BANCA D'ITALIA

Economic Bulletin

Number 38 March 2004

This abridged English edition of the *Bollettino Economico* has been translated from the Italian by the Governor's Secretariat

Registration with the Court of Rome No. 426, 19 September 1985 – *Director*: SALVATORE ROSSI

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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 WORLD ECONOMY AND INTERNATIONAL FINANCE

The world economic recovery began during the summer of 2003, following an improvement in the main countries' financial indicators in the spring, and gained strength in the final quarter of the year as international political tensions eased. In the three main regions of the globe economic activity was sustained by budgetary measures, admittedly at the cost of larger imbalances in the public finances. The already expansionary stance of monetary policies has become even more accommodating: real short-term interest rates are close to zero, while in some regions the monetary base and narrowly-defined monetary aggregates continue to record two-digit rates of growth. Fears of impending deflation in the United States, which peaked in the spring of 2003, have abated considerably.

World trade in goods, which had stagnated in the first half of 2003, picked up progressively over the rest of the year to expand strongly in the fourth quarter. Trade among the G7 countries increased by 3.1 per cent, compared with 2 per cent in 2002.

The global economic expansion is marked by significant divergences between the main regions. In the United States economic activity picked up rapidly in the second half of 2003. In Japan output growth, which began in the second quarter of 2002, continued faster than expected thanks to closer commercial ties with the emerging Asian countries. In China GDP grew at an extremely fast pace. These good results contrasted with developments in the euro area, where the stagnation of economic activity in the first half of 2003 gave way to renewed but moderate growth in the second half owing to the upturn in export demand.

The difference in the strength of the recovery magnified external imbalances. The US balance-of-payments deficit on current account widened to 5 per cent of GDP ($550 billion). The current account surplus of the group of Asian countries remained large, amounting to more than 3 per cent of GDP (around $270 billion), while that of the euro area, which was just under 1 per cent of GDP in 2002, fell to less than 0.5 per cent ($33 billion).

From the spring of 2003 onwards, with the easing of international tensions, the stock markets responded to the current and expected improvement in corporate profitability and an increase in liquidity. The risk premiums on corporate bonds and bonds issued by emerging countries are now extremely low by historical standards.

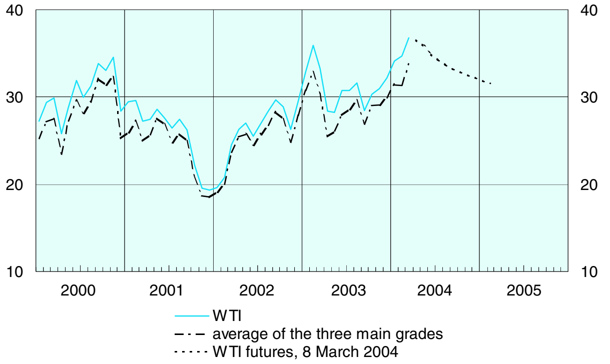
The dollar continued to weaken in the closing months of 2003, partly as a result of the communiqué issued at the meeting of the G7 countries in Dubai in September. It depreciated more vis-à-vis the euro than against the currencies of the Asian countries, owing partly to the latter's accumulation of reserves, principally in dollars. At their meeting in the United States in February the G7 economic policy-makers reaffirmed the need for greater flexibility of the currencies that had not yet appreciated significantly against the dollar. The announcement had little effect on the exchange rates of the main currencies.

Oil prices rose further beginning in the autumn of 2003, from around $29 a barrel on average for the three main grades in October to about $34 in the first week of March this year (Figure 1). The increases reflected persistent uncertainties about supplies of crude oil from the Middle East partly due to the tense political situation there, the paucity of the industrial countries' reserves, which were 2.1 per cent lower at the end of 2003 than the average for the previous three years, and the OPEC countries' recent decision to lower the cartel's production target starting in April. The futures prices on WTI grade contracts quoted on NYMEX on 8 March point to a progressive fall in prices from around $37 a barrel in April, the same as the spot market price, to around $32 in December.

Figure 1

Crude oil: spot and futures prices (1)

(dollars per barrel)



Sources: IMF and Thomson Financial Datastream.
(1) For the spot price, average monthly data; for March 2004, the latest available data relates to 8 March. The three main grades are Dubai, Brent and WTI.

Towards the end of 2003 non-energy raw material prices also picked up as the economic cycle gained strength, particularly in Asia. Prices in dollars were 16 per cent higher in January than a year earlier (36 per cent for metals).

The depreciation of the dollar and the foreign exchange markets

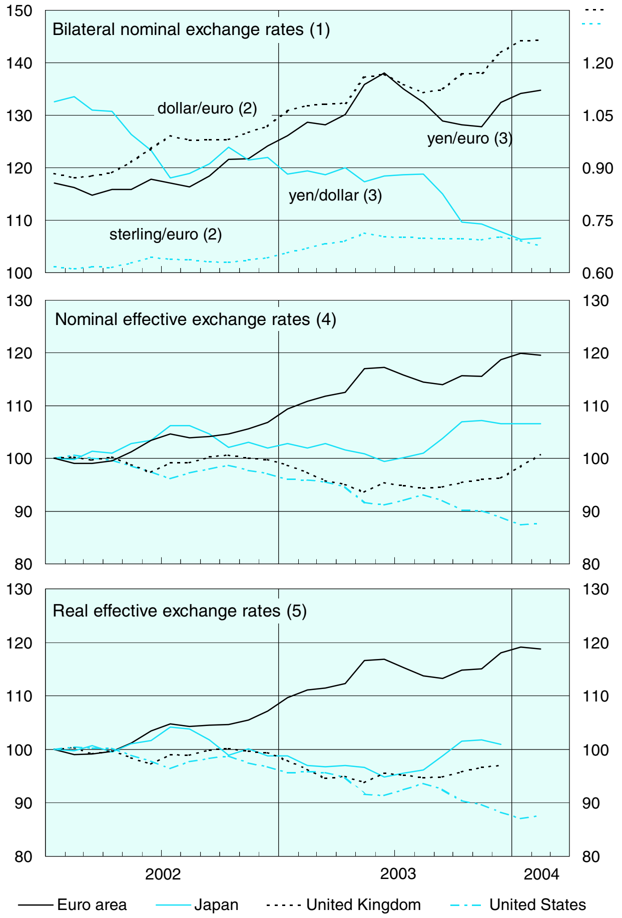
After appreciating in the summer, the dollar started to slide again at the beginning of September (Figure 2), picking up speed after the communiqué issued by the G7 countries on 20 September in Dubai.

In the following months the dollar fell sharply against the euro, yen, Swiss franc and Australian dollar, losing between 9 and 16 per cent, but depreciated less than 4 per cent vis-à-vis the currencies of South Korea, Taiwan and Singapore. China, Hong Kong and Malaysia continued to peg their currencies to the dollar.

Figure 2

Exchange rates of leading currencies and indicators of competitiveness

(monthly averages)



Sources: Bank of Italy, ECB and Federal Reserve.
(1) Units of the first currency per unit of the second. – (2) Right-hand scale. – (3) Left-hand scale. – (4) Indices, January 2002=100. A rise indicates an appreciation. – (5) Indices, January 2002=100; based on producer prices of manufactured goods for the euro area, Japan and the United Kingdom and consumer prices for the United States. A rise indicates a loss of competitiveness.

The central banks of the main Asian countries continued to counter the appreciation of their currencies with massive foreign exchange purchases. At the end of 2003 their international reserves stood at around $1.9 trillion overall, of which Japan held more than $660 billion and China $420 billion.

The dollar hit a low point of 1.283 to the euro on 12 January of this year, then fluctuated slightly above that level. On 7 February the economic policy authorities of the G7 countries issued a communiqué after their Florida meeting criticizing the excessive variability and disorderly movement of exchange rates for their adverse impact on economic growth. They expressed the hope that the currencies that had not yet appreciated significantly against the dollar would show greater flexibility.

According to the Federal Reserve's indicator, the dollar has depreciated by 12.7 per cent in nominal effective terms since February 2002, when it first began to weaken; the gain in competitiveness is of the same order of magnitude. In the same period the loss of value amounted to 31 per cent against the euro and 20 per cent against the yen (Figure 2).

The strengthening of the recovery in the United States

In the United States output expanded at an annualized rate of 8 per cent in the third quarter of 2003 and at a still strong 4.1 per cent in the fourth. On an annual basis output growth was 3.1 per cent in 2003, compared with 2.6 per cent forecast a year earlier (Table 1).

Consumption accelerated sharply in the third quarter of 2003, rising by nearly 7 per cent on an annual basis: about half the increase can be put down to the tax cuts passed in May. The pace of increase was again considerable in the fourth quarter, amounting to 2.7 per cent. Household consumption expanded rapidly, sustained by the substantial fiscal stimulus and the rise in the value of real-estate assets, which households converted into cash by increasing their mortgage debt.

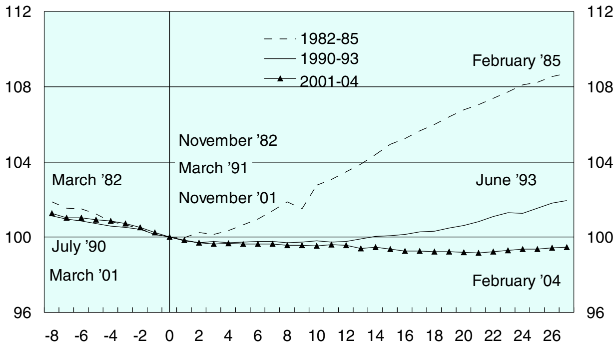
Private investment, which had gained considerable momentum in the third quarter, rose by 9.3 per cent in the fourth. Exports increased steadily from the summer onwards, then accelerated to 21 per cent towards the end of the year thanks to the upturn in demand, notably in Asia, and the increase in competitiveness.

Labour market conditions also improved, albeit modestly, from September onwards (Figure 3), although payroll employment was slower to recover than in earlier expansionary phases.

Figure 3

United States: payroll employment in the non-farm sector before and after the last three cyclical upturns (1)

(index, trough of each cycle=100)



Source: Bureau of Labor Statistics.

(1) The horizontal axis shows the number of months before and after the trough. The number of months after the trough is calculated by the National Bureau of Economic Research.

Thanks to increased competition and the introduction of new technologies during the previous decade, productivity continued to expand rapidly, rising by 5 per cent on an annual basis in 2002 and 4.4 per cent in 2003.

Given the moderation of wage rises, which have averaged less than 3 per cent in the past two years, unit labour costs contracted by 2.5 per cent in 2002 and 1.2 per cent in 2003. This ensured virtually complete price stability while allowing firms to plump up their profit margins. As economic activity progressively gained strength, non-financial firms' profits, which had grown steadily from the end of 2001 onwards, jumped by 17 per cent in the second quarter of 2003 and another 12 per cent in the third.

Higher profits enabled firms to finance the upturn in investment with limited recourse to borrowing. The self-financing rate, which had reached an all-time low of 78 per cent in mid-2000, climbed back to 122 per cent in the fourth quarter of 2003. The debt-to-value-added ratio of firms, which was 90 per cent at the beginning of 2002, fell to 86 per cent in the third quarter of 2003. The debt-to-equity ratio declined by 2 percentage points between the beginning of 2002 and the fourth quarter of 2003, falling to 49.4 per cent.

Table 1

Economic indicators for the main industrial countries (1)

(at constant prices; unless otherwise indicated, annualized percentage change on previous period)

	GDP	Household consumption (2)	Government consumption	Investment (3)	Changes in stocks (4) (5)	National demand	Net exports (4)(6)
United States							
2002	2.2	3.4	3.8	-3.7	0.4	2.8	-0.7
2003	3.1	3.1	3.4	4.4	..	3.3	-0.4
H1	2.1	2.7	3.4	2.6	-0.6	2.3	-0.3
H2	5.9	4.9	2.9	11.7	0.1	5.6	..
Q3	8.2	6.9	1.8	15.8	-0.1	7.0	0.8
Q4	4.1	2.7	0.8	9.3	0.9	4.2	-0.3
Japan							
2002	-0.4	0.9	2.4	-6.1	-0.3	-1.0	0.7
2003	2.7	1.1	1.2	2.9	0.5	2.0	0.7
H1	1.9	0.1	0.7	4.2	..	1.2	0.7
H2	3.9	2.1	1.7	3.3	0.5	2.9	1.0
Q3	2.5	2.0	2.8	-3.4	1.3	2.0	0.6
Q4	7.0	3.3	1.9	13.2	..	5.6	1.5
Euro area							
2002	0.9	0.1	2.9	-2.8	0.2	0.3	0.6
2003	0.4	1.0	1.9	-1.2	0.3	1.0	-0.6
H1	-0.1	1.1	1.6	-1.9	0.5	1.1	-1.2
H2	1.0	0.5	2.4	-0.1	-0.1	0.7	0.4
Q3	1.6	0.8	2.5	-0.7	-1.7	-0.9	2.5
Q4	1.2	0.3	2.4	2.6	2.7	4.1	-2.7
United Kingdom							
2002	1.7	3.4	2.7	1.8	-0.2	2.8	-1.3
2003	2.3	2.9	2.1	2.6	..	2.7	-0.4
H1	1.8	2.1	3.0	..	-0.2	1.6	0.3
H2	3.3	4.4	2.4	5.2	-0.2	3.9	-0.8
Q3	3.4	4.6	0.4	3.7	0.9	4.6	-1.3
Q4	3.8	4.5	8.0	6.8	-1.1	4.4	-0.8
Canada							
2002	3.3	3.4	3.0	1.3	0.8	3.7	-0.3
2003	1.7	3.3	3.0	4.9	0.6	4.2	-2.3
H1	1.4	3.6	3.2	4.5	1.4	5.2	-3.4
H2	1.3	3.2	2.0	8.5	-1.9	1.9	-0.6
Q3	1.3	4.6	1.4	13.7	-4.7	0.7	0.8
Q4	3.8	0.1	0.6	4.8	3.0	4.3	-1.0

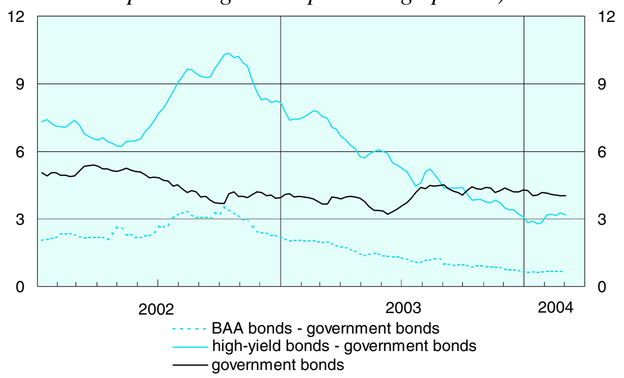
Sources: National statistics and Eurostat.

(1) Table a1 in the Appendix gives these countries' share of world GDP in 2002. Interim GDP figures are provisional and not necessarily consistent with the performance of the components. – (2) Comprises consumption of resident households and non-profit institutions serving households. — (3) For the United States, private investment; public investment is included under "government consumption". — (4) Contribution to GDP growth with respect to the previous period, at an annual rate, in percentage points. For the United States, calculated following the methodology of the Bureau of Economic Analysis. For the United Kingdom and Canada, our estimates. — (5) For the euro area and the United Kingdom also includes changes in valuables.— (6) Goods and services.

After fluctuating from May to July, yields on ten-year US Treasury bonds settled just below 4.5 per cent towards the end of 2003, slightly above the level at the beginning of the year, then fell back to around 4 per cent in early 2004 (Figure 4). In real terms they are around 2 per cent. Yields remain low despite sustained economic growth and rapidly deteriorating public finances not only because of expectations that inflation will remain low even beyond the short term but also because of large-scale purchases by non-residents. Between 2001 and the fourth quarter of 2003 the share of Treasury bonds held by non-residents, more than half of which are foreign authorities, rose by over 7 percentage points, to 44.6 per cent.

Figure 4

Bond yields and risk premiums in the United States (1)
(average weekly data; percentages and percentage points)



Sources: Lehman Btothers and Thomson Financial Datastream.
(1) Risk premiums are calculated as yield differentials between corporate bonds and 10-year government bonds.

Yield differentials between corporate bonds and Treasury securities have narrowed steadily since the end of 2002. Since the beginning of November 2003 the premium on BAA-rated bonds has fallen by around 0.1 percentage points to 0.7 points and that on high-yield bonds by 0.7 points to 3.2. Both spreads are at an all-time low (Figure 4).

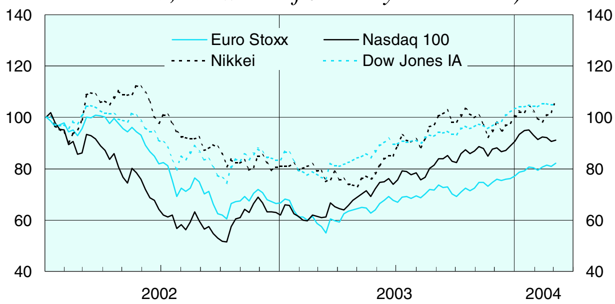
Interest rates on mortgages dropped to just above 5 per cent in July 2003 before settling at around 6 per cent. If they hold steady at the level of 5.6 per cent reached in March of this year, refinancing activity, which has been exceptionally strong in the past three years, should gradually diminish in 2004.

If long-term yields were to rise households would not suffer directly, as nearly all mortgages are at fixed rates. The interest-rate risk is passed on to the federal mortgage guarantee agencies (Fannie Mae and Freddie Mac) and credit intermediaries (commercial banks and savings institutions), which hedge it by extensive recourse to derivatives, whose efficacy depends on the proper operation of the market.

Share prices have continued the upswing that began in March 2003 on the eve of the war in Iraq. Since the beginning of November the Dow Jones Industrial Average has risen by 8 per cent and the Nasdaq by 5 per cent; since the outbreak of the war the increases have been 41 and 54 per cent respectively (Figure 5). The volatility of share indices was extremely marked until the spring of 2003 but then abated rapidly; since the beginning of 2004 it has been lower than at any other time in recent years. US share prices are nonetheless high in relation to current profits and dividends, reflecting low interest rates and expectations of strong economic growth. House prices continued to rise in real terms, albeit less rapidly than before. The average increase in 2003 was 4.4 per cent, compared with 5.4 per cent in 2002.

Figure 5

Stock market indices in the United States, the euro area and Japan
(average weekly data; indices, 1st week of January 2002=100)



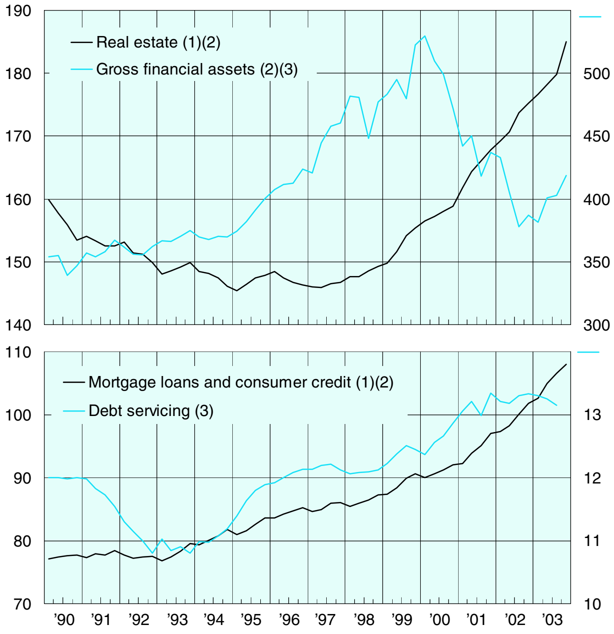
Source: *Thomson Financial Datastream.*

The sharp rises in share prices and real-estate values buoyed the financial situation of households, which nonetheless continue to maintain a high level of debt. After a lengthy period of decline, households' gross financial assets turned upwards in 2003, reaching 420 per cent of disposable income in the fourth quarter, 32 percentage points higher than a year earlier. Over the same period the ratio of real-estate assets to disposable income rose by 10 points to 185 per cent. Following the substantial reduction in interest rates, the outstanding mortgage loans and consumer credit that constitute households' debt rose again by 6 percentage points to 107 per cent of disposable income (Figure 6). Interest payments and repayments of principal showed no change from the beginning of 2002 at just over 13 per cent of disposable income, although this level of debt servicing charges is unprecedentedly high.

Figure 6

US households' assets and liabilities

(end-of-period quarterly data; as a percentage of disposable income)



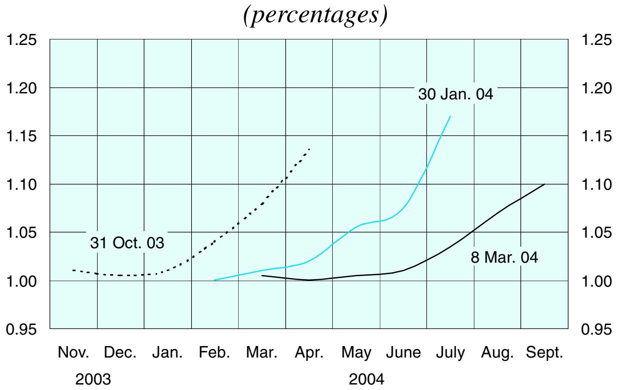
Source: Federal Reserve.
(1) Left-hand scale. – (2) For disposable income, moving average for the 4 quarters ending in the one indicated. – (3) Right-hand scale.

According to the curve of expected short-term interest rates implicit in futures contracts, since the end of October 2003 market participants have gradually put off the turning point in monetary policy. Expectations have been influenced by the publication of worse-than-expected economic data, particularly regarding employment. In order to prepare the market for a policy shift, the Federal Reserve's communiqués have gradually adopted a language hinting at a less accommodating stance. On 9 December 2003 the assessment of the prospects for inflation was changed, attributing equal weight to the likelihood of a rise and a fall (since May greater weight had been attributed to the latter). In its communiqué of 28 January 2003 the Federal Reserve omitted any mention that the accommodating stance would continue "for a considerable period of time", indicating that "it can be patient in removing its policy accommodation". At the beginning of the second week in March investors expected that there would be no rise until the fourth quarter (Figure 7).

Figure 7

United States: forward interest rates implicit in futures on 30-day federal funds (1)

(percentages)



Source: Thomson Financial Datastream.
(1) Each curve relates to the contract date indicated. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

The US budget and balance-of-payments deficits

Since 2001 the principal aim of US budgetary policy has been to counter the weakness of demand. Approximately two thirds of the deterioration in the federal budget balance, which worsened by nearly 6 percentage points of GDP between fiscal 2000 and 2003 from a $236 billion surplus (2.4 per cent of GDP) to a $375 billion deficit (3.5 per cent), can be put down to discretionary measures. Most of them, such as the personal income tax cuts introduced in 2001 and 2003, will expire in 2010.

In fiscal 2004 (which began in October), budgetary policy should remain expansionary. This can be ascribed to the tax cuts passed in May 2003 and, to a smaller extent, to additional increases in military spending decided in the spring and autumn of last year.

On 2 February the Administration presented its proposed budget for 2005 to 2014. According to the budgetary procedures this could also affect the outturn for the current year. The budget hinges on a proposal to extend the tax reliefs introduced between 2001 and 2003 beyond their current expiry date, which the Administration estimates would entail a negligible reduction in revenues in the period 2005-2009, amounting to barely $132 billion, but a much larger one in the following five years ($805 billion in 2010-2014). The new bill would reduce military spending from an estimated 4 per cent of GDP in 2004, the highest level since 1993, to 3.3 per cent in 2009, leaving social expenditure virtually unchanged at around 13 per cent of GDP over the same period. If Congress passes it without amendment, the federal deficit would increase by $146 billion between 2003 and 2004 to $521 billion (4.5 per cent of GDP) then fall in the following years to 1.6 per cent of GDP in 2009. In 2004 the total outstanding federal debt would rise by 2.9 percentage points to 65.3 per cent of GDP and the portion placed on the market would increase by 2.5 points to 38.6 per cent.

The clearly expansionary stance of monetary and budgetary policy has helped to widen the growth differential with respect to other countries. The deterioration in US public finances during the past three years has thus combined with an increase in the current account deficit from 4.2 per cent of GDP in 2000 to around 5 per cent in 2003. Between 1997 and 2000 the balance-of-payments deficit worsened by nearly 3 percentage points owing to the development of a large private sector financial deficit, partly through intensive investment in the new ITC technologies. Since 2001 the pace of corporate investment has slowed considerably, bringing about a substantial improvement in the private sector's financial account, which moved back into balance in 2002.

Since the end of the 1990s the way the US finances its current external deficit has changed significantly. Since 2001 foreigners' purchases of shares have fallen considerably, overtaken by bonds and other debt securities, notably Treasury paper. Moreover, in the past two years inflows of private investment, which in the second half of the 1990s were well in excess of requirements to finance the current deficit, have been sharply curtailed. On the other hand, around 20 per cent of capital inflows now consist in investments by foreign authorities.

Despite the sharp upturn in domestic demand, the current account deficit apparently stabilized in the second half of 2003 thanks to the increased price competitiveness of US goods. The effects of the improvement will carry over into the current year, although not enough to achieve a large correction of the deficit, because domestic demand will continue to expand faster in the US than in other regions.

The large current account deficits that have built up during the past decade have led to a substantial deterioration in the net external position of the United States, from virtual balance at the beginning of the 1990s to a deficit of about 25 per cent of GDP at the end of 2002. In the past two years the deterioration has been partly offset by the rise in the dollar value of US residents' foreign financial assets.

An important factor in ensuring the sustainability of the US balance-of-payments deficit is the maintenance of a positive interest rate differential between its foreign assets and foreign liabilities. Between 1998 and 2002 foreign assets, nearly a third of which consisted of direct investments, generated an average annual yield of 4.4 per cent, while foreign liabilities entailed a return of only 3.4 per cent, which is much lower than the trend rate of increase in nominal GDP.

Economic developments in Japan and the emerging countries

In Japan the economic expansion under way since 2002, partly led by exports to the other Asian countries, continued throughout the first three quarters of 2003 at an annualized rate of 2.8 per cent (Table 1). It was sustained by private non-residential investment, which rose by 22 per cent in the fourth quarter, quickening the pace of output growth to 7 per cent. Private consumption also grew faster, rising by 3.3 per cent compared with 2 per cent in the previous quarter. The external sector contributed 1.5 percentage points to growth, thanks to an increase of 17.9 per cent in exports (13.4 per cent in the previous quarter) and a slowdown in imports to 5.7 per cent. Output growth in 2003 was 2.7 per cent, compared with a forecast of 0.8 per cent by the main international organizations in the spring. In 2002 GDP had contracted by 0.4 per cent. Strong foreign demand widened the current account surplus from 2.8 per cent of GDP in 2002 to 3.2 per cent in 2003.

The recovery of private sector investment under way since the second quarter of 2003 was driven by the improvement in firms' profitability, notably that of large corporations, whose ratio of profits to turnover rose back to nearly the same levels as recorded in the early 1990s. While this can be ascribed to some extent to the cyclical upturn, it was also the consequence of the restructuring of industry begun in the middle of the 1990s with a view to increasing productivity. In large manufacturing companies, which are the most vulnerable to international competition, the process also led to a drop in employment, which has fallen by 20 per cent overall in the past decade; in 2003 the decrease was 3.8 per cent. At the same time, financial restructuring enabled non-financial corporations to cut their large debt from 117 per cent of GDP in 1990 to 76 per cent in September 2003.

Thanks to the upturn in economic activity deflationary pressures diminished steadily from the summer of 2003 onwards. Since October, for the first time in four years consumer prices, excluding the most volatile items, have either risen or remained stationary on a twelve-month basis. Producer price deflation eased from a twelve-month price decline of 1.1 per cent in June 2003 to stability in January 2004.

The Bank of Japan stepped up measures to expand the monetary base and keep short-term nominal interest rates next to nil. In January the target balance for financial institutions' current accounts with the central bank was increased from the range of ¥27-32 trillion in force since October 2003 to ¥30-35 trillion.

Despite the increase in the monetary base, the growth in the broad monetary aggregate (M2+CDs) slowed from a twelve-month rate of 1.8 per cent in the third quarter to 1.5 per cent in the fourth. Bank lending, including written-off non-performing loans, continued to contract at a rate of nearly 2 per cent. Given the moderate rate of increase in the monetary and credit aggregates, probably the main influence of monetary policy on private sector behaviour was to dispel expectations of deflation.

Japanese equity prices, which had risen considerably between the beginning of May and the end of October, when the Nikkei index gained more than 34 per cent and the index of bank shares nearly 66 per cent, stabilized close to their highest values in the months that followed (Figure 5). The yields on government bonds jumped from 0.4 to 1.6 per cent in the summer; then they stabilized from September onwards in a range between 1.2 and 1.5 per cent.

The favourable macroeconomic conditions and several unexpected factors led to an improvement in the banking system's profitability and balance-sheet situation. Profits for the first half of fiscal 2003, which ended on 30 September, were higher than expected thanks some local tax refunds. Bad loans declined by 13.4 per cent in volume, and their ratio to total lending came down by 0.7 percentage points to 6.5 per cent. If they continue to fall at this rate the major banks will be able to meet the Financial Services Agency's target for March 2005 of halving the volume with respect to March 2002. However, several factors threaten the banking system's continued progress. The results of the first half of 2003 are unlikely to be repeated as they benefited from extraordinary events, and there is a widening gap between the leading banks, which are sounder because they deal mainly with large corporations, and the regional banks, affected by the persistent problems of small and medium-sized companies.

In the emerging regions of the world output grew at a particularly fast pace in 2003 (5.8 per cent).

In the emerging Asian countries growth slowed briefly in the second quarter of 2003 as a result of the SARS epidemic but resumed at a robust pace in the second half of the year, driven in some cases by strong domestic demand and in others by net exports (Table 3). The average rate of growth was around 7 per cent. Conditions in Asian financial markets remained easy. The yield spread between dollar-denominated government bonds and the corresponding US Treasury bonds remained very narrow until the beginning of this year, when it widened slightly (Figure 8).

Table 2

GDP and the main demand components in some Latin American countries

(percentage changes on the year-earlier period)

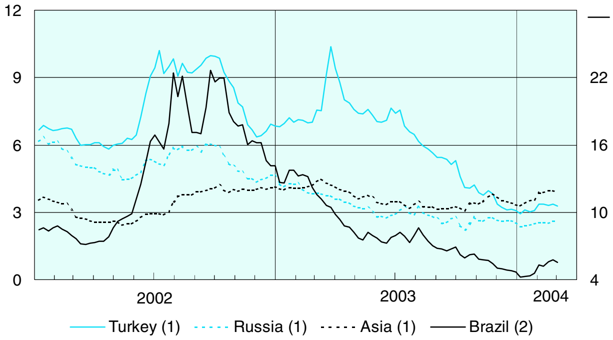
	Brazil	Mexico	Argentina	Chile	Venezuela
% of world GDP in 2002 (1)	*2.6*	*1.9*	*0.7*	*0.5*	*0.4*
			GDP		
2002	1.9	0.9	-10.9	2.1	-8.9
2003	-0.2	1.3	….	….	-9.2
Q1	1.9	2.5	5.4	3.7	-27.9
Q2	-1.1	0.1	7.7	2.8	-9.6
Q3	-1.5	0.6	9.8	3.0	-7.2
Q4	-0.1	2.0	….	….	9.0
			Private consumption		
2002	-0.4	1.2	-14.4	….	-6.4
2003	-3.3	….	….	….	….
Q1	-3.0	3.6	3.2	….	….
Q2	-6.0	0.9	7.0	….	….
Q3	-3.7	3.8	10.4	….	….
Q4	-0.6	….	….	….	….
			Public consumption		
2002	1.4	-1.3	-5.1	….	-2.5
2003	0.6	….	….	….	….
Q1	-0.1	1.1	-0.2	….	….
Q2	1.1	2.8	3.7	….	….
Q3	0.9	2.5	1.9	….	….
Q4	0.7	….	….	….	….
			Investment		
2002	-4.2	-1.3	-36.4	1.4	-22.0
2003	-6.6	….	….	….	….
Q1	-1.7	0.6	21.7	1.4	….
Q2	-10.5	-3.6	33.1	4.3	….
Q3	-9.1	0.7	42.7	0.6	….
Q4	-5.0	….	….	….	….
			Exports		
2002	7.9	1.4	3.1	1.3	-7.8
2003	14.2	….	….	….	….
Q1	18.4	3.9	5.1	6.2	….
Q2	29.9	-3.5	7.9	1.9	….
Q3	3.7	-0.5	4.3	13.5	….
Q4	10.1	….	….	….	….
			Imports		
2002	-12.3	1.6	-50.1	0.5	-26.7
2003	-1.9	….	….	….	….
Q1	-5.8	0.8	15.0	5.9	….
Q2	-6.0	-5.2	36.2	4.3	….
Q3	-5.5	-1.4	46.7	4.0	….
Q4	10.0	….	….	….	….

Source: Based on national data.
(1) On the basis of purchasing power parities.

Figure 8

Yield differentials between long-term dollar-denominated bonds issued by selected emerging countries and 10-year US Treasury bonds

(average weekly data; percentage points)



Source: J.P. Morgan Chase.
(1) Left-hand scale. – (2) Right-hand scale.

Despite the SARS epidemic during the first half of the year, China's economy grew at an annualized rate of 9.1 per cent in 2003, the fastest since 1997, thanks mainly to a rapid pick-up in investment (Table 3). Chinese imports, which rose by 40 per cent in value, continued to provide crucial support for the growth of the other Asian economies, including Japan. During the 1990s the average annual increase in labour productivity in the economy as a whole was close to 8 per cent.

China's banking system is still beset by difficulties. The non-performing loans of the four largest public banks are estimated to amount to a quarter of total lending. Capital ratios remain low at around 6.5 per cent. At the end of last year the government presented a revitalization plan to be implemented by the end of 2006 under which non-performing loans will be gradually written off and transferred, capital ratios raised to 8 per cent and international "best practices" for corporate governance adopted. In January 2004 the Chinese central bank recapitalized two of the four largest public banks, drawing $45 billion from its official reserves.

Table 3

Economic indicators for selected emerging countries

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

	% world GDP in 2002		GDP				Domestic demand (3)			Net exports (4)		
	(1)	(2)	2002	2003	2003 H1	2003 Q3	2002	2003 H1	2003 Q3	2002	2003 H1	2003 Q3
Asia												
China	12.7	3.9	8.0	9.1	8.3	9.8 (5)	....	....	....	....	....	....
India	4.8	1.5	4.7	....	5.3	8.4	....	....	....	....	....	....
Indonesia	1.6	0.5	3.7	3.9	3.6	4.1 (5)	1.9	4.5	2.5	1.8	-0.6	1.5
Malaysia.................	0.4	0.3	4.1	5.2	4.5	5.8 (5)	6.1	0.3	6.7 (5)	-1.3	4.2	-0.2 (5)
Philippines	0.7	0.2	4.4	4.5	4.2	4.8 (5)	4.9	9.8	5.8 (5)	-0.9	-6.4	-1.5 (5)
South Korea...........	1.8	1.5	6.3	....	2.8	2.3	5.2	0.2	-3.3	2.0	2.6	5.0
Taiwan....................	1.0	0.9	3.6	3.2	1.7	4.7 (5)	1.0	0.1	1.8 (5)	2.6	1.7	3.1 (5)
Thailand	1.0	0.4	5.4	....	6.3	6.5	5.1	5.3	6.9	1.1	1.7	0.6
Europe												
Poland....................	0.8	0.6	1.4	....	3.0	3.9	1.0	....	....	0.7	....	....
Russia....................	2.7	1.1	4.3	....	7.0	6.2	6.0	9.0	8.1	-0.7	-0.3	-0.9
Turkey	0.9	0.6	7.8	....	5.8	4.8	9.2	9.0	6.3	-0.9	-3.1	-1.0

Sources: Natonal statistics, IMF and OECD.
(1) On the basis of purchasing power parities. – (2) On the basis of market exchange rates. – (3) Includes change in stocks and statistical discrepancies. – (4) Contribution to GDP growth in relation to the same period of the previous year in percentage points. Includes goods and services. – (5) H2.

Table 4

Exchange rate regimes in the new EU member countries

	Exchange rate anchor (1)	Currency	
Cyprus	Peg to the euro; ± 15 per cent fluctuation margin	Pound	De facto fluctuation within very narrow bands
Czech Republic	Free float	Koruna	Inflation target: 2-4 per cent by end-2005
Estonia	Currency board with the euro	Kroon	In force since 1992
Hungary	Peg to the euro; ± 15 per cent fluctuation margin	Forint	Exchange rate anchor and inflation target: 2.5-4.5 per cent in 2004
Latvia	Fixed peg to the SDR (weight of the euro 29 per cent)	Lats	Fluctuation margin ± 1 per cent
Lithuania	Currency board with the euro	Litas	In force since 1994; with the dollar until February 2002 then with the euro
Malta	Fixed peg against a basket of currencies	Lira	Basket of currencies: euro (70 per cent), dollar and sterling; fluctuation margin: ± 0.25 per cent
Poland	Free float	Zloty	Inflation target: 2.5 per cent (band: ± 1 per cent) by end-2004
Slovak Republic	Managed float	Koruna	Anchored to the euro
Slovenia	Crawling band	Tolar	Anchored to the euro

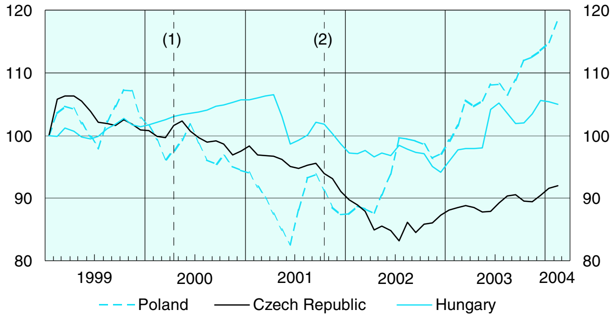
Sources: IMF and national central banks.
(1) IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions*, 2003.

In Latin America financial market conditions have eased but the economic situation continues to vary among the different countries (Table 2).

Figure 9

Nominal exchange rates with the euro

(monthly average data; January 1999=100)



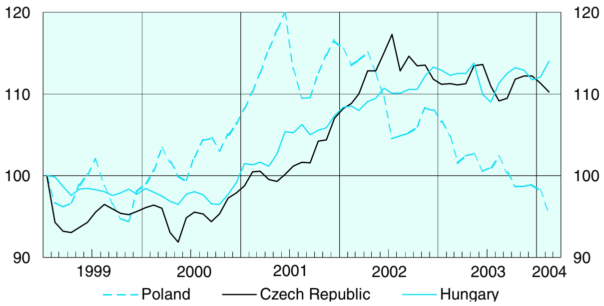
Source: ECB.
(1) April 2000, Poland adopts flexible exchange rates. – (2) October 2001, Hungary pegs the forint to the euro, with a fluctuation margin of ± 15 per cent.

The countries that will join the EU in May showed relatively rapid growth in 2003, ranging from 3 to 4 per cent, despite an unfavourable international situation. Output growth was curbed by the weakness of demand in the euro-area countries, which take more than half of the new members' exports. The slowdown in macroeconomic convergence with the euro area as a whole produced tensions on the bond and currency markets of some countries in the region, notably Hungary (Figures 9 and 10; Table 4).

Figure 10

Real effective exchange rates (1)

(monthly average data; indices, January 1999=100)



Source: J. P. Morgan Chase.
(1) Based on producer prices.

In Turkey the economic situation continued to improve. In the third quarter, although growth slowed slightly, GDP was up 4.8 per cent from the year-earlier period. From November onwards the twelve-month rate of increase in consumer prices dropped below the 20 per cent threshold, keeping to the target agreed with the IMF. Despite last November's terrorist attacks, the sharp reduction in the yield differential between dollar-denominated government bonds and the corresponding US Treasury bonds since March 2003 continued; the spread has narrowed by 8.5 percentage points to around 3 per cent (Figure 8).

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND ITALY

Production, demand and the balance of payments

While economic recovery continued to gain pace in the United States and Japan in 2003, in the euro area the phase of cyclical weakness entered its third year. In Germany, output contracted slightly. GDP growth was less than 0.5 per cent in the euro area as a whole and even more modest in Italy and France, whereas it was substantial in Spain.

Euro-area GDP growth was held back by adverse developments in trade as well as by the persistent weakness of domestic demand. The appreciation of the euro eroded the area's competitiveness vis-à-vis the rest of the world. The stagnation of exports was accompanied by an acceleration of imports. As in 2002 capital formation declined, reflecting the low plant capacity utilization rate and pessimism among firms. By contrast, household consumption recorded a small expansion; it decreased only in Germany, slightly, for the second year in a row.

After stagnating in the first six months of the year, output picked up in the third quarter in the euro area as a whole and in its three largest economies, buoyed by the recovery in the world economy. In the fourth quarter GDP continued to grow, although at a moderate pace, in the area as a whole and in Germany and France, but it stalled again in Italy.

Production and demand in the euro area and the main area economies

In 2003 GDP grew by 0.4 per cent in the euro area as a whole, even less than the already modest increase registered in 2002 (0.9 per cent). In Germany, following the gradual slowdown over the previous two years output contracted slightly for the first time since 1993; in France growth came virtually to a halt (0.2 per cent, compared with 1.2 per cent in 2002). By contrast, the Spanish economy continued to expand, raising its rate of growth from 2 to 2.4 per cent and further reducing its development gap (Table 5).

Thanks to the pronounced pick-up in the second half of 2003, industrial production rose by 0.4 per cent in the euro area last year, recouping nearly all of the decline recorded in 2002. It grew faster in Spain (1.4 per cent), but recovered only partially in Germany (0.5 per cent); in France it contracted again, although by less than the previous year (0.3 against 1.3 per cent in 2002; Figure 11).

Private consumption contributed 0.5 percentage points to GDP growth in the euro area, rising by 1 per cent after stagnating in 2002 (Figure 12 and Table 5). The increases of 1.7 and 3 per cent in France and Spain respectively helped to produce the result. Household consumption in France was sustained by a rise in disposable income, although the rate of increase slowed from 2 per cent to about 1 per cent at constant prices, with earnings from employment decelerating and investment income picking up. In addition, consumer confidence gradually improved in the course of the year, especially expectations regarding the general economic situation and labour market developments (Figure 11). In Spain, disposable income increased even more rapidly as employment rose.

In Germany private consumption edged downwards by 0.1 per cent, following a decrease of 1 per cent the previous year. The stagnation in disposable income (up by 0.1 per cent) reflected the continued deterioration in labour market conditions. Households' propensity to save rose for the third

Table 5

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

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

	2001	2002	2003 (1)	2002 (2)		2003 (2)			
	Year	Year	Year	Q3	Q4	Q1	Q2	Q3	Q4
				GDP					
Germany	0.8	0.2	- 0.1	0.6	- 0.2	- 1.0	- 0.6	0.8	0.9
France	2.1	1.2	0.2	1.0	- 1.2	0.2	- 1.5	1.7	1.8
Italy	1.8	0.4	0.3	0.8	1.6	- 1.0	- 0.5	1.8	..
Spain	2.8	2.0	2.4	2.4	1.8	2.2	3.0	2.6	3.0
Euro area	1.6	0.9	0.4	0.9	..	- 0.1	- 0.4	1.6	1.2
				Imports					
Germany	0.9	- 1.7	2.6	4.1	3.7	6.2	- 9.0	0.7	11.1
France	1.3	0.6	0.3	3.0	- 3.8	- 0.1	2.0	0.1	8.8
Italy	0.5	-0.2	-0.6	9.0	9.5	-18.3	9.0	6.2	....
Spain	4.0	1.8	6.7	22.6	23.2	-10.7	8.8	5.0	8.9
Euro area	1.7	-0.1	1.5	6.2	1.1	- 2.4	- 1.5	3.1	8.7
				Exports					
Germany	5.6	3.4	1.2	8.6	0.4	- 2.1	- 9.8	15.9	1.2
France	1.6	1.5	- 2.3	0.3	- 5.7	- 6.4	- 4.2	3.6	4.0
Italy	1.6	- 3.4	- 3.9	13.7	- 2.9	-21.6	- 4.8	24.8	....
Spain	3.6	..	4.0	18.7	4.1	- 6.7	17.2	- 4.0	2.5
Euro area	3.4	1.5	..	5.6	-1.5	-6.0	- 3.6	9.7	0.9
				Household consumption (3)					
Germany	1.4	- 1.0	- 0.1	0.9	- 0.5	1.5	- 1.7	- 1.2	- 1.7
France	2.7	1.2	1.7	2.1	1.2	2.8	0.1	1.8	1.2
Italy	0.8	0.5	1.3	1.8	4.0	1.2	1.8	2.8	....
Spain	2.8	2.6	3.0	- 0.5	4.9	2.6	4.3	0.7	4.3
Euro area	1.7	0.1	1.0	1.1	1.1	1.7	..	0.8	0.3
				Gross fixed capital formation					
Germany	- 4.2	- 6.7	- 2.9	0.5	- 1.2	- 5.8	- 3.0	- 2.1	6.8
France	1.9	- 1.6	- 0.7	- 2.9	- 4.8	0.4	1.1	0.3	2.7
Italy	1.9	1.2	- 2.1	10.2	17.5	-21.5	- 6.9	- 1.6	....
Spain	3.3	1.0	3.0	8.7	4.2	1.8	- 0.8	6.9	2.4
Euro area	- 0.3	- 2.8	- 1.2	1.1	1.1	- 3.6	-1.5	-0.7	2.6
				National demand					
Germany	- 0.8	- 1.6	0.3	- 1.2	0.9	1.9	0.1	- 4.5	4.1
France	2.0	1.0	1.0	1.8	- 0.6	2.1	0.3	0.8	3.1
Italy	1.4	1.3	1.2	- 0.6	5.2	0.5	3.4	- 2.7	....
Spain	3.0	2.6	3.3	3.8	7.6	0.4	1.0	5.5	5.0
Euro area	1.0	0.3	1.0	1.0	1.0	1.5	0.5	-0.9	4.1

Sources: Based on Eurostat data and national statistics.

(1) For France, estimated on the basis of the quarterly national accounts. – (2) Seasonally adjusted data. – (3) Comprises consumption of resident households and non-profit institutions serving households.

consecutive year, probably owing to the persistent uncertainty about the future of social welfare expenditure. Household confidence, which reached its lowest point since 1996 in May, progressively improved in the second half of the year although it remained at historically low levels (Figure 11). In particular, current and forecast spending plans remained quite subdued.

In the euro area, fixed capital formation showed a further decrease, although smaller than in 2002 (1.2 per cent, compared with 2.8 per cent), and gradually strengthened in the course of the year (Table 5). For 2003 as a whole, its contribution to GDP growth was negative by 0.2 percentage points. On the basis of the available data for the four major euro-area countries, the decline was less pronounced than in the previous year for construction and capital goods.

Investment continued to fall in Germany and France (by 2.9 and 0.7 per cent respectively), albeit less markedly than in 2002, especially for spending on machinery, equipment and transport equipment. Construction spending in Germany again fell sharply. By contrast, the growth in capital formation accelerated in Spain to 3 per cent, from 1 per cent the previous year, mainly owing to the resurgence of spending on capital goods, which increased by 2.2 per cent, compared with a fall of 2.7 per cent in 2002.

Although the terms of financing remained favourable in the euro area, capital formation continued to be dampened by low capacity utilization. According to European Commission surveys, spare capacity increased further in 2003, especially in Germany and France. Investment decisions were affected by the pessimism that continued to colour the outlook of firms (Figure 11).

Euro-area exports remained unchanged on average year on year; the decrease in the first two quarters was followed by a pronounced increase in the third and an abrupt slowdown in the fourth. Imports rose by 1.5 per cent over the year as a whole, after contracting by 0.1 per cent in 2002. As a result net exports reduced GDP growth by 0.6 percentage points.

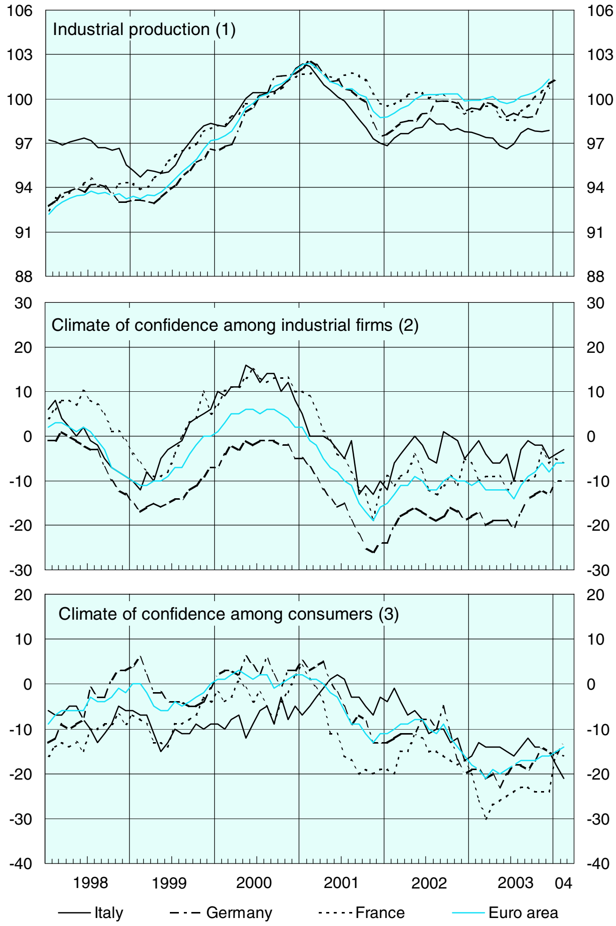
The contribution of net exports to GDP was negative in all the main euro-area countries.

Despite a temporary recovery in the third quarter, the annual growth in German exports fell from 3.4 to 1.2 per cent. Imports, which had decreased the previous year, rose by 2.6 per cent, stimulated by domestic supply's inadequate competitiveness and by stockbuilding, which contributed 0.7 points to GDP growth.

Figure 11

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

(monthly data)



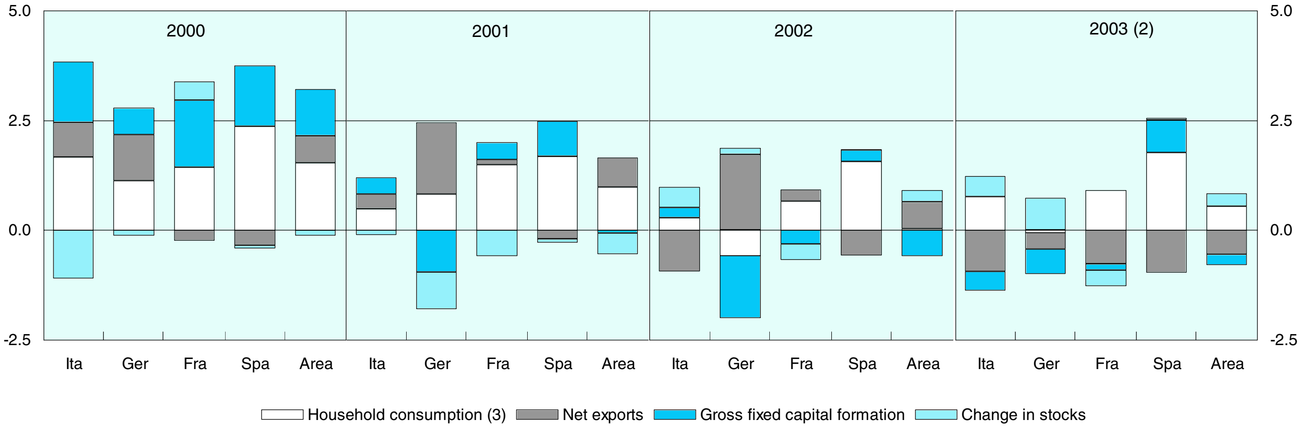
Sources: Based on national statistics and European Commission data.

(1) Index, 2000=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) Climate of confidence calculated by the European Commission as the average of the seasonally adjusted percentage balances of the responses to questions regarding the level of orders, stocks of finished products and production expectations. – (3) Climate of confidence calculated by the European Commission as the weighted average of the seasonally adjusted percentage balances of the responses to questions on consumers' expectations regarding the economic situation, both general and personal, unemployment and the possibility of saving.

Figure 12

Contributions of the main components of demand to the growth of GDP in the euro area and the major euro-area countries (1)

(at constant prices; percentage points)



Source: Based on national statistics.

(1) Excludes consumption of general government. – (2) For France, estimated on the basis of the quarterly national accounts. – (3) Consumption of resident households and non-profit institutions serving households.

In France exports contracted for the first time since 1986, while imports rose by a modest 0.3 per cent. In Spain imports increased by 6.7 per cent, once again outpacing exports, which rose by 4 per cent.

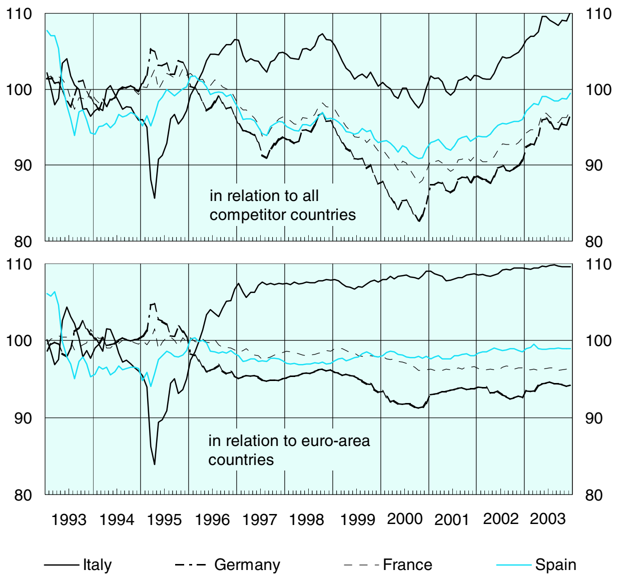
Export performance was affected by the moderate growth of international trade (3.1 per cent at constant prices based on the trade of the G7 countries) and the appreciation of the euro, which eroded the competitiveness of all the main euro-area economies. Gauged by the producer prices of manufactures, the loss of competitiveness worsened in the course of the year, especially in Germany (Figure 13).

According to European Commission surveys, manufacturing firms reported that their competitive position in non-EU markets, which also includes non-price factors, deteriorated until the second quarter. After recovering in the summer, it worsened again in the final part of the year.

Figure 13

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

(monthly data; indices, 1993=100)



Source: Based on national statistics.

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

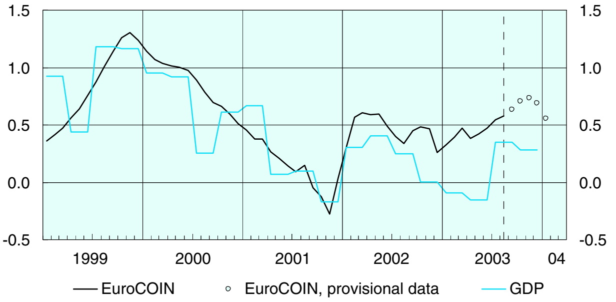
Recent developments. – Cyclical indicators point to a slowdown in economic activity in the euro area in the early part of this year.

The EuroCOIN coincident indicator, which provides a monthly estimate of euro-area GDP growth excluding seasonal and erratic components and had been signalling a gradual improvement in economic conditions since last May, turned downwards in December and fell more steeply, again, in January (Figure 14).

Figure 14

EuroCOIN coincident indicator of the euro-area business cycle and GDP (1)

(three-month percentage changes)



(1) The method of constructing the indicator is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2002 in Italian.

According to European Commission surveys of industrial firms, the gradual improvement in business confidence under way since last summer came to a halt in December in the euro area as a whole and in France; in Germany, it continued until February (Figure 11).

The Bank of Italy's turning point indicators signaled the start of an upswing of industrial production in the summer of 2003. More recent estimates suggest that the expansion will continue in France but will tend to weaken in the euro area as a whole and in Germany.

Production and demand in Italy

In Italy the phase of weak economic activity that began in the second quarter of 2001 persisted in 2003. GDP grew by 0.3 per cent after increasing by 0.4 per cent in 2002. The stagnation of output in the first two quarters of the year was followed by a sharp rise in the third, but growth stalled again in the fourth (Table 5).

Over the year as a whole, the impulse imparted by domestic final demand offset the negative impact of foreign demand; a substantial fall in exports, more pronounced than in the rest of the area, was accompanied by only a small decline in imports (Table 6).

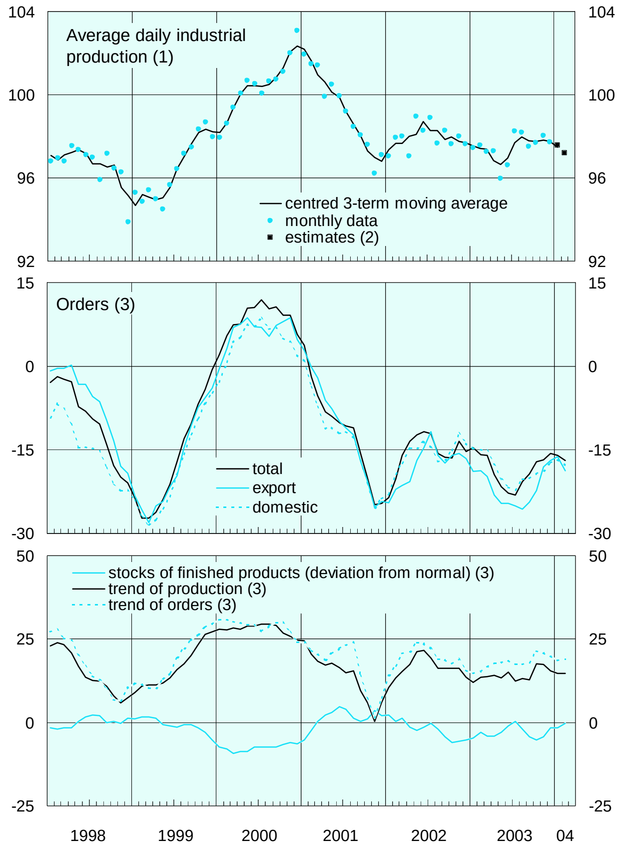
As in 2002, value added increased in construction and, to a lesser degree, in services (2.5 and 0.7 per cent respectively; Figure 15); activity in industry excluding construction was virtually flat (-0.1 per cent).

The index of industrial production fell for the third consecutive year, declining by 0.8 per cent (Figure 15). After decreasing in the first half, it rose sharply in the summer before turning downwards once again and falling back to its year-earlier level in December.

Figure 15

Italy: industrial production, orders and stocks

(monthly data)



Sources: Based on Istat and ISAE data.

(1) Index, 2000=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 data except for stocks of finished products.

Household consumption. – Consumption rose by 1.3 per cent for the year, compared with 0.5 per cent in 2002. The increase, which involved all components, was greatest for spending on durables (Table 6), but nearly 1 percentage point of it reflected a surge in the last quarter of 2002 due to the approaching expiry of fiscal incentives for households. A rise in the third quarter was offset by an equivalent decrease in the final part of the year. By contrast, expenditure on services picked up.

Preliminary data for 2003 show that household disposable income grew by only about 1 per cent in real terms, although this was faster than in 2002. Contributing to the increase were a rise in employment, though smaller than that of the previous year, and a slight increase in income per employee.

Consumers interviewed for ISAE surveys continued to express deep pessimism. After the steep decline in 2002, which was interrupted in early 2003, confidence first fluctuated and then began to fall again in the autumn. In January of this year it fell to historically low levels, presumably reflecting the impact of the crises of some industrial groups. In recent months the deterioration has affected all of the components of the index, most notably consumers' assessments of the current and future economic situation and the outlook for employment.

Table 6

Italy: resources and uses of income

(at constant prices; percentage changes unless otherwise indicated)

	As a percentage of GDP in 2003	2000	2001	2002	2003	Contribution to GDP growth in 2003 (1)
Resources						
GDP	-	3.0	1.8	0.4	0.3	-
Imports of goods and services	27.4	7.1	0.5	- 0.2	- 0.6	0.2
Total resources	-	3.9	1.5	0.2	0.1	-
Uses						
Gross fixed capital formation	20.3	6.9	1.9	1.2	- 2.1	- 0.4
Construction	8.8	5.9	3.0	3.3	1.8	0.2
Machinery, equipment and sundry products	9.1	7.2	- 0.1	- 0.3	- 3.6	- 0.3
Transport equipment	2.3	9.6	5.8	- 0.3	- 9.8	- 0.3
Consumption of resident households	60.3	2.7	0.8	0.5	1.3	0.8
Non-durable goods (2)	….	1.6	0.5	- 0.3	….	….
Durable goods (2)	….	5.8	- 0.6	- 2.8	….	….
Services (2)	….	4.0	1.8	0.7	….	….
Consumption of general government and non-profit institutions serving households	18.4	1.7	3.8	1.9	2.2	0.4
Change in stocks and valuables (3)	0.8	- 1.1	- 0.1	0.5	0.5	0.5
Total national demand	99.9	2.3	1.4	1.3	1.2	1.2
Exports of goods and services	27.5	9.7	1.6	- 3.4	- 3.9	- 1.1
Net exports (3)	0.1	0.8	0.3	- 0.9	- 0.9	- 0.9

Source: Based on Istat data.
(1) In percentage points. – (2) Comprises spending in Italy by resident households and non-residents. – (3) Contribution to the growth in GDP, in percentage points.

In the final part of 2003 their views of the current attractiveness and future possibility of saving also worsened.

Investment and stocks. – Investment decreased by 2.1 per cent last year, the first decline since the recession of the early 1990s (Table 6). The largest fall came in expenditure on machinery, equipment and transport equipment (4.9 per cent). A likely factor was the moving up of some of this spending to the second half of 2002 in view of the approaching end of capital investment incentives, although this did not prevent a contraction of 0.3 per cent for 2002 as a whole.

On average for 2003 the index of machine tool orders calculated by UCIMU, the Italian machine tool manufacturers association, fell for the third year in a row (by 11.9 per cent), reflecting the sharp contraction in domestic orders in the first half of the year. In the second half the index rose gradually, with a more pronounced improvement in the fourth quarter.

The prolonged sluggishness of investment despite favourable financing terms was partly due to the persistence of ample spare capacity. According to ISAE surveys of industrial firms, the average capacity utilization rate fell further in 2003, reaching its lowest level since 1997. Spare capacity is greatest for firms that export a large part of their output (Figure 16). The weakness of capital formation also reflected the further shrinking of unit profit margins in industry and the increase in firms' uncertainty about the economic outlook in the course of the year.

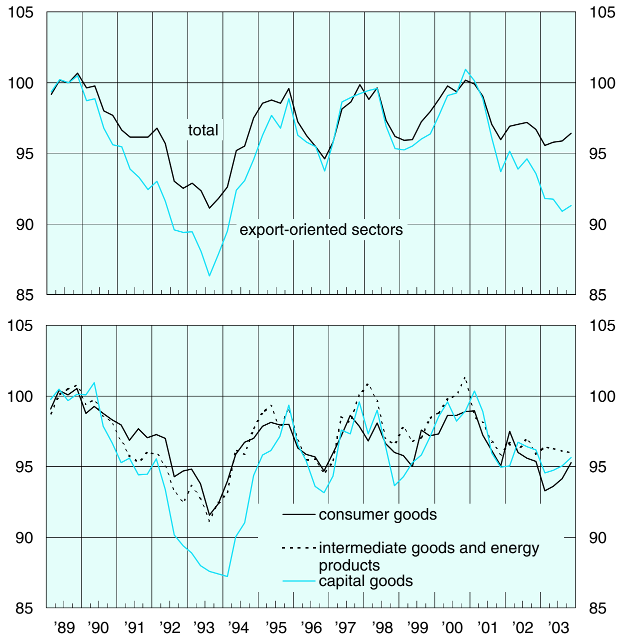
The growth of investment in construction slowed from 3.3 to 1.8 per cent. Investment was sustained by residential building, which continued to expand thanks to low mortgage lending rates as property prices rose further. The Bank of Italy's September survey of firms that operate mainly in the public construction sector revealed a pick-up in public works in the second half of the year after no change in the first.

As in 2002, the change in stocks (which include statistical discrepancies) made a positive contribution to GDP growth (0.5 percentage points). According to ISAE surveys of industrial firms, the value of stocks of finished products fluctuated over the year, remaining below the level businesses consider normal (Figure 15).

Figure 16

Composite indicator of capacity utilization in Italian industry (1)

(quarterly data; index, 1989=100)



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

Exports and imports. – Last year saw a further decline in the market shares of Italian products, continuing a trend under way since the mid-1990s. Between 1995 and 2003 Italy's share of world trade at constant prices fell steadily, shrinking from 4.5 to 3 per cent. Over the same period, France's share remained virtually unchanged (5.3 per cent in 2003), while Germany's rose from 10.1 to 11.6 per cent.

On the basis of national accounts data, exports of goods and services fell by 3.9 per cent, even more than in 2002 (3.4 per cent) despite a strong rebound in the third quarter. The decline in imports was steeper than in the previous year (0.6 against 0.2 per cent), in line with the slackening of global demand. Net exports reduced GDP growth by a total of 0.9 percentage points (Table 6).

In 2003 the price competitiveness of Italian exports deteriorated further (by 4.5 per cent on the basis of the producer prices of manufactures, bringing the total decrease over the past three years to 9.2 per cent). Although competitiveness declined in all the main euro-area countries, only Germany recorded a larger fall (6.7 per cent). In Italy, the loss of competitiveness is attributable not only to the nominal appreciation of the euro, but also to the acceleration in unit variable costs in manufacturing, compounded by the negative long-term effects of a more disadvantageous model of specialization.

According to ISAE polls of business opinion, Italian firms' competitive position in the euro area and other EU markets worsened steadily in the second quarter of 2003 and then improved in the rest of the year; in non-EU markets it reached a low in the third quarter before turning upwards at the end of the year.

Istat data on foreign trade show that exports of goods fell by 4.6 per cent at constant prices in the first eleven months of 2003 compared with the year-earlier period, after declining by 2.9 per cent in 2002. The geographical breakdown of trade reveals a pronounced drop in exports to the European Union (5.7 per cent; 6.1 per cent vis-à-vis the euro area) and a smaller fall in those to the rest of the world (3.6 per cent; Table 7).

Among economies that grew rapidly in 2003, only the EU accession countries, with whom the nominal exchange rate of the euro remained more stable, increased their imports from Italy (4.1 per cent in volume terms). Italian exports to the United

Table 7

Italian exports and imports *cif-fob* by main countries and areas, January-November 2003: values and indices of average unit values and volumes (1)

(percentage changes on corresponding period of 2002 unless otherwise indicated)

	Exports				Imports			
	% composition of values in 2002	Change			% composition of values in 2002	Change		
		Values	Average unit values	Volumes		Values	Average unit values	Volumes
EU countries	**53.9**	**-3.8**	**1.2**	**-5.7**	**57.6**	**-1.5**	**1.2**	**-3.3**
of which: France	*12.3*	*-3.6*	*2.5*	*-6.6*	*11.4*	*-2.4*	*2.2*	*-5.2*
Germany	*13.8*	*-3.9*	*1.8*	*-6.1*	*17.9*	*-1.0*	*. .*	*-1.6*
United Kingdom	*7.0*	*-4.0*	*-3.2*	*-1.9*	*5.1*	*-7.3*	*0.7*	*-7.5*
Spain	*6.4*	*5.1*	*1.7*	*2.8*	*4.6*	*2.9*	*4.7*	*-2.5*
Non-EU countries	**46.1**	**-3.1**	**0.6**	**-3.6**	**42.4**	**. .**	**-1.7**	**1.8**
of which: Accession countries (2)	*5.4*	*6.7*	*2.7*	*4.1*	*3.4*	*3.2*	*-0.8*	*4.1*
China	*1.5*	*-5.1*	*2.4*	*-8.4*	*3.2*	*15.4*	*-10.8*	*29.0*
Japan	*1.7*	*-3.1*	*-0.5*	*-3.5*	*2.0*	*-0.9*	*-0.4*	*-0.8*
DAE (3)	*3.5*	*-7.1*	*-2.7*	*-4.6*	*2.3*	*5.3*	*-2.7*	*8.3*
Russia	*1.4*	*1.1*	*3.5*	*-2.0*	*3.0*	*4.0*	*1.8*	*2.0*
United States	*9.6*	*-13.9*	*-4.7*	*-9.4*	*4.8*	*-17.5*	*-3.4*	*-14.6*
Total	**100.0**	**-3.5**	**0.9**	**-4.6**	**100.0**	**-0.9**	**. .**	**-1.1**

Source: Based on Istat data.

