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 24 trading partners. For the methodology, see the article “Nuovi indicatori di tasso di cambio effettivo nominale e reale”, in Banca d'Italia, *Bollettino Economico*, no. 30, 1998.

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 25 countries (for Germany, the country's western regions). For the methodology, see the article “Nuovi indicatori di tasso di cambio effettivo nominale e reale", in Banca d'Italia, *Bollettino Economico*, no. 30, 1998.

Table a11

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

For the methodology, see the article "Nuovi indicatori di tasso di cambio effettivo nominale e reale", in Banca d'Italia, *Bollettino Economico*, no. 30, 1998.

Table a12

The Italian banking system is taken here 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 (1990=100).

Table a18

Source: Istat.

Average unit values of exported 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

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 a20

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 a21

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

Table a22

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 23).

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. The state sector borrowing requirement is obtained by summing the Treasury borrowing requirement, the net market borrowing of ANAS, the former State Forests and other bodies, 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 a23

The table shows the financing of the state sector borrowing requirement (for the definition of the state sector, see the notes to Table a22). "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 a24

The table shows general government debt and its composition (the figure for the state sector is shown as a memorandum item). The debt (end-of-period data) is stated at face value and that denominated in foreign currency is translated at year-end exchange rates. The items "Medium and long-term securities excluding BI-UIC", "Treasury bills in lire and ecus 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 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 bodies. Medium and long-term securities and Treasury bills do not include those held by social security institutions and other bodies included in general government. 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 automated prudential returns. Previously, automated prudential returns were used for the "banks" and

Central Credit Register data for the "special credit institutions". "Debt issued abroad" 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. In the same way as for the state sector borrowing requirement, the general government debt figures for "Medium and long-term securities", "Lending by banks" and "Debt issued abroad" 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 a25

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.

"Other BI-UIC operations with the Treasury" include net redemptions 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 items "Open market" and "Refinancing" exclude the transactions carried out in connection with the advances granted under the Ministerial Decree of 27.9.1974 and Law 588/1996.

"Deposits with the Bank of Italy" 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.

The state sector borrowing requirement includes settlements of past debts and privatization proceeds. A new definition of the gross state sector borrowing requirement was adopted in *Economic Bulletin* no. 24, February 1997 (see the Chapter "The Public Finances").

"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 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 on the basis of banks' 10-day returns.

"Deposits with the Bank of Italy" comprise compulsory reserves, collateral for banker's drafts and free deposits, including those of banks not subject to the compulsory reserve requirement.

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 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 include the securities issued by the Treasury in December 1993 to establish the Treasury payments account and those 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. The balance of the Treasury payments 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 a25.

Table a28

The figures for redemptions include Treasury buybacks of 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 a29

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.

Since January 1998 three-month bills have not been issued at the mid-month auction.

Table a30

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 a31

Multiple price auctions based on the spread (forward points) between the spot and forward exchange rates.

The forward points are added to the spot rate to arrive at the forward rate. Yields are stated as percentages, amounts in millions 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 a32

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 a34

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 monthly averages of the allotment rates at auction, weighted according to the quantities sold to the market. They are shown before withholding tax levied at 12.5 per cent and those for 3 and 6-month bills are compound.

Tables a35 and a36

The figures are based on the new 10-day survey introduced in January 1995. 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 a37

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 prudential returns introduced in 1995, 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 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” comprise own funds, loan loss provisions and the subordinated liabilities of domestic and foreign branches; from 1997 onwards the intraquarterly figures are estimated. “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 a38

The annual data refer to the month of December.

“Loans” do not include those granted by branches abroad.

“Other” securities refer to banks’ holdings of lira and foreign currency bonds issued by residents.

Table a39

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.

In determining the data on average deposits prior to 1995, the average value of the deposits of the former special credit institutions has been estimated as the mean of end-of-period data.

Table a40

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.

Table a41

“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 a42

“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 a43

“Italian bonds” include CDs with a maturity of 18 months or more. “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 a44

Investors’ portfolios are not affected by repo sales or repo 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 a45

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.

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 a46

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 in the reference period 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 in the reference period.

Table a47

For the definition of non-state-sector money, see the “Glossario” in the Appendix to the *Relazione annuale per il 1996*.

“Sight deposits - Banks” 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 with the Treasury.

“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 a maturity of 18 months or more (see the section “Glossario” in the Appendix to the *Relazione annuale per il 1996*).

“Extended M2” includes residents’ deposits in lire and foreign currencies with the foreign branches of Italian banks.

Table a48

For the definition of non-state-sector liquid assets, see the “Glossario” in the Appendix to the *Relazione annuale per il 1996*.

“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; see the chapter “Public Finances” in *Economic Bulletin* no. 24).

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

Table a49

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.

All the 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; it excludes the securities bought by the non-state sector under repos but includes those sold.

"Crediop and autonomous government agency bonds" comprise bonds issued by Crediop on behalf of the Treasury and by autonomous government agencies and the like. The item excludes the bonds bought by the non-state sector under repos but includes those sold.

"Other bonds" include bonds issued by public and private sector enterprises and Italian banks and local authorities. The item excludes the bonds bought by the non-state sector under repos but includes those sold.

"Other financial assets" comprise the bank 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 a50

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" (see the chapter "Public Finances" in *Economic Bulletin* no. 24). Consequently, it is 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 a48).

"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 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. "State sector debt" is stated at face value.

Table a51

The table refers to end-of-period M2. For the definition of non-state-sector money, see the "Glossario" in the Appendix to the *Relazione annuale per il 1996*.

"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 and the Bank of Italy 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 a maturity of 18 months or more.

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]

- *central government*
- *local government*
- *social security institutions.*

State sector

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

Deposits and Loans Fund

A public body under the Treasury, its resources consist of funds placed with the post office and its lending is primarily to local authorities.

Non-state sector

- *households*
- *non-financial corporate and quasi-corporate public and private enterprises*
- *financial institutions (excluding investment funds and banks)*
- *insurance enterprises*
- *non-state public bodies*
- *state railways, monopolies and telephone company.*

Non-state public bodies

- *local authorities (regions, provinces and municipalities)*
- *social security institutions*
- *some minor central government entities.*

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.

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
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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Table a1

Gross domestic product, GDP deflator and current account balance

	US	Japan	Germany	France	Italy	UK	Canada
				Real GDP (% changes on previous period; seasonally adjusted quarterly data)			
1992	2.7	1.0	2.2	1.2	0.6	–0.5	0.9
1993	2.3	0.3	–1.2	–1.3	–1.2	2.1	2.5
1994	3.5	0.6	2.7	2.8	2.2	4.3	3.9
1995	2.0	1.5	1.8	2.1	2.9	2.7	2.2
1996	2.8	3.9	1.4	1.5	0.7	2.3	1.2
1997	(3.8)	. . . .	(2.2)	(2.4)	1.5	. . . .	. . . .
1996 – 3rd qtr.	0.3	–0.4	0.5	0.8	0.4	0.6	1.0
4th "	1.1	1.1	0.2	0.3	–0.4	1.0	0.6
1997 – 1st qtr.	1.2	2.0	0.3	0.3	. .	1.1	1.0
2nd "	0.8	–2.8	1.0	1.1	1.9	0.8	1.3
3rd "	0.8	0.8	(0.7)	0.9	0.6	0.9	1.0
4th "	(1.1)	. . . .	(0.3)	(0.8)	0.2	. . . .	. . . .
				GDP deflator (% changes on previous period; seasonally adjusted quarterly data)			
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	1.3
1994	2.4	0.2	2.4	1.5	3.5	1.6	1.2
1995	2.5	–0.6	2.1	1.6	5.1	2.5	2.6
1996	2.3	–0.5	1.0	1.1	5.0	3.0	1.4
1997	(2.0)	. . . .	. . . .	. . . .	2.6	. . . .	. . . .
1996 – 3rd qtr.	0.6	–0.1	0.2	0.1	0.8	0.7	0.4
4th "	0.5	–0.4	0.1	0.1	0.9	0.9	0.7
1997 – 1st qtr.	0.5	0.3	0.6	0.2	0.2	0.2	–0.1
2nd "	0.4	0.7	–0.2	0.5	0.7	0.8	–0.2
3rd "	0.4	0.4	. .	0.1	0.6	0.7	–0.1
4th "	(0.4)	. . . .	. . . .	. . . .	0.7	. . . .	. . . .
				Current account balance (billions of dollars; seasonally adjusted quarterly data)			
1992	–56.4	112.3	–19.5	6.5	–29.3	–18.4	–21.0
1993	–90.8	132.0	–14.2	11.7	10.0	–15.5	–21.9
1994	–133.5	130.6	–21.1	7.4	14.2	–2.3	–14.8
1995	–129.1	111.4	–23.6	10.8	26.8	–5.9	–5.5
1996	–148.2	65.8	–13.1	20.5	41.2	–2.7	2.7
1997	. . . .	(94.1)	(–6.3)	. . . .	(36.4)	. . . .	. . . .
1996 – 3rd qtr.	–42.8	16.6	–3.5	6.2	11.9	–1.0	1.2
4th "	–36.9	16.4	–2.5	6.0	9.3	0.5	–0.4
1997 – 1st qtr.	–40.0	15.4	–8.0	8.4	11.2	2.7	–0.7
2nd "	–37.9	26.4	–0.6	11.7	7.2	2.5	–2.8
3rd "	–42.2	24.9	1.6	9.2	8.7	0.6	–4.6
4th "	. . . .	(27.4)	(0.1)	. . . .	(9.3)	. . . .	. . . .

Table a2

Industrial production

(percentage changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	Italy	UK	Canada
1992	3.2	–6.1	–2.6	–1.1	–0.2	0.3	. . . .
1993	3.5	–4.5	–7.2	–3.8	–2.4	2.2	5.1
1994	5.4	0.8	3.6	3.8	5.2	5.4	6.0
1995	4.9	3.5	2.0	2.1	5.4	2.1	4.1
1996	3.5	2.7	0.5	0.5	–1.7	1.1	1.5
1997	5.0	4.2	4.0	3.6	2.2	1.4	. . . .
1995 – 4th qtr.	0.3	2.1	–1.4	–2.0	–0.9	–0.1	. .
1996 – 1st qtr.	0.5	0.6	0.3	1.3	–2.6	0.2	0.1
2nd "	1.8	–0.4	1.2	0.4	–0.5	0.3	0.7
3rd "	0.9	2.1	1.3	1.0	0.9	0.7	1.9
4th "	1.0	2.1	–0.3	–0.7	–2.4	0.4	0.7
1997 – 1st qtr.	1.3	2.5	1.4	. .	1.7	. .	1.1
2nd "	1.1	–0.1	1.0	2.9	1.7	0.6	1.6
3rd "	1.5	–0.3	2.0	1.8	0.9	1.3	1.6
4th "	1.7	–2.3	0.1	1.6	1.1	–1.1	. . . .
1997 – Jan.	0.3	5.3	0.6	–0.4	1.7	–0.1	0.8
Feb.	0.7	–3.5	0.2	0.6	2.9	–0.4	0.7
Mar.	0.3	–0.3	1.0	–0.3	0.6	–0.4	–0.1
Apr.	0.5	–0.5	–0.1	3.2	0.4	0.9	1.3
May	0.2	4.5	–0.6	–0.6	. .	–0.8	0.3
June	0.2	–3.2	2.3	0.2	0.1	1.7	–0.2
July	0.8	1.7	4.0	1.9	0.2	1.1	2.2
Aug.	0.6	–3.0	–4.4	. .	2.1	–0.9	–0.7
Sept.	0.3	2.4	–0.8	–0.3	–2.2	–0.2	–0.1
Oct.	0.7	0.1	2.2	2.1	1.4	–0.3	0.8
Nov.	0.7	–5.0	–0.1	–1.5	0.5	–0.5	–0.5
Dec.	0.4	1.1	. .	2.2	0.3	–0.2	. . . .
1998 – Jan.	. .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

Table a3

Consumer prices

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1992	3.0	1.7	5.1	2.4	5.4	4.7	1.5
1993	3.0	1.2	4.5	2.1	4.2	3.0	1.8
1994	2.6	0.7	2.7	1.7	3.9	2.4	0.2
1995	2.8	−0.1	1.8	1.8	5.4	2.8	2.2
1996	2.9	0.1	1.5	2.0	3.9	2.9	1.6
1997	2.3	1.7	1.8	1.2	1.7	2.8	1.6
1995 – 4th qtr.	2.7	−0.6	1.7	1.9	5.9	2.9	2.1
1996 – 1st qtr.	2.7	−0.3	1.6	2.1	5.0	2.9	1.4
2nd ”	2.8	0.1	1.5	2.4	4.2	2.8	1.4
3rd ”	2.9	0.2	1.4	1.8	3.5	2.9	1.4
4th ”	3.2	0.5	1.4	1.7	2.7	3.2	2.0
1997 – 1st qtr.	2.9	0.6	1.7	1.5	2.4	2.9	2.1
2nd ”	2.3	2.0	1.6	0.9	1.6	2.6	1.6
3rd ”	2.2	2.1	1.9	1.3	1.5	2.8	1.7
4th ”	1.9	2.1	1.8	1.2	1.6	2.8	1.0
1997 – Jan.	3.0	0.6	1.8	1.8	2.6	3.1	2.2
Feb.	3.0	0.6	1.7	1.6	2.4	2.9	2.2
Mar.	2.8	0.5	1.5	1.1	2.2	2.7	2.0
Apr.	2.5	1.9	1.4	0.9	1.7	2.5	1.7
May	2.2	1.9	1.6	0.9	1.6	2.5	1.5
June	2.3	2.2	1.7	1.0	1.4	2.7	1.8
July	2.2	1.9	1.9	1.0	1.6	3.0	1.8
Aug.	2.2	2.1	2.1	1.5	1.5	2.8	1.8
Sept.	2.2	2.4	1.9	1.3	1.4	2.7	1.6
Oct.	2.1	2.5	1.8	1.0	1.6	2.8	1.5
Nov.	1.8	2.1	1.9	1.3	1.6	2.8	0.9
Dec.	1.7	1.8	1.8	1.1	1.5	2.7	0.7
1998 – Jan.	1.6	....	1.3	0.5	1.6	2.5	....

