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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;

( ) provisional;

( ) estimated.

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Economic Developments and Policies

THE WORLD ECONOMY AND INTERNATIONAL FINANCE

The world economic recovery which began in the United States in the spring of 2003 and was sustained by the growth of the Asian economies spread to all areas of the globe in 2004, although its strength differed by region. World output continued to expand rapidly in the first quarter, but the pace of growth slackened in the second and third quarters, partly as a result of the rise in oil prices.

Although the increase in the price of oil was steeper and more protracted than first expected, it did not affect inflation expectations, which remained quite moderate in all the advanced economies. In the United States inflation excluding the most volatile items rose in the early months of 2004, before stabilizing from March onwards. This, together with the progressive decline in idle capacity, allowed the Federal Reserve in June to begin gradually raising its target for the federal funds rate from 1 to 2 per cent.

The rapid expansion in US economic activity in the first quarter gave way to a slowdown in the second. In the third quarter the rate of growth edged up to 3.7 per cent on a twelve-month basis, mainly reflecting the acceleration in purchases of durable goods.

The dollar continued to depreciate, following the trend under way since February 2002, falling by 6.5 per cent in nominal effective terms between the middle of May and the first ten days of November. After the middle of October it weakened rapidly as concern mounted about the United States' large and rising current account deficit, which exceeded 5 per cent of GDP. The exchange rate with the euro dropped to a low of $1.30.

In Japan output expanded strongly in the first quarter of 2004 before slowing sharply in the second quarter and again in the third, partly owing to the contraction in public investment. The slowdown can be attributed to the progressive waning of the stimulus from exports and private investment.

Economic activity in the euro area expanded only moderately in the first half of the year, although faster than in the previous six months. The acceleration in the first quarter was followed by a slight deceleration in the second. The expansionary effect of external demand was largely offset by the increase in imports. Growth was sustained mainly by private consumption, while investment activity remained moderate. Official preliminary estimates suggest that output growth continued to slacken in the third quarter as well.

The United Kingdom continued to grow rapidly in the first half of the year, with output increasing at an annualized rate of 3.3 per cent thanks to the enduring strength of consumption and upturn in investment. In the third quarter growth slowed to 1.7 per cent. In the summer the Bank of England raised the base rate on two occasions by a total of 0.5 percentage points, bringing it to 4.75 per cent. In Canada economic activity picked up in the first six months, growing at an annualized rate of 3.4 per cent, mainly in response to the strong recovery in exports. At the beginning of September the central bank shifted its monetary policy stance, raising the target overnight rate on two occasions, by a total of 0.5 points, to 2.5 per cent.

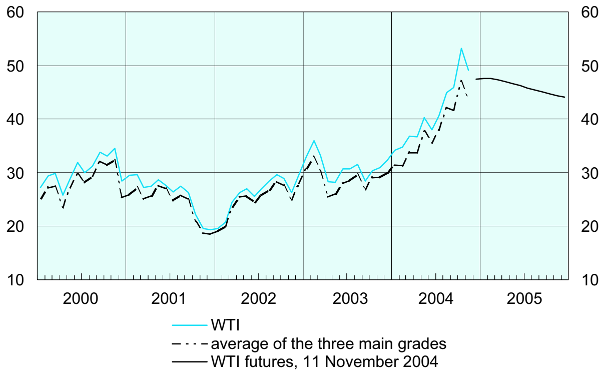
Despite the increase in the price of oil and the raising of official rates by the Federal Reserve, prices on US financial markets remained fairly stable. Yields on Treasury bonds declined from mid-May onwards, after rising sharply in the two previous months; the spreads on corporate bonds remained unprecedentedly low. Share prices were buoyed by the increase in corporate profits and remained close to the high levels recorded at the end of 2003.

In the emerging countries, after the increase in risk premiums in the spring when a tightening of US monetary policy seemed imminent, financial conditions eased, encouraging new bond issues. The upturn in economic activity and the strong performance of exports also contributed.

At its September meeting the Financial Stability Forum emphasized that strengthening the capital base of financial systems is an important factor in ensuring the soundness of the industrial and emerging economies, also in view of the risks associated with the diminishing stimulus of monetary policy and the rise in the price of oil.

Figure 1

Crude oil: spot and futures prices (1)
(dollars per barrel)

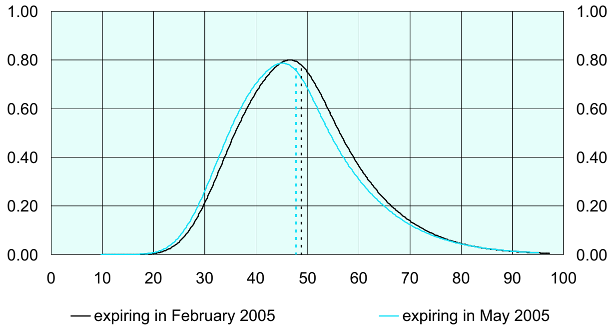


Sources: IMF and Thomson Financial Datastream.
(1) For the spot price, average monthly data; for November 2004, the latest available data relate to 11 November. The three main grades are Dubai, Brent and WTI.

In recent weeks uncertainties have surfaced about the strength of the world recovery, partly in view of the strains in the oil market. Bad weather and fears of a possible reduction in Russian and Nigerian exports bumped prices up from $33.2 a barrel (average of the three main grades) at the end of June to almost $49 on 22 October. On 11 November they had declined to $41.4 a barrel. Futures prices on WTI grade contracts traded on NYMEX on the same date point to almost no change from current levels in December ($47.5) and a gradual decline in 2005 (Figure 1). Prices are expected to be around $41.4 per barrel at the end of 2006 and just under $38 at the end of 2009. The prices of options on these futures contracts recorded on 10 November signal a situation of uncertainty (Figure 2).

Figure 2

Probability distribution of oil prices implicit in options on WTI futures on 10 November 2004 (1)



Source: Based on New York Mercantile Exchange data.
(1) The percentage probability that the price of oil will fall between two points on the horizontal axis (showing oil prices in dollars) is given by the area between the two points beneath the curve. The dotted lines are the average of the probability distributions.

The dollar prices of non-energy raw materials continued to climb rapidly in the early months of 2004 as a result of the jump in the prices of metals and food products, but they stabilized from April onwards; in September they were up 17.6 per cent on the year-earlier period.

World trade in goods, calculated on the basis of the performance of the main industrial countries, increased in the first half of 2004 by 10 per cent on the year-earlier period.

Over the longer term a further reduction of trade barriers could lend new impetus to the expansion in international trade. At the end of July, following an interim accord reached within the World Trade Organization, the multilateral negotiations begun at Doha in November 2001, which had been stalled for the past year, began to make some progress. In the agricultural sector the interim accord provides for a preliminary commitment by the advanced countries to make a substantial cut in government support for domestic producers, to reduce import duties and to abolish subsidies and other incentives for exports. This undertaking has removed one of the main obstacles to progress in the negotiations. However, no headway has been made on the other major issues under discussion: the reduction of import duties on manufactures, which are usually high in the emerging countries and, in the service sector, the adoption of measures to liberalize trade, international investment and temporary movements of workers from emerging to advanced countries.

Economic developments and policies in the United States

In the United States output growth slowed from an annualized rate of 4.5 per cent in the first quarter to 3.3 per cent in the second, before edging up to 3.7 per cent in the third (Table 1). The decline in the second quarter reflected the slowdown in private consumption, partly due to the effects of higher energy prices; the main contribution to economic activity came from private investment. In the third quarter, as consumption picked up sharply, the contribution of private sector fixed capital formation diminished owing to the slowdown in residential investment. Exports slowed from the fast pace registered in the first half of the year.

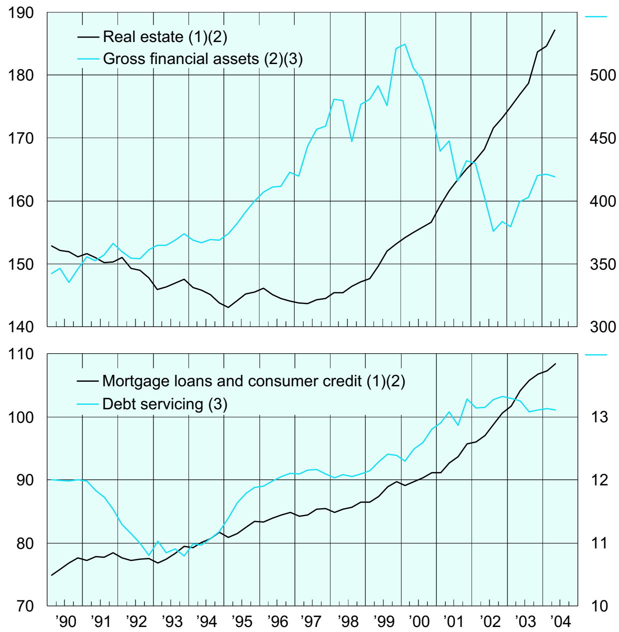
In the second quarter the rise in oil prices cut about 1.5 percentage points from growth in real wages, which remained virtually unchanged; household expenditure slowed from 4.1 to 1.6 per cent. Consumption growth increased to 4.6 per cent in the third quarter, thanks to the acceleration in real wages, which rose by 1.7 per cent. The main item affected was car purchases, which were boosted by special offers during the summer months.

Non-farm payroll employment, which rose on average by 300,000 a month between March and May, grew more moderately during the summer. Between June and September the average monthly increase in employment fell by more than half to 130,000, mainly owing to the slowdown in the service sector; the subsequent recovery in the latter drove the sharp upturn in employment in October (340,000). However, employment has been much slower to respond than in similar cyclical phases: in October it was still 490,000 (0.4 per cent) lower than its level on the eve of the last recession in March 2001. By contrast, in the previous two cycles, employment was 5.3 per cent (February 1985) and 2.6 per cent (February 1994) higher the same number of months after their respective peaks. The strength of the expansion in output was similar in all three cyclical phases.

The second quarter of 2004 saw a further improvement in the financial situation of US households as house prices continued to rise. The value of real-estate assets continued to increase rapidly, reaching 187 per cent of disposable income (Figure 3). By contrast, households continued to resort to borrowing, with their debt rising to 108 per cent of disposable income. The ratio of net wealth to disposable income remained at the high level recorded in the first quarter (547 per cent).