(1) The change in values may differ from that derived from changes in average unit values and volumes due to differences between the reference aggregates (see the notes to the Appendix tables, Table a18). The change in values for the EU countries and for the total is calculated on data corrected for the estimate of some transactions that starting with 2003 have been observed on an annual rather than monthly basis following changes in the reporting threshold. – (2) Countries that will join the European Union on 1 May 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia. – (3) Dynamic Asian economies: Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand.

Table 8

Italian exports and imports *cif-fob* by branch of economic activity and balances, January-November 2003: values, indices of average unit values and volumes (1)

(percentage changes on corresponding period of 2002 unless otherwise indicated)

	Exports				Imports				Change in balance (mln euros)
	% composi-tion of values in 2002	Change			% composi-tion of values in 2002	Change			
		Values	Average unit values	Volumes		Values	Average unit values	Volumes	
Total	**100.0**	**-3.5**	**0.9**	**-4.6**	**100.0**	**-0.9**	**. .**	**-1.1**	**-7,012**
Products of agriculture, forestry and fishing	1.5	0.7	8.5	-7.1	3.4	3.0	-0.5	3.6	-217
Energy and non-energy minerals (2)	0.3	(*)	(*)	(*)	9.7	5.3	1.8	3.1	-1,264
of which: crude petroleum and natural gas (2)	*0.1*	*(*)*	*(*)*	*(*)*	*8.9*	*7.6*	*3.2*	*3.9*	*-1,558*
Manufactures	97.8	-4.0	0.8	-4.7	85.3	-2.0	-0.2	-1.8	-5,615
Food products, beverages and tobacco	5.6	-1.8	2.2	-3.8	7.1	-1.1	-0.9	-0.3	-57
Textile products and clothing	10.4	-6.2	3.2	-9.1	5.4	-0.2	-1.9	1.8	-1,555
Leather and leather products	5.1	-7.9	3.0	-10.7	2.5	-3.0	-6.9	4.1	-824
Wood and wood products	0.5	-10.7	1.9	-12.4	1.3	1.1	-0.6	1.9	-178
Paper and paper products, printing and publishing	2.3	-4.0	-1.2	-2.7	2.6	-6.6	-1.9	-4.8	175
Refined petroleum products	1.6	23.7	6.0	15.3	1.9	-5.4	10.9	-15.9	1,192
Chemical products and man-made fibres	10.1	-3.9	-3.7	-0.1	13.8	0.1	. .	-0.2	-984
Rubber and plastic products	3.7	-2.1	1.1	-3.1	2.1	0.1	0.1	-0.1	-200
Non-metallic mineral products	3.5	-6.6	1.0	-7.5	1.1	-3.3	1.2	-4.5	-473
Basic metals and metal products	8.1	-1.0	2.0	-2.9	9.6	-3.0	0.4	-3.5	469
Mechanical machinery and equipment	19.6	-1.2	3.4	-4.6	7.8	-3.7	1.7	-5.0	89
Electrical equipment and precision instruments	9.2	-6.0	0.1	-6.0	13.3	-4.4	-2.0	-2.5	30
Transport equipment	11.5	-6.3	-0.6	-5.8	15.1	-0.7	0.8	-1.5	-1,536
Other manufactures (including furniture)	6.3	-11.3	-6.4	-4.9	1.6	0.5	-2.3	2.6	-1,763
Electricity, gas and water (2)	. .				0.7	-6.0	-7.1	1.2	84

Source: Based on Istat data.

(1) The change in values may differ from that derived from changes in average unit values and volumes due to differences between the reference aggregates (see the notes to the Appendix tables, Table a18). The change in values for the EU countries and for the total is calculated on data corrected for the estimate of some transactions that starting with 2003 have been observed on an annual rather than monthly basis following changes in the reporting threshold. – (2) Owing to the erratic nature of the time series and the small value of the aggregates, changes in exports are not shown.

States decreased by 9.4 per cent, while sales to the "dynamic Asian economies" (Hong Kong, Malaysia, Singapore, South Korea, Thailand and Taiwan) fell by 4.6 per cent and those to China by 8.4 per cent.

The decline in export volumes was partially offset by an increase in euro prices (proxied by average unit values), especially in EU markets. On the other hand, prices fell with respect to countries whose currencies depreciated, notably the United States and the United Kingdom. Exporters reduced their prices in the United States by more than in 2002, but this only offset a quarter of the depreciation of the dollar against the euro in the first eleven months of 2003 by comparison with the year-earlier period.

As in 2002, the decline in export volumes was larger than average in traditional sectors, which are more exposed to competition from the emerging economies of Asia and Central and Eastern Europe. These include textiles and clothing, leather products, furniture and non-metallic minerals (including ceramics; Table 8).

In the first eleven months of 2003 imports contracted by 1.1 per cent in volume terms with respect to a year earlier, reflecting the fall in imports from the European Union (3.3 per cent). Among non-EU economies, more than a quarter of the drop in imports from the United States (14.6 per cent, compared with a fall of 3.4 per cent in average unit values) is attributable to an exceptional operation carried out in 2002 in the aerospace sector.

Imports from the dynamic Asian economies, Central and Eastern Europe and, above all, China increased in volume terms. Imports from China expanded by nearly 30 per cent, compared with 20.7 per cent in 2002; with a depreciation of the renminbi against the euro of 20 per cent, average unit values decreased by about 11 per cent.

As in 2002, textiles and clothing, leather and leather products, and wood products and furniture were significant contributors to the overall deterioration in the Italian trade balance (€7 billion for the year as a whole on a *cif-fob* basis; Table 8). The decline in export volumes in these segments was accompanied by a sharp rise in imports.

The trade deficit in oil and natural gas, which grew by about €1.6 billion in the first eleven months of the year, was affected by the increase in average unit values of imports (more than 3 per cent) and, despite the fall in industrial activity, an increase in volumes. Average unit values, which respond with a lag to changes in oil prices, do not yet fully reflect the decline in euro prices (2 per cent over the same period). The increase in import volumes is attributable to the rise in electricity consumption caused by high temperatures in the summer.

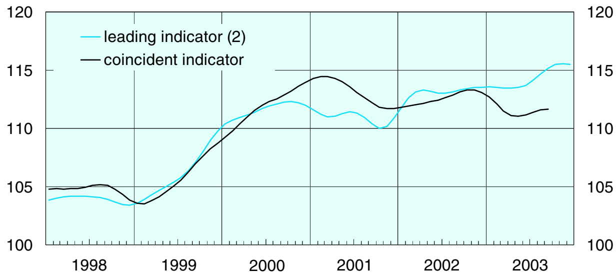
Recent developments. – The most recent data suggest that economic activity will remain slack.

The Bank of Italy's leading indicator of the business cycle, which anticipates economic developments in the subsequent five or six months, rose steadily beginning in June but slowed down in the final part of the year, leveling off in December (Figure 17).

Figure 17

Indicators of the Italian business cycle (1)

(monthly data; indices, 1995=100)



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

(1) The method of constructing the indicators is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2002 in Italian. – 2) The performance of the indicator leads that of the economy by an average of 5-6 months.

Against a background of improving short-term expectations for production, confidence among the industrial firms surveyed by ISAE rose in January and fell in February, reflecting the behaviour of stocks of finished goods (Figure 15).

Estimates based on electricity consumption indicate that industrial production, which stagnated in the second half of 2003, contracted slightly in the first two months of this year (Figure 15). The recent decline in the Bank of Italy's turning point indicator suggests that activity will remain weak in the first part of this year as well.

In January and February 2004, new car registrations fell with respect to the previous two months, continuing the fluctuations that began last spring following the expiry of fiscal incentives.

The balance of payments

The euro area. – Despite the slight expansion of international trade and the slackness of internal economic activity, in 2003 the euro area's external current account surplus fell from €67 billion to €27.7 billion (and from 0.9 to 0.4 per cent of GDP). The balance on all the main items deteriorated, with the exception of services (Table 9).

The trade surplus fell from €130.6 billion to €109.8 billion, accounting for the bulk of the

Table 9

Balance of payments of the euro area
(net flows in millions of euros)

	2002			2003		
	H1	H2	Year	H1	H2	Year
Current account	**18,047**	**48,973**	**67,020**	**-4,831**	**32,575**	**27,744**
Goods	58,010	72,607	130,617	40,074	69,739	109,813
Exports	*522,632*	*536,965*	*1,059,597*	*507,078*	*529,665*	*1,036,743*
Imports	*464,623*	*464,359*	*928,982*	*467,003*	*459,926*	*926,929*
Services	939	10,397	11,336	6,517	10,876	17,393
Income	-19,348	-8,895	-28,243	-28,655	-16,100	-44,755
Current transfers	-21,554	-25,136	-46,690	-22,765	-31,941	-54,706
Capital account	**6,421**	**4,473**	**10,894**	**3,837**	**7,426**	**11,263**
Financial account	**4,922**	**-102,139**	**-97,217**	**-58,109**	**-14,117**	**-72,226**
Direct investment	-24,654	-16,843	-41,497	2,678	-23,874	-21,196
outward	*-109,735*	*-73,769*	*-183,504*	*-73,333*	*-56,212*	*-129,545*
inward	*85,079*	*56,926*	*142,005*	*76,011*	*32,337*	*108,348*
Portfolio investment	41,559	61,868	103,427	64,426	-52,557	11,869
Equity securities	26,423	24,154	50,577	10,914	28,388	39,302
assets	*-44,386*	*4,207*	*-40,179*	*-22,137*	*-53,428*	*-75,565*
liabilities	*70,809*	*19,947*	*90,756*	*33,051*	*81,816*	*114,867*
Debt instruments	15,138	37,711	52,849	53,512	-80,943	-27,431
assets	*-75,035*	*-58,694*	*-133,729*	*-128,005*	*-92,119*	*-220,124*
liabilities	*90,173*	*96,405*	*186,578*	*181,517*	*11,176*	*192,693*
Financial derivatives	1,673	-11,900	-10,227	-3,969	-9,103	-13,072
Other investment	-17,304	-129,343	-146,647	-134,984	56,460	-78,524
Reserve assets	3,644	-5,921	-2,277	13,741	14,957	28,698
Errors and omissions	**-29,389**	**48,693**	**19,304**	**59,101**	**-25,881**	**33,220**

Source: ECB.

decrease in the current account surplus. Exports declined by 2.2 per cent in value, while imports remained broadly unchanged (-0.2 per cent). The positive impulse imparted in the second half of 2003 by stronger demand in the area's main export markets was attenuated by the loss of competitiveness caused by the appreciation of the euro against the main currencies. The average unit values in euros of exports to countries outside the area came down by 3.1 per cent in the first eleven months of the year to partially compensate for an 11.4 per cent rise in the nominal effective exchange rate. The average unit values of imports from countries outside the area decreased by 2.9 per cent when measured in euros, but they rose by more than 8 per cent in the currencies of the countries of origin. The terms of trade deteriorated by 0.2 per cent.

The deficit on the income account increased from €28.2 billion to €44.8 billion and that on transfers from €46.7 billion to €54.7 billion, while the surplus on services rose from €11.3 billion to €17.4 billion.

The overall surplus on the current account and capital account amounted to €39 billion in 2003. The deficit on the financial account of €72.2 billion, compared with €97.2 billion in 2002, included a decrease of €28.7 billion in reserve assets, which had increased by €2.3 billion the previous year. Errors and omissions were equal to €33.2 billion, compared with €19.3 billion in 2002.

Net outflows of direct and portfolio investment amounted to €9.3 billion last year, compared with net inflows of €61.9 billion in 2002. The contraction in net inflows of portfolio investment (from €103.4 billion to €11.9 billion) was substantially larger than that in net outflows of direct investment (from €41.5 billion to €21.2 billion).

In a phase of weak economic growth, mergers and acquisitions activity stagnated, affecting direct investment flows, which decreased in both directions. Inflows fell from €142 billion to €108.3 billion and outflows from €183.5 billion to €129.5 billion.

By contrast, in conjunction with the favourable performance of international stock markets, residents' portfolio investment in foreign equities rose from €40.2 billion to €75.6 billion. The increase in investment in bonds and money market instruments from €133.7 billion to €220.1 billion could signal a reallocation of residents' portfolios towards less risky assets. The growth in inward portfolio investment was less marked: that in shares issued in the euro area rose from €90.8 billion to €114.9 billion, that in bonds and money market instruments from €186.6 billion to €192.7 billion.

Net outflows of "Other investment" amounted to €78.5 billion, compared with €146.6 billion in 2002. In particular, net lending declined from €136.4 billion to €17.1 billion.

The current account balances in the four major euro-area countries deteriorated, partly as a consequence of the appreciation of the euro. For the year as a whole, France's surplus declined from €24 billion to €10.1 billion and Germany's from €62.8 billion to €50.9 billion. In Spain, the deficit widened from €12.2 billion to €19.7 billion in the first eleven months of the year. In France, the balances for all of the main current account items worsened; in Germany the reduction in the deficit on services was more than offset by the deterioration in the other items. In Spain, the deficits on goods and income increased. Overall net outflows of direct and portfolio investment amounted to €23.6 billion in France and €39.7 billion in Spain; in both countries direct investment flows diminished in both directions, while outflows of portfolio investment increased and, especially in France, inflows of investment in securities rose. In Germany, both inflows and outflows of direct and portfolio investment were smaller than in 2002; total net investment inflows rose from €43.9 billion to €54.1 billion.

Italy. – In 2003 the current account deficit nearly doubled, growing from €10.1 billion to €19.5 billion (1.5 per cent of GDP; Table 10). This deterioration was mainly due to the reduction in the trade surplus (from €14.6 billion to €8.4 billion) together with the increase in deficits on income (from €15.4 billion to €18.9 billion) and transfers (from €5.6 billion to €7.1 billion). The deficit on services narrowed from €3.7 billion to €1.9 billion despite the further decrease in the surplus on tourism (from €10.4 billion to €9.4 billion), thanks primarily to the reduction in the deficit on "Other business services" (mainly commercial, technical and professional services).

The decline in the trade surplus was the consequence of a further fall of 3.4 per cent in the value of merchandise exports, which was greater than the 1.2 per cent decline in imports *fob*. The small improvement of 0.9 per cent in the terms of trade was offset by a sharper reduction in the volume of exports than in imports (-4.6 and -1.1 per cent respectively) in the first eleven months of the year. The negative differential in productivity growth in Italian industry vis-à-vis the main euro-area countries widened in 2003. This translated into a larger increase in unit labour costs, which reduced the competitiveness of Italian exports. Exports to countries outside the euro area, where demand was strengthening, were further penalized by the nominal effective appreciation of

Table 10

Italy's balance of payments (1)
(net flows in millions of euros)

	2002			2003		
	H1	H2	Year	H1	H2	Year
Current account	**-7,609**	**-2,505**	**-10,114**	**-16,186**	**-3,354**	**-19,540**
Goods	5,473	9,100	14,573	-977	9,331	8,354
Exports	*134,055*	*134,489*	*268,544*	*125,317*	*133,981*	*259,298*
Imports	*128,582*	*125,389*	*253,971*	*126,294*	*124,650*	*250,944*
Services	-3,185	-473	-3,657	-1,936	20	-1,916
Income	-8,531	-6,866	-15,396	-10,337	-8,560	-18,898
Current transfers	-1,366	-4,266	-5,632	-2,936	-4,144	-7,080
Capital account	**-145**	**79**	**-66**	**44**	**2,409**	**2,453**
Financial account	**5,426**	**3,112**	**8,538**	**16,360**	**2,143**	**18,503**
Direct investment	-1,429	-1,310	-2,739	-1,350	9,192	7,842
outward	*-8,375*	*-9,819*	*-18,194*	*-11,790*	*4,783*	*-7,007*
inward	*6,946*	*8,509*	*15,455*	*10,440*	*4,409*	*14,849*
Portfolio investment	-13,699	29,806	16,107	25,461	-22,260	3,201
Equity securities	-18,727	5,532	-13,194	-13,282	-3,891	-17,173
assets	*-8,437*	*2,398*	*-6,039*	*-1,941*	*-12,367*	*-14,308*
liabilities	*-10,289*	*3,135*	*-7,155*	*-11,341*	*8,476*	*-2,865*
Debt instruments	5,028	24,274	29,301	38,743	-18,369	20,374
assets	*-7,336*	*-3,593*	*-10,929*	*-26,175*	*-12,465*	*-38,640*
liabilities	*12,363*	*27,866*	*40,230*	*64,918*	*-5,904*	*59,014*
Financial derivatives	94	-2,804	-2,710	-3,639	-1,241	-4,880
Other investment	19,713	-18,722	991	263	13,483	13,746
Reserve assets	747	-3,858	-3,111	-4,375	2,969	-1,406
Errors and omissions	**2,328**	**-686**	**1,641**	**-218**	**-1,198**	**-1,416**

(1) Provisional data for November and December 2003.

the euro; those to euro-area countries were also adversely affected by the weakness of demand and the increased competitiveness of products from countries outside the area.

The value of exports diminished in all of Italy's main sectors of specialization, especially "Other manufactures", which includes furniture. A factor in the decline in the overall trade surplus was the deficit on energy minerals, which after two years of reduction began to widen again owing to the increase in the volume and average unit prices of imports.

Most of the decrease in the deficit on services was attributable to the 2.4 per cent decline in expenditure; receipts were broadly stable (up by 0.2 per cent). The largest positive contribution came from decline in the deficit on "Other business services" (from €3.3 billion to €1.7 billion in the first ten months of the year, for which disaggregated data are available), thanks to a recovery in receipts (Table 11). In the foreign travel sector, which accounts for 35 per cent of Italy's total trade in international services, receipts diminished by 2.1 per cent with respect to 2002 and expenditure abroad rose by

Table 11

Italy's trade in services
(millions of euros)

	January-October 2002			Year 2002			January-October 2003		
	Credits	Debits	Balance	Credits	Debits	Balance	Credits	Debit	Balance
Total ...	**54,427**	**56,595**	**-2,169**	**63,550**	**67,208**	**-3,657**	**54,810**	**55,284**	**-474**
of which: travel (1)	*25,457*	*15,595*	*9,861*	*28,207*	*17,811*	*10,396*	*24,786*	*16,050*	*8,737*
transport	*8,187*	*12,249*	*-4,062*	*9,650*	*14,457*	*-4,807*	*7,480*	*11,606*	*-4,126*
construction	*1,543*	*2,073*	*-530*	*1,832*	*2,408*	*-576*	*1,474*	*1,542*	*-68*
other business services	*14,530*	*17,847*	*-3,317*	*18,042*	*21,584*	*-3,542*	*16,213*	*17,887*	*-1,674*

(1) Estimate for October 2003.

2.1 per cent (the data for October, November and December 2003 have been estimated by the UIC owing to a temporary hiatus in the sample survey of the tourism sector). The decline in receipts in this sector was entirely due to the reduction in spending by visitors from non-EU countries (down by 11.6 per cent, against a 2.3 per cent decrease in their number). This was partly a consequence of the appreciation of the euro, especially for visitors from the United States and Japan, the two countries with the highest expenditure per person. Receipts from travel in Italy by EU citizens rose by 3.6 per cent and the number of visitors by 0.8 per cent. The decline in spending by foreign business travelers in Italy steepened; and the number of visitors and spending for holiday travel decreased. Italian expenditure on foreign travel and the number of travelers increased both in the European Union (spending by 1.9 per cent and number of visitors by 3.7 per cent) and in non-EU countries (by 2.3 per cent and 2.4 per cent respectively). The rise in spending by Italian visitors to non-EU countries, prompted in part by the appreciation of the euro, was concentrated in Latin America and the main accession countries. By contrast, spending fell in the United States and, by even more, in Canada, China and the other Asian countries affected by the SARS epidemic last spring.

In 2003 the deficit on the income account continued to widen, expanding from €15.4 billion to €18.9 billion. According to the disaggregated figures for the first ten months of the year, the deterioration in the overall balance was mainly attributable to the increase in the deficit on portfolio income, which reflects the growth in Italy's net portfolio investment liabilities.

The overall deficit on current and capital account in 2003 amounted to €17.1 billion, or 1.3 per cent of GDP. It was offset by a surplus of €18.5 billion on the financial account, €10 billion more than in 2002. Portfolio investment flows increased sharply in both directions, while inflows of direct investment remained unchanged and outflows fell to a low level. Errors and omissions were negligible.

At €14.8 billion, inflows of foreign direct investment in Italy remained at the same level as the previous three years (€15.5 billion in 2002). By contrast, Italian investment abroad contracted from €18.2 billion to €7 billion, partly owing to net disinvestment in the summer and in October. As a result the overall balance swung from a net outflow of €2.7 billion to a net inflow of €7.8 billion.

The increase in net outward portfolio investment involved shares, which rose from €6 billion to €14.3 billion in response to the positive performance of international stock markets, and bonds, which jumped from €10.9 billion to €38.6 billion; the rise in the latter was entirely attributable to investment by private-sector non-bank residents. The growth in net inward foreign portfolio investment from €33.1

Table 12

Portfolio investment in Italy (1)
(millions of euros)

	2002			2003	
	H1	January-October	Year	H1	January-October
Government securities	6,366	25,703	24,239	57,985	63,265
BOTs	*4,606*	*9,909*	*9,241*	*15,943*	*17,451*
BTPs	*7,704*	*26,799*	*33,125*	*28,141*	*37,564*
CCTs	*-12,765*	*-20,218*	*-23,676*	*732*	*-1,489*
CTZs	*4,123*	*3,203*	*1,314*	*3,476*	*1,863*
Republic of Italy issues	*1,981*	*5,818*	*4,431*	*9,730*	*8,012*
Other government securities	*718*	*192*	*-197*	*-37*	*-136*
Bonds	7,366	10,504	18,105	9,142	5,213
Bank securities	-1,257	-1,545	-1,979	-1,283	-2,624
Equity securities	-10,175	-4,161	-6,169	-11,940	-6,487
Other securities (2)	-227	-1,195	-1,121	-327	-108
Total ...	**2,074**	**29,306**	**33,075**	**53,577**	**59,259**

(1) The items "Equity securities" and "Bonds" refer to securities issued by residents belonging to non-bank sectors other than general government; the item "Bank securities" comprises shares and bonds issued by Italian banks. – (2) Including investment fund units.

billion to €56.1 billion was fueled above all by purchases of government securities (which according to disaggregated data more than doubled in the first ten months of the year), especially of BTPs. These investment decisions appear to have been influenced more by expectations for exchange rates than for interest rates. Net disposals of CCTs fell to close to nil. Those of Italian shares also decreased in 2003 as a whole (from €7.2 billion to €2.9 billion).

The item "Other investment", which mainly records residents' deposit and loan transactions with the rest of the world, went from broad balance in 2002 to a surplus of €13.7 billion last year. The surplus was the result of the contrasting behaviour of bank and non-bank residents. In the presence of faster growth in lending than funding in the domestic market, the Italian banking system generated net inflows of €42.7 billion both by reducing lending to non-residents and, above all, by increasing funding abroad (in 2002, the banks' net lending to non-residents amounted to €41.7 billion). By contrast, disaggregated figures show that private-sector non-bank residents, who in 2002 had reduced their foreign holdings, largely repatriating their capital under the tax-shielded scheme introduced by Decree Law 350/2001, were responsible for net outflows of €27.8 billion in the first ten months of 2003. In the same period, during which the repatriation scheme's deadline was extended, inflows amounted to €10 billion, while a further €8.5 billion was "regularized" without being repatriated.

The labour market

Employment

According to the data available, average employment in the euro area in 2003 stagnated at its 2002 level, reflecting widespread slackness in economic activity. Developments in the main economies nevertheless differed. In Germany the decline in the number of persons in work that began in the second half of 2001 continued (–1.1 per cent) and in France employment growth slowed down sharply (from 0.6 to 0.1 per cent), while in Spain it accelerated in the course of the year from 1.5 per cent in 2002 to 1.9 per cent in 2003 (Figure 18).

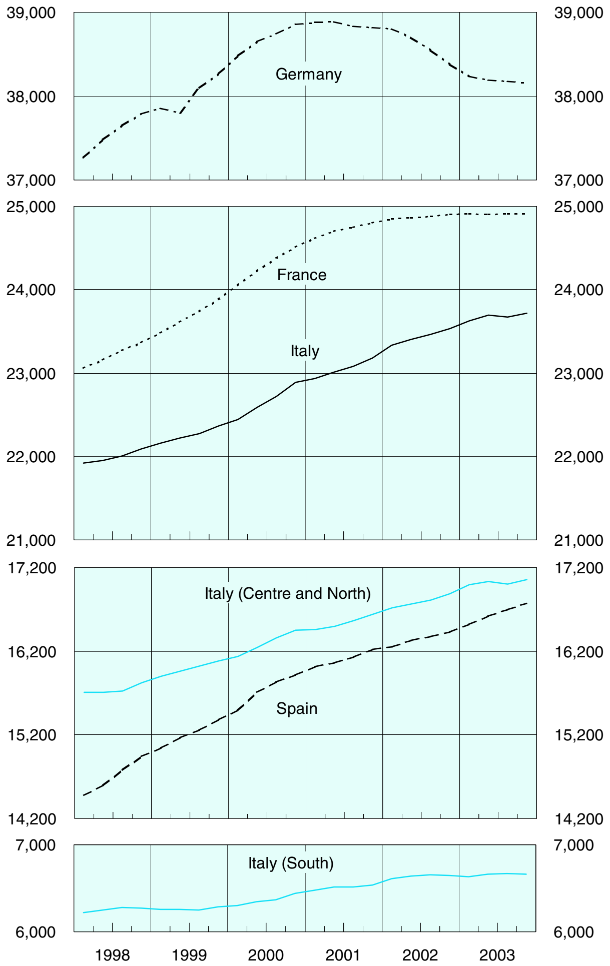
In Italy the demand for labour eased. Given the stagnation of economic activity in recent quarters, the number of standard labour units employed rose by just 0.4 per cent for the year compared with 1.3 per cent in 2002. Per capita earnings rose moderately (3.2 per cent in nominal and 0.5 per cent in real terms). Average labour productivity declined again, albeit only slightly (by 0.3 per cent, compared with 0.7 per cent in 2002). The share of value added going to profits diminished slightly to 36.9 per cent. Between 1995 and 2003 income per standard labour unit rose by 1.7 per cent in real terms, as measured by the value added deflator at base prices. During these years the average productivity of labour rose by 5.1 per cent, resulting in a rise of more than 2 percentage points in the profit share. Over the same period, labour productivity increased by 7 per cent in the euro area and by 27 per cent in the United States.

The quarterly labour force survey put total employment at 22,121,000 in October, an increase of 190,000 since October 2002 (Table 13). On average for the four surveys carried out in 2003, the number of persons in work increased by 224,000 or 1 per cent, compared with 315,000 in 2002. The employment rate for persons of working age (15-64) rose from 55.4 to 56 per cent, and once again the increase was sharper for women (from 42 to 42.7 per cent). The gap with respect to the European rates of 64.3 per cent overall and 56.1 per cent for women remained substantial.

Figure 18

Employment in the main euro-area countries

(seasonally adjusted quarterly data; thousands of persons)



Sources: For Italy, Istat, national accounts, regional estimates; the quarterly segments are partly estimated. For the other countries, Eurostat, national accounts.

Table 13

Labour force status of the Italian population
(*thousands of persons and percentages*)

	2002 average (1)		2003 average (1)		October 2002		October 2003	
	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)
Employees	**15,850**	**72.6**	**16,046**	**72.8**	**15,933**	**72.7**	**16,119**	**72.9**
open-ended contracts	14,287	65.4	14,464	65.6	14,334	65.4	14,453	65.3
full-time	13,301	60.9	13,449	61.0	13,348	60.9	13,438	60.7
part-time	986	4.5	1,015	4.6	986	4.5	1,015	4.6
fixed-term contracts	1,563	7.2	1,583	7.2	1,599	7.3	1,666	7.5
full-time	1,104	5.1	1,119	5.1	1,128	5.1	1,192	5.4
part-time	459	2.1	463	2.1	471	2.1	474	2.1
Self-employed	**5,980**	**27.4**	**6,008**	**27.2**	**5,998**	**27.3**	**6,002**	**27.1**
full-time	5,555	25.4	5,605	25.4	5,578	25.4	5,603	25.3
part-time	425	1.9	403	1.8	420	1.9	399	1.8
Total persons in work	**21,830**	**100.0**	**22,054**	**100.0**	**21,931**	**100.0**	**22,121**	**100.0**
men	13,593		13,690		13,639		13,748	
women	8,236		8,365		8,293		8,373	
Unemployed	**2,163**		**2,096**		**2,152**		**2,052**	
Labour force	**23,993**		**24,151**		**24,083**		**24,173**	
men	14,609		14,685		14,653		14,721	
women	9,383		9,465		14,721		9,452	
Non-labour-force	**33,482**		**33,328**		**33,388**		**33,300**	
non-working age (under 15)	8,270		8,270		8,270		8,267	
working age (15-64)	15,137		14,975		15,042		14,950	
of which: *not actively seeking work but would be immediately available*	*1,125*		*1,090*		*1,073*		*1,045*	
non-working age (65 and over)	10,074		10,084		10,076		10,083	
Population	57,474		57,478		57,471		57,473	
Unemployment rate		**9.0**		**8.7**		**8.9**		**8.5**
men		7.0		6.8		6.9		6.6
women		12.2		11.6		12.1		11.4
Participation rate (ages 15-64)		**61.0**		**61.4**		**61.2**		**61.4**
men		74.0		74.4		74.3		74.6
women		47.9		48.3		48.1		48.3
Employment rate (ages 15-64)		**55.4**		**56.0**		**55.7**		**56.2**
men		68.8		69.3		69.1		69.6
women		42.0		42.7		42.3		42.7

Source: Istat, labour force surveys.
(1) Average of the surveys taken in January, April, July and October. – (2) Of total employment.

The sharpest rise in employment (4.6 per cent) was again registered by the 55-64 age-group, whose employment rate was 31.2 per cent in October compared with 29.5 per cent twelve months earlier and whose participation rate rose from 30.7 to 32.3 per cent. Contributing factors were apparently the progressive raising of the retirement age under the Dini reform and the easing of rules on the cumulability of pension and labour incomes under the Finance Law for 2003 (see *Economic Bulletin* No. 37, November 2003).

As in previous years the largest gain, amounting to 197,000 or 1.2 per cent, was in payroll employment, and nine-tenths of the increase was accounted for by permanent jobs. The number of workers on fixed-term contracts also rose by 1.2 per cent, having risen sharply the previous year (by 3.2 per cent) following the suspension in July 2002 of the tax credit for open-ended contracts that had been introduced by the Finance Law for 2001. The provision was then reinstituted by the Finance Law for 2003, but with substantial changes to both procedures and spending limits that apparently made it less advantageous for employers. There was a corresponding acceleration during 2003 in the number of fixed-term employees, while the growth in open-ended positions abated.

The expansion of part-time employment slowed down very sharply, from 3 to 0.6 per cent, and involved only the female component. Part-time jobs rose from 17.4 to 18 per cent of total women's payroll employment.

Employment grew in all the branches of the economy except agriculture, where the number employed fell by 21,000 on a year-on-year basis (Table 14).

Table 14

Employment by sector and geographical area in Italy, 2003

	October 2003	2003 average on 2002 average			October 2003 on July 2003 (1)
	Percentage share of national total	Change in number of persons	Percentage change	Contribution, percentage points	Percentage change
			Sector		
Agriculture ...	5.1	-20,622	-1.9	-0.1	0.3
Industry excl. construction	23.8	25,835	0.5	0.1	0.2
Construction	8.1	61,317	3.5	0.3	-0.3
Services	63.0	158,380	1.1	0.7	. .
			Geographical area		
North	51.3	144,300	1.3	0.7	-0.1
Centre	20.4	69,813	1.6	0.3	0.3
South	28.2	10,797	0.2	. .	-0.2
Italy ...	**100.0**	**224,910**	**1.0**	**1.0**	**0.0**

Source: Istat, labour force surveys.
(1) Seasonally adjusted.

In construction the protracted expansion of employment appears to have come to a halt. The July and October surveys registered seasonally adjusted declines of 7,000 and 6,000 respectively. Thanks to increases registered in January and April, average construction employment for the year rose by 61,000 or 3.5 per cent.

The number of persons employed in industry excluding construction fell at the start of the year but rose in the next three labour force surveys, despite the persistent weakness of industrial activity (Figure 19). On average for 2003 the increase was 26,000 or 0.5 per cent, while the index of industrial production fell by 0.8 per cent.

Table 15

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

(percentages)

	Fixed-term		Part-time	
	2002 average	2003 average	2002 average	2003 average
Men	8.4	8.2	3.4	3.1
Women	12.0	12.2	17.4	18.0
Aged 15-34	15.6	15.8	10.0	9.9
35 and over	6.3	6.3	8.6	8.8
Agriculture	38.7	37.2	18.0	16.3
Industry excluding construction............	6.3	6.3	4.9	4.9
Construction................	12.6	11.5	3.8	3.8
Services	9.7	10.0	11.1	11.3
of which: wholesale and retail trade and hotels	*11.9*	*12.0*	*15.1*	*15.7*
Total economy............	9.9	9.9	9.1	9.2

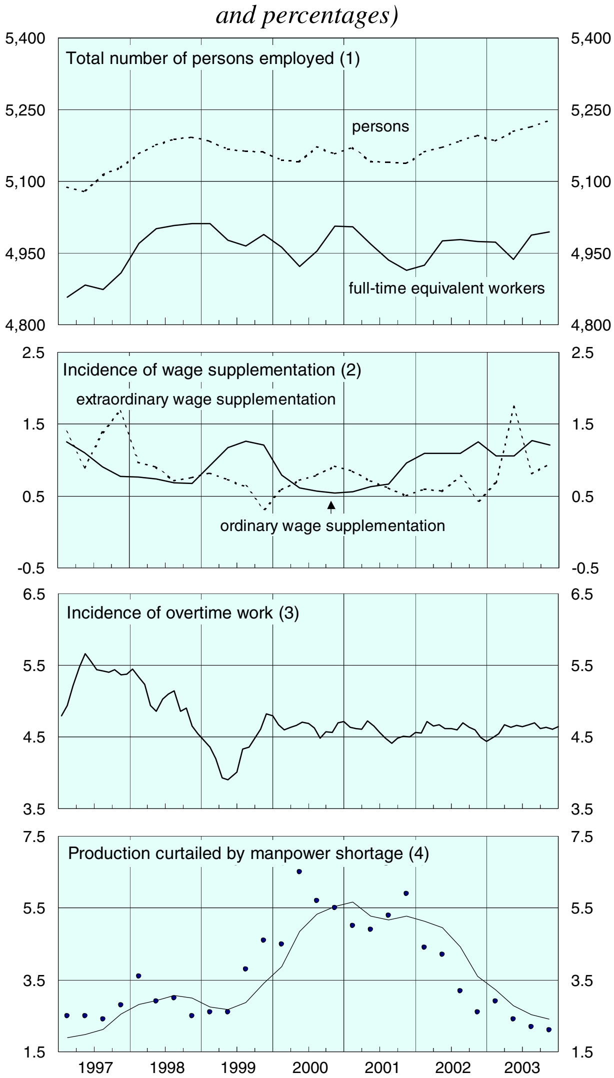
Source: Istat, labour force surveys.

In the service sector the average annual rise in employment came to 1.1 per cent (160,000 persons), mostly in the first half and entirely in the private sector. The service sector was the only branch in which the share of fixed-term contracts increased (Table 15), with a gain of 36,000 or 3.7 per cent that accounts for all the growth in this type of employment in the entire economy.

Figure 19

Employment, wage supplementation and overtime work in industry excluding construction in Italy

(seasonally adjusted; thousands of persons and percentages)



Sources: Based on Istat, labour force surveys and *Indagine sulle grandi imprese*, and on INPS and ISAE data.

(1) Data refer to the January, April, July and October surveys. The number of full-time equivalent workers is obtained by considering two part-time workers to be equal to one full-time worker and subtracting the number of workers equivalent to the number of man-hours of wage supplementation granted. – (2) Average number of equivalent employees on ordinary or extraordinary wage supplementation during the quarter as a percentage of the number of full-time equivalent workers. – (3) Monthly data. Total number of overtime hours as a percentage of total number of regular hours in industrial companies with 500 or more employees. Moving averages of the three months ending in the reference period. – (4) Companies so reporting as share of total; percentages and moving averages of the four quarters ending in the reference quarter.

After three years in which employment growth in the South equalled or outpaced that of the nation as a whole, last year it was just 0.2 per cent, with the number of persons in work increasing by 11,000. This was the result of a decrease of 15,000 in the number of self-employed workers and a shift in payroll employment from fixed-term to permanent jobs, with a decrease of 24,000 in the former and an increase of 50,000 in the latter.

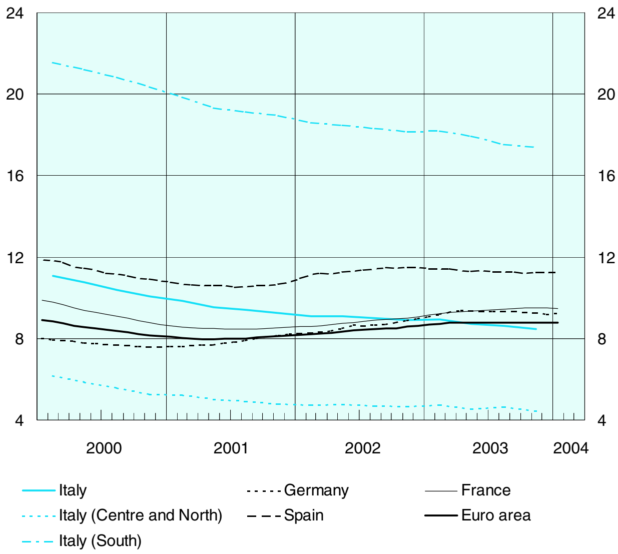
Unemployment and the supply of labour

The unemployment rate in the euro area held steady at 8.8 per cent from March 2003 to the end of the year, compared with an average of 8.4 per cent in 2002 (Figure 20). The average unemployment rate for men rose from 7.3 to 7.7 per cent for the year and for women from 9.9 to 10.1 per cent. In Germany the unemployment rate was 9.3 per cent in February this year, a tenth of a point below the peak recorded in April 2003. In France the rate rose from 9.1 per cent in December 2002 to 9.5 per cent in December 2003, while in Spain it fell from 11.5 to 11.2 per cent.

Figure 20

Unemployment rates in the euro area

(seasonally adjusted; percentages)



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

In Italy the unemployment rate last October was lower than the European average at 8.5 per cent. This was 0.4 points lower than a year earlier and 0.1 points lower than in July on a seasonally adjusted basis. The reduction since October 2002 came mainly in the South (from 18 to 17.2 per cent) and especially among women. Women make up 34 per cent of the southern labour force (42 per cent in the North), and their unemployment rate declined from 25.8 to 24.3 per cent in the South and from 12.1 to 11.4 per cent nationwide. Unemployment in the North remained at frictional rates (declining from 4.5 to 4.2 per cent in the North-West, steady at 3.4 per cent in the North-East); it remained at around 6 per cent in the Centre.

Labour force participation continued to increase in 2003. The average rate for people aged 15 to 64 rose to 61.4 per cent from 61 per cent in 2002 but is still well below the euro-area average of 70 per cent. The rise in participation in the South came to a halt and declined for the first time since 1996, from 54 to 53.7 per cent, mainly among women. The participation rate in the North continued to improve, rising from 65.9 to 66.7 per cent.

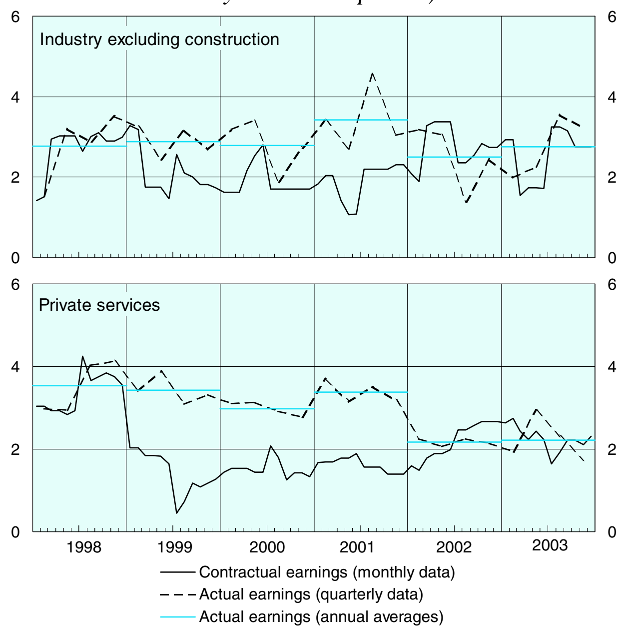
Labour costs and industrial relations

Per capita labour costs in the four largest economies of the euro area rose by 2.3 per cent last year, compared with 2.1 per cent in 2002. Productivity gained barely 0.2 per cent, with the result that unit labour costs rose 2.2 per cent, slightly more than the 1.8 per cent registered the previous year (Table 16). Trends in unit labour costs differed from country to country. In Germany the rise was small, as a result of improving labour productivity due to the contraction in employment. In the other three countries unit labour costs rose markedly faster, given the stagnation of labour productivity in France (–0.1 per cent), its decline in Italy (–0.3 per cent), and only a modest gain in Spain (0.2 per cent). The share of profits in value added remained stable in Germany and Spain and declined in Italy and France.

In Italy, according to the national accounts gross employee compensation per standard labour unit increased by 3.2 per cent in 2003 (0.5 per cent in real terms), while contractual wages rose more slowly, by 2.2 per cent (Figure 21) owing in part to the delay in renewing several major collective bargaining agreements. The gap is explained by a number of one-time interim payments made between the expiration of the last contract and the signing of the new one. In the private sector such payments accounted for 0.7 per cent of yearly contractual earnings.

Figure 21

Italy: per capita contractual and actual earnings
(seasonally adjusted data; percentage changes on year-earlier period)



Sources: Based on Istat, national accounts and *Indagine sulle retribuzioni contrattuali.*

Not until the last three months of the year, and after protracted contractual voids, were the agreements for the insurance industry and the National Health Service signed. That for retail and wholesale trade, which expired at the end of 2002, has still not been signed. Agreement was reached in December on the renewal of the national contract for municipal transport workers, which had expired more than two years earlier. At the end of the year the chemical workers' contract was renewed before it expired and without a strike. In February the printing and publishing industry contract was

Table 16

Per capita earnings, productivity and its components, and unit labour costs

(percentage changes on previous year)

	Cost of labour per employee (1)		Productivity						Unit labour costs	
			2002	2003	Value added (2)		Employment (1)			
	2002	2003			2002	2003	2002	2003	2002	2003
					Industry excluding construction					
Germany	1.6	2.6	2.2	3.2	-0.1	0.4	-2.2	-2.7	-0.5	-0.6
France	2.7	3.1	1.7	2.0	0.0	-0.5	-1.7	-2.4	0.9	1.0
Italy	2.2	3.0	-0.8	-0.6	-0.3	-1.0	0.5	-0.3	3.1	3.7
Spain	3.6	3.9	0.7	2.4	0.6	1.3	-0.1	-1.1	2.9	1.5
Euro 4 (3)	2.0	2.6	1.1	1.7	-0.1	0.0	-1.1	-1.7	0.9	0.9
					Services (4)					
Germany	1.7	1.4	0.7	0.7	1.1	0.5	0.5	-0.2	1.0	0.6
France	3.0	2.4	0.5	-0.2	1.8	0.6	1.3	0.8	2.5	2.6
Italy	2.7	4.0	-0.7	-0.1	0.9	0.6	1.6	0.8	3.4	4.2
of which: private ...	*2.2*	*2.7*	*-1.2*	*-0.9*	*0.9*	*0.6*	*2.1*	*1.5*	*3.5*	*3.6*
public......	*3.3*	*5.5*	*0.3*	*1.0*	*1.2*	*0.6*	*0.9*	*-0.4*	*3.0*	*4.4*
Spain	3.8	4.4	-0.8	-0.5	1.6	2.2	2.4	2.8	4.6	4.9
Euro 4 (3)	2.3	2.3	0.0	-0.2	1.3	0.7	1.4	0.9	2.4	2.4
					Total economy					
Germany	1.5	1.6	1.1	1.3	0.4	0.2	-0.6	-1.1	0.5	0.3
France	2.7	2.6	0.7	-0.1	1.3	0.1	0.6	0.1	2.0	2.7
Italy	2.5	3.8	-0.7	-0.3	0.6	0.2	1.3	0.4	3.2	4.1
Spain	3.9	4.2	0.1	0.2	1.6	2.1	1.5	1.8	3.8	4.0
Euro 4 (3)	2.1	2.3	0.3	0.2	0.8	0.4	0.6	0.2	1.8	2.2

Sources: Based on Istat and Eurostat data.

(1) For Italy and Spain, standard labour units. – (2) At 1995 base prices. – (3) Weighted average for France, Germany, Italy and Spain. – (4) Wholesale and retail trade, transport and telecommunications, financial and real estate intermediation, and "other sectors".

renewed. On the whole the recent contracts have confirmed the tendency for raises to reflect expected inflation rather than the government inflation target, plus substantial recouping of the past differential between actual and target inflation.

A number of industry contracts expired in December 2003, covering about a third of the entire national wage bill. The information available indicates that wage increases in the months to come will remain below 3 per cent.

In industry excluding construction per capita earnings rose by 2.8 per cent in 2003, compared with 2.5 per cent in 2002, in line with contractual wages, which rose by 2.5 per cent. Per capita labour costs, including social contributions, increased by 3 per cent. Owing to a further decline of 0.6 per cent in labour productivity after the 0.8 per cent drop registered in 2002, unit labour costs rose by 3.7 per cent (3.1 per cent in 2002). This increase was much larger than in the other main euro-area economies. Over the past three years the differential has averaged more than 1 percentage point.

In private services per capita earnings rose by 2.2 per cent, as in 2002 and in line with the 2.3 per cent rise in contractual wages. The increase in per capita labour costs accelerated from 2.2 to 2.7 per cent, but this was partly offset by a more moderate decline in productivity of 0.9 per cent compared with 1.2 per cent in 2002. The result was a 3.6 per cent rise in unit labour costs, the same as in 2002 and more than one percentage point higher than the euro-area average.

In Germany acclerating labour productivity, which was associated with a sharp reduction in the number of persons employed, essentially neutralized the effects of higher per capita labour costs. The rise in unit labour costs was accordingly modest, about the same as in 2002 (0.3 per cent). In industry excluding construction the reduction in staff was even sharper than for the economy as a whole and was accompanied by a substantial gain in productivity (which rose by 3.2 per cent, compared with 2.2 per cent in 2002). Unit labour costs diminished by 0.6 per cent. In the service sector they rose by 0.6 per cent.

In France, the stagnation in labour productivity (–0.1 per cent) was accompanied by a 2.6 per cent rise in per capita costs, in line with the euro-area average, resulting in a 2.7 per cent rise in unit labour costs. The latter rose less sharply in industry excluding construction (1 per cent), thanks to rising productivity combined with a significant contraction in employment of 2.4 per cent.

In Spain, unit labour costs accelerated slightly to growth of 4 per cent, propelled by an even faster rise in per capita labour costs (4.2 per cent).

Prices and costs

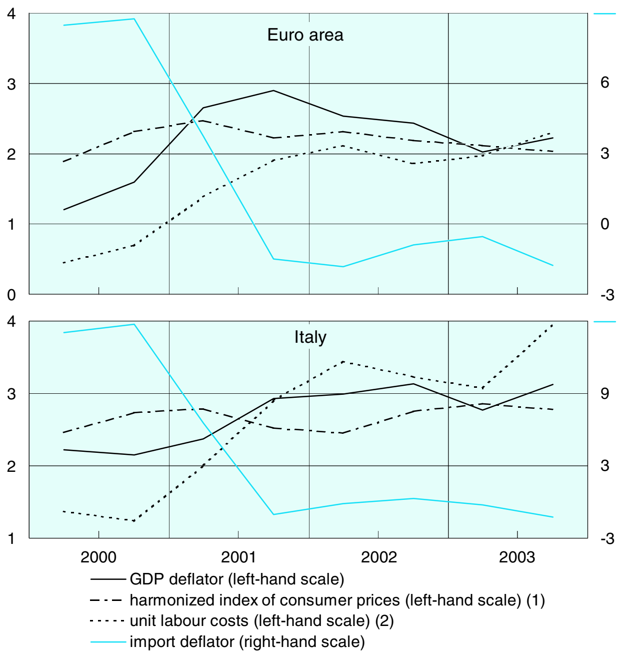
Overview

In 2003 the harmonized index of consumer prices in the euro area rose by 2.1 per cent, compared with 2.3 per cent in 2002 (Figure 22). The slowdown reflected the decline in core inflation from 2.5 per cent to 2 per cent, which more than offset the impact of higher oil prices on the energy components of the index. The decrease in core inflation (the consumer price index net of energy and unprocessed food products) was attributable to the continued weakness of demand and the appreciation of the euro in nominal effective terms (11 per cent on average for the year).

Figure 22

Inflation indicators in the euro area and Italy

(half-yearly data; percentage changes on year-earlier period)



Sources: Based on Istat and Eurostat data.

(1) For the years before 2002, for Italy the percentage changes are calculated with reference to harmonized indices that exclude price reductions for special offers. – (2) Moving averages of the 2 six-month periods ending in the reference period. For the euro area, the changes are calculated on the basis of the figures for France, Germany, Italy and Spain; for Italy and Spain, unit labour costs are based on standard labour units.

The pattern of consumer inflation differed in the main euro-area countries. In Italy and France, the rate of increase rose from 2.6 to 2.8 per cent and from 1.9 to 2.2 per cent respectively, partly owing to changes in indirect taxes. By contrast, in Germany inflation eased from 1.3 to 1 per cent (Table a15).

The inflation differential between Italy and the euro area widened from 0.3 to 0.7 percentage points. In addition to higher taxes on tobacco products, the increase was attributable to the slower decline in core inflation in Italy, where for the last three years the rate of increase in unit labour costs has outpaced that in the area as a whole by more than 1 percentage point.

In 2003 the perceived rate of inflation reported in consumer surveys declined in all the major euro-area countries except Italy.

Professional forecasters expect a gradual reduction in inflation in the euro area this year and in 2005, together with a gradual decline in the prices of oil futures. Inflation is expected to drop below the 2 per cent threshold in the first quarter of this year.

Prices and costs in the euro area

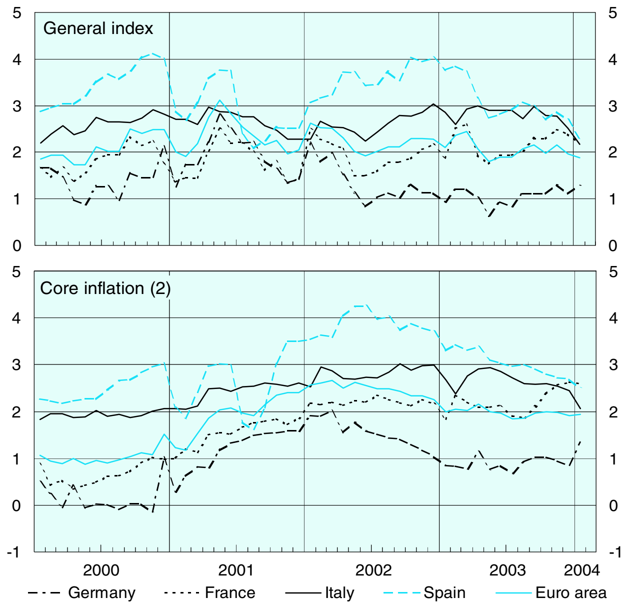
Consumer prices. – The twelve-month rate of increase in the HICP fell from 2.3 per cent in the first quarter of 2003 to 1.9 per cent in the second, then fluctuated around 2 per cent (Figure 23). The slight upturn reflected an acceleration in the prices of unprocessed food products caused by the summer drought.

Core inflation fell to 2 per cent in the first few months of 2003 and then stabilized around that level. In Germany, core inflation averaged 0.9 per cent for the year, compared with 1.5 per cent in 2002. In Spain, it decreased progressively, averaging about 1 percentage point less than in 2002 (3 per cent, compared with 3.9 per cent). In Italy and France, core inflation remained at the levels registered the previous year (2.7 per cent and 2.2 per cent respectively), reflecting sharp increases in the prices of tobacco products as the result of higher excise taxes. Excluding these rises, the rates in both countries would have been 0.3 points lower.

Figure 23

Harmonized index of consumer prices (1)

(monthly data; twelve-month percentage changes)



Source: Based on Eurostat data.

(1) For the years before 2002, for Italy the percentage changes are calculated with reference to harmonized indices that exclude price reductions for special offers. – (2) General index excluding energy and unprocessed food products.

The rate of increase in service prices fell to 2.4 per cent in the fourth quarter, down from its peak of 3.3 per cent in the third quarter of 2002. In Germany, France and Spain the deceleration, which began at the end of 2002, came to a halt in the second half of last year. In Italy, inflation in this sector did not begin to abate until the second quarter of 2003 (Table 17).

Owing to the weakness of demand and the nominal effective appreciation of the euro, the rate of increase in the prices of goods excluding unprocessed food and energy products fell from 1.5 per cent in 2002 to 0.8 per cent in 2003. During the year, the rate of inflation for these goods remained below 1 per cent in France and around 2 per cent in Italy and Spain; prices fell slightly in Germany (by 0.4 per cent on average for the year).

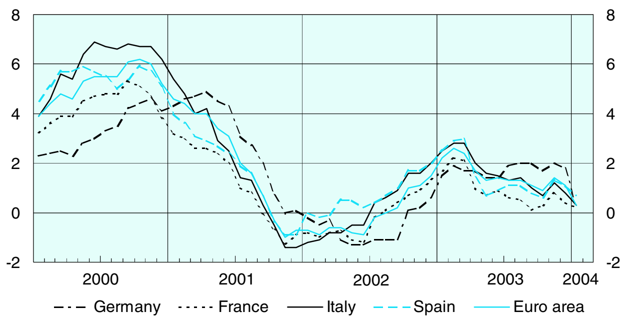
Preliminary figures for February for Italy and Germany show twelve-month rises in the HICP of 2.3 per cent and 0.9 per cent respectively. Eurostat estimates average inflation for the area at 1.6 per cent.

Producer and export prices. – Producer prices in the euro area rose by an average of 1.6 per cent in 2003, compared with a decrease of 0.1 per cent in 2002 (Figure 24). Excluding food and energy products, the rate of increase in producer prices remained moderate, rising only from 0.3 to 0.6 per cent. Nevertheless, producer price inflation tended to abate over the year. The strengthening of the euro countered the rise in the prices of energy and non-energy raw materials triggered by the recovery in world demand, thereby causing a pronounced deceleration in the prices of intermediate goods. The twelve-month increase in the general index of producer prices eased from a high of 2.4 per cent in the first quarter to 1.1 per cent in the fourth, reversing the pronounced upward trend registered in 2002.

Figure 24

General index of producer prices (1)

(twelve-month percentage changes)



Source: Eurostat.

(1) The index refers to the prices of manufactured goods. Owing to differences of method the indices of the various countries are not entirely comparable.

In the fourth quarter of last year the rate of change in producer prices of non-food and non-energy consumer products in the euro area as a

Table 17

Inflation indicators in Italy and the euro area

(percentage changes on year-earlier period)

	Italy								Euro area							
	2002	2003	2002		2003				2002	2003	2002		2003			
			Q3	Q4	Q1	Q2	Q3	Q4			Q3	Q4	Q1	Q2	Q3	Q4
Harmonized consumer prices																
General index	2.6	2.8	2.6	2.9	2.8	2.9	2.9	2.7	2.3	2.1	2.1	2.3	2.3	1.9	2.0	2.0
Excluding unprocessed food and energy products	2.8	2.7	2.9	3.0	2.6	2.9	2.6	2.5	2.5	2.0	2.5	2.3	2.0	2.0	1.9	2.0
of which: non-food and non-energy products	*2.4*	*1.9*	*2.4*	*2.6*	*1.7*	*2.2*	*1.7*	*1.9*	*1.5*	*0.8*	*1.3*	*1.2*	*0.7*	*0.9*	*0.7*	*0.7*
services	*3.4*	*3.2*	*3.5*	*3.5*	*3.5*	*3.3*	*3.2*	*2.7*	*3.1*	*2.5*	*3.3*	*3.1*	*2.7*	*2.6*	*2.5*	*2.4*
Producer prices																
General index	0.2	1.6	0.6	1.7	2.7	1.7	1.2	0.9	-0.1	1.6	. .	1.2	2.4	1.4	1.2	1.1
Excluding food and energy products	1.1	1.2	1.3	1.7	1.7	1.4	0.7	0.8	0.3	0.6	0.5	0.9	1.0	0.9	0.3	0.2
of which: final consumption goods excl. food and energy products	*2.5*	*1.1*	*2.5*	*2.5*	*1.5*	*1.4*	*0.9*	*0.4*	*0.8*	*0.6*	*0.8*	*0.8*	*0.8*	*1.2*	*0.5*	*-0.3*
Unit labour costs (1)																
Total economy	2.9		2.9	2.0	2.0	3.3	4.1		1.8		1.8	1.1	1.7	2.3	2.1	
of which: industry excluding construction	*3.0*		*3.1*	*3.3*	*3.6*	*4.2*	*3.2*		*0.8*		*0.9*	*-0.4*	*0.4*	*1.6*	*0.9*	
services	*3.0*		*2.8*	*1.3*	*1.4*	*2.9*	*4.3*		*2.3*		*2.2*	*1.8*	*2.0*	*2.4*	*2.5*	

Source: Based on Eurostat data.

(1) For the euro area, the changes are calculated on the basis of the figures for France, Germany, Italy and Spain; for Italy and Spain, unit labour costs are based on standard labour units.

whole turned negative, with a decline of 0.3 per cent, compared with a rise of 0.8 per cent in the first quarter. This was the pattern in Germany and France, which posted decreases of 0.1 per cent and 0.3 per cent, respectively, in the fourth quarter. In Italy and Spain, prices decelerated but continued to rise (by 0.4 and 2 per cent respectively in the fourth quarter, compared with 1.5 and 2.5 per cent in the first).

Against the current background of gradually improving economic conditions, the European Commission's February survey of manufacturing firms in the euro area concerning their pricing policies confirmed the virtual absence of inflationary pressures despite a slight increase in the share of those planning to raise prices.

The robust appreciation of the euro and the moderate recovery in global demand in 2003 curbed increases in the export prices of European producers. According to national accounts data, the implicit deflator for exported goods and services fell by 0.7 per cent in Germany and 0.3 per cent in France last year. By contrast, it rose by 1.1 per cent in Italy, compared with 1.7 per cent the previous year, partly owing to the acceleration of domestic industrial costs with respect to 2002.

Costs. – In 2003 the implicit deflator of imported goods and services for the euro area continued to decline, albeit by less than in 2002 (1.2 per cent, compared with 1.4 per cent a year earlier). External inflationary pressures were more than offset by the further rise in the euro over the year. Similar developments were registered in all the main euro-area countries except Italy, where the deflator remained at its level of the previous year (Figure 25).

Figure 25

Export and import deflators

(percentage changes on year-earlier quarter)

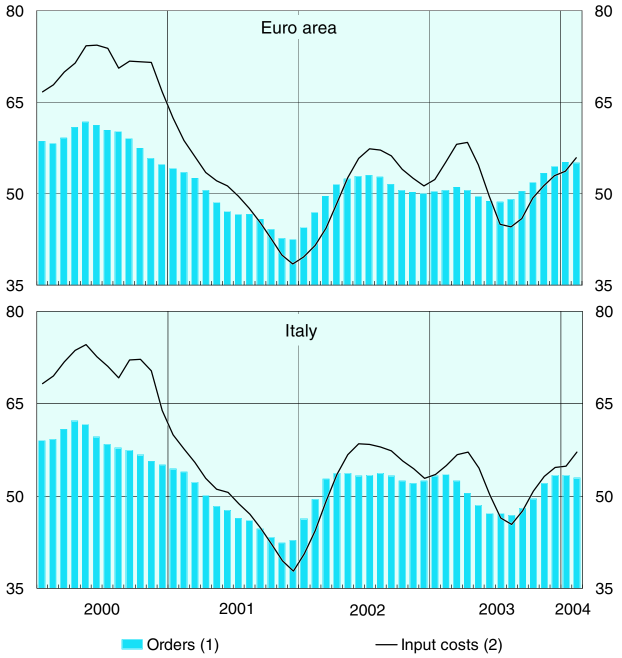
Sources: Based on Eurostat and Istat data.

Reuters' survey of purchasing managers in leading European manufacturing firms shows a gradual but small increase in input costs from mid-2003 onwards (Figure 26).

In 2003 internal inflationary pressures remained moderate in the euro area (Figure 27). Unit labour costs in the economy as a whole increased by 2.2 per cent from 2002, as nominal per capita earnings rose by 2.3 per cent and value added per employed person by 0.2 per cent. The greater responsiveness of productivity in industry to the admittedly weak economic recovery caused unit labour costs to rise by less in this sector (0.9 per cent in 2003); the increase in the service sector was 2.4 per cent.

Figure 26

Demand and input costs for manufacturers



Source: Monthly survey conducted by Reuters of a sample of manufacturing firms.
(1) Percentage balance, increased by 50 points, between firms' positive replies ("high", "increasing") and negative replies ("low", "decreasing") on the level of total orders. An index level of 50 is neutral. – (2) Purchasing managers' assessment of the behaviour of prices compared with the previous month: the percentage balance, increased by 50 points, between responses indicating an increase and those indicating a decrease; an index level of 50 is neutral.

Between 2000 and 2003, while nominal per capita earnings rose at much the same pace in all of the main euro-area countries, productivity gains differed and so, therefore, did the rate of increase in unit labour costs. In Italy, these rose by 10.4 per cent, about 8.8 percentage points more than in Germany and 2.9 points more than in France. The gap primarily reflects differences in productivity, which actually declined by 0.6 per cent in Italy while gaining 3.3 per cent in Germany and 0.9 per cent in France.

Prices and costs in Italy

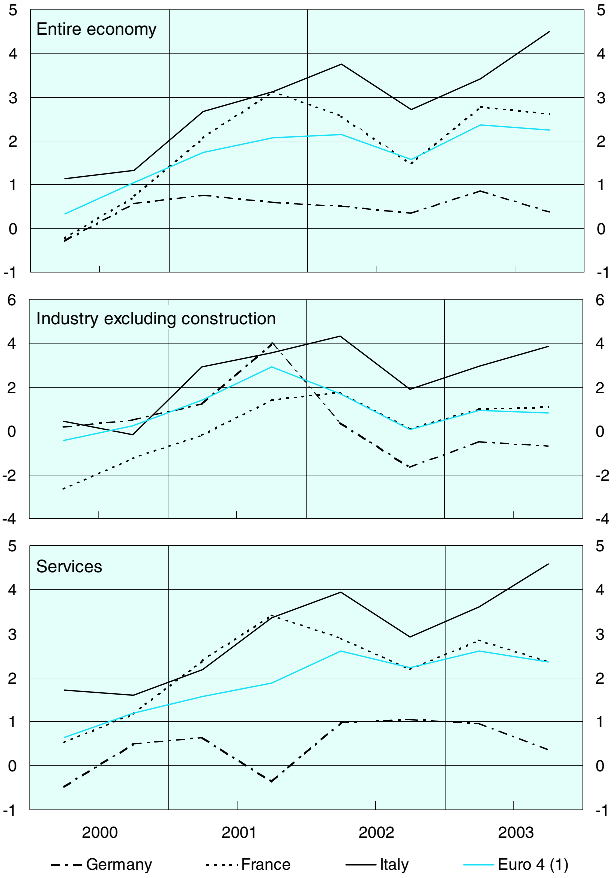
During 2003 inflation in Italy, measured on the basis of the twelve-month change in the index of consumer prices for the population as a whole, was 2.7 per cent, up from 2.5 per cent in 2002. Inflation was 2.7 per cent in the first quarter but eased to

2.5 per cent in the fourth. According to provisional data, it was 2.4 per cent in February of this year (Figure 28).

Figure 27

Unit labour costs

(percentage changes on year-earlier half)



Source: Based on Eurostat data.

(1) Changes are calculated on the basis of the figures for France, Germany, Italy and Spain; for Italy and Spain, unit labour costs are based on standard labour units.

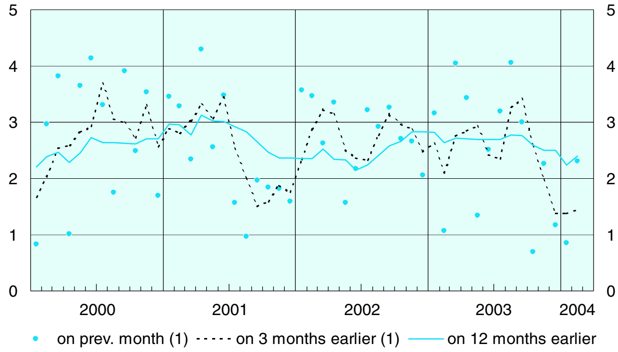
The rate of increase in the prices of regulated goods and services jumped from 0.7 per cent to 2.2 per cent on average for 2003, contributing about 0.4 percentage points to overall inflation. The rise was mainly due to higher taxes on tobacco products and increases in energy charges, which gradually incorporated the effects of the earlier rise in basic energy products.

Excluding the most volatile components (food and energy) and regulated items, consumer price inflation abated in 2003 (to 2.7 per cent, compared with 3 per cent in 2002). The decline was attributable to a slowdown in the prices of both goods and services.

Figure 28

Italy: general consumer price index

(percentage changes)



Source: Based on Istat data.

(1) Seasonally adjusted and annualized.

The rate of increase in the prices of unregulated services in Italy (3.5 per cent, compared with 3.9 per cent the previous year) was again driven by a number of specific items, namely restaurant and similar services, repair and maintenance services and financial services (Table 18).

Between the second and fourth quarters of 2003, Italy's inflation differential vis-à-vis the euro area as a whole narrowed from 1 to 0.7 percentage points; vis-à-vis Germany and France it decreased from 2.1 and 1.1 points to 1.1 and 0.3 points respectively.

The inflation differential vis-à-vis Germany and France for non-food and non-energy goods in the fourth quarter was 2.1 and 1.1 percentage points respectively, compared with 2.6 and 1.6 points in the second. The pattern for the producer prices of these goods was similar.

In the service sector the inflation differential with respect to Germany and France, which had widened sharply in the first half of the year owing to the slower deceleration of service prices in Italy, narrowed by about half a percentage point in the second half between the second and fourth quarters. On average for the year, the gap widened with respect to Germany (from 1.3 to 1.8 percentage points) and remained unchanged with respect to France (0.6 points). One factor was the faster rise of unit labour costs in the Italian service

Table 18

Consumer prices in Italy (1)

	Percentage changes on year-earlier period		Percentage weights	Contributions to average inflation (percentage points)
	2002	2003	2003	2003
GENERAL INDEX	**2.5**	**2.7**	**100**	–
Unregulated goods and services	**2.9**	**2.8**	**82.0**	**2.3**
Unprocessed food products	5.3	4.2	6.9	0.3
of which: fruit	*8.9*	*6.0*	*1.0*	*0.1*
vegetables	*13.6*	*5.4*	*1.3*	*0.1*
Processed food products	2.4	2.4	9.8	0.2
Non-food and non-energy products	2.2	1.9	31.9	0.6
of which: clothing and footwear	*4.7*	*3.7*	*2.1*	. .
computers	*-11.5*	*-14.5*	*0.2*	. .
Unregulated services	3.9	3.5	30.3	1.1
of which: medical and dental services	*4.6*	*3.7*	*2.4*	*0.1*
repairs	*3.2*	*3.5*	*5.2*	*0.2*
cafés, restaurants, pizza parlours and canteens	*4.2*	*3.8*	*8.1*	*0.3*
hotels and other accommodation (2)	*5.4*	*4.6*	*2.8*	*0.1*
insurance	*11.6*	*5.0*	*0.4*	. .
banking (3)	*7.2*	*8.9*	*0.6*	*0.1*
Unregulated products	-1.9	2.3	3.1	0.1
Regulated goods and services	**0.7**	**2.2**	**18.0**	**0.4**
Medicines	-1.4	-3.8	2.9	-0.1
Tobacco products	1.8	8.3	1.9	0.2
Rents	2.3	2.8	3.1	0.1
Public service charges	0.5	2.7	10.0	0.3
of which: energy	*-3.4*	*4.1*	*2.8*	*0.1*
post-office banking	*-0.5*	*26.7*	*0.2*	. .

