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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 expanded rapidly during the first half of 2000. Investment was fueled, especially in the industrial countries, by good profitability. The pick-up in output was accompanied by an acceleration of world trade in goods and services, which should record growth of more than 10 per cent for the year, one of the highest figures since the early seventies.

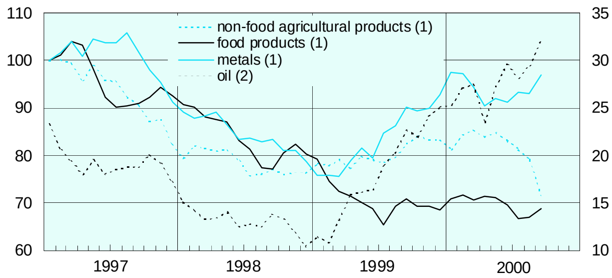
The slowdown expected in the first half of the year in the United States did not materialize. In the euro area the expansion under way since the second half of 1999 gathered strength. In Japan the cyclical situation improved. In the emerging economies growth firmed up. During the summer signs of a cyclical weakening emerged both in the United States and in the euro area.

The convergence of growth rates in all parts of the globe on a high level, which had not taken place since the eighties, helped trigger a further sharp rise in oil prices from summer onwards (Figure 1). This came about despite the significant expansion of output by the OPEC countries in the spring. At the start of September the average price of crude oil was above $34 a barrel (see box: "The recent rise in oil prices in a historical perspective"). The recent meeting of the G-7 countries in Prague voiced concern over the potential repercussions on inflation and world growth, especially in the developing countries.

In the second half of September oil prices declined following OPEC's decision to increase output further and above all after the US decision to draw on its strategic reserve to put 30 million barrels gradually on the market. In mid-October the mounting of political tensions in the Middle East drove the price back up to $33.00. At the end of the month OPEC announced a further increase in production of 500,000 barrels a day.

Figure 1

World prices in dollars of oil and other raw materials
(monthly averages)



Source: IMF.

(1) Indices, January 1997 = 100; left-hand scale. – (2) Dollars per barrel. Average prices for WTI, Brent and Dubai; right-hand scale..

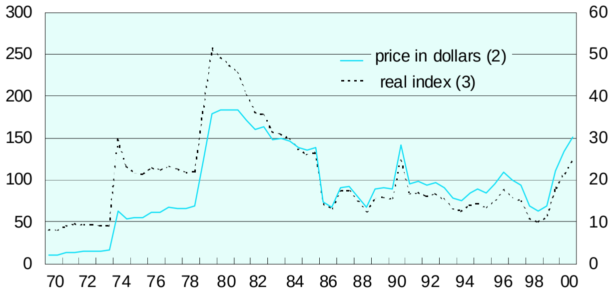
The rise in oil prices comes in a period of historically moderate inflation. The decisive factors in the disinflation of the nineties were wage restraint and tight monetary policy. The priority objective is still to prevent exogenous price pressures from exacerbating inflation expectations in the medium term, leading to wage demands incompatible with price stability.

The euro remained weak in foreign exchange markets. After a temporary recovery in mid-June, the currency depreciated again, falling to $0.85 and ¥90

The recent rise in oil prices in a historical perspective

After registering a low of $9.90 per barrel in December 1998, the average price of the three main grades of crude oil (West Texas Intermediate, Brent and Dubai) has since more than tripled, reaching $34.60 on 7 September 2000, its highest level in ten years. Although it has taken place over a longer period, the recent rise in both nominal and real prices is large enough to compare with those seen during the oil crises of 1974 and 1979 (see figure).

Oil prices in real and nominal terms (1)
(half-yearly averages; dollars and index, 1990=100)



Sources: IMF and OECD.

(1) The values for the second half of 2000 have been estimated on the basis of price developments in the third quarter. – (2) Average price in dollars of the three main oil grades. Right-hand scale. – (3) Ratio between the index of the average dollar price of oil and the index of the average dollar unit value of exports of manufactures by the OECD countries. Left-hand scale.

Measuring the intensity of the shock in terms of the average half-yearly change in the real price of oil over the period,[1] the largest rise came during the first oil crisis, when prices jumped by 232 per cent in just one six-month period (see table). The most recent increase is the smallest of the three, about half the size of the rise experienced during the second oil crisis and a tenth of that recorded in the first. This is an effect of the more gradual rise in prices in the current episode, since the size of the cumulative increase over the entire period falls between those in the first and second oil crises.[2]

The slower pace of the rise in oil prices between 1999 and 2000 is due to the fundamental difference between the nature of the current crisis and those of the seventies. The present developments are a consequence of a rapid, and partly unforeseen, increase in demand, whereas the two previous shocks were sparked by the outbreak of war (the Arab-Israeli conflict in 1973 and the Iran-Iraq war in 1979), which led to a sharp reduction in supply from the OPEC countries. In 1975, OPEC output was 11 per cent lower than in the previous year; in 1980 it declined by 12 per cent. By contrast, after falling by 4.5 per cent in 1999, OPEC production increased by 3.3 per cent in the first nine months of this year compared with the corresponding period of 1999.

Oil price developments in the three episodes
(half-yearly averages; percentage changes)

	Prices in dollars		Real index (1)	
	total change	average change	total change	average change
1973 H2 - 1974 H1	264.3	264.3	231.8	231.8
1978 H2 - 1979 H2	163.4	62.3	133.6	52.8
1998 H2 - 2000 H2	143.3	24.9	145.2	25.1

Sources: IMF and OECD.

(1) Ratio between the index of the average price of oil and the index of the average dollar unit value of exports of manufactures by the OECD countries.

cont.

two thirds into September (Figure 2). The decline in the nominal effective exchange rate of the euro since the start of the third stage of Economic and Monetary Union on 1 January 1999 thus came to 21.4 per cent. On 22 September the US, Japanese, British and Canadian central banks joined the European Central Bank in concerted exchange market intervention. That day the euro rose by 4 per cent against the dollar, and in the days following it stabilized at around $0.88. In early October it weakened once more.

Between January 1999 and last July the euro area's competitiveness, based on producer prices, improved by 13.1 per cent while that of the United States and Japan deteriorated by 8.2 and 4.7 per cent respectively.

Economic activity

The *US economy* grew at an annual rate of 5.9 per cent in the first six months, up from 5.5 per cent in

The impact of OPEC production cuts in the shocks of 1974 and 1979 was amplified by the fact that the cartel accounted for a larger share of world supply at the time (53 per cent in 1973). In fact, its market power was even greater than this figure suggests, since the output of the centrally-planned economies did not influence the formation of oil prices in the international market. Excluding their production, OPEC's share was over 60 per cent in 1973. The first and, even more so, second oil shocks were followed by an inflow of new producers into the market, as the higher price levels made it feasible to exploit previously untapped fields in areas such as the North Sea, Alaska and Mexico. OPEC's initial reaction to the increase in supply was to reduce its output to shore up prices, causing its share of the market excluding the output of the planned economies to fall rapidly, reaching a low of 38 per cent in 1985. Despite the cuts, prices fell sharply between 1983 and 1985, prompting Saudi Arabia to boost output in an attempt to regain market share, triggering a collapse in prices in 1986 (the so-called oil countershock). In 1999 OPEC's share of world oil output excluding the countries of the former Soviet Union was 44.3 per cent.

As the experience of the last thirty years has shown, the difficulty faced by OPEC in maintaining its market share in the presence of a rapid and enduring rise in oil prices suggests that the cartel greatly fears the persistence of medium-term expectations of a price above $25 because this encourages the entry of new producers. The OPEC countries benefit from the current price volatility, which, by preventing any stabilization of expectations and thus inhibiting investment in new production, allows them to achieve a temporary improvement in their terms of trade.

The proportion of world demand for oil accounted for by non-OECD countries has increased significantly over the last thirty years, rising from 27 per cent in the early seventies to 37 per cent in 2000.

Demand in the OECD countries fell rapidly in both real and relative terms following the two oil shocks. Between 1973 and 1981, it declined from 74 to 65 per cent of total world demand; in the nineties it remained stable at around 63-64 per cent. By contrast, the former Soviet Union's share of demand has shrunk considerably, from 11 per cent in 1973 to less than 5 per cent in 1999.

Assuming a price of $30 a barrel in the fourth quarter of 2000 and that OPEC output reflects the cartel's recent production decisions, the purchasing power of the OPEC countries, measured in terms of the increase in oil revenues in relation to 1999, is expected to rise by 66 per cent to an estimated $130 billion, of which $116 billion is attributable to higher oil prices alone. Over the last two years, the average annual increase in revenues with respect to the average for 1991-1997 directly ascribable to higher prices has been $54 billion.

[1] The periods were specified as those between the six months before the first sharp rise in real oil prices and that preceding the first fall (see table). The last rise covers 1999 and 2000. The second half of 2000 has been estimated on the assumption that the oil price will remain at $30 per barrel in the fourth quarter.

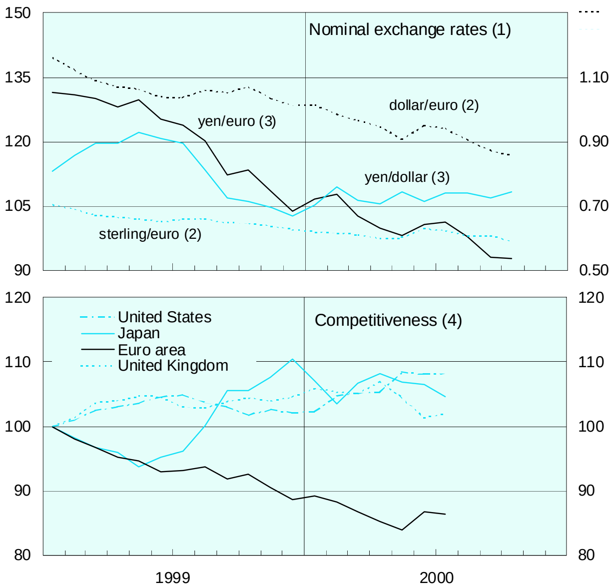
[2] The overall increase in nominal prices in the most recent episode is also smaller than that registered during the second oil crisis. This is due to the high rates of inflation prevailing in the industrial countries at the end of the seventies.

the second half of 1999 (Table 1). The continuation of the robust expansion, the rise in oil prices and the further decline in the unemployment rate initially raised fears of a rapid acceleration in prices.

The annual rate of increase in consumption declined from 7.6 per cent in the first quarter to 3.1 per cent in the second. Fixed investment, while still growing strongly, moderated slightly. In the summer other indicators also signaled a slowdown in economic activity. In the third quarter industrial production decelerated considerably and the growth of private-sector employment eased. Preliminary data released at the end of October confirmed the slowdown: the GDP growth rate decreased to 2.7 per cent in the third quarter. The large productivity gains achieved by the non-farm private sector in the second quarter (5.2 per cent compared with a year earlier) outstripped the rise in the cost of labour (4.7 per cent), alleviating worries about price trends.

Figure 2

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



(1) Units of the first currency per unit of the second. – (2) Right-hand scale. – (3) Left-hand scale. – (4) Indices, January 1999=100, on the basis of producer prices of manufactured goods. The source for the index for the euro is the ECB. The methodology of its calculation is given in the ECB *Monthly Bulletin*, October 1999, Box 5. A rise corresponds to a loss of competitiveness.

Observers are increasingly convinced that the US economy's capacity for continued rapid growth and low inflation is due to massive investment in new information technology. Such investment surged again in the first half, by nearly 30 per cent compared with the first half of 1999. Its incidence on GDP thus rose to 7.2 per cent in the second quarter, compared with 2.1 per cent in the second quarter of 1991, when the current expansion got under way.

In the last four years the inflation risk connected with labour market pressures has been reduced by large gains in productivity concentrated in manufacturing. In the absence of direct data on productivity in services, indications can be drawn from a comparison of the manufacturing sector with the broader non-farm private sector (76 per cent of the entire economy). Their respective rates of productivity growth (measured in the former on the basis of gross output, in the latter on value added) rose from 6.3 to 7.0 per cent and from 2.2 to 5.2 per cent between the second quarter of 1999 and the second quarter this year. The substantial narrowing of the gap presumably reflects an acceleration in the service sector, since the ratio of value added to gross output in manfuacturing can be assumed to have held constant.

Table 1

Economic indicators for the main industrial countries
(at constant prices; unless otherwise indicated, annualized percentage changes)

	GDP	Household consumption (1)	Government consumption	Investment (2)	Changes in stocks (3)(4)	National demand	Net exports (4)(5)
United States							
1999	4.2	5.3	3.3	9.2	–0.4	5.2	–1.2
2000 H1	5.9	6.0	2.7	12.7	–0.1	6.5	–0.9
Japan							
1999	0.2	1.2	1.3	–1.2	0.1	0.5	–0.3
2000 H1	4.3	2.9	0.2	3.9	0.3	3.2	1.2
Euro area							
1999	2.4	2.7	1.4	5.3	. .	2.9	–0.4
2000 H1	3.7	3.2	1.7	4.8	. .	3.2	0.5
United Kingdom							
1999	2.2	4.3	3.3	6.1	–0.7	3.7	–1.6
2000 H1	2.7	3.6	0.9	0.5	0.7	3.3	–0.8

Sources: National statistics and ECB.

(1) Comprises consumption of resident households and non-profit institutions serving households. – (2) For the United States, private investment; public investment is included under "government consumption". – (3) For the euro area and the United Kingdom: changes in stocks and valuables. – (4) Contribution to GDP growth with respect to the previous period, at an annual rate, in percentage points. – (5) Goods and services.

However, the US economy continues to display some worrying financial imbalances: the large and mounting payments deficit on current account and high household debt.

The rapid expansion of domestic demand and the pronounced appreciation of the dollar have generated an acceleration in goods imports, which in the first eight months were 14.8 per cent higher by volume than a year earlier. The balance-of-payments deficit on current account rose to $208 billion through June compared with $146 billion in the first half of 1999. The IMF forecasts a deficit of 4.2 per cent of GDP for the year, further worsening a net debtor position that amounted to $1.5 trillion or 15.8 per cent of GDP at the end of 1999. The mounting deficit was readily financed by net inward portfolio investment ($168 billion) and direct investment ($48 billion). The former resulted mainly from massive purchases of equities by European investors, mostly in the first quarter.

In the *euro area*, economic activity gathered speed in the first half. GDP grew at an annual rate of 3.7 per cent, compared with one of 3.4 per cent in the second half of 1999. The pick-up reflected above all an acceleration in consumption to an annual rate of growth of 3.2 per cent, compared with 2.3 per cent in the second half of 1999. Despite the gains in competitiveness due to the depreciation of the euro, the contribution of net exports was modest. Both exports and imports of goods and services rose at an annual rate of close to 11 per cent, as in the previous half-year. Economic growth produced a significant improvement in labour market conditions. The unemployment rate fell from 9.6 per cent in January to 9.0 per cent in August.

The deficit on the current account of the balance of payments of the euro area rose to $18 billion in the first eight months of the year. The deteriortiation was due mainly to a substantial reduction in the trade surplus, reflecting the worsening of the terms of trade on account of the rise in oil prices and the depreciation of the euro. While area residents again made substantial direct investments abroad, mainly in the United States, the outflows were more than offset by inflows, notably the takeover of Mannesmann, the German telecommunications corporation, by Vodafone AirTouch of the United Kingdom.

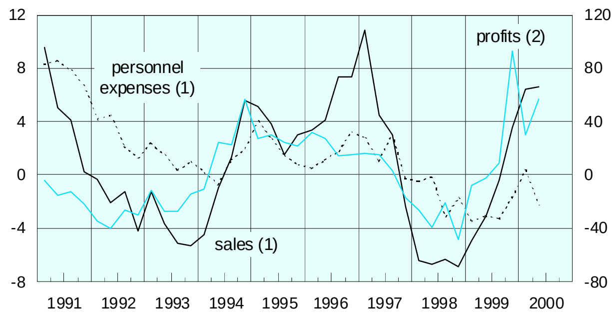
In *Japan* output resumed growing in the first half, at an annual pace of 4.3 per cent, with a large boost from household spending, which rose by 2.9 per cent, and net exports, fostered by the economic upswing in Asia. There was investment growth of 3.9 per cent, attributable in the first quarter entirely to the private sector and in the second to the public sector, as a result of the supplementary budget package passed in November.

The Tankan survey in October found a further increase in Japanese business confidence. The improvement, which began in the first quarter of 1999, has been sustained since the second half of last year by a strong recovery in profitability. The average profits of large manufacturing firms in the three quarters ending in June were more than 50 per cent higher than a year earlier. The gain stemmed from a larger increase in sales (5.5 per cent) than in total costs (4.5 per cent); in particular, staff costs decreased by 1.2 per cent and interest expense fell by 11 per cent (Figure 3). In the fiscal year ending in March the financial surplus of private firms rose to 4.4 per cent of GDP, compared with 2.3 per cent the previous year. Firms' greater liquidity reduced their use of external finance. Bank credit to the private sector, net of write-offs of bad debts, has continued to decline in 2000 as well.

Figure 3

Japan: items from large manufacturers' financial statements

(quarterly averages; percentage changes on year-earlier period)



Source: Japanese Ministry of Finance, *Financial Statements Statistics of Corporations by Industry.*

(1) Left-hand scale. – (2) Right-hand scale.

In the *United Kingdom* economic activity expanded at an annual rate of 2.7 per cent in the first half. Price rises have remained modest so far, mainly reflecting the sharp appreciation of the pound. In August the twelve-month rate of consumer inflation, net of mortgage loan interest, was 1.9 per cent.

In *Asia* the upturn of 1999 strengthened, extending to Indonesia and some smaller economies (Table 2). In China fiscal stimulus continued to sustain domestic demand; exports also made a substantial contribution to growth.

In *Latin America*, after the turmoil of 1999, economic activity benefited from more relaxed conditions in the financial markets and, in some countries, the rise in oil prices. In Brazil output strengthened, fueled mainly by an upswing in consumption and investment. Thanks to the economic expansion the primary budget surplus for the public sector rose from 3.2 per cent of GDP in 1999 to 4.3 per cent in the first three quarters of 2000, better than the target agreed with the IMF. A continuing cause for concern is the situation in Argentina, the only country in South America whose growth forecast for 2000 was revised significantly downwards in May. Restrictive budgetary measures were a factor in depressing investment, provoking a sharp slowdown in industrial production beginning in June. In May the unemployment rate had risen to 15.4 per cent. The situation has prompted fears that the country may not be able to carry out the structural reforms planned. In September the government negotiated new, less restrictive public finance targets with the IMF.

Table 2

Economic indicators for selected emerging countries

(*at constant prices; unless otherwise indicated, percentage changes on year-earlier period*)

	Weights in world gross national product in 1998 (1)	GDP		Domestic demand (2)		Net exports (3)	
		1999	2000	1999	2000	1999	2000
		Year	H1	Year	H1	Year	H1
Latin America							
Argentina	1.1	–3.1	0.8	–4.3	0.7	1.3	0.1
Brazil	2.9	0.8	3.8	–2.4	....	3.2	....
Mexico	1.9	3.7	7.8	3.4	10.0	0.3	–2.2
Asia							
China	10.2	7.1	8.2	....	....	....	....
South Korea	1.7	10.7	11.1	13.7	9.3	–0.8	3.1
Philippines	0.8	3.3	3.9	0.3	–1.5	3.0	5.5
India (4)	5.4	6.4	5.8 (5)	....	....	....	....
Indonesia	1.3	0.3	3.9	–2.5	–0.2	3.0	4.0
Malaysia	0.5	5.8	10.3	2.0	14.3	4.1	–1.7
Thailand	0.9	4.2	5.9	6.4	8.9	–1.1	–1.7
Taiwan	....	5.4	6.7	2.9	5.7	2.5	1.1
Europe							
Poland	0.8	4.1	5.6	5.4	....	–1.6	....
Russia	2.4	3.2	7.5	2.9	....	0.4	....
Turkey	1.1	–5.1	5.2	–4.0	8.1	–0.9	–3.4

Sources: National statistics, World Bank and OECD.

(1) Valued on a PPP basis. – (2) Includes changes in stocks and statistical discrepancies. – (3) Goods and services. Contribution to GDP growth with respect to the same period of the previous year. – (4) GDP at factor cost, fiscal year (April to March). – (5) First quarter.

Russia registered GDP growth of 7.5 per cent in the first half compared with the first half of 1999, and both the balance of payments on current account and the government budget improved considerably. These results, better than expected, were due in part to import substitution deriving from the earlier devaluation of the ruble and from the rise in the price of oil, of which the country is a major exporter.

Prices

Consumer prices in the United States and Europe were affected by the increase in oil prices, which was both larger and more persistent than had initially been expected. Between the beginning of January and the end of October the average price of the main varieties of crude (WTI, Brent and Dubai) rose by 29 per cent.

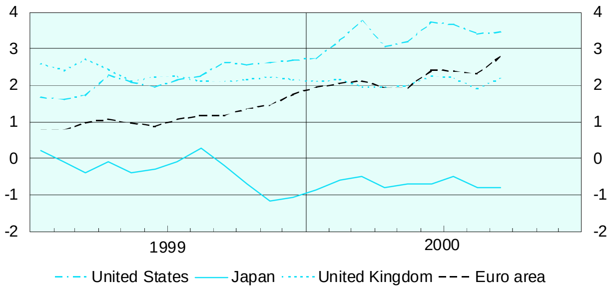
Between January and September metal prices remained unchanged while those of other raw materials declined: food products by 3.1 per cent and non-food agricultural products by 11.9 per cent (Figure 1). The result was a substantial worsening in the terms of trade for the non-oil-producing developing countries.

In the *United States* the twelve-month rate of consumer inflation rose from 2.7 per cent in January to 3.7 per cent in June before falling to 3.5 per cent in September (Figure 4). The index of prices net of energy and food products accelerated from 2.0 per cent in January to 2.5 per cent in September. Private forecasters do not appear to consider that the faster pace of consumer inflation will persist: according to *Consensus Forecasts*, between January and October expectations of average inflation for this year rose by 0.7 percentage points to 3.3 per cent, while those for 2001 rose by only 0.2 points to 2.7 per cent. The financial markets also seem immune to symptoms of higher inflation expectations in the long term: between May and October the yields on 10-year swaps declined by about 0.8 percentage points.

The sharp rise in oil prices and the depreciation of the euro have also led to higher inflation in the *euro area*: the twelve-month rise in the harmonized index of consumer prices increased from 1.7 per cent in December to 2.8 per cent in September. Core inflation climbed slowly but steadily, from 1.1 to 1.4 per cent.

Figure 4

Consumer prices in the main industrial countries (1)
(twelve-month percentage changes)



Sources: National statistics and Eurostat.

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

Notwithstanding the background of cyclical recovery and exogenous pressures on prices, the upward revision of inflation expectations has been contained. After widening in the early months of last year, the differential between nominal and real bond yields – the latter being derived from index-linked securities issued in France – has been stable this year. According to *Consensus Forecasts*, average expectations of inflation in the euro area for 2000 rose from 1.6 to 2.2 per cent between January and October; those for 2001, which assume an improvement in the exchange rate and in oil prices, from 1.6 to 2.0 per cent.

In *Japan* the first nine months of the year saw no significant easing of the fall in consumer prices; in September the twelve-month rate of change stood at –0.8 per cent, compared with –1.1 per cent in December last year. Consumer durables were hit hardest by the fall in prices, recording a decline of 7.6 per cent in September. Producer prices remained unchanged, despite the rise in oil prices, thanks to the simultaneous reduction in prices of machinery, particularly electrical machinery (–2.9 per cent in September). In some sectors the lower prices seem to reflect changes in the structure of supply, particularly on account of keener competition and stepped-up rationalization of distribution.

Wages continued to be affected by the persistent slack in the labour market and the ongoing process of restructuring in the major manufacturing firms. Following the fall recorded in 1998-99, wages rose only slightly on average for the first eight months (by 0.7 per cent over the corresponding period of the previous year).

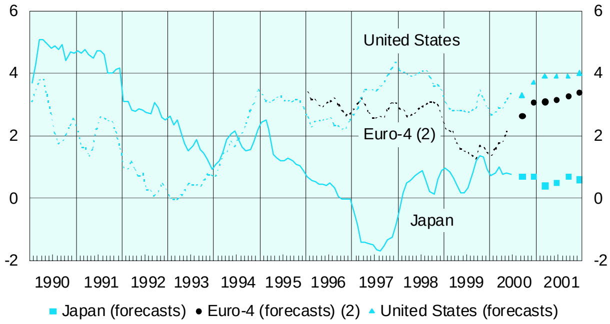
Monetary policies

In the *United States* monetary policy was aimed at slowing down the expansion of domestic demand to bring it into line with potential growth. In the euro area it was aimed at curbing inflation expectations by contrasting the pressures on prices and wages coming from the rise in oil prices and the depreciation in the exchange rate. In Japan the gain in economic activity induced the authorities to alter their strategy of keeping very short term interest rates at zero and they were made slightly less expansionary.

Following the increase of 0.5 percentage points last May, the *Federal Reserve* has left the target federal funds rate unchanged at 6.5 per cent. With growth still accelerating and moderate albeit rising inflation, the decision not to alter interest rates is justified by the emergence of signs that economic activity is slowing down. The decision was largely due to the reduction in unit labour costs in the second quarter. Market opinion, deduced from futures contracts, seems to be that the monetary manoeuvre that began in June last year and which has to date produced six successive increases in the federal funds rate for a total of 1.75 percentage points, will keep the economy on a non-inflationary growth path. Until September the rise in the policy rate had not translated into changes in the real short-term rate, which had been stable at just above 3 per cent (Figure 5). During the previous restrictive phase, which began in February 1994, the real rate rose along with the policy rate by about 3 points in a year. Expectations of increases in short-term rates this December, which at the beginning of June stood at around 0.6 percentage points, gradually came down before disappearing in mid-September.

Figure 5

Real short-term interest rates in the main industrial countries (1)
(*to June 2000, monthly averages; from September 2000, quarterly data*)



Sources: ECB, national statistics, Datastream, Consensus Forecasts (September 2000).

(1) Until June 2000, calculated monthly as the nominal three-month interest rate less actual inflation in the subsequent three months. From then on, calculated quarterly. For the quarter ending in September 2000, the nominal rate for that month less the *Consensus Forecasts* inflation forecast for the following quarter; subsequently, the nominal three-month interest rate expected for the last month of the quarter, based on futures contracts of 26 October, less forecast inflation for the following quarter, from *Consensus Forecasts.* – (2) Weighted average for Germany, France, Italy and Spain.

The *Eurosystem* raised the rate on its main refinancing operations in June, August and the beginning of October by a total of one percentage point, to 4.75 per cent. Since November 1999, when the restrictive phase was introduced, the Eurosystem has raised the reference rate seven times for a total of 2.25 points, resulting in an increase of more than one point in the real short-term interest rate. In assessing the magnitude of the restriction, we must consider the simultaneous depreciation of the euro. At the end of October the prices of futures contracts on three-month Euromarket deposits indicated broadly stable short-term rates, around 5.1 per cent, for 2001, in line with the current level of three-month yields; the overnight rate is currently 4.8 per cent.

After pushing very short-term interest rates down since February 1999 to approach zero, the *Bank of Japan* raised the overnight rate to 0.25 per cent in mid-August. The measure was motivated by the recovery in economic activity in the first two months of this year, suggesting that the acute stage of economic weakness is over. The futures markets do not indicate expectations of further increases in the policy rates in the short term, and the monetary stance remains decidedly expansive.

Budgetary policies

This year again saw marked differences in the fiscal policy stances of the leading industrial countries. Cyclically adjusted preliminary estimates by the IMF and the European Commission suggest that the US budget surplus will grow further; in Japan the deficit will increase, while in the euro area it will remain broadly unchanged.

In the *United States*, the federal budget surplus net of the social security surplus for the fiscal year that ended in September rose to $84 billion, about three times the figure forecast in April. Recent estimates by the Congressional Budget Office (CBO) indicate an overall surplus in excess of $230 billion, or 2.4 per cent of GDP, one of the best performances since the Second World War. This is due largely to the robust economic growth, which has produced much higher revenue than expected. The structural surplus estimated by the IMF has risen only slightly, from 0.6 to 0.8 per cent of GDP. The CBO estimates that in the ten years between 2001 and 2010, assuming average annual growth rates for the economy of 2.9 per cent and no change in real expenditure, the cumulative federal budget surplus will be about $4,600 billion, equal to about 3.6 per cent of GDP in each year.

In the *euro area* the general government deficit, excluding revenue from the sale of mobile telephone licenses, is expected to decline by about 0.5 percentage points in 2000, from 1.3 per cent of GDP in 1999. Net of the positive effects of the cycle it would remain at 1999 levels. According to European Commission estimates, the area’s ratio of debt to GDP, which was 72.1 per cent last year, should decline by about two percentage points.

In *Japan*, fiscal policy remained expansionary, notwithstanding the growing burden of public debt, which rose to 136 per cent of GDP. The budget for the fiscal year that began in April envisages higher spending and additional tax relief totalling ¥2.6 trillion, or 0.5 per cent of GDP. In the second half of October the government introduced a new expansionary package, which will be submitted to Parliament in mid-November. This amounts to ¥11.6 trillion, or 2.1 per cent of GDP, ¥4.7 trillion of which is to be invested in infrastructure and projects involving new technologies, and ¥4.5 trillion to go to small and medium-sized firms. The IMF estimates that the general government deficit, net of the social security surplus, will rise to 9.5 per cent of GDP, from 9.2 per cent last year; in structural terms the deficit is expected to grow from 7.9 to 8.3 per cent of GDP.

The stock markets

In the *United States* the share market has fluctuated widely. At the end of October prices were lower than at the beginning of the year. The market has been affected by the perception, more marked from the summer on, of a slowdown in economic growth, and by the failure of corporate profits to perform as well as expected.

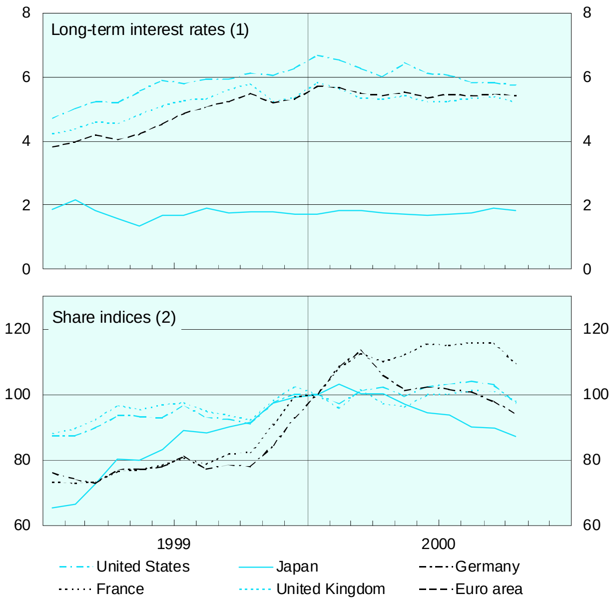
The US share market peaked in March; between April and May prices came down by about 10 per cent, but picked up thereafter until early September (Figure 6). The recovery strengthened after the substantial waning of expectations that the Federal Reserve would adopt further restrictive measures. Another factor in the recovery was news that corporate profits were set to expand in the second quarter at an annualized rate of 15 per cent compared with the corresponding period of 1999. The general share index recorded an overall loss of 9 per cent in September and October, leaving prices about 6 per cent lower than at the beginning of the year.

Share prices in the *euro area* were afffected by the restrictive monetary stance adopted in response to rising inflation. Between the peak at the beginning of March and the end of October the Euro Stoxx index of the most strongly capitalized firms gradually shed 12 per cent of its value. National share market indices have performed variously:

prices fell by 7 per cent in Italy, by 9 per cent in France and by 18 per cent in Germany.

Figure 6

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 2000=100.

For equities listed in the general indices of the United States and the euro-area dividend yields remain particularly low, slightly above last year's minimum values; in October they stood at 1.0 and 1.8 per cent of share prices, respectively. Given that US and European firms have frequently conducted share buy-backs in recent years, the ratio presumably underestimates profitability. Estimates based on the US market that take this practice into consideration suggest a 2 per cent dividend yield for firms included in the general index.

For firms specializing in information technology the dividend ratio is 0.4 per cent in the United States and 1.2 per cent in the euro area, respectively about four-fifths and one half lower than at the end of 1994. These particularly low ratios may be partly attributable to the extremely good growth prospects for the sector's profits – and, therefore, share prices – which are generally somewhat restrained in the early stage of firms' operations. The high volatility of prices nonetheless points to continuing uncertainty regarding these firms' future profitability. Price indices for shares in this sector in the euro area gained more than 130 per cent between October 1999 and the beginning of March this year, only to lose 34 per cent between then and the end of October, putting them back at last December's levels. Their share of total market capitalization has increased from an average of 22 per cent in 1999 to 32 per cent in the first nine months of this year. The index of technological equities in the United States, Nasdaq, has also collapsed. After losing about 35 per cent between the end of March and the end of May, prices recovered a bit more than half their loss by the end of August, but the spread of fears that this sector's profits for the second half-year were diminishing substantially led to a new fall of 23 per cent by the end of October. In the first ten months of this year the Nasdaq index lost 16 per cent.

In *Japan* the bull market in equities between October 1998 and last February was followed by a downturn, with a loss of 19 per cent between March 2000 and the end of October. Prices were depressed partly by the high number of company failures, especially in the insurance sector. In October two major firms crashed, leaving liabilities in excess of $60 billion. Japanese equity prices were also affected by a supply glut triggered by massive reductions in cross holdings in the portfolios of Japanese firms, which starting next March will be required to value their portfolio shares at market prices, rather than historical values as previously.

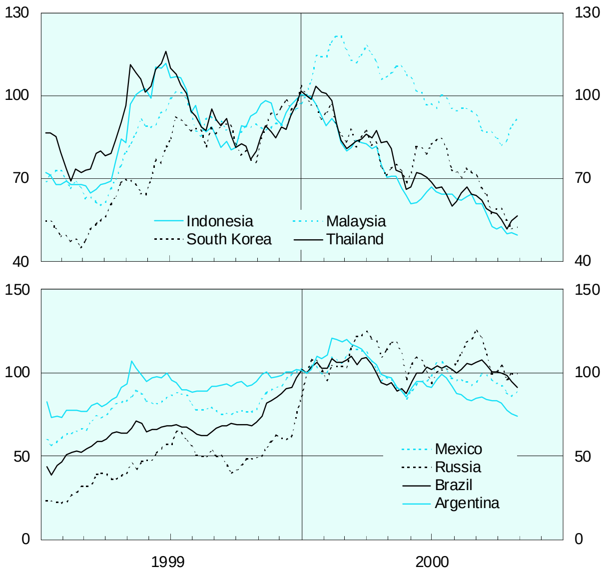
In the *emerging countries of Asia*, despite the sharp expansion of output, stock market indices have fallen significantly since the beginning of the year. A first decline came between March and May, in the wake of the plunge in US technological share prices, which are crucial to Asian share prices, as the hi-tech sector accounts for a major share of total market capitalization. Prices fell further during the summer (Figure 7).

Share prices came down sharply in *Latin America* as well. In Argentina the decline has amounted to 25 per cent since the beginning of the year, as the economic picture has deteriorated. In

Brazil, even though economic growth has regained a rapid pace, share prices have fallen by 10 per cent. The stock market index in Russia, which after its 1998 collapse had gained 250 per cent in 1999, rose by a further 18 per cent.

Figure 7

Share indices in selected emerging countries
(average weekly data; indices, 1st week of January 2000=100)



Sources: Datastream and Reuters.

The bond markets

In the *United States* long-term interest rates began to decline at the beginning of the year, stabilized in April, then resumed their downward course in mid-May. Ten-year Treasury bond yields reached their low for the year at the end of October at 5.7 per cent, one point lower than in January (Figure 6). As short-term rates had been rising since June 1999, the slope of the yield curve was inverted, turning negative at the end of March. This could indicate expectations of weakening economic growth and a consequent easing of monetary conditions, but it must be assessed cautiously, in that both the corresponding curve based on swaps (primarily an interbank market) and that based on corporate bonds still slope upwards. The sharp reduction in long-term government paper was due in part to short supply brought about by a diminution in net issues given the budget surplus and by outright buy-backs on the secondary market. The Treasury conducted sixteen such operations between March and October, for a total of more than $25 billion. Nor can it be ruled out that the difference in slope between public and private yield curves also reflects an increment in the risk premium on corporate bonds. This could stem from the increasing leverage of private issuers, induced by the greater debt burden following the recent rise in short-term rates. The yield differential between ten-year swaps and Treasury bonds peaked in May at 1.4 percentage points, 0.6 points more than at the beginning of the year, and has remained wide (1.1 points at the end of October).

In the *euro area* bond yields have been stable since May; at the end of October they stood at around 5.4 per cent. Thus despite the rise in short-term rates, which increased by 0.7 points to 5.1 per cent, the slope of the yield curve remains slightly positive.

In *Japan* the central bank's recent decision has not had major repercussions on the bond market, as it had been broadly discounted. The rate on ten-year bonds rose by 0.1 points between the beginning of August and the end of October, to 1.8 per cent, while short-term rates rose by 0.3 points. By international standards Japanese long-term yields are low, especially given the high ratio of public debt to GDP. A sudden rise could result in potentially heavy losses for the banks, which have recently increased their portfolio share of public paper.

In *Russia* the ruble has remained stable, while overnight rates have come down sharply, from 10 per cent at the beginning of the year to under 4 per cent. The foreign exchange reserves have more than doubled. The differential between dollar-denominated bonds and the equivalent US Treasury paper has narrowed by more than 3 percentage points. However, it remains among the widest in the emerging countries at around 11 points.

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND IN ITALY

Production, demand and the balance of payments

Economic activity

Economic activity in the euro area continued to expand rapidly in the first six months of 2000, with GDP growing at an annual rate of 3.7 per cent, slightly faster than in the second half of 1999 (Table 3). The increase was largely fueled by domestic demand; net exports provided only slight stimulus. In the second quarter, however, the expansion showed signs of slackening in almost all the main countries, accelerating significantly only in Germany. According to the latest indicators, the negative effects of the rise in oil prices are likely to cause a weakening of domestic demand in the euro area in the second half of the year, with annual rates of economic growth easing to around 3 per cent.

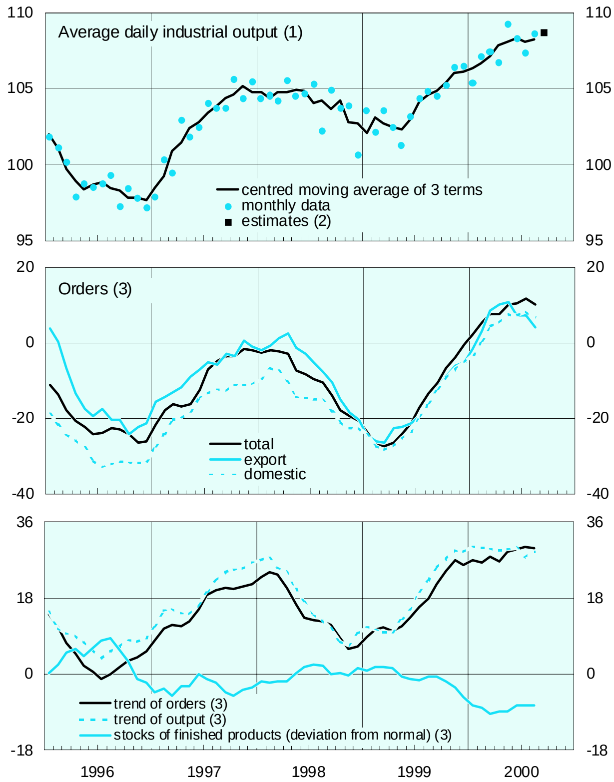
In Italy robust GDP growth in the first quarter (4.3 per cent on an annual basis) was followed by a sharp weakening in the second, when the rate fell to one quarter of its previous value (Table 4). In the first six months of 2000 GDP grew at an annual rate of 3 per cent, only slightly narrowing the gap vis-à-vis the euro area as a whole.

Most of the expansion in Italian economic activity in the first half occurred in the service sector, whose value added at constant prices rose at an annual rate of 3.8 per cent. The growth in industry was markedly smaller. In particular, the rise in the value added of the manufacturing sector slowed down during the spring. By contrast, the construction industry achieved good results, as it had in the second half of 1999.

The index of industrial production, adjusted for seasonal factors and the different number of working days, was on average 4.2 per cent higher in the first eight months of 2000 than in the same period of 1999 (Figure 8).

Figure 8

Italy: industrial output, orders and stocks



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, not weighted by size of firm. The trend figures refer to the responses for 3-4 months ahead. Seasonally adjusted except for export orders and stocks of finished products.

Activity slowed down during the summer, recording decreases in June and July that were only partly recouped in August. Among the other euro-area countries, Germany maintained a good rate

Table 3

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

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

	On year-earlier period						On previous period. at an annual rate				
	1999			2000			1999		2000		
	Q3	Q4	Year	Q1	Q2	H1	Q3	Q4	Q1	Q2	H1
					GDP						
Germany	1.6	2.4	1.6	2.3	3.6	3.0	3.6	3.0	3.1	4.7	3.5
France	3.1	3.4	3.0	3.5	3.4	3.4	4.0	4.0	2.6	2.9	3.0
Italy	1.3	2.2	1.4	3.0	2.6	2.8	2.9	2.2	4.3	1.1	3.0
Spain	3.7	4.1	4.0	4.2	3.9	4.1	2.4	4.9	4.9	3.5	4.6
Euro area	2.5	3.2	2.4	3.4	3.7	3.6	3.8	3.8	3.8	3.5	3.7
					Imports						
Germany	8.5	10.1	8.1	10.1	10.2	10.1	8.0	11.1	8.4	13.3	10.3
France	3.8	7.3	4.4	12.6	13.7	13.1	10.4	14.8	16.7	13.0	15.3
Italy	3.8	4.0	3.4	5.7	8.0	6.9	−1.2	12.9	. .	22.1	8.4
Spain	12.6	14.1	11.9	14.8	10.6	12.6	11.8	14.6	5.5	10.6	9.0
Euro area	7.0	9.0	6.1	10.5	11.3	10.9	10.9	12.1	8.3	13.9	10.6
					Exports						
Germany	6.3	10.8	5.1	13.9	13.5	13.7	15.4	11.8	13.8	13.1	13.1
France	5.5	8.9	4.0	12.8	14.7	13.8	19.7	7.7	15.0	16.6	13.6
Italy	0.4	5.8	−0.4	9.5	9.5	9.5	15.8	6.4	8.8	7.4	7.9
Spain	6.0	12.1	6.6	10.2	10.4	10.3	3.8	20.8	−0.4	19.0	9.3
Euro area	5.7	9.7	4.5	12.3	12.8	13.8	15.5	11.8	10.8	13.0	11.6
					Household consumption (1)						
Germany	2.4	2.3	2.6	0.7	2.2	1.5	2.0	1.9	−0.1	5.3	1.7
France	2.3	2.3	2.3	2.9	2.5	2.3	3.5	2.4	3.2	0.8	2.4
Italy	1.5	1.3	1.7	1.9	2.1	2.0	1.2	0.6	4.5	2.1	2.9
Spain	4.6	4.4	4.7	4.5	4.0	4.3	4.0	3.3	7.7	1.1	4.9
Euro area	2.6	2.6	2.7	2.4	3.0	2.7	2.9	2.3	3.4	3.6	3.2
					Gross fixed capital formation						
Germany	3.9	4.2	3.3	4.2	2.1	3.2	8.8	−3.4	8.5	−4.6	2.1
France	7.1	6.4	7.3	6.0	6.3	6.1	5.7	4.6	7.8	7.1	6.8
Italy	4.8	6.9	4.4	7.6	7.3	7.4	5.3	8.3	8.7	6.7	8.1
Spain	8.8	6.2	8.9	6.4	5.4	5.9	6.3	2.8	3.0	9.8	4.6
Euro area	5.8	5.6	5.3	5.7	4.8	5.2	7.9	1.4	7.9	2.1	4.8
					National demand						
Germany	2.1	2.2	2.4	1.2	2.5	1.9	1.4	2.7	1.5	4.5	2.6
France	2.6	2.9	3.0	3.2	2.9	3.1	1.6	5.6	2.7	1.7	3.2
Italy	2.2	1.6	2.5	1.9	2.1	2.0	−1.6	3.8	1.8	4.7	3.0
Spain	5.6	4.8	5.5	5.6	4.1	4.8	4.7	3.6	6.7	1.5	4.6
Euro area	2.9	2.9	2.9	2.7	3.1	2.9	2.2	3.8	2.8	3.6	3.2

Source: Based on national statistics.
(1) Comprises consumption of resident households and non-profit institutions serving households.

Table 4

Italy: resources and uses of income

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

	As a percent-age of GDP in 1999	1999				2000			
		Q3	Q4	H2	Year	Q1	Q2	H1	H1 (1)
Resources									
GDP	–	2.9	2.2	2.6	1.4	4.3	1.1	3.0	–
Imports	26.8	−1.2	12.9	5.4	3.4	. .	22.1	8.4	−1.1
Goods	20.5	0.9	15.7	9.5	4.5	1.5	25.4	10.6	−1.1
Services	6.4	−7.9	4.2	−6.8	. .	−5.2	11.2	1.0	. .
Total resources	–	2.0	4.4	3.2	1.8	3.4	5.3	4.1	–
Uses									
Gross fixed capital formation	19.7	5.3	8.3	6.8	4.4	8.7	6.7	8.1	0.8
Construction	8.1	4.1	7.4	5.6	1.8	7.0	4.6	6.5	0.3
Machinery, equipment and sundry products	9.4	7.8	7.2	8.0	5.3	10.1	7.8	8.8	0.4
Transport equipment	2.2	−0.4	16.7	6.0	10.5	9.2	9.4	11.1	0.1
Consumption of resident households	59.6	1.1	0.6	1.1	1.7	4.5	2.1	2.9	0.9
Non-durable goods	26.8	−1.1	1.2	−0.1	0.5	0.4	3.7	1.4	0.2
Durable goods	7.2	−0.4	0.9	1.8	4.5	27.3	−0.5	12.9	0.5
Services	26.6	3.0	2.6	2.9	2.1	4.6	2.4	3.5	0.5
Other domestic uses (2)	19.3	−15.8	9.3	−4.7	3.1	−12.6	11.2	−1.8	−0.2
Total national demand	98.7	1.6	3.8	1.0	2.5	1.8	4.7	3.0	1.5
Exports	28.1	15.8	6.4	11.2	−0.4	8.8	7.4	7.9	1.1
Goods	22.1	12.8	12.4	12.4	−1.0	3.3	16.0	8.6	1.0
Services	6.0	27.2	−13.0	7.0	1.9	32.1	−19.7	5.1	0.2

Sources: Based on Istat data.

(1) Contribution to the growth in GDP in relation to the previous period. – (2) Comprises consumption of general government and non-profit institutions serving households, the change in stocks and valuables, and statistical discrepancies.

of growth in industrial production, albeit with pronounced monthly fluctuations (Figure 9).

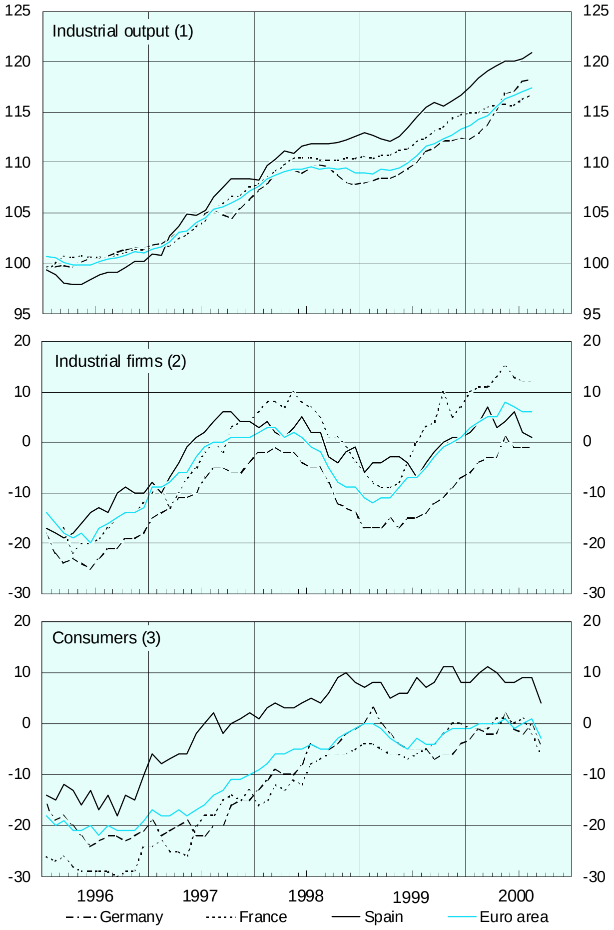
The survey of firms in industry excluding construction conducted by the Bank of Italy in September found that in the summer orders were rising for 43 per cent of firms, stable for 47 per cent and declining for 10 per cent. Overall, demand is expected to grow in the next six months, domestic demand slightly less vigorously than exports.

Indications of a possible slowdown in activity in the second half of the year emerge from the ISAE surveys: the opinions of manufacturing firms regarding the present level of demand and expectations three to four months ahead appear to suggest a leveling-off or a slight decline after a year of intense expansion. Since March the composite leading indicator of the Italian business cycle, prepared by the Bank of Italy and the ISAE, has also signaled the possibility of a slight deceleration (Figure 10). The indicator, which leads movements in the economy by around six months, reflects the reduced optimism of households and firms and the negative contribution of the variables connected with developments in the money and financial markets.

The cyclical indicators derived from the surveys conducted by INSEE in France and IFO in Germany show a decline in confidence in the industrial sector. The purchasing managers index for the major countries is also down from the peaks recorded in early spring.

Figure 9

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



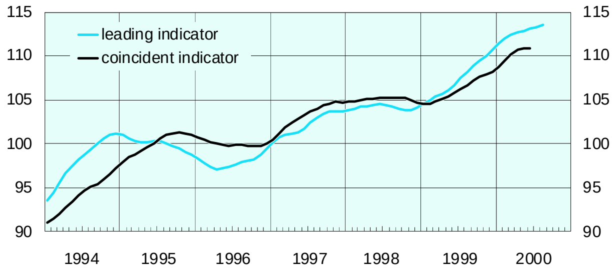
Sources: Based on national statistics and European Commission data.

(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 percentage 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 weighted percentage 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.

In Italy, pre-tax profits as a proportion of value added in the private sector remained at historically high levels in the first six months of the year (around 37 per cent in industry excluding construction and 48 per cent in services). The second half of the 1990s differed from earlier periods in Italy's economic development, in that the combination of high profits and a progressive decline in the cost of money was not accompanied by particularly strong capital spending. In the first half of this year, however, the pick-up in fixed investment in Italy exceeded that in the other major countries of the euro area.

Figure 10

Indicators of the Italian business cycle (1)
(indices, 1995=100)



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

(1) The method of constructing the two indicators is described in F. Altissimo, D.J. Marchetti and G.P. Oneto, "The Italian Business Cycle: Coincident and leading indicators and some stylized facts", *Temi di Discussione del Servizio Studi della Banca d'Italia*, No. 377.

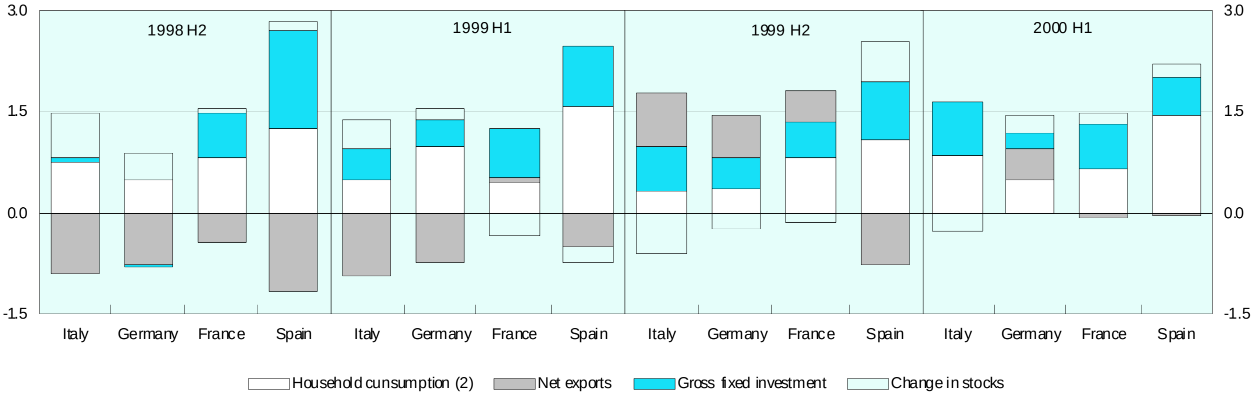
Consumption and disposable income

In the euro area resident households' consumption at constant prices increased at an annual rate of 3.2 per cent in the first half of the year. The slowdown in consumer spending in France was countered by an acceleration in Germany. Despite a slackening in the second quarter, the annualized increase recorded in Spain in the first half (4.9 per cent) was higher than the area-wide average.

In Italy the contribution of consumption to GDP growth in the first half of 2000 was larger than in the second half of last year (0.9 percentage points, compared with 0.3 points; Figure 11). The annualized increase in resident households' spending (2.9 per cent) was lower than the average for the area, but for the first time in three years it was nonetheless higher than in France and Germany (2.4 and 1.7 per cent respectively). Consumption quickened appreciably

Figure 11

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



Source: Based on national statistics.
(1) In relation to the previous period. – (2) Comprises consumption of resident households and non-profit institutions serving households.

in the first quarter, particularly in the service sector, where it grew at an annual rate of 4.6 per cent, and above all in the durable goods sector, where it surged by 27.3 per cent under the impetus of car purchases. The slowdown that followed in the second quarter reflected a softening of households' optimism about the economic outlook in Italy (Figure 12).

Non-durable goods were the least dynamic component of consumption in the first half of 2000, increasing by 0.7 per cent on average from a year earlier. Spending on services also recorded only a small increase compared with the preceding six months. These trends reflect the modest growth in households' real disposable income, which on the basis of preliminary data can be estimated at 1.5 per cent in the first half of the year compared with the corresponding period of 1999, before adjustment for the erosion of the purchasing power of net financial wealth due to the acceleration in inflation during the period; if this factor were taken into account, the increase in disposable income would be considerably smaller.

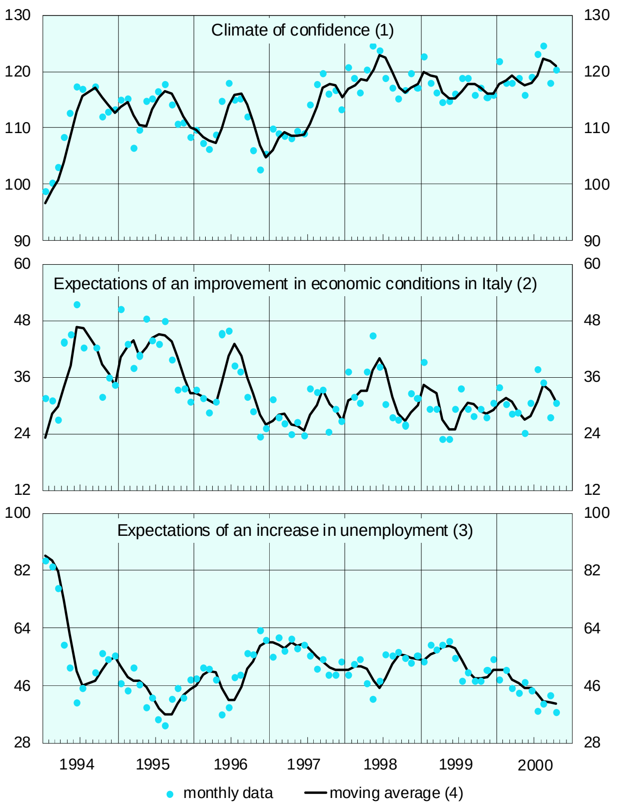
Compensation of employees rose in real terms by just under 2 per cent compared with the first six months of 1999, driven by the increase in employment. Income from self-employment rose more slowly. The increase in taxes and social security contributions was broadly offset by higher social benefits.

Investment and stocks

Gross fixed investment in the euro area rose at an annual rate of 4.8 per cent at constant prices in the first half of the year, fueled by buoyant domestic demand and exports. In France investment growth accelerated to an annualized rate of 6.8 per cent. In Germany, by contrast, there was an increase of only 2.1 per cent, with a decline in the second quarter: the slowdown in spending on machinery and equipment, transport equipment and intangible goods compounded a nine-month decline in investment in construction. In Spain gross fixed investment was concentrated in construction. After years of rapid expansion, capital spending on other goods made a negative contribution to the growth in GDP, probably reflecting the fall in capacity utilization rates detected by European Commission surveys since the end of 1999 (Figure 13). The indicator of business confidence was less favourable in Spain than in the other main countries, owing primarily to the weaker performance of orders.

Figure 12

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



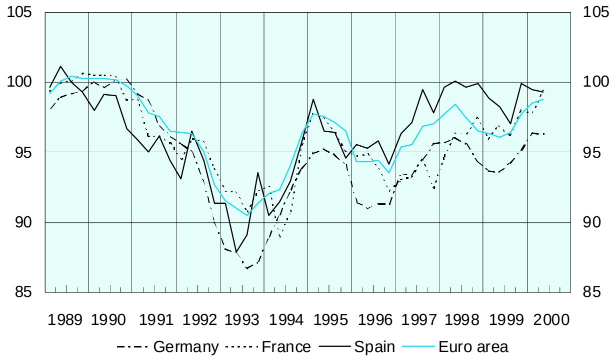
Source: Based on ISAE data.

(1) Index, 1980=100. – (2) Percentage of those interviewed who expected an improvement in economic conditions in Italy in the subsequent 12 months. – (3) Percentage of those interviewed who expected an increase in unemployment in the subsequent 12 months. – (4) For the three months ending in the reference month.

In Italy gross fixed investment grew at an annual rate of 8.1 per cent in the first half of the year. Spending on machinery, equipment, transport equipment and intangible goods accounted for around two thirds of the increase, despite a slight slowdown in the second quarter. The propensity of firms to invest was sustained by the high rate of capacity utilization, which is now close to the cyclical peak of the end of 1997 (Figure 14), the level of actual and expected demand, which firms still judge to be satisfactory, the moderate cost of money, the stimulus from the incentives available under Law 133 of 13 May 1999 (the so-called Visco Law), and good corporate profitability. The Bank of Italy's recent survey of firms in industry excluding construction shows an increase in the number of companies expecting to make a profit in the current financial year. However, provisional national accounts data show that profits contracted slightly as a share of value added in services, manufacturing and mining in the second quarter.

Figure 13

Capacity utilization rates in selected euro-area countries (1)



Source: Based on European Commission data.

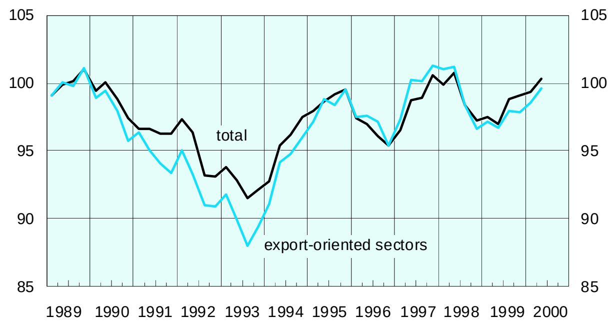
(1) Replies from manufacturing firms to questions about the current level of capacity utilization. Indices set with base 100 in the years in which peak utilization rates were recorded: 1989 for France, Spain and the euro area, 1990 for Germany. Seasonally adjusted data.