Figure 3

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.

Investment growth in the third quarter (11.7 per cent) maintained the rapid pace registered in the second, reflecting the gradual spread of the recovery to the traditional sectors and continued expansion in new technology industries. In the closing months of the year investment will receive a boost from the tax incentives passed in May 2003, which are due to expire in December.

Table 1

Economic indicators for the main industrial countries

(at constant prices; annualized percentage change on previous period, except as indicated)

	GDP	Household consumption (1)	Government consumption	Investment (2)	Changes in stocks (3)(4)	National demand	Net exports (3)(5)
United States							
2003	3.0	3.3	2.8	5.1	-0.1	3.3	-0.4
2004							
H1	4.1	3.3	2.2	8.3	0.9	4.7	-0.9
Q1	4.5	4.1	2.5	4.5	1.2	5.0	-0.8
Q2	3.3	1.6	2.2	13.9	0.8	4.2	-1.1
Q3	3.7	4.6	1.4	8.5	-0.5	4.1	-0.6
Japan							
2003	2.4	0.8	1.0	3.0	0.3	1.8	0.7
2004							
H1	5.3	4.1	1.9	4.2	0.5	4.3	1.2
Q1	6.3	4.4	2.2	2.7	1.7	5.4	1.1
Q2	1.1	3.1	1.5	-3.4	-0.9	0.1	1.0
Q3	0.3	3.7	2.4	-3.4	-0.4	1.2	-0.8
Euro area							
2003	0.5	1.0	1.7	-0.5	0.4	1.2	-0.7
2004							
H1	2.3	1.6	1.2	0.7	0.5	1.9	0.4
Q1	2.8	2.7	0.3	-0.6	-0.4	1.0	1.7
Q2	2.0	1.1	2.2	0.4	0.1	1.3	0.7
Q3	1.2						
United Kingdom							
2003	2.2	2.3	3.5	2.2	..	2.5	-0.4
2004							
H1	3.3	3.5	4.1	7.8	..	4.4	-1.2
Q1	2.7	4.6	3.1	6.5	-0.6	4.0	-1.5
Q2	3.6	2.4	1.8	10.2	-0.2	3.3	0.2
Q3	1.7						
Canada							
2003	2.0	3.1	3.8	4.9	0.9	3.6	-2.4
2004							
H1	3.4	3.7	2.9	5.8	-1.3	3.9	0.7
Q1	3.0	6.4	3.2	7.2	-4.1	5.9	1.0
Q2	4.3	1.3	1.2	3.3	-0.2	1.7	3.3

Sources: National statistics and Eurostat.
(1) Comprises consumption of resident households and non-profit institutions serving households. – (2) For the United States, private investment; public investment is included under "government consumption". – (3) 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. – (4) Includes statistical discrepancies and, for the euro area and the United Kingdom, also includes changes in valuables. – (5) Goods and services.

Capital formation continued to be sustained by the growth in profits. In the first half of the year non-financial firms' profits rose on average by 30 per cent compared with the year-earlier period.

As a consequence firms were able to step up investment without worsening their financial position. Borrowing by non-financial firms amounted at mid-year to 85.5 per cent of the sector's value added, 1 percentage point less than at the end of 2003. In the same period, leverage (defined as the ratio of debt to the sum of debt and own equity at market value) was unchanged at 33 per cent, slightly below the long-term average.

Profit margins continued to benefit from favourable cost conditions. Thanks above all to rapid productivity growth, unit labour costs in the third quarter of 2004 were slightly lower than at the last cyclical trough in the fourth quarter of 2001. By contrast, in the previous two cyclical phases they had increased by around 4 per cent at the same distance in time from the trough (Figure 4). However, from the spring onwards unit labour costs began to rise again, reflecting the acceleration of wages in the second quarter and the slowdown in productivity in the third.

The strong expansion in domestic demand, which led to a sharp rise in imports (12.7 per cent at constant prices in the first half of the year), outstripping the rapid 9.7 per cent growth in exports, caused a further widening of the current account deficit. In the first half of 2004 the deficit reached $313.3 billion, equal to 5.4 per cent of GDP, almost all of which can be ascribed to the trade balance.

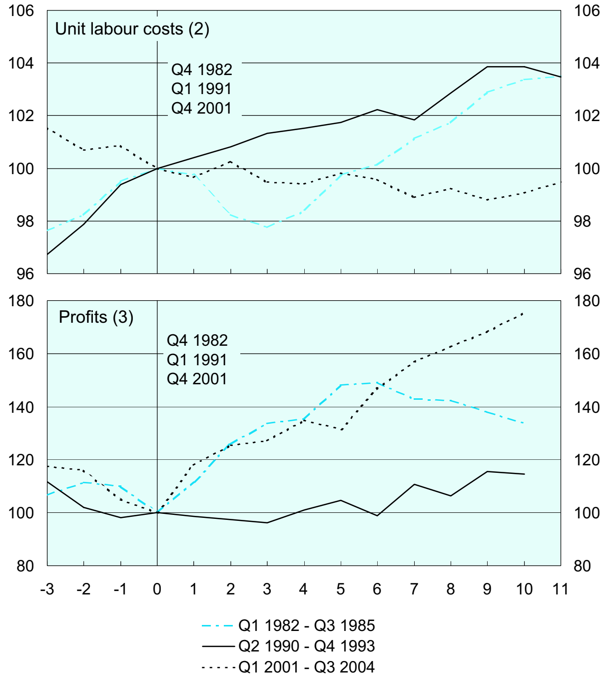
The external deficit was again financed principally through net bond purchases by non-residents. In particular, purchases of US Treasury notes rose from $193 billion in the first eight months of 2003 to $283 billion in the same period of 2004. More than half consisted of purchases by foreign authorities.

At the end of 2003 the United States' net external debt amounted to around 24 per cent of GDP, the same as at the end of 2002. The deterioration caused by the larger deficit on current account was offset by the rise in the value of external foreign-currency assets as a result of the dollar's depreciation.

Figure 4

United States: unit labour costs and profits before and after the last three cyclical upturns (1)

(index: trough of each cycle=100)



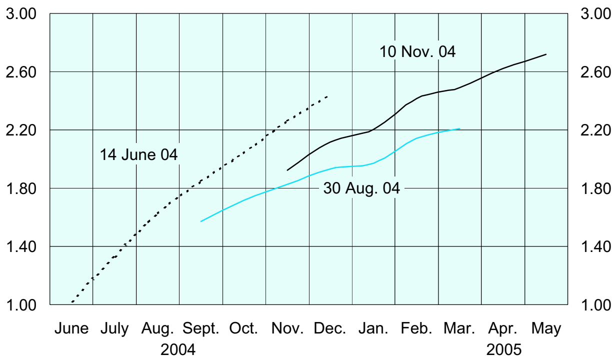
Sources: Bureau of Economic Analysis and Bureau of Labor Statistics.
(1) The horizontal axis shows the number of quarters before and after the troughs. The latter, denoted by the vertical line, are calculated by the National Bureau of Economic Research. – (2) Non-farm sector. – (3) Ratio to value added of the sector (non-financial corporations).

After three years of rapidly deteriorating public finances, in the fiscal year to 30 September 2004 the budget deficit stabilized around the high level recorded in the previous year. According to the Congressional Budget Office's latest estimates, the aggregate federal budget deficit amounted to $413 billion, equal to 3.6 per cent of GDP. This represents an increase of barely 0.1 percentage points of GDP with respect to 2003 and is 0.6 points lower than the CBO's estimate in the spring. Better economic conditions than initially forecast, which led to a larger-than-expected increase in tax revenues, contributed to the improvement. General government net borrowing also stabilized at an average of 4.4 per cent of GDP in the first three months of fiscal 2004, compared with 4.6 per cent in 2003. The federal debt increased from 62.3 to 64 per cent of GDP, while the share placed on the market rose from 36.1 to 37.5 per cent.

Figure 5

United States: forward interest rates implicit in futures on 30-day federal funds at various dates (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 federal deficit for 2005, which the CBO forecast in September at $348 billion (equal to 2.8 per cent of GDP), should increase by around 0.3 percentage points of GDP as a result of two tax cuts passed by Congress in October. The first of these measures extended a number of benefits for households that would otherwise have expired at the end of 2004; most of its effects on the budget will emerge in 2005-06. The second introduced a series of small reliefs for companies. Despite the measures' expansionary impact on deficits in the coming years, estimated at $35 billion in 2005 and $50 billion in 2006, the overall stance of budget policy will in fact be slightly restrictive.

The first half of 2004 saw an increase in inflation, mainly due to the rise in energy prices and, at the beginning of the year, a larger-than-expected expansion in demand. The twelve-month increase in the consumer price deflator was 2.5 per cent in June, compared with 1.6 per cent at the end of 2003. Even excluding food and energy products, the growth in the deflator rose from 1.1 to 1.6 per cent in the first four months of the year. Inflationary pressures subsequently abated. In September the consumer price deflator rose by just 2 per cent (1.5 per cent excluding the most volatile items).

On 30 June the Federal Reserve, which had gradually hinted in its communiqués that it would adopt a less accommodating monetary policy stance, increased its target for the federal funds rate by 0.25 percentage points. At the next three meetings of the FOMC the rate was raised by a further 75 basis points overall. Despite the increases the US central bank judged that monetary conditions were still accommodating and, together with the strong growth in productivity, would continue to sustain economic activity. With core inflation and expected inflation still moderate it would be possible to proceed gradually with further increases in official rates. The prices of futures contracts on federal funds indicate that market participants expect further 0.25 point increases in reference rates at both the December and February meetings of the FOMC (Figure 5).