Source: Based on Eurostat data.

(1) General price index for the population as a whole. – (2) Includes camping, holiday tours, wagon-lits and couchettes. – (3) Includes commissions on current accounts, safe-deposit boxes, credit cards, safekeeping of securities, and trading of securities.

sector, with the differential vis-à-vis Germany and France equal to 3.6 and 1.6 points respectively. The difference was attributable to an acceleration in per capita earnings in Italy and a deceleration in the other countries.

More detailed information on the costs of Italian firms is provided by the input and output price indicators used by Istat for the national accounts. The rate of increase in unit variable costs in manufacturing was 2.7 per cent on average in the first nine months of the year, up from 1 per cent in 2002. The main factors in the rise were higher costs for labour and for imported inputs (Table 19). As in 2002, unit variable costs increased more than output prices (which rose by 1.6 per cent), causing unit profit margins to contract again. In the service sector, however, margins widened owing to the acceleration in output prices and a decline in the rate of increase in unit variable costs (quite modest for labour costs, more pronounced for other inputs).

Table 19

Unit variable costs and output deflator in Italy (1)
(percentage changes on year-earlier period)

	Manufacturing			Services (excluding public services)		
	Weights in 1995	2002	2003 Jan.-Sept.	Weights in 1995	2002	2003 Jan.-Sept.
Unit variable costs	**100.0**	**1.0**	**2.7**	**100.0**	**2.5**	**1.9**
Labour inputs	35.9	3.8	5.9	73.6	2.7	2.5
Other inputs	64.1	-0.5	0.9	26.4	2.2	0.4
Domestic	*38.3*	*0.9*	*1.5*	*19.9*	*3.1*	*-0.7*
Imported	*25.8*	*-2.2*	*. .*	*6.5*	*-0.4*	*3.4*
Output prices	**100.0**	**0.5**	**1.6**	**100.0**	**1.8**	**2.7**
Domestic	*58.3*	*3.0*	*2.0*	*91.3*	*1.8*	*2.6*
Imported	*41.7*	*-1.9*	*1.1*	*8.7*	*2.3*	*2.6*

Source: Istat.
(1) Indicators excluding intrasectoral transactions.

In foreign markets, despite the slackening of demand and the strong appreciation of the euro, Italian firms raised their export prices slightly. In the first eleven months of the year average unit export values on non-EU markets rose by 0.5 per cent, compared with an increase of 1.8 per cent with respect to the year-earlier period in the producer prices of goods sold in the domestic market. Export prices on EU markets rose by 1.2 per cent.

Inflation expectations

The professional forecasters surveyed by *Consensus Forecasts* in February expect annual inflation in 2004 of 2.2 per cent in Italy and 1.7 per cent in the euro area (Table 20). Expectations for the euro area were slightly higher (0.2 percentage points) than they had been in the October survey, owing to the expected impact of higher indirect taxes in France and Germany. The figures discount a fall in oil prices in the course of the year, as signaled by the prices of oil futures.

Table 20

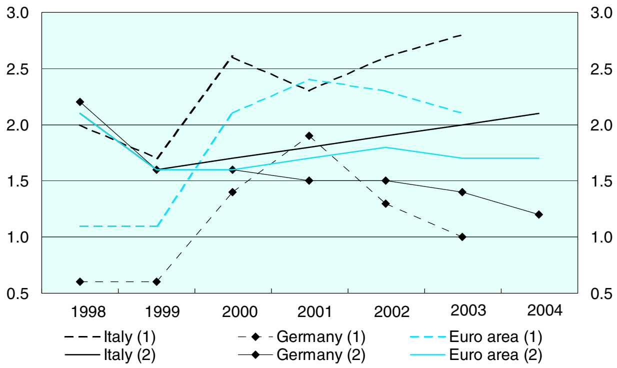
Professional forecasters' inflation expectations for 2004 and 2005 in the euro area measured by *Consensus Forecasts*

	Forecasts for 2004		Forecasts for 2005
	October 2003 survey	February 2004 survey	February 2004 survey
Italy	2.1	2.2	2.1
France	1.6	1.8	1.7
Germany	1.0	1.1	1.2
Spain	2.7	2.6	2.6
Euro area	1.5	1.7	1.7

In January 2003 the expected inflation differentials for 2004 vis-à-vis the euro area and Germany were 0.3 and 0.6 percentage points respectively; in January this year the projections for 2005 were 0.4 and 0.9 points (Figure 29).

Figure 29

Actual inflation and inflation expectations of professional forecasters
(percentage changes)



Source: Eurostat for inflation, *Consensus Forecasts* for inflation expectations.
(1) Harmonized index of consumer prices; percentage change on previous year. – (2) Expectations of professional forecasters in January of the year indicated for average inflation in the subsequent year.

The quarterly *Consensus Forecasts* survey in December predicted a slower easing in Italy's rate of inflation than had been expected at the end of the summer. Consumer price inflation is not projected to fall to 2 per cent until the third quarter of this year, whereas in the euro area it is expected to go below that rate in the first quarter.

According to the surveys of households conducted by the European Commission, consumer expectations in the euro area regarding price developments over the following twelve months remained good in the second half of 2003, confirming the virtual absence of inflationary pressures. In Italy, the percentage of consumers expecting a slowdown in inflation increased over the course of 2003.

The quarterly survey of a sample of about 450 firms conducted jointly by the Bank of Italy and *Il Sole 24 Ore* in December found that the respondents expected to raise prices by 1.1 per cent, 1.6 percentage points less than the expected rate of consumer price inflation for the same period. Compared with the September survey, the responding firms attributed greater importance to labour costs among the factors of prospective inflation.

The indicators of longer-term inflation expectations that can be gleaned from the financial markets suggest that inflation in the euro area will remain below 2 per cent.

THE PUBLIC FINANCES IN THE EURO AREA AND ITALY

Highlights of the outturn for 2003

The ratio of general government net borrowing to GDP in the euro area increased in 2003 for the third successive year, rising from 2.3 per cent in 2002 to 2.7 per cent. The deterioration was primarily due to the persistence of unfavourable cyclical conditions. In many countries the budget outturn was significantly worse than the objective set in their stability programmes.

In Italy general government net borrowing rose from 2.3 to 2.4 per cent of GDP (Table 21), which was well below the figures for France and Germany. The initial objective of 0.8 per cent set in July 2002 was gradually raised to 2.5 per cent in September 2003. The revisions were made in the light of the outturn for the budget in 2002, which fell short of expectations, and the successive reductions in the estimate of economic growth.

The deficit in 2003 was curbed by the further fall of 0.5 percentage points in the ratio of interest payments to GDP and the greater recourse to temporary measures, which rose from about 1.5 per cent of GDP in 2002 to about 2 per cent. The primary surplus decreased by 0.6 percentage points to 2.9 per cent of GDP, continuing the downward trend that began in 1998 (Figure 30). Primary current expenditure increased by 5.8 per cent and as a ratio to GDP rose by 1 percentage point to 39.4 per cent. Investment, excluding the effects of property sales, expanded by 6.9 per cent; investment grants contracted by 2.9 per cent. The sum of the two latter items remained unchanged in relation to GDP. Taxes and social security contributions rose by 0.9 percentage points to 42.8 per cent of GDP, in connection with the revenues from tax regularization schemes accruing in 2003 (1.5 per cent of GDP, of which about one third remains to be received).

The general government borrowing requirement, net of settlements of past debts and privatization receipts, rose from 3 per cent of GDP in 2002 to 3.5 per cent. It was curbed by temporary measures to the tune of just over 2 percentage points.

Table 21

General government net borrowing, borrowing requirement and debt in Italy (1)

(as a percentage of GDP)

	2000	2001	2002	2003
Net borrowing (2)	1.8	2.6	2.3	2.4
Primary surplus (2)	4.6	3.9	3.5	2.9
Interest payments	6.5	6.5	5.8	5.3
Gross borrowing requirement ...	2.2	4.0	3.4	2.8
Net borrowing requirement (3)	3.1	3.5	3.0	3.5
Debt	111.2	110.6	108.0	106.2

Sources: Istat; Bank of Italy for the borrowing requirement and the debt.
(1) Rounding may cause discrepancies in totals. – (2) The figure for 2000 does not include the proceeds of the sale of UMTS licences (€13,815 million or 1.2 per cent of GDP). – (3) Net of settlements of past debts and privatization receipts.

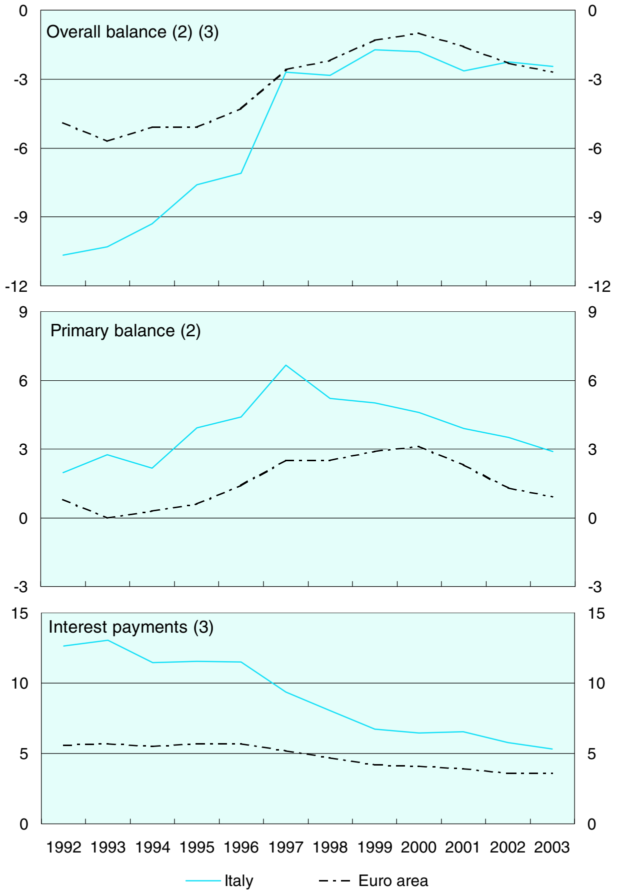
The difference between the net borrowing requirement and net borrowing remained large, 1.1 per cent of GDP, in line with the figures for the four preceding years.

The public debt grew by €20.9 billion to €1,381.6 billion. The effect of the net borrowing requirement and settlements of past debts (€53.1 billion) was partly offset by privatization receipts (up from €1.9 billion in 2002 to €16.8 billion, which derived mainly from the transformation of Cassa Depositi e Prestiti into a company limited by shares), the reduction in the liquidity held by the Treasury with the Bank of Italy (€8 billion), issue discounts (€3.4 billion) and the appreciation of the euro (€3.4 billion). As a ratio to GDP, the debt declined from 108 to 106.2 per cent.

Figure 30

Italy and the euro area: general government overall balance, primary balance and interest payments (1)

(as a percentage of GDP)



Sources: Based on Istat and European Commission data.
(1) Following the switch to ESA95, there is a break in the euro-area series between 1994 and 1995. For the euro-area data for 2002 and 2003, see note 2 to Table 22. – (2) Does not include the proceeds of sales of UMTS licences. – (3) Includes the effects of swaps and forward rate agreements.

Objectives and results in the euro area

The public accounts of most of the euro-area countries deteriorated in 2003. Overall, general government net borrowing rose by 0.4 percentage points to 2.7 per cent of GDP (Table 22). On the basis of the stability programme updates submitted in late 2002 and early 2003, it should have declined by 0.4 percentage points. The failure to achieve the planned results was mainly due to lower-than-expected growth in economic activity.

Particularly large deficits were rung up in France (4.1 per cent of GDP), Germany (3.9 per cent), the Netherlands (3 per cent) and Portugal (2.8 per cent).

Public debt in the euro area rose from 69.2 per cent of GDP in 2002 to 70.4 per cent. The ratio rose significantly in Germany and France. In the latter country it exceeded the 60 per cent threshold, rising from 58.6 to 63 per cent of GDP.

Among the EU countries that have not adopted the euro, the budget deficit of the United Kingdom amounted to 3.1 per cent of GDP.

Considering the 2002 budget outturns, in January 2003 the EU Council launched the excessive deficit procedure against Germany and in June 2003 against France. At the same time it recommended that these countries adopt measures within four months that would bring their deficits below the 3 per cent threshold by 2004.

In October and November respectively the European Commission found that France and Germany had not taken steps that would permit them to comply fully with the Council's indications. It recommended calling on the two countries to achieve a larger-than-planned deficit reduction in 2004 and proposed extending by one year, to 2005, the time limit within which they should eliminate their excessive deficits.

On 25 November the EU Council decided to hold the excessive deficit procedure in abeyance for the two countries and not to adopt the Commission's recommendations formally; continuing with the procedure would have been a further step towards the imposition of sanctions. In the Conclusions directed to each of the two countries the Council recommended that in the two years 2004-05 France and Germany should achieve overall reductions in their cyclically-adjusted net borrowing of respectively 1.4 and 1.1 percentage points of GDP and, in accordance with the Commission's proposal, extended the deadline for the reduction of their deficits below the 3 per cent threshold to 2005.

With reference to the Conclusions adopted by the EU Council, on 25 November the Governing Council of the European Central Bank stated that the failure to go along with the rules and procedures foreseen in the Stability and Growth Pact threatened to undermine the credibility of the institutional framework and the confidence in sound public finances of member states across the euro area.

At the beginning of this year the Commission submitted the Conclusions of the EU Council of 25 November to the European Court of Justice for it to clarify the legal position with regard to the manner of applying the provisions of the Stability and Growth Pact.

On the basis of the latest updates of the euro-area countries' stability programmes, net borrowing in the area should fall in 2004 by 0.4 percentage points to 2.3 per cent of GDP. Among the countries that recorded large budget deficits in 2003, the objectives for net borrowing are 3.6 per cent of GDP in France, 3.3 per cent in Germany, 2.3 per cent in the Netherlands and 2.8 per cent in Portugal (Table 23). According to these figures, the deficits of France and Germany will exceed the 3 per cent threshold for the third successive year. The area's public debt should fall to 69.3 per cent of GDP.

The area is not expected to achieve the goal of a budgetary position close to balance or in surplus within the forecasting horizon of the stability programmes, which extends to 2007. In the previous updates this goal was to have been achieved in 2006.

France is planning to bring its net borrowing below the 3 per cent threshold in 2005, when the

Table 22

Euro area and EU: general government net borrowing expenditure, revenue and debt (1)

(as a percentage of GDP)

	Euro area				EU			
	2002	2003	2004	2005	2002	2003	2004	2005
Net borrowing								
Outturn for 2002 and preliminary outturn for 2003 (2) ..	2.3	2.7	-	-	2.0	2.5	-	-
Objectives set in stability and convergence programmes (3)	2.2	2.7	2.3	1.8	2.0	2.6	2.2	1.7
European Commission (October 2003)	2.2	2.8	2.7	2.7	1.9	2.7	2.6	2.4
OECD (December 2003)..	2.3	2.7	2.6	2.7	2.0	2.7	2.6	2.7
Cyclically-adjusted net borrowing								
European Commission (October 2003)	2.3	2.3	2.1	2.1	2.0	2.2	2.0	1.9
OECD (December 2003)..	1.9	1.7	1.5	1.8	1.7	1.7	1.5	1.9
Expenditure and revenue (European Commission, October 2003)								
Expenditure	48.3	49.0	48.5	48.0	47.5	48.4	48.0	47.6
of which: interest payments	*3.6*	*3.6*	*3.4*	*3.4*	*3.3*	*3.3*	*3.2*	*3.2*
Revenue	46.1	46.2	45.7	45.4	45.5	45.7	45.4	45.2
Debt								
Outturn for 2002 and preliminary outturn for 2003 (2) ..	69.2	70.4	-	-	62.8	64.1	-	-
Objectives set in stability and convergence programmes (3)	69.5	70.0	69.3	68.5	62.9	63.7	63.3	62.7
European Commission (October 2003)	69.0	70.4	70.7	70.7	62.5	64.1	64.4	64.4
OECD (December 2003)..	69.0	70.0	70.5	70.7	62.5	63.8	64.4	64.7

Sources: Based on: European Commission, *Autumn Forecasts*, October 2003; OECD, *Economic Outlook*, December 2003; and the updates to stability and convergence programmes submitted starting in the last few months of 2003.

(1) GDP-weighted averages. – (2) Preliminary, partly estimated figures based on data made public in the press releases of individual countries. – (3) Means of the figures contained in the updates to stability and convergence programmes submitted starting in the last few months of 2003. The means are calculated using European Commission weights (October 2003).

Table 23

Euro area and EU: objectives set for net borrowing and debt in the updates to stability and convergence programmes (1)
(as a percentage of GDP)

	Net borrowing (2)						Debt					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
							Stability programmes					
Germany (3)	3.5	4.0	3.3	2.5	2.0	1.5	60.8	64.0	65.0	65.5	65.5	65.0
France	3.1	4.0	3.6	2.8	1.9	1.1	59.0	61.4	62.8	62.9	62.1	60.6
Italy	2.3	2.5	2.2	1.5	0.7	0.0	106.7	106.0	105.0	103.0	100.9	98.6
Spain	-0.1	-0.5	0.0	-0.1	-0.2	-0.3	54.5	51.8	49.6	47.7	45.7	43.8
Netherlands	1.6	2.3	2.3	1.6	0.9	0.6	52.4	54.0	54.5	53.7	53.0	52.2
Belgium	-0.1	-0.2	0.0	0.0	0.0	-0.3	106.1	102.3	97.6	93.6	90.1	87.0
Austria	0.1	1.3	0.7	1.5	1.1	0.4	66.7	66.4	65.8	64.1	62.3	59.9
Greece	1.2	1.4	1.2	0.5	0.0	….	104.7	101.7	98.5	94.6	90.5	….
Finland	-4.2	-2.3	-1.7	-2.1	-2.1	-2.2	42.7	45.1	44.7	44.9	45.0	44.6
Ireland	0.4	0.4	1.1	1.4	1.1	….	32.4	33.1	33.3	33.5	33.3	….
Portugal	2.7	2.9	2.8	2.2	1.6	1.1	58.1	59.5	60.0	59.7	58.6	57.0
Luxembourg	-2.4	0.6	1.8	2.3	1.5	….	5.7	4.9	5.2	5.0	4.4	….
							Convergence programmes					
United Kingdom	2.1	3.3	2.6	2.4	2.1	2.0	37.9	39.3	40.2	40.8	41.1	41.4
Sweden	-0.2	-0.4	-0.6	-1.4	-1.9	….	52.7	51.7	51.5	50.0	48.3	….
Denmark	-1.7	-1.2	-1.3	-1.8	-1.9	….	45.5	42.7	41.2	38.7	36.4	….

Sources: Based on the updates to stability and convergence programmes submitted starting in the last few months of 2003.
(1) Where programmes contain more than one scenario, figures for an intermediate scenario have been taken or calculated. – (2) Does not include the proceeds of sales of UMTS licences, except in the case of the United Kingdom, for which the figure for each year includes receipts amounting to about 0.1 per cent of GDP. – (3) Figures updated on the basis of the information released by the German Ministry of Finance in January 2004.

objective is 2.6 per cent of GDP with the most favourable scenario and 2.9 per cent with the more prudent scenario. The further improvement planned for the two following years would take the deficit to 0.7 per cent of GDP in 2007 (1.5 per cent with the more prudent scenario). The programme calls for improvement between 2003 and 2007 to be achieved by reducing expenditure in relation to GDP.

Germany also plans to eliminate “excessive deficit” in 2005, with an objective for net borrowing set at 2.5 per cent of GDP. It is intended that the improvement in the public finances should continue and result in a deficit equal to 1.5 per cent of GDP in 2007. The programme envisages a reduction in expenditure of about 4.5 percentage points of GDP between 2003 and 2007 and a reduction in revenue of about 2 percentage points.

According to these plans, France and Germany intend to reduce their cyclically-adjusted net borrowing by respectively 1.4 and 1.1 percentage points of GDP in the two years 2004-05.

The EU Council, has stated that, on the basis of plausible hypotheses for economic activity and the public finances, the adjustments planned by France and Germany do not appear sufficient to bring their deficits below the 3 per cent threshold in 2005. In Germany’s case, the adjustments are likely to prove insufficient if the macroeconomic framework and the rate of increase in expenditure turn out to be less favourable than expected.

Objectives and results in Italy

The Government repeatedly revised its forecasts for the public finances in 2003 in connection with the budget outturn for 2002 and, above all, the successive reductions in the expected growth in economic activity.

In July 2002 the Government's Economic and Financial Planning Document for the years 2003-06 set the following objectives for 2003: net borrowing equal to 0.8 per cent of GDP (compared with 1.1 per cent expected at the time for 2002), a primary surplus equal to 5.1 per cent, a reduction of 0.4 percentage points in the fiscal burden (to 41.9 per cent), and a reduction of 4 percentage points in the debt ratio (to 104.5 per cent). Economic growth of 2.9 per cent was assumed (Table 24).

In the September update of the Economic and Financial Planning Document, the Government revised the objective for net borrowing upwards to 1.5 per cent of GDP and that for the primary surplus downwards to 4.5 per cent. These changes were made as a consequence of the upward revision of the estimate for the budget deficit in 2002 (from 1.1 to 2.1 per cent of GDP) and the reduction in forecast economic growth to 2.3 per cent. Primary current expenditure was projected to increase by 2.9 per cent while declining in relation to GDP by 0.5 percentage points to 37.6 per cent.

Table 24

Italy: public finance objectives, estimates and outturns for the year 2003

(billions of euros, except as indicated)

	State sector borrowing requirement	General government				Memorandum items	
		Net borrowing	Primary surplus	Interest payments	Debt	Real GDP growth rate	Nominal GDP
Objectives							
EFPD (July 2002)	….	10,8	67,6	78,4	….	2,9	1,325.4
as a percentage of GDP	….	*0,8*	*5,1*	*5,9*	*104,5*		
EFPD update (September 2002)	36,0	19,6	58,6	78,2	….	2,3	1,305.0
as a percentage of GDP	*2,8*	*1,5*	*4,5*	*6,0*	*105,0*		
Stability programme update (November 2002)	….	….	….	….	….	2,3	1.305.0
as a percentage of GDP	….	*1,5*	*4,5*	*6,0*	*105,0*		
Estimates released during the year							
QRBR and FPR update (April 2003)	42,0	30,1	41,3	71,4	….	1,1	1,307.1
as a percentage of GDP	*3,2*	*2,3*	*3,2*	*5,5*	*105,9*		
EFPD (July 2003)	43,0	30,4	38,9	69,3	….	0,8	1,303.7
as a percentage of GDP	*3,3*	*2,3*	*3,0*	*5,3*	*105,6*		
FPR and EFPD update (September 2003)	45,0	32,9	36,4	69,3	….	0,5	1.300.2
as a percentage of GDP	*3,5*	*2,5*	*2,8*	*5,3*	*106,0*		
Stability programme update (December 2003)	….	….	….	….	….	0,5	1,300.0
as a percentage of GDP	….	*2,5*	*2,8*	*5,3*	*106,0*		
Outturns (March 2004)	38,2	31,8	37,5	69,3	1,381.6 (2)	0,3	1,300.9
as a percentage of GDP	*2,9*	*2,4*	*2,9*	*5,3*	*106,2*		

Legend: EFPD = Economic and Financial Planning Document
QRBR = Quarterly Report on the Borrowing Requirement
FPR = Forecasting and Planning Report
(1) Net of settlements of past debts and privatization receipts. — (2) Includes the effects of the revisions described in the box "Changes to the statistics on general government borrowing requirement and debt".

General government expenditure and revenue

Expenditure

General government expenditure amounted to €634.6 billion in 2003, an increase of 5.8 per cent on 2002; in relation to GDP it rose from 47.6 to 48.8 per cent. Excluding extraordinary receipts from property sales, included in the accounts under capital expenditure with a negative sign, it increased by 4.3 per cent and as a ratio to GDP rose from 48.5 to 49 per cent.

Interest payments fell by €3.3 billion, declining from 5.8 to 5.3 per cent of GDP. This item benefited from the progressive replacement of high-yielding bonds with new issues. Swaps reduced outlays by €1.9 billion in 2002 and €0.6 billion in 2003.

Primary current expenditure increased by 5.8 per cent and rose from 38.4 to 39.4 per cent of GDP. Final consumption increased from 19 to 19.5 per cent of GDP and social benefits in cash from 17 to 17.2 per cent. Other current expenditure, which includes production subsidies and transfers to the European Union, increased by 11 per cent and rose from 2.5 to 2.7 per cent of GDP.

Among the components of final consumption, compensation of employees grew by 5.3 per cent and rose from 10.8 to 11 per cent of GDP. Total gross earnings grew by 4.4 per cent. The rise was fueled by the renewal of the labour contracts for 2002-03 for the employees of government departments, schools and some other public entities. The remaining labour contracts were renewed at the end of 2003 with no effect on the year's expenditure or are still being negotiated. Intermediate consumption grew by 8.8 per cent and rose from 5 to 5.3 per cent of GDP, after a small fall in the ratio in 2002. The increase was partly due to the postponement of some expenditure in 2002 following the restrictions imposed by the Government in the last part of that year. Purchases of social benefits in kind, which are concentrated in the health sector, remained unchanged at 2.6 per cent of GDP.

The slowdown in the increase in social benefits in cash, from 5.8 to 4.8 per cent, reflected the smaller automatic adjustment of pensions to inflation (2.2 per cent, as against 3 per cent in 2002). In 2003 the minimum retirement age for public-sector employees with 35 years of contributions was raised from 55 to 56.

Capital expenditure – excluding the proceeds of property securitizations and sales (€2.7 billion in 2003, as against €11 billion in 2002), which are accounted for as a reduction in investment – increased by 2.7 per cent; in relation to GDP it remained unchanged at 4.3 per cent. Again excluding the above-mentioned items, investment increased by 6.9 per cent and rose from 2.8 to 2.9 per cent of GDP. Investment grants diminished from 1.4 to 1.3 per cent of GDP.

Revenue

General government revenue grew by 5.5 per cent to €602.8 billion, while in relation to GDP it rose by 1 percentage point to 46.3 per cent.

Tax revenue and social security contributions rose by 0.9 percentage points of GDP to 42.8 per cent. The increases in capital taxes (1.4 percentage points of GDP) and social security contributions (0.3 points) were partly offset by the falls of 0.6 and 0.2 percentage points of GDP in direct and indirect taxes.

Capital taxes, which rose by 3 per cent to €20.2 billion, included the receipts accruing in respect of the tax regularization schemes introduced in the budget for 2003 (€19.3 billion) and the repatriation and regularization of assets held abroad (€0.6 billion). The amount stated for the tax regularization schemes includes that of expected instalment payments in coming years, especially 2004.

Social security contributions rose by 6 per cent, which was more than the increase in total gross earnings (3.8 per cent).

Direct taxes declined by 0.9 per cent, indirect taxes rose by 1.8 per cent. The results are less favourable than those of the assessments of the main taxes for the first eleven months of the year.[1] The differences may reflect the increase in tax refunds compared with 2002.[2]

cont. ➤

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

	2002	2003	Percentage change on previous year 2002	Percentage change on previous year 2003
EXPENDITURE				
Final consumption expenditure ...	238,921	253,438	4.1	6.1
of which:				
compensation of employees	*136,423*	*143,606*	*4.1*	*5.3*
intermediate consumption	*63,411*	*69,022*	*1.7*	*8.8*
purchases of social benefits in kind	*33,084*	*33,258*	*5.7*	*0.5*
Social benefits in cash	214,035	224,210	5.8	4.8
Interest payments	72,547	69,291	-8.8	-4.5
Other current expenditure	31,139	34,561	5.2	11.0
Current expenditure	**556,642**	**581,500**	**2.9**	**4.5**
as a percentage of GDP	*44.2*	*44.7*		
Current expenditure, net of interest payments	**484,095**	**512,209**	**4.9**	**5.8**
as a percentage of GDP	*38.4*	*39.4*		
Investment (1)	23,768	34,428	-21.3	44.9
Investment grants	17,823	17,302	13.6	-2.9
Other capital expenditure	1,774	1,365	-9.8	-23.1
Capital expenditure (1)	**43,365**	**53,095**	**-9.4**	**22.4**
Total expenditure, net of interest payments (1)	**527,460**	**565,304**	**3.6**	**7.2**
as a percentage of GDP	*41.8*	*43.5*		
TOTAL EXPENDITURE (1)	**600,007**	**634,595**	**1.9**	**5.8**
as a percentage of GDP	*47.6*	*48.8*		
REVENUE				
Direct taxes	178,964	177,370	-2.0	-0.9
Indirect taxes	185,116	188,522	4.9	1.8
Social security contributions	161,325	171,028	4.8	6.0
Other current revenue	40,613	41,345	1.3	1.8
Current revenue	**566,018**	**578,265**	**2.3**	**2.2**
as a percentage of GDP	*44.9*	*44.5*		
Capital revenue	**5,586**	**24,498**	**64.2**	**338.6**
of which:				
capital taxes	*2,986*	*20,204*	*180.4*	*576.6*
TOTAL REVENUE	**571,604**	**602,763**	**2.7**	**5.5**
as a percentage of GDP	*45.3*	*46.3*		
Net borrowing	**28,403**	**31,832**	**-12.0**	**12.1**
as a percentage of GDP	*2.3*	*2.4*		
Primary surplus	**44,144**	**37,459**	**-6.7**	**-15.1**
as a percentage of GDP	*3.5*	*2.9*		
Memorandum item:				
GDP	*1,260,428*	*1,300,926*	*3.4*	*3.2*

Source: Based on Istat data.
(1) This item includes the proceeds of sales of real estate entered with a negative sign.

Direct tax revenue was also influenced by: the implementation of the first step of the reform of personal income tax (see the box "The first step of the reform of personal income tax", Economic Bulletin, No. 36, 2003); the fall in receipts of the flat-rate tax on interest income and capital gains; the fall in receipts generated by one-off measures introduced in 2001 and 2002; the smaller balances paid in respect of personal and corporate income tax.[3] The latter were affected by the weak economic conditions and by investment incentives.

The growth in indirect taxes was reduced by the fall in lotto and lottery receipts. It was boosted instead by the introduction of a requirement for banks to make a payment, equal to 1 per cent of the taxes collected the previous year by way of the unified tax payment form, to be offset against the taxes collected the following year. In 2003 this measure produced a one-off increase of €2.7 billion in indirect tax revenue.

[1] The direct and indirect taxes included in the general government consolidated accounts are the sum of central and local government taxes measured on an accrual basis. Central government taxes are obtained by adjusting the state budget tax assessment data (on a so-called legal accrual basis, see the box "Tax revenue", Economic Bulletin, No. 37, 2003) in the light of the accounting conventions established by ESA95 (for the list of adjustments, see Istat, Conti e aggregati economici delle Amministrazioni pubbliche, 3 July 2003, Table 13). One of the most important adjustments is that for tax refunds since, unlike the state budget, the general government accounts include taxes net of accrued refunds.

[2] On the basis of the figures published in the Quarterly Report on the Borrowing Requirement as of 30 June 2003, tax refunds increased sharply in the first six months of last year.

[3] Reference is made for each tax to the assessment data (on a legal accrual basis) for the first eleven months of 2003. The information is drawn from Bollettino delle entrate tributarie, published by the Fiscal Policies Department of the Ministry for the Economy and Finance.

Changes to the statistics on general government borrowing requirement and debt

On the occasion of Italy's notification to the EU Commission of its public accounts data on 1 March, the series on the general government borrowing requirement and debt were significantly revised in the light of the availability of new data on the amount of postal current accounts held by the private sector and, to a lesser extent, the results of checks on the procedures used to determine the value of the government securities held by social security institutions belonging to the general government sector.

The impact of the changes is significant starting in 1999. Including the effects of ordinary statistical revisions, the borrowing requirement has been revised upwards by €1.6 billion in 1999, €0.7 billion in 2000, €5.2 billion in 2001 and €5 billion in 2002; the debt for those years has been increased by €6.3 billion, €7 billion, €12.2 billion and €17.8 billion respectively.

Postal current accounts. *– Through 1998 the estimates on current accounts held by private-sector persons were provided by the Treasury Ministry. For that year, the Ministry's valuation implied a volume of €40 million for such accounts. In 1999 the Ministry suspended its estimates. From then on, in view of the lack of data, in calculating the public debt it was assumed that postal current accounts remained basically unchanged at their 1998 level (see Tables a16 and a17 in the abridged English version of the Bank of Italy's Annual Reports, various years).*

The data now available are the product of joint activity by the institutions involved. In 1998 the Ministry and the Bank of Italy asked Poste Italiane S.p.A. for data on the postal current accounts held by the private sector. The Ministry and Poste Italiane signed a convention in 1999 providing for a sectoral breakdown of the data on changes in current account balances. In 2001 Poste Italiane furnished its first set of data, which were considered not yet fully reliable in statistical terms. Later, in connection with the start-up of Bancoposta, Poste Italiane developed its procedures in cooperation with the Bank of Italy. At the end of 2002 Poste Italiane gave the Bank the first data on the balances held by local authorities, social security institutions and private sector persons other than financial intermediaries. Since November 2003 these data have been used for the ESCB's money supply statistics. During 2003 Poste Italiane also reconstructed the series on postal current account balances held by all private-sector persons beginning in 1999. In February 2004, after their validation, the data for 1999-2003 were released.

Based on the new data supplied by Poste Italiane, the postal balances held by the private sector have increased significantly since 2001, from €3.3 billion at the end of 2000 (about the same as in 1997) to €16.8 billion at the end of 2003 (equivalent to 1.3 per cent of GDP). The data have been used to revise the previously published figures on the general government borrowing requirement and the public debt. The borrowing requirement was revised upwards by €3.2 billion for 1999, €0.1 billion for 2000, €5.5 billion for 2001 and €4.2 billion for 2002. The corresponding debt revisions are equal to €3.2 billion, €3.3 billion, €8.7 billion and €13 billion.

Securities held by social security institutions. *– To determine the size of the general government borrowing requirement and consolidated debt, the sector's total liabilities are decreased by the amount of government securities held by social security institutions. The data are derived from financial intermediaries' supervisory reports to the Bank of Italy. Checking its own procedures, the Bank found that the data on the government securities holdings of social security institutions also included securities held by private pension funds. The checks covered the period from 1991 to 2003. For the years from 1991 to 1998, preliminary revisions indicate increases in the public debt ranging from €2 billion to €5 billion. For subsequent years, the borrowing requirement has been revised downwards by €1.6 billion for 1999 and €0.3 billion for 2001 and upwards by €0.6 billion for 2000 and €1 billion for 2002. The debt has been revised upwards by €3.1 billion for 1999, €3.7 billion for 2000, €3.4 billion for 2001 and €4.4 billion for 2002.*

cont. ➤

The impact of statistical revisions on general government borrowing requirement and debt

	Total borrowing requirement (1)						Debt					
	Previous data (2)	Revisions				New data	Previous data (2)	Revisions				New data
		Postal current accounts of private sector (3)	Govern-ment securities of social security institutions	Other (4)	Total			Postal current accounts of private sector (3)	Govern-ment securities of social security institutions	Other (4)	Total	
	Millions of euros											
1999	12,899	3,166	-1,635	100	1,631	14,530	1,273,243	3,166	3,138	1	6,305	1,279,548
2000	25,141	92	589	-31	650	25,791	1,290,459	3,258	3,727	5	6,990	1,297,449
2001	43,262	5,491	-294	-45	5,152	48,414	1,336,038	8,749	3,433	14	12,196	1,348,234
2002	37,415	4,209	956	-120	5,045	42,460	1,342,887	12,958	4,389	450	17,797	1,360,684
2003 (6) ...	31,768	3,835	679	0	4,514	36,282	1,359,713	16,793	5,068	0	21,861	1,381,574
	As a percentage of GDP (5)											
1999	1.16	0.29	-0.15	0.01	0.15	1.31	114.91	0.29	0.28	0.00	0.57	115.48
2000	2.16	0.01	0.05	-0.00	0.06	2.21	110.62	0.28	0.32	0.00	0.60	111.22
2001	3.55	0.45	-0.02	-0.00	0.42	3.97	109.64	0.72	0.28	0.00	1.00	110.64
2002	2.97	0.33	0.08	-0.01	0.40	3.37	106.54	1.03	0.35	0.04	1.41	107.95
2003 (6) ...	2.44	0.29	0.05	0.00	0.35	2.79	104.52	1.29	0.39	0.00	1.68	106.20

(1) Gross of settlements of past debts and privatization proceeds. – (2) For 1999-2002, see Tables a16 and a17, in the English version of the Bank's Annual Report for 2002. For 2003, the figures do not take account of new data on postal current accounts and social security institutions' government securities holdings. – (3) Data provided by Poste Italiane S.p.A. – (4) Ordinary revision of base data. For 2002 the adjustment involves mainly bank loans to central government. – (5) Based on the GDP data released by Istat on 1 March 2004.

The transformation of Cassa Depositi e Prestiti into a company limited by shares: the impact on the public debt

Decree Law 269 of 30 September 2003, ratified by Law 326 of 24 November 2003, converted Cassa Depositi e Prestiti into a company limited by shares, CDP S.p.A. A decree issued on 5 December 2003 by the Minister for the Economy and Finance determined the company's functions and capital endowment.

In connection with the transformation, effective as of 11 December, the CDP S.p.A. is now classified in the national accounts outside the general government sector, among non-bank financial intermediaries.

For the purposes of the statistics published by the Bank of Italy, the effects of the reclassification of CDP were calculated on the basis of data supplied by CDP S.p.A. itself, except for the data on postal current accounts held by private-sector persons, which were supplied by Poste Italiane S.p.A.

Had CDP not been transformed into a company limited by shares and so reclassified, at the end of 2003 its liabilities would have contributed to public debt for €154.1 billion: €82.1 billion in postal bonds (at face value), €54 billion in postal savings books, €16.8 billion in postal current accounts held by the private sector, and €1.2 billion in other private-sector deposits.

With the transformation, CDP's assets and liabilities were divided between the State and CDP S.p.A. After the reclassification, the following items are now included in the public debt: i) the portion allotted to central government of the liabilities that would have been included in the debt even without the reclassification (€75.5 billion out of the total of €154.1 billion); ii) the part of CDP S.p.A.'s assigned assets that consist in claims on general government and that in the absence of reclassification would not have been included in the consolidated public debt (€78 billion). The first component comprises a part of outstanding post office bonds (€57.5 billion), postal current accounts held by the private sector (€16.8 billion) and other private-sector deposits (€1.2 billion). The second comprises the portions allotted to CDP S.p.A. of deposits with the State Treasury (€30.5 billion) and of loans to local government (€47.5 billion).

Overall, the items included in the public debt at the end of 2003 amounted to €153.5 billion. As a consequence, the transformation and reclassification of CDP reduced the general government debt in 2003 by €0.6 billion.

cont. ➤

In order to achieve the objectives, in the autumn of 2002 additional corrective measures were adopted, officially estimated to amount to one per cent of GDP (see the box "The implementing provisions of the budget for 2003", Economic Bulletin, No. 36, 2003). A large part of the adjustment was of a temporary nature; the bulk of the increase in revenue was to come from tax regularization schemes.

In April 2003, in the Quarterly Report on the Borrowing Requirement and the update of the Forecasting and Planning Report, the Government raised the estimate of net borrowing further to 2.3 per cent of GDP and reduced that of the primary surplus to 3.2 per cent. These revisions reflected the decrease in the estimate of economic growth from 2.3 to 1.1 per cent and the worse-than-expected outturn of the budget for 2002 (with a deficit equal to 2.3 per cent of GDP instead of 2.1 per cent). Primary current expenditure was now expected to increase by 4.5 per cent, from 38.2 to 38.4 per cent of GDP. The fiscal burden was forecast to rise by 0.2 percentage points and the debt ratio to fall from 106.7 to 105.9 per cent of GDP.

In July the Government's Economic and Financial Planning Document for the years 2004-07 reduced the estimate of the primary surplus for 2003 to 3 per cent of GDP in connection with the further decrease in the

The impact of the transformation of Cassa Depositi e Prestiti on the general government debt
(millions of euros)

Item	Amounts included in the debt (1)		
	Without transformation	With transformation	Difference
CDP deposit with State Treasury (1) ...	0	30,519	30,519
CDP loans to local government (1)	0	47,490	47,490
Postal bonds (face value)	82,136	57,522 (2)	-24,612
Postal savings books	53,973	0	-53,973
Private-sector postal current accounts	16,793	16,793 (2)	0
Other private-sector deposits with CDP ..	1,170	1,170 (2)	0
Total ...	**154,072**	**153,494**	**-578**

Sources: CDP S.p.A.; for postal current accounts, Poste Italiane S.p.A.
(1) At 31 December 2003. – (2) Contemporaneous with the transformation of CDP, the corporation's deposits with the State Treasury were reduced by €11 billion in exchange for the transfer to CDP S.p.A. of part of the State shareholdings in ENI, ENEL and Poste Italiane S.p.A.

The set of operations involving CDP also brought about a reallocation of the total consolidated debt among sub-sectors of general government. Local government debt was increased by an amount equal to the portion of loans to local authorities attributed to CDP S.p.A. (€47.5 billion). Meanwhile, central government debt was diminished by €48.1 billion, as the reduction arising from the allotment to CDP S.p.A. of part of postal savings balances (€78.6 billion) was partly offset by the assignment to the new corporation of a portion of deposits with the State Treasury (€30.5 billion). These changes in assets and liabilities are reflected in the borrowing requirement charged to the two sub-sectors in December 2003.

In addition, the disposal of some of the Treasury's shareholdings resulted in a reduction of €12 billion in general government debt. Contemporaneous with the transformation of CDP, the State transferred shares of ENI, ENEL and Poste Italiane S.p.A. to the new corporation in exchange for a reduction of €11 billion in CDP S.p.A.'s deposits with the State Treasury. Subsequently, 30 per cent of CDP S.p.A.'s share capital was sold to several banking foundations for about €1 billion.

estimate of economic growth (from 1.1 to 0.8 per cent); the target for net borrowing was left unchanged.

In September the update of the Economic and Financial Planning Document and the Forecasting and Planning Report raised the estimate of net borrowing to 2.5 per cent of GDP and lowered that of the primary surplus to 2.8 per cent. The estimate of economic growth was reduced to 0.5 per cent.

In December the Government introduced a requirement for banks acting as tax-collection agents to make an advance payment that can be offset the following year. In 2003 this led to a temporary improvement in the deficit of €2.7 billion or 0.2 per cent of GDP.

In the event general government net borrowing amounted to 2.4 per cent of GDP in 2003, a small increase on the previous year.

The reduction of 0.5 percentage points in interest payments to 5.3 per cent of GDP was more than offset in the contraction of the primary surplus by 0.6 percentage points to 2.9 per cent of GDP. This aggregate, which had followed a downward trend since 1998, returned to its 1993 level.

Primary current expenditure increased by 5.8 per cent and as a ratio to GDP rose from 38.4 to 39.4 per cent, the highest level in the last ten years. The increase reflected the sharp rises in wages and salaries

(5.3 per cent), general government intermediate consumption (8.8 per cent) and social benefits in cash (4.8 per cent). Capital expenditure increased by 0.7 percentage points of GDP, reflecting the decrease from 0.9 to 0.2 per cent of GDP in receipts from property sales, which are included with a negative sign in this item of the general government consolidated accounts (see the box "General government expenditure and revenue").

The ratio of tax revenue and social security contributions to GDP rose by 0.9 percentage points to 42.8 per cent. The reduction of 0.8 percentage points in direct and indirect taxes in relation to GDP was more than offset by the receipts from the main tax regularization schemes, which amounted to 1.5 per cent of GDP including the instalments accruing in 2003 but still to be paid, and the increase of 0.4 percentage points in actual social security contributions.

The outturn of the budget benefited from the effects of temporary measures introduced in 2003 and earlier years, which can be estimated to have amounted to about 2 percentage points of GDP, an increase of half a point on the figure for 2002. In addition to the receipts from tax regularization schemes, these effects include those produced by the above-mentioned advance payment by banks, property sales and interest rate swaps.

The borrowing requirement and the public debt in Italy

On the occasion of the recent communication to the European Commission revisions were made to the data used to calculate the general government borrowing requirement and public debt with regard to postal current accounts held by the public and public-sector securities held by social security institutions (see the box "Changes to the statistics on general government borrowing requirement and debt").

In 2003 the general government gross borrowing requirement amounted to 2.8 per cent of GDP, compared with 3.4 per cent in 2002 (Table 25). The decrease was in relation to the growth in privatization receipts, from 0.1 to 1.3 per cent of GDP, mainly owing to the transactions involved in the transformation of Cassa Depositi e Prestiti into a company limited by shares, which added 0.9 per cent of GDP (see the box "The transformation of Cassa Depositi e Prestiti into a company limited by shares: the impact on the public debt"). In relation to GDP, settlements of past debts remained unchanged at 0.5 per cent.

Table 25

Italy: general government and state sector borrowing requirements
(millions of euros)

	2000	2001	2002	2003 (1)
General government gross borrowing requirement	25,791	48,414	42,460	36,282
as a percentage of GDP	*2.2*	*4.0*	*3.4*	*2.8*
General government borrowing requirement net of settlements and privatization receipts	36,640	42,453	38,406	46,155
as a percentage of GDP	*3.1*	*3.5*	*3.0*	*3.5*
State sector borrowing requirement net of settlements and privatization receipts (2) ..	27,386	33,547	26,040	38,200
as a percentage of GDP	*2.3*	*2.8*	*2.1*	*2.9*
Memorandum items				
Settlements of past debts ...	4,601	10,291	5,929	6,970
Privatization receipts (3)	15,450	4,329	1,876	16,844

(1) Provisional. – (2) Based on Ministry for the Economy and Finance data. – (3) The figure for 2000 includes the part of the proceeds of the sale of UMTS licences used to reduce the public debt (€10,709 million) and that for 2003 the effects of the disposals in connection with the transformation of Cassa Depositi e Prestiti into a company limited by shares (€12,041 million).

The general government borrowing requirement net of settlements of past debts and privatization receipts rose from 3 to 3.5 per cent of GDP. The temporary effects that impinged on the net borrowing requirement were of much the same size but a partly different nature with respect to those that impinged on net borrowing. The borrowing requirement was curbed by the proceeds of the securitizations of INPS social security contributions and INPDAP claims (amounting to respectively 0.2 and 0.3 per cent of GDP), which are not included in the calculation of net borrowing. On the other hand, the instalments of tax regularization schemes accruing in 2003 but not yet paid (amounting to 0.5 per cent of GDP) reduced net borrowing but did not affect the borrowing requirement.

The net borrowing requirement exceeded net borrowing by about 1.1 percentage points of GDP, against 0.7 points in 2002, when the impact of temporary measures was greater on the borrowing requirement than on net borrowing. The gap between the two balances had also been on the order of a percentage point in the three years 1999-2001.

Table 26

Italy: change in the general government public debt and its components

(millions of euros)

	2002	2003
Change in the debt	**12,450**	**20,890**
General government gross borrowing requirement	42,460	36,282
of which: settlements of past debts	*5,929*	*6,970*
privatization receipts ...	*1,876*	*16,844*
Change in the credit balances on the Treasury's accounts with the Bank of Italy	-2,248	-8,022
Issue premiums and discounts	-24,239	-3,924
Change in the euro equivalent of liabilities denominated in foreign currencies	-3,523	-3,446

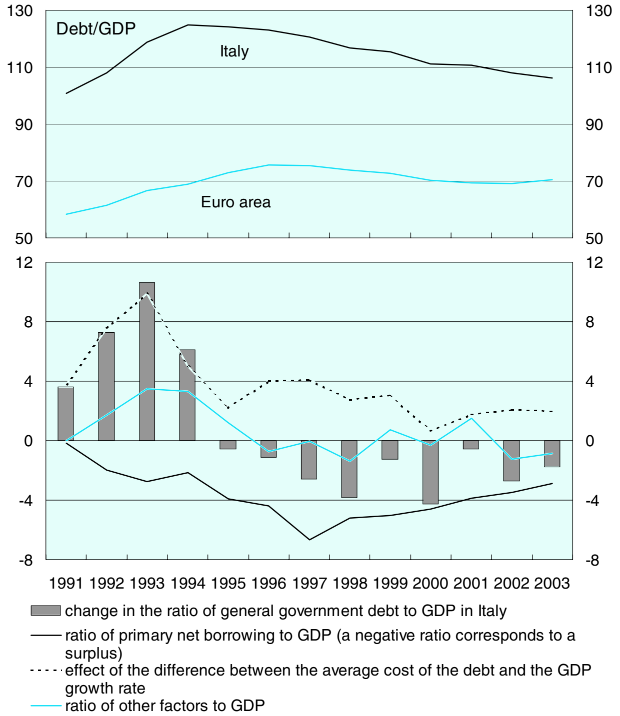
General government debt grew by €20.9 billion (Table 26). The increase of €36.3 billion deriving from the gross borrowing requirement was partly offset by: a) the reduction of €8 billion in the Treasury's liquid balances held with the Bank of Italy; b) the issue of securities at a premium, which increased the par value of the debt by €3.9 billion less than the borrowing requirement; and c) the appreciation of the euro, which diminished the value of liabilities denominated in foreign currencies by €3.4 billion.

The average residual maturity of the debt in the form of bonds lengthened from 5.5 to 6 years.

Figure 31

Breakdown of the change in the ratio of public debt to GDP in Italy (1)

(percentages)



(1) For the method of obtaining the breakdown of the change in the ratio of debt to GDP, see the note to Figure 30 in Economic Bulletin, No. 32, March 2001. Following the switch to ESA95, there is a break in the euro-area debt series between 1995 and 1996.

The ratio of the debt to GDP fell by 1.8 percentage points to 106.2 per cent. About two thirds of the reduction in the ratio attributable to the primary surplus were offset by the gap between the average cost of the debt and the growth in nominal GDP, which narrowed slightly from 2.1 to 2 percentage points, since the former decreased more (from 5.4 to 5.1 per cent) than the latter (from 3.4 to 3.2 per cent). A contribution of 0.8 percentage points to the reduction in the debt ratio came from the residual item, which consisted in the sum of the difference between the change in the debt and the gross borrowing requirement (-1.2 per cent of GDP) and the difference between the latter and net borrowing (0.4 per cent of GDP; Figure 31).

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

Interest rates and the exchange rate of the euro

With inflation expected to fall below 2 per cent in 2004 and economic recovery making slow headway in the euro area, the ECB Governing Council has left the minimum bid rate on main refinancing operations unchanged at 2 per cent since reducing it by 0.5 percentage points in June 2003 (Figure 32). The effects of the steady improvement in international economic conditions on activity in the euro area have been partly curbed by the appreciation of the euro.

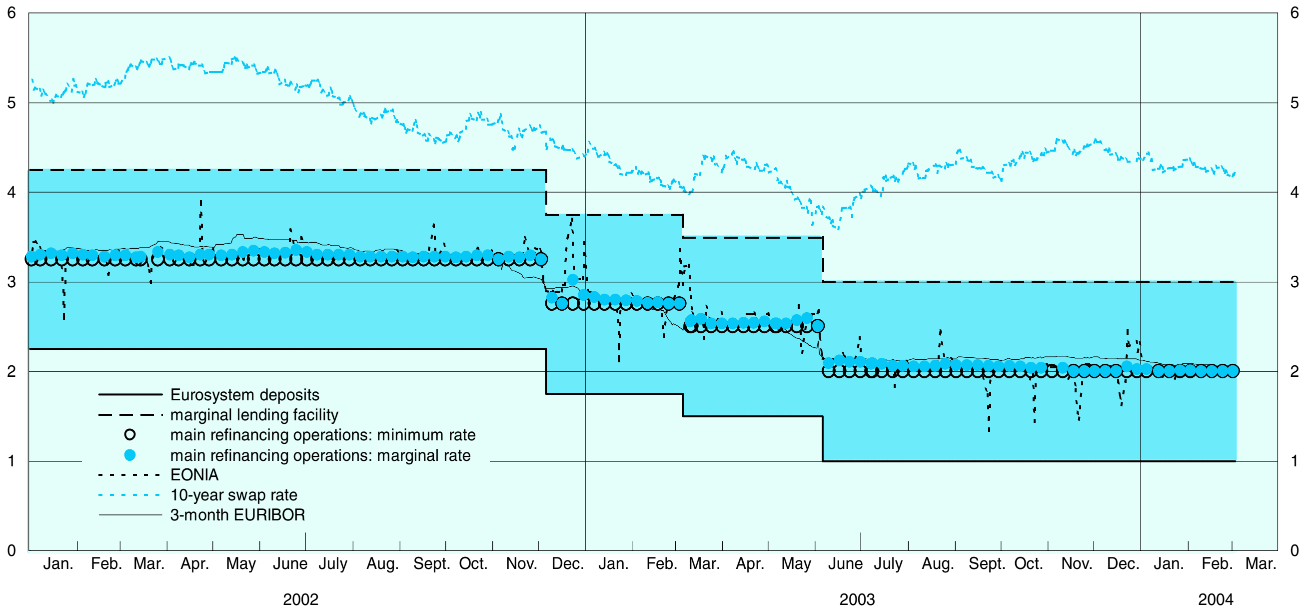
Short-term interest rates are close to the 2.1 per cent level recorded last summer. Market expectations concerning future movements in rates have fluctuated considerably. Between the beginning of October and early December the positively-sloped yield curve implied by futures contracts in euros gradually shifted upwards (Figure 33), reflecting the improved tone of the world economy. Since then the curve has returned close to the values recorded at the end of the summer; the diminishing expectations of a rate rise, partly attributable to the appreciation of the euro, have presumably persuaded the markets that short-term rates will remain unchanged longer than they had previously supposed. The degree of uncertainty about the future behaviour of market rates remains high.

The euro-area real short-term interest rate, calculated on the basis of surveys of expected inflation, has remained very low and was equal to around 0.4 per cent in the fourth quarter of 2003 (Figure 34). In Italy the real rate is slightly negative.

Figure 32

Official interest rates and money and financial market rates in the euro area

(daily data; percentages)



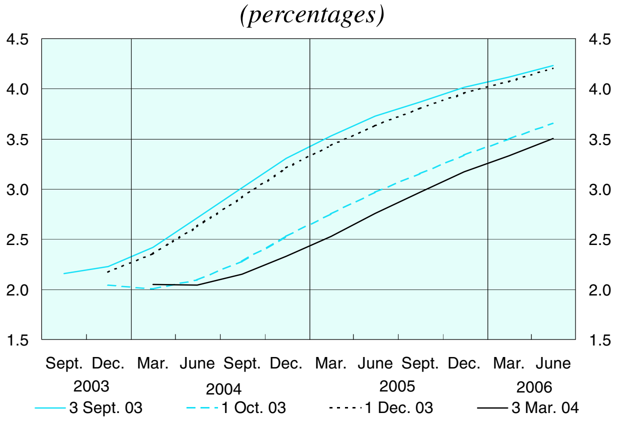
Sources: ECB, Reuters and Telerate.

The markets expect a gradual rise in real rates as the economic recovery firms up in 2004.

Figure 33

Rates on futures contracts on three-month euro-denominated deposits (1)

(percentages)



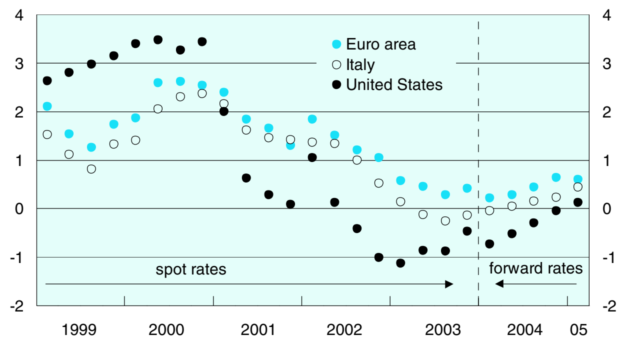
Source: Reuters.

(1) The contract date of each curve is specified in the legend. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

Figure 34

Spot and forward real three-month interest rates (1)

(quarterly data; percentages)



Sources: Based on Reuters and Consensus Economics data.

(1) Nominal three-month rates on Euromarket deposits (averages of daily data in the last month of the quarter; from January 2004, nominal rates implied by futures contracts in the last month), deflated using inflation expectations measured by the quarterly Consensus Economics survey of professional forecasters.

Long-term interest rates reflected the shifts in expectations about economic activity, rising in October and then falling in December. At the beginning of March ten-year rates in euros implicit in interest rate swaps were equal to 4.1 per cent. At the same date the yield on ten-year government bonds, calculated as the average of the yields on the benchmark securities of the major euro-area countries, stood at 4 per cent.

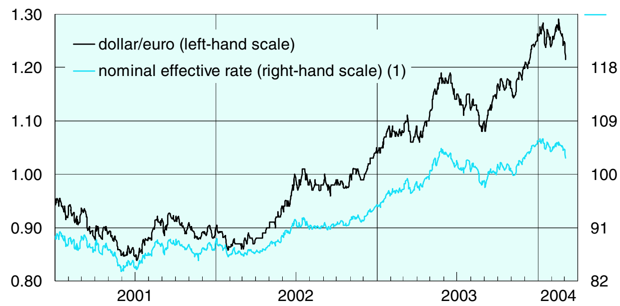
Real long-term rates have also come down of late. On the basis of the prices of ten-year government bonds indexed to euro-area consumer prices they currently stand at about 1.8 per cent, which is about 1 percentage point less than their low in the recession of the early 1990s.

During the last quarter of 2003 and the first two months of this year the euro appreciated by 6.6 and 5.3 per cent respectively against the dollar and the yen, while it depreciated by 4.1 per cent against sterling (Figure 35). Over the same period the euro's nominal effective exchange rate strengthened by 2.8 per cent, reflecting in equal measure its performance against the dollar and its movement against the Asian currencies; in real terms the effective exchange rate strengthened by 4.8 per cent.

Figure 35

Dollar/euro exchange rate and nominal effective exchange rate of the euro

(daily data)



Source: ECB.

(1) Index, first quarter of 1999=100.

Since February 2002, when the US currency began to weaken, the euro has gained around 40 per cent against the dollar. In 2003 the fluctuations of the dollar/euro exchange rate paralleled movements of the differential between long-term interest rates in dollars and those in euros (see the box "Recent developments in the exchange rate of the euro", *Economic Bulletin* No. 36, 2003). In the closing months of last year the euro's rise against the dollar coincided with increased discussion of ways to adjust the US external current account deficit.

The euro appreciated in the second half of 2003 in spite of financial outflows from the area to the rest of the world; the net capital outflow for direct and portfolio investment came to around €76 billion, compared with a net inflow of €45 billion in the second half of 2002.

The money supply and credit

The rate of growth of euro-area M3 began to slacken in the middle of 2003, falling to 6.4 per cent in the twelve months ending in January 2004 (Figure 36). The slowdown occurred in parallel with the upturn of the equity markets.

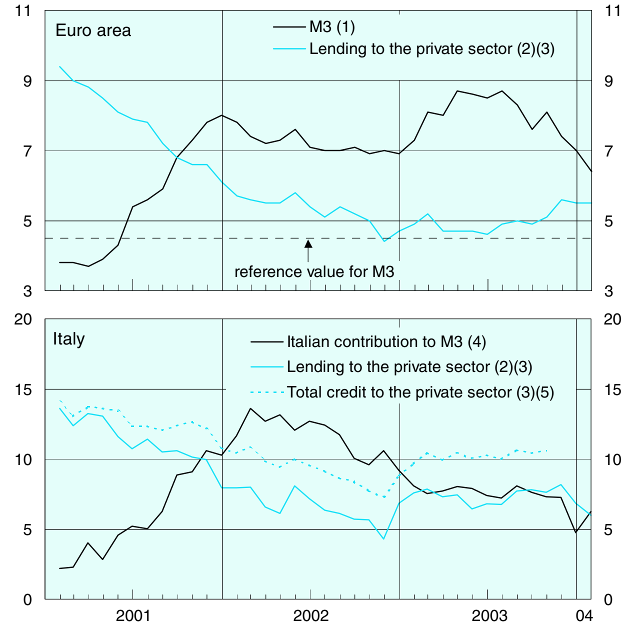
At the end of 2003 the stock of currency in circulation was back in line with the long-term trend for the period 1980-2000. The aggregate's rate of growth nonetheless remains high (around 25 per cent in January on an annualized, seasonally adjusted basis). The shift from national to euro notes and coins may have structurally altered the demand for currency, as a consequence, for example, of increased demand on the part of the countries close to the euro area.

The rate of increase in the Italian component of M3, calculated net of currency in circulation, slowed down in the course of 2003 and was equal to 6.3 per cent in the twelve months to January 2004. This reflected portfolio shifts by households, who went back to buying units of equity-based investment funds.

Figure 36

Monetary and credit aggregates

(monthly data; twelve-month percentage changes)



Sources: ECB and Bank of Italy.

(1) Changes are calculated on the basis of seasonally adjusted data corrected for calendar effects. – (2) Lending in euros and other currencies by monetary financial institutions (MFIs). – (3) The private sector includes households, non-financial enterprises, insurance companies, non-profit institutions serving households, non-money-market investment funds and other financial institutions. – (4) Excludes currency in circulation. – (5) Includes bonds and foreign loans in addition to lending by MFIs.

Table 27

Credit in Italy (1)

(end-of-period data)

	Total credit (2)	Total credit to the private sector (3)	Bank lending	Bonds	Finance from abroad
		Twelve-month percentage changes			
2001 – Dec.	6.9	10.8	7.9	102.3	15.0
2002 – Dec.	5.7	8.8	6.8	38.5	12.1
2003 – June	6.5	10.3	6.8	59.4	16.5
July	6.3	10.0	6.8	58.1	14.5
Aug.	6.7	10.6	7.7	56.1	14.1
Sept.	6.6	10.4	7.8	53.4	12.8
Oct.	6.8	10.6	7.6	54.6	14.3
Nov.	....	....	8.2	....	....
Dec.	....	....	6.8	....	....
2004 – Jan.	....	....	6.0	....	....
		Percentage shares of stocks			
2003 – Oct.	100.0	48.6	36.9	2.5	9.2

(1) Rounding may cause discrepancies in totals. – (2) Sum of general government debt and total credit to the private sector. – (3) Italian residents other than central government and MFIs: households, non-financial enterprises, insurance companies, non-profit institutions serving households, non-money-market investment funds and other financial institutions. Corresponds to "Other residents" in the harmonized statistics of the ESCB.

Bank lending to the private sector accelerated in the euro area during the second half of 2003, driven by the rapid growth in mortgage loans for house purchase; the rate of increase in the twelve months ending in January 2004 was 5.5 per cent. In Italy the aggregate's twelve-month growth rate more or less held steady up to November and then diminished to stand at 6 per cent in January (Table 27).

Households' financial saving and the financing of enterprises in Italy

Households. – In the first nine months of 2003 Italian households' financial saving – the difference between the changes in financial assets and financial liabilities – increased to €44.8 billion (Table 28). This

Table 28

Financial assets and liabilities of Italian households and enterprises (1)

(millions of euros)

	Households (2)			Non-financial enterprises		
	Flows		Stocks	Flows		Stocks
	Jan.-Sept. 2002	Jan.-Sept. 2003	Sept. 2003	Jan.-Sept. 2002	Jan.-Sept. 2003	Sept. 2003
Assets						
Cash and sight deposits	-1,793	7,622	441,390	543	5,417	117,243
Other deposits	-2,794	-7,835	280,103	1,026	818	9,697
Short-term securities	3,940	-8,025	7,338	-1,356	-609	72
Medium and long-term securities	54,864	26,356	541,378	-730	-7,820	30,177
of which: government securities	*25,804*	*4,444*	*200,315*	*2,809*	*-6,673*	*11,998*
corporate securities	*6,293*	*8,084*	*35,401*	*-3,657*	*-1,604*	*6,965*
Investment fund units	-2,398	20,576	330,750	-33	286	4,600
Shares and other equity	-6,192	-3,133	262,768	26,637	22,815	777,713
External assets	-11,702	2,759	203,146	8,152	14,129	277,012
of which: deposits	*-20,178*	*-4,528*	*5,750*	*-1,571*	*-5,864*	*1,437*
short-term securities	*-243*	*-115*	*7*	*-180*	*-335*	*1,529*
medium and long-term securities	*6,741*	*5,621*	*96,187*	*-121*	*788*	*19,940*
shares and other equity	*3,032*	*-1,201*	*71,261*	*8,080*	*5,122*	*124,343*
investment fund units	*-1,053*	*2,982*	*29,940*	*39*	*368*	*9,625*
Other financial assets (3)	20,339	29,271	425,971	19,770	-10,263	243,757
of which: life insurance reserves	*12,575*	*21,019*	*228,562*	-	-	-
Total assets ...	**54,264**	**67,591**	**2,492,844**	**54,009**	**24,773**	**1,460,271**
Liabilities						
Short-term debt (4)	-640	-1,656	53,093	-9,391	-4,870	310,976
of which: bank	*-675*	*-1,693*	*52,349*	*-10,818*	*-6,398*	*280,580*
Medium and long-term debt (5)	20,848	22,908	271,446	27,849	37,071	359,772
of which: bank	*20,150*	*22,116*	*249,246*	*20,333*	*30,525*	*281,995*
Securities	-	-	-	6,320	7,531	24,655
of which: medium and long-term securities	-	-	-	*6,207*	*6,565*	*19,814*
Shares and other equity	-	-	-	24,139	23,132	969,472
External liabilities	-	-	-	-1,702	-928	258,572
of which: short-term debt	-	-	-	*-4,282*	*-1,200*	*72,034*
medium and long-term debt	-	-	-	*397*	*885*	*6,881*
medium and long-term securities	-	-	-	*1,950*	*-3,298*	*19,086*
shares and other equity	-	-	-	*3,863*	*-874*	*123,944*
Other financial liabilities (6)	1,397	1,520	27,300	24,035	-6,322	317,065
Total liabilities ...	**21,605**	**22,772**	**351,839**	**71,250**	**55,614**	**2,240,512**
Balance ...	**32,659**	**44,819**	**2,141,005**	**-17,241**	**-30,841**	**-780,241**

Source: Financial accounts.

(1) Rounding may cause discrepancies in totals. – (2) Comprises consumer households, sole proprietorships with up to 5 employees and non-profit institutions serving households. – (3) Includes insurance reserves of the life and casualty sectors and domestic trade credit; for households, also includes pension funds. – (4) Includes finance provided by factoring companies and repos. – (5) Includes finance provided by leasing companies; for households, also includes consumer credit from finance companies. – (6) Staff severance pay and pension provisions; for enterprises, also includes domestic trade credit and other minor items.

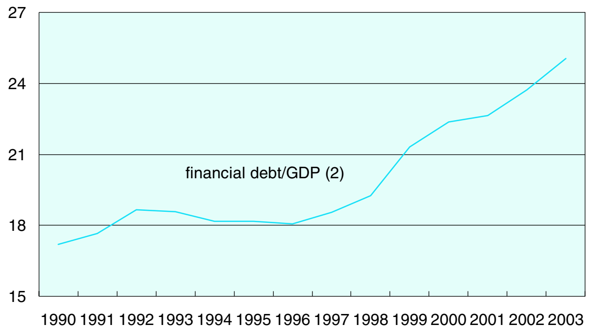
was equal to 4.7 per cent of GDP, up from 3.5 per cent in the corresponding period of 2002 but still well below the average of around 7 per cent for the years from 1995 to 2001. The fall in the ratio of financial saving to GDP over the last two years is due both to the limited growth in disposable income, which affected total saving, and to the larger portion of saving invested in housing.

Households made substantial purchases of investment fund units and life insurance products. They decreased their direct holdings of Italian and foreign shares, while for the fourth consecutive year they increased their purchases of bonds issued by Italian non-financial corporations and non-bank financial corporations.

Figure 37

Italian households' financial debt (1)

(percentages)



Sources: Financial accounts and Istat.

(1) From 1995 onwards the data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. Stocks of financial liabilities at September of each year. – (2) GDP for the full year.