The profile of investment in construction was similar to that of investment in other goods, with overall growth of 6.5 per cent in the first half and lower rates of change in the second quarter. Since investment in residential building was broadly unchanged, the increase reflected a sharp acceleration in the other components of the sector.

Figure 14

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.

The upturn in activity led to significant destocking in the first six months of the year. The sample surveys conducted by the ISAE show stocks of finished products below the level considered normal. However, destocking came to a halt during the second quarter. According to the ISAE's cyclical indicators, stocks of raw materials displayed a similar tendency: stockbuilding in the second quarter appears to have been stimulated by the temporary recovery of the euro and forecasts of price rises ahead. Indications to this effect also emerge from the data on imports of raw materials, which were substantially higher, especially in the second quarter. The change in stocks, which includes statistical discrepancies between the estimates of aggregate demand and supply, cut the rate of GDP growth by 0.3 percentage points in the first half of 2000.

Exports and imports

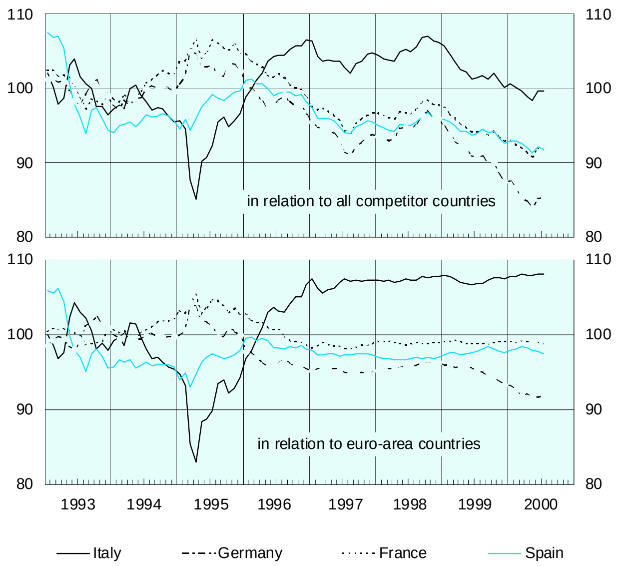
Exports of goods and services from the euro area increased at an annual rate of 11.6 per cent at constant prices in the first half of the year, but this was almost completely offset by a rise of 10.6 per cent in imports. The only large country in which net exports made a positive contribution to GDP growth was Germany, where they were responsible for 0.5 percentage points owing to a substantial increase in exports; in France and Spain the contribution was marginally negative, despite an acceleration in exports in the second quarter. In Italy net external demand contributed nothing to the increase in GDP; in the second quarter it had a negative impact of almost one percentage point.

Italian exports of goods and services at constant prices increased at an annual rate of 7.9 per cent during the half-year, with a slowdown in the second quarter. The growth was less than could have been expected on the basis of the expansion in world trade and gains in competitiveness; in volume terms it was smaller than for the euro area as a whole, with a particularly large gap in relation to Germany (13.1 per cent) and France (13.6 per cent).

The increase in foreign demand for Italian goods, which was accentuated in non-European markets by the depreciation of the euro, was partly eroded by the greater competitiveness of the main European countries. Measured in relation to all competitors and on the basis of producer prices, the competitiveness of Germany and France improved by 2.4 and 1.2 per cent respectively in the first seven months of the year, whereas Italy's rose by 0.4 per cent (Figure 15). In relation to competitors within the euro area alone, Italy suffered a deterioration of 0.6 per cent, while France and Germany showed gains of 0.3 and 1.6 per cent respectively. The disparity can be attributed to Italy's continuing adverse inflation differential in terms of producer prices.

Figure 15

Indicators of competitiveness in the main euro-area countries (1)



Source: Based on national statistics.

(1) Based on the producer prices of manufactures. An increase in the index indicates a loss of competitiveness.

In the first six months of the year Italy's imports of goods and services at constant prices increased at an annual rate of 8.4 per cent, slightly higher than the growth in exports. There was a remarkable surge in the second quarter (22.1 per cent at an annual rate), due in part to more rapid growth in domestic demand. An acceleration in industrial activity fostered a particularly strong increase in imports of raw materials, especially in the second quarter.

The balance of payments

According to provisional data, the current account of the balance of payments for the euro area showed a deficit of €19 billion in the first eight months of 2000, whereas in the same period of 1999 there had been a surplus of €4 billion (Table 5). The deterioration was due mainly to a reduction of €21 billion in the trade surplus, as imports increased far more rapidly than exports (by 27 per cent, compared with 20 per cent) owing to the rise in oil prices and the depreciation of the euro against the dollar.

Over the same period movements on the financial account – which showed a surplus of €48 billion, compared with one of €35 billion in 1999 – were strongly affected by the acquisition of a euro-area company (Mannesmann) by the British company Vodafone in February, partly by means of an exchange of shares. The operation showed up in exceptionally large direct investment in the area (there was a net inflow of €272 billion in the eight months, of which €166 billion occurred in February alone) and a substantial increase in acquisitions of shares for portfolio investment by residents, which led to net outflows of €211 billion during the eight months. The other portfolio items gave rise to net inflows. Direct and portfolio investment combined produced an overall net outflow of €59 billion in the first eight months, compared with €125 billion in the corresponding period of 1999. However, if only the equity components of these items are considered, there was a net outflow of €170 billion in the first eight months of 2000, against one of €86 billion in 1999.

In the first eight months of the year Italy had a current account deficit of 4 trillion lire, or €2.1 billion, equal to 0.3 per cent of GDP (Table 6), the first deficit for that period since the devaluation of 1992. The deterioration by comparison with the corresponding period of 1999 was substantial (19.2 trillion lire) and reflected a sharp contraction in the *fob-fob* trade surplus from 29.5 to 17.4 trillion lire.

Table 5

Balance of payments of the euro area

(billions of euros)

	1999			2000		
	August	Jan.-Aug.	Year	H1	August	Jan.-Aug.
Current account	**–1.8**	**3.9**	**–5.8**	**–14.5**	**–2.2**	**–18.9**
Goods	4.6	57.6	83.4	24.0	4.6	37.0
Services	–0.7	–6.5	–11.8	–6.7	0.3	–5.9
Income	–0.8	–21.2	–32.4	–12.6	–1.6	–19.9
Current transfers	–5.0	–25.9	–45.0	–19.0	–5.6	–30.1
Capital account	**0.6**	**7.5**	**13.5**	**5.2**	**0.1**	**5.7**
Financial account	**15.8**	**35.3**	**19.1**	**44.9**	**–3.9**	**48.0**
Direct investment	–9.2	–74.0	–120.6	129.8	–45.7	72.8
Portfolio investment	3.1	–51.1	–41.7	–140.7	15.3	–131.4
Equity securities	–9.1	–38.4	–49.4	–224.5	–0.0	–239.0
Debt securities	12.2	–12.7	7.7	83.7	15.3	107.6
Financial derivatives	3.0	6.9	8.1	7.3	–0.6	3.5
Other investment	18.6	143.4	163.1	46.0	25.9	100.0
Reserve assets	0.4	10.1	10.2	2.4	1.2	3.1
Errors and omissions	**–14.6**	**–46.7**	**–26.8**	**–35.5**	**6.1**	**–34.8**

Source: ECB.

The deficit on the income account increased sharply and the surplus on services decreased.

In the first eight months of this year the trade surplus on a *cif-fob* basis (for which disaggregated data are available) was 11.6 trillion lire less than in the same period of 1999. The deficit on mineral fuels increased over the same period from 14.9 to 31.7 trillion lire (see box "*Energy intensity and energy dependency in the industrial countries*"). As in the euro area as a whole, the growth in imports at current prices was substantially higher than that in exports. In the first seven months of 2000 the worsening of the merchandise terms of trade led to a deterioration of more than 18 trillion lire in the net position.

In volume terms, Italy's exports to non-EU markets increased much more strongly than those to EU markets (by 17.6 and 5.3 per cent respectively) and returned to the levels prevailing before the Asian and Russian crises (Table 7). Only shipments to some Latin American countries continued to contract. The growth in exports to the EU was strongly affected by Italy's poor performance in the German market, which took one-sixth of our exports in 1999. While total German imports in the first seven months grew by more than 10 per cent, those from Italy increased by only 1.2 per cent; competition from developing countries would appear to have been a factor, since French and Spanish goods showed similarly disappointing results in the German market, at least on the basis of value data. In Italy's case almost all manufacturing sectors were affected, but especially those producing traditional goods; only mechanical engineering was spared.

Table 6

Italy's balance of payments (1)

(billions of lire and millions of euros)

	1999				2000	
	January-August		Year		January-August	
	lire	euros	lire	euros	lire	euros
Current account	**15,205**	**7,853**	**11,686**	**6,035**	**–4,002**	**–2,067**
Goods	29,497	15,234	37,161	19,192	17,401	8,987
Exports	269,779	139,329	419,909	216,865	313,372	161,843
Imports	240,281	124,095	382,748	197,673	295,970	152,856
Services	3,644	1,882	4,387	2,266	1,683	869
Income	–12,769	–6,594	–19,976	–10,317	–17,297	–8,933
Current transfers	–5,167	–2,669	–9,885	–5,105	–5,789	–2,990
public	*–4,422*	*–2,284*	*–8,110*	*–4,189*	....	....
Current account	**3,535**	**1,826**	**5,341**	**2,758**	**1,747**	**902**
Intangible assets	–47	–24	–6	–3	....	....
Current transfers	3,581	1,850	5,347	2,761	....	....
public	*3,806*	*1,966*	*5,361*	*2,769*	....	....
Financial account	**–18,491**	**–9,550**	**–18,147**	**–9,372**	**2,813**	**1,453**
Errors and omissions	**–249**	**–128**	**1,120**	**578**	**–559**	**–288**

(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.* For July and August 2000, provisional data.

Energy intensity and energy dependency in the industrial countries

The energy intensity of an economy is its energy requirement per unit of output. This is a function of three components that weigh more or less equally in determining the overall outcome: "civil uses" of energy (heating and lighting), which depend in good measure on climate; industrial uses, which depend on productive specialization, and in particular on the relative importance of energy-intensive industries; and transportation uses, which depend on the mobility of people and goods and on the means of transport used (average age of cars, type of transport, etc.). Energy dependency is defined as the ratio of net energy imports to total energy requirements.

The OECD country with the highest energy intensity – measured in millions of tons of oil equivalent (MTOE) consumed per unit of GDP at constant prices – is the United States; those with the lowest, Italy and Japan (see table).

Energy intensity has diminished in all the industrial economies over the past 25 years, with an average decrease of 27.1 per cent. The reduction, motivated both by economic and environmental considerations, has been achieved gradually in the years since the second oil shock in 1979, demonstrating the long lead times for the adoption of more energy-efficient production technology.

External energy dependency, measured as the ratio of energy imports (net of exports) to the total energy requirement, is greatest in Italy and Japan, where the handicap is partially offset by these economies' low energy intensity. In the United States, a major energy producer, dependency is low. The United Kingdom is a net energy exporter (see table).

The GDP's imported energy content, obtained by multiplying energy intensity by dependency, is a physical measure of the economy's energy requirement that is satisfied from abroad in proportion to the GDP (MTOE per GDP unit). It is highest in Japan, Italy and Germany. Between 1973 and 1998, while the product of intensity and dependency diminished by 47 per cent for the OECD countries as a group, it decreased by just 27 per cent in Italy, owing to smaller energy savings and the virtual constancy of external dependency (–2 per cent), against the 27 per cent reduction in dependency for the OECD area.

Primary energy sources: measures of energy requirement and external dependency

	Energy intensity (1)				External dependency (2)				Intensity x dependency (3)			
	1973	1979	1998	% change 1973-98	1973	1979	1998	% change 1973-98	1973	1979	1998	% change 1973-98
OECD	0.339	0.319	0.247	–27.1	0.349	0.321	0.256	–26.6	0.118	0.102	0.063	–46.6
United States	0.469	0.436	0.310	–33.9	0.162	0.189	0.223	37.7	0.076	0.082	0.069	–9.2
Japan	0.204	0.182	0.154	–24.5	0.909	0.889	0.784	–13.8	0.185	0.162	0.121	–34.6
European Union	0.254	0.238	0.187	–26.4	0.622	0.546	0.476	–23.5	0.158	0.130	0.089	–43.7
Italy	***0.187***	***0.166***	***0.140***	***-25.1***	***0.844***	***0.856***	***0.827***	***-2.0***	***0.158***	***0.142***	***0.116***	***-26.6***
Germany (4)	*0.297*	*0.283*	*0.183*	*–38.4*	*0.492*	*0.507*	*0.618*	*25.6*	*0.146*	*0.144*	*0.113*	*–22.6*
France	*0.218*	*0.200*	*0.190*	*–12.8*	*0.795*	*0.784*	*0.509*	*–36.0*	*0.173*	*0.157*	*0.097*	*–43.9*
United Kingdom	*0.316*	*0.288*	*0.207*	*–34.5*	*0.508*	*0.123*	*–0.178*	*–135.0*	*0.161*	*0.035*	*–0.037*	*–123.0*

Source: IEA, *Energy Balances of OECD Countries* (Paris, 2000).
(1) Millions of tons of oil equivalent (MTOE) per unit of GDP (1 billion US dollars at 1990 prices and exchange rates). – (2) Quantity of energy imported (net of exports) in MTOE as a percentage of the total energy requirement (in MTOE). – (3) The product of indicators (1) and (2). – For 1973 and 1979, data for West Germany.

Table 7

Italy's exports and imports by main countries and areas, January-July 2000: value, average unit values and volume

(billions of lire, percentage composition in value terms and percentage changes on year-earlier period)

	Exports				Imports			
	Value	Percentage composition	Average unit values	Volume	Value	Percentage composition	Average unit values	Volume
EU countries	**155,436**	**55.1**	**3.5**	**5.3**	**156,381**	**56.1**	**5.4**	**7.0**
France	*35,474*	*12.6*	*3.8*	*6.1*	*31,874*	*11.4*	*4.6*	*6.0*
Germany	*42,823*	*15.2*	*3.4*	*1.2*	*47,763*	*17.1*	*1.5*	*9.6*
United Kingdom	*19,223*	*6.8*	*3.6*	*6.2*	*15,069*	*5.4*	*9.8*	*4.6*
Spain	*17,403*	*6.2*	*3.1*	*7.7*	*11,578*	*4.2*	*3.1*	*10.3*
Non-EU countries	**126,457**	**44.9**	**7.1**	**17.6**	**122,270**	**43.9**	**26.7**	**11.6**
China	*2,504*	*0.9*	*–3.7*	*21.5*	*7,726*	*2.8*	*11.1*	*29.2*
Japan	*4,826*	*1.7*	*9.0*	*23.7*	*7,763*	*2.8*	*15.5*	*12.0*
Russia	*2,549*	*0.9*	*0.4*	*61.0*	*8,328*	*3.0*	*88.9*	*10.3*
United States	*28,593*	*10.1*	*9.5*	*15.4*	*14,453*	*5.2*	*16.8*	*13.1*
Total	**281,893**	**100.0**	**5.0**	**10.6**	**278,651**	**100.0**	**13.7**	**9.1**

Source: Istat. The indices have base 1995=100.

The particularly large increase in imports from non-EU countries (11.6 per cent) reflects the growing penetration of the Italian market by producers from developing countries: imports from China, equal to 2.8 per cent of the total, rose by 29.2 per cent in volume terms; the largest increases were in electrical and precision equipment, followed by textiles and clothing. The volume of imports of mineral fuels was 5.4 per cent higher in the first half of the year than in the same period of 1999, with imports of natural gas rising by 15 per cent and substituting those of petroleum, which rose by 2.5 per cent (Table 8). In the first half of this year as a whole oil accounted for almost two-thirds of the value of imports of mineral fuels and gas for one-third.

The contraction in Italy's surplus on services in the first eight months of the year (from 3.6 to 1.7 trillion lire) reflected the fact that expenditure increased more rapidly than receipts, which themselves rose substantially. On the receipts side, the growth of 9.8 per cent in earnings from tourism in the first seven months was largely attributable to an increase in visitors from the United States, the United Kingdom and other high-income countries outside the euro area.

Table 8

Italian imports of mineral fuels

(billions of lire and percentage changes 2000 H1/1999 H1)

	Value 2000 H1	Percentage changes		
		Average unit values	Volume	Value
Mineral fuels	**23,363**	**110.2**	**5.4**	**123.3**
coal	*759*	*12.9*	*1.5*	*14.4*
petroleum	*15,646*	*138.4*	*2.5*	*146.8*
natural gas	*6,899*	*76.4*	*15.2*	*103.3*
Memorandum item:				
Refined petroleum products	4,674	98.8	5.2	111.0

Source: Based on Istat data.

The decline in the surplus on capital account can be attributed to a reduction in transfers from the EU.

There was an aggregate deficit of 2.3 trillion lire on the current and capital accounts of Italy's balance of payments in the first eight months of the year, corresponding to net inflows of 2.8 trillion lire of foreign capital, compared with net outflows of 18.5 trillion in the same period of last year (Table 6). The errors and omissions item was therefore practically nil.

Italian direct investment abroad generated outflows of 10.2 trillion lire in the first eight months, compared with 15.2 trillion a year earlier; foreign direct investment in Italy also diminished, from 23.1 to 7.1 trillion lire (Table 9). Outward portfolio investment declined markedly over the same period, after having shown large and continuous increases in recent years; within the item, the proportion of transactions by households increased (from 12 per cent of the total in the first six months of 1999 to 44 per cent in the same period of 2000), while that of operations by financial enterprises declined from 63 to 39 per cent of the total. Inward portfolio investment declined. The breakdown according to type of security, which is available for the first six months of the year, shows that non-residents continued to make net purchases of Italian government securities, although there was a decline in those of short-term instruments (Table 10). Non-residents continued to

Table 9

The financial account of Italy's balance of payments
(billions of lire and millions of euros)

	1999				2000	
	January-August		Year		January-August	
	lire	euros	lire	euros	lire	euros
Direct investment	**7,879**	**4,069**	**6**	**3**	**–3,059**	**–1,580**
Abroad (1)	–15,222	–7,862	–12,260	–6,332	–10,208	–5,272
In Italy (1)	23,100	11,930	12,266	6,335	7,149	3,692
Portfolio investment	**–39,238**	**–20,265**	**–45,763**	**–23,635**	**–17,072**	**–8,817**
Assets	–170,279	–87,942	–235,243	–121,493	–126,206	–65,180
Liabilities	131,041	67,677	189,480	97,858	109,134	56,363
Other investment	**–1,135**	**–586**	**10,446**	**5,395**	**24,655**	**12,733**
Assets	–42,726	–22,066	–59,103	–30,524	–11,329	–5,851
Liabilities	41,591	21,480	69,549	35,919	35,984	18,584
Financial derivatives	**587**	**303**	**3,419**	**1,766**	**4,211**	**2,175**
Reserve assets	**13,416**	**6,929**	**13,746**	**7,099**	**–5,921**	**–3,058**
Total	**–18,491**	**–9,550**	**–18,146**	**–9,372**	**2,813**	**1,453**

(1) In the cumulative data on direct investment in the period from January to August 1999 14,000 billion lire has been transferred from "Abroad" to "In Italy", leaving the net figure unchanged. This amount reflects the acquisition of Omnitel and Infostrada by a foreign company. As the operation was recorded in the statistics as a reduction in Italian investment abroad rather than an increase in investment in Italy, the reallocation respects the economic connotations of the operation.

Table 10

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

	1997 lire	1998 lire	1999 Year lire	1999 Year euros	1999 H1 lire	1999 H1 euros	2000 H1 lire	2000 H1 euros
Government securities	102,880	151,856	178,542	92,209	113,965	58,858	114,300	59,031
BOTs	7,947	52,909	41,839	21,608	35,698	18,437	−2,138	−1,104
BTPs	83,907	23,712	124,048	64,066	63,595	32,844	90,949	46,971
CTEs	−914	−3,980	−9,151	−4,726	−6,134	−3,168	−1,253	−647
CCTs	6,329	52,539	−13,015	−6,722	−14,286	−7,378	10,349	5,345
CTOs	−5,237	−2,967	–	–	–	–	–	–
CTZs	7,803	22,239	36,183	18,687	29,276	15,120	−8,736	−4,512
Republic of Italy issues	3,485	4,759	−1,762	−910	4,468	2,308	23,265	12,015
Other government securities	−441	2,644	399	206	1,346	695	1,863	962
Bonds	195	1,612	9,568	4,941	−769	−397	912	471
Bank securities	8,394	10,576	16,455	8,498	13,033	6,731	−25	−13
Equity securities	16,028	24,881	−16,103	−8,316	−27,317	−14,107	−23,047	−11,903
Other securities	801	−398	1,018	526	285	147	779	402
Total	**128,298**	**188,526**	**189,480**	**97,858**	**99,198**	**51,231**	**92,920**	**47,989**

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

dispose of Italian equities; two-thirds of the sales related to shares issued by private sector non-financial companies and around one-third to those of financial enterprises. Purchases of bank bonds decreased substantially.

There was a net inflow of 24.7 trillion lire on account of other investment in the first eight months of the year, almost all of it attributable to the banking sector, compared with a net outflow of 1.1 trillion in the same period of 1999.

The labour market

Employment

In the first half of 2000 employment in the euro area continued to expand rapidly; on the basis of national accounts data, the increase can be estimated at 1.1 per cent for the half and 2.1 per cent compared with the first half of 1999.

In Italy, the recovery in economic activity and the use of flexible forms of employment fostered employment growth at a swifter pace of 1.2 per cent in the first half (Figure 16), one of the highest rates since the eighties. Nor was the increase in the demand for labour limited to part-time or temporary employment; a significant number of the new jobs were traditional full-time, permanent positions.

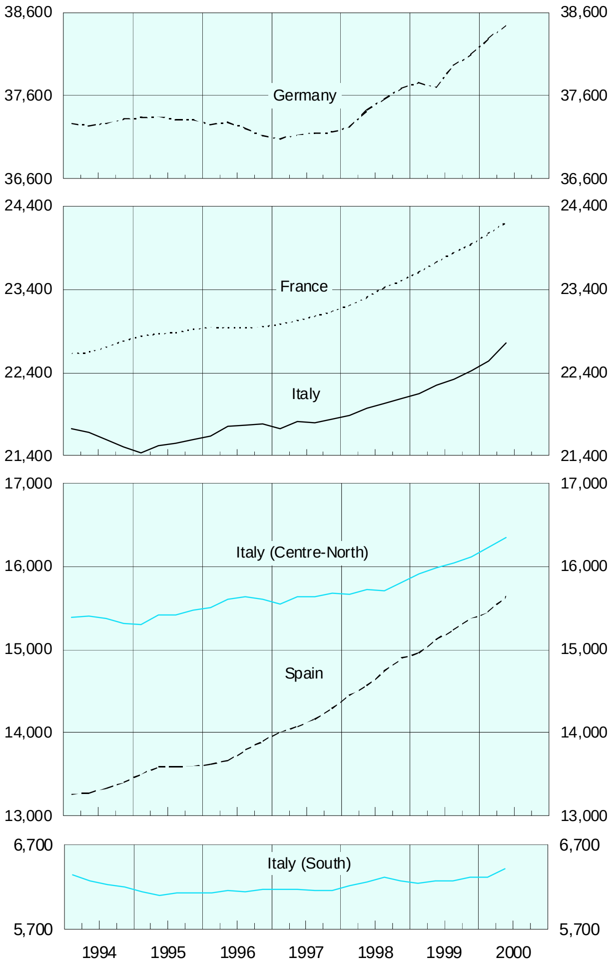
In Germany too, according to data revised using a new methodology, employment growth picked up in the first half of 2000 to show seasonally adjusted growth of 0.9 per cent by comparison with the second half of 1999, and given the sharp increase in the number of unfilled positions the expansion presumably continued during the summer. The revision of the German data, necessary in order to incorporate new information on marginal part-time workers, increased the 1999 employment level by 1.8 million persons, a change of 5.1 per cent. The new series significantly attenuates the fall in employment registered between 1991 and 1999.

In France employment accelerated in the first half, rising by 1.0 per cent. The 2.0 per cent increase year on year, one of the largest since the fifties, appears to have consisted mainly in payroll employment, including a large number of permanent jobs. The number of temporary and fixed-term employees is also estimated to have risen sharply.

In Spain the rapid growth in employment under way since 1995 did not abate. In the first half an exceptional increase in labour demand in construction and services led to overall growth of 1.6 per cent (and 3.4 per cent compared with the first half of 1999). Spain's employment rate is now in line with Italy's.

Figure 16

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



Sources: For Italy, Istat, *Conti nazionali* (ESA95) and regional estimates; for the other countries, Eurostat, National Accounts (ESA95); for France, data partly estimated.

In Italy the quarterly labour force survey in July found employment on a seasonally adjusted basis was

253,000 (1.2 per cent) higher than in January, a large jump by historical standards. The increase since April amounted to 112,000 (0.5 per cent). Twelve-month growth came to 428,000 persons (2.0 per cent), bringing total employment to 21,322,000, or 75,000 fewer than the July 1991 peak (Table 11).

Table 11

Labour force status of the Italian population

(*thousands of persons*)

	1993	1999	July 1999	July 2000
Employees	**14,611**	**14,823**	**14,972**	**15,286**
open-ended contracts	13,712	13,413	13,492	13,707
full-time	13,236	12,643	12,733	12,844
part-time	476	770	759	863
fixed-term contracts	899	1,410	1,480	1,579
full-time	613	962	1,011	1,075
part-time	285	448	469	504
Self-employed	**5,873**	**5,869**	**5,921**	**6,036**
full-time	5,504	5,451	5,508	5,600
part-time	369	418	413	436
Total persons in employment	**20,484**	**20,692**	**20,893**	**21,322**
Unemployed	**2,299**	**2,669**	**2,597**	**2,404**
Labour force	**22,783**	**23,361**	**23,490**	**23,726**
Non-labour-force	**33,659**	**33,717**	**33,575**	**33,485**
non-working age (under 15)	8,913	8,319	8,304	8,266
working age (15-64)	16,378	15,788	15,655	15,397
not actively seeking work but would be immediately available	*1,184*	*1,203*	*1,215*	*1,226*
non-working age (65 and over)	8,368	9,610	9,616	9,822
Population	**56,442**	**57,078**	**57,065**	**57,211**

Source: Istat, *Indagine sulle forze di lavoro.*

The employment rate for the population aged 15-64 rose from 53.0 to 54.1 per cent in the twelve months to July, but remains far below the euro-area average (60.1 per cent in the spring of 1999) and in particular the rates in France (60.4 per cent) and Germany (64.8 per cent).

As in the past, most of the increase was accounted for by women's employment (up by 245,000, or 3.2 per cent, on July 1999). Women's share of total employment thus rose to 36.9 per cent, a gain of nearly half a percentage point in twelve months. Nonetheless there remains a substantial gap vis-à-vis the other euro-area countries, where the share was 41.7 per cent in the spring of 1999.

After declining for four consecutive surveys the twelve-month variation in self-employment turned positive again in July, with growth of 115,000 (1.9 per cent); most of the increase was accounted for by entrepreneurs and professionals.

Payroll employment rose by 313,000 (2.1 per cent). A third of the overall increase came from workers who took permanent full-time jobs, expanding that category by 111,000 or 0.9 per cent. The number of workers with part-time or fixed-term jobs rose by 202,000 (9.1 per cent).

Table 12

Fixed-term employees' share of total payroll employment in Italy

(percentages)

	1993 average	1999 average	1999	2000
Men	5.0	8.2	8.5	8.9
Women	8.2	11.5	12.1	12.4
Aged 15-34	9.5	15.3	15.9	15.6
Over 34	3.6	5.7	5.8	6.8
Agriculture	31.7	38.1	39.5	39.5
Industry	3.0	5.9	6.2	6.6
Construction	9.9	13.1	13.4	12.7
Services	5.5	9.4	9.8	10.3
of which: hotels and restaurants	*8.1*	*12.1*	*14.9*	*14.6*
Total	**6.2**	**9.5**	**9.9**	**10.3**

Source: Istat, *Indagine sulle forze di lavoro.*

The growth in fixed-term hiring, which was quite rapid between the end of 1996 and mid-1999, has been slowing down since the fourth quarter of last year. In July such positions accounted for 10.3 per cent of overall payroll employment, just 0.4 points more than in July 1999 (Table 12). Fixed-term hiring diminished, in particular, for young workers and in the construction industry, retail and wholesale trade and hotels and restaurants, mainly in the North-East. Fixed-term contracts are still generally less common in Italy than in the rest of Europe (13.2 per cent in the EU in the spring of 1999).

The slower shift towards fixed-term employment could reflect labour shortages in some parts of the country, inducing firms to compete for the few workers available by offering more stable jobs.

Table 13

Part-time employees' share of total payroll employment in Italy

(percentages)

	1993 average	1999 average	1999 July	2000 July
Men	2.1	3.4	3.4	3.6
Women	10.6	15.7	15.6	16.9
Aged 15-34	6.1	9.9	9.7	10.4
Over 34	4.5	7.1	7.2	8.0
Agriculture	18.4	16.3	16.5	18.9
Industry	2.8	4.1	4.0	4.6
Construction	3.3	4.5	4.6	4.2
Services	5.8	10.1	10.2	10.9
of which:				
hotels and restaurants	*8.5*	*14.0*	*14.4*	*15.5*
Total	**5.2**	**8.2**	**8.2**	**8.9**

Source: Istat, *Indagine sulle forze di lavoro.*

By contrast, the growth of part-time work, which is more stable than fixed-term jobs and often responds to the needs of the workers, continued during the last year. Between July 1999 and July 2000 permanent part-time positions increased by 13.7 per cent in number and from 8.2 to 8.9 per cent as a share of total payroll employment (Table 13). The sharpest increases in the share of part-time employment were recorded by women (from 15.6 to 16.9 per cent), by adult workers (from 7.2 to 8.0 per cent), and by farm workers. Despite the large gain, part-time employment remains about half as common as in the rest of Europe (17.7 per cent in the spring of 1999).

Sectoral and regional developments in Italy

The growth of employment in the first half was especially sharp in services (248,000 jobs, or 1.9 per cent, on a seasonally adjusted basis), accounting for virtually all the overall growth. Indicators for the third quarter are mixed. In June about one third of large retail chains reported their intention to expand staff, according to the ISAE business opinion survey. The forecasts of smaller commercial enterprises were more moderate but still positive. The large service firms, in a special Istat survey, reported a pronounced decline in the number of hours worked per employee beginning in the spring; the incidence of overtime on total hours diminished.

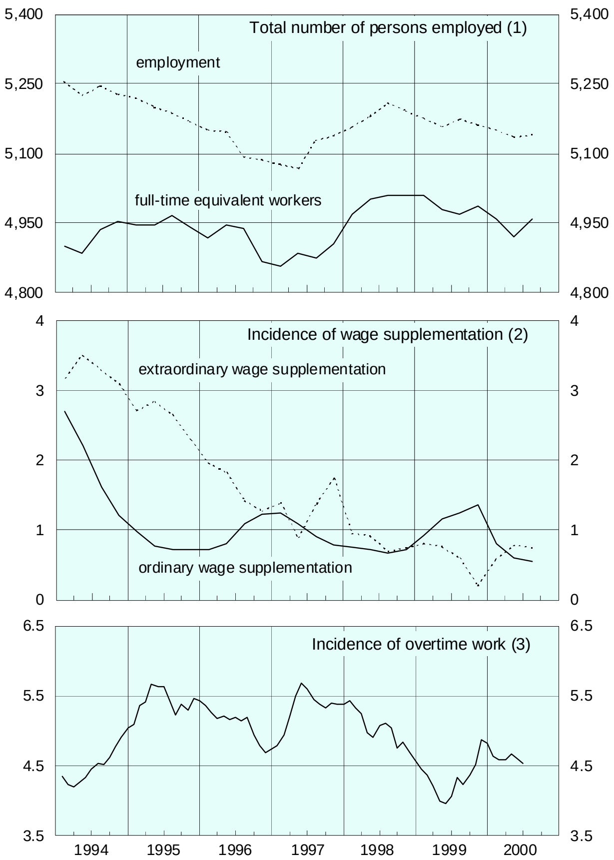
Employment in the construction industry rose for the sixth consecutive quarter; there was a gain of 24,000 jobs (1.5 per cent) between January and July. The expected demand for labour in the industry remains strong according to the ISAE survey in June.

Industry excluding construction recorded a slight further reduction in employment (11,000 jobs, or 0.2 per cent) between January and July (Figure 17). The decline, under way with some interruptions since October 1998, halted in the spring, and there was an employment gain of 5,000 (0.1 per cent) between April and July. However, industrial firms remain less optimistic than those in other branches. According to the ISAE, since mid-1999 a growing number of companies have not carried out the staff expansions they had planned. In industrial firms with more than 500 employees, of which Istat makes a special survey, the increase in hours per worker (net of wage supplementation) came to a halt and the incidence of overtime fell in May after rising significantly in the second half of 1999 (Figure 17). The Bank of Italy's survey of industrial firms in September found forecasts of employment at the end of the year just slightly above the level of December 1999.

On the other hand, many industrial firms appear to be having trouble filling vacant positions, especially in the Centre and North. The scarcity of personnel with the required skills appears to be an impediment to the expansion of activity in other sectors as well.

Figure 17

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 equivalent 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.

The Sole 24 Ore-Bank of Italy survey (which focuses mainly on inflation but occasionally touches on other matters) in June found that lack of personnel is common and constitutes a curb on output growth. The recruitment difficulty increases as skill requirements rise. The problem appears to be more severe now than in previous cyclical upturns; it is less serious in the South.

The growth in employment between January and July involved all parts of the country. In the South it came to 1.1 per cent (67,000 persons) and was concentrated in the first quarter, when employment regained the level reached in January 1994; there was no change between April and July. The increase involved construction and all the service segments except banking and insurance.

In the North the employment growth under way since October 1998 accelerated in the first six months of the year with a gain of 1.0 per cent (113,000 persons); between April and July the increase amounted to 0.6 per cent (69,000 jobs).

In the Centre employment growth was appreciably faster than in Italy as a whole (a gain of 71,000 jobs, or 1.7 per cent, in the half; 40,000, or 0.9 per cent, in the second quarter alone).

Unemployment and the labour supply

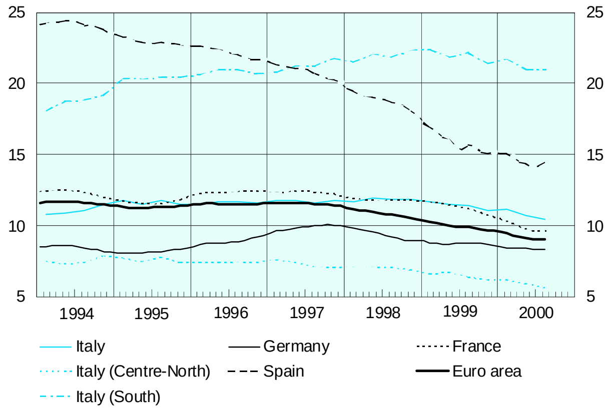
In the largest euro-area countries the decline in unemployment continued until the summer and came to a halt in August, when the seasonally adjusted unemployment rate was estimated at 9.0 per cent for the area as a whole. In Germany and France the rates held at their June levels of 8.3 and 9.6 per cent respectively. In Spain there was a slight rise from 14.1 per cent in June to 14.5 per cent in August (Figure 18).

In Italy the seasonally adjusted rate was 10.5 per cent in July, 0.6 points lower than in January and 0.2 less than in April. For the first time since 1995 it was below 11 per cent. The number of job-seekers decreased by 136,000 (5.2 per cent), most notably among workers who had lost jobs.

In the North unemployment declined further by 0.4 percentage points to 4.7 per cent. In the Centre it fell by a point to 8.0 per cent. The downward trend progressively affected the South as well, where the rate came down by 0.7 points to 21.0 per cent, the lowest level since 1997.

Figure 18

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



Sources: For Italy, quarterly Istat data; for the other countries, monthly Eurostat data.

Wages, labour costs and industrial relations in Italy, Germany and France

Italy – Contractual earnings in the first eight months were 2.0 per cent higher than a year earlier; in real terms they fell marginally (–0.4 per cent). Contract renewals concluded with increments on the order of 1.4 to 1.6 per cent over the previous year's average. Thus, despite the acceleration in consumer prices, the moderation that marked the unions' wage bargaining platforms in 1999 continued, as was most recently confirmed by the textile industry agreement concluded in March.

Actual per capita earnings, as estimated by the national accounts, were 2.6 per cent higher in the first half of 2000 than a year earlier (Table 14), outpacing inflation by 0.2 points. In manufacturing industry the increase was 2.8 per cent; this was less than that of the previous half-year (3.2 per cent) but appreciably more than contractual raises and not entirely explained by company-level bargaining. In private services the national accounts record moderate de facto wage growth (1.9 per cent), but with a slight acceleration compared with the rate of increase in the second half of 1999 and the year-long average (1.0 and 1.5 per cent respectively). In this case the increase was broadly in line with contractual wages (Table 14 and Figure 19).

Table 14

Labour costs and productivity in Italy
(percentage changes on year-earlier period)

	1999 average	1999 H1	1999 H2	2000 H1
	Manufacturing industry			
Productivity (1)	1.3	–0.9	3.6	6.2
Per capita earnings (2)	3.1	3.1	3.2	2.8
Per capita labour costs (3) . . .	2.4	1.9	3.0	3.4
Unit labour costs (4)	1.1	2.8	–0.5	–2.6
	Private services			
Productivity (1)	–1.8	–1.8	–1.7	–0.4
Per capita earnings (2)	1.5	1.9	1.0	1.9
Per capita labour costs (3)	0.9	1.1	0.8	2.4
Unit labour costs (4)	2.8	3.0	2.5	2.9
	Total economy			
Productivity (1)	0.3	–0.2	0.8	1.8
Per capita earnings (2)	2.3	2.4	2.1	2.6
Per capita labour costs (3)	1.9	1.8	2.0	2.9
Unit labour costs (4)	1.6	2.1	1.2	1.1

Source: Istat, *Conti nazionali* (ESA95).
(1) Value added at "base prices" and at 1995 prices per standard labour unit. – (2) Earnings per standard employee labour unit. – (3) Employee labour income per standard employee labour unit. – (4) Employee labour income per standard unit of output.

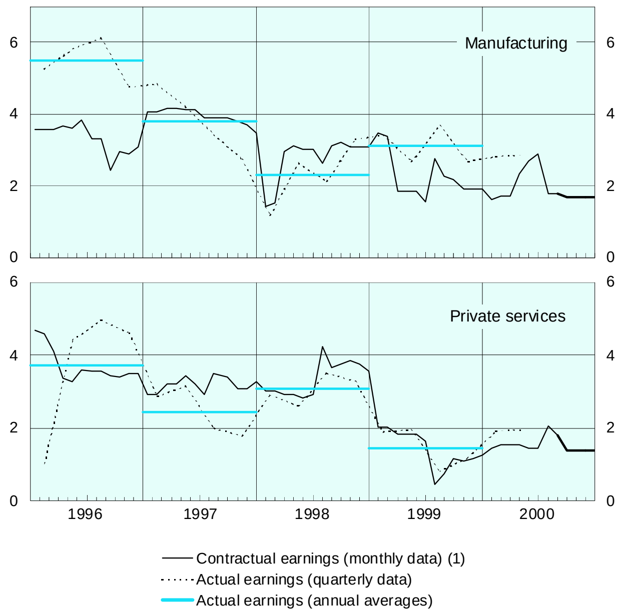
The slow rise in earnings, which has been reflected in labour costs, and the growth of productivity have curbed unit labour costs, which were just 1.1 per cent higher in the first half of 2000 than a year earlier (Table 14) but still rose more than in France (0.3 per cent) and above all Germany (–0.6 per cent). In manufacturing, where the productivity gain was sharpest, unit labour costs fell by 2.6 per cent. In private services the trend was much less favourable, with an increase of 2.9 per cent due largely to feeble productivity growth.

The Italian labour force expanded by 117,000 (0.5 per cent) between January and July; the participation rate for the working-age population (15-64) rose from 59.1 to 60.3 per cent.

Figure 19

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) From September 2000, estimates.

On 30 June the Economic and Financial Planning Document made an upward revision of the target inflation rates for 2000 and 2001, which are the benchmark for national industry-wide wage bargaining. Originally put at 1.2 per cent for this year and 1.1 for the next, they were raised to 2.3 and 1.7 per cent. The target rate for 2002 to 2004 is 1.2 per cent. The increase will not have significant effects in 2000 because most of the contracts now in effect run at least to year's end. The outlook for next year is more uncertain. On the basis of the agreements already signed and in force as of 1 January 2001, contractual wages should increase by about one percentage point.

At the end of this year the wage agreements covering the mechanical engineering industry and wholesale and retail trade expire. The initial demands of the trade unions are for wage increases in line with the target inflation rates and recouping for 2000 an amount equal to the revision of the target (1.1 per cent).

Germany – In the first six months of the year wage agreements were renewed in many important branches of industry (chemicals, mining, engineering, steel, publishing), in construction and in services (banking, hotels and restaurants, retail and wholesale trade, the post office and public services) covering a total of 12.5 million workers (about 40 per cent of all employees and 57 per cent of those covered by collective bargaining). Initial wage demands for increases of between 4 and 5.5 per cent in 2000 were settled with raises of between 2 and 3 per cent. Many of the contracts run for two years instead of the one-year term that is traditional in German industrial relations; the raises for 2001 range from 2 to 2.5 per cent.

For the economy as a whole the average increase in contractual wages was 2.3 per cent in 2000, 0.7 points less than in 1999. For the first time since reunification, this bargaining round brought larger gains in the western than in the eastern regions, where the average raise was held to 2.0 per cent by a wage freeze in the construction industry.

The slow rise in earnings was reflected in labour costs. According to national accounts data, these were 1.1 per cent higher in the first half of 2000 than a year earlier. Given rising productivity (a gain of 1.7 per cent in the first half), unit labour costs fell by 0.6 per cent.

Under the approach agreed by business and labour in the January bargaining agreement, productivity gains are to be used essentially to expand employment rather than to raise wages. The two-year duration of many agreements helps lessen the risk that wages will accelerate in the near future in response to the momentary pick-up in inflation.

France – The main issue dealt with by the social partners in the first part of the year was reform of the industrial relations system. In the intention of the employers, shared by only some of the trade unions, the new model should more closely resemble those in the rest of Europe, with a reduced state role in regulating labour relations and correspondingly greater independence of the social partners. The agreements for 2000 confirmed wage restraint and should lead to per capita earnings increases on the order of 2 per cent. The modest size of the raises – notwithstanding the economic expansion, a significant increase in the demand for labour and accelerating price inflation – is due mainly to the gradual spread of company-level agreements linking shorter hours to wage moderation clauses. A contributory factor was the small rise in the minimum wage (earned by 13 per cent of workers in 1999), which the government raised by just 1.2 per cent between July 1999 and June 2000. The decision to enact only the legally obligatory minimum increase was dictated by the need not to saddle firms with excessive wage costs in addition to those connected with the shortening of the work week to 35 hours, which went into effect on 1 January 2000 (and will be extended to firms with fewer than 20 workers in 2002).

These developments moderated the rise in actual per capita earnings, which according to the national accounts were 1.4 per cent higher in the first half than in the same period of 1999. Hourly labour costs were 5.2 per cent higher in March than a year earlier, owing to the reduction in per capita hours worked. Unit labour costs held stable thanks to a productivity gain of 0.8 per cent in the first half compared with the first half of 1999 and a reduction in the tax burden on employers.

These conditions could become less favourable in view of the government’s decision in July to raise the minimum wage by 3.2 per cent, which could trigger larger wage demands than in the recent past.

Prices and costs

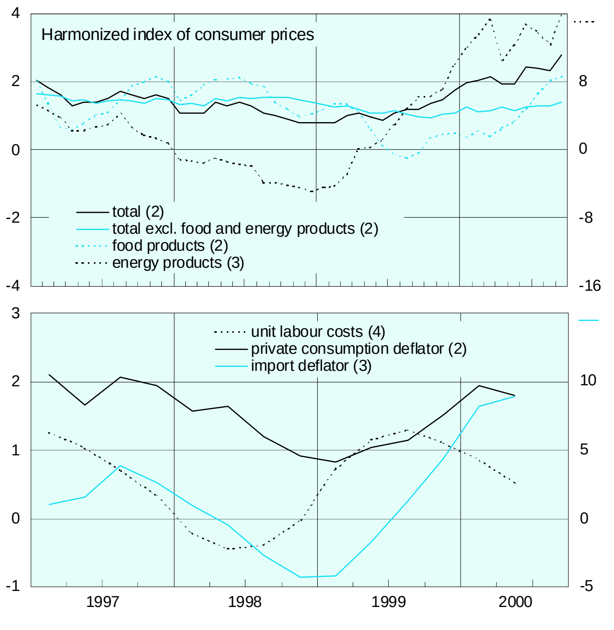
An overview

The acceleration of prices in the euro area that began in the spring of 1999 continued this year (Figure 20). In the third quarter the twelve-month rate of increase in the harmonized index of consumer prices passed 2 per cent in almost all the countries to stand at an average of 2.5 per cent, compared with 1.0 per cent in the second quarter of last year. In Italy consumer price inflation rose from 1.4 to 2.6 per cent over the same period.

Figure 20

Inflation indicators in the euro area

(percentage changes on year-earlier period) (1)



Source: Based on Eurostat data.

(1) Monthly data for the harmonized indices, quarterly data for the other variables. – (2) Left-hand scale. – (3) Right-hand scale. – (4) For the entire economy. Moving averages of four quarters ending in the reference period. Left-hand scale.

The worsening of inflation was caused chiefly by the rise in the prices of oil and some raw materials. The impact of these increases on domestic prices was amplified by the depreciation of the euro against the dollar, from an average exchange rate of $1.16 in January 1999 to one of 87 cents last September, a decline of 25 per cent.

The domestic components of costs dampened inflationary pressures in the area. The twelve-month rate of increase in unit labour costs in the economy as a whole was still below 1 per cent at the beginning of the year, broadly in line with that recorded in the second half of 1999; it continued to benefit from wage restraint and substantial productivity gains in the industrial sector of the main countries in the area.

In Italy the inflation differentials vis-à-vis France and Germany in terms of the twelve-month rate of increase in the general consumer price index, which had been respectively 1.1 and 0.9 percentage points in the second quarter of 1999, narrowed to 0.6 and 0.5 points in the third quarter of this year. This reflected the fact that the more volatile components of the index (energy products and, to a much lesser extent, fresh foods), made a smaller contribution to inflation in Italy. Energy prices rose substantially and by similar amounts in all three countries, but their impact on the harmonized general index in Italy was dampened by their lower weight in the basket of household consumption than in France or Germany. Moreover, as in the past, the final consumer prices of fuel alone were less responsive in Italy to changes in crude oil prices. The prices of fresh foods also accelerated less in Italy than in the other countries. If these items and processed food products are excluded from the index, giving a clearer picture of underlying inflation, the disparity in rates of consumer price increase can be seen to have narrowed only slightly between the second quarter of 1999 and the third quarter of this year vis-à-vis Germany (from 1.4 to 1.2 percentage points) and widened vis-à-vis France (from 1.2 to 1.7 points).

Market expectations are that price pressures will ease in the short term, with average inflation settling at 2 per cent next year both in the area as a whole and in Italy. These forecasts rest mainly on the assumptions that oil prices will gradually fall and that the euro will recover against the dollar as the growth disparity between the two economic areas decreases. Wage moderation in the main European countries is expected to last into the coming months and to continue to have a stabilizing effect on prices in the area in the short term.

Longer-term inflation expectations are also consistent with the definition of price stability adopted by the Eurosystem.

Consumer prices

The acceleration of the harmonized consumer price index in the euro area (Figure 21) was due not only to the sharp increase in energy prices (16.0 per cent in the twelve months to September; Table a14) but also to the rise in the prices of fresh foods (3.4 per cent, compared with a decline of 1.1 per cent in September 1999), which affected all the countries and the principal products.

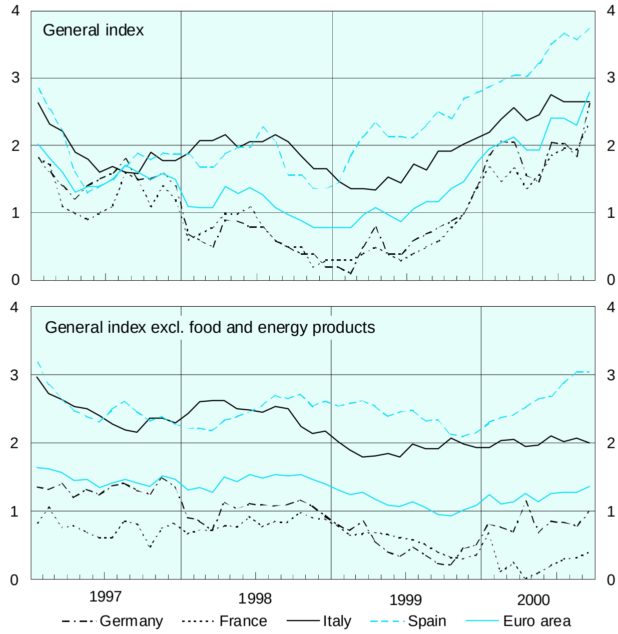
Underlying inflation in the area – measured as the twelve-month change in the index excluding food and energy products – rose slightly to 1.4 per cent in September, compared with 1.0 per cent a year earlier. In Italy underlying inflation remained around 2 per cent in the same period; in Spain it rose gradually to 3 per cent and in France and Germany remained at much lower levels (Table 15).

In Italy the acceleration in consumer prices that began in the spring of 1999 gathered momentum at the beginning of this year; the seasonally adjusted, annualized three-month rise in the general consumer price index has been around 3 per cent since March (Figure 22). The twelve-month changes rose from 1.4 per cent in the second quarter of 1999 to 2.6 per cent this September. The monthly rates were only moderately affected by some of the Government's measures to curb the acceleration in inflation: the one-year freeze on third party car insurance premiums in April and the gradual reduction in excise taxes on oil products since the end of last year. Provisional data for October indicate that inflation in Italy has remained stable at 2.6 per cent.

Figure 21

Harmonized indices of consumer prices in the main euro-area countries

(percentage changes on year-earlier period)

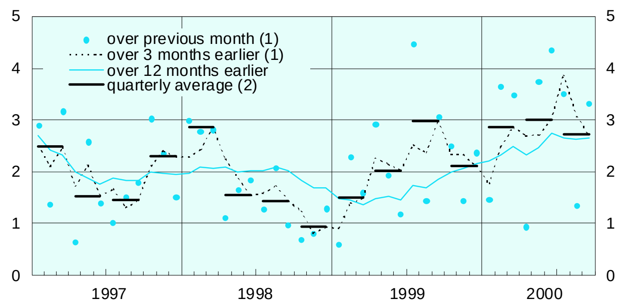


Source: Based on Eurostat data.

Figure 22

Italy: general consumer price index

(percentage changes)



Source: Based on Istat data.

(1) Seasonally adjusted and annualized. – (2) Average of seasonally adjusted and annualized monthly changes in the reference quarter.

Table 15

Harmonized consumer price indices for September 2000 in the euro-area countries
(percentage changes on year-earlier period)

	Non-food and non-energy products	Services	Total excl. food and energy products	Total excl. fresh food and energy products (1)	Food products	Energy products	General index
Germany	0.3	1.5	1.0	0.9	0.7	17.3	2.6
France	0.2	0.5	0.4	0.7	3.3	15.0	2.3
Italy	1.8	2.2	2.0	1.9	1.9	12.6	2.6
Spain	2.2	3.7	3.0	2.6	3.3	10.8	3.7
Netherlands	1.2	1.6	1.3	1.4	2.1	17.8	2.9
Belgium	0.8	2.5	1.6	1.6	2.1	22.3	3.9
Austria	–0.3	2.0	1.0	1.0	2.5	13.7	2.2
Finland	0.4	4.0	2.4	2.3	2.1	13.2	3.4
Portugal	1.7	4.8	3.5	3.1	2.7	7.9	3.6
Ireland	0.7	5.7	4.0	4.9	6.7	12.6	5.5
Luxembourg	1.4	2.7	2.0	2.2	3.3	20.1	4.2
Euro area	0.8	1.8	1.4	1.4	2.1	16.0	2.8

Source: Eurostat.
(1) Indicator of underlying inflation used by the ECB.

The twelve-month increase in the index excluding food and energy products and products with regulated prices rose from a low of 1.7 per cent in the second quarter of 1999 to 2.0 per cent in September (Table a12); the acceleration was comparable for both goods and services (0.4 and 0.3 points respectively). Uncertainty surrounding the duration of the recovery in consumption may have dissuaded retailers from passing on the higher cost of imported products to final prices more swiftly.

The twelve-month rate of increase in the prices of regulated goods and services accelerated from a mere 0.3 per cent in the second quarter of 1999 to 3.1 per cent in September, owing to the sharp increase in the energy component (gas and electricity), the variable part of which is adjusted every two months, mainly to reflect changes in the world prices of oil products. Gas and electricity prices will rise further later in the year, but should fall equally rapidly in 2001 if oil prices decline in line with the expectations expressed in oil futures prices. Increases in other public utility charges, in contrast, were below those in the general index, as they have been for two years.

Table 16

Main euro-area countries:
harmonized consumer price index
in selected service sectors
(percentage changes on year-earlier period) (1)

	Germany	France	Italy	Spain
	Deregulated sectors (2)			
Percentage weights in 1999	*(4.9)*	*(4.6)*	*(3.9)*	*(3.2)*
September 1999	–1.4	–2.1	–1.9	0.1
September 2000	–5.4	–3.2	–0.5	–4.0
	Hotels			
Percentage weights in 1999	*(0.9)*	*(1.6)*	*(2.6)*	*(0.6)*
September 1999	0.8	2.8	4.4	6.5
September 2000	1.1	3.2	5.2	10.1
	Insurance (3)			
Percentage weights in 1999	*(1.1)*	*(1.2)*	*(0.6)*	*(0.4)*
September 1999	1.5	–1.7	15.4	6.5
September 2000	5.5	0.3	14.1	7.3

Source: Based on Eurostat data.
(1) Based on moving averages of twelve changes in the monthly indices ending in the month indicated. – (2) Electricity and telephones. – (3) Home, motor vehicle and health insurance.

Italy's underlying inflation differential vis-à-vis France and Germany remains considerable, at 1.7 and 1.2 percentage points respectively in the third quarter, close to the average for 1996 to 1999, which was about 1.5 points in both cases. The differential was attributable mainly to the wide disparity between the rates of increase of domestic costs, which was eliminated only last year. The consumer prices of services were affected by a number of specific factors. The sectors undergoing deregulation (electricity and telephone services) have so far made a smaller contribution to curbing inflation in Italy than in France or Germany (Table 16), partly on account of the delay in setting the process in motion in Italy. Insurance premiums, measured on the basis of the harmonized indices, rose by an average of 14.1 per cent in Italy in the twelve months ending in September, but by only 0.3 and 5.5 per cent respectively in France and Germany. In the same period the prices of hotels, which have a much higher weight in the basket of Italian households' consumption, rose by 5.2 per cent, compared with 3.2 and 1.1 per cent in France and Germany.

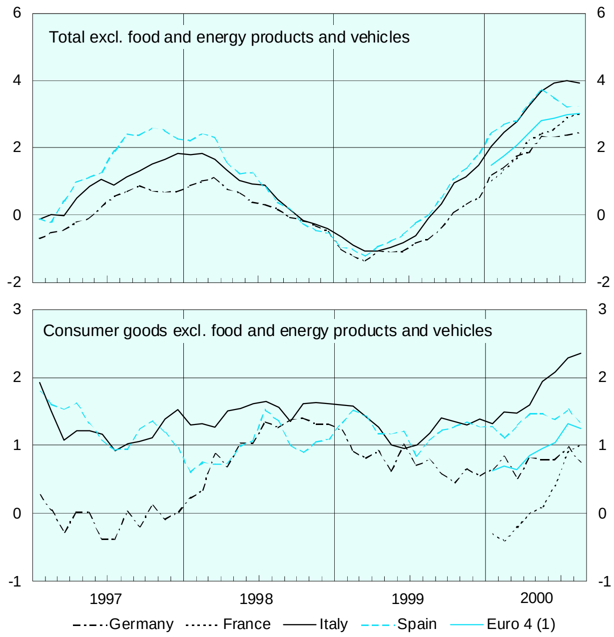
Producer prices and the prices of imports and exports

Producer prices in the four largest euro-area countries as a group continued to accelerate during the year: the twelve-month increase in the general index rose from a weighted average of 3.3 per cent in January to one of 5.0 per cent in August; in Italy it rose from 3.8 to 6.5 per cent (Tables a15 and a16).

The acceleration was mainly due to the steep and continuous increases in energy prices (which rose by an average of 18.6 per cent in the four countries in the twelve months to August) and, to a lesser extent, the prices of non-energy intermediate goods, which increased by 4.9 per cent over the same period, against 2.4 per cent in the twelve months to January. The latter have a high content of raw materials, the prices of which are linked to global demand and have risen appreciably since the beginning of last year. The general acceleration in the prices of intermediate products affected the underlying components of the index, so that in August the producer prices of non-food and non-energy products for final consumption (also excluding transport equipment, which is classified differently in the countries considered) were on average 1.3 per cent higher than a year earlier in the main euro-area countries, compared with an increase of 0.6 per cent in the twelve months to last January (Figure 23).

Figure 23

Producer prices in the main euro-area countries
(percentage changes on year-earlier period)



Sources: Based on Istat data and national statistics.

(1) Average, weighted on the basis of GDP, of the indices for Germany, France, Italy and Spain. The indices for France are available from January 1999 onwards.

The findings of the survey of industrial firms in the euro area conducted in August by the European Commission suggest that firms intend to continue raising prices. These intentions reflect not only the higher cost of inputs but also expectations that the level of orders will remain high, albeit increasing more slowly.

The easing of pressures in the markets for non-energy raw materials in recent months, which have an almost immediate impact on the producer prices of intermediate goods, could help to contain producer price inflation in the short term.

Table 17

Main euro-area countries: producer price indices in August 2000
(percentage changes on year-earlier period)

	Consumer goods excl. food and energy products and vehicles	Food products	Capital goods excl. vehicles	Vehicles	Intermediate goods excl. energy products and vehicles	Energy products	Total excl. food and energy products and vehicles	Overall total
Germany	0.8	1.4	0.3	0.3	4.4	10.2	2.4	3.5
France	1.0	2.3	0.9	−0.4	5.3	24.6	3.0	5.9
Italy	2.4	1.0	1.0	1.7	5.3	24.7	3.9	6.5
Spain	1.3	−0.4	2.2	0.8	5.1	19.2	3.2	5.1
Euro 4 (1)	1.3	1.3	0.8	0.5	4.9	18.6	3.0	5.0

Sources: Based on Eurostat data and national statistics.
(1) Average, weighted on the basis of GDP, of the indices for France, Germany, Italy and Spain.