Table a4

Producer prices of manufactures

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1991	0.7	1.1	2.2	0.8	3.5	5.5	–1.1
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	3.7
1994	1.4	–1.7	0.7	0.7	3.6	2.5	6.1
1995	4.0	–0.7	2.2	1.7	7.7	3.9	7.4
1996	1.4	–0.8	0.2	–1.1	2.4	3.0	0.4
1995 – 3rd qtr.	3.6	–0.8	2.4	1.9	8.7	4.2	6.8
4th ”	2.8	–0.8	1.7	1.3	7.3	4.3	5.0
1996 – 1st qtr.	1.7	–1.0	0.7	0.2	5.2	3.9	1.0
2nd ”	0.9	–0.9	0.1	–1.0	2.2	3.5	0.6
3rd ”	1.0	–0.8	–0.2	–1.7	1.1	2.6	0.1
4th ”	2.1	–0.6	0.1	–1.8	1.3	2.1	. .
1997 – 1st qtr.	1.9	–0.3	0.2	–1.4	0.6	1.3	0.4
2nd ”	–0.3	1.8	0.5	–0.6	0.5	1.4	1.2
3rd ”	. .	1.8	1.0	. .	0.9	1.4	0.7
1996 – Nov.	2.0	–0.6	0.1	. . . .	1.2	2.3	. .
Dec.	2.8	–0.4	0.2	. . . .	1.1	1.8	–0.1
1997 – Jan.	3.0	–0.4	0.2	. . . .	0.9	1.6	. .
Feb.	2.1	–0.3	0.2	. . . .	0.6	1.3	0.3
Mar.	0.6	–0.2	0.3	. . . .	0.3	1.2	1.0
Apr.	–0.5	1.9	0.3	. . . .	0.3	1.3	1.8
May	–0.4	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	0.9
Aug.	–0.1	1.8	1.2	. . . .	1.0	1.4	0.9
Sept.	0.2	1.8	1.0	. . . .	1.0	1.5	0.4
Oct.	0.5	1.6	0.9	. . . .	0.6	1.5	0.7
Nov.	0.2	1.3	1.0	. . . .	0.9	1.1	1.3

Table a5

Short-term interest rates

	US	Japan	Germany	France	Italy	UK	Canada
				Official reference rates *(end-of-period data)*			
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	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
Oct.	5.00	0.50	2.50	3.30	6.25	7.00	3.75
Nov.	5.00	0.50	2.50	3.30	6.25	7.25	4.00
Dec.	5.00	0.50	2.50	3.30	5.50	7.25	4.50
1998 – Jan.	5.00	0.50	2.50	3.30	5.50	7.25	5.00
				Money market rates *(period averages)*			
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
1997	5.62	0.64	3.30	3.46	6.88	6.83	3.56
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
Oct.	5.65	0.55	3.55	3.59	6.65	7.26	3.80
Nov.	5.74	0.59	3.70	3.69	6.49	7.54	3.99
Dec.	5.80	1.09	3.71	3.69	6.08	7.62	4.57
1998 – Jan.	5.54	1.12	3.55	3.62	6.09	7.48	4.65

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond rates			
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
1997	6.35	2.13	5.64	5.58	6.86	7.13	6.14
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	7.26	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
Oct.	6.03	1.72	5.58	5.59	6.20	6.57	5.61
Nov.	5.88	1.67	5.56	5.57	6.13	6.70	5.50
Dec.	5.81	1.64	5.33	5.32	5.74	6.43	5.67
1998 – Jan.	5.55	1.68	5.11	5.11	5.43	6.16	5.36
				Share price indices			
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
1997	328.69	65.57	263.38	221.08	163.66	240.20	195.53
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
Oct.	358.06	63.03	284.90	235.26	185.67	260.16	207.16
Nov.	353.45	58.00	266.54	222.85	180.80	246.28	197.18
Dec.	362.27	56.49	283.84	232.26	191.57	256.45	202.83
1998 – Jan.	362.65	56.86	291.19	240.39	217.22	263.63	202.85

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		
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
1997	5.67	0.35	3.43	6.43	7.31	5.89	0.41	3.78	5.79	7.52
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
Oct.	5.64	0.41	3.46	6.52	7.22	5.86	0.43	3.91	5.73	7.43
Nov.	5.72	0.21	3.64	6.42	7.49	5.87	0.29	4.01	5.57	7.70
Dec.	5.77	0.23	3.63	5.92	7.57	5.89	0.31	3.93	5.16	7.65
1998 – Jan.	5.52	0.38	3.46	5.93	7.44	5.58	0.41	3.72	5.08	7.43
			3-month US dollar premium (–)/discount (+)					12-month US dollar premium (–)/discount (+)		
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
1997		5.32	2.24	–0.76	–1.65		5.48	2.10	0.10	–1.64
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
Oct.		5.23	2.18	–0.88	–1.58		5.43	1.95	0.13	–1.57
Nov.		5.51	2.08	–0.70	–1.77		5.58	1.86	0.30	–1.83
Dec.		5.54	2.14	–0.15	–1.80		5.58	1.96	0.73	–1.76
1998 – Jan.		5.14	2.06	–0.41	–1.92		5.17	1.86	0.50	–1.85

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	
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
1997	1,703.4	14.1147	982.21	291.78	2,789.5	1,173.98	2,344.0	1,923.6	290.20
1995 – 4th qtr.	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	2,402.6	1,918.7	332.10
4th ”	1,720.3	13.7741	979.97	292.49	2,853.4	1,200.68	2,349.9	1,933.9	290.20
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	13.4661	988.20	292.70	2,691.1	1,138.67	2,291.2	1,918.4	358.60
Mar.	1,693.5	13.8121	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	1,188.56	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
Oct.	1,720.9	14.2269	979.73	292.04	2,807.3	1,185.80	2,357.4	1,925.2	311.40
Nov.	1,697.4	13.5618	979.79	292.60	2,865.2	1,206.46	2,332.2	1,938.5	296.80
Dec.	1,742.6	13.4656	980.42	292.88	2,894.6	1,212.03	2,359.8	1,939.1	290.20
1998 – Jan.	1,787.7	13.8316	984.34	293.92	2,924.2	1,212.25	2,401.1	1,944.0	304.85

Table a9

Nominal effective exchange rates

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1992	97.6	83.2	97.6	97.9	120.1	110.4	106.2	97.9
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	99.1	107.6	100.2	100.7	95.6	100.1	93.8	106.5
1995	99.3	113.5	106.1	104.3	87.1	95.9	93.1	114.4
1996	104.9	98.9	103.6	104.5	95.3	97.8	95.1	112.7
1997	112.9	94.4	98.6	100.9	95.6	113.3	95.8	105.7
1995 – 4th qtr.	101.7	104.4	106.6	105.3	88.6	94.8	94.8	117.4
1996 – 1st qtr.	103.9	101.1	105.2	105.1	92.1	94.7	94.5	115.6
2nd "	104.8	100.1	103.1	104.5	95.2	95.9	95.1	112.7
3rd "	105.0	98.6	103.7	104.6	96.4	97.0	94.7	113.4
4th "	106.0	95.6	102.4	103.9	97.5	103.6	96.4	108.9
1997 – 1st qtr.	110.6	91.9	100.2	102.1	96.3	109.4	97.1	103.5
2nd "	111.9	94.6	98.8	101.0	95.4	112.2	95.4	105.2
3rd "	113.1	97.7	96.5	99.2	94.6	115.0	95.9	105.6
4th "	116.0	93.4	98.7	101.4	95.9	116.8	94.8	108.6
1997 – Jan.	108.4	92.9	100.9	102.5	98.0	108.6	97.2	103.8
Feb.	111.1	90.8	100.0	101.8	96.1	110.0	97.5	103.1
Mar.	112.2	91.9	99.8	101.9	94.9	109.7	96.5	103.5
Apr.	113.3	89.9	99.4	101.6	95.5	112.1	95.2	104.3
May	111.5	94.7	99.1	101.2	95.4	111.6	95.7	105.7
June	110.9	99.0	98.0	100.2	95.2	112.8	95.3	105.6
July	111.8	99.3	96.4	98.8	94.7	117.3	96.1	105.1
Aug.	113.8	98.3	96.0	98.7	94.0	115.0	95.7	105.3
Sept.	113.7	95.4	97.2	100.0	95.2	112.8	95.8	106.4
Oct.	113.3	94.7	98.0	100.8	95.3	113.9	95.7	106.6
Nov.	115.3	92.1	98.7	101.4	96.0	117.5	94.3	109.3
Dec.	119.5	93.4	99.2	101.9	96.2	118.9	94.5	109.9
1998 – Jan.	121.7	95.5	99.1	101.7	95.7	119.4	94.1	109.2

Table a10

Real effective exchange rates

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1991	100.1	83.7	95.2	98.2	118.6	108.8	110.9	101.6
1992	98.0	86.1	98.8	99.7	116.4	107.5	103.8	98.8
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	98.1	103.6	99.1	99.7	97.8	101.1	98.1	104.5
1995	96.3	104.0	103.7	101.2	93.2	97.3	100.2	108.6
1996	100.0	88.2	100.4	99.1	103.8	101.4	100.9	103.4
1995 – 3rd qtr.	95.4	102.7	103.2	101.6	94.8	96.8	101.3	107.9
4th "	97.3	94.7	104.0	101.9	96.0	97.0	102.1	110.2
1996 – 1st qtr.	99.1	91.0	102.1	100.7	100.0	98.0	100.8	107.3
2nd "	100.1	89.5	99.8	99.2	103.7	99.5	100.7	103.7
3rd "	99.8	87.9	100.5	98.9	105.0	100.7	100.6	103.7
4th "	100.9	84.6	99.1	97.6	106.3	107.5	101.5	99.0
1997 – 1st qtr.	105.0	81.0	96.8	95.6	104.7	114.0	102.0	94.0
2nd "	103.8	85.2	95.3	94.4	103.5	117.1	101.8	95.9
3rd "	104.9	87.5	93.0	92.4	102.7	119.5	101.8	96.2
1996 – Nov.	100.2	84.7	99.5	97.7	106.0	108.4	102.4	98.9
Dec.	102.2	84.0	98.4	96.8	106.6	110.3	100.3	96.4
1997 – Jan.	104.3	81.7	97.4	95.3	106.5	112.9	101.1	94.1
Feb.	105.7	80.0	96.5	95.4	104.3	114.4	102.3	93.7
Mar.	105.1	81.4	96.4	95.9	103.1	114.5	102.5	94.3
Apr.	104.9	81.3	95.8	95.2	103.6	117.0	101.9	95.0
May	103.4	85.3	95.4	94.5	103.5	116.4	102.1	96.4
June	103.0	89.1	94.6	93.5	103.4	117.8	101.2	96.4
July	103.8	89.4	93.0	91.5	102.9	122.2	101.9	96.0
Aug.	105.3	88.0	92.5	92.0	101.9	119.3	102.0	95.9
Sept.	105.5	85.1	93.6	93.7	103.3	117.1	101.6	96.7
Oct.	105.5	84.2	94.4	94.4	103.4	118.1	100.9	96.8
Nov.	107.2	81.6	95.0	95.0	104.2	121.6	99.9	99.0

Table a11

Real effective intra-EU exchange rates

(period averages; indices, 1993=100)

	Germany	France	Italy	UK	Spain	Netherlands	Belgium
1991	90.8	95.3	115.7	104.6	112.6	98.0	98.9
1992	93.7	96.0	112.5	102.1	109.4	97.5	99.3
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	99.6	100.0	98.1	101.5	95.9	99.4	102.3
1995	102.6	100.1	91.8	95.2	97.3	102.1	104.8
1996	98.1	97.4	102.0	98.9	98.4	100.3	102.3
1995 – 3rd qtr.	102.0	100.4	93.4	94.6	98.5	101.5	104.5
4th "	101.9	100.0	93.9	93.8	98.3	100.7	104.7
1996 – 1st qtr.	100.0	98.9	98.1	95.2	99.7	100.6	103.6
2nd "	98.0	97.9	102.3	97.5	98.8	100.3	102.4
3rd "	98.1	97.1	103.2	98.0	97.9	100.7	102.0
4th "	96.3	95.7	104.3	104.9	97.3	99.5	101.0
1997 – 1st qtr.	94.9	94.5	103.6	113.5	95.8	98.5	99.9
2nd "	94.2	93.9	103.2	117.8	95.3	98.1	99.8
3rd "	93.1	92.8	103.6	122.3	94.9	97.9	99.9
1996 – Nov.	96.4	95.5	103.7	105.5	97.5	99.7	100.8
Dec.	95.7	94.9	104.7	108.2	96.8	98.9	100.4
1997 – Jan.	95.0	93.8	105.1	111.6	96.5	99.1	100.0
Feb.	94.8	94.5	103.5	114.2	95.4	97.8	100.1
Mar.	94.9	95.1	102.4	114.6	95.4	98.7	99.7
Apr.	94.3	94.3	102.9	117.1	95.5	98.1	99.6
May	94.3	93.9	103.1	117.0	95.5	98.8	100.3
June	94.1	93.4	103.7	119.4	95.1	97.5	99.6
July	92.9	91.8	103.7	125.1	94.8	97.3	99.4
Aug.	93.0	92.7	103.2	122.8	94.7	98.1	100.0
Sept.	93.2	93.8	103.8	119.1	95.1	98.4	100.1
Oct.	93.4	94.1	103.3	119.3	95.1	98.3	100.0
Nov.	93.1	94.0	103.2	121.6	95.1	98.4	99.5

Table a12

External position of the Italian banking system

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

	1997 Q1	1997 Q2	1997 Q3
Industrial countries	371,831	412,618	419,621
OPEC countries	9,136	8,765	8,568
Other developing countries	26,787	28,897	30,299
Latin America	*17,664*	*19,115*	*19,876*
Africa	*971*	*1,004*	*1,009*
Asia	*7,772*	*8,284*	*8,777*
Middle East	*379*	*495*	*636*
Eastern Europe	9,581	9,953	9,518
Offshore centres	39,778	41,163	43,194
International organizations	8,506	8,069	7,506
Total	**465,618**	**509,465**	**518,705**
Memorandum items:			
Albania	132	133	135
Argentina	6,451	6,763	7,029
Bolivia	5	1	3
Brazil	4,837	5,342	5,400
Bulgaria	393	357	296
Chile	667	789	870
Colombia	855	899	977
Croatia	79	145	216
Czech Republic	288	236	244
Ecuador	141	147	144
Hungary	427	463	448
Ivory Coast	23	24	26
Mexico	2,535	2,842	2,994
Morocco	427	439	459
Nigeria	472	374	351
Peru	1,263	1,360	1,563
Philippines	189	165	255
Poland	597	594	516
Romania	359	368	357
Russia	7,280	7,687	7,376
Slovenia	333	306	314
Uruguay	634	646	604
Venezuela	1,046	1,054	1,110

Table a13

Sources and uses of income (1)

(percentage changes on previous period)

	Sources				Uses					
					Gross fixed investment					
	Preliminary estimate of GDP (2)	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total	House-holds' consump-tion	Other domestic uses	Exports
					At 1990 prices					
1991	1.1	1.1	2.7	1.4	1.4	0.2	0.8	2.7	−0.1	−0.8
1992	0.6	0.6	5.4	1.4	−2.4	−1.2	−1.8	1.0	1.5	5.9
1993	−1.2	−1.2	−8.1	−2.3	−6.3	−19.5	−12.8	−2.4	−2.6	9.1
1994	2.2	2.2	8.4	3.2	−5.9	8.2	0.5	1.4	2.9	10.7
1995	2.9	2.9	9.6	4.0	0.7	13.4	6.9	1.8	−0.5	11.6
1996	0.7	0.7	−2.6	0.1	1.1	1.3	1.2	0.7	−2.7	−0.3
1997	1.5	–	–	–	–	–	–	–	–	–
1995 – 3rd qtr.	0.6	0.4	0.7	0.5	0.6	3.3	2.0	0.4	4.6	−3.2
4th ”	0.4	0.4	0.3	0.4	2.0	0.9	1.4	−0.1	3.7	−1.8
1996 – 1st qtr.	0.7	0.6	−2.0	0.2	−0.2	−1.0	−0.6	0.2	−0.1	0.8
2nd ”	−0.9	−0.9	−4.6	−1.5	−0.6	0.1	−0.3	. .	−10.8	0.7
3rd ”	0.4	0.5	2.2	0.8	. .	−1.0	−0.5	0.1	3.0	1.9
4th ”	−0.4	. .	3.9	0.6	−0.4	−0.6	−0.5	0.7	2.8	. .
1997 – 1st qtr.	. .	−0.2	−3.0	−0.7	−1.7	1.0	−0.3	0.7	−1.5	−4.0
2nd ”	1.9	1.9	12.8	3.7	1.5	1.0	1.2	0.4	10.9	9.0
3rd ”	0.6	0.4	5.9	1.5	−0.1	1.5	0.7	0.4	−2.3	7.1
4th ”	0.2	–	–	–	–	–	–	–	–	–
					Implicit prices					
1991	7.7	7.7	−0.3	6.4	7.9	2.7	5.4	6.9	9.2	2.9
1992	4.7	4.7	1.1	4.0	5.2	2.4	3.9	5.6	1.6	1.6
1993	4.4	4.4	11.6	5.5	3.2	5.6	4.6	5.1	3.7	10.1
1994	3.5	3.5	5.1	3.7	3.5	3.5	3.3	4.6	3.3	1.8
1995	5.1	5.0	12.2	6.2	3.7	6.6	5.0	5.7	4.3	10.2
1996	5.0	5.1	−1.8	3.8	2.5	3.5	3.0	4.4	5.0	2.0
1997	2.6	–	–	–	–	–	–	–	–	–
1995 – 3rd qtr.	1.3	1.3	0.8	1.2	0.3	1.6	1.0	1.5	−1.8	3.1
4th ”	1.4	1.4	. .	1.1	0.7	1.6	1.2	1.3	. .	1.7
1996 – 1st qtr.	1.3	1.6	−1.8	1.0	0.3	0.6	0.5	1.0	3.9	−1.0
2nd ”	1.0	0.9	−1.6	0.5	0.3	0.4	0.3	0.9	1.3	−1.3
3rd ”	0.8	0.8	−0.7	0.5	1.4	0.5	0.9	0.8	0.3	−0.3
4th ”	0.9	0.9	0.3	0.7	0.9	−0.4	0.2	0.6	1.9	0.7
1997 – 1st qtr.	0.2	0.5	−1.0	0.3	−0.2	0.6	0.2	0.5	1.2	−0.9
2nd ”	0.7	0.5	0.5	0.4	0.4	0.6	0.5	0.4	1.0	0.5
3rd ”	0.6	0.7	2.1	0.9	0.8	0.8	0.8	0.4	3.4	1.0
4th ”	0.7	–	–	–	–	–	–	–	–	–

(1) Provisional national accounts data through 3rd quarter 1997, released on 31.12.1997. – (2) See Istat communiqué of 27.2.1998.