Developments in US financial markets

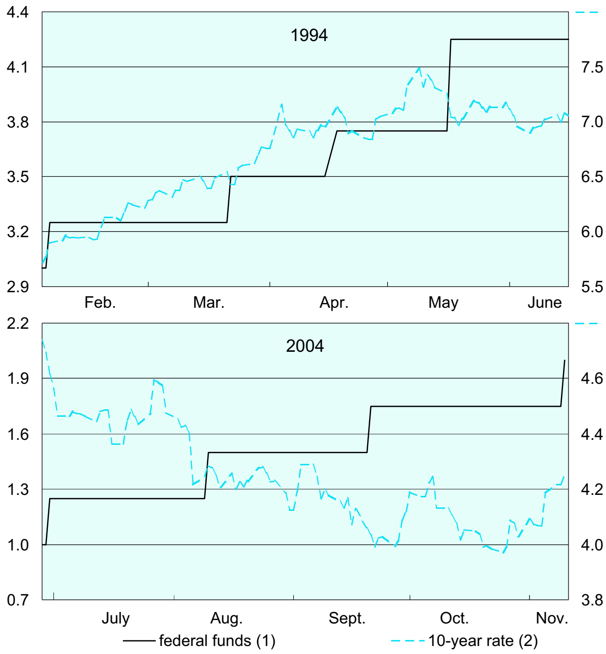
Between mid-March and mid-May US government bond yields increased by 1.2 percentage points to 4.9 per cent, primarily reflecting the acceleration in economic activity in the early part of the year and the concurrent rise in inflation. Yields subsequently declined: since the end of June, when the Federal Reserve shifted its monetary policy stance, long-term yields have fallen by 0.4 points to about 4.3 per cent (Figure 6). Deflated with the inflation expectations reported by Consensus Forecasts, long-term yields have stabilized at under 2 per cent, one of the lowest levels in the last decade. In a similar phase of monetary restriction in February 1994, the Federal Reserve's early action to counter inflationary pressures against a background of rapidly expanding economic activity was perceived as insufficient by the markets, and the consequent rise in uncertainty produced an immediate and pronounced increase in yields on 10-year Treasury bonds, which jumped by more than 1.7 points between February and May.

The risk premium on US corporate paper, which had fallen to a record low at the end of last year, subsequently stabilized at a slightly higher level. For bonds issued by highly rated companies, the yield differential with respect to 10-year Treasury bonds was 0.8 percentage points, while that on paper issued by high-yield firms was 2.7 points. The improved earnings and stronger financial position of firms, which were also signaled by the continued decline in insolvencies and the balance of upgrades and downgrades by rating agencies, helped to keep the cost of financing low.

Figure 6

United States: target for the federal funds rate and bond yields in 1994 and 2004

(daily data)



Source: Thomson Financial Datastream.
(1) Left-hand scale. – (2) Right-hand scale.

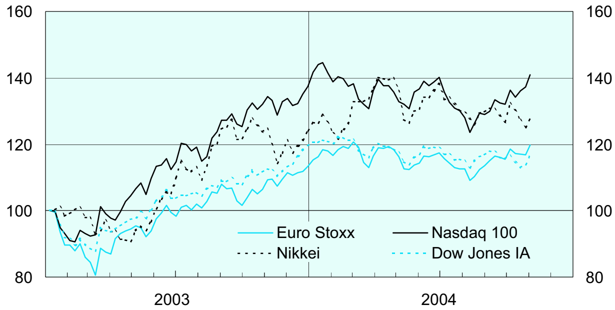
Rates on mortgage loans moved almost in step with those on long-term Treasury bonds, increasing by about 1 percentage point to 6.3 per cent between March and May before returning to 5.7 per cent, where they had started the year. House prices accelerated, rising by 9.4 per cent in the second quarter compared with the same quarter a year earlier, the largest increase in 25 years. Mortgage loans totaling $760 billion were refinanced in the first half of 2004, 30 per cent less than the exceptionally high average for 2002 and 2003. However, refinancing remained high in historical terms. Low interest rates enabled households to increase their mortgage borrowing without raising their debt servicing burden, which stayed at 13 per cent of disposable income.

The upward trend in equity markets that began on the eve of military operations in Iraq came to a halt at the start of the year. The main indices remained unchanged on average, albeit with broad fluctuations; they are currently close to the high levels reached in January this year (Figure 7).

Figure 7

Stock market indices in the United States, the euro area and Japan

(average weekly data; indices, 1st week of January 2003=100)



Source: Thomson Financial Datastream.

The overall stability of share prices in 2004 reflected the effects of contrasting factors. Prices were supported by a significant, broad-based increase in corporate earnings, which exceeded the amount required for productive investments, while abundant liquidity made it possible to conduct share buy-backs and pay high dividends. By contrast, since last summer the fairly rapid increase in raw materials prices has depressed equity prices. Some sectors, such as automobile manufacturing, where a rise in raw materials prices significantly raises costs, have felt the impact more acutely.

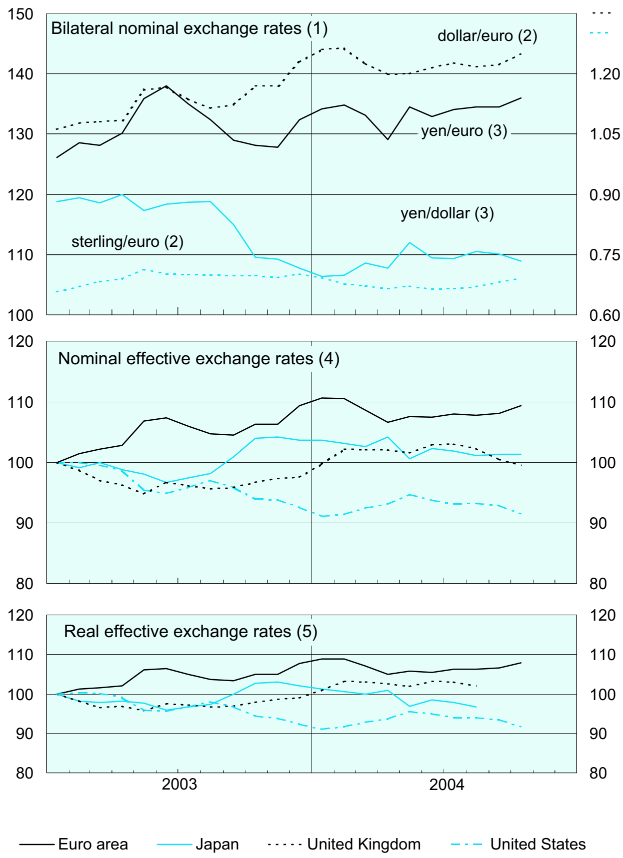
Thanks to the strong performance of profits, the price/earnings ratio, which has been falling since March 2002, decreased even further, moving broadly back into line with its long-term average.

On equity and bond markets, price volatility – both historical and that implicit in option prices – decreased to a fairly low level. In addition to the considerable liquidity available, the reduction is attributable to the portfolio choices of non-bank financial intermediaries.

On 10 November the dollar's exchange rate against the euro reached a low of $1.30, as the depreciation under way since February 2002 continued. Contributing to the decline was the heightened concern about the expansion of the external deficit of the United States (Figure 8). The downward trend was temporarily interrupted between February and May, when the dollar was buoyed by the abatement of the risk of deflation, the strengthening of economic activity and expectations of a more restrictive monetary policy stance.

Figure 8

Exchange rates of the 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 2003=100. A rise indicates an appreciation. – (5) Indices, January 2003=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 emerging economies of Asia continued to curb the appreciation of their currencies against the dollar, building up their foreign reserves. However, since April the pace of accumulation has slowed: at the end of July foreign reserves amounted to $1,360 billion, an increase of about $50 billion since April, compared with a rise of nearly $95 billion in the first quarter of the year.

At the end of October the Federal Reserve's exchange rate indicator showed that the real effective exchange rate of the dollar was broadly unchanged with respect to last January; since February 2002 the US currency had depreciated by 13 per cent.

Developments in the economies and financial markets of the emerging countries

In the first half of the year economic activity gained momentum in all the emerging areas under the stimulus of domestic demand, which added to that imparted by world trade. In Asia output continued to increase even faster than expected, partly owing to expansionary economic policies. China and India posted very high rates of GDP growth. In Latin America activity began to expand rapidly again after three years of stagnation, benefiting from the improvement in the terms of trade associated with the rise in the prices of basic materials. Output growth in Africa is expected to increase slightly in 2004, from 4.3 to 4.5 per cent. The strengthening and spread of growth among African countries in the last four years has produced a significant rise in per capita income. The ten new members of the European Union also registered generally rapid growth rates that exceeded those recorded in the second half of 2003. In some of these countries inflation remains high and the state of the public finances is a cause for concern.

In China, in the first nine months of the year GDP increased by 9.5 per cent on the year-earlier period (Table 2). Investment, which drove economic activity in 2003, slowed in the spring, partly owing to the administrative measures and credit restrictions adopted by the authorities to prevent an excessive expansion of productive capacity. Nevertheless, thanks in part to the persistently high household savings rate (24 per cent for urban households), investment growth remained rapid in the first eight months of the year, with a nominal increase of 30 per cent on the corresponding period of 2003 (35 per cent in the year-earlier period). Since the autumn of 2003 consumer price inflation has risen, reaching a twelve-month rate of 5.2 per cent in September this year. The acceleration is largely attributable to higher food prices. In the first ten months of the year the

Table 2

Economic indicators for selected emerging countries

(*at constant prices; percentage change on year-earlier period, except where indicated*)

	% of world GDP in 2003 (1)	GDP					Domestic demand (2)				Net export (3)			
		2003	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2003	2003 Q4	2004 Q1	2004 Q2	2003	2003 Q4	2004 Q1	2004 Q2
Latin America														
Argentina	0.8	8.8	11.7	11.3	7.0	....	11.2	15.4	15.3	10.7	-1.5	-2.6	-3.0	-3.0
Brazil	2.8	-0.2	-0.1	2.7	5.7	....	-1.8	....	....	....	1.5	....	....	....
Mexico	1.8	1.3	2.0	3.7	3.9	....	0.5	1.1	3.2	3.1	0.7	0.8	0.5	0.8
Asia														
China (4)	12.6	9.3	9.3	9.8	9.7	9.5	....	....	....	....	....	....	....	....
India (5)	5.7	7.0	10.5	8.2	7.4	....	6.5	....	....	....	0.8	....	....	....
Indonesia	1.4	4.5	4.1	5.0	4.3	....	3.1	2.9	7.8	6.3	1.7	1.4	-1.9	-1.2
Malaysia	0.5	5.3	6.6	7.6	8.0	....	3.7	11.6	10.6	12.9	2.0	-3.6	-1.6	-3.3
Philippines	0.7	4.7	5.0	6.5	6.2	....	7.4	5.3	3.7	3.4	-3.4	-0.9	2.3	2.2
South Korea ...	1.7	3.1	3.9	5.3	5.5	....	0.3	-1.1	-2.0	1.5	2.8	5.0	7.2	4.0
Taiwan	1.1	3.3	5.7	6.7	7.7	....	0.4	3.4	7.0	6.7	2.9	2.7	0.5	1.8
Thailand	0.9	6.8	7.8	6.6	6.3	....	7.3	11.6	10.5	9.3	0.5	-1.7	-2.3	-1.7
Europe														
Poland	0.8	3.8	4.7	6.9	6.1	....	2.4	....	....	....	1.3	....	....	....
Russia	2.6	7.3	7.6	7.5	7.3	....	8.2	7.9	10.5	11.6	0.5	0.8	-0.9	-2.4
Turkey	0.9	5.8	6.1	10.1	13.4	....	9.3	11.3	19.1	21.1	-3.1	-4.7	-9.3	-8.3

Sources: National statistics, IMF and OECD.