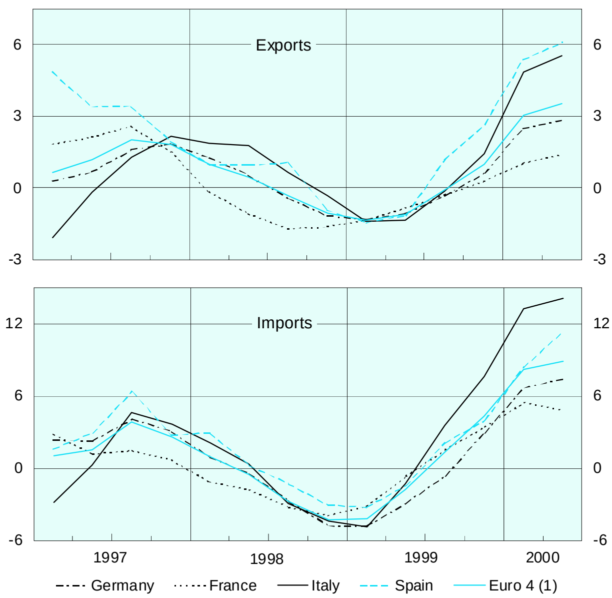
In Italy the twelve-month increase in the general index of producer prices accelerated by 2.7 percentage points between the beginning of the year and August, compared with 1.8 and 1.5 points respectively in France and Germany. Excluding food and energy products and transport equipment, the rise in producer price inflation in Italy over that period was the same as in France (about 2 percentage points) but higher than in Germany (1.2 points). The inflation differential between Italy and these two countries for final consumer goods alone was about 1.5 percentage points in August (Table 17), higher than at the beginning of the year and in line with the differential based on the corresponding consumer price aggregate.

On the basis of producer prices, Italy's competitive position vis-à-vis its main European trading partners thus deteriorated by a further 0.4 per cent between the end of 1999 and the second quarter of this year. Over the same period the depreciation of the euro led to gains in competitiveness in relation to all competitors in trade in manufactures of 2 percentage points for France and Italy, about half the figure for Germany.

Import prices continued to accelerate this year throughout the area (Figure 24). The twelve-month increase in the national accounts deflator for all imports rose to an average of 8.8 per cent for the four main countries in the second quarter, compared with 4.3 per cent in the last quarter of 1999. In Italy the increase in the deflator was much higher than in the other countries; in the second quarter the twelve-month rate was 14.1 per cent, compared with 4.8 per cent in France and 7.4 per cent in Germany. In these two countries the increase in average unit values of imports was much higher (12.5 per cent in France and 14.3 per cent in Germany in the second quarter), and comparable with that for Italy (14.4 per cent).

Figure 24

Main euro-area countries: export and import deflators
(percentage changes on year-earlier quarter)



Sources: Based on Istat and Eurostat data.
(1) Average, weighted on the basis of GDP, of deflators for Germany, France, Italy and Spain.

The area's export prices were sustained by the expansion in world trade and the depreciation of the euro. In the first six months the export deflator for the area increased at an average twelve-month rate of 3.3 per cent, compared with 0.4 per cent in the previous six months.

In Italy the export deflator in the first half-year was 5.2 per cent higher than twelve months earlier. The average unit value of exports rose by 5.1 per cent in the same period: by 3.5 per cent vis-à-vis EU partners and by 7.5 per cent vis-à-vis the rest of the world (Table a18) – less than the decline of 10.8 per cent in the effective nominal exchange rate in relation to these countries. In these markets Italian firms attempted to offset the erosion of price competitiveness vis-à-vis European competitors.

The depreciation of the euro and the substantial increases in oil prices are to blame for the worsening of Italy's terms of trade; measured in terms of the overall export and import deflators, the decline was about 8 per cent in the first half of this year compared with the same period of 1999.

Firms' costs and profit margins

The costs of euro-area firms were inflated by the sharp increases in oil prices, which in turn were amplified by the depreciation of the euro against the dollar. Detailed data on the composition of their costs are not available but available information suggests that domestic components had a dampening effect on upward pressures. Wage increases continued to be moderate in the first half-year in the main countries of the area: per capita compensation of employees in the whole economy, which had risen by 1.5 per cent in 1999 (by 1.9 per cent in Italy, see Table 18) showed the same rate of increase in the second quarter of this year in relation to the corresponding period of 1999

Table 18

Main euro-area countries: unit labour costs and their components
(percentage changes on year-earlier period) (1)

	Cost of labour per employee (2)		Labour productivity						Unit labour costs	
					of which:					
					value added (3)		employees (2)			
	1999	2000 Q2	1999	2000 Q2	1999	2000 Q2	1999	2000 Q2	1999	2000 Q2
					Industry excluding construction					
Germany	1.3	1.8	0.8	3.0	0.2	2.8	–0.7	–0.2	0.5	–1.2
France	2.2	1.4	2.4	3.6	2.3	3.8	–0.1	0.2	–0.2	–2.1
Italy	2.2	3.0	2.1	4.6	1.7	3.7	–0.4	–0.8	0.1	–1.5
Spain	2.4	2.3	–0.3	1.7	3.0	4.3	3.3	2.6	2.8	0.6
Euro 4 (4) ...	1.6	1.9	1.1	3.2	1.2	3.4	0.1	0.2	0.6	–1.2
					Services (5)					
Germany	1.3	0.8	0.4	0.7	2.6	3.2	2.2	2.5	0.8	0.1
France	1.5	1.3	0.0	0.0	2.7	2.8	2.7	2.8	1.5	1.3
Italy	1.6	2.0	–1.1	–0.4	0.9	1.7	2.0	2.1	2.8	2.5
Spain	2.8	3.7	0.0	0.1	3.5	3.4	3.5	3.3	2.8	3.6
Euro 4 (4) ...	1.5	1.4	–0.1	0.2	2.4	2.8	2.5	2.6	1.6	1.2
					Total economy					
Germany	1.1	1.0	0.7	1.4	1.7	2.8	1.1	1.4	0.4	–0.3
France	1.6	1.3	0.9	1.1	2.7	3.0	1.8	1.9	0.7	0.2
Italy	1.9	2.3	0.3	1.3	1.2	2.4	1.0	1.1	1.6	1.0
Spain	2.8	3.3	–0.2	0.3	3.4	3.7	3.6	3.4	2.9	3.0
Euro 4 (4) ...	1.5	1.5	0.3	1.0	2.0	2.9	1.7	1.9	1.1	0.5

Source: Based on Eurostat data.
(1) The figures for the second quarter of 2000 have been calculated as the increase over the year-earlier period in the moving average of four periods ending in the reference quarter. – (2) For Italy and Spain, standard labours units. – (3) At 1995 prices. – (4) Sum of the figures for France, Germany, Italy and Spain converted into a common currency using the fixed exchange rates against the euro. – (5) Comprising the following sectors (ESA95): "wholesale and retail trade, transport and communication services", "financial intermediation and real estate services" and "other services".

(calculated as a moving average for the four quarters ending in the reference quarter in order to attenuate the volatility of the quarterly data). Unit labour costs for the whole economy also benefited from an acceleration in productivity as the upturn gathered momentum; the twelve-month rise in the second quarter averaged 0.5 per cent in the main countries of the area and 1.0 per cent in Italy, compared with 1.1 and 1.6 per cent respectively in 1999.

A number of common differences between industry excluding construction and the service sectors are evident in all the main countries. Except in Spain, the industrial sector recorded further substantial productivity gains in the second quarter, thanks to the combination of an acceleration in activity and no change in employment. By contrast, in the service sector, where value added continued to grow at a similar pace to that recorded in industry (with the partial exception of Italy), the increase in employment was greater and productivity continued either to stagnate or, as in Germany, to register very modest gains.

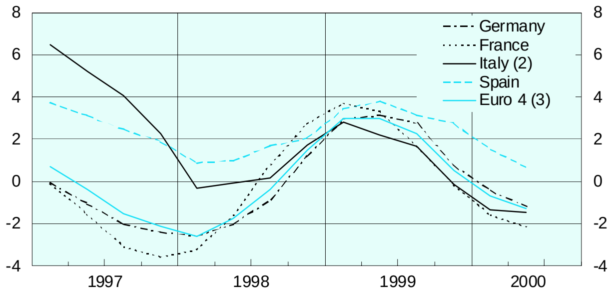
In Italian industry, where a sharp increase in value added was accompanied by a decline in employment, there were exceptionally large productivity gains of 6.5 and 4.3 per cent in the first two quarters respectively. Since the beginning of last year increases in unit labour costs in this sector have come into line with those in France and Germany, after accumulating a sharp negative differential in the second half of the nineties (Figure 25). This suggests that it may be also possible to reduce the differential in underlying producer price inflation between Italy and its main European partners.

In Italy there was a slight reduction in real contractual wages in the first half of this year. Labour contracts in some key sectors, such as the metal and engineering industry and distribution, are due for renewal in 2001; in Germany the renewals are scheduled for 2002. Available information suggests that there is little risk of an acceleration in wages.

In industry profits as a percentage of value added have risen in the main euro-area countries in recent months in connection with the strengthening of the expansion. In Italy the ratio remained broadly stable at the high values of the last two years and in line with those recorded in the cyclical peak of 1995. The capacity utilization rate, which has been rising in all the countries since mid-1999, has reached high levels compared with those of the nineties.

Figure 25

Main euro-area countries:
unit labour costs in industry excluding construction
(percentage changes on year-earlier quarter) (1)



Source: Based on Eurostat data.

(1) Based on the moving averages of four quarters ending in the reference quarter. – (2) The data for 1998 have been adjusted to take account of the introduction of IRAP. – (3) The components of unit labour costs have been obtained by summing the figures for Germany, France, Italy and Spain converted into a common currency using the fixed exchange rates against the euro.

Inflation expectations

According to the professional forecasters surveyed by *Consensus Forecasts*, inflation expectations for 2000 have gradually deteriorated since the beginning of the year as actual inflation has risen. In January consumer prices had been expected to rise by an average of 1.6 per cent in the area and 1.9 per cent in Italy; in October these figures were 2.2 and 2.5 per cent respectively (Table 19). The forecasters believe that the acceleration is largely temporary, and that consumer price inflation should fall back next year to 2 per cent in both Italy and the area as a whole. Based on these assessments, Italy's differentials vis-à-vis France and Germany should decline to 0.6 and 0.2 percentage points respectively in 2001, compared with 0.9 and 0.6 per cent this year.

The quarterly survey of inflation expectations for Italy and the euro area conducted jointly by the Bank of Italy and *Il Sole 24 Ore* in September among a

Table 19

Inflation expectations for 2000 and 2001 in the euro area ascertained by *Consensus Forecasts*
(percentage changes on previous year)

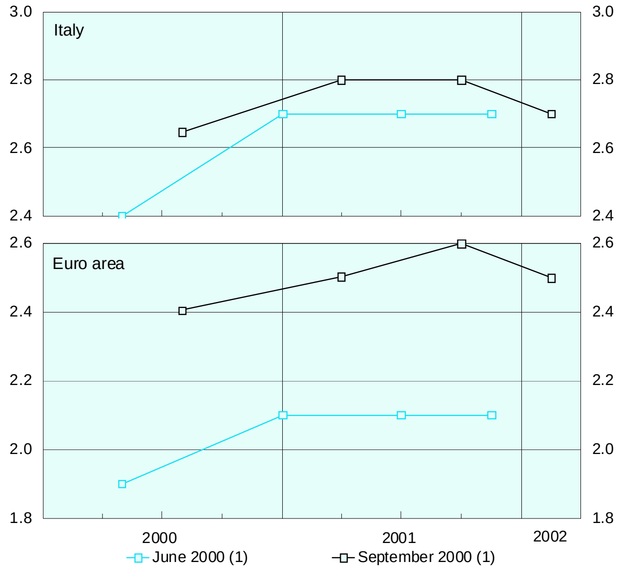
	January 2000		June 2000		October 2000	
	2000	2001	2000	2001	2000	2001
Germany	1.4	1.6	1.6	1.5	1.9	1.8
France	1.1	1.1	1.3	1.2	1.6	1.4
Italy	1.9	1.7	2.3	1.8	2.5	2.0
Spain	2.3	2.2	2.3	2.6	3.3	2.7
Euro area	1.6	1.6	1.7	1.8	2.2	2.0

Source: *Consensus Forecasts.*

sample of Italian firms confirmed the deterioration in expectations of recent months. Firms are forecasting consumer price inflation in September of next year at 2.6 per cent in the area as a whole and 2.8 per cent in Italy. The survey revealed a sharp increase in inflation expectations for the euro area compared with the June survey: 0.5 percentage points, against only 0.1 percentage points for Italy (Figure 26). The dispersion of firms' inflation expectations is wider than in earlier surveys, revealing greater uncertainty about price developments. In addition, about 60 per cent of firms reported having passed on to prices only some of the additional costs incurred in recent months owing to higher energy prices.

Figure 26

Inflation expectations at 6 and 12 months and longer in Italy and the euro area according to the Bank of Italy-*Il Sole 24 Ore* survey
(percentage changes on year-earlier period)

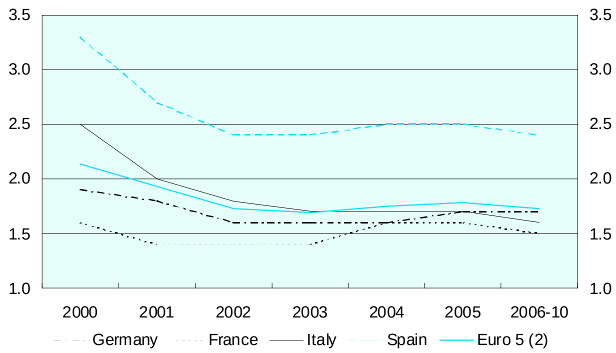


Source: BI-*Il Sole 24 Ore* survey.

(1) The first point on each curve is the last actual inflation rate, provided to interviewees as a point of reference for expressing their expectations; the two intermediate values represent the rates expected respectively 6 and 12 months ahead and the final point the rate expected more than 12 months ahead.

Figure 27

Long-term inflation expectations in the euro area ascertained by *Consensus Forecasts* (1)
(percentage changes on previous year)



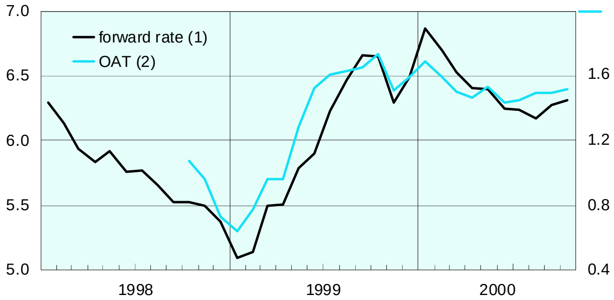
Source: Based on *Consensus Forecasts* data.

(1) Survey conducted in October 2000. – (2) Weighted average of the forecasts for Germany, France, Italy, Spain and the Netherlands.

Figure 28

Indicators of long-term inflation expectations implicit in interest rates

(percentages and percentage points)



Source: Based on *Datastream data.*

(1) Average of 1-year forward rates between 6 and 9 years ahead on euro interest rate swaps. Left-hand scale. – (2) Difference in percentage points between the yield on securities with a nominal coupon (OAT) and that on similar index-linked securities (*Obligation assimilable du Trésor indexée*) maturing in 2009. Right-hand scale.

Over the longer term the markets are still expecting inflation to slow down to below 2 per cent. The six-monthly survey conducted in October by *Consensus Forecasts* indicated expectations of average rates of less than 2 per cent for the area and for the main euro countries from 2002; only in Spain was it expected to remain above this level in the longer term (Figure 27).

In the financial market, the indicators of inflation expectations over the longer run (nine years), which is calculated as the difference between nominal and real yields on French Treasury bonds (deduced from index-linked securities), has remained broadly unchanged in recent months, at around 1.5 percentage points (Figure 28).

THE PUBLIC FINANCES IN THE EURO AREA AND IN ITALY

The overall picture

The stability programmes submitted by the Governments of the EU countries between September 1999 and March 2000 showed general government net borrowing in the euro area amounting to 1.1 per cent of GDP in 2000, a decrease of 0.3 percentage points on 1999. The results for the early part of the year suggest that the outcome will probably be slightly better. Moreover, some countries' public finances will benefit from the one-off proceeds of sales of licences for third-generation mobile telephone services (UMTS).

In Italy the Government's Forecasting and Planning Report for 2001 published at the end of September confirmed the objective for general government net borrowing in 2000 set in June in the Economic and Financial Planning Document: 1.3 per cent of GDP, down from 1.9 per cent in 1999 (Figure 29). The reduction reflected the forecasts of an improvement in the primary surplus, from 4.9 to 5.2 per cent of GDP, and a fall in interest payments, from 6.8 to 6.5 per cent. The forecast reduction in public debt, from 115.1 per cent of GDP in 1999 to 112.1 per cent in 2000, was also confirmed.

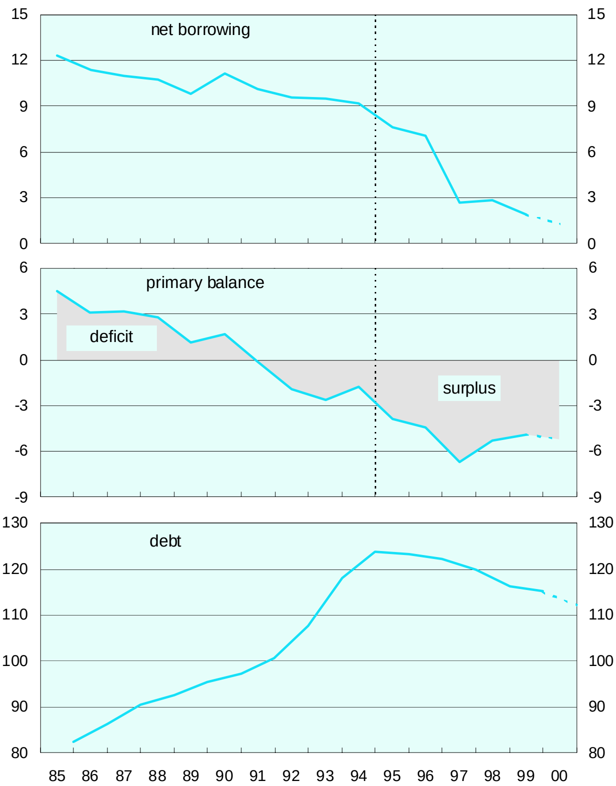
The official estimates were made without considering the proceeds of the sale of UMTS licences. The auction was held in October and generated 26.75 trillion lire of revenue.

Evidence of a downward trend in general government net borrowing in comparison with 1999, due in part to the decline in interest payments, is to be found in the performance of the general government borrowing requirement in the first eight months of the year. At the end of August this aggregate amounted to 34 trillion lire, a decrease of 6.4 trillion on the year-earlier figure.

According to the Government, the objective for net borrowing in 2000 will be achieved despite the more than 13 trillion lire of tax relief granted to offset the structural increase in tax revenue caused primarily by previously undeclared amounts being brought into the tax net. The results recorded by other forms of revenue and by expenditure were as forecast. The tax relief, concentrated in the last two months of the year, will ensure the tax burden remains basically unchanged compared with 1999.

Figure 29

General government net borrowing, primary balance and debt in Italy (1)
(*as a percentage of GDP*)



Sources: Based on Istat data and, for debt, Bank of Italy data. Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. There is no corresponding discontinuity in the debt series. For 2000, forecasts from *Relazione previsionale e programmatica*, September 2000.

(1) General government net borrowing includes reimbursements of tax credits in securities and as a rule excludes settlements of other past debts; does not include privatization receipts.

In the first half of the year primary expenditure grew faster than GDP. The Economic and Financial Planning Document forecast a small decrease in its ratio to GDP in 2000. If the target set for net borrowing is to be achieved, primary expenditure will need to grow much more slowly in the second half of the year.

Objectives and forecasts for the euro area

The primary objective of the budgetary policies of the euro-area countries remains the achievement of budgetary positions close to balance or in surplus; the aim of reducing the ratio of revenue to GDP is nonetheless growing in importance. The cyclically-adjusted budget balances are expected to remain basically stable in relation to GDP in 2000 and to worsen by about 0.4 percentage points in 2001 (Table 20).

The stability programmes submitted between September 1999 and March 2000 indicated that the ratio of general government net borrowing to GDP in the euro area would decline by 0.3 percentage points in 2000 and by 0.1 points in 2001.

In the spring the EU Commission expected a decline in the ratio between 1999 and 2000 in line with that predicted by the stability programmes; the forecast was nonetheless based on outturns for 1999 that were slightly more favourable than envisaged in the stability programmes. The performance of the public finances during the course of the year has been better than expected, partly owing to the acceleration in economic activity.

Table 20

General government net borrowing, revenue, expenditure and debt in the euro area and the EU: outturns, targets and forecasts (1)

(*as a percentage of GDP*)

	1999		2000		2001	
	Euro 11	EU	Euro 11	EU	Euro 11	EU
Net borrowing						
Stability and convergence programmes	1.4	1.0	1.1	0.7	1.0	0.6
EU Commission (April 2000)	1.2	0.6	0.9	0.4	0.8	0.3
OECD (June 2000) (2)	1.2	0.8	1.0	0.5	0.9	0.5
IMF (October 2000) (3)	1.3	0.7	−0.1	−0.7	0.4	0.0
Cyclically-adjusted net borrowing (2)						
OECD (June 2000)	0.7	0.4	0.9	0.6	1.3	0.9
IMF (October 2000) (3)	0.5	0.0	0.4	0.1	0.8	0.5
Revenue and expenditure						
EU Commission (April 2000)						
Expenditure	48.4	47.2	47.5	46.3	46.5	45.5
of which: interest payments	*4.3*	*4.1*	*4.1*	*3.9*	*3.9*	*3.7*
Revenue	47.2	46.6	46.6	45.9	45.7	45.1
Debt						
Stability and convergence programmes	72.5	67.7	71.4	66.0	69.9	64.3
EU Commission (April 2000)	72.1	67.6	70.3	65.1	68.0	62.6

Sources: Stability and convergence programmes submitted between September 1999 and March 2000; EU Commission, *Spring Forecast*, April 2000; OECD, *Economic Outlook*, June 2000; and IMF, *World Economic Outlook*, October 2000.

(1) Weighted averages based on GDP. – (2) Excluding Luxembourg. – (3) The figures for net borrowing take account of the proceeds of the sales of UMTS licences in Germany (2.5 per cent of GDP in 2000), the United Kingdom (2.4 per cent in 2000) and France (1.3 per cent in 2001). The cyclically-adjusted figures do not include these amounts.

The forecasts issued recently by the IMF, which include the proceeds of sales of UMTS licences, indicate an improvement in the ratio of net borrowing to GDP of 1.4 percentage points in 2000. Excluding such amounts, the estimated improvement is about 0.5 points. The IMF forecasts include the proceeds of sales of UMTS licences in 2000 amounting to 2.5 per cent of GDP in Germany and 2.4 per cent in the United Kingdom and the receipts expected in France in 2001 amounting to 1.3 per cent of GDP. The IMF does not give an estimate for Italy, but the auction held in October 2000 brought in additional revenue amounting to 1.2 per cent of GDP.

According to the forecasts prepared by international organizations for 2001, excluding the proceeds of sales of UMTS licences, general government net borrowing in the euro area will remain basically unchanged.

By contrast, the ratio of the cyclically-adjusted budget balance to GDP is expected to worsen between 1999 and 2001 by 0.6 percentage points according to the OECD and by 0.3 points according to the IMF. The deterioration is attributable to measures intended to reduce the tax burden without rigorous offsetting action to curb expenditure.

On the basis of the programmes submitted by the euro-area Governments, the ratio of debt to GDP for the area as a whole is expected to decline between 1999 and 2001 by 2.6 percentage points to 69.9 per cent.

In 1999 the four EU countries outside the euro area recorded an average surplus that was considerably larger than planned (around 1.5 per cent of their combined GDP, instead of 0.6 per cent). In the two years 2000 and 2001 the surplus is expected to exceed the official targets again, although it will be smaller than in 1999.

In most European countries UMTS licences have been sold or are about to be sold. The expected proceeds were not included in the programmes submitted by EU Governments because Eurostat had not decided how they were to be accounted for. In July Eurostat established that the full amount was normally to be included in general government revenue in the year in which licences were allotted. It nonetheless provided for two cases in which the proceeds generated by non-transferable licences could be distributed over the duration of the contract. The two exceptions concern licences valid for a period of not more than five years and those for which payment is not made in full but for a period that is shorter than the duration of the contract.

The one-off nature of the proceeds of sales of UMTS licences makes it advisable to exclude them when assessing public finances. On the basis of the latest available information, the EU countries appear to be oriented towards using these amounts to accelerate the reduction of their debt ratios by recording better balances than originally planned.

Budgetary policy and the public finances in Italy

The Government's plans envisage a gradual reduction in net borrowing until the budget is brought into balance in 2003, with a small surplus following in 2004. The Economic and Financial Planning Document published in June 1998 set the target for net borrowing in 2000 at 1.5 per cent of GDP. The Document published in June 1999 confirmed this figure; on the assumption of 2.2 per cent growth in GDP and an interest rate of 3.7 per cent on twelve-month Treasury bills at the end of the year, the primary surplus was forecast to be 5 per cent of GDP and interest payments 6.5 per cent. In September 1999 the objectives were confirmed in the Government's Forecasting and Planning Report.

The budget approved at the end of 1999, in addition to providing for reductions in expenditure of around 11.5 trillion lire and increases in revenue totaling 5.4 trillion (of which 4 trillion from sales of property), contained 2.6 trillion of appropriations for social policy and growth promotion measures. It also provided for nearly 12 trillion of tax relief intended to compensate for the larger-than-expected rise in revenue in 1999. Overall the budget was expected to reduce net borrowing by around 2.4 trillion.

The target of 1.5 per cent of GDP for net borrowing was confirmed in the Stability Programme

State sector revenue and expenditure

Tax revenue in the first nine months of the year

State sector tax receipts amounted to 422.1 trillion lire in the first nine months of the year, 5.2 per cent more than in the corresponding period of 1999 (Table 1). The Quarterly Report on the Borrowing Requirement published in April had forecast an increase for the year as a whole of 1.4 per cent (3.6 per cent including receipts of the flat-rate withholding tax on managed savings).

In comparison with the forecast contained in the Quarterly Report, tax revenue was boosted by the effects of the increase in the price of oil and the slightly higher rate of growth in nominal GDP. It also benefited from some measures that contributed to bringing tax base into the open (sector studies, the unified tax payment form and tax relief for the renovation of buildings).

Receipts of direct taxes increased by 5.1 per cent (11.2 trillion lire) as a result of the divergent trends of the main components: the flat-rate withholding tax on interest income and capital gains almost doubled compared with the corresponding period of 1999 and personal income tax rose by 4.6 per cent, while corporate income tax fell by 4.8 per cent. The Quarterly Report had forecast an increase of 2.2 per cent in personal income tax and a decrease of 10.7 per cent in corporate income tax.

The increase in personal income tax was primarily due to that of 4 per cent (4.7 trillion lire) in the withholding tax on employee incomes; the self-assessed component of this tax, which is mainly paid by the self-employed and small enterprises, showed a similar fall to that in corporate income tax. For both of the two latter taxes the good level of profits and the emergence of previously hidden taxable income had an impact only on the payments made on account; in the payments of balances these factors were offset by others of the opposite sign, in particular, by the tax relief introduced in the budget for 1999. Moreover, the balances paid in 1999 had been particularly high owing to the temporary boost produced by the abolition of health service contributions.

Turning to the flat-rate withholding taxes on interest income and capital gains, the yield of the tax on securities under professional management increased the most (from 2.9 trillion lire in the first nine months of 1999 to 15.2 trillion in the corresponding period of 2000). Receipts of the tax on securities administered on behalf of customers increased by around 2.9 trillion, while those of the tax on bank deposits fell by 0.9 trillion.

Table 1

State sector tax revenue (1)
(billions of lire and millions of euros)

	2000 January-September (2)		% compo-sition	% change on 1999
	lire	euros		
Direct taxes	**229,591**	**118,574**	**54.4**	**5.1**
Personal income tax	163,801	84,596	71.3	4.6
of which: withholding tax on employee incomes and the like	*123,379*	*63,720*		*4.0*
balances	*9,265*	*4,785*		*–0.5*
payments on account	*11,989*	*6,192*		*8.3*
Corporate	30,678	15,844	13.4	–4.8
of which: balances	*13,075*	*6,753*		*–13.5*
payments on account	*17,225*	*8,896*		*3.5*
Withholding tax on interest income and capital gains	31,248	16,138	13.6	90.4
Other (3)	3,864	1,996	1.7	–70.8
Indirect taxes	**192,491**	**99,413**	**45.6**	**5.2**
VAT (4)	116,318	60,073	60.4	19.0
Other business taxes	18,909	9,766	9.8	–22.3
Excise duties on oil products	28,389	14,662	14.8	–5.9
Other excise duties and sales taxes	11,147	5,757	5.8	2.2
Monopolies	10,659	5,505	5.5	14.0
Lotteries	7,069	3,651	3.7	–32.3
TOTAL TAX REVENUE	**422,082**	**217,987**	**100.0**	**5.2**

Sources: Based on Bank of Italy and Treasury Ministry data.

(1) From May 1998 the main taxes are paid without distinction into a single account with the Treasury and subsequently allocated to the individual items of the budget. The receipts shown in this table are those recorded in the budget accounts and therefore do not include amounts on the account with the Treasury still to be allocated. The data are net of accounting transactions with the Sicily and Sardinia regions. – (2) Provisional. – (3) Includes receipts of local income tax and inheritance taxes, which are recorded under “Business taxes and duties” in the State budget. – (4) Includes the VAT accruing to the EU.

The rise in indirect taxes of 5.2 per cent (9.6 trillion lire) was fueled by the growth in VAT revenues, which benefited from the strength of consumption, the increase in the price of oil and the emergence of previously hidden tax base. The large increase of 19 per cent in VAT was partly due to delays

cont.

in recording receipts of this tax in the first nine months of 1999. Other business taxes fell by 22.3 per cent (5.4 trillion). Excise duties on oil products declined by 5.9 per cent (1.8 trillion) owing to the rate cuts introduced to compensate for the effects of the increase in the price of oil.

Receipts from state monopolies increased by 14 per cent (1.3 trillion lire), probably owing in part to more effective action in the fight against smuggling. After rising very substantially in the first nine months of 1999, revenue from lotteries fell by 32.3 per cent (3.4 trillion).

Expenditure in the first half of the year

In the first six months of the year state sector expenditure amounted to 356.2 trillion lire, an increase of 4 per cent (13.6 trillion) on the corresponding period of 1999 (Table 2). The reduction of 11.3 per cent (7.9 trillion) in interest payments was outweighed by the increase of 7.9 per cent (21.6 trillion) in primary expenditure. Excluding tax refunds, total expenditure increased by 4.5 per cent (14.5 trillion) and primary expenditure by 8.8 per cent (22.5 trillion).

Among the primary current expenditure items, there were substantial increases in wages and salaries and transfers to the regions and enterprises; transfers to social security institutions decreased, while expenditure on goods and services remained virtually unchanged. Capital expenditure showed an appreciable increase, while financial expenditure contracted.

Wages and salaries rose by 15.5 per cent (9.1 trillion lire), primarily owing to a contribution to the financing of the State Sector Employees' Social Security Institute (INPDAP) having been paid earlier than in 1999. The contribution in question amounted to 13.9 trillion.

Current transfers increased by 8.5 per cent (11.9 trillion lire) as a result of the divergent trends of the main components. Transfers to social security institutions fell by 6.4 trillion since the rise in the financing needs of INPS was offset by falls in those of other institutions, especially INPDAP. The increase in the INPS deficit was partly due to its being entrusted with the management of railway workers' pensions and the drying up of recoveries of overdue social security contributions, which, from late in 1999, were paid to the company set up to handle the securitization of these claims. Transfers to the regions rose by 11.3 trillion, partly owing to the increase in settlements of their past debts. Transfers to enterprises rose by 5.7 trillion entirely in connection with payments to former autonomous government agencies, with Poste Italiane S.p.A. receiving more than 4 trillion and Ferrovie dello Stato S.p.A. more than 1.7 trillion. Transfers to recipients abroad increased by 1.7 trillion, primarily in connection with payments to the European Union.

Table 2

Main expenditure items of the state sector
(*billions of lire and millions of euros*)

	2000 H1		% change on1999
	lire	euros	
Current payments (1)	**320,022**	**165,278**	**4.1**
Wages and salaries	67,915	35,075	15.5
Goods and services	11,821	6,105	0.2
Current transfers to:	152,071	78,538	8.5
social security institutions	*44,353*	*22,906*	*–12.6*
regions	*61,004*	*31,506*	*22.7*
municipalities and provinces	*13,785*	*7,119*	*–2.6*
households	*3,821*	*1,973*	*–20.5*
enterprises	*14,346*	*7,409*	*66.7*
recipients abroad	*6,619*	*3,418*	*34.7*
other	*8,143*	*4,206*	*13.3*
Interest payments	62,146	32,096	–11.3
Tax rebates	17,249	8,908	–4.9
Other	8,820	4,555	3.1
Capital expenditure	**22,991**	**11,874**	**12.8**
of which:fixed investments	*2,834*	*1,464*	*8.9*
transfer payments	*19,591*	*10,118*	*10.9*
Financial expenditure	**13,174**	**6,804**	**–10.1**
of which:equity investments	*6,150*	*3,176*	*–12.1*
loans and advances	*5,333*	*2,754*	*–8.1*
Total expenditure	**356,187**	**183,955**	**4.0**

Source: *Relazione sulla stima del fabbisogno di cassa*, presented by the Treasury Minister on 9 October 2000.
(1) Net of accounting transactions with the Sicily and Sardinia regions.

The increase of 12.8 per cent (2.6 trillion lire) in capital expenditure was largely due to the increase in transfer payments. The fall of 10.1 per cent (1.5 trillion) in financial expenditure reflected the reduction of 750 billion lire in capital contributions to public-sector enterprises and that of 900 billion in loans to private-sector enterprises.

published in December 1999 and in the Quarterly Report on the Borrowing Requirement published in April 2000.

In the Economic and Financial Planning Document published in June 2000 the target for net borrowing was changed to 1.3 per cent of GDP following an improvement in the forecast for the primary surplus (to 5.2 per cent of GDP) in connection with the upward revision of GDP growth (to 2.8 per cent).

Table 21

State sector and general government borrowing requirement
(billions of lire and, in brackets, millions of euros)

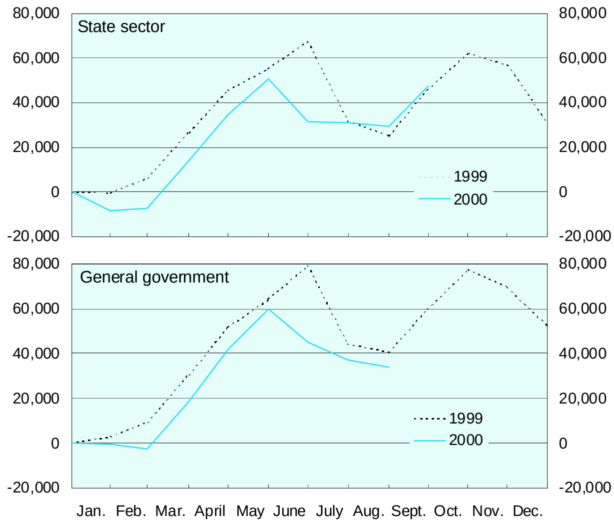
	1997	1998	1999	2000 (1)
			Net state sector borrowing requirement (2)	
January-August	31,481	40,056	25,129 *(12,978)*	29,475 *(15,223)*
January-September	51,444	58,948	45,563 *(23,531)*	47,239 *(24,397)*
			Net general government borrowing requirement (2)	
January-August	28,789	35,314	40,394 *(20,862)*	34,038 *(17,579)*
			Gross general government borrowing requirement	
January-August	25,701	29,149	48,840 *(25,224)*	40,724 *(21,032)*

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

The public finances indicator that is available during the year with the shortest lag is the state sector borrowing requirement. On the basis of the definition that excludes settlements of past debts and privatization receipts, in the first nine months of 2000 this aggregate amounted to 47.2 trillion lire, as against 45.6 trillion in the corresponding period in 1999 (Table 21 and Figure 30). Preliminary data indicate that in the first ten months of this year it amounted to 60.5 trillion, as against 62.2 trillion in the first ten months of 1999. The official estimates for the year as a whole, updated in June in the Economic and Financial Planning Document, indicate a state sector borrowing requirement of 26.4 trillion, as against 31 trillion in 1999.

Figure 30

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



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

State sector tax receipts grew by 5.2 per cent in the first nine months of 2000 (see box). The rise in direct taxes was mainly due to the surge, from 2.9 to 15.2 trillion lire, in receipts of the tax on interest and capital gains earned on securities under professional management; that in indirect taxes was boosted by the growth in VAT receipts.

The data available on the state sector accounts indicate that actual revenue is running at a higher level than that implied by the official forecasts for the year. The Economic and Financial Planning Document published in June 2000 forecast that the ratio of general government taxes and social security contributions to GDP would be virtually unchanged at 43.2 per cent. It also suggested that the growth in tax revenue might turn out to be faster than expected. At the end of September, in order to avoid an increase in the tax burden, the Government granted another 13 trillion lire of tax relief.

The larger volume of revenue did not result in a more pronounced improvement in the state sector borrowing requirement in the first ten months of the year, partly because of the performance of some items, especially on the expenditure side, that affect the state sector borrowing requirement but not general government net borrowing, owing to the different accounting methods used in calculating the two balances. The most important of these items concern transactions with the EU and withdrawals from the centralized Treasury account by the regions to settle past debts in the health sector.

Turning to expenditure, data are only available for the first half of the year, when that of the state sector, excluding payments of tax credits, increased by 4.5 per cent compared with the first six months in 1999; excluding interest payments, the increase was equal to 8.8 per cent. The corresponding figures for the public sector were 4.8 and 7.3 per cent. On the basis of the Quarterly Report on the Borrowing Requirement published in September 2000, it would appear that general government primary expenditure, as defined in the national accounts, also grew faster than GDP. The Economic and Financial Planning Document published in June 2000 had forecast a small decline in relation to GDP.

The general government net borrowing requirement in the first eight months of 2000 amounted to 34 trillion lire, 6.4 trillion less than in the corresponding period in 1999.

Italy's public debt

The Government's Forecasting and Planning Report published at the end of September confirmed the forecast published in June in the Economic and Financial Planning Document of a fall of 3 percentage points in the ratio of debt to GDP compared with 1999 to 112.1 per cent. The forecast was based on the assumption of nominal GDP growth of 4.2 per cent and implied an increase in the debt of 36 trillion lire (1.6 per cent of GDP).

In 1999 the debt ratio had fallen by 1.1 percentage points in connection with nominal GDP growth of 2.9 per cent and an increase in the debt of 46 trillion lire (2.2 per cent of GDP).

The forecast for 2000 takes account of part of the extraordinary revenue that the Treasury has estimated will amount to 65 trillion lire in 2000-01 as a result of the sale of a further tranche of ENEL shares, the disposal of equity interests in other companies, the first payment on account in connection with the liquidation of IRI and the sale of UMTS licences (26.75 trillion lire).

In the first eight months of 2000 general government debt grew by 61.4 trillion lire. The funds raised through net issues of liabilities amounted to 51.2 trillion; the increase in the debt was due in part to the depreciation of the euro, which added around 7.9 trillion in respect of liabilities denominated in dollars, yen and Swiss francs. Of the net issues of liabilities, 40.7 trillion served to finance the borrowing requirement (20.2 trillion in the whole of 1999), while the remaining 10.5 trillion went to increase the Treasury's claims on the Bank of Italy. The borrowing requirement reflected 6.8 trillion of settlements of past debts (12.1 trillion in the whole of 1999) and 150 billion of privatization receipts (more than 43.8 trillion in the whole of 1999). The receipts included in the accounts for 2000 came from the sale of equity interests in Credito Industriale Sardo and Meliorbanca; in 1999 they had come from the sale of the first tranche of ENEL shares, the disposal of Mediocredito Centrale and extraordinary dividends.

Notwithstanding the sharp increase in the debt in the first eight months of 2000, the fall in the debt ratio forecast by the Government appears feasible. The borrowing requirement for the year is set to decrease as a result of the budget surpluses expected in the last part of the year and the proceeds of an extraordinary nature planned for 2000, of which only a fraction was received in the first eight months. There will also be less need to issue liabilities in the last four months of the year in view of the possibility of financing the borrowing requirement by drawing on the assets accumulated at the Bank of Italy (as in September, when withdrawals totaled 13.7 trillion lire).

The average residual maturity of the public debt lengthened further, from 5.5 years at the end of 1999 to 5.8 years at the end of September. In 2000 nearly all the state sector borrowing requirement has been financed by issuing medium and long-term securities and raising loans abroad. The Treasury raised a total of nearly 77.6 trillion lire by these means in the first nine months of the year (with medium and long-term securities contributing 54.2 trillion), so that there was substantial overfunding. The proceeds were used in part to finance 12.6 trillion of net redemptions of other liabilities, especially short-term securities.

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

Monetary developments

The rise in official interest rates in the euro area that had begun at the end of 1999 continued during the summer. The Governing Council of the ECB raised the rate on main refinancing operations by 0.5 percentage points in June and by 0.25 points in August and again in October. The rate now stands at 4.75 per cent, 2.25 points higher than last October (Figure 31). The rates on the marginal lending facility and on overnight deposits with the Eurosystem were increased by the same amount.

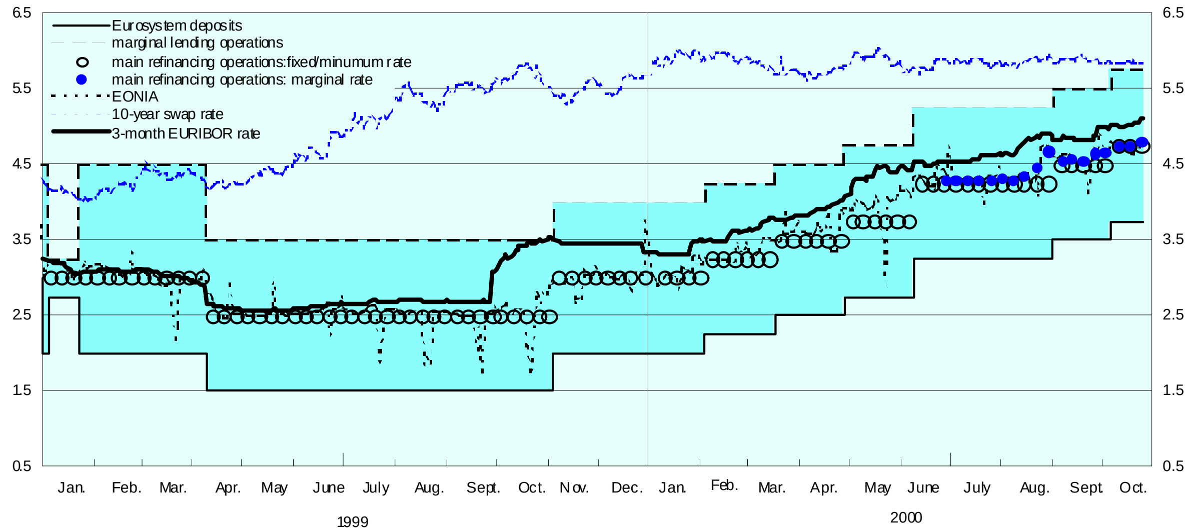
Against the background of a recovery in economic activity and high liquidity, the monetary measures were designed to prevent price pressures due to the rise in oil prices and the weakness of the euro from translating into a permanent rise in actual and expected inflation.

Since 28 June main refinancing operations have been conducted through variable rate tenders; the gap between the demand for and supply of funds is considerably narrower than under the previous system of fixed rate tenders (see box: “The euro-area money market”). The minimum bid rate under the new auction procedure has become the main indicator of the monetary policy stance.

The changes in official rates were reflected in a rise in money market rates. Between the end of December and the end of October the EONIA rate rose by 1.8 percentage points to 4.8 per cent; the 3-month interbank rate increased by a similar amount.

Figure 31

Official interest rates and money and financial market rates in the euro area
(daily data; percentages)



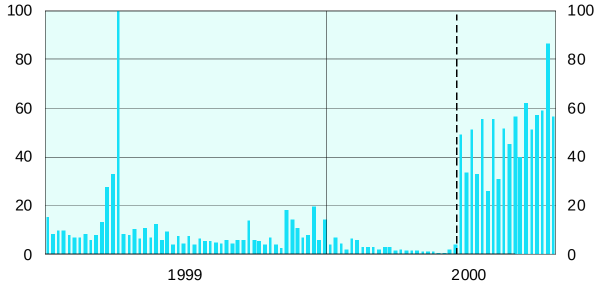
The euro-area money market

On 8 June 2000 the Governing Council of the ECB decided that main refinancing operations would be conducted as variable rate tenders beginning with that to be settled on 28 June. As well as continuing to fix the allotment volume, the Governing Council now sets a minimum bid rate, which replaces the fixed rate in signaling the monetary policy stance. The average interest rate and the marginal rate (the lowest rate at which funds are allotted) are determined by supply and demand and can therefore vary.

The use of variable rate tenders has reduced the excess demand for funds from its level under the fixed-rate-tender regime (see figure). The volatility of money market rates has not increased under the new tender procedures: the standard deviation of daily variations in the EONIA rate has been 11 basis points in the new system, compared with 14 points in the old. The average difference between the minimum bid rate set by the Governing Council and the marginal allotment rate was 9 basis points. In the week following the tenders, the EONIA rate has been only 1 basis point higher on average than the marginal rate.

Between July and October the average number of euro-area banks participating in main refinancing operations was 670, compared with an average of 815 between January and June; the decline was slightly less pronounced among Italian banks (from 44 to 40).

Ratio of funds allotted to total bids in main refinancing operations (1)



(1) Fixed rate tenders from 5 January 1999 to 20 June 2000. Variable rate tenders from 27 June 2000 onwards. The vertical dotted line divides the two periods.

In the first nine months of the year, average daily recourse to the Eurosystem's marginal refinancing and overnight deposit facilities fell to about e380 million and e620 million respectively, compared with e890 million and e770 million in the whole of 1999. Simultaneous use of the deposit and refinancing facilities was modest in

cont.

The rise in short-term rates was in line with the expectations that can be calculated from the yields implicit in futures contracts on the Euromarket. The yield curve shifted steadily upwards and flattened from April to August (Figure 32) before falling back slightly in September. At present a comparison with the spot rate indicates expectations of a further rise in yields in the next two months.

Long-term euro rates remained broadly stable. Between the end of January and the end of October 10-year swap rates fluctuated between 5.7 and 6.0 per cent and yields on benchmark government securities also showed only small movements. In the United States, by contrast, 10-year rates declined (by 0.8 points in the case of 10-year interest rate swaps and by 1.1 points in that of Treasury bonds) amidst expectations of a slowdown in economic growth and an easing of concern about inflation. As a result, the differentials between dollar and euro rates narrowed, by 0.6 points to 0.9 points in the case of 10-year swaps and by 0.8 points to 0.2 in that of 10-year benchmark bonds.

The real short-term interest rate in the euro area, calculated from the 3-month nominal rate and inflation expectations obtained from surveys, rose to 2.6 per cent in the third quarter of 2000, more than one percentage point higher than at the end of last year but still about half a point lower than the corresponding *relation to the size of required reserves, evidence of the successful operation of the money market.*

Over the same period, average daily recourse to overnight deposits by Italian intermediaries was e48 million and that to marginal refinancing e18 million. This compares with e68 million and e26 million in 1999 as a whole. The simultaneous use of the facilities by Italian banks remains negligible.

On 21 June the Eurosystem conducted a fine-tuning operation that injected e7 billion in overnight liquidity into the market. The operation was aimed at offsetting an unexpectedly large deposit of funds by one of the Eurosystem central banks the previous day, in concomitance with the last tender for that reserve maintenance period, ensuring that liquidity conditions in the area remained unaffected. The interbank overnight interest rate, which on the morning of 21 June had risen to a very high level (around 4.6 per cent), subsequently subsided in the hours following the operation and through the next day, eventually falling below its level in the previous days.

In the first ten months of the year the average daily turnover on the Italian interbank market (e-Mid) was equal to e16 billion, compared with an average of e14.7 billion in 1999. The increase in trading in overnight funds from e9.8 billion to e11.9 billion was accompanied by a decline in activity at the other maturities.

The rise in market liquidity can also be attributed to changes in trading procedures. In order to facilitate liquidity management by larger institutions, a segment of the market has been reserved for operations with a minimum size of e100 million. About one fifth of trading in overnight funds is now conducted through this "large deals" channel, at rates that are broadly in line with the overall average.

There has been an increase in the share of trading accounted for by non-residents, who can use the remote access procedures. Ten foreign banks currently operate in the market. They are most active in the large deals segment, especially for raising liquidity.

Collateralized operations, already widely used in other euro-area countries, have also expanded recently in the Italian money market. In the repo segment of the MTS, about three quarters of contracts are made at spot-next. Thanks to the collateral backing the trades, rates at the various maturities were an average of 2 basis points lower than those on similarly-dated interbank deposits. Trading is highly concentrated: the 10 largest intermediaries account for nearly 70 per cent of total volume.

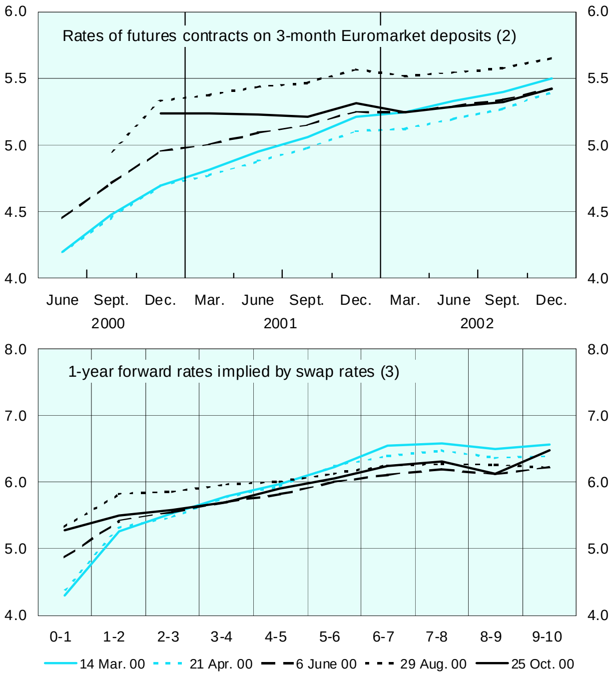
rate in the United States (Figure 33). According to market expectations, the euro area's rate will continue to rise in the coming months, to around 3.6 per cent in 2001; the differential in relation to the US rate would thus narrow further, which would be consistent with forecasts of a reduction in the gap between the growth rates of the two economies. In Italy the real interest rate is almost half a percentage point lower than that for the area as a whole, reflecting the persistence of an inflation differential. The markets expect the gap to close during 2001.

The yield on French 10-year government securities indexed to consumer prices, which provide an indicator of the real long-term interest rate, has remained stable at around 3.7 per cent since the beginning of the year; in the United States the yield on comparable government securities is around 4 per cent.

The euro has weakened further in 2000. Its effective exchange rate fell to a low in May, recovered in June and declined again between July and October to its lowest level for the last ten years, in both nominal and real terms (Figure 34). The currency's weakness was due in part to the continued differential in growth expectations in favour of the United States and was accompanied by substantial net outflows of direct and portfolio investment, particularly in equities (Figure 35).

Figure 32

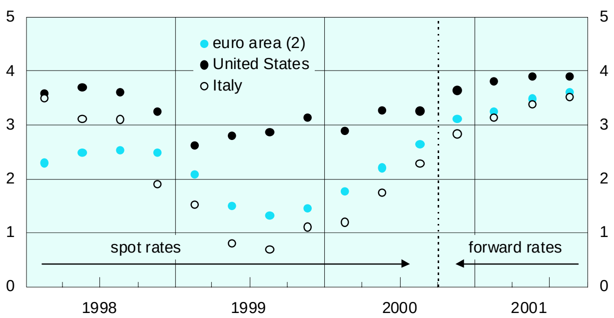
Euro forward yield curve (1)
(percentages)



(1) The curves relate to the contract dates indicated in the key. – (2) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. – (3) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated (the first value is the spot rate at that date).

Figure 33

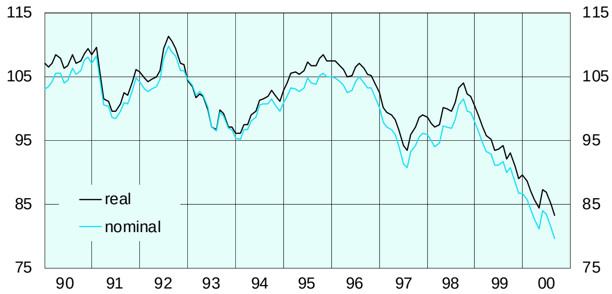
Expected real 3-month interest rate (1)
(quarterly data; percentages)



(1) 3-month nominal interest rate on Euromarket deposits (average of rates in the final month of the quarter; from December 2000 onwards, nominal rate implicit in futures contracts), deflated using annual inflation expectations measured by the quarterly *Consensus Forecasts* survey of September 2000 for the period ending in the subsequent quarter. – (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).

Figure 34

Effective exchange rate of the euro during the nineties (1)
(monthly data; index, 1993=100)



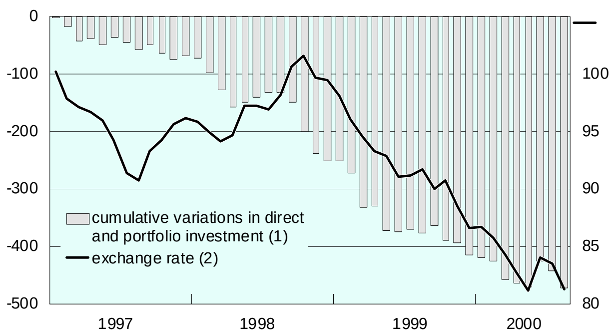
Source: ECB.

(1) An increase indicates an appreciation. For details of the method of calculation, see ECB, *Monthly Bulletin*, October 1999, p. 29, Box 5. The real exchange rate is calculated on the basis of producer prices.

Shared concern about the potential implications for the world economy of an excessive depreciation of the euro prompted the ECB and the monetary authorities of the United States, Japan, the United Kingdom and Canada to carry out concerted exchange-market intervention in support of the euro on 22 September at the initiative of the ECB. The value of the euro in US dollars rose from 85 to 88 cents after the intervention, only to decline again in the days that followed; on 30 October it stood at 85 cents. Since the beginning of the year it has depreciated by 16.0 per cent against the dollar, 10.5 per cent against the yen and 9.6 per cent in nominal effective terms.

Figure 35

Net capital outflows and nominal effective exchange rate of the euro
(monthly data)



Source: Based on ECB data.

(1) Billions of euros. – (2) Index, 1993=100. For details of the method of calculation, see ECB, *Monthly Bulletin*, October 1999, p. 29, Box 5. An increase indicates an appreciation.

The monetary and credit aggregates continue to indicate an abundance of liquidity in the euro area, although the growth in M3 did slow down during the summer in response to the raising of short-term interest rates. In September the twelve-month rate of increase in M3 came down to 5.5 per cent, compared with 6.1 per cent in December 1999 (Figure 36); the 3-month moving average fell to 5.4 per cent, thus remaining above the reference value of 4.5 per cent set by the Governing Council of the ECB.

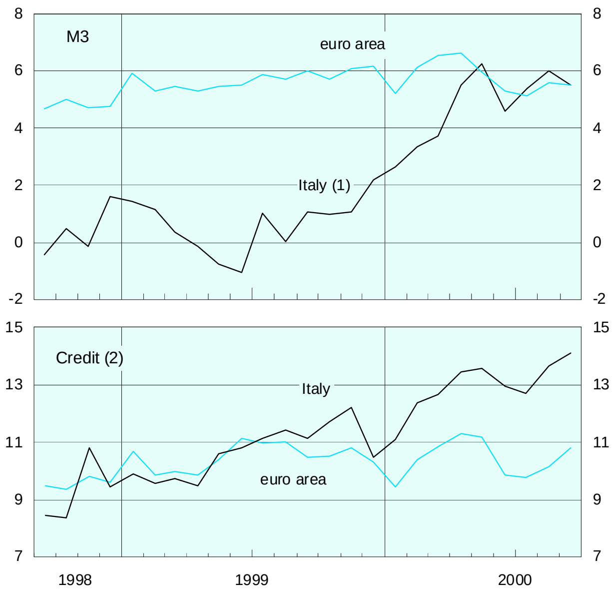
Within the M3 aggregate, the slowdown in the growth of the more liquid components (in September M1 increased at a twelve-month rate of 6.6 per cent, compared with 10.0 per cent in December 1999) contrasted with a continued rapid expansion in marketable instruments (12.5 per cent, compared with 12.8 per cent). This divergence was due partly to a widening of the yield differential between the more liquid components and those held for portfolio purposes.

The growth in the Italian component of M3 accelerated steadily during the year to a twelve-month rate of 5.5 per cent in September, compared

Figure 36

Monetary and credit aggregates for the euro area and Italy

(monthly data; twelve-month percentage changes)



Sources: ECB and Bank of Italy.

(1) Italian contribution to euro-area M3. – (2) Financing granted by monetary financial institutions (MFIs) to euro-area residents other than general government and MFIs in euros and other currencies in the form of loans and purchases of bonds, shares and participations.

Table 22

Credit and financial assets in Italy (1)

(end-of-period data; percentages)

	12-month percentage changes		Percentage shares of stocks	
	December 1999	June 2000	December 1999	June 2000
Total credit	**6.1**	**5.6**	**100.0**	**100.0**
General government debt (2)	1.4	0.6	58.7	57.9
Total finance to “other residents”	13.6	13.2	41.3	42.1
Bank lending	10.6	12.9	35.3	36.1
Bonds	6.5	40.9	0.6	0.6
Loans from abroad	40.9	12.8	5.4	5.4
Financial assets (3)	**5.8**	**4.6**	**100.0**	**100.0**
Domestic	–2.7	–0.7	74.6	72.9
Monetary assets, other deposits and BOTs	–1.9	1.9	40.6	39.5
Medium and long-term securities	–3.2	–3.9	31.7	31.0
Other financial assets (4)	–13.0	–1.3	2.3	2.3
Foreign	47.3	23.2	25.4	27.1

(1) Provisional. Rounding may cause discrepancies in totals. 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 financial asset 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.

with one of 2.2 per cent last December. This reflected the fact that the increase in marketable instruments accelerated more sharply than in the area as a whole, while that in the more liquid components slowed down.

In the euro area bank lending to the private sector continued to grow rapidly, at a rate of 10.8 per cent in the twelve months ending in September; in Italy the figure was 14.1 per cent.

The private sector's total financial assets net of directly held shares increased by 4.6 per cent in the twelve months to June (Table 22) as a result of a slight contraction of 0.7 per cent in domestic assets and a substantial expansion of 23.2 per cent in foreign assets, due mainly to an increase in investment abroad by non-money-market funds.

Banking in Italy

In the first eight months of the year lending continued to increase more rapidly in Italy than in the euro area as a whole; the growth in deposits also accelerated, but not by enough to finance the volume of new lending (Table 23 and Figure 37). Banks again greatly reduced their securities portfolios and increased their net external liabilities in order to limit their domestic borrowing and thus hold down the overall cost of funds. Their half-yearly results show an increase in profit margins, as income increased by more than operating costs, with income from services showing particularly rapid growth.