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	1.4	21.8	–1.2
1996	105.2	106.2	105.6	104.6	–29.6	–16.9	–22.7	7.5	3.8
1997	107.5	109.3	102.3	108.2	–14.6	–6.0	–8.5	20.7	–3.1
1991 – 1st qtr.	98.7	100.6	97.4	98.6	–28.2	–34.7	–27.4	9.6	9.7
2nd ”	98.8	99.0	96.0	99.2	–28.2	–32.7	–27.9	11.0	9.7
3rd ”	99.0	100.0	95.2	99.7	–26.6	–30.2	–25.0	12.8	8.3
4th ”	99.9	102.0	94.9	100.0	–27.2	–28.3	–26.6	11.4	6.3
1992 – 1st qtr.	101.2	102.9	95.0	101.9	–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	8.5	11.0
3rd ”	96.0	98.6	88.6	98.2	–34.1	–38.2	–35.0	–3.5	5.3
4th ”	97.4	101.0	90.7	97.2	–41.9	–40.0	–40.0	–8.2	1.0
1993 – 1st qtr.	98.8	102.3	93.1	98.7	–44.7	–34.2	–42.5	–2.8	3.3
2nd ”	96.6	97.9	89.6	97.6	–46.4	–28.1	–40.4	–0.2	7.0
3rd ”	94.5	97.2	86.2	96.1	–44.8	–18.2	–33.8	3.5	6.7
4th ”	96.2	97.3	86.7	98.2	–36.6	–6.2	–25.7	10.8	1.3
1994 – 1st qtr.	97.5	100.8	86.3	99.2	–31.3	–1.1	–18.5	17.7	–2.3
2nd ”	101.1	104.2	92.4	102.1	–20.1	8.4	–7.9	25.2	–1.0
3rd ”	103.3	106.2	94.6	104.5	–15.7	11.5	–5.8	28.9	–4.7
4th ”	104.2	105.0	95.7	106.2	–4.6	16.6	4.6	28.5	–9.3
1995 – 1st qtr.	104.6	106.2	97.1	106.2	–1.4	25.3	6.8	23.6	–4.7
2nd ”	105.1	106.9	100.1	106.0	–2.5	21.0	4.9	21.5	0.3
3rd ”	109.6	109.6	109.2	109.0	–5.2	13.9	1.2	24.3	–1.7
4th ”	108.6	108.3	113.8	107.6	–13.6	6.3	–7.4	17.9	1.3
1996 – 1st qtr.	105.7	105.0	107.2	105.6	–23.9	–7.7	–17.3	10.1	5.0
2nd ”	105.2	105.7	107.5	104.6	–32.4	–20.8	–24.3	5.7	6.3
3rd ”	106.2	107.7	106.0	105.4	–31.4	–18.8	–23.5	6.4	5.7
4th ”	103.6	106.5	101.9	102.9	–30.9	–20.4	–25.7	7.8	–2.0
1997 – 1st qtr.	105.4	107.7	102.3	105.2	–19.7	–14.0	–15.8	16.6	–5.0
2nd ”	107.2	108.4	103.6	107.6	–15.6	–8.3	–12.2	16.5	. .
3rd ”	108.2	111.0	101.2	109.3	–13.1	–1.6	–4.5	22.9	–4.3
4th ”	109.3	110.2	102.0	110.7	–9.9	. .	–1.5	26.5	–3.0

Table a15

Labour market statistics

(thousands of units and percentages)

	Employment					Unem-ployment	Labour force	Unem-ployment rate	Partici-pation rate
	Agriculture	Industry excluding construction	Construc-tion	Other	Total				
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
1997	1,370	4,857	1,593	12,268	20,087	2,804	22,892	12.3	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
4th "	1,447	4,919	1,609	12,150	20,126	2,845	22,972	12.4	40.4

Table a16

Index of consumer prices for worker and employee households (1)

(percentage changes on corresponding period)

	Goods and services with unregulated prices							Goods and services with regulated prices				Overall index (4)
	Non-food and non-energy products	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*
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
1997	1.5	0.8	–0.8	0.0	1.8	2.4	1.4	4.4	1.9	7.0	3.3	1.7
1995 – 3rd qtr.	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	2.5	1.3	3.7	1.3	7.2	2.9	1.6
3rd ”	1.2	0.3	–2.3	–1.0	1.6	2.2	1.0	5.1	2.9	6.2	4.0	1.5
4th ”	1.4	0.2	–1.1	–0.4	0.4	2.1	1.1	6.1	2.8	5.7	3.9	1.6
1996 – 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	1.4	2.1	1.0	5.8	2.5	6.2	3.7	1.4
Oct. . .	1.3	0.3	–1.6	–0.6	1.0	2.3	1.1	6.0	3.2	5.7	4.1	1.6
Nov. . .	1.4	0.2	–1.1	–0.4	0.4	2.0	1.1	6.1	2.7	5.7	3.8	1.6
Dec. . .	1.3	0.2	–0.7	–0.2	–0.2	2.1	1.1	6.2	2.5	5.7	3.7	1.5
1998 – Jan. . .	1.6	0.3	–0.1	0.1	–1.1	2.3	1.3	2.4	2.1	5.5	2.9	1.6

Source: Based on Istat data.

(1) Excluding tobacco products. Sundry bases; for 1996 the comparison is with the 1992-based index, with the average for 1995 set equal to 100. – (2) 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. – (4) Percentage changes published by Istat; calculated on indices rounded to the first decimal place.

Table a17

Index of producer prices of manufactures sold in the domestic market (1)

(percentage changes on corresponding period)

	Non-energy products								Energy products	Overall index
	Consumer goods with unregulated prices				Investment goods	Intermediate goods	Other goods (3)	Total		
	Non-food products	*of which: cars*	Food products	Total						
Weights (2)	*18.5*	*2.1*	*12.3*	*30.8*	*9.5*	*41.0*	*4.1*	*85.4*	*14.6*	*100.0*
1992	3.2	4.6	3.8	3.4	3.3	1.0	5.3	2.2	–0.4	1.9
1993	3.1	6.0	3.9	3.4	3.6	3.2	6.0	3.4	6.3	3.8
1994	3.2	7.0	3.6	3.3	2.9	4.2	5.0	3.8	3.2	3.7
1995	5.1	5.4	6.0	5.4	5.0	10.7	4.4	8.1	6.4	7.9
1996	3.4	5.3	2.8	3.2	3.6	–0.1	3.5	1.7	3.4	1.9
1997	0.7	–1.7	1.1	0.9	1.8	0.5	0.9	0.8	4.3	1.3
1995 – 3rd qtr.	5.5	5.2	6.5	5.9	5.5	12.8	3.9	9.3	6.7	9.0
4th ”	5.3	5.5	5.6	5.4	5.8	9.0	3.4	7.2	6.7	7.2
1996 – 1st qtr.	4.7	5.2	5.1	4.9	4.9	4.5	4.4	4.8	5.0	4.8
2nd ”	3.5	5.8	3.4	3.5	3.7	–0.3	3.6	1.6	1.5	1.6
3rd ”	3.0	6.0	2.1	2.7	3.3	–2.3	3.4	0.3	1.4	0.4
4th ”	2.4	4.2	0.9	1.8	2.7	–2.0	2.6	0.1	5.5	0.8
1997 – 1st qtr.	1.1	1.0	0.3	0.8	2.1	–1.2	0.2	0.0	6.0	0.9
2nd ”	0.8	–1.5	0.2	0.6	1.9	0.4	0.7	0.6	4.7	1.1
3rd ”	0.4	–3.1	1.6	0.9	1.6	1.0	0.8	1.0	5.4	1.6
4th ”	0.5	–3.2	2.5	1.3	1.6	1.8	2.0	1.6	1.1	1.5
1996 – Sept.	2.9	5.8	1.6	2.4	3.1	–2.5	3.3	0.1	2.9	0.5
Oct.	2.6	4.9	1.4	2.1	2.9	–2.2	3.0	0.2	4.3	0.7
Nov.	2.3	3.9	0.8	1.7	2.6	–1.9	2.4	0.1	6.1	0.9
Dec.	2.2	3.9	0.5	1.5	2.7	–2.0	2.3	0.0	6.0	0.9
1997 – Jan.	1.6	2.1	0.5	1.1	2.3	–1.6	–0.1	–0.1	6.5	0.9
Feb.	1.1	1.2	0.1	0.7	2.1	–1.1	–0.2	0.0	6.0	0.8
Mar.	0.8	–0.2	0.4	0.7	1.8	–0.9	0.9	0.1	5.4	0.9
Apr.	1.0	–0.6	–0.3	0.5	1.9	–0.1	0.6	0.4	3.7	0.8
May	0.9	–1.0	0.1	0.6	1.9	0.4	0.8	0.7	4.4	1.1
June	0.6	–2.8	0.7	0.7	1.8	0.8	0.8	0.9	6.0	1.6
July	0.3	–3.4	1.2	0.7	1.4	0.7	0.8	0.8	7.2	1.7
Aug.	0.5	–3.1	1.5	0.9	1.7	1.0	0.7	1.0	5.5	1.7
Sept.	0.5	–2.9	2.0	1.1	1.7	1.2	0.9	1.2	3.7	1.6
Oct.	0.3	–4.0	2.1	1.0	1.6	1.6	1.6	1.4	2.7	1.6
Nov.	0.6	–2.7	2.6	1.4	1.6	1.7	2.1	1.6	1.2	1.6
Dec.	0.6	–2.9	2.7	1.4	1.5	2.0	2.4	1.7	–0.5	1.5

Source: Based on Istat data.

(1) Sundry bases. For 1996 the comparison is with the old index, with the average for 1995 set equal to 100. – (2) 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 indices for medicines, the reference is to the Istat aggregate “Chemical, pharmaceutical and medical products”, which includes goods with unregulated prices.

Table a18

Exports of manufactures: average unit values in lire

(percentage changes on corresponding period)

	Non-energy products								Energy products	Overall index
	Consumer goods (1)				Investment goods	Intermediate goods	Other goods (2)	Total		
	Non-food products		Food products	Total						
		of which: cars								
1992	2.2	2.4	1.7	1.9	4.6	–0.3	42.5	1.8	–8.5	1.0
1993	11.7	13.6	10.2	11.4	11.8	10.4	59.6	11.6	15.3	12.0
1994	2.1	6.3	6.4	2.9	3.4	3.5	5.9	3.2	5.8	3.7
1995	6.7	13.6	10.8	7.2	1.6	13.4	–3.9	8.6	18.7	9.3
1996	8.1	0.0	2.3	7.3	4.3	–1.6	35.6	3.1	–1.2	2.9
1995 – 3rd qtr.	8.8	14.5	9.1	8.9	0.5	17.7	–8.3	10.6	24.2	11.9
4th ”	14.2	15.6	12.4	13.8	6.9	13.0	12.6	12.1	8.5	12.1
1996 – 1st qtr.	15.8	8.6	8.6	14.7	8.1	7.3	37.7	10.4	1.9	9.8
2nd ”	12.3	–1.2	0.7	10.7	4.8	–2.9	31.7	3.5	–2.7	3.4
3rd ”	5.2	–4.0	1.9	4.8	3.6	–4.8	43.6	0.8	–5.8	0.3
4th ”	–0.4	–3.4	–1.0	–0.5	1.2	–5.7	29.4	–1.9	2.5	–1.8
1997 – 1st qtr.	–2.5	0.5	–4.6	–2.8	–3.0	–4.8	13.4	–3.6	3.5	–3.2
2nd ”	–0.8	5.0	–4.0	–1.3	–0.8	–1.4	4.3	–1.1	–1.5	–1.4
3rd ”	–0.5	3.8	–4.8	–1.3	1.3	–0.4	5.6	–0.3	7.3	0.1
1996 – June	6.4	–4.8	–0.5	5.5	5.1	–2.5	52.9	2.4	–6.1	2.0
July	9.0	–6.8	1.7	8.1	3.0	–4.9	54.1	1.8	–8.9	1.2
Aug.	3.9	–0.9	2.7	3.9	4.8	–4.0	60.2	1.6	–8.3	0.5
Sept.	1.9	–2.3	1.4	1.8	3.6	–5.2	18.7	–0.8	–0.4	–0.8
Oct.	1.7	–3.5	–0.7	1.5	5.4	–5.9	23.0	–0.6	–0.2	–0.7
Nov.	–1.1	–2.8	0.3	–0.9	–1.9	–6.3	17.0	–3.2	–1.4	–3.6
Dec.	–2.5	–3.6	–2.8	–2.6	0.5	–4.9	47.9	–2.0	10.0	–1.1
1997 – Jan.	–4.1	–4.0	–4.3	–4.2	–3.1	–5.3	–11.2	–4.5	6.0	–3.8
Feb.	–1.8	2.1	–6.9	–2.5	–2.4	–5.3	21.0	–3.6	6.4	–3.0
Mar.	–1.6	3.3	–2.6	–1.6	–3.3	–3.9	36.0	–2.7	–1.5	–2.7
Apr.	–2.0	2.5	–4.0	–2.3	1.8	–0.6	14.6	–0.4	–0.5	–0.8
May	–2.1	4.7	–3.3	–2.4	–1.2	–0.9	5.6	–1.2	–1.2	–1.4
June	–1.5	7.6	–4.9	0.7	–2.8	–2.7	–7.6	–1.7	–2.7	–2.1
July	–0.4	5.9	–6.6	–1.2	–0.3	–0.8	8.9	–0.8	0.2	–0.8
Aug.	–1.0	2.0	–3.7	–1.6	4.5	–1.4	–5.3	–0.4	11.6	0.7
Sept.	–0.4	1.9	–3.7	–1.0	1.1	0.5	11.3	0.3	11.3	0.8
Oct.	–1.2	1.3	–2.1	–1.3	–2.0	1.4	20.6	–0.1	9.3	0.4
Nov.	–1.6	–0.2	–5.1	–2.1	0.9	3.8	24.4	1.4	7.1	2.0
Jan.-Nov.	–1.4	2.4	–4.3	–1.8	–0.6	–1.4	9.9	–1.3	4.0	–1.0

Source: Based on Istat data.

(1) Excludes tobacco products and medicines. – (2) Includes tobacco products and medicines. In the absence of elementary indices for medicines, the reference is to the Istat aggregate “Pharmaceutical products”.