(1) On the basis of purchasing power parities. – (2) Includes change in stocks and statistical discrepancies. – (3) Contribution to GDP growth in relation to the same period of the previous year in percentage points. Includes goods and services. – (4) Cumulative percentage change in GDP in the year to the quarter indicated. – (5) GDP at factor cost.

trade surplus fell to $39.3 billion, less than half the level in the corresponding period of the previous year. As inflows of foreign capital remained substantial, the Chinese authorities countered the tendency of the renminbi to appreciate by buying dollars. The expansionary effect on liquidity was offset with administrative measures directly restricting credit as well as intervention through open market operations and an increase in the reserve ratio. Last September the broad money aggregate (M2) rose at a twelve-month rate of 13.9 per cent, down from 19.6 per cent in December 2003. For the first time in nearly ten years, on 28 October the central bank increased the reference rate for one-year loans by 0.27 points to 5.58 per cent and the deposit rate by the same amount to 2.25 per cent; the latter had been negative in real terms since the end of 2003. In addition to the desire to make greater use of market instruments to control the money supply and increase the efficiency of resource allocation, the measures were prompted by the need to stem the flow of funds from the official to the informal financial system.

In Brazil the sharp acceleration in output, which increased by 4.2 per cent in the first half with respect to the year-earlier period, primarily reflected the strong recovery in consumption and investment. Inflation continued to subside until May before turning upwards, reaching 6.7 per cent in September. In the first nine months of the year, the primary budget surplus was equal to 5.6 per cent of GDP, an increase on the 5.1 per cent registered in the same period of 2003 and larger than the objective agreed with the IMF. The recovery and the effects of the reform of the tax system introduced at the end of last year contributed to the improvement. In Mexico growth quickened in the first half of the year, with output increasing by 3.8 per cent on the corresponding period of 2003 under the impulse of the acceleration in investment and exports, which have benefited from depreciation of the peso against the dollar over the past two years. After the marked acceleration last year, growth in Argentina slowed significantly in the second quarter of 2004, reflecting the difficulties of industry in obtaining energy supplies. Growth remained brisk in the first half of the year, however (9 per cent on the corresponding period of 2003). Following price increases in a number of regulated sectors, inflation began to rise again in the spring, increasing to a twelve-month rate of 5.9 per cent in September, up from 2.3 per cent in March.

In Russia, GDP continued to expand rapidly, rising by 7.4 per cent in the first half of 2004 compared with the year-earlier period thanks to the increase in oil prices. The strengthening of domestic demand, which above all reflected the acceleration in consumption, was accompanied by a slight increase in inflation, which went from 10.2 per cent on a twelve-month basis in May to 11.5 per cent in September. Favourable economic conditions and the increase in revenues from oil exports boosted the federal budget surplus to 4.6 per cent of GDP in the first eight months of the year.

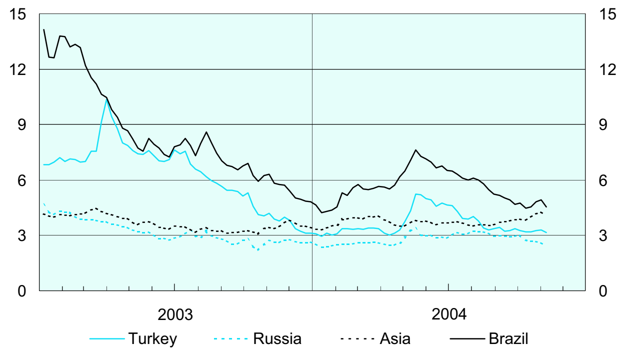
In Turkey economic activity accelerated sharply in the first half of the year, with output increasing by 11.8 per cent with respect to the same period of 2003, the largest rise in more than a decade. Although exports grew rapidly, strong growth in domestic demand, especially investment, caused the current account deficit to widen in the first half of the year to 7.5 per cent of GDP, compared with 2.8 per cent in 2003 as a whole. Inflation, which had gradually declined since May 2003, permitting the progressive loosening of monetary conditions, began to rise again in July as a result of the depreciation of the currency and higher energy prices, reaching 9 per cent in September. The restrictive stance of fiscal policy fostered an improvement in the primary budget surplus in the first half of the year, which according to Ministry of Finance estimates exceeded the objective of 6.5 per cent agreed with the IMF.

Since mid-May interest rate spreads with respect to US Treasury bonds have increased slightly, to 4.1 points, in the Asian countries, but narrowed by 3.1 points to 4.6 points in Brazil, and by 2.1 points to 3.1 in Turkey (Figure 9). Conditions in the Russian financial market were not significantly affected by the liquidity crisis at a leading bank and the difficulties of the country's second-largest oil company. The risk premium on government bonds fell by 0.9 points to 2.5 points from its level in mid-May.

Figure 9

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.

Despite the temporary widening of spreads in the spring, the low cost of borrowing encouraged many emerging countries to bring bond issues forward and increase their size: in the first half of 2004 the cumulative value of gross public and private issues was more than two thirds of the historically high

Table 3

Gross public and private bond issues in the emerging countries
(billions of dollars)

	1999	2000	2001	2002	2003	2003		2004
						H1	H2	H1
Emerging countries	**82.4**	**80.5**	**89.0**	**61.6**	**97.4**	**48.1**	**49.3**	**65.2**
Africa	**2.3**	**1.5**	**2.1**	**2.2**	**5.5**	**3.5**	**2.0**	**2.3**
South Africa	1.8	1.5	1.6	1.5	4.7	2.7	2.0	1.7
Latin America	**38.3**	**35.6**	**33.6**	**18.3**	**31.2**	**14.4**	**16.8**	**16.5**
Argentina	14.2	13.0	1.5	….	0.1	..	0.1	0.1
Brazil	8.6	11.4	12.2	6.4	10.7	4.0	6.7	4.2
Mexico	9.9	7.1	9.2	4.9	9.1	6.4	2.7	7.3
Asia	**23.4**	**24.5**	**35.9**	**22.5**	**34.4**	**12.8**	**21.6**	**23.1**
China	1.1	1.8	2.3	0.6	2.0	..	2.0	..
Indonesia	….	….	0.1	0.4	0.6	0.4	0.2	1.3
South Korea	4.9	7.7	7.8	6.7	11.5	6.1	5.4	8.9
Taiwan	0.5	1.7	2.2	5.5	9.2	3.1	6.1	4.9
Europe	**13.9**	**14.2**	**11.6**	**15.0**	**24.4**	**15.8**	**8.6**	**18.1**
Czech Republic	0.4	….	..	0.4	3.2	1.5	1.7	2.0
Hungary	2.4	0.5	1.2	..	2.2	1.1	1.1	2.6
Poland	1.7	1.6	2.8	2.7	4.3	2.8	1.5	3.5
Russia	….	..	1.4	3.4	4.0	2.5	1.5	2.0
Turkey	5.8	8.5	2.2	3.3	5.3	4.0	1.3	3.5
Middle East	**4.4**	**4.7**	**5.9**	**3.7**	**1.9**	**1.5**	**0.4**	**5.2**

Source*:* IMF.

total of nearly $100 billion recorded in all of 2003 (Table 3). Compared with the first half of last year, gross issues increased most in the emerging Asian countries (80 per cent) especially in Indonesia, Taiwan and South Korea. The rise was more modest (14 per cent) in the emerging economies of Latin America and Europe.

In the first seven months of 2004 the emerging countries carried out 50 new international issues of sovereign debt containing collective action clauses, compared with 55 in 2003 as a whole. The value of the issues came to $36.4 billion, or 90 per cent of total issues by these countries, compared with $34.3 billion (65 per cent of the total) in 2003.

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND ITALY

Production, demand and the balance of payments

In the first half of the year the euro-area expansion that had begun in the second half of 2003 strengthened. However, it followed the world economic upturn with a lag and at a slower pace.

Area-wide growth (2.3 per cent on an annual basis by comparison with the previous half-year) was sustained by both domestic and export demand. The latter benefited from the rapid expansion of world trade and the stabilization of the effective exchange rate of the euro. Developments differed from country to country. In Germany economic activity was fueled by exports, while consumption stagnated and investment contracted. In France and Spain domestic demand continued to grow, compensating for the adverse trend in foreign trade (Figure 10).

In Italy the first half showed annualized GDP growth of 1.4 per cent, one of the lowest rates in the euro area. Economic activity was sustained by household consumption and investment. Only in the second quarter did exports record a substantial gain. Industry remained sluggish: production, which has been essentially flat for more than a year, is still 5 percentage points below the peak registered at the end of 2000.