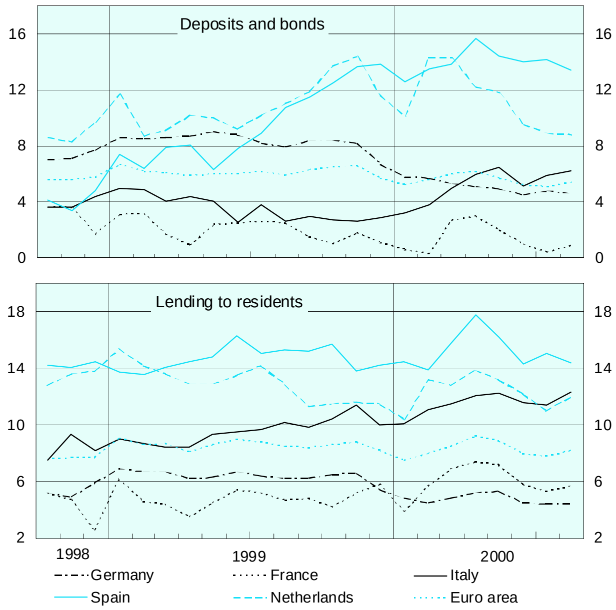
The growth in bank lending also remained very rapid in the euro area (8.2 per cent in the twelve months to August) and higher than that in deposits; it was financed by a further increase in net foreign debt. The expansion was, on average, more rapid in the countries where economic growth was strongest; in France and Germany the increase was more moderate, broadly in line with that recorded in 1999.

The expansion in lending to residents by Italian banks (12.6 per cent in the twelve months ending in August, compared with 9.2 per cent at the end of 1999; Table 24) can be explained by the pick-up in activity and a number of large loans, primarily to companies in the service and energy sectors. The increase in short-term lending was particularly rapid (15.3 per cent, against 6.2 per cent at the end of 1999), whereas the growth in medium and long-term loans moderated to 10.1 per cent. The acceleration in credit occurred in all areas of the country, but was strongest in the Centre and North.

Figure 37

Bank funding and lending in the main euro-area countries (1)

(monthly data; twelve-month percentage changes)



Sources: Based on ECB data and national statistics.

(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. The data are adjusted for reclassifications, revaluations, exchange rate variations and any other changes not due to transactions.

Sectoral data, which are available up to June, show that in Italy the strongest growth was in lending to finance and insurance companies, holding companies and consumer households (twelve-month rates of 26.1, 16.0 and 18.3 per cent respectively; Table 25). The growth in credit to industry rose to 7.8 per cent, mainly on account of an acceleration in lending to the manufacturing sector to 5.7 per cent (compared with 4.0 per cent in the twelve months to December), stimulated by the expansion in economic activity, and the sharp increase in lending to the energy sector (31.1 per cent, compared with 1.2 per cent).

Table 23

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

(harmonized definitions; billions of euros and twelve-month percentage changes)

		Deposits (2)										Debts 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	Balance	% change
								Euro area (5)							
1999 –	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	5,008.3	4.3	1,479.6	14.4	1,961.2	−0.4	1,319.1	4.7	166.4	−15.5	2,268.9	9.9	6,121.7	9.0
	July	5,011.6	4.9	1,468.1	17.2	1,979.1	0.1	1,321.3	4.9	163.7	−21.7	2,274.8	9.1	6,148.4	8.8
	Aug.	4,994.1	4.6	1,439.1	15.5	1,988.1	0.1	1,320.2	4.8	162.6	−19.6	2,291.0	9.0	6,139.5	8.5
	Sept.	5,004.4	4.5	1,466.9	15.4	1,976.7	0.1	1,317.1	4.6	160.6	−22.0	2,329.3	10.3	6,184.2	8.4
	Oct.	5,020.3	4.4	1,467.4	15.2	1,996.7	0.9	1,314.0	4.1	157.5	−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	2,376.8	11.2	6,317.5	8.8
	Dec.	5,129.6	3.7	1,532.3	10.5	2,037.4	1.8	1,327.1	2.1	144.2	−16.2	2,364.7	10.5	6,344.0	8.2
2000 –	Jan.	5,153.2	3.4	1,561.7	10.4	2,023.0	1.1	1,327.1	1.1	154.9	−9.7	2,370.6	9.2	6,382.0	7.5
	Feb.	5,158.9	4.0	1,554.6	12.1	2,040.3	2.6	1,316.9	0.2	159.4	−13.3	2,396.3	9.1	6,411.4	8.0
	Mar.	5,180.7	4.6	1,562.7	12.3	2,047.0	2.7	1,307.0	−0.3	177.1	−0.8	2,423.3	9.3	6,487.3	8.5
	Apr.	5,219.4	5.0	1,597.1	13.2	2,055.3	2.9	1,299.4	−1.1	179.5	4.4	2,452.2	8.9	6,550.0	9.2
	May	5,207.0	4.4	1,580.6	9.9	2,074.6	4.5	1,291.3	−1.9	180.8	4.7	2,470.7	8.8	6,572.1	8.9
	June	5,209.1	3.8	1,588.0	7.2	2,072.4	5.3	1,286.5	−2.6	168.6	1.2	2,475.8	8.3	6,631.3	8.0
	July	5,207.0	3.5	1,586.9	7.8	2,082.4	4.6	1,279.3	−3.2	173.4	5.8	2,499.8	8.7	6,656.1	7.8
	Aug.	5,207.3	3.9	1,565.4	8.4	2,109.6	5.4	1,274.5	−3.5	170.9	4.9	2,524.7	8.7	6,666.8	8.2
								Italy (6)							
1999 –	May	566.4	−1.2	352.6	11.2	87.9	−23.5	59.3	−1.2	58.7	−23.2	261.7	17.3	763.3	9.3
	June	572.4	−1.3	364.4	9.1	86.5	−21.7	59.2	−0.5	54.5	−22.5	263.8	11.7	785.6	9.5
	July	565.8	0.7	357.3	13.7	84.4	−22.1	59.6	0.9	57.1	−23.7	263.2	11.1	789.7	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	783.5	10.2
	Sept.	559.3	0.3	353.7	13.8	82.8	−21.7	60.0	0.4	55.0	−27.1	264.6	9.4	784.8	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	9.1	788.1	10.3
	Nov.	555.5	−0.2	351.8	12.5	80.0	−22.3	60.1	1.2	56.5	−24.2	269.8	8.8	815.3	11.4
	Dec.	583.4	0.6	384.9	10.1	79.1	−22.6	61.2	0.0	50.3	−16.3	271.6	8.1	824.5	9.9
2000 –	Jan.	584.6	0.7	384.7	9.8	77.5	−22.2	60.7	−0.3	54.2	−11.7	273.8	8.9	827.5	10.0
	Feb.	580.7	1.5	379.6	11.9	76.0	−21.0	59.6	−0.6	58.3	−15.6	277.7	9.1	834.0	11.1
	Mar.	582.5	2.4	383.4	11.8	76.1	−19.3	58.6	−1.2	57.2	−11.4	284.4	10.8	841.2	11.4
	Apr.	594.5	3.9	394.1	11.8	75.8	−17.5	58.4	−1.7	58.9	−3.0	286.3	10.7	849.5	12.1
	May	595.8	4.8	392.1	11.0	74.5	−16.6	57.9	−2.3	63.8	8.6	288.1	10.0	851.8	12.2
	June	591.3	3.0	389.5	6.7	73.6	−16.0	57.5	−2.8	63.5	16.5	289.2	9.6	871.0	11.6
	July	591.8	4.3	386.8	8.0	73.2	−14.4	57.4	−3.6	67.6	18.4	288.1	9.4	874.7	11.4
	Aug.	582.0	4.5	379.0	9.5	71.2	−16.3	57.4	−4.2	67.5	16.0	290.0	9.7	875.3	12.4

(1) End-of-period data; the percentage changes are adjusted to take account of reclassifications, 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 of countries outside the area. – (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.

Loan quality improved further; bad debts diminished by 9 trillion lire in the first eight months of the year, and at the end of August were 13.0 per cent less than a year earlier. The ratio of bad debts to total lending fell from 7.8 to 6.8 per cent; the improvement was also discernible in lending to construction firms and sole proprietorships, which present structurally higher risk than other sectors. The proportion of debts that are not recoverable but the subject of specific provisions rose to 53.0 per cent of the total in August, compared with 47.6 per cent a year earlier.

Credit conditions remained easy; the take-up of bank overdraft facilities remained very low for all categories of debtor.

The adjustment of bank lending rates to the rise in money market rates was in line with the average for the euro area as a whole. The average rate on short-term loans reached 6.4 per cent in August (Figure 38). Only variations in bank lending and deposit rates in Italy and the other euro-area countries can be compared, not rates themselves, as the types of instrument used are not homogeneous and the methods of calculating yields differ. From the end of 1999 onwards short-term lending rates in Italy rose by 0.9 percentage points, in line with the euro-area average. The increase in relation to the low reached in September 1999 was 1.2 points, compared with 1.4 points in the area as a whole.

Table 24

Main items in Italian banks' balance sheets (1)

(*end-of-period data; twelve-month percentage changes; billions of lire and millions of euros*)

	1998	1999	2000			Balances, August 2000	
			March	June	August	lire	euros
Assets							
Securities	1.1	−6.6	−9.4	−13.4	−15.6	292,093	150.853
government securities	*−2.8*	*−9.9*	*−15.6*	*−18.4*	*−20.7*	*223,776*	*115,571*
Loans (2) (3)	6.0	9.2	11.5	11.6	12.6	1,443,777	745,648
short-term	*5.7*	*6.2*	*11.1*	*12.3*	*15.3*	*728,914*	*376,453*
medium and long-term (3)	*6.4*	*12.4*	*11.8*	*10.9*	*10.1*	*714,863*	*369,196*
Repos	41.7	31.7	−6.7	1.2	−26.9	8,695	4,491
Bad debts	2.2	−7.1	−8.2	−11.0	−13.0	104,985	54,220
bad debts at estimated realizable value	*−1.0*	*−15.8*	*−15.8*	*−17.2*	*−22.0*	*49,336*	*25,480*
External assets (2)	3.6	−9.7	2.4	−3.7	−3.8	292,866	151,253
Liabilities							
Domestic funding (4)	1.8	2.3	3.7	4.0	4.0	1,465,355	756,792
short-term	*3.5*	*4.7*	*5.3*	*6.2*	*5.9*	*951,305*	*491,308*
current accounts	*13.1*	*13.3*	*12.3*	*8.3*	*7.7*	*671,504*	*346,803*
short-term CDs	*−13.4*	*−21.2*	*−15.8*	*−13.4*	*−13.0*	*53,736*	*27,752*
repos	*−18.0*	*−18.2*	*−10.5*	*17.6*	*18.5*	*120,664*	*62,318*
medium and long-term	*−0.9*	*−1.8*	*0.7*	*0.1*	*0.7*	*514,050*	*265,485*
medium and long-term CDs	*−45.3*	*−39.0*	*−39.3*	*−35.8*	*−36.5*	*33,385*	*17,242*
bonds	*15.4*	*4.7*	*6.8*	*4.5*	*5.0*	*480,664*	*248,242*
External liabilities (2)	−0.1	5.9	10.0	11.4	5.4	476,161	245,917

(1) Bank of Italy monthly sample. 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.

Table 25

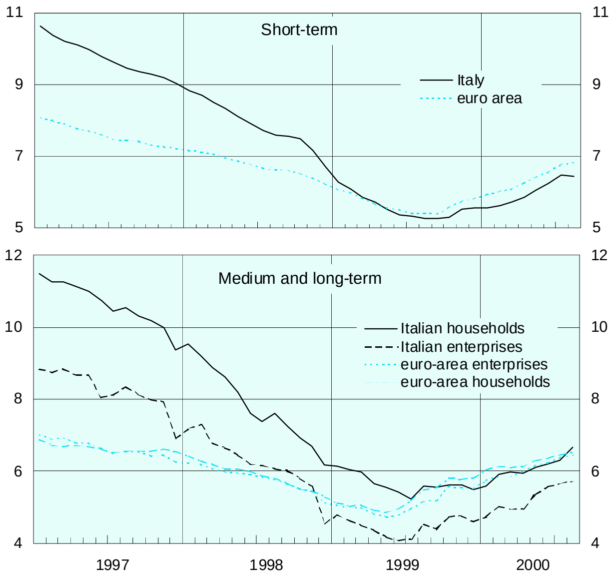
Lending, bad debts and short-term lending rates of Italian banks by sector of economic activity (1)
(*percentages*)

	General government (2)	Finance and insurance companies (3)	Enterprises						Households		Total (3)
				Holding companies	Non-financial enterprises						
						Industry excluding construction	Construction	Services	Consumers	Sole proprietorships	
12-month percentage changes in lending											
1999 – June	5.1	15.9	5.8	17.3	5.1	3.5	0.0	9.7	17.2	5.5	8.5
September .	2.6	9.3	6.5	18.6	5.8	2.2	2.4	12.2	19.6	5.9	8.6
December .	5.8	18.2	5.2	2.1	5.4	3.5	1.1	10.1	20.5	6.7	9.2
2000 – March	–3.7	24.2	8.8	16.1	8.4	6.6	3.3	13.0	21.5	8.0	11.5
June	–4.4	26.1	9.6	16.0	9.2	7.8	4.9	12.3	18.3	8.8	11.6
12-month percentage changes in bad debts											
1999 – June	–58.4	–40.5	–5.4	–2.1	–5.5	–8.9	–2.9	–6.9	0.7	–0.8	–4.4
September .	322.4	–22.5	–6.6	2.4	–6.9	–8.3	–4.2	–8.0	–2.9	–1.6	–5.2
December .	217.2	–22.3	–6.4	–8.6	–6.4	–3.9	–3.0	–10.2	–9.8	–5.3	–7.1
2000 – March	–21.2	–22.0	–7.7	–8.0	–7.7	–4.1	–5.2	–11.2	–10.0	–7.2	–8.2
June	–45.2	–14.8	–9.0	–19.4	–8.7	–2.8	–10.4	–10.8	–11.1	–7.9	–11.0
Ratio of bad debts to total lending (4)											
1999 – June	0.1	1.4	8.8	3.9	9.1	5.6	20.2	8.6	10.0	20.3	8.6
September .	0.1	1.5	8.8	3.9	9.1	5.7	19.9	8.5	9.6	19.9	8.5
December .	0.1	1.1	8.2	3.6	8.5	5.3	19.9	7.6	8.5	19.1	7.8
2000 – March	0.1	1.0	8.0	3.7	8.3	5.3	19.1	7.4	8.2	18.3	7.6
June	0.1	1.0	7.4	2.7	7.7	5.0	17.8	6.9	7.7	17.7	6.9
Interest rates on short-term loans (5)											
1999 – June	4.65	3.41	5.70	3.83	5.79	5.19	7.30	6.14	7.29	8.36	5.49
September .	4.61	3.13	5.36	3.37	5.47	4.83	7.02	5.89	7.08	8.11	5.12
December .	4.61	3.37	5.63	3.52	5.76	5.17	7.19	6.08	7.30	8.41	5.37
2000 – March	5.57	3.70	5.93	3.94	6.05	5.52	7.49	6.31	7.41	8.61	5.70
June	6.46	4.21	6.30	4.49	6.42	5.97	7.66	6.66	7.62	8.50	6.10
Percentage composition of lending											
1999 – June	8.5	10.4	57.3	3.7	53.6	24.6	6.2	21.7	17.9	5.9	100.0
2000 – June	7.3	11.6	56.5	3.9	52.6	23.8	5.8	21.9	19.0	5.7	100.0

(1) Bank of Italy monthly sample. The data have been obtained according to the classification criteria in force since May 1998. 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 between Banco di Napoli and the non-bank company SGA. – (4) The denominator includes bad debts. – (5) Source: Central Credit Register.

Figure 38

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



Sources: Ten-day survey data and calculations based on ECB data.
(1) Weighted averages of national interest rates notified to the central banks. As the interest rate definitions are not harmonized, the data should be treated with caution; they indicate trends rather than the relative level of rates.

Interest rates on new medium and long-term bank loans rose by 1.1 percentage points in the first eight months of the year for both firms and households (to 5.7 and 6.6 per cent respectively). In relation to the low reached in the middle of last year, the increase was 1.6 points for firms and 1.4 points for households, in line overall with the rise in rates on government securities of comparable maturity. In the area as a whole the rise in rates averaged 1.7 points for both categories of borrower over the same period.

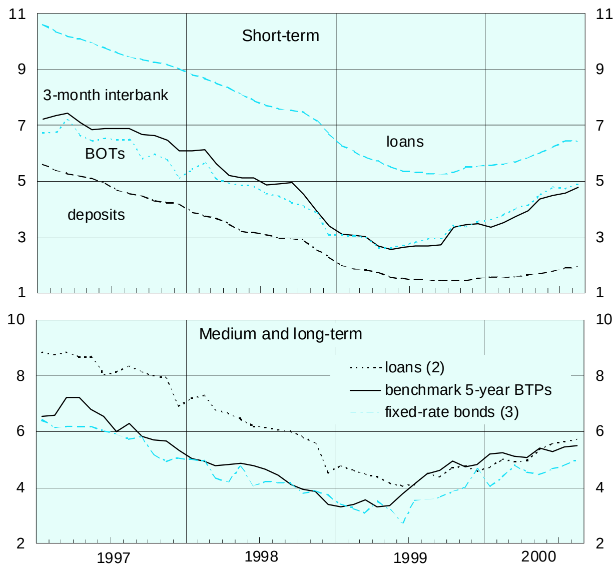
Bank funding accelerated; in August the twelve-month increase was 4.0 per cent, compared with 2.3 per cent in December (Table 24). On the basis of harmonized data, the growth was slightly above the euro-area average.

The growth in current account deposits, which has been rapid in recent years, slowed down to a twelve-month rate of 7.7 per cent in August, compared with one of 13.3 per cent in December, owing partly to a widening of the differential between money market and current account deposit rates. Repos with non-bank customers increased by 18.5 per cent in the twelve months to August, whereas a year earlier they had contracted by 18.2 per cent; recourse to this fund-raising instrument, demand for which has been stimulated by the rise in short-term interest rates, enables banks to hold down the increase in the average cost of their total funds. The growth in bond issues remained moderate (5.0 per cent in August, compared with 4.7 per cent in December 1999). A significant proportion of the new issues made between January and August was floated on the Euromarket (19.1 per cent of the total, against 12.2 per cent in 1999 as a whole); Italian banks accounted for 7.8 per cent of the Eurobonds issued by banks during this period, against 5.6 per cent in 1999.

Bank deposit rates also gradually adjusted to the change in monetary conditions. In the first eight months of the year the average rate on deposits with Italian banks rose from 1.5 to 1.9 per cent (Figure 39). The spread between lending and deposit rates began to widen again, although it remained very small compared with earlier phases of economic expansion.

Figure 39

Bank interest rates
and rates on government securities in Italy (1)
(monthly data; percentages)



Source: Ten-day survey data.
(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.

As far as current account deposits are concerned, in August the average rate in the euro area was 0.3 percentage points higher than the low reached in the summer of 1999; in Italy the increase was 0.7 points. Over the same period the rates on deposits with agreed maturity up to one year and up to two years rose by 1.5 points in the area; in Italy the rates on comparable instruments – new issues of CDs with a maturity of up to 6 months and between 18 and 24 months – rose by 1.0 and 1.3 points respectively.

In the first eight months of the year Italian banks continued to increase their net external liabilities and reduce their securities portfolios in order to finance the sustained growth in lending. Adjusted for the effect of exchange rate variations, their net debt to non-residents increased by 28.2 trillion lire (53.2 trillion in the whole of 1999) as a result of a reduction of 13.9 trillion lire in assets, almost entirely denominated in euros, and an increase of 14.3 trillion lire in liabilities. Banks’ holdings of securities declined by 32.2 trillion lire, compared with a contraction of 1.7 trillion in the first eight months of 1999. In August the ratio of liquid assets (cash and securities) to total financial assets fell to 16.0 per cent, compared with 18.8 per cent a year earlier and 23.0 per cent at the end of 1995. This figure is particularly low by comparison with the other main euro-area countries.

Italian banks’ half-yearly results indicate an improvement in profit margins. Net interest income was 2.8 per cent higher than in the first half of 1999, owing largely to the very rapid expansion in lending. Other income rose substantially, especially income from services, which increased by 29.8 per cent, and dividends, which rose by 49.7 per cent (see box: “Mergers and acquisitions in the nineties: an international comparison”). Although the decline in bond prices contributed to a further 30 per cent decrease in net income from trading, gross income rose by 11.7 per cent; it also increased after adjustment for double-counting due to dividends distributed within banking groups.

Staff costs remained unchanged, despite a decrease of 1.4 per cent in the number of employees. However, total operating expenses rose by 4.5 per cent, owing partly to the cost of purchasing IT services. With gross operating profit rising by 20.9 per cent (compared with 7.3 per cent in the first half of 1999) and value adjustments on asset items declining slightly, net profit was higher than in the first half of last year, amounting to 12 per cent of capital and reserves at an annual rate.

Financial markets

In the euro area, private sector bond issues grew at a sustained pace while net issues of government securities contracted in the first nine months of the year. There was a corresponding widening in the interest rate differential between corporate and government securities, due in part to an increase in corporate debt. The stock exchanges of the area turned in disparate performances. After fluctuating widely in the first part of the year, the Euro Stoxx index of the most highly capitalized euro-area companies was unchanged at the end of October with respect to the end of 1999.

The fall in net issues of medium and long-term government securities was particularly pronounced in France and Germany. By contrast, placements of short-term securities increased overall, with issuance policy differing from country to country: there were net redemptions in Italy and Spain and net issues in Belgium and, above all, France.

In Italy net issues of government securities on the domestic market between January and September totaled €20.1 billion, €13.4 billion less than in the same period in 1999. The decline was offset by increased recourse to Republic of Italy loans, with net issues of €14.4 billion, compared with net redemptions of €2.9 billion in the first nine months of 1999 (Table 26). As in previous years, net issues were concentrated in Treasury bonds (€46.6 billion, compared with €71.6 billion in the first nine months of 1999), set against substantial net redemptions of short-term zero-coupon and floating rate securities (€25.9 billion, compared with €25.6 billion a year earlier).

As a result of this issuance policy the average residual maturity of public debt lengthened to 69 months (Figure 40). However, its duration remained around 3 years, reflecting the increase in interest rates.

Mergers and acquisitions in the nineties: an international comparison

Mergers and acquisitions in the leading industrial countries increased considerably during the nineties, in both number and value. Firms responded to the intensification of competition in domestic and international markets and to the development of new technologies by introducing new production processes, broadening the range of products and services they supplied and, above all, increasing the size of their businesses.

According to Thomson Financial, which monitors financial transactions between firms, between 1995 and 1999 there were 25,423 mergers and acquisitions in the G-10 countries, Spain and Australia (Table 1), an increase of 65 per cent on the previous five-year period. At the same time the total value of the transactions of which the terms are known rose from $903 billion to $5,584 billion and from 1 to 5.2 per cent of the combined GDP of the countries in question (Table 2).

There were nonetheless substantial differences between the scale of M&A activity in the various countries: in the period 1995-99 the ratio of the value of transactions to GDP ranged from 0.8 per cent in Japan to 8.9 per cent in the United States. The values were less dispersed in the euro area, ranging from 1.9 per cent in Spain to 3.5 per cent in the Netherlands. In Italy the ratio was 2.4 per cent.

M&A activity gathered pace in all the countries considered. The acceleration was sharpest in the United States and the United Kingdom, the two countries with the most developed financial markets and the fastest growth in GDP during the period.

In the first nine months of 2000 the value of mergers and acquisitions in the countries considered amounted to $1,661 billion, an increase of 17 per cent on the corresponding period of 1999.

The growth in M&A activity has been especially rapid in banking, partly owing to the deregulation of the sector and the consequent reduction in the differences between the three traditional sectors of the financial services industry (banking, finance and insurance).

In the period 1995-99 the transactions involving banks[1] accounted for 10.1 per cent of the total number and 18.2 per cent of the total value, which was considerably more than the banking sector's contribution to GDP in the countries considered.

The greater importance of consolidation in banking is confirmed by the ratio of the value of mergers and acquisitions involving banks to the market capitalization of the sector: in the period 1995-99 it was 8 per cent, or about twice the average for all the other sectors.

The process of consolidation was not on the same scale in the various countries considered: the number of transactions involving banks ranged from 3 per cent of the total in the Netherlands to 16.1 per cent in Italy and their value from 3.7 per cent in Germany to 65.6 per cent in Japan (in Italy the ratio was 46.3 per cent).

The cross-border differences reflect specific features in national economies. Preliminary analyses show that the frequency of mergers and acquisitions between banks was inversely proportional to the initial concentration of the

Table 1

Number of mergers and acquisitions in the leading industrial countries

	Total		*of which*: Banks (1)			
	1990-94	1995-99	1990-94	% of total	1995-99	% of total
Australia	460	951	32	7.0	65	6.8
Belgium	200	274	14	7.0	28	10.2
Canada	1,083	1,910	32	3.0	70	3.7
France	1,377	1,241	113	8.2	87	7.0
Germany	1,345	2,430	75	5.6	144	5.9
Italy	706	715	113	16.0	115	16.1
Japan	165	1,141	22	13.3	86	7.5
Netherlands	453	537	28	6.2	16	3.0
Spain	431	708	48	11.1	41	5.8
Sweden	391	512	29	7.4	25	4.9
Switzerland	334	375	71	21.3	37	9.9
United Kingdom	1,770	3,296	84	4.7	160	4.9
United States	6,697	11,333	1,217	18.2	1,694	14.9
Total	**15,412**	**25,423**	**1,878**	**12.2**	**2,568**	**10.1**

Sources: Thomson International, SDC Platinum.

(1) Transactions in which the company acquired was a bank and the acquiring company belonged to the banking or financial sector.

cont.

Table 2

Value of mergers and acquisitions in the leading industrial countries

	Total value (billions of US dollars)				Total value (as a percentage of GDP)		Percentage of transactions involving:					
							Banks (1)		Other financial institutions (2)		Non-financial companies (3)	
	1990-94	% of total	1995-99	% of total	1990-94	1995-99	1990-94	1995-99	1990-94	1995-99	1990-94	1995-99
Australia	17.3	1.9	53.8	0.9	1.1	2.8	5.3	13.1	5.4	13.4	89.3	73.5
Belgium	6.6	0.7	42.9	0.8	0.6	3.3	9.5	58.5	44.0	10.0	46.5	31.5
Canada	24.6	2.7	135.4	2.4	0.9	4.4	5.2	9.8	7.0	5.4	87.8	84.8
France	68.6	7.6	215.6	3.9	1.1	2.9	12.5	13.9	16.3	13.7	71.2	72.4
Germany	31.2	3.5	327.0	5.9	0.3	2.9	5.9	3.7	26.5	4.2	67.6	92.1
Italy	51.7	5.7	138.5	2.5	0.9	2.4	33.7	46.3	10.3	9.9	56.0	43.8
Japan	20.9	2.3	168.3	3.0	0.1	0.8	49.6	65.6	4.5	2.6	45.9	31.8
Netherlands	23.3	2.6	70.6	1.2	1.4	3.5	43.5	6.0	15.5	2.8	41.0	91.2
Spain	20.1	2.2	55.2	1.0	0.8	1.9	24.1	54.0	11.6	2.0	64.3	44.0
Sweden	24.3	2.7	99.7	1.8	2.1	8.2	10.4	8.2	3.8	3.6	85.8	88.2
Switzerland	8.0	0.9	84.0	1.5	0.7	6.1	32.7	29.5	16.4	11.6	50.9	58.9
United Kingdom	89.0	9.9	509.0	9.1	1.8	7.9	12.9	13.6	5.5	11.4	81.6	75.0
United States	517.2	57.3	3,683.5	66.0	1.6	8.9	15.9	16.7	6.6	6.0	77.5	77.3
Total	**902.8**	**100.0**	**5,583.5**	**100.0**	**1.0**	**5.2**	**17.1**	**18.2**	**8.7**	**6.7**	**74.2**	**75.1**

Sources: Thomson International, SDC Platinum.

(1) Transactions in which the company acquired was a bank and the acquiring company belonged to the banking or financial sector. – (2) Transactions in which the company acquired was a financial institution other than a bank and the acquiring company belonged to the banking or financial sector. – (3) Transactions in which the acquiring company or the company acquired belonged to a sector other than the banking or financial sector.

banking system and directly proportional to the size and rate of growth of the financial markets. The latter result is presumably due to the fact that transactions were driven by banks' desire to grasp the growth opportunities offered by broadening the range of financial services they supplied to customers, opportunities that are greater in countries with broad financial markets. The frequency of mergers and acquisitions was also found to be directly proportional to banks' profitability.

The consolidation of the Italian banking system has advanced apace: between 1990 and the end of September 2000 there were 508 concentrations. The banks involved accounted for 40 per cent of the system's total assets.

The process has permitted substantial gains in efficiency and fostered the growth of the supply of services, especially in connection with asset management. This has had a beneficial effect on banks profitability, after the deterioration recorded in the early nineties. In the first half of 2000 more than 50 per cent of banks' gross income consisted of fees and commissions earned on activities unrelated to lending and fund-raising and more than 20 per cent of fees for services. At the beginning of the nineties these figures had been respectively 24 and 4 per cent. This shift in revenues has allowed banks, despite the narrowing of the spread between lending and deposit rates from 7 to 3.9 percentage points, to improve their profitability and in the last two years to come close to the levels prevailing in the other leading euro-area countries. The intense competition in the industry has led to a large part of the efficiency gains achieved to be passed on to customers.

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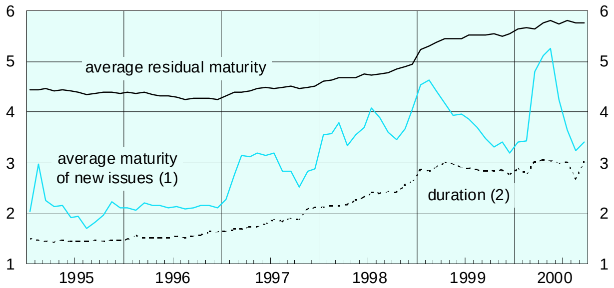
1 The data published by Thomson Financial for this item refer to transactions involving commercial banks, bank holding companies, savings and loans, mutual savings banks, credit institutions, real-estate mortgage bankers and brokers.

Figure 40

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



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

In the first half of the year non-residents made substantial net purchases of government securities (€59 billion), whereas banks and investment funds made further net disposals amounting to €12.9 billion and €21.1 billion respectively (Table 27). The direct holdings of households and firms increased by €4.4 billion.

The yield differential between Italian and German 10-year benchmark government bonds widened progressively from February onwards to reach 40 basis points in October; the differentials of Spanish, Belgian and, in the last few months, French paper vis-à-vis Bunds also increased slightly. On the one hand, the widening reflects the consolidation of the role of Bunds as the euro-area benchmark, partly owing to the widespread use of derivatives based on Bunds among investors. On the other, it followed the significant reduction in net issues of medium and long-term securities by the German Treasury in the first nine months of the year.

Trading in 10-year BTP futures, which was already very thin following the launch of the third phase of EMU, has fallen to virtually nil since the beginning of the year. Between January and September daily turnover in 10-year Bund futures averaged €65 billion, compared with €71 billion in the same period in 1999. Their share of total turnover in derivatives on long-term French, Italian and German securities fell from 95 to 80 per cent, while that of contracts on French securities rose correspondingly from 5 to 20 per cent. The commitment made by several large French intermediaries at the start of the year to support the futures market in French government bonds may have been a factor.

Table 26

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

	1999	1999 Jan.-Sept.	2000 Jan.-Sept.	1999	1999 Jan.-Sept.	2000 Jan.-Sept.
	Gross issues (2)			**Net issues**		
BOTs	373,493 *(192,893)*	302,542 *(156,250)*	253,651 *(131,000)*	–35,107 *(–18,131)*	–15,794 *(–8,157)*	–12,586 *(–6,500)*
CTZs	95,068 *(49,099)*	86,052 *(44,442)*	59,847 *(30,908)*	–17,097 *(–8,830)*	2,770 *(1,431)*	–27,909 *(–14,414)*
CCTs (3)	39,823 *(20,567)*	34,820 *(17,983)*	31,018 *(16,019)*	–52,723 *(–27,229)*	–36,606 *(–18,905)*	–9,622 *(–4,970)*
BTPs	275,239 *(142,149)*	240,228 *(124,067)*	179,345 *(92,779)*	146,859 *(75,846)*	138,703 *(71,634)*	90,165 *(46,566)*
Other	0 *(0)*	0 *(0)*	2,260 *(1,167)*	–27,071 *(–13,981)*	–24,167 *(–12,481)*	–1,118 *(–577)*
Republic of Italy issues	19,581 *(10,113)*	19,581 *(10,113)*	37,963 *(19,606)*	–7,600 *(–3,925)*	–5,659 *(–2,923)*	27,798 *(14,356)*
Total	**803,205** ***(414,821)***	**683,223** ***(352,855)***	**564,384** ***(291,480)***	**7,261** ***(3,750)***	**59,248** ***(30,599)***	**66,728** ***(34,462)***

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

Table 27

Stocks and net purchases of securities issued by residents in Italy (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				
June 2000									
Central bank	151 *(78)*	387 *(200)*	10,485 *(5,415)*	32,291 *(16,677)*	78,465 *(40,524)*	121,780 *(62,894)*	745 *(385)*	122,525 *(63,279)*	13,672 *(7,061)*
Banks	20,040 *(10,350)*	23,803 *(12,293)*	107,939 *(55,746)*	76,578 *(39,549)*	15,895 *(8,209)*	244,255 *(126,147)*	75,954 *(39,227)*	320,209 *(165,374)*	15,291 *(7,897)*
Investment funds	15,936 *(8,230)*	28,045 *(14,484)*	57,662 *(29,780)*	160,879 *(83,087)*	6,347 *(3,278)*	268,869 *(138,859)*	14,551 *(7,515)*	283,420 *(146,374)*	90,335 *(46,654)*
Other investors (3)	180,528 *(93,235)*	102,706 *(53,043)*	288,303 *(148,896)*	861,933 *(445,151)*	137,717 *(71,125)*	1,571,186 *(811,450)*	440,993 *(227,754)*	2,012,180 *(1,039,204)*	1,419,013 *(732,859)*
non-residents (4)	130,869 *(67,588)*	52,208 *(26,963)*	130,456 *(67,375)*	498,198 *(257,298)*	140,900 *(72,769)*	952,629 *(491,992)*	.... *(....)*	952,629 *(491,992)*	.... *(....)*
Total	**216,655** ***(111,893)***	**154,940** ***(80,020)***	**464,389** ***(239,837)***	**1,131,680** ***(584,464)***	**238,425** ***(123,136)***	**2,206,089** ***(1,139,350)***	**532,244** ***(274,881)***	**2,738,333** ***(1,414,231)***	**1,538,310** ***(794,471)***
					Net purchases				
January-June 2000									
Central bank	149 *(77)*	. . *(. .)*	5,573 *(2,878)*	1,733 *(895)*	2,260 *(1,167)*	9,714 *(5,017)*	10 *(5)*	9,724 *(5,022)*	846 *(437)*
Banks	−10,903 *(−5,631)*	5,782 *(2,986)*	−11,228 *(−5,799)*	−9,939 *(−5,133)*	1,262 *(652)*	−25,026 *(−12,925)*	6,440 *(3,326)*	−18,586 *(−9,599)*	5,875 *(3,034)*
Investment funds	1,735 *(896)*	−13,887 *(−7,172)*	−14,210 *(−7,339)*	−14,408 *(−7,441)*	110 *(57)*	−40,660 *(−20,999)*	893 *(461)*	−39,767 *(−20,538)*	−1,609 *(−831)*
Other investors (3)	−5,987 *(−3,092)*	238 *(123)*	12,024 *(6,210)*	95,495 *(49,319)*	21,136 *(10,916)*	122,907 *(63,476)*	22,246 *(11,849)*	145,152 *(74,965)*	7,290 *(3,765)*
non-residents	−2,138 *(−1,104)*	−8,736 *(−4,512)*	10,349 *(5,345)*	90,949 *(46,971)*	23,876 *(12,331)*	(114,300) *(59,031)*	912 *(471)*	115,212 *(59,502)*	.... *(....)*
Total	**−15,006** ***(-7,750)***	**−7,867** ***(-4,063)***	**−7,842** ***(-4,050)***	**72,881** ***(37,640)***	**24,769** ***(12,792)***	**66,935** ***(34,569)***	***29,588*** ***(15,281)***	***96,523*** ***(49,850)***	**12,402** ***(6,405)***

(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, non-residents, central and local government, social security institutions, the Deposits and Loans Fund, securities investment firms and insurance companies; the figures for shares are estimated. – (4) The figures for stocks of CTZs are partially estimated.

Turnover on MTS, the screen-based market in government securities, declined further in the first nine months of the year to a daily average of €7.4 billion, compared with €10.1 billion in the same period in 1999. As trading tends to be concentrated on newly-issued securities, the contraction may have been partly due to the decline in gross issues of government securities. It could also reflect the low variability of long-term interest rates in the course of the year. On the EuroMTS network, where the benchmark government securities of the euro-area countries are traded, turnover in BTPs averaged €1.4 billion a day and rose from 39 per cent of the market total at the end of 1999 to 50 per cent.

Eurobond issues by private sector companies in the area reached the very high level of €287.5 billion in the first nine months, €26.2 billion more than a year earlier (Table 28). Non-financial firms, mostly from the telecommunications and automobile industries, accounted for 31 per cent of the total.

Table 28

Eurobond issues by private sector companies resident in the major European countries and in the euro area (1)

(millions of euros and percentage shares)

	1995	1996	1997	1998	1999	1999 Jan.-Sept.	2000 Jan.-Sept.	2000 Q1	2000 Q2	2000 Q3
Italy										
Gross issues *(millions of euros)*	2,662	4,281	5,377	8,861	45,860	34,524	36,024	13,733	5,040	17,251
(number of operations)	22	27	32	41	105	72	122	48	25	49
of which: non-financial enterprises	213	446	1,695	4,041	24,102	21,878	9,286	2,609	1,169	5,508
Rated issues (2) *(percentage share)*	20	49	25	24	81	81	54	68	43	47
of which: AAA or Aaa	44	20	0	14	13	1	14	3	4	30
France										
Gross issues *(millions of euros)*	7,988	10,598	15,131	11,737	45,594	38,956	38,686	13,585	12,960	12,141
(number of operations)	83	90	91	65	178	141	167	61	55	51
of which: non-financial enterprises	829	1,507	3,793	3,816	28,753	25,884	20,566	4,512	7,600	8,454
Rated issues (2) *(percentage share)*	56	89	45	59	58	56	44	44	53	34
of which: AAA or Aaa	11	3	6	3	14	6	4	0	10	0
Germany										
Gross issues *(millions of euros)*	14,303	36,358	37,508	48,072	111,035	96,751	99,630	38,031	30,287	31,311
(number of operations)	123	238	250	291	588	416	432	158	144	130
of which: non-financial enterprises	895	3,482	4,047	4,980	15,444	12,843	24,929	8,073	9,551	7,306
Rated issues (2) *(percentage share)*	31	59	62	55	68	71	64	65	54	71
of which: AAA or Aaa	24	42	31	52	46	48	44	54	28	46
Euro area										
Gross issues *(millions of euros)*	51,850	84,298	96,916	116,596	312,561	261,283	287,487	98,286	86,938	102,264
(number of operations)	536	689	723	702	1,406	1,029	1,225	455	373	397
of which: non-financial enterprises	3,188	8,181	12,879	20,959	91,459	79,333	89,496	17,831	34,343	37,323
Rated issues (2) *(percentage share)*	39	63	50	51	71	72	58	65	56	53
of which: AAA or Aaa	43	34	26	37	29	27	28	29	23	30

Source: Bank of Italy calculations based on Capital Data data.

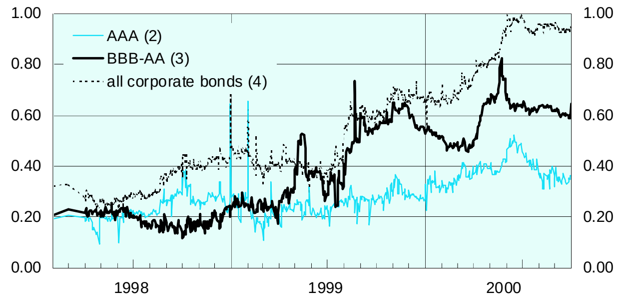
(1) Eurobonds, at face value, issued by private sector borrowers belonging to groups resident in the country or area indicated; includes private placements and issues placed simultaneously on the Euromarket and on the US domestic market. Non-financial enterprises are classified according to the sector to which the controlling company belongs. Amounts in local currency for periods before 1999 have been translated at the exchange rate of the euro applicable at 1 January 1999. — (2) Share of the nominal value of issues. The rating considered is that awarded by Standard & Poor’s or, if not available, by Moody’s or Fitch-IBCA.

In the first nine months rated issues accounted for 58 per cent of the total, with a further increase in the proportion of riskier securities. Underwriting commissions were broadly the same as in 1999.

Eurobond issues by Italian companies totaled €36 billion in the first nine months, compared with €34.5 billion a year earlier, and made up 13 per cent of the total. Non-financial firms accounted for 26 per cent of all issues by Italian firms.

Figure 41

Yield differentials between bonds of non-financial private-sector issuers and government securities and between rating classes (1)
(percentage points; daily data)



Source: Bank of Italy calculations based on Merrill Lynch indices..
(1) Yields relate to fixed-rate euro-denominated Eurobonds with a residual maturity of one year or more issued by non-financial enterprises. Includes bonds for which the foreign currency long-term debt of the issuer's country of residence is of investment grade (rating of not less than BBB3 or BBB–). The yield curve for government securities is estimated by Merrill Lynch on the basis of French and German securities. The differentials are adjusted for the value of redemption options (option-adjusted spreads). End-of-month data until March 1998 and daily data thereafter. – (2) Yield differential between AAA-rated corporate bonds and government securities. – (3) Yield differential between BBB-rated and AA-rated corporate bonds. – (4) Yield differential between all corporate bonds and government securities.

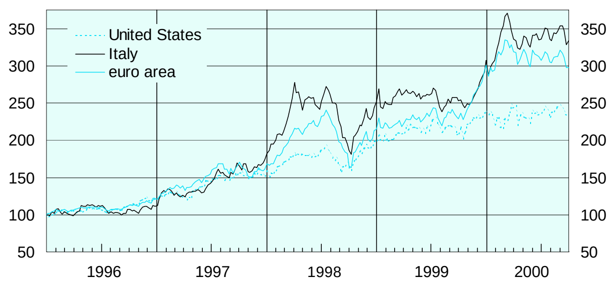
The yield differential between corporate Eurobond issues and government securities widened further to stand at nearly 1 percentage point at the end of September, 0.3 points more than at the end of 1999 (Figure 41). The increase affected bonds of every rating class in proportion to their riskiness. It was particularly large for the bonds of telecommunications companies, which stepped up their borrowing considerably, mainly in order to meet the high cost of exploiting the new UMTS technology; in their case, the widening of spreads may reflect the premium demanded by investors in the light of mounting debt.

In the euro area the stock markets rose strongly in the first two months of the year, propelled by the improvement in economic conditions, but there followed a period of declining prices and high volatility. In the third quarter share prices remained relatively stable.

The Euro Stoxx share index fell by 1.2 per cent over the first nine months of the year. By contrast, the Italian stock exchange posted a gain of 8.8 per cent (Figure 42), slightly higher than that recorded by the French bourse (5.2 per cent). All the other main stock markets showed declines: 2.2 per cent in the United States, 14.6 per cent in Japan, 0.9 per cent in Germany and 6.6 per cent in the United Kingdom. The upturn in economic activity following the moderate growth of earlier years contributed to the good performance of equities in Italy; in particular, the rise in the index reflected that in bank and insurance shares throughout the euro area and the firming of share prices in the telecommunications sector, which were down sharply in Germany and France.

Figure 42

Share prices (1)
(end-of-week data; indices, 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.

The Euro.NM index, comprising the shares of small and medium-sized companies in innovative sectors, rose by 9.2 per cent during the first nine months of the year. Italy's Nuovo Mercato showed a comparable gain (8.1 per cent). In the United States, the Nasdaq index fell by 3.7 per cent.

The main stock markets fluctuated sharply in October; prices retreated further in the first half of the month, owing partly to the tensions in the Middle

East, and then recovered. By the end of the month the Italian stock exchange had increased its gain since the start of the year to 12.3 per cent; the Nuovo Mercato showed a decline of 2.3 per cent. On Nasdaq, prices were down by 16.9 per cent since the start of the year and by 34.5 per cent from the high recorded in March.

In Italy the capitalization of shares listed on the main stock exchange, the second market and the Nuovo Mercato totaled €821.7 billion at the end of September, compared with €726.6 billion at the beginning of the year, and was equal to 73 per cent of GDP, the same as the ratio in Germany but lower than those in Spain and France (94 and 118 per cent respectively). The rise in share prices was responsible for €80.8 billion of the increase; new listings accounted for €10.8 billion, of which €3.4 billion was on the Nuovo Mercato, and capital increases by quoted companies added only €3.5 billion.

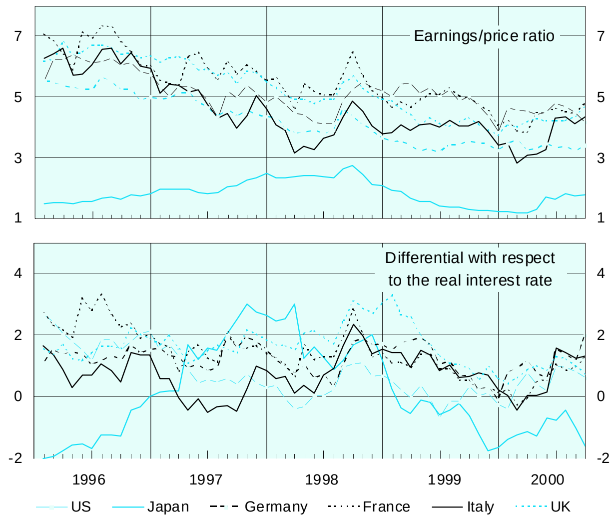
The good performance of share prices in the early months of the year encouraged a large number of new listings, 7 on the main market and 20 on the Nuovo Mercato, bringing the total of listed companies to 238 and 27 respectively. However, the subsequent reversals reduced demand for new public offerings, especially in the new technologies sector, so that many of the issues made during this period were placed at the minimum price.

The earnings/price ratio of Italian companies rose above 4 per cent in June, thus returning to the values that had prevailed before the surge in prices in the last quarter of 1999 (Figure 43). In view of the broad stability of real long-term interest rates and the decline in the implied volatility of shares, this was consistent with a downward revision of expectations for the growth in corporate profits.

In the first nine months of the year Italian investment funds recorded a further outflow of savings amounting to €5.6 billion. Substantial net redemptions of units of bond and money-market funds (€59.2 billion) were only partly offset by net flows of savings into equity, balanced and global funds (€37.3 billion, €13.9 billion and €2.4 billion respectively).

Figure 43

Earnings/price ratio and differential with respect to the real 10-year interest rate on the main stock exchanges (1)
(monthly data; percentages and percentage points)



Sources: Datastream and Bank of Italy.
(1) Real interest rates are calculated by deflating nominal rates on 10-year benchmark government securities by consumer price inflation in the twelve months ending in the month indicated.

By contrast, the popularity of foreign investment funds controlled by Italian intermediaries increased further among Italian savers. According to Assogestioni, the trade association of the asset management industry, these funds received a net inflow of €29.9 billion in the first nine months, an increase of €11.4 billion on the same period in 1999. Here too, net subscriptions were concentrated in the equity and balanced segments (€21.7 billion).

At the end of September Italian investment funds had assets under management totaling €475 billion, unchanged from the end of 1999. In the first half of the year their share of the total net assets of euro-area investment funds decreased from 18.3 to 16.8 per cent. If foreign funds controlled by Italian intermediaries are included, the proportion remained basically stable at 20 per cent.

The average return of Italian investment funds was 4.6 per cent in the first eight months of the year, reflecting the fall in share and bond prices. The disparity among the different segments was small.

SHORT-TERM ECONOMIC PROSPECTS

The world economy

Economic activity increased briskly in all areas of the world in the first half of the year. In the United States the economy continued to expand at a rate above even the most favourable estimates of potential growth. The upturn in the euro area accelerated, fueled by domestic demand. Output in Japan recovered significantly, aided by the pick-up in activity in Asia. Growth firmed in the emerging countries.

The strong rise in world demand drove up oil prices. Although OPEC increased production in March, in September the average price of the main grades of crude oil was more than three times the low recorded in 1998. At the end of that month the announcement that the United States would release part of its strategic reserves had a dampening effect on prices. The market continues to be subject to great uncertainty, owing partly to the low level of stocks in OECD countries as winter approaches in the northern hemisphere; the renewed tension in the Middle East is also a factor.

In the first few months of the year the risk that the rapid growth of the US economy would trigger a rise in inflation prompted the Federal Reserve to announce a more restrictive monetary stance. Between January and May the Federal funds rate was raised by one percentage point to 6.5 per cent; short-term rates in the United States have remained unchanged since then amidst signs of a cyclical slowdown and, more recently, a fall in share prices.

The Eurosystem also gradually raised its reference rates to prevent the rise in oil prices and the depreciation of the euro from causing a deterioration in medium-term inflation expectations at a time of economic recovery, thus generating a wage-price spiral. The rate on main refinancing operations was increased by a total of 2.25 percentage points from November 1999 onwards, to reach 4.75 per cent at the beginning of October.

Finally, in Japan the central bank continued to keep very short-term rates close to zero throughout the first half of the year but raised its reference rate in mid-August, albeit only slightly.

The expansion in industrial production and employment in the United States slowed down from the summer onwards; in the third quarter GDP growth fell to an annual rate of 2.7 per cent, less than half the rate recorded in the preceding half-year, owing mainly to a sharp drop in investment growth from 14.6 to 6.9 per cent. Signs of a slowdown also emerged in Europe.

Share prices in the leading areas reached new peaks in the first quarter, but since then they have fluctuated widely and declined overall, especially in the last two months. In the United States and Japan they are now lower than at the end of last year; in Europe the decline has been less marked. The price correction was attributable partly to profits warnings and tighter liquidity conditions.

The euro recovered somewhat in June but weakened significantly during the summer. At the end of September the downward trend was countered by concerted intervention by the Eurosystem and the central banks of the other leading countries. The currency weakened again in October, but then recovered significantly as data indicating a slowdown in activity in the United States became available. On 3 November unilateral intervention by the Eurosystem gave the euro further support.

Despite the weakening of economic activity in recent months, the International Monetary Fund estimates that the world economy should grow by 4.7 per cent in 2000 (Table 29). This rate of growth,

Table 29

Actual and forecast performance of selected international macroeconomic variables

(percentage changes on previous year)

	1999	2000 (1)			2001 (1)	
		IMF		Consensus (c)	IMF (a)	Consensus (c)
		(a)	(b)			
GDP (2)						
World	3.4	4.7	4.2	–	4.2	–
Industrial countries	3.0	3.9	3.4	–	3.0	–
of which: United States	*4.2*	*5.2*	*4.4*	*5.2*	*3.2*	*3.6*
Japan	*0.2*	*1.4*	*0.9*	*2.0*	*1.8*	*2.0*
Euro area	*2.4*	*3.5*	*3.2*	*3.4*	*3.4*	*3.1*
Developing countries	3.8	5.6	5.4	–	5.7	–
of which: Asia	*5.9*	*6.7*	*6.2*	–	*6.6*	–
of which: China	*7.1*	*7.5*	*7.0*	*7.9*	*7.3*	*7.8*
Latin America	*0.3*	*4.3*	*4.0*	*3.8*	*4.5*	*4.0*
South Korea	10.7	8.8	7.0	8.7	6.5	5.8
Russia	3.2	7.0	1.5	5.9	4.0	4.1
Consumer prices						
Industrial countries	1.5	2.3	1.9	–	2.0	–
of which: United States	*2.2*	*3.2*	*2.5*	*3.3*	*2.6*	*2.7*
Japan	*–0.3*	*–0.2*	*0.1*	*–0.6*	*0.5*	*–0.1*
Euro area	*1.1* (3)	*2.1*	*1.7*	*2.2*	*1.7*	*2.0*
Developing countries	6.6	6.2	5.7	–	5.2	–
of which: Asia	*2.4*	*2.4*	*2.6*	–	*3.3*	–
Latin America	*9.3*	*8.9*	*7.7*	*6.8*	*7.0*	*5.5*
South Korea	0.8	2.2	3.0	2.4	3.0	3.2
Russia	85.7	18.6	20.5	19.6	13.8	14.3
World trade (4)	5.1	10.0	7.9	–	7.8	–
Raw material prices (5)						
Oil ($ per barrel) (6)	18.0	26.5	24.5	–	23.0	26.1 (7)
Oil	37.5	47.5	35.1	–	–13.3	–
Non-oil	–7.1	3.2	4.9	–	4.5	–
Current account balances (8)						
Industrial countries	–194.1	–224.7	–261.4	–	–230.0	–
of which: United States	*–331.5*	*–418.5*	*–419.4*	*–429.0*	*–438.4*	*–459.0*
Japan	*106.9*	*121.2*	*102.4*	*116.8*	*122.4*	*110.6*
Euro area	*–6.7*	*55.6*	*64.9*	*16.7*	*78.4*	*25.4*
Asia	45.2	39.4	31.7	–	23.8	–
Latin America	–56.3	–58.7	–56.5	–48.9	–66.5	–61.6
South Korea	25.0	11.1	14.0	8.5	1.9	3.5
Budget balances (9)						
United States	0.7	1.4	1.0	–	1.5	–
Japan	–7.4	–8.2	–8.4	–	–6.3	–
Euro area (10)	–1.3	0.1	–0.8	–	–0.4	–

Sources: National statistics, ECB, IMF and Consensus Economics.
(a) IMF, *World Economic Outlook*, October 2000. (b) IMF, *World Economic Outlook*, May 2000. (c) For the industrial countries, Asia and Latin America, October 2000; for Russia, September 2000. – (1) Forecasts. – (2) At constant prices. – (3) Harmonized consumer price index. – (4) Goods and services, at constant prices. – (5) In US dollars. – (6) For 1999 and the IMF forecasts, mean of the prices of the three main grades of oil; for the Consensus forecasts, WTI. – (7) Forecasts for end-October 2001. – (8) Billions of dollars. – (9) As a percentage of GDP. – (10) Includes the proceeds of the sales of UMTS licences in Germany (2.5 per cent of GDP in 2000) and France (1.3 per cent of GDP in 2001).

which is half a point higher than forecast by the Fund in the spring, would be the highest since 1988.

According to the forecasts contained in the IMF *World Economic Outlook* based on a fall in the price of crude oil to $23 per barrel on average in 2001, the rate of growth in world output will come down to 4.2 per cent next year. In the United States, in particular, GDP growth is expected to decline from 5.2 to 3.2 per cent; the current account deficit is nevertheless likely to remain at the high level recorded in 2000. Economic activity in the euro area is expected to continue to rise at a rate of more than 3 per cent. In Japan the rate of growth is likely to slow down to 1.8 per cent, while in the emerging countries it is expected to remain unchanged. Inflation should fall back below 2 per cent in the euro area and to 2.6 per cent in the United States; in Japan it is expected to remain close to zero.

The forecasts contained in the *World Economic Outlook* are based on an assumption that oil prices will fall significantly in relation both to the current level and to present futures prices. More up-to-date assessments from international organizations indicate that if oil prices remained at their current high levels, inflation in 2001 would exceed the *World Economic Outlook* forecasts by around half a percentage point in Europe and Japan and by a quarter of a point in the United States. The repercussions on the level of activity would also be more severe in Europe and Japan owing to their greater dependence on imported energy. In these areas GDP growth may be up to half a percentage point lower than forecast; the impact would depend on the extent to which the increased revenues of oil-producing countries were used for consumption and investment.

Economic developments in Italy and the euro area

Economic activity in the euro-area economies continued to grow rapidly until the summer. It then showed signs of weakening, due primarily to a slowdown in domestic demand.

Export demand remains robust, sustained not only by the good performance of world trade but also by the weakness of the euro. From mid-year onwards, however, the depreciation of the currency and the rise in energy prices halted the improvement in households’ confidence. The decline in optimism and the worsening of the terms of trade could result in slower growth in consumer spending than had been forecast until a few months ago. Investment too could be affected by the more uncertain climate.

In the first half of the year the annualized growth rate in the euro area was above 3.5 per cent. According to international forecasts, the average growth rate for the year as a whole will be slightly less.

In Italy, industrial production continued to increase rapidly until May. The index declined in June and July but recovered some of the lost ground in August and, according to the estimates currently available, again in September. On the basis of the most recent cyclical indicators, output should continue to grow for the rest of the year, although preliminary data suggest that it may be affected by the floods that swept parts of the North in October.

According to the Government’s forecasts set out in the Forecasting and Planning Report published in September, GDP should rise by 2.8 per cent in 2000 (Table 30), which would narrow the gap with the other euro countries. This forecast implies growth of 1.3 per cent in the second half, only marginally less than in the first. Given the relative sluggishness of economic activity during the summer, this would appear to require a substantial acceleration in the last part of the year.

The Report predicts that domestic demand will grow at virtually the same rate as GDP. The most dynamic component, gross fixed investment, should increase by 7 per cent, fueled by the growth of demand, continued high corporate earnings and tax incentives. The growth in consumption accelerated sharply in the first quarter but has slowed considerably since then; the year-on-year increase should come to 2.1 per cent.

In a year of strong expansion in world trade, net external demand is expected to boost growth by 0.4 percentage points, the first positive contribution since 1996. Exports are forecast to expand by 9.5 per cent in volume terms. Despite the substantial depreciation of the euro, Italy is not expected to recoup its market shares, which have been declining for several years. In the first half of the year French and German exports increased at a seasonally adjusted annual rate of more than 13 per cent, compared with one of about 8 per cent for Italian exports.

Table 30

Outturns and official forecasts for the Italian economy

	1999	2000 (1)	2001 (1)
	(percentage changes)		
Gross domestic product	1.4	2.8	2.9
Domestic demand (2)	2.0	2.9	3.1
Imports	3.4	8.5	7.5
Exports	–0.4	9.5	6.8
Consumer prices	1.7	2.3	1.7
Labour costs per employee	1.9	2.3	2.6
Unit labour costs	1.4	0.8	0.8
	(percentage ratios)		
General government net borrowing/GDP	1.9	1.3	0.8
Balance-of-payments surplus on current account/GDP	0.5	–0.1	0.2

Source: *Relazione previsionale e programmatica per l'anno 2001*.
(1) Forecasts. – (2) Net of changes in stocks and valuables.

Driven by domestic demand, imports should rise by 8.5 per cent, almost as rapidly as the growth in exports. The current account balance is expected to show a significant deterioration owing to the worsening of the terms of trade; indeed, a deficit is forecast for the first time in seven years, albeit a modest one.

The growth in economic activity, moderate though it is, and the low level of wage increases are encouraging a further rise in employment, which according to the Report will exceed an annual average of 23.4 million standard labour units, nearly 900,000 more than the low point in 1995. The unemployment rate, which has been falling since last year, will be below 11 per cent on average in 2000.

On the assumption that oil prices will fall to an annual average of $27 a barrel in 2001, the Report puts GDP growth next year at 2.9 per cent. The forecast postulates a rapid expansion of domestic demand: investment should continue to grow at the pace predicted for this year, while consumption should accelerate. The contribution of net exports is likely to turn slightly negative again, but the current account should show a slight surplus, thanks to the fall in oil prices. A more thorough assessment of the economic outlook for next year can be made once the data on the second half of this year are known and the trend in oil prices becomes clear.

