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SYMBOLS AND CONVENTIONS

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

In the following tables:

— the phenomenon in question does not occur;

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

.. the value is known but is nil or less half the final digit shown.

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Economic Developments and Policies

THE INTERNATIONAL ECONOMY

World economic activity strengthened in the second half of 1999, generating an increase in world trade of about 8 per cent at an annual rate. According to provisional estimates, the average annual growth in GDP was approximately 3 per cent, as against 2.5 per cent in 1998, and almost one percentage point higher than forecast at the beginning of last summer. Output continued to benefit from the expansion in demand in North America; stimulus also came from the sharp turnaround of the Asian economies that had been afflicted by the 1997 financial crisis.

In Japan the economy stagnated, after having contracted by 2.5 per cent in 1998; deflationary price and wage trends continued, impeding a recovery in domestic demand. The crisis in the Japanese growth model is evidenced by the slowdown in GDP growth, which fell to an average annual rate of 1.7 per cent in the nineties, compared with 3.9 per cent in the eighties.

In the United States GDP growth accelerated unexpectedly in the second half of 1999; output rose by 4.1 per cent in the year as a whole, an exceptionally high rate given the advanced stage the economy has reached in the cycle (Table 1) and even surpassing the most favourable estimates of potential growth, which are currently near 3.5 per cent. The very large rise in productivity due to an increase in capital per unit of labour and advances in production techniques kept cost increases down. Prices accelerated, however, owing to the rise in oil prices. Labour market conditions tightened further. Employment rose by 2.2 per cent in 1999; in January the unemployment rate fell to 4 per cent, the lowest level since 1968. The performance of the US economy in the nineties is even more impressive on the basis of the new national accounts.

Economic activity was driven by an exceptional growth of 5.3 per cent in household consumption and an expansion of 8 per cent in private investment, which is still a very high rate. Demand was fueled in part by the exceptional level of stock prices, which is reflected in the financial wealth of households and firms and encourages them to borrow and spend. Gross household debt grew by 9.5 per cent in 1999, the highest rate in the last ten years, to reach 103 per cent of disposable income. The gross debt of non-financial firms increased by more than 10 per cent for the second consecutive year.

The imbalance in the external accounts increased. In the first three quarters of the year the current account deficit rose to almost $240 billion, or 3.5 per cent of GDP, compared with $159 billion, or 2.4 per cent of GDP, in the corresponding period of 1998. This was easily financed by massive inflows of direct investment of about $100 billion (net of outflows), largely from Europe, and of portfolio investment of $146 billion, which also helped to sustain the dollar and stock prices. The current account deficits of the last five years have brought about a rapid acceleration in the growth of the net external debtor position, which rose to over 20 per cent of GDP in 1999, as against 2.5 per cent in 1994.

The emerging countries of Asia, especially South Korea, returned to high rates of growth; in China growth remained strong, though somewhat slower than in the past.

Table 1

Economic indicators for the main industrial countries
(at constant prices; changes on same period of previous year)

	GDP	Private consumption	Government consumption	Investment (1)	Changes in stocks (2)	Domestic demand	Net exports (2) (3)
United States							
1998	4.3	4.9	1.7	11.8	0.1	5.5	−1.3
1999	4.1	5.3	3.7	8.0	−0.4	5.1	−1.3
H1	3.8	5.7	3.6	9.6	−1.0	5.0	−1.5
H2	5.0	5.2	4.9	5.6	0.5	5.7	−1.0
Japan							
1998	−2.5	−0.5	1.5	−7.4	−0.6	−3.1	0.5
1999	....	....	....	....	....	....	....
H1	3.5	2.8	1.1	7.4	0.6	4.6	−0.9
H2 (4)	−3.9	−1.0	3.5	−14.9	−0.5	−5.4	1.4
Euro area							
1998	2.8	3.0	1.2	4.4	0.5	3.4	−0.5
1999 (5)	2.2	2.5	1.2	4.5	0.1	2.8	−0.5
H1	1.9	2.4	1.8	4.7	0.2	2.9	−1.0
H2 (5)	3.5	2.6	0.7	4.7	..	2.7	0.9
United Kingdom							
1998	2.2	3.2	0.7	10.8	..	4.1	−2.1
1999	2.0	4.0	3.4	5.2	−0.7	3.4	−1.7
H1	1.5	5.3	3.6	3.4	−1.3	3.3	−2.1
H2	3.5	3.1	2.9	3.8	0.2	3.3	−0.1

Sources: National statistics and ECB.
(1) For the United States, private investment. Public investment is included under “government consumption”. – (2) Contribution to GDP growth with respect to the previous period, at an annual rate. – (3) Goods and services. – (4) Third quarter. – (5) Provisional data.

In the euro area GDP increased by an estimated 2.2 per cent in 1999, down from 2.8 per cent in 1998. The growth rate fell in late 1998 but gradually picked up from last summer onwards and spread to most countries; in an environment of accommodating monetary conditions, a significant factor was an acceleration in exports, favoured by growth in foreign markets and, to a lesser degree, an increase in competitiveness due to the depreciation of the euro. The heightened cyclical variations of the last two years are ascribable partly to the vulnerability of the Italian and German economies to competition from emerging countries. Despite a considerable cyclical improvement in recent months, Germany and Italy continue to grow more slowly than the rest of the euro area because of the weaker stimulus from domestic demand. The unemployment rate continued to decline, reaching 9.6 per cent in January 2000, compared with 10.4 per cent a year earlier.

In the United Kingdom economic activity accelerated in the second half of 1999; it increased by 2 per cent for the year as a whole.

According to initial estimates, GDP in Japan declined further in the fourth quarter, after having contracted at an annual rate of 3.9 per cent in the third. For the year as a whole, it is likely to have increased very slightly. The effects of the fiscal stimulus generated by the various measures introduced in the last two years waned in the third quarter, causing public sector investment to fall. After remaining unchanged in the first half of the year, private investment once again contracted, at an annual rate of 7.4 per cent; household consumption also declined slightly. By contrast, some support came from exports, which benefited from the recovery in the rest of Asia; however, the appreciation of the yen in the last few months of 1999 appears to have caused exports to slow down again.

The industrial restructuring that is under way in Japan, which is aimed at reducing excess productive capacity, is raising firms' profitability but reducing investment; employment in the manufacturing sector is decreasing. Disposable household income has continued to fall, with real wages declining by about 3 per cent in the last two years. The unemployment rate rose to 4.6 per cent in December, interrupting the decline that began in August.

In Latin America the overall economic results were better than expected, but the situation remains critical in Argentina and some of the region's smaller countries. In Brazil GDP showed a slight increase, instead of the forecast decline (Table 2).

Table 2

Economic indicators for selected emerging countries

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

	Weights in world gross national product in 1997 (1)	GDP				Domestic demand (2)			Net exports (3)		
		1998	1999	1999 H1	1999 H2	1998	1999 H1	1999 H2	1998	1999 H1	1999 H2
Latin America											
Argentina	1.0	3.9	....	–4.0	–4.1 (4)	3.8	–5.7	–4.9 (4)	–0.1	1.8	0.9 (4)
Brazil	2.9	..	0.8	0.2	1.4	....	....	....	....	....	....
Mexico	2.1	4.8	3.7	2.5	4.8	6.0	1.7	4.9 (4)	–1.1	0.8	–0.6 (4)
Asia											
China	10.3	7.8	7.1	7.6	6.9	....	....	....	....	....	....
South Korea	1.7	–5.8	....	7.3	12.3 (4)	–18.6	10.3	13.4 (4)	12.2	–1.3	1.0 (4)
Philippines	0.7	–0.5	3.2	2.4	4.0	–2.0	3.9	4.0	1.7	–1.9	–0.4
Hong Kong	0.4	–5.1	....	–0.9	4.5 (4)	–8.9	–11.8	0.2 (4)	4.3	11.9	4.2 (4)
India (5)	4.4	6.8	....	5.9	....	....	....	....	....	....	....
Indonesia	1.9	–13.4	0.2	–2.7	3.1	–17.3	–6.7	–1.4 (4)	4.8	4.0	1.9 (4)
Malaysia	0.5	–7.5	5.4	1.5	9.4	–25.2	–6.2	10.8	19.4	7.0	0.6
Singapore	0.2	–0.2	5.4	3.7	7.0	–8.2	–1.4	14.6	7.3	4.9	–4.5
Thailand	1.1	–10.4	....	2.1	7.7 (4)	–24.5	7.8	10.5 (4)	13.7	–4.3	–1.1 (4)
Taiwan	....	4.8	5.7	5.4	6.0	6.7	2.2	5.4 (4)	–1.8	3.2	–0.2 (4)
Europe											
Poland	0.7	4.8	4.1	2.3	....	7.2	....	....	–1.5	....	....
Czech Republic	0.3	–2.3	....	–1.9	0.8 (4)	–3.2	–0.8	–1.8 (4)	1.1	–1.0	2.6 (4)
Russia	1.7	–4.6	3.2	–0.7	7.2	....	....	....	....	....	....
Turkey	1.1	3.2	....	–5.5	–5.6 (4)	0.6	–5.5	–2.9 (4)	2.6	0.3	–2.6 (4)
Hungary	0.2	4.9	....	3.6	4.4 (4)	8.1	5.1	2.4 (4)	–3.0	–1.6	1.9 (4)

Sources: National statistics, World Bank and OECD.

(1) Valued on a PPP basis; percentages. – (2) Includes changes in stocks and statistical discrepancies. – (3) Goods and services. Contribution to GDP growth in relation to same period of previous year. – (4) Third quarter. – (5) GDP at factor cost, financial year (April to March).

In Mexico, which is highly influenced by the US economy, growth accelerated more than expected to 3.7 per cent, owing in part to the strong recovery in oil prices. In Argentina the economic situation deteriorated, partly as a result of the loss in competitiveness caused by the Brazilian currency crisis, and industrial production only began to increase again in November; GDP is estimated to have declined by 3 per cent in 1999.

In Russia the rise in oil prices, the depreciation of the rouble and the consequent substitution of imports by domestic products stimulated activity in the second half of 1999. GDP grew by 3.2 per cent during the year. There was also a more favourable trend in output in the Central and Eastern European countries from mid-year onwards. However, the economic improvement achieved in Russia contrasts with grave structural deficiencies that continue to weigh upon society and the economy, creating risks for the orderly conduct of commercial transactions, as witnessed by the disturbing demonetization of the economy. Disbursement of the second tranche of the IMF loan has been suspended.

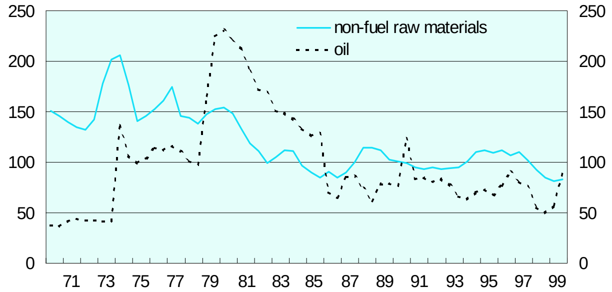
Prices

The faster pace of international economic activity sustained raw materials prices on the demand side. The increase in oil prices was partly due to the steadfastness of the OPEC cartel, which cut average supply by almost 2 per cent last year: the price of crude oil more than doubled in 1999. When adjusted using the export price index of manufactures from the industrial countries, the price in the second half of last year was fairly close to the average for the nineties (Figure 1), which is well below the level it reached after the 1973 oil crisis. In the first two months of this year prices continued to climb sharply, partly reflecting the increased demand for fuel in North America. Although some leading producer states, including members of OPEC, have declared their aversion to further steep price increases on account of the repercussions on world demand, the price of Brent rose to an average of $30 per barrel in the first ten days of March. The OPEC countries will meet at the end of the month to decide whether or not to boost production quotas. The price index of non-energy raw materials also began to rise in the middle of last year, mostly on account of the recovery in metal prices, which rose by 17 per cent between June and December.

Figure 1

Prices of oil and non-fuel raw materials in real terms (1)

(half-yearly figures; indices, 1990=100)



Sources: IMF and OECD.

(1) Ratio between the index of the average price of oil and the prices of non-fuel raw materials in dollars and the index of the average unit value in dollars of exports of manufactures of the OECD countries.

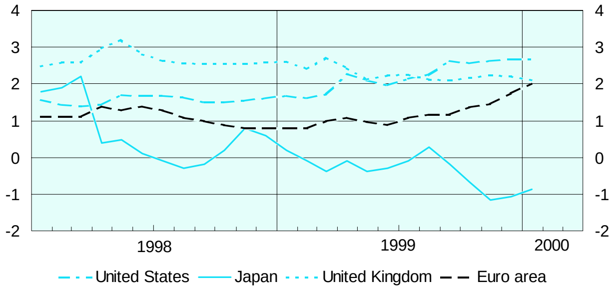
The strong rise in oil prices helped to push up prices in the United States and Europe. The twelve-month rate of increase in producer prices in the United States climbed to 3.0 per cent in December from 1.5 per cent in June; in the euro area it reached 5.0 per cent last January, after being negative in the first half of last year. Between June 1999 and January this year consumer inflation rose from 2.0 to 2.7 per cent in the United States and from 0.9 to 2.0 per cent in Europe (Figure 2).

The 12-month rise in the price indices net of energy and the more volatile items remained moderate, settling in January at 1.9 per cent in the United States and 1.2 per cent in Europe. The pressures exerted by wages remain modest. In the United States unit labour costs in the non-farm private sector rose by an annual average of 1.7 per cent in 1999, compared with 2.4 per cent in 1998; this result was partly helped by an increase in productivity of 3.0 per cent, slightly more than in 1998. Considering that the figure of 3.0 per cent refers to the economy as a whole, about 60 per cent of which is accounted for by the services sector, and that it came at a very advanced stage of the cyclical expansion, this represents an extraordinary achievement. The overall increase in unit labour costs was also limited in the leading euro-area economies: in the first nine months of 1999 it was just 1.3 per cent higher than in the same period of 1998.

Figure 2

Consumer prices in the main industrial countries (1)

(percentage changes on same period of previous year)



Sources: National statistics and Eurostat.

(1) For the euro area, harmonized index; for the United Kingdom, retail price index excluding mortgage interest payments.

Other indicators have nonetheless signalled a possible risk of inflation in the United States and Europe. In the US labour market the existence of excess demand is indicated by the fall in the numbers of employable persons, despite large immigration flows and the higher participation rate; in the goods market the excess is shown by the sharply widening trade deficit, which has risen to 3.8 per cent of GDP.

In the euro area the depreciation of the currency and the increase in oil prices were accompanied in 1999 by rapid expansion in the money and credit aggregates, owing partly to the particularly low levels to which interest rates declined in the first half. Against a background of an upturn in output, such events could worsen inflation expectations and boost wage demands. In the United Kingdom the overheating of the economy was reflected in a tight labour market, rapidly expanding credit and a conspicuous increase in house prices, which rose by 16 per cent in the twelve months ending in December.

The financial markets have discounted expectations of faster inflation in long-term interest rates, which in the twelve months ending in January rose by 2, 1.9 and 1.6 percentage points respectively in the United States, the leading euro-area economies and the United Kingdom. After a hiatus in the summer months, stock market indices in the leading industrial countries began to climb again, especially in the euro area.

The pattern of inflation differs widely in the rest of the world. In the developing countries in general it diminished during 1999. In Japan and some major emerging economies in Asia deflationary pressures have not yet eased.

In Japan, where the effects of higher energy prices were mitigated by the appreciation of the yen, producer prices declined last year, albeit at a gradually decreasing pace. In the last quarter consumer prices again came under downward pressure, recording a fall of 1 per cent in the twelve months ending in December. In China the deflationary trend weakened considerably towards the end of 1999, partly as a result of the rise in oil prices. Price inflation fell back to very low levels in almost all the Asian emerging economies that had been hardest hit by the crisis in 1997.

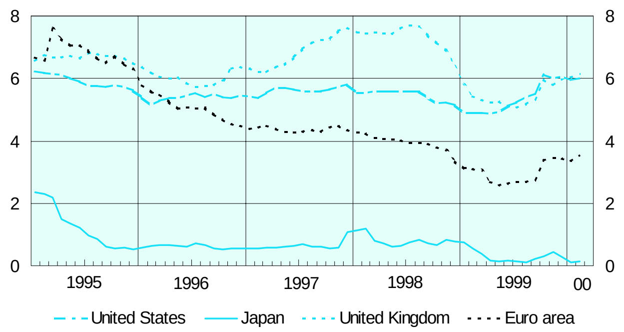
In Latin America inflation was kept under control, notwithstanding very substantial depreciation in the key currencies and, in some cases, abandonment of the dollar as currency peg. In Brazil the twelve-month inflation rate, though increasing, was just 8.4 per cent in December; in Mexico it fell in the same month to 12.3 per cent; in Argentina it continued to be negative (-1.8 per cent). In Russia inflation recorded a sharp fall only in the last months of 1999, with the twelve-month rate tumbling from 121 per cent in August to 36 per cent in December.

Economic policies

With a view to controlling inflationary expectations the central banks of all the leading industrial countries repeatedly raised their policy rates (Figure 3); the exception was Japan, where both monetary and fiscal policy were strongly expansionary.

Figure 3

Short-term interest rates in the main industrial countries (1)
(monthly averages)



(1) For sources and definitions, see the notes to Statistical Table a5.

Since last June the Federal Reserve has raised the federal funds target rate and the discount rate by 1 and 0.75 percentage points respectively, to 5.75 and 5.25 per cent, the highest since 1995. These increases exceed the cuts of 0.75 and 0.50 percentage points respectively made between September and November 1998, in response to tensions in the international financial markets. The rate on the main refinancing operations in the euro area was raised in two steps by a total of 0.75 percentage points to 3.25 per cent, more than offsetting the reduction of 0.50 points in April 1999. The Bank of England has raised its reference rate four times since September, bringing it to 6.0 per cent.

In Japan the monetary authorities continued to pursue the objective they adopted last February of maintaining very short-term interest rates at zero. However, monetary conditions were gradually tightened by the yen's appreciation; real interest rates are still high. At their meeting in Tokyo last January the G7 economic ministers and central bank governors endorsed the policies pursued in Japan, which reflect widely shared concern over the adverse effects of the yen's appreciation. In order to encourage the consolidation of expectations of steady growth in the money supply consistent with a positive rate of price increases, the central bank has been urged from a number of quarters to make an explicit inflation target its strategy base.

The stance of fiscal policies in the leading industrial areas was again diversified in 1999. The cyclically adjusted structural budget balance in relation to GDP remained virtually unchanged in the United States and improved in the euro area; it deteriorated markedly in Japan.

In the United States the ratio between the federal budget surplus and GDP for the fiscal year to the end of September widened to 1.1 per cent, an increase of 0.3 percentage points compared with 1998. According to recent government forecasts, the surplus on a current programmes basis will be between 3 and 5 per cent of GDP in 2010, a much higher estimate than even one year ago.

According to OECD estimates, the structural public deficit in Japan grew last year by almost 2 percentage points in relation to GDP. Government estimates for the 1999 fiscal year ending this March indicate that the deficit net of the social security surplus (estimated at about 2 percentage points of GDP) will increase from 9.8 per cent of GDP in 1998 to 10.7 per cent.

A supplementary budget for an overall amount of almost 18 trillion yen (equal to 3.6 per cent of GDP) was approved last December. The actual impact of this manoeuvre will nonetheless probably not amount to the full value, since the amount effectively represented by additional public investment expenditure totals only 6.8 trillion yen.

In the euro area the general government deficit was reduced from 2.0 per cent of GDP in 1998 to 1.2 per cent last year, lower than the figure forecast in the autumn. The improvement reflects the fall in interest payments and the good performance of revenues.

The international foreign exchange and financial markets

The improvement in the global economic situation helped ease tensions in the international financial markets in the second half of 1999, reducing the risk that the tightening of monetary conditions in the industrial countries would jeopardize the financial stability of the emerging countries. Multilateral commitment to crisis prevention remains a priority concern; efforts in this regard are continuing within international bodies and committees, including the recently established Financial Stability Forum.

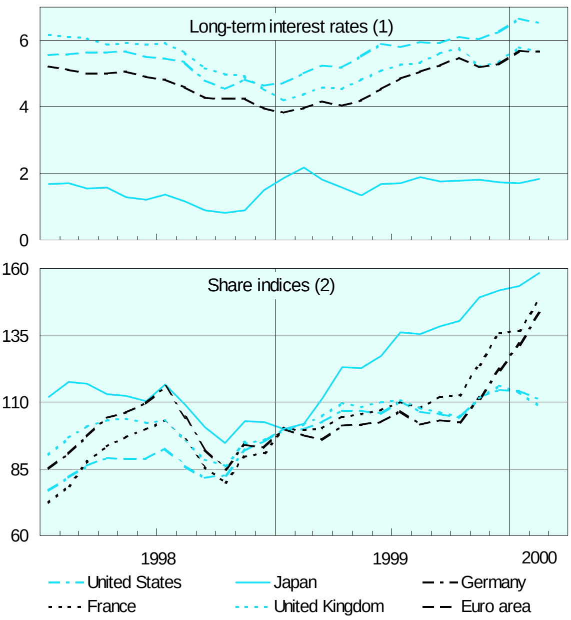
After a pause of several months, share markets in the industrial countries began to rise sharply again at the end of October, with information technology shares showing particularly large gains. The rise in the general share index was very pronounced in Italy, Germany and France (between 27 and 45 per cent) and more modest in Japan (10 per cent); in the United States and the United Kingdom the price increases recorded between October and December have been virtually wiped out by subsequent falls. Since the beginning of 1999 share prices have risen by more than 50 per cent in Germany, France and Japan, 43 per cent in Italy and around 10 per cent in the United States and the United Kingdom (Figure 4). Except in the case of Japan, these increases came on top of the already very large gains recorded since the mid-nineties.

At the end of 1994 price/earnings ratios in Europe and the United States were between 13 and 19, not significantly different from the long-term average; in the last five years, however, market capitalization has increased much more rapidly than earnings, so that the ratios have risen to between 24 and 29. The abundance of international liquidity kept share prices buoyant in the second half of the nineties. At their current level, share prices are compatible with estimates of the long-term growth potential of these economies only on the assumption that there has been a dramatic reduction in the risk premium on equity investments.

In the leading industrial countries the so-called “new markets” in equities, on which companies in the new technologies sector are listed, have seen their capitalization increase tremendously since October 1999; it is now equal to half that of the market covered by the traditional index in the United States and 6 per cent of that in the euro area. In particular, the prices of internet shares have risen by 57 per cent in the United States and 356 per cent in the euro area; the rise in share prices has been accompanied by heightened volatility. Around 70 per cent of the increase in the value of shares in the entire US equity market can be attributed to the technology sector. In the light of market expectations of rapid growth in the profits of firms in this sector over the medium term, the present level of share prices may prove not to be particularly high; however, since such expectations are extremely fickle, owing partly to the innovative nature of technology companies’ activities and the steady increase in competition in the sector, assessments of this kind are extremely unreliable.

Figure 4

Long-term interest rates and share indices in the main industrial countries
(monthly averages)

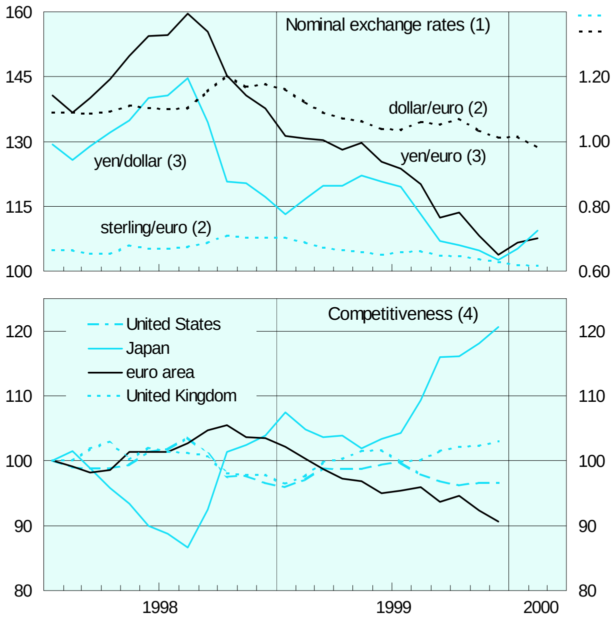


Sources: National statistics and Reuters.
(1) Yields on 10-year government bonds. - (2) Indices, January 1999=100.

In October the euro began to weaken again against the US dollar and the yen. After having made good part of its previous losses during the summer, the depreciation continued until the euro was worth less than $1 and around ¥105 in the last week of February (Figure 5). Since it was launched, the euro has lost 18 per cent against the dollar and 22 per cent against the yen; compared with the levels prevailing at the end of October, its exchange rate against the yen has remained broadly unchanged while it has depreciated against the dollar by around 7 per cent.

Figure 5

Nominal exchange rates and indicators of competitiveness of leading currencies
(monthly averages)



(1) Units of the first currency per unit of the second. Up to 1 January 1999 the exchange rates of the ECU were used instead of those of the euro. - (2) Right-hand scale. - (3) Left-hand scale. - (4) Indices, January 1998=100. The ECB currently only calculates a real effective exchange rate for the euro area based on consumer prices; for the purposes of comparison, the figure uses a similar indicator for the United States, Japan and the United Kingdom. A rise corresponds to a loss of competitiveness.

The real effective exchange rate of the euro, deflated using the consumer price index, declined by 12 per cent between the beginning of 1999 and February 2000; at that date it was 15 per cent below the average for the nineties.

In the first half of 1999 the weakness of the euro against the dollar reflected the steady widening of the differential between expected interest rates due to the cyclical disparity between the dollar and euro areas. The depreciation of the last few months appears to be attributable to strengthening market conviction that medium-term growth will be stronger in the United States than in Europe following better-than-expected data on GDP in the United States in the second half of the year.

The Japanese yen fluctuated between ¥102 and 106 to the dollar between October and January. It came under strong upward pressure, however; in order to curb the appreciation, the Japanese monetary authorities made repeated purchases of foreign exchange in the markets. From February onwards new signs of a downturn in activity and the repercussions of the deterioration in the public finances on the public debt militated in favour of a depreciation of the yen, which touched ¥111 to the dollar, its lowest level for the last six months.

Yields on 10-year government bonds in the euro area reached 5.6 per cent at the end of February, 0.3 points higher than at the end of October (Figure 4); those on US bonds rose by 0.4 points over the same period to 6.4 per cent. The increases in relation to the lows of early 1999 were 1.8 and 1.7 points respectively. Rates on Japanese long-term Treasury bonds have remained almost unchanged since last October, at around 1.8 per cent, 0.7 points less than the peaks of February 1999.

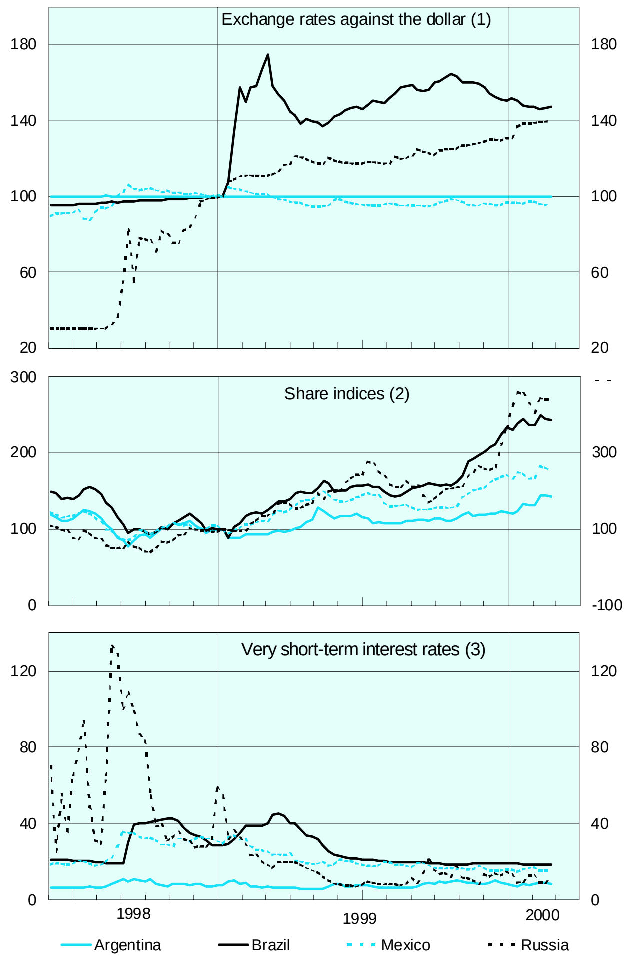
Since the beginning of this year yields on 30-year US Treasury bonds have fallen by about 0.4 points and volatility has increased. One factor, inter alia, was the Treasury's announcement that it intended to reduce issues of debt instruments by about a third this year and to buy back around $30 billion of bonds in the market. A negative differential between 30-year and 10-year yields also opened up in the UK gilts market at the beginning of 1999. With demand from institutional investors strong, the differential reflects the shortage of 30-year paper due to the reduction in the public debt.

In February the yield differential in the United States between the highest-rated corporate bonds and Treasury bonds was 0.5 points below its peak of last summer. The reduction was induced partly by the absorption of the exceptional volume of private sector issues brought forward because of fears about the millennium date change.

The tensions that resurfaced in the Latin American foreign exchange markets in September and October of last year have dissipated, allowing very short-term interest rates and foreign exchange reserves to stabilize in all the main countries of the region (Figure 6).

Figure 6

Exchanges rates, share indices and interest rates in selected Latin American countries and Russia
(average weekly data)



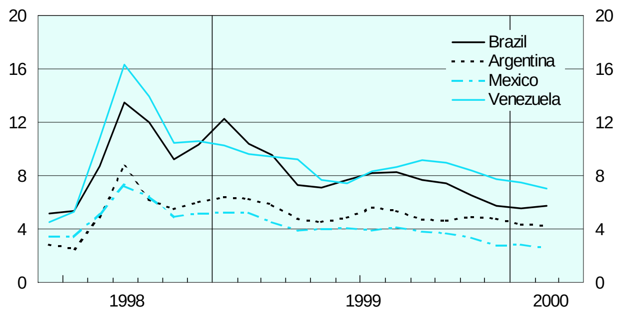
Sources: Datastream and Reuters.
(1) Units of national currency per dollar; indices, first week of January 1999=100. - (2) Indices, first week of January 1999=100. - (3) Percentages.

The Brazilian real, which by the end of October had depreciated by 12 per cent against the dollar since the end of June, has returned to the average level for that month; the outflow of the country's foreign exchange reserves also appears to have been halted. The overnight rate remained at about 19 per cent. In Argentina interest rates on 1-year interbank deposits in local currency fell from 20 to 13.5 per cent, signalling only a partial easing of pressures on the peso, which is pegged to the US dollar via a currency board. The Mexican peso also remained stable against the dollar, although it appreciated by about 20 per cent in real terms during 1999.

On the whole, the access of Latin American countries to international credit improved from October onwards, easing the financing of the large current account deficits that persist in many countries of the region. Direct foreign investment has recovered considerably, aided by an intensification of privatization programmes. Yield differentials between dollar-denominated bonds and equivalent US Treasury securities narrowed substantially in the last quarter of the year in all the major countries of the region except Argentina (Figure 7). In the first nine months of the year, however, lending by foreign banks continued to fall.

Figure 7

Yield differential between dollar-denominated bonds issued by selected Latin American countries and the US Treasury
(monthly averages; percentages)



Source: Datastream.

The resumption of foreign capital flows to the region was mirrored in a large rise in share prices. Since the beginning of last October share indices have risen by around 60 per cent in Brazil, 50 per cent in Mexico and 30 per cent in Argentina.

In Russia the parlous state of the economy and uncertainty about future economic policy, which has been exacerbated of late by the introduction of restrictions on international capital movements, are reflected in a depreciation of the rouble by 12 per cent since last October and an increase in the volatility of short-term and very short-term interest rates (Figure 6). The sharp rise in share prices (by about 150 per cent since October) and the narrowing of the yield differential between dollar-denominated Russian Treasury bonds and corresponding US securities (which nevertheless remains very wide, at 10 per cent) appear to be due largely to the positive effect of the rise in the price of oil, of which the country is a large producer and exporter, rather than to a genuine and lasting improvement in the prospects for the economy.

ECONOMIC DEVELOPMENTS IN ITALY AND THE EURO AREA

The GDP of the four major countries in the euro area grew by 2.1 per cent last year, nearly half a percentage point less than in 1998 (Table 3). The result reflected the weakness of international trade until the summer. Subsequently, economic activity gradually gathered pace owing to the recovery in foreign trade and the depreciation of the euro. For the year as a whole, the German and Italian economies, which appeared to be more sensitive to international cyclical developments, grew at a moderate rate (1.5 and 1.4 per cent respectively), while those of France and Spain - especially the latter, where domestic demand made a larger contribution - expanded strongly (2.7 and 3.7 per cent respectively).

Domestic demand in Germany and Italy increased less than in 1998, mainly owing to cautious spending by households in reaction to the sluggish growth of disposable income and continuing uncertainty about its prospects. In Italy private consumption expanded less than in other leading euro-area economies. The low level of productive activity in these two countries until the summer had only a minor dampening effect on firms' purchases of capital goods, which continued to increase at a sustained pace, thanks partly to the continuation of favourable financial conditions and business expectations of a rapid upturn after the recent period of stagnation. The business confidence index declined less than it had during similar phases in previous cycles. Fixed capital accumulation was curtailed by the weakness of investment in construction, which stagnated in Germany and rose by just under 2 per cent in Italy despite the positive impact of tax incentives and Jubilee-related public works.

In France and Spain, by contrast, growth was powered by sustained domestic demand. In Spain private consumption was boosted by the good performance of the labour market and the increase in households' spending capacity following the reform of personal taxation that came into force at the start of last year. Gross fixed investment increased rapidly, although the rate of growth was slightly lower than in 1998, primarily owing to components other than construction. The contribution from net foreign demand was negative owing to the sharp rise in imports. In France domestic demand grew more slowly. After increasing sharply in 1998, private consumption slowed down last year, although it continued to expand at an appreciable pace. Improvements in the employment situation and expectations of a reform of personal taxation helped bolster household confidence. By contrast, corporate investment accelerated, benefiting from a recovery in foreign demand in the second half of the year.

The surplus on the euro area's balance of payments on current account fell from € 60.3 to 43.2 billion last year (and from 1.0 to 0.7 per cent of GDP; Table 4); in Italy the surplus declined from 1.8 to 0.9 per cent of GDP. As in the rest of the euro area, but to a more marked degree, the deterioration in Italy's trade in goods and services was only partly offset by an improvement in income and transfers.

Despite the slowdown in productive activity in late 1998 and early 1999, employment in the four main euro-area countries increased by an annual average of 1.5 per cent. The best performances were recorded in France and Spain, where rapid GDP growth contributed to rises of 1.6 and 4.6 per cent respectively, while in Germany employment grew by only 0.3 per cent. The slow decline in the unemployment rate continued, with the average for the euro area now being below 10 per cent.

In Italy employment increased by 1.3 per cent, or 257,000 workers; the shift of employment towards the more labour-intensive services sector and growing recourse to flexible employment contracts contributed to the improvement. The unemployment rate fell, although by less than in the other main euro-area countries, declining to 11 per cent in October.

Table 3

GDP, the main components of demand, and imports of the leading euro-area countries

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

	1998	1999	1999			
	Year	Year	Q1	Q2	Q3	Q4
			GDP			
Germany	2.2	1.5	0.7	0.1	0.9	0.7
France (1)	3.4	2.7	0.4	0.8	1.0	0.9
Italy (2)	1.5	1.4	0.2	0.4	0.9	....
Spain	4.0	3.7	0.9	1.0	1.0	0.9
Euro 4 (3)	2.5	2.1	0.5	0.4	0.9	....
			Imports			
Germany	8.5	7.1	2.5	2.9	1.9	0.3
France (1)	9.6	3.3	−0.9	2.2	2.3	2.9
Italy (2)	9.1	3.4	2.4	1.7	−0.9	....
Spain	11.1	12.6	3.7	2.8	2.2	2.6
Euro 4 (3)	9.2	6.0	1.8	2.5	1.5	....
			Exports			
Germany	7.0	4.2	1.6	3.3	3.0	0.8
France (1)	6.9	3.6	−0.7	2.8	4.4	0.5
Italy (2)	3.3	−0.4	−0.7	1.6	3.8	....
Spain	7.1	8.5	2.4	2.3	1.9	3.7
Euro 4 (3)	6.2	3.5	0.6	2.8	3.4	....
			Household consumption			
Germany	2.3	2.1	1.0	−0.1	0.7	0.6
France (1)	3.6	2.3	0.3	0.6	0.7	0.7
Italy (2)	2.3	1.7	0.6	0.3	0.3	....
Spain	4.1	4.4	1.2	1.0	1.1	0.8
Euro 4 (3)	2.8	2.3	0.7	0.3	0.6	....
			Gross fixed capital formation			
Germany	1.4	2.3	1.8	−0.1	1.2	−0.5
France (1)	6.1	7.0	2.4	1.2	1.4	1.7
Italy (2)	4.1	4.4	1.3	0.6	1.5	....
Spain	9.2	8.3	1.3	1.8	2.4	1.4
Euro 4 (3)	4.0	4.6	1.8	0.6	1.4	....
			Domestic demand			
Germany	2.5	2.2	0.9	−0.1	0.5	0.5
France (1)	3.9	2.6	0.4	0.6	0.4	1.5
Italy (2)	2.9	2.5	1.0	0.4	−0.2	....
Spain	5.0	4.9	1.3	1.2	1.1	0.6
Euro 4 (3)	3.1	2.7	0.8	0.4	0.4	....

Source: Based on national statistics.
(1) The annual data are estimated on the basis of the quarterly accounts. – (2) The quarterly data do not take account of the methodological changes made by Istat for the annual national accounts released on 1 March 2000. – (3) Germany, France, Italy and Spain.

Table 4

Balance of payments of the euro area
(billions of euros; for 1998, billions of ecus)

	1998			1999		
	H1	H2	Year	H1	H2	Year
Current account	**30.6**	**29.7**	**60.3**	**26.7**	**16.5**	**43.2**
Goods	55.7	63.1	118.8	46.4	53.5	99.9
Services	0.7	–1.6	–0.9	–3.0	–3.6	–6.6
Income	–5.9	–5.9	–11.9	–1.8	–5.5	–7.3
Current transfers	–19.9	–25.9	–45.8	–14.9	–27.9	–42.8
Capital account	**5.9**	**6.8**	**12.7**	**6.2**	**6.6**	**12.8**
Financial account	**–17.3**	**–51.8**	**–69.1**	**–61.4**	**–1.3**	**–62.7**
Direct investment	–26.1	–76.5	–102.6	–68.2	–79.0	–147.2
Portfolio investment	–54.4	–30.9	–85.3	–61.7	40.4	–21.3
Equity securities	–14.2	13.8	–0.4	–36.7	–19.4	–56.1
Debt securities	–40.2	–44.7	–84.9	–24.9	59.7	34.8
Financial derivatives	–4.0	–4.2	–8.2	–2.0	1.2	–0.8
Other investment	68.0	50.5	118.5	58.4	34.8	93.2
Reserve assets	–0.8	9.3	8.5	12.1	1.3	13.4
Errors and omissions	**–19.2**	**15.3**	**–3.8**	**28.6**	**–21.9**	**6.7**

Source: ECB.

In 1999 the annual rate of inflation as measured by the harmonized index of consumer prices was 1.1 per cent for the euro area as a whole and 1.7 per cent for Italy. Consumer prices accelerated over the course of the year: the twelve-month rate of change increased from 0.8 in January 1999 to 2 per cent in January 2000 in the euro area and from 1.5 to 2.2 per cent in Italy (Table a14). The main causes of the increase were the exceptional rise in oil prices and the depreciation of the euro.

By contrast, in the main euro-area countries the twelve-month increase in the harmonized index excluding its most volatile components - food and energy products - was constant during the year. Signs of an acceleration can be discerned in the annualized and seasonally-adjusted six-month rate of increase, which has been rising since June 1999 (Figure 21).

Households, firms and professional forecasters all revised upwards their inflation expectations for 2000. According to *Consensus Forecasts*, the annual inflation rate for 2000 will be 1.7 per cent for the euro area as a whole and 2 per cent for Italy.

General government net borrowing fell further in the euro area as a whole, from 2 to 1.2 per cent of GDP, owing primarily to the considerable rise in tax receipts and the fall in interest payments.

In Italy net borrowing fell from 2.8 to 1.9 per cent of GDP. This was better than both the original objective of 2.0 per cent indicated in the Economic and Financial Planning Document for 1999-2001, presented in April 1998, and the Government's estimate of 2.4 per cent announced in March last year, when economic growth had proved slower than expected. The reduction in the deficit reflects a decline in interest payments from 8.1 to 6.8 per cent of GDP. The primary surplus, which had reached 6.7 per cent of GDP in 1997, decreased further, from 5.3 to 4.9 per cent.

The ratio of debt to GDP fell by 1.4 percentage points to 114.9 per cent. The decrease was smaller than the 3.5 point improvement in 1998, owing partly to the slowdown in nominal GDP growth.

Production, demand and the balance of payments

Economic activity

In the second half of 1999 industrial activity expanded appreciably in all the major economies of the euro area, although Germany experienced a smaller increase owing to weakness in the construction sector. The correlation between the service sector and the performance of the economy as a whole remained generally low.

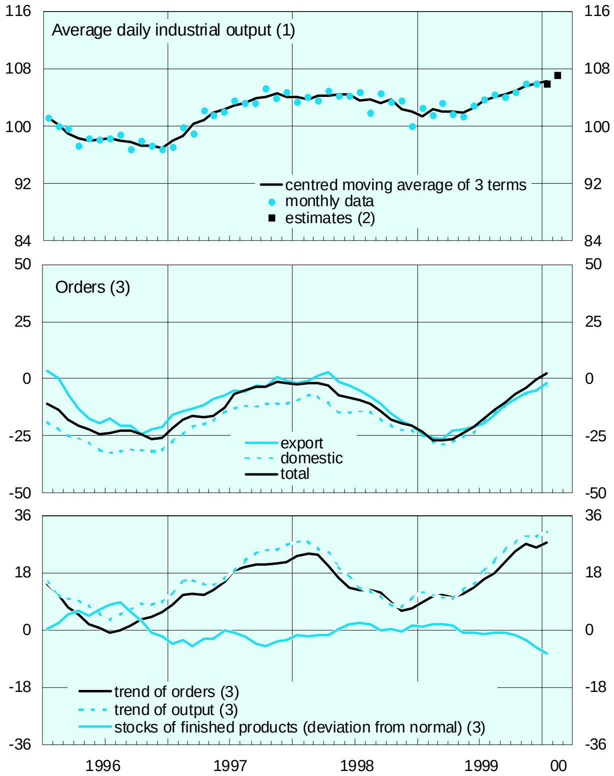
In Italy the average annual increase in the value added of industry (1.6 per cent at constant prices) stemmed primarily from that in manufacturing (1.7 per cent), while the construction sector recorded growth of only 1 per cent despite the tax incentives for building renovation.

The index of industrial output in Italy, up slightly in 1998, remained broadly unchanged in 1999 as a whole. The early months of the year saw it stall in the vicinity of the low levels recorded at the close of 1998. Industrial output began to recovery rapidly in June, in line with the movement in the ISAE cyclical indicators (Figure 8). However, the overall picture conceals disparate regional developments.

The current trend of industrial production and the climate of confidence among European firms indicate that the expansion is continuing in all the main euro-area countries (Figure 9). For Italy, estimates based on monthly electricity consumption in the first two months of 2000 confirm a positive dynamic; the latter is consistent with the pick-up recorded in the second half of 1999 by the composite leading indicator prepared by the Bank of Italy and the ISAE (Figure 10), in which orders for consumer goods had been the principal factor.

Figure 8

Industrial output, orders and stocks in Italy



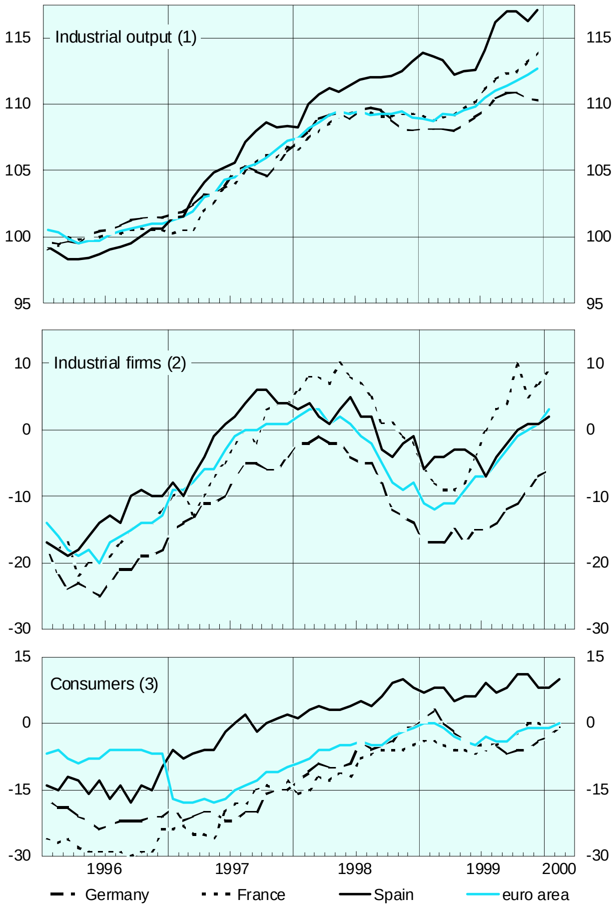
Sources: Based on Istat and ISAE data.
(1) Index, 1995=100. Data adjusted for the different number of working days in the month and seasonally adjusted. - (2) Based on electricity consumption and ISAE indicators. - (3) Moving averages for the three months ending in the reference month of the difference between the percentage of positive replies ("high", "increasing") and that of negative replies ("low", "decreasing") to ISAE surveys. The trend figures refer to the responses for 3-4 months ahead. Seasonally adjusted except for export orders and stocks of finished products.

Exports and imports

Net exports of goods and services at constant prices continued to check the rate of growth in GDP in the four main euro-area countries in 1999 as a whole, with an unchanged negative contribution of 0.6 percentage points. In the second half of the year the increase in world trade was decisive for the economic upturn in Germany and Italy, where domestic demand was weaker, and consolidated the expansion in France.

Figure 9

Industrial output and the climate of confidence among firms and consumers in some euro-area countries

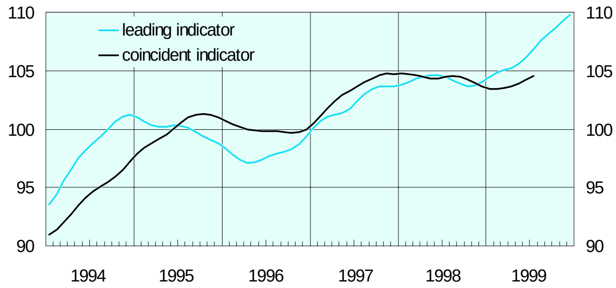


Sources: National statistics and the European Commission.
(1) Index, 1995=100. Moving averages for the three months ending in the reference month. Data adjusted for the different number of working days in the month and seasonally adjusted. - (2) Calculated by the European Commission as the average of the seasonally adjusted balances of the responses to questions regarding assessments of demand, expectations for output and stocks of finished products. - (3) Calculated by the European Commission as the average of the seasonally adjusted balances of the responses to five questions concerning consumers' opinions and expectations regarding the economic situation, both general and personal, and the advisability of purchasing durable goods.

Gains in competitiveness sustained the acceleration in exports. Measured on the basis of producer prices, in November of last year the overall improvement in competitiveness with respect to the low of September 1998 amounted to 8 per cent for Germany, more than 7 per cent for France, just above 5 per cent for Italy and around 3 per cent for Spain. Competitiveness within the euro area remained basically unchanged for Italy and deteriorated by nearly 2 per cent for Spain, whereas it improved by more than 2 per cent for France and by about 1.5 for Germany.

Figure 10

Indicators of the Italian business cycle
(indices, 1995=100)



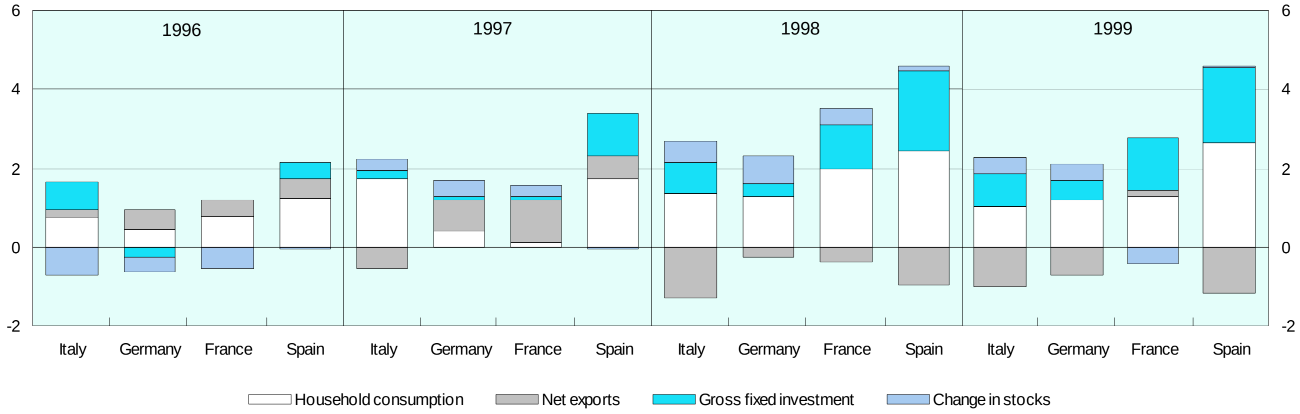
Sources: Based on Istat, ISAE and Bank of Italy data.

In Germany the net exports subtracted 0.7 percentage points from the growth in GDP (Figure 11). In the fourth quarter their contribution with respect to the year-earlier period turned positive, reflecting the quickening in export growth during the year. In France domestic demand fueled an appreciable rise in imports, which counterbalanced almost all of that in exports; net exports' contribution to the growth in GDP in the year as a whole was marginal. In Spain the rise in exports was substantial but markedly smaller than that in imports. Net exports subtracted 1.2 percentage points from the growth in GDP in 1999; their contribution turned positive in the fourth quarter, thanks to the pick-up in exports.

In Italy net exports curbed the growth in GDP for the third consecutive year, subtracting 1 percentage point. As in the two preceding years, this result was due to the failure of exports to match the growth in imports. Exports of goods and services contracted by an average of 0.4 per cent (Table 5). A decline in the first few months of the year was followed by a gradual recovery. The improvement

Figure 11

Contributions to the growth of GDP in the main euro-area countries (1)
(at constant prices)



Sources: National statistics.
(1) The contribution of domestic consumption is approximated with that of national consumption.

was strongest in exports to non-EU countries, which had slumped in the preceding period. In particular, flows to Eastern Europe and the Asian countries stricken by the crisis of 1997-98 began growing again, if only slightly.

Italian imports grew by 3.4 per cent at constant prices, compared with 9.1 per cent in 1998; during the first three quarters the inflow slowed down progressively owing to the stagnation in domestic output. In the early part of 1999 some support came from purchases of raw materials that firms presumably brought forward in connection with the expected acceleration in international prices, especially of oil, and the depreciation of the euro. According to customs data, with the consolidation of economic recovery imports have resumed growing at rapid rates, driven primarily by those from non-EU countries.

Consumption and disposable income

Final consumption of households grew by 2.3 per cent at constant prices last year in the four main euro-area countries (Table 3). The largest increase (4.4 per cent) was recorded in Spain, where disposable income was boosted by the reduction in personal income tax. Consumption in France slowed down with respect to 1998 but nonetheless showed growth of 2.3 per cent, thanks to the rise in disposable income and the gains in employment. In Germany the increase was 2.1 per cent; the recently approved tax changes are expected to generate an improvement in consumers' expectations and strengthen the growth in their spending this year.

In Italy consumption by resident households rose by 1.7 per cent, less than in 1998 (Table 5). Spending on services grew by 2.1 per cent, that on non-durable goods by only 0.5 per cent. Although car purchases were flat, consumption of durable goods increased by a substantial 4.5 per cent owing primarily to the decline in real interest rates.

Final consumption reflected the limited rise in households' disposable income: measured according to national accounts criteria, the increase for the year as a whole can be estimated at 1.5 per cent at constant prices after adjustment for the smaller loss of purchasing power of net financial assets due to lower consumer price inflation. The available quarterly accounts covering the first three quarters, preceding Istat's revisions of the annual data, indicate that households' disposable income accelerated slightly in the course of the year.

Table 5

Resources and uses of income

(at constant prices; percentage changes except where indicated otherwise)

	As a percentage of GDP in 1999	1996	1997	1998	1999	Contribution to the growth in GDP in 1999
Resources						
GDP	–	1.1	1.8	1.5	1.4	–
Imports of goods and services	26.8	–0.3	10.2	9.1	3.4	–0.9
Total resources	–	0.8	3.4	3.0	1.8	–
Uses						
Gross fixed capital formation	19.7	3.6	1.2	4.1	4.4	0.8
Construction	8.1	3.6	–2.3	–0.1	1.8	0.1
Machinery and equipment	8.5	3.3	4.8	5.7	5.0	0.4
Transport equipment	2.2	2.6	1.3	15.5	10.5	0.2
Intangible assets	0.8	11.0	4.5	5.7	8.4	0.1
Consumption of resident households	59.6	1.2	3.0	2.3	1.7	1.0
Consumption of general government and non-profit institutions serving households	17.8	1.1	0.9	0.7	0.8	0.1
Change in stocks and valuables (1)	1.5	–0.7	0.3	0.6	0.4	0.4
Total domestic demand	98.7	0.9	2.5	2.9	2.5	2.4
Exports of goods and services	28.1	–0.6	6.5	3.3	–0.4	–0.1
Net foreign demand (1)	–	0.2	–0.6	–1.3	–1.0	–1.0

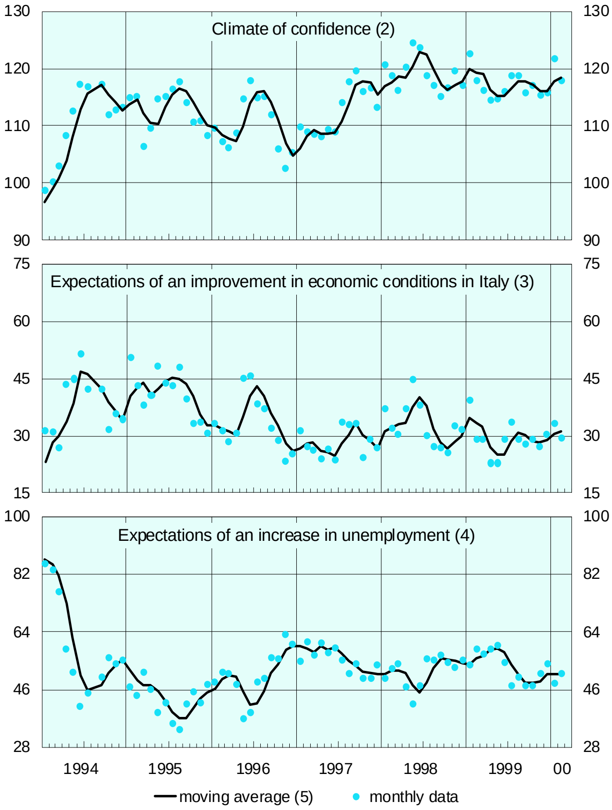
Source: Based on Istat data.
(1) Contribution to the growth in GDP, except for the change in stocks and valuables as a percentage of GDP.

Italian households' spending capacity was boosted by the growth in income from self-employment and gross wages and salaries, which together accounted for more than two thirds of the increase in disposable income. On the other hand, it was checked by a further large decline in net interest income as a result of the fall in yields and the reduction in holdings of government securities, partially offset by the smaller loss of purchasing power of net financial assets. Spending capacity was presumably increased by capital gains on shares and investment fund units (excluded from the definition of disposable income adopted in the national accounts), which absorbed a considerable portion of household savings.

The low rate of growth in disposable income and the instability of consumers' expectations regarding the outlook for the Italian economy contributed to the persistently high degree of uncertainty measured by the ISAE indicator of the climate of confidence (Figure 12). Despite the wide fluctuations that have continued into the first two months of 2000, the indicator appears to have turned upwards. Positive signs are also to be seen in new car registrations, which have risen sharply since the turn of the year.

Figure 12

Climate of confidence among Italian consumers and their expectations with regard to the economy and unemployment (1)



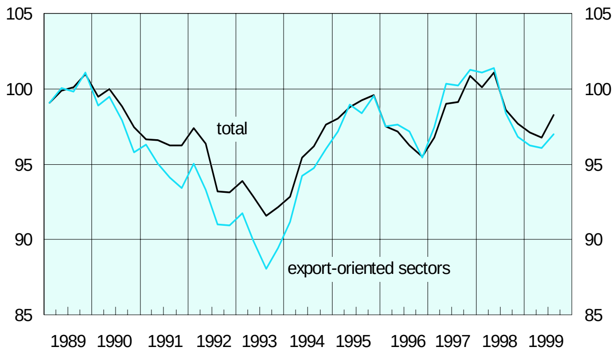
Source: Based on ISAE data.
(1) Until 1994 no survey was conducted in August; the data for that month were calculated as simple averages of adjacent data. Since January 1995 interviews have been conducted by telephone instead of on site and the interviewee is no longer necessarily the head of the household but any adult member who contributes to its income. Since January 1998 the sample has referred to consumers instead of households. - (2) Index, 1980=100. - (3) Percentage of those interviewed who expected an improvement in economic conditions in Italy in the subsequent 12 months. - (4) Percentage of those interviewed who expected an increase in unemployment in the subsequent 12 months. - (5) For the three months ending in the reference month.

Investment and stocks

Gross fixed investment at constant prices grew by 4.6 per cent in 1999 in the four main economies of the euro area (Table 3). The rate of increase was highest in Spain (8.3 per cent), where the low cost of money in real terms and the economy's favourable prospects stimulated strong growth in capital spending in all sectors, including construction. Gross fixed investment continued to rise at a very rapid rate in France as well (7 per cent); spending on construction accelerated appreciably, while that on equipment, machinery and transport equipment eased compared with the previous year but still grew at a fast pace. The increase in Germany was limited to 2.3 per cent by the stagnation of investment in construction.

Figure 13

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



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

In Italy gross fixed investment grew by 4.4 per cent. Spending on equipment and machinery rose by 5 per cent, compared with 5.7 per cent in 1998 (Table 5); the rate of increase in investment in transport equipment fell back from 15.5 per cent to 10.5 per cent. Investment in intangible goods surged. In the second half of the year the strengthening in demand, and the recovery of exports in particular, helped to reduce the proportion of idle industrial capacity, which had been increasing since the second half of 1998 (Figure 13). Expectations of growing demand, together with the positive effects of the entry into force of Law 133 of 13 May 1999 (the so-called Visco Law), are likely to fuel investment during the current year; the increase recorded in the second half of 1999 in the index of orders for machine tools compiled by the machine tool industry's association also points in this direction.

Investment in construction recorded limited growth of 1.8 per cent, interrupting a two-year decline. Investment in residential buildings is expected to show a slight rise, mainly as a result of building renovation stimulated by the tax incentives introduced by the 1998 Finance Law with a view to encouraging extraordinary maintenance work. CRESME, a building industry research centre, estimates that investment in new housing also recovered slightly in 1999 following a long phase of contraction.

The change in stocks, which includes the statistical discrepancies between the demand and supply estimates of the national accounts, contributed 0.4 percentage points to the growth in GDP. Over the last three years its cumulative contribution of 1.3 percentage points accounted for just over one quarter of the rise in GDP. The increase in stocks last year was attributable to the large build-up of inventories in the first half of the year during the phase of stagnation in economic activity. The Reuters/ADACI survey of the purchasing managers of a sample of manufacturing firms indicates that stockbuilding in the first half also reflected expectations of large rises in the prices of raw materials. From October onwards the ISAE surveys found inventories of finished products in rapid decline; the reduction was especially pronounced in January of this year.

Table 6

Italy’s balance of payments (1)
(balances in billions of lire and millions of euros)

	1998			1999					
	H1 lire	H2 lire	Year lire	H1		H2		Year	
				lire	euros	lire	euros	lire	euros
Current account	**15,322**	**22,519**	**37,841**	**5,584**	**2,884**	**12,627**	**6,521**	**18,211**	**9,405**
Goods	27,911	35,184	63,095	16,743	8,647	21,066	10,880	37,809	19,527
Exports	217,669	208,514	426,183	202,371	104,516	217,200	112,174	419,571	216,690
Imports	189,758	173,330	363,088	185,628	95,869	196,134	101,295	381,762	197,164
Services	3,710	4,826	8,536	1,429	738	3,914	2,021	5,343	2,759
Income	−10,351	−10,544	−20,895	−9,730	−5,025	−6,877	−3,552	−16,607	−8,577
Transfers	−5,948	−6,947	−12,895	−2,858	−1,476	−5,476	−2,828	−8,334	−4,304
public	*−5,470*	*−5,629*	*−11,099*	*−1,642*	*−848*	....	....	....	....
Capital account	**3,080**	**1,275**	**4,355**	**3,320**	**1,715**	**957**	**494**	**4,277**	**2,209**
Intangible assets	−67	−167	−234	−28	−14	....	....	....	....
Transfers	3,147	1,442	4,589	3,348	1,729	....	....	....	....
public	*3,202*	*1,479*	*4,681*	*3,414*	*1,763*	....	....	....	....
Financial account	**14,180**	**−8,219**	**5,961**	**−12,971**	**−6,699**	**−17,293**	**−8,931**	**−30,264**	**−15,630**
Direct investment	−11,496	−5,702	−17,198	8,683	4,484	−4,164	−2,150	4,519	2,334
Portfolio investment	13,281	−8,931	4,350	−21,473	−11,090	−12,377	−6,392	−33,850	−17,482
Financial derivatives	403	−55	348	−207	−107	4,054	2,094	3,847	1,987
Other investment	−2,893	−15,623	−18,516	−16,576	−8,561	−3,331	−1,720	−19,907	−10,281
Reserve assets	14,885	22,092	36,977	16,603	8,575	−1,477	−763	15,126	7,812
Errors and omissions	**−32,582**	**−15,575**	**−48,157**	**4,067**	**2,100**	**3,709**	**1,916**	**7,776**	**4,016**

(1) The items of the balance of payments are calculated using the new methodology adopted by Eurostat and the ECB in accordance with the Fifth edition of the International Monetary Fund’s *Balance of Payments Manual*. The series have been reconstructed and may be revised. For October, November and December 1999, provisional data.