Between September 1995 and September 2003 Italian households' financial wealth grew from €1.6 trillion to €2.5 trillion. Over the same period the portion invested in bank and post office deposits fell from 37.3 to 27.1 per cent and that in government securities from 26.9 to 8.3 per cent. By contrast, as a consequence of the considerable growth of the bond market in Italy, as in all the major euro-area countries, the portfolio share of bonds issued by Italian non-financial corporations and non-bank financial corporations rose from 0.3 to 1.4 per cent (to €35 billion in September 2003) and that of bonds issued by non-residents from 1.8 to 3.9 per cent (to €96 billion). According to surveys by the Italian Foreign Exchange Office referring to the end of 2002, around 40 per cent of households' holdings of bonds issued by non-residents were issued by non-financial corporations and non-bank financial corporations. The remainder of households' financial portfolio consists largely of shares, investment fund units and life insurance products.

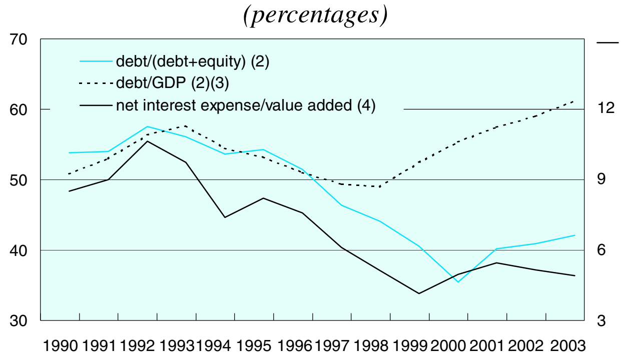
The growth in the stock of Italian households' financial liabilities accelerated slightly in the first nine months of 2003. The expansion in the medium and long-term component was due to the increase in mortgage loans. Household financial debt amounted to 25 per cent of GDP in September (Figure 37), still far below the euro-area average of 52 per cent.

The financing of firms. – Self-financing declined slightly in the first nine months of 2003 from the year-earlier period, reflecting a fall in operating profitability that was only partly offset by the decrease in net interest expense (to 4.9 per cent of value added; Figure 38). Firms' financial deficit consequently rose (Table 28), notwithstanding the fall in investment.

Figure 38

Financial debt and net interest expense of Italian non-financial enterprises (1)

(percentages)



Sources: Financial accounts and Istat.

(1) From 1995 onwards the data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. – (2) Left-hand scale. The stocks of debt and equity refer to September of each year. – (3) GDP for the full year. – (4) Right-hand scale. Net interest expense and value added for the full year except for the figure for 2003, which refers to the first three quarters. Bank of Italy estimates of net interest expense. Value added for 2003 estimated on the basis of quarterly national accounts data.

The ratio to GDP of firms' debt in the form of loans and securities increased from 59 to 61 per cent in the twelve months ending in September 2003. Despite its steady rise, the ratio is still lower than the average for firms of the main euro-area countries (around 72 per cent at the end of 2002). Over the same period medium and long-term debt increased from 47.7 to 51.1 per cent of firms' total financial debt, owing to the growth in medium and long-term loans disbursed by banks and other credit intermediaries.

With firms' financial debt growing faster than their equity capital, their leverage (defined as the ratio of debt to the sum of debt and equity) rose from 40.9 to 42.1 per cent in the twelve months ending in September 2003. This was around two percentage points higher than the average for the previous five years but still far below the level touched in the recession of the early 1990s and comparable with the euro-area average. Since 2000 the growth in corporate debt has been greater for large firms (see the box "Recent developments in the indebtedness of Italian non-financial firms").

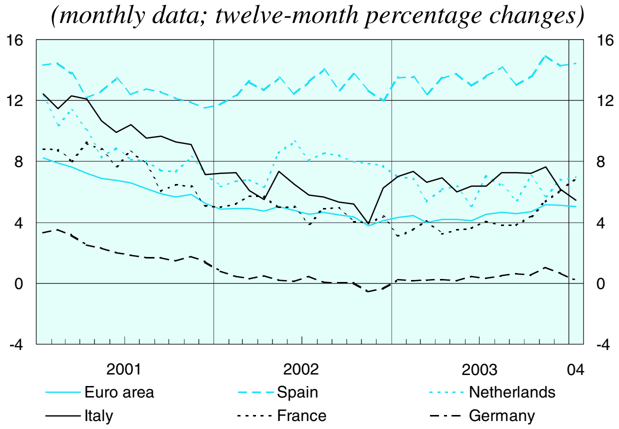
Bank lending in Italy

As in the previous five years, in 2003 the growth in bank lending in Italy outstripped that in the euro area (6.7 and 5.1 per cent respectively; Table 29 and Figure 39). However, lending in Italy began to slacken in December (Table 30). Bank interest rates are currently at their lowest levels of the last fifty years.

Figure 39

Lending by monetary financial institutions in the euro area (1)

(monthly data; twelve-month percentage changes)



Sources: Based on ECB data and national statistics.

(1) Lending by euro-area monetary financial institutions (MFIs) (excluding the Eurosystem) to non-MFI resident customers. The percentage changes are calculated net of reclassifications, value adjustments, exchange rate variations and other variations not due to transactions.

Table 29

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

(harmonized definitions; twelve-month percentage changes)

	Deposits					Debt securities issued (2)	Lending
		Excluding central government					
		Overnight	With agreed maturity	Redeemable at notice	Repurchase agreements		
				Euro area (3)			
2002 - Sept.	5.1	9.5	1.5	6.3	5.5	6.6	4.5
Dec.	3.8	5.3	1.7	5.3	4.4	5.5	4.1
2003 - Mar.	5.3	8.0	1.8	7.2	1.8	5.3	4.0
June	6.0	8.2	1.6	9.0	-2.0	5.1	4.1
Sept.	5.5	8.6	1.3	9.2	-6.7	5.9	4.6
Dec.	5.5	8.0	1.7	8.2	-4.4	7.5	5.1
2004 - Jan.	5.7	9.9	1.1	7.9	-7.3	7.4	5.1
				Italy (4)			
2002 - Sept.	7.1	9.0	-5.2	6.8	6.2	10.9	5.3
Dec.	6.7	7.2	-8.6	5.4	17.2	10.3	6.3
2003 - Mar.	4.3	7.0	-11.3	6.0	-2.2	8.7	6.8
June	4.8	8.3	-7.3	5.3	-9.2	6.4	6.8
Sept.	4.5	8.3	-9.0	6.0	-10.2	6.1	7.7
Dec.	2.2	5.9	-10.2	5.1	-15.7	8.6	6.7
2004 - Jan.	4.6	10.6	-8.1	5.5	-22.0	8.5	5.9

(1) End-of-period data. The data for January 2004 are provisional. The percentage changes are calculated net of reclassifications, value adjustments, exchange rate variations and other variations not due to transactions. The data are consistent with those published in the Monthly Bulletin of the ECB. – (2) Total debt securities, including money-market securities, issued by banks. By convention they are entirely attributed to euro-area residents. – (3) 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. – (4) Funding and lending of Italian banks from and to non-MFI customers resident in Italy.

Recent developments in the indebtedness of Italian non-financial firms

After declining from the peak reached in 1992-93, the debt of Italian non-financial firms began to rise again in 1998. The actual size of the increase depends on whether one considers firms' leverage, defined as the ratio of debt to the sum of debt and equity, or the ratio of debt to GDP. However, both indicators show that debt has grown the most at large companies.

Firms' leverage, measured on the basis of aggregate financial accounts figures, peaked during the recession of the early 1990s, reaching 58 per cent in March 1993, before falling to a low of 34 per cent in March 2000. The pattern can be attributed to the pronounced contraction in interest expense following the fall in interest rates, increased self-financing and greater recourse to the equity market. Since equity is valued at market prices, the decline in leverage also reflected the sharp rise in share prices in the second half of the 1990s.

Leverage began to increase again in the second quarter of 2000 following the deterioration in corporate profitability as economic activity weakened. An additional factor was the rise in bank borrowing for extraordinary corporate events. Leverage is now 42 per cent, around 9 percentage points less than the average for the 1990s (see Figure 38 in the main text).

According to financial accounts data, the ratio of financial debt to GDP fell from 58 per cent in 1992 to 49 per cent in 1998. It has since risen to 61 per cent, which is higher than during the previous decade but lower than in the main euro-area countries.

Information on firms' debt can also be gleaned from balance-sheet data for the mainly medium-sized and large industrial and service companies covered by the Company Accounts Data Service survey, whose sample included more than 40,000 firms in 2001.

The change in firms' leverage calculated on the basis of these data, which state equity at book value and therefore are not affected by movements in share prices, is similar to that measured with aggregate data, although the decline during the 1990s appears smaller. The average value of leverage, obtained by weighting the data for individual firms on the basis of the sum of debt and equity, fell from a peak of 60 per cent in 1992-93 to 50 per cent in 2000-01 (see the figure). The debt-to-turnover ratio decreased from 37 to 29 per cent in the same period. Thanks to the decline in interest rates, the ratio of gross interest expense to self-financing plunged from 39 per cent in 1994 to 18 per cent in 1999, then rose slightly.

cont. ➤

Developments in lending. – Lending to non-financial corporations grew by 6.4 per cent in 2003 (Table 31). Against the background of persistent weakness in economic activity, credit demand was fueled by the reduction in corporate self-financing and by the low level of interest rates. There was substantial growth in lending to the construction industry, reflecting the positive trend of investment in building, and to service sector firms, particularly real-estate brokers.

The growth in lending to finance and insurance companies fell from 10.4 to 2.8 per cent. Most of the slowdown was attributable to lending to leasing companies, which had surged in 2002 when the sector benefited from the tax incentives provided by Law 383 of 18 October 2001.

Bank lending to small firms (sole proprietorships and partnerships with fewer than 20 employees) grew last year by 7.8 per cent, 1.4 percentage points more than lending to medium-sized and large firms (Figure 40). The slowdown in lending between the end of 2003 and January 2004 involved firms of every size.

In 2003 bank lending again expanded more rapidly in the South than in the Centre and North (7.9 against 6 per cent; Table 31). The growth in lending to firms was similar in the two halves of Italy.

The maturities of bank loan to firms lengthened further, prolonging a trend that began in the second half of the 1990s. Increased recourse to long-term credit, which was widespread across productive

With regard to developments in leverage according to firm size, the Company Accounts Data Service figures indicate that the decline between 1992 and 1998 and the subsequent increase were both more pronounced for large firms (those with more than 500 employees). The provisional data for 2002 confirm the sharper rise in indebtedness for larger firms. However, in 2001 their leverage (44 per cent) was still lower than that for enterprises with fewer than 500 employees (56 per cent).

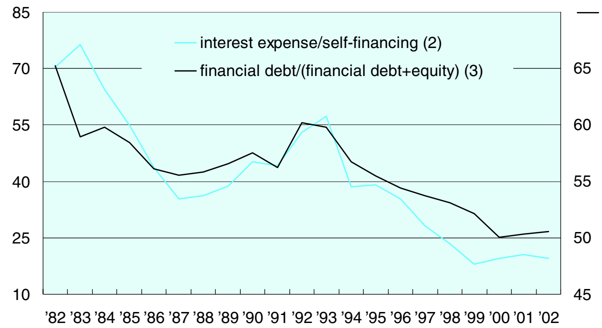
The dispersion of leverage is substantial. In 2001, the most heavily indebted quartile of firms had leverage of more than 80 per cent, compared with 28 per cent or less for the least indebted quartile; the ratio of financial debt to turnover was 38 and 7 per cent respectively.

Between 1998 and 2002 borrowing by large listed non-financial companies increased in relation to capital and turnover, while profitability declined. The median value of leverage at Italian listed companies rose from 41 to 45 per cent over the same period; in 2002 this figure was more than 55 per cent for a quarter of these firms.

The Mediobanca-Sole24Ore survey provides information on eleven listed industrial and service groups included in the Mib30 index for the first nine months of 2003. Compared with the year-earlier period, as operating profitability – measured as the ratio of net operating profit to turnover – increased, the ratio of net interest expense to net operating profit declined (from 31.4 to 22.4 per cent), while financial debt increased further, partly owing to extraordinary corporate events. Leverage remained high at 59 per cent, about 4 percentage points more than the average for the period between 1998 and 2000.

Debt and interest expense for a sample of Italian non-financial firms (1)

(percentages)



Source: Based on Company Accounts Data Service figures.

(1) The ratio of financial debt to the sum of financial debt and shareholders' equity differs from that given in Figure 38 since the figures for equity used here are stated at book value, not market prices. Interest expense is gross of interest and financial income received by firms. Provisional data for 2002. – (2) Left-hand scale. – (3) Right-hand scale.

sectors, geographical areas and size classes (Table 32), enables firms to stabilize their sources of finance and reduce their interest expense.

Bank lending to consumer households continued to grow at a rapid pace. New mortgage loans for house purchase amounted to €42.2 billion, compared with €35.3 billion in 2002. The proportion granted at variable rates or at rates renegotiable within one year remained high (more than 75 per cent, compared with the euro-area average of 43 per cent).

In 2003 small banks again made a significant contribution to the growth in credit. They accounted for around 75 per cent of the increase in lending to firms and 71 per cent of that to households (their market share in terms of stocks is equal to 34 and 38 per cent, respectively). The growth in lending to firms by smaller and minor banks was greater for those not belonging to large banking groups.

Loan quality. – The quality of banks' loan portfolios was affected by the protracted weakness of the economy and the financial collapse of some industrial groups. In the twelve months ending in December the ratio of new bad debts to outstanding loans rose from 1 to 1.2 per cent (Table 33). The impact of the downgrading of bank loans to the companies caught up in the Parmalat group's collapse was equal to 0.2 percentage points. Excluding these bad debts, the ratio remained stable in the Centre and North at 0.9 per cent and rose in the South from 1.6 to 1.7 per cent.

Table 30

Assets and liabilities of Italian banks (1)

(end-of-period data; percentage change on previous period. except as indicated)

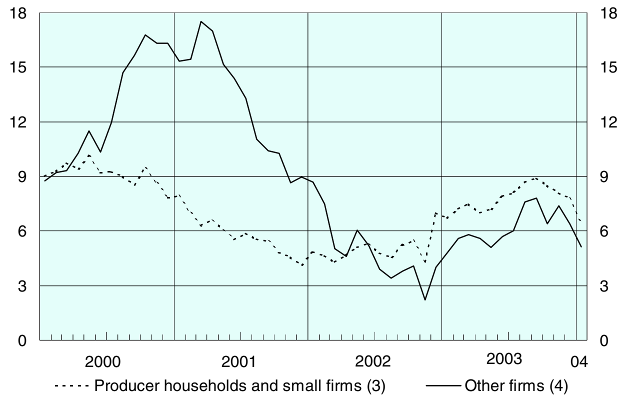
	2002	2003	2003 (2) Q1	Q2	Q3	Q4	January 2004 12-month % change	Stocks (mln euros)
Assets								
Securities	-15.6	4.7	11.8	11.3	3.2	-6.6	2.0	177,743
of which: government securities	*-19.8*	*-4.3*	*2.2*	*7.9*	*9.6*	*-30.7*	*-6.6*	*105,217*
Loans	6.3	6.7	7.3	7.2	7.1	5.6	5.9	1,090,100
of which: (3): *short-term (a)*	*0.5*	*-1.5*	*0.7*	*0.3*	*-3.0*	*-3.7*	*-3.2*	*447,126*
medium and long-term (b)	*11.7*	*13.3*	*12.5*	*11.9*	*17.3*	*11.4*	*13.3*	*582,939*
(a)+(b)	*6.1*	*6.2*	*6.8*	*6.4*	*7.6*	*4.5*	*5.4*	*1,030,065*
repos	*-7.2*	*-1.1*	*120.6*	*7.0*	*-58.0*	*-3.6*	*-23.0*	*2,985*
bad debts (4)	*1.9*	*10.1*	*6.2*	*8.3*	*6.0*	*20.5*	*11.0*	*51,591*
Memorandum item: net bad debts (5)	*-0.4*	*8.1*	*-10.0*	*4.7*	*1.3*	*41.7*	*8.4*	*22,218*
External assets	22.7	0.1	3.1	-2.5	-6.3	6.8	5.6	222,170
Liabilities								
Domestic funding (6)	8.0	4.4	3.9	6.2	3.9	3.8	6.0	1,087,215
Deposits	6.7	2.2	2.8	5.2	4.0	-3.0	4.6	688,575
of which (7): *overnight*	*7.2*	*5.9*	*9.2*	*10.4*	*7.3*	*-1.1*	*10.6*	*509,007*
with agreed maturity	*-8.6*	*-10.2*	*-18.4*	*1.0*	*-8.1*	*-14.2*	*-8.1*	*43,838*
redeemable at notice	*5.4*	*5.1*	*10.9*	*3.9*	*5.4*	*1.0*	*5.5*	*64,686*
repos	*17.2*	*-15.7*	*-24.9*	*-20.9*	*-8.7*	*-10.7*	*-22.0*	*63,374*
Bonds (6)	10.3	8.6	6.1	8.1	3.7	16.9	8.5	398,640
External liabilities	-4.1	10.1	44.5	1.5	-2.2	2.4	6.6	296,496

(1) The figures for January 2004 are provisional. The percentage changes are calculated net of reclassifications. exchange rate variations and other variations not due to transactions. – (2) Annualized; based on seasonally adjusted data where appropriate. – (3) Some minor items in the aggregate are not reported. – (4) The percentage changes are not adjusted for debt cancellations and assignments. – (5) Bad debts net of write-downs. – (6) Includes bonds held by non-residents; the aggregate also includes money-market debt securities. – (7) Excludes those of central government.

Figure 40

Lending to firms in Italy by size of firm (1)

(monthly data; twelve-month percentage changes) (2)



(1) Loans exclude repos, bad debts and some minor items included in the aggregate reported in Table 29. – (2) Calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (3) Sole proprietorships, partnerships, limited partnerships and general partnerships with fewer than 20 employees. – (4) Excludes holding companies.

The stock of bad debts rose from 4.5 to 4.7 per cent of total lending; the increase was due entirely to the crisis of the Parmalat group. Banks' exposure to customers in temporary difficulty – "substandard loans" – amounted to 2 per cent of outstanding lending net of bad debts, compared with 2.1 per cent in 2002.

Credit conditions and interest rates. – Credit conditions remained expansionary in 2003. Since December lending volumes and short-term interest rates point to greater caution in the granting of credit.

The undrawn margins on credit lines for all categories of customers remained ample in 2003; the average ratio of credit drawn to credit granted held steady at around 42 per cent. Breaches of overdraft ceilings diminished from 13.1 to 10.9 per

Table31

Lending of Italian banks by geographical area and sector of economic activity(1)

	General govern-ment	Finance and insur-ance com-panies	Enterprises						Households		Total
				Holding companies	Non-financial corporations				Consumer households	Producer house-holds (2)	
						Manu-facturing industry	Construc-tion	Services			
Twelve-month percentage changes (3)											
Centre and North											
2002 - Dec.	-3.5	11.3	3.9	5.4	3.8	-0.4	9.3	5.6	11.3	8.8	6.0
2003 - Mar.	-6.4	8.3	5.6	6.2	5.6	-0.2	9.2	8.0	11.6	8.4	6.5
June.	-1.7	11.0	5.2	-2.0	5.8	1.7	10.0	7.4	8.7	9.2	6.4
Sept.	-3.9	9.8	7.0	-0.6	7.7	3.6	10.9	10.5	9.6	10.9	7.4
Dec.	-8.9	2.7	6.2	3.3	6.4	0.9	13.8	10.5	11.4	9.6	6.0
2004 - Jan.	-5.0	0.3	5.1	0.8	5.5	….	….	….	11.8	8.0	5.3
South											
2002 - Dec.	6.7	-14.3	7.1	1.2	7.2	0.4	8.4	11.0	8.7	7.0	6.9
2003 - Mar.	8.4	-19.5	8.5	-7.5	8.6	1.3	8.7	11.2	9.7	6.3	7.8
June.	4.9	-20.3	7.0	21.9	7.0	1.3	9.4	10.2	8.4	6.6	6.5
Sept.	8.5	-16.6	6.8	0.0	6.9	2.3	9.0	9.8	9.2	8.0	7.2
Dec.	11.0	6.8	6.1	-12.7	6.2	2.6	8.7	9.5	9.6	9.1	7.9
2004 - Jan.	-5.5	-2.1	5.9	18.8	5.8	….	….	….	10.4	7.9	6.8
ITALY											
2002 - Dec.	-2.5	10.4	4.2	5.3	4.2	-0.2	9.4	6.2	10.8	8.4	6.1
2003 - Mar.	-4.7	7.3	5.9	6.1	5.9	0.3	9.4	8.6	11.2	8.0	6.6
June.	-0.9	10.0	5.4	-1.8	5.9	2.0	10.1	8.0	8.6	8.6	6.5
Sept.	-2.4	8.9	7.0	-0.6	7.6	3.7	10.7	10.6	9.5	10.3	7.5
Dec.	-6.6	2.8	6.2	3.2	6.4	1.4	13.1	10.6	11.0	9.5	6.2
2004 - Jan.	-5.1	0.2	5.2	1.0	5.5	0.0	13.1	9.4	11.5	8.0	5.4
Stock of lending end-December 2003 (4) *(millions of euros)*											
Centre and North	45,190	122,285	509,841	37,830	472,011	159,458	54,473	218,171	180,449	49,275	907,040
South	7,029	3,512	60,591	270	60,321	17,175	9,452	27,702	46,888	13,854	131,874
ITALY...........................	52,219	125,797	570,432	38,100	532,332	176,633	63,925	245,873	227,337	63,129	1,038,914
Percentage composition of lending at December 2003 (4)											
Centre and North	5.1	13.5	56.1	4.2	52.0	17.6	6.0	24.0	19.9	5.4	100.0
South	5.3	2.7	45.9	0.2	45.7	13.0	7.2	21.0	35.6	10.5	100.0
ITALY...........................	5.1	12.1	54.9	3.7	51.2	17.0	6.2	23.7	21.9	6.1	100.0

(1) Loans exclude repos, bad debts and other minor items included in the aggregate reported in Table 29. The breakdown by geographical area is based on customer residence. – (2) Partnerships and sole proprietorships with up to 5 employees. – (3) Calculated net of reclassifications, exchange rate variations and other changes not due to transactions. – (4) The sum of stocks according to geographical area and sector of economic activity may differ from the total, which may include other items of the supervisory reports.

Table 32

Lending by Italian banks to firms by maturity, sector, size and geographical area (1)
(twelve-month percentage changes) (2)

	Centre and North		South		ITALY	
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003
Firms and producer households (3)						
short-term	-2.8	-1.4	4.3	3.4	-2.1	-0.9
medium and long-term	14.5	16.5	10.0	9.9	13.8	15.6
Total...	**4.3**	**6.7**	**7.1**	**6.7**	**4.6**	**6.7**
			By sector of economic activity			
of which:						
Manufacturing industry						
short-term	-5.5	-2.9	-2.4	2.8	-5.2	-2.4
medium and long-term	9.6	7.3	4.4	2.2	9.0	6.8
Total...	**-0.4**	**0.9**	**0.4**	**2.6**	**-0.2**	**1.4**
Construction						
short-term	2.9	8.1	8.7	5.2	3.7	7.7
medium and long-term	15.8	18.8	8.1	11.4	14.5	17.6
Total...	**9.3**	**13.8**	**8.4**	**8.7**	**9.4**	**13.1**
Services						
short-term	-4.3	2.9	6.7	3.4	-3.2	2.9
medium and long-term	19.5	19.2	16.4	16.1	19.4	18.6
Total...	**5.6**	**10.5**	**11.0**	**9.5**	**6.2**	**10.6**
			By size			
Producer households and small firms (4)						
short-term	1.7	1.0	3.2	1.1	1.9	1.0
medium and long-term	11.9	13.1	9.7	14.6	11.5	13.3
Total...	**7.0**	**7.6**	**6.7**	**8.8**	**7.0**	**7.8**
Medium-sized and large firms (3)						
short-term	-3.7	-1.9	4.6	4.2	-2.9	-1.3
medium and long-term	15.3	17.6	10.1	7.6	14.6	16.4
Total...	**3.6**	**6.4**	**7.3**	**5.9**	**4.0**	**6.4**

(1) Loans exclude repos, bad debts and some minor items included in the aggregate reported in Table 29. The breakdown by geographical area is based on customer residence. – (2) Calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (3) Excludes holding companies. – (4) Sole proprietorships, partnerships, limited partnerships and general partnerships with fewer than 20 employees.

cent of the amount of overdraft granted to firms. The dispersion of short-term interest rates among the different categories of borrowers did not increase; the differential between the average short-term lending rate and the minimum lending rate remained stable at around 2.4 percentage points.

According to the responses of the Italian intermediaries that participate in the Eurosystem's quarterly survey of bank lending in the euro area, in the last three months of 2003 the standards for granting loans and opening credit lines to firms remained unchanged overall with respect to the third quarter; some intermediaries reported that they had adopted a more cautious approach in lending to larger firms, owing to an increase in risks. For households, the standards and conditions applied to loans for house purchase and to consumer credit remained broadly unchanged. The survey also provides evidence of greater caution on the part of Italian banks for the first quarter of 2004.

Table 33

Italian banks' bad debts and substandard loans by geographical area and economic sector (1)

	General govern-ment	Finance and insur-ance com-panies	Firms						Households		Total
				Holding companies	Non-financial corporations				Consumer households	Producer house-holds (2)	
						Manu-facturing industry	Construc-tion	Services			
Twelve-month percentage changes in bad debts (3)											
December 2002											
Centre and North	8.2	-4.2	7.7	-7.7	8.1	5.0	10.9	9.2	17.2	2.7	8.9
South	12.7	-10.1	-7.0	108.1	-7.4	2.5	-20.8	-1.5	-7.4	-8.7	-7.5
ITALY	11.6	-5.6	2.5	1.2	2.5	4.2	-4.8	5.8	5.9	-3.6	1.9
December 2003											
Centre and North	-18.9	20.8	22.1	42.8	21.6	46.5	4.7	12.2	-0.6	7.8	15.0
South	-0.2	-20.0	1.8	31.8	1.6	10.7	0.1	-5.2	2.5	3.9	2.4
ITALY	-4.7	11.5	15.6	41.1	15.1	36.9	3.1	6.7	0.7	5.7	10.1
New bad debt during the year as a percentage of lending (4)											
December 2002											
Centre and North	0.0	0.1	1.1	….	….	1.2	1.7	1.1	1.1	1.4	0.9
South	0.1	0.0	2.2	….	….	3.2	1.8	1.6	1.0	2.2	1.6
ITALY	0.0	0.1	1.2	….	….	1.4	1.7	1.2	1.1	1.6	1.0
December 2003											
Centre and North	0.0	0.3	1.7	….	….	2.6	2.0	1.2	0.7	1.3	1.1
South	0.0	0.1	2.4	….	….	3.7	2.2	2.0	0.8	2.1	1.7
ITALY	0.0	0.3	1.7	….	….	2.7	2.1	1.2	0.7	1.5	1.2
Twelve-month percentage changes in substandard loans											
December 2002											
Centre and North	220.7	15.1	6.4	2.4	6.6	39.4	-23.3	3.9	-1.9	8.0	5.1
South	-43.0	27.8	-0.9	82.9	-1.0	-0.3	-20.5	22.4	13.9	3.7	2.8
ITALY	-24.5	15.6	5.0	2.8	5.1	29.8	-22.5	6.3	1.6	6.9	4.6
December 2003											
Centre and North	20.4	-12.0	0.3	-60.6	3.1	-1.2	7.7	1.7	5.9	11.9	2.5
South	-14.9	-7.6	1.2	-35.8	1.2	9.7	-7.7	-6.7	8.8	23.9	6.5
ITALY	-4.4	-11.8	0.5	-60.4	2.7	0.8	3.4	0.4	6.6	14.9	3.3

(1) The breakdown by geographical area is based on customer residence. – (2) Partnerships and sole proprietorships with up to 5 employees. – (3) Not adjusted for debt cancellations and assignments.– (4) New adjusted bad debts as a percentage of the stocks of loans other than adjusted bad debts outstanding at the end of the preceding year. The data for holding companies and non-financial corporations are not available. The figures on new adjusted bad debts are taken from reports to the Central Credit Register.

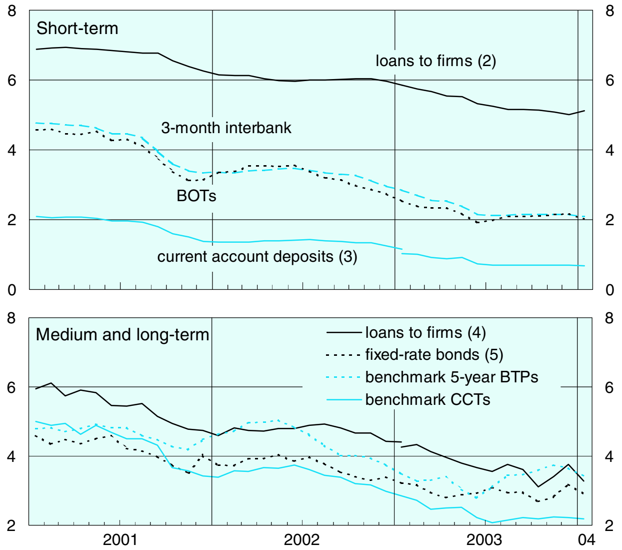
The slowdown in lending to firms in December and January may be partly due to a more prudent attitude to disbursing loans following the collapse of the Parmalat group.

The reduction in bank interest rates in Italy continued during 2003 before coming to a halt in December. In January 2004 short-term bank interest rates rose slightly (Figure 41).

Figure 41

Bank interest rates and rates on government securities in Italy (1)

(monthly data; percentages)



Sources: Based on Bank of Italy, MTS and MID data.

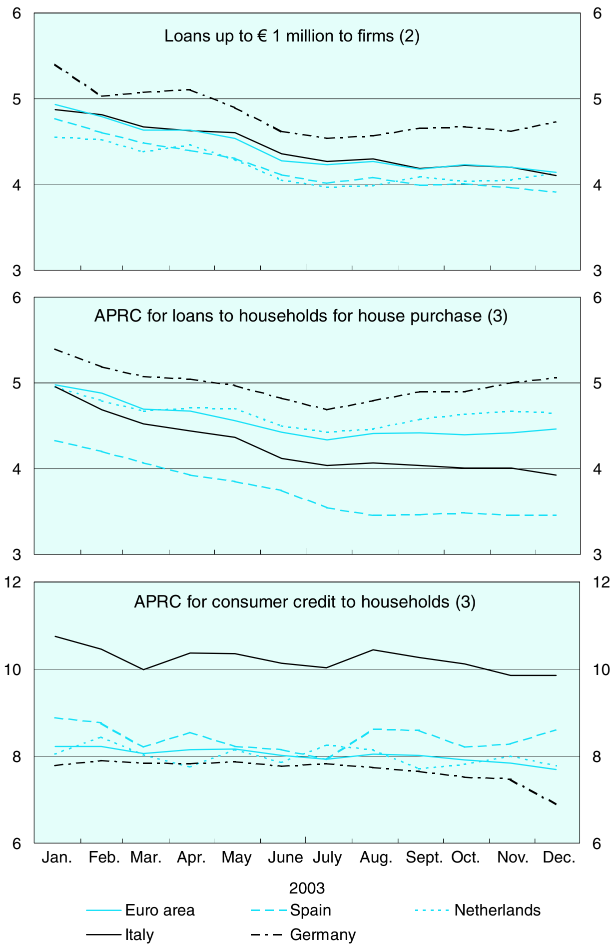
(1) The rates refer to operations in euros. Since January 2003 the data on bank interest rates are gathered and processed using the new Eurosystem harmonized methodology. – (2) Since January 2003, average rate on loans to firms with a maturity of up to one year. Before 2003, data reconstructed using the monthly interpolation of three-month rates reported to the Central Credit Register for loans to firms with a maturity of up to 18 months. – (3) Up to December 2002, average rate on all current account deposits. Since January 2003, average rate on current account deposits of households and firms. – (4) Up to December 2002, average rate on new loans with a maturity of more than 18 months to firms resident in Italy. Since January 2003, average rate on new disbursements with a rate fixed in advance for more than one year to firms resident in the euro area. – (5) Average rate on bank bonds issued during the month.

On the basis of the harmonized monthly statistics on bank interest rates for households and non-financial corporations resident in the euro area, available since last December, between January and December 2003 the average rate on outstanding short-term loans to firms fell in Italy by 0.8 percentage points to 5 per cent (and in the euro area by 0.7 points to 4.5 per cent). Over the same period the rate on new loans of less than €1 million to firms, which approximates the credit conditions applied to smaller enterprises, fell both in Italy and in the euro area by 0.8 percentage points to 4.1 per cent (Table 42). The annual percentage rate of charge (APRC) for loans for house purchase decreased in Italy by 1 percentage point to 3.9 per cent, largely owing to the fall in rates on variable-rate loans; it is around half a point lower than the euro-area average. By contrast, the APRC for consumer credit is higher in Italy than in the euro area as a whole (9.9 against 7.7 per cent). The interest rate on overdrafts for households came down from 9.1 to 8.5 per cent, more than 1 point lower than the euro-area average.

Figure 42

Harmonized interest rates on loans in the major euro-area countries: new business (1)

(monthly data; percentages)



Sources: Based on ECB data and national statistics.

(1) New contracts concluded during the reference period or contracts renegotiating previous terms and conditions. – (2) Average lending rate across all maturities, weighted by loan amounts. – (3) The annual percentage rate of charge includes accessory expenses (administrative expenses, loan examination fees and insurance). It is calculated as the average rate across all maturities, weighted by loan amounts. Households include producer households and non-profit institutions serving households.

Adjusting for regional differences in the composition of firms by size and sector, the differential between the rate on short-term bank loans to firms in the South and those in the Centre and North increased by around 0.3 percentage points to reach 1.2 points. This reflects the different variation in bad debts and substandard loans in the two halves of Italy.

Italian banks' funding, securities portfolio and profitability

Domestic fund-raising. – Domestic fund-raising slowed down in the second half of 2003 (Table 30); in January 2004 the twelve-month increase was 6 per cent, lower than that recorded in the euro area. Around two thirds of the deceleration in funding in Italy in 2003 came from a contraction in repos.

Fund-raising in the form of bond issues showed further substantial growth of 8.6 per cent; subordinated bonds, which account for more than one tenth of the total outstanding, increased by 6.5 per cent. Gross issues of Eurobonds registered a particularly sharp expansion of 51 per cent.

Bond issues with yields indexed to financial market parameters rose over the year from around one half to three quarters of the total. This shortened the duration of banks' liabilities. Including current accounts and considering the indexation mechanisms, in December 2003 liabilities had a duration of 7.2 months compared with 12.9 months for assets (the end-2002 figures were 7.9 and 13.3 months, respectively).

Bank deposit rates adjusted to the decline in money-market rates by roughly the same degree as in the euro area. Between January and December 2003 the average rate on households' current accounts fell in Italy by 0.3 percentage points to 0.6 per cent and in the euro area by 0.2 points to 0.7 per cent. The average rate on the deposits of households and firms came down in Italy by 1.3 points to 0.9 per cent and in the euro area by 2 points to 1.6 per cent. The higher level of this rate in the euro area is due to the longer maturity of deposits, given the higher incidence of deposits with agreed maturity or redeemable at notice.

Foreign fund-raising and the securities portfolio. – Italian banks financed the excess growth of lending with respect to domestic funding by borrowing abroad. Their net liabilities in respect of non-residents grew by €26.2 billion in 2003. The proportion of net foreign funding subject to exchange rate risk shrank further, two thirds of net liabilities being denominated in euros, compared with about one half in 2002. At the end of December 2003 Italian banks' net external debtor position of €73.5 billion was equal to 3.5 per cent of their total liabilities.

Banks' holdings of securities rose by 4.7 per cent, net of price variations. The ratio of liquid assets (cash and marketable securities) to the sum of liquid assets and loans declined from 15.5 to 15.3 per cent, a very low level by historical standards.

Profit and loss accounts. – According to preliminary data, banks' operating profit rose by 6.6 per cent in 2003 after falling by 7.5 per cent in 2002. Net interest income increased by 1.5 per cent, recording slower growth due to the narrower spread between lending and deposit rates. The rise in net income from securities and foreign exchange trading led to a 3.8 per cent increase in gross income. Operating expenses and staff costs increased moderately, by 2.2 and 2.5 per cent respectively.

In June 2003 the banking system's consolidated supervisory capital amounted to €137.5 billion, 3 per cent more than a year earlier (Table a39). The solvency ratio (supervisory capital over risk-weighted assets) was 11.2 per cent, as in June 2002.

The government securities market

Net issues of euro-area government securities amounted to €176 billion in 2003, the highest figure since 1997.

In Italy, net issues fell from €25.2 billion to €17.9 billion (Table 34). Set against the growth in the state sector net borrowing requirement, there were greater drawings on the Treasury's account with the Bank of Italy and an increase in privatization receipts (particularly in connection with the transformation of Cassa Depositi and Prestiti into a company limited by shares).

Table 34

Issues of Italian government securities (1)

(millions of euros)

	2002	2003	2002	2003
	Gross issues		**Net issues** (2)	
BOTs	208,761	214,093	-70	5,905
CTZs	32,556	31,185	8,335	-7,907
CCTs	44,535	38,313	-12,290	-16,348
BTPs	133,646	144,882	42,364	31,764
Other...............	. .	. .	-17,520	-1,130
Total...	**419,498**	**428,473**	**20,819**	**12,285**
Republic of Italy issues...........	16,135	21,998	4,388	5,582
Total government securities	**435,633**	**450,471**	**25,207**	**17,867**

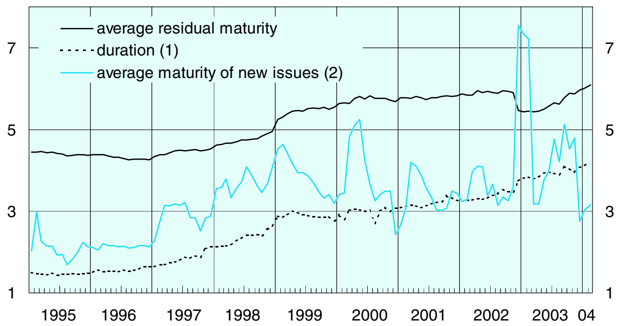
(1) At face value. Rounding may cause discrepancies in totals. – (2) Net of issue discounts and premiums; includes buybacks and redemptions made by drawing on the sinking fund for the redemption of government securities.

At the end of February 2004 the average residual maturity of the debt was 6 years and 1 month and its average duration 4 years and 2 months, respectively 7 and 6 months longer than at the end of 2002 (Figure 43).

Figure 43

Average maturity of outstanding Italian government securities and new issues

(monthly data; years)



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

Table 35

Stocks and net purchases of securities issued by residents in Italy, by holding sector (1)

(millions of euros)

	Public-sector securities						Private-sector bonds	Total public-sector securities and private-sector bonds	Listed Italian shares
	BOTs	CTZs	CCTs	BTPs	Others (2)	Total			
					Net purchases in 2003				
Central bank	-170	-181	1,734	8,245	1	9,629	-2	9,627	96
Banks.................................	2,731	195	-5,911	-2,521	970	-4,536	8,142	3,606	....
Investment funds (3)	12,445	1,777	4,506	-4,284	245	14,689	857	15,546	229
Other investors (4)	-9,101	-9,697	-16,677	30,324	5,869	718	55,120	55,838	....
of which: non-residents (5)...	*17,451*	*1,863*	*-1,489*	*37,564*	*8,012*	*63,401*	....	....	*-4,390*
Total ...	**5,905**	**-7,906**	**-16,348**	**31,764**	**7,085**	**20,500**	**64,117**	**84,617**	**8,710**
					Stocks at end-2003				
Central bank	..	..	10,419	37,584	1,069	49,072	163	49,235	5,299
Banks.................................	19,093	4,794	41,441	21,696	6,041	93,065	58,253	151,318	....
Investment funds (3))	29,749	9,233	37,631	60,922	2,290	139,825	11,134	150,959	16,595
Other investors (4)	70,803	38,609	106,894	580,453	94,880	891,639	487,797	1,379,436	....
of which: non-residents (5)..	*79,998*	*26,751*	*17,130*	*359,348*	*90,960*	*574,187*	....	....	*60,493*
Total ...	**119,645**	**52,636**	**196,385**	**700,655**	**104,280**	**1,173,601**	**557,347**	**1,730,948**	**487,447**
Percentage share of the total stock of public-sector securities	**10.2**	**4.5**	**16.7**	**59.7**	**8.9**	**100.0**			

(1) Stocks of public-sector securities and private-sector bonds are at face value, those of shares at market value; net purchases are at market value. Rounding may cause discrepancies in totals. – (2) Republic of Italy issues and other public-sector securities. – (3) Figures for Italian harmonized investment funds and SICAVs. – (4) Households, enterprises, non-residents, central and local government, social security institutions, Cassa Depositi e Prestiti, and Italian investment firms and insurance companies. – (5) Provisional figures for October 2003. Excludes the securities of local governments, autonomous government agencies and Ente F.S.

Italian government securities were purchased mainly by non-resident and investment funds (Table 35). By contrast, there were substantial net disposals by resident “other investors”, principally households.

At the end of last year the Ministry for the Economy and Finance announced the guidelines for public debt management in 2004 and 2005. These envisage a continuation of the policy of lengthening the debt’s duration, to be pursued in part through an increase in government bond conversions and the issue of new securities indexed to euro-area inflation. Three-year BTPs will be offered only at end-of-month auctions. A further increase in issues of non-euro-denominated securities is planned.

February 2004 saw the first issue of a ten-year BTP indexed to euro-area consumer prices. The issue amount was €5 billion; demand for the bond on the part of the public was very high (€11.5 billion). The bond’s pre-tax real yield at issue was 2.3 per cent, broadly in line with that of comparable French government securities.

The yield on the benchmark ten-year BTP was 4.3 per cent at the beginning of March 2004, 0.2 percentage points lower than at the start of 2003.

The Ecofin Council decision of 25 November not to apply the measures envisaged by the Stability and Growth Pact to France and Germany did not have an appreciable immediate effect on the long-term yields of the two countries’ benchmark government securities. However, the differential between the benchmark ten-year government bond yields for France and Germany and the average for the countries that ran a budget surplus in 2003 has gradually widened over the last three years. For Italy, the corresponding differential is currently above 15 basis points (it was nil at the time the euro was introduced).

Bank and corporate bonds

Issuance. – The volume of bond issues in the euro area was considerable in the final months of 2003 and the early part of this year. Financing costs, already historically low, continued to decline as a result of a slight fall in long-term interest rates on government securities and a further reduction in the risk premium. Many issuers took advantage of the favourable market conditions to raise funds for the future redemption of existing loans or in order to lengthen the average duration of their debt.

In 2003 as a whole, net issues of bank and corporate bonds in the euro area rose significantly compared with 2002 (Table 36). Issues by banks and other financial corporations grew by 35 per cent, while those by non-financial companies jumped by 77 per cent to €51 billion.

Table 36

Net bond issues by Italian and euro-area banks and firms (1)
(millions of euros)

	2001	2002	2003
		Italy	
Banks	33,917	33,239	31,156
Other financial firms	36,031	29,209	29,026
Non-financial firms	7,007	6,133	3,629
Total ...	**76,955**	**68,581**	**63,811**
		Euro area	
Banks	196,858	116,149	184,506
Other financial firms	113,348	114,822	128,018
Non-financial firms	79,290	28,712	50,785
Total ...	**389,495**	**259,683**	**363,308**

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, valued at face value, issued by companies resident in the area and belonging to the sector indicated. The nationality and sector refer to the issuer, not to its parent company. Net issues are equal to the difference between the face value of the securities issued and that of the securities redeemed.

Gross issues on the international market by euro-area banks and private-sector companies began to expand rapidly again, totaling €465.1 billion for the year (Table 37). The largest increase was in bank bonds, thanks primarily to large issues by Spanish and Dutch banks. Issues by non-financial companies also rose, chiefly as a result of large transactions by major automobile manufacturers. The volume of international issues was also substantial in the first two months of 2004.

The impact of the Cirio and Parmalat crises on the market for Eurobonds issued by Italian non-financial companies

The collapse of the Cirio group and, more recently, of Parmalat have raised fears that Italian companies would find it more difficult to gain access to the Eurobond market. [1]

Following Cirio's default in November 2002, gross Eurobond issues by Italian private-sector non-financial companies fell to €13.8 billion in 2003, compared with €19.5 billion on average in the previous four years (Table 37). By contrast, firms in other euro-area countries increased issues to €114.3 billion from an average of €107.2 billion between 1999 and 2002.

About 80 per cent of the decline in Italian corporate issues can be attributed to reduced use of this instrument by the ten largest borrowers. Another factor was the more limited recourse by smaller firms, with only five groups making issues totaling less than €300 million, compared with an annual average of 13 between 1999 and 2002. The number of unrated Eurobond issues also fell from 18 to 3. These developments presumably reflect the difficulty of Italian firms, particularly small ones, in accessing the bond market.

Yields at issue on Italian Eurobonds were in line with general market terms in 2003. The average yield differential between euro-denominated fixed-rate BBB Eurobonds and bonds of similar maturity issued by foreign firms in the same economic sector was less than 10 basis points.

Since the Parmalat crisis erupted at the beginning of December 2003, there has been little or no change in financing conditions for Italian investment-grade issuers in the Euromarket, but they have worsened for riskier borrowers.

This year's first Eurobond issues were made by Telecom Italia in January. The company placed three BBB+ issues totaling €3 billion, which were well received. Two other large Italian groups, ENI and Italenergia, later carried out small issues. Gross Eurobond issues by Italian non-financial companies amounted to €3.2 billion in the first two months of 2004, compared with €3 billion on average in the same period of 1999-2002. As in 2003, smaller companies made no issues in January and February, compared with an average of three in the previous four years. Because the Parmalat crisis emerged so recently it is still too early to assess its impact on Italian corporate bond issues.

Yields at issue on bonds placed at the beginning of 2004 have not diverged from those on comparable foreign paper. The yield on Telecom Italia's new seven-year fixed-rate bond is in line with that on similar securities of other major European telecommunications companies.

The evaluation of secondary market yields is complicated by the fact that many bonds are traded sporadically, often making price information merely indicative. Only just over a third of the 50 Italian non-financial groups that have made Eurobond issues in the past five years have securities that are traded regularly.

The figure below shows the spread between the secondary market yields of a number of Italian investment-grade securities and the market indices calculated by Morgan Stanley for corresponding sectors and ratings. At the end of February 2004 the

cont. ➤

Net issues by Italian banks and companies ran counter to the trend in the euro area and declined in 2003. The sharpest fall involved net issues by non-financial companies, which dropped by 41 per cent, but bank issues also decreased (6 per cent). By contrast, net issues by non-bank financial corporations, which included securitizations, were virtually unchanged.

Gross international issues by Italian residents declined by 9 per cent to about €49 billion. Placements by non-financial companies contracted by 6 per cent (see the box "The impact of the Cirio and Parmalat crises on the market of Eurobonds issued by Italian non-financial companies").

The volume of international bonds issued by Italian non-financial companies that will mature in *differentials were broadly the same as or slightly higher than at the beginning of December, suggesting that the Parmalat crisis has not had widespread repercussions.*

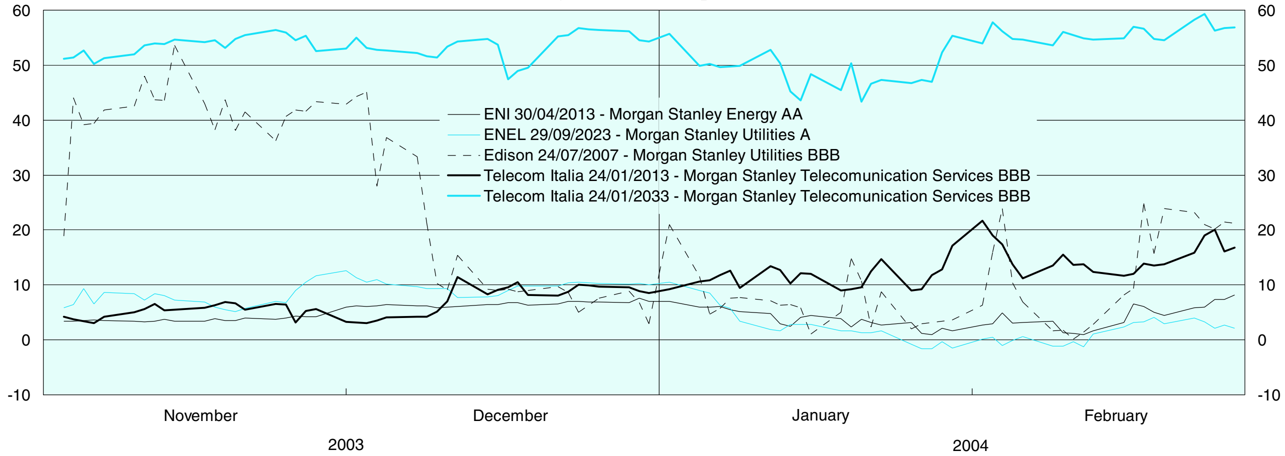
On the other hand, the movement of secondary market prices indicates that investors have become more selective with regard to Italian firms issuing unrated or high-yield securities (those rated below BBB- or Baa3). While average yields on a sample of euro-denominated fixed-rate securities of this type rose by around 3 percentage points between the beginning of December 2003 and the end of February 2004, those on comparable foreign bonds did not.

A similar picture emerges from developments in credit default swap spreads, which are used to hedge against default of the main bond issuers. While premiums on issues by highly-rated Italian firms have increased slightly since December (by around 0.1 percentage points), those on issues by other firms have risen more sharply.

[1] The Euromarket consists largely of bonds denominated in the leading international currencies that are placed mainly outside the issuer's country of residence and distributed by a syndicate whose members come from different countries.

Yield differentials on investment-grade Eurobonds of Italian non-financial companies (1)

(daily data; basis points)



Source: MSCI.

(1) Difference between the yield differential on the Italian bonds, with respect to the rate on swaps with the same maturity, and the differential,with respect to the swap rate, of the Morgan Stanley market indices for the corresponding sector and rating.

2004 remains substantial at €14 billion, or 16 per cent of outstanding issues at the end of the third quarter of 2003; nearly half the bonds fall due in July.

Yields. – On the international market, the yield differential between euro-denominated bonds of non-financial companies and government securities, which had been narrowing since the autumn of 2002, tightened further in the final months of last year and then stabilized; at the end of February it was 0.7 percentage points. Premiums on credit default swaps showed a similar pattern.

The continued decline in credit risk premiums coincided with a protracted fall in issuer defaults and an improvement in ratings assigned by rating agencies.

Table 37

Gross international bond issues by private-sector companies (1)

(number of issues; amounts in millions of euros)

	1997	1998	1999	2000	2001	2002	2003	2003			
								Q1	Q2	Q3	Q4
						Italy					
Number of issues	41	46	115	200	283	231	187	55	51	40	41
Value of issues	7,255	9,392	42,131	50,018	75,446	53,596	48,639	14,664	11,165	7,492	15,319
of which:											
by non-financial firms .	*2,157*	*4,056*	*24,519*	*13,598*	*25,153*	*14,634*	*13,811*	*3,450*	*2,572*	*2,064*	*5,724*
						France					
Number of issues	90	60	178	230	232	246	349	68	103	70	108
Value of issues	14,966	11,380	46,174	49,405	57,227	65,625	77,322	15,626	28,923	14,311	18,462
of which:											
by non-financial firms .	*3,730*	*3,933*	*26,978*	*24,599*	*31,440*	*30,983*	*38,857*	*5,419*	*19,390*	*7,073*	*6,974*
						Germany					
Number of issues	268	315	660	701	523	532	582	135	158	131	158
Value of issues	40,054	53,299	121,443	146,897	136,325	118,458	121,038	31,051	41,706	21,293	26,988
of which:											
by non-financial firms .	*5,954*	*10,301*	*21,451*	*45,283*	*55,269*	*52,903*	*49,249*	*13,187*	*20,806*	*8,518*	*6,737*
						Euro area					
Number of issues	771	731	1,480	1,803	1,742	1,760	2,120	460	607	450	603
Value of issues	103,533	123,929	319,268	413,503	427,316	370,088	465,063	113,685	136,235	85,974	129,170
of which:											
by non-financial firms .	*15,185*	*27,941*	*98,321*	*143,881*	*146,871*	*117,521*	*128,078*	*28,379*	*48,044*	*24,611*	*27,044*

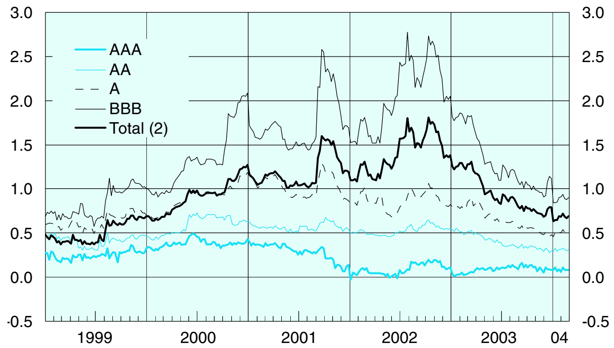
Source: Based on Dealogic data.
(1) Medium and long-term bonds issued by private-sector borrowers belonging to a corporate group resident in the country or area indicated, at face value; includes private placements and issues placed simultaneously in the Eurobond market and in the US domestic market. Non-financial firms are classified according to the sector to which the parent company belongs. Amounts raised before 1999 have been translated into euros at the exchange rate of the euro at 1 January 1999.

According to Moody's, the proportion of high-risk issuers in the international market declared insolvent during the year fell from 11 to 5 per cent. The ratio of ratings downgrades to upgrades decreased from 9.6 to 3.1 per cent (Figure 45).

Figure 44

Yield differentials between euro-denominated bonds issued by non-financial firms and government securities (1)

(daily data; percentage points)

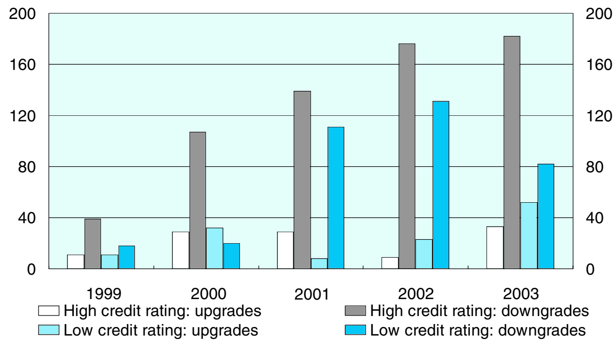


Source: Merrill Lynch.
(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by non-financial firms resident in countries whose long-term foreign currency debt bears a rating not lower than Baa3 or BBB-. Yield differentials are calculated with respect to French and German government securities. – (2) Only includes bonds rated at least Baa3 or BBB-.

Figure 45

Revisions of credit ratings of euro-area non-financial firms (1)

(number of revisions)



Source: Moody's.
(1) Revisions for all classes of rating of long-term debt by Moody's. Companies with high (low) credit rating are those rated at least (lower than) Baa3; the rating considered is that assigned before the revision.

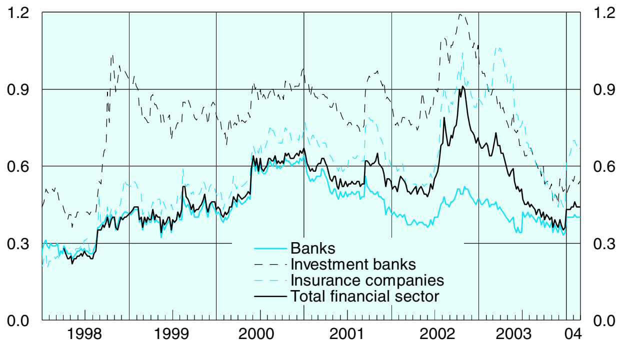
Yield differentials continued to narrow in all sectors. The decrease was largest in telecommunications, energy and automobiles. In the financial sector, and investment banks in particular, the further narrowing of differentials in the final part of 2003 is at least partly attributable to the recovery in equity markets, which tends to boost demand for financial services.

The movement of differentials vis-à-vis government securities for Italian issuers was similar to that for borrowers in other countries. Beginning in December 2003, however, the emergence of the insolvency of the Parmalat Group caused the cost of financing for unrated or low-rated issuers to rise. On the other hand, the recent corporate crises have not affected the differential between Italian government securities and those of other countries.

Figure 46

Yield differentials between euro-denominated bonds issued by financial firms and government securities (1)

(weekly data; percentage points)



Source: Merrill Lynch.

(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by financial firms resident in countries whose long-term foreign currency debt bears a rating not lower than Baa3 or BBB-. Yield differentials are calculated with respect to French and German government securities.

The stock markets

Price developments. – Share prices in the euro area continued the rise that began in March last year, on the eve of the conflict in Iraq (Figure 47). Between the start of 2003 and February 2004 the Dow Jones Euro Stoxx index of the largest euro-area listed companies rose by 24 per cent (over the same period the S&P 500 rose by 30 per cent). Share prices rose by 42 per cent in Germany, 36 per cent in Spain, 22 per cent in France and 19 per cent in Italy. Unlike the United States, euro-area stock markets have not yet fully recouped the sharp fall recorded in the summer of 2002.

Over the same period, the rise in the Italian stock market was less than in the euro area in all the main sectors except banking, where share prices increased by 33 per cent, 1 percentage point more than euro-area banks as a whole. The differential for telecommunications stocks was substantial, as prices rose by 13 per cent in Italy against 36 per cent in the euro area.

The crisis of the Parmalat Group at the end of 2003 had a significant impact on some segments of the Italian stock market. Between the start of December 2003 and the end of January this year, share prices in the food processing sector excluding Parmalat fell by 2.9 per cent, compared with increases of 1 per cent in Germany and 3.8 per cent in France. Bank shares were broadly stable in Italy (0.4 per cent), compared with increases of 5.8 per cent in the euro area and 3.2 per cent in the United States. The divergence of the Italian stock market's overall performance from that of the other main euro-area markets ended in February this year, thanks to the recovery in the prices of bank shares.

The enduring recovery in share prices in the euro area is attributable to the gradual improvement in the growth prospects for the world economy.

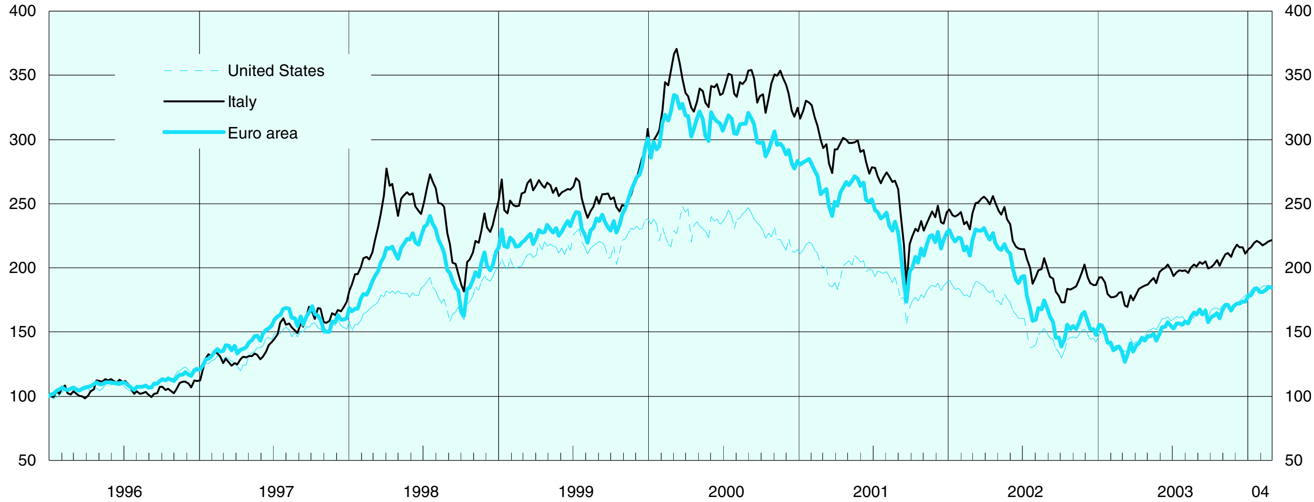
As in the second and third quarters of 2003, the reduction in the risk premium demanded by investors for holding equities is likely to have contributed to the recent rise in stock markets. The uncertainty over share price developments has diminished sharply, as underscored by the further decrease on all the main euro-area markets in the volatility implied by the prices of stock index options.

The rise in share prices was also a consequence of the slight improvement in the profit outlook for listed companies in the euro area. Short-term profit forecasts were revised upwards in insurance, telecommunications, banking, energy and the consumer goods sectors most sensitive to cyclical conditions. Expectations deteriorated in other consumer goods sectors and automobiles. Medium-term forecasts for the rate of earnings growth for all listed euro-area companies stabilized, halting the decline under way since 2001.

Figure 47

Share prices (1)

(end-of-week data; indices, 31 December 1995=100)

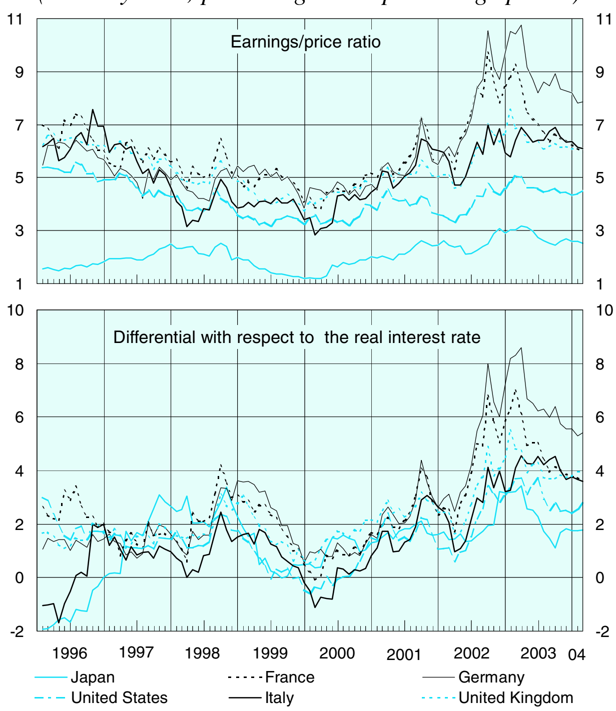


Source: Bloomberg.
(1) MIB for Italy, Dow Jones Euro Stoxx for the euro area, S&P 500 for the United States.

Figure 48

Current earnings/price ratios on the main stock exchanges and differentials with respect to real ten-year interest rates (1)

(monthly data; percentages and percentage points)



Sources: Thomson Financial, Bank of Italy and Consensus Economics.
(1) Real interest rates are calculated by deflating the nominal yields on benchmark ten-year government securities by expectations of consumer price inflation over the same time horizon.

Share prices are currently close to the level consistent with long-term growth forecasts in the main euro-area countries. The large differential between the earnings/price ratio and the real long-term interest rate reflects the very low level of real interest rates and expectations of a relatively modest increase in corporate earnings (Figure 48).

Listed companies. – Unlike in the United States and the United Kingdom, the rise in share prices in the euro area has not been accompanied by a significant recovery in new listings, which decreased markedly in 2001 and 2002. The number of listings in the euro area rose from 11 in the first half of last year to 19 in the second half, compared with an increase from 14 to 109 in the United States. In Italy a total of four companies went public in 2003, compared with five the previous year.

In December 2003 the total market value of the 260 resident companies listed on the Italian stock exchange was equal to 37.4 per cent of GDP, broadly unchanged on the previous year. The ratio is similar to that in Germany (40.1 per cent) but significantly lower than those in the other main industrial countries (69.3 per cent in France, 123.6 per cent in the United Kingdom and 129.9 per cent in the United States).

Investment funds

In the second half of 2003 there was a pronounced increase in net subscriptions of investment funds in various European countries, while those in equity funds recovered.

In Italy, investment funds recorded net subscriptions of €22.2 billion in 2003 after two years of net redemptions (Table 38). In the second half of the year Italian households began to return to equity funds, encouraged by the rise in stock indices, while making substantial net redemptions of bond funds, whose prices were adversely affected by the rise in medium and long-term interest rates in the summer. In January 2004 investment funds posted net outflows of €2.5 billion.

In 2003 the average yield of Italian investment funds was 3.6 per cent, the first positive result after three consecutive years of losses. The best returns were achieved by equity, flexible and balance funds (10.1, 6.6 and 5.6 per cent respectively). Bond and money-market funds recorded very modest returns of 1.6 and 1.9 per cent respectively.

Table 38

Net assets and fund-raising of investment funds controlled by Italian intermediaries (1)

(millions of euros)

	2002	2003	2003 January	2004 January
	Net assets *(end-of-period stocks)*			
Italian funds	360,557	379,431	359,329	379,172
Foreign funds (2)	97,536	118,609	95,644	120,466
Total ...	**458,093**	**498,040**	**454,973**	**499,638**
	Net fund-raising *(flows)*			
Italian funds	-12,340	6,647	2,309	-2,910
Foreign funds...........	4,371	15,581	-231	376
Total ...	**-7,970**	**22,228**	**2,078**	**-2,534**
	Gross fund-raising *(flows)*			
Italian funds	190,254	212,664	17,613	12,933
Foreign funds...........	87,109	91,378	7,059	5,627
Total ...	**277,363**	**304,042**	**24,672**	**18,560**

Sources: Bank of Italy and Assogestioni.
(1) The figures refer to harmonized investment funds. The data for 2003 and January 2004 are provisional. – (2) Value of units subscribed by Italian investors.

SHORT-TERM ECONOMIC PROSPECTS

In the second half of 2003 the world economy accelerated significantly with respect to the first six months, partly as a result of the expansionary stance of economic policies. The cyclical indicators point to a consolidation of the recovery in the early months of 2004. The strength of the expansion differed according to the region. The US, Japanese and main Asian economies were much more dynamic than that of the euro area, where the upturn in activity was small and less than expected.

International organizations and the main professional forecasters project that the difference in growth rates will carry through to the current year. Economic activity is expected to increase by more than 4 per cent in the United States and by 2 to 3.5 per cent in Japan, but by only just over 1.5 per cent in the euro area. In this context, the external current account imbalances of the main economies are not expected to diminish. Inflation is set to remain moderate at a global level.

In the latest projections of professional forecasters the Italian economy is expected to grow at an even slower pace than that of the euro area. It is likely to continue to suffer from a model of product specialization that makes it more vulnerable than other economies to the consequences of a loss of price competitiveness. Foreign products will continue to increase their penetration of the Italian market and Italian goods to lose world market shares. The persistent climate of uncertainty that acts as a brake on consumption and investment will also be a factor.

The world economy

World output and world trade increased on average by 3.7 and 4 per cent respectively in 2003, compared with 2.9 and 3.4 per cent in 2002 (Table 39), accelerating significantly in the second half of the year.

In the United States the exceptionally powerful fiscal stimulus and the highly expansionary stance of monetary policy contributed to the growth of 3.1 per cent in output in 2003, about 0.5 percentage points more than forecast as late as the beginning of the autumn. Inflation remained subdued, reflecting the continuing high rate of increase in productivity. The latest indicators confirm that the rapid rate of economic expansion has carried over into the early months of 2004, although the performance of employment remains less satisfactory. In January industrial production picked up again and orders for producer goods, excluding the most volatile items, increased. Non-farm payroll employment, which had risen by about 100,000 in January, was virtually unchanged in February.

In Japan output grew by 2.7 per cent in 2003. Deflationary pressures eased during the course of the year. The recent improvement in the labour market is likely to foster an upturn in consumption. Industrial production increased substantially in January.

In the emerging countries growth rose to 5.8 per cent in 2003, compared with 4.6 per cent in 2002, with a very vigorous expansion in China and the rest of Asia. Central and Eastern Europe recorded strong growth of around 4 per cent, which was mainly led by domestic demand. In Latin America GDP rose by 1.5 per cent, after stagnating in 2002.