Table a19

Imports of manufactures: average unit values in lire

(percentage changes on corresponding period)

	Non-energy products								Energy products	Overall index
	Consumer goods with unregulated prices				Investment goods	Intermediate goods	Other goods (1)	Total		
	Non-food products		Food products	Total						
		of which: cars								
1992	3.1	8.5	4.8	3.9	2.1	–2.0	10.3	1.1	–8.3	–0.6
1993	6.5	5.0	11.2	7.3	22.5	9.0	9.7	10.1	19.2	11.2
1994	–1.0	–1.1	4.9	0.8	3.3	7.7	–11.9	3.8	4.8	4.8
1995	9.0	9.8	9.6	9.2	3.4	16.8	–5.6	11.7	15.6	13.1
1996	4.8	4.7	–5.0	2.0	3.0	–5.9	18.5	–0.9	3.6	–0.3
1995 – 3rd qtr.	13.1	11.4	8.5	11.7	2.3	19.8	–0.6	13.9	13.5	14.7
4th ”	9.9	6.1	6.6	9.0	5.5	16.5	11.5	12.8	6.3	12.1
1996 – 1st qtr.	10.9	7.0	–2.4	7.4	7.2	6.2	20.0	7.6	0.3	6.1
2nd ”	4.8	1.8	–5.6	1.8	2.7	–5.4	33.7	–0.5	–2.6	–0.9
3rd ”	3.0	7.5	–5.2	0.5	3.9	–11.4	18.5	–3.9	2.9	–3.2
4th ”	0.5	4.0	–6.5	–1.5	–0.7	–12.9	0.2	–6.6	15.0	–3.0
1997 – 1st qtr.	–4.3	–1.5	–2.5	–3.6	–5.3	–9.4	–3.4	–6.6	9.4	–3.6
2nd ”	–3.0	–5.0	–0.8	–2.2	0.9	–2.9	0.9	–2.0	3.9	–0.3
3rd ”	0.3	–6.2	3.2	1.6	2.7	2.4	–5.1	1.8	5.3	3.3
1996 – June	0.9	2.7	–4.3	–0.6	2.3	–8.1	26.9	–2.9	–2.8	–2.8
July	1.9	5.9	–5.0	–0.1	2.7	–11.0	29.0	–3.9	0.0	–3.0
Aug.	3.7	7.2	–4.9	0.6	4.7	–11.0	8.6	–3.0	5.4	–3.1
Sept.	3.6	9.5	–5.7	0.8	4.8	–11.9	14.6	–4.2	3.8	–3.6
Oct.	4.0	11.7	–7.1	0.8	2.4	–12.7	9.3	–5.2	14.0	–2.4
Nov.	0.0	1.3	–6.1	–1.6	–1.8	–13.7	–7.2	–7.4	17.1	–3.5
Dec.	–3.0	–0.6	–6.3	–3.9	–2.3	–12.2	–1.8	–7.2	13.7	–3.3
1997 – Jan.	–3.6	0.1	–5.2	–4.1	–6.8	–12.9	–10.7	–8.7	10.4	–5.2
Feb.	–4.1	–3.1	–2.1	–3.6	–6.7	–9.0	–3.6	–6.8	12.4	–3.8
Mar.	–5.4	–1.9	0.1	–3.5	–2.5	–6.6	4.5	–4.5	5.6	–1.9
Apr.	–3.2	–4.0	–2.9	–2.8	–4.0	–5.0	–8.2	–4.3	4.5	–1.8
May	–4.6	–6.4	1.3	–2.9	3.5	–2.8	0.8	–1.7	4.8	–0.2
June	–1.1	–4.7	–0.8	–0.7	3.3	–0.7	10.0	0.3	2.3	1.1
July	–1.3	–5.5	1.6	–0.2	5.5	0.8	5.1	1.1	4.6	2.4
Aug.	1.1	–7.5	2.7	2.0	–1.7	2.8	–10.7	1.0	9.9	4.4
Sept.	1.4	–6.1	5.2	3.0	2.5	3.7	–11.1	2.9	2.5	3.4
Oct.	–0.8	–7.8	5.5	1.3	–1.2	4.7	0.7	2.5	–2.4	2.2
Nov.	–0.4	–1.3	6.5	1.8	–1.0	5.3	14.6	3.2	–3.1	2.1
Jan.-Nov. . . .	–2.0	–4.5	1.0	–0.9	–0.9	–2.0	–1.5	–1.2	4.5	0.2

Source: Based on Istat data.

(1) Includes tobacco products and medicines, the consumer prices of which are subject to official control. In the absence of elementary indices for medicines, the reference is to the Istat aggregate “Pharmaceutical products”, which includes goods with unregulated prices.

Table a20

Balance of payments

(balances in 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						
1995	72,882	1,011	−25,533	−4,680	43,680	51,790	−58,102	−6,312	−34,458	−2,910
1996	93,753	3,061	−23,123	−10,336	63,355	(37,557)	−47,394	(−9,837)	(−32,921)	−20,597
1997	(80,126)	(3,597)	(−20,099)	(−1,703)	(61,921)	(−23,054)	(11,584)	(−11,470)	(−27,623)	(−22,828)
1995 – 4th qtr. . .	18,914	−357	−6,251	−2,462	9,844	30,812	−33,077	−2,265	−5,933	−1,646
1996 – 1st qtr. . .	18,294	−1,161	−5,996	15	11,152	−15,636	19,010	3,374	−14,110	−416
2nd ” . .	25,150	2,717	−7,279	−4,153	16,435	20,537	−14,465	6,072	1,573	−24,080
3rd ” . .	26,551	2,189	−4,666	−2,232	21,842	434	−11,401	−10,967	−12,116	1,241
4th ” . .	23,758	−684	−5,182	−3,966	13,926	(32,222)	−40,538	(−8,316)	(−8,268)	2,658
1997 – 1st qtr. . .	16,861	−360	−5,200	3,177	14,478	(−13,057)	24,493	(11,436)	(−26,410)	496
2nd ” . .	19,884	1,772	−6,797	−2,884	11,975	(20,813)	−42,718	(−21,905)	(8,215)	1,715
3rd ” . .	23,664	2,592	−4,043	−1,948	20,265	(−5,492)	14,782	(9,290)	(−6,953)	−22,602
4th ” . .	(19,717)	(−407)	(−4,059)	(−48)	(15,203)	(−25,318)	(15,027)	(−10,291)	(−2,475)	(−2,437)
1995 – Dec.	5,510	−417	−2,598	561	3,056	13,897	−13,248	649	2,095	−5,800
1996 – Jan.	3,617	−335	−2,661	303	924	−4,604	7,450	2,846	−3,777	7
Feb.	7,092	−408	−774	−155	5,755	−2,105	−550	−2,655	−4,017	917
Mar.	7,585	−418	−2,561	−133	4,473	−8,927	12,110	3,183	−6,316	−1,340
Apr.	6,729	218	−2,173	−1,224	3,550	27,746	−26,808	938	3,555	−8,043
May	9,467	599	−1,986	−1,531	6,549	−8,214	13,151	4,937	−2,219	−9,267
June	8,954	1,900	−3,120	−1,398	6,336	1,005	−808	197	237	−6,770
July	14,435	1,614	−2,169	−675	3,205	−10,366	6,933	−3,433	−10,095	323
Aug.	7,336	321	−190	−872	6,595	3,953	−15,024	−11,071	1,668	2,808
Sept.	4,780	254	−2,307	−685	2,042	6,847	−3,310	3,537	−3,689	−1,890
Oct.	10,234	−87	−1,690	−1,515	6,942	10,316	−5,718	4,598	−7,144	−4,396
Nov.	7,712	−486	−1,004	−1,110	5,112	(4,414)	−10,748	(−6,334)	(−1,320)	2,542
Dec.	5,812	−111	−2,488	−1,341	1,872	(17,492)	−24,072	(−6,580)	(196)	4,512
1997 – Jan.	4,158	−68	−1,599	4,431	6,922	(−10,701)	22,076	(11,375)	(−12,923)	−5,374
Feb.	6,085	−125	−1,128	−800	4,032	(1,429)	263	(1,692)	(−7,687)	1,963
Mar.	6,618	−167	−2,473	−454	3,524	(−3,785)	2,154	(−1,631)	(−5,800)	3,907
Apr.	6,437	70	−1,971	−349	4,187	(−2,194)	−4,343	(−6,537)	(204)	2,146
May	7,070	406	−2,323	−1,151	4,002	(15,154)	−17,029	(−1,875)	(−556)	−1,571
June	6,377	1,296	−2,503	−1,384	3,786	(7,853)	−21,346	(−13,493)	(8,567)	1,140
July	13,279	1,548	−1,050	−2	13,775	(−5,760)	181	(−5,579)	(3,928)	−12,124
Aug.	6,668	123	−1,199	−1,425	4,167	(−8,897)	11,821	(2,924)	(−2,292)	−4,799
Sept.	3,717	921	−1,794	−521	2,323	(9,165)	2,780	(11,945)	(−8,589)	−5,679
Oct.	8,513	394	−1,642	−788	6,477	(−5,509)	646	(−4,863)	(−4,013)	2,399
Nov.	(6,174)	(−321)	(−399)	(−58)	(5,396)	(−15,692)	(15,292)	(−400)	(−4,159)	(−837)
Dec.	(5,030)	(−480)	(−2,018)	(798)	(3,330)	(−4,117)	(−911)	(−5,028)	(5,697)	(−3,999)

Table a21

External position of BI-UIC

	Short-term assets				Short-term liabilities	Medium and long-term position			Reserve position in the IMF	Gold	Overall position
						Assets		Liabilities			
	Convertible currencies	Official ecus	SDRs	Total		Total	*of which: foreign securities*				
	(billions of lire)										
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 – 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 . . .	60,533	15,166	92	75,791	370	6,827	5,758	1,706	2,996	38,301	121,839
Aug. . . .	64,154	15,166	97	79,417	281	7,471	6,413	1,685	3,032	38,301	126,255
Sept. . .	68,839	15,101	95	84,035	261	7,721	6,679	1,655	3,026	37,940	130,806
Oct. . . .	65,722	15,870	97	81,689	232	7,410	6,374	1,644	3,006	37,940	128,169
Nov. . . .	66,347	15,948	115	82,410	233	7,649	6,809	1,653	3,306	37,940	129,419
Dec. . . .	69,766	15,932	118	85,816	359	8,325	7,480	1,668	3,942	37,578	133,634
	(millions of dollars)										
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 – 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 . . .	33,863	8,484	51	42,398	207	3,819	3,221	954	1,676	22,463	69,195
Aug. . . .	36,461	8,619	55	45,136	160	4,246	3,645	958	1,723	22,463	72,451
Sept. . .	39,874	8,747	55	48,676	151	4,472	3,869	959	1,753	21,806	75,598
Oct. . . .	38,840	9,379	57	48,277	137	4,379	3,767	972	1,776	21,806	75,130
Nov. . . .	38,409	9,232	67	47,708	135	4,428	3,942	957	1,914	21,086	74,764
Dec. . . .	39,658	9,056	67	48,781	204	4,732	4,252	948	2,241	19,371	73,973

Table a22

State sector borrowing requirement

(billions of lire)

	Budget			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
	Receipts	Payments (–)	Balance							
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	549,509	682,686	–133,177	5,705	–10,086	1,349	–136,209	–13,502	6,226	–128,934
1997	626,441	614,181	12,260	–38,901	–6,079	1,615	–31,105	409	21,179	–52,693
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 ” . . .	175,247	222,964	–47,717	15,350	–1,533	925	–32,975	–6,263	5,733	–32,445
1997 – 1st qtr. . .	110,054	102,252	7,802	–36,655	–1,594	6	–30,440	–	–6,297	–24,144
2nd ” . . .	155,862	118,199	37,664	–39,529	–2,093	435	–3,523	–451	–1,885	–1,187
3rd ” . . .	149,581	176,253	–26,672	12,804	–963	5	–14,826	–1,420	12,848	–26,254
4th ” . . .	210,943	217,478	–6,534	24,479	–1,429	1,169	17,685	2,280	16,513	–1.109
1997 – Jan.	44,902	33,223	11,679	–10,026	–502	6	1,157	–	3	1,154
Feb.	34,210	38,915	–4,705	–2,394	–506	–	–7,605	–	–	–7,605
Mar.	30,942	30,114	829	–24,235	–585	–	–23,992	–	–6,300	–17,692
Apr.	37,588	37,626	–38	–17,463	–767	264	–18,004	–	–	–18,004
May	46,041	33,753	12,287	–24,446	–675	–	–12,834	–218	37	–12,653
June	72,233	46,819	25,415	2,380	–651	171	27,315	–233	–1,922	29,470
July	64,845	91,844	–27,000	34,551	159	1	7,711	–757	12,848	–4,380
Aug.	48,507	37,450	11,056	–12,925	–463	–	–2,332	–370	–	–1,962
Sept.	36,230	46,959	–10,729	–8,822	–658	4	–20,205	–293	–	–19,912
Oct.	38,777	55,616	–16,839	577	–670	283	–16,649	–738	–	–15,911
Nov.	69,399	54,471	14,928	–3,920	–527	–	10,481	–425	21,510	–10,604
Dec.	102,767	107,390	–4,622	27,821	–232	886	23,852	3,444	–4,997	25,406

Table a23

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				
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	225,609	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
1997	98,904	–82,310	–3,020	599	10,974	4,059	1,900	31,105
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	4,438	1,173	2,996	30,440
2nd ”	20,885	–18,250	–8,818	2,244	1,952	2,185	3,326	3,523
3rd ”	29,947	–19,750	–325	177	2,060	3,349	–632	14,826
4th ”	6,762	–24,750	4,227	–8	2,524	–2,648	–3,791	–17,685
1997 – Jan.	483	–7,750	–846	427	3,205	–5	3,329	–1,157
Feb.	19,273	–5,810	–6,949	–395	1,204	–90	371	7,605
Mar.	21,553	–6,000	9,692	–1,846	29	1,267	–703	23,992
Apr.	1,375	–6,000	16,217	2,265	486	–610	4,271	18,004
May	15,428	–6,250	1,185	–1,335	289	2,795	721	12,834
June	4,082	–6,000	–26,221	1,314	1,177	–1	–1,666	–27,314
July	19,378	–6,250	–23,491	173	–998	3,444	33	–7,711
Aug.	–4,555	–5,500	11,707	32	693	–13	–32	2,332
Sept.	15,125	–8,000	11,458	–28	2,366	–82	–634	20,205
Oct.	13,220	–9,000	12,916	7	122	–293	–322	16,649
Nov.	5,019	–8,500	–6,357	–178	37	–106	–395	–10,481
Dec.	–11,476	–7,250	–2,332	163	2,365	–2,249	–3,073	–23,852

Table a24

General government debt

(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 dom-estic debt	Debt issued abroad	Borrowing from BI-UIC	Total (EU definition)	Total (EU definition): *as a per-centage of GDP*	Claims on BI-UIC	Total	*Memorandum item:* state sector debt
1991	732,625	338,254	96,198	81,141	3,205	54,987	142,858	1,449,266	*101.5*	–1,095	1,448,171	1,412,037
1992	805,338	393,827	105,308	93,994	3,458	64,575	167,385	1,633,885	*108.7*	–1,406	1,632,480	1,595,122
1993	958,951	399,434	114,230	107,803	3,599	85,505	176,990	1,846,512	*119.1*	–32,507	1,814,005	1,765,516
1994	1,104,569	397,016	135,968	106,525	3,632	96,022	203,541	2,047,274	*124.9*	–65,754	1,981,520	1,931,848
1995 – 1st qtr.	1,140,949	405,135	140,993	108,063	3,693	108,036	201,168	2,108,037	–	–59,041	2,048,996	2,001,525
2nd "	1,159,449	405,678	144,487	113,053	3,773	124,170	205,993	2,156,602	–	–87,689	2,068,913	2,017,791
3rd "	1,182,287	406,671	148,752	111,662	3,845	119,398	203,938	2,176,553	–	–71,533	2,105,020	2,055,128
4th "	1,203,577	407,144	151,759	111,641	3,844	119,274	204,061	2,201,301	*124.2*	–74,184	2,127,116	2,072,707
1996 – 1st qtr.	1,235,755	403,039	152,132	109,329	3,915	119,119	200,282	2,223,571	–	–53,318	2,170,254	2,117,000
2nd "	1,281,572	390,226	153,692	111,736	3,975	119,954	206,490	2,267,645	–	–86,982	2,180,663	2,123,025
3rd "	1,322,783	389,322	156,269	109,524	4,027	122,972	201,391	2,306,289	–	–73,849	2,232,440	2,172,105
4th "	1,366,059	381,599	165,022	108,773	4,103	125,592	171,018	2,322,167	*124.0*	–56,459	2,265,708	2,204,375
1997 – Jan.	1,368,291	370,147	168,227	109,237	4,132	128,110	173,392	2,321,536	–	–56,854	2,264,683	2,206,505
Feb.	1,386,619	361,456	169,431	110,621	4,143	131,994	177,272	2,341,535	–	–64,227	2,277,308	2,218,130
Mar.	1,408,697	352,638	169,460	108,537	4,163	132,394	181,625	2,357,514	–	–56,367	2,301,147	2,242,969
Apr.	1,420,186	347,508	169,947	111,401	4,184	132,304	172,552	2,358,081	–	–37,876	2,320,205	2,261,853
May	1,441,106	339,701	170,235	111,377	4,205	136,855	170,238	2,373,718	–	–38,051	2,335,666	2,278,173
June	1,448,143	328,845	171,412	111,742	4,209	139,434	172,665	2,376,450	–	–62,962	2,313,488	2,251,000
July	1,478,146	320,497	170,414	110,015	4,243	145,860	164,878	2,394,053	–	–86,300	2,307,752	2,247,353
Aug. . . .	1,473,649	317,495	171,107	108,135	4,259	144,320	160,979	2,379,944	–	–74,551	2,305,393	2,247,125
Sept. . .	1,491,503	309,972	173,472	108,815	4,278	142,257	158,672	2,388,970	–	–63,005	2,325,965	2,265,849
Oct. . . .	1,504,509	302,122	173,594	108,578	4,320	141,155	157,045	2,391,323	–	–50,083	2,341,240	2,281,037
Nov.	1,512,432	291,981	173,631	108,796	4,337	140,992	157,058	2,389,228	–	–56,617	2,332,612	2,271,116
Dec. . . .	1,499,290	287,195	175,996	110,644	4,355	139,738	154,995	2,372,212	*121.6*	–58,790	2,313,422	2,248,026