The balance of payments

According to provisional data, the euro area had a current account surplus of €43.2 billion in 1999, compared with one of €60.3 billion in 1998 (equal to 0.7 and 1.0 per cent of GDP respectively); only a small part of the deterioration in the balances on goods and services was compensated by an improvement in income and current transfers (Table 4). Italy’s contribution to the euro-area surplus fell from 25 to 22 per cent.

The balance on the financial account for the euro area recorded a small reduction in net outflows, from €69.1 to 62.7 billion; however, there was a sharp rise in net outflows due to direct investment abroad, which rose from €102.6 to 147.2 billion, reflecting increased outflows and reduced inflows. Net outflows on account of portfolio investment were lower than in 1998, as higher foreign demand for bonds issued by residents of the area was only partly offset by increased outflows for the purchase of equities issued by non-residents. While the discontinuity due to the introduction of the euro and the provisional nature of the statistics call for caution, a breakdown of gross flows by financial instrument depicts an area that raises funds by means of debt instruments - bonds and loans, the latter mainly from banks - and invests in the acquisition of foreign firms (two thirds in the form of direct control).

Table 7

Italy’s external trade in goods *cif-fob* by country and area in the period January-October
(billions of lire and millions of euros; percentage changes on year-earlier period)

	Exports				Imports				Balance		
	Value in 1999		% change	% of total in 1999	Value in 1999		% change	% of total in 1999	Value		
	lire	euros			lire	euros			lire 1998	lire 1999	euros 1999
Industrial countries	**255,963**	**132,194**	**-0.9**	**74.5**	**235,807**	**121,784**	**0.9**	**73.7**	**24,793**	**20,156**	**10,410**
EU countries	198,371	102,450	-1.4	57.8	194,729	100,569	1.3	60.9	9,078	3,642	1,881
Euro area	*159,784*	*82,522*	*-1.0*	*46.5*	*165,083*	*85,258*	*1.1*	*51.6*	*-17,768*	*-5,299*	*-2,736*
France	*44,885*	*23,181*	*-2.0*	*13.1*	*40,499*	*20,916*	*-1.6*	*12.7*	*4,647*	*4,386*	*2,265*
Germany	*57,520*	*29,706*	*-2.3*	*16.8*	*61,125*	*31,568*	*1.3*	*19.1*	*-268*	*-3,605*	*-1,862*
Spain	*21,806*	*11,262*	*7.0*	*6.4*	*13,818*	*7,136*	*-1.1*	*4.3*	*6,265*	*7,988*	*4,126*
United Kingdom	*24,525*	*12,666*	*-5.3*	*7.1*	*19,108*	*9,869*	*-1.1*	*6.0*	*5,979*	*5,417*	*2,797*
Other industrial countries (1)	57,592	29,744	0.8	16.8	41,078	21,215	-0.8	12.8	15,715	16,514	8,529
Japan	*5,506*	*2,844*	*-9.6*	*1.6*	*8,243*	*4,257*	*20.6*	*2.6*	*-743*	*-2,737*	*-1,413*
United States	*32,479*	*16,774*	*4.8*	*9.5*	*15,478*	*7,994*	*-3.1*	*4.8*	*15,023*	*17,001*	*8,780*
Rest of the world	**87,414**	**45,145**	**-10.4**	**25.5**	**84,013**	**43,389**	**4.7**	**26.3**	**17,365**	**3,401**	**1,756**
Central and Eastern Europe and former USSR	26,309	13,587	-11.1	7.7	24,732	12,773	10.7	7.7	7,245	1,577	814
Russia	*2,582*	*1,334*	*-46.2*	*0.8*	*6,301*	*3,254*	*17.2*	*2.0*	*-580*	*-3,719*	*-1,920*
OPEC	11,046	5,705	-6.4	3.2	16,506	8,524	2.0	5.2	-4,380	-5,460	-2,819
Latin America	11,232	5,801	-12.2	3.3	6,696	3,458	-6.0	2.1	5,673	4,536	2,343
Other countries	38,827	20,052	-10.6	11.3	36,079	18,634	4.3	11.3	8,827	2,748	1,418
China	*2,941*	*1,519*	*-1.5*	*0.9*	*8,112*	*4,189*	*12.1*	*2.5*	*-4,249*	*-5,171*	*-2,670*
5 Asian countries hit by the crisis (2)	*3,944*	*2,037*	*12.6*	*1.1*	*6,541*	*3,378*	*0.4*	*2.0*	*-3,010*	*-2,597*	*-1,341*
Total	**343,377**	**177,339**	**-3.5**	**100**	**319,820**	**165,173**	**1.9**	**100**	**42,158**	**23,557**	**12,166**

Source: Based on Istat data.
(1) Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the United States. – (2) Indonesia, Malaysia, the Philippines, South Korea and Thailand.

Table 8

Italy's financial account (1)

(balances in billions of lire and millions of euros)

	1998			1999					
	H1 lire	H2 lire	Year lire	H1		H2		Year	
				lire	euros	lire	euros	lire	euros
Direct investment	−11,496	−5,702	−17,198	8,683	4,484	−4,164	−2,150	4,519	2,334
Abroad	−12,293	−9,438	−21,731	7,395	3,819	−11,947	−6,170	−4,552	−2,351
In Italy	797	3,736	4,533	1,288	665	7,783	4,020	9,071	4,685
Portfolio investment	13,281	−8,931	4,350	−21,473	−11,090	−12,377	−6,392	−33,850	−17,482
Assets	−131,614	−60,465	−192,079	−118,459	−61,179	−111,562	−57,617	−230,021	−118,796
Liabilities	144,895	51,534	196,429	96,986	50,089	99,185	51,225	196,171	101,314
Other investment	−2,893	−15,623	−18,516	−16,576	−8,561	−3,331	−1,720	−19,907	−10,281
Assets	−29,653	−13,019	−42,672	−42,641	−22,022	−3,780	−1,952	−46,420	−23,974
Liabilities	26,760	−2,604	24,156	26,065	13,461	449	232	26,513	13,693
Financial derivatives	403	−55	348	−207	−107	4,054	2,094	3,847	1,987
Reserve assets	14,885	22,092	36,977	16,603	8,575	−1,477	−763	15,126	7,812
Total	**14,180**	**−8,219**	**5,961**	**−12,971**	**−6,699**	**−17,293**	**−8,931**	**−30,264**	**−15,630**

(1) The time series have been reconstructed and may be revised. For October, November and December 1999, provisional data.

Italy's current account surplus declined last year to 18.2 trillion lire (€9.4 billion, equal to about 0.9 per cent of GDP). A sharp contraction in the merchandise trade surplus from 63.1 to 37.8 trillion lire and a slight decrease in the surplus on services were only partially offset by an improvement of 8.8 trillion lire in income and transfers (Table 6). The recovery in merchandise exports that began in the second quarter gained momentum during the year, but the parallel rise in imports precluded an improvement in the balance.

According to *cif-fob* data on the volume of trade and average unit values in the first eleven months of the year, exports declined by 2.6 per cent in value compared with the corresponding period of 1998 and by 2.4 per cent in volume, while prices fell by 0.5 per cent. The increase of 2.8 per cent in imports reflected a growth of 4.2 per cent in volume and a reduction of 1.7 per cent in prices. The adverse results for the year reflected the slow growth in world trade and particularly the modest expansion of the European economies, which account for about 60 per cent of Italy's total exports; market shares built up over recent years in economic areas that were subsequently hit by the crisis and in the EU countries also declined, as a result of the keener price competitiveness of goods from third countries. Data available up to October 1999 attribute the deterioration in the trade balance mainly to trade with Central and Eastern Europe and the former USSR (particularly Russia), the EU (particularly Germany) and the category "other countries", especially Turkey.

Receipts and payments for transport and tourism, the main components of services, remained substantially unchanged; the contraction of 3.2 trillion lire in the surplus on services is probably a result of the deterioration in the balances on construction and other business services. The considerable improvement of 4.3 trillion lire in the deficit on income is due to the fact that payments on Italy's foreign liabilities declined more markedly than returns on foreign assets; however, the balance in Italy's favour decreased during the year.

There was no change in the capital account, which comprises mostly transfers from the EU.

The surplus totalling 22.5 trillion lire on the current and capital accounts in 1999, which represents the formation of resources not used domestically, is matched by an increase in Italy's net external financial assets. The financial account closed with net outflows of 30.3 trillion lire in 1999, compared with net inflows of 6 trillion in 1998; the net figure is the result of fairly substantial increases in flows of funds in both directions, particularly in the form of portfolio investment (Table 8). The errors and omissions item, which had been both large and negative in recent years, contracted sharply and showed an inflow of 7.8 trillion lire last year, compared with an outflow of 48.2 trillion in 1998.

After reallocating the acquisition of Omnitel and Infostrada by a foreign company to direct inward investment (the transaction, which was recorded in the statistics as a reduction in investment abroad, was equal to about 14 trillion lire), foreign inward investment rose from 4.5 to more than 23 trillion lire, while direct investment abroad declined from 21.7 to 18.6 trillion lire. Portfolio investment generated net outflows of 33.9 trillion lire; Italian portfolio investment abroad increased by about 20 per cent, after doubling in 1998, while inward investment remained unchanged on account of substantial net disposals of Italian equities worth 16.2 trillion lire by non-residents, who had made net purchases of 24.9 trillion lire in 1998. However, the breakdown by type of security, which is available up to September, shows that purchases of Italian government securities by non-residents continued and slightly exceeded the already high levels reached in 1998, notwithstanding the convergence of yields to euro-area levels (Table 9).

The procedures for collecting and recording data for the Italian balance of payments were revised between mid-1998 and 1999 in order to bring the statistics into line with ECB and Eurostat practices. The changes involved, inter alia, the reconstruction of data for previous periods and subsequent revisions in the light of new information reaching the collection systems; for these reasons, minor corrections to the latest statistics cannot yet be excluded.

Table 9

Portfolio investment in Italy (1)
(balances in billions of lire and millions of euros)

	1996 lire	1997 lire	1998 lire	1998		1999			
				H1 lire	Jan.-Sept.	H1		Jan.-Sept.	
						lire	euros	lire	euros
Government securities	100,472	102,879	151,854	121,636	133,316	111,619	57,646	140,682	72,656
BOTs	13,719	7,947	52,909	35,501	45,714	35,590	18,381	50,065	25,856
BTPs	68,785	83,907	23,712	23,515	35,983	61,359	31,689	74,280	38,362
CTEs	−1,816	−914	−3,980	−1,098	−3,331	−6,134	−3,167	−8,513	−4,397
CCTs	6,041	6,329	52,539	39,890	30,786	−14,286	−7,378	−15,960	−8,243
CTOs	−2,456	−5,237	−2,967	−2,967	−2,967	–	–	–	–
CTZs	4,757	7,803	22,239	17,718	23,011	29,276	15,120	40,933	21,140
Republic of Italy issues	11,299	3,485	4,758	4,934	1,546	4,468	2,307	−471	−243
Other government securities	143	−441	2,644	4,143	2,574	1,347	694	348	181
Bonds	927	195	1,612	561	1,027	−825	−426	2,058	1,063
Bank securities	−1,062	5,755	18,479	13,948	14,417	13,080	6,755	16,569	8,557
Equity securities	14,416	16,028	24,881	9,524	17,581	−27,165	−14,029	−24,896	−12,858
Other securities	−81	802	−397	−774	−747	277	143	673	348
Total	**114,672**	**125,659**	**196,429**	**144,895**	**165,594**	**96,986**	**50,089**	**135,086**	**69,766**

(1) The time series have been reconstructed and may be revised.

The labour market

Employment

Between 1995 and 1999 increasing resort to flexible labour contracts accounted for nine tenths of the overall growth in employment in Italy.

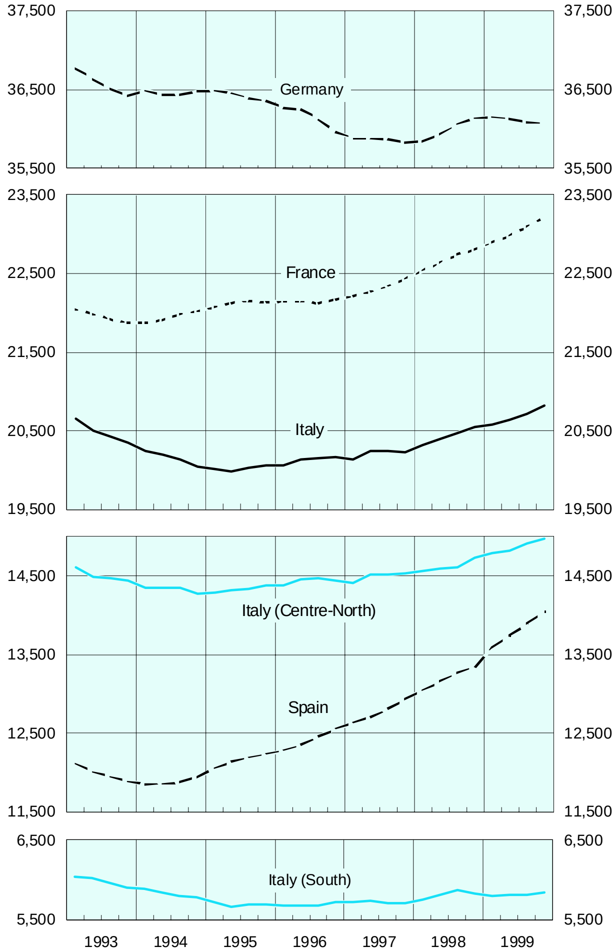
In 1999 employment in the four largest euro-area countries rose by an estimated 1.5 per cent. In Italy, despite the slow growth of output, the number of persons employed increased by 257,000, or 1.3 per cent (Figure 14). It is now 670,000, or 3.3 per cent, higher than the low point of 1995; over these four years virtually all of the net increase came from payroll employment. In Spain, the rapid expansion under way since 1995 continued with a gain of more than 600,000, or 4.6 per cent, in 1999. In France employment grew by 370,000, or 1.6 per cent. In Germany it expanded by 120,000, or 0.3 per cent; here a statistical revision resulted in an increase in the number of persons employed from 34 to nearly 36 million in 1998 and an adjustment of the decline registered from 1993 through 1997 (from 1.5 million to about 900,000).

The growth of employment in Italy reflects firms' increasing tendency to respond to even short-term increments in demand with fixed-term hiring, either directly or through temporary employment agencies. In 1999 fixed-term contracts accounted for no less than two thirds of total employment growth. Fixed-term employees rose from 6.2 per cent of all payroll employees in 1993 to 9.5 per cent in 1999; excluding agriculture, the rise was from 5.1 to 8.6 per cent (Figure 15). The proportion reached 11.5 per cent among women and 15.3 per cent among persons younger than 35.

A major boost to fixed-term employment in 1999 came from temporary employment contracts. Data supplied by the temporary agency association, Confinterim, indicate that some 250,000 workers were hired on temporary contracts for an average of 150 hours each. If their total hours are divided by standard annual contractual hours, the labour input is approximately equivalent to 22,000 full-time, year-round workers.

Figure 14

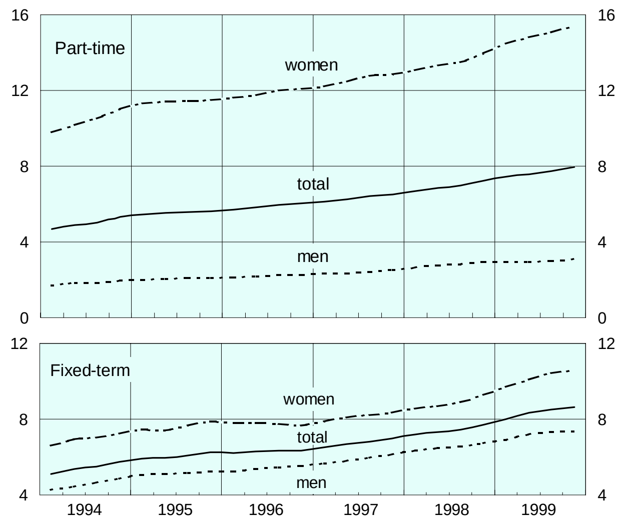
Employment in the main euro-area countries
(seasonally adjusted data; thousands of persons)



Sources: Istat, *Indagine sulle forze di lavoro,* for Italy; national statistics for the other countries.

Figure 15

Part-time and fixed-term employees' share in total non-agricultural salaried employment in Italy
(quarterly data; percentages) (1)



Source: Istat, *Indagine sulle forze di lavoro.*
(1) Moving averages of the four quarters ending in the reference period.

Part-time work, despite low initial levels, has grown more slowly in Italy than in the other main European countries in the past two years. In 1999 the share of part-time workers rose to 8.2 per cent of all employees in the economy as a whole and 10.1 per cent in the service sector, compared with 7.5 and 9.1 per cent, respectively, in 1998 and 5.2 and 5.8 per cent in 1993. The incidence of part-time work rose to 15.7 per cent among all women employees, as against 3.4 per cent among men (excluding agriculture, 15.4 and 3.1 per cent; Figure 15). About a third of all part-time employees have fixed-term contracts; half say they were unable to find a full-time job.

In contrast with the expansion in flexible employment relationships, the increase in permanent, full-time positions came to just 0.3 per cent in 1999. In the second half of the year, however, as the economic upturn strengthened, there was faster growth in the latter as well, the increase on the year-earlier period rising to 1 per cent, or more than 110,000 additional workers.

Sectoral and regional developments in Italy

The rise in employment last year involved the construction industry and all the sectors of private services. Construction employment returned to growth after more than six years, with a gain of 31,000 compared with 1998. The recovery in distribution and the tourist and hotel industries was consolidated, and expansion continued, albeit more slowly, in the transport and communication sectors and the banking and financial industry. There was a further increase of 110,000 in the number employed in the services and the professions. The established tendency of firms to outsource service activities was flanked by the rapid growth of hiring through temporary employment agencies, which is counted statistically as in the business services sector even though most of this labour is used in industry.

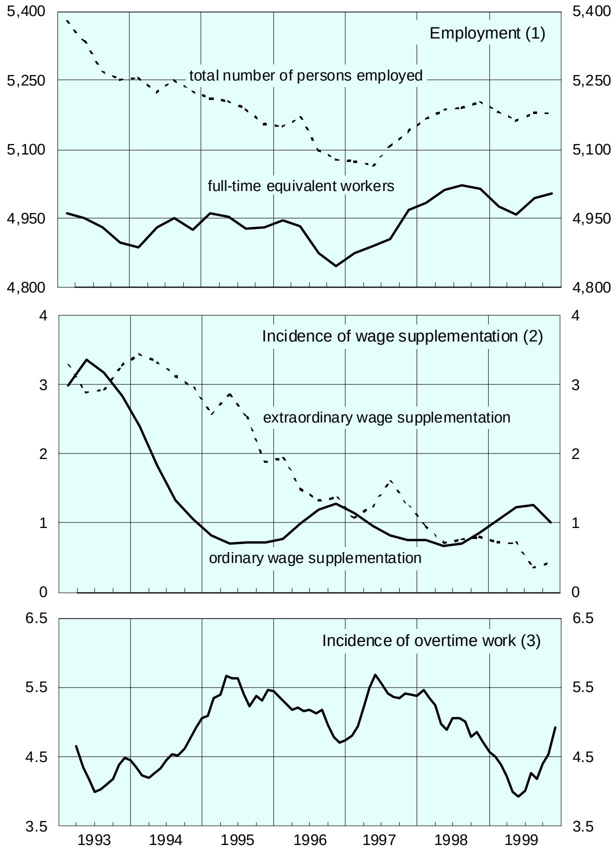
The number of persons employed in industry excluding construction shrank by 0.2 per cent, following an expansion of 1.8 per cent in 1998. The contraction in the first half of 1999, a consequence of the decline in output, was followed by a recovery in the months that followed (Figure 16). Considering part-time jobs and the limited increase in wage supplementation, the number of full-time equivalent workers employed in industry is estimated to have fallen by 0.4 per cent on average for the year. The total number of hours worked in industry appears to have remained more or less unchanged, as increased temporary hiring offset a decrease in overtime — data on which, however, are available only for firms with more than 500 employees. Fluctuating with output trends, overtime fell from 5.5 per cent of total regular hours at the beginning of 1998 to under 4 per cent in mid-1999, with some recovery afterwards (Figure 16).

There was no improvement in employment in the South in 1999 as a whole, while the other parts of the country showed gains of between 1.7 and 1.9 per cent (Table 10). The stagnation in the South was the result of downtrends not only in agriculture but also in construction and distribution, sectors in which employment expanded in the other areas of the country, especially in the North-West. In the regions of the Centre there were strong employment gains in distribution and particularly severe losses in agriculture. In the North-East variations in both of these sectors were more modest than in the other parts of the country. Only in the North-West was there a substantial contraction in industrial employment.

ISAE surveys indicate that the expansion should continue in the coming months in industry, in construction, and in small shops and retail chains.

Figure 16

Employment, wage supplementation and overtime work in industry excluding construction in Italy
(seasonally adjusted data; thousands of persons and percentages)



Sources: Based on Istat, *Indagine sulle forze di lavoro* and *Indagine sulle grandi imprese*, and on INPS data.

(1) Quarterly data. The number of full-time equivalent workers is obtained by considering two part-time workers to be equal to one full-time worker and subtracting the number of workers equivalent to the number of man-hours of wage supplementation granted. - (2) Average number of equivalent employees on ordinary or extraordinary wage supplementation during the quarter as a percentage of the number of full-time equivalent workers. - (3) Monthly data. Total number of overtime hours as a percentage of total number of regular hours in industrial companies with more than 500 employees. Moving averages of the three months ending in the reference period.

Table 10

Changes in employment in Italy by economic sector and geographical area in 1999
(percentage changes) (1)

	North-West	North-East	North	Centre	South	Italy
Agriculture	-3.6	-0.2	-1.6	-8.5	-7.6	-5.6
Industry	-1.0	0.3	-0.5	0.3	0.3	-0.2
Construction . . .	6.5	1.9	4.5	1.7	-1.1	2.0
Services	3.0	2.7	2.9	3.0	1.3	2.4
wholesale and retail trade	*3.8*	*1.4*	*2.8*	*4.8*	*-3.7*	*1.3*
Total . . .	**1.7**	**1.7**	**1.7**	**1.9**	. .	**1.3**

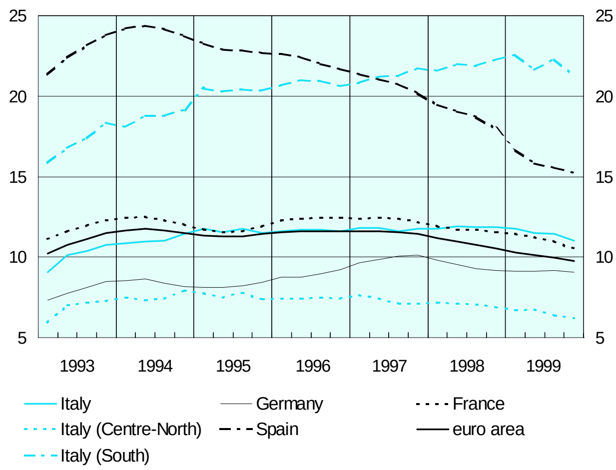
Source: Istat, *Indagine sulle forze di lavoro.*
(1) Average of the surveys taken in January, April, July and October.

Unemployment

The slow abatement of unemployment that began at the start of 1997 continued last year in all the major euro-area countries. In September the area-wide average unemployment rate went below 10 per cent (Figure 17). In the fourth quarter the seasonally

Figure 17

Unemployment rates in the euro area
(seasonally adjusted data; percentages)



Sources: Istat for Italy; Eurostat for other countries.

adjusted rate was 9.1 per cent in Germany and 10.5 per cent in France, respectively 0.1 and 1 per cent lower than a year earlier. In Spain the reduction amounted to 2.8 points, from 18 to 15.2 per cent. In Italy the rate came down to 11 per cent in October, 0.8 points lower than a year earlier. In the central and northern regions it fell to 6.2 per cent, a reduction of 0.7 points. From the beginning of 1999 there were also signs of a turnaround in the South after seven years of increasing unemployment. The unemployment rate was 21.3 per cent in October, down from 22.3 per cent in October 1998 (Figure 17).

Industrial relations in Italy, Germany and France

Last summer the renegotiation of Italy's industry-wide labour contracts in engineering, banking and wholesale and retail trade sanctioned wage raises ranging from 80,000 to 110,000 lire a month (between 1.4 and 1.6 per cent, on an annual average basis) over the term of the contract. This is about half as much as in the previous contract renewals. The settlements signed in the last four months, for the chemical, woodworking, construction and insurance industries, have come in at the lower end of this range. The national contract increases have also been substantially in line with target inflation in the private services, where in the past alignment had been slower and less complete. Wage moderation is expected to continue through the rest of the year, as the present contracts will still be in effect for construction workers and for nearly half the workforce in industry and private services. The introduction of additional elements of flexibility in the utilization of manpower has continued in recent months with modifications in working hours and schedules and increases in the proportion of the workforce that can be hired on part-time or fixed-term contracts.

Bargaining for company-level contracts had trouble getting started in many branches of industry, owing among other things to uncertainty generated by disagreement over the approach to reform of severance pay, income protection programmes, part-time jobs and trade union representation. The scope for social concertation thus appears to be narrowing in Italy just when this approach is being introduced in other countries.

In Germany, wage moderation during the three years from 1996 to 1998 facilitated the lowering of unit labour costs and led to a sharp rise in the share of income going to profits. The bargaining round of 1999 produced across-the-board increases of just over 3 per cent. Effective earnings rose 1 percentage point less than contractual wages, because firms located in the eastern regions applied the national raises only in part and because the payment of company increases was universally deferred. The rise in effective earnings would appear to be consistent in the medium term with the trend rate of growth in productivity in the economy as a whole, forecast at 2.5 per cent a year. In 1999 unit labour costs rose by about 0.5 per cent. The initial wage claim advanced by the metalworkers' union for the 2000 round (5.5 per cent) is not such as to preclude a substantially less costly settlement. The prospects for reform of the bargaining system and for a reduction in the tax burden on the cost of labour are being examined by the "Pact for labour", a forum for concertation instituted last autumn by the Government with representatives of labour and management.

In France industrial contract renewals, which were bunched in the second half of the year, confirmed wage moderation even during the cyclical expansion. Under government leadership, the bargaining focused on the question of working hours. The possibility of trading shorter hours for greater flexibility in the utilization of manpower greatly enhanced the importance of company-level bargaining, especially in firms with fewer than 50 employees. Decentralized bargaining is nevertheless still significantly less common than in Italy or Germany.

Effective wages and the cost of labour in Italy

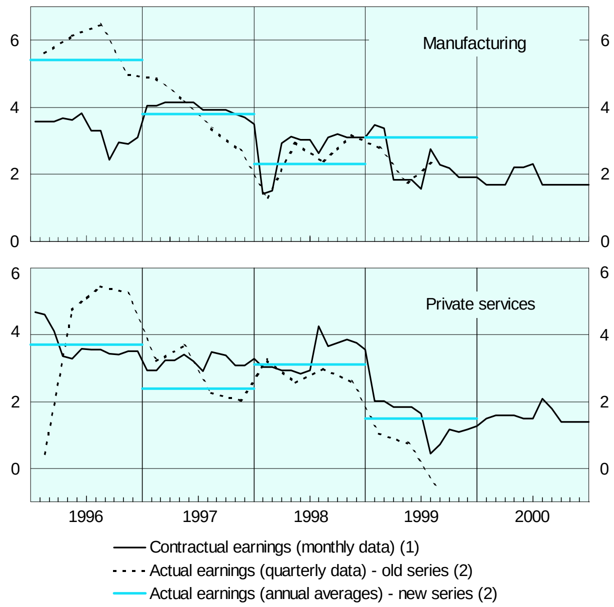
The national economic accounts released on 1 March by Istat show that in 1999 per capita earnings increased by 2.3 per cent in Italy, slightly more than in Germany and France.

The national accounts estimates — which are generally subject to subsequent revision — show a pick-up in the rise in *de facto* earnings per full-time equivalent employee in manufacturing from 2.3 per cent in 1998 to 3.1 per cent in 1999 (Figure 18). This was a much larger rise than could have been predicted on the basis of national contract provisions, company increases and the number of overtime hours. Contractual earnings rose by 2.2 per cent (2.8 per cent in 1998), accounting for 1.9 percentage points of the rise in *de facto* earnings. Another 0.2 points came from one-off payments stemming from the overdue signing of the metalworkers' contract. The Bank of Italy's cyclical survey found that the supplementary wage increases granted at company level in 1999 contributed about 0.5 percentage points to the growth of total earnings in manufacturing, as in 1998, while less use of overtime moderated the rise in actual earnings. Based on future increases already scheduled under industry-wide contracts and realistic assumptions on company-level pacts, the annual rate of increase in actual earnings in industry is expected to fall considerably in 2000 to around 2 per cent.

For the private service sector, the national accounts record a marked slowdown in the increase in actual earnings per standard labour unit in 1999, from 3.1 to 1.5 per cent, owing in part to the lateness with which the contracts covering insurance, banking and distribution were renewed. Taking account of the increases provided for to date, *de facto* earnings should not rise by more than 2 per cent this year (Figure 18).

Figure 18

Contractual and actual earnings in Italy
(seasonally adjusted data; percentage changes on year-earlier period)



Source: Based on Istat, *Conti nazionali* and *Indagine sulle retribuzioni contrattuali*.
(1) For 2000, forecasts. - (2) The quarterly data do not include Istat's revisions for the annual national accounts released on 1 March 2000.

The rate of increase in compensation of employees for the entire economy was 1.9 per cent in 1999, which was less than that in earnings alone. Firms in private services and manufacturing benefited from a reduction in the incidence of pension and other social contributions. The reduction will affect per capita labour costs again this year; they are expected to rise by about half a percentage point less than earnings.

Prices, costs and competitiveness

Over the course of 1999 consumer price inflation in Italy and the euro area began to rise from the very low levels recorded in the early months of the year, due to the sharp rise in oil prices and the weakness of the euro. In December, the dollar price of crude oil was more than 150 per cent higher than the low reached in February, while the dollar appreciated by about 10 per cent against the euro over the same period. The consequent rise in import prices was reflected in higher producer prices, initially confined to intermediate energy products but then spreading to later stages of the production process. The downward trend of the energy component of consumer prices, which had helped contain inflation in 1998, abruptly reversed last spring, fueling the rise in prices throughout the euro area (Figure 19).

In January 2000, the twelve-month rate of increase in the harmonized index of consumer prices was 2.2 per cent in Italy and 2 per cent in the euro area as a whole, about 1 percentage point higher than the very low values recorded in the early months of 1999. The effects of higher energy costs have not yet passed through to underlying inflation, which has continued at a broadly unchanged rate (about 1 per cent in the euro area as a whole and 2 per cent in Italy).

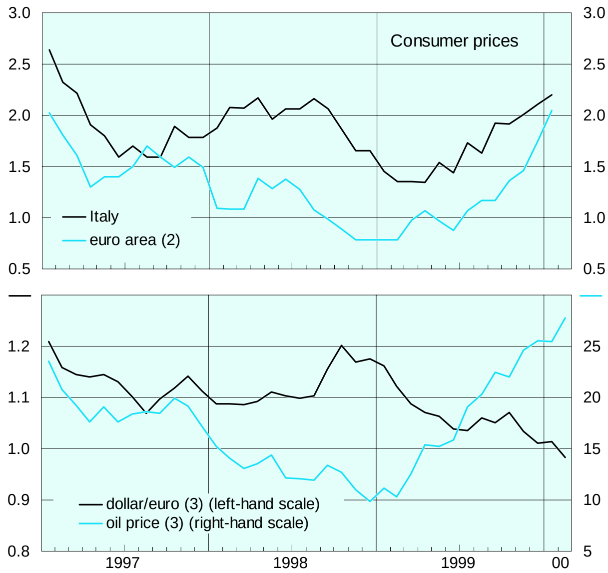
Provisional data for February indicate a month-on-month increase in the national consumer price index of 0.4 per cent in Italy and Germany; the twelve-month rise increased from 2.2 to 2.4 per cent in Italy and from 1.6 to 1.8 per cent in Germany.

The risk of a further rise in inflation is linked to developments in the exchange rate and the price of oil. Futures contracts on Brent crude reflect an expected decline in prices from $30 a barrel at the beginning of March to about $24 in the fourth quarter. Nevertheless, in recent months the continued cohesion of the OPEC countries has consistently invalidated forecasts of a decline in prices.

The inflation expectations of households, firms and financial markets have adjusted to the acceleration in import prices.

Figure 19

Harmonized indices of consumer prices in Italy and the euro area, the dollar/euro exchange rate and the oil price (1)



Sources: Based on Eurostat and IMF data.

(1) Twelve-month percentage changes for the harmonized index; dollars per barrel of Brent oil for the oil price; dollars per euro (per ecu until December 1998) for the exchange rate. - (2) Weighted average of the price indices of the individual euro-area countries. - (3) Monthly average of daily data.

The economic recovery in Italy and the rest of Europe could make it easier to pass the higher costs stemming from more expensive imports through to final prices. Monetary policy is oriented to ensure that any consequent price increases do not push up inflation in the medium term.

In Italy these factors have not so far been accompanied by labour market pressures. The recovery in production could lead to a further slowdown in the rise in unit labour costs as a result of faster productivity growth. Current forecasts for compensation of employees in the goods and market services sector point to a faster increase in the other major euro-area economies.

Measures to liberalize the services sector (especially telecommunications and electricity), which has not yet felt the full effects of increased competition, could help contain inflation in Italy.

Exporters have benefited from the weakness of the euro. Italy's global real effective exchange rate, measured on the basis of producer prices, fell by 4 per cent between January and November 1999. By contrast, the country's competitiveness vis-à-vis its main European trading partners worsened slightly owing to its persistently higher inflation.

Consumer prices

In 1999, the average annual inflation rate, as measured by the harmonized index of consumer prices, was 1.7 per cent in Italy and 1.1 per cent in the euro area. The average, which is at a historically low level, only partly reflects the recent acceleration in prices.

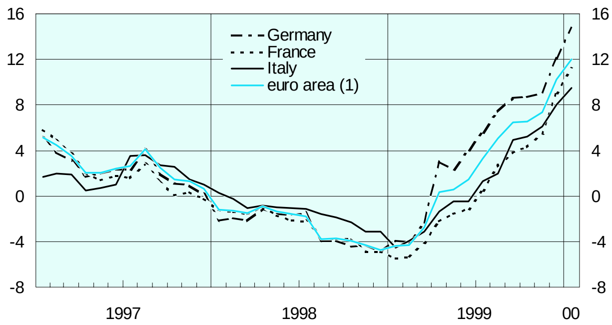
After the sharp decline that began in the autumn of 1997, since last spring the prices of imported energy products have caused consumer price inflation to increase, driven by the exceptional rise in oil prices and the weakness of the euro. In Italy the twelve-month rate of increase in the harmonized index rose from 1.5 per cent at the start of the year to 2.1 per cent in December. The rise was even more pronounced in the euro area as a whole, from 0.8 to 1.7 per cent. This trend continued in the early months of 2000: in January the month-on-month rise in the harmonized index was 0.2 per cent in Italy and the euro area, while the twelve-month rise increased to 2.2 and 2.0 per cent respectively (Figure 19). The figure for the euro area was affected by the introduction of a carbon tax in Germany.

Some caution is required in interpreting the January data on harmonized consumer prices, however, since a number of significant changes were made to the basket used to compile the index (see box).

The consumer prices of energy products in Italy accelerated less than in the other euro-area countries; the twelve-month change swung from -4.6 per cent in January 1999 to 9.5 per cent in January this year, compared with a swing from -4.4 to 12 per cent in the area as a whole. The difference was due to the greater stickiness of fuel prices in Italy and the reduction of 30 lire in the excise tax on petrol introduced in November 1999 and extended with minor increases in January and March (Figure 20).

Figure 20

Harmonized indices of consumer prices for energy products in the euro area
(twelve-month percentage changes)



Source: Based on Eurostat data.
(1) Weighted average of the price indices of the individual euro-area countries.

The components of underlying inflation have not yet been affected by the increase in import prices. The twelve-month increase in the index excluding food and energy products remained stable at around 2 per cent in Italy, 0.5 per cent in Germany and France and 1 per cent in the euro area as a whole. However, the annualized and seasonally adjusted six-month increase in the index has been creeping up since the beginning of last summer in Italy and the euro area (Figure 21).

Consumer prices are therefore expected to accelerate moderately in the coming months, with the largest rises coming in non-food and non-energy products, in part as a result of stronger demand. The increases that are beginning to show up in the producer prices of final goods, above all in Italy, are probably a precursor of this acceleration (Figure 22).

The new basket for the consumer price indices

Every month Istat publishes three different consumer price indices: the index for worker and employee households, the general index for the entire resident population (NIC) and the harmonized index (HICP). The three indices are constructed on the basis of a single survey of product prices but differ in their weighting structure: the index for workers and employee households refers to the average consumption of a household headed by a non-agricultural employee, whereas both the general index and the harmonized index refer to consumption of all resident households.[1] The latter are the most significant indicators for inflation analysis.

Since January 1999, when it introduced the principle of chaining, Istat has performed two simultaneous revisions each year. One includes or eliminates certain products from the price survey conducted by municipalities, the other revises the weights with which the elementary items in the basket are aggregated. In addition to these regular revisions, Istat has made two other adjustments in 2000.

The first concerns the revision of the weights, which for this year not only takes account of alterations in the structure of households' consumption but also reflects the changeover from ESA79 to ESA95 as the basis for the national accounts. Since the weights of the price indices for 1999 were based as usual on consumption in the previous year and were therefore classified according to the old accounting system, their revision for the current year includes an effect due to the shift to ESA95.

The second important change this year concerns the harmonized consumer price index alone and involves all the countries of the EU to a greater or lesser extent. To begin with, since January 2000, Regulation 2166/1999 of the European Commission has required the basket to include a significant number of new products, particularly under the headings of health services, insurance and education. Secondly, the criteria for classifying several items in the sub-indices of the HICP have been revised. Finally, all countries have been required to determine the weights of the basket taking account of domestic final consumption (i.e. net of spending by households abroad but including spending by foreign tourists), a convention that Italy had already adopted.

For the Italian HICP, this combination of changes increases the weights of services and non-energy industrial goods[2] and decreases that of unprocessed foods. The growth in the weight of services reflects the introduction of new items (health services, education and insurance), which account for around 5 per cent of this component's total (see table).

The addition of these items, which have not been reconstructed for the past,[3] affects the analysis of inflation for the current year: the twelve-month changes in the HICP will be obtained by comparing indices referring to different baskets of goods and services and will therefore be distorted.[4]

To assess the effects of the change in weights on the measure of inflation, the average 1999 movements in the prices of the individual items of the general consumer price index and the HICP were calculated with the new

cont.

The differential between consumer price inflation in Italy and the euro area has narrowed for the general index owing to the behaviour of energy prices and held steady for services. By contrast, it has widened for non-food, non-energy products, where the twelve-month inflation differential has increased from 0.7 to 1.5 points vis-à-vis Germany and from 1.5 to 1.9 points vis-à-vis France.

Among the more volatile components of the consumer price index, food products began to accelerate last autumn after damping inflation in the euro area during the early stages of the increase in oil prices. The acceleration was largest for fresh products, whose prices in the euro area increased by 2 per cent between October 1999 and January 2000.

weights. The result was then compared with that recorded in 1999 on the basis of the weights of that year both for the overall index and for the main sub-indices.

For the general consumer price index, no significant changes were found except for energy products, whose average annual increase would rise from 1.04 to 1.25 per cent.[5] For the HICP, the estimate, which is only indicative,[6] implies a slight upward adjustment of around 0.05 percentage points overall. Here too the largest difference is for energy. The effect on services appears to be negligible, but in this case the estimate is less reliable as the new items are mainly in this sub-index.

The incomplete information now available for several other countries of the euro area indicates that the effects of the changes in the HICP's structure on the rate of inflation are comparable to those estimated for Italy.[7]

The harmonized index of consumer prices and the general consumer price index for Italy: percentage weights of the main components

	Harmonized consumer price index		General consumer price index (NIC)	
	1999	2000	1999	2000
Unprocessed food	9.209	8.561	7.549	7.176
Processed food	11.939	11.741	12.174	12.154
Non-energy industrial goods	35.255	35.683	34.515	35.553
medical products and equipment	*1.979*	*1.976*	*3.117*	*3.063*
Services	36.618	37.032	39.253	38.467
health	*0.000*	*1.425*	*3.944*	*4.333*
education	*0.882*	*1.080*	*1.131*	*1.028*
insurance	*0.594*	*0.858*	*0.554*	*0.423*
Energy	6.979	6.984	6.509	6.650
Total	**100**	**100**	**100**	**100**

[1] *Istat,* Note Rapide, *2 April 1999.*

[2] *The latter effect is mainly due to potable water, previously included in the group "other services relating to the dwelling" and now considered separately and classified among goods.*

[3] *The European Central Bank had urged Eurostat to reconstruct the HICP for 1999 on the basis of the new criteria, to permit a correct comparison with the new data, but most of the national statistical institutes were unable to satisfy this request (See ECB,* Monthly Bulletin, *February 2000).*

[4] *To facilitate analysis of price trends, this year Eurostat will also publish a harmonized index net of health services, education and social protection (Eurostat, Memo 2/2000 of 18 February 2000).*

[5] *An Istat press release of 26 January 2000 did not report the results but stated that the new weights had a negligible effect on consumer price inflation as measured by the general index.*

[6] *It was impossible to take account of the new products, the prices of which are not available for 1999.*

[7] *The European regulation requires that the weights of the HICP be calculated on the basis of the domestic consumption of resident households. There will thus be larger revisions for countries that, unlike Italy, did not already follow that convention.*

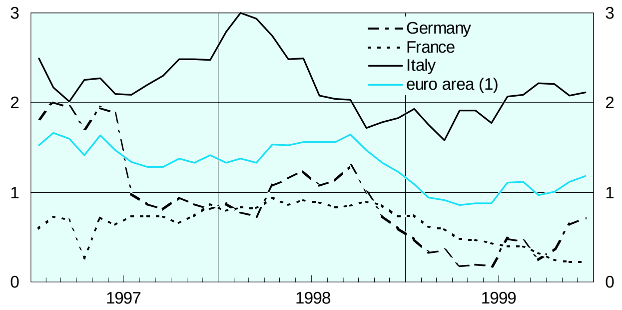
Producer prices and firms' costs

In 1999 producer prices declined by an average of 0.3 per cent in Italy and remained unchanged in the euro area as a whole. As with consumer prices, the average annual changes reflect the sharp declines in the prices of imported raw materials that preceded the increases recorded from the second quarter onwards. The latter were rapidly passed through to the prices of energy products and then, with the strengthening of the recovery, to other intermediate goods. Between September 1999 and January 2000, the twelve-month increase in the general index of producer prices rose from 1.4 to 5 per cent; the increase was smaller in Italy, from 0.8 to 3.8 per cent (Figure 23).

Among the components of underlying inflation, the prices of non-food, non-energy consumer goods are accelerating. This trend can be seen in all the main euro-area countries but is most pronounced in Italy, where the annualized and seasonally adjusted six-month rise increased from 0.8 per cent in June to 1.4 per cent in January (Figure 24).

Figure 21

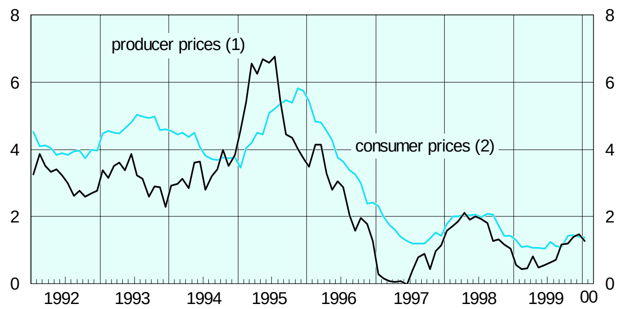
Harmonized indices of consumer prices in the euro area excluding food and energy products
(twelve-month percentage changes)



Source: Based on Eurostat data.
(1) Weighted average of the price indices of the individual euro-area countries.

Figure 22

Harmonized indices of consumer and producer prices of non-food and non-energy products with unregulated prices in Italy
(*percentage changes*)

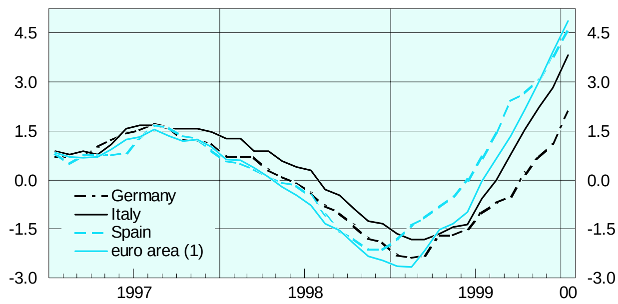


Source: Based on Istat data.
(1) Annualized six-month percentage changes; seasonally adjusted data. - (2) Twelve-month percentage changes.

The pricing intentions of firms measured in the survey coordinated by the European Commission suggest that upward pressure on prices in the euro area and Italy will continue in the coming months, owing in part to the recovery in productive activity (Figure 25).

Figure 23

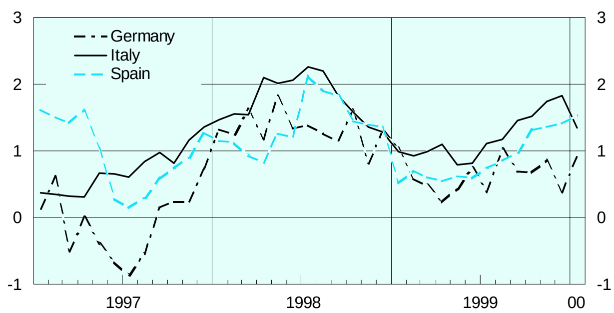
General index of producer prices of manufactures for the domestic market in the euro area
(*percentage changes on twelve months earlier*)



Sources: Based on Istat and Eurostat data.
(1) Weighted average of the indices in Germany, France, Italy, Spain, the Netherlands and Finland.

Figure 24

Index of producer prices of non-food and non-energy consumer goods in some euro-area countries
(annualized six-month percentage changes; seasonally adjusted data)

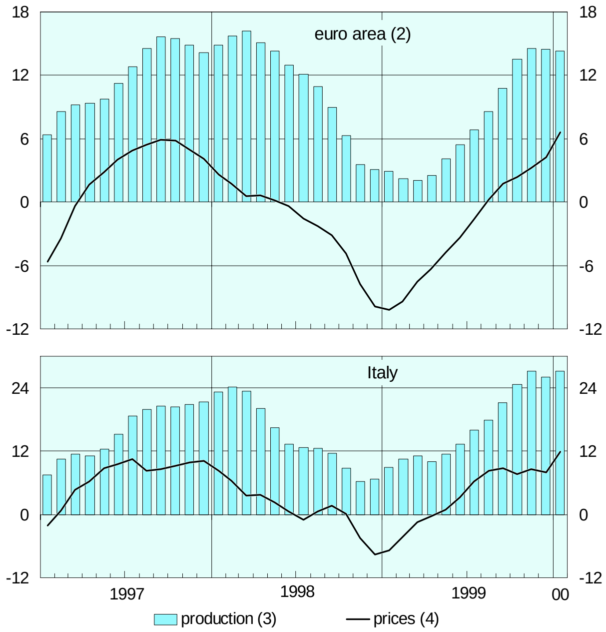


Sources: Based on Eurostat data and national statistics.

In Italy compensation per employee in manufacturing increased by an average of 2.4 per cent in 1999.

Figure 25

Pricing intentions and production expectations in Italy and the euro area (1)
(*percentages*)



Sources: Based on ISAE and European Commission data.

(1) Moving average for the three months ending in the month indicated. Seasonally adjusted data. - (2) Weighted average of the data for the euro-area countries. - (3) Difference between the percentages of firms expecting an increase/decrease in production in the following 3-4 months. - (4) Difference between the percentages of firms intending to raise/lower prices in the following 3-4 months.

Table 11

Unit labour costs, per capita compensation and productivity in manufacturing in the main euro-area countries
(*percentage changes on the previous year*)

	Cost of labour per employee (1)		Productivity (2)		Unit labour costs	
	1998	1999	1998	1999	1998	1999
Italy (3)	2.3	2.4	0.0	1.0	2.3	1.4
Germany ...	2.1	1.7	4.8	1.3	–2.6	0.4
France (4) ..	1.9	2.0	5.2	3.1	–3.2	–1.1
Spain	2.0	1.4	–0.4	–0.7	2.4	2.1

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

(1) For Germany and France, gross earnings. – (2) Value added per employee at constant prices. – (3)The data for 1998 are adjusted to take account of the introduction of Irap. The unadjusted figure for both the cost of labour and unit labour costs is –2 per cent. – (4) The data for 1999 are calculated as the change in the first three quarters compared with the corresponding period in 1998.

In 1998 and 1999 labour costs in Italy rose only slightly faster than in the other major euro-area economies. Nevertheless, slow productivity growth continued to have an adverse effect on the rate of increase in unit labour costs, which, although it has been converging, remains higher than in the other euro-area countries (Table 11). By fostering more rapid productivity growth, the economic upturn could quicken the pace of convergence, considering that in 2000 and 2001 earnings in the goods and market services sector should grow faster in the other major euro-area countries than in Italy.

Import and export prices

According to preliminary data issued by Istat on 1 March, the deflator of imported goods and services rose by 1.3 per cent in 1999 (after declining by 1.3 per cent in 1998), while that for exports fell by 0.4 per cent (after rising by 1 per cent in 1998). In the other leading euro-area countries, average annual variations in deflators showed a similar pattern. The revision of the annual data for Italy produced changes in the figures for the period between 1995 and 1998. Istat will soon be revising the quarterly data.

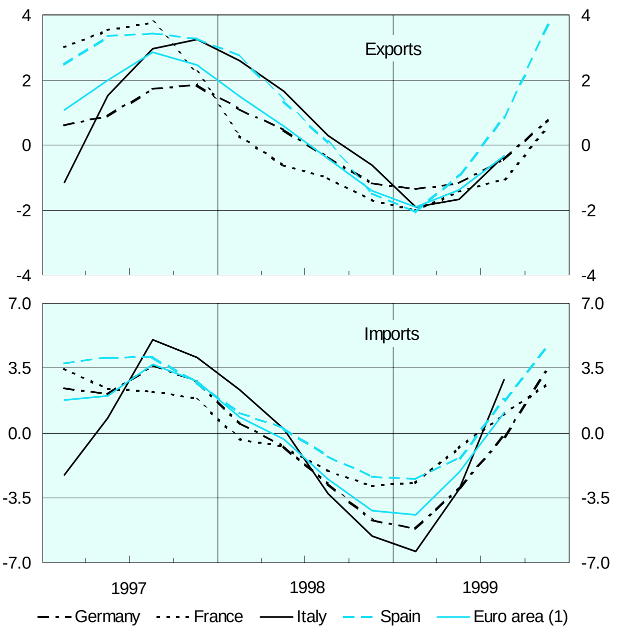
The quarterly variations in the deflators in 1999 showed a marked rise in import prices and a more moderate increase in export prices in Italy and the euro area as a whole (Figure 26).

In Italy the rise in the implicit deflator for imported goods and services continued to increase rapidly from the low point registered in late 1998 and the first quarter of 1999. In the third quarter of last year, the deflator was 2.9 per cent higher than in the corresponding period of 1998, a rise that was nearly 2 percentage points larger than in the other leading euro-area countries. In the last quarter of 1999, the prices of imports continued to rise in Spain, Germany and France (data for Italy are not yet available).

The greater increase in the import deflator in Italy is partly attributable to the large share of petroleum products in Italian merchandise imports. The average share in 1997 and 1998 was about 1.5 percentage points bigger than in Germany and France (in 1998 the share was about 5 per cent in Italy).

Figure 26

Export and import deflators in the countries of the euro area
(*quarterly data; percentage changes on year-earlier period*)



Sources: Based on Istat and BIS data and national statistics.
(1) Weighted average of the deflators for Germany, France, Italy, Spain and the Netherlands.

In the third quarter of 1999 the implicit deflator of exports of goods and services was 0.9 per cent higher than in the previous period and 0.3 per cent lower than in the year-earlier period. Similar results were recorded in the other euro-area countries, where significant increases were also registered in the fourth quarter. As the euro depreciated, Italian firms adopted pricing policies designed to protect their market shares. They lowered prices in export markets in the EU while raising them in other countries, but by less than the size of the euro's depreciation. Between December 1998 and October 1999, the average unit value of Italian exports declined by 1.6 per cent for goods intended for EU countries and rose by 2.3 per cent for other markets.

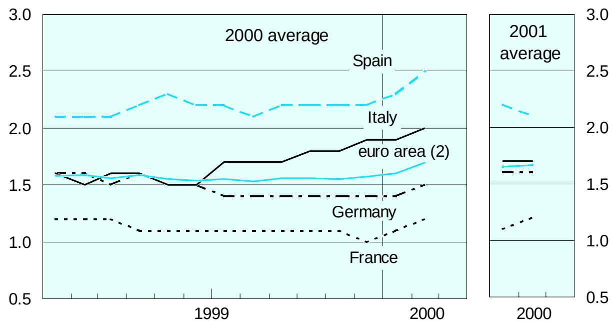
In 1999 Italy's terms of trade worsened by about two percentage points owing to the acceleration in import prices.

Inflation expectations

The rise in the prices of raw materials was reflected with a lag in the views of professional forecasters, who made only small changes to their expectations for the euro area during 1999. Expected average annual inflation for 2000 remained below 2 per cent for the area as a whole. Expectations for inflation in Italy were revised upwards more substantially.

Figure 27

***Consensus Forecasts* expectations for average consumer price inflation in 2000 and 2001 in the euro area** (1)
(*monthly data; percentage changes on previous year*)



Source: Based on *Consensus Forecasts* data.
(1) Average annual rate of consumer price inflation expected by professional forecasters. The horizontal axis shows the months in which the survey is conducted. - (2) Weighted average of the forecasts for the individual euro-area countries, excluding Luxembourg.

In the *Consensus Forecasts* monthly survey the average annual rate of inflation expected for 2000 rose by 0.5 points for Italy between June 1999 and February 2000, compared with an increase of 0.2 points for the euro area, to stand at 2 and 1.7 per cent respectively. Accordingly, the differentials expected for Italy vis-à-vis France and Germany gradually widened from 0.4 to 0.8 points and from 0 to 0.5

The new survey of inflation expectations by the Bank of Italy and *Sole 24 Ore*

In December the Bank of Italy and Sole 24 Ore *began a quarterly survey of the inflation expectations of Italian firms, adding to the information available on expectations of price changes in Italy and in the euro area.*[1]

The survey covered 400 industrial, trade and service firms[2] *with at least 50 employees. The sample is stratified by number of employees, economic sector and location.*

Firms are asked for their forecast of the twelve-month change in the consumer price index for Italy and for the euro area in three time horizons: 6 months, 12 months and more than a year ahead.

Respondents are also asked to give a forecast range (minimum and maximum), the breadth of which indicates the degree of uncertainty in expectations; the position of the point forecast within the range gives information on the symmetry of the distribution of expectations.

Additional questions concern the main factors that respondents expect to affect inflation in Italy[3] *and the changes firms expect to make in their own prices. Each quarterly poll, finally, adds a question on an issue of topical interest.*

The findings of the first survey indicate higher expected inflation in 2000 than was registered last October (a value supplied to respondents as a point of reference for their forecasts). The main factor cited is higher raw materials prices.

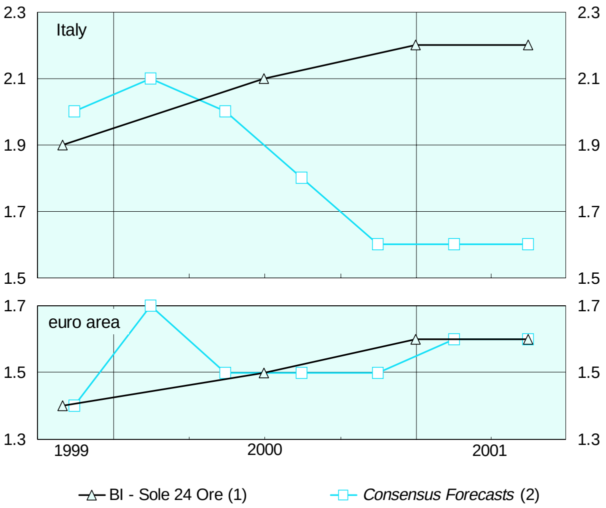
The twelve-month rate of increase in consumer prices in Italy (which was 1.9 per cent in October) is expected to rise to 2.1 per cent in June and 2.2 per cent in December 2000 and to remain at that level in the following months. For the euro area, firms' expectations average 0.6 points lower, at 1.5 and 1.6 per cent respectively, compared with 1.4 per cent in October 1999). Firm size, branch and location do not significantly affect the answers.

The forecast range is 27 per cent of the point forecast, on average. The actual forecast is essentially at the mid-point of the range, indicating that firms assign equal probabilities to under- and over-estimation.

*The consumer price expectations that emerge from the BI-*Sole 24 Ore *survey differ from those of professional forecasters. The firms in the sample do not, in fact, anticipate rapid disinflation in Italy, while the* Consensus Forecasts *survey, also in December, predicts a fall in inflation from 2.1 per cent in the first quarter of this year to 1.6 per cent in the first quarter of 2001. For the euro area as a whole, however, the two surveys converge from the second half of 2000 onwards. Thus, unlike the* Consensus Forecasts *professionals, firms expect the inflation differential between Italy and the rest of Europe to persist in 2001 (see figure).*

*According to the BI-*Sole 24 Ore *survey, the twelve-month increase in the respondent firms' prices should amount to 1.8 per cent in December of this year (see table), compared with inflation forecasts of 2.2 per cent. This appears to be the result of smaller planned price increases by the larger firms and those in services (listed in the table under "Other sectors"). In manufacturing, prices should rise in line with expected consumer price inflation.*

Expectations of consumer price inflation
(percentage change on year-earlier period; surveys taken in December 1999)



Sources: BI-*Sole 24* Ore survey; *Consensus Forecasts.*
(1) 12-month percentage changes. The expected inflation rate for 2001 refers to forecasts beyond 12 months. For 1999, the rate given is the actual 12-month rate recorded in October. - (2) Percentage change over the corresponding quarter of the previous year.

Firms' forecasts of own price changes over next 12 months
(percentages) (1)

Firm size	
50-199 employees	2.2
200-999 employees	1.6
Over 1,000 employees	1.6
Economic sector	
Manufacturing	2.2
Trade	1.8
Other sectors	1.3
Geographical location	
North-West	1.7
North-East	2.0
Centre	1.9
South and Islands	1.7
Total	**1.8**

Source: BI-*Sole 24* Ore survey, December 1999.
(1) Based on the subset of 195 firms that supplied this forecast. Responses are weighted by the number of employees.

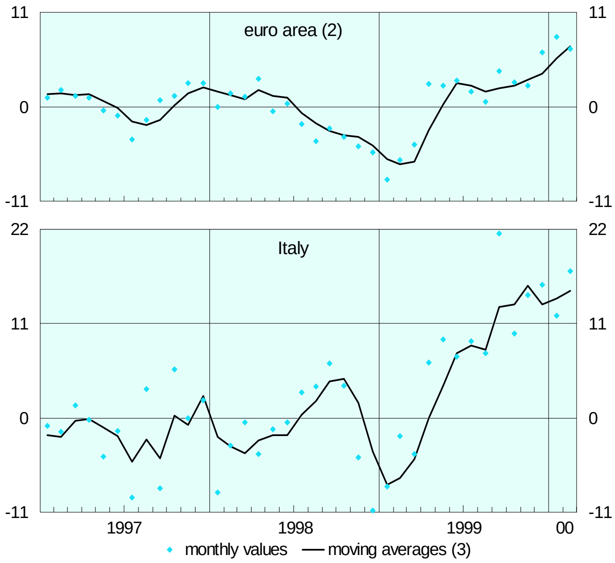
[1] *The ISAE survey gives only qualitative information, while the* Consensus Forecasts *survey polls only professional forecasters.*
[2] *35 per cent of those contacted.*
[3] *Selected from the following: demand, cost of labour, raw materials prices, indirect taxes.*

points respectively. In 2001 the gap with Germany and the euro area is expected to close and that with France to decline to 0.5 points (Figure 27).

Consensus Forecasts also reveals expectations that quarterly consumer price inflation in the main euro-area countries and the area as a whole will rise in the first part of the year and then decline, before stabilizing in 2001.

Figure 28

Consumer expectations for inflation in Italy and the euro area (1)



Sources: Based on ISAE and European Commission data.

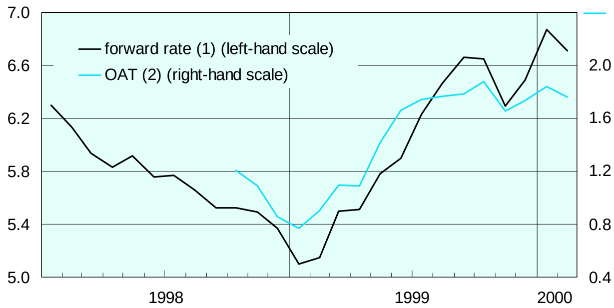
(1) Difference between the percentage of consumers expecting inflation to hold steady or increase in the following 12 months and that of those expecting it to fall. The value reported is the difference in percentage points compared with the average for 1996-1999. - (2) Weighted average of the values for the individual euro-area countries, excluding Luxembourg. - (3) Moving average for the three months ending in the month indicated.

These trends are partly confirmed by the new survey of inflation expectations begun in December by the Bank of Italy and *Sole 24 Ore* with a sample of about 400 firms (see box).