The marked recovery in trade flows in recent months and the widespread improvements in the real and financial leading indicators, signalling that the recovery is progressively spreading to all the main regions, has prompted international organizations and professional forecasters to adjust their growth estimates upwards. According to the International Monetary Fund projections presented at the recent meeting of the G7 countries in the United States,

Table 39

Forecast performance of selected international macroeconomic variables

(percentage changes on previous year unless indicated otherwise)

	2003	2004 (1)				
		IMF	Consensus Economics	JP Morgan	Goldman Sachs	Deutsche Bank
		Feb. 2004	08/03/04	05/03/04	12/03/04	12/03/04
GDP (2)						
United States	3.1	4.6	4.6	4.9	4.3	5.2
Japan	2.7	2.2	2.8	3.5	2.6	3.4
Euro area	0.4	2.0	1.7	1.9	2.2	1.6
Emerging economies	5.8 (3)(4)	5.9 (4)	-	5.6	6.6	-
Asia	*7.5* (3)(4)	*7.3* (4)	-	*6.8*	*8.2*	-
of which: China	*9.1*	*8.5*	*8.3*	*9.0*	*9.5*	-
Latin America	*1.5* (3)	*3.6*	*4.1*	*4.5*	*4.1*	-
of which: Argentina	*8.0* (5)	-	*6.2*	*7.5*	*5.1*	-
Brazil	*-0.2*	*3.5*	*3.5*	*3.4*	*3.5*	-
Mexico	*1.3*	-	*3.2*	*3.7*	*4.0*	-
Central and Eastern Europe	*4.1* (3)	*4.4*	-	-	*4.0*	-
Consumer prices						
United States	2.3	1.3	1.7	1.6 (6)	1.9	1.6
Japan	-0.3	-0.3	-0.2	-0.1 (6)	-0.7	-0.1
Euro area	2.1	1.7	1.7	1.3 (6)	1.9	1.7
Emerging economies	-	-	-	5.7 (6)	5.9	-
Asia	-	-	-	*3.9* (6)	*3.5*	-
of which: China	*1.3*	-	*2.9*	*4.5* (6)	*3.8*	-
Latin America	*7.6* (5)(7)	-	*7.3* (7)	*7.2* (6)	*6.8*	-
of which: Argentina	*13.4*	-	*7.1* (7)	*7.0* (6)	*4.0*	-
Brazil	*14.7*	-	*6.1* (7)	*6.2* (6)	*7.6*	-
Mexico	*4.5*	-	*4.0* (7)	*3.5* (6)	*4.2*	-
Central and Eastern Europe	-	-	-	-	*4.9*	-
World trade (2)(8)	**4.0**	**7.8**	-	-	-	-
Oil prices						
Average of the three leading grades ($ per barrel)	28.9	30.0	30.7 (9)	-	26.6 (10)	-

Sources: IMF, *Surveillance Note*, February 2004; OECD, *Economic Outlook No. 74*, December 2003; *Consensus Forecasts*, 8 March 2004; *Asia Pacific Consensus Forecasts*, 8 March 2004; *Latin American Consensus Forecasts*, 16 February 2004; Goldman Sachs, *Asia-Pacific Economics Analyst*, 11 March 2004; *European Weekly Analyst*, 12 March 2004; *Global Economics Weekly*, 10 March 2004; *Japan Economics Analyst*, 12 March 2004; *US Economics Analyst*, 5 March 2004; JP Morgan, *Global Data Watch*, 5 March 2004; Deutsche Bank: *US Economics Weekly*, 12 March 2004, *Focus Europe*, 12 March 2004, and *Japan Weekly*, 12 March 2004.

(1) Forecasts. – (2) At constant prices. – (3) IMF estimates. – (4) Excludes the recently industrialized economies. – (5) *Consensus Forecasts* estimates. – (6) Change between the fourth quarter of 2003 and the fourth quarter of 2004. – (7) Change for the twelve months ending in December. – (8) Goods and services; OECD forecasts. – (9) WTI; end-June price. – (10) WTI.

world output should grow by 4.5 per cent this year. Global growth will be driven, as in 2003, by the United States and China. The rate of growth of the US economy is again expected to be significantly higher than that of the other main industrial countries, thus delaying the adjustment of the US balance-of-payments deficit on current account, which is not expected to come down from the high level reached in 2003 (around 5 per cent of GDP), despite the large gains in competitiveness produced by two years of depreciation of the dollar. There are fears that in the medium run the imbalances in the US public finances and external current account could trigger substantial adjustments in relative prices and volumes and dampen the prospects of world economic growth.

In the United States, the persistence of expansionary budget and, in the absence of inflationary pressures, monetary policies, together with the good profitability and financial conditions of the corporate sector, should foster a further upturn in investment and an improvement in the labour market. The rate of GDP growth in 2004 is forecast between 4.3 and 5.2 per cent.

For Japan, forecasts are that GDP will grow by 2.2 to 3.5 per cent this year. Employment should pick up slightly as the expansion takes hold. Deflationary pressures are expected to persist but with less strength.

In the emerging Asian countries economic activity is projected to continue to expand at a rate of nearly 7 per cent. In China output should grow by more than 8 per cent in 2004 as well, although a slowdown in investment is forecast following the recent measures to curtail the over-expansion of lending.

The forecasts for Central and Eastern Europe are that output growth will again be on the order of 4 per cent in 2004. These countries continue to have good growth prospects but could be affected by the persistent weakness of economic activity in the euro area, where more than half their exports are directed.

The recovery is expected to gain strength in the main Latin American countries, reaching levels close to 4 per cent in the region as a whole. It will be fostered not only by the upturn in world trade, but also by a build-up of confidence among international investors, thus encouraging a resumption of capital inflows.

The euro area

The euro-area economy grew by 0.4 per cent in 2003. After stagnating in the first half, GDP returned to modest growth in the second. Inflation, slightly lower than in 2002, was still just above 2 per cent.

The incomplete adjustment of the public finances limited the scope for fiscal policy stimulus. The minimum rate on the Eurosystem's main refinancing operations was reduced to its lowest level since the start of the third stage of EMU. Real short-term interest rates are approximately zero.

The appreciation of the euro in effective terms acted as a brake on exports, which were unchanged on average for the year. Despite favourable financing conditions, gross fixed investment declined for the third consecutive year. This was due in part to the existence of ample idle capacity, which could continue to check the resumption of capital formation.

The weakness of the economic recovery in the area is hard to explain in purely cyclical terms. Structural factors are involved, above all rigidity in the product and labour markets.

General government net borrowing in the euro area rose from 2.3 per cent of GDP in 2002 to 2.7 per cent last year, and public debt from 69.2 to 70.4 per cent. The budget outturn was significantly worse than planned in many countries, largely because of slower-than-forecast economic growth.

The ECB Governing Council has emphasized the risks of delay in bringing the public finances back into balance.

The expansion of euro-area M3 is gradually decelerating, reflecting the slow but steady decline in investors' liquidity preference in connection with the upturn in share prices and the reduction of the risk premium on corporate bonds.

Market expectations are that the reversion of nominal and real interest rates to levels closer to their historical averages will be very gradual and will not begin before the end of the year. Expectations concerning interest rates are affected by uncertainty over the timing and robustness of the current economic recovery.

After a period of improvement beginning last summer, the cyclical indicators showed signs of weakness in the first few months of this year, increasingly affected by the impact of the euro's appreciation on export demand. The improvement in the climate of confidence among firms in the main economies came to a halt, while consumer confidence remains at historically low levels. Since the end of 2003, the composite indicators have been signalling heightened uncertainty over the prospects for a pick-up in the recovery during the first quarter from the 0.3 per cent growth recorded in the fourth quarter of last year.

Owing in part to the appreciation of the euro, the twelve-month rise in the harmonized index of consumer prices slowed in January and then more sharply in February to 1.6 per cent, according to Eurostat's quick estimate. The twelve-month increase in producer prices also diminished in January.

The average of the latest Consensus Forecasts projections puts euro-area GDP growth in 2004 at 1.7 per cent. This figure, which reflects assessments effected in part before the recent further appreciation of the euro and before the emergence of signs casting doubt on the expected cyclical upswing, could prove over-optimistic. The recovery is expected to be driven initially by exports, which, barring a further substantial rise in the exchange rate, should benefit by the expected overall acceleration in demand from non-area countries and expand by about 4.5 per cent. Household consumption should increase by 1.5 per cent. Investment is expected to strengthen, although less robustly than in previous cyclical upturns.

The Consensus Forecasts average projection for euro-area inflation in 2004 is 1.7 per cent; all forecasters estimate it at under 2 per cent. Owing in part to statistical effects, a small, temporary rebound in inflation can be expected in the second quarter.

According to the stability programmes presented in the last few months, general government net borrowing in the euro area should be reduced to 2.3 per cent of GDP this year and 1.8 per cent in 2005. The French and German deficits will remain above 3 per cent of GDP this year and go below that threshold next year. However, the EU Council notes that the budget adjustments planned for 2005 could prove insufficient, especially in France, to wipe out the "excessive deficit".

The Italian economy

The Italian economy grew by 0.3 per cent last year. After falling in the first two quarters output turned upwards in the third, in concomitance with the signs of recovery in the rest of the area. In the fourth quarter, however, in contrast with developments in the other major countries, growth ground to a halt.

Activity remained particularly weak in manufacturing, the sector most exposed to international competition. Over the last three years the index of industrial production has fallen by 3 per cent in Italy, while remaining basically unchanged in France, Germany and the euro area as a whole.

During the year there was a further sharp contraction in exports, reflecting the loss of price competitiveness accumulated in the last three years (more than 9 per cent). The impact was particularly strong in Italy's typical sectors of specialization, with a sharp drop in sales in clothing and in furniture. Italian goods' world market share at constant prices continued to contract, declining from 3.2 to 3 per cent in 2003 (it had been 4.5 per cent in 1995). Total gross fixed investment diminished for the first time since the recession of the early 1990s, as a fall in purchases of machinery and equipment more than offset an increase in construction investment. As in the rest of the area, the reduction in capital spending was partly due to the modest rate of capacity utilization, which was especially low in the export-oriented sectors.

Partly as a consequence of the further deterioration in productivity, compared with the gains recorded in the rest of the area, unit labour costs rose more steeply in Italy than in the other main European countries. The inflation differential

The implementing provisions of the budget for 2004

The budget for 2004 is set out in Law 326/2003 and the Finance Law (Law 350/2003). According to official estimates, the measures contained in Law 326/2003 will reduce general government net borrowing by €14.1 billion, while those contained in the Finance Law will increase it by €2.2 billion.

In the budget's passage through Parliament, the overall adjustment of €11 billion proposed by the Government in September 2003 (see the box "The budget for 2004", Economic Bulletin*, No. 37, 3003) was augmented to nearly €12 billion (0.9 per cent of GDP). The difference arose from an increase of €1.6 billion in net revenue, partially offset by an increase in net expenditure of €0.7 billion.*

Revenue

The budget provides for additional net revenue of €13.8 billion. Compared with the original proposals, Parliament augmented both the increase in revenue (by €1.9 billion) and the decrease in revenue (by €0.3 billion).

***Increase in revenue.** – The receipts expected from the sales of real estate were raised from €5 billion to €5.5 billion.*

The additional revenue expected to come from the regularization of building offences and indemnities for occupation of state land was reduced from €3.6 billion to €3.1 billion, partly to take account of the tightening of the size restrictions applicable to new buildings.

The estimate of the additional revenue coming from the introduction of an incentive tax scheme for the two years 2003-04 reserved to small businesses and the self-employed (known as the ex ante tax agreement) was reduced from €3.6 billion to €2.5 billion. The changes made by Parliament concerned the way in which taxpayers can regularize their positions relative to 2001 (a prerequisite for benefiting from the incentives) and the size of the minimum increases in revenues in the two years in order to be eligible.

By contrast, the amendments introduced by Parliament increased the receipts expected to come from the various tax regularization schemes. The scope of the main schemes introduced by the Finance Law for 2003 was extended to include the 2002 financial year, leading to an increase of €1.3 billion. Furthermore, the receipts expected in 2004 from the introduction of new deadlines for participating in the above-mentioned schemes were increased by €0.4 billion (to €0.9 billion), in order to take account, in accordance with the accrual principle, of the instalments that will be paid in 2005.

Parliament set new deadlines for some one-off measures introduced in the budgets for 2001 (revaluation of companies' tangible, intangible and financial fixed assets) and 2002 (voluntary revaluation of holdings of shares not traded on regulated markets and land owned by natural persons). Taken together these measures are expected to generate €0.2 billion of additional revenue.

Additional revenue compared with that envisaged in September 2003 is expected to come from: an increase in the excise duties on tobacco products (to be imposed by a decree) and some alcoholic beverages (for a total of €0.8 billion); the increase of 10 per cent in the land register value of buildings for the taxes on the transfer of property (€0.1 billion); and the introduction of a boarding surtax for airline passengers of €1 per head.

***Decrease in revenue.** – Compared with the Government's original proposals, additional reliefs were introduced for a total of €0.3 billion.*

More specifically, Parliament extended to 2004 the excise duty reliefs approved in earlier years for diesel oil used by persons resident in the provinces of Udine

cont. ➤

Estimated effects of the budget on the general government consolidated accounts for 2004 (1)
(millions of euros)

REVENUE	
Increase in revenue	**16,220**
Sales of real estate	5,460
Regularization of building offences and indemnities for occupation of state land	3,130
Ex ante tax agreement	2,500
New deadlines for tax regularization schemes (2)	870
Extension of tax regularization schemes	1,260
Excise duties	780
Video games and betting	670
Social security contributions	630
New deadlines for revaluations	220
Indirect taxes on transfers of property	140
Other measures	560
Decrease in revenue	**-2,470**
Bringing forward to 2003 of payments of excise duties	-980
Extension of tax relief for agriculture	-750
Extension to 2004 of excise duty reliefs	-240
Extension of VAT deductibility for company cars	-160
Other measures	-340
Net change in revenue	**13,750**
EXPENDITURE	
Decrease in expenditure	**-1,890**
Transformation of Cassa Depositi e Prestiti and SACE	-890
Staff costs	-500
Other current expenditure	-350
Capital expenditure	-150
Increase in expenditure	**3,670**
Staff costs	1,400
Workfare programmes	350
Extension to 2003 of support for road hauliers	320
International peace missions	200
Support for families and social benefits	200
Civil service operating costs	100
Other current expenditure	800
Capital expenditure	300
Net change in expenditure	**1,780**
TOTAL REDUCTION IN NET BORROWING	**11,970**

(1) Based on official estimates. – (2) Includes €370 million initially assigned to 2005 in the technical report accompanying Decree Law 269/2003.

and Trieste and for liquefied petroleum gas and heating oil used in mountain areas and some areas where natural gas is not available (€0.1 billion). In addition, it extended the time limit for filing inheritance documents from six to twelve months.

Expenditure

The budget provides for an increase in net expenditure of €1.8 billion. Compared with the Government's initial proposals, Parliament approved spending cuts of €0.2 billion and increases of €0.9 billion.

Reduction in expenditure. *– Taken together, the measures approved by Parliament left the savings on current account unchanged and increased those on capital account by €0.2 billion, of which about half for disbursements in favour of the employment fund.*

Increase in expenditure. *– Compared with the Government's original proposals, the budget approved by Parliament augmented current expenditure by €0.8 billion and capital expenditure by €0.1 billion. The latter increase was primarily the consequence of larger appropriations for local investment and law enforcement.*

As regards staff costs, the amendments introduced by Parliament involved an increase of €0.3 billion in disbursements, mostly in connection with expenditure on military personnel and police forces. The appropriation for the hiring of eligible researchers was also increased.

Parliament also approved an increase of €0.1 billion in the appropriation for the operating costs of the Ministry of the Interior.

In the social security field Parliament revised the provisions reducing the benefits payable to workers exposed to asbestos and extended the benefits to workers exposed to chemical hazards.

widened to 0.7 percentage points, 0.4 points more than in 2002. The average annual rate of consumer price inflation picked up slightly to 2.8 per cent.

General government net borrowing amounted to 2.4 per cent of GDP, edging upwards from 2.3 per cent in 2002. The poor performance of the economy was partly responsible for the result. Interest payments declined from 5.8 to 5.3 per cent of GDP.

The contribution of temporary measures to the reduction in general government net borrowing amounted to about 2 per cent of GDP, 0.5 points more than in 2002.

The ratio of the primary surplus to GDP fell by 0.6 percentage points, to 2.9 per cent. Both revenue and primary current expenditure rose by 1 percentage point in relation to GDP.

The borrowing requirement rose from 3 to 3.5 per cent of GDP, net of settlements of past debts and privatization receipts. The gap with respect to net borrowing remains wide.

General government debt was reduced from 108 to 106.2 per cent of GDP. This result was influenced by the acquisition by Cassa Depositi e Prestiti S.p.A. of shares the Treasury held in ENI, ENEL and Poste Italiane S.p.A., and by the reduction in the balance on the Treasury's account with the Bank of Italy.

The failure of major industrial groups led to losses for savers who had invested in their securities. Partly with a view to recouping the confidence of their own customers, the major banking groups are making reimbursement for part of the bond sales they intermediated, when their internal inquiries raise doubts about the adequacy of the assistance provided to customers.

The direct effect of the bankruptcy of the Parmalat group on the banking system is limited. In November 2003 Italian banks' exposure to companies controlled by the Tanzi family came to around €3 billion. The loans of the ten Italian banking groups most exposed to Parmalat amounted to 2.3 per cent of their supervisory capital.

Bank lending conditions remained expansionary in 2003; since December developments in lending and interest rates have evidenced signs of greater prudence in the granting of credit.

It is necessary to restore a climate of tranquility for the banks, which are called upon to assist business in a delicate phase of the cycle.

In the bond market, the defaults of the last year and a half have induced a more selective attitude on the part of investors, at the expense of smaller and less creditworthy Italian issuers. Funding conditions for top-quality borrowers have not been significantly affected.

In the current setting of globalized markets and rapid technological innovation, Italian firms are finding it hard to compete and to expand production and employment.

Recent cyclical indicators show that the Italian economy remained weak in the early months of 2004. In the first two months of the year the index of industrial production is estimated to have continued the downward trend that began in December 2003. In the same period the index of households' confidence recorded a further fall; that of business confidence fluctuated around a low level. The gradual improvement in the indicator leading the overall performance of the economy by five to six months that had begun in the summer of 2003 came to a halt in the last part of the year. Statistical models that summarize the available cyclical data point to very modest GDP growth in the first quarter.

The *Consensus Forecasts* average of GDP growth projections for Italy in 2004 is less than 1.5 per cent, with a wide dispersion of nearly one percentage point between the highest and lowest figures.

The most recent *Consensus Forecasts* polls were able to take account of the stalling of the recovery in the fourth quarter of 2003 and the further appreciation of the euro. The latest figures published by professional forecasters suggest Italy's GDP will grow by around 1 per cent this year.

The upturn in economic activity is seen as coming mainly from domestic demand. The contribution of net exports is expected to be negative for the third successive year.

The harmonized index of consumer prices was up by 2.3 per cent in February.

The average rise in consumer prices in 2004 is expected to be close to 2 per cent, or nearly 1 percentage point less than last year; the differential with respect to the euro-area rate of inflation should narrow.

The objective for general government net borrowing in 2004 has been set equal to 2.2 per cent of GDP. In order to curb the growth in the deficit on a current legislation basis, the budget provides for an adjustment equal to 0.9 per cent of GDP (see box). The state sector net borrowing requirement is expected to rise from 2.9 per cent of GDP in 2003 to 3.7 per cent.

According to the official estimates, the effects of one-off adjustment measures on the deficit will amount to about 1 percentage point of GDP.

Some risk factors cloud the horizon as regards the objective for net borrowing in 2004: the upturn in economic activity appears likely to be weaker than indicated by the Government last September (1.9 per cent); the main measures to increase revenue require the voluntary participation of taxpayers; the steps taken to curb expenditure could prove insufficient to produce the planned results in full.

For the Italian economy to achieve sustained and faster growth there must be an economic policy that, through structural reforms, will bring a decrease in the tax burden and gradually reduce the budget deficit; more investment in technologically advanced sectors and an increase in firm size are needed to improve the economy's productivity and competitiveness and lay the foundations for an expansion in employment.

Based on information available at 13 March 2004. The Appendix is updated to 3 March.

Speeches

Fact-finding with regard to the relationships between firms, financial markets and the protection of savings

Testimony of Antonio Fazio, Governor of the Bank of Italy, to the Joint Session of the Sixth and Tenth Committees of the Italian Senate and Chamber of Deputies

Rome, 27 January 2004

The aim of this testimony is to provide Parliament with data and analyses concerning the uses of financial savings and policies for strengthening the protection of savers.

There have been failures of industrial firms in the past and in other countries. In a market economy based on business initiative and profit there is always a risk which investors must be warned of and which must be consciously evaluated and accepted.

The savings of the private sector, households and firms, are entrusted to the state through the subscription of public-sector securities, to banks and other intermediaries that transfer them to the state and firms, and directly to firms.

The protection of the latter component of savings depends primarily on the transparency and behaviour of firms, on the correct operation of intermediaries and, lastly, on rules and in their enforcement and compliance with them.

The authorities must be put in a position to monitor all the stages of this process in detail.

I shall start by analyzing the qualitative and quantitative development of the uses of savings in the last ten years.

1. Sources and uses of savings

The savings that are accumulated in the household sector are transferred, via the capital market and banks, to the public sector to fund its deficit, to firms to finance their investment and to households for the purchase of consumer durables and housing.

In the early stages of development by far the greater part of household savings are deposited with banks and used by them to grant loans to firms, buy government securities and finance local authorities.

One feature of economically developed countries is the growth in the share of savings transferred directly from households to firms via the equity and bond markets.

Italy's increasingly open economy has recorded a considerable expansion in the inflows of savings from abroad to meet the financing needs of the public sector and firms. Purchases of foreign financial assets by Italian residents are also substantial.

The use of savings by the various sectors of the Italian economy can be seen in the following table.

The figures in the table show that the new financing provided to all the sectors in the form of bank loans, bonds and shares, and other financial liabilities amounted to €228 billion in 1995 and €272 billion in 2002.

Table 1

Fund-raising (use of savings) by the main economic sectors
(millions of euros)

Sectors	1995	2002
Central government and other public bodies	82,031	46,250
Firms (1)	50,212	124,102
Households................................	17,354	28,991
Foreign sector............................	41,373	36,387
Other financial liabilities	36,567	36,134
Total fund-raising	**227,537**	**271,864**

(1) Non-financial corporations and finance companies.

It can also be seen from the table that in the seven years from 1995 to 2002 the share of financial resources used by central government and other public bodies fell by nearly half. By contrast, the share going to firms more than doubled, rising from €50 billion to €124 billion; loans to households also increased considerably.

The next table shows the composition of the financing provided to central government and other public bodies by type of provider (i.e. households, banks, firms and the foreign sector). It can be seen that the reduction in the borrowing requirement between 1995 and 2002 contributed to the sharp fall in the volume of public-sector securities purchased directly by households and to the reduction in banks' funding of the public sector. Non-residents' demand for public-sector securities was substantial in both the years in question.

Table 2

Fund-raising by central government and other public bodies
(millions of euros)

Sectors	1995	2002
Total fund-raising	82,031	46,250
Lending sector		
Households	43,763	19,101
Banks	-8,591	-26,101
Firms and other financial corporations	9,385	17,291
Foreign sector and n.e.c.	37,474	35,959

Table 3 shows the composition of the financing provided to firms and especially the increase in the

Table 3

Fund-raising by Italian firms
(millions of euros)

		Lending sector			
		Households	Banks	Firms and other financial corporations	Foreign sector and n.e.c.
		1995			
Total fund-raising	**50,212**				
Other than shares	28,829	-503	22,022	3,333	3,977
of which: bonds	*-1,769*	*-560*	*-1,326*	*340*	*-223*
Shares	21,383				
		2002			
Total fund-raising	**124,102**				
Other than shares	87,699	8,861	36,620	15,177	27,041
of which: bonds	*35,426*	*8,937*	*-1,966*	*6,562*	*21,893*
Shares	36,403				

volume of funds raised directly by firms on the bond market, a development that has brought Italy's financial structure closer into line with that of other advanced countries. The possibility for companies in the productive sector to obtain funds directly from the public fosters the expansion of investment with a balanced composition of the sources of corporate financing.

In 2002 the resources households transferred directly to firms by buying securities other than shares amounted to €8,861 million; in 1995 they were virtually inexistent. The increase over the seven years was entirely attributable to the bond component.

Of the €124 billion of total funds raised by firms in 2002 no less than €35 billion were the proceeds of bond issues, of which about two thirds were taken up by foreign investors. In the middle of the 1990s the volume of corporate bond issues was negligible.

The financing of firms thus shifted progressively in the direction of a direct relationship with savers.

2. Households' financial wealth

The volume of savings that households and firms have accumulated in the course of time, in other words financial wealth, has continued to expand considerably over the years.

In Italy, as in the other industrial countries, the composition of households' wealth has shifted progressively towards corporate shares and bonds and investment funds, to the detriment of bank deposits.

At the end of 1995 Italian households owned financial assets totaling €1,712 billion. These included €446 billion of public-sector securities, €182 billion of corporate shares and bonds, €68 billion of investment fund units, and €558 billion of banks deposits and other bank funding instruments.

By the end of 2002 households' financial assets had risen to €2,494 billion, 46 per cent more than seven years earlier. Within this aggregate, direct holdings of public-sector securities had fallen to €218 billion, while investment fund units had risen to €334 billion.

The savings entrusted by households to banks in the form of deposits and other funding instruments rose from €558 billion to €761 billion, or by 35 per cent.

The amount of corporate shares and bonds held directly by households is estimated at €294 billion; that of bonds alone increased fivefold over the seven years, from €6 billion in 1995 to €30 billion in 2002.

Italian households' portfolios also contain bonds of non-resident issuers – foreign firms and banks and sovereign issuers – amounting to €92 billion.

Although the proportion of households' financial assets managed by institutional investors – investment funds, insurance companies and pension funds – has been growing it continues to be smaller in Italy than in the other main countries. There is still a widespread tendency among savers to take investment decisions on their own that require the evaluation of a set of financial assets that differ very significantly in maturity, yield and issuer risk.

3. The Cirio and Parmalat cases

Cirio, a firm with many affiliates abroad and a complex group structure, grew rapidly through a series of acquisitions, which it financed with a corresponding increase in debt.

The data now available indicate that the financial reports, which like those of all listed companies were subject to independent auditing, concealed losses. More specifically, some of the claims kept on the books subsequently proved to be unrecoverable.

Cirio's bond issues carried no rating and accounted for a substantial part of the group's total debt.

Italian banks' exposure amounts to some €360 million, outstanding bonds to €1,125 million.

At the request of Consob, the Bank of Italy conducted inspections of four banks to check on compliance with the rules on securities placement and trading.

Close attention was paid to trading before placement, in the so-called grey market.

The findings of the inspections were sent to Consob for the continuation of the investigation.

The Bank of Italy is cooperating closely with the Public Prosecutor's offices currently conducting preliminary investigations of suspected crimes, among other things by making available documents from its own records.

Parmalat, in business since the 1960s, expanded strongly over the years, ultimately becoming the fourth-largest food products group in Europe. The group achieved its growth by moving gradually into new product lines and making a large series of acquisitions in Italy and, above all, abroad.

According to the published financial reports, the group's consolidated sales in 2002 amounted to €7.6 billion, about a quarter of which were generated in Italy; almost two thirds of total sales were in non-European markets. The group had 37,000 employees, of whom about 4,000 were in Italy, where they accounted for 1 per cent of the workforce in the food-processing industry.

On 31 December 2002 the group was composed of 213 companies in 50 countries; 30 of these companies were based in Italy. The shares of Parmalat Finanziaria, which controls the industrial firm, have been listed on the stock exchange since the beginning of the 1990s. Its financial reports are formally audited. The Parmalat group is flanked by other companies, mainly in tourism, controlled by the same shareholders.

The reconstruction of events involving the company, still under way in the competent fora, suggests that the group accompanied its strategy of expansion abroad with a large-scale internationalization of its financial operations. This policy was not limited to fund-raising on foreign markets; it also involved the attribution of funds, subsequently revealed to be non-existent, to subsidiaries, often located in off-shore centres.

Acquisitions and investments were financed by recourse to debt, whose total amount is still being ascertained.

Through various group companies Parmalat obtained very substantial financing on the international capital market. Starting in 1997, the group made 32 bond issues for a total of around €7 billion. Information acquired by the Bank of Italy indicates that more than a quarter of this amount is in the hands of Italian residents, mostly households.

According to the information now available, several leading international banks granted substantial loans and underwrote more than 80 per cent of the group's bond issues. Even in the second half of 2003, top foreign banks continued to purchase Parmalat bonds, for a total in excess of €1 billion.

At the beginning of 2003 Parmalat's shares were brought into the index of the 30 largest companies listed on the Italian stock exchange. In August, nine out of fourteen international financial analysts advised investors to buy the company's securities, and another three recommended holding existing investments. In November, seven out of fourteen analysts gave a buy and two a hold recommendation. Studies by two international banks were released giving positive judgements on the group's prospects and the relative value of its shares. In the early days of December 2003, the rating still reflected a positive opinion of the company's ability to redeem its bonds.

The very serious irregularities in the Parmalat accounts came to light in the final weeks of 2003 and the beginning of this year. They involve false accounting, concealment of liabilities and inflation of assets. The judicial authorities are presently investigating these aspects and other grave offences.

The statistical information on credit includes that gathered by the Central Credit Register, a database set up in 1962 by the Bank of Italy in collaboration with the banking system to provide banks with information to help contain the risks of cumulative lending to a single customer.

The Register only records loans granted by Italian banks and other Italian supervised intermediaries. It does not permit a reconstruction of borrowing by industrial groups that make recourse to foreign lenders or to the financial market. In the case of Parmalat the liabilities in the Register amount to about a quarter of the total debt ascertained to date.

Over the past three years the outstanding loans by Italian banks and branches of foreign banks in Italy to companies owned by the Tanzi family ranged between €3.1 and €3.8 billion. Last November the amount was about €3.4 billion, €800 million of which granted by Italian branches of foreign banks. Banks established in Italy had €250 million of securities of companies belonging to the Parmalat group in their portfolios. Investment funds had €66 million of Parmalat bonds.

The loans granted by Italian banks are highly fragmented. No less than 120 intermediaries have exposures with the group. The three largest banking groups account for around 30 per cent of the total, while 45 groups have exposures of more than €10 million each.

The loans are commensurate with the capital base of the single banks. According to periodical checks by the Bank of Italy, the limits on risk concentration established at European level are respected in full. The Parmalat group regularly serviced its debt with the Italian banks until November 2003.

Assuming, at the worst, that all these loans turn out to be unrecoverable, the banks' bad debt ratio would rise from 4.6 per cent to 4.9 per cent. Assuming, again at the worst, that all credits vis-à-vis the group are written off, the losses would amount to less than 20 per cent of net profits for a single year.

Neither overall stability nor that of the single intermediaries is at risk.

The collapse of the Parmalat group has had serious consequences for its bondholders. The company's insolvency caused their prices to plummet; close to par until November, they have fallen to around 20 per cent of their nominal value.

The backlash of the crisis has also been aggravated for savers by the limited development of intermediaries operating on a long-term basis and able to spread holdings of shares and bonds among various issuers. Purchasing securities for themselves has made savers excessively vulnerable to the fate of individual firms such as Cirio and Parmalat. For a sample of Italian banks responsible for three quarters of all securities on deposit or under management, the number of households with bonds issued by the two groups is estimated at 30,000 and 85,000 respectively.

The Parmalat affair is the outcome of the repeated perpetration of criminal acts in the management of the company. The circumstances surrounding the case once again show that failure to observe the law and the lack of a firm ethical base for the conduct of economic agents can be a serious impediment to the functioning of the economic and financial system.

In view of all that has come to light so far, there was a failure both of internal controls by the company on the actions of its directors and of external verification of the accounts. The lender banks themselves, whose analyses are primarily based on published financial reports, were led into serious errors of judgement concerning the company's soundness, its prospects and the entrepreneurial merit of its corporate officers.

The growth of the bond market and recent experience make it necessary to tighten legislation for the protection of savers.

I shall come back to the problems of safeguarding the savings that households entrust directly to the corporate sector.

4. The protection of savings entrusted to banks

For the savings entrusted to banks by households and firms, amounting to around €1 trillion at the end of 2003, the law establishes a protective system intended to ensure their repayment.

The operations of the banking system are subject to stringent supervisory requirements and controls.

From the entry into force of the 1936 Banking Law to today, no Italian saver has ever lost a lira or a euro on a deposit held with a bank. Public interventions to guarantee savings have been notably smaller than those carried out in other industrial countries.

The protection of this component of savings depends first of all on the ability of banks to put the funds they raise to good use in lending to firms, non-residents, households and the public sector.

Corporate crises impinge on banks' balance sheets and have repercussions on the value of their shares. The present crises are nonetheless very far from imperiling the soundness of the banks.

The fundamental guarantee of the savings entrusted to banks is the stability of the banking system.

4.1 *Banking supervision in the legislation on the financial system*

The Bank of Italy has had responsibility for supervising banks' stability since 1936; it has done so in full autonomy since 1947; it had some supervisory tasks as early as 1926. Most recently, its powers were sanctioned, inter alia with respect to non-bank financial intermediaries, by the Consolidated Law on Banking (Legislative Decree 385 of 1 September 1993). Under the Consolidated Law on Finance (Legislative Decree 58 of 24 February 1998) the Bank performs the prudential supervision of investment firms and asset management companies.

The law lays down that the aim of supervisory action is to ensure the sound and prudent management of the entities subject to supervision and the overall stability, efficiency and competitiveness of the financial system.

Given the extensive ramification of banking groups in the different sectors of credit and financial intermediation, prudential supervision must be exercised jointly on banks and other intermediaries.

Through its Annual Report the Bank of Italy fulfils the obligation to make public the principles and criteria of supervisory activity. The supervisory measures taken and the reasons for them are published in a special Bulletin.

Under Article 7 of the Consolidated Law on Banking the Bank of Italy is bound by professional secrecy in view of its far-reaching powers to gather information on individual intermediaries and their dealings with firms and households. Provision is made for this obligation not to be enforced vis-à-vis the judiciary in criminal proceedings, the supervisory authorities of the other sectors of the financial system or the Minister for the Economy in the performance of his functions as Chairman of the Interministerial Committee for Credit and Savings (the Credit Committee).

By express legislative provision, the latter waiver is strictly related to the functions of the Credit Committee, which is mandated to establish rules and adopt decisions of a general nature on matters indicated by law, acting on proposals from the Bank of Italy.

In binding the supervisory authority to professional secrecy, Directive 2000/12/EC, which governs the taking up and pursuit of banking, establishes that no confidential information may be divulged to other authorities, except in summary or collective form so that individual institutions cannot be identified.

Legislation makes the entrepreneurial nature of the activity of credit institutions the foundation of the banking sector. With Law 74/1985 Parliament indicated this as the binding principle to adhere to in transposing the Community's First Banking Directive.

Supervision fully respects intermediaries' autonomy in determining company policies and making individual decisions, in the first place those regarding the granting of credit.

Supervisory action cannot interfere in bank directors' individual lending decisions; this would create a commingling of responsibility between the supervisory authority and the supervised institutions.

Intermediaries' financial situations are constantly monitored, particularly for the capital adequacy of each bank with respect to its overall risks. A central role is played by the examination of applications for new bank licence and the analysis of the ownership structure of banking groups through the screening of acquisitions of major holdings in banks and concentrations. It is up to the shareholders to evaluate the directors' performance and to replenish the capital in the case of significant losses.

Capital adequacy is analyzed not only with respect to credit risk, but also in relation to operational, legal and reputational risks.

There is a close relationship between the intensity of these risks and the forms in which they tend to emerge, on the one hand, and the degree of transparency of the traditional services of lending and deposit-taking, on the other. In the last three years 2,400 inspections were conducted at bank branches to check compliance with the regulations; around 150 banks were required to conform more strictly with the rules and 18 sanction procedures were opened. Two years ago, in January 2002, we submitted a draft resolution aimed at increasing transparency to the Credit Committee, which approved it a year later, in March 2003. The new rules entered into force on 1 October 2003.

The analysis of banks' situations makes use of the statistical reports produced by intermediaries and the information gathered in the course of meetings with banks' corporate officers. On-site inspections of intermediaries are carried out periodically or on an extraordinary basis.

Inspections are designed first of all to check compliance with the supervisory regulations and ascertain that the corporate governance mechanisms and internal control systems are able to ensure informed and knowledgeable risk management. Loan approval and disbursement procedures are examined to verify that full use is made of all the available information on firms, first of all their financial reports and other corporate records.

The analysis of individual banks' credit risk is intended to check the quality of the loan portfolio as a whole and its concentration. The average probability of default by borrowers is evaluated first of all by comparing the ratio of problem loans – bad debts, substandard loans and overdrawn credit lines – in the portfolio of each bank with that registered for the entire system.

Loan concentration by individual borrower or sector of economic activity is examined continuously using statistical indicators. The rules on large exposures, established at Community level, require that no borrower receive credit exceeding a quarter of a bank's capital base.

When the degree of concentration of a bank's overall portfolio is found to be relatively high, the characteristics of the main corporate borrowers are considered.

The information generally available on corporate groups relate to the financial statements approved by the competent bodies, the ratings assigned to some of their companies and analysts' opinions; the Central Credit Register supplies information on loans classified as bad debts.

When doubts arise about the potential repercussions of exposures to sectors or groups on the portfolios of individual banks, the Bank of Italy asks the banks in question to study the problem carefully, examines and compares the conclusions they reach, and, if necessary, orders the adoption of prudential measures regarding capital adequacy, procedures and/or organization.

The law gives the Bank of Italy no powers concerning the management or accounts of industrial and commercial firms. The Bank of Italy has access only to the disclosures and financial reports of such companies; it has no means of ascertaining their truthfulness; it may not request information of any kind from these firms.

Italian banks' exposure to the companies headed by the Tanzi family never reached levels that constituted a risk for the stability of any intermediary. At 31 December 2002 it amounted to €3 billion. By way of comparison, in the same year the Italian banking system's exposure to the three largest industrial groups averaged €17 billion. The loans granted by the ten Italian banking groups most exposed to Parmalat amounted on average to 2.3 per cent of their supervisory capital.

According to the consolidated financial statements published in April 2003, Parmalat's net financial debt in relation to group equity and sales was in line with that of a large proportion of Italian firms. Its gross debt was shown to be high, as were its liquid assets. No bank reported the position among substandard loans or bad debts; the Parmatour position was included among loans being restructured.

In February and March 2003 some analysts and commentators raised doubts, which were reflected in an increase in the yield spread of Parmalat bonds with respect to riskless securities. Nonetheless, on 28 February 2003 Standard & Poor's confirmed its positive opinion with an investment grade rating (BBB-) and stated that the company's prospects could improve. The rating agency took a positive view of the company's abundant liquidity, though noting that it could have been used to advantage to repay debt.

The banks showed they were aware of the situation of uncertainty; the Bank of Italy checked that each complied with the lending limits. The tensions subsided in April following the communications by Parmalat to the market, particularly on the limited cost of its policy of high liquidity; the reason the company gave for this at the time was the possibility of further acquisitions, in accordance with the strategy it had been pursuing for years. On 29 September Parmalat made a final bond issue, which was managed by an important international bank and received an investment grade rating. There was no further information on the state of the company until the crisis precipitated in December.

4.2 *Banking competition*

Law 287/1990 charges the Bank of Italy with the task of preventing the formation of dominant positions, abuses and agreements restrictive of competition in the banking markets. The legislative approach chosen is inspired by that adopted in the United States; it is based first and foremost on the extensive knowledge gained about intermediaries and markets in performing supervision.

In the quest for overall efficiency of the banking system, the synergy between the stability of intermediaries and the competitiveness of markets is essential.

Customers are given the possibility to choose the products and conditions they believe best meet their needs from among a wide array. The spreads between bank lending and deposit rates have narrowed.

For some time now the Bank of Italy has encouraged the entry of new competitors in the most concentrated markets, promoted the dissemination of information on banking products, and encouraged the use of innovative channels for the distribution of banking services.

The Bank of Italy performs the function of competition authority for the banking industry in close and fruitful cooperation with the Antitrust Authority, whose opinions it takes into account. Relations between the two authorities are governed by a protocol signed in 1996; the agreement defines the bank funding and lending markets over which the Bank of Italy exercises direct responsibility and establishes the information to be transmitted to the Antitrust Authority.

Since the promulgation of Law 287/1990, the Bank of Italy has conducted 49 investigations, a large number by international standards; another six concerning agreements are still pending.

A total of 700 concentrations between banks have been examined with a view to preventing the creation of dominant positions. For 23 transactions it was necessary to open investigations, which in 15 cases concluded with the Bank requiring the closure of branches or prohibiting the opening of new ones. In 22 cases the opinion of the Antitrust Authority concurred with that of the Bank of Italy. The sole exception dates back to 1993.

4.3 *Situation of the banking system*

In recent years the Italian banking system has carried out a restructuring comparable to that of the 1930s.

Ten years ago banks in which the state or public banking foundations held equity interests of at least 50 per cent accounted for more than two thirds of total banking assets; today the share is one tenth.

The five largest banking groups accounted for 35 per cent of total assets; their share now stands at 52 per cent. Foreign banks and insurance companies hold substantial equity interests in leading groups.

Banking productivity has increased considerably; the competitiveness gap compared with the banking systems of the other main countries has narrowed.

Banks have made very large investments in technology and expanded the range of services they supply. The cost of short-term credit has fallen below 5 per cent, the lowest level in the last fifty years.

Even in years marked by low growth in income and turbulence in the financial markets, the banking system has supported economic activity and the investments of firms and households. Its renewed solidity has enabled it to face the financial difficulties of some of the country's largest industrial groups and, in full autonomy, to assist their demanding restructuring plans, with benefits for Italian industry and for employment.

Bad debts have fallen to 4.6 per cent of total loans.

The financial position of firms has benefited from the reduction in gearing and the exceptionally low levels of interest rates.

In recent years Italian banks have sold assets through securitization transactions. Techniques of this kind are widely used by intermediaries in all the leading countries; in Italy, alongside the banks, the public sector has made considerable use of them to dispose of property and other assets.

Less than a quarter of the total amount of Italian banks' securitizations in the last three years involved bad debts. The banks retained the riskiest portion of the securitized claims, for which they are required to set aside adequate reserves.

After falling below 2 per cent in the mid-1990s, banks' return on equity returned to levels close to those prevailing in the other main countries, reaching 13 per cent in 2000.

In 2001 and 2002 profits were affected by the fall in income from asset management services following the downturn of the financial markets and by the crises of important countries in Latin America and of large multinational corporations such as Enron and WorldCom.

Banks' capital bases correspond to a solvency ratio on a consolidated basis of 11.2 per cent, which is higher than in the preceding years; internationally, the minimum requirement is 8 per cent.

4.4 *The International Monetary Fund's evaluation of banking supervision in Italy*

In 2003 the International Monetary Fund conducted a thorough assessment of supervisory rules and practices in Italy. In the Fund's forthcoming report Italian banking supervision is defined as being of high quality; the terms of the judgment are extremely gratifying both in themselves and by comparison with those regarding other important countries, some of which with regulatory arrangements centred on a single authority for the protection of savings.

The report offered an appreciative opinion of the full cooperation existing between the Bank of Italy and the supervisory authorities for the other sectors of the financial system, and of the transparency of the acts of the Bank of Italy; the supervisory rules were considered to be in line with the best practices indicated by international organizations. The report also underscored the independence between supervisory evaluations and the antitrust function, and the cooperation between authorities in this field as well.

The Fund found there was a need to refine the loan classification criteria, which in our country are established taking into account the high variability of the terms of payment in business practice; in this regard, the Bank of Italy had already made a commitment to the Basel Committee to bring the definitions into line with the international standards.

The statistical information and methods used for the analysis of banks' financial statements and the evaluation of potential factors of fragility in the system were considered highly satisfactory; the thoroughness and effectiveness of action in respect of individual intermediaries were recognized, the integrity and professionalism of the Bank's personnel appreciated.

The International Monetary Fund recommended greater scope for discretionary judgment by the Bank of Italy in evaluating the connections between banks and other entities and the imposition of more stringent limits on connected lending.

The report will shortly be published by the Fund.

5. The Bank of Italy's functions regarding securities issuance

Article 129 of the Consolidated Law on Banking requires that the Bank of Italy be notified in advance of issues of domestic securities and offerings in Italy of foreign securities. Within twenty days from receipt of the notice the Bank may prohibit or postpone such operations.

The controls performed by the Bank of Italy exclude any economic evaluation of the advantageousness of the securities issued or the solvency of the issuer.

Under Article 129 of the Banking Law and the Credit Committee's resolution of 12 January 1994, the Bank of Italy may require the deferral of issues "when their amount, together with that of issues already notified and to be effected within the same period of time, is incompatible with the size and state of the primary or secondary market." In other words, an issue may be postponed when the amounts are too large for the market to take up.

Issues with features that do not comply with the rules can be prohibited, as can those of securities with characteristics that are difficult to understand or whose yield is difficult to calculate.

Similar forms of control do not exist in the other main countries.

The Bank of Italy prohibited two securities issues in 2002 and three in 2003. In those same years 50 and 55 proposals, respectively, were withdrawn as a result of the observations formulated by the Bank. These issues involved financial instruments whose excessive complexity would have compromised their comprehensibility to investors, with repercussions on their subsequent negotiability as well.

In the cases of Cirio and Parmalat the features of the bonds offered were among those most widespread in the financial market, including a fixed rate, or a rate indexed to common parameters. There was no element warranting the prohibition of the issue under Article 129.

The law does not allow obstacles to be placed in the way of offerings in Italy of foreign securities, even if these are issued by the foreign subsidiaries of Italian groups. In 1997 the European Commission initiated a proceeding against Italy, charging that Article 129 violated the European Treaty provisions on the free movement of capital.

The Bank of Italy helped in the preparation of the Italian Government's response, drafting a wide-ranging description of the purposes of the law and the guidelines that the Bank follows in examining prior notifications. Based on this documentation, the Commission itself dropped the case.

6. The protection of savings entrusted directly to firms

In the course of the nineties legislative action was designed to favour companies' direct recourse to the share and bond markets.

The 1993 Consolidated Law on Banking, like the new company law, allows companies to issue debt instruments in amounts greater than their equity. The legislation on securities business, later incorporated into the 1998 Consolidated Law on Finance, has fostered transparency in financial products issued by firms, proper conduct on the part of the intermediaries that help to place them on the market and the completeness of information.

Italian legislation on companies and financial markets is in line with European law.

While the protection of savings with banks is achieved by supervision to guarantee the sound and prudent management of those institutions, the protection of savings entrusted to firms relies on internal controls on their operations and oversight to ensure the correct presentation of their financial situation.

The controls performed by the internal board of auditors are followed by those of outside auditors of the accounts and then the controls of the public authorities. In addition, the financial markets rely on credit rating agencies.

6.1 *Internal company controls*

The controls performed by the company's own bodies, with their access to detailed and timely information on company policies and business results, are the first, essential line of defence against the occurrence and repetition of fraudulent conduct that jeopardizes the stability of the firm. Malfunctions – or, worse, acts of omission or complicity – create the conditions for fraud on the part of a corporation's top officers. The assessments of analysts and the decisions of investors are distorted.

The importance of internal audits is recognized by Legislative Decree 231 of 8 June 2001. A company's failure to institute adequate internal control structures can be grounds for charging the company itself with the crimes committed by its directors.

6.2 *Outside auditing*

Auditing firms are responsible for verifying the regular keeping of accounts, the correct recording of economic events, and the conformity of the financial statements with the accounting data and with the rules for the valuation and entry of corporate events.

Although they are external to the firm, auditors have access to the information necessary to checking the correctness of the financial statements in form and in substance. Their task is to conduct a thorough evaluation of the adequacy of the information made available to the public in presenting the company's economic and financial situation, its results and prospects.

These elements are essential to the efficient allocation of resources within the economy and, ultimately, to the protection of the savers who entrust financial assets to firms.

Auditing firms are required to report any objectionable facts or acts that come to their attention in the course of the audit to Consob. They are also required to notify the Commission immediately of an adverse opinion or disclaimer of opinion on a firm's accounts.

Examination of the grave corporate crises that have broken out lately in the US market and European markets highlights a series of factors that carry serious implications for the correctness and the efficacy of auditing firms.

6.3 *Controls by public authorities*

The responsibility for protecting securities investors is assigned to Consob.

Consob's sphere of action covers the broad range of institutions that together form the securities market, first of all the issuers, then market operating companies and auditors. It has supervisory powers over them, including the power to conduct inspections and to levy fines. In the case of serious violations of the rules, it imposes sanctions and reports the matter to the judicial authorities.

Without prejudice to their respective powers, by express legislative intent (Article 7 of the Consolidated Law on Banking and Article 5 of the Consolidated Law on Finance) Consob and the Bank of Italy operate in coordinated fashion with a view both to more effective control on the market and to lower costs for market participants. There is continuous, fruitful cooperation between the two institutions both at top management level and between operational divisions, in the assessment of regulatory matters and the exchange of information on inspections ordered and measures taken. The Bank of Italy's inspections for compliance with the rules on investment services are conducted at the request and on the behalf of Consob.

Consob may have access to the information held by the Bank of Italy, including the data of the Central Credit Register, which records companies' debt positions with the entire Italian banking system.

The distinction between the two authorities' spheres of activity is clear. It should be maintained, to prevent undesirable overlapping.

6.4 *Placement and trading of corporate securities by banks*

In the past decade Italian banks progressively increased the portion of their income derived from financial services, above all services to households.

The growth of this business was rapid, in some instances riding the wave of enthusiasm and euphoria that swept stock markets around the world. Just as fast was the rise in the number of financial salesmen and advisers providing financial services to the public.

The new context probably required a higher level of professional competence, in order to respond to the needs of savers who had little or no experience with financial investment.

On a number of occasions I urged the banks to pay attention to the quality of services, to offer products that were easily comprehensible and suitable to the investment needs of customers.

The banks' pledge to satisfy savers for their losses in those cases in which internal checks raise doubt as to the adequacy of the assistance provided to customers at the time of the investment is a welcome development.

7. Proposals and conclusions

The Parmalat case has features in common with the crises at major American and European corporations. In those cases too there emerged serious shortcomings in internal controls and external auditing for the truthfulness of the accounts and the correctness of the information disclosed to the financial markets.

The US experience provides a helpful term of reference. Following a wide-ranging and thorough debate, new legislation strengthened the controls that internal corporate bodies and outside auditors must perform on companies' operations and on the presentation of their financial situations to the market.

The prison sentences and fines for both fraudulent financial reporting and misrepresentations in the reports of auditing firms were stiffened.

The controls exercised by the Securities and Exchange Commission were strengthened. A new Public Company Accounting Oversight Board was set up under the SEC to supervise the activities of auditing firms.

Absolutely no question was raised concerning the activities of the Federal Reserve, the central bank, in the spheres of banking stability and competition in the credit markets, nor concerning the activities of the other authorities with responsibilities in those matters.

Given the large volume of financial resources handled by the capital market and the increasing amount of household savings channeled to it, consideration should be given to endowing Consob with powers and resources permitting prompt verification of the quality and reliability of accounts, through inspections and systemic analysis.

Compliance with the rules governing consolidated accounts is crucial for groups with large numbers of affiliates abroad.

With a view to enhancing the transparency of the activities of corporations that have establishments in offshore centres, their transactions could be made conditional on compliance with specific disclosure requirements concerning the nature, purpose and effects of those establishments.

As far as the banking sector is concerned, effective control structures for foreign affiliates of groups have been in place for some time now, under international agreements for cooperation between national supervisory authorities.

Both companies' internal and external controls must be reinforced. The independence of auditing firms from the companies audited must be guaranteed. Auditors must be prohibited from simultaneously performing, even indirectly, consulting functions. Strict standards for rotation in auditing engagements are essential. The independence of auditing companies must also be assured in the case of companies and consulting firms connected with them in any way.

The law must be directed to ensuring the rapid detection of corporate crises.

Consideration should be given to increasing the penalties for fraud and for serious irregularities and infringements of the rules in corporate reports.

To strengthen the protection of savers, a positive step would be to introduce a requirement that securities that are issued without a prospectus or that are difficult to value must be held by the intermediary placing them for some minimum period.

Once bank privatization got under way, Italy's relative lack of institutional investors resulted in the entry of industrial groups and individual businessmen in banks' ownership structures.

The application of the present laws and regulations has effectively safeguarded the principle of separation of banking and industry.

Today the increasing presence of entrepreneurs among banks' shareholders suggests the need for stricter rules on the definition of "connected industrial persons" and on the incompatibility between the position of director and borrower.

At the end of last year Italy's public debt was equal to 105 per cent of GDP; in absolute terms it amounted to €1,360 billion. The ratio of public debt to GDP in Europe was 64 per cent.

The defence of the value of a large part of Italy's national wealth depends on the performance of the public finances in the coming years.

The size of the debt and its excessively slow decline are weighing on the growth of the economy, hindering the reduction of the tax burden and acting as a brake on saving and investment. The primary surplus of the public sector, i.e. the budget balance net of interest payments, needs to return to around 5.5 per cent of GDP, the level agreed at the time of Italy's adoption of the single currency.

The financial wealth entrusted to the banking system amounts to approximately €1 trillion. Even though it does not enjoy the same guarantees as the public debt, Italians have never lost anything on this part of their savings.

The evolution of the financial sector is increasingly in the direction of direct contact between savers and firms by way of the market. Consob was established in 1974 to oversee this part of households' and firms' savings and financial wealth.

The promulgation of the Consolidated Law on Banking in 1993 and the Consolidated Law on Finance in 1998 brought the Italian legal system into line with those of the other economically advanced countries. The protection of the savings entrusted directly to firms rests on two pillars: the correct and efficient operation of the financial markets and transparent financial reporting by those firms that turn to the market to finance their investments.

The financial scandals that have occurred in the last few years in the United States and Europe, including Italy, have revealed the fragility of this second pillar of the financial markets. The financial reports of the firms involved in the crises proved to be completely distorted, fabricated. Savers and investors have suffered serious losses.

It is necessary to consider the possibility of immediate action in Italy – along the lines of that taken in the United States, whose securities markets regulatory authority has much greater powers than its European counterparts – to strengthen Consob and increase the resources at its disposal.

Financial support must be available to permit the continuity of the business operations of the groups involved and their re-establishment on the basis of valid reorganization and development plans.

The security of savings entrusted to the public sector rests ultimately on the ability to levy taxes and an economic policy oriented towards growth. That of savings entrusted to the banks is based on the stability of the intermediaries and the action of the banking supervision authority.

The security of savings entrusted directly to firms depends on the correct behaviour of directors and the proper functioning of the prescribed internal, external and public controls.

It is necessary to reaffirm the importance of the role played by the banks and other intermediaries that help savers to allocate their resources.

A commitment on the part of the country's institutions and market participants is necessary to safeguard confidence within Italy and among international investors.

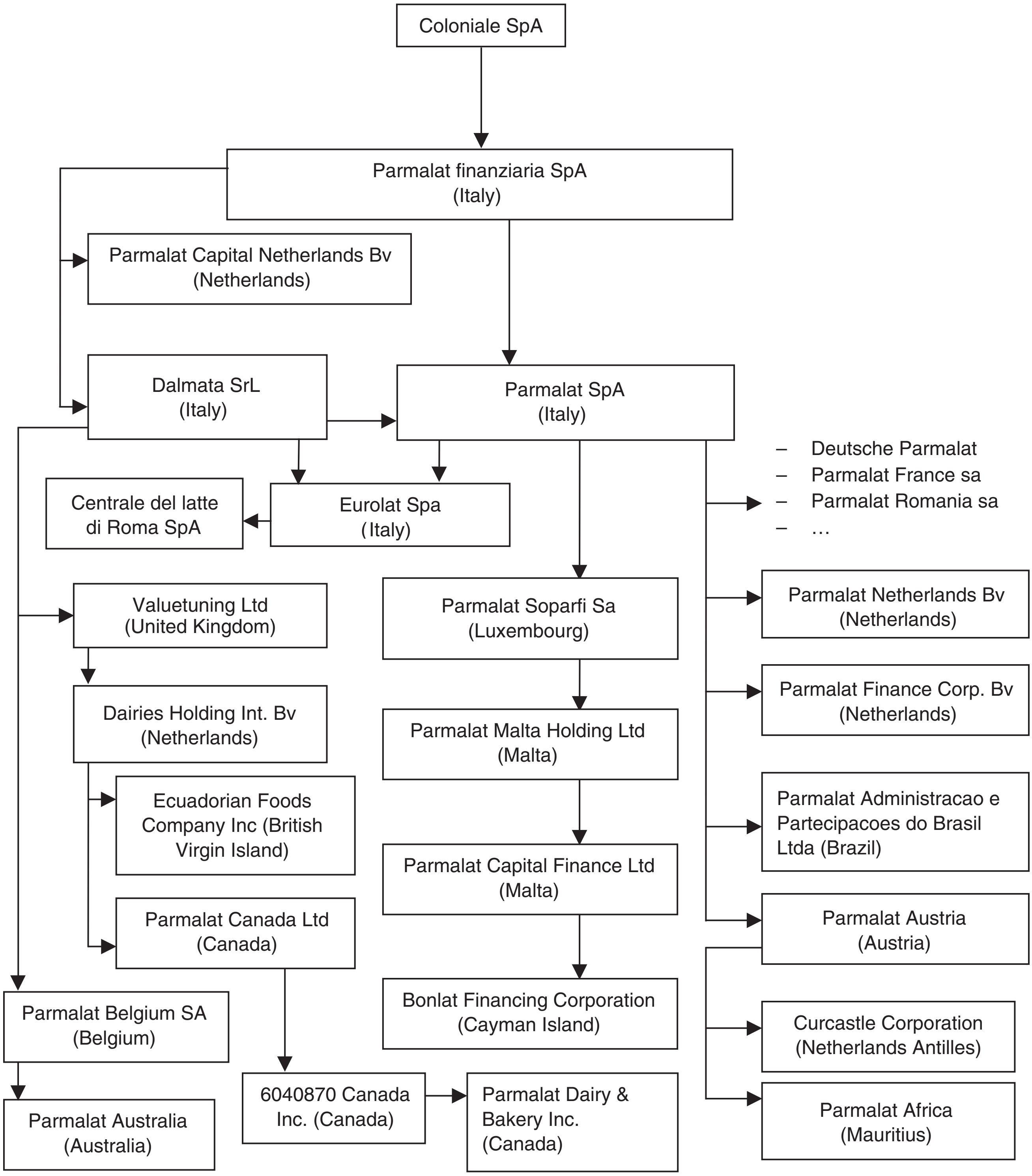
The Bank of Italy continues to guarantee the security of savings through the solidity of the banking system.

In the vision of the framers of the Constitution the defence of savings is not divorced from recognition of the role of the institutions and their autonomy.

Annex

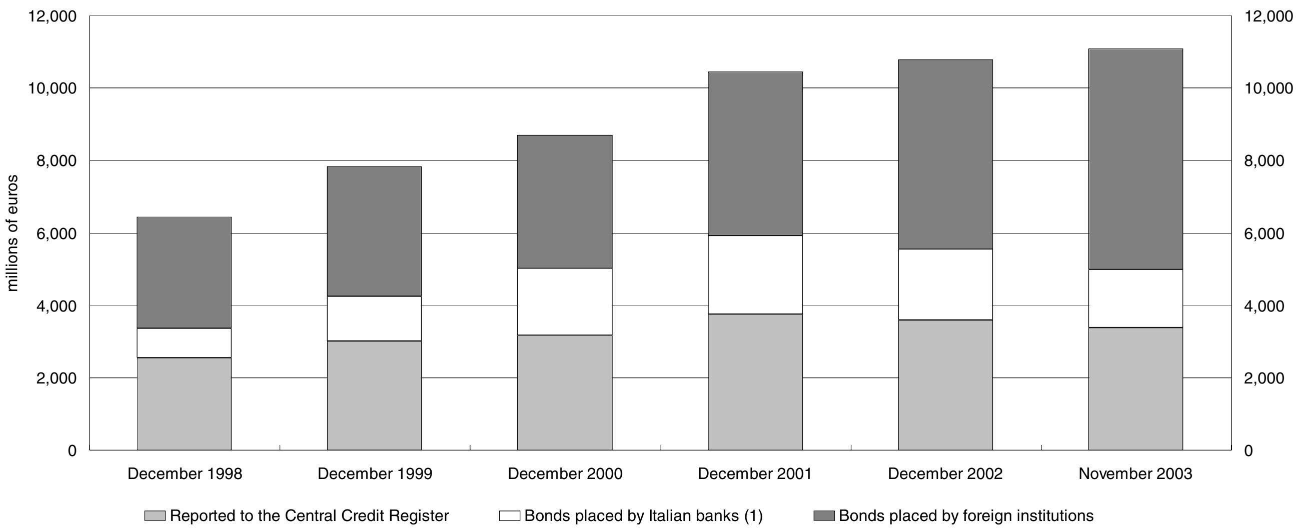
PARMALAT: Simplified picture of the group

(Source: Parmalat 2002 Annual Report)



PARMALAT Group - exposure to banks and outstanding bonds - EUR millions

Date	Reported to the Central Credit Register			Outstanding bonds	of which:		Exposure to banks + Bonds (2)
	Loans	Guarantees	Total		*Bonds placed by Italian banks* (1)	*Bonds placed by foreign institutions*	
December 1998	2,397	152	2,549	3,890	801	3,089	6,439
December 1999	2,799	205	3,004	4,830	1,229	3,601	7,834
December 2000	3,029	133	3,162	5,530	1,854	3,676	8,692
December 2001	3,641	110	3,751	6,686	2,177	4,510	10,437
December 2002	3,534	57	3,591	7,189	1,960	5,229	10,780
December 2003	3,346	36	3,382	7,693	1,603	6,089	11,075



(1) Based on the nationality of the bookrunner. In the event of more than one bookrunner, the issue was divided equally between them. – (2) Excludes the exposures of foreign banks not covered by the Central Credit Register and privately placed bonds. At the end of 2003 the latter amounted to more than €1,400 million.

Analysts' recommendations for Parmalat SpA

DATE		BUY	HOLD	SELL
26 July 2002	no.	10	7	1
	%	55.6%	38.9%	5.6%
14 August 2003	no.	9	3	2
	%	64.3%	21.4%	14.3%
21 November 2003	no.	7	2	5
	%	50.0%	14.3%	35.7%

Source: Bloomberg.

Securitizations by Italian banks
(EUR millions)

	Total	
	Bad debts	Performing loans
1996	258	0
1997	521	0
1998	300	543
1999	7,878	1,909
2000	8,390	6,751
2001	7,644	12,013
2002	2,426	12,461
2003 (*)	0	11,308

(*) Provisional data.

PARMALAT Group: outstanding issues

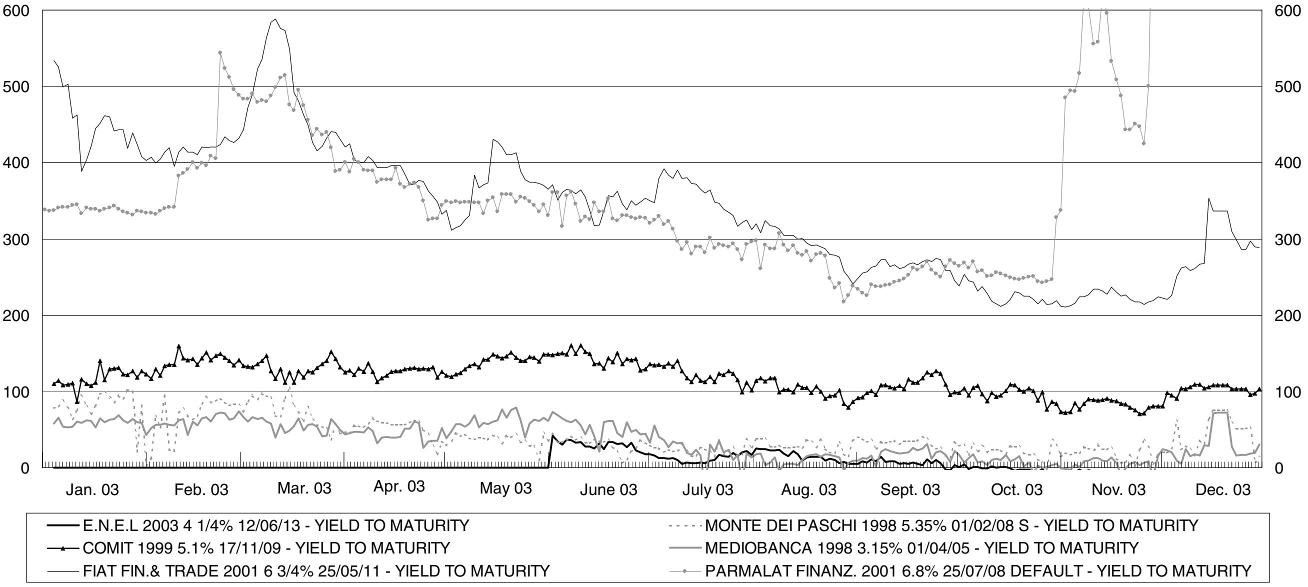
ISIN code (1)	No.	Issuer (1)	Country of establishment	Type of security (1)	Entitlement date (1)	Maturity date (1)	Rating at issue (1)	Amount of issues (EUR millions) (1)	Lead manager of the underwriting syndicate (1)	
US073913AB18	1	Parmalat Finanziaria SpA (2)	Italy	Bonds	19/11/96	19/11/26		59.00		
IT0000960044	2	Parmalat Finanziaria SpA	Italy	Bonds	02/01/97	02/01/07		103.29	UBS	*
US70175KD206, XS0072522690	3	Parmalat Brazil	Brazil	Bonds	06/02/97	02/01/05		127.24	Bank of Boston Corp	
XS0073339433	4	Parmalat Brazil	Brazil	Bonds	18/02/97	18/02/05		59.39		*
XS0074477364	5	Parmalat Brazil	Brazil	Bonds	24/03/97	24/03/05		59.39		*
IT0001157202	6	Parmalat Finanziaria SpA	Italy	Bonds	01/10/97	01/10/07		103.29	UBS	*
US70175L2043, KYG693262084	7	Parmalat Capital Finance Ltd	Cayman Islands	Preference shares	02/12/97	Perpetual		77.47	Merrill Lynch International	*
US70175L3033, KYG693263074	8	Parmalat Capital Finance Ltd	Cayman Islands	Preference shares	02/12/97	Perpetual		84.82	Merrill Lynch International	*
US70175L4023, KYG693264064	9	Parmalat Capital Finance Ltd	Cayman Islands	Preference shares	02/12/97	Perpetual		140.63	Merrill Lynch International	
GB0054047484	10	Parmalat Finanziaria SpA	Italy	Bonds	16/02/98	16/02/10		51.65	UBS	*
XS0083921881	11	Parmalat Finance Corp BV	Netherlands	Bonds	18/02/98	18/02/28	BBB-	516.46	Chase Manhattan International Ltd	*
XS0084903847	12	Parmalat Capital Netherlands BV	Netherlands	Convertible bonds	19/03/98	31/12/05		281.20	Paribas (London)	*
XS0085752748	13	Parmalat Finance Corp BV	Netherlands	Bonds	16/04/98	16/04/05	BBB-	500.00	JP Morgan Securities Ltd, Paribas (London)	*
US70175L2043	14	Parmalat Capital Finance Ltd	Cayman Islands	Preference shares	02/06/98	Perpetual		51.65	Merrill Lynch International	*
	15	Parmalat Capital Finance Ltd	Cayman Islands	Preference shares	02/06/98	Perpetual	BBB-	125.00	Merrill Lynch International	*
XS0089553365	16	Parmalat Capital Finance Ltd	Cayman Islands	Bonds	13/08/98	13/08/08	BBB-	424.12	Barclays Capital	*
XS0095639620	17	Parmalat Finance Corp BV	Netherlands	Bonds	30/03/99	30/03/09	BBB-	300.00	Merrill Lynch International	*
XS0098549164	18	Parmalat Finance Corp BV	Netherlands	Bonds	23/06/99	23/06/04	BBB-	100.00	Bear Stearns International Ltd, Chase Manhattan International Ltd, UniCredito Italyno SpA	*
XS0098549677	19	Parmalat Finance Corp BV	Netherlands	Bonds	23/06/99	23/06/09	BBB-	100.00	Merrill Lynch International	*
XS0100135770	20	Parmalat Finance Corp BV	Netherlands	Bonds	03/08/99	03/08/09		25.00	Unicredito Italyno	*
XS0095639620	21	Parmalat Finance Corp BV	Netherlands	Bonds	01/09/99	30/03/09	BBB-	90.00	Merrill Lynch International	
XS0106583577	22	Parmalat Finance Corp BV	Netherlands	Bonds	07/02/00	07/02/05	BBB-	500.00	Banca d'Intermedia-zione Mobiliare IMI SpA, Chase Manhattan International Ltd	*

* Issue reported under Article 129 of the Consolidated Law on Banking because wholly or partly aimed at the Italian market in excess of the prescribed threshold.
(1) Sources: Based on Bondware, Datastream, Bloomberg and UIC data. – (2) According to press reports, the issuer may be Parmalat Dairy & Bakery Inc.

cont.: **PARMALAT Group: outstanding issues**

ISIN code (1)	No.	Issuer (1)	Country of establishment	Type of security (1)	Entitlement date (1)	Maturity date (1)	Rating at issue (1)	Amount of issues (EUR millions) (1)	Lead manager of the underwriting syndicate (1)	
XS0106583577	23	Parmalat Finance Corp BV	Netherlands	Bonds	15/03/00	07/02/05	BBB-	150.00	Banca d'Inter-mediazione Mobiliare IMI SpA, Chase Manhattan International Ltd	*
XS0118659688	24	Parmalat Finance Corp BV	Netherlands	Bonds	23/10/00	23/10/07	BBB-	150.00	Banca d'Inter-mediazione Mobiliare IMI SpA, Chase Manhattan International Ltd	*
XS0123321068	25	Parmalat Finance Corp BV	Netherlands	Bonds	06/02/01	06/02/06	BBB-	500.00	Banca IMI SpA, JP Morgan Securities Ltd	*
XS0124248922	26	Parmalat Capital Netherlands BV	Netherlands	Convertible bonds	28/02/01	30/06/21		350.00	Salomon Brothers International Ltd	*
XS0132599175	27	Parmalat Finance Corp BV	Netherlands	Bonds	25/07/01	25/07/08		500.00	Caboto SIM SpA, UniCredit Banca Mobiliare	*
XS0135579349	28	Parmalat Finance Corp BV	Netherlands	Bonds	20/09/01	20/09/04		150.00	Nomura	
XS0140751941	29	Parmalat Finance Corp BV	Netherlands	Bonds	18/01/02	18/01/07	BBB-	250.00	Banca Akros SpA, Credit Suisse First Boston (Europe) Ltd, MPS Finance Banca Mobiliare SpA	*
XS0142326130	30	Parmalat Finance Corp BV	Netherlands	Bonds	04/02/02	20/09/04		150.00		
XS0140751941	31	Parmalat Finance Corp BV	Netherlands	Bonds	22/02/02	18/01/07	BBB-	50.00	Banca Akros SpA, Credit Suisse First Boston (Europe) Ltd, MPS Finance Banca Mobiliare SpA	*
XS0146388656	32	Parmalat Soparfi SA	Luxembourg	Convertible bonds	23/05/02	23/05/32	BB	306.80	Morgan Stanley & Co International Ltd	*
XS0158370121	33	Parmalat Soparfi SA	Luxembourg	Convertible bonds	12/12/02	12/12/22		246.40	Morgan Stanley & Co International Ltd	
XS0156987058	34	Parmalat Finance Corp BV	Netherlands	Bonds	13/12/02	13/12/04		150.00	UniCredit Banca Mobiliare	*
XS0171288177	35	Parmalat Finance Corp BV	Netherlands	Bonds	03/07/03	03/07/08		210.00	UBS	
XS0170717184	36	Parmalat Finance Corp BV	Netherlands	Bonds	10/07/03	10/07/08		300.00	Morgan Stanley & Co International Ltd	*
XS0176831013	37	Parmalat Finance Corp BV	Netherlands	Bonds	29/09/03	29/09/10	BBB-	350.00	Deutsche Bank	*
	TOTAL							**7,692.80**		

Italian corporate bond yield differentials with respect to the benchmark BTP in 2003



Source: Based on Datastream data.