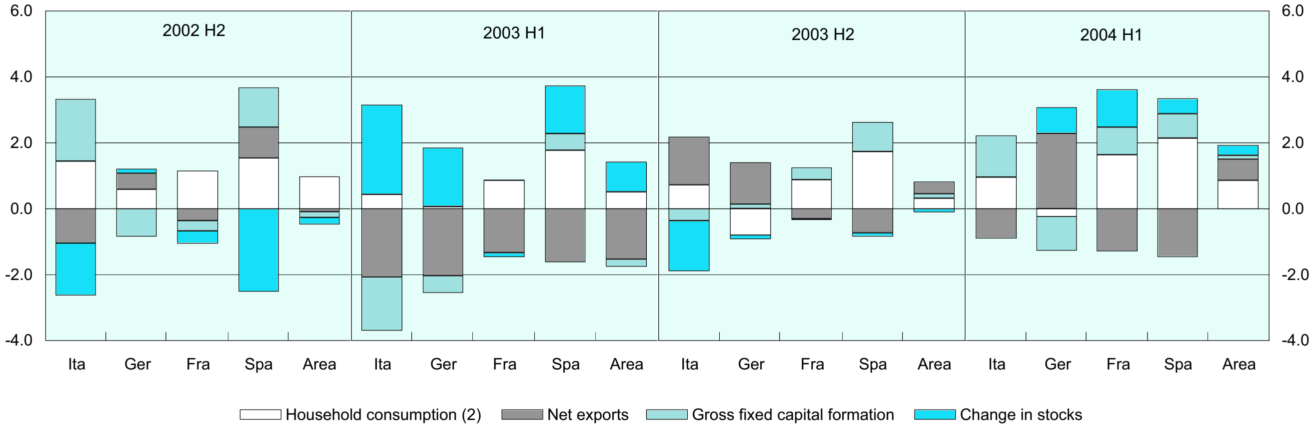
In recent months the area's cyclical indicators have faltered slightly, reflecting the threat to world economic growth represented by high oil prices and their international causes.

According to preliminary estimates by Eurostat, GDP growth slowed down in the third quarter as a result of a sharp deceleration in Germany and France. In Italy the growth rate held steady.

Figure 10

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

(seasonally adjusted at constant prices)



Source: Based on national statistics.

(1) Contributions to growth on the previous half-year; percentage points. Excludes consumption of general government. – (2) Consumption of resident households and non-profit institutions serving households.

Production and demand in the euro area

Under the impulse of the world economic upswing that began last year, the pick-up in activity in the first half of 2004 involved the euro area as a whole and its three principal economies; in the other countries, the expansion was even more rapid overall.

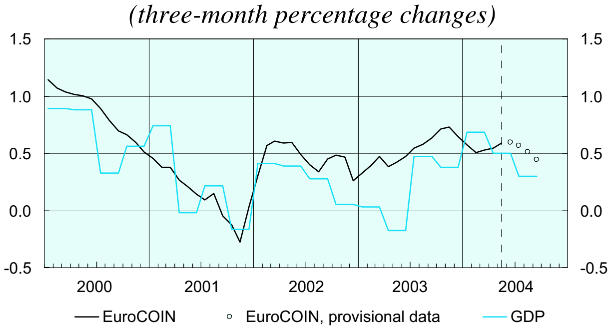
Euro-area GDP grew at an annual rate of 2.3 per cent, compared with 1.1 per cent in the second half of 2003. German growth was slower than that of the area as a whole, as it has been for three years. The annualized growth of 1.6 per cent in the first half was sustained entirely by net exports, as final domestic demand continued to contract. France remained the most dynamic of the area's three largest economies; fueled by domestic demand, the annual growth rate rose from 1.7 to 2.6 per cent (Table 4).

The cyclical indicators now available point to the risk of a slowdown in the area and its major economies in the remainder of 2004. The EuroCOIN coincident cyclical indicator, which had risen steadily since the beginning of the year, turned downwards in June and by September was below its long-term average (Figure 11).

Figure 11

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

(three-month percentage changes)



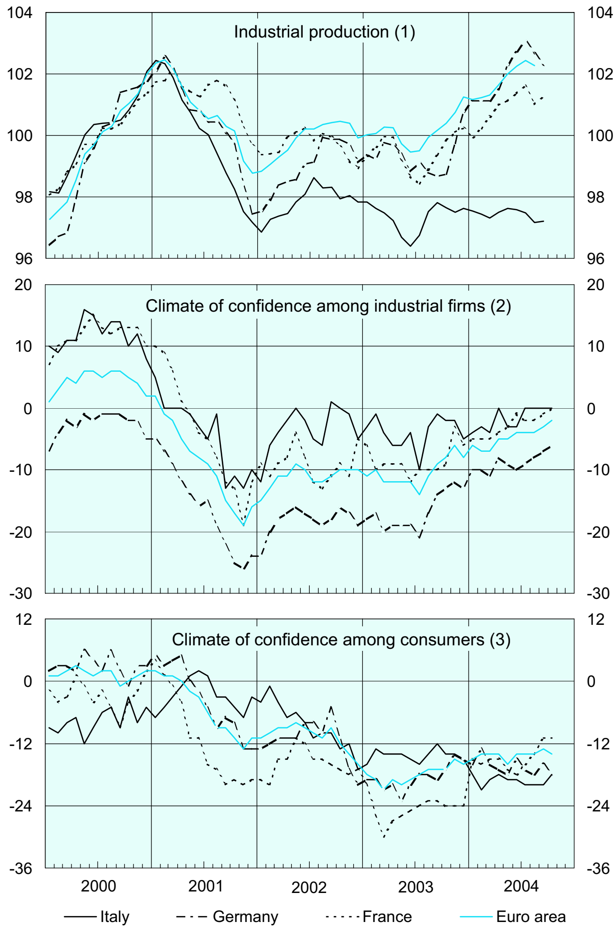
(1) The method of constructing the indicator is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2002 in Italian.

The annualized area-wide growth rate fell from 2 per cent in the second quarter to 1.2 per cent in the third. In Germany and France the slowdown was sharper, with growth dropping from 1.7 to 0.4 per cent and from 2.4 to 0.4 per cent respectively.

Figure 12

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, their personal financial situation, unemployment and the possibility of saving.

Industrial production, which had expanded rapidly in all the largest area economies except Italy in the first half of the year, slowed suddenly in the summer. Manufacturing activity contracted by 0.4 per cent compared with the second quarter in Germany and Italy and was unchanged in France (Figure 12). Early indications are that area-wide industrial output did not increase in the third quarter.

Table 4

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

(seasonally adjusted at constant prices; percentage changes)

	On the corresponding period							On the previous period, annualized					
	2003			2004				2003		2004			
	Q3	Q4	Year	Q1	Q2	Q3	H1	Q3	Q4	Q1	Q2	Q3	H1
GDP													
Germany (1)	-0.3	..	-0.1	0.8	1.4	1.3	1.1	1.1	1.2	1.7	1.7	0.4	1.6
France (1)	0.4	1.1	0.5	1.6	2.7	2.0	2.1	3.0	2.4	2.8	2.4	0.4	2.6
Italy (1)	0.4	0.1	0.3	0.8	1.3	1.3	1.1	1.6	..	2.1	1.5	1.7	1.4
Spain (1)	2.6	2.8	2.5	2.7	2.6	2.6	2.6	2.4	3.0	2.9	2.0	2.4	2.7
Euro area (1)	0.4	0.7	0.5	1.4	2.0	1.9	1.7	1.9	1.5	2.8	2.0	1.2	2.3
Imports													
Germany	2.0	3.1	4.0	2.3	7.2	….	4.7	3.2	11.9	4.8	8.9	….	7.6
France	-1.5	2.2	-0.1	3.8	8.6	….	6.2	2.1	11.6	4.8	16.7	….	9.4
Italy	2.2	-3.4	-0.6	2.3	3.9	….	3.1	9.9	-6.2	1.6	11.3	….	1.9
Spain	7.9	3.7	4.8	7.8	8.1	….	8.0	16.3	1.7	4.5	10.4	….	5.2
Euro area	1.6	2.6	2.2	3.4	6.9	….	5.1	5.4	8.8	2.0	11.6	….	6.1
Exports													
Germany	1.6	0.7	1.8	5.8	12.2	….	8.9	15.4	2.3	18.2	13.4	….	12.9
France	-3.7	-1.2	-2.5	1.5	4.1	….	2.8	4.0	6.6	1.9	4.0	….	3.6
Italy	..	-3.5	-3.9	1.9	6.4	….	4.2	30.1	-14.4	-4.2	20.2	….	-1.4
Spain	3.1	1.6	2.6	5.5	4.7	….	5.1	11.8	-7.2	-3.1	19.5	….	1.0
Euro area	0.4	0.5	0.3	3.8	7.8	….	5.8	10.9	1.3	6.5	12.9	….	6.7
Household consumption (2)													
Germany	-0.4	-0.9	..	-1.0	-0.8	….	-0.9	-1.4	-2.2	0.2	0.3	….	-0.4
France	1.5	1.6	1.5	1.9	2.8	….	2.3	2.8	1.8	3.9	2.6	….	3.0
Italy	1.4	0.5	1.3	1.7	1.0	….	1.4	2.2	-1.3	4.4	-1.1	….	1.6
Spain	3.0	2.9	2.9	3.3	3.2	….	3.3	2.2	4.0	4.0	2.5	….	3.6
Euro area	0.8	0.5	1.0	1.0	1.2	….	1.1	0.9	0.1	2.7	1.1	….	1.6
Gross fixed capital formation													
Germany	-1.7	-0.1	-2.2	-2.2	-2.5	….	-2.4	0.7	4.7	-10.6	-4.0	….	-5.3
France	0.4	1.5	-0.2	2.4	3.6	….	3.0	1.1	3.5	3.2	6.7	….	4.1
Italy	-2.4	-6.9	-2.1	1.3	3.1	….	2.2	-2.0	-1.4	10.9	5.5	….	6.4
Spain	3.1	2.6	3.2	2.7	3.9	….	3.3	4.4	7.6	0.6	3.2	….	3.0
Euro area	-0.2	0.1	-0.5	0.7	1.0	….	0.9	0.5	3.7	-0.6	0.4	….	0.7
National demand													
Germany	-0.3	0.8	0.5	-0.6	-0.7	….	-0.6	-3.3	4.4	-3.3	-0.2	….	-0.6
France	1.1	2.0	1.2	2.3	4.0	….	3.2	2.5	3.4	4.0	6.3	….	4.4
Italy	1.1	0.2	1.2	0.9	0.6	….	0.8	-3.0	2.7	3.8	-1.0	….	2.3
Spain	4.1	3.5	3.2	3.5	3.8	….	3.6	4.0	5.8	5.3	..	….	4.1
Euro area	0.8	1.5	1.2	1.1	1.6	….	1.4	-0.2	4.3	1.0	1.3	….	1.9

Source: Based on national statistics.