Consumers' inflation expectations also worsened more in Italy than in the euro area in 1999. In the first two months of 2000, the European Commission survey showed that the proportion of households expecting inflation to remain unchanged or rise in the near future increased in Italy and in the euro area as a whole (Figure 28).

Figure 29

Indicators of inflation expectations in the financial markets
(*percentages*)



Source: Datastream.

(1) Average of 1-year forward rates based on euro interest rate swaps between 7 and 10 years ahead on the Euromarket. - (2) *Obligation assimilable du Trésor indexée*; difference in percentage points between the yield to maturity of French government securities with a nominal coupon and the corresponding index-linked securities paying a real coupon, maturing in 2009.

Financial market indicators suggest that the upturn in inflation has caused an increase in the risk premiums associated with longer-term interest rates. In January 2000 the levels of the indicators were equal to or higher than the peaks recorded in October 1999. The increases in policy rates by the ECB helped to slow the rise (Figure 29).

The public finances

In the euro area the adjustment of the public finances continued in 1999, with the average ratio of general government net borrowing to GDP falling by 0.8 percentage points to 1.2 per cent. The fall in the ratio was due to the satisfactory results for revenue and the contraction in interest expenditure. The objectives established in the stability programmes published between December 1998 and February 1999 had implied a decrease in the ratio of 0.5 percentage points.

In Italy the ratio of general government net borrowing to GDP fell from 2.8 to 1.9 per cent (Table 12 and Figure 30). The outcome was better than the objective of 2 per cent originally announced by the Government in April 1998 and the forecast of 2.4 per cent made in March 1999, which took account of the weak performance of the economy.

Table 12

General government net borrowing and debt in Italy
(billions of lire and, in brackets, millions of euros)

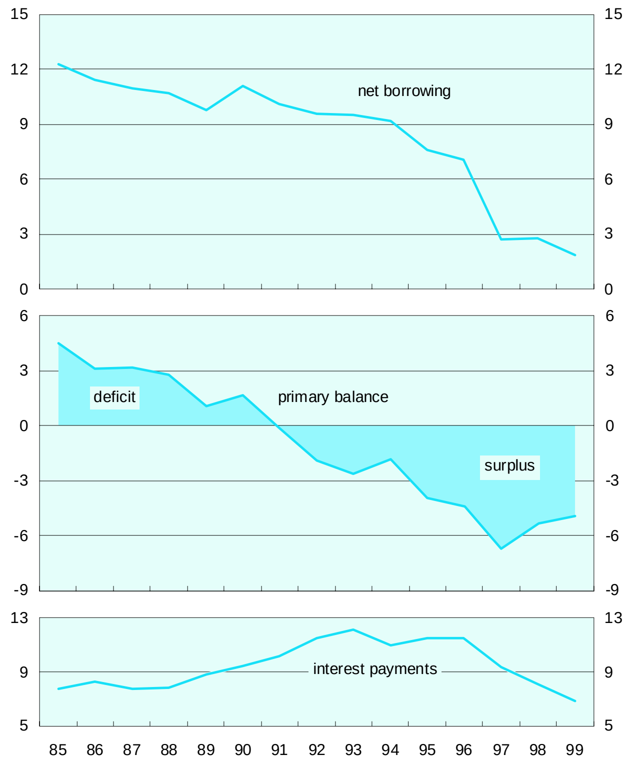
	1997	1998	1999
Net borrowing	53,718	58,344	40,511 (20,922)
as a percentage of GDP . .	*2.7*	*2.8*	*1.9*
Primary surplus	132,791	109,208	105,215 (54,339)
as a percentage of GDP	*6.7*	*5.3*	*4.9*
Interest payments	186,509	167,552	145,726 (75,261)
as a percentage of GDP	*9.4*	*8.1*	*6.8*
Debt as a percentage of GDP	119.8	116.3	114.9

Sources: Based on Istat data; Bank of Italy for the debt.

The reduction in the budget deficit in 1999 was due to the fall in interest payments from 8.1 to 6.8 per cent of GDP consequent on the decline in yields, which continued until the middle of the year. The primary surplus contracted from 5.3 to 4.9 per cent of GDP as a result of an increase of 0.7 percentage points in the primary expenditure ratio, to 42 per cent, and of 0.3 points in the revenue ratio, to 46.9 per cent.

Figure 30

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



Source: Based on Istat data. As of 1995 the data are compiled using the ESA95 system of national accounts.

Compared with the forecasts published in June 1999 in the Economic and Financial Planning Document for 2000-03, which basically confirmed the figures published in March, the small overshoot of 0.1 percentage points in the ratio of primary expenditure to GDP was more than offset by the rise of 0.4 points in the revenue ratio and the fall of 0.2 points in the interest payments ratio.

The fall from 116.3 to 114.9 per cent in the ratio of the public debt to GDP was slightly more than had been forecast in the Economic and Financial Planning Document for 2000-03. Privatization receipts were considerably larger than had been forecast and offset the adverse effects of the depreciation of the euro and the slower-than-expected growth in GDP. In 1998 the debt ratio had fallen by 3.5 percentage points.

Objectives and results for Italy in 1999

The Economic and Financial Planning Document for 1999-2001 published in April 1998 set an objective of 2 per cent for the ratio of general government net borrowing to GDP and of 5.5 per cent for the primary surplus ratio. GDP was expected to grow by 2.7 per cent in real terms and the gross interest rate on one-year Treasury bills to be 4.5 per cent at the end of the year. The Forecasting and Planning Report published in September 1998 basically confirmed the figures of the Planning Document. The budget approved by Parliament at the end of that year was intended to increase the primary surplus by 8 trillion lire (see the box on the implementing provisions of the 1999 budget in Economic Bulletin no. 28, February 1999).

The Quarterly Report on the Borrowing Requirement published in March 1999 updated the annual forecasts for the public finances. The revision took account of the poorer-than-expected results for 1998, the reduction in the forecast of GDP growth to 1.5 per cent and the substantial fall in interest rates in 1998. The forecast for general government net borrowing was raised from 2 to 2.4 per cent of GDP, with the decrease of half a percentage point in interest payments to 7 per cent of GDP offsetting part of the decrease from 5.5 to 4.5 per cent in the primary surplus ratio. The Economic and Financial Planning Document for 2000-03 published in June 1999 and the Forecasting and Planning Report published in September 1999 were prepared using the new European system of national accounts, ESA95, and basically confirmed the figures of the Quarterly Report.

In the event general government net borrowing amounted to 1.9 per cent of GDP, or less than the original objective. The improvement was achieved despite the exclusion of the proceeds of the sale of social security contributions due to INPS provided for in the 1999 budget, which had been forecast to produce 5.3 trillion lire of revenue.

Compared with the macroeconomic conditions envisaged in the Forecasting and Planning Report for 1999, the actual performance of the main economic aggregates is likely to have had a small beneficial effect on the public finances, even though the growth in nominal GDP amounted to only 2.9 per cent instead of 4.6 per cent as originally expected. The nominal growth in the various components of demand and in incomes, which has an immediate and substantial effect on revenue, was greater than had been expected: earnings increased by 3.5 instead of 3.1 per cent, consumption by 3.8 instead of 3.4 per cent, and total employment by 1 instead of 0.6 per cent.

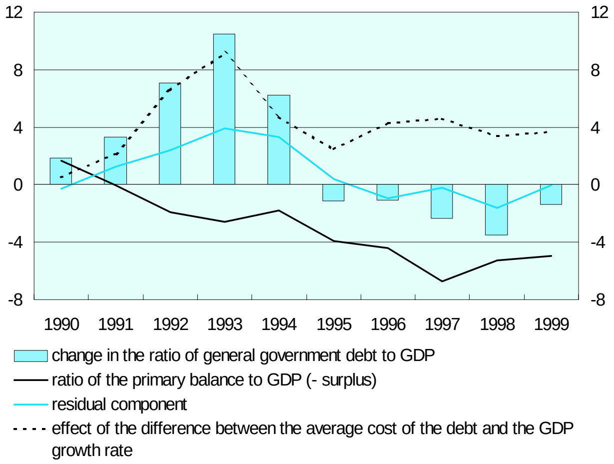
The primary surplus, after jumping from 4.4 to 6.7 per cent of GDP between 1996 and 1997, contracted to 5.3 per cent in 1998 and to 4.9 per cent in 1999, when primary expenditure rose by 0.7 percentage points and revenue by 0.3 points. The Economic and Financial Planning Document for 2000-03 published in June 1999 had forecast an increase of 0.6 percentage points in the former and no change in the latter. In 1998 primary expenditure had decreased by 0.2 points and revenue by 1.6 points.

Total revenue rose from 46.6 to 46.9 per cent of GDP (see box), while direct and indirect taxes, capital taxes and social security contributions rose from 43 to 43.3 per cent. Tax revenue increased by 0.7 percentage points to 30.4 per cent of GDP. The increase was due to the enlargement of the personal and corporate income tax bases following the introduction of the regional tax on productive activities (Irap) in 1998, administrative action and legislative measures to curb tax evasion, and changes in the manner of filing tax returns. As regards indirect taxes, VAT receipts were boosted by the rise in fuel prices and tax incentives for the renovation of buildings; lotto and lottery receipts grew, while the yield of the regional tax on productive activities declined owing to the large payments on account taxpayers had had to make in 1998.

The increase in primary expenditure from 41.3 to 42 per cent of GDP was primarily due to that produced in current outlays by the rapid growth in social security benefits. The one-off saving produced in 1998 by the switch from two-monthly to monthly payments of INPS pensions was reversed in 1999.

Figure 31

Change in the ratio of public debt to GDP and its components (1)
(percentages)



(1) The change in the debt-to-GDP ratio (d) can be decomposed into three components on the basis of the following equality: $d_t - d_{t-1} = pr_t + (r_t - g_t)\, d_{t-1} + re_t$, where pr = primary net borrowing in relation to GDP, r = the average cost of the debt, g = the rate of increase in nominal GDP, and re = a residual item, again expressed as a ratio to GDP. The latter comprises the discrepancy between net borrowing and the change in the debt in nominal terms (arising primarily from the issue discounts on government securities, the effects of exchange rate changes on the debt denominated in foreign currencies, privatization receipts, settlements of past debts and financial items, including the change in the assets held by the Treasury with the Bank of Italy) and the approximation inherent in using the above decomposition in discrete time when it is only exact in continuous time. The data on the public finances for the period 1990-94 have been compiled using the ESA79 system of national accounts.

Privatization receipts were much larger than had been forecast, 37 instead of 15 trillion lire. The main sales during the year were a 32 per cent tranche of Enel shares (around 31.5 trillion) and the entire capital of Mediocredito Centrale (4 trillion).

General government debt was equal to 114.9 per cent of GDP at the end of 1999; the decrease of 1.4 percentage points over the year was much smaller than that of 3.5 points recorded in 1998. The primary surplus contracted slightly and the differential between the average cost of the debt and the GDP growth rate widened a little. Taken together these two factors accounted for 1.3 percentage points of the reduction in the debt ratio, compared with 1.9 points in 1998 (Figure 31). The combined effect of the other factors was virtually nil, whereas in 1998 they had brought about a reduction of 1.6 points. The items helping to reduce the debt included privatization receipts (37 trillion), the proceeds from the sale of INPS credits (8 trillion) and extraordinary dividends (6.5 trillion). Those causing it to grow included the increase in Treasury claims on the Bank of Italy (14 trillion), settlements of past debts (12 trillion) and the effect of the depreciation of the euro on dollar and yen-denominated liabilities (13.5 trillion). Other financial items and the new accounting methods used to calculate net borrowing and the change in the debt added another 11 trillion.

Table 13

General government and state sector balances
(billions of lire and, in brackets, millions of euros)

	1997	1998	1999 (1)
General government gross borrowing requirement	36,924	52,132	15,216 (7,858)
as a percentage of GDP .	*1.9*	*2.5*	*0.7*
General government borrowing requirement net of settlements and privatization receipts	58,512	61,654	46,717 (24,127)
as a percentage of GDP	*2.9*	*3.0*	*2.2*
State sector gross borrowing requirement	31,081	49,002	-452 (-234)
as a percentage of GDP	*1.6*	*2.4*	*0.0*
State sector borrowing requirement net of settlements and privatization receipts	52,670	58,523	31,049 (16,035)
as a percentage of GDP	*2.7*	*2.8*	*1.5*
Memorandum items:			
Settlements of past debts	-409	4,769	12,128 (6,264)
Privatization receipts	-21,179	-14,291	-43,629 (-22,532)

(1) Provisional.

Excluding settlements of past debts, privatization receipts and extraordinary dividends, the state sector

General government revenue and expenditure

Expenditure

General government expenditure amounted to 1,039 trillion lire in 1999, an increase of 1.8 per cent on the previous year. As a ratio to GDP it declined by 0.6 percentage points to 48.8 per cent: the decrease in interest payments from 8.1 to 6.8 per cent of GDP was partially offset by the increase in primary expenditure from 41.3 to 42 per cent of GDP.

The contraction in interest expenditure reflected the decline in interest rates between 1996 and the first half of 1999. The upturn in interest rates in the second half of last year had only a marginal impact since the sensitivity of disbursements to changes in interest rates decreased considerably in the 1990s, when the share of BOTs and CCTs in the public debt fell from 59 to 29 per cent.

Primary expenditure grew by 4.7 per cent, with the current component expanding by 4.4 per cent.

The increase of 2.6 per cent in compensation of employees was due to the rise in per capita earnings following the application of the 1998-99 wage agreements. Employment in the sector is estimated to have declined further, by roughly 0.5 per cent.

Social security benefits increased slightly in relation to GDP, rising by 0.4 percentage points to 17.4 per cent, the same level as in 1997. The increase was due to the reversal of the saving of around 8 trillion lire produced in 1998 by the switch from two-monthly to monthly payments of pensions. When the effects of this change are excluded, the ratio of this item to GDP remained basically unchanged over the three years.

Intermediate consumption rose by 6.3 per cent (from 6.9 to 7.1 per cent of GDP). Health expenditure contributed significantly to the rise.

Capital expenditure grew by 7.4 per cent. Most of the increase was due to direct investment and reflected the upturn in the activity of local authorities, partly in connection with the preparations for the Jubilee.

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

	1998	1999		1998/1997	1999/1998
	lire	lire	euros		
EXPENDITURE					
Compensation of employees	221,571	227,262	117,371	-3.6	2.6
Intermediate consumption	141,820	150,803	77,883	5.3	6.3
Social security benefits in cash	351,185	370,367	191,279	2.0	5.5
Interest payments	167,552	145,726	75,261	-10.2	-13.0
Other current expenditure	60,886	61,163	31,588	40.2	0.5
Current expenditure	**943,014**	**955,321**	**493,382**	**0.5**	**1.3**
as a percentage of GDP	*45.6*	*44.9*			
Current expenditure, net of interest payments	**775,462**	**809,595**	**418,121**	**3.1**	**4.4**
as a percentage of GDP	*37.5*	*38.0*			
Investment	49,795	54,301	28,044	11.8	9.0
Investment grants	19,155	20,815	10,750	11.0	8.7
Other capital expenditure	9,003	8,577	4,430	6.5	-4.7
Capital expenditure	**77,953**	**83,693**	**43,224**	**10.9**	**7.4**
Total expenditure, net of interest payments	**853,415**	**893,288**	**461,345**	**3.8**	**4.7**
as a percentage of GDP	*41.3*	*42.0*			
TOTAL EXPENDITURE	**1,020,967**	**1,039,014**	**536,606**	**1.2**	**1.8**
as a percentage of GDP	*49.4*	*48.8*			
REVENUE					
Direct taxes	296,914	321,587	166,086	-6.8	8.3
Indirect taxes	318,303	326,421	168,582	28.7	2.6
Social security contributions	266,665	270,819	139,866	-12.5	1.6
Other current revenue	66,351	68,892	35,580	1.7	3.8
Current revenue	**948,233**	**987,719**	**510,114**	**1.3**	**4.2**
as a percentage of GDP	*45.9*	*46.4*			
Capital revenue	**14,390**	**10,784**	**5,570**	**-26.6**	**-25.1**
TOTAL REVENUE	**962,623**	**998,503**	**515,684**	**0.8**	**3.7**
as a percentage of GDP	*46.6*	*46.9*			
Net borrowing	**58,344**	**40,511**	**20,922**	**8.6**	**-30.6**
as a percentage of GDP	*2.8*	*1.9*			
Primary surplus	**109,208**	**105,215**	**54,339**	**-17.8**	**3.7**
as a percentage of GDP	*5.3*	*4.9*			
Memorandum item:					
GDP	2,067,703	2,128,165	1,099,105	4.2	2.9

Source: Based on Istat data.

cont.

Revenue

General government revenue amounted to 998.5 trillion lire and rose from 46.6 to 46.9 per cent of GDP. The increase of 0.3 percentage points was entirely due to the growth in taxes and social security contributions. These rose to 43.3 per cent of GDP as a result of an increase of 0.8 percentage points in the ratio of direct taxes to GDP and decreases in the ratios of indirect taxes (-0.1 points), social security contributions (-0.1 points) and capital taxes (-0.3 points).

According to the new system of European national accounts, ESA95, general government revenue is accounted for on an accruals basis. However, the data for the individual taxes are currently available only on a cash basis and thus provide a partial picture of the performance of direct and indirect taxes in the consolidated general government income statement.

The central government budget benefited from particularly pronounced growth in receipts of corporate and personal income tax (Irpeg and Irpef) and lotto and lottery revenue. Action by the tax authorities and legislative measures to reduce tax evasion produced positive effects. In this respect it is worth noting the completion of the sectoral baseline studies and the start made on their application, the increase in audit activity, and the introduction of the single tax return form, which is likely to have discouraged taxpayers from declaring obviously inconsistent amounts for different taxes.

Corporate income tax receipts rose by 36.5 per cent (15.4 trillion) and personal income tax receipts by 10.8 per cent (21.6 trillion). Both taxes benefited, among other things, from the growth in their bases following the abolition of health contributions and some minor taxes when the regional tax on productive activities (Irap) was introduced in 1998. The tax withheld on employee incomes and the like increased by 9.3 per cent (13.1 trillion) and that withheld on the incomes of the self-employed by 12.6 per cent (2.5 trillion).

Receipts of the withholding tax on interest income and capital gains, which was modified with effect from 1 July 1998, grew by 18.2 per cent (3.4 trillion). The tax on securities held by asset management companies, which was paid in February on the basis of the net gains arising from asset management activity in the second half of 1998, yielded 2.9 trillion lire. The tax on interest income from securities held for administration yielded more than 6.7 trillion lire and that on realized capital gains on such securities about 2.6 trillion. The tax on interest earned on bank deposits rose by 2.2 trillion lire, while that on non-residents' incomes fell by more than 0.4 trillion.

Turning to indirect taxes, the yield of the regional tax on productive activities contracted by 6.9 per cent (3.6 trillion) owing to the large payments on account made in 1998. VAT receipts, which are difficult to analyze owing to the changes in the ways in which they are accounted for, benefited from the rise in fuel prices and the direct tax incentives granted for the renovation of buildings, which brought additional turnover into the net. Registration tax receipts increased by 23.6 per cent (1.5 trillion) owing, among other things, to the switch from a proportional to a lump-sum tax on the contribution of businesses of sole proprietors to new partnerships or companies.

Revenue from lotto and lotteries rose by about 3.3 trillion lire. The surge in stakes, from 13.2 to 29.3 trillion on a cash basis, was mostly offset by the increase in winnings. Receipts generated by the state monopolies rose by 5.6 per cent (0.7 trillion) as a result of the increase in taxes on tobacco products.

Social security contributions rose by 1.6 per cent, which was less than the growth in earnings (3.5 per cent). This result was partly due to the abolition of employers' contributions to the financing of temporary benefits and the former workers' housing scheme (Gescal), which led to a reduction of 0.66 percentage points in the overall contribution rate. There was a further increase of around 1.7 trillion lire in the payment made by the state to make good the deficit of the State Sector Employees' Social Security Institute (INPDAP).

Capital revenue decreased by 5.8 trillion lire, primarily owing to the absence of receipts of the levy on firms' severance pay provisions, which had been introduced in the 1997 budget and had yielded 4.5 trillion in 1998.

net borrowing requirement fell from 58.5 to 31 trillion lire (Table 13). When the foregoing items are included, the balance swung from -49 trillion in 1998 to +0.5 trillion in 1999, the first surplus to have been recorded since the late 1940s. The general government gross borrowing requirement amounted to 15.2 trillion lire, primarily as a consequence of the transactions of local authorities.

While general government net borrowing fell by 17.8 trillion lire, the sector's net borrowing requirement, excluding the proceeds of the sale of INPS credits for the sake of homogeneity, declined by around 7 trillion.

The funding of the general government borrowing requirement saw net issues of medium and long-term fixed-rate securities more than offset net redemptions of short-term and variable-rate securities since the former amounted to 103 trillion lire and the latter to 87.6 trillion. This led to a further reduction in the sensitivity of interest expenditure to changes in interest rates. The average residual maturity of the public debt lengthened from 4.9 years at the end of 1998 to 5.5 years at the end of 1999.

Table 14

General government net borrowing, revenue, expenditure and debt in the euro area and the EU (1)
(as a percentage of GDP)

	1998		1999		2000		2001	
	Euro area	EU	Euro area	EU	Euro area	EU	Euro area	EU
Net borrowing								
– Outturn	2.0	1.5	1.2	0.7	–	–	–	–
– Objectives set in stability/convergence programme updates	2.0	1.4	1.4	0.9	1.0	0.7	1.0	0.6
– EU Commission	2.0	1.5	1.6	1.0	1.2	0.6	0.9	0.3
– OECD	2.0	1.6	1.6	1.1	1.2	0.8	0.8	0.5
Cyclically-adjusted net borrowing								
– EU Commission	1.7	1.3	1.2	0.7	1.0	0.5	1.0	0.6
– OECD (2)	1.6	1.3	1.1	0.7	0.9	0.6	0.7	0.4
Revenue and expenditure								
– EU Commission								
Total expenditure (3)	48.7	47.8	48.6	47.6	47.7	46.7	46.9	45.9
Interest payments	*4.7*	*4.7*	*4.3*	*4.3*	*4.1*	*4.0*	*3.9*	*3.8*
Revenue	46.7	46.3	47.1	46.6	46.6	46.1	46.0	46.5
Debt								
– Outturn	72.9	69.0	72.2	67.6	–	–	–	–
– Objectives set in stability/convergence programme updates	73.6	69.2	72.3	67.6	71.2	66.1	69.7	64.4
– EU Commission	73.5	69.6	73.1	68.6	71.5	66.3	69.6	63.8

Sources: EU Commission, *Autumn Forecast,* November 1999; OECD, *Economic Outlook,* December 1999; stability and convergence programme updates submitted in late 1999 and early 2000; and member states' notifications to the EU under the excessive deficit procedure (February-March 2000).
(1) Weighted averages based on nominal GDP expressed in euros. – (2) As a percentage of potential GDP. – (3) Capital expenditure shown net of capital revenue.

Objectives, results and forecasts for the euro area

The process of budgetary adjustment in the euro area continued in 1999, despite the slowdown in economic growth from 2.8 to 2.2 per cent. The improvement reflected the decline in interest payments and the rise in revenue.

General government net borrowing was equal to 1.2 per cent of GDP (Table 14), as against 2 per cent in 1998 and the objective of 1.8 per cent established in the stability programmes submitted to the European Commission between December 1998 and February 1999. The primary surplus increased by 0.4 percentage points. All the euro-area countries achieved budget deficits equal to 2 per cent of GDP or less; Finland, Ireland and Luxembourg recorded substantial surpluses. The ratio of public debt to GDP was 72.2 per cent at the end of the year, compared with 72.9 per cent at the end of 1998. The result was 0.6 percentage points better than had been projected in the euro-area countries' stability programmes and basically in line with the estimates contained in the updated versions recently submitted.

Table 15

Objectives for net borrowing and debt in the updates to stability and convergence programmes
(as a percentage of GDP)

	1998 (1)		1999		2000		2001		2002		2003	
	Borrow-ing	Debt	Borrow-ing	Debt	Borrow-ing	Debt	Borrow-ing	Debt	Borrow-ing	Debt	Borrow-ing	Debt
						Stability programmes						
Germany (2)	1.7	60.7	1.2	61.0	1.0	61.0	1.5	60.5	1.0	59.5	0.5	58.5
France (3)	2.7	60.3	2.1	60.3	1.7	59.4	1.3	58.8	0.8	58.1	0.4	57.5
Italy	2.7	116.8	2.0	114.7	1.5	111.7	1.0	108.5	0.6	104.3	0.1	100.0
Spain	2.3	64.8	1.3	63.5	0.8	62.8	0.4	60.6	−0.1	58.1	−0.2	55.8
Netherlands (4)	0.8	66.6	0.6	64.3	0.6	62.3	0.8	61.3	0.3	59.8	....	....
Belgium	1.0	116.2	1.1	114.9	1.0	112.4	0.5	108.8	0.0	105.0	−0.2	101.3
Austria (5)	2.2	64.4	2.0	63.5	1.7	62.2	1.5	61.2	1.4	60.0	....	....
Finland	−0.9	49.7	−3.1	46.6	−4.7	42.9	−4.2	40.7	−4.6	38.0	−4.7	35.2
Portugal	2.1	....	2.0	56.6	1.5	57.1	1.1	55.2	0.7	53.3	0.3	51.0
Ireland	−2.1	55.0	−3.2	52.0	−3.3	46.0	−2.8	40.0	−2.9	36.0	....	....
Luxembourg	−2.6	....	−2.3	4.3	−2.5	....	−2.6	....	−2.9	....	−3.1	....
						Convergence programmes						
United Kingdom	−0.5	47.0	−0.3	44.9	−0.2	43.1	−0.2	41.3	0.1	39.9	0.4	38.8
Sweden	−2.3	71.7	−1.7	66.1	−2.1	58.8	−2.0	54.1	−2.0	52.0	....	....
Denmark	−0.9	55.6	−2.9	52.8	−2.1	50.1	−2.2	47.5	−2.3	44.5	−2.5	41.6
Greece	2.5	105.4	1.5	104.2	1.2	103.3	0.2	99.5	−0.2	98.0	....	....

(1) Preliminary outturns. – (2) The figures refer to the note presented by the German government to the European Commission in February 2000, revising the update to the stability programme of December 1999 to take account of the tax reform enacted at the end of December 1999 and the more recent estimates of the results for 1999. – (3) The update does not contain the planned values for 2001 or 2002, while it contains figures for two growth scenarios for 2003. The missing data have been obtained by interpolation. – (4) The update for the Netherlands includes three growth scenarios for the years 2001-02. The values reported in the table are those of the central scenario. – (5) Austria has not yet submitted its stability programme update. The values reported in the table refer to the programme submitted in September 1998.

For the EU as a whole the ratio of general government net borrowing to GDP fell by 0.8 percentage points. The four countries that have not adopted the single currency (Denmark, Greece, the United Kingdom and Sweden) recorded an average budget surplus equal to 1.2 per cent of their combined GDP, an increase of 0.8 percentage points compared with 1998. The public debt of these countries fell on average from 55.5 to 52.7 per cent of their GDP.

All the EU countries except Austria have submitted the annual updates to their stability or convergence programmes to the European Commission, as provided for in the excessive deficit procedure (Table 15).

The objectives for 2000 established in the updated programmes imply a reduction in euro-area general government net borrowing and debt as a ratio to GDP of respectively 0.4 and 1.1 percentage points. The forecasts published by the European Commission in November showed a similar result for the budget balance, with the improvement attributed to faster growth and, although to a lesser extent than in 1999, to a decrease in interest expenditure. The Commission also projected significant declines in the ratios of primary expenditure and revenue to GDP.

According to the programmes the euro-area countries have submitted, they should all have budget deficits equal to 1 per cent of GDP or less in 2002, when only Italy and Belgium would have a public debt exceeding 60 per cent of GDP. In some euro-area countries budgetary policy appears designed to foster economic activity in the medium term by reducing the fiscal burden in relation to GDP.

In Germany the budget deficit is forecast to decline between 1999 and 2003 by 0.7 percentage points, to 0.5 per cent of GDP. In December 1999, as part of the reform of the tax system launched at the end of 1998, the German government approved measures involving substantial tax reliefs. After rising in 1999 by 0.8 percentage points to 43.1 per cent of GDP, taxes and social security contributions are expected to fall by 2.1 points in the four following years. The forecast improvement in the budget deficit would be the result of a sharp fall of 3.5 points in the expenditure ratio over the same period.

In France general government net borrowing is forecast to fall between 1999 and 2003 by 1.7 percentage points, from 2.1 to 0.4 per cent of GDP. The updated stability programme foresees a decrease of 1.3 percentage points in the ratio of taxes and social security contributions to GDP, accompanied by a decrease of 3.1 points in the expenditure ratio.

In Spain, against a background of rapid and sustained economic growth, expenditure is forecast to decline in relation to GDP and revenue to remain basically unchanged. This would produce a steady improvement in the budget balance, leading to a surplus equal to 0.2 per cent of GDP in 2003.

THE SINGLE MONETARY POLICY, FINANCIAL INTERMEDIARIES AND MARKETS IN ITALY AND THE EURO AREA

Monetary developments in the euro area and in Italy

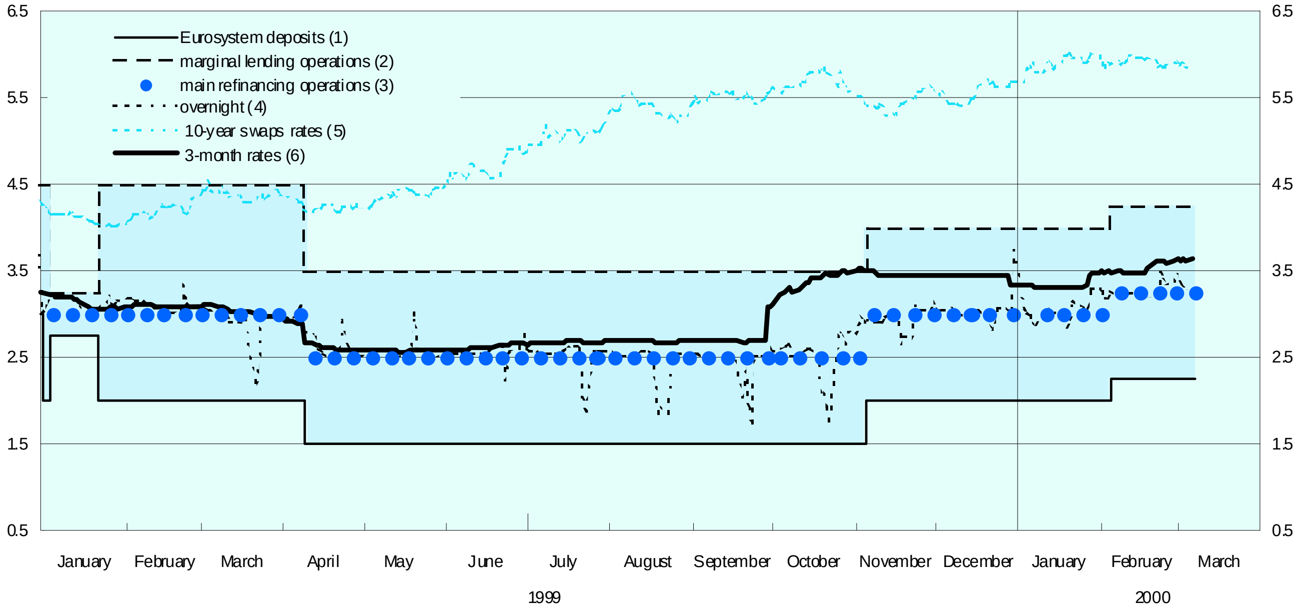
On 4 November 1999 the Governing Council of the ECB decided to raise the interest rate on main refinancing operations by 0.5 percentage points, taking it back up to 3 per cent, the level at which it was set at the launch of the third stage of EMU (Figure 32). A further increase of 0.25 points was made on 3 February of this year. Monetary conditions became less accommodating, although they remained generally relaxed. Against the background of continued economic growth in the United States and stronger signs of a recovery in activity within the euro area, the monetary measures were aimed at ensuring that upward pressure on both actual and expected inflation due to the rise in raw materials prices, the abundant liquidity in the area and the depreciation of the euro did not take root over the medium term.

The increases in short-term interest rates were in line with market expectations, which can be deduced from the yield curve. Between February and December 1999 the curve steadily shifted upwards and its slope steepened considerably; further increases averaging about 0.3 percentage points occurred in the first two months of this year (Figure 33).

In the money market, expectations of a rise in official rates prompted an increase in demand for financing at the auctions held by the Eurosystem in the periods immediately prior to the changes. No computer problems arose in connection with the transition to the year 2000. Fears of market turbulence had been reflected in an increase in short-term rates expected for the days just before and just after New Year, but they subsided in the last few weeks of the year.

Figure 32

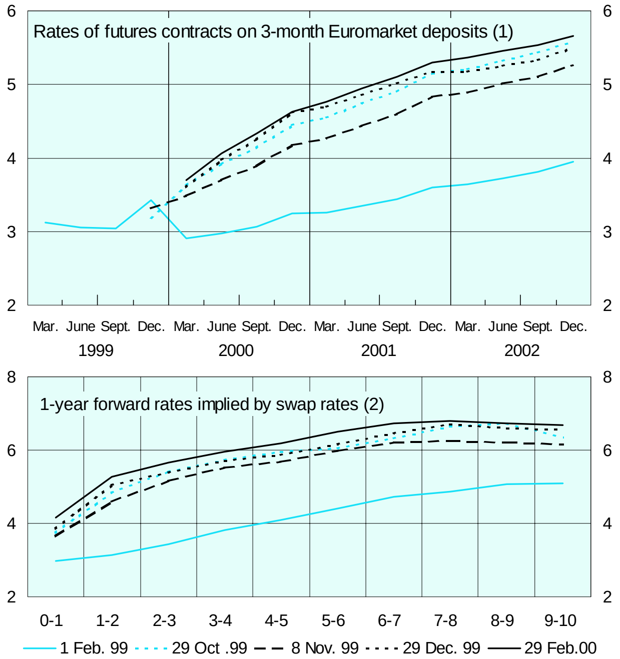
Official interest rates and money and financial market rates
(*daily data; percentages*)



(1) Rate on the Eurosystem's overnight facility. - (2) Rate on the Eurosystem's marginal lending facility. - (3) Rate on the Eurosystem's main refinancing operations. - (4) Euro overnight index average (Eonia). - (5) Rate on Euromarket 10-year euro interest rate swaps. - (6) 3-month EURIBOR.

Figure 33

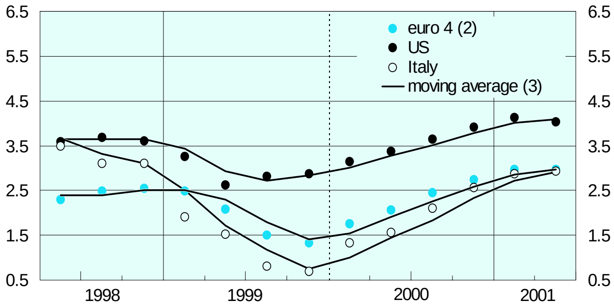
Euro forward yield curve in the Euromarket
(*percentages*)



(1) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. Each curve relates to a different contract date. - (2) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated. Each curve relates to a different contract date.

Figure 34

Expected and actual real interest rates on 3-month Euromarket deposits in December 1999 (1)
(*quarterly data; percentages*)



(1) 3-month nominal interest rate on Euromarket deposits deflated using inflation expectations measured by the quarterly *Consensus Forecasts* survey. From March 2000 onwards, nominal rates implicit in futures contracts are used. - (2) Until December 1998, the 3-month LIBOR rates for France, Germany, Italy and Spain; from January 1999 onwards, 3-month EURIBOR. The real rate for the area is calculated as the average of those for the 4 countries, weighted using each country's GDP (at current prices in national currency, translated into a common currency using the average purchasing power parities for 1994-96). Source: based on OECD data. - (3) Moving average of each figure and the preceding one.

The real short-term interest rate in the euro area, which had fallen to 1.5 per cent in the autumn of 1999 (about one point less than at the end of 1998), began to rise again in the remainder of the year; by the end of December market expectations (based on futures contracts and inflation surveys) indicated real rates of 2.7 per cent for the end of this year (Figure 34). This is still about 1.2 percentage points lower than the rate expected in the United States; the differential reflects the fact that according to the leading forecasting bodies growth expectations for the US economy are still higher than for the euro area.

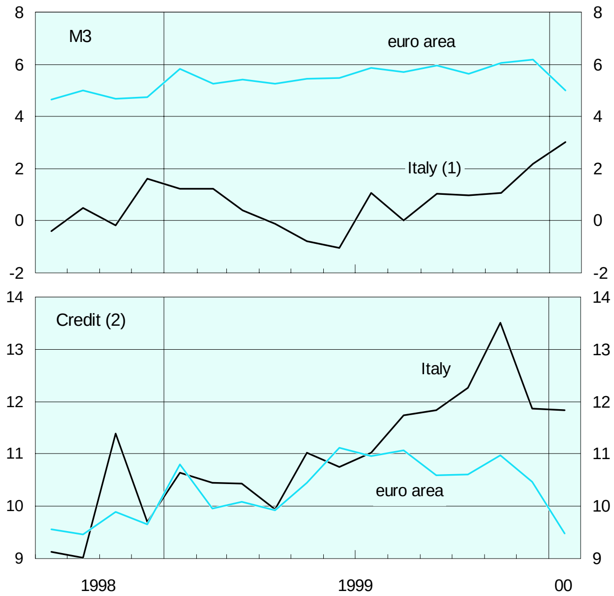
In Italy the real short-term interest rate fell by more than one percentage point in the first ten months of 1999 but then began to rise again; it is still 0.3 points below the rate for the area as a whole. According to forecasts by financial analysts, the differential will decline and almost disappear during the year as inflation expectations converge.

The rise in long-term interest rates, which has been under way in the United States since the end of 1998, spread to the euro area in the spring; between April and August the yields on 10-year euro-area bonds increased from 4.1 to 5.1 per cent and the differential in relation to dollar bonds fell from 1.2 to 0.8 percentage points. After a pause in the summer, long-term euro rates rose again from October onwards until halted by the raising of official interest rates in February. The yield differential between Italian and German government securities remained at around 0.2 percentage points. The effective nominal exchange rate of the euro fell by 5.7 per cent between October and the first ten days of March; the depreciation since the beginning of 1999 amounted to 15.5 per cent. Over the medium term, exchange rate movements against the dollar reflect continued expectations of faster economic growth in the United States than in the euro area.

The area’s monetary and credit aggregates continued to indicate abundant liquidity (Figure 35). In January of this year the average of the last three months’ annualized rates of growth in the M3 reference aggregate fell to 5.7 per cent; the decrease was due partly to statistical base effects (there had been an exceptional increase in the money supply in January 1999) but also stemmed partly

Figure 35

Monetary and credit aggregates for the euro area and the Italian components
(monthly data; percentage changes on year-earlier period)



(1) Italian contribution to euro-area M3. - (2) Financing granded by monetary financial institutions (MFIs) to euro-area residents other than general government and MFIs.

from the slowdown in M3 in recent months; the aggregate increased at an annual rate of 4.2 per cent between November and January. The rise in interest rates affected the composition of the money supply, with the growth in the more liquid components slowing down and demand shifting towards instruments that offer yields closer to those available on short-term securities.

The Italian component of M3 continued to show moderate growth, rising at an annual rate of 3 per cent in January. The rapid growth in the more liquid items (notes and coin in circulation and current account deposits, which increased by 10.1 and 9.5 per cent respectively) was in line with developments in the rest of the area, but there was a sharp decrease in repos, bonds and deposits for terms of two years or less. Bank liabilities not included in M3 rose strongly (by 8.7 per cent), reflecting the marked increase of 7.0 per cent in instruments for terms of more than two years.

Bank lending to the private sector continued to rise in the euro area, increasing by 9.5 per cent in the twelve months ending in January. The supply of credit remained abundant in Italy as well; lending

Table 16

Credit and financial assets in Italy (1)
(end-of-period data; percentages)

	Percentage changes on year-earlier period		Percentage shares of stocks	
	December 1998	September 1999	December 1998	September 1999
Total credit	**4.4**	**6.5**	**100.0**	**100.0**
General government debt (2)	1.5	2.4	61.5	60.6
Total finance to “other residents”	9.2	13.4	38.5	39.4
Bank lending	9.0	10.7	34.2	34.2
Bonds	-28.6	1.1	0.3	0.2
Loans from abroad	15.4	36.6	4.0	5.0
Financial assets (3)	**5.6**	**6.1**	**100.0**	**100.0**
Domestic	0.2	-2.1	82.8	76.3
Monetary assets, other deposits and Treasury bills	-5.3	-2.9	45.5	40.8
Medium and long-term securities	6.5	-0.3	35.1	33.8
Other financial assets (4)	43.1	-19.1	2.2	1.7
Foreign	42.2	48.1	17.2	23.7

(1) Data on items with the rest of the world may be subject to revision once the work to bring the balance-of-payments statistics into line with the new IMF standards has been completed. – (2) According to the EU definition. – (3) The money-holding sector comprises all Italian residents other than MFIs and central government. – (4) Include companies' security deposits and shares held by non-money-market funds.

to the private sector rose by 11.8 per cent, but the growth in total credit was significantly smaller owing to the reduction in the general government borrowing requirement.

Total financial assets held by the general public showed a 12-month rate of growth of 6.1 per cent in September (Table 16); this reflected a contraction of 2.1 per cent in the domestic component and a very large expansion of 48.1 per cent in the foreign component, fuelled mainly by massive purchases of foreign currency assets by non-money-market funds.

Banking

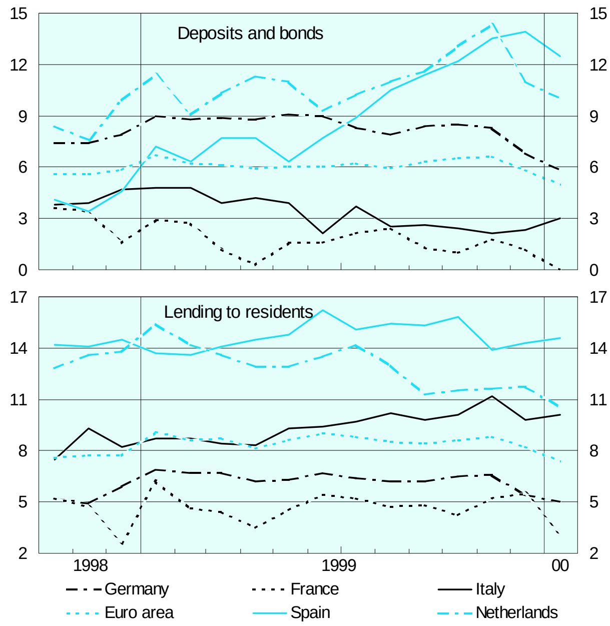
In the euro area the counterpart to the strong growth in bank lending in 1999 was a small rise in domestic funding and a large increase in net liabilities towards creditors from outside the area. Low lending rates, sustained credit demand in connection with financial operations (in particular mergers and acquisitions) and, from the summer onwards, the recovery in economic activity contributed to the rapid growth in lending.

In Italy the increase in bank lending was slightly higher than the average for the area (Figure 36 and Table 17), far higher than in Germany and France but lower than in countries with much more rapid economic growth, such as Spain and the Netherlands. By contrast, domestic fund-raising increased only moderately; Italian banks financed the rapid growth in lending by reducing their portfolios of securities and expanding their net external debt, especially towards creditors resident outside the euro area. The spread between lending and deposit rates narrowed further; the rise in income from services and the containment of staff costs offset only part of the impact on profitability.

The acceleration in lending by Italian banks (which grew by 9.1 per cent during the year, compared with 6.0 per cent in 1998; Table 18) involved primarily medium and long-term finance, which increased by 12.4 per cent, against 6.4 per cent in 1998. The main factor was an expansion of 20.6 per cent in bank lending to households (Table 19), which compared with an increase of 14.8 per cent in the euro area in the twelve months ending in September, itself a rapid rate of growth. In Italy, however, this category of lending is still small, accounting for 26 per cent of total lending on the basis of the harmonized definitions, compared with 51 per cent in Germany, 46 per cent in Spain, 43 per cent in the Netherlands and 41 per cent in France.

Figure 36

Bank funding and lending (1)
(monthly data; percentage changes on year-earlier period) (2)



Sources: ECB, bulletins of national central banks.
(1) Funding and lending of the monetary financial institutions (MFIs) of the euro-area countries (excluding the Eurosystem), from and to non-MFI customers resident in the area. - (2) Adjusted for reclassifications, other revaluations, exchange rate variations and any other changes not due to transactions.

The substantial internal resources still available to Italian firms enabled them to finance higher investment while reducing their recourse to bank credit: loans to non-financial companies increased by 5.3 per cent and those to industrial firms alone by 2.9 per cent. However, the growth in credit to the services sector remained high (10.0 per cent), especially to firms operating in the telecommunications field.

Loan quality continued to improve. In 1999 bad debts fell by 8 trillion lire, or 6.6 per cent, whereas in 1998 they had risen by 2.2 per cent. The ratio of bad debts to total lending declined further, from 9.1

Table 17

Bank funding and lending in the euro area and in Italy (1)

(harmonized definitions; billions of euros and percentage changes on year-earlier period)

	Deposits (2)										Debt securities issued (3)		Loans (4)	
			excluding central government											
			Current account		With agreed maturity		Redeemable at notice		Repurchase agreements					
	Balances	% change	Balances	% change	Balances	% change	Balances	% change	Balances	% change	Balances	% change	Balances	% change
							Euro area (5)							
1998 – Oct.	4,837.1	4.2	1,271.1	10.4	1,904.4	0.5	1,348.9	4.7	221.8	7.9	2,095.9	9.0	5,807.7	7.6
Nov.	4,857.1	4.1	1,316.5	11.6	1,897.2	0.3	1,349.8	4.5	201.7	–5.8	2,112.9	9.2	5,861.3	7.7
Dec.	4,967.6	4.2	1,382.7	12.2	1,924.1	1.2	1,388.8	4.7	176.7	–13.2	2,116.0	9.8	5,917.0	7.7
1999 – Jan.	4,958.4	5.3	1,408.5	19.2	1,983.5	0.3	1,312.6	4.6	171.2	–18.5	2,145.8	10.1	5,928.9	9.1
Feb.	4,946.0	4.6	1,381.6	16.7	1,980.1	–0.6	1,313.6	4.4	183.9	–12.4	2,174.6	10.0	5,930.3	8.6
Mar.	4,939.7	4.5	1,387.1	14.2	1,984.9	0.9	1,310.5	4.1	178.3	–13.3	2,193.9	9.9	5,974.9	8.7
Apr.	4,954.2	4.1	1,404.0	14.1	1,986.8	0.0	1,314.0	4.3	171.7	–14.2	2,223.0	10.2	5,988.9	8.1
May	4,975.2	4.2	1,434.5	15.1	1,974.7	–0.7	1,314.7	4.2	172.4	–14.6	2,247.5	10.4	6,021.5	8.6
June	5,008.2	4.3	1,479.6	14.4	1,961.1	–0.4	1,319.1	4.7	166.4	–15.6	2,269.0	9.9	6,121.5	9.0
July	5,011.8	4.9	1,468.2	17.2	1,979.2	0.1	1,321.3	4.9	163.6	–21.7	2,274.8	9.1	6,148.3	8.8
Aug.	5,994.1	4.6	1,439.1	15.6	1,988.1	0.1	1,320.2	4.8	162.6	–19.6	2,291.0	9.1	6,139.5	8.5
Sept.	5,004.4	4.5	1,466.9	15.4	1,976.3	0.1	1,317.5	4.6	160.6	–22.0	2,329.3	10.3	6,184.3	8.4
Oct.	5,020.3	4.4	1,467.4	15.2	1,996.7	0.9	1,314.0	4.1	157.4	–27.2	2,355.7	11.4	6,239.8	8.6
Nov.	5,055.3	4.6	1,501.1	13.7	2,005.0	1.7	1,308.7	3.6	158.6	–19.4	2,376.9	11.3	6,317.4	8.8
Dec.	5,129.6	3.7	1,529.7	10.3	2,037.8	1.9	1,327.0	2.0	145.3	–15.6	2,364.0	10.5	6,343.9	8.2
2000 – Jan.	5,143.2	3.2	1,556.4	10.0	2,022.3	1.1	1,323.2	0.8	155.6	–9.2	2,367.7	9.2	6,377.5	7.4
							Italy (6)							
1998 – Oct.	563.7	–3.5	312.5	8.0	102.4	–31.1	59.2	–0.5	82.9	1.5	244.0	24.9	718.3	7.5
Nov.	553.9	–3.6	311.8	10.1	101.0	–29.4	59.4	0.4	74.4	–12.1	247.8	24.0	734.3	9.3
Dec.	577.6	–2.1	348.7	12.5	100.5	–27.3	61.2	–0.6	60.0	–19.6	251.0	23.1	752.1	8.2
1999 – Jan.	577.0	–1.2	349.0	17.0	97.6	–26.6	60.8	0.2	61.2	–29.4	251.0	21.9	753.8	8.8
Feb.	570.2	–1.0	338.5	14.3	94.4	–26.7	60.1	0.5	69.2	–19.6	254.5	21.1	754.7	8.7
Mar.	566.7	–1.8	342.2	10.6	92.8	–25.2	59.3	–0.8	64.5	–17.7	256.4	19.2	758.7	8.5
Apr.	569.6	–1.0	351.6	11.1	90.2	–24.5	59.4	–0.2	60.7	–19.1	258.5	18.6	760.9	8.4
May	566.3	–1.2	352.6	11.2	87.9	–23.6	59.3	–1.2	58.7	–23.2	261.7	17.3	763.3	9.3
June	572.3	–1.3	364.4	9.1	86.5	–21.7	59.2	–0.5	54.5	–22.6	263.8	11.7	785.4	9.4
July	565.9	0.7	357.4	13.7	84.5	–22.0	59.6	1.0	57.0	–23.8	263.2	11.1	789.6	9.7
Aug.	554.8	–0.6	345.2	11.7	83.9	–21.0	59.9	0.8	58.1	–25.2	264.1	10.1	783.4	10.2
Sept.	559.3	0.3	353.7	13.8	82.3	–22.2	60.5	1.2	55.0	–27.1	264.6	9.4	784.9	9.8
Oct.	565.2	–0.1	360.5	15.1	81.8	–21.2	60.5	2.2	54.9	–33.9	266.4	9.0	788.1	10.1
Nov.	555.5	–0.2	351.8	12.5	80.0	–22.3	60.0	1.2	56.5	–24.2	269.9	8.8	815.3	11.0
Dec.	583.4	0.6	384.9	10.1	79.1	–22.6	61.2	0.0	50.3	–16.3	271.5	8.0	825.1	9.7
2000 – Jan.	584.6	0.9	384.7	9.9	77.5	–21.7	60.7	–0.3	54.2	–11.5	273.8	8.9	827.4	10.0

(1) End-of-period data; the percentage changes are adjusted to take account of reclassifications, other revaluations, exchange rate variations and any other changes not due to transactions. The data are consistent with those published in the *Monthly Bulletin* of the ECB. – (2) Denominated in euros and other currencies. – (3) By convention they are attributed entirely to residents in the reporting country. – (4) Including bad debts and repos. – (5) Funding and lending of the monetary financial institutions (MFIs) of the euro-area countries (excluding the Eurosystem), from and to non-MFI customers resident in the area. – (6) Funding and lending of Italian MFIs (excluding the Bank of Italy) from and to non-MFI customers resident in Italy.

Table 18

Main items in Italian banks' balance sheets (1)

(*end-of-period data; percentage changes on year-earlier period; billions of lire and, in brackets, millions of euros*)

	1997	1998	1999				Balances, December 1999	
			March	June	September	December	lire	euros
Assets								
Securities	−10.5	1.1	−0.4	−1.5	−1.5	−6.9	323,065	(166,849)
government securities	*−11.3*	*−2.8*	*−2.5*	*−3.6*	*−4.5*	*−10.0*	*259,380*	*(133,958)*
Loans (2) (3)	5.4	6.0	6.2	8.4	8.4	9.1	1,345,619	(694,954)
short-term	5.5	5.7	5.4	7.4	5.2	6.0	665,313	(343,606)
medium and long-term (3)	5.3	6.4	7.0	9.4	11.6	12.4	680,305	(351,348)
Repos	−27.8	41.7	16.9	1.3	12.0	31.7	19,475	(10,058)
Bad debts	−2.5	2.2	1.1	−4.5	−5.2	−6.6	114,575	(59,173)
bad debts at estimated realizable value	*−4.5*	*−1.0*	*0.5*	*−12.9*	*−8.9*	*−14.4*	*60,101*	*(31,040)*
External assets (2)	2.1	5.8	−5.7	−11.3	−15.7	−11.5	303,050	(156,512)
Liabilities								
Domestic funding (4)	3.0	1.8	1.9	2.3	1.6	2.2	1,403,498	(724,846)
short-term	10.0	3.5	3.4	3.8	3.1	4.6	901,756	(465,718)
current accounts	*9.2*	*13.1*	*13.0*	*14.8*	*14.7*	*13.3*	*642,788*	*(331,972)*
short-term CDs	*27.4*	*−13.4*	*−18.0*	*−22.4*	*−20.2*	*−21.3*	*59,042*	*(30,493)*
repos	*10.6*	*−18.0*	*−17.0*	*−25.0*	*−27.9*	*−18.3*	*88,740*	*(45,830)*
medium and long-term	−6.5	−0.9	−0.7	−0.1	−1.0	−2.0	501,741	(259,128)
medium and long-term CDs	*−49.0*	*−45.3*	*−42.2*	*−38.4*	*−38.9*	*−39.0*	*46,210*	*(23,866)*
bonds	*34.8*	*15.4*	*11.4*	*8.6*	*6.5*	*4.5*	*455,531*	*(235,262)*
External liabilities (2)	6.3	−0.1	−8.8	−9.2	−0.9	6.1	445,414	(230,037)

(1) Bank of Italy monthly sample. The figures for December 1999 are provisional. The adjustments described in notes 2 and 3 relate only to the percentage changes. – (2) The foreign currency component is net of exchange rate adjustments. – (3) Adjusted for the effects of the transactions in January 1997 between Banco di Napoli and the non-bank company SGA. – (4) For deposits, monthly averages of daily data; for bonds and repos, end-of-period data. The figures for deposits comprise those in lire and other euro-area currencies; partially estimated.

to 7.8 per cent, owing partly to substantial write-offs of bad debts recorded in previous years and a reduction in those arising during 1999. The proportion of bad debts covered by specific provisions rose from 42.8 to 47.5 per cent.

During the year the decline in short-term lending rates was more pronounced in Italy than in the euro area (Figure 37); they came down by 1.5 percentage points during the first nine months of the year and increased by 0.3 points between October and December, whereas in the area as a whole they declined by 0.8 points before rising by 0.4 points.

Medium and long-term interest rates in Italy also declined, by 0.18 points during the year, whereas they rose by 0.5 points in the area as a whole. For households the cost of credit continued to fall until August and then rose again slightly, so that by December it stood at 5.5 per cent, 0.7 points less than at the end of 1998. For companies the cost of borrowing fell by half a point in the first half of the

Table 19

Lending and bad debts of Italian banks by sector of economic activity (1)
(percentages)

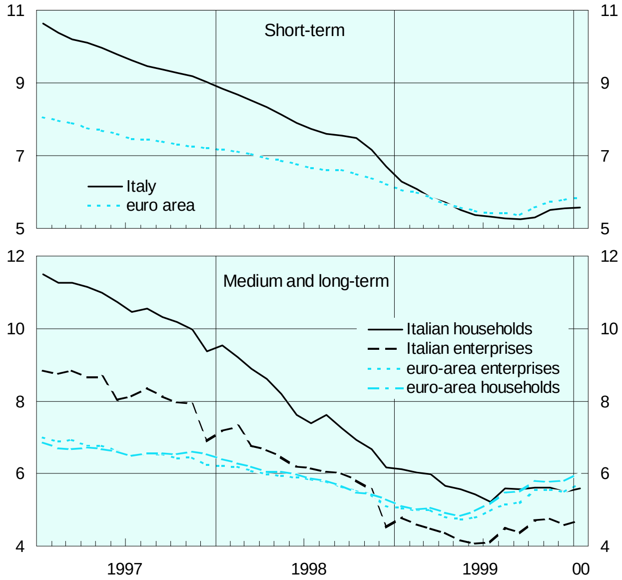
	General govern-ment (2)	Finance and insurance companies (2)	Enterprises						Households		Total (3)
				Holding companies	Non-financial enterprises	Industry excluding construction	Construction	Services	Consumers	Sole proprietor-ships	
						12-month percentage changes in lending					
1997 – December ...	1.7	21.7	4.2	3.1	4.3	7.3	–5.2	5.0	7.7	2.5	5.4
1998 – June	–7.2	8.6	6.4	–2.7	7.1	9.3	0.0	7.1	9.8	1.2	5.1
1998 – December ...	–4.3	10.5	5.6	–3.4	6.4	6.2	–0.1	8.8	12.6	4.2	6.0
1999 – June	5.0	16.1	5.5	17.1	4.6	2.9	–1.3	9.3	17.2	6.8	8.4
1999 – December ...	5.2	18.1	5.3	2.1	5.9	2.9	0.4	10.0	20.6	7.0	9.1
						12-month percentage changes in bad debts					
1997 – December (4)	–22.5	–17.5	–5.9	–15.6	–5.5	–8.1	–2.7	–3.2	13.1	–4.6	–2.5
	–16.3	*0.0*	*5.5*	*–8.6*	*6.1*	*0.1*	*13.3*	*4.9*	*20.1*	*2.5*	*7.1*
1998 – June (5)	–60.8	37.6	4.0	–14.6	4.7	0.7	6.1	8.7	10.7	4.5	5.5
	–60.8	*38.9*	*6.9*	*–10.1*	*7.5*	*1.5*	*11.3*	*10.4*	*13.7*	*5.1*	*7.8*
1998 – December ...	–92.8	–2.3	0.5	–12.9	1.0	–6.3	6.8	3.0	8.5	3.9	2.2
1999 – June	–58.4	–38.8	–6.4	–2.4	–6.5	–9.4	–3.0	–7.5	0.4	0.3	–4.5
1999 – December ...	217.2	–20.6	–5.9	–8.0	–5.8	–2.4	–2.4	–10.4	–9.8	–4.5	–6.6
						Ratio of bad debts to total lending (6)					
1997 – December ...	0.6	2.0	9.7	4.7	10.1	6.5	20.6	9.6	11.5	15.9	9.4
1998 – June	0.3	2.8	10.0	4.9	10.3	6.3	21.7	10.0	11.4	16.2	9.6
1998 – December ...	0.0	1.8	9.3	4.2	9.7	5.8	21.7	9.2	11.1	15.9	9.1
1999 – June	0.1	1.5	8.9	4.1	9.3	5.6	21.4	8.5	9.9	15.4	8.6
1999 – December ...	0.1	1.2	8.4	3.8	8.7	5.5	21.2	7.6	8.5	14.4	7.8
						Interest rates on short-term loans (7)					
1997 – December ...	8.10	7.15	9.04	6.97	9.20	8.63	10.61	9.44	10.83	11.23	9.13
1998 – June	7.21	5.97	8.04	6.35	8.13	7.52	9.67	8.45	9.91	10.16	8.10
1998 – December ...	6.05	4.81	6.92	4.87	7.04	6.49	8.46	7.39	8.72	9.18	6.89
1999 – June	4.65	3.41	5.49	3.83	5.58	5.00	7.15	5.92	7.29	7.85	5.48
1999 – September (8)	4.61	3.13	5.16	3.37	5.27	4.65	6.87	5.68	7.08	7.52	5.13
						Percentage composition of lending					
1998 – December ...	8.5	10.3	51.8	3.7	48.1	23.0	5.6	18.6	16.9	12.5	100.0
1999 – December ...	7.9	11.0	50.2	3.5	46.7	21.7	5.2	19.0	18.7	12.2	100.0

Source: Central Credit Register data.

(1) Bank of Italy monthly sample. The figures from June 1998 onwards have been obtained by reaggregating the subgroups of the different sectors of economic activity according to the classification criteria in force until May. Changes in the foreign currency component of lending are net of exchange rate adjustments. – (2) Includes loans raised by the State Railways with the costs borne by the government, in accordance with indications from Eurostat. – (3) The 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) The figures in italics are the percentage changes obtained after reattributing the bad debts transferred from Banco di Napoli to SGA and those retained on the books of Sicilcassa in liquidation. – (5) The figures in italics are the percentage changes obtained after reattributing the bad debts retained on the books of Sicilcassa in liquidation. – (6) The denominator includes bad debts. – (7) Up to December 1998 the interest rates refer to financing in lire; thereafter they refer to financing in lire and other euro-area currencies. – (8) Figures for December are not available.

Figure 37

Bank lending rates in Italy and the euro area (1)
(monthly data; percentages)



(1) Source: ECB. Weighted averages of national interest rates notified to the central banks. As the interest rate definitions are not harmonized, the data should be used with caution; they indicate trends rather than the relative level of rates.

year and rose by the same amount thereafter; in December it was 4.6 per cent, in line with yields on 5-year Treasury bonds (Figure 38).

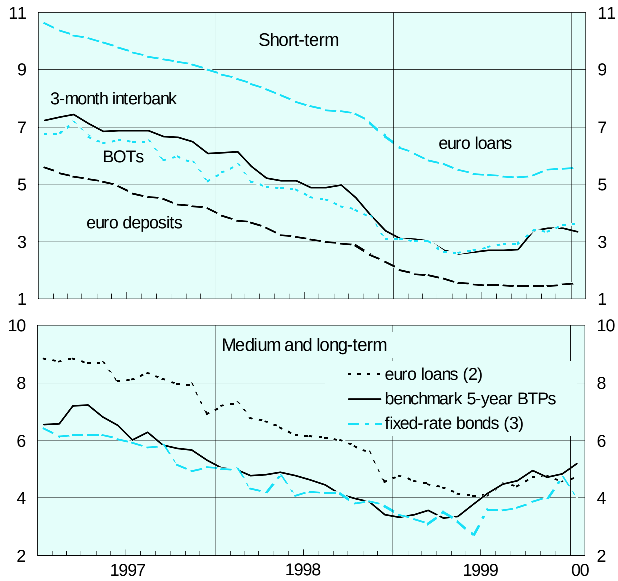
Bank funding increased only slightly in Italy (Table 17). The growth of 2.2 per cent in total domestic funding was attributable entirely to short-term funds, which rose by 4.6 per cent, whereas medium and long-term funding declined by 2.0 per cent (Table 18).