Table a25

Monetary base

(flows in billions of lire)

	Sources								Uses				
	Foreign sector		Treasury accounts	Other BI-UIC opera-tions with the Treasury	Open market	Refi-nancing	Other sectors	Total	Currency in circulation	Bank reserves			
		of which: currency swaps								Deposits with the Bank of Italy	*of which: compulsory reserves*	Other	Total
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
1997	22,841	–2,921	–3,020	(–46,502)	32,024	862	7,220	(13,425)	(7,246)	6,111	10,669	–67	6,179
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	7,801	–3,483	–1,661	–2,184	1,729	362	–1,822
July . . .	12,134	–2,921	–23,491	–2,527	24,721	7	–1,699	9,143	3,720	5,336	–882	87	5,423
Aug. . . .	4,804	. .	11,707	–2,125	–20,377	–114	1	–6,103	–2,526	–3,027	1,832	–550	–3,577
Sept. . .	4,544	. .	11,458	–5,797	–7,494	–85	152	2,779	1,054	1,246	–265	478	1,725
Oct. . . .	1,278	. .	12,916	–5,974	418	133	–2,155	4,061	–770	5,017	438	–187	4,830
Nov. . . .	823	. .	–6,357	(–6,981)	7,644	8	4,496	(–367)	(4,021)	–5,734	2,204	1,346	–4,388
Dec. . . .	4,021	. .	–2,332	(–3,489)	5,381	1,092	879	(5,552)	(4,165)	48	256	1,339	1,387

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				
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
1997	31,105	(49,861)	(–17,471)	(–77,705)	(–27,872)	(–73,186)	–7,441	(–80,627)	–3,020	(–46,502)
1997 – Jan. . . .	–1,157	6,110	–7,409	8,271	–2,629	4,343	–6,525	–2,182	–846	–2,493
Feb. . . .	7,605	3,366	1,184	–19,308	–1,520	–16,278	–1,480	–17,758	–6,949	–3,204
Mar. . . .	23,992	4,302	–1,871	–14,720	–5,000	–17,289	–588	–17,876	9,692	–3,576
Apr. . . .	18,004	3,036	–852	–2,349	244	80	–4,141	–4,062	16,217	–2,275
May . . .	12,834	4,599	–2,368	–7,448	–6,780	–11,996	–3,799	–15,795	1,185	–4,146
June . .	–27,315	4,832	–2,210	–8,718	2,777	–3,319	498	–2,821	–26,221	–3,915
July . . .	–7,711	3,532	1,461	–14,095	–6,737	–15,839	–2,468	–18,308	–23,491	–2,527
Aug. . . .	2,332	3,998	–204	4,687	–586	7,896	–645	7,251	11,707	–2,125
Sept. . .	20,205	4,553	–1,685	–11,624	–4,148	–12,904	–1,639	–14,544	11,458	–5,797
Oct. . . .	16,649	3,880	–2,010	–11,944	–157	–10,231	524	–9,707	12,916	–5,974
Nov. . . .	–10,481	3,312	–1,508	–5,602	–6,124	–9,922	7,065	–2,857	–6,357	(–6,981)
Dec. . . .	–23,852	(4,342)	. .	(5,145)	(2,787)	(12,274)	5,757	(18,032)	–2,332	(–3,489)

Table a26

Monetary base and BI operations: averages of daily data

(stocks in billions of lire and percentages)

	Monetary base						
	Currency in circulation	Bank reserves					
		Deposits with the Bank of Italy	*of which: excess reserves*	Vault cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)
1995 – Dec.	98,380	73,921	202	5,736	179	79,836	0.6
1996 – 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	98,601	79,309	267	5,711	237	85,257	11.0
July	101,554	78,499	338	5,868	219	84,586	11.7
Aug.	99,486	80,320	327	5,908	307	86,535	13.1
Sept.	100,100	80,019	291	6,028	222	86,269	13.5
Oct.	99,835	80,463	297	6,158	196	86,817	12.7
Nov.	104,045	82,741	371	6,376	540	89,657	12.9
Dec.	108,955	82,958	323	7,171	415	90,544	11.3

cont.

Table a26 cont.

		BI operations						
		Temporary operations						
		Securities						
Total	Percentage changes (over 12 months)	Purchases	Sales	Total	Foreign currency purchases	Fixed-term advances	Total	
178,216	1.2	15,852	1,277	14,575	42,143	3,819	60,537	.... Dec. – 1995
180,823	2.6	23,853	571	23,282	14,933	. .	38,214	.... Dec. – 1996
176,743	4.8	26,636	722	25,913	14,887	. .	40,801	.... Jan. – 1997
181,431	7.3	34,661	952	33,708	15,748	8	49,464	.... Feb.
180,727	8.1	21,807	1,309	20,498	16,352	16	36,866	.... Mar.
180,295	8.2	8,651	1,190	7,460	16,356	. .	23,816	.... Apr.
182,472	8.3	28,506	1,232	27,275	16,376	13	43,663	.... May
183,858	8.5	41,205	1,280	39,925	16,374	7	56,305	.... June
186,140	9.1	38,202	1,147	37,054	13,998	. .	51,053	.... July
186,021	9.5	31,727	1,226	30,501	13,702	. .	44,204	.... Aug.
186,369	10.1	20,269	729	19,539	14,025	. .	33,564	.... Sept.
186,652	9.5	14,842	256	14,586	14,100	36	28,722	.... Oct.
193,701	10.0	17,052	246	16,806	13,910	74	30,790	.... Nov.
199,499	8.9	20,679	1,417	19,261	13,817	76	33,154	.... Dec.

Table a27

Monetary base

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

	Sources										
	Foreign sector		Govern-ment securities	Treasury overdraft with BI	Treasury payments account	Sinking fund for govern-ment securities	Other		Credits & debits from temporary operations	Refi-nancing	Other sectors
		of which: currency swaps						*of which: coins in circulation*			
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	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	–85,944
July	121,845	14,301	159,061	–	–84,347	–830	3,851	2,101	58,333	20,416	–89,112
Aug.	126,266	14,076	155,165	–	–72,639	–830	3,886	2,104	39,693	20,302	–88,728
Sept.	129,683	13,811	153,091	–	–61,181	–830	3,868	2,114	28,494	20,217	–87,448
Oct.	128,167	13,536	151,722	–	–35,105	–13,990	3,905	2,144	24,271	20,350	–89,365
Nov.	129,413	13,819	151,869	–	–28,397	–27,055	(3,726)	(2,144)	24,965	20,358	–85,292
Dec.	133,650	14,074	149,607	–	–53,547	–4,237	(3,890)	(2,144)	28,955	21,450	–84,629

	Uses					Total monetary base
	Currency in circulation	Bank reserves				
		Deposits with the Bank of Italy		Other	Total	
			of which: compulsory reserves			
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	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	180,075
July	101,408	81,314	78,161	6,496	87,810	189,218
Aug.	98,883	78,286	79,993	5,946	84,232	183,115
Sept.	99,937	79,532	79,728	6,425	85,957	185,894
Oct.	99,167	84,549	80,166	6,238	90,787	189,954
Nov.	(103,188)	78,814	82,370	7,585	86,399	(189,587)
Dec.	(107,353)	78,862	82,626	(8,923)	(87,786)	(195,139)

Table a28

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					
1996	202	24,444	–24,242	–6,099	–30,341	11,782	608	12,389	–17,951
1997	(91)	(47,282)	(–47,191)	51,293	(4,103)	–15,078	–4,191	–19,270	(–15,167)
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	7	2,718	–2,712	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.	7	5,786	–5,780	3,706	–2,074	–11,885	686	–11,199	–13,274
Oct.	5	6,015	–6,010	4,641	–1,369	–4,421	198	–4,223	–5,592
Nov.	3	6,806	–6,803	6,950	147	361	333	694	841
Dec.	. .	(3,652)	(–3,652)	1,391	(–2,261)	8,697	–4,707	3,990	1,729
				of which: ***Treasury bills (BOTs)***					
1996	. .	13,097	–13,097	11,461	–1,636	4,459	. .	4,459	2,823
1997	. .	(32,448)	(–32,448)	45,101	(12,653)	–6,748	. .	–6,748	(5,906)
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	3,443	–5	–853	. .	–853	–858
Oct.	. .	5,120	–5,120	3,552	–1,567	399	. .	399	–1,168
Nov.	. .	5,188	–5,188	6,904	1,716	1,212	. .	1,212	2,928
Dec.	. .	(2,908)	(–2,908)	546	(–2,362)	1,009	. .	1,009	(–1,353)

cont.

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)***				
1996	17	2,803	–2,787	–1,211	–3,998	1,355	–139	1,216	–2,782
1997	(12)	(2,167)	(–2,156)	2,142	(–14)	–3,850	144	–3,706	(–3,723)
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	1	23	–22	302	280	1,797	..	1,797	2,077
July	1	..	..	106	106	5,106	..	5,106	5,211
Aug.	..	12	–11	–5	–17	–5,327	..	–5,327	–5,344
Sept.	..	893	–893	139	–754	–2,707	–116	–2,823	–3,577
Oct.	..	..	..	711	711	–3,775	–11	–3,786	–3,075
Nov.	..	2	–2	104	102	1,413	127	1,540	1,640
Dec.	..	..	..	710	(710)	3,388	–45	3,343	(4,053)
					of which: ***Treasury bonds (BTPs)***				
1996	75	7,163	–7,088	–17,375	–24,463	5,953	747	6,700	–17,763
1997	(79)	(7,127)	(–7,048)	2,923	(–4,124)	–2,875	–4,335	–7,210	(11,335)
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	932	9,734	91	9,825	10,757
Aug.	6	595	–588	–977	–1,566	–10,345	..	–10,345	–11,911
Sept.	7	689	–682	134	–548	–6,725	802	–5,923	–6,471
Oct.	5	..	5	409	413	406	209	615	1,028
Nov.	3	1,617	–1,614	–57	–1,671	–3,767	227	–3,540	–5,211
Dec.	..	(286)	(–286)	–127	(–413)	2,879	–4,682	–1,803	(–2,216)

Table a29

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					
1997 – 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. . .	3,492	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
end- ” . .	7,760	240	8,000	7,000	76	9,937	7,000	98.78	5.24	6.07
mid-Nov. . .	3,426	74	3,500	3,500	94	5,817	3,500	98.50	5.26	6.04
end- ” . .	6,975	24	7,000	6,500	80	8,178	6,500	98.75	5.13	5.91
mid-Dec. . .	3,468	32	3,500	3,500	91	5,465	3,500	98.64	4.92	5.65
end- ” . .	6,400	100	6,500	6,000	76	7,907	6,000	99.01	4.17	4.89
1998 – mid-Jan. . .	10,458	42	10,500	9,000	90	9,750	9,000	98.66	4.90	5.62
end- ” . .	–	–	–	–	–	–	–	–	–	–
mid-Feb. . .	10,000	. .	10,000	9,500	88	11,896	9,500	98.56	5.40	6.20
					6-month					
1997 – 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	5.43	6.19
end- ” . .	10,562	438	11,000	10,000	181	12,271	10,000	97.22	5.09	5.85
mid-Nov. . .	4,445	55	4,500	4,000	167	4,887	4,000	97.41	5.15	5.90
end- ” . .	9,743	757	10,500	9,000	182	11,222	9,000	97.25	5.01	5.75
mid-Dec. . .	3,647	103	3,750	3,000	165	4,760	3,000	97.60	4.78	5.52
end- ” . .	9,452	548	10,000	8,500	182	10,375	8,500	97.60	4.35	4.99
1998 – mid-Jan. . .	4,413	87	4,500	4,500	166	6,056	4,500	97.67	4.67	5.32
end- ” . .	10,668	332	11,000	10,000	182	14,493	10,000	97.27	4.97	5.71
mid-Feb. . .	4,030	470	4,500	4,000	165	6,677	4,000	97.48	5.07	5.81

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					
1997 –	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- ” . .	9,769	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
	end- ” . .	12,706	3,794	16,500	12,000	349	13,068	12,000	94.75	5.01	5.79
	mid-Nov. . .	4,867	1,633	6,500	4,000	367	9,590	4,000	94.50	5.03	5.79
	end- ” . .	10,356	2,645	13,000	9,500	353	17,373	9,500	94.95	4.75	5.50
	mid-Dec. . .	4,127	373	4,500	3,500	365	7,983	3,500	94.98	4.59	5.29
	end- ” . .	12,249	1,751	14,000	10,500	350	11,099	10,500	95.49	4.25	4.93
1998 –	mid-Jan. . .	5,926	74	6,000	5,500	365	15,488	5,500	95.16	4.42	5.09
	end- ” . .	13,134	1,616	14,750	12,000	350	15,958	12,000	95.21	4.59	5.25
	mid-Feb. . .	5,470	530	6,000	5,500	364	11,500	5,500	94.98	4.61	5.30
						Total					
1997 –	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	37,750	–	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	–	32,202	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
	end- ” . .	31,028	4,473	35,500	29,000	–	35,277	29,000	–	5.09	5.88
	mid-Nov. . .	12,738	1,762	14,500	11,500	–	20,294	11,500	–	5.14	5.90
	end- ” . .	27,075	3,426	30,500	25,000	–	36,773	25,000	–	4.94	5.70
	mid-Dec. . .	11,242	508	11,750	10,000	–	18,208	10,000	–	4.76	5.48
	end- ” . .	28,101	2,399	30,500	25,000	–	29,381	25,000	–	4.26	4.94
1998 –	mid-Jan. . .	20,797	203	21,000	19,000	–	31,294	19,000	–	4.71	5.40
	end- ” . .	23,802	1,948	25,750	22,000	–	30,451	22,000	–	4.76	5.46
	mid-Feb. . .	19,500	1,000	20,500	19,000	–	30,073	19,000	–	5.10	5.86

Table a30

Bank of Italy repurchase agreements

DATE OF AUCTION	Amount		Maturity (days)		Allotment rates	
	offered	taken up	minimum	maximum	marginal	weighted average
Purchases						
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
1997 – Oct. 24	13,500	13,500	10	10	6.79	6.80
1997 – Nov. 4	9,500	9,500	27	27	6.77	6.78
1997 – Nov. 6	5,500	5,500	11	11	6.81	6.81
1997 – Nov. 25	14,000	14,000	6	6	6.21	6.30
1997 – Dec. 1	8,000	8,000	16	16	6.21	6.22
1997 – Dec. 9	12,000	12,000	24	24	6.17	6.23
1997 – Dec. 10	12,500	12,500	23	23	6.10	6.17
1997 – Dec. 11	4,500	4,500	4	4	6.16	6.21
1997 – Dec. 17	7,000	7,000	16	16	6.16	6.18
1998 – Jan. 7	9,000	9,000	8	8	6.23	6.25
1998 – Jan. 22	16,000	16,000	38	38	6.07	6.17
1998 – Jan. 23	15,000	15,000	7	7	6.07	6.22
1998 – Feb. 2	13,500	13,500	10	10	6.16	6.19
1998 – Feb. 12	6,500	6,500	28	28	6.17	6.19
1998 – Feb. 16	9,000	9,000	30	30	5.95	6.10
1998 – Feb. 23	8,000	8,000	17	17	5.91	6.03
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	10000	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
1997 – Dec. 29	4,500	4,500	9	9	6.29	6.24

Bank of Italy foreign currency swaps

DATE OF AUCTION	Amount		Maturity in days	Spot exchange rate	Forward points		Yields	
	offered	taken up			marginal	weighted average	marginal	weighted average
				Purchases of US dollars				
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
1997 – Nov. 25	4,000	4,000	91	1,708.25	1.55	1.62	6.24	6.26
1997 – Dec. 23	4,000	4,000	91	1,746.25	–0.50	–0.24	5.80	5.86
1998 – Feb. 25	4,000	4,000	91	1,778.25	1.65	1.69	6.02	6.03
				Purchases of German marks				
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 a32

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 – 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
12 November	2,500	5,530	2,500	79	230	5.95	6.00
13 November	1,000	3,281	1,000	78	229	5.96	6.00
14 November	2,750	3,393	2,750	77	228	5.70	5.83
1998 – 9 January	3,500	6,908	3,500	111	340	4.95	5.04

Table a33

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
Dec. 24	5.50	5.50	1.50	7.00