Issues of the CIRIO Group reported under Article 129 of the Consolidated Law on Banking

ISIN code	Issuer	Amount issued (EUR mns)	Date of notification	Notifying institution	
XS0111994702	CIRIO FINANCE LUXEMBOURG S.A. - Guarantee Cirio SpA [c]	150	20/04/00	JP MORGAN SECURITIES - LONDON	
XS0119755428	CIRIO FINANCE LUXEMBOURG S.A. - Guarantee Cirio SpA [c]	150	11/10/00	JP MORGAN SECURITIES - LONDON	
XS0121553019	CIRIO S.P.A. [c]	150	27/11/00 - 29/11/00	EUROMOBILIARE INVESTMENT BANK - MILAN	
XS0121553019	CIRIO S.P.A. [c]	25	10/01/01	EUROMOBILIARE INVESTMENT BANK - MILAN	[a]
XS0124290296	CIRIO HOLDING LUXEMBOURG S.A. - Guarantee Cirio Holding SpA [d]	200	08/01/01 - 02/02/01	CABOTO HOLDING SIM - MILAN	
XS0128689105	DEL MONTE FINANCE S.A. - LUXEMBOURG - Guarantee Del Monte Holding S.A. e Cirio Alimentare SpA [e]	200	27/03/01 - 23/04/01	UNICREDIT B. MOBILIARE - MILAN	
XS0124290296	CIRIO HOLDING LUXEMBOURG S.A. - Guarantee Cirio Holding SpA [d]	75	13/06/01	ABAXBANK - MILAN	[a]
XS0144352803	CIRIO DEL MONTE HOLDING N.V. - NETHERLANDS - Guarantee Cirio Finanz. SpA [c]	50	1/02/02 - 12/03/02	UNICREDIT B. MOBILIARE - MILAN	[b]
XS0143928157	CIRIO DEL MONTE HOLDING N.V. - NETHERLANDS - Guarantee Cirio Finanz. SpA [c]	125	1/02/02 - 12/03/02 16/05/02	UNICREDIT B. MOBILIARE - MILAN ABAXBANK - MILAN	[b]

(a) Reopening of a previously reported issue (see ISIN code).
(b) The transaction, initially notified as a single issue amounting to €150 million, was subsequently divided into two separate issues: a variable rate issue amounting to €50 million and a 7.75% fixed rate issue amounting to €125 million.
(c) Cirio Finanziaria S.p.A. is the new name of the listed company Cirio S.p.A.
(d) Cirio Holding S.p.A. is the holding company within the Cragnotti group that controls Cirio Finanziaria S.p.A.
(e) Cirio alimentare S.p.A. is a former division of the Cirio group into which the food processing activities were spun off in 1999. The company is now called Cirio Del Monte Italia S.p.A.

Bond issues by Italian non-financial companies on the Luxembourg market (1998 - June 2003)

Parent company at time of issue	Parent company at June 2003	EUR millions (1)	Share of total
Ing C Olivetti & C SpA/Pirelli/Seat PG	Pirelli e Telecom	44,978	57.2%
Fiat SpA	Fiat	12,600	16.0%
Parmalat SpA	Parmalat	6,192	7.9%
Italenergia SpA	Italenergia	1,895	2.4%
Cofide/L'Espresso	Cofide – Comp. Fin. De Benedetti	1,655	2.1%
Fondiaria SpA	Fondiaria SpA	1,247	1.6%
Cirio/Del Monte	Cirio SpA	1,197	1.5%
Autogrill/EdizioneHolding/Benetton	Benetton Group SpA	1,081	1.4%
Impregilo SpA	Impregilo SpA	1,050	1.3%
Fin Ba SpA	Fin Ba SpA (Barilla)	875	1,1%
Lucchini SpA	Lucchini SpA	600	0.8%
Tiscali SpA	Tiscali SpA	400	0.5%
Italmobiliare SpA	Italmobiliare SpA	350	0.4%
Luxottica Group SpA	Luxottica Group SpA	350	0.4%
Telepiu SpA	Telepiu SpA	350	0.4%
Safilo SpA	Safilo SpA	300	0.4%
Bonaparte SpA	Bonaparte SpA	225	0.3%
Cartiere Burgo	Cartiere Burgo	200	0.3%
IT Holding SpA	IT Holding SpA	200	0.3%
Astaldi SpA	Astaldi	150	0.2%
De Longhi SpA	De Longhi	150	0.2%
Finmek SpA	Finmek	150	0.2%
Merloni Elettrodomestici SpA	Merloni	150	0.2%
Reno De Medici SpA	Reno De Medici	150	0.2%
Frati Group SpA	Gruppo Frati	130	0.2%
Cremonini SpA	Gruppo Cremonini	129	0.2%
Prada Holding NV	Prada Holding NV	129	0.2%
Fantuzzi Reggiane SpA	Fantuzzi	125	0.2%
Autostrada Torino-Milano	ASTM	120	0.2%
Elettra SpA	Elettra SpA	105	0.1%
Inter Auto Parts Italia SpA	Inter Auto Parts Italia SpA	105	0.1%
Amplifon SpA	Amplifon SpA	100	0.1%
Aprilia SpA	Aprilia SpA	100	0.1%
Bulgari SpA	Bulgari SpA	100	0.1%
Carraro SpA	Carraro SpA	100	0.1%
Chiesi Farmaceutici SpA	Chiesi Farmaceutici SpA	100	0.1%
Ducati Motor Holding SpA	Ducati Motor Holding SpA	100	0.1%
Giacomelli Sport Group SpA	Giacomelli Sport Group SpA	100	0.1%
Gianni Versace SpA	Gianni Versace SpA	100	0.1%
Giochi Preziosi Group	Giochi Preziosi Group	100	0.1%
Grandi Navi Veloci SpA	Grandi Navi Veloci - Grimaldi	100	0.1%
I Viaggi Del Ventaglio SpA	I Viaggi Del Ventaglio SpA	100	0.1%
Stefanel SpA	Stefanel SpA	100	0.1%
Merloni Termosanitari SpA	Merloni	77	0.1%
Arena Holding SpA	Arena Holding SpA	35	0.0%
Total		**78,651**	**100.0%**

Source: Dealogic.
(1) Amounts at issue.

Main Italian public-sector issuers of Eurobonds (1995 - June 2003)

Issuer	Parent company/Originator*	Number of issues	Market of listing	EUR millions (1)	Share of total
Società di Cartolarizzazione dei Crediti INPS - SCCI SpA	Republic of Italy*	6	Luxembourg	9360	18.1%
Società di Cartolarizzazione degli Immobili Pubblici Srl	Republic of Italy*	7	Luxembourg	8937	17.2%
Region of Umbria	Region of Umbria	6	Luxembourg	3749	7.2%
CPG Società di Cartolarizzazione 2003	Cassa Depositi e Prestiti *	12	Luxembourg	3326	6.4%
Società per la Cartolarizzazione dei Crediti e dei Proventi Prl	Republic of Italy*	3	Luxembourg	3000	5.8%
ENI SpA	ENI SpA	2	Milan/ Luxembourg	2000	3.9%
Region of Sicily	Region of Sicily	4	London/ Luxembourg	1881	3.6%
Region of Marche	Region of Marche	4	Luxembourg	1512	2.9%
Region of Lazio	Region of Lazio	7	Luxembourg	1354	2.6%
INAIL - Società di Cartolarizzazione SpA	Republic of Italy*	1	Luxembourg	1350	2.6%
Romulus Finance Srl	Aeroporti di Roma Spa*	5	Luxembourg	1264	2.4%
Poste Italiane SpA	Poste Italiane SpA	3	Luxembourg	1250	2.4%
Region of Lombardy	Region of Lombardy	1	Luxembourg	1014	2.0%
ENI Coordination Center SA	ENI Spa	12	Unquoted/ Luxembourg	993	1.9%
Banco di Napoli SpA	Banco di Napoli SpA	3	Luxembourg	900	1.7%
Rossini BV	Region of Sicily*	1	Luxembourg	848	1.6%
Cartesio Srl Series 2003 1	Region of Lazio*	4	Luxembourg	836	1.6%
INA - Istituto Nazionale delle Assicurazioni SpA	INA – Istituto Nazionale delle Assicurazioni SpA	1	Luxembourg	750	1.4%
Alitalia - Linee Aeree Italiane SpA	Alitalia – Linee Aeree Italiane SpA	1	Milan	716	1.4%
Region of Abruzzo	Region of Abruzzo	4	Luxembourg	715	1.4%
Crediti Sanitari Regione Sicilia - Società per la Cartolarizzazione Srl	Region of Sicily*	1	Luxembourg	655	1.3%
Region of Puglia	Region of Puglia	1	Luxembourg	600	1.2%
Aegis Srl	Republic of Italy (SACE)*	1	Luxembourg	599	1.2%
Optimum Finance BV	Republic of Italy (SACE)*	4	Luxembourg	551	1.1%
Region Autonome of Vallee D’Aoste	Region Autonome of Vallee D’Aoste	2	Luxembourg	543	1.0%
Cartesio Srl Series 2003 2	Republic of Italy*	2	Luxembourg	500	1.0%
Region of Tuscany	Region of Tuscany	1	Luxembourg	465	0.9%
Autonomous Region of Sardinia	Autonomous Region of Sardinia	1	Luxembourg	390	0.8%
Region of Friuli-Venezia Giulia	Region of Friuli-Venezia Giulia	2	Luxembourg	348	0.7%
City of Venice	City of Venice	2	Luxembourg	271	0.5%
Cabco Finance BV	Region of Tuscany*	1	London	232	0.4%
Istituto per lo Sviluppo Economico dell’Italia Meridionale	Banco di Napoli Spa	5	Unquoted/ Luxembourg	202	0.4%
Comune di Milano	Comune di Milano	1	Luxembourg	170	0.3%
City of Rome	City of Rome	1	Luxembourg	133	0.3%
ATAC SpA	ATAC SpA	1	Luxembourg	110	0.2%
City of Florence	City of Florence	3	Luxembourg	88	0.2%
Region of Liguria	Region of Liguria	2	Luxembourg	88	0.2%
ARV International Ltd	Inail – Società di Cartolarizzazione Spa*	2	Luxembourg	50	0.1%
Banco di Napoli SpA (London)	Banco di Napoli SpA	1	Luxembourg	38	0.1%
Province of Naples	Province of Naples	1	London	34	0.1%
Total		**122**		**51,822**	**100.0%**

Source: Dealogic.
(1) Amounts at issue.

Gross issues of Eurobonds by private-sector companies (1)
(number of issues and EUR millions)

	1999	2000	2001	2002	2003
			Italy		
Number of issues	104	193	265	204	177
Value of issues	41,294	48,650	73,519	51,672	47,182
banks	*13,663*	*26,498*	*25,044*	*12,857*	*16,169*
other financial companies	*3,138*	*9,083*	*23,640*	*25,110*	*19,378*
non-financial companies	*24,494*	*13,069*	*24,835*	*13,705*	*11,635*
			France		
Number of issues	175	222	216	238	329
Value of issues	46,527	49,697	56,644	63,413	77,317
banks	*7,206*	*13,608*	*14,388*	*22,069*	*24,761*
other financial companies	*10,590*	*10,993*	*9,557*	*11,894*	*12,490*
non-financial companies	*28,731*	*25,095*	*32,699*	*29,451*	*40,067*
			Germany		
Number of issues	615	658	488	454	527
Value of issues	113,044	141,213	132,824	114,025	116,315
banks	*79,567*	*83,831*	*70,284*	*47,450*	*56,944*
other financial companies	*14,418*	*12,098*	*8,021*	*14,672*	*10,122*
non-financial companies	*19,059*	*45,283*	*54,519*	*51,903*	*49,249*
			Euro area		
Number of issues	1,412	1,750	1,738	1,775	2,112
Value of issues	309,180	390,047	423,907	369,499	466,415
banks	*164,373*	*203,242*	*189,054*	*160,309*	*220,393*
other financial companies	*48,549*	*62,159*	*93,102*	*97,639*	*118,308*
non-financial companies	*96,257*	*124,646*	*141,752*	*111,551*	*127,713*
			United Kingdom		
Number of issues	464	661	637	660	1,182
Value of issues	117,021	163,604	151,216	142,265	188,786
banks	*44,768*	*57,055*	*47,239*	*57,091*	*69,831*
other financial companies	*19,324*	*36,446*	*42,971*	*42,036*	*69,749*
non-financial companies	*52,929*	*70,103*	*61,006*	*43,138*	*49,205*
			United States		
Number of issues	844	593	669	431	524
Value of issues	232,695	257,447	368,913	253,469	212,745
banks	*40,076*	*64,843*	*82,429*	*61,353*	*70,176*
other financial companies	*72,564*	*55,665*	*65,773*	*40,168*	*34,964*
non-financial companies	*120,056*	*136,939*	*220,711*	*151,948*	*107,605*

Source: Dealogic.
(1) Par value of medium and long-term bonds issued by private-sector borrowers belonging to a group resident in the country or area indicated; includes private placements and issues Alitalia, AEM, ATAC, ENI and ENEL.

2003											
Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
					Italy						
11	20	23	26	13	19	10	1	14	10	13	17
4,811	5,797	4,006	6,959	1,877	2,896	2,131	100	3,385	6,144	3,409	5,666
81	*700*	*2,026*	*800*	*1,277*	*1,062*	*920*	*100*	*2,239*	*1,880*	*1,130*	*3,953*
1,330	*5,097*	*1,980*	*6,159*	*-*	*1,534*	*470*	*-*	*277*	*-*	*1,679*	*853*
3,400	*-*	*-*	*-*	*600*	*300*	*741*	*-*	*869*	*4,264*	*600*	*860*
					France						
32	22	14	44	24	37	29	14	26	30	32	25
7,501	6,473	1,471	11,307	8,302	10,509	8,210	904	5,816	7,647	7,166	2,010
5,176	*1,893*	*844*	*1,140*	*2,015*	*3,547*	*2,336*	*717*	*1,614*	*2,385*	*1,445*	*1,648*
535	*1,280*	*509*	*1,615*	*799*	*695*	*2,085*	*50*	*450*	*2,485*	*1,813*	*175*
1,790	*3,300*	*119*	*8,552*	*5,488*	*6,266*	*3,789*	*137*	*3,752*	*2,778*	*3,909*	*188*
					Germany						
62	38	30	40	53	53	49	28	47	45	50	32
16,352	11,460	2,912	8,461	22,740	9,715	9,538	3,349	7,363	13,453	7,937	3,036
9,347	*6,614*	*1,475*	*2,459*	*7,821*	*4,759*	*2,633*	*2,377*	*4,974*	*9,348*	*4,661*	*475*
-	*-*	*100*	*3,438*	*500*	*1,132*	*1,570*	*-*	*178*	*433*	*1,173*	*1,599*
7,005	*4,845*	*1,337*	*2,565*	*14,419*	*3,823*	*5,335*	*972*	*2,211*	*3,673*	*2,102*	*962*
					Euro area						
175	152	134	207	207	211	182	97	192	200	200	155
45,140	41,317	27,053	44,681	47,890	46,930	35,994	7,979	45,400	52,646	42,822	28,562
30,431	*18,320*	*14,226*	*17,096*	*18,730*	*22,023*	*14,470*	*5,733*	*21,358*	*28,616*	*18,421*	*10,969*
2,415	*8,951*	*11,048*	*15,868*	*6,742*	*11,755*	*8,576*	*1,137*	*12,837*	*10,450*	*14,311*	*14,219*
12,295	*14,045*	*1,779*	*11,717*	*22,418*	*13,152*	*12,948*	*1,109*	*11,205*	*13,579*	*10,091*	*3,374*
					United Kingdom						
81	67	102	79	88	108	98	84	160	100	133	82
15,216	16,459	19,955	11,123	16,865	16,239	14,136	3,882	28,479	17,027	22,745	6,661
7,554	*2,654*	*8,408*	*5,107*	*7,109*	*5,549*	*6,784*	*2,862*	*5,665*	*10,920*	*3,824*	*3,397*
6,917	*8,081*	*9,175*	*2,972*	*6,690*	*5,606*	*2,661*	*394*	*13,750*	*2,372*	*9,946*	*1,187*
745	*5,724*	*2,371*	*3,045*	*3,067*	*5,084*	*4,691*	*626*	*9,065*	*3,735*	*8,975*	*2,076*
					United States						
48	69	38	50	64	43	33	24	29	67	41	18
29,383	23,411	13,661	19,758	23,677	20,992	10,865	8,121	18,032	22,885	16,769	5,191
9,068	*9,556*	*7,692*	*4,729*	*6,327*	*3,526*	*6,809*	*1,966*	*3,615*	*10,084*	*5,842*	*964*
2,960	*3,584*	*1,730*	*4,184*	*4,988*	*2,431*	*2,043*	*2,551*	*2,945*	*4,730*	*1,317*	*1,501*
17,355	*10,272*	*4,239*	*10,846*	*12,362*	*15,036*	*2,012*	*3,604*	*11,472*	*8,071*	*9,610*	*2,727*

placed simultaneously on the Euromarket and the US domestic market. Companies are allocated to the sector of the company that controls them. For Italy, excludes the securities issued by

The international economy and Italy

Address by Antonio Fazio, Governor of the Bank of Italy,
AIAF - ASSIOM - ATIC FOREX

Genoa, 14 February 2004

1. Recent economic developments

At last year's General Meeting of Shareholders on 31 May I brought my Concluding Remarks to a close with the prospect of a recovery in the world economy during the course of 2003, and more certainly in 2004.

Expectations were that domestic demand and output in the United States would accelerate as early as the second half of 2003, driven by the monetary expansion, tax relief measures and weakening of the dollar.

On this basis we suggested that Europe, and especially Italy, stood in need of an economic policy capable of putting the economy back onto a path of faster growth.

The US economy grew at an annualized rate of 8 per cent in the third quarter of 2003 and 4 per cent in the last.

The GDP of the European Union, calculated at the average exchange rates of 2003, is of the same magnitude as that of the United States; it grew by 1.1 per cent in 2002 and by 0.8 per cent in 2003. Output increased in absolute value in the United States in one quarter by as much as it did in the European Union in two years.

Labour productivity in the United States rose by 9 per cent in the third quarter of 2003 and by 3 per cent in the fourth. The decline in unit labour costs and strong competition kept the rate of inflation low; excluding food and energy products, it amounted to 1.5 per cent, which was lower than in the European countries.

Fearing the possibility of deflation, the Federal Reserve accentuated the expansionary stance of monetary policy. Fiscal policy pushed the federal deficit up to 3.5 per cent of GDP in 2003, and it is expected to rise to 4.5 per cent this year. The growth in output averaged 3.1 per cent in 2003, well above the forecasts made last spring.

In Japan exports expanded strongly in the last part of 2002 and recorded a further substantial increase in 2003; last year GDP grew by 2.2 per cent.

The reorganization of production in large manufacturing companies has improved profitability and reduced employment. Since the mid-nineties, some 2,700,000 jobs have been lost in manufacturing industry against a gain of 1,100,000 in the other sectors.

The improvement in profitability in industry had beneficial effects on the banking system, which is currently engaged in securitizing large volumes of doubtful loans.

Symptoms of deflation are still present. Monetary policy has been even more expansionary.

With the lessening of global political tensions, economic activity has picked up and progressively gained strength in the emerging economies as well. After two years of sharp deceleration, in 2003 the rate of growth rebounded to almost 6 per cent.

In the emerging Asian countries GDP growth was 7.5 per cent. In Latin America, the modest results achieved by Brazil and Mexico contrasted with the sharp recovery in Argentina.

The rate of growth in the euro area was no more than 0.5 per cent.

In 2003 the world economy is estimated to have grown by 3.7 per cent.

For 2004 the International Monetary Fund forecasts GDP growth of 4.6 per cent in the United States, 2.2 per cent in Japan, 6 per cent in the emerging economies and 3.6 per cent in the main Latin American countries.

In the twelve euro-area countries output is expected to grow by 2 per cent.

The world economy is forecast to grow in 2004 by around 4.5 per cent.

2. Liquidity and the international financial markets

In a context of low inflation and globally insufficient aggregate demand, markedly expansionary monetary conditions in the three major areas have driven interest rates down to historically low levels, fostered a faster expansion of credit and supported the recovery of the financial markets.

During the nineties the money stock in the seven leading industrial countries was somewhere between 65 and 70 per cent of GDP. In the last five years it has risen steadily to reach nearly 80 per cent, an increase larger than that recorded in the previous twenty years.

In the three major areas it was monetary base and the more liquid components of bank money that increased most. From the mid-nineties onwards the deposits of non-residents more than doubled, rising from around 3 per cent of GDP to nearly 8 per cent.

Conversely, short-term interest rates in the United States, the euro area and Japan have fallen to their lowest levels since the end of the Second World War; net of inflation they are close to zero.

Real long-term interest rates on government bonds, which had touched 5 per cent in 1995, gradually came down to fluctuate around 2 per cent at the end of last year.

After nearly doubling between 1996 and 1999, the capitalization of equity markets then fell and in 2002 was close to the value recorded six years earlier. The decline in share prices continued until March 2003, they have since risen by 40 per cent in the United States and France, by more than 70 per cent in Germany and by 30 per cent in Italy.

In Italy and France price-earnings ratios are broadly in line with their long-term values.

In the United States stock prices are high in relation to profits and dividends, reflecting low interest rates and expectations of higher growth.

After a pause in 2002, the notional value of derivative products recorded another very large increase in 2003. For the seven leading industrial countries the value of listed derivatives rose from 110 per cent of GDP to 180 per cent, almost three times as high as in the nineties.

The restructuring and capital strengthening carried out in recent years by the banking systems of the leading industrial countries, prompted by the supervisory authorities, enabled them to take the fall in stock prices between 2000 and 2002 and the sharp slowdown of the world economy in their stride. Banks were able to cope with the difficult conditions in some countries and absorb the consequent losses. They provided support for the restructuring of important sectors of industry and thus prevented production crises and job losses from spreading.

After slowing sharply between 2000 and 2002, bank credit began to expand more rapidly again. Last year outstanding loans in the leading industrial countries grew by 4.3 per cent.

There has been an increase in loan securitizations in domestic and international markets that have lessened the concentration of risk by spreading it across the financial system.

In the last ten years companies active in the main markets have increasingly raised funds through bond issues, to finance investments and expand their operations. In Europe a major factor in the growth of this market was the introduction of the single currency.

The outstanding value of medium and long-term bonds issued by non-financial corporations in the seven leading industrial countries roughly doubled between 1995 and 2002, rising from $2,800 billion, or 14 per cent of GDP, to $5,000 billion, or 24 per cent of GDP. At the end of 2002 the corporate bonds outstanding in the United States amounted to more than $3,000 billion, in the United Kingdom to more than $500 billion and in France to more than $300 billion; in Italy they amounted to about $100 billion.

The flow of net issues remained high in the first half of 2003 in the United States, France and Germany.

The spreads on emerging countries' dollar-denominated securities over US securities have nearly halved, falling from 8 to 4.2 percentage points between the middle of 2002 and the end of 2003, in concomitance with the resumption of the flow of funds towards these countries.

3. Investment and demand

The ample supply of credit and the low cost of capital have fostered an acceleration in investment in the United States and the emerging economies. Wage moderation in all the developed countries, as well as in the emerging economies, has permitted a constant increase in the flow of self-financing.

The production of goods and services continues to be reallocated from the developed countries to the emerging countries in order to take advantage of lower labour costs.

In the fifteen countries of the European Union, between 1980 and 2001 the manufacturing sector's contribution to total value added declined from 24 to 20 per cent. The contribution of private services to income formation rose from 41 to 48 per cent.

In the United States, over the same period the contribution of manufacturing fell from 21 to 14 per cent; that of private services rose from 52 to 61 per cent.

The large flows of direct investment by US firms in Mexico and other countries of Latin America and in China and other Asian countries relate in good part to relatively low-tech production; in the emerging economies mid-tech production is also gaining ground.

Investment in services and high-tech production continues to be concentrated in the developed countries.

In the United States the easy monetary conditions, coupled with rapid population growth resulting from natural demographic increase and substantial immigration, led to investment in housing recovering strongly in 2002; the growth accelerated in 2003.

By contrast, business investment in plant continued to shrink, but there was a pronounced increase in firms' spending on machinery and equipment, especially information technology.

The composition of business investment is reflected in the trend in payroll employment, which in the manufacturing sector was 3.6 per cent lower in January than a year earlier while in services it was 0.4 per cent higher. On the other hand, hourly labour productivity has risen sharply. In two years, between the fourth quarter of 2001 and the fourth quarter of 2003, labour productivity in the US non-farm business sector increased by a total of nearly 10 per cent.

Population growth, the high proportion of young people, tax relief and low interest rates have pushed up consumption demand, particularly for durable goods, which grew by 6.5 per cent in 2002 and 7.4 per cent in 2003.

Business investment has been sustained by the substantial rise in firms' profits and the improvement in their overall financial position. The financial situation of households has also turned better.

In Japan, against the background of a recovery in global demand, continuing abundance of liquidity and, above all, productivity gains by firms, private investment began growing again in the second half of 2002; in the first three quarters of 2003 the average increase was 8 per cent on an annual basis.

There was a strong upturn in exports.

In France, Germany and Italy, notwithstanding plentiful liquidity and the historically low cost of money, business investment diminished. In Italy total investment, including private and public-sector construction, fell in the first half of last year by nearly 10 per cent on an annual basis.

The capacity utilization rate is low in all the euro-area countries. Consumer confidence, which was also weak, showed a slight improvement in Europe in 2003.

In the euro area, after declining by 2.9 per cent in 2002, investment fell further by 2.6 per cent on an annual basis in the first half of 2003.

Exports, weighed down by the appreciation of the euro, fell by 3.9 per cent in the first half of the year. The decrease was 2.7 per cent in Germany, 5.8 per cent in France and more than 13 per cent in Italy.

Euro-area resident households' expenditure, which was stationary in 2002, showed signs of increasing in the early part of 2003 but then slowed down again in the course of the year.

In the third quarter euro-area and Italian exports staged a recovery, in concomitance with the pick-up in activity in the United States, Japan and the major Asian economies.

Merchandise exports of the leading industrial countries, which had stopped growing in the latter part of 2002 and the early months of 2003, began expanding again in the second half of the year in both the industrial countries and the emerging economies.

The large external deficit of the United States has fueled the growth in the supply of dollar-denominated assets on the international markets. Private capital flows to Latin America have resumed, while those to the emerging countries of Asia and the countries of central and eastern Europe have remained strong; the flow of direct investment from the industrial countries continues; investment and growth in the developing areas are gaining pace.

4. Sustainability of the recovery

The business cycle and growth in the United States are decisive for the prospects of the world economy.

In 2003 world GDP amounted to $35,600 billion, of which US economic output accounted for 30 per cent or just under $11,000 billion.

Japan's GDP was $4,200 billion; that of the euro area was $8,100 billion, or more than one fifth of world economic output. Italy, with annual output of $1,400 billion at last year's average exchange rates, accounted for 4.1 per cent of the world economy, mainland China for 3.9 per cent. The other developing countries together accounted for 13 per cent of world output.

The latest forecasts for the United States are for GDP growth of around 4.5 per cent in 2004 and 4 per cent in 2005. Inflation will remain low. The consequence is a positive forecast for the world economy in the next two years.

The acceleration in economic activity, under way since the middle of 2003, and the continuation of rapid growth in 2004 and 2005 are based on the recouping off of an initial situation of production below capacity. The estimates of potential GDP growth in the United States for the next five years range between 3.2 and 3.5 per cent annually, depending on the source.

All in all these are prudent forecasts, taking into account the productivity gains that have been achieved in the last three years, the growth of the population, the country's endowment of human capital and the heavy investment in technology and information systems.

Productivity performance is in a sense the key to an economy's strength. However, the macroeconomic context in which the efficiency of the US productive system is set contains factors of risk for the sustainability of growth.

The financial balance of the public sector, the linchpin of the policy of support for domestic demand, went from a surplus of around 1.3 per cent of GDP in 2000 to a deficit of 4.8 per cent in 2003.

The improvement in the balance between saving and investment of households and firms, amounting to around 5 percentage points in the three years from 2001 to 2003, offset only part of the deterioration in public-sector saving.

Over the same period the balance-of-payments deficit increased by about one percentage point of GDP.

The sustainability of the public debt appears to hinge crucially on economic growth. On 2 February the Administration announced it was committed to reducing the federal deficit from the $521 billion projection for 2004 to $364 billion in 2005 and $237 billion in 2009. The intention is to lower the ratio of the deficit to GDP to 2 per cent.

At the end of 2003 the amount of federal government debt held by the public was equal to 36 per cent of GDP. It should be recalled that the household saving rate is extremely low and household debt high in the United States by comparison with Europe and with Italy especially.

The external deficit is equal to approximately 5 per cent of GDP. The net external investment position is now negative by one quarter of GDP.

At the global level a significant statistical discrepancy is to be found between the US balance-of-payments deficit on current account and the rest of the world's surplus; it is equal to one third of the US deficit. The growth in US foreign debt greatly exceeds the increase in assets held by the rest of the world.

The sustainability of the foreign debt and, consequently, of the exchange rate depends on the demand for financial claims denominated in dollars and on the share of American real assets held by non-residents. There is probably a substantial volume of dollar-denominated financial assets owned by firms and individuals that are formally not resident in the United States but which are within the orbit of that country's economic and political system.

In a globalized financial system, the productivity of the US economy, the country's political and military strength, the stability and prestige of its institutions, the efficiency and liquidity of its markets offer real and financial investments a promise of safe long-term yields.

Large exports of capital from the United States and high direct investment in all the emerging economies led to a stock of foreign assets worth $6,474 billion at the end of 2002, 31 per cent of this consisted of direct investment and 21 per cent of shares.

At the end of 2002 America's gross foreign liabilities stood at $9,079 billion, of which 22 per cent consisted of direct investment, 13 per cent of shares and 34 per cent of private and public-sector bonds; interest payments averaged around 3 per cent.

Given its share of world output and finance, the US economic and financial system extends beyond the nation's borders. A pattern seen during the last century for other economically and financially hegemonic systems is being repeated. A similar tendency can be seen for Japan in relation to the emerging economies of Asia.

In response to the concern lest a large external deficit influence the level of the exchange rate, on the occasion of the recent meeting of the Group of Seven in Boca Raton, Florida, the US Treasury Secretary reaffirmed the Administration's commitment to policies conducive to a strong dollar whose value would nonetheless continue to be determined by market forces.

The direct investment of the more advanced countries promotes economic activity and introduces new technologies in those where the cost of labour is very low.

A valid economic and institutional framework and the provision of infrastructure can create the conditions in newly industrialized and emerging economies that will enable them to attract foreign investment and boost growth.

The free movement of capital is a powerful force in the expansion of the world economy.

Even though China, India and other newly industrialized countries in Asia still account for only a limited portion of world output, their economies are growing more than twice as fast as those of the more advanced countries and contribute significantly to the expansion of the global economy.

Economic activity in Latin America has begun to expand again after the major crises of recent years.

In Argentina maintaining the present favourable macroeconomic trend will depend on the efforts to honour the undertakings entered into with the International Monetary Fund, achieve a satisfactory restructuring of the country's foreign debt and rehabilitate the banking system.

Parts of Africa, still crushed by a heavy debt burden and a series of institutional and other local problems, remain excluded from the advance of the world economy. It is necessary to revive the debt-relief procedures of the Highly Indebted Poor Countries Initiative.

Europe is not contributing to the growth of the world economy. A stronger performance on its part is also necessary to adjust the payments imbalances between the principal regions of the world.

The continent's demographic structure and the aging of the population appear to offer little incentive for investment. The potential growth rate of the European economies is estimated at around 2 per cent. In recent years the expansion of output has been less than 2 per cent. This year it is expected to come near it.

Despite slow growth, the area still shows a small surplus on external current account of less than 0.5 per cent of GDP.

Europe's share of the volume of world exports has declined in the last few years. Since the start of 2002 it has suffered from the appreciation of the euro. Taking a longer-term view, it is the insufficient increase in productivity that is holding back competitiveness and growth.

Price stability within the euro area is assured by the single monetary policy. Financial stability is guaranteed by controls and supervision at national level.

To increase Europe's growth potential, reforms along the lines of the commitments undertaken at the Lisbon European Council in 2000 are essential.

Action to reduce the ratio of current public expenditure to GDP on a permanent basis is especially urgent. Measures to alter labour market arrangements are necessary.

Immigration will tend to increase in the years to come as the European population ages. It must be strictly regulated, at European Union level as well. Effective policies of integration are needed to attenuate the sometimes severe repercussions on the existing social balance; they can offer an opportunity for human development to people whose homelands are beset by severe economic and social problems and contribute to the growth of our own economies.

5. Italy

From 1989 to 1999 the Italian economy grew at an average annual rate of 1.5 per cent, compared with an average of 2.1 per cent in the fifteen countries of the European Union.

For Italy, these were the years in which the external accounts were adjusted and the public sector deficit was sharply reduced.

The country's net external debt had risen gradually during the eighties, touching 11 per cent of GDP in 1992. After the devaluation of the lira in September of that year, accompanied by the containment of inflation through incomes policy and the tightening of credit, exports picked up strongly, fostering economic activity and helping to reduce the foreign debt. In October the yield on three-month Treasury bills reached 18 per cent. Trading of government securities on the secondary market continued without a break; a generalized crisis of Italy's financial system was avoided.

The Mexican crisis, which erupted in December 1994, spread to the main world markets in the early months of 1995. The flight into strong currencies led to a strengthening of the Deutschemark and large appreciation of the yen; the dollar depreciated sharply. The crisis overtook the lira along with other weak currencies; in March, in a matter of days the lira's effective exchange rate fell by 10 per cent. Despite a surge in yields, the primary and secondary markets for government securities again continued to operate without interruption.

Inflationary pressures built up again.

The monetary restriction made it possible, within a year, to restore the lira's exchange rate to its end-1994 level. Inflation was reduced to a level close to the rates in the other European countries.

The abatement of inflation and the prospect of participation in the single currency led to lower interest rates on the public debt.

Italy's re-entry into the European Monetary System at the end of 1996 definitively stabilized the exchange rate and permitted a gradual relaxation of monetary conditions.

The public finances benefited from the lower cost of debt. The ratio of tax and social security receipts to GDP was raised by about 5 percentage points between the second half of the eighties and the second half of the nineties. Public sector net borrowing was reduced below the 3 per cent limit in 1997.

The restored stability of the exchange rate was not associated with a compatible trend in production costs.

Partly owing to the limited growth of the economy, labour productivity in both industry and services did not rise in line with that of the other industrial countries. The export competitiveness of Italian products, which had improved in 1993-1996 as a result of the lira's depreciation, began to deteriorate again.

Between 1995 and 2001 labour productivity in Italy rose on average by 1 per cent a year; in manufacturing the average annual increase was 1.2 per cent.

In Europe in the same period labour productivity rose by 1.4 per cent a year in the economy as a whole and 3.1 per cent in manufacturing.

In the United States labour productivity in manufacturing grew by 3.7 per cent a year between 1995 and 2001.

Italy's share of world exports, which stood at 4.5 per cent in 1995 and 4.2 per cent in 1996, has contracted steadily over the past seven years, falling from 3.7 in 2000 to around 3.3 per cent in 2003.

French exports represented 5.3 per cent of world trade in 1996 and were still at the same level in 2003. Germany's share of world exports has risen from 10.3 per cent in 1996 to 12 per cent.

Italy's loss of market shares is due to the relative increase in production costs and the scant importance of exports of high-tech goods.

The loss of competitiveness has had repercussions on industrial activity and economic growth.

Between 1996 and 2003 industrial production expanded by 5 per cent in Italy, by 17 per cent in the euro area. The growth the Italian economy lost because of the decline in international trade competitiveness is estimated to have amounted to more than half a percentage point each year.

Italian industry consists of a few large corporations and a myriad of small and medium-sized firms. The 1996 census found that three quarters of manufacturing employment was in firms with fewer than 250 employees: some 550,000 firms, or 99.7 per cent of all manufacturing companies in Italy.

A significant part of this vast network of small and medium-sized enterprises is located in industrial districts, which taken together account for 41 per cent of industrial employment and 45 per cent of employment in manufacturing. For the most part, district firms are export-oriented. The organizational model of the districts, which combine cooperation with competition, overcomes some of the limits of small size and permits high levels of innovation and efficiency.

This is the Italian economic engine that in decades past created wealth and jobs.

However, the steady loss of competitiveness and the weakness of domestic demand are threatening the growth prospects of an increasing number of firms. Productivity and employment are slowing.

Smallness is not conducive to research and development, which is indispensable for technological innovation and international opening, both crucial factors in competition between national economies.

In the last decade Italian industry has also been impoverished by the loss of important branches of manufacturing.

The Italian car industry has encountered serious problems. The market share of the largest group, after peaking at 60 per cent in the eighties, fell to 27 per cent in 2003; since the end of the 1980s its European market share has declined from 15 to 8 per cent. The main source of difficulty was a strategy of diversification that ultimately diverted resources away from R&D in the auto segment. Thanks to the support of the banking system the group is now on the road to recovery and disposing of assets not strategic to the core business. It has reduced its debt. The latest data indicate that its market share has risen to over 30 per cent.

The recent performance of the Italian economy has also been affected by the problems at two major food-processing groups.

The difficulties of Italian manufacturing industry go well beyond those of the automobile and food-processing sectors.

Industrial activity in Europe, after reaching a low point in the second quarter of 2003, expanded sharply in the third quarter and again in the fourth. In Italy the decline between the middle of 2002 and the middle of 2003 was followed by a significant upturn in the third quarter and a small contraction in the fourth, in which GDP stagnated. In the euro area GDP grew by 0.3 per cent with respect to the third quarter.

In January the confidence of households plunged in Italy. Provisional data show that industrial activity remains slack.

6. Economic policy

Economic policy must restore expectations of growth, halt the slide in competitiveness and prevent new problems from affecting production.

Partly owing to the difficult economic situation, the adjustment of the public accounts has relied largely on temporary measures. The public debt remains high by international standards. There is still a considerable discrepancy between the general government borrowing requirement on a cash basis and net borrowing on an accruals basis.

For the years to come, the European Commission has signaled the risk that the deficit may go above 3 per cent of GDP and the need, in the absence of structural measures to cut current spending, to raise taxes.

The possibility of reducing taxes depends on achieving faster economic growth. In the short term, support for domestic demand through public works programmes is necessary.

The banking system, which has been greatly strengthened in the last decade by privatizations and extensive restructuring, is committed to sustaining firms that are sound and profitable but too small to confront today's increasingly fierce international competition.

The banks must help firms to grow to a size that permits them to improve product quality and increase efficiency.

This year a very substantial effort will be required to finance major groups that need the resources to continue and expand their activity. The banks' commitment to providing support for troubled industries, notwithstanding serious difficulties, is commendable.

It is essential that the system should earn and enjoy the confidence of the public, the authorities, and political and institutional bodies.

For half a century the savings entrusted to banks and channeled by them to firms have benefited de facto from an absolute guarantee. The cost to the public finances of banking instability and the inevitable difficulties of intermediaries has been far smaller in Italy than in the other industrial economies and in the developing countries.

As in the other advanced financial systems, the direct financing of firms in the market has spread in recent years.

The banks have performed the service of placing the securities issued by firms with other institutions and with private investors; the latter sometimes may not have been fully aware of the real risk of the investment.

It is intermediaries' duty to inform savers correctly and advise them wisely. We have called on them to examine the features of these instruments more carefully and to verify the full awareness on the part of households of the risks assumed, according to ethical and professional standards.

Partly at our urging, banks are moving to satisfy those who have committed even modest savings to such investments without sufficient awareness.

Cases of this kind must not recur. Trust must be restored in a component of the financial market that is crucial to the growth of firms. It must be reiterated that high yields are necessarily accompanied by high risks.

At the end of 2002 the savings entrusted by households to the banks in the form of deposits and other funding instruments amounted to €760 billion. At the end of 2003 total funds raised stood at approximately €1,100 billion.

The Bank of Italy protects savings and savers through the stability of intermediaries. It promotes the efficiency and competitiveness of the credit system and thereby favours the allocation of the funds raised for the growth of production and the formation of new savings.

At the end of 2002 households' portfolios contained a total of €290 billion of corporate shares and bonds.

Corporate failures have direct repercussions on the savings of households, as well as on the banks. The Bank of Italy intervenes promptly with intermediaries so that loan losses are kept within the limits of banks' capital and reserves and do not affect the savings entrusted to them.

In an economy in which firms increasingly finance themselves in the market, the value of this component of savings depends in the first place on the stability of the firms themselves. The truthfulness and quality of firms' financial reports and the other information they disclose to the public are fundamental.

The system of internal and external corporate controls must be strengthened.

We look upon the work of Parliament to improve and supplement the system of controls in the light of recent events with confidence and respect. The unitary oversight of the credit function must not be impaired. The independence of the institutions responsible for controls is of fundamental importance. Drawing on the experience of the most advanced financial systems, the instruments of intervention must be strengthened and more resources made available so that the supervisory authority for companies and the stock exchange can take timely action to limit the frequency, magnitude and effects of corporate failures.

A large share of national savings is entrusted by citizens to the State.

The security of the savings entrusted to the public sector is fully guaranteed by the State's power to levy taxes.

However, too high a level of public debt adversely affects the financing available for firms and for investment. By limiting growth, it prevents the formation of new savings.

In the current situation of the Italian economy, it is essential to reduce the public debt in relation to GDP.

The prospect of closer economic policy coordination within the Government will increase the efficacy of measures; it can favour more effective action on the public finances.

The recovery of the world economy also offers Italy an opportunity to overcome the present phase of uncertainty.

Capitalizing on the resources of enterprise, labour and technology that it commands or can command, the Italian economy must make a concrete start on structural action, the reforms needed for faster growth.

An organic vision of the objectives and instruments, the start of the action plans can restore confidence among all economic agents: the financial system, firms, consumers and savers.

Looking at the experience of the most advanced economies, it is necessary for Europe to relaunch programmes for infrastructure, innovation and research. The progress made in economic and institutional integration and the Union's enlargement provide a solid foundation.

In Italy as well we must move resolutely in the direction of faster growth, higher employment, security for the elderly and valid prospects for the young.

It can be done. We must do it.

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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.

Table a1

GDP at constant prices

	Percentage of world GDP in 2002 (1)	1999	2000	2001	2002	2003	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.1	4.4	3.7	0.5	2.2	3.1	1.3	2.0	3.1	8.2	4.0
Japan	7.1	0.1	2.8	0.4	-0.4	2.7	-0.5	2.5	3.4	2.5	7.0
Euro area	15.7	2.8	3.5	1.6	0.9	(0.4)	..	-0.1	-0.4	1.5	(1.2)
Germany	*4.4*	*2.0*	*2.9*	*0.8*	*0.2*	*-0.1*	*-0.2*	*-1.0*	*-0.6*	*0.8*	*0.9*
France	*3.2*	*3.2*	*3.8*	*2.1*	*1.2*	*(0.2)*	*-1.2*	*0.2*	*-1.5*	*1.7*	*1.8*
Italy	*3.0*	*1.7*	*3.0*	*1.8*	*0.4*	*0.3*	*1.6*	*-1.0*	*-0.5*	*1.8*	*(..)*
United Kingdom	3.1	2.8	3.8	2.1	1.7	2.3	2.0	1.2	2.6	3.4	3.8
Canada	2.0	5.5	5.3	1.9	3.3	1.7	1.6	2.5	-1.0	1.3	3.8
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	0.7	-3.4	-0.8	-4.4	-10.9	….	-3.4	5.4	7.7	9.8	….
Brazil	2.6	0.8	4.4	1.3	1.9	-0.2	3.9	1.9	-1.1	-1.5	-0.1
Mexico	1.9	3.7	6.6	-0.3	0.9	1.3	1.8	2.5	0.1	0.6	2.0
Asia											
China	12.7	7.1	8.0	7.3	8.0	9.1	8.1	9.9	6.7	9.6	9.9
India	4.8	5.2	6.3	4.4	4.7	….	2.3	4.9	5.7	8.4	….
Indonesia	1.6	0.8	4.9	3.4	3.7	3.9	3.8	3.4	3.7	3.9	4.3
Malaysia	0.4	6.1	8.5	0.3	4.1	5.2	5.4	4.6	4.5	5.2	6.4
South Korea	1.8	10.9	9.3	3.1	6.3	….	6.8	3.7	1.9	2.3	….
Taiwan	1.0	5.4	5.9	-2.2	3.6	3.2	4.5	3.5	-0.1	4.2	5.2
Thailand.........................	1.0	4.4	4.8	2.1	5.4	….	6.0	6.7	5.8	6.5	….
Europe											
Poland	0.8	4.1	4.0	1.0	1.4	….	2.2	2.2	3.8	3.9	….
Russia	2.7	6.4	10.0	5.0	4.3	….	5.2	6.8	7.2	6.2	….
Turkey	0.9	-4.7	7.3	-7.5	7.8	….	11.4	8.1	3.9	4.8	….

(1) On the basis of purchasing power parities.

Table a2

Industrial production

	2000	2001	2002	2003	August 2003	September 2003	October 2003	November 2003	December 2003	January 2004
	(percentage changes on previous period; seasonally adjusted data)									
Industrial countries										
United States	4.4	-3.4	-0.6	0.3	..	0.6	0.3	1.0	..	0.8
Japan	5.2	-6.5	-1.3	3.3	-0.7	3.8	1.0	1.0	-0.8	3.4
Euro area	5.2	0.4	-0.5	0.4	-0.5	-0.4	1.5	..	0.1	....
Germany	*5.6*	*0.3*	*-1.1*	*0.5*	*-2.2*	*-0.3*	*2.9*	*0.7*	*-0.1*	....
France	*4.1*	*1.1*	*-1.3*	*-0.3*	*-0.2*	*0.9*	*0.9*	*-0.6*	*0.3*	....
Italy	*3.1*	*-0.8*	*-1.4*	*-0.9*	..	*-0.7*	*0.2*	*0.3*	*-0.2*	....
United Kingdom	1.9	-1.6	-2.7	-0.7	-0.8	0.2	0.6	-0.9	-0.1	....
Canada	8.2	-2.9	1.9	....	-1.0	2.3	..	..	....	....
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	-1.0	-5.4	-7.1	12.4	11.9	12.8	15.2	13.9	8.9	8.7
Brazil	6.6	1.6	2.4	0.3	-2.0	4.1	1.3	0.4	2.9	....
Mexico	6.0	-3.4	-0.3	-0.8	-3.2	-0.4	-0.9	-0.5	2.4	....
Asia										
China	11.2	9.7	12.8	16.7	17.1	16.3	17.2	17.9	18.1	7.2
India	7.4	2.3	4.6	6.1	5.5	7.1	5.4	7.5	6.2	....
Indonesia	3.6	-1.1	-7.1	....	-	-	-	-	-	-
Malaysia	19.1	-4.1	4.6	9.2	8.1	8.9	11.3	11.7	13.5	....
South Korea.................	16.8	0.7	8.1	5.1	1.6	7.0	7.8	4.9	10.9	4.8
Taiwan	7.4	-7.3	6.4	5.5	5.2	7.8	8.9	7.1	13.2	-1.1
Thailand	3.1	2.2	7.7	12.3	5.6	11.2	13.0	6.2	15.8	11.6
Europe										
Poland	7.5	0.4	1.4	8.8	5.9	10.9	12.1	9.1	14.0	....
Russia	11.9	4.9	3.7	7.0	5.5	8.0	7.2	7.1	7.9	7.5
Turkey	5.4	-8.8	9.2	9.1	9.3	11.2	12.7	4.0	21.1	....

Table a3

Consumer prices

	1999	2000	2001	2002	2003	September 2003	October 2003	November 2003	December 2003	January 2004
					(percentage changes on year-earlier period)					
Industrial countries										
United States	2.2	3.4	2.8	1.6	2.3	2.3	2.0	1.8	1.9	1.9
Japan	-0.3	-0.7	-0.7	-0.9	-0.3	-0.2	..	-0.5	-0.4	-0.3
Euro area (1)	1.1	2.1	2.3	2.3	2.1	2.2	2.0	2.2	2.0	1.9
Germany	*0.6*	*1.4*	*1.9*	*1.3*	*1.0*	*1.1*	*1.1*	*1.3*	*1.1*	*1.3*
France	*0.6*	*1.8*	*1.8*	*1.9*	*2.2*	*2.3*	*2.3*	*2.5*	*2.4*	*2.2*
Italy	*1.7*	*2.6*	*2.7*	*2.6*	*2.8*	*3.0*	*2.8*	*2.8*	*2.5*	*2.2*
United Kingdom	2.3	2.1	2.1	2.2	2.8	2.8	2.7	2.5	2.6	2.4
Canada	1.7	2.7	2.5	2.2	2.8	2.2	1.6	1.6	2.0	1.2
Emerging countries										
Latin America										
Argentina	-1.2	-0.9	-1.1	25.9	13.4	3.5	3.9	3.6	3.7	2.7
Brazil	4.9	7.0	6.8	8.5	14.7	15.1	14.0	11.0	9.3	7.7
Mexico	16.6	9.5	6.4	5.0	4.5	4.0	4.0	4.0	4.0	4.2
Asia										
China	-1.4	0.3	0.7	-0.8	1.3	1.1	1.8	3.0	3.2	....
India	4.7	4.0	3.8	4.3	3.8	2.9	3.3	3.1	3.7	4.3
Indonesia	20.5	3.7	11.5	11.9	6.6	6.2	6.2	5.3	5.1	4.8
Malaysia	2.7	1.5	1.4	1.8	1.1	1.1	1.3	1.1	1.2	1.0
South Korea	0.8	2.3	4.1	2.8	3.5	3.3	3.7	3.4	3.4	3.4
Taiwan	0.2	1.3	..	-0.2	-0.3	-0.2	-0.1	-0.5	-0.1	..
Thailand	0.3	1.6	1.7	0.6	1.8	1.7	1.2	1.8	1.8	1.2
Europe										
Poland	7.3	10.1	5.5	1.9	0.8	0.9	1.3	1.6	1.7	1.7
Russia	85.7	20.8	21.6	16.0	13.6	13.2	13.1	12.4	12.0	11.3
Turkey	64.9	54.9	54.4	45.0	25.3	23.0	20.8	19.3	18.4	16.2

(1) As of January 2001, includes Greece.

Table a4

External current account

	1999	2000	2001	2002	2003	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
					(billions of dollars; seasonally adjusted quarterly data)					
Industrial countries										
United States	-290.8	-411.5	-393.7	-480.9	....	-128.6	-138.7	-139.4	-135.0	....
Japan...............................	114.7	119.6	87.8	112.8	136.4	25.5	29.3	33.4	37.2	38.3
Euro area	-25.7	-62.4	-13.1	65.0	32.7	16.9	4.5	2.3	10.5	14.8
Germany	*-25.4*	*-25.6*	*3.9*	*59.8*	*58.1*	*16.5*	*12.2*	*8.8*	*21.7*	*18.3*
France	*42.3*	*18.3*	*23.1*	*26.1*	....	*7.2*	*5.5*	*2.3*	*4.8*	....
Italy	*8.1*	*-5.7*	*-0.8*	*-9.4*	*-22.1*	*-4.3*	*-5.0*	*-6.4*	*-4.7*	....
United Kingdom	-39.5	-36.2	-33.7	-26.7	....	-6.2	-4.3	-12.6	-13.0	....
Canada	1.8	20.6	17.4	14.9	18.6	3.1	4.1	3.6	5.7	5.0
					(billions of dollars; quarterly data, not seasonally adjusted)					
Emerging countries										
Latin America										
Argentina	-12.0	-8.9	-4.0	9.6	....	2.5	2.1	2.9	1.5	....
Brazil	-25.3	-24.2	-23.2	-7.7	4.1	-0.3	0.1	0.4	3.3	0.3
Mexico	-14.0	-18.2	-18.2	-14.1	-9.2	-4.8	-2.4	-1.4	-2.1	-3.3
Asia										
China	21.1	20.5	17.4	35.4	....	-	-	-	-	-
India	-3.2	-5.1	-0.8	4.8	....	0.9	1.2	-0.3	0.5	....
Indonesia	5.8	8.0	6.9	7.5	....	1.6	0.9	....	....	....
Malaysia	12.6	8.5	7.3	7.2	....	2.1	3.1	3.0	3.7	....
South Korea	24.5	12.2	8.2	5.4	....	1.9	-1.8	2.5	4.0	....
Taiwan	8.4	8.9	17.9	25.7	....	7.9	7.4	6.6	....	....
Thailand	12.5	9.3	6.2	7.0	8.0	2.7	2.5	1.2	1.8	2.4
Europe										
Poland	-11.6	-10.0	-7.2	-6.7	....	-1.8	-1.5	-1.1	-0.4	....
Russia	24.6	46.8	33.9	29.5	....	8.0	11.6	8.8	8.3	....
Turkey	-1.3	-9.8	3.4	-1.5	....	-1.1	-2.2	-1.8	0.3	....

Table a5

Short-term interest rates

(percentages)

	United States	Japan	Euro area	United Kingdom	Canada
			Official rates *(end-of-period data)*		
1999	5.50	0.50	3.00	5.50	5.00
2000	6.50	”	4.75	6.00	6.00
2001	1.75	0.10	3.25	4.00	2.50
2002	1.25	”	2.75	”	3.00
2003 - Feb.	1.25	0.10	2.75	3.75	3.00
Mar.	”	”	2.50	”	3.25
Apr.	”	”	”	”	3.50
May	”	”	”	”	”
June	1.00	”	2.00	”	”
July	”	”	”	3.50	3.25
Aug.	”	”	”	”	”
Sept.	”	”	”	”	3.00
Oct.	”	”	”	”	”
Nov.	”	”	”	3.75	”
Dec.	”	”	”	”	”
2004 - Jan.	”	”	”	”	2.75
Feb.	”	”	”	4.00	”
			Money market rates *(period averages)*		
2000	6.46	0.32	4.39	6.11	5.70
2001	3.69	0.16	4.26	4.97	4.00
2002	1.73	0.09	3.32	3.99	2.63
2003	1.15	0.14	2.33	3.67	2.96
2003 - Feb.	1.27	0.01	2.69	3.69	2.92
Mar.	1.23	0.09	2.53	3.58	3.20
Apr.	1.25	0.22	2.53	3.58	3.30
May	1.23	0.13	2.40	3.57	3.32
June	1.05	0.33	2.15	3.57	3.22
July	1.05	0.17	2.13	3.42	3.01
Aug.	1.08	0.17	2.14	3.45	2.85
Sept.	1.08	0.08	2.15	3.63	2.71
Oct.	1.10	0.15	2.14	3.73	2.70
Nov.	1.11	0.14	2.16	3.91	2.76
Dec.	1.10	0.08	2.15	3.95	2.71
2004 - Jan.	1.06	0.29	2.09	3.99	2.51
Feb.	1.05	0.19	2.07	4.10	2.33

Table a6

Long-term interest rates and share price indices

(period averages)

	United States	Japan	Germany	France	Italy	UK	Canada
				Bond yields *(percentages)*			
2000	6.03	1.76	5.26	5.39	5.58	5.33	5.93
2001	5.02	1.34	4.80	4.94	5.19	5.01	5.48
2002	4.61	1.27	4.78	4.86	5.03	4.91	5.29
2003	4.01	0.99	4.07	4.13	4.25	4.58	4.81
2003 - Feb.	3.90	0.83	3.95	4.01	4.16	4.29	5.01
Mar.	3.81	0.74	4.00	4.10	4.18	4.41	5.00
Apr.	3.96	0.66	4.15	4.22	4.31	4.56	5.05
May	3.57	0.57	3.82	3.89	4.04	4.31	4.67
June	3.33	0.55	3.62	3.69	3.82	4.19	4.29
July	3.97	1.00	3.97	4.01	4.13	4.47	4.68
Aug.	4.44	1.15	4.13	4.16	4.29	4.65	4.90
Sept.	4.27	1.46	4.17	4.23	4.31	4.76	4.76
Oct.	4.29	1.41	4.22	4.28	4.38	4.96	4.82
Nov.	4.30	1.38	4.35	4.41	4.51	5.10	4.86
Dec.	4.27	1.35	4.29	4.34	4.46	4.94	4.73
2004 - Jan.	4.15	1.33	4.17	4.20	4.32	4.84	4.59
Feb.	4.08	1.25	4.11	4.14	4.34	4.88	4.46
				Share price indices *(indices, 1995=100)*			
2000	263.38	112.12	276.37	334.81	318.97	184.97	219.09
2001	220.33	86.57	218.65	268.00	258.79	162.81	175.75
2002	183.90	70.93	165.23	202.59	205.25	135.17	159.49
2003	177.91	66.50	127.17	166.49	185.17	120.11	161.00
2003 - Feb.	154.62	60.98	106.09	150.21	170.00	106.58	147.42
Mar.	156.31	58.13	100.62	143.87	164.70	106.11	144.10
Apr.	164.35	57.28	112.63	153.62	174.60	112.61	146.58
May	172.78	59.38	117.49	157.62	180.55	117.24	152.09
June	182.41	63.69	126.49	166.34	189.15	121.98	158.87
July	183.19	68.73	131.32	167.25	187.04	121.60	161.27
Aug.	182.69	69.96	136.25	173.17	189.48	125.38	166.81
Sept.	188.12	75.24	139.28	177.85	192.87	127.41	171.13
Oct.	191.78	77.03	138.92	177.10	192.73	129.02	173.28
Nov.	193.91	72.97	147.22	181.87	199.46	130.58	176.81
Dec.	199.51	73.31	151.68	186.47	204.83	131.74	181.80
2004 - Jan.	209.15	76.84	159.21	194.34	207.82	134.61	191.64
Feb.	211.11	75.68	157.89	196.71	208.62	134.64	196.23

Ecu/euro exchange rates and the price of gold

	Units of national currency per euro (per ecu until December 1998)								Gold (dollars per ounce)
	US dollar	Japanese yen	Canadian dollar	Pound sterling	Danish krone	Norwegian krone	Swedish krona	Swiss franc	
1998	1.123	146.77	1.667	0.6776	7.513	8.480	8.927	1.625	287.80
1999	1.066	121.32	1.584	0.6587	7.436	8.310	8.808	1.600	290.25
2000	0.924	99.47	1.371	0.6095	7.454	8.113	8.445	1.558	274.45
2001	0.896	108.68	1.386	0.6219	7.452	8.048	9.255	1.511	276.50
2002	0.946	118.06	1.484	0.6288	7.431	7.509	9.161	1.467	342.75
2003	1.131	130.97	1.582	0.6920	7.431	8.003	9.124	1.521	417.25
2001 - Q4	0.896	110.45	1.416	0.6209	7.441	7.969	9.481	1.473	276.50
2002 - Q1	0.877	116.07	1.398	0.6147	7.432	7.812	9.159	1.473	301.40
Q2	0.919	116.46	1.428	0.6285	7.434	7.518	9.158	1.465	318.50
Q3	0.984	117.25	1.536	0.6353	7.428	7.399	9.230	1.464	323.70
Q4	0.999	122.42	1.569	0.6361	7.428	7.319	9.095	1.467	342.75
2003 - Q1	1.073	127.59	1.620	0.6696	7.431	7.571	9.182	1.466	334.85
Q2	1.137	134.74	1.589	0.7017	7.425	7.957	9.143	1.518	346.00
Q3	1.125	132.14	1.553	0.6989	7.431	8.247	9.163	1.545	388.00
Q4	1.189	129.45	1.566	0.6975	7.436	8.223	9.009	1.554	417.25
2003 - Feb.	1.077	128.60	1.630	0.6698	7.432	7.544	9.146	1.467	347.45
Mar.	1.081	128.16	1.594	0.6825	7.427	7.845	9.227	1.469	334.85
Apr.	1.085	130.12	1.585	0.6890	7.426	7.832	9.154	1.496	336.75
May	1.158	135.83	1.602	0.7132	7.425	7.871	9.156	1.516	361.40
June	1.166	138.05	1.580	0.7022	7.425	8.162	9.118	1.541	346.00
July	1.137	134.99	1.569	0.7004	7.433	8.289	9.186	1.548	354.75
Aug.	1.114	132.38	1.557	0.6992	7.432	8.256	9.238	1.540	375.60
Sept.	1.122	128.94	1.533	0.6969	7.427	8.195	9.068	1.547	388.00
Oct.	1.169	128.12	1.549	0.6976	7.430	8.227	9.010	1.548	386.25
Nov.	1.170	127.84	1.536	0.6928	7.437	8.197	8.994	1.559	398.35
Dec.	1.229	132.43	1.613	0.7020	7.442	8.242	9.023	1.554	417.25
2003 - Jan.	1.261	134.13	1.635	0.6921	7.448	8.593	9.137	1.566	399.75
Feb.	1.265	134.78	1.682	0.6769	7.451	8.775	9.176	1.573	395.85

Table a8

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1998	108.7	79.7	94.7	96.6	105.4	123.2	97.9	97.8
1999	107.1	90.4	91.2	94.3	102.5	122.6	97.8	95.4
2000	113.4	95.5	84.9	89.8	99.4	121.2	97.4	90.3
2001	119.6	84.7	87.6	90.4	100.9	118.0	95.0	93.1
2002	116.1	79.6	89.1	91.9	103.2	120.0	95.2	97.6
2003	111.2	77.3	94.7	95.8	108.5	115.5	99.2	97.4
2001 - Q4	117.0	84.1	88.1	90.9	101.5	119.8	94.8	96.6
2002 - Q1	118.6	79.0	88.3	90.6	101.5	120.7	95.6	96.1
Q2	117.0	79.5	88.6	91.2	102.2	119.0	96.1	97.1
Q3	113.7	81.5	89.5	92.8	104.2	120.0	94.9	98.6
Q4	115.1	78.4	90.0	93.0	105.0	120.5	94.3	98.5
2003 - Q1	115.0	76.9	92.6	94.5	106.8	116.3	94.8	99.0
Q2	111.1	75.9	95.3	96.2	108.9	114.5	99.0	98.2
Q3	111.6	76.4	95.1	96.0	108.7	114.7	100.2	96.0
Q4	107.0	80.1	95.7	96.6	109.4	116.6	102.9	96.3
2002 - Dec.	114.0	78.0	90.5	93.5	105.5	120.1	94.5	98.9
2003 - Jan.	113.2	78.0	92.4	94.3	106.5	118.4	94.2	99.4
Feb.	114.4	76.5	92.8	94.7	106.9	116.3	95.3	98.9
Mar.	117.3	76.3	92.7	94.7	107.0	114.4	95.0	98.7
Apr.	113.4	76.5	93.8	95.1	107.6	114.7	97.0	98.2
May	109.4	76.3	95.9	96.8	109.6	113.3	99.8	98.9
June	110.4	74.8	96.1	96.9	109.6	115.5	100.1	97.5
July	111.3	75.4	95.6	96.4	109.1	115.0	99.9	96.3
Aug.	112.6	75.9	94.9	95.9	108.7	114.5	99.3	96.2
Sept.	111.1	77.9	94.8	95.6	108.4	114.7	101.3	95.6
Oct.	108.1	80.1	95.4	96.2	109.1	115.8	102.7	96.2
Nov.	107.2	80.3	95.3	96.3	109.0	116.7	103.4	95.6
Dec.	105.7	79.7	96.6	97.3	110.2	117.2	102.7	97.1

(1) Based on the producer prices of manufactures. 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					
1993	- 0.9	-10.9	- 2.7	- 6.7	-14.9	-10.9	- 3.7	- 3.8	9.0
1994	2.2	8.1	3.2	- 6.3	6.7	0.1	1.5	3.4	9.8
1995	2.9	9.7	4.1	0.9	10.6	6.0	1.7	- 0.8	12.6
1996	1.1	- 0.3	0.8	3.6	3.7	3.6	1.2	- 2.8	0.6
1997	2.0	10.1	3.5	- 2.0	5.5	2.1	3.2	1.7	6.4
1998	1.8	8.9	3.2	- 0.2	7.2	4.0	3.2	2.0	3.4
1999	1.7	5.6	2.5	2.6	6.8	5.0	2.6	3.1	0.1
2000	3.0	7.1	3.9	5.9	7.7	6.9	2.7	- 4.2	9.7
2001	1.8	0.5	1.5	3.0	1.1	1.9	0.8	3.2	1.6
2002	0.4	- 0.2	0.2	3.3	- 0.3	1.2	0.5	4.5	- 3.4
2003	0.3	- 0.6	0.1	1.8	- 4.9	- 2.1	1.3	4.7	- 3.9
				Implicit prices					
1993	3.9	14.8	5.8	3.2	4.9	4.1	5.5	4.5	10.4
1994	3.5	4.8	3.6	3.5	3.1	3.2	5.0	1.0	3.3
1995	5.0	11.1	6.1	2.5	5.3	3.9	6.0	4.8	8.8
1996	5.3	- 2.9	3.8	2.5	2.9	2.7	4.4	6.9	1.0
1997	2.4	1.4	2.1	2.6	1.3	1.9	2.2	4.8	0.3
1998	2.7	- 1.3	1.8	1.7	1.9	1.8	2.1	2.2	1.0
1999	1.6	0.2	1.2	1.5	0.9	1.1	2.2	- 0.1	..
2000	2.2	14.2	4.5	3.2	2.1	2.5	2.9	10.0	6.3
2001	2.6	2.6	2.6	2.6	2.0	2.3	2.8	1.7	3.2
2002	3.0	0.1	2.5	3.7	1.4	2.4	3.1	0.9	1.8
2003	2.9	- 0.8	2.2	3.3	0.7	1.9	2.5	2.4	1.0