Among short-term sources of funds, a substantial increase of 13.3 per cent in current accounts offset decreases in other items; within the medium and long-term category, a contraction of 39 per cent in certificates of deposit for terms of 18 months or more was only partly offset by an increase of 4.5 per cent in net issues of bonds.

The average interest rate on current account deposits fell by 0.6 percentage points between January and September and rose by 0.1 points in the final quarter to 1.2 per cent (Figure 38). During the year the average net yield differential between Treasury bills and deposits increased from 1.0 to 2.0 points and that between zero-coupon Treasury certificates and CDs for terms of 18 months or more widened from 0.9 to 1.8 points.

Figure 38

Bank interest rates in Italy (1)
(monthly data; percentages)



(1) Up to December 1998 rates refer to operations in lire; thereafter they refer to operations in lire and other euro-area currencies. - (2) Average rate on euro loans disbursed during the month to resident firms. - (3) Average rate on euro bonds issued during the month.

The yield on fixed-rate bonds, which have an average maturity of between four and five years, declined by 1 point during the early part of the year and rose by 2 points thereafter. In December it stood at 4.7 per cent, comparable to the yield on 5-year Treasury bonds; during the autumn it had been almost 1 point lower than the latter.

As lending grew more rapidly than funding, banks financed the difference primarily by increasing their net external borrowing by 58.9 trillion lire (net of exchange rate adjustments) and reducing their securities portfolios. The rise in net external liabilities was due chiefly to a decrease of 36.5 trillion lire in gross assets, mainly in the interbank market. Securities portfolios contracted by 24 trillion lire as a result of sales of Treasury bills and Treasury credit certificates, whereas in 1998 they had increased by 3.7 trillion.

Preliminary data on banks' profit and loss accounts for 1999 indicate a fall of around 4 per cent in operating profit (income before taxes and value adjustments on assets). Gross income (adjusted for double-counting due to dividends distributed within banking groups) declined by about 3 per cent, as a contraction in net interest income and profits from trading was only partly offset by an increase in income from services. Operating costs reportedly declined by about 1 per cent owing to a fall of around 2 per cent in staff costs and a moderate increase in other expenses.

Financial markets

The latter part of 1999 witnessed a steep rise in share prices in Italy and the euro area, especially for the shares of innovative companies operating in sectors linked to the new information technologies. The elimination of currency segmentation between national markets as a result of the launch of the third stage of EMU fostered an increase in private bond issues. In Italy there was a large increase in demand for shares and a fall in investment in government securities, owing partly to the contraction in supply.

The reduction in net issues of government securities in Italy reflected the decline in the budget deficit and the redemption of maturing securities with privatization proceeds. Net issues amounted to €3.9 billion (equal to 7.5 trillion lire, compared with 43.7 trillion in 1998; Table 20).

There were net redemptions of short-term, zero-coupon and floating-rate government securities worth €54.2 billion but substantial net issues of Treasury bonds (€75.8 billion). This led to a further lengthening of the average residual term to maturity of public debt from 59 to 66 months during the year (Figure 39) and narrowed the disparity in relation to the average term of French and German government securities, which remained at around 75 and 80 months respectively. The duration lengthened less markedly, from 32 to 33 months, held back by the rise in interest rates.

A very large quantity of Italian government securities was subscribed by non-residents, who in the first three quarters of the year made net purchases worth €72.6 billion, more than half of which consisted of Treasury bonds and zero-coupon certificates

Table 20

Issues of government securities (1)
(*billions of lire and, in brackets, millions of euros*)

	1998	1999	1998	1999
	Gross issues (2)		**Net issues**	
BOTs	425,768	373,493 *(192,893)*	–35,482	–35,107 *(-18,131)*
CTZs	97,779	95,068 *(49,099)*	6,598	–17,097 *(-8,830)*
CCTs (3)	42,502	39,823 *(20,567)*	–42,097	–52,723 *(-27,229)*
BTPs	261,441	275,239 *(142,149)*	149,343	146,859 *(75,846)*
Other	38	0 *(0)*	–38,090	–27,071 *(-13,981)*
Republic of Italy issues	17,949	19,581 *(10,113)*	3,454	–7,389 *(-3,816)*
Total	**845,476**	***803,205*** ***(414,821)***	**43,726**	**7,473** ***(3,859)***

(1) Rounding may cause discrepancies in totals. – (2) Face values. – (3) Floating rate issues only.

The euro-area bond market

Since the introduction of the euro there has been a sharp rise in Eurobond issues by both financial and non-financial private-sector companies resident in the euro area. The market is now an important source of financing for euro-area companies.

The large growth in issues has been accompanied by changes in their nature: the proportion of issues by non-financial companies has risen while that of issues denominated in non-euro-area currencies has fallen sharply; the proportion of issues assessed by rating agencies has increased and so has that of large issues. Keener competition between intermediaries has brought a small reduction in placement commissions.

In 1999 German, French and Italian private-sector companies made issues totaling respectively €89, €45 and €45 billion, respectively twice, three times and more than four times the amounts issued in 1998. The number of operations roughly doubled to respectively €567, €102 and €166 million (see Table 22 in the text). The growth can be attributed to several factors: the depth of the market following the elimination of exchange risk for the euro-area currencies; the use of Eurobonds to finance mergers and acquisitions; the policies pursued by issuers with the aim of creating a sufficiently liquid secondary market for their securities so as to facilitate the placement of subsequent issues.

The average size of issues by Italian companies more than doubled (from €205 to €440 million), while the increases for French and German companies were less pronounced, from €187 to €271 million for the former and from €145 to €157 million for the latter. A large part of the difference was due to the very large issues, totaling €15.7 billion, made by a Dutch financial company owned by Tecnost to finance the tender offer for Telecom Italia.

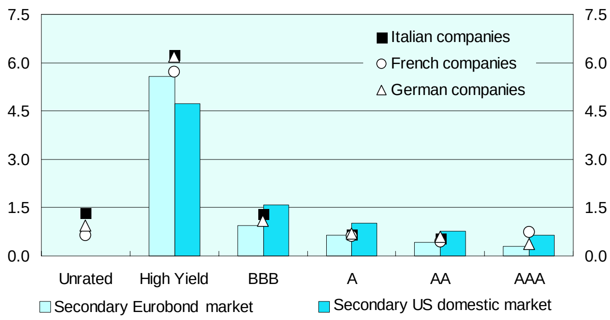
Following the substantial increase in issues denominated in future euro-area currencies in 1998, issues denominated in euros accounted for a very large share of the total in 1999: 98 and 96 per cent respectively for Italian and French companies and 73 per cent for German companies. In the twenty years preceding the introduction of the euro, private-sector issuers in the three countries had made substabtial issues denominated in dollars in addition to those in their own currencies.

The spreads between the yields on government securities and fixed-rate private-sector bonds denominated in euros issued in 1999 differed to only a limited extent across the three countries (see figure). This suggests that the nationality of companies is of little importance when the assessments of rating agencies are taken into account. The small premium for unrated issues can be attributed to the fact that this segment of the market is mainly open to issuers of high standing. On the other hand the large spread between BBB and high-yield issues may be due to the latter's low liquidity as well as to their higher credit risk.

The proportion of rated issues rose sharply in 1999 and included a larger proportion of issues with relatively low ratings (see Table 22 in the text). This suggests that the greater scope for raising funds offered by the new market in euros has also benefited less creditworthy companies.

The proportion of issues of variable-rate bonds rose significantly in the nineties: for Italian companies the rise

Spreads between yields at issue (1)
and in the secondary market (2)
on private-sector bonds and government securities
(*percentage points*)



Sources: Capital Data, Bloomberg and Bank of Italy calculations.

(1) Fixed-rate Eurobonds denominated in euros and issued in 1999 by Italian, German and French private-sector companies. Data are not available for Italian AAA issues or French BBB issues. - (2) Based on Merrill Lynch option-adjusted spread indices.

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(1) Eurobonds are bonds placed by an international syndicate of intermediaries with investors in more than one country.

cont.

Table 1

Net commissions paid by private-sector firms in the Euromarket (1)
(*as a percentage of issue values*)

	Currency		Maturity at issue in years				Average issue value in millions of euros					Type of issue	
	Euro and euro-area currencies	US dollar	Up to 3	3-7	7-10	10-40	50-100	100-200	200-300	More than 300		Fixed rate	Variable rate
						Italian issuers							
1990-1994	0.41	0.33	0.79	0.29	0.36	0.49	0.45	0.46	0.32	0.32	0.20	0.37	0.31
1995	0.32	0.32	0.85	0.26	0.38	–	–	0.51	0.25	0.20	0.18	0.85	0.27
1996	0.21	0.51	0.56	0.31	0.23	–	0.56	0.56	0.24	0.28	0.25	0.59	0.20
1997	0.21	0.43	–	0.21	0.39	1.00	–	0.21	0.25	0.17	0.49	0.32	0.26
1998	0.41	0.33	0.23	0.41	0.45	0.27	0.32	0.24	0.84	0.22	0.40	0.33	0.36
1999	0.31	0.18	0.13	0.23	0.51	0.56	0.22	0.45	0.30	0.18	0.33	0.41	0.27
						French issuers							
1990-1994	0.35	0.46	0.30	0.33	0.36	0.40	0.42	0.34	0.33	0.33	0.37	0.33	0.37
1995	0.27	0.33	0.28	0.30	0.40	0.43	0.61	0.45	0.30	0.26	0.21	0.40	0.24
1996	0.23	0.46	0.42	0.22	0.35	0.43	0.48	0.62	0.32	0.26	0.23	0.49	0.31
1997	0.48	0.27	0.24	0.32	0.58	0.35	1.00	0.68	0.38	0.23	0.27	0.32	0.44
1998	0.49	0.30	0.47	0.32	0.68	0.37	0.55	0.63	0.38	0.31	0.47	0.50	0.25
1999	0.31	0.25	0.09	0.27	0.69	0.36	–	0.97	0.20	0.26	0.28	0.42	0.17
						German issuers							
1990-1994	0.27	0.44	0.35	0.29	0.32	0.39	0.63	0.29	0.29	0.40	0.22	0.29	0.47
1995	0.32	0.33	0.34	0.31	0.21	0.39	0.63	0.31	0.30	0.20	0.26	0.33	0.17
1996	0.30	0.23	0.19	0.26	0.30	0.34	0.92	0.25	0.22	0.25	0.26	0.25	0.20
1997	0.30	0.21	0.19	0.25	0.32	0.36	0.25	0.30	0.27	0.24	0.25	0.27	0.21
1998	0.34	0.34	0.18	0.24	0.57	0.35	0.26	0.29	0.32	0.26	0.38	0.32	0.20
1999	0.33	0.26	0.18	0.27	0.44	0.51	0.32	0.29	0.31	0.30	0.24	0.34	0.19

Source: Capital Data.
(1) The data refer only to fixed re-offer price placements. The amounts shown are the gross commissions paid less the difference between the issue price and the offer price.

began in 1992, for German and French companies not until the last few years of the decade. The figure for German companies reached a twenty-year peak of 45 per cent in 1999. The proportion of issues with a maturity of three years or less rose in the last five years of the decade: in 1999 it was equal to about one quarter of the total, only slightly less than the proportion of those with a maturity of more than seven years. Over the same period the proportion of issues with a maturity of between three and seven years declined, though they continued to account for about half the total.

The organization of placement syndicates, usually by investment or commercial banks acting as bookrunners or lead managers, has become more concentrated in volume terms. In 1999 the top ten institutions participated in 9.4 per cent of the volume of issues by private-sector companies in the euro area and the next ten in 4.9 per cent, compared with respectively 5.6 and 2.7 per cent in 1995. The UK and US bookrunners among the top twenty participated on average in the placement of 7 per cent of the total volume of issues, an increase of 2.6 percentage points compared with 1995.

cont.

The more intense competition between intermediaries in 1999, testified to by the increased presence of US banks in the placement of both dollar and euro issues, fostered a decline in the commissions paid by issuers to placement syndicates (Table 1). The average rate on dollar loans was about 0.25 per cent of the total amount issued, a relatively low figure compared with the past; that on euro loans was about 0.32 per cent. The decrease in rates primarily concerned short and medium-term variable-rate issues of medium and large size.

Most issues were placed by bookrunners resident in the issuer's home country. In addition to the fact that issues are largely denominated in the national currency of the issuer or in euros, this reflects the importance of the relationship between issuer and intermediary (Table 2).

A large proportion of foreign currency issues, which are presumably placed with investors in the corresponding countries, were handled by bookrunners in the target markets. This relationship is also found when reference is made to the nationality of bookrunners' parent companies. This suggests that in choosing a bookrunner issuers also take into account the relationship between intermediaries and investors or, in other words, the former's placing power.

In the two years 1997-98 Italian intermediaries took part in the placement of 58 per cent of the issues made by Italian companies in national currency, a much lower figure than those recorded by German and French intermediaries (respectively, 97 and 95 per cent). In 1999 Italian intermediaries placed 71 per cent of the issues denominated in euros made by Italian companies, compared with 41 per cent of the issues made in currencies of future euro-area countries in the two years 1997-98. The substantial increase is consistent with the increased demand for private-sector bonds of Italian investors, with whom local intermediaries have a closer relationship, and with the increase in the number of Italian companies turning to the Euromarket for the first time, whose creditworthiness local intermediaries are in a better position to assess.

Table 2

Placements of private-sector bonds by currency and nationality of the issuer and bookrunner (1)
(*percentage shares of total issue values by currency and nationality of the issuer*)

	Nationality of the bookrunner					
	Italian	German	French	UK	US	Total (millions of euros)
	Italian issuers					
1997-98						
Italian lire	58	0	0	64	0	7,661
German marks	0	100	0	0	0	343
French francs	0	0	100	0	0	153
Pounds sterling	0	0	0	100	0	415
US dollars	0	0	0	94	6	2,307
Euros and ecus	17	4	4	96	0	4,487
Memorandum items: Euro-area currencies	41	5	3	73	0	12,643
1999						
US dollars	0	0	0	100	0	993
Euros and ecus	71	7	1	89	33	44,155
	French issuers					
1997-98						
Italian lire	70	0	0	60	0	849
German marks	0	100	0	12	0	2,586
French francs	0	0	95	6	2	19,995
Pounds sterling	0	0	0	100	0	1,266
US dollars	0	6	4	91	10	7,671
Euros and ecus	3	0	23	83	0	3,550
Memorandum item: Euro-area currencies	3	9	72	18	2	27,534
1999						
US dollars	0	21	36	79	36	1,326
Euros and ecus	0	9	58	60	6	43,217
	German issuers					
1997-98						
Italian lire	32	0	0	79	4	6,507
German marks	0	97	0	43	0	89.650
French francs	0	33	92	35	0	7,600
Pounds sterling	0	17	0	100	0	4,216
US dollars	0	10	1	95	11	23,787
Euros and ecus	1	76	16	62	3	7,665
Memorandum item: Euro-area currencies	2	83	7	45	1	114,314
1999						
US dollars	0	18	0	72	28	21,212
Euros and ecus	2	93	5	55	4	164,905

Source: Capital Data.

(1) The table refers to all the bonds placed with investors in more than one country, which correspond broadly to Eurobonds. The nationality of the issuer is that of the parent company. The percentage shares refer to issues that have at least one bookrunner of the nationality specified. Since many issues are handled by more than one bookrunner, the percentage shares may sum to more than 100 per cent.

Table 21

Stocks and net purchases of securities issued by residents (1)

(*billions of lire and, in brackets, millions of euros*)

Subscribers	Government securities						Corporate bonds	Total public sector securities and corporate bonds	Italian listed shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Stocks				
December 1999									
Central bank	. .	387	4,955	30,564	76,208	112,114	742	112,855	12,907
	(. .)	*(200)*	*(2,559)*	*(15,785)*	*(39,358)*	*(57,902)*	*(383)*	*(58,285)*	*(6,666)*
Banks	30,947	17,701	118,728	85,773	10,903	264,053	68,441	332,494	9,538
	(15,983)	*(9,142)*	*(61,318)*	*(44,298)*	*(5,631)*	*(136,372)*	*(35,347)*	*(171,719)*	*(4,926)*
Investment funds	14,336	44,670	73,410	177,482	4,920	314,818	11,573	326,391	84,828
	(7,404)	*(23,070)*	*(37,913)*	*(91,662)*	*(2,541)*	*(162,590)*	*(5,977)*	*(168,567)*	*(43,810)*
Other investors (3)	186,378	96,982	275,283	762,565	119,278	1,440,486	412,528	1,853,014	1,275,508
	(96,256)	*(50,087)*	*(142,172)*	*(393,832)*	*(61,602)*	*(743,949)*	*(213,053)*	*(957,002)*	*(658,745)*
non-residents (Sept.)	135,655	73,656	120,120	391,492	110,997	831,920	. . . .	831,920	. . . .
	(70,060)	*(38,040)*	*(62,037)*	*(202,189)*	*(57,325)*	*(429,651)*	*(. . . .)*	*(429,651)*	*(. . . .)*
Total	**231,661**	**159,740**	**472,376**	**1,056,384**	**211,309**	**2,131,471**	**493,284**	**2,624,754**	**1,382,781**
	(119,643)	***(82,499)***	***(243,962)***	***(545,577)***	***(109,132)***	***(1,100,813)***	***(254,760)***	***(1,355,573)***	***(714,147)***
					Net purchases				
January-December 1999									
Central bank	-230	-389	-7,005	1,071	122	-6,432	407	-6,026	672
	(-119)	*(-201)*	*(-3,618)*	*(553)*	*(63)*	*(-3,322)*	*(210)*	*(-3,112)*	*(347)*
Banks	-15,604	-3,261	-12,290	3,174	4,475	-23,506	8,332	-15,175	2,970
	(-8,059)	*(-1,684)*	*(-6,347)*	*(1,639)*	*(2,311)*	*(-12,140)*	*(4,303)*	*(-7,837)*	*(1,534)*
Investment funds	-8,963	-23,299	993	-3,114	11,459	-22,924	4,767	-18,156	-5,441
	(-4,629)	*(-12,033)*	*(513)*	*(-1,608)*	*(5,918)*	*(-11,839)*	*(2,462)*	*(-9,377)*	*(-2,810)*
Other investors (3)	-10,309	9,852	-34,421	145,728	-48,256	62,596	9,406	72,002	43,171
	(-5,324)	*(5,088)*	*(-17,777)*	*(75,262)*	*(-24,922)*	*(32,328)*	*(4,858)*	*(37,186)*	*(22,296)*
non-residents (Jan.-Sept.)	50,064	40,933	-15,961	74,281	-8,829	140,488	2,058	142,546	. . . .
	(25,856)	*(21,410)*	*(-8,243)*	*(38,363)*	*(-4,560)*	*(72,556)*	*(1,063)*	*(73,619)*	*(. . . .)*
Total	**-35,106**	**-17,097**	**-52,723**	**146,859**	**-32,200**	**9,734**	**22,912**	**32,646**	**41,372**
	(-18,131)	***(-8,830)***	***(-27,229)***	***(75,846)***	***(-16,630)***	***(5,027)***	***(11,833)***	***(16,860)***	***(21,367)***

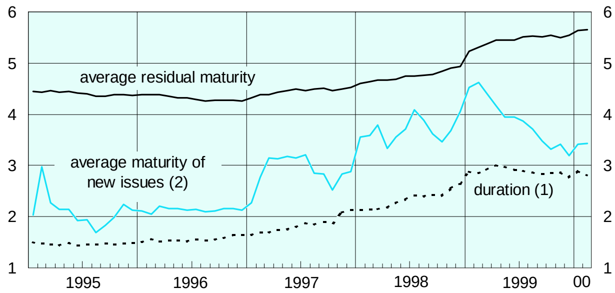
(1) Stocks of government securities and corporate bonds are stated at face value and those of shares at market value; net purchases are stated at market value. Rounding may cause discrepancies in totals. – (2) Includes Republic of Italy loans and other public sector securities. – (3) Households, enterprises, social security institutions, the Deposits and Loans Fund, securities investment firms, insurance companies and non-residents; the figures for shares are estimated.

(Table 21); at the end of September foreign investors held 39.3 per cent of total government securities in circulation, ten points more than at the end of 1998. During the year both banks and investment funds made substantial net sales of government paper.

The launch of the third stage of EMU accentuated the role of German Bunds as long-term benchmark government securities for the area. Secondary market trading in Italian government bonds was 12 per cent lower than in 1998; however, the spread between bid and offer prices, which is an indicator of market liquidity, remained the same as in the previous three years. Trading in futures contracts on Italian Treasury bonds on both the Italian and London derivatives markets declined from the beginning of last year onwards, whereas that in futures contracts on Bunds increased, so that by December the latter accounted for 93 per cent of total trades in derivatives based on long-term Italian, French and German securities. The yield differential between Italian and German 10-year benchmark bonds remained around 0.2 percentage points in 1999.

Figure 39

Average maturity of outstanding government securities and of new issues
(years)



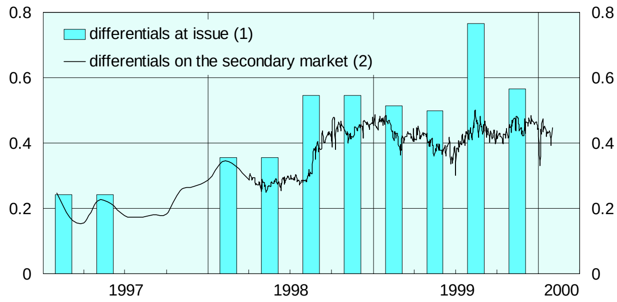
(1) Calculated with reference to securities listed on MTS. - (2) Moving average for the three months ending in the month indicated.

The introduction of the single European currency encouraged issues of Eurobonds by private issuers in the area, among whom the proportion of Italian borrowers rose from 7.8 to 15.7 per cent (Table 22; see the box on the bond market in the euro area). The increase in the proportion of rated issues (from 47 per cent in 1998 to 62 per cent last year) demonstrates that an assessment of creditworthiness by professional agencies helps to facilitate market access by private sector companies. The greater liquidity resulting from the elimination of currency segmentation between national markets also makes it easier for less well-known firms to raise funds; the proportion of rated issues with the highest rating decreased.

The differential between the offer yield on private sector bonds and that on government securities remained large (Figure 40). After increasing steadily in 1997 and 1998 in connection with the crisis in Asian markets and Russia, the premium paid by private issuers rose further in the second half of 1999 in view of the large volume of bonds on offer and a weakening of demand.

Figure 40

Yield differentials between private sector bonds and government securities, 1997-99
(percentage points)

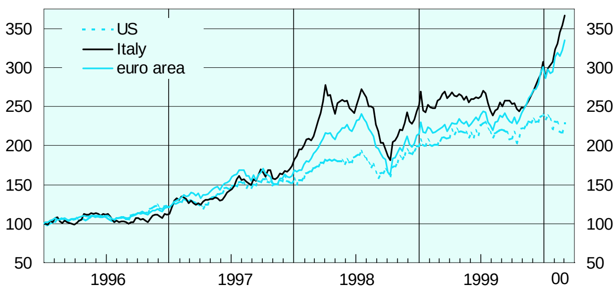


Sources: Capital Data, Merrill Lynch and Bank of Italy calculations.
(1) Differentials between AA-rated euro or DM-denominated Eurobonds issued by private companies resident in the euro area, the United States or the United Kingdom and German or French government securities. Half-yearly averages until 1998, quarterly averages in 1999. - (2) Differentials between AA-rated euro-denominated private sector Eurobonds and government securities, adjusted for the value of redemption options (Merrill Lynch's option-adjusted spreads). End-of-month data until March 1998 and daily data thereafter.

Share prices in Italy and the euro area continued to rise rapidly in 1999, in keeping with developments in the United States and the Asian countries; the rise of 21.7 per cent in Italy (Figure 41) was less than in Japan, France and Germany (58.4, 51.1 and 35.7 per cent respectively) and in line with the rise in the United Kingdom and the United States. In the first two months of this year share prices rose further in Italy and the euro area (by 17.6 and 6.8 per cent respectively) but declined by 7.0 per cent in the United States.

Figure 41

Share prices (1)
(end-of-week data; base, 29 December 1995=100)



Source: Bloomberg.
(1) Indices: MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

In the last few months the rise in share prices has involved mainly shares of small innovative

Table 22

Eurobond issues by private sector companies resident in the euro area (1)
(*millions of euros* (2) *and percentage shares)*

	1995	1996	1997	1998	1999	1999 Q1	1999 Q2	1999 Q3	1999 Q4
					Italy				
Gross issues *(millions of euros)*	2,811	3,874	5,291	8,219	44,890	7,337	15,152	11,056	11,346
(number of operations)	24	28	32	40	102	23	25	21	33
of which: non-financial enterprises	212	446	1,698	3,589	24,748	3,455	10,747	8,310	2,237
Rated issues (3) *(percentage share)*	18.8	46.0	24.8	24.1	74.3	54.3	70.9	92.2	71.9
of which: AAA or Aaa	43.9	19.8	0.0	14.4	17.7	5.4	0.0	0.0	57.2
					France				
Gross issues *(millions of euros)*	7,870	10,597	15,138	11,800	44,996	15,058	14,306	8,101	7,530
(number of operations)	79	90	89	63	166	40	55	32	39
of which: non-financial enterprises	682	1,521	3,760	3,691	28,724	10,048	9,339	5,853	3,485
Rated issues (3) *(percentage share)*	59.3	86.6	43.0	54.2	57.2	45.2	69.5	53.4	61.9
of which: AAA or Aaa	11.0	2.8	6.6	3.7	14.1	14.1	3.0	0.0	50.7
					Germany				
Gross issues *(millions of euros)*	14,544	28,505	30,549	42,123	89,063	26,792	29,863	16,925	15,482
(number of operations)	123	232	250	290	567	131	163	104	169
of which: non-financial enterprises	919	2,543	3,743	6,280	20,425	2,485	6,275	6,738	4,477
Rated issues (3) *(percentage share)*	31.51	57.26	58.3	47.27	54.51	46.2	71.2	48.0	45.1
of which: AAA or Aaa	23.4	33.6	22.9	36.5	16.4	19.4	13.7	5.8	31.3
					Euro area				
Gross issues *(millions of euros)*	46,614	70,510	85,428	105,670	286,338	75,037	94,155	64,997	52,150
(number of operations)	507	653	690	670	1.348	312	376	302	358
of which: non-financial enterprises	4,306	8,188	13,304	20,953	98,601	21,483	35,798	27,087	14,233
Rated issues (3) *(percentage share)*	34.3	59.7	46.2	46.6	62.1	51.9	74.2	63.0	56.6
of which: AAA or Aaa	27.1	26.7	24.5	29.8	20.4	20.1	9.1	16.7	48.8

Sources: Capital Data and internal calculations.

(1) Eurobonds issued by private sector borrowers belonging to groups resident in the country or area indicated; include private placements. Non-financial enterprises are classified on the basis of the sector to which the controlling company belongs. – (2) Amounts in local currency for periods before 1999 have been translated at the exchange rate of the euro applicable at 1 January 1999. – (3) Rating awarded by Standard & Poor's or, if not available, by Moody's or Fitch-IBCA.

companies, often operating in sectors linked to the new information technologies. The share indices for trading systems in which such companies are highly represented (Nasdaq Composite in the United States, EURO.NM in the leading euro-area countries) rose by 71.0 and 215.0 per cent respectively between the end of September and the end of February, whereas the general share indices showed much smaller gains (6.5 per cent in the case of Standard & Poor's 500 and 39.4 per cent in that of Euro Stoxx). In Italy the prices of shares quoted on the Nuovo Mercato, a trading system linked to EURO.NM, rose by a factor of about ten over the same period, compared with an increase of 42.5 per cent in the MIB index. These increases, which reflect growing investor interest in the development potential of information and telecommunications technologies, are based on expectations of an extremely large growth in the profits of the companies concerned in the years to come.

There was a very sharp rise of 75.5 per cent in the share prices of Italian companies in the services sector. As in the rest of the euro area, banking and insurance shares rose much less, by 6.1 and 7.1 per cent respectively. Share price volatility remained stable until September but increased rapidly in the last quarter of the year owing to wide fluctuations in the prices of technology shares and fears of computer problems in connection with the date change at the end of the millennium; it came back down in the first few weeks of 2000.

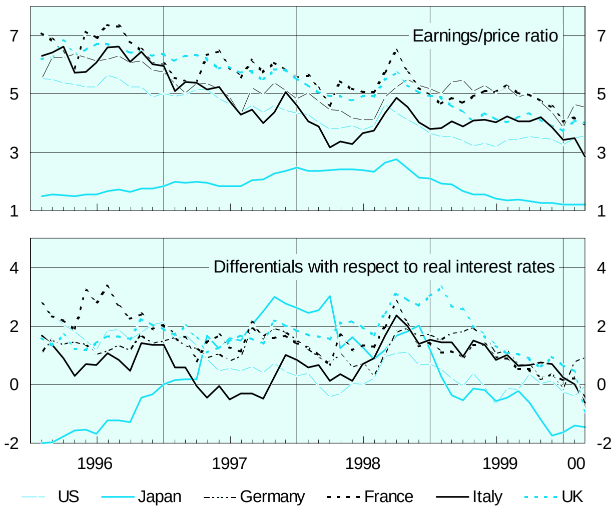
The earnings/price ratio of Italian companies remained stable and low in the first three quarters of the year and declined further in the last, as in the other leading euro-area markets (Figure 42). The differential in relation to real long-term interest rates virtually disappeared in all the countries. In the case of the European stock exchanges, the narrowing of differentials may also have been due to the limited supply of shares available to meet increased demand.

The capitalization of the Italian stock market rose to €714 billion at the end of 1999, equal to 64.5 per cent of GDP (compared with 20.6 per cent at the end of 1996), only slightly less than the corresponding figures for the German and Spanish markets (67.5 and 72.0 per cent respectively), but still significantly lower than those for France (98.9 per cent), the United States (178.5 per cent) and the United Kingdom (191.4 per cent).

Figure 42

Earnings/price ratio and differential with respect to real 10-year interest rates on the main international stock exchanges

(monthly data; percentages and percentage points)



Source: Datastream.

The increase in the capitalization of the Italian stock market reflected an expansion in the supply of securities as well as the rise in share prices. Capital increases by quoted companies amounted to €21 billion, due almost entirely to the operations by Tecnost and Olivetti to finance the purchase of the controlling shareholding in Telecom Italia (€19.6 billion). Valued at the issue price, the twenty new Italian listings added about €66 billion to the market capitalization, with the privatization of 30 per cent of the shares in ENEL contributing €52.2 billion.

The demand for shares on the part of households was particularly strong. On the basis of data available up to the third quarter of 1999, households bought shares worth €14.1 billion, compared with net sales to the value of €700 million in the corresponding period of 1998; firms bought shares worth €29.6 billion, largely in connection with the public offering by Telecom Italia. During the year as a whole purchases by banks were very small (€1.5 billion), while investment funds sold shares worth €7.1 billion in the first half of the year and made purchases amounting to €4.3 billion in the second.

On the derivatives market the open interest increased towards the end of the year, thanks partly to the introduction of new maturities and a reduction in the notional value of contracts.

In 1999 there was a contraction in subscriptions of units in bond-based investment funds and an increase in those of units in equity and balanced funds in the euro area, reflecting the prospect of a fall in bond prices and a rise in share prices.

The total net subscriptions of Italian investment funds fell from the peak of €161.7 billion reached in 1998 to €63.3 billion owing to a reduction in subscriptions of bond-based funds from €111.7 to 1.9 billion, which was only partly offset by an increase in subscriptions of equity funds, especially European and global funds, from €24.6 to 35 billion.

The net worth of investment funds rose to €474.6 billion, maintaining a rapid rate of growth even in relation to the other leading euro-area countries; the growth involved primarily equity and balanced funds.

The return on Italian bond-based funds averaged 1 per cent, compared with 5.8 per cent in 1998; funds with a substantial exposure to national and foreign share markets showed far higher returns, averaging 9 per cent for balanced funds and 21.2 per cent for equity funds, compared with 18.1 and 22.2 per cent respectively in 1998.

SHORT-TERM ECONOMIC PROSPECTS, PRICES AND MONETARY POLICY

The international situation

The growth in world output in 1999, about 3 per cent, was higher than forecast; it benefited from the expansionary stance of monetary policies in 1998.

Contrary to expectations, economic activity in the United States did not slow down; in fact, it accelerated strongly in the second half of the year. Inflation rose, mainly as a result of the increase in oil prices. The growth in unit labour costs remained low.

Activity in the euro area slowed down abruptly at the end of 1998 and in the first few months of 1999 but picked up again in the second half of the year, thanks to the recovery in world trade; the weakness of the euro was also a contributory factor. As in the United States, the acceleration in inflation was attributable to the rise in energy prices. Although declining, unemployment stayed high.

In Japan GDP growth was very low, prices and wages continued to decline and economic policy remained expansionary. The Bank of Japan continued to keep the overnight call rate close to zero. In October the Government announced further expansionary fiscal measures, once again mainly in the form of an increase in public sector investment.

Monetary policy in the United States and Europe became less accommodating in the second half of 1999 once the risk that the Russian financial crisis would spread had receded and as inflationary pressures surfaced. The Federal Reserve raised official rates several times from June onwards; they are now 0.25 percentage points higher than in August 1998. The Eurosystem increased interest rates in November and again in February of this year.

Economies in Asia returned to high rates of growth last year; they continued to record large surpluses on the current account of the balance of payments, although these were smaller than in 1998.

Stock markets in all the leading countries rose substantially during 1999. A correction occurred in the United States at the beginning of this year, primarily in traditional sectors. Share prices continued to rise in the euro area.

A number of factors contributed to the rise in share prices, including the abundance of liquidity, extremely favourable expectations of profits growth and a large reduction in investors' perception of risk by comparison with long-term levels.

Growing market integration is causing movements in the prices of financial assets to be propagated from one country to another, in some cases regardless of economic fundamentals. This could lead to sharp fluctuations in share prices, with possible repercussions on real activity.

The euro showed marked weakness. In July and again at the beginning of this year the euro/dollar exchange rate was affected by economic data that highlighted the disparity in potential growth between the United States and the euro area. After depreciating sharply in previous years, the yen has appreciated since August 1998; the tendency became more pronounced in the closing months of last year.

According to the latest forecasts, world output is likely to grow by 4 per cent in 2000 (Table 23). The acceleration mainly reflects expectations of more rapid growth in Europe.

In the euro area GDP growth is likely to rise by one percentage point, with a significant contribution coming from an expansion in foreign demand. Macroeconomic conditions are expected to improve most in Germany and Italy.

Economic activity in the United States will continue to expand at a very rapid pace, similar to that recorded in 1999. The upturn that has been under way since the beginning of 1991 has no historical precedents in terms of longevity; in the second half of the nineties the rate of increase in GDP accelerated, prompting a large upward revision in estimates of potential growth.

Table 23

Actual and forecast performance of selected international macroeconomic variables

(percentage changes on previous year)

	1999 (1)	2000			
		OECD	Private forecasters (2)		
			(a)	(b)	(c)
World trade (3)	4.9	7.1	–	–	–
GDP (4)					
World	3.0	3.5	3.1	–	3.9
OECD countries	2.8	2.9	–	3.0	3.1
United States	*4.1*	*3.1*	*3.9*	*3.8*	*4.0*
Japan	*0.4*	*1.4*	*0.7*	*0.8*	*1.0*
Euro area	*2.2*	*2.8*	*3.1*	*3.6*	*3.0*
Germany	*1.5*	*2.3*	*2.8*	*3.5*	*2.5*
France	*2.7*	*3.0*	*3.4*	*4.0*	*3.4*
United Kingdom	*2.0*	*2.7*	*3.1*	*3.2*	*2.9*
South Korea	*9.0*	*6.5*	*6.2*	*8.0*	*7.1*
Latin America	....	–	3.4	3.8	3.9
China	7.1	6.8	7.4	6.9	7.6
Russia	3.2	1.0	1.8	2.2	3.4
Consumer prices (5)					
OECD countries	2.8	3.0	–	1.6	1.9
United States	*2.2*	*2.3*	*2.6*	*2.5*	*2.7*
Japan	*-0.3*	*-0.3*	*-0.1*	*-0.1*	*0.2*
Euro area	*1.1*	*1.7*	*1.7*	*1.4*	*1.7*
Germany	*0.6*	*1.4*	*1.5*	*1.1*	*1.7*
France	*0.6*	*1.2*	*1.2*	*1.1*	*1.2*
United Kingdom (6)	*2.3*	*2.4*	*2.1*	*2.2*	*2.0*
South Korea	*0.8*	*2.5*	*3.2*	*2.8*	*3.6*
Latin America	....	–	7.7	7.4	8.3
China	–1.3	–1.0	1.5	–0.2	0.5
Russia	85.7	30.0	23.3	19.0	23.0
Current account balances (7)					
OECD countries	–0.8	–1.0	–	–1.0	–1.2
United States	*-3.7*	*-4.2*	–	*-4.2*	*-4.3*
Japan	*2.7*	*2.8*	–	*1.9*	*2.3*
Euro area	*0.8*	*0.7*	–	*1.1*	*0.7*
Germany	..	*0.1*	–	*-0.2*	*-0.3*
France	*2.4*	*2.3*	–	*2.2*	*2.8*
United Kingdom	*-1.5*	*-1.5*	–	*-1.3*	*-2.0*
South Korea	*6.2*	*3.6*	–	*2.5*	*3.8*
Latin America	....	–	–	–3.4	–3.1
China	1.1	0.6	–	0.9	1.2
Russia	10.0	7.5	–	14.3	9.9

Sources: National statistics; Eurostat; OECD, *Economic Outlook,* December 1999; Consensus Economics, *Consensus Forecasts*, February 2000; J.P. Morgan, *World Financial Markets*, January 2000, and Goldman Sachs, *The International Economics Analyst*, January-February 2000.

(1) National statistics; for Japan and South Korea, average for the first three quarters. The OECD is the source for the figures on world trade, world GDP, the GDP of the OECD countries, and the current account balances. – (2) *(a)* Consensus Economics; *(b)* J.P. Morgan; *(c)* Goldman Sachs. – (3) Arithmetic mean of merchandise exports and imports at constant prices. – (4) At constant prices. – (5) For the OECD data, the deflator of private consumption. – (6) Excludes mortgage interest. – (7) As a percentage of GDP.

The implementing provisions of the budget for 2000

The overall impact of the budget for 2000 was not significantly modified during the passage of the measures through Parliament, which was completed in December 1999 (see the box on the budget for 2000 in Economic Bulletin, *29, October 1999).*

The projected reduction in general government net borrowing is around 2.4 trillion lire. Reductions in expenditure and increases in revenue of respectively 11.5 and 5.4 trillion lire are accompanied by increases in expenditure and reductions in revenue of respectively 2.6 and 11.9 trillion lire in connection with social and development policies.

Some of the measures to reduce expenditure concern interest payments, with the renegotiation of loans, savings on post office funding and repurchase agreements contributing 1.5 trillion lire. Accordingly, the improvement in the primary balance is of the order of 1 trillion lire.

Some other measures concerning pensions and the public debt are classified as reducing expenditure but actually involve an increase in general government non-tax revenue. The net reduction in revenue is therefore around 3.2 trillion (instead of 6.5 trillion) and the net reduction in expenditure around 5.6 trillion (instead of 8.9 trillion).

Revenue

Increases in revenue *- Compared with the Government's original proposals, the budget provides for 1.4 trillion lire of additional increases in revenue that can be ascribed mainly to: a) the measure concerning companies to which sectoral studies are to be applied with the aim of bringing hidden income into the tax net; b) the extension of the Irap surcharge for the banking sector, the effects of which are only offset in part by the extension of the preferential rate for agriculture; and c) the reduction in the commissions paid to lotto betting agents.*

As regards the social security contributions payable by self-employed workers who were not required to pay contributions to INPS until 1996, the biennial rise in the related rate was increased from 0.5 to 1 percentage point.

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

REVENUE	
Increases in revenue	**5,400**
Property sales	4,000
Other	1,400
Reductions in revenue (social and development policies)	**-11,900**
Personal income tax reliefs	-6,800
Incentives for investments in 1999 and 2000	-1,000
Reduction in INAIL premiums	-700
Reduction in social security contributions	-850
Reduction in VAT on renovation of buildings, registration tax, imputed capital gains tax on property (INVIM) and other measures	-2,550
NET REDUCTION IN REVENUE	**-6,500**
EXPENDITURE	
Reductions in expenditure	**-11,500**
Domestic Stability Pact	*-3,300*
- Stability Pact for 2000	-2,200
- Recovery of shortfall in savings under 1999 Stability Pact	-1,100
Debt management	*-2,500*
- Management of treasury balances	-1,000
- Renegotiation of loans	-700
- Savings on post office funding	-600
- Repurchase agreements	-200
Intermediate consumption	*-2,400*
- Postponement of expenditure	-1,100
- 5% reduction in appropriations	-700
- Rationalization of procurement procedures	-200
- 3% reduction in supply contracts	-100
- Other	-300
Pensions	*-2,300*
- Special fund for electricity workers	-1,350
- Special fund for telephone workers	-300
- Settlement of contribution obligations	-600
- Other	-50
Public employment	*-700*
- Restrictions on recruitment	-350
- Freeze on revaluation of allowances	-200
- Reduction in school personnel	-150
Other expenditure	*-300*
Increases in expenditure (social and development policies)	**2,600**
Increases in current expenditure	*1,100*
Support for capital expenditure	*1,500*
NET REDUCTION IN EXPENDITURE	**-8,900**
TOTAL REDUCTION IN NET BORROWING	**-2,400**

(1) Based on official estimates and those published in ISAE, *Rapporto trimestrale*, January 2000.

cont.

Social and development policies: tax reliefs *- Parliament approved the principal tax reliefs proposed by the Government; the estimated total of these items is 11.9 trillion lire.*

Personal income tax reliefs account for around 6.8 trillion lire. In particular: a) the rate applicable to the second income bracket has been reduced from 26.5 to 25.5 per cent (1.9 trillion); b) the payments on account for 2000 have been reduced from 98 to 92 per cent of the balance of the tax paid for 1999 (2.2 trillion); c) the tax credits for dependent children, employees, the self-employed and pensioners have been increased; and d) the limits on some deductible expenses have been raised, especially with regard to taxpayers' principal dwellings.

Parliament confirmed the allocation of 1 trillion lire in both 2000 and 2001 to provide incentives for investments made in 1999 and 2000. This measure was originally introduced in the so-called Visco Decree and was subsequently included in the law accompanying the 1999 budget. The tax credit small and medium-sized enterprises that increase their payrolls can receive for each new employee has been increased from 1 to 3 million lire.

The imputed capital gains tax on property (INVIM) still due in respect of transfers of residential property has been reduced. The incentives for the renovation of buildings have been extended to 2000, although the related direct tax credit has been reduced from 41 to 36 per cent in view of the reduction in the VAT rate for renovation works from 20 to 10 per cent.

As regards indirect taxes, in addition to the reduction in VAT on building works and other minor measures, the registration tax for the transfer of buildings has been reduced, together with the taxes on judicial instruments.

In the field of social security contributions, Parliament approved a reduction of 700 billion lire in the premiums payable to INAIL (the National Industrial Accidents Insurance Institute), lowered the contribution rates for employees in the public transport sector (350 billion), and reduced the social security contributions payable on employee income received under company-level wage agreements (250 billion). A reduction of 250 billion lire in maternity-related contributions was also approved; in contrast with the Government's initial proposal, until 2002 this reduction will not be financed out of the additional revenue produced by the carbon tax.

Expenditure

The net reduction in expenditure approved by Parliament is 500 billion lire larger than that proposed by the Government; the difference is due to the increase in pension-related savings, which is not fully offset by that in social and development policy expenditure.

Reductions in expenditure *- The Finance Law provides for the incentives for the settlement of social security contributions due for earlier years to be extended to agriculture. The consequent increase of 600 billion lire in INPS receipts is matched by an equal reduction in central government transfers.*

Social and development policies: increases in expenditure *- Parliament approved allocations to the Employment Fund to help the unemployed find jobs and encourage the young to set up businesses. It also prolonged the contribution reliefs for firms in Abruzzo and Molise that increase their payrolls.*

The other measures approved include an increase of 18,000 lire a month in both social pensions and old-age allowances. Pending the reform of the system of social shock-absorbers, Parliament prolonged the existing extraordinary wage supplementation and labour mobility measures until 31 December 2000. Lastly, the free provision of school textbooks for pupils from low-income families was extended to the 2000-01 academic year.

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(1) The budget measures are contained in the Finance Law (Law 488 of 23 December 1999) and the Budget Law (Law 489 of 23 December 1999).

The present phase is characterized by large productivity gains due to strong growth in investment, especially in new technologies. The resulting high corporate profits and rapid rise in incomes, combined with the increase in financial wealth generated by the rise in share prices, are contributing to the expansion in domestic demand.

The process is not without risks or immune to potential instability. The labour market has become tight, despite significant growth in the population and in the work force, due partly to substantial immigration. The rate of productivity growth may decline. Domestic demand is rising more rapidly than productive capacity, leading to large and increasing deficits on the current account of the balance of payments. Financing of the deficit could eventually become more difficult, owing partly to economic recovery in Europe and other parts of the globe; changes in international investors' currency preferences could lead to a significant depreciation of the US dollar, with potential inflationary repercussions.

In Japan the growth in output is likely to remain modest, but should rise by about half a percentage point. The prospects remain highly uncertain, however; the variables capable of giving fresh impetus to private domestic demand - employment, wages, real interest rates, the exchange rate - continue to be unfavourable. Deflation, which persists and is rooted in market expectations, is raising real interest rates, and the appreciation of the yen is further reducing the expansionary effect of monetary policy.

Economic developments in Italy and the euro area

The recovery in activity that began last summer spread to the economies of Italy and Germany.

The picture emerging from cyclical indicators and indices of corporate and consumer confidence suggests that the upturn in the European economy has gathered pace in recent months. The robust growth in world trade and an expected strengthening of private consumption indicate that the European economy may grow by more than 3 per cent this year. The greatest stimulus is likely to continue to come from foreign demand. In France GDP is expected to grow very rapidly, continuing to benefit from the large expansion in domestic demand, while in Germany the rate of growth should be about one percentage point faster than last year, thanks partly to a strengthening of consumption.

In Italy manufacturing output continued to accelerate in the first two months of this year. According to provisional estimates, in February it was 3 per cent above the average for 1999.

The economic surveys by the ISAE and the Bank of Italy-ISAE leading indicator suggest that the upward trend will continue in the next few months, owing mainly to an increase in foreign orders.

According to the recent update of the Government's economic forecasts, the Italian economy is likely to grow by 2.5 per cent this year and the growth differential in relation to the other countries in the area will halve. Fixed investment is expected to increase by more than 5 per cent, thanks partly to the stimulus from tax incentives. Private consumption is likely to accelerate significantly, although perhaps by less than expected, since the expansionary effects of the fall in real interest rates on the demand for durable goods will peter out and the future trend of disposable income remains uncertain.

According to official forecasts, net external demand will make no contribution to GDP growth during 2000 as a whole. The expansion in world trade is expected to provide scope for exports to increase by just under 7 per cent; the erosion of Italy's market shares should abate. The recovery in domestic demand is likely to trigger a sharp rebound in imports.

Employment growth could also pick up in connection with the increase in production and greater recourse to flexible employment arrangements.

Wage growth is likely to be moderate, at less than 2.5 per cent. The domestic component of inflation, measured in terms of the rise in the GDP deflator, is expected to remain at the 1999 level of around 1.5 per cent.

Inflation and monetary policy

The increase in the price of oil and other raw materials and the weakening of the euro against the dollar caused a progressive rise in inflation in the euro area. The twelve-month rate of change in the harmonized consumer price index rose from 0.8 per cent in June 1999 to 2 per cent in January. In Italy it increased from 1.5 to 2.2 per cent over the same period. According to provisional data, in Italy and Germany the twelve-month increase in consumer prices rose further in February, to 2.4 and 2.0 per cent respectively.

In the euro area these developments have yet to be reflected in core inflation, i.e. inflation excluding the prices of food and energy products, which actually edged downwards from 1.3 per cent in January 1999 to 1.2 per cent a year later.

Both households and professional forecasters continually revised upwards their expectations for inflation. In February those surveyed by Consensus Forecasts indicated average annual consumer price inflation this year of 1.7 per cent in the euro area and 2 per cent in Italy.

The increase in wages and salaries in Italy is expected to be moderate: the contracts coming due for renewal during the year concern only a small proportion of employees in manufacturing and services. For the euro area, the possible results of the important round of wage negotiations under way in Germany and the behaviour of hourly wages in France are causes for concern.

Assuming that the price of oil, which stood at around $30 a barrel at the beginning of March, declines along the path implicit in futures prices and that the euro remains at roughly its present level against the dollar, the average rate of inflation in Italy this year would be around 2.2 per cent.

Monetary policy in the euro area is aimed at preventing the temporary pick-up in inflation due to the higher price of oil from fueling inflation expectations and wage demands that are incompatible with the objective of price stability.

The monetary and credit variables in the euro area continue to indicate generally relaxed liquidity conditions, although these have become less accommodating in recent months.

The real short-term interest rate in the euro area, calculated on the basis of the inflation expectations ascertained from opinion polls, remains low but is higher than a few months ago. In February it was estimated at around 2 per cent.

The M3 money supply is still growing faster than the reference value of 4.5 per cent, which was confirmed by the Governing Council of the ECB in December. In the past few months it has begun to slow down: the three-month moving average of the twelve-month rates of increase declined from 6 per cent in December to 5.7 per cent in January. Credit to the private sector continues to grow at a very rapid pace, even though the latest data indicate a slight decline: the twelve-month rate of increase eased to 9.5 per cent in January, from 10.5 per cent in December 1999.

During 1999 the yield curve in euros shifted upwards and became steeper, reflecting both the improved expectations for economic growth in the area and the upward revision of inflation expectations. In recent months the rise in yields has been especially pronounced for short and medium-term maturities, which express market expectations about the future stance of monetary policy; futures in euros due to mature at the end of the year currently indicate expected short-term rates of around 4.5 per cent. At the long end, ten-year swap rates now stand at 5.9 per cent, unchanged from December.

Real short-term rates are lower in Italy than in the rest of the area, reflecting the continuing higher level of both actual and expected inflation. The markets expect the differential to disappear, however; forward yields calculated from Euromarket futures and inflation expectations indicate that the gap is likely to close by the end of this year.

Credit conditions remain easy in Italy. The rapid decline in bank lending rates that characterized most of 1999 came to an end between October and November, but rates remain very low; the differentials vis-à-vis both deposit rates and yields on government securities are close to their historic minima.

The low level of interest rates is contributing to the particularly rapid growth in lending to households, a category of credit that is still less developed in Italy than in the rest of the euro area. During 1999 the medium and long-term rates paid by households fell by more than those charged to other borrowers; they are now around 0.6 percentage points lower than at the end of 1998.

Italian banks' profit and loss accounts for the second half of last year showed a further fall in net interest income, compensated in part by a rise in income from services and the curbing of staff costs.

Economic policies

General government net borrowing fell in Italy from 2.8 per cent of GDP in 1998 to 1.9 per cent last year. This was better than both the objective of 2 per cent indicated in the Economic and Financial Planning Document for the three years 1999-2001, which the Government presented in April 1998, and the figure of 2.4 per cent indicated in March 1999 as the upper limit after taking account of the downward revision of projected growth.

Compared with the forecasts in the Document for 2000-2003, which confirmed those of March, the improvement in the outturn derives from better-than-expected revenue (producing a benefit equal to 0.4 per cent of GDP) and savings on interest payments (amounting to 0.2 per cent of GDP). These factors more than made up for the overshoot of primary expenditure (0.1 per cent of GDP).

The ratio of primary expenditure to GDP rose by 0.7 percentage points with respect to 1998, owing almost exclusively to the growth in current spending; the ratio of tax and social contributions to GDP increased by 0.3 percentage points, while that of interest payments decreased by 1.3.

The primary surplus contracted to 4.9 per cent of GDP, from 5.3 per cent in 1998.

Notwithstanding massive privatization receipts totaling 1.7 per cent of GDP, compared with 0.7 per cent in 1998, and extraordinary dividends amounting to 0.3 per cent of GDP, the decline in the ratio of public debt to GDP was substantially smaller than that recorded in 1998 (1.4 against 3.5 percentage points). The smaller growth in GDP in nominal terms and the rise in the lira value of the debt denominated in dollars and yen were contributory factors.

The budgetary measures for 2000 are aimed at reducing general government net borrowing to 1.5 per cent of GDP. The updated Stability Programme presented in December calls for the deficit to be reduced in the coming years, to arrive at a budget broadly in balance in 2003.

During the current year the improvement in the general government budget balance is supposed to come mainly from the decline in interest payments. The ratio of the latter to GDP has fallen by almost half in six years (from 12.1 per cent in 1993), accounting for more than two thirds of the reduction in the deficit. The scope for a further reduction is limited and depends on interest rate developments.

In 2000 the ratio of the primary surplus to GDP is expected to remain basically unchanged, in line with the objective of 5 per cent indicated in the last Planning Document, in which the target that had been set in the Planning Document of April 1998 and confirmed in the Stability Programme of December of that year was revised downwards by half a percentage point.

According to the Government's forecasts, the budgetary measures will reduce net borrowing by 2.4 trillion lire compared with the baseline scenario as a result of net cuts of 8.9 trillion in spending and 6.5 trillion in revenue. Part of the correction regards interest payments: the budget's effect on the primary surplus amounts to about 1 trillion (see the box on the implementing provisions of the budget for 2000).

Around half of the gross spending cuts and increases in revenue are of a temporary nature. There is some uncertainty about the level of expenditure and that of the deficits of local authorities.

The budget seeks to reconcile deficit reduction with the objective of strengthening the economic recovery; the latter aim is pursued mainly by supporting household demand, with households benefiting from the bulk of the envisaged tax cuts. The budgetary measures are also intended to initiate a gradual reduction in the tax burden. On the basis of the updated Stability Programme, the ratio of current revenue to GDP should decline by 1.2 percentage points between 2000 and 2003. The tax cuts planned for 2000 are expected to be enough to offset the increase recorded in 1999.

The size of the reduction in the tax burden is limited by the modest planned decline in the ratio of primary current expenditure to GDP, which is forecast to decrease by 1.4 percentage points between 1998 and 2003.

The globalization of the economy and finance, the assertion of free-market principles and rules, technical innovation and particularly the advances in information technology open up new prospects of growth. The US economy has been able to take advantage of these circumstances, achieving very high productivity gains. Having made the effort of economic adjustment essential for the launch of the single currency, Europe can seize the opportunities that the new phase offers, benefiting from continued low real interest rates. If economic policy created favourable business conditions, the recovery in production now under way could inaugurate a new, prolonged phase of rapid growth.

A further increase in flexibility in the labour market and in competition in product markets, profound changes in budgetary policy and a substantial expansion in the volume of public and private resources allocated to research and training are necessary, particularly in Italy. First and foremost, there must be a sharp drop in the ratio of current public expenditure to GDP and a large decrease in the tax burden.

The improvement in the public finances sets the stage for further progress with the structural reforms capable of raising Italy’s economic growth rate to the higher levels attainable with the resources available.

Based on information available at 10 March.

Speeches

Information technology: an opportunity for growth

Lecture by the Governor, Antonio Fazio, to the University of Lecce on the occasion of the award of an honorary degree in Computer Engineering

Lecce, 15 January 2000

1. The world economy in the nineties

During the last decade the world economy saw a rapid, at times even tumultuous, expansion in financial activity; it received impulses generated by the openness of markets, major organizational changes, and the increasingly pervasive use of new technology, particularly information technology.

Although economic growth was generally rapid, it nonetheless varied across the globe, as it had in earlier decades.

The performance of the Japanese economy, which in the fifties and sixties had at times expanded at rates of more than 10 per cent, was unsatisfactory. With the capacity to produce industrial goods far in excess of domestic demand, Japan was faced in the nineties with an international market that no longer absorbed all its excess output; its share of world markets declined, in part owing to competition from emerging economies.

There was an increase in the supply of goods from other Asian countries with lower labour costs, more modest living standards, less developed welfare systems and lower taxation than the major industrial countries.

Japan's GDP growth fell to an average of less than 2 per cent in the nineties, compared with 6 per cent for the newly industrialized countries.

The latter's growth was halted by the 1997 crisis. This was reflected, and in some cases had its origin, in monetary and financial variables.

The problems have been largely overcome in Asia, where activity has recovered vigorously. In some other areas the crisis is not entirely over, while in others - notably Russia - uncertainty still reigns. The last decade saw fairly strong growth in Latin America, albeit marked by repeated interruptions due to financial and political storms and by pronounced disparities between countries. The two most populous countries of Asia, China and India, recorded remarkable economic expansion.

Growth in Europe in the last decade was slower than in the past and unsatisfactory in relation to productive capacity, with adverse effects on employment. The difficulties that had already become apparent during the eighties were accentuated in the nineties. Between 1989 and 1999 the average annual rate of growth for the fifteen EU member states was 1.7 per cent, compared with 2.2 per cent in the eighties and 5.7 per cent in the sixties. Employment in manufacturing fell sharply and the overall rate of unemployment, which in 1980 had stood at about 7 per cent, climbed to 9.4 per cent. The hopes that the central and eastern European economies would expand rapidly, kindled in the aftermath of the collapse of the Communist regimes, were disappointed.

The position of North America in the world economy is particularly interesting. In the last decade, with the collapse of the Soviet bloc, the United States, which had long been the leading industrial power, consolidated its economic, political and military primacy.

The enormous growth in global finance and its cyclical fluctuations were constantly based on the dollar. Another currency that played a decisive role in the second half of the decade was the yen, sustained by the foreign credits that were still being accumulated in the nineties.

With its high levels of technology and productivity and its high standard of living on the one hand and its growing foreign debt on the other, the US economy seemed set for a period of stagnation in the nineties.

Looking at the development of economies in relative terms, those that are more backward could be expected to make faster progress following the application of production techniques and the emulation of life-styles already tested elsewhere. The more developed nations, basking in a high standard of living and generalized well-being, could be expected to record slower gains in productivity, output and employment, while their financial strength would supposedly shift investment and production towards the emerging countries with lower labour costs.

This view implicitly assumes that technology, consumer tastes and the organization of production are basically given or evolve only slowly and steadily.

This model has been swept away by developments in the nineties.

The American economy is experiencing a new stage of development, based largely on the application of information technology to industry, trade and services. The emerging market economies have embarked on programmes of rapid industrialization, but in the wake of the crises financial capital has largely flowed back towards the leading industrial economy.

It is as if the United States were enjoying a re-run of the expansionary phase that ended in the early decades of the 1900s, the key features of which were large-scale industrialization and the concentration of activity in standardized products and very large enterprises.

In a context marked by highly flexible use of the factors of production and low taxation, the forces sustaining the growth of output, employment and consumption are a rapid rise in investment, especially in the services sector and with a substantial information and other advanced technology content, and a young and vigorous population supplemented by a constant and regulated flow of immigrants.

The long years of investment in research, initially carried out in universities and publicly funded centres and later increasingly by firms, has permitted the accumulation of a considerable stock of scientific discoveries, theories and new products that are now being channeled into current production and mass consumption.

There is close cooperation between research and production; an increasing flow of new workers is sustaining the demand for traditional industrial products.

The recent successes of the US economy can be summarized in annual GDP growth of 3.8 per cent between 1994 and 1999, an annual increase in investment of 9 per cent and, above all, an annual rise in employment of 2.3 per cent and an unemployment rate that is currently about 4 per cent.

The application of information technology to production brings down unit costs by increasing productivity; inflation is held in check by the reduction in costs. The inflow of saving from abroad keeps the cost of financial capital at acceptable levels and fosters the accumulation of productive capital.

The rate of growth of per capita GDP in the United States has risen to 2.8 per cent since the mid-nineties, compared with a rate of just under 2 per cent in the preceding decade. This can be attributed to the acceleration in total factor productivity as a result of technological and organizational innovation and the widespread use of information technology.

The limits to productive expansion posed by the supply of labour have so far been overcome, thanks to the availability of young, educated and trained workers and to immigration.

Even if this advancement of the frontiers of production should prove a one-off event, the gradualness with which new applications of technology are implemented would still ensure a protracted rise in the annual rate of GDP growth.

It is not easy to say in advance how long the transition will last. Economic development itself fosters new ways of applying scientific knowledge to production; basic research is continuing apace and the economy's potential is being shifted upwards.

2. An opportunity for growth

Following the Second World War, reconstruction was begun in Europe with funds from the Marshall Plan. In the fifties and sixties the countries of the so-called economic miracle - Japan, Germany and Italy - experienced a period of exceptional growth.

In Italy, that phase of growth was based on a set of favourable conditions, including political and institutional factors.

The expansion of industry depended decisively on the application in important sectors of technologies and new production methods imported from the most advanced economies.

The expansion was sustained by the opening up of the economy to international trade and the abundance of labour, coming in part from the lowest-income sectors, especially agriculture.

The growth of the population, with births far outnumbering deaths, its low average age and the gradual rise in employment and disposable income for broader and broader strata of society increased the demand for industrial goods.

In the late sixties and early seventies, trade-union demands led to a redistribution of income from companies to payroll employees, thereby fanning inflation; newly-enacted legislation reduced the productivity of invested capital. The oil crisis of the early seventies had further heavy repercussions on inflation and growth. The four-fold jump in oil prices had a serious impact on important branches of industry and required far-reaching restructuring, with a resulting decline in employment in large industry.

The Italian economy grew by an annual average of 3.6 per cent in the seventies, compared with 5.7 per cent in the preceding decade.

In the eighties the annual average rate of GDP growth was 2.2 per cent. Interest rates turned positive again in real terms. The public debt exploded. As in other industrial countries, there were growing signs of demographic crisis.