Table a34

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				
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
1997	5.50	7.00	6.77	6.80	6.92	6.96	6.29	6.24	6.40	6.36	6.26	6.33
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
Oct. .	6.25	7.75	–	–	6.86	6.87	–	–	6.21	5.94	5.86	5.98
Nov. .	6.25	7.75	6.24	6.26	6.60	6.63	–	–	5.96	5.80	5.59	5.76
Dec. .	5.50	7.00	5.80	5.86	6.16	6.20	6.29	6.24	5.17	5.13	5.02	5.10
1998 – Jan. .	5.50	7.00	–	–	6.12	6.21	–	–	5.62	5.59	5.20	5.43

Table a35

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 – 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	6.81	7.99	6.08	6.04	8.65	6.42
Feb.	4.11	5.39	6.47	7.82	5.72	5.65	8.54	6.14
Mar.	4.07	5.28	6.40	7.69	5.67	5.58	8.36	6.19
Apr.	4.01	5.18	6.34	7.56	5.69	5.59	8.19	6.18
May	3.99	5.10	6.30	7.45	5.64	5.58	8.03	6.19
June	3.84	4.95	6.20	7.34	5.56	5.56	7.90	6.03
July	3.55	4.69	5.91	7.24	5.36	5.34	7.77	5.91
Aug.	3.44	4.55	5.83	7.12	5.21	5.17	7.69	5.74
Sept.	3.46	4.49	5.84	7.01	5.21	5.18	7.58	5.82
Oct.	3.29	4.29	5.66	6.89	5.05	4.90	7.46	5.17
Nov.	3.33	4.24	5.80	6.76	4.97	4.82	7.33	4.93
Dec.	(3.37)	(4.19)	(5.79)	(6.63)	(4.95)	(4.77)	(7.15)	(5.07)

Table a36

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 loans 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 – 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
Sept.	6.61	9.37	9.92	9.72	8.18	10.32	9.00
Oct.	6.47	9.28	9.85	9.65	8.03	10.17	9.00
Nov.	6.37	9.20	9.75	9.56	7.95	9.98	9.00
Dec.	(6.12)	(9.02)	(9.60)	(9.42)	(6.92)	(9.39)	8.88

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 – 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
Sept. .	85,114	1,112,102	350,128	3,427	55,412	18,688	117,325	154,579	313,090	68,294
Oct. . .	89,946	1,111,467	352,722	3,439	56,844	17,870	118,588	158,353	304,466	69,629
Nov. . .	85,237	1,120,226	351,950	3,694	57,763	18,241	118,542	164,323	305,038	69,956
Dec. . .	(86,805)	(1,160,948)	(344,300)	(3,450)	(59,515)	(27,543)	(119,504)	(187,398)	(311,881)	(70,666)

	Liabilities									
	Residents' deposits in lire	Bonds	Public funds	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 – 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
Sept. .	868,398	353,302	2,262	1,699	175,314	166,185	256,844	381,334	4,527	185,330
Oct. . .	861,539	363,280	2,235	1,751	170,076	175,121	253,092	374,084	12,518	185,364
Nov. . .	839,162	370,857	2,213	1,763	179,446	178,843	254,258	384,470	14,003	184,605
Dec . .	(881,745)	(377,901)	(2,231)	(2,854)	(172.894)	(200,269)	(257,362)	(392,736)	(13,352)	(174,189)

Table a38

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 – 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
Sept.	557,122	495,628	554,980	524,820	1,112,102	1,020,447	18,745
Oct.	553,198	493,538	558,270	528,356	1,111,467	1,021,894	18,590
Nov.	556,768	497,245	563,458	533,633	1,120,226	1,030,878	19,161
Dec.	(590,665)	(530,714)	(570,283)	(540,764)	(1,160,948)	(1,071,479)	(23,150)

	Securities							
	Government securities					Other		Total
		of which:					*of which: bonds issued by banks*	
		BOTs and BTEs	*CTZs*	*CCTs*	*BTPs*			
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 – 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
Sept.	306,647	27,965	19,575	157,368	95,902	43,481	40,840	350,128
Oct.	307,146	30,498	17,689	155,820	97,185	45,577	42,926	352,722
Nov.	306,517	29,843	18,453	156,329	96,806	45,433	42,768	351,950
Dec	(296,772)	(32,042)	(18,661)	(154,803)	(86,215)	(47,528)	(44,092)	(344,300)

Table a39

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 – 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
Sept.	500,741	112,863	82,408	172,387	254,795	868,398	24,220	14,990
Oct.	506,279	112,374	83,704	159,181	242,886	861,539	24,953	15,028
Nov.	494,884	113,533	84,412	146,333	230,745	839,162	24,789	15,007
Dec.	(543,713)	(115,572)	(86,083)	(136,376)	(222,459)	(881,745)	(23,668)	(17,364)

	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 – 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	866,045	152,404	183,160
Aug.	473,298	81,104	186,816	267,919	853,575	156,264	187,554
Sept.	474,760	82,607	175,929	258,536	845,409	162,044	191,258
Oct.	486,705	83,993	163,560	247,552	846,829	167,616	195,664
Nov.	488,077	85,217	150,942	236,159	836,600	171,644	199,213
Dec.	(495,961)	(86,468)	(139,701)	(226,169)	(834,171)	(174,619)	(203,282)

Table a40

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
December 1994									
Banks in the Centre and North	146,874	25,780	11,686	167,062	13.3	66,207	11	825	19.6
Banks in the South	16,422	4,171	2,962	19,928	11.1	6,007	12	424	7.9
Total ..	**163,296**	**29,951**	**14,648**	**186,991**	**13.0**	**72,214**	**23**	**1,249**	**27.5**
June 1995									
Banks in the Centre and North	151,104	30,407	17,577	175,198	12.9	66,621	12	811	11.1
Banks in the South	15,321	4,201	3,071	18,767	10.1	6,083	13	2,255	5.6
Total ..	**166,425**	**34,608**	**20,649**	**193,966**	**12.6**	**72,704**	**25**	**3,066**	**16.7**
December 1995									
Banks in the Centre and North	151,840	33,211	18,769	178,832	13.0	67,595	9	590	8.7
Banks in the South	15,441	3,271	2,279	17,826	10.3	6,252	8	2,416	6.0
Total ..	**167,281**	**36,482**	**21,048**	**196,658**	**12.7**	**73,847**	**17**	**3,006**	**14.7**
June 1996									
Banks in the Centre and North	155,799	34,102	18,556	183,807	13.2	71,519	5	308	4.9
Banks in the South	14,355	3,088	1,957	16,746	9.7	6,502	11	3,587	7.5
Total ..	**170,155**	**37,190**	**20,513**	**200,553**	**12.8**	**78,021**	**16**	**3,895**	**12.4**
December 1996									
Banks in the Centre and North	157,795	34,188	18,164	186,205	13.3	73,595	6	301	4.2
Banks in the South	13,828	3,091	2,040	16,029	10.3	7,261	8	3,661	6.6
Total ..	**171,623**	**37,279**	**20,204**	**202,234**	**13.0**	**80,855**	**14**	**3,962**	**10.8**
June 1997									
Banks in the Centre and North	159,445	36,015	19,966	189,010	13.0	72,770	6	543	2.2
Banks in the South	13,865	3,058	2,098	16,583	12.7	7,096	9	964	5.7
Total ..	**173,310**	**39,073**	**22,064**	**205,593**	**12.9**	**79,866**	**15**	**1,507**	**7.9**
September 1996									
Banks in the Centre and North	155,854	34,001	18,475	183,741	13.2	71,155	7	294	5.3
Banks in the South	14,362	3,089	1,958	16,753	9.1	6,540	11	4,446	7.4
Total ..	**170,216**	**37,090**	**20,433**	**200,494**	**12.7**	**77,989**	**18**	**4,740**	**12.7**
September 1997									
Banks in the Centre and North	159,965	35,288	19,268	189,266	12.9	72,198	5	728	6.8
Banks in the South	13,755	2,923	1,980	16,334	13.2	7,226	4	785	3.3
Total ..	**173,720**	**38,211**	**21,248**	**205,600**	**12.9**	**79,424**	**9**	**1,513**	**10.1**

(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.

Table a41

Italian investment funds: securities portfolios and net assets

(end-of-period balance sheet value; billions of lire)

	Lira securities							
	Government securities					Bonds	Shares	Total
		of which:						
		BOTs	*CTZs*	*BTPs*	*CCTs*			
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
1997	193,883	15,511	62,976	72,322	41,904	5,634	39,409	238,926
1995 – 4th qtr. . .	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	4,914	26,994	177,906
3rd " . .	165,033	17,834	55,420	59,014	31,499	5,127	33,463	203,623
4th " . .	193,883	15,511	62,976	72,322	41,904	5,634	39,409	238,926
1996 – 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	4,914	26,994	177,906
July	151,955	18,875	48,016	55,428	28,459	4,972	30,968	187,894
Aug.	153,946	18,124	50,451	53,518	30,693	4,971	28,664	187,581
Sept.	165,033	17,834	55,420	59,014	31,499	5,127	33,463	203,623
Oct.	171,737	14,785	59,348	60,549	35,685	5,284	31,962	208,983
Nov.	180,678	12,941	60,741	64,906	40,625	5,421	33,784	219,883
Dec.	193,883	15,511	62,976	72,322	41,904	5,634	39,409	238,926

cont.

Table a41 cont.

Foreign currency securities		Other financial assets	Total portfolio	Net assets	*Memorandum items:*		
	of which: shares				Gross sales	Net sales	
37,289	20,025	682	113,570	130,168	85,032	25,455	 1994
30,905	17,675	739	116,706	126,802	46,978	–10,490	 1995
30,967	15,707	980	180,251	197,544	123,936	58,226	 1996
91,522	39,000	161	330,609	368,432	287,426	143,333	 1997
30,905	17,675	739	116,706	126,802	13,668	–370	..... 4th qtr. – 1995
30,142	17,299	959	118,738	133,608	21,704	6,267	..... 1st qtr. – 1996
28,642	16,460	1,002	135,203	149,603	27,831	10,547	..... 2nd ”
29,227	15,826	1,066	153,243	165,733	28,159	14,934	..... 3rd ”
30,967	15,707	980	180,251	197,544	46,242	26,478	..... 4th ”
44,202	20,581	302	211,847	239,243	72,931	39,511	..... 1st qtr. – 1997
59,045	28,518	168	237,118	268,315	46,760	17,745	..... 2nd ”
80,542	37,979	121	284,286	321,233	82,774	43,616	..... 3rd ”
91,522	39,000	161	330,609	368,432	84,961	42,461	..... 4th ”
30,967	15,707	980	180,251	197,544	15,610	9,169	.... Dec. – 1996
36,255	17,467	806	202,525	219,985	28,850	18,508	.... Jan. – 1997
41,591	19,889	810	209,157	234,226	26,473	14,978	.... Feb.
44,202	20,581	302	211,847	239,243	17,608	6,025	.... Mar.
49,170	22,292	236	220,252	247,480	13,668	4,968	.... Apr.
53,176	24,643	204	222,365	255,338	14,823	5,702	.... May
59,045	28,518	168	237,118	268,315	18,269	7,075	.... June
72,407	36,150	178	260,420	291,563	32,645	16,013	.... July
74,238	35,350	167	261,986	300,994	26,609	15,726	.... Aug.
80,542	37,979	121	284,286	321,233	23,520	11,877	.... Sept.
80,498	34,384	144	289,625	333,053	34,724	18,144	.... Oct.
85,738	36,297	156	305,777	348,452	24,438	11,851	.... Nov.
91,522	39,000	161	330,609	368,432	25,799	12,466	.... Dec.

Table a42

Italian securities investment funds

(billions of lire)

	Securities denominated in lire				
	Government securities				
		of which:			
		BOTs	*CTZs*	*BTPs*	*CCTs*
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
1997	67,939	−10,929	24,071	29,429	7,564
1995 – 4th qtr.	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	5,294	6,603	−2,600
2nd ”	5,626	−6,228	7,017	1,002	−2,992
3rd ”	17,623	−4,121	4,585	9,324	2,734
4th ”	27,618	−2,465	7,175	12,500	10,422
1996 – Dec.	7,624	2,646	2,522	711	1,681
1997 – Jan.	13,461	2,510	2,570	5,847	594
Feb.	2,068	84	1,311	815	−2,272
Mar.	1,544	−710	1,414	−60	−922
Apr.	2,043	−1,027	1,240	−2,245	1,581
May	−1,637	−3,593	2,793	355	−3,089
June	5,220	−1,608	2,984	2,892	−1,485
July	5,476	−2,976	406	6,208	−284
Aug.	2,557	−841	−273	−1,336	2,223
Sept.	9,590	−304	4,452	4,452	796
Oct.	7,130	−3,076	4,061	1,757	4,206
Nov.	8,182	−1,914	1,344	3,857	4,940
Dec.	12,306	2,525	1,770	6,887	1,275

cont.

Table a42 cont.

			Foreign currency securities		Other financial assets	Total portfolio	
Bonds	Shares	Total		*of which: shares*			
–3,997	8,863	16,920	6,112	7,083	–338	22,694	 1994
–2,043	125	9,489	–6,051	–2,862	284	3,722	 1995
–14,776	128	51,701	4,723	–400	1,260	57,684	 1996
12,559	6,362	86,860	55,339	19,996	–805	141,394	 1997
–438	781	5,867	505	–219	49	6,421	...... 4th qtr. – 1995
–1,289	–155	5,005	1,201	92	616	6,822	...... 1st qtr. – 1996
–428	–787	16,843	241	–95	529	17,613	...... 2nd "
–4,392	308	14,714	1,942	168	155	16,811	...... 3rd "
–8,667	762	15,138	1,340	–565	–40	16,438	...... 4th "
–1,179	1,324	17,217	10,804	3,194	–690	27,331	...... 1st qtr. – 1997
6,555	122	12,303	11,253	4,818	–123	23,433	...... 2nd "
4,265	1,384	23,272	20,694	9,002	–31	43,935	...... 3rd "
2,917	3,532	34,067	12,586	2,981	39	46,692	...... 4th "
–2,429	342	5,537	200	–29	–50	5,687	...... Dec. – 1996
–2,391	643	11,713	3,798	791	–217	15,294	...... Jan. – 1997
351	630	3,049	3,727	1,352	–187	6,589	...... Feb.
860	50	2,454	3,279	1,050	–286	5,447	...... Mar.
1,220	–266	2,997	4,220	1,157	–52	7,165	...... Apr.
3,753	–41	2,075	2,650	1,103	–29	4,696	...... May
1,583	429	7,232	4,382	2,558	–43	11,571	...... June
3,009	1,077	9,562	9,345	4,794	18	18,925	...... July
841	–504	2,894	5,851	2,523	–13	8,732	...... Aug.
416	811	10,817	5,500	1,685	–36	16,281	...... Sept.
3,233	882	11,264	4,301	124	34	15,599	...... Oct.
2,060	747	10,963	4,073	1,235	12	15,048	...... Nov.
–2,369	1,902	11,839	4,212	1,622	–6	16,045	...... Dec.

Table a43

Portfolio management services (1)

(end-of-period market values in billions of lire)

	Government securities	of which: BOTs	of which: BTPs	of which: CCTs	Bonds: Italian	Bonds: Foreign
1996 - 1st qtr.						
Securities firms	19,987	200	7,725	11,326	6,997	4,387
Trust companies	10,630	1,795	2,607	5,474	1,204	1,408
Banks	108,038	10,588	31,791	60,059	10,718	7,994
Total	**138,655**	**12,583**	**42,123**	**76,859**	**18,919**	**13,789**
1996 - 2nd qtr.						
Securities firms	23,865	608	10,151	12,290	6,952	4,735
Trust companies	11,141	2,051	2,511	5,651	1,331	1,406
Banks	115,671	12,475	33,345	63,984	12,458	8,560
Total	**150,677**	**15,134**	**46,007**	**81,925**	**20,741**	**14,701**
1996 - 3rd qtr.						
Securities firms	25,527	595	11,756	12,254	6,821	4,824
Trust companies	11,341	1,937	2,704	5,508	1,414	1,446
Banks	124,766	13,080	34,419	69,270	13,088	8,718
Total	**161,634**	**15,612**	**48,879**	**87,032**	**21,323**	**14,988**
1996 - 4th qtr.						
Securities firms	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.						
Securities firms	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 firms	28,879	635	17,246	9,571	6,577	8,570
Trust companies	13,379	2,470	3,721	4,968	1,453	2,081
Banks	154,811	13,436	48,035	66,483	13,575	12,264
Total	**197,069**	**16,541**	**69,002**	**81,022**	**21,605**	**22,915**
1997 - 3rd qtr. (2)						
Securities firms	32,054	467	22,483	7,429	6,412	8,466
Trust companies	16,749	2,022	5,758	5,881	1,485	2,313
Banks	154,209	10,448	48,654	62,089	13,459	13,422
Total	**203,012**	**12,937**	**76,895**	**75,399**	**21,356**	**24,201**

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

cont.