Table a10

Industrial production and ISAE business opinion indicators

(seasonally adjusted data)

	Industrial production					ISAE business opinion indicators				
						Level of orders				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	domestic	foreign	total	Expected demand in 3-4 month	Stocks of finished goods vis-à-vis normal
	(indices, 2000=100)					*(average balance of monthly responses; percentage points)*				
1997	95.1	94.7	96.8	95.0	93.0	-14.8	-6.0	-8.5	20.5	-3.1
1998	96.8	96.9	97.0	97.2	95.6	-15.7	-8.2	-11.3	15.6	0.3
1999	97.0	98.7	97.3	95.1	97.3	-17.3	-16.1	-14.8	19.8	-1.3
2000	100.0	100.0	100.0	100.0	100.0	5.1	6.5	8.6	28.4	-7.6
2001	99.2	100.5	99.0	98.2	99.6	-15.1	-13.3	-13.9	16.0	1.8
2002	97.8	98.3	97.7	95.5	103.8	-15.4	-17.5	-14.8	19.7	-2.4
2003	97.0	97.2	95.3	94.3	108.1	-18.6	-21.4	-18.4	18.3	-2.8
1996 – Q1	93.6	92.0	96.6	93.6	92.9	-24.6	-8.4	-18.0	10.1	5.0
Q2	91.5	91.1	94.5	91.3	86.6	-31.0	-19.6	-24.1	6.4	6.0
Q3	91.5	91.9	93.3	90.7	87.8	-31.0	-19.4	-23.0	6.7	5.7
Q4	90.8	92.6	91.4	89.1	89.8	-30.2	-20.2	-26.3	8.9	-2.0
1997 – Q1	92.1	93.2	93.2	90.2	90.9	-21.1	-14.7	-16.3	15.5	-5.0
Q2	95.1	94.8	97.8	95.6	93.1	-14.5	-7.3	-12.1	16.1	0.0
Q3	96.5	96.1	98.1	96.7	93.3	-12.7	-2.1	-3.3	23.7	-4.3
Q4	97.6	95.7	99.5	98.7	95.1	-10.7	0.1	-2.3	26.7	-3.0
1998 – Q1	96.9	95.1	97.8	98.9	94.7	-7.6	-0.4	-2.3	25.3	-1.7
Q2	97.3	97.1	97.8	98.6	94.6	-14.6	-3.3	-8.1	16.8	1.7
Q3	96.7	97.0	97.3	96.2	95.6	-18.2	-9.7	-14.0	10.1	0.0
Q4	95.6	96.8	93.4	94.3	97.1	-22.4	-19.2	-20.9	10.2	1.3
1999 – Q1	95.2	97.0	96.0	93.1	97.8	-28.6	-28.1	-27.3	10.3	1.7
Q2	95.1	96.4	95.9	93.9	95.1	-23.5	-21.6	-21.1	14.8	-1.0
Q3	97.1	99.7	96.7	94.6	97.6	-12.3	-10.7	-10.3	24.7	-0.7
Q4	98.4	99.5	98.3	97.3	98.2	-4.7	-3.9	-0.6	29.5	-5.3
2000 – Q1	98.6	98.0	99.2	98.5	99.7	4.4	6.9	7.4	30.2	-9.3
Q2	100.4	100.6	101.1	100.2	100.6	7.2	7.0	10.6	29.3	-7.3
Q3	100.5	100.3	100.8	100.3	100.6	6.9	7.3	10.7	29.9	-7.3
Q4	102.1	103.4	101.1	102.5	99.3	2.1	4.8	5.7	24.1	-6.3
2001 – Q1	101.6	104.3	102.4	100.8	97.5	-7.3	-2.1	-5.3	20.4	0.3
Q2	100.1	100.9	99.8	99.4	98.5	-12.1	-10.0	-10.1	22.2	4.7
Q3	98.6	99.2	98.0	97.9	99.3	-16.9	-17.1	-15.7	14.0	0.3
Q4	97.0	97.9	96.0	94.8	103.0	-23.8	-24.2	-24.6	7.2	2.0
2002 – Q1	97.7	99.3	97.1	95.1	103.4	-17.4	-21.4	-16.0	20.7	1.3
Q2	98.1	98.9	97.8	95.6	104.5	-13.4	-14.6	-11.8	23.7	-1.3
Q3	98.3	97.5	98.1	96.3	105.3	-16.8	-17.4	-16.3	18.8	-4.3
Q4	97.7	98.0	97.9	95.5	102.5	-13.9	-16.6	-15.3	15.8	-5.3
2003 – Q1	97.4	97.4	95.5	95.6	107.7	-15.2	-19.7	-16.0	16.6	-4.0
Q2	96.6	96.7	94.6	94.1	107.6	-21.7	-24.6	-22.8	18.6	-1.0
Q3	98.0	98.5	96.5	94.8	109.6	-20.1	-24.4	-19.3	17.9	-4.3
Q4	97.8	98.3	97.1	94.2	108.8	-17.3	-16.9	-15.6	19.9	-1.7

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				
1999	1,134	5,175	1,575	12,807	20,692	2,669	23,361	11.4	59.3
2000	1,120	5,149	1,618	13,193	21,080	2,495	23,575	10.6	59.9
2001	1,126	5,133	1,707	13,548	21,514	2,267	23,781	9.5	60.4
2002	1,096	5,184	1,748	13,802	21,829	2,163	23,993	9.0	61.0
2003	1,075	5,210	1,809	13,960	22,054	2,096	24,150	8.7	61.4
1998 - Q1	1,198	5,148	1,529	12,276	20,151	2,717	22,868	11.9	57.8
Q2	1,175	5,140	1,522	12,521	20,357	2,807	23,165	12.1	58.8
Q3	1,219	5,210	1,556	12,654	20,638	2,666	23,304	11.4	59.1
Q4	1,213	5,247	1,569	12,566	20,595	2,787	23,382	11.9	59.3
1999 - Q1	1,095	5,173	1,516	12,611	20,395	2,752	23,147	11.9	58.8
Q2	1,118	5,109	1,566	12,825	20,618	2,729	23,347	11.7	59.3
Q3	1,165	5,197	1,608	12,923	20,893	2,597	23,490	11.1	59.6
Q4	1,160	5,221	1,611	12,869	20,861	2,600	23,460	11.1	59.6
2000 - Q1	1,084	5,088	1,573	12,872	20,617	2,647	23,264	11.4	59.1
Q2	1,095	5,057	1,596	13,182	20,930	2,545	23,475	10.8	59.7
Q3	1,137	5,215	1,642	13,328	21,322	2,404	23,726	10.1	60.3
Q4	1,164	5,235	1,662	13,390	21,450	2,383	23,833	10.0	60.5
2001 - Q1	1,098	5,164	1,659	13,351	21,273	2,379	23,652	10.1	60.1
Q2	1,113	5,093	1,690	13,477	21,373	2,271	23,644	9.6	60.1
Q3	1,144	5,131	1,740	13,697	21,713	2,193	23,906	9.2	60.7
Q4	1,149	5,145	1,740	13,664	21,698	2,225	23,923	9.3	60.8
2002 - Q1	1,062	5,144	1,709	13,729	21,644	2,198	23,842	9.2	60.5
Q2	1,072	5,160	1,714	13,811	21,757	2,209	23,966	9.2	60.9
Q3	1,128	5,216	1,779	13,861	21,984	2,094	24,078	8.7	61.2
Q4	1,122	5,216	1,789	13,806	21,932	2,152	24,084	8.9	61.2
2003 - Q1	1,038	5,155	1,782	13,848	21,824	2,187	24,011	9.1	61.0
Q2	1,040	5,181	1,826	14,010	22,057	2,147	24,205	8.9	61.5
Q3	1,094	5,241	1,826	14,054	22,215	1,999	24,213	8.3	61.6
Q4	1,129	5,261	1,802	13,929	22,121	2,052	24,173	8.5	61.4

Table a12

National consumer price indices: Italy

(percentage changes on year-earlier period)

	For the entire resident population (1) – Goods and services with unregulated prices (4) – Non-food and non-energy products	Services	Food products – Processed	Food products – Un-processed	Food products – Total	Energy products	Total	Goods and services with regulated prices (4) – Energy products	Non-energy products (5)	Total	Rents	Overall index (6)	Total net of food and energy products and those with regulated prices	WEH (2) – Overall index (6)
Weights (3)	*31.9*	*30.3*	*9.8*	*6.9*	*16.7*	*3.1*	*82.0*	*2.9*	*12.0*	*14.9*	*3.1*	*100.0*	*62.2*	*100.0*
2000	1.5	2.8	1.2	2.0	1.6	13.2	2.5	9.8	1.2	3.0	2.5	2.6	2.1	2.5
2001	2.0	3.2	2.4	6.4	4.0	-2.0	2.7	5.8	3.1	3.7	2.3	2.8	2.6	2.7
2002	2.2	3.9	2.4	5.3	3.6	-1.9	2.9	-3.4	1.3	0.3	2.3	2.5	3.0	2.4
2003	1.9	3.5	2.4	4.2	3.2	2.3	2.8	4.1	1.6	2.1	2.8	2.6	2.7	2.4
2001 - Jan. ..	1.9	2.8	1.7	4.9	3.0	5.6	2.6	13.1	3.1	5.2	2.4	3.0	2.3	3.1
Feb. ..	2.0	2.8	1.8	5.8	3.5	3.4	2.6	13.3	3.1	5.3	2.4	3.0	2.3	3.0
Mar. ..	2.0	2.8	1.9	5.8	3.5	0.2	2.5	11.6	3.2	5.0	2.4	2.9	2.4	2.8
Apr. ...	2.1	3.2	2.2	5.5	3.6	2.2	2.8	11.8	3.6	5.4	2.2	3.2	2.6	3.1
May ..	2.1	3.2	2.3	6.1	3.9	3.6	2.9	6.1	3.5	4.0	2.2	3.1	2.6	3.0
June .	2.0	3.2	2.4	7.0	4.3	1.8	2.9	6.0	3.4	4.0	2.2	3.0	2.5	2.9
July ..	2.0	3.4	2.5	7.6	4.6	-1.7	2.9	3.0	3.1	3.1	2.2	2.9	2.6	2.7
Aug. ..	2.0	3.4	2.6	7.4	4.6	-3.2	2.8	2.9	2.9	2.9	2.2	2.8	2.7	2.7
Sept. .	2.1	3.4	2.7	6.9	4.4	-6.4	2.7	1.0	2.9	2.5	2.2	2.6	2.8	2.6
Oct. ..	2.1	3.5	2.7	6.9	4.4	-7.9	2.6	1.5	2.9	2.6	2.2	2.6	2.7	2.6
Nov. ..	1.9	3.5	2.8	6.7	4.4	-9.9	2.4	0.4	2.9	2.3	2.2	2.4	2.7	2.3
Dec. ..	1.9	3.7	2.8	6.3	4.2	-9.8	2.5	0.5	2.5	2.0	2.2	2.4	2.8	2.3
2002 - Jan. ..	2.0	3.7	2.8	7.7	4.8	-6.5	2.8	-4.0	1.8	0.6	2.1	2.5	2.8	2.3
Feb. ..	2.2	3.8	2.6	6.5	4.2	-5.4	2.9	-4.3	1.6	0.4	2.1	2.5	3.0	2.3
Mar. ..	2.2	3.8	2.6	6.2	4.1	-4.5	2.9	-5.4	1.8	0.3	2.1	2.5	3.0	2.4
Apr. ...	2.1	3.7	2.4	6.8	4.2	-1.6	2.9	-6.4	1.3	-0.4	2.4	2.4	2.8	2.4
May ..	2.1	3.8	2.4	6.1	3.9	-3.5	2.8	-4.3	0.5	-0.5	2.4	2.3	2.9	2.3
June .	2.1	3.9	2.4	4.5	3.3	-5.1	2.6	-4.3	0.8	-0.2	2.4	2.2	2.9	2.3
July ..	2.2	4.0	2.3	3.7	2.9	-3.4	2.7	-1.9	0.9	0.4	2.1	2.3	3.0	2.3
Aug. ..	2.2	4.2	2.3	3.8	2.9	-1.4	2.9	-1.8	1.2	0.6	2.1	2.5	3.1	2.5
Sept. .	2.3	4.1	2.3	4.4	3.2	-0.5	3.0	-1.5	1.3	0.8	2.1	2.6	3.1	2.6
Oct. ..	2.2	4.0	2.3	4.6	3.2	2.3	3.1	-1.4	1.3	0.8	2.5	2.7	3.1	2.6
Nov. ..	2.3	4.2	2.2	4.8	3.3	3.5	3.2	-2.8	1.2	0.4	2.5	2.8	3.2	2.7
Dec. ..	2.2	4.0	2.2	4.8	3.3	4.3	3.2	-2.9	1.9	0.9	2.5	2.8	3.1	2.7
2003 - Jan. ..	2.2	3.8	2.1	3.1	2.5	7.2	3.0	1.5	1.3	1.3	2.7	2.7	3.0	2.7
Feb. ..	2.0	3.6	2.2	2.6	2.4	8.4	2.9	2.0	0.5	0.8	2.7	2.5	2.8	2.5
Mar. ..	2.0	3.7	2.3	2.8	2.5	9.5	3.0	3.2	0.5	1.0	2.7	2.6	2.8	2.6
Apr. ...	2.1	3.7	2.3	2.1	2.2	3.2	2.7	6.0	1.7	2.5	2.8	2.6	2.8	2.5
May ..	2.0	3.6	2.3	2.4	2.4	-0.4	2.6	6.3	2.6	3.3	2.8	2.6	2.8	2.4
June .	2.0	3.6	2.4	3.9	3.0	-1.3	2.7	6.4	2.1	2.9	2.8	2.7	2.8	2.3
July ..	1.9	3.6	2.4	4.6	3.3	-0.2	2.7	4.5	1.9	2.4	2.9	2.7	2.7	2.5
Aug. ..	1.9	3.7	2.4	5.2	3.6	1.3	2.9	4.5	1.8	2.3	2.9	2.8	2.7	2.5
Sept. .	1.8	3.4	2.4	6.0	3.9	1.8	2.8	4.4	1.8	2.3	2.9	2.8	2.6	2.5
Oct. ..	1.6	3.4	2.6	6.3	4.2	-1.1	2.7	3.7	1.7	2.1	2.7	2.6	2.5	2.4
Nov. ..	1.4	3.3	2.7	6.1	4.1	-0.3	2.6	3.7	1.9	2.2	2.7	2.6	2.3	2.4
Dec. ..	1.4	3.2	2.8	5.4	3.9	0.3	2.5	3.7	1.9	2.3	2.7	2.5	2.3	2.3
2003 - Jan. ..	1.4	3.2	2.8	5.4	3.9	0.3	2.5	3.7	1.9	2.3	2.7	2.5	2.3	2.3

Source: Based on Istat data.

(1) Indices, 1995=100. – (2) Consumer price index for worker and employee households, excluding tobacco products; indices, 1995=100. – (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 2004. – (4) The calculation of the sub-indices is based on the disaggregation into 208 elementary items. – (5) Includes medicines, for which the reference is to the aggregate calculated by Istat; around one third of this aggregate consists of products in the so-called "C" band, the prices of which are not regulated. – (6) 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) (2)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products			Energy products	Total net of unprocessed food and energy products	Total
				Processed	Unprocessed				
Weights	*34.3*	*40.1*	*74.4*	*11.4*	*8.4*	*19.8*	*5.8*	*85.7*	*100.0*
2000	1.7	2.3	2.0	1.3	1.8	1.5	11.6	1.9	2.6
2001	1.8	2.9	2.4	2.5	5.8	3.9	1.6	2.4	2.7
2002	1.4	3.4	2.9	2.2	4.9	3.4	-2.6	2.8	2.6
2003	1.9	3.2	2.6	3.4	3.9	3.6	3.2	2.7	2.8
2001 – Jan.	1.8	2.5	2.2	1.5	4.3	2.7	9.2	2.1	2.7
Feb.	1.8	2.4	2.1	1.6	5.2	3.1	8.0	2.0	2.7
Mar.	1.9	2.5	2.2	1.6	5.1	3.1	5.4	2.1	2.6
Apr.	2.0	3.0	2.5	2.5	4.9	3.5	6.7	2.5	3.0
May	1.9	3.0	2.5	2.6	5.5	3.8	4.8	2.5	2.9
June	1.8	2.9	2.4	2.7	6.2	4.2	3.7	2.4	2.9
July	1.8	3.1	2.5	2.8	6.8	4.5	0.5	2.5	2.8
Aug.	1.8	3.1	2.5	2.9	6.7	4.5	-0.3	2.5	2.8
Sept.	1.9	3.2	2.6	2.9	6.3	4.4	-3.0	2.6	2.6
Oct.	1.8	3.2	2.5	2.9	6.3	4.3	-3.5	2.6	2.5
Nov.	1.7	3.2	2.5	2.9	6.2	4.3	-5.1	2.5	2.3
Dec.	1.7	3.4	2.5	3.0	5.8	4.2	-5.0	2.6	2.3
2002 – Jan.	1.6	3.3	2.5	2.9	7.1	4.7	-5.3	2.5	2.3
Feb.	2.7	3.3	3.0	2.8	5.9	4.1	-4.9	2.9	2.7
Mar.	2.5	3.3	2.9	2.7	5.6	4.0	-4.9	2.9	2.5
Apr.	2.5	3.1	2.8	1.8	6.2	3.7	-4.0	2.7	2.5
May	2.3	3.3	2.8	1.8	5.7	3.4	-3.9	2.7	2.4
June	2.3	3.4	2.8	2.0	4.3	3.0	-4.7	2.7	2.2
July	2.2	3.4	2.8	2.0	3.6	2.7	-2.7	2.7	2.4
Aug.	2.3	3.6	2.9	2.2	3.6	2.8	-1.6	2.8	2.6
Sept.	2.7	3.6	3.1	2.2	4.1	3.0	-1.0	3.0	2.8
Oct.	2.4	3.5	3.0	2.2	4.3	3.1	0.5	2.9	2.8
Nov.	2.6	3.6	3.1	2.1	4.4	3.1	0.4	3.0	2.9
Dec.	2.7	3.5	3.1	2.3	4.3	3.1	0.7	3.0	3.0
2003 – Jan.	1.8	3.5	2.7	2.3	2.8	2.5	4.4	2.7	2.9
Feb.	1.1	3.4	2.4	2.3	2.5	2.4	5.3	2.4	2.6
Mar.	2.0	3.5	2.8	2.5	2.6	2.5	6.4	2.8	2.9
Apr.	2.0	3.4	2.8	3.9	2.0	3.0	4.5	2.9	3.0
May	2.2	3.3	2.8	3.8	2.3	3.2	2.8	2.9	2.9
June	2.2	3.3	2.8	3.6	3.6	3.6	2.3	2.9	2.9
July	1.8	3.2	2.6	3.6	4.3	3.9	2.1	2.7	2.9
Aug.	1.5	3.3	2.5	3.5	4.8	4.1	2.8	2.6	2.7
Sept.	1.7	3.1	2.4	3.5	5.6	4.4	3.0	2.6	3.0
Oct.	2.0	2.8	2.4	3.7	5.9	4.6	1.1	2.6	2.8
Nov.	1.9	2.7	2.3	3.9	5.7	4.7	1.6	2.5	2.8
Dec.	1.8	2.6	2.2	4.0	5.0	4.4	1.9	2.4	2.5
2004 – Jan.	1.0	2.4	1.8	3.9	5.1	4.4	-0.1	2.1	2.2

Source: Eurostat.
(1) Indices, 1996=100. See the notes to the statistical tables. Chain index. The weights are updated every year on the basis of households' estimated final consumption in the preceding year. The weights shown in the table are those for January 2004. – (2) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables.

Table a14

Harmonized index of consumer prices: euro area (1)

(percentage changes on year-earlier period) (2)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products			Energy products	Total net of unprocessed food and energy products	Total
				Processed	Unprocessed				
Weights	*31.5*	*41.3*	*72.3*	*11.8*	*7.7*	*19.5*	*8.1*	*84.2*	*100.0*
2000	0.5	1.5	1.0	1.2	1.8	1.4	13.0	1.0	2.1
2001	0.9	2.5	1.8	2.9	7.0	4.5	2.2	1.9	2.3
2002	1.5	3.1	2.4	3.1	3.1	3.1	-0.6	2.5	2.3
2003	0.8	2.5	1.8	3.3	2.2	2.8	3.0	2.0	2.1
2001 – Jan.	0.2	1.9	1.2	1.6	4.5	2.8	7.2	1.2	2.0
Feb.	-0.2	2.1	1.0	2.0	4.6	3.0	7.5	1.2	1.9
Mar.	0.6	2.1	1.4	2.2	6.6	3.9	4.8	1.5	2.2
Apr.	1.1	2.3	1.7	2.5	7.1	4.3	7.2	1.9	2.7
May	1.3	2.5	1.9	2.7	8.9	5.1	7.9	2.0	3.1
June	1.2	2.5	1.9	3.0	8.8	5.3	4.9	2.1	2.8
July	0.8	2.5	1.8	3.2	8.5	5.3	2.4	2.0	2.5
Aug.	0.5	2.6	1.7	3.3	7.5	5.0	1.5	1.9	2.4
Sept.	1.0	2.7	1.9	3.4	7.5	5.0	-1.7	2.1	2.2
Oct.	1.4	2.8	2.2	3.5	7.5	5.1	-3.0	2.4	2.2
Nov.	1.5	2.9	2.2	3.4	6.1	4.5	-5.3	2.4	2.0
Dec.	1.5	2.8	2.2	3.4	6.3	4.5	-4.7	2.4	2.1
2002 – Jan.	1.6	3.0	2.4	3.8	8.4	5.6	-1.9	2.6	2.6
Feb.	1.8	3.0	2.5	3.4	7.1	4.9	-2.9	2.6	2.5
Mar.	1.7	3.2	2.6	3.3	5.6	4.2	-1.5	2.7	2.5
Apr.	1.7	2.9	2.4	3.3	4.2	3.6	-0.5	2.5	2.3
May	1.6	3.3	2.5	3.2	2.1	2.7	-2.8	2.6	2.0
June	1.5	3.2	2.5	3.1	1.2	2.3	-3.6	2.5	1.9
July	1.3	3.2	2.4	3.0	0.9	2.2	-1.6	2.5	2.0
Aug.	1.3	3.3	2.4	3.0	1.4	2.3	-0.3	2.5	2.1
Sept.	1.3	3.2	2.4	2.8	1.7	2.4	-0.2	2.4	2.1
Oct.	1.2	3.1	2.3	2.6	1.7	2.2	2.6	2.3	2.3
Nov.	1.3	3.1	2.3	2.6	1.9	2.3	2.4	2.3	2.3
Dec.	1.2	3.0	2.2	2.7	1.3	2.1	3.8	2.2	2.3
2003 – Jan.	0.6	2.8	1.9	2.8	-0.7	1.4	6.0	2.0	2.1
Feb.	0.7	2.7	1.9	3.2	0.3	2.0	7.7	2.0	2.4
Mar.	0.8	2.6	1.8	3.3	0.7	2.2	7.5	2.0	2.4
Apr.	0.8	2.9	2.0	3.3	0.9	2.3	2.2	2.2	2.1
May	0.9	2.5	1.8	3.3	1.1	2.4	0.6	2.0	1.8
June	0.8	2.5	1.8	3.2	2.5	2.9	1.6	2.0	1.9
July	0.7	2.3	1.6	3.1	2.7	3.0	2.0	1.8	1.9
Aug.	0.6	2.5	1.7	3.0	3.3	3.1	2.7	1.9	2.1
Sept.	0.8	2.5	1.8	3.2	4.2	3.6	1.6	2.0	2.2
Oct.	0.8	2.5	1.7	3.5	3.9	3.7	0.7	2.0	2.0
Nov.	0.7	2.4	1.6	3.9	4.0	4.0	2.2	2.0	2.2
Dec.	0.7	2.3	1.6	3.8	3.2	3.6	1.8	1.9	2.0
2004 – Jan.	0.6	2.5	1.7	3.3	2.9	3.1	-4.0	1.9	1.9

Source: Eurostat.

(1) Weighted average of the harmonized indices of the euro-area countries. The weights shown in the table are those for January 2003. – (2) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables.

Harmonized index of consumer prices: main euro-area countries

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

	ITALY		GERMANY		FRANCE		SPAIN		EURO AREA (2)	
	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products
2000................	2.6	1.9	1.4	0.2	1.8	0.7	3.5	2.5	2.1	1.0
2001................	2.7	2.4	1.9	1.2	1.8	1.5	2.8	2.6	2.3	1.9
2002................	2.6	2.8	1.3	1.5	1.9	2.2	3.6	3.9	2.3	2.5
2003................	2.8	2.7	1.0	0.9	2.2	2.2	3.1	3.0	2.1	2.0
2001 - Jan.	2.7	2.1	1.3	0.3	1.4	1.0	2.9	2.1	2.0	1.2
Feb.	2.7	2.0	1.7	0.6	1.4	1.2	2.7	1.9	1.9	1.2
Mar.	2.6	2.1	1.7	0.8	1.4	1.1	3.0	2.4	2.2	1.5
Apr.	3.0	2.5	2.2	0.8	2.0	1.5	3.6	3.0	2.7	1.9
May	2.9	2.5	2.8	1.2	2.5	1.5	3.8	3.0	3.1	2.0
June	2.9	2.4	2.5	1.3	2.2	1.5	3.8	3.0	2.8	2.1
July	2.8	2.5	2.2	1.4	2.2	1.7	2.4	1.8	2.5	2.0
Aug.	2.8	2.5	2.2	1.5	2.0	1.8	2.1	1.6	2.4	1.9
Sept.	2.6	2.6	1.8	1.5	1.6	1.8	2.3	2.1	2.2	2.1
Oct.	2.5	2.6	1.6	1.5	1.8	1.8	2.5	3.0	2.2	2.4
Nov.	2.3	2.5	1.3	1.6	1.3	1.7	2.5	3.5	2.0	2.4
Dec.	2.3	2.6	1.4	1.6	1.4	1.9	2.5	3.5	2.1	2.4
2002 - Jan.	2.3	2.5	2.2	1.9	2.5	2.2	3.1	3.5	2.6	2.6
Feb.	2.7	2.9	1.8	1.9	2.3	2.1	3.2	3.6	2.5	2.6
Mar.	2.5	2.9	2.0	2.0	2.2	2.2	3.2	3.6	2.5	2.7
Apr.	2.5	2.7	1.5	1.6	2.1	2.1	3.7	4.0	2.3	2.5
May	2.4	2.7	1.1	1.8	1.5	2.2	3.7	4.2	2.0	2.6
June	2.2	2.7	0.8	1.6	1.5	2.2	3.4	4.2	1.9	2.5
July	2.4	2.7	1.0	1.5	1.6	2.3	3.5	4.0	2.0	2.5
Aug.	2.6	2.8	1.1	1.4	1.8	2.3	3.7	4.0	2.1	2.5
Sept.	2.8	3.0	1.0	1.4	1.8	2.2	3.5	3.7	2.1	2.4
Oct.	2.8	2.9	1.3	1.3	1.9	2.1	4.0	3.9	2.3	2.3
Nov.	2.9	3.0	1.1	1.2	2.1	2.3	3.9	3.8	2.3	2.3
Dec.	3.0	3.0	1.1	1.0	2.2	2.2	4.0	3.7	2.3	2.2
2003 - Jan.	2.9	2.7	0.9	0.8	1.9	1.8	3.8	3.3	2.1	2.0
Feb.	2.6	2.4	1.2	0.8	2.5	2.4	3.8	3.4	2.4	2.0
Mar.	2.9	2.8	1.2	0.8	2.6	2.2	3.7	3.3	2.4	2.0
Apr.	3.0	2.9	1.0	1.1	1.9	2.1	3.2	3.4	2.1	2.2
May	2.9	2.9	0.6	0.8	1.8	2.1	2.7	3.1	1.8	2.0
June	2.9	2.9	0.9	0.8	1.9	2.1	2.8	3.0	1.9	2.0
July	2.9	2.7	0.8	0.7	1.9	1.9	2.9	3.0	1.9	1.8
Aug.	2.7	2.6	1.1	0.9	2.0	1.9	3.1	3.0	2.1	1.9
Sept.	3.0	2.6	1.1	1.0	2.3	2.1	3.0	2.9	2.2	2.0
Oct.	2.8	2.6	1.1	1.0	2.3	2.4	2.7	2.8	2.0	2.0
Nov.	2.8	2.5	1.3	0.9	2.5	2.6	2.9	2.7	2.2	2.0
Dec.	2.5	2.4	1.1	0.8	2.4	2.6	2.7	2.7	2.0	1.9
2004 - Jan.	2.2	2.1	1.3	1.3	2.2	2.6	2.3	2.5	1.9	1.9

Source: Eurostat.
(1) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compilance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables. – (2) Weighted average of the harmonized indices of the euro-area countries (including Greece for the period preceding 1 January 2001 as well).

Index of producer prices of manufactures sold in the domestic market: Italy (1)

(percentage changes on year-earlier period)

	Consumer goods (2)		Investment goods	Intermediate goods		Total excluding food and energy products	Overall index
	Non-food products	Food products		Non-energy products	Energy products		
Weights	*17.2*	*13.1*	*17.9*	*34.3*	*17.5*	*69.4*	*100.0*
2000	2.0	1.3	1.1	4.6	24.2	3.3	6.0
2001	2.2	2.8	1.2	1.3	2.7	1.6	1.9
2002	2.5	1.0	1.0	0.4	-4.0	1.1	0.2
2003	1.1	2.8	0.7	1.5	2.5	1.2	1.6
2001 - Jan.	2.4	2.1	1.2	3.9	18.4	3.1	5.4
Feb.	2.5	2.9	1.3	3.5	15.8	2.9	5.0
Mar.	2.6	2.4	1.2	3.2	11.9	2.8	4.2
Apr.	2.5	3.0	1.4	2.5	14.0	2.3	4.3
May	2.4	2.5	1.3	1.8	8.3	1.9	2.9
June	2.4	2.9	1.2	1.3	4.8	1.6	2.4
July	2.3	3.0	1.2	1.0	0.1	1.4	1.3
Aug.	2.1	3.1	1.2	0.7	-0.3	1.1	1.2
Sept.	2.1	3.1	1.2	0.3	-4.1	0.9	0.4
Oct.	2.1	3.1	1.3	-0.2	-8.0	0.7	-0.6
Nov.	1.8	3.0	1.1	-0.7	-10.7	0.3	-1.3
Dec.	1.8	2.2	1.2	-0.9	-10.1	0.2	-1.3
2002 - Jan.	2.8	1.9	1.1	-1.4	-8.6	0.3	-1.2
Feb.	2.8	0.9	1.0	-1.0	-8.2	0.5	-1.1
Mar.	2.8	0.9	1.2	-0.8	-7.3	0.6	-0.8
Apr.	2.3	0.1	1.2	-0.5	-7.1	0.6	-0.8
May	2.1	0.4	1.1	..	-6.2	0.8	-0.5
June	2.6	0.2	1.0	0.3	-6.8	1.1	-0.5
July	2.3	0.6	1.0	0.7	-3.2	1.2	0.4
Aug.	2.6	0.7	1.0	0.9	-2.4	1.3	0.6
Sept.	2.5	1.0	1.0	1.1	-1.5	1.4	0.9
Oct.	2.6	1.5	1.1	1.5	1.2	1.7	1.6
Nov.	2.4	2.0	1.1	1.8	0.6	1.8	1.6
Dec.	2.5	2.1	0.9	1.9	2.8	1.8	2.0
2003 - Jan.	1.7	2.2	0.7	2.3	5.7	1.7	2.5
Feb.	1.5	2.3	0.6	2.6	7.2	1.8	2.8
Mar.	1.5	2.0	0.6	2.5	8.1	1.7	2.8
Apr.	1.6	2.6	0.5	2.4	3.1	1.7	2.0
May	1.5	2.4	0.7	2.0	0.8	1.5	1.6
June	1.2	2.7	0.7	1.3	2.2	1.1	1.5
July	1.1	2.6	0.9	0.8	2.0	0.9	1.3
Aug.	0.8	2.9	0.9	0.4	2.9	0.6	1.4
Sept.	0.8	3.6	0.9	0.6	0.1	0.7	1.0
Oct.	0.4	3.4	0.8	0.8	-1.4	0.7	0.7
Nov.	0.5	3.3	0.8	1.0	1.0	0.8	1.2
Dec.	0.3	2.8	0.9	1.0	-1.4	0.8	0.8
2003 - Jan.	0.1	2.5	1.0	1.0	-3.6	0.7	0.3

Source: Istat.
(1) Classification by economic purpose. The weights shown in the table relate to base 2000=100. See the notes to the statistical tables. – (2) Excluding energy products and motor vehicles; the latter are included under "Investment goods".

Table a17

Index of producer prices of manufactures sold in the domestic market: main euro-area countries

(percentage changes on year-earlier period)

	GERMANY					FRANCE				
	Consumer goods excl. food products (2)	Intermediate goods		Total excl. food and energy products	Overall index	Consumer goods excl. food products (2)	Intermediate goods		Total excl. food and energy products	Overall index
		Non-energy	Energy				Non-energy	Energy		
Weights (1)	*13.5*	*31.2*	*18.1*	*68.0*	*100.0*	*13.5*	*34.3*	*17.5*	*65.2*	*100.0*
2000	0.8	3.6	9.9	1.9	3.3	0.5	4.6	14.6	2.2	4.4
2001	1.6	0.8	9.1	0.9	3.0	0.8	1.5	-2.2	1.2	1.2
2002	0.3	-0.7	-3.7	0.1	-0.6	-0.2	-0.6	-0.7	-0.2	-0.2
2003	-0.2	0.4	7.1	0.2	1.7	0.5	0.4	2.6	0.4	0.9
2002 – Mar.	0.8	-1.7	-1.7	-0.2	-0.3	-0.4	-1.7	-2.1	-0.6	-0.8
Apr.	0.7	-1.4	-4.9	-0.1	-1.1	-0.7	-1.4	-1.4	-0.6	-0.7
May	0.5	-1.3	-5.7	. .	-1.3	-1.0	-1.0	-3.9	-0.5	-1.1
June	-0.1	-0.9	-6.5	. .	-1.3	-0.6	-0.8	-4.6	-0.4	-1.2
July	-0.1	-0.3	-6.1	0.2	-1.1	. .	-0.1	-1.5	0.1	-0.2
Aug.	0.1	-0.2	-5.9	0.2	-1.1	0.2	0.2	0.2	0.2	0.1
Sept.	-0.1	. .	-6.2	0.3	-1.1	0.4	0.1	0.8	0.2	0.4
Oct.	-0.5	0.2	-1.2	0.3	0.1	-0.1	0.1	3.1	0.1	0.7
Nov.	-0.4	0.2	-0.9	0.3	0.2	0.2	0.2	4.0	0.2	0.9
Dec.	-0.2	0.5	0.5	0.5	0.6	0.4	0.3	6.5	0.3	1.3
2003 – Jan.	-0.6	0.9	5.1	0.4	1.5	0.8	0.7	7.9	0.5	1.7
Feb.	-0.3	1.4	6.2	0.5	1.9	0.7	0.9	9.9	0.6	2.2
Mar.	-0.2	1.3	5.7	0.6	1.7	1.0	1.1	8.3	0.7	2.1
Apr.	-0.2	1.0	5.8	0.5	1.7	0.8	1.2	1.7	0.8	1.0
May	-0.3	0.9	5.0	0.4	1.4	1.0	0.8	0.4	0.7	0.7
June	-0.1	0.3	5.8	0.1	1.4	0.7	0.6	1.8	0.6	0.9
July	0.3	-0.1	8.6	. .	1.9	0.6	-0.3	1.7	0.1	0.6
Aug.	-0.1	-0.4	9.8	-0.2	2.0	0.3	-0.6	1.6	-0.1	0.5
Sept.	. .	-0.3	9.0	-0.1	2.0	0.2	-0.3	-0.8	0.1	0.1
Oct.	. .	-0.4	7.9	-0.2	1.7	. .	. .	-0.6	0.1	0.3
Nov.	. .	-0.1	8.5	. .	2.0	-0.2	0.2	1.0	0.2	0.8
Dec.	-0.3	-0.1	8.0	-0.1	1.8	-0.5	0.3	-1.0	0.1	0.4

	SPAIN					EURO AREA (3)				
Weights (1)	*16.8*	*31.6*	*18.0*	*66.7*	*100.0*	*14.0*	*31.7*	*16.8*	*66.8*	*100.0*
2000	1.7	6.8	22.7	4.2	5.4	1.3	5.0	17.2	2.8	5.3
2001	3.0	1.4	-2.0	1.8	1.7	1.7	1.2	2.7	1.2	2.1
2002	1.9	0.2	-1.3	1.1	0.7	0.8	-0.3	-2.0	0.3	-0.1
2003	2.3	0.8	1.3	1.3	1.4	0.6	0.8	4.1	0.6	1.6
2002 – Mar.	1.7	-1.1	-3.4	0.4	-0.1	0.8	-1.4	-3.1	-0.2	-0.6
Apr.	1.7	-0.4	-1.9	0.8	0.5	0.6	-1.1	-3.4	-0.1	-0.6
May	1.6	-0.3	-2.9	0.8	0.5	0.5	-0.8	-4.3	. .	-0.8
June	1.4	0.2	-5.1	1.0	0.2	0.5	-0.5	-5.0	0.1	-0.9
July	1.5	0.6	-4.1	1.2	0.4	0.6	0.1	-3.1	0.4	-0.2
Aug.	2.0	0.9	-1.7	1.4	0.7	0.9	0.3	-2.0	0.5	. .
Sept.	2.0	0.8	-0.3	1.4	1.0	0.9	0.4	-1.5	0.6	0.2
Oct.	1.9	1.1	3.8	1.5	1.7	0.7	0.8	2.2	0.7	1.0
Nov.	2.2	1.4	4.1	1.7	1.7	0.8	1.1	2.3	0.9	1.1
Dec.	2.1	1.9	6.2	1.9	2.0	1.0	1.1	3.8	1.0	1.5
2003 – Jan.	2.3	1.2	7.4	1.5	2.5	0.8	1.4	6.9	0.9	2.2
Feb.	2.5	1.5	8.9	1.7	2.9	0.8	1.7	8.4	1.0	2.6
Mar.	2.7	1.5	9.5	1.7	3.0	0.9	1.7	7.5	1.1	2.4
Apr.	2.5	1.3	1.3	1.5	1.4	0.9	1.5	3.4	1.0	1.7
May	2.2	1.0	-2.3	1.4	0.7	1.8	1.3	1.8	1.1	1.3
June	2.6	0.4	-0.9	1.2	0.9	0.8	0.7	3.2	0.6	1.4
July	2.4	0.1	0.2	1.0	1.1	0.7	0.1	3.7	0.3	1.3
Aug.	2.4	. .	0.1	0.9	1.1	0.4	-0.1	4.5	0.2	1.3
Sept.	2.5	0.3	-2.4	1.1	0.8	0.5	. .	2.3	0.3	1.1
Oct.	2.2	0.7	-3.6	1.2	0.6	. .	0.2	1.7	0.2	0.9
Nov.	2.1	0.9	-0.4	1.3	1.3	-0.2	0.4	3.6	0.3	1.4
Dec.	1.7	0.9	-1.1	1.2	1.1	-0.7	0.4	2.1	0.2	1.1

Source: Based on Eurostat data.

(1) For Germany, base 1995=100; for France, Spain and euro area, base 2000=100. – (2) Excluding energy products. – (3) Weighted average (based on GDP) of data for the 12 euro-area countries. See the notes to the statistical tables.

Table a18

Average unit values in euros 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	-0.1	3.7	1.4	-0.8	2.2	0.5
1998	0.3	-7.2	-2.7	-0.1	2.0	1.0
1999	-2.1	0.8	-1.0	-0.3	-0.2	-0.3
2000	6.4	26.3	14.1	3.6	7.9	5.5
2001	2.9	1.7	2.1	5.0	3.6	4.3
2002	0.7	-2.4	-0.5	1.7	1.9	1.8
2000 – Q1	4.7	28.7	13.7	2.8	5.9	4.1
Q2	6.9	27.0	14.5	3.6	8.4	5.6
Q3	7.2	21.9	13.2	4.5	7.6	5.9
Q4	6.6	27.9	15.1	3.6	9.8	6.2
2001 – Q1	4.9	11.5	7.3	5.0	6.3	5.5
Q2	3.9	7.5	5.1	5.7	5.1	5.4
Q3	1.8	2.4	1.5	4.0	2.9	3.4
Q4	1.1	-12.2	-5.0	5.1	0.3	2.8
2002 – Q1	2.3	-4.8	-0.6	3.7	1.6	2.7
Q2	. .	-3.0	-1.2	0.7	0.5	0.6
Q3	0.9	-3.9	-1.0	. .	0.6	0.1
Q4	-0.3	2.8	1.0	1.8	2.6	2.1
2003 – Q1	2.5	3.7	2.9	2.1	1.6	1.8
Q2	2.2	-4.9	-0.8	1.2	-0.3	0.4
Q3	-0.1	-2.7	-1.3	0.7	0.5	0.6

Source: Based on Istat data.
(1) As of 2002, base 2000=100. See the notes to the statistical tables.

Table a19

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
2000	10,368	1,167	-13,099	-698	-200	-4,044	-4,905	-72	162	3,106	3,624
2001	17,405	18	-11,635	-2,764	-390	-3,763	-5,634	-312	64	1,184	1,748
2002	14,573	-3,657	-15,396	-4,564	-476	-1,068	-5,727	-206	226	-86	1,625
2003	(8,354)	(-1,916)	(-18,898)	....	....	....	....	....	....	....	....
2001 – Q4	7,099	-1,526	-737	-776	-113	-1,987	-2,423	-53	94	196	598
2002 – Q1	2,368	-2,984	-2,138	-546	-85	1,111	415	-8	144	122	661
Q2	3,105	-201	-6,392	-261	-96	-1,670	-2,467	-85	6	-324	352
Q3	6,053	1,293	-3,067	-1,435	-153	-449	-2,021	-36	,,	146	225
Q4	3,046	-1,766	-3,799	-2,322	-142	-60	-1,654	-77	76	-30	387
2003 – Q1	-896	-2,593	-3,213	-1,025	-122	732	-65	-50	45	362	778
Q2	-81	657	-7,124	139	-175	-2,781	-2,912	-5	74	-382	151
Q3	6,079	1,264	-3,377	-118	-252	-2,441	-2,415	-54	22	56	165
Q4	(3,251)	(-1,245)	(-5,184)	....	....	....	....	....	....	....	....
2001 – Dec.	2,094	-752	-753	-414	-36	-1,361	-1,495	-10	88	-84	102
2002 – Jan.	-473	-1,154	-593	-35	-31	248	35	2	105	2	171
Feb.	872	-755	-530	-299	-29	234	13	5	11	14	191
Mar.	1,969	-1,075	-1,015	-213	-25	629	366	-15	28	106	299
Apr.	-78	-879	-1,337	6	-30	-591	-799	-12	1	26	94
May	1,830	-228	-2,785	-82	-34	-606	-860	-29	2	60	99
June	1,353	906	-2,270	-185	-32	-474	-808	-44	2	-410	159
July	3,678	912	-1,080	-396	-42	172	-300	-5	-2	79	99
Aug.	1,596	-332	-731	-570	-72	2	-529	-24	,,	93	93
Sept.	779	712	-1,256	-468	-39	-622	-1,192	-7	2	-25	33
Oct.	2,033	-277	-903	-503	-39	-292	-861	-45	-9	3	131
Nov.	867	-640	-1,023	-771	-39	-24	-571	-13	54	-2	118
Dec.	147	-849	-1,873	-1,048	-63	255	-221	-20	31	-31	138
2002 – Jan.	-1,337	-661	-1,513	-672	-47	323	-41	-15	26	67	188
Feb.	189	-1,048	-541	-219	-37	372	121	-31	13	71	202
Mar.	252	-884	-1,159	-135	-39	37	-145	-3	6	224	388
Apr.	-240	-64	-1,043	20	-37	-826	-896	-21	6	63	66
May	208	457	-2,660	100	-77	-775	-816	-2	44	82	84
June	-49	264	-3,421	19	-61	-1,181	-1,201	18	25	-528	..
July	3,478	1,230	-1,417	-73	-59	-427	-437	-23	44	78	78
Aug.	2,327	-522	-1,377	-99	-99	-583	-569	2	-31	74	74
Sept.	274	556	-582	53	-94	-1,431	-1,409	-32	9	-97	13
Oct.	2,852	197	-1,848	-58	-126	-638	....	-4	17	764	....
Nov.	(496)	(-1,046)	(-1,092)	....	....	....	....	....	....	....	....
Dec.	(-97)	(-397)	(-2.244)	....	....	....	....	....	....	....	....

Balance of payments: financial account

(milioni di euro)

	Direct investment		Portfolio investment		Other Investment		Financial derivatives	Change in reserve assets
	abroad	in Italy	assets	liabilities	assets	liabilities		
2000	-13,368	14,517	-86,340	60,085	987	28,963	2,501	-3,058
2001	-23,995	16,618	-40,070	32,430	3,007	8,709	-477	484
2002	-18,194	15,455	-16,968	33,075	6,257	-5,266	-2,710	-3,111
2003	(-7,007)	(14,849)	(-52,948)	(56,149)	(-26,915)	(40,661)	(-4,880)	(-1,406)
2001 - Q4	-2,100	4,023	-3,006	2,883	11,081	-18,109	-427	105
2002 - Q1	-4,024	3,070	-9,588	-9,160	16,270	3,688	266	557
Q2	-4,351	3,876	-6,185	11,234	1,033	-1,278	-172	190
Q3	-4,674	2,369	-609	19,761	2,440	-15,942	-1,043	-2,091
Q4	-5,145	6,140	-586	11,240	-13,486	8,266	-1,761	-1,767
2003 - Q1	-3,114	3,895	-10,626	14,942	-24,830	30,875	-1,518	-3,786
Q2	-8,676	6,545	-17,490	38,635	-11,091	5,309	-2,121	-589
Q3	4,010	-123	-18,329	11,823	3,161	-2,295	382	-1,021
Q4	(773)	(4,532)	(-6,503)	(-9,251)	(5,845)	(6,772)	(-1,623)	(3,990)
2001 - Dec.	-1,446	1,314	330	3,826	3,079	-7,136	-70	741
2002 - Jan.	-2,381	1,451	-7,072	-5,501	9,247	4,919	53	477
Feb.	-307	181	3,287	-5,783	10,232	-9,120	227	216
Mar.	-1,336	1,438	-5,803	2,124	-3,209	7,889	-14	-136
Apr.	-1,016	2,170	-8,116	3,099	3,603	2,058	198	-58
May	-838	1,063	-5,151	-2,615	8,894	-496	222	665
June	-2,497	643	7,082	10,750	-11,464	-2,840	-592	-417
July	-1,799	1,553	3,600	13,947	-6,791	-13,261	-283	198
Aug.	-2,017	197	-4,158	-1,639	11,243	-3,556	-522	78
Sept.	-858	619	-51	7,453	-2,012	875	-238	-2,367
Oct.	-1,300	852	-142	7,471	-9,536	5,940	-382	-704
Nov.	-1,014	1,511	1,943	2,113	-6,882	3,216	-1,369	224
Dec.	-2,831	3,777	-2,387	1,656	2,932	-890	-10	-1,287
2003 - Jan.	-1,284	1,629	-8,141	5,108	-3,337	13,543	-565	-3,070
Feb.	-189	1,469	-3,534	-955	-15,605	20,736	-879	-239
Mar.	-1,641	797	1,049	10,789	-5,888	-3,404	-74	-477
Apr.	-2,793	1,279	-4,955	18,421	2,468	-11,122	-107	-278
May	-4,189	3,797	-5,071	6,896	-6,837	8,778	-921	664
June	-1,694	1,469	-7,464	13,318	-6,722	7,653	-1,093	-975
July	3,209	-629	-7,761	1,676	3,858	-4,790	1,068	-317
Aug.	2,071	-236	-6,388	-9,231	9,469	4,726	199	-78
Sept.	-1,270	742	-4,180	19,378	-10,166	-2,231	-885	-626
Oct.	3,169	690	-8,858	-6,141	9,416	632	111	683
Nov.	(-963)	(980)	(-1,313)	(2,509)	(-5,453)	(6,210)	(-346)	(302)
Dec.	(-1,433)	(2,862)	(3,668)	(-5,619)	(1,882)	(-70)	(-1,388)	(3,005)

Table a21

Formation of the general government borrowing requirement

(millions of euros)

	Budget			Other central government operations		BR of local gov. and social security institutions after consolida-tion	General government borrowing requirement (GGBR)	Privatiza-tion and other extraordi-nary receipts	Debt settlements	GGBR net of debt settlements and privatization receipts	*Memoran-dum item:*
	Receipts (1)	Payments (-)	Balance		*of which:* Collection account (1)						Unconso-lidated CGBR net of debt settlements and privatization receipts
2000	350,866	387,808	-36,942	17,357	-1,126	-6,206	-25,791	15,450	-4,601	-36,640	-29,821
2001	352,007	426,396	-74,389	27,767	432	-1,792	-48,414	4,329	-10,291	-42,453	-40,216
2002	352,900	407,737	-54,838	17,967	-400	-5,589	-42,460	1,876	-5,929	-38,406	-32,004
2003	382,390	442,696	-60,306	76,745	-75	-52,721	-36,282	16,844	-6,970	-46,155	7,220
2000 - Q1	73,190	81,696	-8,506	-2,973	-671	-1,551	-13,029	22	-3,096	-9,954	-8,494
Q2	70,049	88,282	-18,233	5,923	17,259	-675	-12,984	40	-330	-12,694	-11,527
Q3	88,533	77,471	11,062	-17,333	-14,625	98	-6,174	54	-152	-6,076	-6,075
Q4	119,094	140,359	-21,265	31,739	-3,089	-4,079	6,396	15,335	-1,023	-7,916	-3,725
2001 - Q1	73,661	97,057	-23,396	8,637	1,232	-258	-15,018	4,263	-2,289	-16,992	-16,669
Q2	68,753	83,893	-15,140	2,420	17,737	616	-12,104	57	-3,539	-8,621	-9,462
Q3	97,754	119,170	-21,416	15,656	-18,406	610	-5,151	1	-1,334	-3,818	-3,750
Q4	111,840	126,276	-14,437	1,054	-130	-2,759	-16,142	8	-3,129	-13,021	-10,334
2002 - Q1	63,905	78,188	-14,282	-5,935	-668	-1,842	-22,060	95	-522	-21,633	-19,379
Q2	75,128	85,128	-9,999	1,776	16,644	-770	-8,994	83	-389	-8,687	-7,640
Q3	88,577	107,588	-19,011	3,158	-16,377	566	-15,287	0	-2,363	-12,924	-13,615
Q4	125,289	136,834	-11,545	18,968	1	-3,542	3,881	1,698	-2,655	4,838	8,630
2003 - Q1	68,394	88,903	-20,509	229	-138	-2,311	-22,591	0	-1,078	-21,513	-19,348
Q2	78,859	100,268	-21,409	11,810	15,598	-1,250	-10,848	1	-2,825	-8,024	-6,745
Q3	86,989	94,953	-7,964	-9,392	-14,121	621	-16,734	0	-1,450	-15,285	-16,539
Q4	148,147	158,572	-10,424	74,097	-1,415	-49,781	13,892	16,843	-1,618	-1,334	49,853
2003 - Jan.	24,155	32,696	-8,541	6,731	-101	-842	-2,651	0	-600	-2,051	-1,438
Feb.	21,071	21,823	-751	-3,521	90	-1,485	-5,757	0	-10	-5,747	-4,483
Mar.	23,168	34,384	-11,217	-2,982	-126	16	-14,183	0	-468	-13,715	-13,427
Apr.	19,872	34,181	-14,309	-1,392	715	-182	-15,883	0	-1,950	-13,933	-13,691
May	27,099	32,661	-5,562	1,908	6,004	-224	-3,878	1	-442	-3,436	-3,155
June ...	31,887	33,425	-1,538	11,294	8,879	-844	8,913	0	-433	9,346	10,100
July	41,730	44,757	-3,027	3,306	-14,345	643	922	0	-544	1,465	-18
Aug.	25,281	24,299	982	-7,620	2,662	605	-6,033	0	-436	-5,596	-6,079
Sept. ...	19,978	25,897	-5,919	-5,077	-2,438	-627	-11,623	0	-470	-11,153	-10,442
Oct.	23,388	31,117	-7,729	-4,355	-73	-314	-12,398	59	-612	-11,846	-10,799
Nov.	28,217	35,481	-7,264	7,017	614	-76	-323	2,171	-460	-2,033	-1,300
Dec.	96,542	91,974	4,568	71,435	-1,956	-49,391	26,613	14,613	-546	12,546	61,951

(1) See the notes to the statistical tables.

Table a22

Financing of the general government borrowing requirement

(millions of euros)

	Medium and long-term securities		Short-term securities		PO deposits	Lending by banks		Other		Borrowing requirement
		of which: issued abroad		*of which:* issued abroad		Resident banks	Non-resident banks		*of which:* change in central bank current accounts	
2000	35,699	16,011	-17,830	-237	4,753	-2,799	-3,525	9,494	9,708	25,791
2001	23,249	10,219	11,775	202	16,410	-2,442	-1,300	721	-2,119	48,414
2002	31,812	9,028	-372	-333	11,496	-1,406	-960	1,890	212	42,460
2003	23,519	8,420	6,050	-7	-64,809	-3,726	-1,639	76,887	8,013	36,282
2000 - Q1	21,374	5,224	-4,267	272	1,991	-3,780	-1,591	-698	603	13,029
Q2	19,784	5,705	-484	2,787	235	-129	-487	-5,935	-5,822	12,984
Q3	2,637	4,465	-1,745	-3,008	430	-1,854	-165	6,870	6,934	6,174
Q4	-8,096	616	-11,334	-287	2,097	2,963	-1,282	9,257	7,992	-6,396
2001 - Q1	21,933	5,746	13,507	692	2,408	-1,211	-12	-21,608	-20,548	15,018
Q2	10,322	-1,024	6,072	502	965	-426	-451	-4,378	-5,073	12,104
Q3	-10,554	555	2,487	-330	2,146	-3,050	-190	14,311	14,197	5,151
Q4	1,548	4,941	-10,291	-663	10,891	2,245	-647	12,397	9,305	16,142
2002 - Q1	27,316	7,372	14,864	-222	2,559	606	-46	-23,240	-23,866	22,060
Q2	508	-4,527	8,191	1,392	-401	-1,450	-797	2,942	2,885	8,994
Q3	7,885	2,733	-3,460	99	1,099	-1,909	56	11,616	10,507	15,287
Q4	-3,898	3,450	-19,968	-1,601	8,238	1,347	-172	10,572	10,686	-3,881
2003 - Q1	19,189	8,612	20,465	1,705	2,487	-727	-25	-18,799	-21,965	22,591
Q2	5,071	-1,538	5,778	2,207	863	783	-528	-1,120	-475	10,848
Q3	18,545	-279	-33	-1,209	1,348	-2,739	-31	-356	-1,742	16,734
Q4	-19,286	1,626	-20,160	-2,709	-69,507	-1,044	-1,055	97,161	32,195	-13,892
2003 - Jan.	9,144	3,383	11,560	233	1,479	40	0	-19,570	-20,671	2,651
Feb.	5,326	4,327	2,971	741	819	672	6	-4,036	-4,825	5,757
Mar.	4,720	902	5,935	731	189	-1,439	-31	4,808	3,531	14,183
Apr.	470	-463	5,728	2,601	373	184	-127	9,255	9,063	15,883
May	8,504	845	-305	-815	254	-508	-83	-3,984	-2,934	3,878
June	-3,903	-1,920	355	421	236	1,108	-318	-6,391	-6,604	-8,913
July	52	1,533	-214	-644	247	-2,471	0	1,464	443	-922
Aug.	3,132	-14	-348	-558	1,068	-726	0	2,906	2,737	6,033
Sept.	15,360	-1,798	530	-8	33	458	-31	-4,726	-4,923	11,623
Oct.	-7,102	-217	582	254	966	297	-894	18,549	18,341	12,398
Nov.	7,578	560	565	111	1,472	503	-41	-9,755	-10,206	323
Dec.	-19,763	1,282	-21,307	-3,074	-71,946	-1,843	-120	88,366	24,060	-26,613

Table a23

General government debt

(millions of euros)

	Medium and long-term securities excluding central bank	Short-term securities excluding central bank	PO deposits	Lending by banks	Borrowing from central bank	Other domestic debt	Total	*Memorandum items:* Claims on central bank			
									Treasury payments account	Sinking fund	Unconsolidated central government debt
1999	913,773	119,753	106,466	73,140	59,400	7,016	1,279,548	29,125	29,047	5	1,253,119
2000	946,652	101,846	111,218	66,917	62,493	8,323	1,297,449	19,535	15,126	4,219	1,264,175
2001	966,014	113,699	127,629	63,481	64,326	13,085	1,348,234	23,523	21,287	176	1,312,701
2002...............	993,488	113,145	139,124	61,057	41,181	12,688	1,360,684	21,275	20,618	633	1,318,895
2003	1,001,558	119,382	74,315	55,613	49,281	81,426	1,381,574	13,253	13,215	24	1,286,628
1999 - Mar.	898,021	137,745	97,322	71,614	61,314	2,336	1,268,352	24,026	23,840	112	1,248,753
June.....	922,815	135,553	98,816	72,457	60,315	2,354	1,292,311	21,261	20,733	449	1,269,610
Sept. ...	928,838	130,090	100,898	70,591	61,402	2,346	1,294,165	29,416	28,916	453	1,270,259
Dec.	913,773	119,753	106,466	73,140	59,400	7,016	1,279,548	29,125	29,047	5	1,253,119
2000 - Mar.	934,193	115,486	108,456	67,846	61,995	7,061	1,295,037	28,461	28,407	42	1,267,130
June.....	952,740	114,925	108,692	67,212	62,994	7,037	1,313,599	34,372	32,883	1,388	1,284,525
Sept. ...	958,298	113,180	109,122	65,290	62,934	6,969	1,315,792	27,433	25,290	2,046	1,286,684
Dec.	946,652	101,846	111,218	66,917	62,493	8,323	1,297,449	19,535	15,126	4,219	1,264,175
2001 - Mar.	968,663	115,355	113,626	65,710	61,899	7,220	1,332,472	40,051	28,260	11,632	1,298,851
June.....	979,410	121,504	114,592	64,871	63,331	7,966	1,351,672	45,162	43,004	1,962	1,318,874
Sept. ...	966,999	123,989	116,738	61,616	63,235	7,929	1,340,506	30,819	29,642	1,126	1,307,675
Dec.	966,014	113,699	127,629	63,481	64,326	13,085	1,348,234	23,523	21,287	176	1,312,701
2002 - Mar.	995,771	128,563	130,188	64,044	63,003	11,698	1,393,266	45,385	45,124	205	1,355,481
June.....	993,861	136,757	129,787	61,746	64,013	11,717	1,397,881	42,467	42,239	205	1,359,098
Sept. ...	1,000,306	133,187	130,886	59,899	65,009	12,811	1,402,100	31,956	31,728	209	1,364,002
Dec.	993,488	113,145	139,124	61,057	41,181	12,688	1,360,684	21,275	20,618	633	1,318,895
2004 - Jan.	1,002,082	124,691	140,603	61,077	40,742	13,787	1,382,982	41,946	41,285	638	1,340,620
Feb.	1,007,506	127,662	141,422	61,758	40,603	14,581	1,393,533	46,776	46,110	638	1,349,903
Mar.	1,010,692	133,606	141,611	60,279	40,517	15,831	1,402,537	43,230	42,578	638	1,358,632
Apr.	1,010,541	139,343	141,985	60,315	40,303	16,023	1,408,511	34,167	33,516	638	1,364,388
May	1,016,946	139,039	142,239	59,697	40,645	14,967	1,413,533	37,099	36,468	619	1,369,198
June	1,012,280	139,394	142,475	60,495	41,198	15,161	1,411,002	43,714	43,072	619	1,365,875
July	1,012,956	139,276	142,721	58,028	40,043	16,173	1,409,198	43,261	42,619	629	1,365,544
Aug.	1,016,987	138,946	143,789	57,320	40,446	16,352	1,413,841	40,532	39,882	629	1,370,628
Sept. ...	1,030,790	139,508	143,822	57,733	41,042	16,513	1,429,407	45,439	44,804	629	1,385,557
Oct.	1,023,987	140,130	144,788	57,132	41,001	16,722	1,423,760	27,098	27,063	28	1,378,861
Nov.	1,030,677	140,694	146,261	57,583	41,421	17,159	1,433,796	37,304	35,040	2,258	1,388,201
Dec.	1,001,558	119,382	74,315	55,613	49,281	81,426	1,381,574	13,253	13,215	24	1,286,628

Table a24

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	Date effective	Fixed rate *(fixed rate tenders)*	Minimum bid rate *(variable rate tenders)*	Order issued by the Governor: Date issued	Order issued by the Governor: Date effective	Rate
22.12.1998	1.1.1999	2.00	4.50	7.1.1999	3.00	-	-	-	-
22.12.1998	4.1.1999	2.75	3.25	-	-	-	-	-	-
22.12.1999	22.1.1999	2.00	4.50	-	-	-	23.12.1998	28.12.1998	3.00
8.04.1999	9.4.1999	1.50	3.50	14.4.1999	2.50	-	9.04.1999	14.04.1999	2.50
4.11.1999	5.11.1999	2.00	4.00	10.11.1999	3.00	-	6.11.1999	10.11.1999	3.00
3.2.2000	4.2.2000	2.25	4.25	9.2.2000	3.25	-	4.2.2000	9.2.2000	3.25
16.3.2000	17.3.2000	2.50	4.50	22.3.2000	3.50	-	18.3.2000	22.3.2000	3.50
27.4.2000	28.4.2000	2.75	4.75	4.5.2000	3.75	-	28.4.2000	4.5.2000	3.75
8.6.2000	9.6.2000	3.25	5.25	15.6.2000	4.25	-	10.6.2000	15.6.2000	4.25
8.6.2001	-	-	-	28.6.2000	-	4.25	-	-	-
31.8.2000	1.9.2000	3.50	5.50	6.9.2000	-	4.50	1.9.2000	6.9.2000	4.50
5.10.2000	6.10.2000	3.75	5.75	11.10.2000	-	4.75	6.10.2000	11.10.2000	4.75
10.5.2001	11.5.2001	3.50	5.50	15.5.2001	-	4.50	10.5.2001	15.5.2001	4.50
30.8.2001	31.8.2001	3.25	5.25	5.9.2001	-	4.25	30.8.2001	5.9.2001	4.25
17.9.2001	18.9.2001	2.75	4.75	19.9.2001	-	3.75	17.9.2001	19.9.2001	3.75
8.11.2001	9.11.2001	2.25	4.25	14.11.2001	-	3.25	9.11.2001	14.11.2001	3.25
5.12.2002	6.12.2002	1.75	3.75	11.12.2002	-	2.75	6.12.2002	11.12.2002	2.75
6.3.2003	7.3.2003	1.50	3.50	12.3.2003	-	2.50	7.3.2003	12.3.2003	2.50
5.6.2003	6.6.2003	1.00	3.00	9.6.2003	-	2.00	6.6.2003	9.6.2003	2.00

Table a25

Treasury bill yields and interbank rates (1)

(percentages)

	Gross Treasury bill yields					Interbank rates (2)				
	3-month BOTs	6-month BOTs	12-month BOTs	Other issues	Average	Overnight	1-month	3-month	6-month	12-month
1999	2.77	2.98	3.13	-	3.01	2.74	2.85	2.95	3.04	3.18
2000	4.09	4.52	4.68	4.76	4.53	4.12	4.23	4.39	4.55	4.79
2001	4.13	4.06	4.00	4.01	4.05	4.38	4.33	4.26	4.15	4.05
2002	3.15	3.25	3.37	3.47	3.26	3.27	3.30	3.32	3.35	3.49
2003	2.21	2.17	2.21	2.28	2.19	2.32	2.25	2.33	2.31	2.35
2002 - Jan.	3.21	3.37	3.38	3.52	3.36	3.29	3.35	3.35	3.34	3.51
Feb.	3.16	3.35	3.49	3.45	3.38	3.27	3.33	3.35	3.40	3.60
Mar.	3.23	3.53	3.68	3.70	3.54	3.25	3.34	3.39	3.48	3.80
Apr.	3.24	3.46	3.78	3.54	3.54	3.31	3.32	3.40	3.53	3.88
May	3.29	3.60	3.61	3.42	3.52	3.31	3.36	3.46	3.61	3.95
June	3.37	3.46	3.84	-	3.55	3.34	3.38	3.47	3.58	3.84
July	3.19	3.30	3.62	-	3.38	3.30	3.36	3.41	3.48	3.53
Aug.	2.97	3.26	3.27	-	3.20	3.28	3.33	3.34	3.37	3.45
Sept.	3.14	3.03	3.21	3.21	3.13	3.31	3.31	3.30	3.25	3.20
Oct.	2.97	3.03	2.89	-	2.97	3.29	3.30	3.26	3.17	3.11
Nov.	2.88	2.87	2.87	-	2.87	3.29	3.23	3.11	3.04	2.99
Dec.	-	2.73	2.76	-	2.74	3.06	2.99	2.96	2.95	2.97
2003 - Jan.	2.59	2.61	2.42	2.54	2.54	2.79	2.85	2.84	2.75	2.73
Feb.	2.54	2.33	2.42	2.28	2.39	2.76	2.78	2.69	2.57	2.57
Mar.	2.43	2.37	2.21	2.36	2.33	2.73	2.61	2.54	2.45	2.40
Apr.	2.39	2.40	2.30	2.01	2.33	2.56	2.57	2.53	2.46	2.45
May	2.29	2.10	2.18	-	2.16	2.55	2.51	2.38	2.31	2.24
June	2.00	1.92	1.86	-	1.92	2.21	2.16	2.15	2.08	2.11
July	2.00	1.99	1.95	-	1.98	2.08	2.12	2.13	2.09	2.08
Aug.	1.99	2.08	2.16	-	2.09	2.09	2.12	2.14	2.18	2.27
Sept.	2.06	2.03	2.18	-	2.09	2.03	2.12	2.15	2.16	-
Oct.	2.01	2.10	2.19	-	2.11	2.01	2.09	2.14	2.16	2.32
Nov.	2.02	2.09	2.37	-	2.16	1.97	2.08	2.15	2.25	-
Dec.	-	2.06	2.30	2.20	2.16	2.03	2.15	2.14	2.23	-
2004 - Jan.	1.97	2.00	2.07	-	2.02	2.02	2.07	2.08	2.14	2.17

(1) Before tax; the annual values are obtained as the arithmetic mean of the monthly data. – (2) Weighted monthly average of the rates on transactions concluded on the interbank Deposit Market (MID)..

Table a26

Bank interest rates on euro deposits: outstanding amounts and new business

(percentages)

	Outstanding amounts (1)							New business		
		of which:								
		Overnight deposits		Deposits of households with agreed maturity		Deposits of households redeemable at notice up to 3 months	Repos	Deposits of households with agreed maturity		Repos
			of which: house-holds	up to 2 years	more than 2 years				*of which:* up to 1 year	
2003 – Jan.	1.31	1.02	0.92	2.41	4.04	1.10	2.72	2.09	2.07	2.62
Feb.	1.29	1.02	0.92	2.34	4.05	1.09	2.64	2.04	2.03	2.55
Mar.	1.19	0.91	0.82	2.25	3.98	1.12	2.46	1.89	1.88	2.33
Apr.	1.14	0.89	0.79	2.15	3.89	1.09	2.36	1.80	1.80	2.32
May	1.15	0.91	0.81	2.09	3.87	1.04	2.29	1.80	1.79	2.25
June	0.97	0.74	0.66	2.02	3.82	0.92	2.12	1.60	1.59	1.97
July	0.91	0.69	0.62	1.91	3.79	0.86	1.99	1.49	1.49	1.91
Aug.	0.92	0.70	0.61	1.82	3.77	0.91	1.93	1.50	1.49	1.90
Sept.	0.90	0.70	0.61	1.76	3.74	0.88	1.93	1.50	1.49	1.92
Oct.	0.89	0.69	0.60	1.69	3.69	0.89	1.93	1.51	1.50	1.91
Nov.	0.90	0.70	0.60	1.65	3.67	0.89	1.94	1.51	1.50	1.93
Dec.	0.88	0.71	0.61	1.62	3.67	0.89	1.95	1.49	1.47	1.96
2004 – Jan.	(0.87)	(0.68)	(0.59)	(1.59)	(3.66)	(0.91)	(1.94)	(1.52)	(1.50)	(1.91)

(1) The rate on all outstanding amounts is calculated as the weighted average of the rates on overnight deposits, deposits with agreed maturity, deposits redeemable at notice and repos.