The slowdown in economic growth became more pronounced in Italy and Europe in the nineties.

The gap between the regions of the North and South of Italy has not been closed.

Especially in the North-East, the period from the mid-seventies onwards has seen the extensive development of small and medium-sized enterprises that are dynamic, open to international competition, characterized by high investment and employment arrangements enabling them to cope with the changing demands of the economic cycle. Up to now this model has spread to only a limited extent to some parts of the Mezzogiorno, principally on the mainland.

The South has many more young people in the labour force than opportunities for their employment. The sudden termination of special investment programmes at the end of 1992 had severe repercussions on the area's economy. Infrastructure investment also declined as a consequence of budgetary adjustment; it has continued to suffer from a lack of project-development capacity at local level.

Social problems have been aggravated by the economy's difficulties and unemployment among young people; they are a serious obstacle to the development of a fabric of small industry and commerce.

Nonetheless, new forms of courageous entrepreneurship are emerging in several parts of the South.

It is worth asking whether, taking a leaf out of the book of the most advanced countries and especially the US economy, a massive dose of investment in education and computerization would not allow Italy, in the medium-term, to replicate the vigorous industrial growth of the fifties and sixties. Some of the favourable conditions of that period are present today: progress in international integration, the opening up of new markets, the availability of labour, and the return to a high level of investment profitability.

The strategy must focus on advanced services, new products, organizational arrangements and information technology, including its application to the clusters of small and medium-sized production units.

3. Information technology and the Bank of Italy

In Italy, the initial impetus to extensive use of information and communication products and services came from the banks. With the policy set by Guido Carli in the seventies, the Bank of Italy acted not only to regulate but also to promote this change.

The possibilities offered by electronic data processing had long been recognized; the first steps in automation were taken in the fifties. Today, it is completely natural to associate the activity of the central bank with information, which plays a key role in matters concerning money, foreign exchange and securities. Information technology is fundamental in the performance of supervision.

Italy was in the forefront in Europe in applying electronic calculation to economic analysis as early as the sixties with the development of the econometric model of the Italian economy.

The first econometric model was constructed in the mid-sixties at the Economic Research Department of the Bank of Italy. Since then it has been constantly updated and enriched. It is currently used to provide information and basic analyses for economic, budgetary and monetary policy-making, to simulate the Italian economy's performance in the international setting, to forecast the trend of income, prices, the balance of payments and employment.

The model has been used with success in a number of crucial moments for the Italian economy.

It was employed in the sixties in the formulation of public debt issuance policy. In 1974 it provided the basis for quantifying the macroeconomic stabilization policy agreed with the International Monetary Fund in order to cope with the oil crisis and the explosion in wages.

Recourse was also made to the model in adopting the measures to counter the severe crisis of the lira in 1976-77. It provided the quantitative information for the massive fiscal policy measures that brought the external accounts back into balance. It was employed in the early eighties to defend the exchange rate, and again in 1992-93 to provide guidance for another major budgetary correction.

Constructing and using the model requires analytical and technical skills on the part of the economists involved in processing the data and an up-to-date knowledge of the underlying economic reality in order to incorporate it and constrain it reliably in equations and numerical coefficients. Since the model is a highly complex instrument, the results must always be judged critically and assessed for actual use in decision-making.

A major effort is involved not only in the development and use of algorithms but also in the collection, electronic storage and processing of data.

At the start of the seventies, when the development of telecommunications made it possible to create data transmission networks, the Bank of Italy connected the EDP Centre in Rome with its branches throughout Italy. This made it possible to concentrate the banking system's accounts at the Bank, to reform its own accounts and the State Treasury Service, and to have prompt information on the in-payments and out-payments that the Bank effects every day on behalf of the Treasury in all the provinces.

In the sixties and seventies, the centralization of information on banks' credit exposures and the production of uniform credit statistics were the most demanding projects. At the end of the seventies important companies such as Monte Titoli and Società Interbancaria per l'Automazione were established in partnership with banks, with the aim of creating infrastructure and applications for the entire system.

The second half of the seventies and then the eighties saw the development of real-time data processing, relational databases, and the first cross-border links in the payment systems.

Information and communication technology applications were further expanded in the nineties. A new international network now links the central banks of the Eurosystem for the requirements of the common monetary policy; the European payment systems have been interconnected.

The networks led to a quantum jump in the transactions handled by banks and their automated branches; a further advance looms with the changeover from payment cards to the more efficient and secure technology of microchips.

The interbank network is also the carrier for the operations of the screen-based financial markets.

The infrastructure of the payment system and of the screen-based markets fosters competition, lowers the barriers to entry into local markets and constitutes a significant stock of technical capital for Italy as a financial centre, an important factor in global competition.

4. Advanced technologies and the development of the Mezzogiorno

Economic policy guidance in corporate choices may be decisive in strengthening the productive structure.

The conditions exist in Italy for significant progress in advanced sectors and quantum jumps in technology. The endowment of resources must be increased; in the long run this is not a given but the result of investment, which in turn generates saving.

Achieving the benefits that derive from raising the level of knowledge does not necessarily require firms to be large. It depends above all on workers' job-related skills.

Some sectors that are highly knowledge-intensive may also be highly labour-intensive; they are well suited to emerging areas with young and skilled labour resources. The Mezzogiorno, despite its low level of specialization in high-tech sectors, is marked by a significant and not episodic role in important branches of advanced industries.

Growth presupposes fundamental choices to improve the efficiency of productive structures and local markets, as well as to increase the quantity and quality of public services. Supply-side policies are needed for the factors of production to increase their availability, the flexibility with which they can be employed and their productivity.

The development policy and regulatory action of the central government and local authorities must focus on public and private physical capital, social capital and human capital. Social capital depends on the degree of trust among citizens and between citizens and institutions; adequate personal security and the efficient administration of justice must be assured.

The location in Campania of major Italian and foreign telecommunications companies is a long-standing tradition. The presence since the beginning of the nineties of an important microelectronics company in the province of Catania in Sicily has fostered the development of a technological pole that has had the effect of attracting further foreign investment to the area. Business services provided to enterprises have expanded rapidly in Puglia.

There still appears to be scope for the South to compete at the international and the European levels;

there are no evident disadvantages associated with being a “latecomer”.

Business surveys show that, in addition to the possibility of obtaining subsidized finance, one of the main reasons for locating in the South is the availability of human resources with university degrees in scientific and technical disciplines.

The opportunities offered by the European Union’s structural funds have not yet been fully grasped, partly owing to shortcomings in project development and organization. The resources made available by the Community must be used to create the conditions for the expansion of knowledge-intensive sectors.

A lower cost of labour with the same qualifications may prove to be decisive.

Higher technical education, as a form of individual and collective investment in new technologies, is likely to facilitate the take-off of the most innovative sectors; it can also contribute to an acceleration in the growth of traditional sectors.

In a context marked by the geographical fragmentation of economic activities, electronic commerce, by annulling distance, could prove of fundamental importance for entry into new markets and for the establishment of new business relationships. The development of Internet-based business makes it possible to achieve large reductions in transaction costs. Firms are stimulated to arrange for parts of their production processes to be carried out externally and to restrict their activity to the performance of specialized functions.

The growth of electronic commerce depends on several factors: payment systems that are secure, reliable and widely accepted within the on-line economy; safeguards for the security and certainty of transactions; adequate regulation of on-line transactions; rules to protect privacy; and the achievement of a critical mass of transactions.

The availability of human capital able to make use of the new technologies is fundamental.

Recent surveys indicate that the volume of electronic commerce in Italy nearly quadrupled in 1999; nonetheless, the total annual value of on-line transactions is currently estimated at no more than 2.4 trillion lire. The bulk of this turnover, some 2 trillion lire, consists of business-to-business transactions.

Electronic commerce could prove to be a competitive necessity in view of the cost savings it permits.

The tourist industry of the Mezzogiorno is underdeveloped, especially in comparison with the potential of an area that is rich in natural attractions, that is one of the cradles of western culture and that conjures up a host of suggestive memories.

There is a growing demand for leisure and cultural activities in the economically developed countries, where consumer goods are increasingly abundant and life spans increasingly long.

The Mezzogiorno accounts for 41 per cent of Italy’s surface area and 36 per cent of its population. The data available indicate that it accounts for 22 per cent of the country’s hotel accommodation and 28 per cent of all the other forms of accommodation.

Tourism needs a suitable environment; natural and cultural resources must be easy to visit, security adequate and information widely and effectively disseminated. Cultural assets must be inserted into integrated systems bringing together museums, the theatre, music and art, and advanced services developed for their management.

The southern development programme envisages, with a view to protecting and capitalizing on Italy’s artistic heritage and archeological parks, the use of information technology to strengthen international linkages, improve the work of restoration centres and laboratories, and facilitate cataloguing.

5. Italy and international competition

The Italian economy is dominated by small businesses. The 1996 Census showed that 95 per cent of Italian firms had fewer than ten employees, a figure unparalleled in the other leading European countries. The proportion of total employment accounted for by these firms is more than twice the European average.

The abundance of very small firms is coupled with a relative lack of large ones. In 1996 Italy had only 2,600 firms with 250 or more employees; they accounted for 20 per cent of total employment, compared with 37 per cent in France and 40 per cent in the United Kingdom. In Germany, 33 per cent of all employed persons worked for firms with more than 500 employees.

A large proportion of the Italian economy is specialized in the production of traditional consumer goods and services; the presence of technologically advanced industries is much smaller than elsewhere.

The sectors in which Italian manufacturing firms, and in particular small and medium-sized enterprises, are concentrated generate less technological spillover onto other segments of production. Their products tend to have a higher price elasticity than those that are more R&D-intensive.

Italy is one of the few countries in which the importance of traditional industries has increased. Medium-technology industries such as chemicals, electrical engineering, industrial machinery and transport equipment have contracted considerably in Italy, in contrast with the United States and the United Kingdom, but this has not been accompanied by an expansion in the information technology, telecommunications or pharmaceutical industries.

Italian exports reflect the composition of industry. The share of high-technology products is especially low by comparison with the average for the seven leading industrial countries. During the nineties world demand for high-technology goods expanded considerably; during the first half of the decade their share in total Italian exports remained unchanged at around 15 per cent, while in the United Kingdom, France and Germany it rose to 37, 28 and 23 per cent respectively; in the United States it remained above 40 per cent.

Italian research activity in large firms, universities, public research institutions and small high-technology businesses is on a very limited scale by international standards. On the other hand, there is a network of successful small firms, mostly located in industrial districts specializing in traditional products, whose pool of technological know-how expands through informal learning mechanisms in the performance of the various stages of production.

In the medium and long run, the growth potential of an industrial system depends on increasing the number of innovative enterprises. In advanced countries like Italy, where wages are very high by global standards, technological innovation can achieve a level of competitiveness capable of meeting the challenge of countries marked by a lower level of development and low labour costs. Information and communication technology permits firms to do business successfully in the global market, sometimes with a quite modest level of investment.

Traditionally, a distinction has been made between product innovation and process innovation, but recent empirical studies show that most innovative firms are actually engaged on both fronts. And a third category has been added, “market innovation”, which is of an essentially organizational nature. Extensive application of information and communication technology is an indispensable component of all these activities.

6. Research and education

The data on technological activities confirm the sources of Italian industrial weakness. The share of GDP accounted for by public and private-sector spending on research and development is about half the average of the other industrial countries. This type of spending, which constitutes an investment that earns a return only in the medium-to-long run, increased in relative terms in Italy during the eighties; in the early nineties there was a downturn, followed by a modest recovery in recent years. Italy stands out from many other advanced countries for the smaller share of R&D spending funded by businesses.

Patent applications both in the United States and in Europe are dominated by the United States, Germany, Japan and by small countries with major corporate groups, such as Switzerland, Sweden and the Netherlands. In both cases, Italy is towards the bottom of the rankings.

In the years to come, with increasingly open economies, the ability to compete will depend more and more on university education and vocational training and scientific research. Despite the gains made in the last few decades, the average level of educational accomplishment in Italy remains lower than in the other leading industrial countries; the gap is wider still in terms of university graduates in the sciences. The situation could be improved by the spread of non-university post-secondary diplomas or short-course university degrees.

It is necessary to narrow the gap between southern Italy and the rest of the country in terms of human capital with university training.

The proportion of the employed and unemployed labour force aged from 25 to 34 - that is, the group best placed to bring about a significant advance in the use of the new information and communication technologies - with university degrees in 1998 was much more uniform among the main areas of the country: 10.7 per cent in the South, 11.7 per cent in the North and 12.7 per cent in the Centre. The Bank of Italy's survey of household income and wealth found that 35 per cent of southern university graduates took their degrees in the sciences, compared with 40 per cent in the Centre and 42 per cent in the North. The differences found for graduates in economics and statistics are of a similar order of magnitude.

Universities and research institutes play a fundamental role in basic research. In applied research, 85 per cent of expenditure is accounted for by businesses.

It is necessary to enhance cooperation between universities and firms. An appropriate degree of dispersion in the location of universities and in their specialization is needed to provide true equality of opportunity for young people. Universities and research institutes must be large enough to exploit economies of scale. The educational and training system must turn out the specialists that the market needs and must contribute increasingly to growth and innovation.

A survey conducted by Istat has found that only 6.7 per cent of students graduating in engineering in 1995 were still unemployed in 1998, compared with 38 per cent of those with degrees in law, 34 per cent of those with degrees in letters, and 25 to 30 per cent of those with degrees in languages and psychology.

We need to direct young people towards the fields of study that correspond to the requirements of the world of work, enhance the independence and organizational flexibility of educational and research institutions, increase competition, raise the quality of educational services and improve the performance of the educational system.

The European Union has long recognized the importance of innovation as a means of boosting the competitiveness and growth of industry. Since 1982 Framework Programmes have been used to implement Community policies for research and technology. In general these programmes are directed to applied rather than basic research.

In some countries, such as the United States, France and the United Kingdom, public spending on defence is the main driving force in electronics, information technology and telecommunications.

Radically innovative activity is increasingly systematic and requires adequate resources and organizational capabilities. Technological progress is the fruit of cooperation between a multiplicity of actors. To grasp the opportunities provided by the global circulation of knowledge, there is a need at the national level for efficient organizations able to foster the culture of research and innovation.

Globalization depends decisively on information technology and telecommunications. It benefits the world economy by facilitating the expansion of investment and the growth of employment where conditions are favourable.

Global finance increases profitability and efficiency; it is a driving force in investment and research, especially in sectors at the frontiers of technology; it facilitates turnover in corporate control. In the communications field mergers involving major international groups are being prepared. The new companies will operate in the broader multimedia sector, with worldwide implications for economic activity, culture and society.

The central banks of the leading countries and the international monetary institutions are making major efforts to prevent the financial crises that occur periodically in the least stable economies, with sometimes devastating consequences.

We are still far from bringing these phenomena under control.

It is necessary to increase the competitiveness of the Italian economy, especially in the South. Italy has relatively few large enterprises, which can devote more resources to the development of new technologies. Some 220,000 small and medium-sized Italian firms, accounting for around 40 per cent of employment in industry, are located in 200 industrial districts. This local clustering of production allows information, goods and specialized workers to circulate more easily, thereby reproducing to some degree the advantages of the large enterprise.

Widespread and systematic application of information technology can strengthen Italy's productive system. It can lead to a new configuration of the *tableau économique*, of the intersectoral coefficients and relationships that characterize an economy. Samuelson's nonsubstitution theorem of 1949 suggests that the way they are configured is the result not of rigid technological relationships but of a process of optimization within each firm and each sector and between different firms and different sectors.

The new configuration, as can also be seen from the experience with industrial districts, will be marked by a higher level of productivity in the economy as a whole.

This appears to be an analytical framework capable of explaining the large rise in the productivity and potential output of the US economy in the nineties.

The reshaping of the existing arrangements within firms and sectors may prove complex and critical for the weaker and less competitive branches of industry. It is up to each firm to decide which techniques to employ and how to organize its production and structure its relationships with other firms and the market.

It is up to the public sphere to stimulate the reorganization process and govern its effects on the national economy.

Favourable conditions must be created in terms of taxation and, with a view to more extensive application of information technology, especially in terms of labour flexibility.

The ultimate factor in all progress is, in fact, man himself, his ability to look ahead, to plan and to implement.

Cooperation between universities and industry is crucial in the development of new forms of organization and the use of technology imported from more advanced economies.

Italy must invest in human capital, in the intelligence of young people eager to make good, of which the South has a plentiful supply.

The construction of the knowledge society of tomorrow must be directed towards giving work, a future, to young people.

Humanistic culture, an Italian hallmark and especially rich in this part of the country, ensures a *forma mentis* open to creativity and the acquisition of specialized technical know-how.

The gap between the two Italies must be closed. A step increase in the South's productivity and competitiveness, for which efficient public administration, an adequate level of security and acceptable social conditions are also necessary, will bring great gains for the economy and Italian society as a whole.

The global economy and Italy

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

Palermo, 29 January 2000

1. International liquidity

International liquidity has been abundant for some years now. The globalization of markets has led to the widespread adoption of liquid instruments that are not under the control of national monetary authorities. The large-scale use of derivatives has increased the ability to multiply financial transactions in relation to money.

Monetary policies in the major areas became highly expansionary in 1998 and the early months of 1999; they continue to be accommodating even after the increases in interest rates decided in the second half of last year.

Short-term nominal interest rates declined from the early nineties onwards and are at historically low levels.

Consumer price inflation has remained moderate everywhere, matching the values recorded in the sixties.

The expansion of international liquidity began to accelerate in 1995 with the marked easing of monetary conditions in Japan in the spring. Following the Mexican crisis, which had led in the first four months of that year to a sharp depreciation of the dollar (by 19 per cent against the yen and 13 per cent against the mark), currency re-equilibration was pursued not by raising dollar interest rates but by further reducing the yields on assets denominated in yen, which had already been very low for two years.

In the summer of 1995 the Japanese central bank intervened with massive purchases of dollars. In view of the weakness of domestic demand for credit, the abundant liquidity spilled over into international markets.

At the end of 1995 the yen had fallen against the dollar by 21 per cent compared with its peak in April. The dollar appreciated gradually.

The lira, which had depreciated by 18 per cent against the mark in the early months of 1995, also staged a recovery, triggered by aggressive exchange market interventions and reinforced by drastic monetary restriction and fiscal adjustment.

The growth in the monetary aggregates in the leading industrial economies remained basically in line with that in nominal income from the beginning during most of the nineties. Since the end of 1998 the ratio of money to income has increased, rising from 67 per cent to more than 70 per cent in the first three quarters of last year.

In the three years from 1995 to 1997 the flows of capital from the industrial countries to the emerging countries were very substantial. A large proportion of these funds were reallocated by offshore centres, in part with the intervention of highly-leveraged institutions.

These intermediaries raised funds where interest rates were lowest and then, using derivatives, made investments in all the main financial markets equal to a multiple of the funds they had borrowed. This fueled a rise in bond and share prices.

From the end of 1997 onwards the effects of the Asian crisis and, from August 1998 onwards, the difficulties encountered by other emerging market economies resulted in a reduction in international bank lending. The funds withdrawn from the economies in crisis flowed into the financial markets of the United States and to a lesser extent Europe, judged by investors to be safe havens, further contributing to the rise in bond and share prices.

Short-term real interest rates rose temporarily in 1997 and 1998; the slowdown in inflation produced by the fall in commodity prices was more pronounced than the decline in nominal interest rates. In 1999 real rates returned to very low levels of between 2 and 2.5 per cent, or roughly half the average values recorded in the eighties.

In 1999, with the easing of the crises, the flow of portfolio investment from the industrial to the emerging countries resumed. Access to international credit is more selective than before the crises.

The expansion of credit and money at the international level is reflected in, and part of, the more general process of rapid growth in global finance. In the ten leading industrial economies the stock of public and private bonds increased from 90 to 127 per cent of their combined GDP between 1985 and 1998 and the capitalization of their stock markets from 30 to 97 per cent. The spread of derivative financial instruments was faster still, especially in the nineties: between 1990 and 1997 the notional value of the derivatives traded on organized exchanges rose from 37 to 195 per cent of the combined GDP of the Group of Ten countries.

In a context marked by expansionary monetary conditions, inflation has been curbed by the sluggishness of effective demand for consumption and investment everywhere except in the United States. Until the early months of 1999 raw material and energy prices declined. Contributions to holding inflation in check came from restrictive incomes and budgetary policies in Europe and from large improvements in productivity in the United States. In Japan, owing to the prevalence of pessimistic expectations among businessmen, there continued to be significant signs of deflation.

2. Structural problems of the leading economies

In the United States, the expansion that began in the spring of 1991 is now surpassing that of the sixties to become the longest ever in US economic history. In the last five years the rate of growth in economic activity has accelerated to an average of 3.5 per cent; these years have been distinguished not only by a notable increase in labour productivity, which has risen at an average rate of 2.1 per cent, compared with 1.5 per cent in the preceding ten years, but also by rapidly expanding investment, robust employment growth and low inflation.

The economy’s strong performance, together with the structural adjustment measures adopted in 1993, has helped to correct the imbalance in the public finances, largely the legacy of the expansionary fiscal policy of the first half of the eighties. A federal budget deficit gave way to a surplus of $69 billion in 1998 and $123 billion in 1999. The ratio of public debt to GDP is declining rapidly and should fall below 50 per cent in the coming years.

Inflation has steadily abated; in the three years from 1997 to 1999 consumer price inflation hovered around 2 per cent. Core inflation remained basically unchanged, again at close to 2 per cent. Unit labour costs rose at an average annual rate of 1.8 per cent, compared with 4.6 per cent in the eighties. In the manufacturing sector, they have fallen at an average rate of 1.5 per cent since 1994, reflecting large productivity gains and the moderate growth in nominal wages.

Underlying the prolonged expansion of the US economy is the widespread introduction of new technologies, particularly information technology.

These new technologies have progressively boosted individual companies’ productivity in industry and services. Firms’ activities have been reorganized, with resulting gains in efficiency in the utilization of labour and plant.

The possibility of using labour with a high degree of flexibility has been fundamental in this process.

The reorganization is presumably spreading to the system of intersectoral relationships. This improves the economy's efficiency and leads to higher output with the same input of productive factors.

The ratio of private gross investment to GDP, which had fallen by more than 2 percentage points in the eighties, rose by around 6 points between 1991 and 1999 to above 18 per cent, the highest figure since the end of the Second World War.

Spending on research and development, which is structurally higher than in other countries, rose from 2.4 per cent of gross domestic product in 1980 to 2.8 per cent in 1998.

According to national accounts data, calculated using a methodology which has now been replaced and which probably underestimated the scale of the phenomenon, private-sector investment rose in the nineties at an average rate of just under 6 per cent, more than twice that recorded in the preceding decade; investment in machinery and transport equipment grew by an average of 8 per cent. Spending on computer equipment, in particular, rose at an annual rate of almost 20 per cent and currently accounts for nearly 30 per cent of all private-sector investment, compared with 9 per cent in the early eighties, when the far-reaching restructuring of the US economy began.

Between 1991 and 1996 total factor productivity in the private sector rose at an average rate of 1.6 per cent, compared with 0.7 per cent in the eighties. The increase in the manufacturing sector was far higher, nearly 6 per cent, compared with 2 per cent in the eighties; it was concentrated in the machinery and transport equipment industries, where total factor productivity grew by more than 10 per cent.

This picture, highly positive as a whole for the productive system, is not without elements of fragility. The increase in domestic demand continues to outpace the economy's potential rate of growth. The consequent gap between investment and saving led in 1999 to an external current account deficit in excess of $300 billion, more than 3 per cent of GDP. The level of private-sector debt is rising.

In Japan, following the speculative bubble in the financial markets at the start of the nineties, the economy entered a prolonged period of stagnation that culminated in 1998 with the deepest recession since the end of the Second World War. In 1999 economic activity showed a modest recovery, primarily as a result of substantially higher public spending. The economy grew at an average rate of 1.6 per cent in the nineties, compared with 3.9 per cent in the eighties; the average improvement in labour productivity was also very small.

Numerous factors have contributed to the protracted weakness of the economy: the crisis in the banking and financial system that followed the collapse of equity and housing prices; the initial hesitancy with which macroeconomic policies, particularly fiscal policy, were used to support the economy; the appreciation of the yen in the first half of the decade; the difficulty of maintaining competitiveness through continuous productivity gains; and the growing competition from other Asian countries, especially in the Japanese economy's key sectors.

The unsatisfactory performance of investment followed the sharp acceleration recorded in the second half of the eighties, which had culminated in 1990 in investment rising to 32 per cent of GDP. Capital formation had been strongest in branches of the manufacturing sector, which plunged into crisis in the nineties.

Monetary policy adopted a more and more expansionary stance in the course of the nineties. In September 1995 the discount rate was lowered to 0.5 per cent; the central bank pumped in substantial liquidity, not least to help the banking system to recover. The scope for monetary policy action appears to have been virtually exhausted.

Since 1992 budgetary policy has been geared to supporting economic activity. In 1990 the general government budget recorded a sizable surplus, equal to around 3 per cent of GDP, partly as a result of the adjustment measures taken in the second half of the eighties; the surplus gradually gave way to a deficit of 8 per cent of GDP in 1999. Gross public debt rose from 61 to 107 per cent of GDP in the same period.

The measures to stimulate the economy, involving ever-larger amounts, have mainly centred on public investment in infrastructure. This enormous fiscal effort has still not succeeded in fostering a new phase of rising production sustained by domestic demand; the increase in the budget deficit on current account has been compensated in part by more private-sector saving; private investment is still in decline.

But the impulse imparted to the economic cycle by public spending has averted a downward spiral of the economy, which would have had destabilizing consequences for the financial system and the world economy.

The weakening of Japan’s position in outlet markets and the gradual decline in the return on capital have forced firms to embark on far-reaching restructuring with a view to reducing excess capacity and restoring profitability. Although this process inevitably carries high social costs in the short term, it should lay the foundation for greater economic growth in the years ahead.

In the euro area, output grew in the nineties at an average rate of 1.6 per cent, albeit with significant differences between the main countries. Italy recorded the lowest growth rate, just above 1 per cent; Spain achieved a rate of 2.4 per cent; Germany and France held an intermediate position.

Despite the sharp disparity in the area’s rate of economic growth vis-à-vis most of the other industrial countries and the emerging countries, the surplus on the current account of the balance of payments is running at less than 1 per cent of GDP. This highlights a problem of competitiveness for the European economy.

The large fall in long-term real interest rates abetted by fiscal consolidation, the stability of the currency and wage moderation have not yet succeeded in boosting capital accumulation. The ratio of investment to GDP in the euro area fell significantly in the first half of the nineties and has only showed signs of recovering since 1997; in 1999 it was just above 21 per cent. In Germany the ratio declined gradually between 1991 and 1998. Among the major countries, only Spain has seen investment grow significantly faster than GDP since 1994.

Private-sector investment grew at an average rate of less than 1 per cent in the nineties, compared with 2.2 per cent in the eighties; the variation was slightly negative in France and virtually nil in Italy. The increase in investment in machinery, equipment and transport equipment in the euro area as a whole amounted to only 1 per cent, compared with 4 per cent in the eighties. Capital spending was weak in all productive sectors, most notably the construction industry and some branches of manufacturing. Despite the gradual shift in the composition of the capital stock to the benefit of services, capital formation in the three main countries of the euro area is still concentrated in industry.

The fiscal consolidation carried out in order to comply with the convergence requirements of the Maastricht Treaty was achieved in part by increasing the tax burden, which now stands at levels well above those of the United States and Japan. Constraints of various kinds are an obstacle to the flexible utilization of the factors of production.

In addition to the firmness of monetary policies, a contribution to the fall in inflation has come from the extreme moderation of incomes policies, which partly reflects the steady and significant rise in unemployment.

3. Financial instability and exchange rates

The integration of capital markets worldwide has eased the constraints on growth imposed by the availability of funds. These constraints were especially tight for developing countries.

In the absence of complete information on the final use of funds and efficient financial structures, the globalization of markets increases the risk of instability. The abundance of international liquidity in recent years has fostered sometimes indiscriminate financing of investments.

The perception of an imbalance between the expected return on capital and the cost of borrowing can give rise to doubts about borrowers' ability to repay their debts, leading to pressure on exchange rates, a sudden cutting off of financing and a fall in productive activity and employment. The crisis can become acute if residents' foreign debt is largely at short term and denominated in foreign currency.

To a certain extent systemic risk is inherent in global finance. Given its implications, the possibility of the rapid spread of financial turbulence among countries in the same region or even beyond represents a challenge for the international community.

A first factor in the propagation of crises is the reduction of demand in the countries directly affected.

Financial disturbances can also be transmitted through portfolio adjustment by international investors, especially highly-leveraged institutions.

A currency crisis in one country can lead investors to modify their assessment of conditions in other economies, thus triggering a reallocation of portfolios. Increases in interest rates and capital flight may ensue, possibly causing the external value of the currency to fall.

In the short run the exchange rate in the leading economies is influenced mainly by short-term interest rate differentials.

The orientation and credibility of monetary, budgetary and incomes policies are crucial to the stability of the exchange rate. In the case of the dollar, factors tied to its predominant role as international reserve currency are also relevant.

In the long run, the external value of a currency reflects the economy's fundamentals: productivity gains, the ability to compete in international markets, potential output growth.

The relationship between economic growth and the credibility of policies on the one hand and the external strength of the currency on the other is basically borne out by the experience of recent decades; however, this link may be less certain at times for some currencies.

The weakness of the dollar in the seventies was especially pronounced after convertibility was suspended. In the following decade, the abrupt swings of the US currency, first appreciating then depreciating, appear to have been determined largely by the economic policy mix.

With the tightening of monetary policy at the end of the seventies, in conjunction with a highly expansionary fiscal policy, the rise in interest rates made it easy to finance a growing current account deficit; it caused the dollar to rise strongly until early 1985.

The situation was not sustainable. The US authorities emphasized the need to reduce the external value of the dollar. A sharp reversal of trend was achieved, facilitated by changes induced in expectations and concerted intervention in the foreign exchange market. Over the medium term, the objective was pursued by altering the policy mix: monetary conditions were made less restrictive and budget deficits reduced.

The early nineties were characterized by limited fluctuations of the dollar. After weakening in 1995 in connection with the Mexican crisis, it began to strengthen again. The subsequent appreciation has been associated with the vigorous economic growth of the United States, which has far outpaced the other leading industrial countries. The rise in the value of the dollar has been consolidated as the economy's growth has shown itself to be of a structural nature.

The large current account deficit has continued to be easily financed by substantial capital inflows, attracted by the favourable prospects for investment; the inflows increased further during the crises in the emerging economies.

Between 1996 and the third quarter of 1999, the United States recorded net capital inflows of about $1 trillion. Three quarters of this amount was portfolio investment, much of it channeled through the London financial market. In 1998 and 1999, inward direct investment exceeded $160 billion, more than half of it originated by euro-area residents.

The yen has tended to appreciate in the long term.

The main factors underlying the strength of the Japanese currency in the seventies and eighties were undoubtedly low inflation and rapid output growth, which were attributable to large improvements in productivity. The high saving rate fueled substantial large domestic flows of productive investment together with massive net purchases of real and financial assets abroad.

In 1999 Japan's net external assets were equal to just under 30 per cent of gross domestic product.

In 1995 monetary expansion pushed the yen into a period of depreciation that lasted until 1998. The decline can be attributed to the problems associated with the Japanese model of development. Since 1992 Japanese exports have sustained large losses of market share. The recent recovery of the yen is the result of progress in reviving the economy and the new prospects for growth opened up by the restructuring of the productive system.

The rise in the effective exchange rate of the mark in the seventies and eighties reflected the ability of the German economy to absorb the effects of the oil shocks. Thanks to rigorous monetary and budgetary policies, the inflationary impact of the increases in the price of oil was less severe than in other countries; Germany's competitiveness benefited, and its external current account recorded substantial surpluses.

The mix of economic policies was changed in order to cope with the costs of reunification and the related risk of inflation. Budgetary policy became expansionary, while monetary policy was made even more restrictive, with a consequent rise in interest rates and substantial appreciation of the mark.

The policy mix was modified again in the mid-nineties: budgetary policy was tightened in order to meet the requirements laid down in the Maastricht Treaty, while monetary policy was made expansionary in order to counter the slowdown in economic activity. From 1995 onwards the mark tended to weaken.

It was essentially this policy mix that the new European currency inherited.

From the end of 1998 onwards the expansionary stance of monetary policy in Europe was accentuated by the convergence of interest rates towards the low levels prevailing in the countries with the longest record of stability.

The euro weakened against the dollar up to July, recovered in August, began to lose ground again in November and is currently close to parity with the US currency.

Until last summer the euro's depreciation was partly a reflection of the gradual widening of the differential between short-term dollar and euro interest rates. The link between the exchange rate and the monetary policy stances in Europe and the United States subsequently weakened.

The key factor in the euro's weakness against the dollar is markets' awareness of the greater strength of the US economy. Although the European economy is recovering, it appears to be held back by structural deficiencies that limit its rate of growth and restrict the demand for euros in the international markets.

Proof of this lies in the substantial net outflow of private capital in the form of direct and portfolio investment, which amounted to more than e300 billion in 1998 and 1999.

Recent improvements notwithstanding, unemployment remains high, at more than double the rate in the United States. There are shortcomings in markets' configurations and manner of operation. Rigidities in the labour market are still hindering the expansion of employment.

Government budgets remain large and the level of taxation high.

4. Share prices

Since 1995 share prices in the major countries have registered an exceptional increase. From a base level of 100 in January of that year, by the end of 1999 they had risen to 307 in the United States, 305 in France, 258 in Germany and Italy, 210 in the United Kingdom and 111 in Japan.

There was a sharp dip in prices, ranging from 12 per cent in the US to 27 per cent in Germany, in connection with the financial crisis in the summer of 1998. In the autumn the upswing resumed even more powerfully, taking stock market indices to all-time highs by the end of 1999.

Last year the rise spread to Asian markets, owing to the improvement in economic conditions and the decline in interest rates. Share prices in South Korea, Indonesia and Thailand surpassed their pre-crisis levels. They also rose considerably in Latin America, except in Argentina, where the market was dampened by recession and the significant loss of competitiveness since the beginning of last year.

The performance of share and bond prices is partly a consequence of the wordlwide abundance of liquidity. In the industrial countries as a whole this has resulted in a fall in the prices of consumer goods relative to those of real and financial assets.

What appears to be occurring is an illustration at the global level of a well-known theory concerning the mechanism of monetary policy transmission: namely, that an expansion of the money supply and a decline in short-term interest rates are initially accompanied by an increase in the prices of financial assets and capital goods.

The lower cost of capital thus favours the expansion of effective demand, in the first place for investment goods.

The most striking consequence of the low cost of capital has been the wave of mergers and acquisitions under way for some time, involving banks, insurance companies and industrial and service firms.

In 1993 the corporate mergers and acquisitions carried out in the financial sector amounted to $60 billion; five years later they had increased tenfold.

The lower cost of financing helped foster the world economic recovery that got under way last year.

The crucial question for economic policymakers, and for monetary authorities in particular, is how far the rise in share prices is consistent with the economic fundamentals.

Analyses based on economies' potential growth rates, long-term real interest rates and risk premia suggest that at their current prices shares are overvalued. However, the indicators of corporate profitability used in these estimates could be lower than the actual levels for at least two reasons: the practice of US corporations of rewarding capital by buying back shares rather than distributing dividends and the accounting practice of treating purchases of intangible technologies as current expenditure. The current level of share prices may also be partly explained by a diminution in the risk premium demanded by investors.

The US economy has entered a new phase of expansion powered by firms in the most advanced sectors, whose share prices have soared. The economy's potential growth rate has been revised upwards.

In Europe and Japan, structural reforms to remove the factors that hamper growth are urgently needed. In many European countries it is essential to make a start on reducing the overall tax burden, which prevents the achievement of the full productive potential of the economy.

Since such action must necessarily be gradual, credible government announcements of measures to achieve this goal are required. At the same time a start must be made on reforming public expenditure to preclude the resurgence of budget deficits.

Economic policy in the main countries must prevent the opening up of too large a gap between share prices and their equilibrium levels. Inflationary tensions of international origin still have not had significant repercussions on the cost of domestic factors. Action is necessary to overcome the structural problems and improve the efficiency of production.

Time is running out.

The need for resolute intervention on the structure of the European and Japanese economies is demonstrated by wide-ranging and thorough analyses; there is a broad consensus on this matter.

Action must be taken to capitalize on today's favourable conditions, to prevent the opportunity represented by a new phase of growth from evaporating in a resurgence of global inflation.

5. The outlook for the global economy and Italy's situation

The world economy is marked at present by an expansion of the financial aggregates that has outstripped the growth in GDP at current prices.

The yield curve has a slightly positive slope in the United States; it points to a rate of growth in nominal GDP not dissimilar to today's. In Japan the curve has a similar shape, but nominal rates are much lower.

In the euro area the slope of the curve is steeper. The three-month interest rate, which is currently around 3.3 per cent, is expected to rise to 5.4 per cent in two years' time; the yield on ten-year securities, equal to 4 per cent at the end of 1998, now stands at 5.9 per cent.

GDP growth in the euro area is accelerating sharply.

In the eleven countries, net capital exports in the form of both direct and portfolio investment exceeded the current account surplus in 1999. The euro depreciated over thirteen months by 15 per cent against the dollar and by 22 per cent against the yen.

So far the decline in the exchange rate has not had serious inflationary consequences; it has been of limited benefit for cyclical recovery in a largely self-contained trade area.

Variations in the exchange rate affect the relative value of financial wealth. The 40 per cent rise in share prices in Europe in 1999 becomes smaller when it is converted into dollars.

In a period of robust growth in mergers and acquisitions, European firms are at a disadvantage in terms of valuations and more easily taken over.

In December 1999 the Italian and German stock exchanges stood 158 per cent higher than five years earlier; the French stock exchange was up by 207 per cent; in the United States the share index rose by 205 per cent. In the same five years the dollar appreciated by 19 per cent against the lira, 26 per cent against the mark and 23 per cent against the French franc.

At times of crisis, America has confirmed that it is a safe haven for international investors. The increases in productivity and production have attracted large financial flows from abroad that have reduced the cost of capital. The US economy has been an engine for global growth; US demand for imports has sustained production in the rest of the world.

Analysis of the possible developments in global finance reveals significant risks for exchange rates and interest rates. An abrupt interruption in the monetary expansion in Japan is unlikely. Faster growth in Europe will contribute to the equilibrium of the world economy.

It is necessary to strengthen the role of the international financial institutions, first and foremost the International Monetary Fund. The ability to foresee crises must be improved, focusing on macroeconomic imbalances and financial systems in the countries at risk.

The Financial Stability Forum is developing studies of the activity of highly-leveraged institutions; their assets and the credit granted to them by banks must be monitored constantly. Together with global institutional investors, they manage funds totaling about $30 trillion. Shifts of this enormous mass can have a profound influence on the financial systems of even medium-sized economies.

The single currency of eleven European countries has contributed to the stability of the international financial system; it has protected their economies from market turbulence.

The rise in competition resulting from the opening and globalization of markets makes it more urgent to strive for enhanced competitiveness at the level of each country and of the area as a whole.

We had long warned that participation in monetary union would have exposed the weaknesses in the Italian economy. Imbalances that were previously expressed in higher interest rates and, in extreme cases, exchange rate difficulties are now directly reflected in investment, production and employment.

In the new context, the comparative advantage of abundant savings loses much of its value. What counts is the ability to create propitious economic conditions for higher returns on investment.

In Italy gross investment rose by 3.5 per cent in 1998 and 3.8 per cent in 1999, outpacing GDP, which grew by 1.3 per cent in both years. The positive difference could be larger this year.

But saving continues to exceed investment, and a considerable part of it is employed abroad. The unemployment rate remains high, even by European standards. The labour-force participation rate is low among men, even lower among women. The unemployment rate in the South averages around 22 per cent; among young people aged between 15 and 24 it stands at 57 per cent. The figure reflects a squandering of human and economic resources.

The weak points of our economy have been identified for some time now.

Abnormal pockets of off-the-books work reveal the inconsistency between labour costs and economic viability. The very high number of self-employed workers and small firms gives the system elasticity, but does not permit the creation of initiatives of a scale able to ensure the stability of employment and growth.

The flexibility introduced in labour contracts in the last few years has promptly produced the hoped-for results. There has been an increase in employment, albeit mainly where it was already highest. It is necessary to continue in this direction with appropriate measures.

Resolute action must be taken to reduce the tax burden in the medium term as well, in order to raise the propensity to invest.

The structural adjustment of the public finances has been achieved to a greater extent than in other European economies by increasing the overall tax burden, which rose from 39.5 per cent in 1990 to 42.2 in 1995 and 43.2 in 1998. In 1999 revenues increased more than GDP. The Finance Law for 2000 provides for appropriate reductions.

The tax burden is no higher in Italy than in Italy’s leading trading partners: 48.2 per cent in France and 42.5 per cent in Germany. In these countries the average quality of public services delivered in return for taxes is higher. Governments have made solemn commitments to reduce the burden of taxation on households and firms substantially over the next three to five years.

Competition in Europe will become fiercer on this front.

Italy will benefit from the programmes undertaken for enhanced effectiveness and efficiency in the public sector. The public administration can be transformed from a brake into an engine of growth. It is necessary to overcome, at local level, the deficiencies of project-development ability that impede full utilization of the structural funds made available by the European Union and more extensive recourse to international credit.

New and courageous entrepreneurial initiatives can already be found in many regions of the South. They must be protected and encouraged through the provision of adequate infrastructure and guaranteed conditions of law and order.

At the start of the nineties the Italian banking system was still highly fragmented and inefficient.

Under the prompting of the Bank of Italy and the stimulus of international competition, a reorganization is in progress that is strengthening the system from the point of view of banks' size.

The banking industry will have to act resolutely to improve efficiency and reduce unit labour costs along the lines we have been urging for some time. The Bank of Italy will step up its efforts to foster competition right through to local markets.

But there cannot be sound credit without a sound economy. The only premise, in macroeconomic terms, for a return on investment is vigorous economic expansion.

It is up to policymakers and the social partners to promote the most favourable conditions for the nation's economic and social development. The emphasis must be on the content of governmental action.

It is incumbent on businessmen to consider the enormous opportunities offered by innovation and an increasingly pervasive application of information technology.

It is necessary to enact structural reforms that will curb inflation and foster expansion in order to turn the recovery that is under way into the start of a new era of growth.

We must create the conditions that will transform potential into reality.

By acting today we will lay the foundations for the welfare of the generations to come.

Money and the global economy

Lectio Magistralis by the Governor, Antonio Fazio, to the University of Pavia
Almo Collegio Borromeo

Pavia, 4 March 2000

The monetary order established at Bretton Woods lasted for a quarter of a century, from 1946 to 1971, a long period of growth in the world economy.

The system did not become fully operational, however, until the leading European currencies had attained external convertibility in 1958. The strains that developed in the gold market in the early sixties were already portents of the crisis that was gradually to worsen, until the convertibility of the dollar was suspended in 1971.

The dollar reserves of the leading central banks had long exceeded the United States' gold reserves, valued at the official exchange rate of $35 an ounce; the link between the American currency and gold was severed on 15 August of that year.

The abandonment of the gold standard was followed by a loosening of monetary conditions in many of the industrial countries.

Commodity prices rose rapidly in the early seventies. Abundant liquidity triggered a resurgence of inflation worldwide; it was against this background that the oil crisis occurred at the end of 1973, which led to a quadrupling of the dollar price of crude oil.

In several industrial countries inflation spread to wages. In Germany and Japan the effects of the rise in oil prices were neutralized by means of rigorous monetary and wage policies. The Bundesbank prevented an excessive fall in the purchasing power of the mark, though at the cost of a sharp slowdown in industrial output.

In Italy, where the budget deficit was rising, the monetary authorities intervened repeatedly with drastic credit restrictions in 1974, 1977 and the early eighties to curb explosive wage increases and inflationary pressures and the depreciation of the lira. The measures were eased when the rise in prices approached single figures for fear of jeopardizing economic growth and the level of employment.

At the end of 1979 the US monetary authorities reverted to giving priority to control of the money supply; interest rates rose to unprecedented levels. Credit growth was curtailed, partly by administrative means.

In Italy we abandoned credit rationing in the early eighties and shifted the emphasis to controlling monetary base. This instrument had not been entirely ignored during the preceding decade, but it had to some extent been made subordinate to direct credit controls in order to limit the impact on interest rates.

In Europe the eighties were dominated by the creation of the European Monetary System, in which the lira participated with a fluctuation band that was wider than the standard one, namely 6 per cent above and below the central rate.

Italy's membership of the EMS provided an anchor for the progressive reduction of inflation, but in the absence of consistent policies for restoring sound public finances and restraining labour costs it could not prevent a series of exchange rate realignments, which continued until 1987.

During that decade the Italian economy suffered the effects of a steady real appreciation of the lira; the current account of the balance of payments, which had returned to surplus at the end of the seventies, once again moved into deficit. Strong domestic demand and the loss of competitiveness caused a rise in foreign debt, which reached 11 per cent of gross domestic product in 1992.

During the same decade the leading countries further liberalized capital movements, including flows of short-term capital. In Italy the process was completed in 1990 together with adoption of the narrow fluctuation band of the EMS.

Efforts to create a single monetary area in Europe were resumed in the early nineties. Progress was halted temporarily by the crisis in the exchange rate mechanism, which culminated in the depreciation of sterling and the lira in September 1992.

The financial crisis in the autumn of that year was averted in our market by raising 3-month Treasury bill rates to more than 18 per cent; yields on 10-year securities rose to 15 per cent. Restraints on credit growth, which were imposed by all the major banks at the request of the Bank of Italy, contributed to preventing a new wave of inflation. The labour costs agreement of July 1993, which was promoted by the Ciampi Government, helped curb the rise in prices.

In May of that year the lira was 20 per cent below its previous central rate; in real terms, competitiveness had recovered to the level of the early eighties.

Official interest rates were steadily reduced from the extremely high levels reached at the time of the exchange rate crisis.

The easing of monetary conditions in Europe after a new EMS crisis in August 1993 enabled Italy to continue to reduce interest rates, while maintaining a substantial differential in relation to Germany and France.

In the second half of 1994 domestic political instability and developments in international markets created fresh tensions in our financial system. Inflationary pressure began to build up. A new period of credit restriction began; in August we raised the discount rate and the rate on central-bank advances.

In the spring of 1995 the fall in value of the dollar and major European currencies, including the lira, had its counterpart in an appreciation of the mark and the French franc and a sharp rise in the value of the Japanese yen.

In Italy the measures taken by the Dini Government to curb the budget deficit checked the outflows of capital, but the depreciation of the lira threatened to fuel inflation. We tightened monetary conditions even further; official interest rates were raised again in February and May. Inflation expectations, which had steadily worsened since the summer of 1994, were turned round for the first time in June 1995.

At the meeting of the Group of Seven countries in Washington that April a further increase in dollar interest rates had appeared inadvisable, in order to avoid aggravating the crisis that had erupted in Mexico and prevent it from spreading to other Latin American countries. It was decided, although not explicitly announced, that steps would be taken to correct the imbalance between weak and strong currencies, primarily the dollar and the yen respectively, by generating further monetary expansion in Japan. The measures, which were complemented by massive intervention in the foreign exchange market, proved effective in initiating a move towards more balanced exchange rates among the leading currencies.

Thanks to the drastic curbs on monetary growth, which cut the expansion in the money supply in Italy to almost nil for two years, the lira also began to appreciate again.

A period of abundant liquidity creation began in the international market. This did not rekindle inflation, given the continued weakness of world demand and the associated decline in commodity prices; however, it began to affect long-term interest rates and share prices.

1. *Money and global finance in the nineties*

During the nineties, in a context of freedom of capital movements, technological progress in the field of telecommunications and financial innovation lent impetus to the creation of a global market for money and finance.

The global market makes it possible to channel savings to countries offering the best investment opportunities, leading to efficient allocation of available resources and giving a boost to productive capital accumulation, with beneficial effects on growth. However, global finance can become a source of instability, contributing to the spread of turbulence; the separation of the centres in which savings are formed from those in which they are used increases the difficulty of evaluating investment projects.

In the ten largest industrial economies the stock of public and private sector bonds rose from 90 to 130 per cent of GDP between 1985 and 1998, and stock market capitalization increased from 30 to 120 per cent of GDP between 1985 and 1999. Over the last decade the spread of derivative instruments has been much more rapid, driven by the expansion in world trade, the diversification of financial portfolios and the high volatility of securities prices and exchange rates. Between 1990 and 1997 the notional value of exchange-traded derivatives rose from 35 to 200 per cent of GDP.

The deeper integration of national markets is reflected in the more synchronous movements in nominal long-term interest rates: over the last thirty years the correlation of yields in the Group of Seven countries has become progressively closer, albeit fluctuating in the short term. Real long-term yields, calculated by deflating nominal yields by the rise in consumer prices, have also tended to become more uniform among the major economies.

Inflation in the industrial countries had come down to 6 per cent in the eighties, compared with rates on the order of 8 per cent in the seventies. It declined further in the nineties, to 3 per cent.

The ratio between the money stock and nominal GDP remained virtually constant for much of the last decade. It began to rise again in 1998; although part of the increase was attributable to a reduction in the opportunity cost of money, this trend is an indication of abundant liquidity.

In Japan the monetary expansion that had been initiated in 1995 was intensified from 1997 onwards; rather than stimulating domestic demand, however, it translated mainly into capital outflows. The abundant supply of liquid funds, a good part of which poured into the emerging countries, delayed the correction of the disequilibria which would later lead to the Asian crisis. As a consequence of the crisis, the United States recorded huge inflows of funds, attracted by the profitability of investments and the efficiency of the stock markets; this gave a further boost to share prices.

Real short-term interest rates fell from more than 4 per cent in the early nineties to around 3 per cent in the middle of the decade. They have come down further since the end of last year and now stand at around 2 per cent.

Real long-term yields have declined less markedly, falling from 4 per cent at the beginning of the decade to an average of just over 3 per cent in the last two years. The decline was checked by a number of factors, including the high profitability of productive investment in the United States and, until 1997, in the emerging countries as well, and the increasing riskiness of financial investment in the new macroeconomic environment.

In the second half of the nineties the steady rise in share prices led to a generalized reduction in the cost of capital in the leading economies.

The pre-eminence of financial factors over real economic factors gives the growth in international liquidity a kind of “autoreferentiality”: the expansion is taking place without any close link to the real economy.

The availability of abundant financial resources is fueling the growth in lending; given the less than prudent conduct of intermediaries and inadequate controls, this may not only cause a deterioration in loan quality but also lead to the formation of speculative positions.

The events of these years demonstrate the inherent risk of instability due to the configuration of the financial system; it underlines yet again the need for some form of governance of global finance.

2. *Monetary policy and the prices of financial assets*

In recent years the expansion of international liquidity has not been accompanied in the leading countries by a pickup in consumer price inflation but by a rapid and prolonged rise in the prices of financial assets and, albeit to a lesser extent, of property. This result reflects favourable conditions in the supply of goods and services in the United States and the restrictive stance of budgetary and incomes policies in Europe.

The developments under way suggest the need to reflect on the effectiveness and objectives of monetary policy in the new global context, with special reference to the importance that central banks should attribute to the price dynamics of financial and real assets, especially when these are not firmly rooted in the evolution of macroeconomic variables.

The most appropriate measure of inflation for monetary policy purposes is under debate.

A given real or financial asset allows the holder to receive future payments or services; its price corresponds to the present value of the future consumption it permits. Some have argued that the measure of inflation for monetary policy purposes should include the increases in the prices of financial and real assets in addition to those in the prices of goods for current consumption. According to this view, central banks' objective should be a weighted average of the prices of goods for current and future consumption.

Monetary policy can stabilize the value of the numéraire but it cannot influence the relative price of current consumption with respect to that in the future. The use of a basket that included financial assets might make it possible to control the latter's prices, but at the cost of undesired fluctuations in consumer prices and economic activity.

A monetary strategy based on a broad index, aimed at stabilizing the purchasing power of money in the long run, would be difficult to put into effect, not least on practical grounds.

In the first place, action to stabilize an index that included future consumption would be effective in the hypothetical case in which consumers were able to determine their present and future demand for goods accurately.

Stock market price movements are influenced in the short and medium term by erratic factors. It is extremely difficult to assess even prices correctly, not least owing to the difficulty of determining the actual profitability of shares. Investors may be remunerated by the issuing company buying back its own shares instead of distributing dividends. Accounting standards allow purchases of intangible technologies to be included in operating costs. Estimates of the premium investors demand in order to hold equity are highly uncertain.

The prices of real and financial assets can provide indications on the future course of key variables for the conduct of monetary policy: above all inflation, but also consumption.

Analyses focusing on some leading industrial countries suggest that the prices of real and financial assets can anticipate the future course of inflation to a degree; however, the link is uncertain and variable, both over time and across countries.

The absence of solid empirical evidence on the relationship between share prices and future inflation has also been demonstrated for Italy in a study carried out in the Research Department of the Bank of Italy with reference to the eighties and nineties.

Recent experience provides important examples of the price dynamics of real and financial assets significantly influencing demand for consumer goods. In the second half of the eighties and the second half of the nineties some countries, including the United Kingdom, Sweden and Finland, experienced rapid rises in share and property prices accompanied by a surge in household expenditure and borrowing; when asset prices fell, the sharp contraction in consumption was coupled with a significant slowdown in economic activity.

The growth in securities markets, which has been extremely rapid even in economies where banks traditionally played a major role, the spread of share ownership associated with the rise of institutional investors and the gradual shift in many countries towards funded pension systems could considerably increase the impact of changes in stock market prices on expenditure.

In the United States the large fall in the propensity to save has been set in relation to the tendency to include both realized and unrealized capital gains among households' sources of income. Recent research has shown that every dollar increase in equity wealth has an impact effect of between 3 and 4 cents on consumer spending; the long-term effect is much larger.

The information derived from the price dynamics of real and financial assets and the effect these dynamics can have on output need to be assessed in the light of macroeconomic conditions, the phase of the business cycle and the general stance of economic policy.

The experience of many countries has shown that fluctuations in the prices of financial assets and property can affect the solidity of intermediaries, especially banks, to the point of undermining the stability of the financial system as a whole.

The close link between fluctuations in asset values and the solidity of the banking system emerged clearly in the recent difficulties faced by banks in Korea and South-East Asia and, in the eighties, in the crisis of America's savings and loan associations.

The most important example is undoubtedly that of Japan. Between the end of 1985 and the beginning of 1987 the Bank of Japan reduced the discount rate by half, to 2.5 per cent, and then held it unchanged for two years in a period of rapid economic growth. Over these four years the ratio of the stock market's capitalization to GDP nearly tripled to 130 per cent; property prices nearly tripled as well. In the spring of 1989, faced with these developments and rapid growth in GDP, the central bank began to tighten monetary conditions and in little more than one year raised the discount rate by 3.5 percentage points to 6 per cent.

The monetary squeeze caused the speculative bubble to burst, with severe repercussions on banks' assets: the prices of Japanese shares fell by 36 per cent between the middle of 1989 and the end of 1991; the fall in property prices was equally large, although more gradual. The average rate of return on bank capital in 1988 was 10 per cent; in 1997 it was -20 per cent.

Financial stability is indispensable for macroeconomic stability. It requires an efficient and profitable banking system with a capital base that can absorb the effects of fluctuations in economic activity.

Supervisory controls aimed at avoiding excessive risk concentration and ensuring compliance with the rules on sound and prudent management and the separation between banking and commerce remain of fundamental importance.

3. *Share prices*

Since the second half of the nineties share prices have been rising in all the leading European and US stock markets.

Putting stock price indexes equal to 100 at the beginning of 1995, the S&P 500 stood at 268 at the end of 1998 and 320 at the end of 1999; on the same basis the Italian stock exchange index, which stood at 166 in 1997, rose to 233 in 1998 and 285 at the end of 1999.

In France and Germany the rise in share prices through 1997 was between that in the United States and that in Italy; by the end of 1999 the French index had risen to 317 and the German index to 277.

The steady and sustained rise in share prices was fueled by the long period of low inflation, the decline in real long-term interest rates and the particularly strong performance of the US economy.

Economic growth in Europe was more hesitant and affected by the Asian crisis in 1997 and the Russian crisis in 1998. Profit margins were nonetheless high throughout the period and in the last twelve months businessmen's output forecasts improved steadily.

Share price trends can be analyzed better by considering companies' market value in relation to their profits, the price-earnings ratio.

In the first half of the nineties, after wide fluctuations and cycles lasting from four to five years, the price-earnings ratio in all the leading markets except Japan was only slightly higher than in the mid-seventies. In other words share prices had risen only a little faster than profits.

In the second half of the nineties the ratio rose exponentially; there continued to be fluctuations, which were pronounced in the United States and in Italy.

At the end of 1994 the ratio was 18 in Germany, 13 in France and 19 in Italy. In the United States it was around 17, just above its long-term average value; two years later, at the end of 1996, it had risen to around 21.

In 1997, partly as a consequence of the inflows of capital from the crisis-stricken areas, the price-earnings ratio continued to increase in the United States and began to rise in Europe as well.

The rise in the ratio accelerated everywhere in 1998; the substantial decline recorded in the autumn in connection with the Russian crisis was made good in the last part of the year.

In 1999, after rising hesitantly in the first nine months, the ratio surged in France, Germany and Italy; in January 2000 it stood at around 27 in Germany and 24 in France; in Italy it was around 29, as in the United States.

These values correspond to a real rate of return on equity investments of between 3 and 4 per cent, which is close to that on bonds. In earlier decades there was a wide gap between the returns on the two forms of investment.

In Japan, reflecting the peculiarities of the economy, the price-earnings ratio was around 56 in the second half of the eighties; it dropped to around 49 in the first half of the nineties as a consequence of the difficulties described above and then rose, with wide fluctuations, to around 67 at the end of 1994 and reached 80 in the early months of this year.

The movement in share prices can be assessed by referring to the relationship between the value of a capital asset and its yield over time:

$$p = \frac{D}{r + s - g}$$

where: p is the price of the capital asset;

D is the dividend to which the owner of the asset is entitled;

r is the real long-term interest rate;

s is the risk premium expressed as an increase in the real interest rate;

g is the expected long-run rate of growth in real dividends.

The dividend-price ratio should therefore be equal to the real interest rate plus the risk premium, less the expected growth in real dividends.

In the five years from 1995 to 1999 the dividend-price ratio declined markedly in all the leading markets except Japan and Italy. In the United States the ratio fell from 2.9 per cent at the beginning of 1995 to 1.2 per cent at the end of 1999; in France it went from 3.1 to 1.8 per cent.

In Italy the movements in the ratio were irregular, with a sharp decrease at the end of 1999 and during the current year.

Expected real long-term bond yields in Italy, France, Germany, the United Kingdom and the United States now range between 2.9 and 3.7 per cent. Looking ahead over a sufficient number of years, we can assume as a first approximation that the rate of increase in dividends for the market as a whole is equal to the rate of GDP growth expected by analysts for these countries; the latter fluctuates between 2.2 and 2.7 per cent over the next ten years.

On the basis of these values, and assuming that the real interest rate plus the risk premium is always greater than the expected increase in real dividends, the current level of share price indexes is consistent with a risk premium of between 0 and 1.5 percentage points, a far lower level than in the past.

Over many decades, the premium demanded for investment in equities by comparison with an investment in riskless securities has been on the order of 5-6 percentage points in the leading markets.

On the basis of current dividends and with the risk factor set to 6 percentage points, in line with the historical average for the equity markets as a whole, the level of the Standard & Poor's index is consistent with annual real dividend growth on the order of 8 per cent in the long run. The average annual growth in nominal dividends recorded in the United States over the last fifty years is 5.2 per cent.

The rise in share prices has been especially rapid in the case of securities representing investments in high technology sectors. For the Nasdaq 100 index, which contains a high proportion of such securities, the current prices would be consistent with real dividend growth of just under 10 per cent a year. For the Dow Jones Euro Stoxx index, the price level is consistent with real dividend growth of between 8 and 9 per cent a year.

According to analysts' forecasts, in the five years between 1999 and 2003 the earnings of companies included in the Standard and Poor's index will grow at an average rate of 18 per cent a year in nominal terms. Companies included in the Nasdaq index are expected to record average annual earnings growth of 31 per cent.

It must be stressed, however, that besides being expressed in nominal rather than real terms, these forecasts refer to a relatively limited period of time and are characterized by considerable dispersion among the companies considered.

For securities in the high-tech sectors included in the Euro Stoxx index, expected earnings growth is on the order of 20 per cent a year; here too, the forecasts vary widely.

The abundance of liquidity in the world economy in an environment marked by stable inflation has led to an increase in the percentage of equities held in portfolios.

The figures I have just mentioned suggest a decrease in market participants' perception of risk compared with the past. The increase in the liquidity of equity markets and the growing activity of institutional investors may have contributed to reducing risk.

For stock markets as a whole, the level of prices can be partly explained by investors' expectations that corporate profits will increase much more rapidly than GDP, taking into account the specific situations of companies involved in corporate reorganization or major investment and expansion plans. At a time of high dynamism in the economy and finance, the incidence of these companies may become substantial.

For companies operating in advanced technology sectors, the forecast annual increase in dividends, which is particularly high, may correspond to favourable prospects of growth. However, investors themselves remain very uncertain as to what future profits will be in these sectors owing to the innovative nature of the activities involved.

4. *The world economic recovery and Italy*

The global monetary expansion in the second half of the nineties began with a sharp cut in interest rates in Japan in the spring of 1995, which was aimed at stemming the fall in the value of the dollar and other currencies and the excessive appreciation of the yen in the wake of the Mexican crisis.

As the abundant liquidity in Japan could not be absorbed in the domestic economy, it spilled out into the international markets; it pushed up the exchange rate of the dollar, notwithstanding the increase in the supply of dollar-denominated instruments as a result of the US balance-of-payments deficit. The massive build-up of Japan's foreign assets sustained investor confidence, limiting the depreciation of the yen.

Monetary policy in the euro area in both 1998 and 1999 was characterized by an ample supply of liquidity, some of which flowed out to the rest of the world in the form of financial investment.

In the last few years in particular, the expansion of international liquidity has coincided with relatively weak growth in the world economy as a whole, restrictive budgetary policies in Europe and the United States, and wage moderation in the industrial countries. These factors have prevented the rise in liquidity from affecting current output prices; by contrast, securities prices have increased substantially.