Table a43 cont.

Shares: Italian	Shares: Foreign	Other financial assets	Total portfolio	Total managed funds	*Memorandum items:* Gross fund-raising	*Memorandum items:* Net fund-raising	
							1996 - 1st qtr.
2,388	1,883	1,832	37,474	40,652	4,954	1,856	. . . . Securities firms
1,397	74	2,350	17,063	19,110	2,667	83	. . . Trust companies
4,201	365	4,020	135,336	143,394	14,387	5,445	. . . . Banks
7,986	**2,322**	**8,202**	**189,873**	**203,156**	**22,008**	**7,384**	. . . **Total**
							1996 - 2nd qtr.
3,385	2,695	2,340	43,972	47,421	7,819	4,675	. . . . Securities firms
1,456	74	2,383	17,791	19,732	2,441	25	. . . Trust companies
6,051	312	5,684	148,736	157,273	21,581	11,458	. . . . Banks
10,892	**3,081**	**10,407**	**210,499**	**224,426**	**31,841**	**16,158**	. . . **Total**
							1996 - 3rd qtr.
3,739	2,585	2,604	46,100	49,562	4,157	1,356	. . . . Securities firms
1,367	71	2,349	17,988	20,289	2,335	301	. . . Trust companies
5,658	374	7,295	159,899	169,822	19,830	10,019	. . . . Banks
10,764	**3,030**	**12,248**	**223,987**	**239,673**	**26,322**	**11,676**	. . . **Total**
							1996 - 4th qtr.
4,096	3,079	2,888	49,608	52,659	4,649	1,070	. . . . Securities firms
1,473	92	2,326	18,657	20,454	2,649	39	. . . Trust companies
6,206	393	7,968	175,817	187,471	25,934	14,130	. . . . Banks
11,775	**3,564**	**13,182**	**244,082**	**260,584**	**33,232**	**15,239**	. . . **Total**
							1997 - 1st qtr.
4,196	3,255	3,939	54,328	58,080	8,352	4,520	. . . . Securities firms
1,594	96	2,814	20,002	22,348	4,183	1,457	. . . Trust companies
7,031	591	14,841	194,806	209,253	35,477	22,339	. . . . Banks
12,821	**3,942**	**21,594**	**269,136**	**289,681**	**48,012**	**28,316**	. . . **Total**
							1997 - 2nd qtr. (2)
5,303	3,976	4,942	58,247	62,683	5,842	2,051	. . . . Securities firms
1,788	152	4,386	23,239	25,179	5,079	1,989	. . . Trust companies
7,489	786	20,395	209,320	227,481	26,119	11,737	. . . . Banks
14,580	**4,914**	**29,723**	**290,806**	**315,343**	**37,040**	**15,777**	. . . **Total**
							1997 - 3rd qtr. (2)
5,927	4,575	6,156	63,590	67,754	5,015	1,284	. . . . Securities firms
2,338	194	8,162	31,241	33,619	10,806	7,437	. . . Trust companies
8,380	462	37,323	227,255	241,339	31,528	11,628	. . . . Banks
16,645	**5,231**	**51,641**	**322,086**	**342,712**	**47,349**	**20,349**	. . . **Total**

Table a44

Net issues of securities

(billions of lire)

	Issuers			Total bonds and government securities	Investors				Shares
	Public sector	Banks	International companies and supranational institutions		BI-UIC	Banks	Investment funds	Other	
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
1997	(11,834)	(97,442)	(–699)	(108,577)	(–13,694)	(–37,785)	69,568	(90,488)	(7,829)
1995 – 4th qtr.	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
3rd "	(9,132)	(23,465)	(–22)	(32,576)	–13,536	(–11,419)	17,767	(39,764)	(475)
4th "	(–17,302)	(24,536)	(241)	(7,476)	(–3,338)	(–4,556)	28,071	(–12,701)	(6,195)
1996 – 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	(13,435)	(5,764)	(–15)	(19,184)	–7,586	(–195)	5,509	(21,456)	. .
Aug.	(–11,708)	(8,239)	(–6)	(–3,476)	–3,883	(–6,914)	2,557	(4,764)	(. .)
Sept.	(7,406)	(9,463)	(. .)	(16,868)	–2,066	(–4,311)	9,702	(13,543)	(475)
Oct.	(2,865)	(9,954)	(497)	(13,316)	–1,417	(3,658)	7,306	(3,769)	(. .)
Nov.	(–3,527)	(7,560)	(63)	(4,096)	143	(–906)	8,303	(–3,444)	(5,100)
Dec.	(–16,640)	(7,022)	(–319)	(–9,936)	(–2,065)	(–7,308)	12,462	(–13,025)	(1,096)

Table a45

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
111950	15.5.2000	20.5.1997	99.60	6.24	5.45	3,003	3.000	2.625
111950	15.5.2000	3.6.1997	98.75	6.57	5.78	2,200	3.000	2.625
112425	15.5.2002	3.6.1997	97.75	6.90	6.04	3,300	3.125	2.734
111950	15.5.2000	19.6.1997	99.80	6.16	5.37	2,200	3.000	2.625
112425	15.5.2002	19.6.1997	99.90	6.37	5.51	2,750	3.125	2.734
113209	1.7.2007	1.7.1997	100.55	6.78	5.91	4,400	3.375	2.953
111950	15.5.2000	2.7.1997	100.45	5.90	5.12	1,500	3.000	2.625
112425	15.5.2002	2.7.1997	100.90	6.12	5.27	1,500	3.125	2.734
111950	15.5.2000	17.7.1997	100.40	5.92	5.14	2,200	3.000	2.625
112425	15.5.2002	17.7.1997	101.20	6.04	5.20	2,200	3.125	2.734
113209	1.7.2007	1.8.1997	103.40	6.38	5.53	4,400	3.375	2.953
111950	15.5.2000	4.8.1997	100.75	5.78	5.00	2,000	3.000	2.625
112425	15.5.2002	4.8.1997	101.85	5.88	5.04	2,000	3.125	2.734
111950	15.5.2000	20.8.1997	99.95	6.10	5.32	1,597	3.000	2.625
112425	15.5.2002	20.8.1997	100.35	6.25	5.40	2,200	3.125	2.734
113209	1.7.2007	1.9.1997	101.20	6.68	5.82	4,400	3.375	2.953
111950	15.5.2000	2.9.1997	100.10	6.05	5.26	2,502	3.000	2.625
112425	15.5.2002	2.9.1997	100.70	6.17	5.32	2,500.5	3.125	2.734
115638	15.9.2000	18.9.1997	100.70	5.31	4.61	3,300	2.750	2.406
115639	15.9.2002	18.9.1997	101.25	5.53	4.80	3,300	2.875	2.516
113209	1.7.2007	1.10.1997	104.95	6.16	5.31	3,115	3.375	2.953
115638	15.9.2000	2.10.1997	101.10	5.15	4.45	2,500	2.750	2.406
115639	15.9.2002	2.10.1997	101.60	5.44	4.71	2,000	2.875	2.516
115638	15.9.2000	17.10.1997	101.20	5.11	4.41	2,011	2.750	2.406
115639	15.9.2002	17.10.1997	101.40	5.49	4.76	2,056	2.875	2.516
115638	15.9.2000	3.11.1997	100.75	5.28	4.58	1,503	2.750	2.406
117000	1.11.2007	3.11.1997	99.90	6.10	5.33	4,003	3.000	2.625
115639	15.9.2002	18.11.1997	101.25	5.52	4.79	1,650	2.875	2.516
117461	1.11.2027	18.11.1997	100.15	6.59	5.75	3,300	3.250	2.844
115638	15.9.2000	1.12.1997	101.25	5.07	4.37	2,200	2.750	2.406
117000	1.11.2007	1.12.1997	101.75	5.84	5.08	3,850	3.000	2.625
115639	15.9.2002	17.12.1997	102.75	5.15	4.42	1,511	2.875	2.516
117461	1.11.2027	17.12.1997	106.95	6.08	5.29	3,030	3.250	2.844
117000	1.11.2007	2.1.1998	104.00	5.54	4.79	4,500	3.000	2.625
115638	15.9.2000	7.1.1998	101.80	4.83	4.14	4,950	2.750	2.406
115639	15.9.2002	7.1.1998	102.95	5.09	4.37	4,400	2.875	2.516
115639	15.9.2002	20.1.1998	103.55	4.94	4.22	2,002	2.875	2.516
117461	1.11.2027	20.1.1998	109.05	5.93	5.15	4,056	3.250	2.844
119549	15.1.2001	20.1.1998	100.90	4.72	4.09	3,611	2.500	2.188
117000	1.11.2007	21.1.1997	105.60	5.32	4.58	2,000	3.000	2.625
117000	1.11.2007	2.2.1998	104.65	5.45	4.70	4,400	3.000	2.625
115639	15.9.2002	3.2.1998	103.55	4.94	4.22	2,500	2.875	2.516
119549	15.1.2001	3.2.1998	100.90	4.72	4.09	3,135	2.500	2.188

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	1.1.2004	17.1.1997	100.65	6.79	5.92	3,002	0.15	3.450	3.019
36788	1.1.2004	3.2.1997	100.30	7.05	6.15	5,002	0.15	3.450	3.019
36788	1.1.2004	17.2.1997	100.00	7.01	6.12	4,543	0.15	3.450	3.019
36788	1.1.2004	3.3.1997	99.65	7.27	6.35	4,674	0.15	3.450	3.019
110123	1.3.2004	17.3.1997	99.10	7.01	6.12	2,200	0.15	3.550	3.106
110123	1.3.2004	1.4.1997	99.00	7.99	6.98	8,389	0.15	3.550	3.106
110123	1.3.2004	17.4.1997	99.40	6.56	5.72	3,300	0.15	3.550	3.106
111536	1.5.2004	2.5.1997	99.05	7.19	6.28	6,993	0.15	3.450	3.019
111536	1.5.2004	15.5.1997	99.20	6.87	6.00	3,300	0.15	3.450	3.019
111536	1.5.2004	2.6.1997	99.00	7.01	6.12	2,148	0.15	3.450	3.019
111536	1.5.2004	18.6.1997	99.25	7.05	6.16	1,503	0.15	3.450	3.019
111536	1.5.2004	1.7.1997	99.30	6.94	6.06	1,550	0.15	3.450	3.019
111536	1.5.2004	1.8.1997	99.55	6.99	6.10	1,650	0.15	3.450	3.019
114537	1.9.2004	1.9.1997	99.75	6.85	5.99	3,300	0.15	3.350	2.931
114537	1.9.2004	1.10.1997	100.50	6.04	5.26	2,000	0.15	3.350	2.931
114537	1.9.2004	3.11.1997	100.40	6.15	5.36	1,500	0.15	3.350	2.931
114537	1.9.2004	2.1.1998	100.40	5.23	4.56	3,791	0.15	3.350	2.931
114537	1.9.2004	2.2.1998	100.40	5.92	5.16	1,500.3	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	
115110	15.3.1999	15.9.1997	91.80	5.89	5.16	2,584
115110	15.3.1999	30.9.1997	92.90	5.19	4.47	1,528
115559	30.9.1999	30.9.1997	90.55	5.09	4.47	2,571
115110	15.3.1999	15.10.1997	92.45	5.71	4.99	1,500
115559	30.9.1999	15.10.1997	89.95	5.56	4.93	1,500
115110	15.3.1999	31.10.1997	93.00	5.44	4.72	1,500
115559	30.9.1999	31.10.1997	90.40	5.41	4.79	2,750
115110	15.3.1999	14.11.1997	93.05	5.56	4.84	1,650
115559	30.9.1999	14.11.1997	90.55	5.43	4.81	1,650
115110	15.3.1999	28.11.1997	93.60	5.25	4.53	1,650
115559	30.9.1999	28.11.1997	91.20	5.14	4.52	1,650
117954	15.6.1999	15.12.1997	92.80	5.11	4.48	2,750
117923	15.12.1999	15.12.1997	90.65	5.03	4.42	2,735
117954	15.6.1999	30.12.1997	93.60	4.64	4.01	1,637
117923	15.12.1999	30.12.1997	91.55	4.61	4.00	1,600
117954	15.6.1999	15.1.1998	93.80	4.63	4.00	1,500.1
117923	15.12.1999	15.1.1998	91.75	4.60	3.99	2,003
117954	15.6.1999	30.1.1998	93.68	4.87	4.24	1,500.1
117923	15.12.1999	30.1.1998	91.65	4.76	4.15	2,500
117954	15.6.1999	16.2.1998	93.85	4.90	4.28	1,500
117923	15.12.1999	16.2.1998	91.80	4.79	4.18	2,000

Table a46

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
1992	13.70	9.00	11.90	11.51	12.04	497.70	299.19	276.02	139.69	215.57
1993	10.55	6.57	9.60	9.49	10.10	575.03	361.95	327.46	163.39	259.71
1994	8.81	6.45	8.98	8.89	8.95	638.10	366.74	359.85	179.19	284.95
1995	10.16	7.80	10.28	9.97	10.35	698.65	396.28	385.63	191.27	290.53
1996	7.81	5.38	7.50	7.20	8.03	776.10	384.07	456.22	212.78	313.05
1997	5.90	4.50	5.40	5.66	6.30	834.19	388.59	520.27	228.26	348.73
1995 – 4th qtr.	9.91	6.08	9.72	9.37	10.04	727.75	404.03	406.30	198.80	294.62
1996 – 1st qtr.	8.88	5.56	8.63	8.38	9.08	748.86	391.53	428.37	205.23	303.81
2nd "	8.15	5.58	7.91	7.52	8.47	767.37	381.19	446.15	210.71	312.46
3rd "	7.68	5.45	7.44	7.11	7.83	784.63	380.72	461.04	215.06	313.29
4th "	6.54	4.94	6.02	5.79	6.75	803.53	382.85	489.32	220.25	322.92
1997 – 1st qtr.	6.16	4.57	5.86	5.76	6.52	815.83	385.50	500.03	223.44	335.56
2nd "	6.19	4.34	5.90	5.66	6.56	825.94	389.38	507.81	226.61	341.66
3rd "	5.96	4.35	5.22	5.57	6.10	840.08	389.72	528.23	229.83	357.25
4th "	5.29	4.75	4.64	5.66	6.02	854.90	389.76	545.02	233.02	359.93
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	337.76
Mar.	6.36	4.57	6.33	6.15	6.72	816.85	388.57	495.43	223.96	335.53
Apr.	6.35	4.52	6.17	5.82	6.71	821.93	388.72	500.37	225.40	336.69
May	6.08	4.32	5.85	5.54	6.53	826.39	389.91	508.57	226.75	342.01
June	6.13	4.19	5.67	5.61	6.46	829.51	389.52	514.48	227.69	346.29
July	6.03	4.35	5.25	5.59	6.08	834.65	388.98	525.21	228.75	355.95
Aug.	6.07	4.23	5.41	5.55	6.13	840.33	391.23	524.96	229.85	357.28
Sept.	5.76	4.47	5.00	5.55	6.08	845.25	388.96	534.53	230.95	358.57
Oct.	5.51	4.76	4.82	5.68	5.91	850.08	388.47	540.48	232.02	360.48
Nov.	5.37	4.73	4.73	5.63	6.16	854.65	391.09	542.85	233.09	356.69
Dec.	4.98	4.75	4.38	5.68	5.97	859.97	389.70	551.73	234.18	362.68
1997 – Jan.	4.84	4.21	4.17	5.23	5.37	863.42	393.76	558.84	234.78	371.21

Table a47

The money supply

(stocks in billions of lire)

End-of-period data

	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 – 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	(8,803)	(11,167)	(592,099)	75,439
Feb.	95,720	477,620	(8,840)	(12,197)	(594,377)	77,396
Mar.	99,327	474,107	(7,807)	(9,616)	(590,857)	78,999
Apr.	96,868	476,290	(7,394)	(9,260)	(589,813)	80,567
May	99,349	485,207	(7,017)	(9,349)	(600,922)	82,449
June	97,688	497,756	(7,974)	(12,691)	(616,108)	83,517
July	101,408	487,631	(6,379)	(11,943)	(607,361)	84,521
Aug.	98,883	481,787	(6,555)	(6,557)	(593,781)	85,578
Sept.	99,937	499,434	(8,143)	(9,203)	(616,716)	87,511
Oct.	99,167	504,353	(7,611)	(10,139)	(621,269)	88,838
Nov.	103,188	493,811	(7,143)	(11,208)	(615,350)	89,508
Dec.	107,353	538,405	(6,827)	(14,074)	(666,659)	91,246

cont.