(1) 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.

The improvement in the confidence of industrial firms registered since the second half of 2003 – in connection with the increase in orders (above all export orders) and the diminution in stocks – was also attenuated.

Household consumption. – Household spending in the euro area increased at an annual rate of 1.6 per cent in the first half, but slowed from 2.7 per cent in the first quarter to 1.1 per cent in the second.

The modesty of the expansion was due above all to the weakness of consumption in Germany, which declined at an annual rate of 0.4 per cent after falling by 1.4 per cent in the second half of 2003. Expenditure on consumer durables was even worse; in the first six months new car registrations fell by 6.6 per cent on an annual basis. Consumption was held back by disposable income, which was essentially flat in real terms as employment stagnated and wages increased only moderately. The propensity to consume, which diminished slightly in 2003, apparently continued to decline in the first half of this year. A likely contributing factor was a deterioration in German households' confidence in view of the still uncertain outcome of the broad programme of welfare reforms being implemented.

No upturn in German consumption is forecast for the near future. The level of households' confidence, after improving from the low registered in the first half of 2003, worsened again in the second quarter of 2004 and remained broadly unchanged in the third. These indications are confirmed by the negative if highly volatile trends in retail sales and plans to purchase durable goods.

In France household spending continued to increase rapidly in the first half; the annual rate of 3 per cent was nearly twice the area-wide pace. Consumption was sustained by real disposable income, which rose by nearly 1 per cent over the second half of 2003, and by an increased propensity to consume, which rose by another 0.5 percentage points compared with its 2003 average.

The relative smallness of the effect that the French economic upswing has had on employment so far and the rising prices of many consumer goods in connection with higher oil prices and some administrative measures may act as a curb on the growth of real disposable income. Consumption could slow down in the rest of the year. Some signs of weakness emerged during the summer; the expansion of spending on manufactured goods slowed and plans to purchase durables, which had fallen at the beginning of the year, remained below their average of recent years. By contrast, household confidence continued to recover from the low recorded early in 2003 and by the summer of 2004 was at its highest level in two years (Figure 12).

The Government has recently taken measures to stimulate consumer spending, allowing workers to withdraw part of their employee savings schemes (a form of compulsory saving) and making consumer credit interest tax-deductible.

Investment and stocks. – Gross fixed capital formation in the euro area increased at an annual rate of 0.7 per cent in the first six months, a slowdown from the already modest growth recorded in the second half of 2003. The result was due mainly to a reduction in investment in construction; expenditure on machinery and equipment continued to rise. The still ample spare capacity continues to hold back capital formation.

In Germany, after a transitory recovery in the second half of 2003, gross fixed investment fell by 5.3 per cent on an annual basis, reflecting declines both in capital equipment (4.4 per cent) and in construction (6.2 per cent). The recession in construction, which has lasted for a decade now, is the worst in fifty years. The level of investment is now a quarter below the 1994 peak reached under the impetus of unification. There are no signs of a near-term recovery in the residential building market, which has been affected among other things by the abolition of subsidies for home purchases. In contrast with the other leading economies, housing prices have been falling since the mid-1990s. Some stimulus should come from public building, however.

The robust performance of exports was not sufficient to sustain an upturn in the rest of the economy. The decline in investment in capital equipment reflected abundant spare capacity and the weakness of consumption, which induces greater caution in making investment plans. Domestic demand was also significantly affected by the higher return to capital in other industrial countries and in Eastern Europe, where German firms continued to transfer plant, especially in the transport equipment industry.

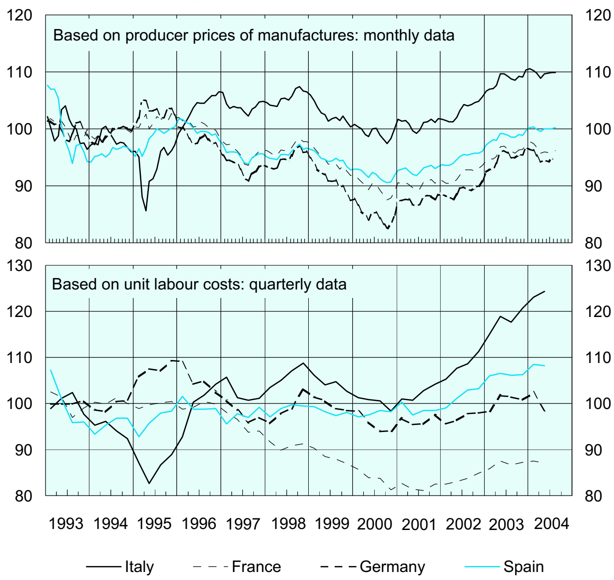
In France, by contrast, investment remained strong in the first half of 2004; it accelerated from an annual growth rate of 1.8 per cent in the second half of 2003 to 4.1 per cent, sustained by easy financing terms and domestic demand. The pick-up involved both capital equipment and construction. During the summer, however, signs of a slowdown in residential building emerged.

Exports and imports. – In the first half of 2004 the exports of the euro area quickened from an annual growth rate of 4.8 per cent to 6.7 per cent, recording the best result since 2000. Imports picked up by a comparable amount, growing by 6.1 per cent. Net exports made a positive contribution to GDP growth of 0.4 percentage points.

Figure 13

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

(indices, 1993=100)



Source: Based on national statistics.

(1) In relation to all competitor countries. An increase in the index indicates a loss of competitiveness.

The rapid expansion of exports is the consequence of the very fast growth in world demand at a time of broad stability for the real effective exchange rate of the euro.

As in 2003, foreign trade performance diverged considerably in the largest euro-area countries. Germany's exports rose at a 12.9 per cent pace in the first half, favoured among other things by improved price competitiveness (Figure 13). Despite the impetus from export industries, imports were affected by the weakness of final domestic demand and rose less strongly (7.6 per cent). In France, by contrast, where household spending and investment remained buoyant, exports rose by only 3.6 per cent despite the benefit of the stabilization of the exchange rate; imports increased at nearly three times that rate.

Production and demand in Italy

The recovery in Italian economic activity that began in the second half of 2003 proceeded at a modest pace in the first half of this year. Annualized GDP growth of 1.4 per cent was fueled above all by the domestic components of demand, while the contribution of net external demand turned negative again owing to the fall in exports, despite a significant increase in the second quarter.

In the first six months value added in industry and in services increased less than GDP, while agricultural value added rose sharply, accounting for about a third of overall growth.

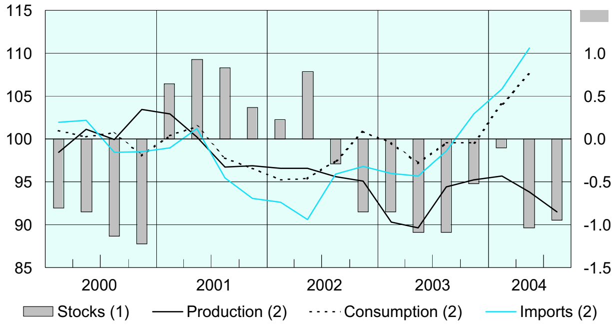
Preliminary estimates by Istat put GDP growth in the third quarter at 1.7 per cent on an annual basis, only slightly better than in the second quarter. Growth was apparently due to gains in agriculture and the service sector.

The improvement in the economic climate in the course of the year was not reflected in industrial production. For quite some time now industrial output has shown signs of weakness, owing in part to the loss of competitiveness of Italian products in domestic and foreign markets. The rapid growth of world trade has concerned mainly capital equipment and high-tech products, sectors in which the Italian presence is relatively small, while in Italy's traditional product specialities the competition of the emerging economies of Asia and Eastern Europe has intensified. For several years Italian household consumption has been increasingly directed to high-tech goods (see the *Annual Report for 2003*). These trends have impacted on the domestic durable goods market, where accelerating demand has been accompanied by strong import growth. Nevertheless, in the last two quarters the proportion of firms stating that their stocks are below normal levels has increased, which could foreshadow an improvement in the months to come, in line with the Bank of Italy's cyclical survey of firms in this sector in September (Figure 14).

Figure 14

Italy: demand, imports, production and change in stocks in the durable goods sector

(quarterly data)



Sources: Based on Istat and ISAE data.

(1) Standardized balance of the percentages of firms that judge their stocks to be above and below average. Right-hand scale. – (2) Index, 2000=100. Left-hand scale.

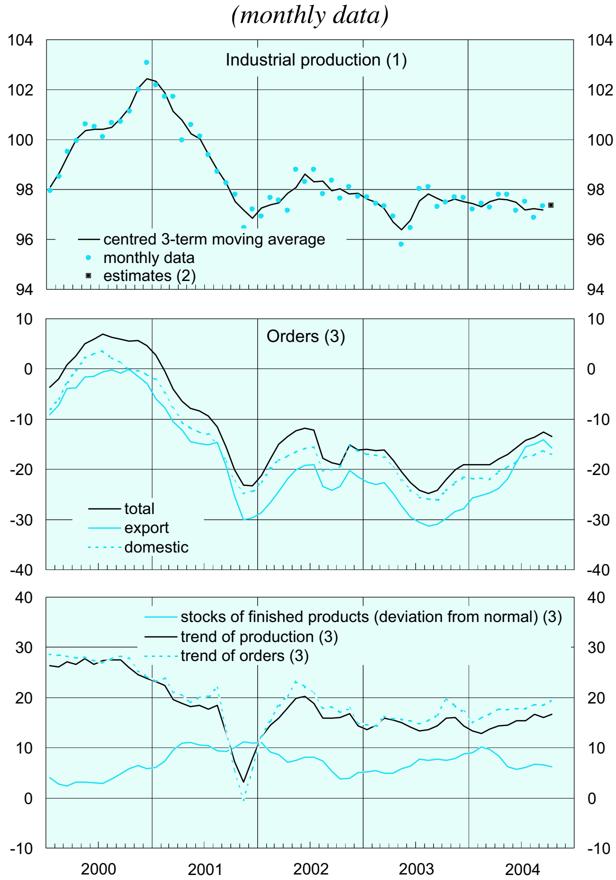
In the third quarter Italian industrial production was 4.8 per cent below the cyclical peak recorded at the end of 2000. In Germany it was 0.5 per cent higher than its end-2000 level and in France only slightly lower. The stagnation registered in the first half of the year continued in the third quarter. Preliminary estimates based on electricity consumption indicate no substantial pick-up in October (Figure 15).