The synchronous movements in securities prices in the main markets reflect worldwide portfolio optimization. The funds managed by global intermediaries, excluding banks, amount to approximately $30 trillion.

An analytical framework postulated by Tobin at the end of sixties with reference to a closed economy, consistent with the view he had already developed regarding the role of money and credit in a system of general equilibrium, examines the effects of the supply of monetary base and money first and foremost on securities and the prices of capital goods.

A rise in the market value of physical goods creates a gap with respect to the cost of producing them, prompting an increase in their supply. A reduction in the cost of capital with respect to its marginal efficiency increases investment.

Investment in the United States, which was already expanding rapidly, has been fueled by the large inflow of capital to that market. It has been concentrated in the high-technology sectors; the widespread gains in productivity have contained costs, curbed inflation and contributed to the rise in share prices.

The increase in financial wealth has further boosted consumer spending and reinforced the growth of the economy and employment.

In Europe, the recovery was stimulated in 1999 by a surge in demand from Asian countries following a pause in 1998. Capital spending is also rising at a sustained pace.

The decidedly expansionary stance of monetary and budgetary policy has averted a deflationary spiral in Japan, which would have jeopardized the growth of the entire world economy.

The economic outlook for important countries in Latin America remains uncertain.

The global recovery that began in the middle of 1999 has been partly due to the abundance and low cost of finance. However, it has affected the prices of raw materials and oil. This has led to inflationary pressure, especially in Europe, where productivity growth is limited.

The Eurosystem's decision to raise official rates by 25 basis points in February was intended to prevent consumer price increases exceeding the ceiling of 2 per cent a year over the medium term.

In Europe yields on 10-year government bonds reached levels of between 5.5 and 5.8 per cent last year. The yield curve still has a steep upward slope.

Italy's GDP grew by 1.4 per cent last year. Industrial output declined until May, but from June onwards it displayed a rapid increase typical of the initial stages of a cyclical recovery.

Consumer price inflation, to which we called attention in October, has risen since the second half of last year. The average rate of increase in consumer prices in 1999 was 1.7 per cent, an acceleration that largely reflects the rise in the dollar prices of oil and the weakness of the euro. If the expected fall in oil prices leads to a slowdown in monthly rates of increase in the second half of the year, consumer price inflation in 2000 will stand at 2.2 per cent.

There is still a wide differential vis-à-vis France and Germany, which account for about 40 per cent of Italy's foreign trade.

Our economy is hampered by structural shortcomings in terms of productive efficiency and labour market flexibility.

GDP should grow by about 2.5 per cent this year, well above last year's figure but about half a point less than the rate for the euro area. Employment in the private sector should rise by more than 1 per cent; the increase will probably continue to be concentrated in the more prosperous regions and to involve mainly fixed-term and short-term contracts. Unemployment is forecast to settle at around 10.5 per cent and the labour force participation rate will remain low.

The recovery in output is closely bound up with the strong growth in exports, while imports are expected to record moderate growth.

Investment demand is accelerating in the sectors of plant, equipment and transport equipment, where it is stimulated by the recovery in industrial output and tax incentives, and in the construction sector, where it is due to the gradual build-up of the effects of tax relief for renovation work.

Consumer demand is held back by the modest rise in disposable income and uncertainty about future income growth. An improvement in the public finances calls for continued efforts towards budget adjustment and structural reforms.

Econometric estimates for the years after 2000 show that if the current recovery is to lead to a new and protracted period of growth, the propensity to invest will have to increase faster than at present.

The economic environment needs to be conducive to the growth of productive activity. An overhaul of company law could help in this regard. To eliminate precariousness in the labour market, the average duration of fixed-term contracts must be lengthened and supply adapted to the economic situations of firms, especially in those regions where the bane of unregulated employment is most widespread.

The streamlining of administrative procedures must be fully implemented; the constraints that hamper small and medium-sized firms must be eased and the efficiency of government bodies must be improved, especially in the regions.

There is an urgent need for a resumption of planning and investment in infrastructure, both in the depressed areas of the South and in the more developed regions; this can be financed both by recourse to European funds and by tapping the domestic and international capital markets.

An increase in domestic demand, and in investment in particular, is compatible with the volume of available savings.

The protracted bull market in the United States has caused European stock markets to rise as well, providing the funds necessary for extensive restructuring in some sectors, including banking.

Compared with the end of last year Standard & Poor's index has fallen by 6 per cent. The Euro Stoxx index has risen by 10 per cent, with the increase being concentrated in the services and telecommunications sectors. In Italy the stock market index has risen by a further 17 per cent.

Process innovation, restructuring and an expansion in size can justify substantial rises in expected profits, even in traditional manufacturing sectors. For advanced technology sectors a very large increase in sales, productivity and profits is plausible.

In the United States the rise in share prices in recent years has been underpinned by the sustained growth of the economy. Total factor productivity has shown exceptional average annual growth of more than 10 per cent in the machinery and transport equipment sector, thanks above all to the large increase in investment, the spread of information technology and corporate reorganization.

Higher profits have fueled the rise in share prices. It is increasingly evident that savers are becoming ever more selective in their choice of investments.

In Europe the availability of ample funds and the low cost of capital should translate into investment, particularly in high technology sectors that can generate increases in productivity and output that will spread to the whole economy.

Together with a careful selection of investments and business projects, Italy also needs economic and sectoral policies that will make it possible to harness the opportunities opened up by the cyclical upturn.

In this way it will be possible to prolong today's faster growth for several years, bringing benefits for employment in the more disadvantaged areas especially for young people.

An economy such as Italy's, where production is fragmented, can be revitalized by the so-called new economy primarily via a reorganization of firms and intersectoral relations induced by market forces and information technology. Swift adaptation to the new scenario will be essential.

The basic resources are available in plenty, particularly saving. The banking system has made considerable advances of late in terms of size, organizational structure and products, with beneficial effects on credit allocation. There is still a plentiful supply of labour and youthful skills, the ultimate factor for any economic and civic progress.

The future, what we become and what legacy we leave is written in the events of today, in the choices we make now.

The commitment of our institutions, firms, employers and workers will enable us to exploit the favourable conditions offered by the economic cycle, the global economy and finance in order to transform potential into reality, overcome uncertainties and difficulties and build a more just and caring society.

The new forms of finance in Italy

Paper delivered by the Deputy Director General, Pierluigi Ciocca, at the 40th Annual Scientific Meeting of the Italian Society of Economists

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As this century draws to its end, legislation, taxation, supervision and the promotion of competition - public, economic and institutional policy - have combined with domestic economic developments and international trends to determine far-reaching changes in the Italian financial system. Apart from the underdevelopment of pension funds, which is a serious deficiency, the structure of the Italian system is similar to those prevailing on the international stage.

The financial industry has modernized its operations and its performance. It has advanced in terms of the quantity, productivity and prices of banking services and the diversification, depth and efficiency of markets. Its principal weakness lies in overly high per capita labour costs. The distribution and quality of some services also still leave room for improvement.

The financial sector can contribute to the Italian economy's return to growth. Its contribution will depend not so much on further public policy measures as on the players in the market. The behaviour of bankers and financiers will be the most important factor in lowering labour costs and upgrading the quality of services in what has become a competitive environment. But the result will also depend on the willingness of households and firms to make full use both of the instruments that the financial system now offers - which they have failed to do so far - and of those the system will supply in the future in line with the trends in international and European finance.

The starting point for examining the changes in Italian finance during the last two decades of the century is that it was not quantitatively underdeveloped at the beginning of this period. On the contrary, the ratio of gross financial assets (liquid assets, loans and securities) to real wealth (plant, machinery, stocks, buildings and land) - Raymond Goldsmith's financial interrelation ratio, or FIR - is estimated to have been 0.9 in 1980. This value can be considered high, albeit below the peaks recorded in the seventies, which were anomalous in several respects. It was not lower than those recorded in the more advanced economies of West Germany, France and Japan.

The volume of gross financial assets has since grown from 1,300 to 11,400 trillion lire at current prices and to 3,300 trillion at 1980 consumer prices. The financial interrelation ratio has also risen, to stand at 1.2 in 1996. As in other countries, this reflects increases in the prices of existing securities as well as issues of new liabilities; in the nineties such issues have fallen in relation to GDP, more sharply in Italy than elsewhere. In the quantitative growth of finance Italy has basically kept pace with Germany and Japan. The three countries as a group have seen the gap widen with France (where the financial interrelationship ratio is 1.9), the United States (2.1) and above all the United Kingdom (2.9). However, the British and American financial systems are increasingly oriented to satisfying international demand; their financial centres serve the world more than the domestic economy.

1. The principal changes in the financial system

On the basis of these preliminaries, we can consider the principal changes - reduced here to seven - in the structure of Italian finance over a period of nearly twenty years which we conventionally date from "1980". The structure coincides with the economic and legal forms of finance, its diversification in terms of intermediaries and markets, and its basic organizational arrangements.

1.1 *From intermediaries to markets*

Up to the seventies the financial system in Italy was oriented towards "credit intermediaries" more than "markets" to an even greater extent than in other countries, particularly in continental Europe. Leaving aside its complex and debatable qualitative implications, this simple formula reflected the high or increasing quantitative importance of banks and the traditional intermediation they performed directly, as measured by their share of the financial intermediation ratio, i.e. the ratio of the financial assets held by credit institutions (divided into banks and special credit institutions at the time in Italy) to total financial assets.

Calculated on stocks, the financial intermediation ratio reached a peak of 0.5 in the mid-seventies. Subsequently, the excessive growth of double intermediation, with the banks financing the special credit institutions, was rapidly reabsorbed. In 1980-81 the ratio had already fallen back to levels comparable to those of France and Germany (0.4), though well above those of the United Kingdom (0.3) and the United States (0.2). Credit intermediaries' share of financial assets declined continuously, albeit less rapidly, in the two following decades, and by 1997 it had fallen below 0.3, lower than the ratio in Germany (which had remained around 0.4), similar to those in France and the United Kingdom and higher than that in the United States (which had decreased to 0.15).

Over the past two decades "primary" securities - issued directly by individual spending sectors not engaged in a prevalently financial activity (households, firms and public bodies) - placed directly with final lenders or their agents ("direct securities") have recorded much faster growth than "indirect securities", i.e. those supplied to final lenders by credit intermediaries drawing on their own purchases of primary securities. The growth of the securities markets has been correspondingly rapid.

The development of the markets has reflected above all the expansion of the public debt (from 58 per cent of GDP in 1980 to a peak of 124 per cent in 1995) and the ability of the private sector to absorb both massive new gross issues of public debt (amounting to 50 per cent of GDP a year) and the disposals of government securities by the banking system. The latter, including the central bank, reduced its holdings from 60 per cent of the stock outstanding in 1980 to less than 20 per cent in the nineties. Foreign investors, who had been virtually absent from this market, today hold more than a third of Italy's public debt. A decisive factor was the creation in 1988 of an efficient screen-based market in government securities (MTS) by the main domestic participants at the behest of the Treasury and the Bank of Italy.

The growth of the private capital market has been less vigorous, but not inconsiderable. Amidst the economic difficulties of the seventies, the capitalization of the Milan stock exchange plunged to 3 per cent of GDP. Subsequently it climbed back, reaching 13 per cent at the turn of the nineties and 65 per cent at the end of the decade. The current ratio is comparable to that of the Frankfurt exchange (68 per cent), but remains lower than the figures for the Paris, New York and London exchanges (respectively 99, 178 and 191 per cent). In the eighties the growth of the market was due both to the increase in the number of listed companies, from 134 to 223, and to their issues of new shares. In the nineties it stemmed from the rise in share prices and the privatization and listing of major public-sector companies. The number of listed firms has changed little, standing at 247 at the end of 1999. Their value added is equal to 8 per cent of GDP. Privatized companies account for more than half the growth in the stock exchange since the last quarter of 1993, when the privatization programme began in earnest. New share issues by listed companies declined from 8 per cent of total stock market capitalization in the eighties to 5 per cent in the nineties. Nearly three quarters of all listed companies are controlled *de jure* or *de facto* by a single shareholder. Non-residents hold just over 10 per cent of the total value of listed shares.

The institutional and organizational turning point for the Italian stock exchange is of recent date but the changes have been radical. Ownership of all the markets for the trading of corporate and government securities was privatized between 1996 and 1999, after nearly half a century during which the markets were instituted, managed and supervised within the framework of public law. Companies limited by shares have been charged with managing the markets' structures and endowed with self-regulatory powers concerning the admission, exclusion and suspension of financial instruments and market participants, trading rules and the dissemination of information on trading. The procedures for exercising these powers are laid down in rules adopted by the market management companies and approved by the authorities.

Italy also has a large and efficient money market today for trading in both short-term government securities and interbank funds. It is an integral part of the euro market, indeed one of its most advanced components, and enables Italian banks to vie in their treasury management with other European banks.

Monetary policy was strengthened with the introduction of repos (1979) and changes in the classical refinancing instruments, including the revision of the penalty rates on fixed-term advances (1991) and the introduction of a commission on overdraft facilities (1985). The transition from administrative instruments and direct control - ceilings on the increase in bank lending and securities investment requirements for banks - to market-based, indirect instruments in the conduct of monetary policy was completed in 1988. The mobilization of compulsory reserves was introduced in 1990. The creation of the screen-based interbank deposit market (MID) in the same year combined new rules and advanced technology. The undertaking by MID participants to concentrate their trades in the market and the binding nature of quotations contributed to the market's growth, transparency and efficiency. Innovations in the payment system helped to reduce the use of correspondent current accounts.

There was a positive interaction between monetary policy and the markets. Monetary policy conducted through the markets gained in effectiveness and signaling efficacy as the markets developed, while monetary policy measures and its information content enhanced the efficiency of the markets. Strengthened in this way, the Bank of Italy's monetary policy was able to manage expectations and subdue inflation between 1994 and 1998, thereby creating the essential condition for Italy's political decision to join the single currency to be implemented. At the same time the proportion of potentially "listable" financial instruments actually listed in organized and continuously operating markets rose from no more than 28 per cent to 55 per cent today.

The decline in the financial intermediation ratio, the improvement in efficiency of the markets and their growth have a clear meaning as a whole: the Italian financial system is no longer bank-oriented.

However, the decline in the relative importance of traditional bank instruments has not coincided with a decline in the role of the banks, which remains pivotal. A stock of private capital for the financial industry offering an effective alternative to that built up over time by the banking system has yet to emerge. While deposits and loans were declining in importance, banks developed their securities trading and administration activities. They accommodated customers' demand for portfolio diversification. Taking account not only of deposits but also of the securities intermediation performed by banks directly or through their securities market subsidiaries and affiliates, the share of financial savings managed by the banking system has not decreased. It stands well above 90 per cent, the level it had risen to in the eighties from the already very high level of 80 per cent recorded in the late seventies.

1.2 *More participants and instruments and a greater diversification of organizational arrangements*

As activity in the markets came to prevail with respect to intermediation by credit institutions, the range of instruments, intermediaries and segments that constitute the financial system changed and in some respects was enriched.

The composition of financial assets shifted radically. The fall in inflation and nominal interest rates from the early eighties, together with high real yields and rising rates of profit, was a contributory factor. Money and the most liquid monetary instruments (currency, deposits and Treasury bills) fell from 44 per cent of total financial assets in 1980 to 33 per cent in 1990 and 20 per cent in 1998. Loans, especially short-term lending by intermediaries issuing liquid liabilities, also declined, from 25 per cent in 1980 to the present level of 20 per cent. Bonds (notably longer-term government securities), equities, insurance technical reserves and investment funds recorded a corresponding increase in their share, which rose to more than half: it was 31 per cent twenty years ago and is nearly 60 per cent today. Issues of corporate bonds and commercial paper remain limited. Small and medium-sized enterprises still find these instruments too costly and disproportionate to their needs. More than 90 per cent of Italian firms have fewer than ten employees; together they account for more than half of total employment. The vast majority of small firms remain small.

The greater variety of services other than credit intermediation that banks can now supply is also important, as is the much wider range of contracts and technical forms that the classic instruments of loans, bonds and shares can now assume compared with the past. This development was sanctioned by the 1993 Banking Law and the 1998 Consolidated Law on Financial Intermediation, which provide for an extended taxonomy of financial services that can be further expanded by contractual autonomy, in accordance with Article 1322 of the Civil Code.

The universe of financial undertakings has been simplified with despecialization in the banking industry, which now counts 875 banks with 27,000 branches, and enriched in both number and types of non-banks. On the organizational plane, the intermediate solution of the multifunction group is available to cover the range of situations in which “all-purpose” intermediaries would be unmanageable but which are beyond the reach of intermediaries with a specialized mission. The division of the banking industry into distinct legal and institutional categories has been overcome with the ending of maturity specialization. Alongside the former “banks” and “special credit institutions”, the number of non-banks operating in the credit sector has increased (to around 1,400) and their market share has grown. These “other credit intermediaries” supply leasing, factoring, consumer credit and venture capital services. Their loan portfolio is now equal to about 10 per cent of that of the banks. Life insurance has expanded. Premium income from the life sector has surpassed that from the casualty, in part because the life insurance policies sold through the banking channel now account for about half the total. Among security market participants, the range of “other financial institutions” has expanded with the introduction and growth of securities firms, SICAVs, investment funds, asset management companies, and pension funds, and greater synergy between insurance and financial intermediation. In addition, more than a hundred companies established under foreign law are authorized to do business in the Italian market; they operate investment funds with an 8 per cent share of the total resources under management by the sector.

In 1990 “other credit intermediaries” together with “other financial institutions” accounted for 5 per cent of gross financial assets in Italy. In 1998 the figure exceeded 13 per cent, thanks especially to the gain of seven percentage points in the share attributable to “other financial institutions”. The latter had been less developed in Italy than in the other countries of continental Europe. In 1996 their assets were equal to 35 per cent of GDP in Italy, 42 per cent in Germany and 80 per cent in France. In the last three years the ratio in Italy has risen above 75 per cent.

Pension funds have recently been created but their assets are still negligible. The coverage and generosity of the pay-as-you-go pension plans, and the consequent modest importance of funded schemes, remain the principle cause of the delay on this front. The tax benefits provided have done little to accelerate the take-off of these intermediaries.

1.3 *From public to private*

In 1980 and even a decade later the activity of public-sector banks accounted for nearly 70 per cent of the total volume of business, one of the highest ratios in Europe. The figure is 15 per cent today, one of the lowest in Europe, and will decline further with the residual disposals to be carried out by the bank foundations.

The privatization of the public-sector banks was concentrated in the space of a few years, but its institutional gestation was long and complex. The reform passed through three phases: the alignment of the rules applying to banks in the public sector with those governing banks in the private sector, the transformation of public-sector banks into companies limited by shares and the elimination of the restrictions on the ownership of the capital of the former public-sector banks.

On the basis of holdings in excess of 5 per cent of the capital reported to the Bank of Italy in 1998, 27 per cent of the capital of Italian banks is owned by other Italian banks, 4 per cent by foreign banks, 18 per cent by public and non-profit institutions and 5 per cent by insurance companies and financial undertakings (holdings of less than 5 per cent account for the rest). In terms of their shares in total bank intermediation, banks are 63 per cent controlled by other Italian banks, 15 per cent by foundations and public bodies, 5 per cent by insurance, industrial and financial undertakings, and 2.5 per cent by foreign banks.

The problems of ownership structure in the banking system - hard cores, shareholders' agreements, cross-shareholdings - must also be evaluated in the light of the huge scale of the privatization process and the short time in which it was carried out.

1.4 *International openness*

The progress in the international integration of the economy and the financial system is reflected in the volume of transactions connected with capital flows recorded by the balance of payments (the sum of the changes in gross assets and liabilities). In the nineties they have increased ten-fold and sixteen-fold respectively for Italian and foreign non-bank capital movements. Total transactions in the foreign exchange market have tripled to reach $30 billion a day.

The Italian banking system has never been closed to international relationships since the Second World War, not even when capital exports by residents were discouraged or prohibited and even subject to penal sanctions such as those laid down by Law 159/1976.

In the eighties and even more in the nineties, with the removal of exchange controls, Italian banks' international activity grew in every respect indicating an effective ability to be a competitive player in financial globalization.

The assets of banks operating in Italy vis-à-vis non-residents grew from $25 billion at the beginning of the eighties to $94 billion in 1990 and $186 billion in 1998. Between 1990 and 1997, including Italian banks' branches abroad, residents' foreign currency deposits plus non-residents' lira and foreign currency deposits rose from 8.2 to 10.9 per cent of total deposits, while lira and foreign currency loans to non-residents increased from 5.8 to 6.7 per cent of total lending.

The number of Italian banks' branches abroad rose from 43 in 1980 to around one hundred in 1990, and then remained at that level over the last ten years. That of foreign banks' branches in Italy has increased uninterruptedly, from 24 in 1980 to 37 in 1990 to 59 today. The foreign banking and financial subsidiaries of Italian banking groups numbered 140 in 1992 and 182 in 1998. In 1990 there were seven subsidiaries of foreign banks in Italy, today there are eleven.

The Italian banking system's exposure to the emerging countries is on the order of $30 billion, equal to 25 per cent of its capital and reserves; the amount is not inconsiderable, but the ratio to capital is the lowest among the OECD countries with advanced financial systems.

1.5 *The payment system*

Since the mid-eighties the payment system in Italy has achieved a quantum leap: in the efficiency and security of cash and securities settlements, in technical infrastructure and in the payment services offered to customers.

Settlement in monetary base of interbank positions has been encouraged, giving certainty and finality to these transactions and contributing to the growth of the screen-based interbank deposit market. The volume of transactions settled in central bank money grew from 6 times GDP in 1988 to 41 times in 1998, in line with the EU average of 43. In conjunction with this, the balances on correspondent current accounts declined from 34 per cent of total interbank liabilities at the end of the eighties to 14 per cent in 1998.

The changeover from clearing to gross settlement (the BI-REL system) for large-value payments strengthened the security of payments, substantially reducing systemic risk at a time when transaction volume was growing. Following the launch of the Monetary Union, the Italian gross settlement system has been one of the main components of the Target, the European payment system. The importance that Target has assumed is confirmed by the system's operating volume: in its first year of activity it handled an average of more than 163,000 payments totaling e925 billion a day. Cross-border transactions increased by 58 per cent in number and 6 per cent in value between January and December 1999. The share of transactions originated by Italian intermediaries is high in terms of number (25 per cent), lower in terms of value (10 per cent).

The creation of central depositories allowed ownership of securities to be transferred from one trader to another by book entry on the accounts at these depositories. The dematerialization of securities was completed with the measures issued for the introduction of the euro. The use of automatic trade checking systems in the securities markets made it possible to automate trading and settlement. The system has coped with the rise in volume generated by growing financial markets. In the last ten years the value at constant prices of the transactions handled by the securities settlement procedures has increased by a factor of 48. In 1998, at 26 times GDP, it was higher than the EU average.

In the stock market, the change from securities settlement on predetermined account days to rolling settlement has reduced the interval between trading and settlement from between 15 and 45 days to 3, in line with European standards. The use of the BI-REL system for the cash side of the settlement of securities transactions has helped to increase settlements on a gross basis to 92 per cent of the total volume of settlements in monetary base in 1999.

In retail payments, the gap with other countries has narrowed in terms of the infrastructure employed and the efficiency of the services offered. In the last ten years the number of POS terminals per million inhabitants has risen from 98 to 5,970, that of ATMs from 137 to 482. The continuation of this trend will close the small remaining gap between Italy and the other principal European countries in this field. The introduction of specialized interbank procedures has shortened the time for executing cashless payments. New channels of customer contact have been created as an alternative to the branch network (remote banking)) and innovative products developed for corporate customers (interbank corporate banking).

Customer payments ordered by means of automated procedures have more than tripled since 1990. The time required to execute payments has declined: at the end of the eighties the average execution time for payment orders was six days; in 1998 it was four days for payments of less than 500 million lire and one day for "urgent" and large-value payments. The range of services has been widened with the creation of new instruments (electronic money) and the promotion of instruments that had been little used (debit and credit cards).

Households and firms so far have made only limited use of the services made available by the technical and organizational advances of the payment system. Although the number of cashless transactions has risen in recent years, it remains substantially lower than the European average (43 payments per capita in Italy, against 121 in the EU). The fact that current accounts are less widespread (0.5 accounts per inhabitant in Italy, against 1.4 in the main European countries), the fragmentation of the distribution network and slower acceptance and use of payment cards explain only part of the gap. It is also due to the lower propensity of businesses to use innovative payment instruments. At the end of 1998 only 250,000 firms, or just 7 per cent, used electronic systems in dealing with their own bank.

1.6 *Managed savings*

The share of Italian households' financial assets entrusted to third parties for management was negligible at the beginning of the eighties. Asset management and institutional investors have grown appreciably since then, contributing significantly to strengthening the money and securities markets. In Italy, as elsewhere, they have satisfied a need on the part of savers arising from the growth of financial wealth and its spread to employee households, the possibility of investment diversification for even modest portfolios and the resulting volume of transactions, in a setting of volatile and technically complex markets.

The birth of investment funds and the spread of individual portfolio management services in the early eighties imparted decisive impetus. Financial wealth under management (investment fund units, individual portfolio management accounts, insurance policies and pension funds) rose from 10 per cent of households' financial assets at the beginning of the nineties to 30 per cent at the end of 1998. However, this share remains lower than the average of 40 per cent for the Group of Seven countries. This part of the remaining gap is also largely attributable to the social safety net provided by the public sector in Italy, and hence to the scant role still played by pension funds.

Italy holds an intermediate position among the main euro-area countries in terms of managed savings as a percentage of GDP: 80 per cent at the end of 1998, compared with 60 per cent in Germany and Spain and just over 90 per cent in France. A chasm remains with respect to the United Kingdom and the United States, where professionally managed savings are close to 200 per cent of GDP. In both these countries the combined contribution of insurance companies and pension funds is preponderant, amounting to more than 140 per cent of GDP in the UK and 110 per cent in the US, compared with 20 per cent in Italy. In France and Germany the market share of insurance companies (but not that of pension funds) is large, accounting for half of managed savings.

1.7 *Derivatives*

Among the most important of the financial instruments recently been introduced or used more widely in Italy are "derivatives", which have surpassed the traditional techniques of risk management and risk allocation both in convenience and in cost.

The Italian Futures Market (MIF), the first organized Italian market in financial derivatives, was created in 1991. It is a screen-based market for financial futures and options contracts on Italian government securities and futures contracts on short-term interest rates. With the privatization of the financial markets in 1998, MIF was purchased by Borsa Italiana. An Italian market in futures contracts on shares (Italian Derivatives Market, IDEM) was constituted at the end of 1994 as an integral part of the Stock Exchange. The creation of an options market the next year sharply reduced the business in traditional options, which had been traded on the public stock exchanges since their institution in 1913.

Negligible in Italy at the end of the eighties, use of these instruments expanded rapidly thereafter. Unstable macroeconomic conditions, floating exchange rates following the crisis of the EMS and uncertainty over interest rate convergence within the EMU hastened the learning process.

In 1998 the average daily turnover in lira-denominated derivatives in organized markets was more than 60 trillion lire ($35 billion); two thirds of this business was in the money and bond markets. The latter component - nine tenths of the trading is done in London - contributed significantly to the formation of the euro area's derivatives market; it accounts for 15 per cent of all the area's transactions in interest rate and bond derivatives. The size of the European market is now significant, on a par with that of the United States. In 1998 trading in stock index derivatives on the Italian exchange accounted for 15 per cent of all such trading in European markets, a larger share than those of London and Paris and exceeded only by that of the German-Swiss Eurex exchange.

Unlike that on organized markets, the information on OTC trading is fragmentary. Data are gathered only from the leading players. Italy's share of the European-wide market, though significant, is smaller than its share of trading in organized markets.

Turnover in Italy in forward foreign exchange contracts and derivatives amounted to $33 billion a day in 1998, nearly 50 per cent more than in 1995.

Forward foreign exchange transactions rose from just under $16 billion in 1995 to just over $22 billion in 1998, essentially owing to the steep increase of 127 per cent in foreign exchange swaps, whose share of the total rose from 33 to 52 per cent. The share of total trading accounted for by non-resident counterparties remained basically unchanged at about 75 per cent. Daily turnover in exchange rate derivatives fell from $1 billion to $700 million, owing to decreased use of currency swaps and domestic currency swaps; turnover in options increased.

Like the foreign exchange market, the derivatives market is dominated by interbank transactions and transactions with non-residents (92 and 75 per cent of the total, respectively); lira-denominated transactions outweigh those in other currencies, accounting for 88 per cent of the total.

2. Competition and change

The foregoing account reveals the radical, albeit gradual, transformation of the Italian financial system. Until one or two decades ago, the comparative radiology of financial systems - conducted using statistical and institutional parameters à la Goldsmith - showed the Italian system to suffer from hypertrophy in some segments and to be absent or underdeveloped in other, innovative ones. Today, such an analysis reveals morphologically similar structures.

Change has taken the same directions as in international finance, which in Europe have also been reflected in Community directives. In some sectors and in some respects, this has resulted in Italy's having achieved practically full convergence, as in the predominance of securities, the financial markets and intermediaries specializing in securities business, and the private ownership of credit institutions. In other fields convergence is clearly proceeding and will certainly be completed, not only in derivatives and investment funds but also in the use of the new payment system and international openness. In other areas, while Italy is moving in the same direction as other countries, it is moving more slowly so the gap has widened; the main surviving anomaly of the Italian financial system is the backwardness of private pension funds, which is tied to the country's present retirement provisions.

The transformation of the Italian financial system has been guided and sustained by a succession of changes in the legal framework, which the 1993 Banking Law and the 1998 Consolidated Law on Financial Intermediation have shaped into a consistent whole. Supervisory action - by the Bank of Italy, joined over the years by a series of other independent authorities (Consob for the Stock Exchange in 1974, Isvap for the insurance industry in 1983, the Competition Authority in 1990, and Covip for pension funds in 1993) - provided enforcement of the new rules, without which the elements of change that they introduced would not have been embodied in the behaviour of market participants. Fiscal and administrative requirements (such as constraints on banks' securities portfolios, lending and deposit-taking), which were still notably burdensome in the eighties, were removed or eased over the decade that followed. In this way, among others, the development of finance was fostered, the distortions affecting the choices of both users and producers of financial services were diminished, and "neutrality" was approached.

The engine of change, however, along the guidelines traced by public policy and reflecting the impetus imparted by the international markets and economic developments, was the progressive emergence of competition in banking from an initial situation that was far removed from what could be described as competitive markets.

At the end of the seventies, interpreting the Italian economic crisis as the irreversible decline of the “mixed economy,” the Bank of Italy began to act to move beyond the forms of market oligopoly that then prevailed among banks and throughout the financial system. Bank chartering powers, which the law had assigned to the Bank of Italy as supervisory authority in the twenties, came to be exercised according to principles of competition. Even such a structural supervisory instrument as authorization to open branches was now directed not to limiting competition but to intensifying it. In his concluding remarks to the general meeting of shareholders in May 1977, Governor Paolo Baffi was explicit on this point: “...the supervisory authority has developed criteria which emphasize the need to increase the productivity of the system and, where necessary, to raise the degree of competition to a more uniform level”.

Thus long before it was given formal antitrust duties for the banking industry, the Bank of Italy made competition the fulcrum of its drive to enhance the efficiency and soundness of the banking and financial system. It acted accordingly in the years that followed. With Law 287/1990, which entrusted the Bank with the task of safeguarding competition in banking, Parliament recognized the existing state of affairs and built upon it.

The precondition for the change in the Bank’s approach was abandonment of the idea - which had won many adherents, not only in Italy and not just among central bankers, in the wake of the crisis of the thirties - that competition, or at least “excessive” competition, was a cause of banking instability, antinomic to stability. Yet, especially in view of the international opening that characterizes the Italian economy in normal times, an inefficient banking system such as Italy’s in the seventies, while profitable because oligopolistic, was liable to show systemic instability. A powerful spur to improving profitability and hence achieving a sound capital base through efficiency, was specifically identified in heightened competition in the domestic banking and financial markets. Without competition, in the long run there cannot be efficiency; without efficiency, in the long run there cannot be stability in the banking and financial industry. A further conviction, based on the economic theory on which antitrust legislation ultimately rests, is that competition is not the same as *laissez-faire*; that the latter can negate the former, especially in an industry offering economies of scale; that deregulation itself is ineffective unless it is part of an economic and institutional policy framework designed to foster competition and, in the final analysis, to impose it upon producers who may not like it and who tend to reject it in practice if not in their public statements.

A higher degree of competition became the crucial intermediate objective, the fulcrum of the Bank of Italy’s monetary, exchange rate and supervisory policy. Thus the assignment of antitrust responsibilities to the Bank did not constitute a break with the past, an anomaly to be corrected but the natural, institutional recognition of the state of affairs that had lasted for a decade. Above all, it enshrined a principle that needs to be consolidated and extended: prudential supervision and safeguarding competition are not contradictory but complementary activities.

Between the eighties and the nineties there was not a break, but rather an acceleration, in the growth of competition in banking and hence, given the importance of banks in Italy, in the financial system. Labour productivity in Italian banking (total assets per employee at constant prices) has risen almost without interruption since 1981, by a total of 68 per cent. Per capita staff costs (in real terms), which are structurally very high in Italy, also rose until 1992, after which they remained unchanged. In 1998 they were 18 per cent higher than in 1981. Yet the profit rate has declined: from 12 per cent in the first half of the eighties to barely positive values between 1993 and 1997. This is the simple, incontrovertible portrait of a banking industry that has emerged from an initial position of inefficiency but high profitability, possible solely because of the lack of competition. The industry then, even as it reduced its inefficiency, saw its profits eroded by sharpening competition both internally and externally. In particular, profits were low in the mid-nineties, when even faster productivity growth was accompanied by stable labour costs. During those years the privatization and stock market listing of banks (listed institutions came to account for about 70 per cent of total bank assets) extended competition from the product and service markets to that of ownership and control, which became highly “contestable”.

Innovation in the stock market began in 1991 with the launch of screen-based continuous auction trading together with a market for block trades. It proceeded with the guarantee fund for monthly settlement (1992), the creation of the futures market (1994) and the options market (1995), and the changeover to rolling settlement (completed in 1996). The laws on takeover bids and insider trading enacted in 1992 and reinforced by the Consolidated Law on Financial Intermediation, together with that Law’s revision of the regulation of proxies and shareholders’ agreements, increased the contestability of control of listed companies and the protection accorded to minority shareholders. Liquidity, transparency and speed of execution were enhanced by the abrogation of stockbrokers’ monopoly, the liberalization of commissions and the requirement to trade on the official market. Since the reorganization, transaction costs - the differential between the best buy and sell limit orders in the continuous auction - have not been out of line with those in other European financial centres and have been lower than the bid-ask spread on Italian securities on SEAQ International in London.

In the asset management industry the degree of concentration has diminished almost uninterruptedly and is now comparable to that found in the United States. In 1997 the Herfindahl index was 0.04. The trend has halted only recently, in connection with mergers between large banks. The competition from foreign intermediaries is now fierce. It is estimated that about half of the industry’s products are offered by foreign institutions. Owing in part to the effects of economies of scale and scope, investment funds’ operating costs have declined in relation to their assets since the end of the eighties, falling from 0.6 to 0.13 per cent. Thanks to widespread competition, a large part of this saving has been passed on to final investors, mainly in the form of lower entry fees, which have fallen from 4 per cent of gross fund-raising in 1988 to 0.3 per cent, while management fees have remained basically stable (slightly over 1 per cent of investment funds’ assets).

In the government securities market, the introduction of a category of intermediary called “specialist in government securities” in 1994 led to a bid-ask spread of just 8 basis points in 1998, and less than 5 for the most active issues. Over the same period, volume nearly quadrupled and the degree of concentration in the market was significantly reduced. The number of market makers rose from the initial 7 to 35, and the share of total volume accounted for by the top 5 plunged from 85 to 15 per cent; the Herfindahl index for the securities traded fell from 0.25 to 0.04.

Fiercer competition and intermediaries’ greater “internal” efficiency went hand in hand with an increase in the “external” or “informational” efficiency of the Italian financial markets. The ability of current prices to incorporate the information contained in past prices - efficiency in a weak form - was already present in the stock market of the seventies. In the eighties and even more so in the nineties (with the screen-based market in government securities, stock exchange reforms, the development of asset management, the introduction of derivatives and international integration), the stock market evolved, like the government securities market, towards efficiency in semi-strong and strong forms, denoting the ability of prices to incorporate information held by the public and, though less clearly, also that available privately.

3. Conclusions

The intermediate objective pursued by the Bank of Italy for twenty years has been largely achieved: more competition in banking, together with a sizable number of mergers and a start on reorganization projects that presage gains in efficiency. Competition has produced its effects on the prices of intermediation; it has leveled them and kept them down. The degree of competition within Italy's financial industry is now comparable to that of other advanced economies. Nonetheless, it can be increased further. The underlying factors are still present: the Italian banking and financial system is highly fragmented and marked by a low level of concentration; technological innovation and advances in telecommunications have only begun to produce their effects; the privatization of banks and markets and the reduced scope for obtaining public support are stimulating more efficient structures; banks and markets are two alternative channels of finance, a fundamental choice for economic agents.

While the Bank of Italy seeks to foster efficiency by promoting competition and through its day-to-day supervisory action, it cannot guarantee its achievement beyond the limits imposed by the ability of producers to respond to market forces and administrative solicitations. Labour costs in Italian banks - 114 million lire per capita on average in 1998 - continue to be among the highest in Europe. It is necessary to recognize the degree of inertia that had to be overcome in a process of change whose complexity was due to its being of a cultural even more than a legal, institutional and market nature. The low level of competition prevailing at the start of the period, an inheritance from the past, acted as a brake on change and the reduction in banking labour costs and lengthened the time needed to achieve results. Had there been a higher level of competition at the start in "1980", had it not been necessary for competition to be included among the intermediate objectives of public policy, this would have produced results much earlier because the financial structure would have responded more promptly to the stimuli it created.

The Bank of Italy intends to continue along the path it has followed so far, not only because the rules of the single market impose the duty to act "in accordance with the principle of an open market economy with free competition" and the 1993 Banking Law explicitly establishes the stability, efficiency and competitiveness of the financial system as complementary objectives but also in the belief that this path is the the right one, a necessary condition for Italy's financial industry and the Italian economy to make further progress.

The build-up of competition played a fundamental role by contributing to the changes that occurred in the structure of the financial system between 1980 and 2000. On the supply side the pressure that only a competitive market can exert on producers led banking and financial intermediaries to strive to meet the needs of their customers. This pressure was also in line with the policies that were being given expression in new laws and tax rules and in the action of the supervisory authorities. Far from constituting an obstacle to these policies, the increase in competition facilitated their implementation.

In the last twenty years the Italian economy has followed a chequered course, marked by a high degree of instability and notably different from that of most of the other European economies. The dark and bright periods resulted in decelerations and accelerations on various fronts. All in all they did not prevent Italy's financial system from participating in the international tendencies that globalization has so powerfully reinforced.

The factors that caused the peculiarities still to be found in Italy's financial system included not only the strengths and the weaknesses of the players in the market but also the propensity of Italian households and firms to exploit its potential. This propensity remained underdeveloped, and not only with regard to the payment system.

In the nineties Italian firms' investment declined in relation to GDP, while their profits rose. As a consequence their reliance on external financing declined in comparison with self-financing. Only 247 companies are listed on the stock exchange. Although substantial, issues of new shares have frequently been made off market. Issues of bonds and commercial paper remained negligible until 1998 and are still not widely used. There is little sign of growth in the number of firms demanding advanced financial services, not only from Italian merchant banks and venture capital companies but also from their more experienced foreign counterparts. Between 1992 and 1998 takeover bids for listed companies averaged less than 20 a year in Italy, with the value of acceptances averaging around 2.7 trillion lire. In 1999, under the new rules, the number of takeover bids rose to 24 and the value of acceptances soared to around 107 trillion lire in connection with the takeover of Telecom Italia.

The scope for Italian households to make more use of the financial system is also considerable. Their demand for some services is less than the system could satisfy. This is true for the creation of pension funds and above all for recourse to credit, especially in order to cover the cost of enhancing "human capital". In Italian society such expenditure does not appear to lie in the top part of the "Engel curve", where the distinction between consumption and investment becomes blurred. The proportion of household expenditure accounted for by education, foreign travel and books and newspapers is equal to around 3 per cent of GDP and has only grown slightly in the last twenty years. Italy ranks only ninth among the 15 European Union countries in spending on education and culture.

Further increases in the quantity and above all the quality and efficiency of the Italian financial system will depend as much on the ability of households and firms to express a demand for financial services as on that of banks and other intermediaries to supply them.

The crucial aspect, however, is structural change. This has taken place. The financial system that Alberto Beneduce and Donato Menichella had to conjure up in 1933 out of the ruins of the previous one remained unchanged, basically unquestioned, until the wage and oil-induced stagflation of the seventies. Today that system no longer exists.

Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

SYMBOLS AND CONVENTIONS

In the following tables:

— the phenomenon in question does not occur;

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

.. the value is known but is nil or less than half the final digit shown;

( ) provisional;

( ) estimated.

Notes to the statistical tables are on pp. 46a-50a.

GDP at constant prices

	1995	1996	1997	1998	1999	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)									
Industrial countries										
United States	2.7	3.7	4.5	4.3	4.1	5.9	3.7	1.9	5.7	6.9
Japan	1.5	5.1	1.6	-2.5	. . . .	-2.0	6.3	3.9	-3.9	. . . .
Euro area	2.2	1.3	2.2	2.7	. . . .	0.9	2.2	2.1	3.8	. . . .
Germany	*1.7*	*0.8*	*1.5*	*2.2*	*1.5*	*-0.5*	*2.7*	*0.3*	*3.5*	*2.7*
France	*1.8*	*1.1*	*2.0*	*3.4*	*2.7*	*2.7*	*1.8*	*3.4*	*3.9*	*3.6*
Italy	*2.9*	*1.1*	*1.8*	*1.5*	*1.4*	*-1.5*	*0.9*	*1.5*	*3.8*	. . . .
United Kingdom	2.8	2.6	3.5	2.2	2.0	0.1	1.5	3.0	3.9	3.1
Canada	2.8	1.7	4.0	3.1	4.2	4.8	5.1	3.6	5.5	4.6
	(percentage changes on year-earlier period; quarterly data)									
Emerging countries										
Latin America										
Argentina	-2.8	5.5	8.1	3.9	. . . .	-0.6	-3.0	-4.9	-4.1	. . . .
Brazil	3.4	2.7	3.4	. .	0.8	-2.2	0.7	-0.2	-0.2	3.1
Mexico	-6.2	5.1	6.8	4.8	3.7	2.6	1.8	3.1	4.3	5.2
Asia										
China	10.5	9.6	8.8	7.8	7.1	7.8	8.3	7.1	7.0	6.8
South Korea	8.9	6.8	5.0	-5.8	. . . .	-5.3	4.6	9.8	12.3	. . . .
Hong Kong	3.9	4.5	5.0	-5.1	. . . .	-5.6	-3.0	1.1	4.5	. . . .
India	7.6	7.8	5.0	6.8	. . . .	8.4	5.9	6.0	. . . .	. . . .
Indonesia	8.2	7.8	4.7	-13.4	0.2	-17.7	-8.0	3.1	0.5	5.8
Malaysia	9.8	10.0	7.5	-7.5	5.4	-10.3	-1.3	4.1	8.2	10.6
Singapore	8.1	7.6	8.8	-0.2	5.4	-1.2	0.8	6.6	6.9	7.1
Thailand	8.9	5.9	-1.8	-10.4	. . . .	-6.6	0.9	3.3	7.7	. . . .
Taiwan	6.4	6.1	6.7	4.8	5.7	3.7	4.3	6.5	5.1	6.8
Europe										
Poland	7.0	6.1	6.7	4.8	4.1	2.9	1.5	3.0	4.9	6.8
Czech Republic	6.4	3.8	0.3	-2.3	. . . .	-3.9	-4.1	0.3	0.8	. . . .
Russia	-4.1	-3.4	0.9	-4.6	3.2	-8.0	-2.8	1.3	5.6	8.8
Turkey	7.9	7.4	7.6	3.2	. . . .	-1.0	-9.0	-2.3	-5.6	. . . .
Hungary	. . . .	1.0	4.0	4.9	. . . .	5.2	3.3	3.8	4.4	. . . .

Table a2

Industrial production

	1997	1998	1999	1999 Q1	1999 Q2	1999 Q3	1999 Q4
				(percentage changes on previous period			
Industrial countries							
United States	6.3	4.3	3.6	2.0	4.6	4.9	5.4
Japan	3.6	-7.1	0.3	2.5	-3.8	16.4	3.5
Euro area	4.4	4.1	1.6	0.8	2.1	5.7	4.7
Germany	*3.7*	*4.2*	*0.7*	*0.2*	*3.4*	*7.0*	*-2.1*
France	*3.9*	*4.6*	*2.3*	*-1.0*	*4.5*	*7.9*	*5.7*
Italy	*3.3*	*1.9*	*0.1*	*0.9*	*-2.0*	*8.3*	*5.4*
United Kingdom	1.0	0.6	0.4	-2.1	3.0	4.9	1.3
Canada	5.5	2.4	4.5	4.3	3.2	11.7	5.5
						(percentage changes on	
Emerging countries							
Latin America							
Argentina	10.1	1.3	-6.9	-10.5	-12.9	-6.8	3.3
Brazil	4.1	-2.1	-0.7	-3.7	-3.0	-1.4	5.2
Mexico	9.3	6.6	3.8	1.8	4.4	4.2	4.6
Asia							
China	13.2	9.6	8.8	9.7	9.0	9.0	7.3
South Korea	5.3	-7.3	22.4	12.4	22.7	26.7	27.1
Hong Kong	-0.8	-8.6	....	-9.7	-6.6	-6.3	....
India	5.4	3.4	5.8	5.2	6.0	6.4	5.6
Indonesia	13.2	-13.3	....	4.9	20.2	....	....
Malaysia	10.7	-7.2	8.7	-2.5	6.5	13.6	17.2
Singapore	4.6	-0.4	13.7	6.7	14.5	17.2	16.1
Thailand	-0.6	-12.0	14.0	6.5	11.2	19.0	19.7
Taiwan	7.4	2.6	7.5	5.5	9.6	4.8	9.9
Europe							
Poland	11.1	4.7	4.8	-2.5	1.2	5.8	14.5
Czech Republic	5.7	0.6	-1.6	-6.1	-2.6	-1.1	3.2
Russia	1.9	-5.2	7.5	-1.6	5.2	16.3	11.4
Turkey	10.8	2.0	-5.2	-9.7	0.6	-8.5	-3.3
Hungary	10.8	12.4	10.3	7.4	7.5	10.4	15.5

Table a2

1999 March	1999 April	1999 May	1999 June	1999 July	1999 August	1999 September	1999 October	1999 November	1999 December	2000 January
on an annual basis; seasonally adjusted data)										
5.5	3.6	6.4	3.6	7.3	2.7	3.5	9.0	3.5	5.3	12.7
37.4	-34.1	-11.8	45.1	-7.1	67.8	-6.8	-27.7	68.9	-13.1	11.4
11.4	-7.4	9.3	8.4	3.4	5.8	4.2	2.1	10.8	0.6	. . . .
2.3	*10.5*	*3.4*	*4.5*	*10.3*	*16.4*	*-10.2*	*-3.2*	*-1.1*	*-1.1*	. . . .
12.9	*-1.1*	*5.6*	*12.7*	*13.8*	. .	. .	*3.3*	*22.3*	. .	. . . .
19.0	*-16.9*	*-3.5*	*19.1*	*9.7*	*8.3*	*-3.4*	*8.3*	*13.2*	*-2.2*	. . . .
4.8	2.4	2.4	3.6	8.5	5.9	-2.3	2.3	4.9	-5.8	. . . .
4.7	1.8	3.7	8.5	18.6	11.2	7.3	-3.5	15.0	6.3	. . . .
year-earlier period)										
-10.6	-13.3	-12.1	-13.3	-11.4	-4.8	-4.0	-2.7	2.4	11.7	9.5
-2.8	-2.6	-3.4	-2.8	-4.8	0.3	0.4	2.8	4.5	8.8	. . . .
1.7	4.2	3.6	5.4	4.7	4.4	3.5	2.2	6.2	5.4	. . . .
9.0	9.1	8.9	9.1	9.3	9.5	8.1	7.0	7.6	7.4	8.9
18.8	17.1	21.7	29.7	33.3	29.7	18.3	30.8	26.8	24.1	. . . .
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
4.5	5.4	7.2	5.5	5.4	6.2	7.6	8.4	3.2	5.2	. . . .
. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2.3	4.0	6.3	9.3	8.8	12.9	19.3	13.8	21.8	16.2	. . . .
6.5	5.6	18.5	19.3	18.0	18.5	15.4	23.3	19.4	7.0	. . . .
13.0	11.3	10.0	12.4	15.8	20.2	21.2	18.2	27.6	13.8	7.7
8.2	7.6	11.2	9.9	7.9	7.7	-1.2	7.5	11.4	10.9	10.8
3.3	0.3	2.3	0.9	1.4	7.1	8.6	9.0	15.7	19.1	7.9
-3.4	-4.5	-0.2	-2.9	-4.1	3.2	-2.2	-1.3	3.6	7.5	. . . .
0.4	0.6	6.1	9.0	12.8	16.0	20.2	10.3	12.9	11.1	10.7
-12.0	5.4	-3.8	0.8	-3.8	-12.4	-9.3	-9.1	-3.0	2.9	. . . .
6.9	7.7	5.5	9.3	8.1	10.1	13.0	15.3	18.6	12.5	. . . .

Table a3

Consumer prices

	1995	1996	1997	1998	1999	1999 January	1999 February	1999 March
						(percentage changes on		
Industrial countries								
United States	2.8	2.9	2.3	1.6	2.2	1.7	1.6	1.7
Japan	-0.1	0.1	1.7	0.6	-0.3	0.2	-0.1	-0.4
Euro area	–	2.2	1.6	1.1	1.1	0.8	0.8	1.0
Germany	–	*1.2*	*1.5*	*0.6*	*0.6*	*0.2*	*0.1*	*0.5*
France	–	*2.1*	*1.3*	*0.7*	*0.6*	*0.3*	*0.3*	*0.4*
Italy	–	*4.0*	*1.9*	*2.0*	*1.7*	*1.5*	*1.4*	*1.4*
United Kingdom	2.8	2.9	2.8	2.7	2.3	2.6	2.4	2.7
Canada	2.2	1.6	1.6	1.0	1.7	0.6	0.7	1.0
Emerging countries								
Latin America								
Argentina	3.4	0.2	0.5	0.9	-1.2	0.5	0.0	-0.6
Brazil	66.0	15.5	6.0	3.8	4.8	2.3	3.0	3.9
Mexico	35.0	34.4	20.6	15.9	16.6	19.0	18.5	18.3
Asia								
China	16.9	8.3	2.8	-0.8	-1.3	-1.2	-1.3	-1.8
South Korea	4.4	4.9	4.4	7.5	0.8	1.5	0.2	0.5
Hong Kong	8.9	6.3	5.8	2.8	-4.0	-1.1	-1.8	-2.6
India	10.2	9.0	7.2	13.2	4.7	9.4	8.7	8.9
Indonesia	9.4	8.0	6.2	58.4	20.5	70.7	53.4	45.4
Malaysia	3.4	3.5	2.7	5.3	2.7	5.2	3.8	3.0
Singapore	1.7	1.4	2.0	-0.3	0.4	-0.5	-0.6	-0.6
Thailand	5.7	5.8	5.6	8.1	0.3	3.5	2.9	1.7
Taiwan	3.7	3.1	0.9	1.7	0.2	0.4	2.1	-0.5
Europe								
Poland	28.1	19.8	15.1	11.8	7.3	6.9	5.6	6.2
Czech Republic	9.1	8.8	8.5	10.7	2.1	3.5	2.8	2.5
Russia	197.5	47.8	14.8	27.6	85.7	97.1	103.4	107.8
Turkey	88.6	80.3	85.7	84.6	64.9	65.9	63.9	63.5
Hungary	28.3	23.6	18.3	14.3	10.0	9.8	9.4	9.3

Table a3

	1999 April	1999 May	1999 June	1999 July	1999 August	1999 September	1999 October	1999 November	1999 December	2000 January
year-earlier period)										
	2.3	2.1	2.0	2.1	2.3	2.6	2.6	2.6	2.7	2.7
	-0.1	-0.4	-0.3	-0.1	0.3	-0.2	-0.7	-1.2	-1.1	-0.9
	1.1	1.0	0.9	1.1	1.2	1.2	1.4	1.5	1.7	2.0
	0.8	*0.4*	*0.4*	*0.6*	*0.7*	*0.8*	*0.9*	*1.0*	*1.4*	*1.9*
	0.5	*0.4*	*0.3*	*0.4*	*0.5*	*0.6*	*0.8*	*1.0*	*1.4*	*1.7*
	1.3	*1.5*	*1.4*	*1.7*	*1.6*	*1.9*	*1.9*	*2.0*	*2.1*	*2.2*
	2.4	2.1	2.2	2.2	2.1	2.1	2.2	2.2	2.2	2.1
	1.7	1.6	1.6	1.8	2.1	2.6	2.3	2.2	2.6	2.3
	-0.7	-1.2	-1.3	-1.5	-1.9	-2.0	-1.7	-1.8	-1.8	-1.4
	3.9	3.2	3.1	4.2	5.2	6.0	6.9	8.1	8.4	8.4
	18.2	18.0	17.4	17.0	16.6	15.8	14.9	13.9	12.3	11.0
	-2.2	-2.2	-2.1	-1.4	-1.3	-0.8	-0.6	-0.9	-0.2	0.2
	0.4	0.8	0.6	0.3	0.9	0.8	1.2	1.4	1.4	1.6
	-3.8	-4.0	-4.1	-5.5	-6.1	-6.1	-4.2	-4.2	-4.0	-5.3
	8.4	7.7	5.3	3.2	3.2	2.1	0.9	0.0	0.5	. . . .
	38.0	30.7	24.5	13.5	5.8	1.3	1.4	1.6	2.0	0.3
	2.9	2.9	2.1	2.5	2.3	2.2	2.1	1.6	2.5	1.6
	-0.3	0.1	0.6	0.6	0.9	1.2	1.5	1.2	1.4	1.5
	0.4	-0.5	-1.2	-1.1	-1.1	-0.8	-0.5	0.0	0.7	0.5
	-0.1	0.5	-0.8	-0.8	1.1	0.6	0.4	-0.9	0.1	0.5
	6.3	6.4	6.5	6.3	7.2	8.0	9.2	9.2	9.8	10.1
	2.5	2.3	2.3	1.0	1.3	1.2	1.5	1.9	2.6	3.5
	113.1	116.7	120.7	126.3	120.9	62.0	57.2	50.3	36.5	28.8
	63.9	63.0	64.3	65.0	65.4	64.3	64.7	64.6	68.8	68.9
	9.4	8.9	9.1	10.1	10.9	10.9	10.5	10.6	11.2	10.0

Table a4

External current account

	1995	1996	1997	1998	1999	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
	(billions of dollars; seasonally adjusted quarterly data)									
Industrial countries										
United States	-113.6	-129.3	-143.5	-220.6	....	-61.7	-68.7	-80.9	-89.9	....
Japan	111.4	65.8	94.2	121.2	107.2	33.3	29.0	27.5	27.4	26.7
Euro area (1)	–	–	106.5	67.4	45.8	16.7	13.1	15.6	8.2	9.0
Germany	*-19.0*	*-5.7*	*-1.7*	*-3.6*	*-18.0*	*-4.0*	*-2.8*	*-1.6*	*-4.5*	*-10.2*
France	*10.8*	*20.5*	*39.1*	*40.2*	....	*11.5*	*8.6*	*7.4*	*11.9*	....
Italy	*25.2*	*39.6*	*32.5*	*21.8*	*10.0*	*2.6*	*3.6*	*3.3*	*2.0*	*1.2*
United Kingdom	-6.0	-0.7	10.8	-0.8	....	-3.1	-5.9	-4.7	-4.5	....
Canada	-4.3	3.3	-10.3	-11.2	-2.9	-2.7	-1.1	-1.4	0.3	-0.9
	(billions of dollars; quarterly data)									
Emerging countries										
Latin America										
Argentina	-5.0	-6.5	-12.0	-14.5	....	-3.7	-3.5	-1.9	-3.4	....
Brazil	-17.8	-23.5	-33.4	-33.6	-24.4	-11.5	-5.2	-7.0	-4.6	-7.6
Mexico	-1.6	-2.3	-7.4	-16.0	....	-4.6	-3.3	-3.0	-3.4	....
Asia										
China	1.6	7.2	29.7	29.3	....	–	–	–	–	–
South Korea	-8.5	-23.0	-8.2	40.6	(25.0)	8.7	6.2	6.3	6.6	(5.8)
Hong Kong	–	–	-6.2	2.3	....	–	1.3	....	....	....
India	-5.6	-6.0	-3.0	-6.9	....	-1.2	0.3	-2.0	-1.5	....
Indonesia	-6.8	-7.8	-5.0	4.1	....	0.7	1.5	0.8	1.6	....
Malaysia	-8.5	-4.6	-4.8	9.6	....	3.1	(3.0)	(3.7)	....	....
Singapore	14.5	14.5	14.8	17.7	....	5.1	3.8	4.9	4.1	....
Thailand	-13.2	-14.4	-3.1	14.3	11.0	3.9	3.4	2.6	2.8	2.3
Taiwan	5.5	11.0	7.2	3.5	(5.9)	0.8	2.1	1.4	0.9	(1.5)
Europe										
Poland	-2.3	-1.4	-4.3	-6.8	(-11.6)	-3.0	-2.2	-2.7	-3.0	(-3.7)
Czech Republic	-1.4	-4.3	-3.3	-1.4	....	-0.8	-0.3	0.3	-0.2	....
Russia	7.7	12.1	3.9	2.1	....	6.5	5.4	3.5	5.7	....
Turkey	-2.3	-2.4	-2.6	1.9	....	1.7	1.3	-1.5	..	....
Hungary	-2.5	-1.7	-1.0	-2.3	-2.1	-1.0	-0.6	-0.6	-0.1	-0.8

(1) Not seasonally adjusted. The figures for services and income up to the end of 1997 are not exactly comparable with those for the subsequent periods.