Inflation and monetary policy

The increase in oil prices and the depreciation of the single currency have caused inflation to rise throughout the euro area. The acceleration in prices has spread to all the countries. The twelve-month rise in the harmonized consumer price index for the area came to 2.5 per cent in the third quarter, compared with 1.1 per cent a year earlier; in Italy it increased from 1.8 to 2.6 per cent.

External inflationary pressure in Italy has been eased by the lower weight of energy products in the basket of households' consumption compared with the European average and by the lower responsiveness of final fuel prices to changes in crude oil prices. The inflation gap vis-à-vis the other euro countries has narrowed, and in September it was actually negative on a twelve-month basis. However, if energy products and fresh foods are excluded, the gap remains positive and unchanged overall at around one percentage point, with a slight reduction vis-à-vis Germany and a widening vis-à-vis France.

Price rises in the area have been curbed by the moderation of labour costs and substantial gains in industrial productivity. The cyclical improvement in productivity has been especially sharp in Italy, and unit labour cost trends have come into line with those in France and Germany, favouring a future narrowing of the gap in the underlying components of inflation.

The Forecasting and Planning Report forecasts consumer price inflation of 2.3 per cent in Italy in 2000 and 1.7 per cent in 2001. These projections are subject to some margin of error owing to uncertainty about raw materials prices and exchange rates. Achieving the inflation forecast for 2000 would require an abrupt fall in inflation in the last part of the year.

To prevent external pressures from translating into a permanent rise in inflation, it is essential that increases in nominal incomes remain moderate.

In recent months, as the rise in oil prices and the depreciation of the euro heightened the risk of triggering an upsurge in inflation, liquidity conditions in the euro area were made progressively less accommodating, with repeated increases in the Eurosystem's interest rates.

The three-month moving average of the twelve-month growth in the euro area's M3 money supply was 5.4 per cent in September, essentially the same as in previous months and still above the reference value of 4.5 per cent. The growth in credit to the private sector is still very rapid; indeed, it actually accelerated slightly in the last three months, reaching a twelve-month rate of 10.8 per cent in September.

The real short-term interest rate in the euro area, calculated on the basis of inflation expectations deduced from opinion polls, is around 2.6 per cent, 1.2 points higher than at the end of 1999.

At the end of October the yield curve pointed to expectations of a slight further rise in yields in the next few months. For maturities in 2001, it is essentially flat. At the long end, ten-year swap rates stand at 5.9 per cent, about the same as at the beginning of the year.

The banking system

Bank credit grew very rapidly and outpaced the expansion in borrowed funds throughout the euro area. In Italy the high growth in lending was due not only to the strong expansion in economic activity but also to a number of large loans to firms in the service and energy sectors.

Credit conditions remained relaxed in Italy, where the bad-debt ratio declined considerably. The increase in lending rates in the wake of the rise in money market yields was in line with the euro-area average. The spread between the rate on short-term loans and the average yield on Treasury bills remains very small.

Italian banks financed the growth in their loan portfolios by increasing their recourse to repos, bond issues and net foreign borrowing; they also ran down their securities portfolios substantially. The average balance sheet ratio of liquid assets to total financial assets fell sharply and is now much lower than in the other leading euro-area countries. Continued strong growth in lending will require a much more rapid increase in fund-raising than hitherto, with possible repercussions on the cost of borrowed funds. The rapid expansion in credit means that banks need to pay ever closer attention to loan quality.

The main indicators of Italian banks' profitability improved in the first half of the year, owing to a rapid increase in fee income and a recovery in net interest income, which in turn was due to the rapid growth in loan portfolios. Operating costs accelerated, while those associated with bad and doubtful debts diminished. At a time of far-reaching corporate restructuring, rising investment in new technologies and rapid growth in lending, maintaining the level of profitability will depend very much on the effectiveness of banks' policies for curbing costs and on proper risk management.

Budgetary policies

In the euro area the performance of the public finances so far this year suggests that general government net borrowing in 2000 will probably be slightly less than indicated in the participating countries' stability programmes (1.1 per cent of GDP), even when the proceeds of sales of UMTS licences are excluded.

The latest forecasts for 2001, again excluding the proceeds of sales of UMTS licences, show little or no change in the ratio of general government net borrowing to GDP; on a cyclically adjusted basis, however, there would be some increase in the ratio. Many countries have introduced or are in the process of introducing reforms aimed at reducing the tax burden; the deterioration in the cyclically adjusted balance reflects the absence of equally far-reaching measures to curb expenditure.

The budget for 2001

On 30 September the Government set out its budget adjustment for 2001 when it presented the Finance Bill and the budget on a current programmes basis. In contrast with the preceding years, the budgetary measures for 2001 consist mainly of tax cuts and increases in expenditure. According to the Update of the Economic and Financial Planning Document, the overall impact of the measures will be to reduce the primary surplus on a current programmes basis by 24.2 trillion lire in 2001. It is officially estimated that the effects of the measures to reduce revenue will amount to 30.7 trillion, partly offset by 8.7 trillion of increases in tax receipts and 800 billion of receipts from the sale of real estate. On the spending side, there are to be additional outlays totaling 10.2 trillion accompanied by current expenditure savings of 7.2 trillion.

Tax relief for 2000

At the same time as it presented its budget proposals for 2001, the Government issued a decree law granting tax relief of around 13.1 trillion lire for the current year, with the aim of giving back to households and firms the excess of tax revenue now building up with respect to the earlier forecasts.

For households, the relief will be provided through changes in the structure of Irpef for 2000. Some measures will affect cash flows this year: for payroll employees, withholdings for November are reduced by up to 350,000 lire (total impact: 7.2 trillion lire); for the self-employed and businesses subject to personal income tax, the payment on account due by 30 November is reduced (1.8 trillion). The payment on account of Irpeg and Irap is also reduced (3.6 trillion). The latter measure does not actually reduce the tax liability for 2000, so that the increase in the balance due next year is to be offset by further tax relief for 2001. Finally, the excise duties on several type of heating oil are to be temporarily reduced (550 billion).

The measures for 2001

***Increase in revenue*. – *The National Lotteries are to be privatized and new lotteries introduced (2.1 trillion); tax refunds are to be reduced by extending, albeit at a higher level, the limit on the possibility of offsetting credits and debits on the multi-tax payment form (2.5 trillion); and there are to be further disposals of property belonging to the State and other public bodies (800 billion). In addition, 3.6 trillion is forecast to come from the effects next year of the reduction in the payments on account by businesses for the year 2000.*

Estimated effects of the budget for the year 2001
on the general government consolidated accounts (1)
(billions of lire)

REVENUE	
Increase in revenue	**9,500**
Increases in current receipts	8,700
Lotteries and the like (2)	*2,100*
Limit on offsetting of tax credits and liabilities	*2,500*
Reduction in Irpeg and Irap payments on accounts in 2000 (2)	*3,600*
Other tax measures	*500*
Property sales	800
Decrease in revenue	**–30,700**
Tax receipts	–28,500
Changes in Irpef (3)	*–15,200*
Changes in Irpeg rates and payments on accounts in 2001	*–3,700*
Tax credits for firms	*–1,900*
Regional taxes (Irap and Irpef supplement)	*–3,300*
Reduction in taxes on electricity for firms	*–1,100*
Reduction in excise duties on oil products	*–2,000*
Changes in VAT	*–1,300*
Social security contributions	–2,200
NET CHANGE IN REVENUE *(A)*	**–21,200**
of which: ***NET CHANGE IN TAXES AND CONTRIBUTIONS***	***-22,000***
EXPENDITURE	
Reduction in expenditure	**–7,200**
Intermediate consumption	–7,200
Increase in expenditure	**10,200**
Increases in current expenditure	6,400
Renewals of labour contracts	*1,700*
Pensions	*1,400*
of which: increased indexation	*430*
increase in minimum pensions	*870*
Social policies and other minor items	*700*
of which: national fund for social policies	*200*
assistance for disabled	*250*
Increase in current account appropiations	*2,600*
Increase in capital expenditure	3,800
NET CHANGE IN EXPENDITURE *(B)*	**3,000**
TOTAL CHANGE IN NET BORROWING *(B-A)*	**24,200**

(1) Based on official estimates. – (2) Estimate of the effects of Decree Law 268 of 30 September 2000. – (3) Includes 2.6 trillion lire of relief granted in Decree Law 268 of 30 September 2000.

cont.

***Decrease in revenue**. – The most substantial reduction, amounting to more than 15 trillion lire, comes from the proposed permanent changes in the structure of Irpef: a) the threshold of the first income bracket is to be raised from 15 to 20 million lire; b) the tax credits for employees and the self-employed are to be increased, thereby raising the threshold of tax exemption; c) the tax rates are to be gradually reduced between 2001 and 2003; d) the tax credits for dependents and rental payments for principal dwellings are increased; and e) the imputed income in respect of owner-occupied dwellings is to be tax exempt. By contrast, the extension to 2001 of the Irpef tax credits for building renovation works is a temporary measure.*

Receipts from Irpeg are set to diminish by 3.7 trillion owing to the proposed cut in the ordinary rate from 37 to 36 per cent and the reduction, for 2001 only, of the proportion payable on account. According to the official estimates, other changes in business taxes will affect revenue in the years after 2001. The changes in question: a) strengthen the Dual Income Tax by eliminating the requirement (a minimum average rate of 27 per cent) that has limited full utilization of the system up to now; b) introduce an optional tax regime similar to Irpeg for sole proprietorships and partnerships; c) introduce relief for trucking firms, fuel distributors and farm operators; d) provide for a preferential tax system for new businesses and so-called marginal activities; and e) lower the Irpeg rate further to 35 per cent from 2003 onwards.

Further decreases in revenues will come from the temporary granting of tax credits to foster employment and investment in backward areas (1.9 trillion) and the reduction of the Irap tax base for firms whose value added is less than 350 million lire (2.9 trillion).

In order to offset the effects of the rise in the prices of oil products, 2 trillion has been appropriated to finance the extension from 31 December 2000 to 30 June 2001 of the cuts in the related excise duties; another 1.1 trillion has been set aside to reduce the taxation of electricity for commercial and industrial purposes.

The VAT relief granted (1.3 trillion) is mostly of a temporary nature and consists in making the tax on transactions involving companies' motor vehicles partially deductible and extending the preferential regime for the renovation of buildings and the special regime for agriculture to 2001.

Provision is made for a reduction of 0.8 percentage points in employers' social security contributions for family allowances (2.2 trillion).

***Decrease in expenditure**. – The budget proposals include a reduction of 7.2 trillion in general government intermediate consumption. According to the official forecasts, which are currently being revised, the contributions to the total are as follows: 1.7 trillion by central government, 2.5 trillion by provinces and municipalities, 1.5 trillion by the health service and 1.5 trillion by regions and other public entities. The savings are expected to come from a rationalization of procurement procedures and allow the rise in local authorities' current expenditure (excluding that on health care and interest payments) to be kept below 3 per cent.*

***Increase in expenditure.** – The budget proposals provide for an increase of 6.4 trillion in current expenditure.*

About 3.7 trillion has been allocated to the renewal of central government employees' labour contracts. Net of social security contributions and direct taxes, the impact on the budget is estimated to be about 1.7 trillion. Other public sector bodies are expected to provide in their own budgets for increases in costs arising from labour contract renewals.

The increase in expenditure in the pension field is estimated at 1.4 trillion. Specifically, the degree of inflation indexation has been raised (430 billion) and provision made for an increase in minimum pensions (870 billion). The budget proposals also include the creation of a special fund to guarantee continuity of insurance coverage for discontinuous forms of employment (70 billion).

The budget proposals envisage 700 billion of additional spending on welfare policies and other minor items, including the allocation of 200 billion to the national fund for social policies and 250 billion for measures to assist the disabled. In addition, the income limit for family benefits has been raised for families with three or more children under the age of nineteen.

Other minor current expenditure items are set to increase by 2.6 trillion and expenditure on capital account by 3.8 trillion.

Adequate spending cuts are necessary in order to reconcile the reduction in revenue with the achievement of budget positions close to balance or in surplus, as provided for in the Stability and Growth Pact. Such positions are indispensable if adequate cyclical stabilization policies and a rapid reduction in the ratio of public debt to GDP are to be possible. In turn, reducing the debt ratio will create more favourable conditions for coping with the costs inherent in the ageing of the population.

In Italy the target for the ratio of general government net borrowing to GDP in 2000 is 1.3 per cent. According to the Government's forecasts, the tax relief approved in September – amounting to around 13 trillion lire and concentrated in the last two months of the year – will offset the faster rise in revenue than envisaged in the Economic and Financial Planning Document; the tax burden is expected to remain basically the same as in 1999. If the objective for the budget balance is to be achieved, primary expenditure will have to increase more slowly in the last part of the year than in the first half.

The Government presented an Update of the Economic and Financial Planning Document for 2001-2004 in September. The current programmes forecasts for revenue have been revised upwards. The increment in receipts with respect to the Planning Document figures, which rises gradually from just over 1 per cent of GDP in 2001 to 1.6 per cent in 2004, is broadly offset by tax reductions. The objective for net borrowing in 2001 is lowered from 1 to 0.8 per cent of GDP; the objectives of a balanced budget in 2003 and a modest surplus in 2004 are reaffirmed.

Within this medium-term framework, the budget for 2001 is expected to reduce the primary surplus by around 24 trillion lire with respect to the current programmes scenario. According to the official estimates, revenue would be reduced by around 21 trillion and expenditure raised by around 3 trillion (see box). The proposed budget does not envisage substantial structural measures to bring down the ratio of primary expenditure to GDP over a horizon of several years. During its passage through Parliament, the cost of emergency relief for the areas affected by the recent floods will have to be taken into account.

If the objectives announced for 2001 are to be achieved, it is important that the increase in revenue recorded so far prove to be structural, that actual expenditure be in line with the programmes, that the measures included in the proposed budget with a view to reducing spending on goods and services be as effective as expected, and that the forecast receipts from disposals of real estate materialize. Prompt corrective action would be essential if there were any deviation from the forecasts.

In the last few years significant steps have been taken towards decentralizing the responsibilities for expenditure and strengthening regional, provincial and municipal governments' autonomous powers of taxation. Further moves in this direction must be accompanied by the introduction of budget constraints for all local authorities. Close linkage between responsibility for spending and responsibility for the financing thereof contributes to achieving the benefits of decentralizing resource allocation and compliance with the objectives set for the public finances at the national level.

On the basis of the Government's programmes, the ratio of tax and social security contributions to GDP should be 42.4 per cent in 2001, 0.9 points less than in 1999. As indicated in the Planning Document Update, subsequent developments would lead to a further reduction of one percentage point over the next two years.

Structural measures on the spending side would permit a larger reduction in the ratio, which would enhance the economy's growth prospects, with positive repercussions on the public finances.

Articles

The monetary transmission mechanism: evidence from the industries of five OECD countries (*)

The monetary transmission mechanism, i.e. the way in which monetary impulses are transmitted to the real economy and prices, is the object of assiduous attention from the central banks. In the euro area, differences in monetary transmission in the individual countries are of special importance. Disaggregated data for the various sectors of manufacturing industry can be used to analyze some of the implications of the main monetary transmission theories[1] and the factors underlying differences in the transmission mechanism. The use of sectoral rather than aggregate data makes it possible to use the high variability of microeconomic features (e.g. the use of goods produced, the capital intensity of the productive process and firm size) to assess more accurately the effect that the variables identified in the theory have on the transmission mechanism.

The analysis seeks to measure the impact of monetary policy on the level of economic activity in 21 manufacturing sectors in five OECD countries (France, Germany, Italy, the United Kingdom and the United States) and to explain the differences in monetary transmission on the basis of sectoral characteristics. Table 1 shows estimates of the effect of an unexpected increase in the short-term interest rate on economic activity in the sectors analysed. The estimates were conducted using structural VARs.[2] The values indicate the percentage decline in output 24 months after a 1-percentage-point rise in the short-term interest rate. In each country the sectors reacted in a significantly different manner, while the profile of sectoral differences was similar across countries. Certain sectors, such as the automobile industry, show a marked sensitivity to monetary shocks, while the reaction of others, such as clothing, is barely perceptible. The differences between sectors are larger than those measured for each sector among countries.

The diverse sectoral impact of monetary policy can be attributed to a number of structural characteristics. Table 2 gives the results of a regression of the elasticities shown in Table 1 against a set of sectoral indicators. These explanatory variables were selected on the basis of the main monetary transmission theories; the values for the variables were drawn from two databases.[3]

One group of indicators is linked to the "monetary channel" of transmission: a monetary tightening raises the real interest rate owing to nominal rigidities in the economy, thereby dampening economic activity. The effect of the rise depends both on the given structure of the productive process (for example, on capital intensity, which determines funding requirements) and on the characteristics of the product market (for example, the final use of the goods). The sectoral indicators used in the analysis

(*) *Prepared by the Economic Research Department. The full text of the paper* "The monetary transmission mechanism: evidence from the industries of five OECD countries" *from which this summary is drawn is forthcoming in the Department's* Temi di Discussione *series.*

include: a dummy distinguishing sectors that produce consumer durables and capital goods from others;[4] openness to international trade;[5] capital intensity;[6] working capital per employee;[7] dependency on short-term debt.[8] The first two variables measure the sensitivity of demand to the interest rate in each sector, assuming that an increase in the interest rate has a larger effect on demand for capital goods and consumer durables and, through the appreciation of the currency and the consequent loss of international competitiveness, on external demand. The last three variables measure the sensitivity of production to the cost of capital. The expected sign of the relationship between this group of variables and the dependent variable (the sensitivity of output to the interest rate) is negative.

Table 1

Elasticity of sectoral output to an increase in the short-term interest rate after 24 months (1)

	France	Germany	Italy	United Kingdom	United States
Food products	0.24	−0.53	**−0.46**	**−0.26**	**−0.19**
Beverages	−0.53	−0.33	**−0.67**	**−0.64**	**−0.26**
Tobacco products	−0.24	0.75	**1.56**	−0.60	0.15
Textiles	−0.22	0.47	**−0.51**	**−0.94**	−0.39
Clothing	−0.50	−0.22	−0.24	−0.33	0.03
Leather	−1.11	0.72	0.42	−1.39	0.09
Footwear	−0.07	2.94	0.05	−0.75	0.48
Paper products	−0.16	**−2.13**	**−1.36**	**−0.76**	**−0.28**
Printing and publishing	−0.68	−0.03	**−1.76**	−0.58	−0.27
Chemical products	0.08	**−1.84**	n.d.	**−1.24**	**−0.37**
Refined products	−0.02	**−3.08**	**−1.28**	n.d.	**−0.54**
Wood products and wooden furniture	**−1.27**	−2.18	**−1.46**	**−1.17**	**−0.38**
Non-metallic mineral products	**−0.88**	−1.20	n.d.	**−0.95**	**−0.52**
Glass products	−0.21	**−2.51**	**−0.59**	**−0.89**	n.d.
Steel products	−0.68	−1.53	**−1.00**	−1.63	**−0.93**
Non-ferrous metal products	−0.45	−1.84	**−1.24**	**−0.81**	**−0.62**
Metal products	**−0.99**	**−1.94**	−0.12	−0.23	**−0.55**
Non-electrical machinery	−2.00	−0.94	**−1.86**	**−2.26**	**−1.45**
Electrical machinery	−0.20	−0.47	**−0.59**	−1.83	−0.43
Shipbuilding	−0.15	**3.24**	n.d.	0.93	0.11
Motor vehicles	−1.21	−1.50	−1.06	**−2.27**	−0.93
Industrial output	−0.53	**−1.27**	**−0.93**	−0.71	**−0.47**

(1) Percentage change in sector output 24 months after a 1-percentage-point increase in the short-term interest rate. The estimates in bold are significantly different from zero with a 5-per cent confidence level. The estimates cover the period from January 1975 to March 1997.

Table 2

Determinants of the impact of a monetary shock (1)

Explanatory variables	Expected sign	Dependent variable: elasticity at 24 months	
		Model 1	Model 2
Durable goods dummy	–	–0.58 *0.15*	–0.67 *0.18*
Investment/value added (2)	–	–2.08 *1.04*	
Degree of openness (2)	–	n.s.	
Working capital (3)	–		n.s.
Short-term debt (3)	–		n.s.
Employees per firm (3) (in hundreds)	+		0.28 *0.10*
Financial leverage (3)	+		0.36 *0.18*
Listed firms	+		n.s.
Incidence of interest payments (3)	–		–0.30 *0.11*
Country dummy: France		–0.01 *0.17*	–1.01 *0.40*
Germany		–0.37 *0.37*	–2.47 *0.71*
Italy		–0.09 *0.29*	–1.52 *0.74*
United Kingdom		–0.45 *0.16*	–1.69 *0.44*
United States		0.15 *0.16*	
Number of observations		91	80
Adjusted R^2		0.16	0.33

(1) Estimates of least squares computed on sectoral data for all countries; standard errors (in italics) were calculated using the White method (robust to heteroskedasticity); n.s. indicates non-significant variables excluded from the estimation. – (2) Sector averages: source OECD STAN. – (3) Refers to the median firm in the sector (average firm for incidence of interest payments); source AMADEUS.

A second group of indicators covers the "credit channel" of monetary transmission, which emphasizes the imperfections that may make external financing more costly than self-financing and more difficult to obtain in the event of a fall in the value of the assets pledged as collateral for loans. Sectors whose firms tend to have limited access to the financial markets, characterized by small size and low financial leverage,[9] should be more affected by changes in interest rates. The following four indicators of access to external funds were identified for each sector: firm size;[10] the degree of financial leverage;[11] the percentage of firms with a stock exchange listing;[12] the incidence of interest payments.[13] The first two measure borrowing capacity, while the third signals firms' degree of access to the financial markets, which is presumably greater for listed companies. The expected sign of their relationship with the dependent variable (which has negative values) is therefore positive. By contrast, the expected sign of the coefficient of the final indicator is negative: the higher the incidence of interest payments in relation to cash flow, the lower the firm's borrowing capacity.[14]

The database used does not have balance sheet information for US firms, while data on openness and capital intensity is not available for some sectors in the European countries. As a result, the estimates in Table 2 are based on two regression models.[15] The first includes the first three indicators suggested by the monetary channel (the dummy for sectors producing durables, degree of openness and capital intensity), measured for the sectors in five countries. The second includes the dummy, short-term debt dependency, working capital and the four variables for the credit channel, for the four European countries alone.

The main results can be summarized as follows. Among the variables in the monetary channel, only the dummy and capital intensity show coefficients that are statistically significant and of the expected sign. In the 24 months that follow an unexpected 1-percentage-point increase in the interest rate, the contraction in output in sectors producing durable goods is an average more than 0.6 percentage points larger than that in other sectors. In the second model, three of the variables in the credit channel are statistically and economically significant. Firm size and financial leverage have positive and statistically significant coefficients: both an increase of 100 units in the number of employees and a 1-percentage-point increase in financial leverage reduce the impact of a monetary shock on sector output by about 0.3 points.[16] A quantitatively similar and statistically significant effect is produced by a 1-percentage-point reduction in the incidence of interest payments. The coefficient of the percentage of listed firms is not significant. Overall, these findings not only document the way the credit channel operates - a frequent conclusion in the literature - but also its quantitative impact, which is more controversial.

The results confirm that disaggregated data can make a useful contribution to understanding the monetary transmission mechanism both within a country and in a comparison across countries. Much of the difference in the mechanism among the main euro-area countries would appear to stem from structural characteristics that were not directly affected by the start of Stage Three of EMU. It is therefore likely that disparities in the impact of monetary policy across the individual euro-area countries (as has been found among the various regions of the United States) could well persist in the near term.

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[1] For a more extensive survey of theories of monetary transmission, see the proceedings of the symposium published in the autumn issue of the *Journal of Economic Perspectives*, 1995.

[2] For more on the application of this methodology to the study of monetary policy effects, see L. Christiano, M. Eichenbaum and G. Evans, "Monetary Policy Shocks: What Have We Learned and to What End?" in *NBER Working Paper Series*, 1998, no. 6400.

[3] The first is the OECD's STAN database, which includes annual data on value added, investment, imports, exports and employment for the manufacturing sectors in the five countries considered for the period from 1970 to 1993. The second is the Bureau Van Dijk's AMADEUS database, which contains data on the annual balance sheets of some 42,000 firms in the four European countries considered for the period from 1993 to 1997.

[4] This variable has a value of 1 for the sectors in the last 10 lines of the table and a value of 0 for the others.

[5] Measured as the ratio of the sum of exports and imports to sector value added.

[6] Measured as the ratio of investment to sector value added.

[7] This is a gauge of a firm's short-term operational financial requirement.

[8] Measured as the median of the percentage share of short-term debt in total borrowing by sector firms.

[9] See J. Fisher, "Credit Market Imperfections and the Heterogeneous Response of Firms to Monetary Shocks", in *Journal of Money, Credit and Banking*, 1997, no. 2, pp. 187-211.

[10] Measured by the median number of employees per firm in each sector.

[11] Measured as the median value of the ratio of total debt to own funds in each sector.

[12] Measured as the ratio of employees of listed firms (and their subsidiaries) to total sector employment.

[13] The median value of the ratio of interest payments and operating profit.

[14] See B. Bernanke and M. Gertler, "Agency Costs, Net Worth, and Business Fluctuations", in *American Economic Review*, 1989, no. 1, pp. 14-31.

[15] All of the regressions include a fixed country effect; the estimated coefficients are the same across countries and sectors.

[16] Considering that the number of employees in the median firm varies from 50 and 500 across the sample, this variable could explain up to 1.5 percentage points of the sectoral differences in the effects of monetary policy.

Documents

Italian banks’ e-banking activity (*)

In March 2000 a sample survey was conducted to collect information on the financial services provided over the Internet by Italian banks (excluding the Italian branches of foreign banks and small mutual banks) and Italian securities firms and asset management companies.

The questionnaire was divided into seven sections, as follows: services supplied; business volumes (number of customers, number and size of transactions); economic aspects (investment, costs and revenues, break-even point); organization and strategy; security; legal aspects; e-commerce services. Respondents were requested to provide the number of customers by geographical area at the end of February 2000 and the number and size of transactions with reference to the same month. They were also asked to provide forecasts of costs and revenues for the whole of 2000.

The banks in the sample accounted for 95.5 per cent of the total assets of the banking system and the non-bank intermediaries accounted for almost all the volume of business recorded by Italian securities firms and asset management companies.

At the beginning of the year the Italian financial system was taking its first steps on the Internet. Most websites had been operational for just a few months and were of limited scope and complexity. The development of Web services had been held back by the need to adapt computer systems in preparation for the introduction of the euro and the Year 2000 date change. Many large banks had not yet begun to operate over the Internet owing to uncertainty about the strategy and outlook for e-banking and the complexity of integrating the new technologies with their existing IT systems. Some large projects were announced in the following months.

At the end of February 2000 there were 134 intermediaries (including 124 banks) providing services that allowed customers to initiate transactions, primarily in the securities field; many more came into operation in the following months. At the same date the number of customers using Internet services had risen to nearly 500,000, about one third of the number using phone-banking services.

Online trading accounted for the bulk of transactions and revenues, most of which were generated by just a few intermediaries (mainly securities firms). In fact the top 5 intermediaries accounted for around 70 per cent of both transactions and revenues. There was a similar degree of concentration on the customer side: 12 per cent of the users of Internet financial services generated 70 per cent of the total number of transactions. Households were by far the most important users and accounted for more than 90 per cent of the entire customer base. For the most part, enterprises continued to use connections over private networks.

The aggregate results of the survey were communicated to the industry.

(*) *Prepared by the Banking Supervision Department. The complete survey report will be published in Italian in the October issue of the* Bollettino di Vigilanza.

Bank of Italy regulations on the securitization of claims (*)

On 30 April 1999, with the approval of Law no. 130, rules were introduced into Italian law for the securitization of claims. This financial technique allows businesses to transform claims into negotiable securities that are then placed with institutional investors or sold to the public.

The new law provides, in line with international practice, for securitization to be carried out by the assignment of claims to a special purpose vehicle (SPV).

It also provides for the collection of the claims assigned and the related cash and payment services to be performed by banks or financial intermediaries entered in a special list of "servicers" kept by the Bank of Italy.

Since the business of servicers and SPVs has some distinctive features, it was necessary to issue ad hoc regulations concerning the information to be included in SPVs' annual accounts on individual transactions and the activities of SPVs and non-bank servicers.

Annual accounts of SPVs

The regulation issued on 29 March 2000 provides for SPVs, which are required to prepare their annual accounts in accordance with Legislative Decree 87/1992 on the annual accounts of banks and financial companies, to include the accounting data on each securitization transaction in annexes to the notes to the accounts.

The total value of the securitization transactions is not to be included in SPVs' balance sheets.

This regulation was set to come into force in the first financial year following that ended or open at 31 December 1999.

Provisions concerning SPVs and servicers

On 23 August 2000 the Bank of Italy issued a regulation laying down a series of guidelines for the activities of SPVs and servicers.

As regards SPVs, the regulation calls for companies to take special care to:

- ensure the separation at all times between the assets of each transaction and those of the company (*inter alia* by means of dedicated accounts and separate accounting entries for each transaction);
- ensure the transparency of each transaction vis-à-vis investors and the market;
- engage only in transactions related to the management of securitization business (in accordance with the exclusive corporate purpose provided for in Law 130/1999).

The regulation requires servicers to:

- make adequate technical and organizational arrangements for monitoring the various stages of transactions:
- have sufficient capital (1 million euros for transactions up to 500 million euros and 1.5 million euros for larger transactions);
- inform the supervisory authorities of any irregularities found in the carrying out of transactions.

(*) *Prepared by the Financial Supervision Department. The complete text of the regulations is available on the Internet in Italian at www.bancaditalia.it.*

Bank of Italy regulation on Italian securities firms (*)

An implementing regulation issued by the Bank of Italy on 4 August under Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Financial Intermediation) adapts the provisions governing Italian securities firms (SIMs) to reflect recent changes in domestic and European Union legislation and the operational developments that SIMs have recorded in the past few years.

In particular, the regulation:

a) consolidates all of the measures issued by the Bank since 1991 and still in force into a single text;

b) adapts the provisions on capital requirements and risk limitation in the light of the development of SIMs' activity and the innovations introduced by European Community Directives 98/21, 98/32 and 98/33.

The most important changes concern: the introduction of capital charges to cover market risk on positions in commodities; the recognition, on certain conditions, of bilateral netting agreements to reduce counterparty risk; a new method for calculating capital requirements in respect of options contracts; the elimination for SIMs not authorized to deal for own account of the rules restricting investment of their own capital to certain types of asset; the possibility for SIMs subject to supervision on a consolidated basis not to deduct several asset components from supervisory capital;

c) adapts the legal basis by replacing references to Legislative Decree 415/1996, now incorporated in the Consolidated Law, with references to the Consolidated Law itself;

d) updates the requirements for owners of qualifying shareholdings in SIMs, taking account of the decrees issued by the Treasury Minister implementing the Consolidated Law;

e) incorporates the clarifications provided and instructions issued by the Bank of Italy concerning annual accounts, particularly as regards the introduction of the euro and deferred taxation.

The regulation is to enter into force on 1 January 2001, except for the provisions regarding the prudential treatment of options, which will come into force on 1 July 2001, and those on annual accounts, which are to be applied from the first financial year following that ended or open at 31 December 1999. The previous provisions governing these matters, contained in the regulations issued by the Bank of Italy on 2 July 1991, 29 November 1996, 24 December 1996 and 30 September 1997, will be simultaneously repealed.

(*) *Prepared by the Financial Supervision Department. The complete text of the regulation is available on the Internet in Italian at www.bancaditalia.it.*

Speeches

Protection of the environment and economic development

Address by the Governor, Antonio Fazio, to the Sacro Convento di S. Francesco on the occasion of the National Nature Day

Assisi, 1 October 2000

The attention of international public opinion was first drawn to the protection of the environment and consideration of its economic aspects in the seventies, with the emergence of environmental problems of a global nature and recognition of the need to tackle them by means of internationally agreed policies.

In addition to raw materials and energy, the ability to absorb pollution and waste and ecological and climatic stability must be considered economically important environmental resources; health and the environment are also closely related.

Experience has shown that economic growth can be reconciled with protection of the environment, especially in the highly industrialized countries, where the progressive dematerialization of the economy has brought some improvement.

The environment can be seen as one of the main emerging markets. From a constraint imposed on enterprises, protecting the environment can become an incentive both to develop new sectors with considerable potential and to redefine traditional ones. Environmental policies can overlap with policies for the development of industry and services.

1. The economics of natural resources and the environment

The impetuous growth of the world economy after the Second World War led to doubts about the ability of the environment to withstand the impact, not least in relation to the spread of industrialization to the less developed countries, with their rapidly growing populations.

Until the early seventies the main contributions to economic theory with regard to natural resources and the environment were still those of classical and neoclassical economists. On the one hand, reference continued to be made to the concepts of absolute or relative scarcity of natural resources formulated by Malthus and Ricardo, on the other, the emphasis was on the improvements in production techniques and organization that, according to Marshall, the increase in the prices of scarce goods was bound to stimulate.

In 1970 the Club of Rome commissioned the Systems Dynamics Group of the Massachusetts Institute of Technology to construct a mathematical model of the world economy with which to carry out a series of simulations. The members of the Club had drawn up a long list of potentially critical factors, including malnutrition, pollution, terrorism, the arms race, resource depletion, urban degradation, economic instability, racism and juvenile delinquency. The objective was to study the links between these problems, analyze their causes and indicate possible remedies.

The Limits to Growth, a report prepared for the Club of Rome by a group of experts directed by Dennis L. Meadows, of which more than seven million copies have been sold, catalyzed the debate on the relationship between economic growth and the environment and drew some conclusions.

Economic progress was forecast to reach a limit in the long term if the prevailing trends in world population, industrialization, pollution, food production and resource depletion continued unchanged.

The report did not consider the trends observable in the world economy, population and environment to be unalterable, but noted that the sooner corrective measures were taken the greater would be the chances of success.

The energy crisis of the seventies put the question of non-renewable resources into the political limelight.

In the model constructed by Meadows, the limited availability of essential resources meant that the increase in consumption necessarily tended towards zero, thus contradicting the main proposition of the "theory of optimum growth" that was in vogue at the time.

The neoclassical economists were among the most critical commentators, again because of the failure to consider the stimulus that the scarcity of resources would give, via the price mechanism, to technological innovation and the search for alternative materials and products. In their view the depletion of natural resources could be offset by an increase in man-made capital.

Theory has always seen environmental degradation as a situation in which economic agents impose negative externalities on society; because there are no prices to provide the incentives needed to reduce polluting emissions, the ability of the environment to absorb them is permanently under excess pressure. From Pigou onwards the imposition of a tax on polluting activities has been considered the way to fix an appropriate price.

Analysis of the limits to growth came to the fore again at the beginning of the eighties with the publication by a group of researchers commissioned by the US government of the *Global 2000 Report to the President* (1982). Based on simulations of the trends of demographic, economic and environmental variables, the report concluded that, unless the prevailing trends were reversed, by 2000 the world would be overpopulated, polluted and ecologically unstable, and that, despite the growth in material output, in many respects the world's population would be poorer.

The study had a substantial political impact. Even before it was published, President Carter discussed its main conclusions with other heads of state; subsequently, he set up a working group to identify corrective measures. The Report also stimulated academic debate and in 1984 a group of independent researchers published a counter-report entitled *The Resourceful Earth* with an optimistic scenario for the planet's future.

In the last two decades the world has had to grapple with a series of new environmental problems, including the change in the climate due to global warming, deforestation, acid rain, desertification and the degradation of river basins.

These phenomena are both effect and cause of the interactions between economies and ecosystems, which are much more complex than the conventional models of pollution and the depletion of resources had envisaged. It has become evident that resources that in theory are renewable may prove not to be so in practice. Awareness of the global nature of resource- and environment-related problems has increased; the study of ecology has developed; the concept of the sustainability, or resilience, of the ecological system has been introduced.

2. Sustainable growth

In its 1987 report entitled *Our Common Future*, the World Commission on Environment and Development, established under the aegis of the United Nations and chaired by Gro Harlem Brundtland, defined sustainable growth as that which "meets the needs of the present without compromising the ability of future generations to meet their own needs".

The report stressed the need to give absolute priority to the essential needs of the poorest parts of the world and observed that technology and social organization can be inconsistent with the ability of the environment to absorb the effects of human activity. No ecosystem can be maintained intact, but it is necessary to preserve the ecological basis for growth.

Those who advocate the theory of sustainable growth are sceptical about the economy's self-correcting mechanisms because the market fails to put a price on the degradation of ecosystems and public resources.

Environmental goods have some specific features. There is great uncertainty about the possibility of achieving technological progress that will increase the substitutability between natural capital and man-made capital; some of the harm done to the environment is irreversible. Environmental damage may suddenly become manifest when it exceeds some unpredictable threshold.

Lastly, there is the question of equity; the need to improve the standard of living of the poorest populations and that of future generations.

As for the possibilities opened up by technological progress, the picture is not clear: there are those who contend that economic activity will inevitably require an increasing quantity of natural resources; others have greater confidence in the possibility of altering the relationship between economic growth, the consumption of raw materials and energy, and the ability to absorb and recycle waste.

On the one hand, there is a highly formal theory of growth concerned with how to keep an economy on a path of steadily and rapidly rising output; on the other, a less formal theory combining notions of sociology, anthropology and political science.

The concept of development is much broader than that of economic growth; it includes qualitative factors related to the institutional and socio-political structure. Development consists in a set of socially desirable objectives that may change over time; it embraces ethical values.

The condition of sustainability can refer to material wealth, natural capital and man-made capital or just to natural capital. In the latter, narrower, sense it is necessary to transmit the same amount of natural resources to future generations. In other words, it is necessary to leave intact the potential of the environment to produce wealth, so as to allow future generations to choose between using and not using the natural heritage, between different levels of material well-being and quality of the environment.

The two approaches are based on different conceptions of well-being and intergenerational responsibility.

The concept of sustainability can be even more demanding: the preservation of species and ecosystems may be desirable independently of any relationship with the economic system, making it necessary to ensure the stability of ecosystems and not just of levels of consumption.

Knowledge should be directed less to promoting a continuous expansion of consumption and more to ensuring the symmetry of the relationships between man and the ecosystem.

3. Environmental policy

In line with the general and widely accepted objective of sustainable growth, environmental policy serves to pursue specific objectives: the use of renewable resources, including the ability of the environment to absorb polluting emissions, must not exceed its regenerative capacity, whether natural or fostered; the use of non-renewable resources must be determined in relation to our ability to replace them with new technologies or renewable resources.

Environmental goods are public goods *par excellence*. The costs incurred in defending the environment benefit everyone. In this field only public action can coordinate widespread interests and decide how the costs are to be shared out.

In order to set a price on goods for which there is no market, it is possible to grant economic incentives, impose specific costs or lay down rules and prohibitions.

Where feasible, solutions based on producers' and consumers' economic advantage are to be preferred to rules and prohibitions. Measures that incorporate negative externalities in production costs or provide incentives for technological innovations that are beneficial to the environment are likely to prove more effective.

But the price signal must be strong and the expected response sufficient to modify behaviour to the extent required. Hence, in general there is a limit to the effectiveness of environmental taxes and other economic mechanisms when the problems to be tackled do not allow partial or gradual adaptation.

In practice intervention to date has mainly been in the form of rules and prohibitions, partly because they have often proved socially and ethically more acceptable and better able to distinguish between economic interests and values.

It would be an illusion to believe that public intervention is cost-free in terms of efficiency, that it is always the most rational response to the new demands expressed by society. It has to overcome informational problems and requires foresight. Ways must be found to achieve complementarity between public regulation and the ability of the price mechanism to provide incentives.

This interaction is of great importance in complex questions such as that posed by agricultural policy. Appropriately, in the nineties a start was made on remedying the distortions caused by measures to support farm incomes based on guaranteed prices and export subsidies. A lower level of protection for the products of countries that use land intensively would probably bring an overall gain for the environment.

Benefits can also stem from granting direct income support to those who remain to "defend" land that, if abandoned, would be prone to hydrogeological degradation.

Stringent rules are still needed to combat the adverse effects of excessive use of fertilizers and pesticides in crop and livestock farming. High quality farming is potentially capable of reconciling environmental needs with the competitiveness of our productive systems.

Agricultural affairs link up with international economic policy issues that involve many other activities. They take us into the domain of global public goods and the question of a more open system of international trade.

The removal of tariff and technical barriers for some categories of product can contribute not only to the overall development of the countries concerned but also to the global environment by allowing less advanced countries to undertake new productive activities, thereby reducing the intensity with which natural resources are exploited.

The road to take is that of multilateral negotiation, along the lines of the arduous progress being made in international fora. The recognition of a common interest is the first step towards tackling the issues regarding the sustainability of world economic growth and reaching agreement on how the sacrifices are to be shared among the participating countries.

The question of non-renewable resources has been brought to the fore again by the rise in oil prices. Participants in the recent meetings of the International Monetary Fund and the World Bank indicated their intention of holding talks with a view to formulating coordinated public measures, which, together with the autonomous decisions of producers, can remedy the new shortfalls in supply, through the orientation of economic agents' behaviour and the search for technologically advanced solutions and alternative materials and sources. The time scale must be short or bottlenecks will block the development of countries that have only just begun to emerge from a state of backwardness and whose destinies are important both on grounds of equity and because we are increasingly linked to them by the globalization of trade.

4. The promotion of sustainable growth

The relationship between living standards and environmental conditions is not a simple one. Many of the environmental problems faced by developing countries, such as certain types of water and air pollution, are a direct consequence of poverty.

Improved living standards increase people's willingness to pay for a cleaner environment; this is not possible where man's essential needs are not met.

On the other hand, where regulations and environmental policy measures are inadequate, refuse will accumulate and emissions of harmful gases will tend to increase as the economy grows.

The industrial countries have gone some way towards decoupling economic growth from the use of natural resources, but much remains to be done; for instance in reducing the emission of gases responsible for the greenhouse effect. Developed countries are frequently faced with problems and costs that derive from the failure to consider environmental issues when taking economic decisions.

For growth and the environment to be compatible, ecological considerations must become a part of collective and individual decisions and conduct.

In Europe the need for coordination between environmental, economic and sectoral policies is explicitly recognized in the Treaty establishing the European Community.

The sectors having the greatest impact on the environment have been identified in the *Fifth Action Plan for the Environment*, which incorporated the recommendations of the 1992 Rio de Janeiro summit.

The European Commission now constantly monitors and evaluates these issues.

At the end of last year the Commission was able to report some progress. There has been an improvement in the quality of water and emissions of many substances held to be responsible for destroying the ozone layer have been reduced. In some respects and sectors, however, the pressure on the environment has not been eased; in fact it is tending to increase. It is the Commission's belief that unless environmental issues are tackled at their roots and unless all the interested parties and the entire community do their part, growth will become unsustainable.

Changes in climate are probably the most complex environmental issue. The last century saw a sharp rise in atmospheric concentrations of greenhouse gases such as carbon dioxide. The European Union's contribution to the total emissions by developed countries was estimated at about 25 per cent in 1990: the Kyoto protocol set a reduction of 8 per cent on the 1990 figure as the target for the years 2008-2012. Projections up to 2010 point, instead, to further increases, making more drastic measures necessary.

In the European Union natural resources and biodiversity – i.e. all the existing animal and vegetable species, their genetic heritage and the ecosystems of which they are a part – are still being threatened by urban development and polluting agricultural techniques. The marginalization and abandonment of some traditional crops also constitute a risk. The reform of the Common Agricultural Policy and the criteria for allocating structural funds are helping to overcome these problems.

Italy possesses a magnificent natural heritage. Its conservation is a measure of the country's progress, civic-mindedness and cultural sensibility.

The laws governing the environment have brought considerable improvements in the quality of water. The number of heavily polluted rivers has fallen, but the issue of water resources and their management is complicated by the fragmented and inefficient distribution system; the state of the network is unsatisfactory.

Unregulated urban development gives rise to a concentration of environmental issues. The levels of acoustic and atmospheric pollution are tending to rise. The growth in the production of refuse is outpacing that in income.

The last few years have seen some issues become more pressing while others have emerged: we still know too little about the damage potential of three quarters of the most widely used chemical products; the know-how for producing genetically modified organisms may bring benefits, but concern about the means for controlling their effect on health and the environment is intensifying.

Economic growth calls for increasing quantities of energy, notwithstanding the decline in the energy intensity of output. According to the OECD, between 1973 and 1998 the energy requirement of the EU member countries rose by 25 per cent, while GDP grew by 70 per cent. The bulk of energy production is still supplied by non-renewable sources, which have a profound effect on the environment. In Italy they still account for 88 per cent of overall consumption.

In the transport sector the main source of energy consists of oil products; in the last ten years the rapid expansion in the numbers of vehicles has offset the benefits of the technological improvements that have been made. Policies to alter the balance between the various means of transport are necessary, especially in urban areas.

5. The production of goods and services to protect the environment

In the developed countries the demand for environmental and health goods is rising; its elasticity with respect to income is greater than one. There is a greater willingness to bear the cost of public measures to protect natural resources.

Demographic changes are reshaping the composition of demand, increasing that for goods to meet the needs of a population whose non-working lives are now longer; they require greater investment in health-related services and in those for the elderly.

The supply of environmental goods can come from dedicated activities in both the public and the private sectors; such activities are becoming an important part of the economy.

The Ministry for the Environment estimates that about 1 per cent of GDP is accounted for by goods and facilities that reduce the use of raw materials and environmental damage and by clean-up activities.

A broader definition of the field would include the defence and preservation of the land carried out by agriculture and public investment aimed at protection of the soil and reforestation. It should also take account of the production and distribution of renewable energy, of activities aimed at conserving the natural heritage and those that guarantee the enjoyment of parks and green spaces. Taken together, these activities are of greater economic importance than the narrowly-defined environment industry itself.

More and more firms are already implementing plans involving product and process innovation with a view to earning the so-called “green certificate”. Voluntary agreements between firms, their trade associations and the authorities are an investment in good repute. Industry is being encouraged to use its technological know-how to achieve results that public sector measures could not otherwise achieve. Farming is turning increasingly to biological products of proven origin and quality. Food processors are investing more in improved health checks on raw materials, processing, conservation and packaging.

The sector is producing international specializations, in which Italy is frequently in the forefront. It is both probable and desirable that the quality food market will continue to develop. The process of liberalizing international trade in agricultural commodities and food products for general consumption must continue.

Environmental conservation policies can foster the development of productive activities, rather than clash with them.

Grasping the opportunities offered by protecting the natural heritage can help bring a further gradual dematerialization of the economy. This process is closely linked to the shift in demand towards services and – so far as industrial products are concerned – towards goods with a higher value added and service content.

The development of information technology and telecommunications helps to reduce the impact of economic activity on the environment, by permitting more sophisticated quality control at every stage of production, the use of fewer materials and less space, and less physical transportation of both persons and information.

Major opportunities are being opened up by policies for urban and long-distance transport, programmes of urban renewal in large cities and the enhancement of their historical centres, measures to protect landscapes and natural environments, and action to prevent hydrogeological degradation.

By caring for our woodlands and for all the elements of a hydrogeological equilibrium, we can reduce the human and economic costs that recent events have highlighted in all their gravity. Safeguards and preventive measures must be put in place and controls strengthened.

Each year Italy's natural and artistic heritage attracts large numbers of tourists. Last year almost 75 million persons stayed in Italian tourist structures. The full potential of tourism is nonetheless still largely underdeveloped in many areas of the country.

The Mezzogiorno is two fifths of Italy's total surface area; it has three quarters of the total coastline and 56 per cent of all the archeological sites. But it has only 20 per cent of total overnight stays, and an even lower percentage of foreign tourists.

The South suffers from shortcomings in every kind of infrastructure. In proportion to its population and surface area, the level is about half that of the Centre and North for energy, water resources and communications. There is also a wide gap in the health, educational, cultural and recreational infrastructure of the South in comparison with the rest of the country. Supply is both inadequate and underused.

The Southern Italy Development Programme recently adopted aims to make the best possible use of natural, environmental and cultural resources and allocates to this goal about one quarter of the public-sector investment provided for in the Community Support Framework for the period 2000-2006; together with Italian funding, this makes a total of about 20 trillion lire.

Never again must procrastination, an inadequate project development capability and administrative unpreparedness risk squandering opportunities for growth. Such favourable circumstances are unlikely to be repeated.

6. Conclusions

Environmental issues intersect with Italy's growth prospects. Costs will have to be borne, but major opportunities can be created.

It is a challenge to fulfil the individual and collective needs associated with caring for health and the environment. It could be the objective of a sort of reconstruction plan aimed at improving the quality of city life, providing infrastructure consistent with Italy's international role, making more rational use of the territory and better exploiting Italy's natural and cultural comparative advantage.

It has been suggested that, in comparison with earlier times, today's social legacy consists much more of knowledge, equipment and institutions than natural resources. Public works, a stable social fabric and the richness of the cultural heritage can help us to fulfil our intergenerational duty.

Intergenerational solidarity is one of the founding values of voluntary organizations such as *Sister Nature*, which has brought us together here today. The non-profit sector can help to spread a proper approach to the environment. If suitable returns can be guaranteed, banking can contribute to exploiting our environmental and cultural heritage.

Policies are an essential part of this process. They must direct behaviour so as to reconcile economic development with environmental protection. The public must be informed and participate, starting with the young, who are more open to idealistic values. Cooperation between the various levels of local and central government is of fundamental importance.

We can contribute to the growth of the less developed countries – to whose lot we are more sensitive nowadays – by transferring know-how and technologies that will have less impact on their natural resources while increasing productivity. A considerable boost can come from new international trade agreements to give these countries greater access to our markets.

A great Pope taught us that the name of peace is development. Assisi is the chosen venue for the promoters of peace. Here, as Dante wrote, “a sun was born into the world .... Therefore let him who names this place not say *Ascesi* ... but *Orient*, if he would name it rightly”.

The antinomy between nature and production, beauty and progress, tradition and modernity can and must be overcome. In this a sublime vision can be our guide:

Praise to thee, my Lord, for sister Moon and the stars ...

Praise to thee, ... for sister Water,

which is very useful and humble and precious and pure ...

Praise to thee, my Lord, for our sister Mother Earth,

who nourishes and cares for us,

and produces diverse fruits with coloured flowers and grass.

This Canticle, which St. Francis sang seven centuries ago, will help us to rediscover harmony.

Competition, growth and the banking system

Address by the Governor, Antonio Fazio,
to the Antitrust Authority

Rome, 9 October 2000

The Italian banking and financial system that emerged from the crisis of the thirties had a market configuration that, partly for historical reasons, was characterized by a high degree of geographical and operational segmentation. The role of the public sector in banking had expanded.

As in the other industrial countries, far-reaching regulatory and statutory changes were introduced, starting in the eighties and gathering pace in the nineties, in response to the opening up and integration of financial markets and advances in information technology; competition between banks and between banks and other intermediaries steadily intensified.

Banks reacted by carrying out concentrations aimed at increasing their size and entering new fields of activity, with a view to achieving economies of scale and scope and improving their efficiency.

Between 1995 and 1999 there were 4,360 mergers and acquisitions involving financial companies in the Group of Ten countries, Australia and Spain; the value of the transactions of which the terms are known amounted to $1.39 trillion, nearly six times the figure for the five preceding years. Mergers and acquisitions involving industrial and commercial companies also increased at a rapid pace.

Globalization has increased competition for all companies – financial, commercial and industrial. In the United States, and to a lesser extent in other countries, a new phase has begun in which innovation is once again fueling economic growth: the progress in microelectronics, computing and telecommunications is bringing productivity gains throughout the economy.

Innovation is a powerful force for growth. We must continue, in Italy as elsewhere, to prevent the distortion of competition and the formation of monopolies from hindering technological advances and their diffusion.

1. The consolidation of the Italian banking system

In Italy and Europe consolidation has been stimulated by the enlargement of the market, the opening up to foreign competition, the growth in asset management business and the introduction of the single currency. In Italy the concentration of the banking system, measured on the basis of the market share of the five largest groups, has reached 51 per cent, in line with the figure for France and higher than that for Germany. In the United States this measure rose from 11 to 27 per cent between 1990 and 1999.

In the early nineties the narrowing of margins on traditional banking business and the losses incurred on loans, coupled with high labour costs and widespread operational inefficiencies, led to a rapid decline in the profitability of Italian banks. Those located in the Mezzogiorno were affected by the deep crisis of the southern economy, not least because of the limited geographical diversification of their lending.

Consolidation has held costs down, permitted economies of scale in the production and distribution of new services, and increased risk diversification.

Between 1990 and the end of September 2000 there were 508 concentrations. In 157 cases the banks taken over maintained their corporate identities. With operating structures becoming progressively more integrated, this made it possible to take full advantage of banks' local roots. The number of banks declined from 1,176 to 862; banking groups grew considerably in importance.

The privatization of banks and their listing on the stock exchange have made their ownership and control fully contestable. Competition in the banking market has benefited considerably.

The market share of banks controlled by the state or foundations fell from 68 per cent at the end of 1992 to 17 per cent in 1999. The total assets of the banking groups listed on the stock exchange rose from 30 per cent to more than 70 per cent of the industry total. Foreign intermediaries are substantial shareholders in Italy's leading banks and hold sizable interests in the five largest banking groups.

Consolidation and privatization have been accompanied by the entry into the market of new players, both Italian and foreign. During the nineties 165 new banks were established and the number of branches and subsidiaries of foreign banks rose from 41 to 65.

The banks involved in concentrations have broadened their product ranges much more than the rest of the banking system. In 1999 commissions and revenues from activities other than lending and deposit-taking were 45 per cent of banks' gross income; in the middle of the nineties they had accounted for less than 30 per cent.

The reorganization plans implemented in the wake of concentrations have included measures to curb staff costs. The number of employees has fallen by 20,000 or 5.5 per cent since 1995. Unit labour costs have stabilized, although they are still high by international standards. Significant improvements in productivity have been achieved. Between 1997 and 1999 gross income per employee increased in real terms at an average annual rate of 4.4 per cent; between 1990 and 1996 it had remained almost unchanged.

The profitability gap between Italy's banking system and those of the other euro-area countries has almost closed, thanks to the supply of new services, the curbing of costs and better management of credit risks. Profits rose from 2 per cent of capital and reserves in 1994-97 to 7.4 per cent in 1998 and 9.7 per cent in 1999. The data available on banks' results in the first half of this year point to an increase in operating profits compared with the corresponding period of 1999.

During the nineties the spread between deposit and lending rates fell from 7 to 3.9 percentage points.

The efficiency gains deriving from concentrations have also benefited customers; the terms on which traditional services are supplied have improved, especially for small businesses and individuals.

Empirical research into the Italian banking market at the level of regions and provinces shows that the reduction in the number of small banks as a consequence of consolidation has not reduced the supply of credit to small and medium-sized enterprises. At the provincial level, the deposit rates paid by banks resulting from mergers increased relative to the rest of the banking system in the nineties. At the regional level, the lending rates of the banks with the largest market shares generally fell and came into line with those of the other banks; this tendency was most pronounced in the regions with a larger number of banks.

2. The promotion and protection of competition

Competition brings improvements in both technical and allocative efficiency. The stability of individual intermediaries and that of the system as a whole are enhanced. Economic activity benefits.

In the eighties, in line with developments in the other leading banking systems, supervision came to be based increasingly on prudential instruments. The removal of the administrative constraints on the types of business banks could undertake and the geographical limits on their operations stimulated competition; access to highly concentrated local markets was encouraged. Operational despecialization was fostered; the scope for banks to grow was linked more closely to their capital bases.

During the nineties statutory innovations contributed to the modernization of the financial system; the Community directives establishing the architecture of the single market in financial services were transposed into Italian law. The 1993 Banking Law expressly refers to the competitiveness of the banking system as one of the objectives of supervisory activity.

Subsequent legislation has fostered a further broadening of the range of banks' operations and the development of new channels of distribution complementing traditional branch networks; segmentation has become less pronounced and local markets opened up further.

By promoting the widespread dissemination of information, the rules on transparency make it possible to compare the products and terms offered by different intermediaries; they allow customers to make informed choices.

The growth in competition is confirmed by price and quantity indicators and the widespread presence of banks throughout the country.

The narrowing of the spread between deposit and lending rates has accelerated in the last two years; in the Centre and South, where the spread was initially larger, the process has proceeded faster than in the North.

The difference between the short-term lending rates applied in the South and the rest of the country decreased from 3 to 2 percentage points between the end of 1986 and the end of 1991. In the middle of 2000 it was 1.8 percentage points; for medium and long-term loans it was even smaller. The spread reflects the greater riskiness of loans in the South. The differences between deposit rates in the various parts of the country have almost disappeared; asset management services are supplied on the same terms throughout the country.

Shifts in banks' shares of the deposit and loan markets have intensified; in the latter the changes recorded in 1999 were equal to 8 per cent of total outstanding loans.

On average there are 31 banks present in each province, as against 20 in 1979; overall, 80 Italians out of a hundred can choose between at least three banks in the municipality they live in, as against 58 twenty years ago.

The share of total assets held by branches and subsidiaries of foreign banks rose from 3 to 7 per cent in the nineties. In the asset management industry, companies controlled by foreign intermediaries account for a sizable proportion of the products supplied; they also play an active role in household credit, corporate finance and government securities dealing.

As the antitrust authority for the banking industry, the Bank of Italy has carried out a total of 35 inquiries, a substantial number by international standards. They were divided as follows: 17 were into concentrations, 13 into agreements and 5 into abuses of dominant position.

The key factor in assessing competition in banking markets is the size of the relevant market, measured in terms of both geographical area and products. The effectiveness of antitrust action is based on the availability of detailed information and the analysis of markets and intermediaries.

The decision to identify small geographical areas – the provinces for the deposit market and the regions for the loan market – reflects the substitutability between financial instruments found in different parts of the country and the mobility of demand.

For other financial products larger geographical areas are considered in view of the uniformity of production and marketing across the country. For some products the reference market is supranational and open to competition from foreign intermediaries.

By lowering distribution costs, technological innovation reduces the importance of the physical distance between supply and demand and tends to increase the size of the relevant markets. It is still too early, however, to measure these effects accurately. In the case of loans to smaller firms, information obtained through direct contact remains indispensable; the use of services supplied over the Internet is still limited, although it is growing.

The consolidation of the banking system must not stifle competition in local markets. As early as 1970, Guido Carli stated that the process "is being followed with attention and is not judged contrary to the general interest as long as it does not alter a structure of the banking system conducive to maintaining a high degree of competition within the industry".

Where it is found that a concentration is likely to result in the creation of a dominant position, clearance of the operation is made subject to the adoption of corrective measures. Their use has increased as a result of the growing number of concentrations and the large size of the banks involved.

The fact that the branch networks of the largest banking groups overlap in many areas is an obstacle to further big mergers from the point of view of protecting competition; for some "retail" products this may have unfavourable implications for customers.

In combating collusive agreements and abuse of dominant positions, attention first focused on the standard contracts drawn up by the banking association governing the terms and conditions of bank services for customers. The association was required to eliminate clauses that set prices or limited banks' freedom to differentiate their products.

Other investigations targeted agreements on prices and market-sharing as well as exchanges of information that reduced the natural incentives for banks to operate efficiently.

Complex investigations are needed to prove collusion because the mere occurrence of parallel behaviour does not constitute evidence of collusive intent. Consideration was given to the possible impact of industry association recommendations on competition to the extent that they place constraints on intermediaries' freedom of action or coordinate their conduct. Extensive and systematic exchanges of "sensitive" information undermine competition.