Household consumption. – Household expenditure rose at an annual pace of 1.6 per cent in the first six months, compared with 1.2 per cent in the previous half. Rapid growth in the first quarter (a rate of 4.4 per cent) was followed by a contraction in the second (1.1 per cent), owing mainly to the service component, which had shown the most dynamic growth over the previous three years. Purchases of

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 months ahead. Seasonally adjusted data.

consumer durables continued to increase, spurred among other things by the rapid expansion of consumer credit (Table 5).

Preliminary estimates indicate that the main support to household spending during the first six months came from real disposable income, which was about 1 per cent higher than in the first half of 2003. The increase was due to the rise of 1.6 per cent in gross compensation of employees, owing above all to gains in per capita earnings, while employment growth was modest. The contribution of self-employment income was less substantial but still positive. The unfavourable trend in households'

Table 5

Italy: resources and uses of income

(seasonally adjusted at constant prices; annualized percentage changes on the previous period unless otherwise indicated)

VOCI	As a percentage of GDP in 2004	2003				2004				
		Q3	Q4	H2	Year	Q1	Q2	Q3	H1	H1 (1)
Resources										
GDP (2)	-	1.6	..	0.7	0.3	2.1	1.5	1.7	1.4	-
Imports	27.4	10.0	-6.2	4.4	-0.6	1.6	11.3	….	1.9	-0.5
Goods	20.9	10.0	-5.5	4.8	-1.3	1.0	21.3	….	4.1	-0.8
Services	6.6	9.9	-8.5	3.0	1.6	3.6	-16.5	….	-4.8	0.3
Uses										
Gross fixed capital formation	20.3	-2.0	-1.4	-1.8	-2.1	10.9	5.5	….	6.4	1.3
Construction	8.8	-2.5	-1.3	-1.5	1.8	8.0	6.3	….	5.2	0.5
Machinery, equipment and sundry products	9.1	-3.4	1.1	-2.0	-3.6	9.5	5.6	….	6.4	0.6
Transport equipment	2.3	5.9	-11.1	-2.2	-9.8	28.4	2.6	….	10.7	0.2
Consumption of resident households	60.3	2.2	-1.3	1.2	1.3	4.5	-1.1	….	1.6	1.0
Non-durable goods	26.4	2.0	-3.1	0.9	0.5	2.2	-0.4	….	0.2	..
Durable goods	7.2	10.4	..	2.5	1.8	19.5	13.8	….	13.0	0.9
Services	27.3	1.4	1.0	1.1	1.3	3.7	-2.3	….	1.5	0.4
Other domestic uses (3)	19.3	-19.0	21.7	-5.5	4.7	-5.3	-7.3	….	0.3	0.1
Total national demand	99.9	-3.0	2.7	-0.8	1.2	3.8	-1.0	….	2.3	2.3
Exports	27.5	30.1	-14.4	10.0	-3.9	-4.2	20.2	….	-1.4	-0.4
Goods	21.9	30.4	-16.4	9.4	-4.3	-9.4	27.4	….	-3.3	-0.7
Services	5.6	29.3	-6.3	12.3	-2.2	17.9	-2.9	….	6.0	0.3

Source: Based on Istat data.

(1) Contribution to GDP growth compared with previous period; annualized in percentage points. – (2) Interim GDP figures are provisional and not necessarily consistent with the performance of the components. – (3) Comprises consumption of general government and non-profit institutions serving households, changes in stocks and valuables, and statistical discrepancies.

net interest income continued to limit the growth in disposable income.

In part because of the low level of consumer confidence, Italian households' propensity to save apparently rose again in the first half, as it has since the turn of the decade. Fueled by rising securities and real estate prices, net household wealth, of which home ownership accounts for some 60 per cent, is estimated to have made further gains, as both financial and real assets increased.

According to ISAE's surveys, households' confidence, after halting a decline that had lasted more than two years, has shown some signs of recovery in recent months but still remains well below the average for the previous three years. The marginal recovery in confidence might not be reflected in consumption, however, if the signs of a spending slowdown implicit in new car registrations and retail sales should strengthen.

Investment and stocks. – Gross fixed capital formation expanded at an annual rate of 6.4 per cent in the first half, recouping nearly all the contraction that followed the termination of tax relief in December 2002.

The gain was sharpest for capital equipment (7.2 per cent), and in particular transport equipment; both nevertheless remain below the level attained before last year's sharp fall.

The investment upturn could be affected by uncertainty over future demand, as shown by the expectations of the firms surveyed by ISAE and by the ample spare capacity still present, especially in export industries (Figure 16).

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.

A September survey of industrial and service firms conducted by the branches of the Bank of Italy found that investment expenditure in 2004 was just slightly less than had been planned. For 2005 the investment expansion should continue at a modest pace. The short-term outlook for production and demand appears to be marked by considerable uncertainty.

The leading cyclical indicator, which tracks the performance of the economy with a lead of five to six months, rose sharply at the start of the year and then decelerated (Figure 17).

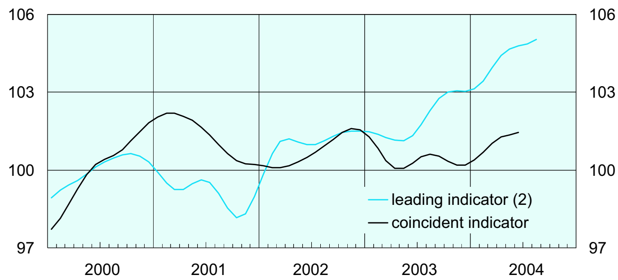
In construction, after the slowdown registered last year there was a sharp recovery in the first half of 2004, with investment growing at a 5.2 per cent pace. Residential building, which benefited from the extension of tax incentives for renovations, was especially strong. Real estate prices remain high, indicating that demand continued to be buoyant.

The positive trend in construction was confirmed by the improvement in ISAE's indicator of construction firms' confidence. However, this suffered a marked decline in the summer months. Another potential sign of imminent deterioration comes from the Bank of Italy branches' survey of builders in September. Public works, which had contributed substantially to the growth in construction investment in 2003, stagnated in the first half of 2004. The prospects for the second half are unsure and appear to point to a decline. The building association forecast for 2004 is for overall growth in investment of just over 1 per cent, confirming the deceleration under way since 2000. While the other components are projected to weaken, residential building, thanks to the extension of tax benefits for extraordinary maintenance, is expected to continue to sustain the industry's growth.

According to the national accounts the contraction in stocks (an item that includes statistical discrepancies) diminished GDP growth by 0.2 percentage points in the first quarter and 0.5 in the second. For the six months the contribution was nil by comparison with the second half of 2003, owing to the very sharp build-up of stocks in the fourth quarter.

Figure 17

Indicators of the Italian business cycle (1)
(monthly data; indices, 2000=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 2003 in Italian. – (2) The performance of the indicator leads that of the economy by an average of 5-6 months.

Exports and imports. – Italian exports of goods and services declined at an annual rate of 1.4 per cent at constant prices in the first half, while those of the other leading euro-area economies increased. The fall came in the first quarter and was partially recouped by a pronounced rise in the second. Imports expanded at a 1.9 per cent pace, fueled in the first three months by domestic demand. Overall, net exports cut about 1 percentage point from the annualized GDP growth rate.

In recent years the impetus to Italian exports deriving from the acceleration of world trade appears to have been offset by the loss of price competitiveness due to the appreciation of the euro and the faster rise in domestic prices. Measured on the basis of unit labour costs, Italian products' loss of competitiveness between the end of 2001 and the second quarter of 2004 came to 19 per cent, compared with less than 1 per cent for German products and just over 5 per cent for French. This divergence is explained mainly by trends in productivity, which declined in Italy in 2002 and 2003. Given the adverse development in unit labour costs, the trend in producer and export prices relative to those of Italy's main trading partners reflected a greater effort on the part of exporters to maintain price competitiveness by narrowing their profit margins (Figure 13).

According to Istat's foreign trade data, Italian goods exports were up 2.4 per cent by volume in the first seven months of the year compared with January-July 2003, with a steady acceleration in the course of the period. The expansion of Italian exports was modest by comparison with the gains registered by the other leading industrial countries. The volume of exports to the 25-country EU increased less than exports to the rest of the world (1.1 and 4.2 per cent respectively; Table 6), reflecting the slower growth of the EU generally and of the euro-area economies in particular.