Table a5

Short-term interest rates

	US	Japan	Euro area	UK	Canada
			Official reference rates *(end-of-period data)*		
1995	5.50	0.50	–	6.50	5.79
1996	5.25	0.50	–	6.00	3.25
1997	5.50	0.50	–	7.25	4.50
1998	4.75	0.50	–	6.25	5.25
1999 – Feb.	4.75	0.50	3.00	5.50	5.25
Mar.	4.75	0.50	3.00	5.50	5.00
Apr.	4.75	0.50	2.50	5.25	5.00
May	4.75	0.50	2.50	5.25	4.75
June	5.00	0.50	2.50	5.00	4.75
July	5.00	0.50	2.50	5.00	4.75
Aug.	5.25	0.50	2.50	5.00	4.75
Sept.	5.25	0.50	2.50	5.25	4.75
Oct.	5.25	0.50	2.50	5.25	4.75
Nov.	5.50	0.50	3.00	5.50	5.00
Dec.	5.50	0.50	3.00	5.50	5.00
2000 – Jan.	5.50	0.50	3.00	5.75	5.00
Feb.	5.75	0.50	3.25	6.00	5.00
			Money market rates *(period averages)*		
1996	5.39	0.62	5.07	6.03	4.45
1997	5.62	0.64	4.37	6.83	3.56
1998	5.47	0.81	3.94	7.34	5.07
1999	5.33	0.31	2.96	5.45	4.92
1999 – Feb.	4.90	0.55	3.09	5.43	5.03
Mar.	4.90	0.39	3.05	5.30	5.06
Apr.	4.88	0.16	2.70	5.23	4.72
May	4.92	0.15	2.58	5.25	4.62
June	5.13	0.15	2.63	5.12	4.82
July	5.24	0.14	2.68	5.07	4.79
Aug.	5.41	0.12	2.70	5.18	4.92
Sept.	5.50	0.22	2.73	5.32	4.83
Oct.	6.12	0.31	3.38	5.94	5.01
Nov.	6.00	0.45	3.47	5.78	5.04
Dec.	6.05	0.28	3.45	5.97	5.14
2000 – Jan.	5.95	0.12	3.34	6.04	5.26
Feb.	6.01	0.14	3.54	6.15	5.31

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond rates			
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
1998	5.26	1.30	4.57	4.64	4.88	5.60	5.28
1999	5.64	1.76	4.49	4.61	4.73	5.01	5.54
1999 - Feb.	5.00	2.16	3.85	3.93	4.05	4.37	5.12
Mar.	5.23	1.82	4.04	4.13	4.27	4.60	5.22
Apr.	5.18	1.58	3.85	3.98	4.11	4.54	5.03
May	5.54	1.35	4.01	4.16	4.28	4.83	5.36
June	5.90	1.68	4.36	4.47	4.62	5.09	5.58
July	5.79	1.70	4.68	4.81	4.94	5.27	5.49
Aug.	5.94	1.90	4.88	5.01	5.13	5.31	5.76
Sept.	5.92	1.76	5.04	5.19	5.28	5.60	5.72
Oct.	6.11	1.78	5.29	5.43	5.52	5.78	6.09
Nov.	6.03	1.81	5.04	5.15	5.25	5.23	6.03
Dec.	6.28	1.74	5.15	5.27	5.36	5.36	6.14
2000 - Jan.	6.66	1.71	5.54	5.66	5.75	5.81	6.49
Feb.	6.52	1.83	5.51	5.62	5.73	5.65	6.34
				Share price indices			
1996	145.70	100.44	112.49	101.08	92.20	120.28	122.96
1997	189.56	87.25	156.10	133.96	126.21	141.91	150.75
1998	235.51	73.71	198.65	179.66	202.08	166.70	157.73
1999	288.04	86.69	210.21	220.91	224.98	185.29	164.77
1999 - Feb.	270.76	68.90	197.34	200.36	217.12	175.06	147.35
Mar.	278.38	75.29	194.24	201.11	227.82	180.40	154.00
Apr.	289.91	83.17	205.09	210.19	230.88	188.96	163.74
May	289.33	83.06	205.56	211.67	226.72	186.37	159.70
June	287.26	86.20	207.22	215.46	226.72	189.31	163.63
July	299.63	92.18	216.01	221.34	227.36	190.50	165.28
Aug.	288.33	91.68	205.62	216.41	214.65	185.42	162.71
Sept.	286.31	93.55	209.03	225.19	222.25	182.85	162.40
Oct.	282.36	95.00	207.65	226.05	215.32	180.03	169.37
Nov.	302.38	100.87	225.15	249.43	221.24	191.99	175.60
Dec.	310.59	102.70	247.13	272.71	248.56	200.29	196.39
2000 - Jan.	310.05	103.72	266.57	275.04	259.15	195.53	197.96
Feb.	301.22	107.14	289.49	297.41	293.35	187.09	213.09

Table a7

Ecu/euro exchange rates and the price of gold

	Units of national currency per euro (per ecu until December 1998)								Gold (dollars per ounce)
	US dollar	Japanese yen	Canadian dollar	Pound sterling	Danish krone	Greek dracma	Swedish krone	Swiss franc	
1994	1.186	120.96	1.620	0.7738	7.523	287.16	9.136	1.617	383.25
1995	1.293	121.42	1.775	0.8194	7.245	299.53	9.234	1.528	386.75
1996	1.253	136.20	1.708	0.8030	7.261	301.46	8.400	1.547	369.25
1997	1.130	136.62	1.564	0.6903	7.461	308.47	8.627	1.639	290.20
1998	1.123	146.77	1.667	0.6776	7.513	331.54	8.927	1.625	287.80
1999	1.066	121.32	1.584	0.6587	7.436	325.76	8.808	1.600	290.25
1997 – 4th qtr.	1.124	140.51	1.582	0.6779	7.514	310.38	8.586	1.611	290.20
1998 – 1st qtr.	1.087	139.19	1.554	0.6605	7.537	319.31	8.718	1.605	301.00
2nd ”	1.102	149.64	1.594	0.6664	7.530	340.27	8.606	1.644	296.30
3rd ”	1.119	156.49	1.693	0.6771	7.511	333.15	8.958	1.644	293.85
4th ”	1.183	141.25	1.823	0.7055	7.477	333.11	9.414	1.608	287.80
1999 – 1st qtr.	1.122	130.75	1.696	0.6868	7.436	322.67	8.975	1.599	279.45
2nd ”	1.057	127.70	1.557	0.6578	7.432	324.96	8.904	1.600	261.00
3rd ”	1.049	118.73	1.558	0.6549	7.437	326.12	8.710	1.602	299.00
4th ”	1.038	108.42	1.528	0.6363	7.437	329.20	8.648	1.600	290.25
1999 – Feb.	1.121	130.78	1.679	0.6885	7.435	321.98	8.908	1.598	287.20
Mar.	1.088	130.20	1.651	0.6713	7.432	322.50	8.940	1.595	279.45
Apr.	1.070	128.16	1.594	0.6650	7.433	325.53	8.914	1.602	286.60
May	1.063	129.71	1.553	0.6583	7.433	325.21	8.972	1.603	268.60
June	1.038	125.32	1.524	0.6503	7.431	324.16	8.828	1.595	261.00
July	1.035	123.71	1.540	0.6578	7.439	324.95	8.745	1.604	255.60
Aug.	1.060	120.10	1.583	0.6601	7.438	326.41	8.752	1.600	254.80
Sept.	1.050	112.39	1.552	0.6468	7.434	327.00	8.634	1.602	299.00
Oct.	1.071	113.52	1.581	0.6459	7.433	329.20	8.727	1.594	299.10
Nov.	1.034	108.25	1.516	0.6370	7.437	328.72	8.633	1.605	291.35
Dec.	1.011	103.72	1.491	0.6265	7.440	329.68	8.586	1.601	290.25
2000 – Jan.	1.014	106.53	1.469	0.6183	7.444	331.07	8.597	1.610	283.30
Feb.	0.983	107.64	1.427	0.6147	7.445	333.18	8.511	1.607	293.65

Table a8

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	98.2	103.7	99.2	99.4	97.9	101.2	98.1	104.4
1995	96.3	104.1	103.6	101.4	93.3	97.5	100.2	108.4
1996	100.2	87.5	100.4	99.6	103.4	101.4	101.0	104.0
1997	105.7	83.0	95.2	94.9	104.0	117.3	101.6	95.9
1998	109.7	79.8	96.7	95.7	105.5	123.9	97.9	97.7
1997 – 3rd qtr.	105.4	86.2	93.2	93.1	103.0	119.0	101.9	95.8
4th ”	107.9	81.4	95.1	94.7	104.6	120.6	100.5	98.0
1998 – 1st qtr.	109.8	83.1	95.2	94.8	104.3	124.5	100.8	98.1
2nd ”	110.6	76.8	96.2	95.1	104.9	125.2	99.9	96.1
3rd ”	112.2	74.4	97.4	95.9	106.1	124.9	96.6	97.1
4th ”	106.4	84.8	97.9	96.9	106.6	120.9	94.2	99.7
1999 – 1st qtr.	106.0	88.4	95.6	95.0	104.8	122.1	96.3	98.1
2nd ”	109.0	85.4	93.7	92.5	102.3	125.7	98.8	95.8
3rd ”	109.0	90.6	92.5	91.0	101.9	124.3	97.9	94.9
1998 – Nov.	106.8	84.5	97.6	96.6	106.4	120.7	94.8	98.7
Dec.	105.6	86.4	97.6	96.6	106.3	121.0	93.9	99.9
1999 – Jan.	104.6	89.9	96.6	95.5	105.8	120.1	95.2	98.9
Feb.	105.8	88.3	95.6	95.2	104.7	121.8	96.9	98.1
Mar.	107.6	87.0	94.7	94.5	103.7	124.6	96.9	97.4
Apr.	108.2	86.3	94.2	93.3	102.9	125.1	97.8	96.0
May	109.0	84.3	93.9	92.6	102.5	126.0	99.5	95.7
June	109.9	85.7	93.0	91.7	101.6	126.0	99.0	95.6
July	110.3	86.6	92.9	90.7	102.0	124.2	98.7	94.9
Aug.	108.7	90.2	92.9	91.3	102.2	123.8	97.4	95.4
Sept.	107.9	95.1	91.6	90.9	101.6	124.9	97.5	94.4
Oct.	106.8	95.0	92.0	91.2	102.4	125.6	97.3	94.9
Nov.	107.5	96.8	90.5	89.9	101.5	125.1	97.7	92.6

(1) A rise in the index corresponds to a decrease in competitiveness.

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed capital formation			National consumption of households	Other domestic uses	Exports
	GDP	Imports	Total	Building	Machinery and equipment, vehicles and intangible assets	Total			
At 1995 prices									
1990	2.0	11.5	3.5	4.3	3.8	4.0	2.1	3.3	7.5
1991	1.4	2.3	1.5	1.6	0.4	1.0	2.9	1.1	-1.4
1992	0.8	7.4	1.9	-1.4	-1.5	-1.4	1.9	0.1	7.3
1993	-0.9	-10.9	-2.7	-6.7	-14.9	-10.9	-3.7	-3.8	9.0
1994	2.2	8.1	3.2	-6.3	6.7	0.1	1.5	3.4	9.8
1995	2.9	9.7	4.1	0.9	10.6	6.0	1.7	-0.8	12.6
1996	1.1	-0.3	0.8	3.6	3.7	3.6	1.2	-2.8	0.6
1997	1.8	10.2	3.4	-2.3	4.2	1.2	3.0	2.3	6.5
1998	1.5	9.1	3.0	-0.1	7.4	4.1	2.3	3.7	3.3
1999	1.4	3.4	1.8	1.8	6.2	4.4	1.7	3.1	-0.4
Implicit prices									
1990	8.2	-1.8	6.5	10.3	3.5	6.6	6.3	9.9	3.0
1991	7.6	0.5	6.4	8.0	4.0	5.9	6.9	7.8	3.9
1992	4.5	1.1	3.8	5.1	2.8	4.0	5.5	2.4	0.9
1993	3.9	14.8	5.8	3.2	4.9	4.1	5.5	4.5	10.4
1994	3.5	4.8	3.6	3.5	3.1	3.2	5.0	1.0	3.3
1995	5.0	11.1	6.1	2.5	5.3	3.9	6.0	4.8	8.8
1996	5.3	-2.9	3.8	2.5	2.9	2.7	4.4	6.9	1.0
1997	2.4	1.4	2.1	2.6	1.2	1.8	2.2	5.0	0.3
1998	2.7	-1.3	1.8	1.7	1.9	1.8	2.1	2.1	1.0
1999	1.5	1.3	1.4	1.5	1.1	1.2	2.2	1.4	-0.4

Table a10

Industrial production and ISAE business opinion indicators

(seasonally adjusted data)

	Industrial production				ISAE business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					domestic	foreign	total		
	(indices, 1995=100)				*(average balance of monthly responses)*				
1992	92.4	93.9	87.7	93.1	-32.1	-36.9	-32.0	1.9	7.2
1993	90.2	91.6	84.6	91.1	-43.1	-21.8	-35.6	2.9	4.6
1994	94.9	96.6	87.8	96.1	-17.8	8.8	-6.9	25.1	-4.3
1995	100.0	100.0	100.0	100.0	-5.7	16.6	1.3	22.0	-1.2
1996	99.1	99.6	102.2	98.1	-29.6	-16.9	-22.8	7.6	3.8
1997	102.4	103.2	103.0	101.9	-14.6	-6.0	-8.5	20.6	-3.1
1998	104.3	103.9	102.8	104.9	-15.7	-8.2	-11.3	15.7	0.3
1999	104.4	. . . .	. . . .	. . . .	-17.3	-16.1	-14.8	19.9	-1.3
1992 - 1st qtr.	93.5	95.0	90.1	94.7	-25.5	-29.7	-24.1	11.2	11.3
2nd "	93.9	94.8	88.7	95.3	-26.6	-38.0	-28.9	10.3	11.0
3rd "	91.5	92.2	86.3	91.5	-33.6	-39.3	-35.6	-5.5	5.3
4th "	90.8	93.5	85.7	90.8	-42.7	-40.7	-39.4	-8.3	1.0
1993 - 1st qtr.	91.0	94.3	88.0	91.9	-45.8	-33.3	-43.1	-2.9	3.3
2nd "	90.4	91.1	84.0	91.5	-45.3	-27.0	-39.9	1.3	7.0
3rd "	89.5	90.7	84.7	89.6	-44.0	-19.7	-34.2	2.6	6.7
4th "	90.0	90.3	81.8	91.5	-37.4	-7.0	-25.0	10.4	1.3
1994 - 1st qtr.	91.5	93.5	82.3	92.1	-32.4	. .	-19.1	18.1	-2.3
2nd "	94.7	97.0	87.2	96.0	-18.9	9.7	-7.6	25.9	-1.0
3rd "	96.0	98.1	90.2	97.3	-15.1	10.0	-5.9	28.0	-4.7
4th "	97.5	97.7	91.5	99.0	-5.0	15.7	5.0	28.5	-9.3
1995 - 1st qtr.	98.9	98.8	95.1	98.2	-2.8	26.3	6.2	23.6	-4.7
2nd "	99.2	99.5	97.8	99.0	-1.3	22.3	5.1	21.6	0.3
3rd "	100.3	100.6	100.0	102.2	-4.3	12.3	1.4	24.1	-1.7
4th "	101.6	101.2	107.2	100.6	-14.3	5.3	-7.4	18.4	1.3
1996 - 1st qtr.	100.9	99.2	104.3	100.0	-24.8	-6.7	-17.8	9.9	5.0
2nd "	98.7	99.5	103.6	97.8	-31.3	-19.3	-24.3	5.3	6.3
3rd "	98.7	99.5	100.8	98.1	-31.1	-20.3	-22.9	6.4	5.7
4th "	98.0	100.1	100.2	96.3	-31.3	-21.3	-26.0	8.9	-2.0
1997 - 1st qtr.	99.0	101.9	101.6	98.2	-20.8	-13.0	-16.1	15.6	-5.0
2nd "	102.1	103.2	103.3	101.6	-14.6	-7.0	-12.3	16.0	. .
3rd "	103.5	103.4	102.5	103.0	-12.3	-3.0	-3.6	24.1	-4.3
4th "	104.9	104.3	104.6	104.8	-10.9	-1.0	-2.0	26.6	-3.0
1998 - 1st qtr.	104.3	103.1	104.3	105.4	-7.9	1.3	-2.1	25.6	-1.7
2nd "	105.3	104.3	104.7	106.0	-14.6	-3.0	-8.3	16.6	1.7
3rd "	104.5	104.9	103.3	104.8	-17.6	-10.7	-14.2	10.5	. .
4th "	103.2	103.4	98.7	103.5	-22.7	-20.3	-20.7	10.0	1.3
1999 - 1st qtr.	103.4	101.8	101.1	102.3	-28.8	-26.3	-27.1	10.1	1.7
2nd "	102.9	101.3	99.0	101.5	-23.6	-21.3	-21.3	14.6	-1.0
3rd "	105.0	105.2	100.6	105.1	-11.7	-11.7	-10.6	25.3	-0.7
4th "	106.4	. . . .	. . . .	. . . .	-5.1	-5.0	-0.4	29.4	-5.3

Table a11

Labour force, employment and unemployment

(thousands of persons and percentages)

	Employment					Unemploy-ment	Labour force	Unemploy-ment rate	Participation rate (1)
	Agriculture	Industry excluding construction	Construction	Other	Total				
1995	1,333	5,187	1,573	11,933	20,026	2,638	22,664	11.6	39.9
1996	1,278	5,125	1,568	12,155	20,125	2,653	22,778	11.6	40.1
1997	1,245	5,096	1,564	12,302	20,207	2,688	22,895	11.7	40.2
1998	1,201	5,186	1,544	12,504	20,435	2,745	23,180	11.8	40.6
1999	1,134	5,175	1,575	12,807	20,692	2,669	23,361	11.4	40.9
1995 – 1st qtr.	1,279	5,158	1,560	11,782	19,779	2,694	22,473	12.0	39.6
2nd ”	1,315	5,195	1,530	11,938	19,978	2,639	22,617	11.7	39.9
3rd ”	1,375	5,227	1,594	12,048	20,244	2,580	22,824	11.3	40.2
4th ”	1,365	5,167	1,607	11,964	20,103	2,639	22,741	11.6	40.1
1996 – 1st qtr.	1,211	5,106	1,572	11,956	19,845	2,649	22,494	11.8	39.6
2nd ”	1,233	5,163	1,538	12,162	20,095	2,708	22,803	11.9	40.1
3rd ”	1,321	5,134	1,595	12,295	20,344	2,577	22,921	11.2	40.3
4th ”	1,346	5,097	1,567	12,207	20,217	2,680	22,897	11.7	40.3
1997 – 1st qtr.	1,203	5,038	1,511	12,187	19,939	2,716	22,655	12.0	39.8
2nd ”	1,187	5,036	1,549	12,412	20,184	2,752	22,936	12.0	40.3
3rd ”	1,282	5,133	1,615	12,396	20,425	2,564	22,989	11.2	40.4
4th ”	1,308	5,178	1,582	12,214	20,282	2,720	23,001	11.8	40.4
1998 – 1st qtr.	1,198	5,148	1,529	12,276	20,151	2,717	22,868	11.9	40.1
2nd ”	1,175	5,140	1,522	12,521	20,357	2,807	23,165	12.1	40.6
3rd ”	1,219	5,210	1,556	12,654	20,638	2,666	23,304	11.4	40.9
4th ”	1,213	5,247	1,569	12,566	20,595	2,787	23,382	11.9	41.0
1999 – 1st qtr.	1,095	5,173	1,516	12,611	20,395	2,752	23,147	11.9	40.6
2nd ”	1,118	5,109	1,566	12,825	20,618	2,729	23,347	11.7	40.9
3rd ”	1,165	5,197	1,608	12,923	20,893	2,597	23,490	11.1	41.2
4th ”	1,160	5,221	1,611	12,869	20,861	2,600	23,460	11.1	41.1

Source: Istat, *Indagine sulle forze di lavoro*.
(1) The participation rate is calculated with reference to the whole population.

Table a12

Italian consumer price indices

(percentage changes on corresponding period)

	NIC (1)															WEH (2)
	Goods and services with unregulated prices									Goods and services with regulated prices						
	Non-food and non-energy products		Services	Total net of food and energy products and those with regulated prices	Food products			Energy products	Total	Goods (4)	Utility charges		Rents	Total	Overall index (5)	Overall index (5)
		Excluding cars			Processed	Not processed	Total					Energy products				
Weights (3)	*32.2*	*27.9*	*26.7*	*58.9*	*10.2*	*7.2*	*17.4*	*3.6*	*79.9*	*4.7*	*12.1*	*3.1*	*3.3*	*20.1*	*100*	*100*
1991	4.5	4.7	7.7	5.9	5.9	7.3	6.6	9.0	6.2	6.8	7.1	9.1	5.9	6.9	6.3	6.4
1992	4.0	4.0	7.5	5.5	5.0	5.1	5.0	0.6	5.2	3.6	6.2	1.3	6.5	5.6	5.3	5.4
1993	4.7	4.1	5.6	5.1	4.5	–0.2	2.2	5.5	4.4	8.7	4.7	3.4	7.6	6.1	4.6	4.2
1994	4.1	3.5	4.3	4.2	4.0	3.1	3.5	3.9	4.0	3.9	3.3	4.7	8.4	4.2	4.1	3.9
1995	4.9	4.2	5.2	5.0	6.8	5.4	6.1	7.5	5.4	2.8	4.5	4.4	7.6	4.6	5.2	5.4
1996	3.8	3.7	4.5	4.1	4.6	3.7	4.2	4.4	4.1	4.2	2.0	–0.2	8.3	3.5	4.0	3.9
1997	1.5	1.8	2.9	2.1	0.8	–0.8	0.0	1.5	1.6	5.4	2.7	2.3	6.6	4.0	2.0	1.7
1998	1.9	1.8	2.8	2.3	0.8	1.6	1.2	–2.7	1.8	4.5	1.2	0.0	5.2	2.6	2.0	1.8
1999	1.2	1.2	2.6	1.8	0.8	1.1	0.9	4.2	1.8	2.8	0.4	–2.6	3.3	1.5	1.7	1.6
1998 – May	2.0	1.8	2.8	2.4	1.0	1.4	1.2	–2.0	1.9	4.2	0.6	0.1	5.8	2.3	2.0	1.7
June	2.1	1.8	2.9	2.4	0.9	1.7	1.3	–2.2	2.0	4.1	0.7	0.2	5.8	2.3	2.1	1.8
July	2.0	1.9	2.8	2.3	0.9	1.8	1.3	–1.9	1.9	5.3	0.6	–0.3	5.2	2.4	2.1	1.8
Aug.	2.1	1.9	2.9	2.4	0.9	2.0	1.5	–2.6	2.0	5.3	0.7	–0.3	5.2	2.5	2.1	1.9
Sept.	2.0	1.9	2.7	2.3	1.0	2.1	1.6	–3.0	1.9	5.0	0.6	–0.6	5.2	2.4	2.0	1.8
Oct.	1.7	1.8	2.6	2.1	1.0	2.1	1.5	–3.5	1.7	5.1	0.4	–1.0	4.5	2.2	1.9	1.7
Nov.	1.4	1.5	2.7	2.0	0.9	1.8	1.3	–4.2	1.6	5.0	0.3	–2.0	4.5	2.1	1.7	1.5
Dec.	1.4	1.5	2.7	2.0	0.9	1.8	1.3	–4.5	1.6	5.0	0.5	–1.9	4.5	2.2	1.7	1.5
1999 – Jan.	1.3	1.3	2.6	1.9	0.8	1.8	1.3	–4.2	1.5	4.6	–0.4	–5.2	4.0	1.5	1.5	1.3
Feb.	1.1	1.3	2.5	1.7	0.8	2.0	1.3	–2.9	1.5	4.6	–0.4	–5.2	4.0	1.5	1.4	1.2
Mar.	1.1	1.3	2.4	1.7	0.8	2.1	1.4	–1.2	1.5	2.1	–0.6	–5.5	4.0	0.8	1.3	1.4
Apr.	1.1	1.3	2.4	1.7	0.8	2.2	1.4	2.2	1.6	2.0	–0.3	–5.6	3.4	0.8	1.5	1.6
May	1.1	1.2	2.4	1.7	0.6	2.2	1.3	3.2	1.7	1.7	–0.1	–4.8	3.4	0.9	1.5	1.6
June	1.0	1.2	2.5	1.7	0.6	1.5	1.0	3.3	1.6	1.3	–0.1	–4.9	3.4	0.8	1.4	1.5
July	1.2	1.2	2.6	1.9	0.6	0.8	0.8	5.1	1.8	2.9	0.4	–3.3	3.2	1.5	1.7	1.7
Aug.	1.1	1.2	2.6	1.8	0.6	0.5	0.6	6.3	1.8	2.9	0.3	–3.2	3.2	1.4	1.7	1.6
Sept.	1.1	1.2	2.6	1.8	0.7	0.1	0.5	8.6	1.8	2.9	1.3	0.3	3.2	2.0	1.8	1.8
Oct.	1.4	1.2	2.7	2.0	0.8	0.1	0.5	9.2	2.0	2.9	1.4	0.5	2.7	2.0	2.0	1.8
Nov.	1.4	1.2	2.8	2.1	0.9	0.1	0.6	8.7	2.1	2.9	1.7	2.9	2.7	2.1	2.0	2.0
Dec.	1.4	1.2	2.7	2.0	1.0	0.0	0.6	12.6	2.2	2.9	1.7	2.9	2.7	2.1	2.1	2.1
2000 – Jan.	1.4	1.2	2.8	2.0	1.0	–0.3	0.5	12.8	2.1	2.4	2.5	6.0	2.8	2.5	2.2	2.1

Source: Based on Istat data.

(1) Consumer price index for the entire resident population; 1995=100. Chain index as of January 1999. – (2) Consumer price index for worker and employee households, excluding tobacco products; 1995=100. Chain index as of January 1999. – (3) As of January 1999 Istat changes the weights every year on the basis of estimates of households' final consumption in the previous year. The weights shown in the table are those for January 2000. – (4) Medicines, salt and tobacco products. For 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. Drinking water, electricity and natural gas are included under utility charges. – (5) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

Harmonized index of consumer prices: Italy (1)
(percentage changes on corresponding period)

	Non-food and non-energy products		Services		Total net of food and energy products	Food products				Energy products	Total
		Excluding cars		Excluding rents		Processed	Not processed	Tobacco products			
Weights	*35.7*	*31.1*	*37.0*	*34.0*	*72.7*	*9.7*	*8.6*	*2.0*	*20.3*	*7.0*	*100.0*
1997	1.7	2.0	3.3	3.0	2.4	0.7	–0.7	3.9	0.3	1.9	1.9
1998	2.1	2.0	2.8	2.5	2.4	0.6	1.6	5.4	1.5	–1.4	2.0
1999	1.4	1.4	2.5	2.4	1.9	0.7	1.1	2.0	1.0	1.1	1.7
1998 – May . .	2.3	2.1	2.7	2.4	2.5	0.8	1.5	5.5	1.6	–1.0	2.0
June . . .	2.3	2.0	2.7	2.4	2.5	0.8	1.8	5.5	1.7	–1.0	2.1
July	2.3	2.1	2.6	2.4	2.4	0.8	1.9	5.5	1.7	–1.1	2.1
Aug.	2.4	2.1	2.7	2.5	2.5	0.8	2.1	5.5	1.8	–1.6	2.2
Sept. . . .	2.3	2.1	2.7	2.4	2.5	0.9	2.1	5.5	1.9	–1.9	2.1
Oct.	2.0	2.0	2.5	2.3	2.2	0.8	2.1	5.5	1.9	–2.3	1.9
Nov.	1.7	1.7	2.6	2.4	2.1	0.7	1.8	5.5	1.7	–3.1	1.7
Dec.	1.6	1.7	2.7	2.5	2.2	0.8	1.8	5.5	1.7	–3.2	1.7
1999 – Jan.	1.5	1.5	2.5	2.4	2.0	0.8	1.8	5.5	1.6	–4.6	1.5
Feb.	1.3	1.5	2.5	2.4	1.9	0.7	2.0	5.5	1.7	–3.9	1.4
Mar.	1.3	1.5	2.4	2.2	1.8	0.8	2.1	0.0	1.3	–3.1	1.4
Apr.	1.2	1.4	2.4	2.3	1.8	0.8	2.1	0.0	1.3	–1.4	1.3
May	1.2	1.4	2.5	2.4	1.8	0.5	2.0	0.0	1.1	–0.5	1.5
June . . .	1.2	1.4	2.4	2.4	1.8	0.6	1.5	0.0	0.9	–0.5	1.4
July	1.4	1.4	2.6	2.5	2.0	0.6	0.8	2.3	0.9	1.3	1.7
Aug.	1.3	1.4	2.5	2.4	1.9	0.5	0.5	2.3	0.8	1.9	1.6
Sept. . . .	1.3	1.4	2.5	2.4	1.9	0.7	0.2	2.3	0.7	4.8	1.9
Oct.	1.6	1.4	2.5	2.5	2.1	0.8	0.1	2.3	0.7	5.2	1.9
Nov.	1.6	1.4	2.4	2.3	2.0	0.9	0.2	2.3	0.8	6.1	2.0
Dec.	1.6	1.5	2.3	2.2	1.9	1.0	0.1	2.3	0.7	8.0	2.1
2000 – Jan.	1.5	1.3	2.4	2.4	1.9	1.1	–0.1	2.3	0.7	9.5	2.2

Source: Based on Eurostat data.
(1) 1996=100. Chain index. The weights are updated every year on the basis of the estimated final consumption. The weights shown in the table are those for January 2000.

Harmonized consumer price indices in the euro area (1)

(percentage changes on corresponding period)

	Euro (2)	Gernany	France	Italy	Spain	Nether-lands	Belgium	Austria	Portugal	Finland	Ireland	Luxem-bourg
Weights	*100*	*34.89*	*21.01*	*18.18*	*8.95*	*5.63*	*3.99*	*2.91*	*1.79*	*1.50*	*0.95*	*0.20*
1997	1.6	1.5	1.3	1.9	1.9	1.9	1.5	1.2	1.9	1.3	1.2	1.4
1998	1.1	0.6	0.7	2.0	1.8	1.8	0.9	0.8	2.2	1.4	2.1	1.0
1999	1.1	0.6	0.6	1.7	2.2	2.0	1.1	0.5	2.2	1.4	2.5	1.0
1998 – May	1.3	0.9	1.0	2.0	2.0	2.1	1.3	1.0	2.2	1.7	2.4	1.3
June	1.4	0.8	1.1	2.1	2.0	2.2	1.2	0.8	2.7	1.6	2.6	1.2
July	1.3	0.8	0.8	2.1	2.3	1.8	1.2	0.8	2.8	1.1	2.5	1.2
Aug.	1.1	0.6	0.6	2.2	2.1	1.4	1.0	0.7	2.2	1.1	3.0	1.0
Sept.	1.0	0.5	0.5	2.1	1.6	1.3	0.8	0.6	2.2	1.4	2.8	0.7
Oct.	0.9	0.4	0.5	1.9	1.6	1.5	0.7	0.7	2.5	1.2	2.6	0.5
Nov.	0.8	0.4	0.2	1.7	1.4	1.5	0.6	0.5	2.6	0.9	2.2	0.5
Dec.	0.8	0.2	0.3	1.7	1.4	1.5	0.7	0.5	2.8	1.0	2.2	0.4
1999 – Jan.	0.8	0.2	0.3	1.5	1.5	2.1	1.0	0.3	2.5	0.7	2.1	–1.4
Feb.	0.8	0.1	0.3	1.4	1.8	2.0	1.0	0.2	2.7	1.0	2.3	0.6
Mar.	1.0	0.5	0.4	1.4	2.1	2.0	1.3	0.2	2.8	1.0	2.0	0.6
Apr.	1.1	0.8	0.5	1.3	2.3	1.9	1.1	0.1	2.7	1.4	2.0	1.3
May	1.0	0.4	0.4	1.5	2.1	2.1	0.8	0.4	2.1	1.5	2.3	1.3
June	0.9	0.4	0.3	1.4	2.1	2.1	0.7	0.2	2.1	1.3	2.1	1.2
July	1.1	0.6	0.4	1.7	2.1	1.8	0.7	0.3	1.9	1.6	1.9	–0.3
Aug.	1.2	0.7	0.5	1.6	2.3	2.5	0.9	0.5	1.8	1.5	2.4	1.4
Sept.	1.2	0.8	0.6	1.9	2.5	2.0	1.3	0.6	1.9	1.6	2.6	1.6
Oct.	1.4	0.9	0.8	1.9	2.4	1.8	1.4	0.8	1.8	1.6	2.8	1.9
Nov.	1.5	1.0	1.0	2.0	2.7	2.0	1.6	1.0	1.9	1.9	3.0	1.9
Dec.	1.7	1.4	1.4	2.1	2.8	1.9	2.1	1.7	1.7	2.2	3.9	2.3
2000 – Jan.	2.0	1.9	1.7	2.2	2.9	1.6	1.8	1.6	1.9	2.0	4.4	3.5

Source: Based on Eurostat data.

(1) The weights shown in the table are those for the year 2000 – (2) Weighted average of the harmonized indices of the euro-area countries.

Index of producer prices of manufactures sold in the domestic market

(percentage changes on corresponding period)

	Non-energy products								Energy prodocts	Overall index
	Consumer goods					Investment goods	Intermediate goods	Total		
	Non-food products with unregulated prices (2)		Food products with unregulated prices (3)	Other goods (4)	Total					
		Excluding cars								
Weights (1)	*18.5*	*16.4*	*12.3*	*4.1*	*34.9*	*9.5*	*41.0*	*85.4*	*14.6*	*100.0*
1991	2.3	2.3	5.3	1.9	3.4	3.3	5.5	3.8	-2.4	3.3
1992	3.2	3.0	3.8	5.3	3.6	3.3	1.0	2.2	-0.4	1.9
1993	3.1	2.7	3.9	6.0	3.7	3.6	3.2	3.4	6.3	3.8
1994	3.2	2.6	3.6	5.0	3.5	2.9	4.2	3.8	3.2	3.7
1995	5.1	5.0	6.0	4.4	5.3	5.0	10.7	8.1	6.4	7.9
1996	3.4	3.2	2.8	3.5	3.2	3.6	-0.1	1.7	3.4	1.9
1997	0.7	1.0	1.1	0.9	0.9	1.8	0.5	0.8	4.3	1.3
1998	1.5	1.4	1.4	3.5	1.7	1.8	0.2	1.0	-5.1	0.1
1999	0.9	0.9	-0.4	3.2	0.7	1.0	-1.1	-0.1	-1.0	-0.3
1998 - May	1.4	1.4	1.9	3.7	1.8	1.8	0.6	1.3	-3.5	0.6
June	1.5	1.4	1.6	3.7	1.8	1.7	0.4	1.2	-4.0	0.4
July	1.7	1.5	1.4	3.6	1.8	1.9	0.4	1.1	-4.9	0.3
Aug.	1.7	1.4	1.1	3.6	1.7	1.8	-0.2	0.8	-6.1	-0.3
Sept.	1.5	1.2	0.8	3.6	1.5	1.7	-0.7	0.5	-6.4	-0.5
Oct.	1.8	1.5	0.5	3.7	1.5	1.8	-1.3	0.2	-7.4	-0.9
Nov.	1.6	1.5	0.2	3.7	1.3	1.8	-1.5	0.0	-8.7	-1.3
Dec.	1.6	1.4	0.2	3.7	1.3	1.8	-1.8	-0.1	-8.5	-1.3
1999 - Jan.	1.3	1.2	0.0	4.8	1.2	1.5	-2.1	-0.3	-9.3	-1.6
Feb.	1.1	1.1	0.2	5.0	1.2	1.2	-2.5	-0.5	-8.8	-1.8
Mar.	0.8	0.8	0.1	3.1	0.9	1.1	-2.7	-0.8	-8.0	-1.8
Apr.	1.1	1.0	-0.3	1.8	0.7	1.1	-2.6	-0.8	-6.7	-1.6
May	0.8	0.7	-0.7	1.7	0.4	1.0	-2.3	-0.8	-5.9	-1.4
June	0.8	0.7	-0.9	1.6	0.3	1.0	-2.1	-0.7	-5.1	-1.4
June	0.5	0.5	-0.7	3.7	0.5	0.9	-1.7	-0.5	-1.3	-0.6
Aug.	0.5	0.7	-0.5	3.8	0.6	0.8	-0.9	-0.1	0.7	0.0
Sept.	0.8	0.9	-0.9	3.7	0.6	0.7	-0.3	0.2	5.0	0.8
Oct.	1.0	1.0	-0.5	3.2	0.8	0.7	0.8	0.8	6.5	1.6
Nov.	1.0	0.9	-0.2	3.3	0.8	0.7	1.2	1.0	10.2	2.2
Dec.	1.1	1.0	-0.3	3.2	0.8	0.7	1.7	1.2	13.0	2.8
2000 - Jan.	1.0	0.9	-0.1	3.0	0.8	0.9	2.5	1.6	17.2	3.8

Source: Based on Istat data.

(1) With reference to 1995=100. – (2) Excludes 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 also includes goods with unregulated prices. – (3) Excludes tobacco products, the consumer prices of which are subject to official control. – (4) Includes tobacco products and medicines.

Table a16

Balance of payments: current account and capital account

	Current account							Capital account			
	Goods	Services	Income	Transfers				Intangible assets	Transfers		
				Private		Public			Private	Public	
					Emigrants' remittances		EU institutions				EU institutions
	(billions of lire)										
1996	(83,300)	(11,084)	(−23,123)	(1,545)	(44)	(−11,636)	(−8,829)	(−645)	(−70)	(826)	(1,631)
1997	(68,107)	(13,234)	(−19,006)	(−1,022)	(55)	(−6,003)	(−5,088)	(165)	(−101)	(5,577)	(6,320)
1998	(63,095)	(8,536)	(−20,895)	(−1,796)	(−226)	(−11,099)	(−11,494)	(−234)	(−92)	(4,681)	(5,320)
1999	(37,809)	(5,343)	(−16,607)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1998 4th qtr.	(14,222)	(−640)	(−4,842)	(756)	(−79)	(−2,353)	(−2,410)	(−79)	(−6)	(988)	(1,390)
1999 – 1st qtr.	6,876	−2,076	−4,607	−322	−94	167	−756	−46	−61	1,121	1,293
2nd ”	9,867	3,505	−5,123	−895	−62	−1,809	−2,586	18	−5	2,293	2,329
3rd ”	12,899	4,572	−4,552	−603	−126	−2,607	−3,932	−30	30	387	414
4th ”	(8,167)	(−658)	(−2,324)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1999 – Jan. . .	1,379	−1,311	−1,573	−37	−33	−766	−988	−21	−6	571	660
Feb. . .	2,144	−649	−1,551	−55	−36	361	31	−15	−193	192	241
Mar. . .	3,354	−116	−1,483	−230	−26	573	201	−11	138	358	392
Apr. . .	2,486	559	−768	−8	−18	−441	−725	25	219	122	149
May . .	3,154	1,537	−1,665	−390	−25	−727	−985	9	−108	1,062	1,065
June .	4,227	1,409	−2,689	−497	−20	−641	−876	−16	−116	1,109	1,115
July . .	8,605	2,016	−2,478	−56	−36	−281	−710	−13	−160	257	256
Aug. .	4,149	909	−1,161	−339	−39	−435	−896	−4	−28	135	135
Sept. .	145	1,647	−913	−208	−51	−1,891	−2,326	−13	218	−5	22
Oct. . .	3,720	789	−785	−691	−41	−484	. . . .	52	−13	−129	. . . .
Nov. . .	(2,004)	(−380)	(−1,148)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec. . .	(2,442)	(−1,067)	(−391)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
	(millions of euros)										
1999	(19,527)	(2,759)	(−8,577)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1999 – 1st qtr.	3,551	−1,072	−2,379	−166	−49	86	−390	−24	−31	579	668
2nd ”	5,060	1,810	−2,646	−462	−32	−934	−1,336	9	−3	1,184	1,203
3rd ”	6,662	2,361	−2,351	−311	−65	−1,346	−2,031	−15	15	200	214
4th ”	(4,218)	(−340)	(−1,200)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1999 – Jan. . .	712	−677	−812	−19	−17	−396	−510	−11	−3	295	341
Feb. . .	1,107	−335	−801	−28	−18	186	16	−8	−100	99	124
Mar. . .	1,732	−60	−766	−119	−13	296	104	−6	71	185	202
Apr. . .	1,284	289	−397	−4	−9	−228	−374	13	113	63	77
May . .	1,629	794	−860	−201	−13	−375	−509	5	−56	549	550
June .	2,183	728	−1,389	−257	−10	−331	−453	−8	−60	573	576
July . .	4,444	1,041	−1,280	−29	−19	−145	−367	−7	−83	133	132
Aug. . .	2,143	469	−600	−175	−20	−225	−463	−2	−14	70	70
Sept. .	75	851	−472	−107	−26	−977	−1,201	−7	113	−3	12
Oct. . .	1,921	407	−405	−357	−21	−250	. . . .	27	−7	−67	. . . .
Nov. . .	(1,035)	(−196)	(−593)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec. . .	(1,261)	(−552)	(−202)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

Table a17

Balance of payments: financial account

	Direct investment		Portfolio investment		Other investment		Financial derivatives	Change in reserve assets
	abroad	in Italy	assets	liabilities	assets	liabilities		
				(billions of lire)				
1996	(−13,404)	(5,454)	(−39,373)	(114,672)	(−104,973)	(25,350)	(401)	(−18,642)
1997	(−17,986)	(6,296)	(−105,853)	(125,659)	(−43,852)	(23,158)	(270)	(−22,770)
1998	(−21,731)	(4,533)	(−192,079)	(196,429)	(−42,672)	(24,156)	(348)	(36,977)
1999	(−4,552)	(9,071)	(−230,021)	(196,171)	(−46,420)	(26,513)	(3,847)	(15,126)
1998 – 4th qtr.	(−3,338)	(1,303)	(−23,152)	(30,835)	(−15,755)	(−1,578)	. .	(6,957)
1999 – 1st qtr.	−2,904	2,581	−59,509	53,900	−17,808	4,539	1,028	16,826
2nd ”	10,229	−1,293	−58,950	43,086	−24,833	21,526	−1,235	−223
3rd ”	−5,189	4,864	−66,548	38,100	9,193	9,693	1,028	−970
4th ”	(−6,758)	(2,920)	(−45,014)	(61,085)	(−12,973)	(−9,244)	(3,026)	(−507)
1999 – Jan.	−1,299	685	−13,978	41,123	−38,898	3,236	97	11,126
Feb.	−608	1,237	−28,893	9,873	10,189	4,417	443	2,484
Mar.	−997	658	−16,638	2,904	10,901	−3,114	488	3,216
Apr.	−2,608	−1,553	−8,423	31,602	−6,814	−14,836	. .	−823
May	−1,415	625	−14,809	9,565	2,014	1,135	−254	300
June	14,323	−366	−35,718	1,919	−20,033	35,227	−982	300
July	−562	1,375	−36,685	16,166	−12,462	23,415	350	−608
Aug.	−2,680	2,839	−14,135	14,479	7,815	−8,647	445	−1,199
Sept.	−1,948	651	−15,728	7,455	13,840	−5,075	232	836
Oct.	(−1,061)	(1,104)	(−11,656)	(−4,097)	(6,314)	(7,280)	(4)	(−1,489)
Nov.	(−3,208)	(521)	(−17,972)	(43,591)	(−44,894)	(18,387)	(1,636)	(1,152)
Dec.	(−2,488)	(1,295)	(−15,386)	(21,591)	(25,607)	(−34,911)	(1,386)	(−170)
				(millions of euros)				
1999	(−2,351)	(4,685)	(−118,796)	(101,314)	(−23,974)	(13,693)	(1,987)	(7,812)
1999 – 1st qtr.	−1,500	1,333	−30,734	27,837	−9,197	2,344	531	8,690
2nd ”	5,046	−706	−33,602	21,490	−7,926	9,016	741	−134
3rd ”	−2,680	2,512	−34,369	19,677	4,748	5,006	531	−501
4th ”	(−3,490)	(1,508)	(−23,248)	(31,548)	(−6,700)	(−4,774)	(1,563)	(−262)
1999 – Jan.	−671	354	−7,219	21,238	−20,089	1,671	50	5,746
Feb.	−314	639	−14,922	5,099	5,262	2,281	229	1,283
Mar.	−515	340	−8,593	1,500	5,630	−1,608	252	1,661
Apr.	−1,347	−802	−4,350	16,321	−3,519	−7,662	. .	−425
May	−731	323	−7,648	4,940	1,040	586	−131	155
June	7,397	−189	−18,447	991	−10,346	18,193	−507	155
July	−290	710	−18,946	8,349	−6,436	12,093	181	−314
Aug.	1,384	1,466	−7,300	7,478	4,036	−4,466	230	−619
Sept.	−1,006	336	−8,123	3,850	7,148	−2,621	120	432
Oct.	(−548)	(570)	(−6,020)	(−2,116)	(3,261)	(3,760)	(2)	(−769)
Nov.	(−1,657)	(269)	(−9,282)	(22,513)	(−23,186)	(9,496)	(845)	(595)
Dec.	(−1,285)	(669)	(−7,946)	(11,151)	(13,225)	(−18,030)	(716)	(−88)

Table a18

State sector borrowing requirement

	Budget: Receipts	Budget: Payments (-)	Budget: Balance	Treasury operations	Lending by the Deposits and Loans Fund	ANAS, the State Forests and other bodies	Gross borrowing requirement	Settlements of past debts (-)	Privatization receipts (-)	Net borrowing requirement
					(billions of lire)					
1997	622,037	600,295	21,742	-53,304	-911	1,391	-31,081	409	21,179	-52,670
1998	595,025	657,795	-62,770	11,323	1,327	1,119	-49,002	-4,769	14,291	-58,523
1999	684,487	764,571	-80,084	84,623	-5,191	1,105	452	-12,128	43,629	-31,049
1999 - 1st qtr. . . .	132,383	138,587	-6,204	-19,924	-954	10	-27,073	-1,929	1,531	-26,675
2nd "	135,113	173,501	-38,388	-2,862	-2,421	427	-43,243	-2,590	2	-40,655
3rd "	165,570	170,555	-4,985	22,521	-616	16	16,934	-5,054	237	21,751
4th "	251,421	281,928	-30,507	84,888	-1,200	652	53,834	-2,556	41,860	14,530
1999 - Jan.	20,574	19,804	770	-764	569	. .	575	-411	547	439
Feb.	51,504	32,316	19,188	-25,432	-717	. .	-6,961	-277	. .	-6,684
Mar.	60,304	86,467	-26,163	6,272	-806	10	-20,687	-1,241	983	-20,430
Apr.	41,343	63,371	-22,029	3,532	-806	250	-19,053	-421	1	-18,633
May	46,050	50,252	-4,202	-5,210	-783	. .	-10,195	-247	. .	-9,948
June	47,721	59,877	-12,157	-1,184	-832	177	-13,996	-1,922	. .	-12,074
July	53,707	71,551	-17,845	47,972	1,091	. .	31,218	-4,369	. .	35,586
Aug.	78,926	57,175	21,751	-14,565	-743	. .	6,443	-344	237	6,550
Sept.	32,937	41,829	-8,892	-10,886	-964	16	-20,726	-341	. .	-20,385
Oct.	26,599	45,537	-18,938	7,040	-781	252	-12,426	-172	4,422	-16,676
Nov.	94,275	102,954	-8,679	44,741	-959	. .	35,103	-193	29,713	5,583
Dec.	130,547	133,437	-2,890	33,107	540	400	31,157	-2,191	7,725	25,623
					(millions of euros)					
1999 - Jan.	10,626	10,228	398	-395	294	. .	297	-212	283	227
Feb.	26,600	16,690	9,910	-13,135	-370	. .	-3,595	-143	. .	-3,452
Mar.	31,145	44,657	-13,512	3,239	-416	5	-10,684	-641	508	-10,551
Apr.	21,352	32,729	-11,377	1,824	-416	129	-9,840	-217	1	-9,623
May	23,783	25,953	-2,170	-2,691	-404	. .	-5,265	-128	. .	-5,138
June	24,646	30,924	-6,279	-611	-430	91	-7,228	-993	. .	-6,236
July	27,737	36,953	-9,216	24,775	563	. .	16,123	-2,256	. .	18,379
Aug.	40,762	29,528	11,234	-7,522	-384	. .	3,327	-178	122	3,383
Sept.	17,010	21,603	-4,592	-5,622	-498	8	-10,704	-176	. .	-10,528
Oct.	13,737	23,518	-9,781	3,636	-403	130	-6,418	-89	2,284	-8,613
Nov.	48,689	53,171	-4,482	23,107	-495	. .	18,129	-100	15,345	2,884
Dec.	67,422	68,914	-1,492	17,098	279	207	16,091	-1,131	3,989	13,233

Table a19

Financing of the general government borrowing requirement

	Medium and long-term securities	Short-term securities	Central bank financing other than securities purchases	Lending by banks	PO deposits	Foreign loans	Other	Borrowing requirement
				(billions of lire)				
1997	100,578	-81,771	-2,585	1,694	11,641	7,230	138	36,924
1998	81,251	-35,371	15,963	-5,286	6,364	-11,146	357	52,132
1999	50,277	-34,834	-13,953	5,554	16,543	-8,432	62	15,216
1999 - 1st qtr. . . .	33,070	-346	-4,003	14	4,606	-7,253	43	26,131
2nd "	40,422	-4,915	5,276	3,303	3,023	6,619	35	53,764
3rd "	15,542	-10,350	-15,789	-3,022	3,972	-5,901	-17	-15,567
4th "	-38,757	-19,223	563	5,259	4,942	-1,897	1	-49,112
1999 - Jan.	8,155	2,896	-12,696	861	1,990	-1,062	26	170
Feb.	14,060	-1,690	-6,997	994	1,520	-1,106	7	6,787
Mar.	10,856	-1,552	15,690	-1,842	1,096	-5,085	11	19,173
Apr.	12,519	-1,673	9,158	747	1,371	1,396	32	23,551
May	17,257	-2,227	-7,880	2,171	825	3,758	-6	13,898
June	10,646	-1,014	3,998	385	827	1,465	8	16,315
July	8,009	-4,685	-25,933	-2,562	1,176	-6,914	-22	-30,930
Aug.	-5,264	-3,753	2,166	-31	1,628	1,686	2	-3,566
Sept.	12,796	-1,911	7,978	-430	1,168	-674	2	18,929
Oct.	-1,292	-4,010	17,415	733	1,306	-586	2	13,568
Nov.	-7,467	-4,293	-26,178	878	400	-974	-4	-37,637
Dec.	-29,998	-10,920	9,327	3,648	3,236	-338	3	-25,042
				(millions of euros)				
1999 - Jan.	4,212	1,496	-6,557	445	1,028	-548	13	88
Feb.	7,261	-873	-3,614	514	785	-571	3	3,505
Mar.	5,606	-802	8,103	-951	566	-2,626	6	9,902
Apr.	6,466	-864	4,730	386	708	721	17	12,163
May	8,912	-1,150	-4,070	1,121	426	1,941	-3	7,178
June	5,498	-524	2,065	199	427	757	4	8,426
July	4,137	-2,420	-13,393	-1,323	607	-3,571	-11	-15,974
Aug.	-2,719	-1,938	1,118	-16	841	871	1	-1,842
Sept.	6,609	-987	4,120	-222	603	-348	1	9,776
Oct.	-667	-2,071	8,994	379	674	-302	1	7,007
Nov.	-3,856	-2,217	-13,520	453	207	-503	-2	-19,438
Dec.	-15,493	-5,640	4,817	1,884	1,671	-174	1	-12,933

Table a20

General government debt

(face value at end of period)

	Medium and long-term securities excluding central bank	Short-term securities excluding central bank	PO deposits	Lending by banks	Other domes-tic debt	Debt issued abroad	Borrowing from central bank	Total (EU defini-tion)	Claims on central bank	Total	*Memorandum item:* state sector debt
						(billions of lire)					
1996	1,367,009	381,599	164,557	108,521	3,995	126,908	171,018	2,323,607	-56,459	2,267,148	2,206,397
1997	1,501,014	287,195	176,198	110,214	4,133	143,115	154,834	2,376,704	-58,997	2,317,707	2,251,070
1998	1,591,963	265,927	182,562	104,928	4,490	131,471	123,326	2,404,667	-43,168	2,361,500	2,291,797
1999 - Jan.	1,603,511	268,993	184,552	105,789	4,516	131,897	118,328	2,417,586	-55,841	2,361,744	2,290,884
Feb.	1,618,369	267,362	186,072	106,783	4,522	132,435	117,226	2,432,770	-62,838	2,369,931	2,299,221
Mar.	1,626,845	265,810	187,168	104,942	4,533	128,935	118,722	2,436,955	-47,225	2,389,730	2,320,512
Apr.	1,639,811	264,137	188,539	105,688	4,565	130,999	117,946	2,451,686	-38,000	2,413,686	2,339,946
May	1,656,349	261,909	189,364	107,860	4,560	135,359	117,676	2,473,078	-45,870	2,427,208	2,349,753
June ...	1,668,310	260,895	190,191	108,245	4,568	137,578	116,789	2,486,576	-41,872	2,444,704	2,364,920
July	1,676,232	256,209	191,367	105,683	4,546	129,730	116,779	2,480,546	-67,805	2,412,742	2,332,700
Aug.	1,672,653	252,457	192,995	105,652	4,549	133,349	116,530	2,478,186	-65,639	2,412,547	2,329,622
Sept. ...	1,683,447	250,544	194,163	105,223	4,551	132,869	118,894	2,489,691	-57,663	2,432,028	2,350,907
Oct.	1,680,842	246,534	195,469	105,956	4,553	133,724	120,543	2,487,621	-40,247	2,447,374	2,365,095
Nov.	1,674,709	242,241	195,869	106,834	4,549	135,755	120,503	2,480,459	-66,428	2,414,032	2,334,260
Dec. ...	1,649,694	231,322	199,105	110,482	4,552	136,003	114,967	2,446,123	-57,046	2,389,077	2,303,186
						(millions of euros)					
1999 - Jan.	828,144	138,924	95,313	54,635	2,332	68,119	61,111	1,248,579	-28,840	1,219,739	1,183,143
Feb.	835,818	138,081	96,098	55,149	2,336	68,397	60,542	1,256,421	-32,453	1,223,967	1,187,448
Mar.	840,195	137,279	96,664	54,198	2,341	66,590	61,315	1,258,582	-24,389	1,234,193	1,198,445
Apr.	846,892	136,415	97,372	54,583	2,358	67,655	60,914	1,266,190	-19,625	1,246,565	1,208,481
May	855,433	135,265	97,798	55,705	2,355	69,907	60,775	1,277,238	-23,690	1,253,548	1,213,546
June ...	861,610	134,741	98,226	55,904	2,359	71,053	60,316	1,284,209	-21,625	1,262,584	1,221,379
July	865,702	132,321	98,833	54,581	2,348	67,000	60,311	1,281,095	-35,018	1,246,077	1,204,739
Aug.	863,853	130,383	99,673	54,565	2,349	68,869	60,183	1,279,876	-33,900	1,245,977	1,203,150
Sept. ...	869,428	129,395	100,277	54,343	2,350	68,621	61,404	1,285,818	-29,780	1,256,038	1,214,142
Oct.	868,083	127,324	100,951	54,722	2,351	69,063	62,255	1,284,749	-20,786	1,263,963	1,221,470
Nov.	864,915	125,107	101,158	55,175	2,350	70,112	62,235	1,281,050	-34,307	1,246,743	1,205,545
Dec. ...	851,996	119,468	102,829	57,059	2,351	70,239	59,375	1,263,317	-29,462	1,233,855	1,189,496

Table a21

ECB interest rates on standing facilities

Date		ECB official rates		*Memorandum item:* Official reference rate for instruments linked to the former official discount rate		
Announced	Effective	Deposit facility	Marginal lending facility	Order issued by the Governor		Rate
				Date issued	Date effective	
22.12.1998	1.1.1999	2.00	4.50	23.12.1998	28.12.1998	3.00
22.12.1998	4.1.1999	2.75	3.25	9.4.1999	14.4.1999	2.50
22.12.1998	22.1.1999	2.00	4.50	6.11.1999	10.11.1999	3.00
8.4.1999	9.4.1999	1.50	3.50	4.2.2000	9.2.2000	3.25
4.11.1999	5.11.1999	2.00	4.00			
3.2.2000	4.2.2000	2.25	4.25			

Table a22

Bank interest rates: domestic fund-raising in lire/euros

	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
1996	4.51	5.80	7.10	8.13	6.24	6.26	9.08	6.70
1997	3.36	4.19	5.79	6.63	4.95	4.72	7.15	5.07
1998	1.70	2.29	3.72	5.05	3.11	3.04	5.57	3.74
1999 – Jan.	1.44	2.00	3.25	4.88	2.67	2.77	5.39	3.41
Feb.	1.31	1.85	3.02	4.70	2.53	2.70	5.25	3.26
Mar.	1.31	1.82	2.99	4.55	2.50	2.67	5.09	3.08
Apr.	1.24	1.73	2.84	4.41	2.43	2.61	4.96	3.53
May	1.09	1.56	2.58	4.29	2.22	2.45	4.85	3.20
June	1.09	1.51	2.52	4.18	2.15	2.41	4.74	2.74
July	1.08	1.48	2.51	4.11	2.15	2.41	4.63	3.55
Aug.	1.07	1.46	2.49	4.03	2.15	2.41	4.52	3.56
Sept.	1.08	1.45	2.50	3.99	2.18	2.51	4.52	3.66
Oct.	1.09	1.44	2.52	3.93	2.22	2.64	4.45	3.86
Nov.	1.13	1.46	2.63	3.88	2.30	2.87	4.45	4.00
Dec.	1.22	1.52	2.88	3.85	2.40	2.99	4.45	4.68
2000 – Jan.	(1.30)	(1.56)	(3.07)	(3.81)	(2.43)	(2.97)	(4.49)	(4.04)

Table a23

Bank interest rates: loans to resident customers in lire/euros

	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	
1996	7.48	10.82	11.35	11.02	9.10	11.22	9.88
1997	6.12	9.01	9.60	9.42	6.90	9.38	8.88
1998	3.80	6.70	7.35	7.50	4.53	6.17	6.38
1999 - Jan.	3.36	6.28	7.00	7.12	4.78	6.13	5.88
Feb.	3.23	6.08	6.80	6.95	4.61	6.04	5.88
Mar.	3.17	5.85	6.58	6.78	4.49	5.98	5.88
Apr.	3.05	5.72	6.49	6.61	4.37	5.66	5.75
May	2.83	5.51	6.29	6.43	4.16	5.56	5.75
June	2.76	5.37	6.15	6.27	4.06	5.43	5.75
July	2.73	5.32	6.12	5.98	4.11	5.22	5.75
Aug.	2.75	5.27	6.14	5.93	4.50	5.58	5.75
Sept.	2.74	5.25	6.13	5.87	4.38	5.56	5.75
Oct.	2.76	5.30	6.18	5.83	4.71	5.61	5.75
Nov.	2.90	5.51	6.39	5.85	4.77	5.61	6.25
Dec.	3.03	5.55	6.37	5.89	4.58	5.50	6.25
2000 - Jan.	(3.14)	(5.57)	(6.37)	(5.95)	(4.72)	(5.59)	6.25

Table a24

Banks and money market funds: main balance sheet items

(end-of-period data)

Assets

	Cash	Loans									
		Residents of Italy			Residents of other euro-area countries			Rest of the world	Residents of Italy		
		MFIs	General government	Other sectors	MFIs	General govern-ment	Other sectors		MFIs	General government	Other sectors
											(billions
1996	*(9,992)*	*(289,429)*	*(113,201)*	*(1,172,940)*	*(82,827)*	*(81)*	*(10,656)*	*(199,347)*	*(51,892)*	*(379,525)*	*(2,911)*
1997	*(10,846)*	*(310,104)*	*(119,028)*	*(1,245,462)*	*(87,647)*	*(48)*	*(13,851)*	*(202,214)*	*(49,666)*	*(352,338)*	*(4,459)*
1998	11,915	263,006	118,861	1,337,337	119,508	66	20,902	161,562	63,500	364,567	5,577
1999 – Sept. . .	9,405	261,440	116,633	1,403,190	108,094	68	17,712	135,536	70,579	363,639	9,464
Oct. . . .	9,040	268,174	117,430	1,408,461	108,635	66	18,018	134,294	71,594	365,890	10,284
Nov. . . .	10,382	268,196	119,091	1,459,579	117,019	66	23,512	131,876	72,739	347,649	10,189
Dec. . . .	11,907	299,375	122,430	1,475,213	111,730	87	24,710	132,171	73,150	342,461	10,929
2000 – Jan. . . .	(9,986)	(315,365)	(118,244)	(1,483,898)	(104,530)	(94)	(22,293)	(138,955)	(76,518)	(339,373)	(11,244)
											(millions
1999 – Sept. . .	4,857	135,023	60,236	724,687	55,826	35	9,148	69,999	36,451	187,804	4,888
Oct. . . .	4,669	138,500	60,648	727,409	56,105	34	9,305	69,357	36,975	188,967	5,311
Nov. . . .	5,362	138,512	61,505	753,810	60,435	34	12,143	68,108	37,566	179,545	5,262
Dec. . . .	6,150	154,614	63,230	761,884	57,704	45	12,761	68,261	37,779	176,866	5,644
2000 – Jan. . . .	(5,157)	(162,873)	(61,068)	(766,369)	(53,985)	(49)	(11,513)	(71,764)	(39,518)	(175,271)	(5,807)

Liabilities

	Deposits					
	Residents of Italy			Residents of other euro-area countries		
	MFIs	Central government	Other general government/ other sectors	MFIs	Central government	Other general government/ other sectors
						(billions
1996	*(266,464)*	*(8,907)*	*(1,196,282)*	*(128,529)*	*(217)*	*(10,633)*
1997	*(266,036)*	*(10,711)*	*(1,131,288)*	*(151,507)*	*(167)*	*(15,095)*
1998	268,036	13,902	1,104,517	166,271	187	19,516
1999 – Sept. . . .	296,522	14,982	1,067,947	187,466	679	9,643
Oct.	296,520	14,594	1,079,752	191,086	1,049	8,615
Nov.	292,288	13,968	1,061,697	200,132	599	10,665
Dec.	342,936	15,339	1,114,358	199,172	74	11,876
2000 – Jan.	(331,140)	(14,551)	(1,117,435)	(200,481)	(41)	(11,305)
						(millions
1999 – Sept. . . .	153,141	7,738	551,549	96,818	351	4,980
Oct.	153,140	7,537	557,645	98,688	542	4,449
Nov.	150,954	7,214	548,321	103,360	309	5,508
Dec.	177,112	7,922	575,518	102,864	38	6,134
2000 – Jan.	(171,019)	(7,515)	(577,107)	(103,540)	(21)	(5,839)

Table a24

	Securities				Shares and other equity					Fixed assets	Remaining assets	Total assets
	Residents of other euro-area countries			Rest of the world	Residents of Italy		Residents of other euro-area countries		Rest of the world			
	MFIs	General government	Other sectors		MFIs	Other sectors	MFIs	Other sectors				
of lire)												
	(1,737)	*(2,691)*	*(1,677)*	*(12,164)*	*(31,548)*	*(25,869)*	*(5,300)*	*(3,756)*	*(5,129)*	*(84,828)*	*(462,997)*	*(2,950,496)*
	(1,892)	*(2,473)*	*(1,961)*	*(19,874)*	*(34,425)*	*(26,347)*	*(4,726)*	*(6,363)*	*(4,788)*	*(84,778)*	*(527,562)*	*(3,110,852)*
	3,758	6,736	3,168	32,175	55,902	32,584	8,200	6,574	5,844	86,348	265,137	2,973,224
	8,464	7,187	8,828	39,397	62,925	39,159	9,664	8,251	8,364	87,036	273,146	3,048,184
	8,266	6,832	9,073	37,370	63,416	39,447	9,623	8,511	8,981	86,202	272,569	3,062,177
	8,183	6,861	9,039	38,775	63,342	44,403	9,810	10,463	9,246	86,699	289,675	3,136,792
	7,316	6,105	10,034	34,495	74,638	41,651	9,841	10,059	8,908	86,656	296,016	3,189,881
	(7,458)	(6,396)	(9,824)	(34,838)	(78,218)	(42,066)	(9,744)	(10,980)	(9,276)	(85,952)	(323,358)	(3,238,611)
of euros)												
	4,371	3,712	4,559	20,347	32,498	20,224	4,991	4,261	4,319	44,951	141,068	1,574,256
	4,269	3,528	4,686	19,300	32,752	20,373	4,970	4,395	4,638	44,520	140,770	1,581,483
	4,226	3,544	4,668	20,026	32,713	22,932	5,066	5,404	4,775	44,776	149,605	1,620,018
	3,779	3,153	5,182	17,815	38,547	21,511	5,082	5,195	4,600	44,754	152,880	1,647,436
	(3,852)	(3,303)	(5,073)	(17,992)	(40,396)	(21,725)	(5,032)	(5,671)	(4,791)	(44,391)	(167,001)	(1,672,603)

	Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
of lire)						
	(240,263)	*(4,724)*	*(286,343)*	*(190,860)*	*(617,275)*	*(2,950,497)*
	(255,776)	*(7,143)*	*(396,409)*	*(195,959)*	*(680,760)*	*(3,110,851)*
	245,892	9,240	486,065	210,173	449,425	2,973,224
	259,129	14,230	515,244	223,017	462,325	3,048,184
	262,687	15,161	515,893	221,889	454,933	3,062,177
	269,105	15,192	522,594	221,861	528,694	3,136,792
	262,824	25,297	525,689	229,319	462,996	3,189,881
	(264,835)	*(28,076)*	(530,070)	(235,595)	(505,080)	*(3,238,611)*
of euros)						
	133,829	7,349	264,552	115,179	238,771	1,574,256
	135,667	7,830	266,436	114,596	234,953	1,581,483
	138,981	7,846	269,897	114,581	273,048	1,620,018
	135,737	13,065	271,496	118,433	239,117	1,647,436
	(136,776)	*(14,500)*	(273,758)	(121,675)	(260,852)	*(1,672,603)*

Table a25

Banks: main balance sheet items

(end-of-period data)

Assets

	Bank reserves	Loans to residents	Securities	Shares	Other equity	Repos	Bad debts and protested bills	Interbank accounts	External assets	*Memorandum item:* Bad debts: estimated realizable value
					(billions of lire)					
1996	80,892	1,090,928	383,583	2,565	55,101	22,264	123,117	182,128	295,728	74,231
1997	86,803	1,160,916	343,406	3,451	59,263	27,743	119,990	184,791	311,639	70,911
1998	22,269	1,230,406	347,123	3,993	77,670	42,362	122,629	192,880	325,839	70,192
1999 - Sept. .	14,970	1,276,397	347,116	6,248	87,499	59,287	119,203	177,080	284,564	62,163
Oct. . .	23,581	1,281,428	351,987	6,728	88,363	45,920	120,098	187,665	284,061	63,165
Nov. . .	19,432	1,329,261	336,151	6,463	87,976	46,437	119,531	196,084	304,366	63,068
Dec. . .	27,230	1,345,619	323,065	6,198	96,736	53,533	114,575	222,857	303,050	60,101
2000 - Jan. . .	. . . .	*(1,355,002)*	*(316,595)*	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
					(millions of euros)					
1999 - Sept. .	7,731	659,204	179,270	3,227	45,190	30,619	61,563	91,454	146,965	32,104
Oct. . .	12,179	661,803	181,786	3,475	45,636	23,716	62,025	96,921	146,705	32,622
Nov. . .	10,036	686,506	173,607	3,338	45,436	23,983	61,732	101,269	157,192	32,572
Dec. . .	14,063	694,954	166,849	3,201	49,960	27,648	59,173	115,096	156,512	31,040
2000 - Jan. . .	. . . .	*(699,800)*	*(163,508)*	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

Liabilities

	Deposits of residents in lire/euros	Bonds	Public funds	Repos	Interbank accounts	Capital and reserves	External liabilities	Other items	*Memorandum item:* Supervisory capital
					(billions of lire)				
1996	959,577	280,213	2,486	174,006	193,714	250,188	364,080	12,044	182,305
1997	881,329	377,743	2,231	172,454	200,333	257,052	392,738	14,121	187,485
1998	877,146	436,072	1,980	144,343	200,363	283,092	391,440	30,736	220,059
1999 - Sept. . .	850,516	451,999	1,990	173,075	171,194	301,266	419,966	2,357	236,583
Oct. . . .	858,405	454,277	1,989	165,051	178,209	301,002	427,275	3,624	. . . .
Nov. . . .	838,184	457,807	2,006	160,705	183,803	303,900	443,001	56,295	. . . .
Dec. . . .	897,707	455,531	1,931	172,213	210,145	312,826	445,414	−2,904	235,870
2000 - Jan. . . .	*(894,169)*	*(455,411)*	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
					(millions of euros)				
1999 - Sept. . .	439,255	233,438	1,028	89,386	88,414	155,591	216,894	1,217	122,185
Oct. . . .	443,329	234,615	1,027	85,242	92,037	155,455	220,669	1,872	. . . .
Nov. . . .	432,886	236,437	1,036	82,997	94,926	156,951	228,791	29,074	. . . .
Dec. . . .	463,627	235,262	997	88,940	108,531	161,561	230,037	−1,500	121,817
2000 - Jan. . . .	*(461,800)*	*(235,200)*	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

Banks: loan and securities portfolios

(end-of-period data)

	Loans to residents						Loans to non-residents
	Short-term		Medium and long-term		Total		
		in lire/euros		in lire/euros		in lire/euros	
	(billions of lire)						
1996	556,364	502,124	534,565	498,854	1,090,928	1,000,978	17,854
1997	590,716	530,778	570,200	540,684	1,160,916	1,071,462	23,181
1998	623,879	561,374	606,527	580,824	1,230,406	1,142,198	27,309
1999 – Sept.	622,710	582,339	653,687	645,320	1,276,397	1,227,660	26,827
Oct.	620,011	580,359	661,418	653,095	1,281,428	1,233,454	27,612
Nov.	660,124	616,435	669,137	660,741	1,329,261	1,277,176	30,083
Dec.	665,313	624,061	680,305	671,975	1,345,619	1,296,035	32,169
2000 – Jan.	*(680,018)*	*(636,742)*	*(674,984)*	*(666,851)*	*(1,355,002)*	*(1,303,594)*	....
	(millions of euros)						
1999 – Sept.	321,603	300,753	337,601	333,280	659,204	634,033	13,855
Oct.	320,209	299,730	341,594	337,296	661,803	637,026	14,261
Nov.	340,925	318,362	345,580	341,244	686,506	659,606	15,537
Dec.	343,606	322,301	351,348	347,046	694,954	669,346	16,614
2000 – Jan.	*(351,200)*	*(328,850)*	*(348,600)*	*(344,400)*	*(699,800)*	*(673,250)*	....