The Bank of Italy has begun a programme in its branches for the systematic monitoring of potentially collusive conduct and abuses of dominant position in local markets. Direct knowledge of specific local conditions will expand our information base and enable more rapid and effective intervention in potentially competition-reducing situations which would be difficult to identify through statistical analysis alone.

The Bank of Italy is the authority responsible for safeguarding competition in the credit sector. In its decisions it takes account of the opinions rendered by the Antitrust Authority.

Relations between the two institutions, defined in an agreement of March 1996, are fruitful and continuous. They will be developed even further in order to ensure that analysis keeps step with developments in banking and finance. It could prove useful to redefine the relevant geographical and product markets in the financial sector.

The composition and features of bank products are constantly evolving, and the most innovative products are playing an increasingly important role. New distribution channels, including electronic networks, are gaining ground. Developments in finance reinforce the multiproduct nature of banking. In the fund-raising market, individual and collective portfolio management products play an increasingly complementary role to deposits.

The Bank of Italy keeps the European Commission informed of its initiatives and participates actively in the examination of cases involving banks and the discussion and drafting of reform projects presented by the Commission.

Collaboration with Community bodies will increase with the creation of a network linking the antitrust authorities of the Member States envisaged in plans for modernizing competition rules. International cooperation is essential to ensure the effectiveness of antitrust action as economic agents and markets operate in an increasingly globalized context.

3. Competitiveness, competition and growth

Since the lira's re-entry into the Exchange Rate Mechanism at the end of 1996, the competitiveness of Italian goods has decreased by 5 percentage points.

Between 1996 and 1999 Italian exports of goods and services rose by 10 per cent, world trade by 28 per cent. Imports expanded by 24 per cent, total domestic and external demand by 9 per cent. This year, the rate of export growth has risen close to that of world demand, thanks in part to the depreciation of the euro, but it is still lower than in France and Germany. Imports have accelerated under the impulse of the recovery in economic activity.

By contrast with the other leading euro-area countries, Italy's presence in high-technology sectors has declined.

At a time of far-reaching change driven by information and communication technology, the link between a new kind of international competition and innovative activity emerges ever more clearly. The ability to innovate is an increasingly important factor in the success of firms and, indirectly, countries. Price competition has gradually become limited to mature industries. Emerging sectors, the industries of tomorrow, are characterized by the continuous introduction of new products and new production technologies. With the exception of its more traditional segments, the services sector is also undergoing a radical technological transformation.

Innovative drive was the basis of the success of the US economy in the nineties. Talk of a "new economy" has become commonplace. In the second half of the decade the rate of productivity growth, measured in terms of output per employee, nearly doubled from its level in previous decades; in 1999 it reached 3 per cent. Since 1996 US GDP has increased at an annual rate of 4 per cent, a remarkably rapid pace for an advanced economy.

American firms and the US economy as a whole have benefited from the sweeping liberalization programme begun more than twenty years ago and from the resulting increase in competition in telecommunications, transport and energy. The innovations introduced in recent decades are coming to constitute a veritable technological revolution.

The observations of a prominent economist take on new relevance. As early as 1942 Schumpeter argued that growth was driven by technological progress: "The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates".

Competition is a process of "creative destruction", characterized by the role of new entrepreneurs and new firms. It is an essential condition for innovation and a dynamic economy. However, innovative activity involves rising research and development costs and risky projects. It may lead to the dominance of the largest firms and the creation of barriers to entry linked to the selfsame innovations.

Since innovative capacity is the primary competitive instrument, it is necessary to create the conditions for strengthening research. Investment aimed simply at reproducing existing models serves to maintain inadequate levels of productivity and thus leads to a narrowing of the productive base and, ultimately, to a reduction in employment.

According to OECD data, Italy's propensity to invest in R&D is much lower than that of the majority of industrial countries.

The competitiveness of Italian firms depends to a significant extent on the quality and cost of services, notably those most closely linked to industrial activity, such as transport, communications, energy, water and professional services.

Energy prices for industrial users provide an indication of the importance of these factors. Owing to the average size of users, their location and the structure and regulation of the energy market, Italy is highly disadvantaged by comparison with the other European Union countries: the disparity in electricity costs is equal to 36 per cent after tax and 41 per cent before tax, while that for gas ranges from 2 to 7 per cent. The sharp rise in the price of oil will have a larger impact on Italy, owing to the larger incidence of the energy bill.

Italy has begun to liberalize its telecommunications and electricity industries. As the Antitrust Authority has noted, there is still considerable scope for further action.

Speaking in 1954 in support of a parliamentary bill on the regulation of monopolies, Luigi Einaudi, then President of the Italian Republic, argued that: "It is legitimate to be somewhat sceptical about the prospects for the success of the attempt when one considers that much of current legislation and the witting or unwitting action of government is aimed at creating conditions in which monopolies thrive".

Decades were to pass before Parliament – Guido Carli was Treasury Minister at the time – finally enacted an antitrust law. The economic and social situation is different today from that of the fifties. And yet the public administration can still play a key role by rethinking and reorganizing its functions and operations to enhance the efficiency of the economic system.

In the coming years there will be increasing competition between legal systems in the fields of civil and administrative law and justice at the European and international levels.

Countries whose legal and tax systems best meet modern industrial economies' need for flexibility will have an advantage in location decisions, the creation of firms and the growth of existing enterprises.

Company law must grant greater autonomy to corporate bylaws, introduce forms of incorporation suited to small firms and simplify procedures along the lines contained in the bill submitted by the Government to Parliament. It is equally urgent to reform bankruptcy law so that it focuses on preserving firms as going concerns.

The costs incurred in establishing a corporation in Italy, including those arising indirectly from the lengthiness of the procedures and the complexity of the regulations, are among the highest in the world.

In the nineties Italy made great strides in safeguarding competition. Public-sector enterprises were sold off in a sweeping privatization programme. The liberalization of major public utilities began in the second half of the decade.

The entire economy has benefited considerably from the greater efficiency of the banking sector. It selects investment projects and supplies entrepreneurs with the financial resources to carry them out. In a competitive environment, lower costs are passed through to households and firms. The restructuring of the sector must equip banks to face heightened international competition. Lending rates in Italy are in line with those in the other major euro-area countries. Bank profitability has increased and is nearing the level that prevails in the rest of continental Europe.

Increased competition, research and innovation are the keys to making full use of the ample resources available in Italy. It is up to firms to make the technological leap required to ensure their competitiveness in international markets, while the social partners must seek to create the flexibility demanded by the new context.

These are the factors and conditions needed to guarantee the rapid growth of the economy and employment.

Fact-finding preliminary to the examination of the budget for 2001

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

Rome, 17 October 2000

1. The macroeconomic situation

During the summer the recovery in the euro area that had been under way for about a year began to show signs of flagging, primarily as a result of the slowdown in domestic demand.

The sharp rise in the price of oil and the simultaneous weakening of the euro are undermining the confidence of consumers and firms. The deterioration in the terms of trade may cause consumption to expand more slowly than most forecasts indicated at the start of the summer. Investment may also be affected by the less optimistic outlook for demand growth.

In Italy manufacturing production continued to increase until May this year. The index subsequently suffered two declines, in June and July, before partially recovering in August. Over the summer, industrial production expanded more slowly than is estimated for the other euro-area countries. The latest indicators suggest that it will continue to grow in the last part of 2000, although at a slower pace than in the first half of the year.

The Government has forecast real GDP growth of 2.8 per cent for 2000. Achieving this result will require a growth rate of 1.3 per cent in the second half of the year, only slightly less than that registered in the first six months, when GDP increased by 1.5 per cent; this compares with an average of 1.8 per cent for the euro area.

Domestic demand is expected to provide the main contribution to GDP growth. Gross fixed investment is projected to rise by 7 per cent under the impulse of stronger demand and tax incentives; the construction industry is expected to recover strongly. Consumption is forecast to increase by 2.1 per cent, in line with the rise in the first half of the year. Growth in consumption has been adversely affected by the impact of the rise in oil prices on inflation and, as a result, on households' purchasing power.

The Government forecasts that net foreign demand will contribute 0.4 percentage points to growth. The strong impulse imparted by growth in world trade and the depreciation of the euro have helped to increase exports by 9.5 per cent, an even larger rise than the admittedly sizable increase of 8.5 per cent in imports. The pronounced worsening of the terms of trade as a result of higher oil prices has caused a significant deterioration in the balance of trade on current account, which is expected to register a deficit of about 3 trillion lire, the first negative result in seven years.

The expansion in economic activity is expected to foster a further increase in employment, thanks in part to moderate wage growth. The unemployment rate, which has been falling since last year, should remain below 11 per cent on average for the year.

2. The public finances in 2000

Government plans envisage a gradual reduction in general government net borrowing, with budget balance being achieved in 2003. In the Economic and Financial Planning Document of June 1999 and the Forecasting and Planning Report of September 1999 the Government forecast net borrowing of 1.5 per cent of GDP for 2000, with a primary surplus equal to 5 per cent of GDP and interest payments to 6.5 per cent. It was estimated that real GDP would rise by 2.2 per cent and the end-year interest rate on 12-month Treasury bills would be 3.7 per cent. The planned effect of the budget enacted at the end of the year was to reduce net borrowing by a total of about 2.4 trillion lire. The measures included tax relief of nearly 12 trillion to offset the larger-than-expected rise in tax revenues.

The target of 1.5 per cent for net borrowing was confirmed in the Stability Programme of December 1999 and the Quarterly Report on the Borrowing Requirement of April 2000.

In June 2000 the Economic and Financial Planning Document for 2001-2004 estimated that net borrowing for 2000 would fall to 1.3 per cent of GDP. The change reflected an improvement in the forecast for the primary surplus, which was expected to rise to 5.2 per cent of GDP as a result of the upward revision of the forecast for GDP growth to 2.8 per cent. The Document noted the possibility that tax revenues might be higher than the level consistent with the revised estimate for net borrowing.

In September, the Planning Document Update and the Forecasting and Planning Report confirmed the strong performance of revenues in 2000. In order to avoid an increase in the tax burden, the Government issued a Decree Law providing tax relief that is officially estimated at about 13 trillion lire and concentrated in the last two months of the year.

According to Government projections, the state sector borrowing requirement, net of settlements of past debts and privatization receipts, will fall from 31 trillion lire in 1999 to 26.4 trillion in 2000.

The borrowing requirement in the first nine months of 2000 was 47.2 trillion lire, about 1.5 trillion more than in the same period of 1999. According to the Treasury Ministry's most recent estimates (issued in October), in the first ten months of the year it is expected to be about 2 trillion less than in the corresponding period of 1999.

State sector revenues in the first nine months of the year increased at a faster rate than that implicit in the official estimates issued in April. The Planning Document Update attributes this result mainly to the emergence of previously hidden tax base and, to a lesser extent, to the rise in the price of oil products, which boosts VAT revenues.

In the first nine months of the year state sector tax receipts increased by 5.2 per cent with respect to the same period of 1999, outpacing the rise in nominal GDP. The increase in direct tax receipts was mainly attributable to the levies on interest and capital gains on securities held in asset management schemes, which soared from 2.9 trillion lire to more than 15 trillion. VAT revenues grew markedly faster than GDP.

The increased revenues did not reduce the state sector borrowing requirement because of developments in a number of items that affect the latter but do not have an impact on general government net borrowing owing to differences in accounting methods. The items involved were transactions with the EU and drawings on the Treasury by the regions for the settlement of past debts of the health service.

In the first half of 2000 public-sector spending was 4.8 per cent higher than in the same period of 1999; primary spending rose by 7.3 per cent. National accounts estimates indicate that general government primary expenditure also increased faster than GDP. The Planning Document had forecast a small decrease in the ratio of primary expenditure to GDP.

The downward trend in general government net borrowing from its level in 1999, thanks in part to the decrease in interest payments, is confirmed by the borrowing requirement in the first eight months of the year, which declined by about 6.5 trillion lire to 34 trillion with respect to the corresponding period of 1999. In particular, bank lending to local authorities, which had increased by 2.3 trillion in the first eight months of 1999, fell by 7.3 trillion in the same period of 2000.

According to official forecasts, the ratio of public debt to GDP will fall by 3 percentage points to 112.1 per cent. This projection takes account of receipts from the sale of UMTS licenses and privatizations, which are expected to amount to a total of 65 trillion lire in 2000-01. Developments to date appear to be consistent with the planned decline in the debt ratio for this year. It is possible that the nominal growth in GDP will exceed the 4.2 per cent envisaged in the Planning Document.

3. Public finance targets for 2001-2004

The Planning Document for 2001-2004 presented a current programmes scenario that did not call for significant corrective measures. Net borrowing was projected to decline from 1 per cent of GDP in 2001 to 0.7 per cent in 2002, followed by surpluses of 0.2 per cent in 2003 and 1.3 per cent in 2004. The primary surplus was projected to increase gradually from 5.2 per cent of GDP in 2001 to 5.3 per cent in 2002, 5.8 per cent in 2003 and 6.5 per cent in 2004. Even accounting for an increase in interest rates, interest payments were expected to continue to decline, from 6.2 per cent of GDP in 2001 to 5.2 per cent in 2004.

It should be noted, however, that defining projections on a current programmes basis rather than an unchanged policies basis excludes the effects of foreseeable measures that must be enacted with the Finance Law, such as contract renewals for public-sector employees and appropriations for investment expenditure.

The Planning Document indicated a target for the deficit in 2001 equal to the deficit on a current-legislation basis. Budgetary measures were to be limited to a recomposition of individual spending and revenue items. The budget for 2002 was estimated to reduce the deficit by 0.2 per cent of GDP; those for 2003 and 2004 to have an expansionary impact of 0.2 and 1 per cent of GDP respectively, partly owing to contract renewals and new investment programmes. The target for the primary surplus was set equal to 5.2 per cent of GDP in 2000 and 2001 and 5.5 per cent in the subsequent three years. The ratio of public debt to GDP was projected to decline to 95 per cent in 2004.

Unlike previous Planning Documents, that published in June 2000 did not contain a set of targets for expenditure and revenue. The tax burden on a current programmes basis remained basically unchanged in 1999 and 2000, at 43.3 and 43.2 per cent of GDP respectively, and then declined to 42.4 per cent in 2001. Between 2000 and 2004 it declined by a total of 2.1 points, to 41.1 per cent.

Developments in the first half of this year suggested that the rate of increase in certain expenditure categories and tax revenues might be higher than forecast. The quantification of the differences and the formulation of any necessary corrective measures were postponed to the Planning Document Update published at the end of September.

The Update did not reveal any changes in forecasts for primary expenditure. It reduced forecast interest payments for 2001 from 146 to 144 trillion lire. The table annexed to the Update indicated that the expected increase in revenue over the four-year period, mainly as a consequence of the emergence of previously hidden tax base, was equal to 26.4 trillion lire in 2001, 35.1 trillion in 2002, 38.2 trillion in 2003 and 42 trillion in 2004.

The budget measures for 2001 contained tax relief to offset the increase in revenues. The Planning Document Update thus confirmed the tax burden and the targets announced in the Planning Document in June, with only the figure for borrowing in 2001 being reduced, from 1 to 0.8 per cent of GDP.

4. The budget for 2001

Revenue reduction measures total 30.7 trillion lire, of which 28.5 trillion regard taxes and 2.2 trillion social security contributions. These effects are partly offset by tax increases totaling 8.7 trillion lire. Additional revenue of about 800 billion lire is expected from property sales. The overall reduction in revenue thus comes to 21.2 trillion lire.

Expenditure increases of 10.2 trillion lire are envisaged, including 6.4 trillion on current account and 3.8 trillion on capital account. This increase is to be offset by spending cuts of 7.2 trillion lire, producing a net rise of about 3 trillion.

The overall reduction in the primary surplus on a current programmes basis is thus expected to be 24.2 trillion lire.

The data are aggregated differently in the Planning Document Update: tax reductions are estimated to amount to 22 trillion lire; increases in current and capital expenditure to 6.4 and 3.8 trillion respectively and corrective measures at 8 trillion. The latter comprises reductions in current expenditure (7.2 trillion) and revenues from disposals (800 billion). Since these are not tax receipts, they are excluded from the calculation of the reduction in tax revenue indicated in the Planning Document Update.

On the revenue side, the reductions total 30.7 trillion lire and comprise: 15.2 trillion of changes to personal income tax rates; 3.7 trillion from reductions in corporate income tax rates and payments on account; 3.3 trillion mainly from a reduction in the regional tax on productive activities payable by small enterprises; 2.2 trillion from lower social security contributions; 1.9 trillion from subsidies for hirings and investment, especially in the South; 3.1 trillion from reductions in taxes on oil products and electricity; and 1.3 trillion from the extension of tax incentives for building renovations and other minor items.

Total revenue increases amount to 9.5 trillion lire and comprise: 2.1 trillion from the privatization of national lotteries and the introduction of new games; 2.5 trillion from the reduction in tax refunds owing to the maintenance of a limit for offsetting tax credits and liabilities; and 1.3 trillion from further disposals of property owned by the State and other public bodies and other minor measures. Bringing forward corporate tax relief originally planned for 2001 to 2000 will boost revenues by more than 3.6 trillion lire.

The tax relief for households primarily concerns personal income tax: the floor of the bottom bracket is raised from 15 to 20 million lire, increasing the proportion of income taxed at the lowest rate; the deductions for employment and self-employment are increased, raising the threshold of tax exemption; a gradual reduction in the brackets between 2001 and 2003 is planned; the deductions for dependents and rental payments for principal dwelling are increased; tax exemption of principal dwellings is to replace the maximum deduction of 1.8 million lire currently in force; and the incentives for building renovation are extended to 2001.

Several permanent measures reducing business taxes are planned; the public finances will reflect their effects especially in the years after 2001. The ordinary rate of corporate income tax is to be lowered from 37 to 36 per cent in 2001 and to 35 per cent in 2003. The minimum level of 27 per cent for the average rate resulting from application of the Dual Income Tax is eliminated. Proportional taxation of business income is extended on an optional basis to sole proprietorships and partnerships, which up to now have been taxed according to the rules for personal income tax. Relief is granted to certain categories of entrepreneurs for new productive initiatives and so-called marginal activities. The Finance Bill also provides for IRAP tax bases not exceeding 350 million lire to be reduced by up to 10 million lire.

An allocation of 2 trillion lire is planned to finance the extension until 30 June 2001 of the following tax cuts: 50 lire per litre for motor vehicle fuels, 100 lire per litre for fuel oil and liquefied petroleum gas for heating and 34 lire per cubic metre for methane for heating, as well as the extra reductions for mountainous areas. In addition, 1.1 trillion will go to reducing the tax on electricity for commercial and industrial use.

On the spending side the planned increases total 10.2 trillion lire and are as follows: 1.7 trillion is the net effect on the budget balance of the renewal of public employment contracts; 2.1 trillion derives from the increase in minimum pensions and other minor measures; 2.6 trillion from the larger allocations on current account provided for in the Finance Bill; and 3.8 trillion from larger capital outlays.

The spending cuts, amounting to 7.2 trillion lire, mainly concern intermediate consumption and involve both central government and local authorities.

In the field of social security, the indexation of pensions to inflation is increased (430 billion lire). There will be a larger topping-up of minimum pensions (870 billion). A special fund is to be established to guarantee continuity of insurance coverage for discontinuous forms of employment (70 billion).

As to intermediate consumption, expenditure on goods common to all government departments is to be rationalized through a centralized auction system. For the consumption goods specific to some departments, there are incentives for creating procurement consortia. In addition, the budget sets limits on the *increase in local authorities' primary current expenditure, places controls on their payments to and from the Treasury, and requires regional governments, in particular, to finance any deficits in the health care sector by using their autonomous power to levy taxes.*

5. Evaluation of the budget

According to the Government's estimates, the improvement in the public finances in 2001 on a current programmes basis will allow a reduction in the deficit even while granting tax relief on the order of 1 per cent of GDP. The steady improvement in the target balances in subsequent years is also coupled with a further gradual reduction in the tax burden.

The reduction in the general government deficit, until the budget is balanced in 2003, and the achievement of a slight surplus in 2004 are in line with the indications of the Stability and Growth Pact, under which the EU countries are committed to achieving a budget close to balance or in surplus in the medium term.

A budgetary position in balance or in surplus on a cyclically adjusted basis provides scope for adequate cyclical stabilization policies; it reduces the risk of adverse shocks requiring policies that would aggravate the effects of the shocks on economic activity; it accelerates the fall in the ratio of debt to GDP.

Reducing the debt ratio contributes to the long-term sustainability of the public finances, especially in view of the pressure that is exerted on the budget by the ageing of the population and by the growing geographical mobility of tax bases in connection with the progressive integration of the European economies.

According to the targets set in the Planning Document Update, between 2000 and 2004 the ratio of the primary balance to GDP will increase by 0.3 percentage points. The improvement in the general government budget balance will come largely from the expected reduction in interest payments, which are forecast to fall by a further 1.3 points over the period in question. In the light of current market expectations for interest rates, the interest payment forecasts for the final part of the period could prove optimistic.

If necessary, the objectives for net borrowing will have to be pursued by achieving larger primary surpluses than those planned.

It is vital to ensure that the measures for the primary balance are fully effective. In 2001 it is essential that the 7.2 trillion lire of cuts in intermediate consumption and the disposals of property be carried out entirely as planned. Receipts from the latter consist not only of the 800 billion included in the budget for 2001 but also most of the 8 trillion included in the preceding budget, which had envisaged receipts of 4 trillion in 2000.

The decision to provide tax relief in order to avoid an increase in the tax burden is opportune.

The budget assumes that actual expenditure will be in line with the plans. There is some uncertainty in interpreting the underlying causes of the improvement in revenue during the current year. Prompt corrective action will have to be taken if the increase in receipts proves to be partly attributable to non-structural factors or if expenditure grows faster than forecast.

Receipts from tax bases potentially subject to wide fluctuations, such as capital gains, must be estimated with extreme caution in order to achieve the objectives for net borrowing.

The budget for 2001 includes some measures generating temporary increases in revenue.

A timely evaluation of revenue and expenditure trends requires further refinement of the data and instruments for cyclical analysis. The availability of more detailed information makes forecasts more transparent and reduces uncertainty among economic agents, thereby fostering the effectiveness of budgetary policy and compliance with the rules of the Stability and Growth Pact. Rapid progress is essential in view of the need to coordinate the action of a multiplicity of levels of government, in a context in which local authorities are assigned increasing fiscal responsibility.

In general, causing tax bases to emerge and simultaneously returning the additional receipts through reductions in tax rates constitute a positive development. They make it possible to lessen tax-induced distortions in the allocation of resources and can facilitate a further shrinking of the areas of tax evasion and avoidance.

The reduction in the corporate income tax rate and the removal of the restriction on fully applying the Dual Income Tax, although not immediately effective, complete the reform launched in 1997. They move in the direction taken by the other main European countries. They can have a positive effect on Italian firms' investment and competitive position.

The cut in personal income tax rates increases households' purchasing power. A part of the relief offsets the tendency of income tax to rise owing to fiscal drag.

According to the Planning Document Update, the budget will cause the ratio of tax and social security receipts to GDP to fall from 43.3 to 42.4 per cent between 1999 and 2001. The subsequent trend on a current programmes basis would bring a similar reduction over the following two years.

The decrease still appears limited. The figure of 41.4 per cent indicated for 2003 is 1.1 percentage points lower than the average ratio in the 1990s.

Between 1995 and 1999 the ratio of primary expenditure to GDP remained virtually unchanged. It is not expected to vary substantially this year either.

The spending cuts in the budget for 2001 concern desirable rationalization measures in general government intermediate consumption. The increase in lower pensions and the attenuation of the erosion of the purchasing power of average and higher pensions due to inflation respond to legitimate equity concerns.

The budget for 2001 does not include significant measures of a structural nature able to reduce the ratio of primary expenditure to GDP over a horizon of several years.

6. Budgetary rules for decentralization

The functions and responsibilities of the various levels of government are undergoing rapid change in Italy. During the 1990s significant steps were taken in decentralizing the responsibilities for expenditure and strengthening local tax powers.

A more decentralized institutional structure is now under discussion, with reference primarily to the regions, which would become responsible for an important part of public functions and services. There is a broad consensus for this process in Italy.

Economic theory provides arguments in favour of a decentralized structure of government. The advantages in terms of the efficient use of resources can be substantial in the Italian case, given the considerable diversity of regional situations. Transparent procedures and rules for transferring resources from the more developed to the economically less endowed areas are necessary in order to guarantee basic services to the whole population. Enjoying the advantages of decentralization requires adequate levels of efficiency in all local authorities.

It is essential that the process of decentralization be based on strict compliance with budgetary constraints at all levels of government.

Without a link between responsibility for expenditure and responsibility for financing, the expected allocative benefits of decentralization would fail to materialize. Furthermore, the absence of stringent budgetary rules in local government finances makes it difficult to control the public finances at national level.

The Domestic Stability Pact, introduced with the budget for 1999 and revised in the framework of the budget for 2000, represents a first step towards solving this problem. Further measures are proposed in the Finance Bill for 2001. The provisions appear to need strengthening.

It may prove desirable to introduce a balanced-budget requirement for each local authority, together with rules that permit the financing of investment and address the problem of absorbing the effects of cyclical fluctuations on local authorities' budgets.

7. Conclusions

The macroeconomic conditions exist for a budgetary policy that will wipe out the deficit, diminish the weight of the debt and progressively reduce the tax burden.

It is necessary to ensure that the objectives indicated for the budget balance are achieved. If interest payments are higher than forecast, the primary surplus will have to exceed the levels now planned.

It is necessary to ensure that the measures to limit net borrowing included in the budget for 2001 are fully implemented and effective.

The provisions producing temporary effects must be replaced in the subsequent years with measures that will produce a lasting reduction in expenditure. Any overshoots of the objectives for outlays and tax revenues must be promptly identified.

In my evaluation of the Planning Document I stressed the need for a review of the tasks performed by the public sector and for a revision of some parameters of the pension system and of the procedures for managing the resources allocated to public bodies.

The urgent need for effective and enduring measures is heightened by the pressure demographic trends are exerting on the budget; by the implications of economic integration for the mobility of tax bases; by the necessity, underscored by the European Council meeting in Lisbon, of directing a larger proportion of public expenditure to the accumulation of physical and human capital and to research and development.

Control of spending must be the linchpin of budgetary policy. Now that the benefits of the decline in interest rates on the public debt have already been reaped, only by curbing primary expenditure in relation to GDP will it be possible to reduce the tax burden.

In the present circumstances, it is essential to reduce tax-induced distortions in the allocation of resources and to offer a sure prospect of taxation being reduced in the years to come.

Causing tax bases to emerge and simultaneously returning the additional receipts through reductions in tax rates constitute a positive development.

It is necessary, however, for resolute curbs on spending to achieve a progressively larger reduction in the tax burden than that indicated in the Planning Document.

The certainty of a gradual decline in taxation reduces labour supply disincentives, fosters investment and improves Italian firms' competitiveness, thereby enhancing the prospects of economic growth and permanently higher employment.

Table 1

State sector balances
(billions of lire and percentages of GDP)

	Year			First 9 months	
	1997	1998	1999	1999	2000 (1)
Primary surplus	**124,647**	**92,139**	**105,110**		
as a percentage of GDP	*6.3*	*4.5*	*4.9*		
Borrowing requirement net of settlements of past debts and privatization receipts	**52,670**	**58,513**	**31,044**	**45,563**	**47,239**
as a percentage of GDP	*2.7*	*2.8*	*1.5*		
Settlements of past debts (2)	−409	4,770	12,118	9,573	6,885
Privatization receipts (3)	−21,179	−15,277	−43,839	−786	−259
Total borrowing requirement	**31,081**	**48,055**	**−677**	**54,349**	**53,865**
as a percentage of GDP	*1.6*	*2.3*	*0.0*		
Financing					
Medium and long-term securities	99,009	79,662	47,981	85,590	54,190
Treasury bills in lire and ecus	−82,310	−35,483	−35,106	−15,793	−12,586
Treasury current accounts with the Bank of Italy	−3,020	15,578	−14,048	−14,660	3,323
Other BI-UIC financing	435	384	95	144	−2,770
Post Office funds	11,641	6,400	17,496	12,767	4,938
of which: current accounts	*−1,062*	*−6,104*	*0*	*0*	0
Bank lending (4)	1,074	−6,718	−7,125	−6,584	−18,533
Other domestic financing	194	405	98	61	1,880
Foreign loans (5)	4,059	−12,223	−10,068	−7,176	23,422

(1) Provisional data. − (2) Includes Local Health Unit debts and the early redemption of a bond loan granted to IRI by the Deposits and Loans Fund. − (3) Includes Treasury purchases of shareholdings in STET drawing on the sinking fund for the redemption of government securities: 3,000 billion lire in 1996, 13,500 billion in 1997 and 8,166 billion in 1998. − (4) As of 1999 includes redemptions of loans granted to local authorities. − (5) As of 1999 includes commercial paper.

Table 2

Estimated effects of the budget for the year 2001 on the general government consolidated accounts (1)

(billions of lire)

REVENUE	
Increase in revenue	**9,500**
Increases in current receipts	*8,700*
Lotteries and the like (*)	2,100
Limit on offsetting tax credits and liabilities	2,500
Reduction in Irpeg and Irap payments on account in 2000 (*)	3,600
Other tax measures	500
Property sales	*800*
Decrease in revenue	**–30,700**
Tax receipts	*–28,500*
Changes in Irpef (2)	–15,200
Changes in Irpeg rates and payments on account in 2001	–3,700
Tax credits for firms	–1,900
Regional taxes (Irap and Irpef supplement)	–3,300
Reduction in taxes on electricity for firms	–1,100
Reduction in excise duties on oil products	–2,000
Changes in VAT	–1,300
Social security contributions	*–2,200*
Reduction in contributions for family allowances	–2,200
NET CHANGE IN REVENUE	**–21,200**
NET CHANGE IN TAXES AND CONTRIBUTIONS	**–22,000**
EXPENDITURE	
Reduction in expenditure	**7,200**
Intermediate consumption	7,200
Increase in expenditure	**–10,200**
Increases in current expenditure	*–6,400*
Renewals of labour contracts	*–1,700*
Pensions	*–1,400*
of which: increased indexation	–430
increase in minimum pensions	–870
Social policies and other minor items	*–700*
of which: national fund for social policies	–200
assistance for the disabled	–250
Increase in current account appropriations	*–2,600*
Increase in capital expenditure	*–3,800*
NET CHANGE IN EXPENDITURE	**–3,000**
TOTAL CHANGE IN NET BORROWING	**–24,200**

(*) Estimates of the effects of the decree law of 30 September 2000.
(1) Based on official estimates. – (2) Includes 2.6 trillion lire of relief granted in the decree law of 30 September 2000.

Table 3

General government budget outturns and targets

	1999 (1)	2000	2001	2002	2003	2004	1999 (1)	2000	2001	2002	2003	2004
	(billions of lire)						*(as a percentage of GDP)*					
General government												
Net borrowing	40,511	29,600	19,500	12,500	−800	−7,500	1.9	1.3	0.8	0.5	0.0	−0.3
Interest payments . .	145,726	144,400	144,000	146,000	143,400	140,300	6.8	6.5	6.1	6.0	5.6	5.2
Primary surplus	105,215	114,800	124,500	133,500	144,200	147,800	4.9	5.2	5.3	5.5	5.6	5,5

Sources: Based on *Documento di Programmazione Economico-Finanziaria per gli anni 2001-2004* and the subsequent *Nota di aggiornamento* to the same.
(1) Outturns.

Figure 1

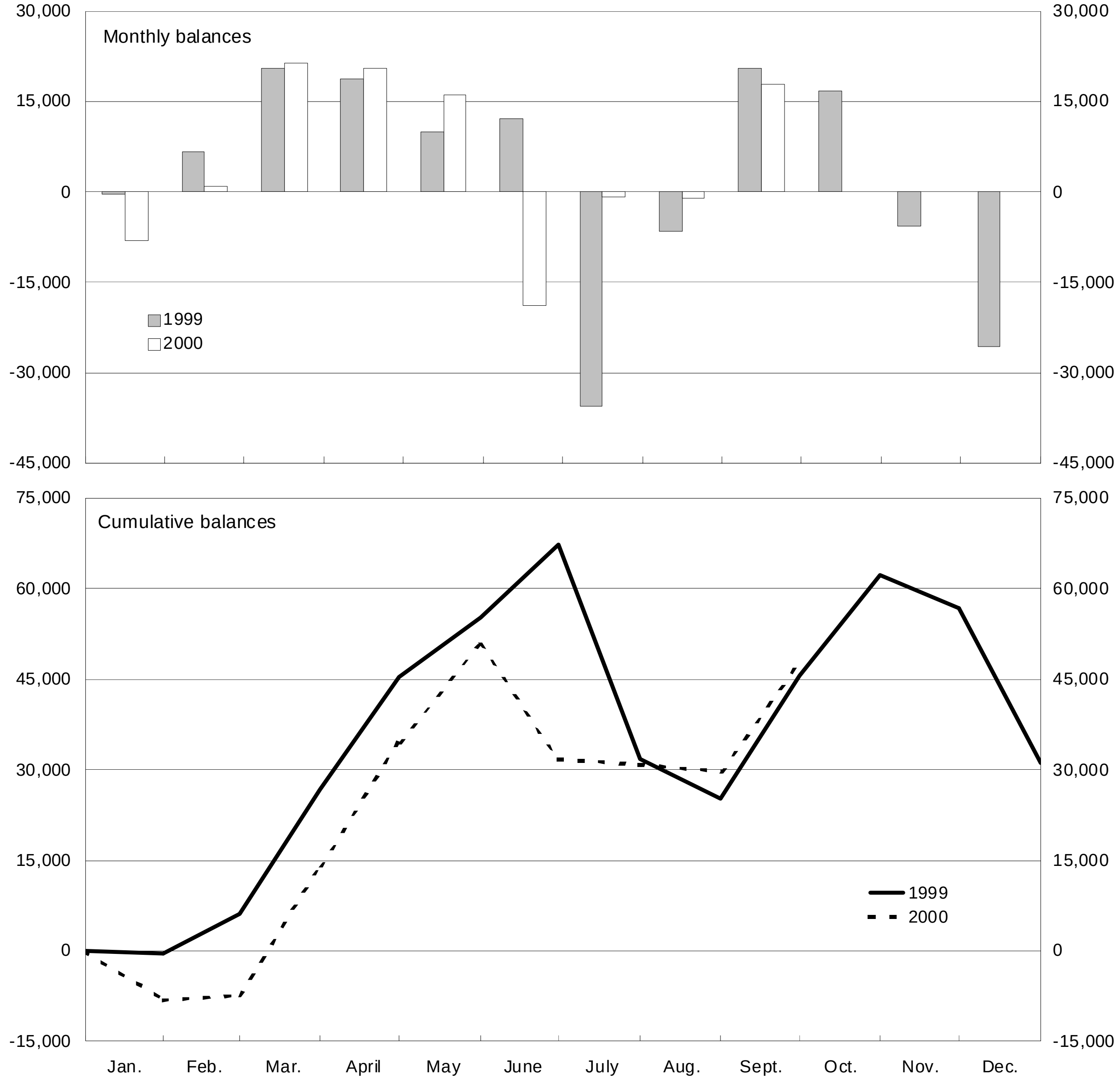
General government net borrowing, primary net borrowing and debt (1)
(*as a percentage of GDP*)

Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2000 and 2001, forecasts taken from the *Relazione previsionale e programmatica* (September 2000).

(1) Following the adoption of ESA95, there is a break in the series between 1994 and 1995 (shown by the dotted line). A minus sign indicates a surplus.

Figure 2

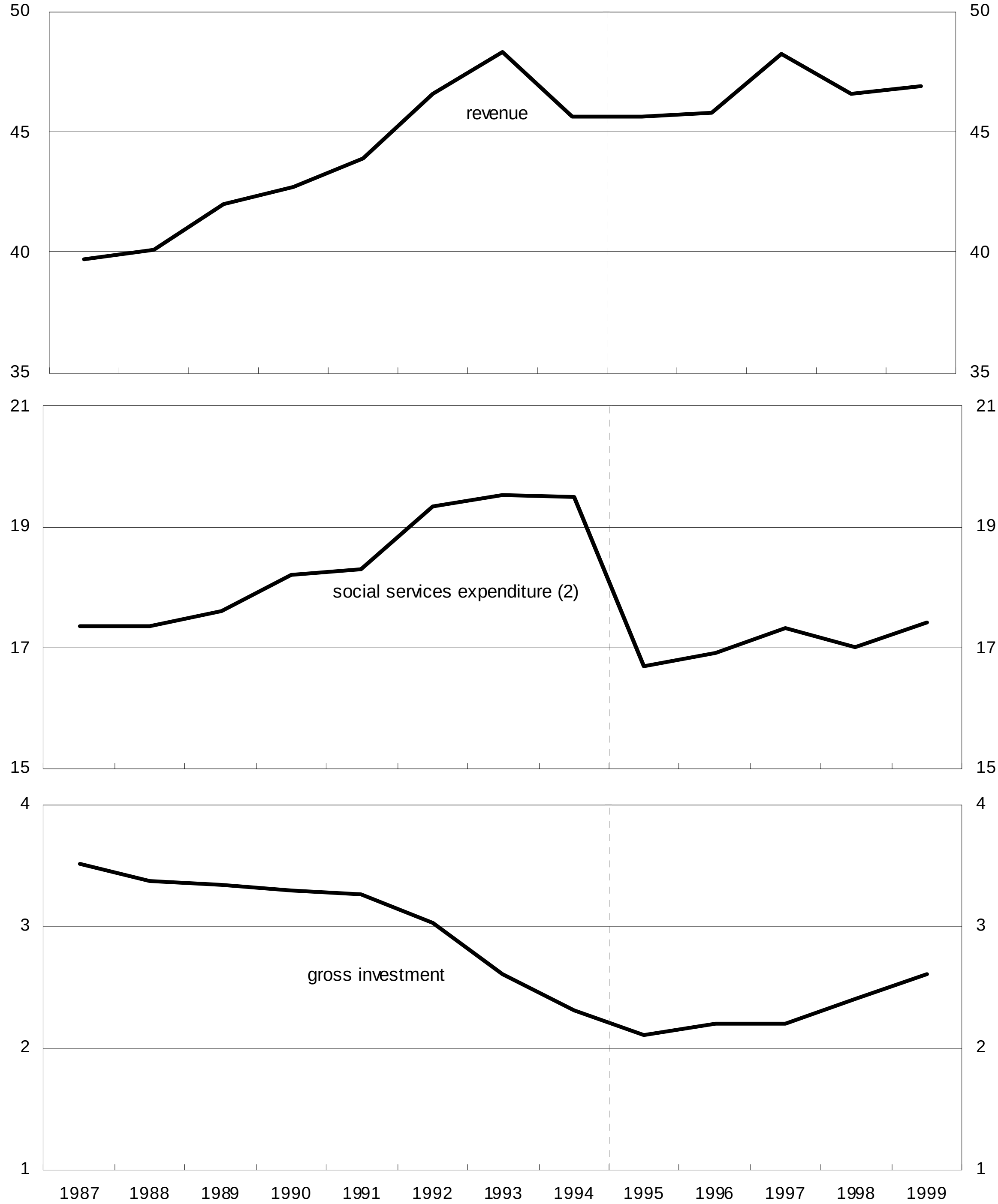
State sector borrowing requirement in 1999 and 2000 (1)
(*billions of lire*)



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

Figure 3

General government revenue, social services expenditure and gross investment (1)
(*as a percentage of GDP*)



Source: Based on Istat data.

(1) Following the adoption of ESA95, there is a break in the series between 1994 and 1995 (shown by the dotted line). – (2) Under ESA95, social services in kind have been reclassified under intermediate consumption.

2000 World Savings Day

Address by the Governor, Antonio Fazio,
to the Association of Italian Savings Banks

Rome, 31 October 2000

The rise in oil prices since the end of 1998 has caused consumer prices and production costs to come under pressure in the industrial countries.

In the euro area the pressure is augmented by the weakening of the common currency. The twelve-month rate of consumer price inflation rose from 0.8 per cent in January 1999 to 2.8 per cent in September 2000; in France and Germany it rose from 0.3 to 2.3 per cent and from 0.2 to 2.6 per cent respectively.

In Italy inflation rose over the same period from 1.5 to 2.6 per cent; it was close to the latter value in October as well. The inflation gap with the other countries was negative for the first time.

Considering core inflation, however, the comparison remained unfavourable to Italy.

Between January 1999 and September 2000, the inflation gap with respect to the rest of the euro area, excluding food and energy products, held steady at around 0.8 percentage points. A factor in Italy was the smaller decrease in prices in recently liberalized sectors such as telecommunications and electricity.

In the four leading euro-area countries the behaviour of domestic costs curbed the inflationary pressure coming from abroad. In 1999 unit labour costs increased by just over one per cent; in the first half of this year the rise in production and productivity kept the increase compared with the first half of 1999 to less than 0.5 per cent.

In Italy, where per capita earnings rose faster than in France and Germany, the productivity gains recorded in the first half of the year were a powerful restraint on the rate of increase in unit labour costs in industry. In the services sector Italy continues to lag behind in productivity growth as a consequence of the much smaller increase in the level of activity.

For the year 2000 as a whole the average increase in consumer prices is expected to be just over 2.5 per cent. Unless there is a sharp decline in oil prices, inflation is unlikely to fall below 2 per cent in 2001.

Within the incomes policy framework put in place in 1993, business and labour organizations must negotiate wage increases that take account of domestic inflation but not of imported inflation.

Economic developments, the balance of payments and competitiveness

The annualized rate of growth in euro-area GDP accelerated from 3.4 per cent in the second half of 1999 to 3.7 per cent in the first half of this year. A decisive contribution came from the expansion in domestic demand. Despite the faster rise in exports, fueled by the very substantial increase in world demand and the depreciation of the euro, the parallel rapid growth in imports limited the contribution of net exports.

The hike in oil prices during the summer cast a shadow over the economic outlook. The climate of confidence among households and firms deteriorated, order levels fell, and industrial production slowed.

In Italy, economic activity spurted in the first quarter, driven to an equal extent by domestic and foreign demand, but the rise in production and GDP subsequently slowed. In the first half of the year GDP expanded at an annualized rate of 3 per cent; the corresponding figures for Germany and France were 3.5 and 3 per cent respectively.

The growth in Italian domestic demand was in line with that recorded by the leading euro-area economies. The shortfall in overall economic growth was primarily due to the slower expansion in exports.

Household consumption benefited from the gradual rise in disposable income brought about by the increase in employment and grew at an annualized rate of 2.9 per cent in the first half of this year. Investment accelerated to more than 8 per cent on an annual basis in response to the persistence of good profits, the contraction in unused capacity and low interest rates. Investment in construction picked up significantly.

The growth in employment benefited from the recovery in production and, as in 1999, from firms' greater use of flexible employment contracts. In the first half of 2000 employment rose at an annualized rate of 2.5 per cent, one of the highest in the last twenty years. Permanent full-time employment also increased significantly.

Although the expansion of exports compared with the second half of last year was a substantial improvement on the disappointing results recorded in 1999, on an annual basis it still fell more than 5 percentage points short of that achieved by France and Germany. This result was only in part a question of price competitiveness. Measured in terms of producer prices and with reference to all the other industrial countries, Italy's competitiveness improved by 1.7 per cent, that of France by 1.9 per cent and that of Germany by 4.4 per cent.

Fueled by the robust recovery in the emerging economies Italian exports to non-euro-area countries grew by 16 per cent at constant prices in the first half of 2000 compared with the corresponding period in 1999. By contrast, exports to the euro area grew by only 5 per cent; those to Germany, Italy's biggest export market, grew by less than 2 per cent.

The expansion of 9.2 per cent in imports at constant prices was more evenly distributed, with those from the euro area growing by 8 per cent and those from the rest of the world by more than 10 per cent; despite the improvement in Italy's competitiveness, the growth in imports remained a high multiple of that in domestic demand.

In the first half of this year the trade surplus contracted by some 11 trillion lire compared with the first half of 1999. The balance on current account turned negative and showed a deficit of around 11 trillion; in the first half of 1999 the current account had shown a surplus of 4.7 trillion.

The increase in the cost of energy imports for the year as a whole can be estimated at well over 1 per cent of GDP.

After seven successive years of current account surpluses, there is likely to be a deficit of around 0.5 per cent of GDP in 2000.

During the summer there were signs of a slow-down in growth. Industrial production contracted in June and July; it appears to have picked up again in the two following months. Manufacturing firms saw the rapid expansion in demand as having come to a halt. The brusque deterioration in household confidence in September was followed by a partial recovery in October.

Growth of 2.8 per cent in 2000, the official forecast, appears to be an upper limit; it presupposes a rate of expansion in the second half of the year comparable with that achieved in the first half, with a sharp acceleration in the last few months.

In 2001 the adverse effects on growth of the rise in oil prices will be felt in full. In recent analyses international organizations have underscored the macroeconomic impact of an increase in energy costs on the industrial countries most dependent on imports. They estimate that the persistence of oil prices at their current high levels could reduce growth by up to half a percentage point compared with the forecasts released during the summer, which, on the assumption of a significant fall in energy prices, had indicated a growth rate of over 3 per cent for Italy.

Economic growth, competitiveness and saving

The rapid expansion of the Italian economy in the last twelve months has not yet been sufficient to close the gap with the other leading euro-area countries.

The slower growth in the first half of this year, as in the whole of the period from 1995 to 1999, was not attributable to the rate of increase in domestic demand but to an export performance that was much poorer than those of France and Germany.

Set equal to 100 in 1995, the index of industrial production, which is closely correlated with that of exports, had risen in June of this year to around 108 in Italy, 115 in France and 116 in Germany.

Between 1995 and July of this year Italy's price competitiveness deteriorated by 19 percentage points vis-à-vis the rest of the euro area and by 20 and 23 points with respect to France and Germany respectively. Econometric analyses show that the reduction in Italian exports' market shares is not completely explained by relative prices, thus indicating the existence of other reasons for the decline in their competitiveness. Forecasts of Italian exports in 2000 suggest that they will again grow less than world trade.

In a global marketplace marked by radical changes in technologies and forms of corporate organization, the structural lags of the Italian economy undermine the country's competitiveness. The boost given to productivity growth by the extraordinary development of information and communication technologies has been a feature of the performance of the US economy; it is beginning to be felt in the other leading European economies; it is less visible in Italy's.

The increase in international competition in sectors, such as services, that are less open to foreign trade is also contributing to the creation of new allocative advantages between and within countries; it is eroding rent positions of long standing; it benefits areas that adapt promptly to the new conditions.

Financing the Italian economy in order to support a rapid rate of growth requires the contribution of foreign investment. This is now much more subject than in the past to sudden shifts in location decisions at world level. There is a growing tendency for one of Italy's traditional resources, high savings, to be utilized abroad.

Direct investment flows, after showing a deficit of 21.7 trillion lire in 1998, came virtually into balance in 1999, largely owing to the acquisition by a foreign buyer of an important Italian telecommunications company. In the first eight months of this year there was a deficit of 3.1 trillion. The inflow dropped to 7.1 trillion; whereas the outflow, after rising fast in the three years from 1997 to 1999, fell to 10.2 trillion; a recent acquisition by a large foreign company has not yet shown up in the figures.

The balance of portfolio investment, in surplus to the tune of 73 trillion lire in 1996, subsequently contracted and was virtually nil in 1998. In 1999, after the convergence of Italian interest rates to the European level, there was a deficit of 79 trillion. In the first half of 2000 the net outflow fell to 1 trillion; the data available show that the balance remained negative in July and August.

The investment abroad of Italians' financial wealth is partly a reflection of the trend towards international portfolio diversification; it is also a consequence of the still limited development of Italy's private capital markets.

In past years foreign intermediaries mainly bought Italian government securities. The efficiency of the secondary market in such securities and the persistence of a positive, albeit small, yield differential with respect to the securities of the other euro-area countries contributed to this tendency. The bias was still present in the first half of 2000, when net purchases of Italian government securities amounted to 114 trillion lire, as in 1999. At the end of June 43 per cent of Italy's public debt was held by foreign investors, as against 13 per cent at the end of 1994.

As regards shares, non-residents invested 16 trillion lire in the Italian market in 1997 and 25 trillion in 1998. The trend then reversed and they made net sales totaling 16 trillion in 1999 and 23 trillion in the first half of 2000, when about two thirds of the disposals involved shares of non-financial companies. At the end of June foreign investors held less than 10 per cent of the stock of Italian listed companies, as in the mid-nineties.

The bulk of Italian portfolio investment abroad has been handled by specialized intermediaries. In the first eight months of this year Italian investment funds bought 54 trillion lire of securities in international markets, notwithstanding net redemptions in the period. At the end of August 55 per cent of funds' net assets consisted of foreign securities. The value of foreign equities in their portfolio was more than three times that of their holdings of Italian shares.

The banking system

The growth in lending by Italian banks in 2000 has been very rapid; at the end of September it was equal to 14 per cent on an annual basis. The acceleration reflects the expansionary economic phase as well as several large-value operations in favour of service and energy companies.

The conditions of loan supply in Italy remained relaxed even after the increase in official rates began last autumn. The upward adjustment of bank lending rates to the rise in money market yields was in line with the average recorded in the euro area.

In order to finance the expansion in lending, which was considerably larger than that in domestic fund-raising, banks sold government securities and ran down their external assets.

In August the ratio of banks' liquid assets — cash and securities — to their total financial assets fell to a historic low of 16 per cent. It is now particularly modest by comparison with the ratios prevailing in other main euro-area countries.

Italian banks' profit and loss accounts for the first half of 2000 show an improvement in profitability. The rapid expansion in lending resulted in net interest income being 2.8 per cent higher than in the first half of 1999. There was robust growth in income from services. Gross income rose by 11.7 per cent. Profits were higher than in the first half of 1999; the annualized return on equity rose to 12 per cent.

If the rapid increase in lending is to continue, domestic fund-raising will have to grow considerably faster than up to now, with repercussions on the overall cost of funding.

Staff costs remained unchanged, despite the decrease of 1.4 per cent in the number of employees. Total operating expenses rose by 4.5 per cent, partly owing to increased investment in information systems.

It is necessary to reduce costs further in relation to the volume of business.

The prolonged phase of high corporate profitability has contributed to the significant improvement in loan quality. Loan losses in relation to the loan portfolio have fallen to the lowest level in more than a decade; in the first half of this year they amounted to 3.3 trillion lire, some 2.1 trillion less than a year earlier.

In August bad debts were 13 per cent down on a year earlier, reflecting both the writing off of non-performing loans and a series of major securitization transactions. Bad debts, net of writedowns, were equal to around 28 per cent of capital and reserves, an intermediate level among those registered in the euro area.

The improvement in banks' profitability in the last three years as a result of the expansion of the range of services offered and the action taken to rationalize organizational structures and credit management procedures has helped to strengthen the stability of the banking and financial system.

The risks that can arise from the evolution of world economic conditions make it necessary for banks to pay more attention to loan quality.

The yield differential between corporate bonds and government securities in the Euromarket has widened by around one percentage point this year. The increase has been especially marked for firms that have stepped up their borrowing to finance investment in new technologies.

The share of loans by Italian banks to sectors with a past record of high risk is rising. The concentration of creditor positions has increased.

The rapid growth in credit will translate into lasting benefits for intermediaries and bank customers only if there is close and continuous examination of the quality of investment plans. The experience of the main banking systems indicates that during expansionary phases of the economic cycle, when banks have the best opportunities to increase their respective market shares, the attention they pay to evaluating the medium-term prospects of borrowers tends to lessen.

The solvency ratio, calculated on the basis of consolidated data, declined from 11.3 to 10.6 per cent in 1999; on the basis of the data of individual banks, it appears to have stabilized this year. The solvency ratio of Italian banks active in international markets was low in 1998 compared with the leading banks of the Group of Ten countries; however, Italian banks' capital contained a higher percentage of core capital, consisting of equity and reserves.

The reform of the capital adequacy ratios now under study in international fora requires that banks equip themselves with internal credit-rating systems that are analytically rigorous and make full use of information on counterparties' financial positions. These systems must be fully integrated into banks' organization and their procedures for formulating operating objectives, disbursing loans and monitoring risks. The need for this is particularly cogent in recently formed banking groups now engaged in the reorganization of large intermediaries.

An intense effort aimed at the internal strengthening and consolidation of groups is necessary in order to reap all the benefit of larger size and successfully face mounting competition.

The growth of Italian banks' business and their expansion abroad must be preceded and accompanied by an adequate increase in their own funds. The raising of equity capital must proceed in parallel with the consolidation of the results achieved so far through concentration.

Conclusions

Savings, labour and entrepreneurial ability are resources that Italy has in abundance. It is necessary to create a virtuous circle for them to be turned fully to account, to lock Italians' savings into Italy's productive economy and to offer economic agents stable prospects and the markets clear indications.

It is crucial that action be aimed at boosting competitiveness.

Structural constraints, accumulated over the course of decades and not completely removed, are a burden. They lessen the economy's efficiency and thus raise firms' tangible and intangible indirect costs. The weakness of the external accounts reveals the difficulty domestic production has in taking full advantage of the expansion of the world economy. Net capital exports diminish the prospects of growth.

The reforms begun in recent years in the public administration go in the direction of reducing inefficiencies. They must be completed and brought into better harmony with the needs of an economy increasingly open to international competition.

The reduction in the tax burden initiated with the Finance Law must be continued in a medium-term perspective. It cannot be achieved without a revision and redistribution of social security sector benefits that shift a part of pension provision to private insurance systems; those for whom adjustment to the new demands of production is more difficult must be protected. A far-reaching overhaul of the education and training system for the younger generations needs to be considered, not excluding recourse to non-state institutions. It will result in an increase in human capital, the resource that in the current context is increasingly the foundation of countries' economic development.

The ability of firms to rise to the challenges of innovation remains essential.

Forty years ago Italy became an industrial country with the decisive contribution of entrepreneurs who trusted in their own ability to compete in European markets, without protection. The information technology revolution offers opportunities that, if adequately exploited by manufacturing and services, can contribute significantly to raising productivity in the years to come.

Today, in the same way as in the fifties and sixties, it is the bet on the future underlying investment decisions that, in the final analysis, can render savings productive, drive growth and employment and enhance the welfare of the population.

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.

Table a1

GDP at constant prices

	Percentage of world GNP in 1998 (1)	1995	1996	1997	1998	1999	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.3	2.7	3.6	4.4	4.4	4.2	2.5	5.7	8.3	4.8	5.6
Japan	8.0	1.5	5.1	1.6	–2.5	0.2	3.9	–3.9	–6.4	10.3	4.2
Euro area	16.0	2.2	1.4	2.3	2.7	2.4	2.2	3.8	3.8	3.8	3.5
Germany	*4.9*	*1.7*	*0.8*	*1.4*	*2.1*	*1.6*	*–0.4*	*3.6*	*3.0*	*3.1*	*4.7*
France	*3.4*	*1.7*	*1.1*	*1.9*	*3.2*	*3.0*	*3.3*	*4.0*	*4.0*	*2.6*	*2.9*
Italy	*3.2*	*2.9*	*1.1*	*1.8*	*1.5*	*1.4*	*2.6*	*2.9*	*2.2*	*4.3*	*1.1*
United Kingdom	3.2	2.8	2.6	3.5	2.6	2.2	3.2	4.1	2.8	2.1	3.8
Canada	1.9	2.8	1.5	4.4	3.3	4.5	3.3	6.5	5.1	5.1	4.7
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	1.1	–2.8	5.5	8.1	3.9	–3.1	–5.3	–4.1	–0.5	0.9	0.8
Brazil	2.9	4.2	2.7	3.3	0.2	0.8	–0.1	0.3	3.9	3.8	3.9
Mexico	1.9	–6.2	5.1	6.8	4.8	3.7	3.1	4.3	5.2	7.9	7.6
Asia											
China	10.2	10.5	9.6	8.8	7.8	7.1	7.1	7.0	6.8	8.1	8.3
South Korea	1.7	8.9	6.8	5.0	–6.7	10.7	10.8	12.8	13.0	12.8	9.6
India	5.4	7.6	7.8	5.0	6.8	6.4	5.7	5.8	7.2	5.8	. . . .
Indonesia	1.3	8.2	7.8	4.7	–13.0	0.3	3.8	1.1	5.2	3.6	4.1
Malaysia	0.5	9.8	10.0	7.5	–7.6	5.8	5.0	8.6	11.0	11.9	8.7
Thailand	0.9	8.9	5.9	–1.7	–10.2	4.2	2.5	7.8	6.5	5.3	6.6
Taiwan	. . . .	6.4	6.1	6.7	4.6	5.4	6.4	4.7	6.4	7.9	5.4
Europe											
Poland	0.8	7.0	6.1	6.7	4.8	4.1	3.1	5.0	6.2	6.0	5.2
Russia	2.4	–4.1	–3.4	0.9	–4.4	3.2	1.1	6.6	7.3	8.3	6.7
Turkey	1.1	7.9	7.4	7.6	3.2	–5.1	–2.2	–5.9	–3.3	5.1	5.3

(1) On the basis of purchasing power parities.

Table a2

Industrial production

	1996	1997	1998	1999	April 2000	May 2000	June 2000	July 2000	August 2000	September 2000
	(percentage changes on previous period on an annual basis; seasonally adjusted data)									
Industrial country										
United States	4.4	6.3	4.3	3.5	9.7	10.5	5.1	–2.4	5.1	3.3
Japan	2.1	4.1	–7.2	1.0	–6.7	3.5	25.8	–9.8	50.0	....
Euro area	0.3	4.3	4.2	1.8	6.6	7.7	–5.3	5.0	2.5	....
Germany	*0.7*	*3.7*	*4.2*	*1.5*	*18.1*	*31.7*	*–29.4*	*43.0*	*7.3*	....
France	*0.9*	*3.7*	*5.1*	*2.1*	*–6.0*	*7.5*	*–5.1*	*20.4*	..	....
Italy	*–0.9*	*3.3*	*1.9*	*0.1*	*–7.5*	*31.4*	*–10.0*	*–10.0*	....	....
United Kingdom	1.1	1.0	0.8	0.5	9.6	3.5	2.3	–1.1	7.4	....
Canada	1.4	4.4	2.4	4.5	–2.6	26.3	4.4	–1.7	....	....
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	6.8	10.2	1.4	–6.0	3.7	6.1	0.2	–1.7	–1.4	–2.5
Brazil	1.6	4.1	–2.1	–0.7	3.4	6.4	7.3	6.8	7.7	....
Mexico	10.1	9.2	6.3	3.8	5.0	9.1	7.1	5.8	8.0	....
Asia										
China	15.0	13.2	9.6	9.9	10.9	11.5	12.2	12.8	12.8	12.0
South Korea	8.5	4.7	–6.5	24.2	16.9	20.1	17.8	19.3	24.1	....
India	8.6	5.4	3.4	7.6	5.7	5.5	5.9	4.3	....	....
Indonesia	6.6	13.2	–13.3	25.6	–	–	–	–	–	–
Malaysia	10.9	10.7	–7.2	9.1	17.9	21.2	21.3	20.6	18.7	....
Thailand	8.6	–0.6	–12.0	14.1	3.7	5.0	1.6	–1.3	–2.3	....
Taiwan	2.1	7.4	2.6	7.7	5.0	7.9	10.1	6.9	9.3	16.5
Europe										
Poland	9.1	11.1	4.7	4.8	5.2	12.0	13.5	7.8	9.2	5.0
Russia	–4.0	1.9	–5.2	8.1	5.4	10.6	9.8	8.5	10.2	7.2
Turkey	5.8	10.0	0.9	–5.2	2.8	2.8	2.3	3.5	17.1	....