Table a47 cont.

Savings deposits	Postal savings deposits	Total: M2 (net of CDs with a maturity of at least 18 months)	Average data: M1	Average data: M2 (net of CDs with a maturity of at least 18 months)	Average data: Extended M2	
182,090	19,733	711,479	415,018	668,520	669,519	 1989
178,384	23,589	759,412	442,428	709,331	711,604	 1990
161,798	26,924	807,836	488,712	750,765	754,376	 1991
146,967	29,057	814,203	492,082	751,789	757,185	 1992
144,091	30,861	841,316	529,612	780,319	786,096	 1993
138,297	39,152	847,418	547,354	788,390	795,392	 1994
114,685	42,676	760,125	540,199	758,331	769,517	. . . . Nov. – 1995
121,047	43,936	834,148	555,147	773,423	784,824	. . . . Dec.
116,368	44,577	776,142	557,975	780,079	792,202	. . . . Jan. – 1996
114,755	44,625	763,315	531,121	751,275	764,986	. . . . Feb.
115,042	44,516	770,761	530,370	747,206	762,688	. . . . Mar.
113,437	44,499	774,586	532,849	747,878	765,062	. . . . Apr.
111,873	44,194	759,906	542,844	756,148	774,367	. . . . May
113,414	43,623	775,591	537,138	746,619	764,579	. . . . June
112,277	43,270	768,423	541,426	751,268	767,435	. . . . July
113,287	43,889	763,800	532,314	745,945	761,215	. . . . Aug.
113,970	43,839	793,100	540,835	757,881	773,508	. . . . Sept.
112,882	43,301	791,956	551,651	770,135	786,894	. . . . Oct.
114,361	44,314	803,104	562,121	783,210	800,020	. . . . Nov.
118,399	46,290	863,324	576,638	802,956	818,027	. . . . Dec.
117,014	46,914	(831,466)	(599,977)	(834,162)	(848,959)	. . . . Jan. – 1997
117,023	47,770	(836,567)	(577,682)	(813,874)	(830,013)	. . . . Feb.
117,479	48,203	(835,538)	(577,613)	(815,655)	(831,867)	. . . . Mar.
116,186	(48,497)	(835,063)	(579,147)	(818,999)	(835,691)	. . . . Apr.
116,198	(48,713)	(848,283)	(590,545)	(832,218)	(848,117)	. . . . May
116,778	(48,785)	(865,187)	(584,677)	(827,281)	(842,529)	. . . . June
116,794	(48,643)	(857,319)	(591,648)	(838,957)	(854,828)	. . . . July
118,605	(49,339)	(847,303)	(594,687)	(838,856)	(853,965)	. . . . Aug.
117,806	(49,760)	(871,793)	(590,201)	(839,438)	(854,440)	. . . . Sept.
117,330	(49,986)	(877,422)	(602,169)	(853,239)	(870,655)	. . . . Oct.
118,568	(50,256)	(873,682)	(605,676)	(858,105)	(877,036)	. . . . Nov.
121,353	(51,641)	(930,899)	(621,649)	(876,129)	(893,789)	. . . . Dec.

Table a48

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 – 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	101,123	330,327	1,129	1,652,987
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.	(831,466)	259,195	134,530	(111,809)	268,895	*(347)*	*(1,606,242)*
Feb.	(836,567)	248,926	141,556	(112,592)	262,792	*(326)*	*(1,602,758)*
Mar.	(835,538)	238,724	141,351	(113,205)	259,516	*(321)*	*(1,588,654)*
Apr.	(835,063)	228,422	148,828	(113,769)	258,990	*(328)*	*(1,585,400)*
May	(848,283)	218,376	150,832	(114,163)	255,193	*(444)*	*(1,587,291)*
June	(865,187)	209,420	143,402	(114,277)	248,542	*(291)*	*(1,581,119)*
July	(857,319)	194,659	149,100	(114,475)	243,398	*(320)*	*(1,559,271)*
Aug.	(847,303)	181,973	154,210	(114,825)	241,456	*(344)*	*(1,540,110)*
Sept.	(871,793)	171,256	140,842	(115,225)	231,920	*(296)*	*(1,531,331)*
Oct.	(877,422)	158,091	141,896	(115,675)	223,233	*(287)*	*(1,516,604)*
Nov.	(873,682)	145,278	146,674	(115,925)	214,283	*(274)*	*(1,496,116)*
Dec.	(930,899)	135,356	130,105	(116,925)	203,328	*(210)*	*(1,516,833)*

Table a49

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	2,520,571
1994	1,575,205	640,491	15,811	170,306	130,168	4,404	2,536,384	2,717,624
1995 – Nov.	1,622,787	692,352	14,852	173,280	123,604	4,195	2,631,070	2,823,345
Dec.	1,677,857	692,627	14,870	172,248	126,802	4,190	2,688,595	2,879,221
1996 – Jan.	1,660,053	687,746	14,987	175,578	130,675	4,422	2,673,460	2,869,658
Feb.	1,655,524	693,930	15,049	177,449	131,903	4,766	2,678,620	2,873,981
Mar.	1,658,183	702,299	16,449	178,583	133,608	3,973	2,693,095	2,896,351
Apr.	1,666,638	702,731	16,867	179,354	139,806	4,137	2,709,534	2,913,442
May	1,652,897	710,623	17,003	183,153	144,887	4,275	2,712,838	2,920,901
June	1,655,072	708,740	17,010	183,490	149,603	4,872	2,718,788	2,927,811
July	1,635,400	717,306	17,084	190,069	153,811	5,281	2,718,950	2,935,564
Aug.	1,625,314	723,554	16,977	196,601	159,056	5,420	2,726,923	2,944,860
Sept.	1,631,639	710,357	16,770	205,305	165,733	6,022	2,735,826	2,959,494
Oct.	1,631,841	701,989	16,751	219,239	173,962	6,396	2,750,178	2,982,739
Nov.	1,617,485	693,550	15,699	226,723	187,084	6,738	2,747,279	2,987,035
Dec.	*(1,638,238)*	703,427	17,148	234,381	197,544	6,709	*(2,797,446)*	*(3,036,343)*
1997 – Jan.	*(1,606,242)*	686,161	(17,297)	(244,181)	219,985	6,723	*(2,780,589)*	*(3,031,484)*
Feb.	*(1,602,758)*	687,921	(17,615)	(253,941)	234,226	*(6,867)*	*(2,803,329)*	*(3,067,874)*
Mar.	*(1,588,654)*	689,953	(17,610)	(260,941)	239,243	*(7,070)*	*(2,803,471)*	*(3,078,400)*
Apr.	*(1,585,400)*	690,476	(17,690)	(268,545)	247,480	*(7,122)*	*(2,816,714)*	*(3,101,358)*
May	*(1,587,291)*	692,060	(17,440)	(277,160)	255,338	*(7,873)*	*(2,837,162)*	*(3,121,283)*
June	*(1,581,119)*	686,557	(17,368)	(282,618)	268,315	*(7,801)*	*(2,843,777)*	*(3,137,542)*
July	*(1,559,271)*	701,404	(17,988)	(292,683)	291,563	*(8,016)*	*(2,870,925)*	*(3,179,542)*
Aug.	*(1,540,110)*	698,755	(17,986)	(298,484)	300,994	*(8,388)*	*(2,864,717)*	*(3,179,067)*
Sept.	*(1,531,331)*	690,134	(17,970)	(308,883)	321,233	*(9,022)*	*(2,878,574)*	*(3,193,817)*
Oct.	*(1,516,604)*	690,128	*(17,384)*	*(316,399)*	333,053	*(9,214)*	*(2,882,782)*	*(3,206,225)*
Nov.	*(1,496,116)*	*(688,323)*	*(17,399)*	*(323,986)*	348,452	*(9,231)*	*(2,883,508)*	*(3,211,696)*
Dec.	*(1,516,833)*	*(676,532)*	*(17,408)*	*(328,156)*	368,432	*(9,248)*	*(2,916,609)*	*(3,246,274)*

Table a50

Credit

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

	Finance to the non-state sector				
	Short-term bank loans	Medium and long-term bank loans	Bonds placed domestically	Total domestic finance	Foreign finance
1989	393,132	259,137	25,638	677,906	68,029
1990	455,998	300,485	23,453	779,936	93,504
1991	513,853	347,054	25,109	886,016	107,686
1992	570,944	383,854	20,510	975,308	128,680
1993	558,508	433,169	24,783	1,016,460	131,547
1994	530,302	476,245	21,873	1,028,420	124,660
1995 – Nov.	533,806	480,121	19,095	1,033,022	128,027
Dec.	549,387	487,856	18,409	1,055,652	129,596
1996 – Jan.	549,725	481,103	18,717	1,049,545	130,505
Feb.	541,306	483,784	18,794	1,043,883	130,952
Mar.	535,238	489,022	18,973	1,043,233	131,233
Apr.	534,268	488,499	19,183	1,041,950	129,825
May	536,744	492,051	19,004	1,047,799	131,399
June	545,228	495,495	18,760	1,059,482	130,055
July	554,845	496,189	19,232	1,070,266	126,821
Aug.	534,190	497,847	19,022	1,051,058	125,413
Sept.	534,505	499,045	18,752	1,052,302	123,751
Oct.	530,678	499,100	17,496	1,047,273	123,175
Nov.	529,855	501,758	17,794	1,049,407	121,491
Dec.	552,185	513,045	17,857	1,083,086	122,955
1997 – Jan.	551,604	(514,090)	(17,898)	(1,083,592)	(124,721)
Feb.	551,250	(515,086)	(17,712)	(1,084,048)	(126,736)
Mar.	544,730	(514,498)	(17,407)	(1,076,635)	(126,314)
Apr.	542,854	(517,274)	(17,096)	(1,077,224)	(126,933)
May	541,747	(520,520)	(16,140)	(1,078,407)	(127,926)
June	561,522	(525,923)	(13,734)	(1,101,179)	(128,953)
July	569,068	(526,028)	(13,884)	(1,108,980)	(132,892)
Aug.	552,462	(525,353)	(13,932)	(1,091,747)	(133,511)
Sept.	552,943	(527,946)	(13,959)	(1,094,847)	(132,865)
Oct.	549,019	(531,598)	*(13,587)*	*(1,094,204)*	*(135,239)*
Nov.	552,589	(537,200)	*(13,220)*	*(1,103,109)*	*(135,286)*
Dec.	586,486	(547,115)	*(12,324)*	*(1,145,926)*	*(135,012)*

cont.

Table a50 cont.

Total finance	State sector debt		Credit		
		of which: domestic	Total domestic	Total	
745,935	1,116,744	1,081,798	1,759,705	1,862,709	 1989
873,439	1,259,997	1,211,000	1,990,935	2,133,436	 1990
993,701	1,412,037	1,357,128	2,243,144	2,405,739	 1991
1,103,987	1,595,122	1,530,613	2,505,921	2,699,110	 1992
1,148,007	1,765,516	1,680,067	2,696,527	2,913,523	 1993
1,153,080	1,931,848	1,835,867	2,864,287	3,084,928	 1994
1,161,049	2,095,886	1,977,710	3,010,732	3,256,935	. . . . Nov. – 1995
1,185,248	2,072,707	1,953,462	3,009,114	3,257,956	. . . . Dec.
1,180,050	2,082,240	1,964,335	3,013,880	3,262,291	. . . . Jan. – 1996
1,174,835	2,094,415	1,978,296	3,022,179	3,269,250	. . . . Feb.
1,174,466	2,117,000	1,977,908	3,041,142	3,291,466	. . . . Mar.
1,171,775	2,141,353	2,021,423	3,063,372	3,313,128	. . . . Apr.
1,179,197	2,148,504	2,030,805	3,078,604	3,327,702	. . . . May
1,189,538	2,123,025	2,003,088	3,062,570	3,312,563	. . . . June
1,197,087	2,137,576	2,014,946	3,085,212	3,334,663	. . . . July
1,176,471	2,146,216	2,024,986	3,076,044	3,322,687	. . . . Aug.
1,176,053	2,172,105	2,049,417	3,101,719	3,348,157	. . . . Sept.
1,170,448	2,194,983	2,073,350	3,120,624	3,365,431	. . . . Oct.
1,170,898	2,206,153	2,083,922	3,133,330	3,377,052	. . . . Nov.
1,206,041	2,204,375	2,079,050	3,162,137	3,410,416	. . . . Dec.
(1,208,313)	(2,206,505)	(2,078,677)	(3,162,269)	(3,414,818)	. . . . Jan. – 1997
(1,210,784)	(2,218,130)	(2,086,432)	(3,170,480)	(3,428,914)	. . . . Feb.
(1,202,949)	(2,242,969)	(2,110,868)	(3,187,503)	(3,445,917)	. . . . Mar.
(1,204,157)	(2,261,853)	(2,129,849)	(3,207,073)	(3,466,011)	. . . . Apr.
(1,206,322)	(2,278,173)	(2,141,614)	(3,220,021)	(3,484,506)	. . . . May
(1,230,132)	(2,251,000)	(2,114,014)	(3,215,193)	(3,481,133)	. . . . June
(1,241,872)	(2,247,353)	(2,103,956)	(3,212,936)	(3,489,225)	. . . . July
(1,225,258)	(2,247,125)	(2,105,263)	(3,197,010)	(3,472,383)	. . . . Aug.
(1,227,712)	(2,265,849)	(2,126,044)	(3,220,892)	(3,493,561)	. . . . Sept.
(1,229,443)	(2,281,037)	(2,142,328)	*(3,236,532)*	*(3,510,480)*	. . . . Oct.
(1,238,395)	(2,271,116)	(2,132,576)	*(3,235,684)*	*(3,509,511)*	. . . . Nov.
(1,280,938)	*(2,248,026)*	*(2,110,746)*	*(3,256,672)*	*(3,528,964)*	. . . . Dec.

Table a51

M2 and its counterparts

(changes in billions of lire)

	M2	Counterparts				
		Official reserves	Net foreign position of banks	Credit to the non-state sector	Credit to the state sector	Other items
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 – Nov.	–11,597	–2,948	15,015	9,163	7,275	–40,102
Dec.	74,023	5,772	13,248	30,583	–24,248	48,667
1996 – Jan.	–58,006	–138	–7,450	–6,124	2,148	–42,145
Feb.	–12,827	–916	550	–5,313	11,380	–18,527
Mar.	7,446	1,330	–12,110	2,452	15,812	–39
Apr.	3,825	8,042	26,808	1,636	–10,779	–21,881
May	–14,680	9,267	–13,151	11,522	1,962	–24,280
June	17,685	6,773	808	11,424	–25,896	24,577
July	–9,168	–325	–6,933	6,608	–3,471	–5,047
Aug.	–4,623	–2,812	15,024	–17,844	599	410
Sept.	29,300	731	3,310	4,161	17,018	4,081
Oct.	–1,144	5,382	5,718	–1,273	14,266	–25,238
Nov.	11,148	–2,922	10,748	6,223	10,317	–13,219
Dec.	60,220	–3,963	24,072	37,634	–25,947	28,424
1997 – Jan.	(–31,858)	5,363	–22,076	(–18,858)	(4,822)	(–1,108)
Feb.	(5,100)	–1,608	–263	(378)	(2,240)	(4,354)
Mar.	(–1,029)	–4,262	–2,154	(–6,661)	(13,754)	(–1,706)
Apr.	(–474)	–2,131	4,343	(–288)	(4,408)	(–6,805)
May	(13,220)	1,571	17,029	(4,347)	(–163)	(–9,564)
June	(16,904)	–1,139	21,346	(26,106)	(–39,810)	(10,401)
July	(–7,868)	12,134	–181	(6,591)	(–29,837)	(3,426)
Aug.	(–10,016)	4,804	–11,821	(–16,351)	(–286)	(13,638)
Sept.	(24,490)	4,544	–2,780	(–525)	(7,464)	(15,787)
Oct.	(5,629)	–1,278	(–646)	(753)	(11,619)	(–4,819)
Nov.	*(–3,740)*	823	(–15,292)	(9,078)	(–7,395)	*(9,047)*
Dec.	*(57,217)*	4,021	(911)	(46,325)	(–17,507)	*(23,466)*