Table a27

Bank interest rates on euro loans to non-financial corporations: new business

(percentages)

	Total	Loans of up to EUR 1 million				Loans of more than EUR 1 million			
			Initial period of rate fixation				Initial period of rate fixation		
			up to 1 year	from 1 to 5 years	more than 5 years		up to 1 year	from 1 to 5 years	more than 5 years
2003 – Jan.	4.26	4.87	4.85	5.26	4.83	3.76	3.65	3.80	4.35
Feb.	4.21	4.82	4.81	5.16	4.72	3.74	3.61	4.07	4.30
Mar.	4.05	4.67	4.63	5.04	5.15	3.57	3.52	3.58	4.51
Apr.	4.00	4.63	4.60	5.03	5.04	3.56	3.53	3.53	3.98
May	3.90	4.60	4.58	4.93	4.98	3.39	3.33	3.34	3.90
June	3.57	4.36	4.32	4.97	4.93	3.09	3.04	3.07	3.89
July	3.59	4.27	4.24	4.75	4.78	3.14	3.06	3.05	3.93
Aug.	3.73	4.30	4.28	4.68	4.60	3.38	3.35	3.39	4.28
Sept.	3.62	4.18	4.16	4.70	4.73	3.22	3.21	3.00	3.90
Oct.	3.53	4.22	4.19	4.75	4.77	3.09	3.14	2.55	3.84
Nov.	3.55	4.20	4.17	4.73	4.81	3.07	3.05	2.65	3.56
Dec.	3.53	4.10	4.06	4.64	4.91	3.18	3.13	3.31	3.83
2004 – Jan.	(3.44)	(4.11)	(4.08)	(4.74)	(4.69)	(2.96)	(2.95)	(2.78)	(3.71)

Table a28

Bank interest rates on euro loans to households: new business

(percentages)

	Loans for house purchases				
		Initial period of rate fixation			
		up to 1 year	from 1 to 5 years	from 5 to 10 years	more than 10 years
2003 – Jan.	4.65	4.34	4.66	5.49	5.03
Feb.	4.49	4.21	4.46	5.49	5.00
Mar.	4.40	4.13	4.35	5.38	5.43
Apr.	4.29	4.01	4.25	5.33	5.49
May	4.20	3.93	4.20	5.11	5.40
June	3.99	3.75	3.87	4.92	5.15
July	3.90	3.64	3.71	4.83	5.13
Aug.	3.97	3.68	3.93	5.09	5.34
Sept.	3.91	3.61	3.82	5.05	5.34
Oct.	3.89	3.61	3.83	5.05	5.29
Nov.	3.88	3.63	3.91	4.81	5.30
Dec.	3.80	3.61	3.73	5.00	5.10
2004 – Jan.	(3.77)	(3.60)	(3.68)	(5.06)	(5.02)

Table a28

	Consumer credit				Loans for other uses			APRC	
	Initial period of rate fixation				Initial period of rate fixation			Loans for house purchases	Consumer credit
		up to 1 year	from 1 to 5 years	more than 5 years	up to 1 year	from 1 to 5 years	more than 5 years		
	9.66	9.78	10.08	8.19	5.10	5.87	5.15	4.96	10.75
	9.49	11.01	9.48	8.02	4.93	5.51	5.21	4.68	10.46
	9.13	9.35	9.30	7.99	4.90	5.52	5.48	4.52	9.99
	9.40	10.57	9.31	7.69	4.85	5.32	5.24	4.44	10.37
	9.40	10.66	9.38	7.51	4.75	5.39	5.31	4.36	10.36
	9.25	10.52	9.21	7.41	4.60	4.96	4.90	4.12	10.13
	9.16	10.38	9.14	7.29	4.52	4.74	4.87	4.04	10.03
	9.51	11.09	9.24	7.50	4.36	4.87	5.00	4.07	10.45
	9.37	10.87	9.16	7.59	4.27	4.93	4.74	4.04	10.27
	9.28	10.90	9.02	7.60	4.67	4.90	4.90	4.00	10.11
	9.08	10.99	8.74	7.34	4.46	4.86	4.85	4.00	9.85
	9.09	10.87	8.65	7.37	4.54	4.88	4.92	3.93	9.86
	(9.33)	(10.55)	(9.23)	(7.77)	(4.64)	(5.10)	(4.90)	(3.87)	(10.18)

Bank interest rates on euro loans: outstanding amounts

(percentages)

	Households							
		Loans for house purchases			Consumer credit and other loans			Overdrafts
			of which:					
			from 1 to 5 years	more than 5 years	up to 1 year (1)	from 1 to 5 years	more than 5 years	
2003 – Jan.	6.61	5.47	5.69	5.46	8.64	7.99	6.05	9.07
Feb.	6.56	5.41	5.67	5.40	8.61	8.04	6.00	9.03
Mar.	6.51	5.38	5.56	5.37	8.55	8.06	5.95	8.96
Apr.	6.43	5.26	5.46	5.26	8.49	8.05	5.86	8.90
May	6.38	5.20	5.42	5.19	8.48	8.06	5.81	8.87
June	6.29	5.09	5.19	5.09	8.37	8.01	5.76	8.79
July	6.11	4.87	4.94	4.86	8.25	7.96	5.59	8.70
Aug.	6.08	4.83	4.92	4.83	8.22	7.99	5.54	8.66
Sept.	6.06	4.81	4.89	4.81	8.20	7.97	5.53	8.65
Oct.	6.00	4.77	4.88	4.76	8.16	7.93	5.49	8.59
Nov.	5.96	4.74	4.85	4.73	8.09	7.91	5.46	8.53
Dec.	5.90	4.68	4.76	4.68	8.04	7.86	5.42	8.44
2004 – Jan.	(5.89)	(4.65)	(4.76)	(4.65)	(8.16)	(7.83)	(5.40)	(8.56)

(1) Includes all overdrafts.

Table a29

	Non-financial corporations				Households and non-financial corporations	
	Loans with original maturity			Overdrafts	up to 1 year	*of which:* overdrafts
	up to 1 year (1)	from 1 to 5 years	more than 5 years			
5.30	5.86	4.64	4.87	6.57	6.30	7.03
5.22	5.73	4.61	4.84	6.47	6.18	6.95
5.15	5.66	4.56	4.76	6.43	6.11	6.90
5.05	5.54	4.55	4.67	6.26	6.01	6.74
5.00	5.52	4.49	4.60	6.19	5.99	6.69
4.84	5.32	4.34	4.45	6.04	5.79	6.55
4.66	5.25	4.06	4.21	5.95	5.71	6.45
4.60	5.16	4.03	4.18	5.88	5.63	6.39
4.56	5.15	3.99	4.15	5.86	5.63	6.38
4.51	5.13	3.94	4.09	5.83	5.61	6.34
4.47	5.07	3.93	4.06	5.73	5.55	6.24
4.45	5.01	3.94	4.05	5.62	5.48	6.12
(4.49)	(5.13)	(3.93)	(4.03)	(5.76)	(5.60)	(6.26)

Banks and money market funds: balance sheet

Table a30

(end-of-period data; millions of euros)

Assets

	Cash	Loans							Holdings of securities other		
		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
2000	7,013	187,708	60,549	862,250	58,760	111	15,770	69,308	43,388	146,097	7,936
2001	8,687	205,076	58,003	922,575	49,945	124	13,771	65,094	42,488	149,149	13,509
2002	9,566	285,834	56,763	979,517	72,827	110	13,544	71,406	48,040	145,094	13,127
2003 - Jan.	6,799	295,597	56,664	990,856	76,355	111	15,521	66,621	49,045	162,335	15,305
Feb.	6,523	293,488	57,429	993,118	84,182	110	13,480	70,935	48,841	165,200	16,133
Mar.	6,974	293,386	56,029	991,116	80,087	110	13,286	71,208	49,018	167,061	16,870
Apr.	7,334	281,386	56,227	994,603	86,632	111	13,997	71,364	49,800	166,355	18,255
May	6,757	290,872	55,721	994,449	78,286	113	14,394	71,085	49,866	169,805	18,300
June ...	6,954	298,717	56,988	1,008,608	74,518	114	12,765	74,757	49,863	169,967	17,969
July	7,203	301,256	54,546	1,012,717	74,665	110	12,406	71,798	49,231	173,553	18,723
Aug. ...	6,956	298,684	53,761	1,013,886	75,300	110	12,678	68,660	49,355	174,778	18,818
Sept. ..	7,201	317,947	54,315	1,016,753	72,461	110	13,268	73,501	49,433	172,741	18,188
Oct.	6,846	312,613	54,471	1,020,681	69,671	109	13,122	75,045	49,578	171,805	18,026
Nov.	6,823	317,064	54,989	1,029,298	70,505	111	12,961	71,405	49,965	177,871	18,892
Dec.	9,488	324,814	53,208	1,048,152	75,248	110	15,671	69,790	56,175	167,100	19,008
2004 - Jan.	(6,779)	(341,163)	(54,514)	(1,037,861)	(72,102)	(110)	(14,694)	(90,770)	(57,805)	(167,863)	(19,339)

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
2000	206,307	6,964	598,170	107,605	34	7,032
2001	192,934	7,214	636,656	109,572	291	5,525
2002	285,275	7,109	689,068	111,654	8	9,279
2003 - Jan.	291,827	7,357	653,855	122,012	808	11,690
Feb.	288,870	7,098	656,853	131,135	8	13,437
Mar.	280,356	8,163	662,488	125,676	8	12,822
Apr.	271,645	8,064	671,151	119,898	13	12,034
May	277,395	7,965	675,037	124,324	70	11,597
June	279,085	8,736	676,715	126,006	25	11,057
July	283,029	7,820	672,798	123,061	1,367	9,477
Aug.	288,719	8,238	668,062	122,780	896	10,419
Sept.	300,704	8,146	672,505	122,596	187	11,050
Oct.	300,295	8,414	678,375	115,077	118	9,386
Nov..........	305,001	8,251	677,135	120,995	10	9,194
Dec.	314,474	7,732	692,781	117,418	17	8,630
2004 - Jan.	(323,453)	(7,670)	(680,964)	(123,942)	(2,220)	(11,154)

Table a30

than shares, at market value				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				
3,705	4,581	5,355	15,392	40,803	26,636	5,947	8,239	7,318	46,283	158,053	1,781,201
4,039	4,671	6,279	13,286	42,957	30,513	6,481	10,393	6,454	48,397	176,266	1,878,155
4,456	5,692	8,333	11,354	42,179	38,105	6,692	11,073	6,818	49,992	185,600	2,066,122
5,767	13,812	9,503	13,563	42,061	38,221	6,636	10,624	7,673	49,568	194,286	2,127,479
6,317	15,606	9,784	14,164	42,831	38,932	6,637	9,865	8,179	49,161	194,591	2,146,132
6,545	14,870	9,563	14,240	43,677	42,093	6,489	9,452	8,526	47,342	203,588	2,152,301
6,622	14,733	9,030	17,047	44,142	46,492	6,712	9,903	8,781	45,306	199,007	2,154,915
6,654	15,405	9,230	16,558	45,263	50,746	6,523	10,119	8,724	45,578	208,491	2,174,067
6,740	16,413	9,521	16,745	43,729	48,856	6,056	10,342	8,069	45,455	208,419	2,192,851
6,691	16,911	9,063	17,341	47,278	42,223	6,290	10,356	8,246	45,632	192,101	2,179,692
6,491	17,308	9,061	18,052	47,112	42,628	6,130	10,586	8,482	45,769	180,347	2,166,334
6,505	16,611	9,341	18,513	47,071	43,786	6,223	10,575	8,093	45,943	193,284	2,203,250
6,533	17,321	9,831	18,499	47,370	45,249	6,147	11,701	9,210	45,610	180,221	2,190,688
7,132	18,617	9,721	18,131	48,309	46,085	5,997	11,698	9,284	45,447	184,279	2,215,847
6,919	17,475	9,490	15,742	50,949	43,419	5,219	12,154	7,635	46,890	189,537	2,245,429
(7,357)	(20,406)	(10,091)	(15,793)	(52,126)	(43,709)	(5,345)	(12,395)	(7,752)	(45,756)	(209,173)	(2,294,224)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
157,710	10,075	302,481	123,930	260,894	1,781,201
171,121	26,164	334,672	133,633	260,372	1,878,155
146,026	41,966	367,969	146,172	261,595	2,066,123
147,039	88,059	367,584	148,099	289,148	2,127,478
150,747	91,214	368,648	147,453	290,667	2,146,132
152,240	95,145	373,336	149,219	292,850	2,152,302
148,648	97,695	374,855	149,092	301,821	2,154,915
146,301	98,700	379,029	149,990	303,658	2,174,067
152,747	98,877	380,512	149,844	309,245	2,192,851
152,107	100,466	380,380	153,240	295,947	2,179,692
158,087	102,608	381,446	153,419	271,661	2,166,334
153,854	100,377	383,934	153,924	295,975	2,203,250
162,004	100,008	386,833	153,794	276,382	2,190,688
160,444	105,895	388,635	153,986	286,299	2,215,846
160,383	107,031	399,080	156,853	281,029	2,245,427
(159,180)	(106,102)	(398,640)	(158,510)	(322,389)	(2,294,225)

Table a31

Banks: deposits and bonds

(end-of-period data; millions of euros)

	Deposits in euros and euro-area currencies					Debt securities in euros and euro-area currencies	
	Overnight	Deposits with agreed maturity		Deposits redeemable at notice	Repos	up to 2 years	over 2 years
		up to 2 years	over 2 years				
1999	377,194	57,548	16,596	61,159	50,033	11,276	255,953
2000	400,004	48,889	11,021	57,107	68,243	12,799	285,320
2001	438,230	44,577	5,818	57,148	76,075	12,481	317,688
2002 - Sept.	436,817	40,465	3,512	59,889	86,955	14,846	344,851
Oct.	438,558	40,006	3,475	59,989	88,908	13,917	346,886
Nov.	440,355	39,074	3,427	59,956	88,493	14,030	347,633
Dec.	479,412	38,914	3,497	61,701	89,165	13,962	350,937
2003 - Jan.	453,484	37,315	3,361	61,272	82,514	13,803	350,783
Feb.	456,701	36,976	3,330	61,659	81,588	13,514	352,128
Mar.	466,700	36,266	3,265	62,026	78,234	13,475	356,886
Apr.	473,357	36,530	3,540	62,282	78,739	13,421	358,513
May	477,896	36,029	3,473	61,988	79,015	13,393	362,891
June	485,683	35,844	3,714	62,151	71,386	13,182	364,608
July	478,960	35,427	3,805	62,566	73,824	12,026	365,584
Aug.	473,587	34,180	3,749	63,381	73,822	12,232	366,241
Sept.	481,675	34,480	3,757	63,455	70,683	11,557	369,524
Oct.	485,867	34,523	3,663	63,459	72,406	11,095	372,861
Nov.	485,610	33,675	3,965	63,363	72,546	10,875	374,992
Dec.	505,730	33,109	3,791	64,814	68,074	11,074	385,320
2004 - Jan.	(498,798)	(32,622)	(3,779)	(64,640)	(63,334)	(11,047)	(384,829)

Banks: loan and securities portfolios

(end-of-period data; millions of euros)

	Loans to residents of Italy						Loans to non-residents of Italy	Bad debts and unpaid and protested bills	*Memorandum item:* Bad debts: estimated realizable value
	Short-term		Medium and long-term		Total				
		of which: in lire/euros		*of which*: in lire/euros		*of which*: in lire/euros			
1999	367,387	345,141	384,004	379,488	751,392	724,630	18,452	60,233	30,759
2000	435,839	409,264	423,112	418,061	858,952	827,325	22,160	51,903	24,551
2001	464,196	439,226	461,569	455,866	925,765	895,092	21,212	45,356	21,216
2002	465,483	449,378	514,770	509,183	980,253	958,561	20,153	46,298	21,160
2003 - Jan.	466,468	451,050	515,480	510,094	981,948	961,144	19,354	46,788	20,633
Feb.	464,956	449,347	521,036	515,646	985,991	964,993	19,839	47,138	19,300
Mar.	458,587	443,352	525,960	520,787	984,547	964,138	18,982	47,130	19,363
Apr.	455,481	441,265	531,095	525,755	986,576	967,020	18,141	47,389	19,744
May	449,718	436,015	539,858	534,904	989,575	970,918	17,866	47,400	19,404
June	460,117	446,074	543,119	538,132	1,003,235	984,206	18,594	47,662	19,805
July	455,533	441,265	550,093	545,107	1,005,626	986,372	19,141	48,145	20,527
Aug.	451,110	436,513	554,311	549,102	1,005,421	985,615	19,220	48,455	20,701
Sept.	446,604	432,860	563,162	557,782	1,009,765	990,642	19,378	48,791	20,897
Oct.	441,595	428,093	570,792	565,400	1,012,387	993,493	19,293	49,273	21,367
Nov.	441,342	428,201	576,008	570,765	1,017,350	998,966	19,578	49,353	21,442
Dec.	457,354	445,065	581,810	576,894	1,039,165	1,021,959	21,657	50,993	22,890

	Securities: book value							
	Italian government securities					Other securities		Total
		of which:					*of which*: bonds issued by banks	
		BOTs and BTEs	CTZs	CCTs	BTPs			
1999	158,869	17,365	9,309	75,148	54,525	37,517	34,640	196,386
2000	127,582	7,846	7,819	66,346	42,600	40,274	36,037	167,856
2001	116,933	12,010	3,459	60,934	38,225	40,827	36,113	157,760
2002	93,746	16,091	4,430	47,676	24,569	47,831	42,195	141,577
2003 - Jan.	94,610	17,320	5,422	46,566	24,315	47,102	41,410	141,712
Feb.	95,323	18,725	4,540	46,366	24,524	47,548	41,594	142,871
Mar.	93,476	20,946	3,233	45,918	22,360	47,378	41,590	140,854
Apr.	95,752	23,159	4,740	44,498	22,302	48,133	42,251	143,885
May	94,442	21,095	4,978	45,716	21,687	48,227	42,413	142,669
June	95,329	21,014	5,085	45,626	22,990	48,033	42,211	143,362
July	96,998	21,705	5,160	44,054	25,436	47,219	41,302	144,217
Aug.	98,204	22,549	5,548	44,718	24,727	47,475	41,447	145,679
Sept.	98,451	23,351	5,034	43,845	25,564	46,847	41,004	145,299
Oct.	95,942	20,542	6,153	45,162	23,434	47,291	41,438	143,232
Nov.	100,028	21,515	6,844	43,229	27,806	47,965	41,823	147,993
Dec.	87,982	18,917	4,625	41,765	22,048	54,746	47,765	142,728

Table a33

Italian investment funds: securities portfolios and net assets

(end-of-period market values; millions of euros)

	Residents							
	Government securities					Bonds	Shares	Total
		of which:						
		BOTs	CTZs	BTPs	CCTs			
2001	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
2002	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2003	141,183	29,324	8,817	62,333	37,925	11,138	16,783	169,104
2001 - Q4	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
2002 - Q1	121,306	16,698	6,045	66,745	28,682	10,064	26,866	158,236
Q2	122,096	17,851	7,507	61,523	32,295	10,160	23,307	155,563
Q3	125,071	16,716	7,784	62,146	35,545	10,101	17,756	152,929
Q4	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2003 - Q1	138,590	22,297	6,175	71,898	35,403	10,825	15,067	164,482
Q2	141,995	25,759	6,260	66,757	40,392	10,681	16,334	169,011
Q3	143,973	26,114	7,598	67,959	39,366	10,927	15,444	170,344
Q4	141,183	29,324	8,817	62,333	37,925	11,138	16,783	169,104
2002 - Dec.	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2003 - Jan.	131,895	18,352	7,233	67,997	35,584	10,217	17,070	159,182
Feb.	134,205	19,998	7,640	69,052	34,758	10,546	16,416	161,167
Mar.	138,590	22,297	6,175	71,898	35,403	10,825	15,067	164,482
Apr.	134,779	19,144	7,135	69,150	36,530	10,970	16,683	162,431
May	141,211	22,999	8,299	68,298	38,832	10,597	17,500	169,308
June	141,995	25,759	6,260	66,757	40,392	10,681	16,334	169,011
July	143,465	27,529	7,761	65,408	39,887	10,803	15,879	170,147
Aug.	144,267	27,444	8,250	65,213	40,320	10,814	15,822	170,904
Sept.	143,973	26,114	7,598	67,959	39,366	10,927	15,444	170,344
Oct.	144,580	30,676	8,206	64,068	38,778	10,897	16,195	171,671
Nov.	141,616	29,644	8,852	62,893	37,553	11,675	17,109	170,400
Dec.	141,183	29,324	8,817	62,333	37,925	11,138	16,783	169,104

Table a33

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum items:*		
	of which: shares				gross subscriptions	net subscriptions	
210,577	102,854	151	369,881	403,689	218,576	-20,365	 2001
158,255	64,552	108	316,333	360,557	190,254	-12,340	 2002
168,358	70,565	138	337,600	379,431	212,664	6,647	 2003
210,577	102,854	151	369,881	403,689	56,304	2,602	.... Q3 - 2001
208,284	104,991	171	366,692	403,645	50,368	-1,065	.... Q1 - 2002
182,171	83,572	144	337,878	376,276	47,031	-7,376	.... Q2
162,545	64,681	111	315,585	387,475	46,198	-2,937	.... Q3
158,255	64,552	108	316,333	360,557	46,657	-963	.... Q4
149,730	54,077	110	314,322	360,275	58,730	5,945	.... Q1 - 2003
161,198	61,398	212	330,421	378,491	61,762	6,998	.... Q2
167,345	65,094	219	337,907	382,384	45,571	1,605	.... Q3
168,358	70,565	138	337,600	379,431	46,603	-7,901	.... Q4
158,255	64,552	108	316,333	360,557	13,599	-116	.... Dec. - 2002
158,472	60,389	109	317,762	359,329	17,613	2,309	.... Jan. - 2003
155,875	59,928	107	317,150	360,343	21,276	1,310	.... Feb.
149,730	54,077	110	314,322	360,275	19,841	2,326	.... Mar.
153,054	57,669	172	315,657	368,945	15,003	2,829	.... Apr.
155,895	58,168	194	325,397	373,710	15,792	2,105	.... May
161,198	61,398	212	330,421	378,491	30,967	2,063	.... June
166,383	65,089	203	336,733	382,887	17,574	3,100	.... July
170,383	68,403	219	341,506	388,165	11,332	2,036	.... Aug.
167,345	65,094	219	337,907	382,384	16,664	-3,531	.... Sept.
170,997	70,028	221	342,889	382,588	16,413	-3,447	.... Oct.
168,019	69,344	179	338,597	378,378	15,940	-3,730	.... Nov.
168,358	70,565	138	337,600	379,431	14,250	-723	.... Dec.

Table a34

Italian investment funds: net purchases of securities
(market values; millions of euros)

	Residents					
	Government securities					Bonds
		of which:				
		BOTs	CTZs	BTPs	CCTs	
2001	-3,404	9,936	-5,841	-8,528	1,124	2,049
2002	6,310	3,036	4,079	-8,608	7,812	644
2003	14,647	12,445	1,777	-4,284	4,506	899
2001 - Q4	4,637	2,667	-694	3,247	-584	1,251
2002 - Q1	-832	2,539	2,252	-8,459	2,604	-14
Q2	990	1,149	1,374	-5,070	3,584	170
Q3	1,730	-1,159	212	-437	3,226	245
Q4	4,421	507	240	5,357	-1,603	244
2003 - Q1	10,500	5,375	-936	4,250	1,669	427
Q2	3,449	3,463	97	-5,289	5,174	-185
Q3	2,761	356	1,393	1,780	-843	328
Q4	-2,063	3,251	1,224	-5,025	-1,495	328
2002 - Dec.	-3,439	3,036	-528	1,688	-1,478	483
2003 - Jan.	3,677	1,445	123	255	1,793	-145
Feb.	2,149	1,624	395	892	-779	299
Mar.	4,674	2,306	-1,455	3,103	656	273
Apr.	-3,633	-3,158	959	-2,613	1,126	144
May	6,066	3,850	1,176	-1,367	2,478	-408
June	1,016	2,770	-2,039	-1,309	1,571	79
July	2,323	1,783	1,559	-716	-346	156
Aug.	1,033	-85	501	50	478	22
Sept.	-594	-1,341	-667	2,446	-975	150
Oct.	1,237	4,561	625	-3,321	-566	-57
Nov.	-2,701	-1,037	651	-969	-1,233	795
Dec.	-599	-273	-52	-736	304	-409

Table a34

		Non-residents				
Shares	Total		*of which:* shares	Other financial assets	Total portfolio	
-5,767	-7,122	-7,562	-12,374	1,613	-13,071	 2001
-4,400	2,554	-15,937	-2,617	1,548	-11,835	 2002
-1,609	13,937	8,016	1,878	30	21,983	 2003
-1,575	4,313	2,451	874	1,284	8,048	.... Q4 - 2001
-457	-1,303	-1,527	1,577	-24	-2,854	.... Q1 - 2002
645	1,805	-4,105	-614	547	-1,753	.... Q2
-3,528	-1,553	-4,759	-1,946	534	-5,778	.... Q3
-1,060	3,605	-5,546	-1,634	491	-1,450	.... Q4
-1,378	9,549	-1,113	-3,545	2	8,438	.... Q1 - 2003
-37	3,227	6,340	2,672	102	9,669	.... Q2
-627	2,462	4,554	1,495	7	7,023	.... Q3
433	-1,302	-1,764	1,256	-81	-3,147	.... Q4
-357	-3,313	-1,162	103	552	-3,923	.... Dec. - 2002
-264	3,268	4,348	-304	1	7,617	.... Jan. - 2003
-914	1,534	-4,090	-1,481	-2	-2,558	.... Feb.
-200	4,747	-1,372	-1,760	3	3,378	.... Mar.
-11	-3,500	-519	-285	62	-3,957	.... Apr.
127	5,785	2,336	369	22	8,143	.... May
-154	941	4,524	2,588	18	5,483	.... June
-495	1,984	3,633	898	-9	5,608	.... July
-21	1,034	459	124	16	1,509	.... Aug.
-110	-554	463	474	,,	-91	.... Sept.
53	1,233	258	645	2	1,493	.... Oct.
549	-1,357	-969	609	-42	-2,368	.... Nov.
-169	-1,177	-1,053	2	-41	-2,271	.... Dec.

Table a35

Portfolio management services (1)

(end-of-period market values; millions of euros)

	Government securities				Bonds		Shares	
		of which:						
		BOTs	BTPs	CCTs	Italian	Foreign	Italian	Foreign
2001 - Q3								
Banks	41,218	1,089	20,971	15,729	4,207	13,074	6,142	2,723
Securities firms	7,715	123	5,310	1,863	775	2,271	1,218	772
Asset management cos.	71,349	1,166	53,003	13,944	29,930	3,716	10,876	2,849
Total ...	**120,282**	**2,378**	**79,284**	**31,536**	**34,912**	**19,061**	**18,236**	**6,344**
2001 - Q4								
Banks	41,295	942	20,795	16,503	3,553	12,538	6,556	3,170
Securities firms	6,546	200	4,188	1,801	717	2,375	1,412	958
Asset management cos.	76,310	1,250	59,429	12,437	29,201	3,124	13,030	3,757
Total ...	**124,151**	**2,392**	**84,412**	**30,741**	**33,471**	**18,037**	**20,998**	**7,885**
2002 - Q1								
Banks	38,791	821	19,294	15,941	3,415	12,232	6,492	4,003
Securities firms	7,468	420	4,186	2,047	717	3,128	1,383	1,238
Asset management cos.	79,758	1,272	59,137	15,863	30,255	3,248	12,859	3,586
Total ...	**126,017**	**2,513**	**82,617**	**33,851**	**34,387**	**18,608**	**20,734**	**8,827**
2002 - Q2								
Banks	39,258	1,477	17,453	17,447	3,126	13,409	4,877	3,462
Securities firms	8,122	583	4,223	2,287	749	3,989	1,172	1,150
Asset management cos.	84,764	2,122	63,306	15,786	31,311	3,340	11,001	2,692
Total ...	**132,144**	**4,182**	**84,982**	**35,520**	**35,186**	**20,738**	**17,050**	**7,304**
2002 - Q3								
Banks	40,797	1,885	17,322	18,463	3,266	14,017	3,263	2,620
Securities firms	7,318	536	3,659	2,106	776	4,411	885	803
Asset management cos.	92,545	2,626	68,273	18,139	33,624	3,260	8,206	2,176
Total ...	**140,660**	**5,047**	**89,254**	**38,708**	**37,666**	**21,688**	**12,354**	**5,599**
2002 - Q4 (2)								
Banks	43,054	1,708	18,209	19,844	3,995	16,090	3,525	3,311
Securities firms	6,631	455	3,423	1,906	814	4,563	932	719
Asset management cos.	94,690	2,309	65,694	22,772	33,932	2,575	8,284	2,016
Total ...	**144,375**	**4,472**	**87,326**	**44,522**	**38,741**	**23,228**	**12,741**	**6,046**
2003 - Q1 (2)								
Banks	44,703	2,138	19,665	19,623	4,839	17,097	3,027	2,383
Securities firms	4,285	439	1,684	1,684	843	4,761	785	518
Asset management cos.	97,052	4,732	63,218	25,286	37,103	2,792	7,789	1,691
Total ...	**146,040**	**7,309**	**84,567**	**46,593**	**42,785**	**24,650**	**11,601**	**4,592**
2003 - Q2 (2)								
Banks	44,314	1,679	19,062	19,999	5,863	18,885	3,590	2,810
Securities firms	4,296	326	1,633	1,735	907	5,585	878	624
Asset management cos.	96,976	5,790	66,010	21,124	40,816	2,877	9,321	1,768
Total ...	**145,586**	**7,795**	**86,705**	**42,858**	**47,586**	**27,347**	**13,789**	**5,202**
2003 - Q3 (2)								
Banks	43,962	1,621	20,307	18,642	5,775	19,375	3,689	2,884
Securities firms	4,510	423	1,901	1,525	929	6,001	958	696
Asset management cos.	87,326	5,261	57,504	19,927	41,560	3,208	7,418	1,673
Total ...	**135,798**	**7,305**	**79,712**	**40,094**	**48,264**	**28,584**	**12,065**	**5,253**

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

Table a35

Investment fund units		Other financial assets	Total portfolio	Total managed funds	*Memorandum items:*		
Italian	Foreign				gross inflow	net inflow	
							2001 - Q3
81,797	24,510	1,170	174,842	184,069	9,315	-6,846	.... Banks
8,259	16,036	780	37,824	38,904	3,470	682	.... Securities firms
50,351	1,709	92	170,871	175,915	31,998	22,298	.... Asset management cos
140,407	**42,255**	**2,042**	**383,537**	**398,888**	**44,783**	**16,134**	**... Total**
							2001 - Q4
79,060	30,064	1,793	178,027	184,076	27,431	-4,934	.... Banks
8,239	17,489	639	38,376	39,429	3,864	-812	.... Securities firms
54,461	2,287	73	182,242	186,901	13,703	3,257	.... Asset management cos
141,760	**49,840**	**2,505**	**398,645**	**410,406**	**44,998**	**-2,489**	**... Total**
							2002 - Q1
73,359	32,571	1,996	172,858	179,760	21,014	-5,127	.... Banks
8,339	18,372	97	40,741	41,925	5,532	2,472	.... Securities firms
57,399	2,000	55	189,161	195,152	18,263	6,496	.... Asset management cos
139,097	**52,943**	**2,148**	**402,760**	**416,837**	**44,809**	**3,841**	**... Total**
							2002 - Q2
62,701	35,230	1,584	163,648	170,860	17,232	-3,290	.... Banks
7,739	17,050	83	40,053	41,719	5,237	1,938	.... Securities firms
55,828	1,722	54	190,713	196,240	17,852	6,054	.... Asset management cos
126,268	**54,002**	**1,721**	**394,414**	**408,819**	**40,321**	**4,702**	**... Total**
							2002 - Q3
56,164	32,353	1,967	154,449	161,449	21,760	-4,428	.... Banks
5,425	14,855	216	34,687	36,212	1,726	-3,870	.... Securities firms
53,530	1,704	58	195,103	201,960	26,536	8,073	.... Asset management cos
115,119	**48,912**	**2,241**	**384,239**	**399,621**	**50,022**	**-224**	**... Total**
							(2) **2002 - Q4**
53,816	33,441	1,844	159,076	164,448	16,538	-192	.... Banks
5,009	13,967	202	32,832	34,431	2,034	-2,081	.... Securities firms
53,736	1,545	36	196,816	203,054	22,524	-337	.... Asset management cos
112,561	**48,953**	**2,082**	**388,724**	**401,933**	**41,096**	**-2,610**	**... Total**
							(2) **2003 - Q1**
47,228	34,045	1,245	154,564	160,240	13,629	-1,755	.... Banks
4,395	13,446	241	29,272	30,220	2,688	-3,694	.... Securities firms
52,516	1,309	69	200,317	206,236	23,516	2,441	.... Asset management cos
104,139	**48,800**	**1,555**	**384,153**	**396,696**	**39,833**	**-3,008**	**... Total**
							(2) **2003 - Q2**
47,249	34,845	1,306	158,863	164,970	25,784	2,079	.... Banks
4,360	14,294	297	31,238	32,175	2,574	1,091	.... Securities firms
56,775	1,272	92	209,891	216,136	14,830	4,364	.... Asset management cos
108,384	**50,411**	**1,695**	**399,992**	**413,281**	**43,188**	**7,534**	**... Total**
							(2) **2003 - Q3**
46,725	35,563	1,331	159,309	165,149	9,014	690	.... Banks
4,294	3,323	421	21,133	21,927	1,741	-10,371	.... Securities firms
72,537	1,688	127	215,540	221,487	24,213	-443	.... Asset management cos
123,556	**40,574**	**1,879**	**395,982**	**408,563**	**34,968**	**-10,124**	**... Total**

Table a36

Italian components of euro-area monetary aggregates: residents of the euro area

(end-of-period stocks; millions of euros)

	Currency held by the public and overnight deposits	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total	Repurchase agreements
1999	465,017	65,747	127,982	649,715	50,754
2000	492,947	57,611	127,415	666,981	68,303
2001	525,992	52,623	138,218	699,179	76,213
2002 – Jan.	502,619	56,117	141,254	699,990	77,548
Feb.	497,058	56,221	142,773	696,052	82,222
Mar.	501,599	56,689	142,287	700,575	88,435
Apr.	508,800	57,723	142,505	709,028	85,319
May	515,581	55,920	142,621	714,122	89,779
June	522,085	56,475	142,735	721,295	87,257
July	516,968	55,280	143,374	715,622	90,955
Aug.	508,096	55,383	144,704	708,183	91,405
Sept.	520,250	54,198	144,909	719,357	87,139
Oct.	525,081	54,327	145,747	725,155	89,080
Nov.	528,618	52,874	146,209	727,701	88,709
Dec.	572,306	50,669	150,600	773,575	89,310
2003 – Jan.	543,118	51,100	151,760	745,978	82,714
Feb.	548,595	52,900	153,328	754,823	81,997
Mar.	559,034	51,717	154,009	764,760	78,515
Apr.	567,874	52,195	154,053	774,122	78,968
May	576,560	50,954	155,487	783,001	79,284
June	586,874	49,504	156,105	792,483	71,819
July	582,069	49,026	157,013	788,108	74,070
Aug.	577,812	49,426	159,080	786,318	74,141
Sept.	586,492	49,219	159,446	795,157	70,940
Oct.	590,770	48,127	160,556	799,453	72,912
Nov.	594,207	46,689	162,058	802,953	72,903
Dec.	616,332	43,956	165,227	825,504	68,469
2004 – Jan.	(608,431)	(46,843)	(165,058)	(820,333)	(63,554)

Table a36

Money market fund shares/units	Debt securities up to 2 years and money market paper	Total monetary liabilities	Contribution to euro-area monetary aggregates (excluding currency held by the public)		
			M1	M2	M3
13,058	9,905	732,462	398,907	592,636	666,352
10,039	11,137	767,452	423,267	608,293	697,772
26,103	10,118	829,267	468,486	659,327	771,761
27,822	10,087	815,447	449,430	646,801	762,258
29,110	9,991	817,375	453,996	652,990	774,313
30,684	9,983	829,677	454,624	653,600	782,702
32,189	9,743	836,279	461,257	661,485	788,736
33,712	10,180	847,793	465,618	664,159	797,830
35,082	10,600	854,235	469,642	668,852	801,792
36,039	10,695	853,311	463,083	661,737	799,426
38,083	10,826	848,497	453,299	653,386	793,700
39,008	11,213	856,717	464,839	663,946	801,306
40,161	10,111	864,507	467,910	667,984	807,336
41,147	9,659	867,216	470,391	669,474	808,989
41,690	9,814	914,389	510,801	712,070	852,884
87,243	9,949	925,884	485,075	687,935	867,841
90,166	9,514	936,500	489,184	695,412	877,089
94,180	9,895	947,350	498,716	704,442	887,032
96,298	9,511	958,899	505,488	711,736	896,513
97,259	9,326	968,870	512,649	719,090	904,959
97,276	9,496	971,074	521,812	727,421	906,012
98,841	8,520	969,539	515,010	721,049	902,480
101,037	8,764	970,260	510,414	718,920	902,862
98,784	8,457	973,338	518,923	727,588	905,769
98,734	7,973	979,072	521,793	730,476	910,095
104,338	7,748	987,942	523,954	732,701	917,690
105,464	7,197	1,006,634	543,017	752,199	933,328
(104,447)	(6,822)	(995,155)	(536,578)	(748,479)	(923,302)

Table a37

Financial assets: residents of Italy

(end-of-period stocks; millions of euros)

	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
1999	727,788	52,786	35,642	5,996	408,615	146,686	232,983	7,695
2000	761,589	48,209	31,167	2,979	412,751	113,326	261,199	8,764
2001	826,510	43,425	36,654	5,496	424,471	94,888	309,639	10,740
2002 – Jan.	807,343	41,243	46,992	6,121	441,526	93,191	311,966	9,958
Feb.	809,020	41,161	49,735	6,331	453,545	92,780	317,260	9,422
Mar.	821,072	40,970	53,878	7,194	463,051	89,953	321,539	9,604
Apr.	826,375	40,804	51,617	8,441	464,317	82,669	322,214	9,137
May	838,616	40,778	49,833	9,021	466,402	87,398	326,726	9,288
June	843,291	40,451	49,148	8,917	459,601	87,274	331,739	9,407
July	845,430	40,533	46,230	9,088	461,625	87,210	337,199	9,632
Aug.	840,044	40,600	45,492	7,727	468,113	89,101	339,535	9,601
Sept.	849,219	40,458	44,857	7,643	455,989	87,480	341,249	9,664
Oct.	856,061	40,368	40,825	8,122	462,796	88,902	345,229	9,501
Nov.	860,556	40,324	38,355	8,514	466,988	89,234	345,930	9,539
Dec.	908,219	40,478	23,993	7,020	451,641	88,532	354,207	10,021
2003 – Jan.	916,898	*(40,033)*	29,167	4,068	458,825	67,807	351,360	9,191
Feb.	926,022	*(39,686)*	30,328	4,468	456,719	68,767	354,565	9,500
Mar.	937,225	*(39,285)*	28,060	5,095	456,465	69,742	360,623	9,771
Apr.	949,818	*(39,244)*	23,850	4,195	449,093	69,027	363,278	9,844
May	960,300	*(38,828)*	17,730	4,146	437,390	71,215	368,947	9,539
June	962,873	*(38,773)*	14,191	4,406	429,861	71,024	373,254	9,605
July	962,860	*(38,575)*	9,688	4,605	437,409	71,589	380,547	9,705
Aug.	962,565	*(38,302)*	13,201	3,878	442,517	72,304	382,480	9,709
Sept.	965,022	*(38,083)*	12,855	3,311	439,331	74,833	385,413	9,778
Oct.	972,344	*(37,830)*	10,537	5,032	445,728	71,651	390,573	9,760

Table a37

Other domestic assets held by non-money-market funds	Other financial assets	Total domestic financial assets	External financial assets		Total financial assets	Memorandum items: Shares/units of investment funds	
				held by non-money-market funds			non-money-market funds
44,642	905	1,503,361	679,086	231,718	2,182,447	475,301	462,243
44,280	937	1,560,132	723,006	239,260	2,283,138	449,931	439,891
26,053	984	1,667,736	733,196	215,399	2,400,932	403,689	377,586
26,071	1,014	1,676,154	735,184	214,933	2,411,338	402,125	374,303
25,696	986	1,697,403	718,199	211,217	2,415,602	400,421	371,311
26,866	972	1,728,348	719,034	213,222	2,447,382	403,645	372,961
24,397	984	1,730,708	709,719	206,509	2,440,427	397,012	364,823
24,747	1,002	1,748,104	694,885	200,210	2,442,989	389,915	356,203
23,307	990	1,748,527	665,548	185,690	2,414,075	376,276	341,194
21,267	997	1,753,280	652,929	174,875	2,406,209	366,145	330,106
21,220	999	1,756,003	657,155	176,183	2,413,157	369,445	331,362
17,756	996	1,750,524	641,026	166,312	2,391,550	387,475	348,467
18,761	980	1,765,020	644,951	168,072	2,409,971	361,973	321,811
20,155	982	1,773,289	649,326	171,375	2,422,615	367,618	326,471
18,123	1,035	1,797,697	631,586	162,552	2,429,283	360,557	318,867
17,070	(1,043)	*(1,814,397)*	628,037	155,707	*(2,442,433)*	359,329	271,532
16,416	(1,039)	*(1,824,775)*	629,443	150,108	*(2,454,218)*	360,343	269,552
15,067	(1,043)	*(1,837,769)*	631,199	146,254	*(2,468,968)*	360,275	265,322
16,683	(1,051)	*(1,843,018)*	640,272	150,502	*(2,483,289)*	368,945	271,572
17,500	(1,061)	*(1,841,756)*	646,059	153,113	*(2,487,815)*	373,710	275,324
16,334	(1,057)	*(1,836,345)*	662,443	158,472	*(2,498,788)*	378,491	279,928
22,659	(1,064)	*(1,852,802)*	673,904	162,947	*(2,526,707)*	382,887	282,696
15,822	(1,071)	*(1,855,958)*	686,972	167,526	*(2,542,930)*	388,165	285,744
14,101	(1,061)	*(1,855,865)*	666,632	149,171	*(2,522,496)*	382,384	282,212
16,195	(1,061)	*(1,874,267)*	695,129	168,596	*(2,569,396)*	382,588	282,827

Table a38

Credit: residents of Italy

(end-of-period stocks; millions of euros)

	Finance to other residents					
	Bank loans	Bonds placed domestically		Total domestic finance	External finance	Total
	A	B	held by Italian MFIs	C=A+B	D	E=C+D
1999	761,349	14,203	5,450	775,553	158,535	934,088
2000	862,250	17,940	7,995	880,191	180,508	1,060,699
2001	922,575	37,132	13,629	959,707	207,809	1,167,516
2002 – Jan.	922,274	36,308	12,639	958,582	207,464	1,166,046
Feb.	921,851	39,101	12,466	960,952	210,242	1,171,194
Mar.	925,028	39,417	12,564	964,445	214,247	1,178,691
Apr.	927,103	39,286	12,809	966,389	215,637	1,182,026
May	935,849	39,233	12,277	975,082	216,073	1,191,155
June	944,310	39,633	12,244	983,943	220,875	1,204,818
July	948,654	43,482	12,395	992,136	221,336	1,213,472
Aug.	940,650	44,252	12,155	984,903	221,264	1,206,167
Sept.	943,326	44,777	12,351	988,103	223,117	1,211,220
Oct.	948,231	45,663	12,346	993,894	222,441	1,216,335
Nov.	950,676	45,827	12,189	996,503	228,307	1,224,810
Dec.	979,584	50,388	13,189	1,029,973	233,950	1,263,923
2003 – Jan.	990,856	50,594	15,366	1,041,450	235,745	1,277,195
Feb.	993,118	53,133	16,193	1,046,252	245,772	1,292,024
Mar.	991,116	55,547	16,929	1,046,663	247,051	1,293,714
Apr.	994,603	58,969	18,318	1,053,572	250,714	1,304,285
May	994,459	60,188	18,365	1,054,647	254,182	1,308,829
June	1,008,608	61,894	18,034	1,070,502	258,429	1,328,931
July	1,012,796	67,965	18,787	1,080,761	253,989	1,334,750
Aug.	1,013,905	68,847	18,881	1,082,752	252,425	1,335,177
Sept.	1,016,753	68,527	18,251	1,085,279	251,735	1,337,014
Oct.	1,020,681	70,359	18,090	1,091,041	254,154	1,345,195

Table a38

General government debt			Credit		Memorandum item: Shares placed domestically, held by Italian MFIs
	held domestically		Total domestic	Total	
F	G	held by Italian MFIs	H=G+C	I=E+F	
1,279,548	1,208,785	300,126	1,984,337	2,213,636	28,559
1,297,449	1,213,072	269,893	2,093,263	2,358,148	34,641
1,348,234	1,254,194	272,208	2,213,902	2,515,750	36,882
1,367,245	1,270,176	277,561	2,228,758	2,533,291	37,262
1,376,142	1,278,543	279,092	2,239,495	2,547,335	37,011
1,393,266	1,291,701	286,792	2,256,146	2,571,958	39,828
1,394,636	1,293,008	283,183	2,259,397	2,576,663	45,340
1,395,725	1,299,724	285,488	2,274,806	2,586,880	46,403
1,397,881	1,302,642	282,172	2,286,585	2,602,699	49,418
1,401,250	1,305,315	273,825	2,297,450	2,614,722	41,189
1,398,701	1,302,379	270,955	2,287,281	2,604,868	40,693
1,402,100	1,303,811	275,813	2,291,914	2,613,320	39,265
1,410,428	1,311,237	275,084	2,305,132	2,626,763	40,787
1,418,036	1,318,640	273,104	2,315,142	2,642,846	46,436
1,360,684	1,262,431	245,942	2,292,404	2,624,607	43,290
(1,382,982)	(1,281,907)	263,577	(2,323,358)	(2,660,177)	43,254
(1,393,533)	(1,287,258)	267,075	(2,333,509)	(2,685,557)	43,762
(1,402,537)	(1,295,281)	267,153	(2,341,945)	(2,696,252)	46,458
(1,408,511)	(1,300,017)	266,287	(2,353,589)	(2,712,796)	51,297
(1,413,533)	(1,306,446)	270,604	(2,361,093)	(2,722,362)	55,762
(1,411,002)	(1,305,181)	272,092	(2,375,683)	(2,739,933)	54,035
(1,409,198)	(1,302,168)	271,507	(2,382,929)	(2,743,948)	47,479
(1,413,841)	(1,306,190)	272,244	(2,388,943)	(2,749,018)	47,888
(1,429,407)	(1,324,414)	271,614	(2,409,694)	(2,766,421)	49,023
(1,423,760)	(1,319,406)	270,320	(2,410,447)	(2,768,955)	50,646

Table a39

Supervisory capital and capital requirements (1)

(millions of euros)

	Tier 1	Tier 2		Supervisory capital	Solvency ratio (percentages)	Excess capital	Capital shortfalls		
			of which: subordinated liabilities				Number of banks	Amount	Percentage of excess risk assets (2)
June 2001									
Banks in the Centre and North	94,413	35,598	30,821	123,359	10.4	28,815	1	19	..
Banks in the South	3,723	378	230	3,973	17.7	2,175	–	–	-
Total ...	98,136	35,976	31,051	127,332	10.5	30,990	1	19	..
December 2001									
Banks in the Centre and North	94,460	38,907	34,104	125,984	10.3	29,930	3	536	0.6
Banks in the South	2,974	273	183	3,233	17.8	1,792	3	14	..
Total ...	97,434	39,180	34,287	129,217	10.4	31,722	6	550	0.6
June 2002									
Banks in the Centre and North	94,842	40,734	36,077	130,511	10.9	35,415	4	71	0.1
Banks in the South	2,933	219	146	3,149	18.1	1,765	2	7	..
Total ...	97,775	40,953	36,223	133,660	11.0	37,180	6	78	0.1
December 2002									
Banks in the Centre and North	95,801	40,003	35,920	131,093	11.1	37,769	6	196	0.2
Banks in the South	3,027	268	164	3,291	18.1	1,837	1	2	..
Total ...	98,828	40,271	36,084	134,384	11.2	39,606	7	198	0.2
June 2003									
Banks in the Centre and North	98,510	41,066	36,590	134,055	11.1	38,435	5	235	0.3
Banks in the South	3,177	298	198	3,471	18.1	1,937	1	1	..
Total ...	101,687	41,364	36,788	137,526	11.2	40.372	6	236	0.3

(1) See the notes to the statistical tables. – (2) Capital shortfalls multiplied by 12.5 and divided by the risk-weighted assets of the banking system.

Notes to the statistical tables

Table a1

Sources: Eurostat, Istat, IMF and national statistics.

For India, GDP at factor cost.

Table a2

Sources: IMF, Eurostat, Istat and national statistics.

For Italy, see the notes to Table a10.

For China, industrial value added. For 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, RPIX.

Table a4

Sources: IMF, OECD, 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 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, repo rate; for Canada, target rate on overnight deposits.

Money market rates. For the United States, rate on 3-month CDs; for Japan, 3-month call rate (uncollateralized); for the euro area, 3-month Euribor; 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 MTS market.

Share price indices (1995=100). For the United States, S&P 500; for Japan, Topix; for Germany, FAZ Aktien; for France, CAC 40; for Italy, MIB; for the United Kingdom, FTSE All-Share; for Canada, S&P/TSX composite index.

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, OECD and Eurostat 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 series of the main industrial groupings and that of the general index are carried out separately using the TRAMO-SEATS procedure. Consequently, the aggregate figure may differ from the weighted mean of the components. Raw data are shown for stocks of finished goods.

Tables a12 and a13

For some years Istat has published three consumer price indices: the index for the entire resident population (NIC), the index for worker and employee households (FOI) and the harmonized index (HICP). The three indicators are constructed on the basis of the same data set. For each level of disaggregation, they have been calculated as chain indices since January 1999. The "calculation base" (the period to which the prices used as the denominator for "simple average" indices refer) is December of the previous year; the "reference base of the weights" (the period with reference to which the weights are calculated) is given by the structure of households' average consumption in the previous year; and the "reference base of the indices" (the period for which they are set equal to 100) is currently 1995 for the NIC and FOI indices and 1996 for the HICP, which is published by Eurostat. The NIC and FOI indices differ from the HICP mainly with regard to how prices are defined: where sales prices differ from those actually paid by consumers (as in the case of medicinal drugs, for which the National Health Service pays a contribution), the NIC and FOI indices consider the full sales price whereas the HICP considers the price actually paid. The FOI index is now used almost exclusively for legislative purposes (revision of rents and contractual amounts, etc.) in the version that includes changes in indirect taxes and excludes tobacco products. The differences between the baskets of the NIC index and the HICP – the indices most used at present in the analysis of inflation – are very small. As of January 2002, however, the construction of the HICP complies with Commission Regulation 2602/2000, which requires account to be taken of temporary price reductions (e.g. sales and promotions), provided they last for at least 15 days. This innovation (the minimum duration used to be a month in Italy) has two effects: on the one hand, it causes pronounced monthly variations in the HICP and, on the other, it results in a difference between the intra-year performances of the HICP and the NIC, to which the regulation has not been applied since it is only mandatory for the HICP. The latter has been reconstructed for 2001 with account taken of price reductions, so as to permit the calculation in 2002 of the percentage changes with respect to the previous year. This is not sufficient, however, to obtain a reliable estimate of the seasonality present in the new series. Accordingly, for the analysis of inflation reference must be made primarily to the NIC, which does not suffer from discontinuities on a similar scale.

For the NIC index, the identification of items with regulated prices refers to the situation in May 2003. The composition of "Goods and services with regulated prices" is as follows:

Energy products: electricity and gas;

Non-energy products: drinking water, medicinal drugs, tobacco products, postal services, telephone services, railway transport, maritime transport, urban transport, coach services, motorway tolls, taxis, radio and TV licences, lotteries and totalizers, medical services, dental services, certificates and stamps, secondary education, university education, rubbish collection services, religious services.

Lastly, the composition of the sub-index "Food products – not processed" is as follows: fresh meat, fresh fish, fresh fruit and vegetables, milk and eggs.

Tables a14 and a15

The harmonized indices of consumer prices for the countries of the European Union are published by Eurostat. They are available from January 1995 onwards and are produced by the national statistical institutes using harmonized methods. Consequently, they are the most suitable for comparing consumer price inflation in the different countries. The structure and breakdown of these indicators basically reflect those of national consumer price indices; consequently, in most countries, including Italy, the differences between the two sets of indicators are minimal. As of January 2002, the Italian and Spanish indices, and hence the averages for the euro-area, are constructed taking account of price reductions that last for at least 15 days (in compliance with Commission Regulation 2602/2000). This innovation gives rise to pronounced monthly variations in the HICP series and has caused a discontinuity. The series have been reconstructed for 2001 with account taken of price reductions, so as to permit the calculation in 2002 of the percentage changes with respect to the previous year. In addition, the series regarding the euro-area is calculated with reference to the rebased German index (2000=100) introduced at the beginning of this year. On this occasion the German statistical institute published the indicators recalculated using the new base starting from 2000. As a consequence of these innovations it is not possible to use a single time series to calculate inflation rates in the countries affected by the above-mentioned methodological changes or the euro-area average. However, since Eurostat publishes a single series of indices for the euro-area countries and the euro-area average, the inflation for the euro area shown in the tables must necessarily be calculated without taking the above discontinuity into account. Only for Italy is recourse made in calculating percentage changes to the homogeneous indicators published until December 2001 and to the indicators based on the new method of observing price reductions from January 2002 onwards.

Tables a16 and a17

The indices of producer prices measure the changes in the prices of goods sold in the domestic market by industrial producers. The items included in the basket of each index are classified on the basis of their economic purpose (consumer goods, investment goods and intermediate goods). In contrast with the HICP, producer prices have not been fully harmonized and there are important differences across countries in the composition of the baskets. A degree of harmonization has nonetheless been carried out by Eurostat, which currently compiles indices for the EU countries on the basis of data transmitted monthly by each national statistical institute using a uniform classification of the branches of economic activity based on NACE 1st revision.

As of January 2003 Istat calculates the indices of the producer prices of industrial products sold on the domestic market using the new base 2000=100, in accordance with Community rules. The main changes to the index with respect to the previous base concern the criteria for classifying products, the composition of the index basket and the weighting structure. In particular, with reference to the classification of products by economic purpose (now known as Main Industrial Groupings), the various items are grouped as follows: consumer goods, divided into durable and non-durable products, investment goods, and intermediate goods, divided into non-energy and energy products. The allocation of individual products to these categories is now based on the "prevalent use" of each product, as recommended by Eurostat. Previously, instead, products were allocated to the various categories on the basis of their "effective use", so that, in theory, the same product could appear in more than one category.

The classification of goods by economic purpose used by Eurostat is not sufficiently disaggregated for the short-term analysis of inflation. For consumer goods, in particular, it does not distinguish between food and non-food products. For the main euro-area countries – Italy, France, Germany and Spain – and for the area average, a more meaningful breakdown by economic purpose has been constructed, using not only data classified by economic purpose but also data classified by branch of economic activity, as follows: general index, food products, energy products, investment goods, non-energy intermediate goods, consumer goods excluding energy and food products and the general index excluding energy and food products.

Table a18

Source: Istat.

Foreign trade indicators provide summary information on the transactions of businesses of a given country, geographical area or geo-economic region with businesses of foreign countries or other areas. National statistical institutes produce three types of foreign trade indicators referred to: values, average unit values and quantities. Like producer prices, these statistics are not fully harmonized within Europe, and cross-country comparisons may not be reliable. Eurostat computes foreign trade indicators on the basis of raw data collected by the EU countries and they should be more comparable, but they are generally different from those of the national statistical institutes. In order to produce series that maintain a satisfactory level of representativeness over time, Eurostat uses chained indices. In accordance with international agreements, imports are stated "cif" and exports "fob".

The indices of average unit values are obtained for successive stages of aggregation of elementary indicators referring to individual categories of goods and geographical areas. The starting point for the computation of the elementary indicators consists in the average unit values of the specific items, calculated as the ratio of the value of the goods exported/imported in the current month and the related quantity. For each sub-item the elementary index is thus obtained by calculating the ratio of the average unit value of the current month to the average of the average unit values of the preceding year. The indices of the average unit values for higher levels of aggregation are Fisher indices, obtained as the geometric mean of the corresponding Laspeyres and Paasche indices. In calculating the Paasche index, the weighting of the elementary items is variable, i.e. is based on the values of the goods of the current month; by contrast, the aggregate Laspeyres index uses a fixed weighting on the basis of the values of the goods for the whole year.

From July 2003 Istat calculates the indices of average unit values using the new base 2000=100 and has published the updated figures from January 2001. The new calculation of the indices, in addition to implementing the shift to the ATECO 2000 sectoral classification, involves substantial methodological changes, of which the three most important are: 1) the exclusion from the calculation of the unit values of temporary exports and imports for repairs or processing and the consequent re-imports and re-exports; 2) the calculation of the new series does not include some goods for which average values are not an accurate approximation of market prices (ships, boats and parts thereof, radioactive materials and the like, space vehicles and parts thereof, etc.); to deflate the values of these goods, reference is made to the average unit values of the next higher grouping in the ATECO economic classification; and 3) the coefficient used to chain the indices for two successive years (e.g. t and t-1) is calculated as the annual average of the index in year t-1 with reference to year t-2. Previously, the coefficient used was the index of December of year t-1 with reference to year t-2.

Consistently with the terminological changes made to the calculation of the producer price indices, the groupings by economic use have been renamed Main Industrial Groupings.

The aggregation of the elementary indices for each sub-item in indices with a higher level of aggregation is carried out using various classifications: trade type (SITC, revision 3); economic sector (NACE, revision 1.1, ATECO 2002); economic purpose (Main Industrial Groupings); and groups of countries, geographical areas or geo-economic regions.

Table a21

The figures for the budget exclude 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.

The tax component of state budget receipts refers to the amounts allocated each month to the various chapters of the budget. In fact, as of 1998, the time at which amounts are allocated may not coincide with the time at which they are paid. Tax revenue is not adjusted for tax refunds (included in the budget under payments) and includes VAT accruing to the European Union. The monthly figures are consistent with those published by the Ministry for the Economy and Finance in Conto Riassuntivo del Tesoro, except that they are net of accounting transactions with the Sicily and Sardinia regions. The sub-item "Collection accounts" shows the change in receipts paid using the single mandate procedure and awaiting allocation (including central government taxes, Irap due to the regions and social security contributions due to INPS). A negative (positive) sign indicates that the amounts allocated in the month were higher (lower) than the revenue received.

The formation of the central government borrowing requirement includes transactions with other general government bodies; accordingly, the borrowing requirement of local government and social security institutions after consolidation refers exclusively to their financing needs over and above those covered by central government transfers.

The unconsolidated central government borrowing requirement net of debt settlements and extraordinary revenue, consisting mainly of privatization receipts, is shown as a memorandum item.

The data on central government debt settlements and extraordinary revenue are used to provide an estimate of the general government net borrowing requirement.

As of December 2003 the Deposits and Loans Fund is no longer part of general government and loans to local governments are included in the item "Borrowing requirement of local government and social security institutions". The Fund's deposits with the Treasury and postal deposits pertaining to the Treasury appear in the item "Other central government operations".

Tables a22 and a23

The debt (end-of-period data) is stated at face value and that denominated in foreign currency is valued at end-of-period exchange rates, with account taken of any swap operations.

Medium and long-term securities also include the BTPs assigned to the Bank of Italy in 1994 in connection with the closure of the Treasury's current account with the Bank and converted in December 2002 into other BTPs with a higher yield. They do not include those held by social security institutions and other bodies included in general government. The items "Medium and long-term securities excluding central bank", "Short-term securities excluding central bank" and "Borrowing from central bank" include only securities acquired outright.

The stocks of lending by non-resident banks are provided directly by the borrowers and do not include loans raised abroad indirectly via resident banks. The stocks of lending by resident banks are based on accounting supervisory reports.

The figures for "Medium and long-term securities" and "Lending by banks" include the corresponding financial instruments related to operations entered into by the State Railways with the cost borne by the government.

The sub-item "Change in central bank current accounts" includes the Treasury payments account (Law 483/1993) and the sinking fund for the redemption of government securities (Laws 432/1993 and 110/1997).

As of December 2003 the Deposits and Loans Fund is no longer part of general government; loans to local governments and the Fund's deposits with the Treasury are included in the items "Other" and "Other domestic debt". The item "PO deposits" includes postal current accounts and the postal savings certificates still included in central government liabilities.

Table a24

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 2000 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. For these operations the Governing Council sets a minimum bid rate, which plays the role of indicator of the stance of monetary policy previously played by the fixed rate.

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 "official reference rate for instruments linked to the former official 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. As of 1 January 2004 the Bank of Italy ceases to determine the official reference rate, in accordance with the Legislative Decree.

Table a25

The average Treasury bill rate is the average, weighted on the basis of the quantities allotted, of the compound allotment rates of the auctions of three, six and twelve-month BOTs and of those with other maturities. The Treasury bill yields are calculated using the 360-day year instead of the 365-day year.

The interbank rates (overnight and at one, three, six and twelve months) are observed daily on the Interbank Deposit Market (MID); they are weighted average bid-ask rates.

Tables a26, a27, a28 and a29

The information contained in Tables a26 to a 29 refers to ESCB harmonized statistics on bank interest rates, based since January 2003 on a monthly sample survey carried out in accordance with Regulation (EC) No. 63/2002 (ECB 2001/18). The interest rates reported are on outstanding amounts and new business for the main forms of fund-raising and lending in euros from/to households and non-financial corporations resident in the euro area. Households include producer households and non-profit institutions serving households.

The rates on outstanding amounts are weighted using the balances on the accounts at the end of the reference month; the rates on new business in the month are weighted using the relevant amounts. "New business" consists of contracts concluded in the reporting period or for which previously established terms and conditions have been renegotiated.

For lending rates to households and non-financial corporations, the breakdown by maturity refers to the initial period of rate fixation; i.e. the interval for which the contract does not provide for changes in the rate. The rates include those on supported loans, for which the total interest rate must be reported, regardless of how much the customer pays. By contrast, the rates on bad debts and restructured loans are excluded. Overdrafts are not included in new business for the purpose of reporting lending interest rates. As regards loans to non-financial corporations, the breakdown by size refers to the amount of each individual transaction and not to the bank's total exposure to the firm in question.

The Annual Percentage Rate of Charge (APRC) for households includes the accessory expenses (administrative, application processing, insurance, etc.) provided for in Directive 87/102/EEC.

Table a30

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 stage 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 "Monetary and Financial Indicators – Monetary Financial Institutions: Banks and Money Market Funds" in the series *Supplements to the Statistical Bulletin*.

Data are reported by banks in accordance with the harmonized definitions adopted by the ESCB for the euro area as a whole. "Loans" include repo assets and bad debts.

"Deposits" include overnight deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities. "Debt securities" include subordinated issues.

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 a31

The data refer to all the banks resident in Italy.

The annual data refer to the month of December.

Deposits refer to those of other general government and other sectors. Current account deposits include banker's drafts but not current account time deposits. Deposits with agreed maturity include certificates of deposit, current account time deposits and savings account time deposits. Deposits redeemable at notice consist of ordinary savings account deposits.

The item "Bonds" comprises all the debt instruments issued by banks, including subordinated liabilities. As of December 2000, reverse convertibles are included in the series with maturities up to two years.

Table a32

The data refer to all the banks resident in Italy.

The annual data refer to the month of December.

"Other securities" refer to banks' holdings of bonds issued by residents.

The indication "lire/euros" means that the figures include amounts in euros and the euro-area currencies.

Table a33

"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 liquidity). SICAVs are included. The data refer only to harmonized funds. Rounding may cause discrepancies in totals.

Table a34

"Other financial assets" include CDs, banker's acceptances and commercial paper. The data refer only to harmonized funds. Rounding may cause discrepancies in totals.

Table a35

The amounts shown for each category of intermediary refer to the portfolio management services they provide directly. "Other financial assets" include CDs, banker's acceptances and commercial paper. The items "gross inflow" and "net inflow" are calculated as the sum of monthly flows. For asset management companies the division between Italian and foreign securities refers to securities denominated in respectively euros and other currencies.

Table a36

All the items refer to the liabilities included in M3 of Italian MFIs and postal deposits 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).

As of January 2002, the Italian monetary aggregates include notes and coins in circulation denominated in euros.

Owing to the cross-border migration of euro notes and coins, the currency in circulation in the various countries no longer corresponds to the quantities they have issued. In order to measure the currency in circulation for inclusion here, the Bank of Italy is conventionally allocated a share of the total issue of euro notes on the basis of its share of the ECB's capital (the so-called Capital Share Mechanism). Each country's share of the ECB's capital is equal to the arithmetic mean of its shares of the euro-area's total population and total income.

Until December 2001 currency in circulation comprises Bank of Italy lira banknotes and Treasury lira coins, net of those held by Italian banks. As of January 2002, the Italian component of the currency in circulation in the euro area includes the remaining quantity of lira currency in circulation and the euro currency conventionally allocated to the Bank of Italy by applying the Capital Share Mechanism. This differs from the quantity obtained by applying the harmonized accounting methods for the note circulation in the euro area since it is calculated by applying the Capital Share Mechanism to 100% of the total value of the euro notes in circulation, thus including the 8% share distributed by the NCBs but allocated for accounting purposes to the ECB. As of January 2003 currency in circulation no longer includes notes and coins denominated in lire. The item "Currency held by the public and overnight deposits" comprises current accounts held with resident MFIs and the Post Office; postal current accounts for the period prior to 2003 are estimated.

Bank CDs redeemable within 24 months are included under "Deposits with agreed maturities up to 2 years"; freely available postal deposit book accounts and ordinary postal savings certificates are included under "Deposits redeemable at notice up to 3 months". 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 excluding banknotes and coins in euros and euro-area national currencies.

Table a37

All the items refer to the financial assets of the "money holding sector" comprising residents of Italy (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", *Supplementi al Bollettino Statistico*, Volume X, No. 33, 12 June 2000). 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, 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 postal 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. Postal current accounts for the period prior to 2003 are estimated.

From January 1999 the balance-of-payments statistics used in computing the components of financial assets and credit are based on the methods established in ESA95.

Table a38

"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).

From January 1999 the balance-of-payments statistics used in computing the components of financial assets and credit are based on the methods established in ESA95.

Table a39

The data refer to supervisory capital and the solvency ratio, calculated on a consolidated basis (on a solo basis for banks not belonging to a banking group). The Italian branches of foreign banks are not included.

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 held, intangible assets and loss for the year – are the elements of core capital, which is included in the calculation of supervisory capital without restriction. Revaluation reserves, provisions for loan losses, net valuation gains on participating interests, hybrid capital instruments and subordinated liabilities constitute supplementary capital, which is included – net of any revaluation losses on securities and participating interests – 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 of 8 per cent, 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.

The solvency ratio figures take account of the prudential requirements for market risks and the "other requirements".

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 — *Istituto per i servizi assicurativi del commercio estero*
Export Credit Insurance Institute
UIC — *Ufficio italiano dei cambi*
Italian Foreign Exchange Office

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Bank of Italy Regulation of 20 January 2003 concerning guaranteed managed portfolios	No. 36, March 2003
New regulations for financial intermediaries entered in the special register established by Article 107 of the 1993 Banking Law	No. 36, March 2003
Bank of Italy Regulation of 27 August 2003 on closed-end investment funds	No. 37, November 2003

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