Table a3

Consumer prices

	1995	1996	1997	1998	1999	May 2000	June 2000	July 2000	August 2000	September 2000
					(percentage changes on year-earlier period)					
Industrial countries										
United States	2.8	2.9	2.3	1.6	2.2	3.2	3.7	3.7	3.4	3.5
Japan	–0.1	0.1	1.7	0.6	–0.3	–0.7	–0.7	–0.5	–0.8	. . . .
Euro area	. . . .	2.2	1.6	1.1	1.1	1.9	2.4	2.4	2.3	2.8
Germany	. . . .	*1.2*	*1.5*	*0.6*	*0.6*	*1.5*	*2.0*	*2.0*	*1.8*	*2.6*
France	. . . .	*2.1*	*1.3*	*0.7*	*0.6*	*1.6*	*1.9*	*2.0*	*2.0*	*2.3*
Italy	. . . .	*4.0*	*1.9*	*2.0*	*1.7*	*2.5*	*2.7*	*2.6*	*2.6*	*2.6*
United Kingdom	2.8	2.9	2.8	2.7	2.3	2.0	2.2	2.2	1.9	2.2
Canada	2.2	1.6	1.6	1.0	1.7	2.4	2.9	3.0	2.5	2.7
Emerging countries										
Latin America										
Argentina	3.4	0.2	0.5	0.9	–1.2	–1.0	–1.1	–0.9	–0.7	–0.7
Brazil	66.0	15.8	6.9	3.2	4.9	6.5	6.5	7.1	7.9	7.8
Mexico	35.0	34.4	20.6	15.9	16.6	9.5	9.4	9.1	9.1	8.8
Asia										
China	16.9	8.3	2.8	–0.8	–1.4	0.1	0.5	0.5	0.3	. .
South Korea	4.4	4.9	4.4	7.5	0.8	1.1	2.2	2.9	2.7	3.9
India	10.2	9.0	7.2	13.2	4.7	5.8	5.8	5.7	. . . .	. . . .
Indonesia	9.4	8.0	6.2	58.4	20.5	1.2	2.0	4.4	6.1	6.8
Malaysia	3.4	3.5	2.7	5.3	2.7	1.3	1.3	1.4	1.5	1.5
Thailand	5.7	5.8	5.6	8.1	0.3	1.7	2.0	2.0	2.2	. . . .
Taiwan	3.7	3.1	0.9	1.7	0.2	1.6	1.4	1.5	0.3	1.8
Europe										
Poland	28.1	19.8	15.1	11.8	7.3	10.0	10.2	11.6	10.7	10.3
Russia	197.5	47.8	14.8	27.6	85.7	19.4	20.1	18.9	18.7	18.7
Turkey	88.6	80.3	85.7	84.6	64.9	62.7	58.6	56.2	53.2	49.0

Table a4

External current account

	1995	1996	1997	1998	1999	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2
	(billions of dollars; seasonally adjusted quarterly data)									
Industrial countries										
United States	–109.5	–123.3	–140.5	–217.1	–331.5	–79.0	–89.6	–96.2	–101.5	–106.1
Japan	111.4	65.8	94.2	121.2	106.9	27.4	27.5	25.9	34.1	32.1
Euro area (1)	....	....	69.0	35.0	–6.7	4.8	–3.0	–6.6	–8.0	–6.2
Germany	*–20.8*	*–8.0*	*–3.1*	*–4.6*	*–19.7*	*–2.4*	*–4.2*	*–8.4*	*–2.6*	*–7.7*
France	*10.8*	*20.5*	*38.0*	*37.7*	*37.3*	*8.3*	*11.6*	*8.5*	*6.5*	*8.7*
Italy	*24.9*	*39.5*	*32.3*	*21.7*	*6.3*	*3.6*	*0.7*	..	*0.9*	*–2.8*
United Kingdom	–6.0	–0.7	10.8	–0.1	–17.7	–4.3	–4.3	–2.5	–5.3	–5.0
Canada	–4.3	3.4	–10.1	–11.1	–2.3	–1.2	0.3	–0.2	3.3	2.4
	(billions of dollars; quarterly data, not seasonally adjusted)									
Emerging countries										
Latin America										
Argentina	–5.0	–6.5	–12.0	–14.4	–12.3	–2.0	–3.4	–3.4	–3.2	–1.4
Brazil	–17.8	–23.5	–33.4	–33.6	–25.1	–7.2	–4.9	–7.8	–4.1	–7.2
Mexico	–1.6	–2.3	–7.4	–16.1	–14.2	–2.9	–3.3	–4.4	–4.3	–3.7
Asia										
China	1.6	7.2	37.0	31.5	15.7	–	–	–	–	–
South Korea	–8.5	–23.0	–8.2	40.6	25.0	6.3	6.6	5.8	1.3	2.8
India	–5.6	–6.0	–3.0	–6.9	–2.8	–1.8	–1.1	–0.2	–1.1	....
Indonesia	–6.8	–7.8	–5.0	4.1	5.8	0.9	1.9	1.5	1.9	....
Malaysia	....	....	....	10.0	12.6	3.2	3.7	2.8	2.8	....
Thailand	–13.2	–14.4	–3.1	14.3	12.4	2.2	3.0	3.2	3.2	1.5
Taiwan	....	....	7.1	3.4	8.4	2.1	1.5	2.1	1.1	1.4
Europe										
Poland	–2.3	–1.4	–4.3	–6.9	–11.6	–2.8	–3.0	–3.6	–3.5	–2.1
Russia	7.7	12.1	2.5	1.0	25.0	4.3	5.6	10.5	12.2	10.8
Turkey	–2.3	–2.4	–2.6	2.0	–1.4	–1.4	0.1	–1.4	–2.3	–3.3

(1) Not seasonally adjiusted. The figure 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 – 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	5.25
Mar.	6.00	0.50	3.50	6.00	5.50
Apr.	6.00	0.50	3.75	6.00	5.50
May	6.50	0.50	3.75	6.00	6.00
June	6.50	0.50	4.25	6.00	6.00
July	6.50	0.50	4.25	6.00	6.00
Aug.	6.50	0.50	4.50	6.00	6.00
Sept.	6.50	0.50	4.50	6.00	6.00
			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 – 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	6.06	5.26
Feb.	6.01	0.14	3.54	6.15	5.31
Mar.	6.14	0.26	3.75	6.15	5.41
Apr.	6.28	0.13	3.93	6.21	5.52
May	6.70	0.16	4.36	6.23	5.86
June	6.73	0.09	4.50	6.14	5.92
July	6.67	0.33	4.58	6.11	5.88
Aug.	6.61	0.33	4.78	6.14	5.89
Sept.	6.60	0.40	4.85	6.12	5.85

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 – 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	5.83	6.49
Feb.	6.52	1.83	5.51	5.62	5.73	5.63	6.34
Mar.	6.26	1.82	5.33	5.43	5.58	5.34	6.03
Apr.	5.99	1.75	5.22	5.33	5.47	5.30	5.92
May	6.44	1.71	5.38	5.50	5.66	5.41	6.22
June	6.10	1.69	5.19	5.32	5.51	5.21	5.90
July	6.05	1.73	5.27	5.40	5.59	5.24	5.86
Aug.	5.83	1.77	5.21	5.36	5.56	5.32	5.77
Sept.	5.80	1.88	5.26	5.42	5.63	5.38	5.73
				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 – 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
Mar.	313.25	103.95	302.32	309.69	308.85	198.45	220.87
Apr.	317.01	103.96	282.26	302.60	283.57	190.20	218.19
May	308.09	100.66	269.81	308.31	289.57	187.99	215.96
June	317.54	97.98	272.77	317.83	294.60	195.43	237.97
July	319.94	97.15	270.66	316.15	300.29	195.89	242.89
Aug.	322.64	93.42	268.54	318.79	298.18	197.72	262.55
Sept.	318.86	92.83	260.77	318.36	299.77	197.59	242.24

Table a7

Ecu/euro exchage 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
1998 – 3rd qtr.	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
2000 – 1st qtr.	0.986	105.50	1.434	0.6144	7.446	332.75	8.495	1.607	276.75
2nd "	0.933	99.55	1.381	0.6103	7.456	336.21	8.276	1.563	288.15
3rd "	0.905	97.43	1.341	0.6125	7.460	337.57	8.404	1.544	273.65
1999 – 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
Mar.	0.964	102.59	1.408	0.6106	7.447	333.89	8.388	1.604	276.75
Apr.	0.947	99.92	1.389	0.5980	7.451	335.22	8.267	1.574	275.05
May	0.906	98.09	1.355	0.6015	7.457	336.60	8.241	1.556	272.25
June	0.949	100.71	1.402	0.6293	7.461	336.64	8.318	1.561	288.15
July	0.940	101.39	1.389	0.6230	7.459	336.86	8.407	1.551	276.75
Aug.	0.904	97.76	1.341	0.6071	7.458	337.27	8.392	1.551	277.00
Sept.	0.872	93.11	1.295	0.6077	7.463	338.60	8.415	1.531	273.65

Table a8

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1994	98.2	103.7	99.1	100.2	97.8	101.1	98.1	104.4
1995	96.6	103.9	102.8	105.2	92.9	97.2	100.3	108.1
1996	100.1	87.7	98.4	101.7	103.5	101.4	101.0	104.2
1997	105.1	83.0	93.4	96.2	103.9	117.2	101.4	95.8
1998	108.7	79.6	94.8	97.1	105.3	123.8	97.6	97.6
1999	107.0	90.3	91.2	94.7	102.3	124.2	97.5	95.2
1998 – 2nd qtr.	109.3	76.7	94.2	96.5	104.6	125.0	99.5	95.9
3rd "	110.9	74.2	95.4	97.4	105.8	124.7	96.2	96.9
4th "	105.8	84.8	96.2	98.1	106.6	121.1	94.1	99.8
1999 – 1st qtr.	105.4	88.4	93.9	96.7	104.6	122.1	96.1	98.1
2nd "	108.0	85.3	91.7	94.7	102.0	125.4	98.4	95.5
3rd "	108.2	90.4	90.4	94.0	101.5	124.0	97.6	94.5
4th "	106.4	97.0	88.7	93.5	101.0	125.2	97.9	92.8
2000 – 1st qtr.	108.4	95.0	86.6	92.5	100.2	126.7	99.9	90.1
2nd "	111.7	96.3	84.7	91.4	99.0	125.2	98.4	90.3
1999 – July	109.2	86.4	90.8	94.1	101.4	123.7	98.2	94.4
Aug.	108.0	90.0	90.9	94.4	101.7	123.5	97.0	95.0
Sept.	107.3	94.9	89.6	93.6	101.2	124.7	97.4	94.1
Oct.	106.0	95.0	90.1	94.2	102.0	125.4	97.5	94.7
Nov.	106.9	96.8	88.6	93.5	101.0	124.8	97.9	92.2
Dec.	106.4	99.2	87.4	92.9	100.1	125.5	98.3	91.6
2000 – Jan.	106.6	96.3	87.7	93.1	100.7	127.2	99.8	90.9
Feb.	109.1	93.0	86.7	92.5	100.2	126.5	100.2	90.1
Mar.	109.6	95.8	85.4	92.1	99.7	126.2	99.7	89.2
Apr.	109.7	97.3	84.9	91.4	98.8	128.5	99.4	90.3
May	112.9	96.0	84.0	90.8	98.3	125.5	98.1	90.1
June	112.6	95.7	85.2	92.0	99.7	121.7	97.6	90.7
July	112.7	94.1	85.3	91.7	99.7	122.4	97.7	90.7

(1) A rise in the index corresponds to a decrease in competitiveness.

Table a9

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed capital formation					
	GDP	Imports	Total	Building	Machinery and equipment, sundry products and vehicles	Total	Consumption of resident households	Other domestic uses	Exports
				At 1995 prices					
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
1998 – 2nd qtr	0.6	1.4	0.8	–0.9	0.2	–0.3	1.0	3.5	–0.8
3rd "	0.5	–0.5	0.3	–0.6	1.4	0.5	0.5	–1.1	0.6
4th "	–0.3	2.9	0.3	. .	0.1	0.1	0.4	6.6	–3.6
1999 – 1st qtr	0.3	–1.7	–0.1	0.1	2.3	1.4	0.4	–1.6	–1.2
2nd "	0.6	2.9	1.1	1.7	2.2	2.0	0.4	1.6	1.7
3rd "	0.7	–0.3	0.5	1.0	1.5	1.3	0.3	–4.2	3.7
4th "	0.5	3.1	1.1	1.8	2.2	2.0	0.1	2.3	1.6
2000 – 1st qtr	1.1	. .	0.8	1.7	2.4	2.1	1.1	–3.3	2.1
2nd "	0.3	5.1	1.3	1.1	2.0	1.6	0.5	2.7	1.8
				Implicit prices					
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
1998 – 2nd qtr.	0.4	–1.0	0.1	0.4	0.4	0.4	0.5	–2.1	0.4
3rd "	0.6	–0.7	0.3	0.5	0.5	0.5	0.5	0.7	–0.3
4th "	0.6	–2.2	. .	0.3	–0.1	0.1	0.3	–0.6	–0.9
1999 – 1st qtr	0.2	–0.9	0.1	. .	0.1	0.1	0.5	–0.2	–0.7
2nd "	. .	2.7	0.4	0.6	0.3	0.4	0.8	–0.5	0.5
3rd "	0.5	4.2	1.2	0.5	0.5	0.5	0.6	4.6	1.0
4th "	0.6	1.6	0.8	0.5	0.7	0.6	0.7	1.3	0.7
2000 – 1st qtr	0.4	4.2	1.1	1.3	0.4	0.7	0.6	1.4	2.7
2nd "	0.4	3.5	1.0	0.6	0.5	0.5	0.8	1.8	1.1

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	105.1	102.4	104.7	–17.3	–16.1	–14.8	19.9	–1.3
1992 – 1st qtr.	93.6	95.1	90.0	94.8	–25.5	–29.7	–24.2	11.0	11.3
2nd "	93.8	94.8	88.6	95.5	–26.8	–38.0	–28.9	10.1	11.0
3rd "	91.4	92.1	86.3	91.2	–33.5	–39.3	–35.5	–5.0	5.3
4th "	90.8	93.5	85.8	90.6	–42.6	–40.7	–39.4	–8.3	1.0
1993 – 1st qtr.	91.0	94.3	87.9	92.1	–45.7	–33.3	–43.2	–3.1	3.3
2nd "	90.3	91.0	83.9	91.6	–45.5	–27.0	–39.9	1.2	7.0
3rd "	89.5	90.7	84.8	89.4	–43.9	–19.7	–34.1	2.9	6.7
4th "	90.0	90.3	81.9	91.5	–37.5	–7.0	–25.0	10.3	1.3
1994 – 1st qtr.	91.4	93.6	82.2	92.3	–32.0	. .	–19.2	17.9	–2.3
2nd "	94.6	97.0	87.1	95.9	–19.2	9.7	–7.6	26.0	–1.0
3rd "	96.0	98.1	90.3	97.2	–15.2	10.0	–5.8	28.2	–4.7
4th "	97.5	97.7	91.6	99.0	–5.1	15.7	5.0	28.4	–9.3
1995 – 1st qtr.	98.9	98.9	95.1	98.5	–2.4	26.3	6.1	23.4	–4.7
2nd "	99.2	99.4	97.7	98.7	–1.4	22.3	5.1	21.9	0.3
3rd "	100.3	100.5	99.9	102.1	–4.6	12.3	1.5	24.3	–1.7
4th "	101.6	101.2	107.3	100.7	–14.4	5.3	–7.4	18.2	1.3
1996 – 1st qtr.	101.1	99.4	104.2	100.4	–24.4	–6.7	–17.9	9.7	5.0
2nd "	98.6	99.4	103.5	97.4	–31.3	–19.3	–24.3	5.7	6.3
3rd "	98.7	99.4	100.8	98.0	–31.4	–20.3	–22.8	6.6	5.7
4th "	98.0	100.1	100.4	96.4	–31.3	–21.3	–26.0	8.4	–2.0
1997 – 1st qtr.	99.1	102.2	101.4	98.5	–20.4	–13.0	–16.2	15.5	–5.0
2nd "	102.0	103.0	103.2	101.3	–14.6	–7.0	–12.3	16.4	. .
3rd "	103.5	103.3	102.5	103.0	–12.6	–3.0	–3.5	24.1	–4.3
4th "	105.0	104.3	105.0	104.9	–11.0	–1.0	–2.0	26.3	–3.0
1998 – 1st qtr.	104.4	103.6	104.2	105.7	–7.5	1.3	–2.2	25.2	–1.7
2nd "	105.2	104.1	104.5	105.7	–14.5	–3.0	–8.3	17.2	1.7
3rd "	104.5	104.7	103.2	104.6	–18.0	–10.7	–14.1	10.7	. .
4th "	103.2	103.3	99.1	103.7	–22.7	–20.3	–20.7	9.6	1.3
1999 – 1st qtr.	103.5	104.6	102.9	103.8	–28.4	–26.3	–27.2	9.9	1.7
2nd "	102.7	102.8	100.5	102.4	–23.5	–21.3	–21.3	15.2	–1.0
3rd "	105.0	106.9	102.4	106.2	–12.1	–11.7	–10.5	25.4	–0.7
4th "	106.5	106.3	103.9	106.6	–5.1	–5.0	–0.4	28.9	–5.3
2000 – 1st qtr.	106.7	102.4	104.2	106.1	4.5	8.7	7.4	29.6	–9.3
2nd "	108.0	106.0	106.3	108.2	7.1	7.3	10.4	29.9	–7.3

Table a11

Labour force, employment and unemployment

(thousands of persons and percentages)

	Employment					Unemploy-ment	Labour force	Unemploy-ment rate	Participation rate 15-64 years
	Agriculture	Industry excluding construction	Construction	Other	Total				
1995	1,333	5,187	1,573	11,933	20,026	2,638	22,664	11.6	57.4
1996	1,278	5,125	1,568	12,155	20,125	2,653	22,778	11.6	57.7
1997	1,245	5,096	1,564	12,302	20,207	2,688	22,895	11.7	57.9
1998	1,201	5,186	1,544	12,504	20,435	2,745	23,180	11.8	58.7
1999	1,134	5,175	1,575	12,807	20,692	2,669	23,361	11.4	59.3
1995 – 1st qtr.	1,279	5,158	1,560	11,782	19,779	2,694	22,473	12.0	56.9
2nd ”	1,315	5,195	1,530	11,938	19,978	2,639	22,617	11.7	57.3
3rd ”	1,375	5,227	1,594	12,048	20,244	2,580	22,824	11.3	57.8
4th ”	1,365	5,167	1,607	11,964	20,103	2,639	22,741	11.6	57.6
1996 – 1st qtr.	1,211	5,106	1,572	11,956	19,845	2,649	22,494	11.8	57.0
2nd ”	1,233	5,163	1,538	12,162	20,095	2,708	22,803	11.9	57.8
3rd ”	1,321	5,134	1,595	12,295	20,344	2,577	22,921	11.2	58.1
4th ”	1,346	5,097	1,567	12,207	20,217	2,680	22,897	11.7	58.0
1997 – 1st qtr.	1,203	5,038	1,511	12,187	19,939	2,716	22,655	12.0	57.4
2nd ”	1,187	5,036	1,549	12,412	20,184	2,752	22,936	12.0	58.1
3rd ”	1,282	5,133	1,615	12,396	20,425	2,564	22,989	11.2	58.1
4th ”	1,308	5,178	1,582	12,214	20,282	2,720	23,001	11.8	58.1
1998 – 1st qtr.	1,198	5,148	1,529	12,276	20,151	2,717	22,868	11.9	57.8
2nd ”	1,175	5,140	1,522	12,521	20,357	2,807	23,165	12.1	58.8
3rd ”	1,219	5,210	1,556	12,654	20,638	2,666	23,304	11.4	59.1
4th ”	1,213	5,247	1,569	12,566	20,595	2,787	23,382	11.9	59.3
1999 – 1st qtr.	1,095	5,173	1,516	12,611	20,395	2,752	23,147	11.9	58.8
2nd ”	1,118	5,109	1,566	12,825	20,618	2,729	23,347	11.7	59.3
3rd ”	1,165	5,197	1,608	12,923	20,893	2,597	23,490	11.1	59.6
4th ”	1,160	5,221	1,611	12,869	20,861	2,600	23,460	11.1	59.6
2000 – 1st qtr.	1,084	5,088	1,573	12,872	20,617	2,647	23,264	11.4	59.1
2nd ”	1,095	5,057	1,596	13,182	20,930	2,545	23,475	10.8	59.7
3rd ”	1,137	5,215	1,642	13,328	21,322	2,404	23,726	10.1	60.3

Source*:* Istat, *Indagine sulle forze di lavoro*.

Table a12

Italian consumer price indices

(percentage changes on corresponding period)

	NIC (1) – Goods and services with unregulated prices – Non-food and non-energy products	NIC (1) – Goods and services with unregulated prices – Non-food and non-energy products – Excluding cars	NIC (1) – Goods and services with unregulated prices – Services	NIC (1) – Goods and services with unregulated prices – Total net of food and energy products and those with regulated prices	NIC (1) – Goods and services with unregulated prices – Food products – Processed	NIC (1) – Goods and services with unregulated prices – Food products – Not processed	NIC (1) – Goods and services with unregulated prices – Food products – Total	NIC (1) – Goods and services with unregulated prices – Energy products	NIC (1) – Goods and services with unregulated prices – Total	NIC (1) – Goods and services with regulated prices – Goods (4)	NIC (1) – Goods and services with regulated prices – Utility charges – Energy products (5)	NIC (1) – Goods and services with regulated prices – Utility charges – Non energy products (6)	NIC (1) – Goods and services with regulated prices – Utility charges – Total	NIC (1) – Goods and services with regulated prices – Total	NIC (1) – Rents	NIC (1) – Overall index (7)	WEH (2) – Overall index (7)
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*	*3.3*	*100*	*100*
1990	4.6	4.7	8.0	6.1	6.2	6.0	6.1	13.8	6.5	4.8	9.3	6.3	7.0	6.4	6.1	6.5	6.1
1991	4.5	4.7	7.7	5.9	5.9	7.3	6.6	9.0	6.2	6.8	9.1	6.4	7.1	7.0	5.9	6.3	6.4
1992	4.0	4.0	7.4	5.5	5.0	5.1	5.0	0.6	5.2	3.6	1.3	8.2	6.3	5.5	6.5	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	3.4	5.1	4.6	5.8	7.6	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	4.7	2.9	3.4	3.5	8.4	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	4.4	4.6	4.5	4.0	7.6	5.2	5.4
1996	3.8	3.7	4.4	4.1	4.6	3.7	4.2	4.4	4.1	4.2	–0.2	3.1	2.1	2.7	8.3	4.0	3.9
1997	1.5	1.8	2.8	2.1	0.8	–0.8	0.0	1.5	1.6	5.5	2.3	3.2	2.9	3.6	6.6	2.0	1.7
1998	1.9	1.8	2.7	2.2	0.8	1.6	1.2	–2.7	1.8	4.5	0.0	1.9	1.3	2.2	5.2	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	–2.6	1.5	0.4	1.1	3.3	1.7	1.6
1999 – Jan.	1.3	1.3	2.5	1.8	0.8	1.2	1.3	–4.2	1.5	4.6	–5.2	1.6	–0.3	1.1	4.0	1.5	1.3
Feb.	1.1	1.3	2.5	1.7	0.8	2.0	1.3	–2.9	1.4	4.6	–5.2	1.7	–0.3	1.1	4.0	1.4	1.2
Mar.	1.1	1.3	2.3	1.6	0.8	2.1	1.4	–1.2	1.5	2.1	–5.5	1.5	–0.4	0.3	4.0	1.3	1.4
Apr.	1.1	1.3	2.4	1.7	0.8	2.2	1.4	2.2	1.7	2.0	–5.6	1.7	–0.3	0.3	3.4	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	–4.8	1.7	–0.1	0.4	3.4	1.5	1.6
June	1.0	1.2	2.5	1.7	0.6	1.6	1.0	3.3	1.6	1.3	–4.9	1.6	–0.2	0.2	3.4	1.4	1.5
July	1.2	1.2	2.7	1.9	0.6	0.8	0.8	5.1	1.8	2.9	–3.3	1.6	0.3	1.0	3.2	1.7	1.7
Aug.	1.1	1.2	2.7	1.8	0.6	0.5	0.6	6.3	1.8	2.9	–3.2	1.4	0.2	1.0	3.2	1.7	1.6
Sept.	1.1	1.2	2.7	1.8	0.7	0.1	0.5	8.6	1.8	2.9	0.3	1.5	1.2	1.7	3.2	1.8	1.8
Oct.	1.4	1.2	2.8	2.0	0.8	0.1	0.5	9.2	2.0	2.9	0.5	1.6	1.3	1.7	2.7	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	2.9	1.2	1.7	2.0	2.7	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	2.9	1.2	1.6	2.0	2.7	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	6.0	1.3	2.5	2.5	2.8	2.2	2.1
Feb.	1.3	1.2	3.0	2.1	1.1	0.1	0.6	13.7	2.3	2.4	5.9	1.4	2.6	2.5	2.8	2.4	2.4
Mar.	1.3	1.2	3.0	2.1	1.1	0.3	0.8	16.6	2.4	2.4	8.1	1.1	2.8	2.7	2.8	2.5	2.5
Apr.	1.3	1.2	2.9	2.0	1.1	0.9	1.0	11.2	2.2	2.8	8.0	1.1	2.8	2.8	2.2	2.3	2.2
May	1.4	1.3	2.8	2.1	1.2	1.3	1.2	11.4	2.3	3.0	10.9	1.2	3.6	3.4	2.2	2.5	2.3
June	1.6	1.4	2.9	2.2	1.2	1.8	1.5	14.9	2.6	3.3	11.0	1.2	3.6	3.5	2.2	2.7	2.7
July	1.5	1.4	2.8	2.1	1.3	2.5	1.8	13.9	2.5	1.4	12.2	1.3	4.0	3.2	2.5	2.6	2.7
Aug.	1.6	1.4	2.7	2.1	1.3	2.8	1.9	12.1	2.5	1.4	12.1	1.6	4.2	3.4	2.5	2.6	2.7
Sept.	1.5	1.4	2.6	2.0	1.3	3.2	2.1	14.0	2.6	1.4	11.1	1.4	3.8	3.1	2.5	2.6	2.6

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 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) Includes bottled gas (weight equal to 0.26 per cent of the total), the price of which is unregulated, as the level of disaggregation into 209 elementary items does not permit this item to be distinguished from other energy prices. – (6) The disaggregation into 209 elementary items used for calculating the sub-indices does not permit the following items with administered prices to be included in this aggregate (weights as a percentage of the total index are shown in brackets): couchettes and wagons-lits (0.02), museums (0.01) and lawyers' fees (0.32). Internet subscriptions (0.02), the price of which is considered to be unregulated, are included under telephone charges. – (7) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

Table a13

Harmonized index of consumer prices: Italy (1)

(percentage changes on year-earlier period)

	Non-food and non-energy products	Cars	Services	Rents	Total net of food and energy products	Food products: Processed	Tobacco products	Not processed		Energy products	Total
Weights	*37.1*	*4.9*	*35.6*	*3.0*	*72.7*	*11.7*	*2.0*	*8.6*	*20.3*	*7.0*	*100.0*
1996	3.9	4.5	4.7	8.4	4.3	5.1	5.9	3.4	4.3	1.7	4.0
1997	1.7	–0.7	3.3	6.7	2.4	1.2	3.9	–0.7	0.3	1.9	1.9
1998	2.1	3.2	2.8	5.3	2.4	1.4	5.4	1.6	1.5	–1.4	2.0
1999	1.4	0.8	2.5	3.3	1.9	0.9	2.0	1.1	1.0	1.1	1.7
1999 – Jan.	1.5	1.0	2.6	4.4	2.0	1.6	5.5	1.8	1.6	–4.6	1.5
Feb.	1.3	–0.5	2.5	4.4	1.9	1.5	5.5	2.0	1.7	–3.9	1.4
Mar.	1.3	–0.5	2.4	4.4	1.8	0.6	0.0	2.1	1.3	–3.1	1.4
Apr.	1.2	–0.5	2.5	3.3	1.8	0.6	0.0	2.1	1.3	–1.4	1.3
May	1.2	–0.3	2.5	3.3	1.8	0.4	0.0	2.0	1.1	–0.5	1.5
June . . .	1.2	–0.3	2.4	3.3	1.8	0.5	0.0	1.5	0.9	–0.5	1.4
July	1.4	1.4	2.6	3.1	2.0	0.9	2.3	0.8	0.9	1.3	1.7
Aug.	1.3	0.5	2.5	3.1	1.9	0.8	2.3	0.5	0.8	1.9	1.6
Sept. . . .	1.3	0.5	2.5	3.1	1.9	1.0	2.3	0.2	0.7	4.8	1.9
Oct.	1.6	2.8	2.5	2.5	2.1	1.1	2.3	0.1	0.7	5.2	1.9
Nov.	1.6	2.8	2.4	2.5	2.0	1.1	2.3	0.2	0.8	6.1	2.0
Dec.	1.6	2.6	2.3	2.5	1.9	1.2	2.3	0.1	0.7	8.0	2.1
2000 – Jan.	1.5	2.6	2.4	2.6	1.9	1.3	2.3	–0.1	0.7	9.6	2.2
Feb.	1.5	1.8	2.6	2.6	2.0	1.3	2.3	0.2	0.8	10.0	2.4
Mar.	1.5	1.8	2.6	2.6	2.1	1.3	2.3	0.3	0.9	12.7	2.6
Apr.	1.6	1.8	2.3	2.2	1.9	1.3	2.3	0.9	1.1	9.8	2.4
May	1.7	1.8	2.3	2.2	2.0	1.4	2.3	1.3	1.3	11.2	2.5
June . . .	1.9	2.6	2.4	2.2	2.1	1.5	2.3	1.7	1.5	13.1	2.7
July	1.7	1.9	2.3	2.3	2.0	1.1	0.0	2.2	1.6	13.1	2.6
Aug.	1.8	1.9	2.4	2.3	2.1	1.2	0.0	2.5	1.7	12.1	2.6
Sept. . . .	1.8	1.9	2.2	2.3	2.0	1.2	0.0	2.9	1.9	12.6	2.6

Source: Eurostat.
(1) 1996 = 100. Chain index. The weights are updated every year on the basis of households' estimated final consumption in the preceding year. The weights shown in th table are those for January 2000.

Harmonized consumer price indices in the euro area (1)

(percentage changes on year-earlier period)

	Non-food and non-energy products		Services		Total net of food and energy products	Food products				Energy products	Total
		Cars		Rents		Processed		Not processed			
							Tobacco products				
Weights	*32.8*	*4.9*	*37.4*	*6.3*	*70.2*	*12.6*	*2.3*	*8.2*	*20.8*	*9.0*	*100.0*
1996	1.8	1.7	2.9	3.9	2.3	2.0	3.2	1.9	1.9	2.4	2.2
1997	0.5	–0.5	2.4	2.8	1.5	1.4	5.6	1.4	1.4	2.8	1.6
1998	0.9	1.5	2.0	2.1	1.4	1.4	4.0	1.9	1.6	–2.6	1.1
1999	0.7	0.5	1.5	1.7	1.1	0.9	3.2	0.0	0.5	2.2	1.1
1999 – Jan.	0.9	1.1	1.7	1.9	1.3	1.3	4.7	1.1	1.2	–4.4	0.8
Feb.	0.8	0.6	1.6	1.8	1.2	1.3	4.5	1.5	1.3	–4.4	0.8
Mar.	0.8	0.6	1.7	1.8	1.3	1.1	3.5	1.7	1.3	–2.9	1.0
Apr.	0.7	0.2	1.6	1.7	1.2	1.1	3.7	1.1	1.1	0.1	1.1
May	0.6	0.1	1.5	1.7	1.1	0.7	2.0	0.4	0.6	0.3	1.0
June	0.6	0.2	1.5	1.7	1.1	0.7	2.0	–0.7	0.1	1.2	0.9
July	0.6	0.2	1.6	1.7	1.1	0.7	2.4	–1.4	–0.1	2.9	1.1
Aug.	0.6	0.2	1.5	1.6	1.1	0.6	2.4	–1.6	–0.3	4.7	1.2
Sept.	0.5	0.2	1.4	1.6	1.0	0.6	2.4	–1.1	–0.1	6.2	1.2
Oct.	0.5	0.8	1.3	1.5	0.9	0.8	3.6	–0.4	0.3	6.3	1.4
Nov.	0.6	0.9	1.5	1.5	1.0	0.9	3.5	–0.3	0.4	7.1	1.5
Dec.	0.6	0.8	1.5	1.5	1.1	1.0	3.8	–0.2	0.5	10.0	1.7
2000 – Jan.	0.7	1.2	1.7	1.3	1.2	1.0	3.5	–0.5	0.3	12.0	1.9
Feb.	0.5	1.0	1.6	1.3	1.1	1.0	3.6	0.0	0.6	13.5	2.0
Mar.	0.6	1.0	1.6	1.3	1.1	1.0	3.6	–0.5	0.4	15.3	2.1
Apr.	0.5	0.9	1.9	1.3	1.3	0.9	3.5	0.2	0.6	10.5	1.9
May	0.6	1.0	1.6	1.3	1.1	1.0	3.6	0.6	0.8	12.2	1.9
June	0.6	1.2	1.7	1.3	1.3	1.0	3.8	1.5	1.2	14.7	2.4
July	0.6	1.3	1.7	1.3	1.3	1.0	3.4	2.6	1.6	13.7	2.4
Aug.	0.6	1.2	1.8	1.2	1.3	1.1	3.5	3.4	2.0	12.3	2.3
Sept.	0.8	1.2	1.8	1.3	1.4	1.3	3.7	3.4	2.1	16.0	2.8

Source: Eurostat.
(1) Weighted average of the harmonized indices of the euro-area countries. The weights shown in the table are those for January 2000.

Table a15

Index of producer prices of manufactures sold in the domestic market: Italy (1)

(percentage changes on year-earlier period)

	Consumer goods		Investment goods excl. vehicles	Vehicles	Intermediate goods		Total excl. food and energy products and vehicles	Overall index
	Excl. food and energy products and vehicles	Food products			Non-energy products	Energy products		
Weights	*18.4*	*14.5*	*8.3*	*3.2*	*41.0*	*14.6*	*67.7*	*100.0*
1998	1.5	1.8	1.7	2.4	0.2	–5.1	0.8	0.1
1999	1.3	–0.1	0.9	1.2	–1.1	–1.0	–0.2	–0.3
1999 – Jan.	1.6	0.7	1.4	2.2	–2.1	–9.3	–0.7	–1.6
Feb.	1.6	0.8	1.1	1.7	–2.5	–8.8	–0.9	–1.8
Mar.	1.4	0.1	1.1	1.2	–2.7	–8.0	–1.1	–1.8
Apr.	1.3	–0.3	1.0	1.9	–2.6	–6.7	–1.1	–1.6
May	1.0	–0.6	1.0	1.4	–2.3	–5.9	–0.9	–1.4
June	1.0	–0.8	1.0	1.5	–2.1	–5.1	–0.8	–1.4
July	1.0	–0.3	0.9	1.0	–1.7	–1.3	–0.6	–0.6
Aug.	1.2	–0.1	0.9	–0.1	–0.9	0.7	–0.1	0.0
Sept.	1.4	–0.4	0.8	0.0	–0.3	5.0	0.3	0.8
Oct.	1.4	–0.1	0.6	1.3	0.8	6.5	0.9	1.6
Nov.	1.3	0.2	0.7	1.2	1.2	10.2	1.1	2.2
Dec.	1.4	0.1	0.7	1.2	1.7	13.0	1.5	2.8
2000 – Jan.	1.3	0.4	0.9	1.4	2.6	17.2	2.0	3.8
Feb.	1.5	0.4	1.1	1.4	3.2	20.5	2.4	4.6
Mar.	1.5	0.8	1.0	2.0	3.8	24.4	2.8	5.5
Apr.	1.6	1.5	0.8	2.2	4.6	21.1	3.2	5.4
May	1.9	2.0	0.9	2.2	5.2	25.3	3.7	6.4
June	2.1	1.8	1.0	2.3	5.5	27.5	3.9	6.9
July	2.3	1.1	1.1	1.9	5.5	26.6	4.0	6.7
Aug.	2.4	1.0	1.0	1.7	5.3	24.7	3.9	6.5

Source: Based on Istat data.
(1) Classification according to the economic use of the products. The weights shown in the table relate to base 1995=100.

Table a16

Index of producer prices of manufactures sold in the domestic market: main euro-area countries

(percentage changes on year-earlier period)

	GERMANY					**FRANCE** (2)				
	Consumer goods excl. food and energy products and vehicles	Intermediate goods		Total excl. food and energy products and vehicles	Overall index	Consumer goods excl. food and energy products and vehicles	Intermediate goods		Total excl. food and energy products and vehicles	Overall index
		Non-energy	Energy				Non-energy	Energy		
Weights (1)	*(13.0)*	*(30.8)*	*(19.4)*	*(58.3)*	*(100.0)*	*(17.4)*	*(28.7)*	*(12.8)*	*(60.2)*	*(100.0)*
1998	1.0	–0.2	–3.5	0.3	–0.4					
1999	0.8	–1.7	–2.0	–0.7	–1.0					
1999 – Jan.	1.2	–2.8	–7.7	–1.0	–2.3					
Feb.	0.9	–3.1	–7.6	–1.2	–2.4					
Mar.	0.8	–3.2	–6.5	–1.4	–2.3					
Apr.	0.9	–3.0	–4.1	–1.1	–1.7					
May	0.6	–2.5	–3.7	–1.1	–1.7					
June	1.0	–2.5	–2.8	–1.1	–1.5					
July	0.7	–2.1	–1.1	–0.8	–1.0					
Aug.	0.8	–1.7	–0.1	–0.7	–0.7					
Sept.	0.6	–1.0	–0.2	–0.4	–0.5					
Oct.	0.5	–0.1	1.7	0.1	0.2					
Nov.	0.7	0.4	3.6	0.3	0.7					
Dec.	0.6	1.1	5.3	0.5	1.1					
2000 – Jan.	0.7	1.9	8.2	1.2	2.0	–0.3	2.3	26.3	1.0	4.1
Feb.	0.8	2.5	8.8	1.4	2.4	–0.4	3.0	28.5	1.3	4.7
Mar.	0.5	3.1	7.4	1.7	2.4	–0.2	3.4	28.4	1.7	5.2
Apr.	0.8	3.6	5.5	1.9	2.1	0.0	4.3	23.0	2.2	5.0
May	0.8	4.0	6.8	2.3	2.7	0.1	4.7	28.2	2.4	5.9
June	0.8	4.2	8.0	2.3	2.9	0.4	5.0	29.6	2.5	6.1
July	1.0	4.3	9.6	2.4	3.3	0.9	5.2	25.9	2.9	5.9
Aug.	0.8	4.4	10.2	2.4	3.5	1.0	5.3	24.6	3.0	5.9
	SPAIN					**EURO 4** (3)				
Weights (1)	*(19.8)*	*(30.6)*	*(16.7)*	*(61.7)*	*(100.0)*	*(16.2)*	*(32.5)*	*(16.2)*	*(61.3)*	*(100.0)*
1998	1.0	0.9	–7.3	0.9	–0.7					
1999	1.2	–1.4	2.5	–0.1	0.7					
1999 – Jan.	1.3	–3.2	–8.0	–1.0	–1.8					
Feb.	1.5	–3.4	–6.8	–1.0	–1.4					
Mar.	1.4	–3.9	–4.8	–1.2	–1.2					
Apr.	1.2	–3.3	–3.4	–0.9	–0.8					
May	1.2	–3.0	–1.8	–0.8	–0.5					
June	1.2	–2.3	–0.1	–0.6	0.0					
July	0.9	–1.4	2.6	–0.2	0.7					
Aug.	1.1	–0.8	6.5	0.0	1.4					
Sept.	1.2	–0.3	9.8	0.5	2.4					
Oct.	1.3	1.0	10.3	1.1	2.7					
Nov.	1.4	1.7	12.0	1.4	3.1					
Dec.	1.3	2.6	15.2	1.8	3.8					
2000 – Jan.	1.3	3.9	18.3	2.4	4.5	0.6	2.4	16.4	1.5	3.3
Feb.	1.1	4.3	21.6	2.7	5.1	0.7	3.0	18.3	1.8	3.8
Mar.	1.3	4.6	24.7	2.8	5.7	0.6	3.5	19.1	2.1	4.2
Apr.	1.5	5.5	22.2	3.3	5.7	0.9	4.2	15.8	2.4	4.0
May	1.5	6.3	21.5	3.7	5.8	0.9	4.7	18.6	2.8	4.8
June	1.4	5.9	23.5	3.5	5.8	1.1	4.9	20.1	2.9	5.0
July	1.5	5.2	21.8	3.2	5.4	1.3	4.9	19.4	3.0	5.0
Aug.	1.3	5.1	19.2	3.2	5.1	1.3	4.9	18.6	3.0	5.0

Sources: Based on Eurostat data and national statistics.
(1) With reference to 1995=100 for the three countries. – (2) Disaggregated data for France are available from January 1999 onwards. – (3) Weighted average (based on GDP) of data for Germany, France, Italy and Spain.

Table a17

Average unit values in lire of imported and exported manufactures: Italy (1)

(percentage changes on year-earlier period)

	Imports			Exports		
	EU countries	Non-EU countries	Total	EU countries	Non-EU countries	Total
1997	–0.2	3.7	1.4	–0.8	2.1	0.5
1998	0.3	–7.2	–2.7	0.0	2.0	1.0
1999	–1.8	0.8	–1.0	0.0	–0.2	0.0
1999 – Jan.	–2.0	–13.5	–6.5	–0.7	0.2	–0.3
Feb.	–2.8	–13.5	–7.0	–0.9	–1.7	–1.3
Mar.	–3.0	–13.3	–7.1	–1.2	–2.1	–1.6
Apr.	–3.1	–11.0	–6.3	–1.3	–3.1	–2.1
May	–3.2	–7.8	–5.1	–0.9	–2.3	–1.4
June	–3.3	–4.7	–3.9	–0.5	–1.9	–1.1
July	–2.4	–1.7	–2.2	–0.7	–0.1	–0.4
Aug.	–1.8	2.7	0.0	–0.8	0.2	–0.4
Sept.	–1.0	5.7	1.6	–0.2	0.1	–0.1
Oct.	–0.5	9.9	3.5	0.5	0.6	0.6
Nov.	0.0	12.4	4.6	1.7	1.7	1.8
Dec.	–0.1	17.6	6.4	2.2	3.4	2.7
2000 – Jan.	1.7	21.2	9.0	2.8	4.0	3.4
Feb.	3.1	25.3	11.5	2.8	5.6	4.0
Mar.	4.3	28.6	13.6	2.9	6.3	4.3
Apr.	4.0	28.6	13.3	3.2	7.4	4.9
May	5.3	28.2	14.1	3.7	8.1	5.5
June			14.4			6.0

Source: Based on Istat data.
(1) For monthly data, moving averages for the three months ending in the reference period.

Table a18

Balance of payments: current account and capital account

	Current account							Capital account			
				Transfers					Transfers		
				Private		Public				Public	
	Goods	Services	Income		Emigrants' remittances		EU institutions	Intangible assets	Private		EU institutions
						(billions of lire)					
1997	(68,107)	(13,234)	(–19,238)	(–1,098)	(55)	(–6,003)	(–5,088)	(165)	(–101)	(5,577)	(6,320)
1998	(63,096)	(8,528)	(–20,896)	(–1,796)	(–226)	(–11,099)	(–11,494)	(–234)	(–92)	(4,681)	(5,320)
1999	37,161	4,387	–19,976	–1,775	–369	–8,110	–9,064	–6	–14	5,361	6,198
1999 – 3rd qtr. .	12,899	4,015	–4,328	–233	–126	–3,414	–3,932	–30	30	387	414
4th ” . .	7,519	–623	–6,369	–930	–87	–1,526	–1,790	52	–7	1,560	2,162
2000 – 1st qtr. .	3,230	–2,762	–3,884	–440	–75	318	–943	–142	12	1,035	1,276
2nd ” . .	2,817	1,687	–8,858	–189	–87	–3,115	. . . .	–39	192	457	. . . .
1999 – July	8,605	1,739	–2,403	98	–36	–548	–720	–13	–160	257	256
Aug. . . .	4,149	910	–1,086	–230	–39	–705	–893	–4	–28	135	135
Sept. . . .	145	1,366	–839	–100	–51	–2,162	–2,319	–13	218	–5	22
Oct.	3,720	580	–705	–459	–41	–770	–803	52	–12	–129	40
Nov. . . .	3,131	–762	–2,483	–335	–27	–484	–539	–22	–49	571	795
Dec. . . .	668	–441	–3,181	–135	–19	–272	–448	22	55	1,118	1,327
2000 – Jan.	–1,088	34	–1,579	–231	–40	–448	–812	–47	43	569	636
Feb. . . .	1,369	–1,726	–1,066	–175	–25	1,048	565	–49	–5	162	252
Mar. . . .	2,949	–1,069	–1,238	–35	–9	–282	–696	–45	–27	305	388
Apr.	759	561	–2,562	243	–28	–643	. . . .	–31	98	199	. . . .
May	318	783	–2,534	69	–24	–808	. . . .	25	–21	235	. . . .
June . . .	1,741	343	–3,762	–501	–34	–1,664	. . . .	–33	115	22	. . . .
July	(7,764)	(1,584)	(–2,560)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Aug. . . .	(3,590)	(1,173)	(–1,996)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
						(millions of euros)					
1999	19,192	2,266	–10,317	–917	–191	–4,189	–4,681	–3	–7	2,769	3,201
1999 – 3rd qtr. .	6,662	2,073	–2,235	–120	–65	–1,763	–2,031	–15	16	200	214
4th ” . .	3,883	–322	–3,289	–480	–45	–788	–924	27	–4	806	1,117
2000 – 1st qtr. .	1,668	–1,426	–2,006	–227	–38	164	–487	–73	6	535	659
2nd ” . .	1,455	871	–4,574	–97	–45	–1,609	. . . .	–20	99	236	. . . .
1999 – July	4,444	898	–1,241	51	–19	–283	–372	–7	–82	132	132
Aug. . . .	2,143	470	–561	–119	–20	–364	–461	–2	–14	70	70
Sept. . . .	75	705	–433	–52	–26	–1,116	–1,198	–7	112	–2	12
Oct.	1,921	300	–364	–237	–21	–398	–415	27	–6	–67	21
Nov. . . .	1,617	–393	–1,282	–173	–14	–250	–278	–11	–25	295	411
Dec. . . .	345	–228	–1,643	–70	–10	–141	–232	11	28	577	685
2000 – Jan.	–562	17	–816	–119	–21	–231	–419	–25	22	294	328
Feb. . . .	707	–891	–551	–90	–13	541	292	–25	–3	84	130
Mar. . . .	1,523	–552	–639	–18	–5	–146	–359	–23	–14	157	200
Apr.	392	290	–1,323	125	–15	–332	. . . .	–16	50	103	. . . .
May	164	404	–1,309	36	–12	–418	. . . .	13	–11	122	. . . .
June . . .	899	177	–1,942	–259	–18	–859	. . . .	–17	59	11	. . . .
July	(4,010)	(818)	(–1,322)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Aug. . . .	(1,854)	(606)	(–1,031)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

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)				
1997	(–17,986)	(6,296)	(–87,358)	(128,298)	(–62,347)	(20,519)	(270)	(–22,770)
1998	(–28,494)	(6,766)	(–158,240)	(188,526)	(–69,746)	(29,826)	(348)	(36,977)
1999	–12,260	12,266	–235,243	189,480	–59,103	69,549	3,419	13,746
1999 – 3rd qtr.	–6,117	4,393	–67,340	39,339	7,433	11,376	1,028	–970
4th ”	–8,932	2,997	–48,879	50,943	–27,158	32,620	2,600	–507
2000 – 1st qtr.	–3,530	6,043	–49,789	53,296	–10,309	11,383	1,340	–5,950
2nd ”	–1,022	–2,881	–44,782	39,624	–7,534	18,631	2,680	2,213
1999 – July	–1,079	1,725	–36,934	16,830	–11,302	22,598	350	–608
Aug.	–2,932	2,500	–14,321	15,014	7,954	–6,560	445	–1,199
Sept.	–2,107	168	–16,085	7,495	10,781	–4,663	232	836
Oct.	–2,238	1,231	–13,252	–697	1,706	12,530	325	–1,489
Nov.	–3,989	1,140	–20,879	44,461	–49,387	27,379	1,683	1,152
Dec.	–2,705	625	–14,749	7,180	20,523	–7,288	592	–170
2000 – Jan.	–1,458	753	–13,844	29,627	–10,406	–1,810	397	–271
Feb.	–1,975	3,088	–11,652	19,657	1,874	–7,623	1,214	–2,109
Mar.	–97	2,202	–24,292	4,012	–1,777	20,817	–271	–3,570
Apr.	314	1,080	–5,563	1,142	4,206	–1,501	991	718
May	507	–2,819	–18,414	10,955	–13,054	22,207	885	1,332
June	–1,843	–1,142	–20,805	27,526	1,315	–2,076	804	163
July	(–3,855)	(8,667)	(–19,551)	(–4,393)	(31,437)	(–14,766)	(–409)	(–2,327)
Aug.	(–1,801)	(–4,680)	(–12,084)	(20,608)	(–24,924)	(20,736)	(600)	(143)
				(millions of euros)				
1999	–6,332	6,335	–121,493	97,858	–30,524	35,919	1,766	7,099
1999 – 3rd qtr.	–3,159	2,269	–34,778	20,317	3,839	5,875	531	–501
4th ”	–4,613	1,548	–25,244	26,310	–14,026	16,847	1,343	–262
2000 – 1st qtr.	–1,823	3,121	–25,714	27,525	–5,324	5,879	692	–3,073
2nd ”	–528	–1,488	–23,128	20,464	–3,891	9,622	1,384	1,143
1999 – July	–557	891	–19,075	8,692	–5,837	11,671	181	–314
Aug.	–1,514	1,291	–7,396	7,754	4,108	–3,388	230	–619
Sept.	–1,088	87	–8,307	3,871	5,568	–2,408	120	432
Oct.	–1,156	636	–6,844	–360	881	6,471	168	–769
Nov.	–2,060	589	–10,783	22,962	–25,506	14,140	869	595
Dec.	–1,397	323	–7,617	3,708	10,599	–3,764	306	–88
2000 – Jan.	–753	389	–7,150	15,301	–5,374	–935	205	–140
Feb.	–1,020	1,595	–6,018	10,152	968	–3,937	627	–1,089
Mar.	–50	1,137	–12,546	2,072	–918	10,751	–140	–1,844
Apr.	162	558	–2,873	590	2,172	–775	512	371
May	262	–1,456	–9,510	5,658	–6,742	11,469	457	688
June	–952	–590	–10,745	14,216	679	–1,072	415	84
July	(–1,991)	(4,476)	(–10,097)	(–2,269)	(16,236)	(–7,626)	(–211)	(–1,202)
Aug.	(–930)	(–2,417)	(–6,241)	(10,643)	(–12,872)	(10,709)	(310)	(74)

Table a20

State sector borrowing requirement

	Budget			Treasury operations		Lending by the Deposits and Loans Fund and other operations (2)	Gross borrowing requirement	Settlements of pasts debts (–)	Privatization receipts (–)	Net borrowing requirement
	Receipts (1)	Payment (–)	Balance		*of which:* "Collection accounts"					
					(billions of lire)					
1998	595,727	657,514	–61,787	11,336	. . . .	2,446	–48,005	–4,770	15,277	–58,513
1999	684,698	743,953	–59,255	63,652	–231	–3,720	677	–12,118	43,839	–31,044
1999 – 1st qtr.	131,401	138,587	–7,186	–19,909	484	–945	–28,039	–1,929	548	–26,658
2nd "	135,350	173,501	–38,151	–2,856	–773	–1,994	–43,001	–2,590	238	–40,649
3rd "	165,333	170,555	–5,222	22,514	3,640	–601	16,692	–5,054	. .	21,745
4th "	252,614	261,310	–8,695	63,902	–3,582	–181	55,026	–2,546	43,053	14,518
2000 – Jan. . .	19,009	48,688	–29,679	37,913	43,103	–772	7,461	–759	42	8,178
Feb. . .	76,474	56,052	20,422	–20,655	–38,698	–726	–959	–118	. .	–841
Mar. . .	46,232	53,614	–7,382	–18,288	–5,705	–776	–26,445	–5,115	. .	–21,330
Apr. . .	17,121	45,558	–28,437	7,506	30,307	244	–20,687	–217	. .	–20,470
May . .	64,809	69,333	–4,525	–11,687	–21,470	–100	–16,311	–252	42	–16,101
June .	53,705	45,797	7,907	11,261	24,581	–403	18,766	–169	36	18,899
July . .	64,655	59,333	5,322	–4,748	–10,231	220	794	–147	29	912
Aug. . .	71,682	45,251	26,431	–24,373	–18,416	–838	1,220	–58	. .	1,278
Sept. .	35,086	42,834	–7,748	–8,998	330	–958	–17,704	–50	110	–17,764
					(millions of euros)					
1999	353,617	384,219	–30,602	32,873	–119	–1,921	350	–6,259	22,641	–16,033
1999 – 1st qtr.	67,863	71,574	–3,711	–10,282	250	–488	–14,481	–996	283	–13,768
2nd "	69,902	89,606	–19,704	–1,475	–399	–1,030	–22,208	–1,338	123	–20,994
3rd "	85,388	88,084	–2,697	11,628	1,880	–310	8,620	–2,610	. .	11,230
4th "	130,464	134,955	–4,491	33,003	–1,850	–94	28,418	–1,315	22,235	7,498
2000 – Jan. . .	9,817	25,145	–15,328	19,580	22,261	–399	3,853	–392	22	4,224
Feb. . .	39,495	28,948	10,547	–10,667	–19,986	–375	–495	–61	. .	–434
Mar. . .	23,877	27,689	–3,812	–9,445	–2,946	–401	–13,658	–2,642	. .	–11,016
Apr. . .	8,842	23,529	–14,687	3,877	15,652	126	–10,684	–112	. .	–10,572
May . .	33,471	35,808	–2,337	–6,036	–11,088	–51	–8,424	–130	22	–8,315
June .	27,736	23,652	4,084	5,816	12,695	–208	9,692	–87	18	9,760
July . .	33,392	30,643	2,749	–2,452	–5,284	114	410	–76	15	471
Aug. . .	37,021	23,370	13,650	–12,588	–9,511	–433	630	–30	. .	660
Sept. .	18,120	22,122	–4,002	–4,647	170	–495	–9,143	–26	57	–9,174

(1) Includes tax revenue booked in the budget accounts; owing to the lags with which these amounts are booked, they do not correspond to the taxes actually received in the reference period (see the methodological notes). – (2) Includes the borrowing requirement of ANAS and other minor entities.

Table a21

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)				
1998	81,251	–35,371	15,963	–5,286	6,400	–12,128	364	51,192
1999	51,581	–34,948	–13,953	6,202	17,496	–6,400	218	20,196
1999 – 1st qtr. . . .	33,848	–347	–4,003	2,605	5,843	–6,212	168	31,902
2nd ”	39,985	–4,910	5,276	882	2,893	6,694	43	50,863
3rd ”	16,021	–10,353	–15,789	–3,120	4,031	–5,171	–16	–14,398
4th ”	–38,272	–19,337	563	5,835	4,729	–1,711	24	–48,169
2000 – Jan.	–1,602	–4,935	8,583	–3,721	1,663	129	195	312
Feb.	12,447	–2,852	–16,346	–2,463	751	6,308	238	–1,917
Mar.	20,189	–1,142	6,325	–1,430	1,164	1,049	223	26,376
Apr.	17,943	–1,852	7,107	797	–149	–1,223	325	22,949
May	–6,514	268	13,819	–1,430	716	11,335	196	18,390
June	15,325	–4,394	–32,370	1,054	–96	5,450	204	–14,826
July	–7,903	–2,395	12,175	–7,580	438	–2,524	157	–7,631
Aug.	8,964	–949	–12,466	–1,694	1,258	1,786	172	–2,929
				(millions of euros)				
1999	26,640	–18,049	–7,206	3,203	9,036	–3,305	113	10,431
1999 – 1st qtr. . . .	17,481	–179	–2,068	1,346	3,018	–3,208	87	16,476
2nd ”	20,650	–2,536	2,725	455	1,494	3,457	22	26,268
3rd ”	8,274	–5,347	–8,155	–1,611	2,082	–2,671	–8	–7,436
4th ”	–19,766	–9,987	291	3,013	2,442	–884	12	–24,877
2000 – Jan.	–827	–2,549	4,433	–1,922	859	67	101	161
Feb.	6,429	–1,473	–8,442	–1,272	388	3,258	123	–990
Mar.	10,427	–590	3,266	–739	601	542	115	13,622
Apr.	9,267	–956	3,670	412	–77	–631	168	11,852
May	–3,364	139	7,137	–738	370	5,854	101	9,498
June	7,915	–2,269	–16,717	544	–50	2,815	105	–7,657
July	–4,082	–1,237	6,288	–3,915	226	–1,303	81	–3,941
Aug.	4,630	–490	–6,438	–875	650	922	89	–1,513

Table a22

General government debt

(face value at end of period)

	Medium and long-term securities excluding central bank	BOTs and BTEs excluding central bank	PO deposits	Lending by banks	Other domestic debt	Debt issued abroad	Borrowing from central bank	Total (EU definition)	Claims on central bank	Total	*Memorandum item:* state sector debt
						(billions of lire)					
1998	1,591,963	265,927	182,598	104,928	4,490	130,296	123,326	2,403,528	–43,168	2,360,360	2,290,802
1999 – Mar.	1,626,833	265,809	188,441	107,533	4,533	128,866	118,722	2,440,737	–47,225	2,393,512	2,319,635
June . . .	1,668,303	260,898	191,335	108,415	4,568	137,590	116,789	2,487,898	–41,872	2,446,026	2,363,427
Sept. . . .	1,683,437	250,544	195,365	105,295	4,551	133,682	118,894	2,491,768	–57,663	2,434,106	2,349,090
Dec. . . .	1,650,857	231,208	200,094	111,130	4,588	136,877	115,018	2,449,772	–57,098	2,392,674	2,300,037
2000 – Jan.	1,649,058	226,273	201,757	107,409	4,783	137,438	115,749	2,442,466	–48,516	2,393,950	2,300,659
Feb.	1,659,796	223,422	202,508	104,946	5,025	143,478	119,089	2,458,264	–64,861	2,393,403	2,302,380
Mar.	1,676,227	222,279	203,672	103,516	5,252	148,215	120,042	2,479,203	–55,813	2,423,390	2,334,122
Apr.	1,692,725	220,427	203,523	104,313	5,536	149,830	121,272	2,497,626	–48,708	2,448,917	2,357,545
May	1,686,046	220,565	204,239	102,883	5,731	159,172	121,408	2,500,044	–34,888	2,465,156	2,372,224
June . . .	1,701,161	216,152	204,143	103,937	5,933	163,208	121,963	2,516,497	–67,258	2,449,239	2,355,310
July	1,693,505	213,757	204,581	96,357	6,092	162,082	120,996	2,497,370	–55,082	2,442,287	2,355,753
Aug.	1,702,727	212,808	205,839	94,664	6,264	167,916	120,999	2,511,217	–67,552	2,443,665	2,358,869
						(millions of euros)					
1999 – Mar.	840,189	137,279	97,322	55,536	2,341	66,554	61,315	1,260,535	–24,389	1,236,146	1,197,992
June . . .	861,606	134,743	98,816	55,992	2,359	71,060	60,316	1,284,892	–21,625	1,263,267	1,220,608
Sept. . . .	869,423	129,395	100,898	54,380	2,350	69,041	61,404	1,286,891	–29,780	1,257,111	1,213,204
Dec. . . .	852,596	119,409	103,340	57,394	2,369	70,691	59,402	1,265,202	–29,489	1,235,713	1,187,870
2000 – Jan.	851,667	116,860	104,199	55,472	2,470	70,981	59,779	1,261,428	–25,056	1,236,372	1,188,191
Feb.	857,213	115,388	104,587	54,200	2,595	74,100	61,504	1,269,588	–33,498	1,236,089	1,189,080
Mar.	865,699	114,798	105,188	53,461	2,712	76,547	61,996	1,280,401	–28,825	1,251,576	1,205,474
Apr.	874,219	113,841	105,111	53,873	2,859	77,381	62,632	1,289,916	–25,156	1,264,760	1,217,570
May	870,770	113,912	105,481	53,135	2,960	82,206	62,702	1,291,165	–18,018	1,273,147	1,225,152
June . . .	878,576	111,633	105,431	53,679	3,064	84,290	62,989	1,299,662	–34,736	1,264,927	1,216,416
July	874,622	110,396	105,657	49,764	3,146	83,709	62,489	1,289,784	–28,448	1,261,336	1,216,645
Aug.	879,385	109,906	106,307	48,890	3,235	86,722	62,491	1,296,935	–34,888	1,262,048	1,218,254

(1) From December 1998 the item "Borrowing from central bank" refers exclusively to the accounts of the Bank of Italy (and not to the consolidated accounts of the Bank of Italy and the UIC) since that month saw 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 and the UIC's securities portfolio is included under "Medium and long-term securities excluding central bank". At 31 December 1998 borrowings from the central bank are estimated to have amounted to around 2.3 trillion lire.