	Securities							
	Government securities					Other		Total
		BOTs and BTEs	CTZs	CCTs	BTPs		bonds issued by banks	
	(billions of lire)							
1996	334,173	52,957	19,636	155,306	99,331	49,411	47,050	383,583
1997	296,481	32,094	18,661	154,455	86,220	46,925	43,491	343,406
1998	288,088	45,265	20,256	134,790	83,901	59,035	54,580	347,123
1999 – Sept.	283,543	38,481	19,923	122,264	97,815	63,573	58,002	347,116
Oct.	288,310	38,691	19,231	125,485	100,070	63,677	58,010	351,987
Nov.	271,962	34,478	20,255	120,803	91,501	64,189	58,371	336,151
Dec.	259,380	30,294	16,995	120,230	87,075	63,685	57,344	323,065
2000 – Jan.	....	....	....	....	....	....	....	*(309,029)*
	(millions of euros)							
1999 – Sept.	146,438	19,874	10,289	63,144	50,517	32,833	29,955	179,270
Oct.	148,900	19,982	9,932	64,808	51,682	32,886	29,960	181,786
Nov.	140,457	17,806	10,461	62,390	47,257	33,151	30,146	173,607
Dec.	133,958	15,645	8,777	62,094	44,971	32,891	29,616	166,849
2000 – Jan.	....	....	....	....	....	....	....	*(159,600)*

Banks: deposits and bonds

	Deposits of residents in lire/euros – end-of-period data						Foreign currency deposits of residents	Deposits of non-residents
	Current accounts	Savings accounts	Certificates of deposit					
			short-term	medium and long-term	total			
	(billions of lire)							
1996	506,682	114,841	67,013	271,042	338,055	959,577	19,962	14,644
1997	543,419	115,652	86,086	136,172	222,258	881,329	23,667	17,362
1998	613,702	113,813	73,731	75,899	149,631	877,146	25,915	14,883
1999 – Sept.	627,536	111,542	59,582	51,856	111,438	850,516	22,895	14,776
Oct.	637,431	111,910	58,450	50,614	109,063	858,405	24,768	15,002
Nov.	620,766	110,728	57,690	48,999	106,689	838,184	25,479	14,690
Dec.	680,754	112,175	57,341	47,438	104,779	897,707	24,357	16,339
2000 – Jan.	. . . .	. . . .	. . . .	. . . .	. . . .	*(894,169)*	. . . .	. . . .
	(millions of euros)							
1999 – Sept.	324,095	57,607	30,772	26,782	57,553	439,255	11,824	7,631
Oct.	329,206	57,797	30,187	26,140	56,327	443,329	12,792	7,748
Nov.	320,599	57,186	29,795	25,306	55,100	432,886	13,159	7,587
Dec.	351,580	57,934	29,614	24,500	54,114	463,627	12,579	8,438
2000 – Jan.	. . . .	. . . .	. . . .	. . . .	. . . .	*(461,800)*	. . . .	. . . .

	Deposits of residents in lire/euros – averages					Bonds	
	Current accounts	Certificates of deposit				fixed rate	variable rate
		short-term	medium and long-term	total			
	(billions of lire)						
1996	453,358	67,830	271,703	339,533	903,068	121,102	159,111
1997	495,589	86,478	138,466	224,944	832,609	174,568	203,175
1998	563,103	74,882	75,703	150,585	824,954	185,772	250,301
1999 – Sept.	615,047	60,808	51,329	112,137	838,868	212,204	239,796
Oct.	630,244	60,796	49,725	110,521	852,534	. . . .	. . . .
Nov.	631,548	59,540	48,034	107,574	848,724	. . . .	. . . .
Dec.	642,788	59,042	46,210	105,253	859,227	214,879	240,652
2000 – Jan.	*(671,251)*	*(58,461)*	*(44,274)*	*(102,735)*	*(886,431)*	. . . .	. . . .
	(millions of euros)						
1999 – Sept.	317,645	31,405	26,509	57,914	433,239	109,594	123,844
Oct.	325,494	31,399	25,681	57,079	440,297	. . . .	. . . .
Nov.	326,167	30,750	24,807	55,557	438,329	. . . .	. . . .
Dec.	331,972	30,493	23,866	54,358	443,754	110,976	124,286
2000 – Jan.	*(346,672)*	*(30,193)*	*(22,866)*	*(53,059)*	*(457,804)*	. . . .	. . . .

Supervisory capital and capital adequacy (1) (2)

(billions of lire)

	Core capital	Supplementary capital		Supervisory capital	Solvency ratio (percentages)	Excess capital	Capital shortfalls		
			subordinated liabilities				Number of banks	Amount	Percentage of excess risk assets (3)
December 1996									
Banks in the Centre and North	157,048	34,070	18,371	185,380	13.2	73,491	6	301	0.24
Banks in the South	14,568	3,275	2,040	17,369	11.2	7,258	8	2,268	1.82
Total	**171,616**	**37,345**	**20,411**	**202,749**	**13.0**	**80,749**	**14**	**2,569**	**2.06**
June 1997									
Banks in the Centre and North	160,100	36,103	20,077	189,690	13.0	73,153	6	543	0.43
Banks in the South	13,809	3,055	2,099	16,515	12.7	7,082	11	984	0.77
Total	**173,909**	**39,158**	**22,176**	**206,205**	**12.9**	**80,235**	**17**	**1,527**	**1.20**
December 1997									
Banks in the Centre and North	163,498	36,552	20,845	193,980	12.5	71,506	7	1,444	1.08
Banks in the South	15,714	2,891	2,065	18,249	14.6	8,362	8	138	0.10
Total	**179,212**	**39,443**	**22,910**	**212,229**	**12.7**	**79,868**	**15**	**1,582**	**1.18**
June 1998									
Banks in the Centre and North	178,347	45,768	29,189	218,311	13.4	88,863	8	994	0.70
Banks in the South	16,412	2,754	1,921	18,838	14.1	8,270	4	112	0.08
Total	**194,759**	**48,522**	**31,110**	**237,149**	13.4	**97,133**	**12**	**1,106**	**0.78**
December 1998									
Banks in the Centre and North	185,620	47,770	32,569	226,997	13.5	92,959	7	949	0.65
Banks in the South	15,701	2,342	1,714	17,701	13.4	7,247	9	125	0.09
Total	**201,321**	**50,112**	**34,283**	**244,698**	**13.5**	**100,206**	**16**	**1,074**	**0.74**
June 1999									
Banks in the Centre and North	196,538	50,607	36,113	239,596	13.3	95,950	11	752	0.48
Banks in the South	16,510	2,223	1,534	18,417	13.0	7,135	4	69	0.04
Total	**213,048**	**52,830**	**37,647**	**258,013**	**13.3**	**103,085**	**15**	**821**	**0.52**
September 1998									
Banks in the Centre and North	178,934	46,476	29,966	219,648	13.5	90,532	12	725	0.52
Banks in the South	16,454	2,721	1,896	18,850	14.0	8,190	3	148	0.11
Total	**195,388**	**49,197**	**31,862**	**238,498**	**13.6**	**98,722**	**15**	**873**	**0.63**
September 1999									
Banks in the Centre and North	196,670	52,926	38,516	242,453	13.4	97,668	8	565	0.36
Banks in the South	16,505	2,160	1,464	18,349	13.0	7,172	2	116	0.07
Total	**213,175**	**55,086**	**39,980**	**260,802**	**13.3**	**104,840**	**10**	**681**	**0.43**

(1) The figures refer to the reports submitted by Italian banks on a solo basis. Branches of foreign banks are excluded. For the sake of uniformity, the distribution of banks by geographical area reflects the situation obtaining at the time of the latest available data. – (2) As of June 1998 supervisory capital is shown gross of increases arising from the acquisition of majority interests in other banks. – (3) Capital shortfalls multiplied by 12.5 and divided by the risk-weighted assets of the banking system.

Table a29

Italian investment funds: securities portfolios and net assets

(end-of-period balance sheet value)

	Residents							
	Government securities					Bonds	Shares	Total
		BOTs	CTZs	BTPs	CCTs			
	(billions of lire)							
1996	123,819	25,764	20,126	41,897	34,932	3,834	20,652	148,303
1997	193,883	15,511	62,975	72,322	41,905	5,691	39,409	238,982
1998	368,207	29,846	67,942	193,648	76,601	8,063	76,326	452,595
1999	308,215	14,086	42,513	177,806	73,791	15,506	85,877	409,599
1997 – 4th qtr. . .	193,883	15,511	62,975	72,322	41,905	5,691	39,409	238,982
1998 – 1st qtr. . .	233,673	20,521	66,552	101,248	45,067	7,031	74,353	315,056
2nd " . .	294,299	27,634	71,094	134,247	61,066	7,335	73,565	375,197
3rd " . .	329,375	24,881	73,085	159,018	72,236	7,313	59,924	396,610
4th " . .	368,207	29,846	67,942	193,648	76,601	8,063	76,326	452,595
1999 – 1st qtr. . .	360,909	24,502	57,823	200,954	77,633	8,663	74,087	443,659
2nd " . .	370,186	21,378	53,815	205,684	89,309	12,102	64,007	446,295
3rd " . .	352,295	15,626	52,721	198,824	85,105	13,724	62,780	428,801
4th " . .	308,215	14,086	42,513	177,806	73,791	15,506	85,877	409,599
1998 – Dec.	368,207	29,846	67,942	193,648	76,601	8,063	76,326	452,595
1999 – Jan.	365,816	28,361	66,329	199,691	71,435	8,719	74,058	448,593
Feb.	356,043	30,701	66,095	188,027	71,199	8,601	72,465	437,109
Mar.	360,909	24,502	57,823	200,954	77,633	8,663	74,087	443,659
Apr.	371,774	21,733	54,808	211,468	83,765	9,738	72,682	454,193
May	377,768	20,437	59,079	212,062	86,189	10,407	66,220	454,396
June	370,186	21,378	53,815	205,684	89,309	12,102	64,007	446,295
July	360,518	19,549	52,668	201,767	86,536	12,348	60,201	433,066
Aug.	359,660	16,406	55,848	202,625	84,782	12,501	62,234	434,394
Sept.	352,295	15,626	52,721	198,824	85,105	13,724	62,780	428,801
Oct.	334,955	15,928	47,663	190,020	81,323	13,961	61,116	410,030
Nov.	321,384	15,628	45,752	183,696	76,293	15,229	69,460	406,075
Dec.	308,215	14,086	42,513	177,806	73,791	15,506	85,877	409,599
	(millions of euros)							
1999 – 1st qtr. . .	186,394	12,654	29,863	103,784	40,094	4,474	38,263	229,131
2nd " . .	191,185	11,041	27,793	106,227	46,124	6,250	33,057	230,492
3rd " . .	181,945	8,070	27,228	102,684	43,953	7,088	32,423	221,457
4th " . .	159,180	7,275	21,956	91,829	38,110	8,008	44,352	211,540
1999 – Jan.	188,928	14,647	34,256	103,132	36,893	4,503	38,248	231,679
Feb.	183,881	15,856	34,135	97,108	36,771	4,442	37,425	225,748
Mar.	186,394	12,654	29,863	103,784	40,094	4,474	38,263	229,131
Apr.	192,005	11,224	28,306	109,214	43,261	5,029	37,537	234,571
May	195,101	10,555	30,512	109,521	44,513	5,375	34,200	234,676
June	191,185	11,041	27,793	106,227	46,124	6,250	33,057	230,492
July	186,192	10,096	27,201	104,204	44,692	6,377	31,091	223,660
Aug.	185,749	8,473	28,843	104,647	43,786	6,456	32,141	224,346
Sept.	181,945	8,070	27,228	102,684	43,953	7,088	32,423	221,457
Oct.	172,990	8,226	24,616	98,137	42,000	7,210	31,564	211,763
Nov.	165,981	8,071	23,629	94,871	39,402	7,865	35,873	209,720
Dec.	159,180	7,275	21,956	91,829	38,110	8,008	44,352	211,540

Table a29

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum item:*		
	Shares				Gross sales	Net sales	
(billions of lire)							
30,967	15,707	980	180,251	197,544	123,936	58,226	 1996
91,539	38,973	161	330,682	368,432	287,470	143,377	 1997
214,055	84,069	215	666,865	720,823	631,523	313,085	 1998
451,691	241,528	519	861,809	918,903	703,615	122,559	 1999
91,539	38,973	161	330,682	368,432	85,005	42,505	...... 4th qtr. – 1997
148,580	61,326	176	463,814	503,914	174,421	103,656	...... 1st qtr. – 1998
186,730	75,991	192	562,119	607,288	201,497	107,334	...... 2nd ”
185,504	65,508	186	582,302	647,924	139,350	63,570	...... 3rd ”
214,055	84,069	215	666,865	720,823	116,255	38,525	...... 4th ”
290,059	102,434	558	734,276	813,253	182,081	80,301	...... 1st qtr. – 1999
345,142	131,721	542	791,979	872,725	196,055	53,276	...... 2nd ”
374,978	154,392	536	804,315	878,867	159,404	15,458	...... 3rd ”
451,691	241,528	519	861,809	918,903	166,075	-26,477	...... 4th ”
214,055	84,069	215	666,865	720,823	38,967	14,851	...... Dec. – 1998
239,445	91,264	492	688,532	758,086	60,741	31,309	...... Jan. – 1999
266,282	93,719	538	703,929	782,563	59,957	28,692	...... Feb.
290,059	102,434	558	734,276	813,253	61,384	20,300	...... Mar.
313,072	115,078	534	767,799	845,805	61,231	22,606	...... Apr.
323,030	117,024	546	777,972	861,141	67,450	21,992	...... May
345,142	131,721	542	791,979	872,725	67,374	8,678	...... June
350,480	138,190	544	784,091	870,361	70,225	9,110	...... July
369,986	149,304	519	804,900	883,876	45,787	9,335	...... Aug.
374,978	154,392	536	804,315	878,867	43,394	-2,988	...... Sept.
392,900	175,587	536	803,469	869,645	47,007	-17,779	...... Oct.
418,463	204,501	525	825,062	885,123	50,024	-9,933	...... Nov.
451,691	241,528	519	861,809	918,903	69,045	1,235	...... Dec.
(millions of euros)							
149,803	52,903	288	379,222	420,010	94,037	41,472	...... 1st qtr. – 1999
178,251	68,028	280	409,023	450,725	101,254	27,515	...... 2nd ”
193,660	79,737	277	415,394	453,897	82,325	7,983	...... 3rd ”
233,279	124,739	268	445,087	474,574	85,771	-13,674	...... 4th ”
123,663	47,134	254	355,597	391,519	31,370	16,170	...... Jan. – 1999
137,523	48,402	278	363,549	404,160	30,965	14,818	...... Feb.
149,803	52,903	288	379,222	420,010	31,702	10,484	...... Mar.
161,688	59,433	276	396,535	436,822	31,623	11,675	...... Apr.
166,831	60,438	282	401,789	444,742	34,835	11,358	...... May
178,251	68,028	280	409,023	450,725	34,796	4,482	...... June
181,008	71,369	281	404,949	449,504	36,268	4,705	...... July
191,082	77,109	268	415,696	456,484	23,647	4,821	...... Aug.
193,660	79,737	277	415,394	453,897	22,411	-1,543	...... Sept.
202,916	90,683	277	414,957	449,134	24,277	-9,182	...... Oct.
216,118	105,616	271	426,109	457,128	25,835	-5,130	...... Nov.
233,279	124,739	268	445,087	474,574	35,659	638	...... Dec.

Table a30

Italian investment funds: net purchases of securities

	Residents				
	Government securities				
		BOTs	CTZs	BTPs	CCTs
	(billions of lire)				
1996	66,348	15,893	18,507	21,287	10,493
1997	67,940	-10,928	42,201	29,429	7,563
1998	171,947	13,558	2,101	122,415	34,888
1999	-34,380	-8,963	-23,299	-3,114	993
1997 4th qtr.	27,619	-2,465	7,290	12,501	10,421
1998 - 1st qtr.	39,368	4,889	3,528	28,771	3,141
2nd "	60,301	6,963	3,962	33,236	16,129
3rd "	31,553	-3,013	1,007	22,201	11,416
4th "	40,722	4,721	-6,394	38,206	4,200
1999 - 1st qtr.	-29	-2,374	-9,217	8,570	2,990
2nd "	16,054	-556	-3,803	8,067	12,348
3rd "	-11,257	-4,672	-1,232	-1,650	-3,704
4th "	-39,148	-1,361	-9,046	-18,100	-10,638
1998 - Dec.	10,574	-951	-4,610	15,066	1,069
1999 - Jan.	-1,017	-199	-1,721	5,708	-4,806
Feb.	-5,482	3,274	-335	-9,039	620
Mar.	6,469	-5,449	-7,158	11,902	7,176
Apr.	10,934	-1,898	-2,899	9,290	6,438
May	9,567	-97	4,496	2,602	2,566
June	-4,448	1,439	-5,400	-3,828	3,342
July	-7,236	-935	-1,264	-2,420	-2,614
Aug.	1,417	-2,835	2,999	2,724	-1,472
Sept.	-5,441	-902	-2,968	-1,952	381
Oct.	-14,660	101	-4,452	-7,062	-3,247
Nov.	-12,967	-66	-1,590	-6,336	-4,976
Dec.	-11,519	-1,396	-3,005	-4,705	-2,415
	(millions of euros)				
1999 - Jan.	-525	-103	-889	2,948	-2,482
Feb.	-2,831	1,691	-173	-4,668	320
Mar.	3,341	-2,814	-3,697	6,147	3,706
Apr.	5,647	-980	-1,497	4,798	3,325
May	4,941	-50	2,322	1,344	1,325
June	-2,297	743	-2,789	-1,977	1,726
July	-3,737	-483	-653	-1,250	-1,350
Aug.	732	-1,464	1,549	1,407	-760
Sept.	-2,810	-466	-1,533	-1,008	197
Oct.	-7,571	52	-2,299	-3,647	-1,677
Nov.	-6,697	-34	-821	-3,272	-2,570
Dec.	-5,949	-721	-1,552	-2,430	-1,247

Table a30

			Non-residents				
Bonds	Shares	Total		Shares	Other financial assets	Total portfolio	
			(billions of lire)				
1,117	128	67,593	4,723	-401	2,440	74,756	 1996
1,690	6,363	75,993	55,325	19,992	-1,559	129,759	 1997
2,116	17,649	191,712	122,101	41,734	20	313,833	 1998
4,994	-10,193	-39,579	161,502	79,116	8	121,931	 1999
513	3,532	31,664	12,572	2,978	76	44,312	. . . . . . 4th qtr. - 1997
1,141	13,364	53,873	47,654	14,849	6	101,532	. . . . . . 1st qtr. - 1998
378	4,570	65,248	41,525	15,668	36	106,810	. . . . . . 2nd "
-23	-1,609	29,921	20,968	6,984	60	50,949	. . . . . . 3rd "
623	1,326	42,672	11,953	4,233	-83	54,541	. . . . . . 4th "
-292	-5,400	-5,722	65,301	6,760	21	59,600	. . . . . . 1st qtr. - 1999
2,626	-8,640	10,040	42,666	17,901	-4	52,701	. . . . . . 2nd "
1,384	926	-8,948	34,673	23,433	-2	25,723	. . . . . . 3rd "
1,274	2,922	-34,952	18,863	31,023	-8	-16,096	. . . . . . 4th "
478	2,000	13,052	3,594	858	-61	16,585	. . . . . . Dec. - 1998
-106	-1,882	-3,005	22,699	1,944	2	19,696	. . . . . . Jan. - 1999
-101	-1,934	-7,517	27,148	2,211	15	19,647	. . . . . . Feb.
-85	-1,584	4,800	15,453	2,604	4	20,257	. . . . . . Mar.
699	-1,555	10,078	13,445	6,148	-12	23,512	. . . . . . Apr.
463	-4,692	5,338	13,387	5,069	10	18,736	. . . . . . May
1,466	-2,393	-5,375	15,835	6,684	-2	10,458	. . . . . . June
325	507	-6,403	11,170	9,037	. .	4,767	. . . . . . July
-136	201	1,483	15,908	7,883	-17	17,373	. . . . . . Aug.
1,197	217	-4,027	7,598	6,514	15	3,586	. . . . . . Sept.
-41	-552	-15,252	5,933	9,447	. .	-9,319	. . . . . . Oct.
1,044	2,562	-9,362	3,512	9,224	-10	-5,859	. . . . . . Nov.
269	912	-10,338	9,418	12,351	2	-918	. . . . . . Dec.
			(millions of euros)				
-55	-972	-1,552	11,723	1,004	1	10,172	. . . . . . Jan. - 1999
-52	-999	-3,882	14,021	1,142	8	10,147	. . . . . . Feb.
-44	-818	2,479	7,981	1,345	2	10,462	. . . . . . Mar.
361	-803	5,205	6,944	3,175	-6	12,143	. . . . . . Apr.
239	-2,423	2,757	6,914	2,618	5	9,676	. . . . . . May
757	-1,236	-2,776	8,178	3,452	-1	5,401	. . . . . . June
168	262	-3,307	5,769	4,667	. .	2,462	. . . . . . July
-70	104	766	8,215	4,071	-9	8,972	. . . . . . Aug.
618	112	-2,080	3,924	3,364	8	1,852	. . . . . . Sept.
-21	-285	-7,877	3,064	4,879	. .	-4,813	. . . . . . Oct.
539	1,323	-4,835	1,814	4,764	-5	-3,026	. . . . . . Nov.
139	471	-5,339	4,864	6,379	1	-474	. . . . . . Dec.

Table a31

Portfolio management services (1)

(end-of-period market values in billions of lire and millions of euros)

		Government securities			Bonds		Shares	
		BOTs	BTPs	CCTs	Italian	Foreign	Italian	Foreign
					(billions of lire)			
1998 - 3rd qtr.								
Banks	156,660	6,884	70,498	51,816	11,927	22,727	13,895	2,222
Securities firms ...	59,389	2,451	37,938	11,699	8,141	13,459	8,288	4,710
Total ...	**216,049**	**9,335**	**108,436**	**63,515**	**20,068**	**36,186**	**22,183**	**6,932**
1998 - 4th qtr.								
Banks	162,078	6,893	81,988	48,178	11,103	22,005	16,519	1,914
Securities firms ...	68,435	4,938	40,035	15,387	8,682	14,800	9,980	6,995
Total ...	**230,513**	**11,831**	**122,023**	**63,565**	**19,785**	**36,805**	**26,499**	**8,909**
1999 - 1st qtr.								
Banks	154,440	5,659	78,689	45,722	22,706	24,948	17,072	2,895
Securities firms	59,539	4,535	37,017	12,065	7,919	16,383	9,771	8,692
Total ...	**213,979**	**10,194**	**115,706**	**57,787**	**30,625**	**41,331**	**26,843**	**11,587**
1999 - 2nd qtr. (2)								
Banks	155,214	5,495	82,540	45,440	18,163	25,022	17,080	3,835
Securities firms ...	55,537	2,804	36,300	11,276	8,414	17,228	9,115	10,171
Total ...	**210,751**	**8,299**	**118,840**	**56,716**	**26,577**	**42,250**	**26,195**	**14,006**
1999- 3rd qtr. (2)								
Banks	133,644	4,239	67,989	42,803	10,062	24,981	16,734	4,752
Securities firms ...	55,032	3,051	34,204	13,009	8,239	18,588	8,915	10,068
Total ...	**188,676**	**7,290**	**102,193**	**55,812**	**18,301**	**43,569**	**25,649**	**14,820**
					(millions of euros)			
1999 - 1st qtr.								
Banks	79,762	2,923	40,639	23,613	11,727	12,885	8,817	1,495
Securities firms	30,749	2,342	19,118	6,231	4,090	8,461	5,046	4,489
Total ...	**110,511**	**5,265**	**59,757**	**29,844**	**15,816**	**21,346**	**13,863**	**5,984**
1999 - 2nd qtr. (2)								
Banks	80,162	2,838	42,628	23,468	9,380	12,923	8,821	1,980
Securities firms ...	28,682	1,448	18,747	5,823	4,345	8,897	4,707	5,252
Total ...	**108,844**	**4,286**	**61,375**	**29,290**	**13,725**	**21,820**	**13,528**	**7,232**
1999 - 3rd qtr. (2)								
Banks	69,022	2,189	35,114	22,106	5,197	12,902	8,643	2,454
Securities firms ...	28,422	1,576	17,665	6,719	4,255	9,600	4,604	5,200
Total ...	**97,443**	**3,765**	**52,779**	**28,824**	**9,452**	**22,502**	**13,247**	**7,654**

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

Table a31

Investment fund units: Italian	Investment fund units: Foreign	Other financial assets	Total portfolio	Total managed funds	*Memorandum items:* gross inflow	*Memorandum items:* net inflow	
			(billions of lire)				
							1998 - 3rd qtr.
118,892	6,568	141	333,032	352,414	56,560	27,566	. . . . Banks
47,169	6,529	115	147,800	154,398	17,788	4,977	. . . . Securities firms
166,061	**13,097**	**256**	**480,832**	**506,812**	**74,348**	**32,543**	. . . **Total**
							1998 - 4th qtr.
127,033	7,053	620	348,325	370,859	36,736	12,328	. . . . Banks
51,087	6,502	142	166,623	172,322	27,319	9,980	. . . . Securities firms
178,120	**13,555**	**762**	**514,948**	**543,181**	**64,055**	**22,308**	. . . **Total**
							1999 - 1st qtr.
133,430	7,935	412	363,838	389,418	92,240	19,653	. . . . Banks
45,275	9,009	184	156,772	161,829	21,161	4,991	. . . . Securities firms
178,705	**16,944**	**596**	**520,610**	**551,247**	**113,401**	**24,644**	. . . **Total**
							1999 - 2nd qtr. (2)
156,976	16,395	430	393,115	422,403	69,186	26,958	. . . . Banks
41,453	19,496	202	161,616	167,982	22,251	10,371	. . . . Securities firms
198,429	**35,891**	**632**	**554,731**	**590,385**	**91,437**	**37,329**	. . . **Total**
							1999 - 3rd qtr. (2)
184,101	17,904	418	392,597	416,885	43,736	-3,043	. . . . Banks
40,196	28,111	269	169,418	176,399	21,250	9,174	. . . . Securities firms
224,297	**46,015**	**687**	**562,015**	**593,284**	**64,986**	**6,131**	. . . **Total**
			(millions of euros)				
							1999 - 1st qtr.
68,911	4,098	213	187,907	201,118	47,638	10,150	. . . . Banks
23,383	4,653	95	80,966	83,578	10,929	2,578	. . . . Securities firms
92,293	**8,751**	**308**	**268,873**	**284,695**	**58,567**	**12,728**	. . . **Total**
							1999 - 2nd qtr. (2)
81,072	8,467	222	203,027	218,153	35,732	13,922	. . . . Banks
21,408	10,068	104	83,467	86,755	11,492	5,356	. . . . Securities firms
102,480	**18,535**	**326**	**286,494**	**304,908**	**47,224**	**19,278**	. . . **Total**
							1999 - 3rd qtr. (2)
95,080	9,246	216	202,759	215,303	22,588	-1,572	. . . . Banks
20,760	14,518	139	87,497	91,102	10,975	4,738	. . . . Securities firms
115,840	**23,765**	**355**	**290,257**	**306,406**	**33,562**	**3,166**	. . . **Total**

Table a32

Italian components of euro-area monetary aggregates: residents of Italy and the rest of the euro area

(end-of-period stocks)

	Currency in circulation	Current account deposits	Total	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total
			(billions of lire)			
1997	116,265	618,849	735,115	219,416	220,317	1,174,847
1998 – July	116,809	623,231	740,040	171,195	218,520	1,129,755
Aug.	112,643	610,264	722,906	167,056	220,348	1,110,308
Sept. . . .	113,179	611,466	724,643	162,974	221,751	1,109,370
Oct.	113,806	616,086	729,892	160,639	220,804	1,111,336
Nov.	115,568	612,874	728,444	163,442	221,589	1,113,475
Dec.	124,969	685,856	810,825	165,212	233,772	1,209,811
1999 – Jan.	118,081	687,933	806,013	157,047	233,007	1,196,069
Feb.	117,115	666,100	783,217	152,243	232,409	1,167,867
Mar.	118,976	677,675	796,651	149,769	230,124	1,176,543
Apr.	120,682	691,055	811,737	142,542	229,030	1,183,309
May	121,869	692,352	814,221	139,996	229,831	1,184,048
June	123,733	715,618	839,354	136,776	230,437	1,206,567
July	127,434	706,740	834,174	131,837	231,824	1,197,835
Aug.	123,799	679,251	803,052	131,248	232,527	1,166,827
Sept. . . .	124,905	693,628	818,533	128,681	234,459	1,181,671
Oct.	126,566	707,128	833,694	127,780	235,716	1,197,190
Nov.	126,555	690,034	816,589	126,324	235,241	1,178,154
Dec.	139,322	754,905	894,228	127,300	249,508	1,271,035
2000 – Jan.	(130,040)	(755,895)	(885,935)	(123,302)	(248,524)	(1,257,760)
			(millions of euros)			
1999 – Jan.	60,984	355,288	416,271	81,108	120,338	617,718
Feb.	60,485	344,012	404,498	78,627	120,029	603,153
Mar.	61,446	349,990	411,436	77,349	118,849	607,634
Apr.	62,327	356,900	419,227	73,617	118,284	611,128
May	62,940	357,570	420,510	72,302	118,698	611,510
June	63,903	369,586	433,490	70,639	119,011	623,140
July	65,814	365,001	430,815	68,088	119,727	618,630
Aug.	63,937	350,804	414,742	67,784	120,090	602,616
Sept. . . .	64,508	358,229	422,737	66,458	121,088	610,282
Oct.	65,366	365,201	430,567	65,993	121,737	618,297
Nov.	65,360	356,373	421,733	65,241	121,492	608,466
Dec.	71,954	389,876	461,830	65,745	128,860	656,435
2000 – Jan.	(67,160)	(390,387)	(457,547)	(63,680)	(128,352)	(649,579)

Table a32

Repos	Money market fund shares/units and money market paper	Debt securities up to 2 years	Total monetary liabilities	Contribution to M1	Contribution to M2	Contribution to M3
			(billions of lire)			
144,955	7,143	19,885	1,346,831	724,754	1,164,484	1,336,057
145,013	9,854	43,309	1,327,931	730,853	1,120,568	1,318,131
150,998	10,233	42,437	1,313,978	713,945	1,101,347	1,301,797
146,975	10,291	40,451	1,307,085	716,071	1,100,797	1,295,014
161,078	10,781	36,752	1,319,948	721,539	1,102,983	1,311,124
144,903	10,357	33,937	1,302,672	718,422	1,103,453	1,292,230
117,131	9,240	32,485	1,368,666	799,374	1,198,359	1,356,893
119,007	7,877	29,822	1,352,775	798,005	1,188,058	1,344,267
134,656	7,704	30,576	1,340,805	775,472	1,160,124	1,332,448
125,470	7,100	28,494	1,337,608	788,561	1,168,456	1,328,996
118,416	7,883	27,468	1,337,076	803,529	1,175,101	1,328,376
114,887	8,485	27,325	1,334,743	805,107	1,174,934	1,324,353
106,450	10,620	27,379	1,351,015	830,569	1,197,782	1,340,770
111,243	11,461	25,952	1,346,490	824,998	1,188,657	1,336,776
113,121	12,421	25,208	1,317,578	794,035	1,157,808	1,307,486
107,041	14,230	23,816	1,326,757	809,665	1,172,805	1,315,930
106,909	15,161	21,839	1,341,101	825,163	1,188,659	1,330,523
110,396	15,192	22,091	1,325,832	806,766	1,168,332	1,313,535
98,273	25,297	21,678	1,416,285	882,900	1,259,708	1,403,461
(105,629)	(28,076)	(21,077)	(1,412,544)	(876,503)	(1,248,327)	(1,401,730)
			(millions of euros)			
61,462	4,068	15,402	698,650	412,135	613,581	694,256
69,544	3,979	15,791	692,468	400,498	599,154	688,152
64,800	3,667	14,716	690,817	407,258	603,457	686,369
61,157	4,071	14,186	690,542	414,988	606,889	686,049
59,334	4,382	14,112	689,337	415,803	606,803	683,971
54,977	5,485	14,140	697,741	428,953	618,603	692,450
57,452	5,919	13,403	695,404	426,076	613,890	690,387
58,422	6,415	13,019	680,472	410,085	597,958	675,260
55,282	7,349	12,300	685,213	418,157	605,703	679,621
55,214	7,830	11,279	692,621	426,161	613,891	687,158
57,015	7,846	11,409	684,735	416,660	603,393	678,384
50,754	13,065	11,196	731,450	455,980	650,585	724,827
(54,553)	(14,500)	(10,886)	(729,518)	(452,676)	(644,707)	(723,933)

Table a33

Financial assets: residents of Italy

(end-of-period stocks)

	Total monetary assets	Other deposits	BOTs	BOTs: Held by non-money-market funds	Medium and long-term securities: Government securities	Government securities: Held by non-money-market funds	Other debt securities	Other debt securities: Held by non-money-market funds
(billions of lire)								
1997	1,331,753	126,345	(218,754)	14,412	(815,940)	175,916	(347,082)	4,734
1998 - May . . .	1,326,002	117,475	(172,872)	24,751	(811,961)	237,834	(350,171)	6,109
June . .	1,344,565	115,057	(156,689)	25,607	(811,793)	255,644	(368,840)	6,283
July . . .	1,314,551	113,661	(150,164)	26,037	(854,793)	267,095	(371,510)	6,560
Aug. . . .	1,301,931	112,145	(141,570)	24,490	(852,675)	270,272	(378,750)	6,761
Sept. . . .	1,291,314	118,176	(135,161)	23,830	(852,174)	290,808	(382,408)	6,618
Oct. . . .	1,306,849	115,816	(138,039)	26,537	(843,635)	297,436	(389,121)	6,659
Nov. . . .	1,284,653	114,939	(134,637)	27,675	(849,972)	314,930	(398,105)	6,847
Dec. . .	1,349,536	113,433	(124,591)	26,877	(822,090)	320,019	(403,463)	7,617
1999 - Jan. . . .	1,337,815	*(113,043)*	(116,744)	25,421	(806,201)	319,668	(406,735)	7,637
Feb. . .	1,326,122	*(113,688)*	(107,422)	28,500	(804,059)	312,001	(410,174)	7,079
Mar. . .	1,322,556	*(116,403)*	(107,478)	22,248	(825,413)	323,072	(416,066)	7,141
Apr. . . .	1,324,910	*(116,935)*	(103,265)	19,436	(812,835)	329,032	(421,967)	8,287
May . . .	1,322,747	*(114,978)*	(94,558)	17,746	(835,239)	343,812	(427,174)	7,809
June . .	1,338,844	*(115,384)*	(87,182)	18,497	(824,609)	338,315	(429,693)	9,170
July . . .	1,334,493	*(112,464)*	(79,716)	17,351	(823,784)	332,113	(432,249)	10,845
Aug. . . .	1,308,084	*(115,646)*	(74,773)	15,539	(814,722)	334,822	(433,858)	10,969
Sept. . . .	1,317,761	*(117,251)*	(71,284)	14,706	(818,758)	329,542	(428,818)	12,191
(millions of euros)								
1999 - Jan. . . .	690,924	*(58,382)*	(60,293)	13,129	(416,368)	165,095	(210,061)	3,944
Feb. . . .	684,885	*(58,715)*	(55,479)	14,719	(415,262)	161,135	(211,837)	3,656
Mar. . .	683,043	*(60,117)*	(55,508)	11,490	(426,290)	166,853	(214,880)	3,688
Apr. . . .	684,259	*(60,392)*	(53,332)	10,038	(419,794)	169,931	(217,928)	4,280
May . . .	683,142	*(59,381)*	(48,835)	9,165	(431,365)	177,564	(220,617)	4,033
June . .	691,455	*(59,591)*	(45,026)	9,553	(425,875)	174,725	(221,918)	4,736
July . . .	689,208	*(58,083)*	(41,170)	8,961	(425,449)	171,522	(223,238)	5,601
Aug. . . .	675,569	*(59,726)*	(38,617)	8,025	(420,769)	172,921	(224,069)	5,665
Sept. . . .	680,567	*(60,555)*	(36,815)	7,595	(422,853)	170,194	(221,466)	6,296

Table a33

Other domestic assets held by non-money-market funds	Other financial assets	Total domestic financial assets	External financial assets		Total financial assets	*Memorandum item:* shares/units of investment funds	
				Held by non-money-market funds			Non-money-market investment funds
(billions of lire)							
39,409	(1,665)	(2,880,949)	(424,576)	87,498	(3,305,525)	368,432	361,289
76,665	(1,702)	(2,856,848)	(538,318)	169,451	(3,395,164)	580,999	571,140
73,565	(1,708)	(2,872,218)	(548,158)	179,661	(3,420,376)	607,288	596,586
80,022	(1,716)	(2,886,419)	(562,293)	190,008	(3,448,710)	643,697	633,844
68,002	(1,714)	(2,856,784)	(563,377)	185,334	(3,420,161)	645,736	635,501
59,924	(1,727)	(2,840,886)	(556,252)	181,669	(3,397,137)	647,924	637,633
62,299	(1,727)	(2,857,487)	(565,732)	188,438	(3,423,217)	667,597	656,814
72,140	(1,739)	(2,856,182)	(589,753)	204,098	(3,445,937)	698,962	688,605
76,326	(1,706)	(2,891,142)	(598,489)	211,055	(3,489,631)	720,823	711,583
74,058	(1,716)	*(2,856,310)*	(646,006)	239,906	*(3,502,315)*	758,086	750,210
72,465	(1,716)	*(2,835,646)*	(685,672)	266,696	*(3,521,316)*	782,563	774,858
74,087	(1,721)	*(2,863,722)*	(723,741)	290,541	*(3,587,463)*	813,253	806,152
72,682	(1,750)	*(2,854,345)*	(754,764)	313,170	*(3,609,107)*	845,805	837,923
66,201	(1,743)	*(2,862,642)*	(779,600)	323,012	*(3,642,242)*	861,141	852,656
64,007	(1,745)	*(2,861,466)*	(819,338)	345,136	*(3,680,807)*	872,725	862,105
60,201	(1,721)	*(2,844,627)*	(840,035)	351,344	*(3,684,664)*	870,361	858,900
62,220	(1,725)	*(2,811,028)*	(866,355)	369,187	*(3,677,383)*	883,876	871,455
62,780	(1,721)	*(2,818,373)*	(876,287)	374,184	*(3,694,661)*	878,867	864,637
(millions of euros)							
38,248	(886)	*(1,475,161)*	(333,634)	123,901	*(1,808,795)*	391,519	387,451
37,425	(886)	*(1,464,489)*	(354,120)	137,737	*(1,818,608)*	404,160	400,181
38,263	(889)	*(1,478,989)*	(373,781)	150,052	*(1,852,770)*	420,010	416,343
37,537	(904)	*(1,474,146)*	(389,803)	161,739	*(1,863,948)*	436,822	432,751
34,190	(900)	*(1,478,431)*	(402,630)	166,822	*(1,881,061)*	444,742	440,360
33,057	(901)	*(1,477,824)*	(423,153)	178,248	*(1,900,978)*	450,725	445,240
31,091	(889)	*(1,469,127)*	(433,842)	181,454	*(1,902,970)*	449,504	443,585
32,134	(891)	*(1,451,775)*	(447,435)	190,669	*(1,899,210)*	456,484	450,069
32,423	(889)	*(1,455,568)*	(452,565)	193,250	*(1,908,133)*	453,897	446,548

Table a34

Credit: residents of Italy

(end-of-period stocks)

	Finance to "other residents"					
	Bank credit	Bonds placed domestically		Total domestic finance	Foreign finance	Total
	A	B	Held by Italian MFIs	C=A+B	D	E=C+D
	(billions of lire)					
1997	1,245,462	(14,889)	4,474	(1,260,351)	(136,030)	(1,396,381)
1998 - May	1,246,500	(11,339)	7,233	(1,257,840)	(142,394)	(1,400,234)
June	1,278,697	(11,425)	8,635	(1,290,122)	(144,431)	(1,434,553)
July	1,288,826	(11,151)	8,126	(1,299,976)	(147,439)	(1,447,415)
Aug.	1,272,281	(10,940)	6,818	(1,283,221)	(148,280)	(1,431,501)
Sept. . . .	1,275,571	(10,791)	5,901	(1,286,362)	(149,509)	(1,435,871)
Oct.	1,275,191	(11,234)	5,685	(1,286,426)	(152,352)	(1,438,778)
Nov.	1,305,378	(10,936)	6,341	(1,316,314)	(154,601)	(1,470,914)
Dec.	1,337,337	(10,764)	5,586	(1,348,101)	(154,422)	(1,502,523)
1999 - Jan.	1,339,524	(10,188)	7,253	(1,349,712)	(155,545)	(1,505,258)
Feb.	1,341,890	(10,370)	10,326	(1,352,260)	(159,792)	(1,512,052)
Mar.	1,351,329	(9,573)	9,242	(1,360,902)	(162,806)	(1,523,708)
Apr.	1,355,756	(9,445)	5,864	(1,365,201)	(165,422)	(1,530,623)
May	1,359,305	(9,645)	5,882	(1,368,950)	(166,594)	(1,535,544)
June	1,401,257	(9,894)	6,290	(1,411,151)	(202,697)	(1,613,848)
July	1,412,400	(10,526)	7,085	(1,422,926)	(202,999)	(1,625,925)
Aug.	1,400,850	(10,081)	7,343	(1,410,930)	(206,203)	(1,617,134)
Sept. . . .	1,403,241	(9,924)	9,554	(1,413,165)	(206,212)	(1,619,377)
	(millions of euros)					
1999 - Jan.	691,806	(5,262)	3,746	(697,068)	(80,332)	(777,401)
Feb.	693,028	(5,356)	5,333	(698,384)	(82,526)	(780,910)
Mar.	697,903	(4,944)	4,773	(702,847)	(84,082)	(786,929)
Apr.	700,190	(4,878)	3,029	(705,068)	(85,433)	(790,501)
May	702,023	(4,981)	3,038	(707,004)	(86,039)	(793,042)
June	723,689	(5,110)	3,249	(728,799)	(104,684)	(833,483)
July	729,444	(5,436)	3,659	(734,880)	(104,840)	(839,720)
Aug.	723,478	(5,206)	3,792	(728,685)	(106,495)	(835,180)
Sept. . . .	724,714	(5,125)	4,934	(729,839)	(106,499)	(836,338)

Table a34

	General government debt			Credit		
		Domestic		Total domestic	Total	*Memorandum item:* shares placed domestically, held by Italian MFIs
F	G		Held by Italian MFIs	H=G+C	I=E+F	
(billions of lire)						
2,376,704	2,233,589		625,939	(3,493,940)	(3,773,085)	28,544
2,420,328	2,278,038		620,722	(3,535,878)	(3,820,562)	35,665
2,414,375	2,272,509		635,512	(3,562,631)	(3,848,928)	38,276
2,407,391	2,273,046		608,383	(3,573,022)	(3,854,806)	38,207
2,416,170	2,280,078		603,537	(3,563,299)	(3,847,672)	36,098
2,423,494	2,292,649		615,037	(3,579,011)	(3,859,365)	34,925
2,420,648	2,285,747		616,227	(3,572,173)	(3,859,426)	35,023
2,426,760	2,291,710		599,127	(3,608,024)	(3,897,674)	35,911
2,404,667	2,273,196		606,539	(3,621,298)	(3,907,191)	35,717
(2,417,586)	(2,285,689)		606,774	(3,635,401)	(3,922,843)	37,420
(2,432,770)	(2,300,334)		615,973	(3,652,594)	(3,944,821)	40,780
(2,436,955)	(2,308,019)		605,287	(3,668,921)	(3,960,663)	42,158
(2,451,686)	(2,320,687)		609,989	(3,685,888)	(3,982,309)	45,748
(2,473,078)	(2,337,718)		608,508	(3,706,668)	(4,008,622)	48,512
(2,486,576)	(2,348,998)		606,873	(3,760,150)	(4,100,424)	46,139
(2,480,546)	(2,350,817)		596,858	(3,773,742)	(4,106,472)	45,333
(2,478,186)	(2,344,837)		593,665	(3,755,767)	(4,095,320)	41,247
(2,489,691)	(2,356,821)		600,977	(3,769,986)	(4,109,068)	42,434
(millions of euros)						
(1,248,579)	(1,180,460)		313,373	(1,877,528)	(2,025,980)	19,326
(1,256,421)	(1,188,023)		318,123	(1,886,407)	(2,037,330)	21,061
(1,258,582)	(1,191,993)		312,604	(1,894,840)	(2,045,512)	21,773
(1,266,190)	(1,198,535)		315,033	(1,903,602)	(2,056,691)	23,627
(1,277,238)	(1,207,331)		314,268	(1,914,334)	(2,070,280)	25,054
(1,284,209)	(1,213,156)		313,424	(1,941,955)	(2,117,692)	23,829
(1,281,095)	(1,214,095)		308,251	(1,948,975)	(2,120,816)	23,413
(1,279,876)	(1,211,007)		306,603	(1,939,692)	(2,115,056)	21,302
(1,285,818)	(1,217,197)		310,379	(1,947,036)	(2,122,156)	21,915

Notes to the statistical tables

Table a1

Sources: IMF, OECD, Istat and national statistics.

For Italy, the quarterly data do not take account of the methodological changes made by Istat for the annual national accounts released on 1 March 2000.

For India, GDP at factor cost (fiscal year: April-March).

Table a2

Sources: IMF, Eurostat, Istat and national statistics.

For Italy, see the notes to Table a10.

For China, industrial value added. For Hong Kong, Indonesia and Thailand, manufacturing.

Table a3

Sources: IMF, Eurostat, Istat and national statistics.

For the euro area, Germany, France and Italy, harmonized consumer prices. For the United Kingdom, consumer prices excluding mortgage interest.

Table a4

Sources: IMF, ECB and national statistics.

The annual data for the current account balance may not coincide with the sum of the seasonally adjusted quarterly data.

Table a5

Sources: ECB and national statistics.

Official reference rates. For the United States, federal funds target rate; for Japan, discount rate; for the euro area, rate for main refinancing operations; for the United Kingdom, base rate; for Canada, official bank rate.

Money market rates. For the United States, rate on 3-month CDs; for Japan, 3-month call rate (uncollateralized); for the euro area, 3-month Euribor (until December 1998, based on national statistics); for the United Kingdom, 3-month interbank rate; for Canada, rate on 3-month prime corporate paper.

Table a6

Source: 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 (1994=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, FTSE All-Share; for Canada, composite index of the Toronto stock exchange (closing prices).

Table a7

Source: IMF for the gold price.

Period averages except for gold prices, which are end-of-period values.

Table a8

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

The table shows real effective exchange rates calculated on the basis of the producer prices of manufactures of 25 countries. For the methodology, see the article “Nuovi indicatori di tasso di cambio effettivo nominale e reale”, in the Bank’s, *Bollettino Economico*, no. 30, February 1998.

Table a9

Source: Istat.

Based on the European system of national accounts ESA95. The item “Other domestic uses” includes collective consumption, changes in inventories and valuables, and statistical discrepancies.

Table a10

Sources: Based on Istat and ISAE 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 and that of the indices of production by economic use are carried out separately using the TRAMO-SEATS procedure; the aggregate index may therefore differ from the weighted mean of the disaggregated indices. For the period up to January 1995, the seasonal adjustment procedure is applied to series obtained by shifting directly from indices with base 1990=100 to indices with base 1995=100. Raw data are shown for the level of foreign orders and for stocks of finished goods.

Table a12

Source: Istat.

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 a15

Source: Istat.

The table reflects the introduction of the new base (1995=100), which replaces that previously used by Istat (1990=100).

Table a18

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.

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, it includes VAT refunds channeled through taxpayers' tax accounts. As of May 1998, following the introduction of the single tax payment form (Legislative Decree 241/1997) and the single mandate procedure (Ministerial Decree 183/1998), the monthly figures of the "Receipts" and "Payments" series are affected by the leads and lags with which tax refunds and collection charges are entered in the accounts. The interest on postal savings certificates is determined on a cash basis. The additional borrowing of "ANAS, Forests and other bodies" includes the net funds they raised directly in the market. The items "Settlements of past debts" and "Privatization receipts" permit the reconciliation of the effective funding requirement and the definition of the borrowing requirement currently used to determine the objectives for fiscal policy. The figures for the last year are provisional.

Table a19

The table shows the financing of the general government borrowing requirement. "Foreign loans" comprise only those raised abroad directly; they do not include loans contracted indirectly via banks, which are included under "Lending by banks", or BOTs and other government securities acquired by non-residents, which are included in the respective categories of domestic debt. The item also includes CTEs stamped as being for circulation abroad. The item "Central bank financing" includes the Treasury's overdraft with the Bank of Italy, a suspense account and the Treasury payments account (see Law 483/1993) and the sinking fund for the redemption of government securities (see Laws 432/1993 and 110/1997). 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". Postal savings certificates are included at their face value at issue. "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 cost borne by the government. The figures for the last year are provisional.

Table a20

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. Until December 1998 "central bank" amounts refer to the consolidated accounts of the Bank of Italy and the UIC; subsequently, following the completion of the transfer of the reserves held by the UIC to the Bank of Italy in conformity with Legislative Decrees 43/1998 and 319/1998, they refer exclusively to the accounts of the

Bank of Italy and the UIC's securities portfolio is included under "Medium and long-term securities excluding central bank". At 31 December 1998 the "Borrowing from central bank" attributable to the UIC is estimated to have been about 2.3 trillion lire. The items "Medium and long-term securities excluding central bank", "Short-term securities excluding central bank" and "Borrowing from central bank" 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. 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 cost borne by the government. The figures for the last year are provisional.

Table a21

The interest rates on the "deposit facility" and the "marginal lending facility" are set by the Governing Council of the ECB and represent respectively the lower limit and the upper limit of the corridor of official interest rates.

Under Legislative Decree 213/1998, as of 1 January 1999, for a period of not more than 5 years, the Bank of Italy periodically determines "the reference rate for instruments linked to the former discount rate", which replaces the latter. The reference rate is modified by an order issued by the Governor taking account of the changes involving the monetary instrument used by the ECB that the Bank of Italy considers to be the closest equivalent to the official discount rate.

Tables a22 and a23

The annual data refer to the month of December.

The figures are based on the 10-day survey introduced in January 1995. The sample consists of the banks participating in the survey at each reference date.

The indication "lire/euros" means that as of January 1999 the figures include amounts in euros and other euro-area currencies.

Table a24

This table refers to the statistical returns submitted to the European Central Bank by Italian banks and money market funds. Since the start of the third phase of Economic and Monetary Union, intermediaries subject to statistical reporting requirements in the euro area have been known as Monetary Financial Institutions (MFIs). The category comprises central banks, credit institutions and all other resident financial institutions whose business consists in receiving deposits and/or close substitutes for deposits from persons other than MFIs and in granting credit and/or making investments in securities for their own account. For further details, see the Methodological Appendix and the notes to the tables of the "Monetary Financial Institutions: Banks and Money Market Funds" Supplement to the Statistical Bulletin.

For the period from December 1995 to May 1998, the time series are estimated drawing on supervisory returns; as of June 1998 data are reported by banks in accordance with the new harmonized definitions adopted by the ESCB for the euro area as a whole. "Loans" include repo assets and bad debts. "Deposits" include current account deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities. "Debt securities" include subordinated liabilities. The item "Capital and reserves" is made up of share capital, reserves, provisions for general banking risks and the balance of prior-year profits and losses.

Table a25

The annual data refer to the month of December.

"Securities" are stated at book value. "Capital and reserves" comprise own funds, loan loss provisions and the subordinated liabilities of domestic and foreign branches; as of 1997 data for "Supervisory capital" are available only on a three-monthly basis. “Interbank accounts” include the liquid balances on correspondent accounts. “Interest-bearing external assets” and “Interest-bearing external liabilities” refer to aggregates that do not coincide exactly with those included in the foreign exchange statistics.

The indication “lire/euros” means that as of January 1999 the figures include amounts in euros and other euro-area currencies.

For further information, see the section “Note metodologiche” in the Appendix to the *Relazione annuale per il 1998*.

Table a26

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.

The indication “lire/euros” means that as of January 1999 the figures include amounts in euros and other euro-area currencies.

Table a27

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.

The indication “lire/euros” means that as of January 1999 the figures include amounts in euros and other euro-area currencies.

Table a28

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, provisions for losses and subordinated liabilities - net of any revaluation losses on securities held as financial fixed assets and other negative items - constitute 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 on-and off-balance-sheet assets, weighted according to their potential riskiness.

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 envisage 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 a29

Securities of “Non-residents” include government securities denominated in foreign currencies and Eurolira bonds. “Other financial assets” include CDs, banker’s acceptances and commercial paper. The difference between “Net assets” and “Total portfolio” consists of other net assets (mainly current accounts and repos). Rounding may cause discrepancies in totals.

Table a30

Securities of “Non-residents” 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 a31

The amounts shown for “Banks” refer only to the portfolio management services that they provide directly. “Italian bonds” include CDs with a maturity of 18 months or more. “Foreign bonds” include foreign government securities. “Net inflow” is calculated as the sum of monthly flows.

Table a32

All the items refer to the liabilities included in M3 of Italian MFIs and the Post Office towards the "money holding sector" of the entire euro area. This sector, adopted by the ESCB in the harmonization of national statistics, comprises all the residents of the euro area apart from MFIs and central governments. Accordingly, it includes "other general government" (local authorities and social security funds) and "other residents" (non-money-market investment funds, other financial institutions, non-financial corporations, insurance corporations, households, and non-profit institutions serving households).

"Currency in circulation" comprises Bank of Italy banknotes and Treasury coins. "Current account deposits" comprise current accounts held with resident MFIs and the Post Office; bank CDs redeemable within 24 months are included under "Deposits with agreed maturities up to 2 years"; PO deposit book accounts and ordinary PO savings certificates are included under "Deposits redeemable at notice up to 3 months". Money market paper includes atypical securities and banker's acceptances liabilities. Money market funds are defined as collective investment funds whose shares are close substitutes for deposits in terms of liquidity and/or which invest in tradable debt securities with a residual maturity of up to one year.

The contributions to the euro-area monetary aggregates are obtained by summing the relevant items and deducting Italian MFIs' holdings of: banknotes and coin in lire and the other euro-area currencies, for M1, and bonds issued by MFIs resident in the rest of the euro area, for M3.

Table a33

All the items refer to the financial assets of the Italian "money holding sector" (see the note to Table a32). In order to permit partial comparison with the series of the supplement to the Bank's *Bollettino Statistico* on "Monetary and Credit Aggregates", which ceased publication in March 1999, the share accounted for by non-money-market funds is shown, since these funds were not included in the sector in question (see the box on "The new data on financial assets and credit" in the Bank's *Economic Bulletin*, no. 29, October 1999).

"Total monetary assets" comprise currency in circulation, current account deposits, deposits with agreed maturity up to 2 years, deposits redeemable at notice up to 3 months, repos, money market fund shares/units and money market paper, and debt securities up to 2 years.

"Other deposits" comprise deposits with agreed maturity over 2 years, deposits redeemable at notice over 3 months and forward PO savings certificates, which are measured on the basis of the price at issue.

"Government securities" comprise CCTs, BTPs, CTZs, CTEs and other medium and long-term government securities at face value. The item refers to securities acquired outright; it excludes the securities acquired by the money holding sector under repos but includes those sold.

"Other financial assets" include enterprises' surety deposits; "Other financial assets held by non-money-market funds" include shares issued by residents in Italy.

Table a34

The items refer to "other residents" and "general government", which have replaced respectively the "non-state sector" and the "state sector" in the statistics compiled until December 1998 (see the box on "The new data on financial assets and credit" in the Bank's *Economic Bulletin*, no. 29, October 1999).

"Bonds placed domestically" are those issued by "other residents" after deducting the amounts held by residents of the rest of the euro area and the rest of the world.

"Foreign finance" comprises the loans disbursed to "other residents" and the debt securities thereof bought at issue by residents of the rest of the euro area and the rest of the world.

"General government debt" is stated at face value and is calculated, in accordance with the EU definition, gross of the Treasury's claims on the Bank of Italy (balances on the Treasury payments account, the sinking fund for the redemption of government securities and other smaller accounts) since December 1998, and of claims on the Bank of Italy and the UIC for the preceding period.

List of abbreviations

ABI — *Associazione bancaria italiana*
Italian Bankers' Association
BI — *Banca d'Italia*
Bank of Italy
BOT — *Buoni ordinari del Tesoro*
Treasury bills
BTP — *Buoni del Tesoro poliennali*
Treasury bonds
CCT — *Certificati di credito del Tesoro*
Treasury credit certificates
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
Zero coupon Treasury certificates
ICI — *Imposta comunale sugli immobili*
Municipal property tax
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
Irap — *Imposta regionale sulle attività produttive*
Regional tax on productive activities
Irpef — *Imposta sul reddito delle persone fisiche*
Personal income tax
Irpeg — *Imposta sul reddito delle persone giuridiche*
Corporate income tax
ISAE — *Istituto di studi e analisi economica*
Institute for Economic Research and Analysis
Isco — *Istituto nazionale per lo studio della congiuntura*
National Institute for the Study of the Economic Situation
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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