Table a23

ECB interest rates

DATE ANNOUNCED	Standing facilities			Main refinancing operations	*Memorandum item:* official reference rate for instruments linked to the former official discount rate		
	Date 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	7.1.1999			
22.12.1998	4.1.1999	2.75	3.25	–			
22.12.1998	22.1.1999	2.00	4.50	–	23.12.1998	28.12.1998	3.00
8.4.1999	9.4.1999	1.50	3.50	14.4.1999	9.4.1999	14.4.1999	2.50
4.11.1999	5.11.1999	2.00	4.00	10.11.1999	6.11.1999	10.11.1999	3.00
3.2.2000	4.2.2000	2.25	4.25	9.2.2000	4.2.2000	9.2.2000	3.25
16.3.2000	17.3.2000	2.50	4.50	22.3.2000	18.3.2000	22.3.2000	3.50
27.4.2000	28.4.2000	2.75	4.75	4.5.2000	28.4.2000	4.5.2000	3.75
8.6.2000	9.6.2000	3.25	5.25	15.6.2000	10.6.2000	15.6.2000	4.25
8.6.2000	–	–	–	28.6.2000	–	–	–
31.8.2000	1.9.2000	3.50	5.50	6.9.2000	1.9.2000	6.9.2000	4.50
5.10.2000	6.10.2000	3.75	5.75	11.10.2000	6.10.2000	11.10.2000	4.75

Table a24

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
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	1.22	1.52	2.88	3.85	2.40	2.99	4.45	4.68
2000 – Jan.	1.29	1.56	3.07	3.81	2.43	2.97	4.49	4.04
Feb.	1.28	1.54	3.02	3.75	2.47	3.06	4.49	4.38
Mar.	1.34	1.58	3.13	3.72	2.54	3.14	4.50	4.80
Apr.	1.42	1.64	3.35	3.72	2.61	3.21	4.55	4.55
May	1.48	1.69	3.51	3.73	2.73	3.31	4.58	4.47
June	1.58	1.78	3.83	3.74	2.85	3.62	4.66	4.66
July	1.71	1.89	4.13	3.77	3.05	3.64	4.68	4.80
Aug.	(1.76)	(1.94)	(4.20)	(3.81)	(3.12)	(3.68)	(4.70)	(5.01)

Table a25

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	
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	3.03	5.55	6.37	5.89	4.58	5.50	6.25
2000 – Jan.	3.14	5.57	6.37	5.96	4.73	5.59	6.25
Feb.	3.21	5.63	6.46	5.96	5.02	5.91	6.50
Mar.	3.31	5.71	6.54	5.97	4.93	5.96	6.75
Apr.	3.44	5.84	6.68	6.03	4.96	5.93	6.75
May	3.57	6.03	6.85	6.07	5.35	6.10	7.00
June	3.75	6.23	7.09	6.15	5.57	6.20	7.50
July	4.08	6.46	7.27	6.33	5.65	6.31	7.50
Aug.	(4.23)	(6.43)	(7.25)	(6.36)	(5.71)	(6.65)	(7.50)

Table a26

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 government	Other sectors		MFIs	General government	Other sectors
											(billions
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	11,907	299,650	122,295	1,474,122	111,732	87	24,698	130,949	73,203	342,418	10,454
2000 – Apr. . . .	10,888	317,851	115,385	1,529,540	114,646	226	24,909	140,393	85,476	331,279	13,671
May . . .	10,063	333,720	114,102	1,535,179	136,098	254	26,502	150,763	84,440	322,628	13,891
June . .	9,878	358,232	115,189	1,571,390	115,367	240	26,858	144,777	85,485	320,349	12,017
July . . .	11,444	340,289	112,465	1,581,113	96,357	239	29,341	128,251	82,935	310,235	13,759
Aug. . . .	(10,307)	(323,953)	(110,720)	(1,584,076)	(99,977)	(213)	(29,019)	(132,238)	(82,555)	(304,566)	(13,767)
											(millions
2000 – Apr. . . .	5,623	164,156	59,591	789,942	59,210	117	12,864	72,507	44,145	171,091	7,060
May . . .	5,197	172,352	58,929	792,854	70,289	131	13,687	77,863	43,610	166,624	7,174
June . .	5,101	185,011	59,490	811,555	59,582	124	13,871	74,771	44,149	165,446	6,206
July . . .	5,910	175,745	58,083	816,577	49,764	124	15,153	66,236	42,832	160,223	7,106
Aug. . . .	(5,323)	(167,308)	(57,182)	(818,107)	(51,634)	(110)	(14,987)	(68,295)	(42,636)	(157,295)	(7,110)

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
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	351,133	15,339	1,114,360	191,020	74	11,876
2000 – Apr.	363,835	14,136	1,136,923	179,265	1,872	8,880
May	390,542	14,480	1,139,133	184,454	108	11,019
June	413,288	13,866	1,131,137	186,259	469	10,900
July	378,615	13,052	1,132,887	189,588	674	11,985
Aug.	(360,427)	(13,587)	(1,113,394)	(200,030)	(529)	(13,109)
						(millions
2000 – Apr.	187,905	7,300	587,172	92,583	967	4,586
May	201,698	7,478	588,313	95,263	56	5,691
June	213,445	7,161	584,184	96,195	242	5,630
July	195,539	6,741	585,087	97,914	348	6,190
Aug.	(186,145)	(7,017)	(575,020)	(103,307)	(273)	(6,770)

Table a26

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)											
(1,891)	*(2,473)*	*(1,962)*	*(19,874)*	*(34,425)*	*(26,347)*	*(4,726)*	*(6,363)*	*(4,788)*	*(84,778)*	*(527,562)*	*(3,110,851)*
3,758	6,737	3,167	32,175	55,902	32,583	8,200	6,573	5,844	86,348	265,137	2,973,223
8,401	5,963	9,430	34,635	75,613	41,652	9,832	10,054	8,908	86,589	286,508	3,179,102
8,737	7,463	10,827	34,348	83,976	51,969	9,865	13,940	10,004	85,340	319,279	3,320,011
8,401	9,150	11,040	33,877	84,663	52,733	9,940	14,630	9,919	85,357	303,560	3,350,910
8,354	9,823	10,655	31,974	81,416	55,487	10,013	13,743	9,919	85,685	293,693	3,370,543
8,413	9,424	10,514	31,921	80,885	56,942	10,046	14,312	10,373	86,265	297,769	3,323,292
(7,670)	(9,695)	(10,553)	(32,338)	(81,097)	(51,389)	(10,450)	(14,751)	(10,835)	(85,967)	(278,871)	(3,285,008)
of euros)											
4,512	3,854	5,591	17,739	43,370	26,840	5,095	7,199	5,167	44,075	164,894	1,714,643
4,339	4,726	5,702	17,496	43,725	27,234	5,133	7,556	5,123	44,083	156,776	1,730,601
4,315	5,073	5,503	16,513	42,048	28,657	5,171	7,097	5,123	44,253	151,680	1,740,740
4,345	4,867	5,430	16,486	41,774	29,408	5,189	7,391	5,357	44,552	153,785	1,716,337
(3,961)	(5,007)	(5,450)	(16,701)	(41,883)	(26,540)	(5,397)	(7,618)	(5,596)	(44,398)	(144,025)	(1,696,565)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
of lire)					
(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
262,825	25,297	525,800	228,993	452,385	3,179,102
292,756	24,747	554,415	244,118	499,065	3,320,011
300,393	20,087	557,773	245,100	487,822	3,350,910
292,237	19,165	559,879	244,997	498,345	3,370,543
280,160	18,395	557,924	246,409	493,603	3,323,292
(297,308)	(18,164)	(561,435)	(246,621)	(460,404)	(3,285,008)
of euros)					
151,196	12,781	286,332	126,076	257,745	1,714,642
155,140	10,374	288,066	126,584	251,939	1,730,601
150,928	9,898	289,154	126,530	257,374	1,740,740
144,690	9,500	288,144	127,260	254,925	1,716,337
(153,547)	(9,381)	(289,957)	(127,369)	(237,779)	(1,696,565)

Table a27

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)									
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	318,975	70,192
1999	27,245	1,346,926	324,282	6,189	97,748	53,539	113,979	223,149	302,390	59,110
2000 – Apr. . .	25,300	1,392,730	314,643	15,107	103,709	54,898	112,521	230,608	309,125	54,358
May . .	18,472	1,401,970	305,170	14,470	104,629	66,158	110,086	237,665	327,910	53,532
June . .	21,819	1,430,499	303,521	10,866	104,563	79,067	106,555	257,986	318,163	50,239
July . .	24,781	1,442,468	293,403	11,635	107,204	63,778	106,379	252,349	283,587	50,245
Aug. . .	(23,048)	(1,443,777)	(292,093)	(7,374)	(107,433)	(62,481)	(104,985)	(241,769)	(292,866)	(49,336)
	(millions of euros)									
2000 – Apr. . .	13,066	719,285	162,500	7,802	53,561	28,353	58,112	119,099	159,650	28,073
May . .	9,540	724,057	157,607	7,473	54,036	34,168	56,855	122,744	169,352	27,647
June . .	11,269	738,791	156,755	5,612	54,002	40,835	55,031	133,238	164,318	25,946
July . .	12,798	744,973	151,530	6,009	55,366	32,939	54,940	130,327	146,460	25,949
Aug. . .	(11,903)	(745,648)	(150,853)	(3,808)	(55,484)	(32,269)	(54,220)	(124,863)	(151,253)	(25,480)

	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)								
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	391,339	23,972	220,059
1999	898,924	456,517	1,931	172,352	210,532	313,433	445,748	–3,990	247,251
2000 – Apr. . . .	904,019	474,038	1,935	195,872	214,554	338,845	456,275	–26,897	
May . . .	895,733	477,338	1,951	214,195	204,678	338,024	464,701	–10,091	
June . . .	884,830	480,817	1,866	233,182	227,894	340,426	465,653	–1,630	262,166
July . . .	880,794	478,376	1,801	208,126	226,689	344,367	456,023	–10,592	
Aug. . . .	(864,845)	(480,664)	(1,795)	(210,400)	(220,450)	(344,105)	(476,161)	(–22,595)	
	(millions of euros)								
2000 – Apr. . . .	466,887	244,820	999	101,159	110,808	174,999	235,647	–13,891	
May . . .	462,607	246,525	1,008	110,623	105,707	174,575	239,998	–5,212	
June . . .	456,977	248,321	964	120,428	117,698	175,815	240,490	–842	135,397
July . . .	454,892	247,061	930	107,488	117,075	177,851	235,516	–5,470	
Aug. . . .	(446,655)	(248,242)	(927)	(108,662)	(113,853)	(177,715)	(245,917)	(–11,669)	

Table a28

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)						
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	666,589	625,205	680,336	671,915	1,346,926	1,297,119	32,031
2000 – Jan.	682,312	637,877	674,331	666,010	1,356,644	1,303,887	29,626
Feb.	684,209	638,506	680,341	671,923	1,364,550	1,310,429	30,450
Mar.	688,100	639,925	687,859	678,731	1,375,959	1318,656	31,611
Apr.	699,906	646,250	692,824	683,468	1,392,730	1,329,718	33,011
May	701,739	648,674	700,231	691,561	1,401,970	1,340,235	33,522
June	720,313	669,555	710,186	701,420	1,430,499	1,370,976	38,253
July	732,652	681,102	709,816	701,163	1,442,468	1,382,265	40,637
Aug.	(728,914)	(675,912)	(714,863)	(706,017)	(1,443,777)	(1,381,929)	(40,113)
	(millions of euros)						
2000 – Jan.	352,385	329,436	348,263	343,966	700,648	673,402	15,301
Feb.	353,364	329,761	351,367	347,019	704,731	676,780	15,726
Mar.	355,374	330,494	355,250	350,535	710,624	681,029	16,326
Apr.	361,471	333,760	357,814	352,982	719,285	686,742	17,049
May	362,418	335,012	361,639	357,161	724,057	692,173	17,313
June	372,010	345,796	366,781	362,253	738,791	708,050	19,756
July	378,383	351,760	366,589	362,120	744,973	713,880	20,987
Aug.	(376,453)	(349,080)	(369,196)	(364,627)	(745,648)	(713,707)	(20,717)

	Securities							
	Government securities					Other		Total
		BOTs and BTEs	CTZs	CCTs	BTPs		bonds issued by banks	
	(billions of euros)							
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	259,603	30,316	17,004	120,383	87,104	64,679	57,944	324,282
2000 – Jan.	251,331	27,230	16,766	118,582	83,985	64,354	57,651	315,686
Feb.	248,583	27,869	18,907	113,304	83,786	64,550	57,663	313,132
Mar.	243,457	26,297	19,604	112,511	80,414	71,369	64,622	314,827
Apr.	243,801	23,822	19,664	113,728	82,019	70,842	63,862	314,643
May	235,212	21,930	20,791	109,812	77,975	69,957	63,014	305,170
June	232,976	19,432	22,787	108,845	77,165	70,545	63,767	303,521
July	225,703	17,299	18,394	108,641	76,776	67,700	61,132	293,403
Aug.	(223,776)	(17,152)	(18,242)	(107,453)	(76,244)	(68,316)	(61,731)	(292,093)
	(millions of euros)							
2000 – Jan.	129,802	14,063	8,659	61,242	43,374	33,236	29,774	163,038
Feb.	128,382	14,393	9,765	58,517	43,272	33,337	29,780	161,719
Mar.	125,735	13,581	10,124	58,107	41,531	36,859	33,374	162,594
Apr.	125,913	12,303	10,156	58,736	42,359	36,587	32,982	162,500
May	121,477	11,326	10,738	56,713	40,271	36,130	32,544	157,607
June	120,322	10,036	11,768	56,214	39,853	36,433	32,933	156,755
July	116,566	8,934	9,500	56,109	39,652	34,964	31,572	151,530
Aug.	(115,571)	(8,858)	(9,421)	(55,495)	(39,377)	(35,283)	(31,881)	(150,853)

Table a29

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)							
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	681,640	112,486	57,353	47,445	104,798	898,924	24,361	16,349
2000 – Jan.	681,057	111,924	56,949	45,195	102,144	895,125	26,958	16,506
Feb.	672,479	109,812	56,485	43,072	99,557	881,849	24,293	17,668
Mar.	679,030	107,948	55,687	41,745	97,432	884,410	25,050	18,105
Apr.	701,308	108,820	53,788	40,104	93,891	904,019	25,013	18,762
May	696,756	106,653	53,729	38,594	92,324	895,733	26,334	18,218
June	688,407	105,726	53,096	37,602	90,698	884,830	25,361	18,689
July	686,525	105,587	52,420	36,262	88,682	880,794	23,379	19,587
Aug.	(672,742)	(105,159)	(51,732)	(35,212)	(86,943)	(864,845)	(25,562)	(19,132)
	(millions of euros)							
2000 – Jan.	351,737	57,804	29,412	23,341	52,753	462,293	13,923	8,525
Feb.	347,307	56,713	29,172	22,245	51,417	455,437	12,546	9,125
Mar.	350,690	55,750	28,760	21,559	50,319	456,759	12,937	9,350
Apr.	362,195	56,201	27,779	20,712	48,491	466,887	12,918	9,690
May	359,845	55,081	27,749	19,932	47,681	462,607	13,600	9,409
June	355,532	54,603	27,422	19,420	46,842	456,977	13,098	9,652
July	354,560	54,531	27,073	18,728	45,800	454,892	12,074	10,116
Aug.	(347,442)	(54,310)	(26,717)	(18,185)	(44,903)	(446,655)	(13,202)	(9,881)

	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)						
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	642,804	59,055	46,217	105,272	859,574	215,339	241,178
2000 – Jan.	670,598	58,524	44,227	102,751	886,526	. . . .	. . . .
Feb.	668,941	58,330	42,055	100,385	880,164	. . . .	. . . .
Mar.	668,483	58,111	40,417	98,527	875,849	225,194	247,285
Apr.	676,011	59,300	38,993	98,293	882,373	. . . .	. . . .
May	688,004	55,338	37,403	92,741	888,619	. . . .	. . . .
June	687,581	55,300	36,315	91,615	885,580	228,913	251,904
July	682,321	54,271	34,757	89,028	876,947	. . . .	. . . .
Aug.	(671,504)	(53,736)	(33,385)	(87,122)	(864,026)	. . . .	. . . .
	(millions of euros)						
2000 – Jan.	346,335	30,225	22,841	53,066	457,852	. . . .	. . . .
Feb.	345,479	30,125	21,720	51,844	454,567	. . . .	. . . .
Mar.	345,243	30,012	20,873	50,885	452,338	116,303	127,712
Apr.	349,131	30,626	20,138	50,764	455,708	. . . .	. . . .
May	355,324	28,579	19,317	47,897	458,933	. . . .	. . . .
June	355,106	28,560	18,755	47,315	457,364	118,223	130,098
July	352,389	28,029	17,951	45,979	452,906	. . . .	. . . .
Aug.	(346,803)	(27,752)	(17,242)	(44,995)	(446,232)	. . . .	. . . .

Table a30

Supervisory capital and capital adequacy (on a consolidated basis) (1)

(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 (2)
December 1997									
Banks in the Centre and North	153,362	34,815	21,169	180,257	11.20	53,470	5	1,912	1.39
Banks in the South	13,107	2,468	1,715	15,191	13.89	6,531	7	93	0.07
Total	**166,469**	**37,283**	**22,884**	**195,448**	**11.36**	**60,001**	**12**	**2,005**	**1.46**
June 1998									
Banks in the Centre and North	156,555	41,530	27,447	191,031	11.43	57,846	4	508	0.36
Banks in the South	12,957	2,340	1,590	14,926	13.98	6,386	2	4	. .
Total	**169,512**	**43,870**	**29,037**	**205,957**	**11.58**	**64,232**	**6**	**512**	**0.36**
December 1998									
Banks in the Centre and North	158,681	42,673	29,840	193,056	11.22	55,634	3	222	0.15
Banks in the South	12,536	2,150	1,607	14,334	13.29	5,718	4	11	0.01
Total	**171,217**	**44,823**	**31,447**	**207,390**	**11.34**	**61,352**	**7**	**233**	**0.16**
June 1999									
Banks in the Centre and North	165,800	45,131	32,891	201,853	10.82	52,738	6	165	0.11
Banks in the South	10,374	1,720	1,237	11,879	14.13	5,160	2	5	. .
Total	**176,174**	**47,151**	**34,128**	**213,732**	**10.96**	**57,898**	**8**	**170**	**0.11**
December 1999									
Banks in the Centre and North	161,946	47,554	39,675	200,891	10.39	48,857	8	2,578	1.60
Banks in the South	11,225	1,600	1,318	12,593	15.12	5,932	2	4	. .
Total	**173,171**	**49,154**	**40,993**	**213,484**	**10.59**	**54,789**	**10**	**2,582**	**1.60**

(1) For banks not belonging to a banking group, the data are obtained from the reports they submit on a solo basis. – (2) Capital shortfalls multiplied by 12.5 and divided by the risk-weighted assets of the banking system.

Table a31

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	124,800	25,764	20,126	41,897	34,932	3,834	20,652	149,284
1997	197,079	15,511	62,975	72,322	41,905	5,691	39,409	242,179
1998	374,283	29,846	67,942	193,648	76,601	8,063	76,326	458,671
1999	312,830	14,086	42,515	177,955	73,801	15,513	86,439	414,784
1998 – 3rd qtr. . .	335,740	24,881	73,085	159,018	72,236	7,313	59,924	402,975
4th ” . .	374,283	29,846	67,942	193,648	76,601	8,063	76,326	458,671
1999 – 1st qtr. . .	365,758	24,502	57,836	201,115	77,693	8,667	74,523	448,947
2nd ” . .	375,245	21,378	53,815	205,758	89,324	12,104	64,426	451,774
3rd ” . .	356,955	15,626	52,721	198,892	85,109	13,728	63,132	433,817
4th ” . .	312,830	14,086	42,515	177,955	73,801	15,513	86,439	414,784
2000 – 1st qtr. . .	270,576	16,681	31,004	149,842	68,505	15,829	90,799	377,205
2nd ” . .	263,722	15,527	26,480	159,522	57,954	16,818	90,532	371,073
1999 – Sept.	356,955	15,626	52,721	198,892	85,109	13,728	63,132	433,817
Oct.	339,585	15,928	47,669	190,111	81,331	13,964	61,500	415,051
Nov.	326,147	15,628	45,756	183,855	76,301	15,237	69,880	411,264
Dec.	312,830	14,086	42,515	177,955	73,801	15,513	86,439	414,784
2000 – Jan.	292,323	16,178	37,316	161,973	72,484	15,219	82,816	390,356
Feb.	274,027	15,920	36,586	146,285	70,786	15,403	105,474	394,906
Mar.	270,576	16,681	31,004	149,842	68,505	15,829	90,799	377,205
Apr.	271,022	15,047	28,930	156,788	66,205	16,088	86,638	373,749
May	263,447	17,026	25,663	154,021	62,540	16,179	86,917	366,542
June	263,722	15,527	26,480	159,522	57,954	16,818	90,532	371,073
July	257,532	14,416	23,688	160,492	54,463	16,834	90,968	365,333
Aug.	257,369	13,718	24,068	160,714	54,330	16,547	93,183	367,099
	(millions of euros)							
2000 – 1st qtr. . .	139,741	8,615	16,012	77,387	35,380	8,175	46,894	194,810
2nd ” . . .	136,201	8,019	13,676	82,386	29,931	8,686	46,756	191,643
2000 – Jan.	150,972	8,355	19,272	83,652	37,435	7,860	42,771	201,602
Feb.	141,523	8,222	18,895	75,550	36,558	7,955	54,473	203,952
Mar.	139,741	8,615	16,012	77,387	35,380	8,175	46,894	194,810
Apr.	139,971	7,771	14,941	80,974	34,192	8,309	44,745	193,025
May	136,059	8,793	13,254	79,545	32,299	8,356	44,889	189,303
June	136,201	8,019	13,676	82,386	29,931	8,686	46,756	191,643
July	133,004	7,445	12,234	82,887	28,128	8,694	46,981	188,679
Aug.	132,920	7,085	12,430	83,002	28,059	8,546	48,125	189,591

Table a31

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum items:*		
	shares				gross sales	net sales	
			(billions of lire)				
29,985	15,707	980	180,251	197,544	123,936	58,226	 1996
88,629	38,973	161	330,969	368,432	287,470	143,377	 1997
208,230	84,069	215	667,117	720,823	631,523	313,085	 1998
452,353	241,921	519	867,654	920,311	702,725	118,646	 1999
179,409	65,508	186	582,569	647,924	139,350	63,570	. . . . 3rd qtr. – 1998
208,230	84,069	215	667,117	720,823	116,255	38,525	. . . . 4th "
290,439	102,700	558	739,944	814,372	182,643	80,266	. . . . 1st qtr. – 1999
345,620	132,090	542	797,939	873,893	196,365	51,982	. . . . 2nd "
375,458	154,685	536	809,810	880,013	159,330	15,008	. . . . 3rd "
452,353	241,921	519	867,654	920,311	164,387	–28,609	. . . . 4th "
501,773	297,227	521	879,498	945,273	255,501	–5,741	. . . . 1st qtr. – 2000
486,207	281,373	362	857,640	918,429	160,050	–2,872	. . . . 2nd "
375,458	154,685	536	809,810	880,013	43,487	–3,245	. . . . Sept. – 1999
393,458	175,955	536	809,045	870,814	47,096	–17,899	. . . . Oct.
419,032	204,941	525	830,821	886,361	50,368	–9,707	. . . . Nov.
452,353	241,921	519	867,654	920,311	66,921	–1,005	. . . . Dec.
453,149	250,817	511	844,018	904,542	79,089	–7,462	. . . . Jan. – 2000
483,980	284,868	511	879,398	942,553	92,649	–1,179	. . . . Feb.
501,773	297,227	521	879,498	945,273	83,763	2,901	. . . . Mar.
495,883	295,297	515	870,144	939,267	52,738	1,541	. . . . Apr.
474,096	272,015	401	841,038	917,194	54,070	–964	. . . . May
486,207	281,373	362	857,640	918,429	53,242	–3,449	. . . . June
495,480	284,957	360	861,172	917,116	37,906	–2,023	. . . . July
521,296	310,392	240	888,636	938,462	34,200	383	. . . . Aug.
			(millions of euros)				
259,144	153,505	269	454,223	488,193	131,955	–2,965	. . . . 1st qtr. – 2000
251,105	145,317	187	442,934	474,329	82,659	–1,483	. . . . 2nd "
234,032	129,536	264	435,899	467,157	40,846	–3,854	. . . . Jan. – 2000
249,955	147,122	264	454,171	486,788	47,849	–609	. . . . Feb.
259,144	153,505	269	454,223	488,193	43,260	1,498	. . . . Mar.
256,102	152,508	266	449,392	485,091	27,237	796	. . . . Apr.
244,850	140,484	207	434,360	473,691	27,925	–498	. . . . May
251,105	145,317	187	442,934	474,329	27,497	–1,781	. . . . June
255,894	147,168	186	444,758	473,651	19,577	–1,045	. . . . July
269,227	160,304	124	458,942	484,675	17,663	198	. . . . Aug.

Table a32

Italian investment funds: net purchases of securities

	Residents				
	Government securities				
		BOTs	CTZs	BTPs	CCTs
	(billions of lire)				
1996	66,966	15,893	18,507	21,287	10,493
1997	69,733	–10,928	42,201	29,429	7,563
1998	174,057	13,558	2,101	122,413	34,888
1999	–35,571	–8,992	–23,326	–3,065	908
1998 – 3rd qtr.	31,093	–3,013	1,007	22,201	11,416
4th "	40,298	4,721	–6,394	38,205	4,200
1999 – 1st qtr.	–1,123	–2,403	–9,232	8,616	2,951
2nd "	16,236	–556	–3,818	7,987	12,305
3rd "	–11,397	–4,672	–1,232	–1,652	–3,714
4th "	–39,289	–1,361	–9,046	–18,017	–10,634
2000 – 1st qtr.	–37,477	2,571	–9,414	–26,025	–4,486
2nd "	–3,667	–836	–4,475	11,618	–9,726
1999 – Sept.	–5,360	–902	–2,968	–1,931	381
Oct.	–14,712	101	–4,446	–7,035	–3,245
Nov.	–12,927	–66	–1,592	–6,268	–4,976
Dec.	–11,651	–1,396	–3,007	–4,715	–2,413
2000 – Jan.	–17,091	2,095	–4,409	–13,674	–986
Feb.	–16,863	–236	–76	–15,043	–1,485
Mar.	–3,522	711	–4,930	2,693	–2,014
Apr.	1,272	–1,592	–2,085	7,716	–2,202
May	–5,669	2,134	–3,174	–1,458	–3,398
June	730	–1,377	784	5,360	–4,126
July	–6,123	–1,168	–2,827	1,088	–3,394
Aug.	1,354	–503	343	1,063	486
	(millions of euros)				
2000 – 1st qtr.	–19,355	1,328	–4,862	–13,441	–2,317
2nd "	–1,894	–432	–2,311	6,000	–5,023
2000 – Jan.	–8,827	1,082	–2,277	–7,062	–509
Feb.	–8,709	–122	–39	–7,769	–767
Mar.	–1,819	367	–2,546	1,391	–1,040
Apr.	657	–822	–1,077	3,985	–1,137
May	–2,928	1,102	–1,639	–753	–1,755
June	377	–711	405	2,768	–2,131
July	–3,162	–603	–1,460	562	–1,753
Aug.	699	–260	177	549	251

Table a32

			Non-residents				
Bonds	Shares	Total		shares	Other financial assets	Total portfolio	
			(billions of lire)				
1,115	128	68,209	4,107	–401	2,440	74,756	 1996
1,690	6,363	77,786	53,524	19,992	–1,559	129,751	 1997
2,116	17,649	193,823	119,253	41,734	20	313,095	 1998
5,602	–10,305	–40,274	161,950	79,364	8	121,683	 1999
–21	–1,609	29,462	20,722	6,984	60	50,244	. . . . . . 3th qtr. – 1998
623	1,326	42,247	12,340	4,233	–83	54,504	. . . . . . 4th ”
–571	–5,518	–7,213	65,461	6,864	21	58,270	. . . . . . 1st qtr. – 1999
3,090	–8,653	10,673	42,751	17,930	–4	53,420	. . . . . . 2nd ”
1,493	864	–9,040	34,725	23,406	–2	25,683	. . . . . . 3rd ”
1,592	3,003	–34,694	19,010	31,164	–8	–15,692	. . . . . . 4th ”
327	–7,643	–44,792	26,521	35,411	6	–18,265	. . . . . . 1st qtr. – 2000
1,050	2,827	209	14,416	10,746	3	14,628	. . . . . . 2nd ”
1,216	203	–3,940	7,596	6,514	15	3,671	. . . . . . Sept. – 1999
273	–505	–14,944	5,946	9,449	0	–8,998	. . . . . . Oct.
1,115	2,558	–9,253	3,470	9,244	–10	–5,794	. . . . . . Nov.
203	951	–10,497	9,594	12,472	2	–900	. . . . . . Dec.
–244	–2,014	–19,349	6,163	13,397	0	–13,186	. . . . . . Jan. – 2000
105	–1,280	–18,038	10,400	14,325	0	–7,639	. . . . . . Feb.
465	–4,349	–7,406	9,958	7,689	6	2,558	. . . . . . Mar.
236	–796	713	–881	4,670	–3	–171	. . . . . . Apr.
151	960	–4,558	4,006	–815	92	–460	. . . . . . May
660	2,662	4,053	11,290	6,891	–20	15,323	. . . . . . June
95	153	–5,875	8,421	4,777	–2	2,544	. . . . . . July
–422	–937	–6	4,603	5,968	–65	4,597	. . . . . . Aug.
			(millions of euros)				
169	–3,947	–23,133	13,697	18,288	3	–9,433	. . . . . . 1st qtr. – 2000
542	1,460	108	7,445	5,550	2	7,555	. . . . . . 2nd ”
–126	–1,040	–9,993	3,183	6,919	0	–6,810	. . . . . . Jan. – 2000
54	–661	–9,316	5,371	7,398	0	–3,945	. . . . . . Feb.
240	–2,246	–3,825	5,143	3,971	3	1,321	. . . . . . Mar.
122	–411	368	–455	2,412	–2	–89	. . . . . . Apr.
78	496	–2,354	2,069	–421	48	–237	. . . . . . May
341	1,375	2,093	5,831	3,559	–10	7,914	. . . . . . June
49	79	–3,034	4,349	2,467	–1	1,314	. . . . . . July
–218	–484	–3	2,377	3,082	–34	2,374	. . . . . . Aug.

Table a33

Portfolio management services (1)

(end-of-period market values)

		Government securities			Bonds		Shares	
		BOTs	BTPs	CCTs	Italian	Foreign	Italian	Foreign
				(billions of lire)				
1999 - 3rd qtr.								
Banks	133,388	4,231	67,860	42,721	12,833	24,933	17,019	4,743
Securities firms	53,087	3,049	33,727	12,037	8,218	17,791	7,954	9,404
Asset management cos	29,307	935	21,139	4,761	4,343	3,484	4,967	712
Total	**215,782**	**8,215**	**122,726**	**59,519**	**25,394**	**46,208**	**29,940**	**14,859**
1999 - 4th qtr.								
Banks	129,763	4,818	64,070	44,172	12,267	25,499	20,575	8,875
Securities firms	21,077	2,350	9,988	6,616	2,994	5,372	6,103	4,908
Asset management cos	60,997	1,114	43,487	11,465	13,216	9,757	13,673	5,430
Total	**211,837**	**8,282**	**117,545**	**62,253**	**28,477**	**40,628**	**40,351**	**19,213**
2000 - 1st qtr. (2)								
Banks	104,638	4,248	50,370	37,451	9,713	26,022	18,892	8,801
Securities firms	25,152	1,807	14,198	6,575	2,511	6,098	5,584	5,788
Asset management cos	63,972	1,233	43,471	15,317	19,142	9,048	14,230	7,502
Total	**193,762**	**7,288**	**108,039**	**59,343**	**31,366**	**41,168**	**38,706**	**22,091**
2000 - 2nd qtr. (2)								
Banks	97,219	3,478	47,692	34,483	10,350	24,100	18,339	9,156
Securities firms	20,688	1,195	11,350	6,095	2,057	5,560	5,319	4,075
Asset management cos	73,620	1,597	49,248	18,317	23,087	9,825	15,933	6,637
Total	**191,527**	**6,270**	**108,290**	**58,895**	**35,494**	**39,485**	**39,591**	**19,868**
				(millions of euros)				
1999 - 3rd qtr.								
Banks	68,889	2,185	35,047	22,064	6,628	12,877	8,790	2,450
Securities firms	27,417	1,575	17,419	6,217	4,244	9,188	4,108	4,857
Asset management cos	15,136	483	10,917	2,459	2,243	1,799	2,565	368
Total	**111,442**	**4,243**	**63,383**	**30,739**	**13,115**	**23,864**	**15,463**	**7,674**
1999 - 1st qtr.								
Banks	67,017	2,488	33,089	22,813	6,335	13,169	10,626	4,584
Securities firms	10,885	1,214	5,158	3,417	1,546	2,774	3,152	2,535
Asset management cos	31,502	575	22,459	5,921	6,825	5,039	7,062	2,804
Total	**109,405**	**4,277**	**60,707**	**32,151**	**14,707**	**20,983**	**20,840**	**9,923**
2000 - 2nd qtr. (2)								
Banks	54,041	2,194	26,014	19,342	5,016	13,439	9,757	4,545
Securities firms	12,990	933	7,333	3,396	1,297	3,149	2,884	2,989
Asset management cos	33,039	637	22,451	7,911	9,886	4,673	7,349	3,874
Total	**100,070**	**3,764**	**55,797**	**30,648**	**16,199**	**21,261**	**19,990**	**11,409**
2000 - 3rd qtr. (2)								
Banks	50,209	1,796	24,631	17,809	5,345	12,447	9,471	4,729
Securities firms	10,684	617	5,862	3,148	1,062	2,872	2,747	2,105
Asset management cos	38,022	825	25,434	9,460	11,923	5,074	8,229	3,428
Total	**98,915**	**3,238**	**55,927**	**30,417**	**18,331**	**20,392**	**20,447**	**10,261**

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

Table a33

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)				
							1999 - 3rd qtr.
183,700	18,412	5,256	400,284	420,894	44,000	1,578	. . . . Banks
40,193	28,108	417	165,172	171,247	21,223	9,075	. . . . Securities firms
26,353	69	7	69,242	71,012	8,746	5,710	. . Asset management cos
250,246	**46,589**	**5,680**	**634,698**	**663,153**	**73,969**	**16,363**	. . . **Total**
							1999 - 4th qtr.
192,359	23,280	2,003	414,621	429,867	46,366	–7,160	. . . . Banks
32,084	17,717	380	90,635	94,485	–27,309	–84,380	. . . . Securities firms
62,778	1,426	2,331	169,608	174,388	123,822	112,779	. . Asset management cos
287,221	**42,423**	**4,714**	**674,864**	**698,740**	**142,879**	**21,239**	. . . **Total**
							2000 - 1st qtr. (2)
225,945	26,981	380	421,372	439,114	66,555	–3,950	. . . . Banks
35,620	22,990	647	104,390	108,110	24,576	10,024	. . . . Securities firms
75,556	2,611	2,358	194,419	201,205	39,386	24,397	. . Asset management cos
337,121	**52,582**	**3,385**	**720,181**	**748,429**	**130,517**	**30,471**	. . . **Total**
							2000 - 2nd qtr. (2)
224,272	32,664	2,508	418,608	435,189	35,383	282	. . . . Banks
31,936	22,810	570	93,015	95,236	8,708	–11,236	. . . . Securities firms
88,205	3,532	2,391	223,230	229,581	46,970	31,032	. . Asset management cos
344,413	**59,006**	**5,469**	**734,853**	**760,006**	**91,061**	**20,078**	. . . **Total**
			(millions of euros)				
							1999 - 3rd qtr.
94,873	9,509	2,714	206,729	217,374	22,724	815	. . . . Banks
20,758	14,517	215	85,304	88,442	10,961	4,687	. . . . Securities firms
13,610	36	4	35,761	36,675	4,517	2,949	. . Asset management cos
129,241	**24,061**	**2,933**	**327,794**	**342,490**	**38,202**	**8,451**	. . . **Total**
							1999 - 1st qtr.
99,345	12,023	1,034	214,134	222,008	23,946	–3,698	. . . . Banks
16,570	9,150	196	46,809	48,798	–14,104	–43,579	. . . . Securities firms
32,422	736	1,204	87,595	90,064	63,949	58,246	. . Asset management cos
148,337	**21,910**	**2,435**	**348,538**	**360,870**	**73,791**	**10,969**	. . . **Total**
							2000 - 2nd qtr. (2)
116,691	13,935	196	217,620	226,784	34,373	–2,040	. . . . Banks
18,396	11,873	334	53,913	55,834	12,692	5,177	. . . . Securities firms
39,021	1,348	1,218	100,409	103,914	20,341	12,600	. . Asset management cos
174,108	**27,156**	**1,748**	**371,942**	**386,532**	**67,406**	**15,737**	. . . **Total**
							2000 - 3rd qtr. (2)
115,827	16,870	1,295	216,193	224,756	18,274	146	. . . . Banks
16,494	11,780	294	48,038	49,185	4,497	–5,803	. . . . Securities firms
45,554	1,824	1,235	115,289	118,569	24,258	16,027	. . Asset management cos
177,874	**30,474**	**2,825**	**379,520**	**392,510**	**47,029**	**10,370**	. . . **Total**

Table a34

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)			
1998	124,968	685,856	810,824	165,213	233,773	1,209,810
1999 – Sept. . . .	124,911	693,632	818,543	129,588	233,548	1,181,679
Oct.	126,574	707,128	833,702	127,781	235,715	1,197,199
Nov.	126,566	690,034	816,600	126,324	235,244	1,178,167
Dec.	139,335	754,904	894,240	127,301	249,508	1,271,048
2000 – Jan.	130,054	755,895	885,949	123,298	248,528	1,257,775
Feb.	128,993	743,965	872,958	124,554	246,226	1,243,737
Mar.	130,461	751,606	882,067	123,552	244,849	1,250,467
Apr.	134,295	772,180	906,475	121,236	243,719	1,271,430
May	132,506	768,059	900,565	121,276	244,591	1,266,432
June	134,434	762,299	896,734	120,467	242,807	1,260,008
July	136,781	760,041	896,821	121,029	242,702	1,260,552
Aug.	133,039	744,304	877,343	116,994	243,032	1,237,368
Sept. . . .	(134,161)	(751,862)	(886,023)	(116,843)	(240,911)	(1,243,776)
			(millions of euros)			
1999 – Sept. . . .	64,511	358,231	422,742	66,927	120,618	610,286
Oct.	65,370	365,201	430,571	65,993	121,737	618,301
Nov.	65,366	356,373	421,739	65,241	121,493	608,473
Dec.	71,961	389,875	461,836	65,745	128,860	656,442
2000 – Jan.	67,167	390,387	457,554	63,678	128,354	649,587
Feb.	66,619	384,226	450,845	64,327	127,165	642,337
Mar.	67,377	388,172	455,550	63,809	126,454	645,813
Apr.	69,357	398,798	468,155	62,613	125,870	656,639
May	68,433	396,670	465,103	62,634	126,321	654,058
June	69,430	393,695	463,124	62,216	125,400	650,740
July	70,641	392,528	463,170	62,506	125,345	651,021
Aug.	68,709	384,401	453,110	60,422	125,516	639,047
Sept. . . .	(69,288)	(388,304)	(457,593)	(60,344)	(124,420)	(642,357)

Table a34

Repos	Money market fund shares/units and money market paper	Debt securities up to 2 years	Total monetary liabilities	Contribution to euro-area money		
				M1	M2	M3
(billions of lire)						
117,130	9,240	32,486	1,368,666	799,373	1,198,359	1,356,893
107,040	14,230	23,816	1,326,765	809,676	1,172,813	1,315,937
106,911	15,161	21,821	1,341,091	825,171	1,188,667	1,330,505
110,396	15,192	22,090	1,325,846	806,777	1,168,345	1,313,548
98,274	25,297	21,636	1,416,256	882,912	1,259,721	1,403,421
105,587	25,479	21,030	1,409,872	876,515	1,248,341	1,399,057
113,127	24,844	21,020	1,402,728	863,925	1,234,705	1,391,911
111,225	23,915	20,352	1,405,960	873,220	1,241,620	1,394,895
114,258	24,747	19,811	1,430,246	896,279	1,261,234	1,417,616
123,942	20,087	19,530	1,429,990	891,144	1,257,012	1,417,624
123,266	19,165	19,691	1,422,130	887,514	1,250,788	1,410,524
131,184	18,395	19,460	1,429,592	886,116	1,249,847	1,416,796
132,139	18,164	19,525	1,407,197	867,710	1,227,736	1,395,371
(126,575)	(17,717)	(19,255)	(1,407,324)	(876,904)	(1,234,657)	(1,396,583)
(millions of euros)						
55,282	7,349	12,300	685,217	418,163	605,707	679,625
55,215	7,830	11,270	692,616	426,165	613,895	687,148
57,015	7,846	11,409	684,742	416,666	603,400	678,391
50,754	13,065	11,174	731,435	455,986	650,591	724,806
54,531	13,159	10,861	728,138	452,682	644,715	722,553
58,425	12,831	10,856	724,449	446,180	637,672	718,862
57,443	12,351	10,511	726,118	450,981	641,243	720,403
59,010	12,781	10,232	738,661	462,890	651,373	732,137
64,010	10,374	10,086	738,528	460,238	649,192	732,142
63,662	9,898	10,169	734,469	458,363	645,978	728,475
67,751	9,500	10,050	738,322	457,641	645,492	731,714
68,244	9,381	10,084	726,756	448,135	634,073	720,649
65,371	(9,150)	(9,945)	(726,822)	(452,883)	(637,647)	(721,275)

Financial assets: residents of Italy

(end-of-period stocks)

	Total monetary assets	Other deposits	BOTs		Medium and long-term securities			
					Government securities		Other debt securities	
				held by non-money-market funds		held by non-money-market funds		held by non-money-market funds
	(billions of lire)							
1998	1,349,536	113,359	(124,591)	26,879	(821,107)	320,019	(416,139)	7,595
1999 – June . . .	1,338,896	105,494	(88,612)	18,496	(833,877)	338,399	(437,314)	10,071
July	1,334,242	105,110	(77,970)	17,350	(836,203)	332,173	(439,505)	11,796
Aug. . . .	1,308,076	104,655	(72,244)	15,539	(830,918)	334,872	(440,746)	11,976
Sept. . . .	1,317,770	104,390	(67,847)	14,705	(835,498)	329,615	(437,801)	13,195
Oct.	1,333,131	103,813	(68,246)	15,208	(827,087)	313,158	(444,352)	13,427
Nov. . . .	1,315,844	102,921	(69,167)	14,245	(805,034)	300,218	(448,659)	14,678
Dec. . . .	1,405,064	102,079	(69,033)	11,610	(778,367)	284,024	(454,629)	14,900
2000 – Jan.	1,399,234	*(100,927)*	(59,662)	10,473	(745,899)	262,629	(451,809)	14,630
Feb. . . .	1,390,266	*(99,686)*	(56,607)	9,994	(738,921)	245,308	(459,133)	15,054
Mar. . . .	1,393,916	*(99,711)*	(57,174)	10,535	(747,585)	240,114	(463,946)	15,468
Apr.	1,422,062	*(98,610)*	(53,062)	9,376	(758,240)	243,084	(471,636)	15,725
May	1,419,656	*(98,263)*	(55,246)	11,411	(758,611)	236,554	(474,932)	15,932
June . . .	1,411,916	*(97,925)*	(56,374)	10,329	(752,967)	238,437	(476,220)	16,459
	(millions of euros)							
1999 – June . . .	691,482	54,483	(45,764)	9,553	(430,662)	174,768	(225,854)	5,201
July	689,079	54,285	(40,268)	8,961	(431,863)	171,553	(226,986)	6,092
Aug. . . .	675,565	54,050	(37,311)	8,025	(429,133)	172,947	(227,626)	6,185
Sept. . . .	680,571	53,913	(35,040)	7,595	(431,499)	170,232	(226,105)	6,814
Oct.	688,505	53,615	(35,246)	7,854	(427,155)	161,733	(229,489)	6,935
Nov. . . .	679,577	53,154	(35,722)	7,357	(415,765)	155,050	(231,713)	7,581
Dec. . . .	725,655	52,719	(35,653)	5,996	(401,993)	146,686	(234,796)	7,695
2000 – Jan.	722,644	*(52,124)*	(30,813)	5,409	(385,225)	135,637	(233,340)	7,556
Feb. . . .	718,013	*(51,483)*	(29,235)	5,162	(381,621)	126,691	(237,123)	7,775
Mar. . . .	719,897	*(51,496)*	(29,528)	5,441	(386,095)	124,008	(239,608)	7,988
Apr.	734,434	*(50,928)*	(27,404)	4,842	(391,598)	125,543	(243,580)	8,121
May	733,191	*(50,748)*	(28,532)	5,893	(391,790)	122,170	(245,282)	8,228
June . . .	729,194	*(50,574)*	(29,115)	5,334	(388,875)	123,142	(245,947)	8,500

Table a35

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)				
76,325	(1,706)	(2,902,763)	(601,425)	213,991	(3,504,188)	720,823	711,583
64,008	(1,745)	(2,869,947)	(819,535)	345,136	(3,689,481)	873,893	863,272
60,200	(1,722)	(2,854,952)	(839,717)	351,345	(3,694,669)	871,506	860,045
62,220	(1,725)	(2,820,584)	(866,281)	369,187	(3,686,865)	885,040	872,619
62,781	(1,721)	(2,827,808)	(876,365)	374,184	(3,704,173)	880,014	865,784
61,116	(1,723)	(2,839,469)	(909,514)	392,076	(3,748,983)	870,814	855,653
69,460	(1,719)	(2,812,805)	(953,174)	417,565	(3,765,979)	886,361	871,169
86,440	(1,752)	(2,897,365)	(988,702)	448,669	(3,886,067)	920,311	895,014
82,816	(1,766)	*(2,842,113)*	(1,004,268)	449,733	*(3,846,375)*	904,542	879,063
104,810	(1,767)	*(2,851,190)*	(1,042,364)	480,416	*(3,893,554)*	942,553	917,709
90,752	(1,773)	*(2,854,857)*	(1,075,371)	498,303	*(3,930,227)*	945,274	921,359
86,639	(1,775)	*(2,892,023)*	(1,092,686)	492,047	*(3,984,709)*	939,267	914,520
86,916	(1,762)	*(2,895,385)*	(1,063,697)	471,573	*(3,959,082)*	917,194	897,108
90,532	(1,760)	*(2,887,694)*	(1,076,124)	483,414	*(3,963,817)*	918,429	899,264
			(millions of euros)				
33,057	(901)	(1,482,204)	(423,254)	178,248	(1,905,458)	451,328	445,843
31,091	(889)	(1,474,460)	(433,678)	181,454	(1,908,137)	450,095	444,176
32,134	(891)	(1,456,710)	(447,397)	190,669	(1,904,107)	457,085	450,670
32,423	(889)	(1,460,441)	(452,605)	193,250	(1,913,046)	454,489	447,140
31,564	(890)	(1,466,463)	(469,725)	202,490	(1,936,188)	449,738	441,908
35,873	(888)	(1,452,693)	(492,273)	215,654	(1,944,966)	457,767	449,921
44,642	(905)	(1,496,364)	(510,622)	231,718	(2,006,986)	475,301	462,236
42,771	(912)	*(1,467,829)*	(518,658)	232,268	*(1,986,487)*	467,157	453,998
54,130	(912)	*(1,472,517)*	(538,336)	248,114	*(2,010,853)*	486,788	473,957
46,869	(916)	*(1,474,411)*	(555,383)	257,352	*(2,029,793)*	488,193	475,842
44,745	(917)	*(1,493,605)*	(564,325)	254,121	*(2,057,931)*	485,091	472,310
44,889	(910)	*(1,495,342)*	(549,353)	243,547	*(2,044,695)*	473,691	463,317
46,756	(909)	*(1,491,369)*	(555,771)	249,662	*(2,047,141)*	474,329	464,431

Table a36

Credit: residents of Italy

(end-of-period stocks)

	Finance to "other residents"					
	Bank credit	Bonds placed domestically		Total domestic finance	External finance	Total
	A	B	held by Italian MFIs	C=A+B	D	E=C+D
			(billions of lire)			
1998	1,337,337	(23,464)	5,586	(1,360,800)	(154,422)	(1,515,223)
1999 – June . . .	1,401,684	(18,506)	5,944	(1,420,190)	(202,697)	(1,622,887)
July	1,412,513	(20,104)	6,809	(1,432,617)	(202,999)	(1,635,616)
Aug. . . .	1,400,962	(19,129)	7,142	(1,420,091)	(206,203)	(1,626,295)
Sept. . . .	1,402,966	(20,999)	9,553	(1,423,965)	(206,212)	(1,630,177)
Oct.	1,408,515	(22,914)	10,119	(1,431,429)	(212,532)	(1,643,961)
Nov. . . .	1,459,661	(21,156)	10,269	(1,480,816)	(227,512)	(1,708,328)
Dec. . . .	1,474,178	(24,521)	10,553	(1,498,699)	(223,906)	(1,722,605)
2000 – Jan.	1,484,157	(21,248)	11,230	(1,505,404)	(223,915)	(1,729,319)
Feb. . . .	1,499,058	(22,139)	12,382	(1,521,198)	(223,586)	(1,744,783)
Mar. . . .	1,513,850	(23,263)	12,232	(1,537,113)	(225,137)	(1,762,250)
Apr.	1,529,540	(25,761)	13,773	(1,555,301)	(226,913)	(1,782,215)
May	1,535,179	(24,569)	13,994	(1,559,748)	(226,019)	(1,785,767)
June . . .	1,571,390	(24,729)	12,135	(1,596,119)	(232,715)	(1,828,834)
			(millions of euros)			
1999 – June . . .	723,909	(9,558)	3,070	(733,467)	(104,684)	(838,151)
July	729,502	(10,383)	3,516	(739,885)	(104,840)	(844,725)
Aug. . . .	723,537	(9,880)	3,689	(733,416)	(106,495)	(839,911)
Sept. . . .	724,571	(10,845)	4,934	(735,417)	(106,499)	(841,916)
Oct.	727,437	(11,834)	5,226	(739,271)	(109,764)	(849,035)
Nov. . . .	753,852	(10,926)	5,303	(764,778)	(117,500)	(882,278)
Dec. . . .	761,349	(12,664)	5,450	(774,013)	(115,638)	(889,651)
2000 – Jan.	766,503	(10,973)	5,800	(777,476)	(115,642)	(893,119)
Feb. . . .	774,199	(11,434)	6,395	(785,633)	(115,472)	(901,105)
Mar. . . .	781,838	(12,014)	6,317	(793,853)	(116,274)	(910,126)
Apr.	789,942	(13,305)	7,113	(803,246)	(117,191)	(920,437)
May	792,854	(12,689)	7,227	(805,542)	(116,729)	(922,272)
June . . .	811,555	(12,771)	6,267	(824,327)	(120,187)	(944,514)

Table a36

	General government debt			Credit		
		held domestically		Total domestic	Total	*Memorandum item:* shares placed domestically, held by Italian MFIs
F	G	held by Italian MFIs		H=G+C	I=E+F	

F	G	held by Italian MFIs	H=G+C	I=E+F	*Memorandum item:* shares placed domestically, held by Italian MFIs
		(billions of lire)			
2,403,528	2,273,232	606,539	(3,634,033)	(3,918,751)	35,717
2,487,898	2,350,308	607,462	(3,770,498)	(4,110,785)	45,416
2,482,364	2,352,034	596,748	(3,784,651)	(4,117,981)	45,317
2,479,687	2,345,597	593,899	(3,765,688)	(4,105,982)	41,251
2,491,768	2,358,087	600,819	(3,782,052)	(4,121,945)	42,479
2,489,631	2,355,186	605,609	(3,786,614)	(4,133,592)	42,422
2,482,718	2,346,073	589,728	(3,826,890)	(4,191,046)	47,080
2,449,772	2,312,895	581,126	(3,811,593)	(4,172,377)	55,299
(2,442,466)	(2,305,028)	572,034	(3,810,433)	(4,171,785)	55,675
(2,458,264)	(2,312,895)	571,073	(3,835,984)	(4,203,048)	61,032
(2,479,203)	(2,330,988)	566,198	(3,868,101)	(4,241,453)	64,288
(2,497,626)	(2,347,796)	569,214	(3,903,097)	(4,279,840)	66,006
(2,500,044)	(2,340,872)	559,402	(3,900,619)	(4,285,811)	66,750
(2,516,497)	(2,353,289)	558,652	(3,949,408)	(4,345,331)	69,992
		(millions of euros)			
1,284,892	1,213,833	313,728	(1,947,300)	(2,123,043)	23,456
1,282,034	1,214,724	308,194	(1,954,609)	(2,126,760)	23,404
1,280,651	1,211,400	306,723	(1,944,816)	(2,120,563)	21,304
1,286,891	1,217,850	310,297	(1,953,267)	(2,128,807)	21,938
1,285,787	1,216,352	312,771	(1,955,623)	(2,134,822)	21,909
1,282,217	1,211,646	304,569	(1,976,424)	(2,164,495)	24,315
1,265,202	1,194,510	300,126	(1,968,524)	(2,154,853)	28,559
(1,261,428)	(1,190,448)	295,431	(1,967,924)	(2,154,547)	28,754
(1,269,588)	(1,195,487)	294,934	(1,981,120)	(2,170,693)	31,520
(1,280,401)	(1,203,855)	292,417	(1,997,707)	(2,190,528)	33,202
(1,289,916)	(1,212,535)	293,975	(2,015,781)	(2,210,353)	34,089
(1,291,165)	(1,208,959)	288,907	(2,014,502)	(2,213,437)	34,474
(1,299,662)	(1,215,372)	288,520	(2,039,699)	(2,244,176)	36,148

Notes to the statistical tables

Table a1

Sources: IMF, OECD, Istat and national statistics.

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 (un-collateralized); 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 consumption of general government and non-profit institutions serving households, 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 a20

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 main taxes are paid without distinction into a single account at the Treasury and subsequently allocated among the different budget items. The receipts shown in this table are based on data collected at the time they are booked in the budget accounts; accordingly, they do not include any balances at the Treasury deriving from delays in the booking of receipts. Furthermore, owing to the new method of paying taxes 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 item "Treasury operations" includes transactions vis-à-vis the Treasury Ministry (net of accounting items vis-à-vis the budget) and minor items vis-à-vis the Bank of Italy and the UIC. The flows shown in the subitem "Collection accounts" show the changes in receipts pending the allocation of central government taxes, the share of Irap due to the regions and the social security contributions paid using the single mandate procedure but due to INPS. A negative flow indicates that the amounts booked in the month exceeded the revenue received and vice versa. 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 a21

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). 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 a22

The table shows general government debt and its composition (the figure for the state sector is shown as a memorandum item). The debt (end-of-period data) is stated at face value and that denominated in foreign currency is translated at year-end exchange rates. The items “Medium and long-term securities excluding central bank”, “BOTs and BTEs excluding central bank” and “Borrowing from central bank” include only 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 also include the BTPs issued in connection with the closure of the Treasury’s current account with the Bank of Italy. 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. The stocks of lending by banks are based on automated prudential returns. “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 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. From December 1998 the item “Borrowing from central bank” refers exclusively to the accounts of the Bank of Italy (and not to the consolidated accounts of the Bank of Italy and the UIC) since that month saw 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 and the UIC’s securities portfolio is included under “Medium and long-term securities excluding central bank”. The figures for the last year are provisional.

Table a23

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.

On 8 June the Governing Council of the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders, applying the multiple rate auction procedures. It also decided to set a minimum bid rate for these operations.

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 a24 and a25

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 a26

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 institutions 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 a27

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 quarterly 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.

For further information, see the section “Note metodologiche” in the Appendix to the *Relazione annuale per il 1998*.

Table a28

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 a29

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 a30

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.

Paid-in capital, reserves, provisions for general banking risks and innovative capital instruments – net of any own shares or capital parts, 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, hybrid capital instruments 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 banking groups and banks not belonging to a group to satisfy a minimum capital requirement – defined as the ratio of their supervisory capital to the total of their on- and off-balance-sheet assets, weighted according to their potential riskiness – of 8 per cent.

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

Table a31

SICAVs are included. “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 a32

“Other financial assets” include CDs, banker’s acceptances and commercial paper. Rounding may cause discrepancies in totals.

Table a33

The amounts shown for “Banks” refer to the portfolio management services they provide directly. “Other financial assets” include CDs, banker’s acceptances and commercial paper. “Net inflow” is calculated as the sum of monthly flows.

Table a34

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"; freely avaible 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/units 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. For further details on the methods used to compile these statistics, see "Note metodologiche e informazioni statistiche – Aggregati monetari e creditizi dell'area dell'euro: le componenti italiane" in the series Supplements to the *Statistical Bulletin*, Volume X, no. 33, 12 June 2000.

Table a35

All the items refer to the financial assets of the Italian "money holding sector" (see the note to Table a34); the share of each item held by non-money-market funds is shown separately.

"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 a36

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 "Note Metodologiche e informazioni statistiche – Aggregati monetari e creditizi dell'area dell'euro: le componenti italiane" in the series Supplements to the *Statistical Bulletin*, Volume X, no. 33, 12 June 2000).

"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.

"External 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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