On average for the seven months exports to France increased by 0.6 per cent, after contracting in 2003, and those to Spain by 5.4 per cent, owing in part to the growth of domestic demand in those

Table 6

Italian exports and imports *cif-fob* by main countries and areas, January-July 2004: values and indices of average unit values and volumes (1)

(percentage changes on corresponding period of 2003 unless otherwise indicated)

	Exports				Imports			
	% composition of values in 2003	Change			% composition of values in 2003	Change		
		Values	Average unit values	Volumes		Values	Average unit values	Volumes
EU countries	**59.7**	**5.4**	**3.8**	**1.1**	**60.7**	**5.1**	**1.7**	**2.9**
EU-15	53.7	5.6	3.9	1.2	57.2	4.9	1.9	2.4
of which: France	*12.3*	*4.7*	*4.0*	*0.6*	*11.2*	*3.3*	*3.1*	*0.2*
Germany	*13.8*	*3.1*	*4.3*	*-1.3*	*17.9*	*7.6*	*1.7*	*5.8*
United Kingdom	*7.0*	*5.2*	*6.7*	*-1.5*	*4.8*	*-7.9*	*-5.6*	*-2.4*
Spain	*7.0*	*9.3*	*3.5*	*5.4*	*4.8*	*3.4*	*2.7*	*0.6*
New EU countries (2)	6.0	3.5	2.8	0.6	3.6	8.5	-1.2	9.7
Non-EU countries	**40.3**	**7.0**	**2.5**	**4.2**	**39.3**	**5.1**	**2.0**	**2.9**
of which: China	*1.5*	*16.1*	*2.3*	*13.1*	*3.7*	*18.2*	*-2.3*	*20.6*
Japan	*1.7*	*-0.3*	*6.5*	*-6.1*	*2.0*	*6.3*	*0.2*	*6.1*
DAE (3)	*3.3*	*1.7*	*-0.2*	*1.6*	*2.5*	*8.7*	*4.9*	*3.5*
Russia	*1.5*	*24.3*	*0.9*	*23.4*	*3.2*	*14.6*	*-0.3*	*15.0*
United States	*8.5*	*-2.6*	*-1.5*	*-1.2*	*4.0*	*-12.4*	*1.9*	*-14.5*
Total	**100.0**	**6.0**	**3.2**	**2.4**	**100.0**	**5.1**	**1.9**	**2.8**

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) 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.

countries. Spain now takes 7 per cent of total Italian exports by value, on a par with the United Kingdom, while Germany takes 13.8 per cent and France 12.3 per cent.

However, exports to the UK and Germany again contracted (by 1.5 and 1.3 per cent respectively), as Italian exporters continued to lose market shares to other EU producers. Exports to the ten new EU member states increased modestly (0.6 per cent) and were substantially outpaced by exports to Russia and China, which rose by 23.4 and 13.1 per cent respectively. Exports to the United States declined by 1.2 per cent.

In the first seven months the euro prices of Italian exports were 3.2 per cent higher, in terms of average unit values, than in the same period of 2003. The appreciation of the euro, by an average of 4 per cent for the period, moderated the rise in the euro prices of exports to non-EU markets only in part, with average unit values rising by 2.5 per cent. Excluding the US market, where Italian exporters lowered their prices by 1.5 per cent, the increase was greater.

In a reversal by comparison with 2003, the largest contributions to the rise in export volume came from mechanical machinery and equipment, one of Italy's specialities, from transport equipment, and from metals and metal products. The latter benefited from buoyant world demand for steel. In such traditional manufacturing sectors as clothing and textiles and leather and footwear, exports continued to contract (Table 7).

Italian imports increased by 2.8 per cent in volume terms for the first seven months, accelerating in parallel with the rise in exports. Imports of chemical

Table 7

Italian exports and imports *cif-fob* by branch of economic activity and balances, January-July 2004: values, indices of average unit values and volumes (1)

(*percentage changes on corresponding period of 2003 unless otherwise indicated)*

	Exports				Imports				Change in balance (millions of euros)
	% composition of values in 2002	Change			% composition of values in 2002	Change			
		Values	Average unit values	Volumes		Values	Average unit values	Volumes	
Total	**100.0**	**6.0**	**3.2**	**2.4**	**100.0**	**5.1**	**1.9**	**2.8**	**1,290**
Products of agriculture, forestry and fishing	1.6	-11.2	1.7	-12.4	3.5	3.8	4.0	-0.2	-464
Energy and non-energy minerals (2)	0.3				10.6	5.5	0.2	5.7	-812
of which: crude petroleum and natural gas (2)	*0.1*				*9.7*	*3.9*	*-1.3*	*5.8*	*-513*
Manufactures	96.1	6.0	3.3	2.5	82.8	4.9	1.9	2.8	2,585
Food products, beverages and tobacco	5.6	3.3	3.8	-0.4	7.0	6.0	2.1	3.6	-344
Textile products and clothing	9.9	-1.1	3.4	-4.5	5.3	3.4	1.3	1.9	-458
Leather and leather products	4.8	0.2	3.9	-3.5	2.4	-5.1	-4.7	-0.5	213
Wood and wood products	0.5	4.1	4.1	0.1	1.3	0.2	0.9	-0.9	28
Paper and paper products, printing and publishing	2.3	0.0	0.7	-0.7	2.4	-0.6	-2.3	1.7	24
Refined petroleum products	2.1	7.5	5.8	2.0	1.8	-12.5	5.8	-16.2	582
Chemical products and man-made fibres	9.9	1.5	0.9	0.4	13.6	2.2	-1.6	3.8	-249
Rubber and plastic products	3.7	6.2	1.0	5.2	2.1	6.0	-0.1	6.1	159
Non-metallic mineral products	3.3	3.1	1.0	2.0	1.1	4.0	-1.2	5.2	91
Basic metals and metal products	8.2	22.4	9.5	11.4	9.1	15.6	13.1	1.8	582
Mechanical machinery and equipment	20.1	7.9	3.3	4.4	7.5	8.5	3.2	5.2	1,451
Electrical equipment and precision instruments	9.0	7.0	4.9	2.0	12.7	10.3	0.6	9.6	-1,035
Transport equipment	11.1	6.7	2.3	4.3	14.9	-1.0	1.4	-2.5	1,436
Other manufactures (including furniture)	5.7	4.5	0.7	3.6	1.6	11.7	0.3	11.3	105
Electricity, gas and water (2)	..				0.7	-3.6	7.2	-11.3	80

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.

products increased as did those of mechanical and electrical machinery and equipment, owing in part to the recovery in domestic demand for capital equipment.

Imports from both EU and non-EU countries increased. Those from China expanded by 20.6 per cent, compared with 28.7 per cent for 2003 as a whole. Among the other non-EU economies, there was a further sharp fall in imports from the United States, which had concluded several major aircraft sales to Italy in the first half of 2003.

Italy's trade deficit was reduced to €700 million on a *cif-fob* basis in the first seven months, from €2 billion in the same period of 2003. The main contributions came from mechanical engineering and transport equipment. In transport equipment there was an increase in export volume and a slight contraction in imports.

In the first seven months the average unit values of imports of energy raw materials declined by comparison with the same period of 2003, as they did not yet reflect the rise in oil prices (which went up by an average of 7.9 per cent in euros). For crude oil and natural gas most of the adjustment in average unit values takes place over about three months. The trade deficit in this sector consequently widened only slightly (by €500 million) in the first seven months of the year, despite an increase in the volume of imports.

The balance of payments

The euro area. – In the first eight months of 2004 the euro area's balance-of-payments surplus on current account rose to €27.2 billion from €1.9 billion in the same period of 2003 (Table 8). The improvement is almost entirely attributable to the increase in the trade surplus (from €66.9 billion to €80.7 billion) and the decrease in the deficit on the income account (from €39.2 billion to €29.8 billion); the balances on transfers and services improved only slightly.

Reflecting the strong expansion in world trade and the only moderate recovery in demand within the euro area, the value of exports increased by 8.7 per cent by comparison with the first eight months of 2003, outpacing the rise of 7.4 per cent in imports. Euro-area foreign trade indices, which are available for the first six months of 2004, show exports increasing by 9.8 per cent and imports by 5.1 per cent in volume terms with respect to the first half of 2003 (compared with 0.8 and 3.6 per cent respectively in 2003). Initially, the acceleration in exports mainly involved capital goods and intermediate goods, before spreading to consumer goods in the second quarter. The rise in imports primarily concerned capital goods and, to a lesser extent, consumer goods. In the first half of the year the price competitiveness of goods produced in the euro area deteriorated further, although the decline was less pronounced than last year: the real effective exchange rate of the euro (based on producer prices) appreciated by 3.8 per cent with respect to the year-earlier period, compared with 11.2 per cent for 2003 as a whole. In the first half of this year, export prices declined by 1.4 per cent in terms of average unit values, while the euro appreciated by 5 per cent in nominal effective terms with respect to the first half of 2003; on average, the euro appreciated by 12 per cent in 2003, and average unit values decreased by 3.2 per cent. The average unit values of imports declined by 0.9 per cent in the first half compared with the year-earlier period; they had fallen by 3.2 per cent in 2003. The terms of trade, which in 2003 were unchanged on the previous year, deteriorated by 0.5 per cent.

In the first eight months of 2004 the overall surplus on current account and capital account amounted to €37.6 billion (0.8 per cent of GDP), compared with €7.7 billion in the same period of 2003. The deficit on the financial account came to €35.7 billion (€40 billion in the year-earlier period) and errors and omissions were a negative €1.9 billion, compared with a positive €32.3 billion in 2003. Reserve assets diminished by €9.5 billion (€16.3 billion in the first eight months of 2003).

In the first eight months net outflows of direct and portfolio investment amounted to €54.6 billion, compared with a small net outflow (€2.4 billion) in the corresponding period of 2003.

Table 8

Balance of payments of the euro area
(millions of euros)

	2003			2004	
	H1	January-August	Year	H1	January-August
Current account	**-3,994**	**1,873**	**24,856**	**22,310**	**27,219**
Goods	40,978	66,936	108,481	61,312	80,733
exports	*507,769*	*675,762*	*1,036,195*	*550,197*	*734,479*
imports	*466,792*	*608,827*	*927,716*	*488,886*	*653,746*
Services	7,635	10,103	15,645	8,838	11,343
Income	-29,049	-39,188	-43,418	-24,404	-29,848
Current transfers	-23,559	-35,979	-55,851	-23,436	-35,008
Capital account	**3,297**	**5,830**	**13,434**	**7,664**	**10,396**
Financial account	**-46,268**	**-40,002**	**-50,462**	**-23,863**	**-35,714**
Direct investment	15,649	6,054	-13,125	-42,840	-46,893
outward	*-59,156*	*-73,479*	*-118,595*	*-60,419*	*-63,344*
inward	*74,805*	*79,534*	*105,471*	*17,581*	*16,453*
Portfolio investment	**66,197**	**-3,704**	**17,608**	**17,886**	**-7,727**
Equity securities	10,717	11,166	35,878	-28,392	-18,670
assets	*-22,053*	*-35,885*	*-67,741*	*-46,976*	*-61,078*
liabilities	*32,770*	*47,051*	*103,619*	*18,584*	*42,408*
Debt instruments	55,479	-14,871	-18,270	46,279	10,945
assets	*-134,110*	*-161,820*	*-216,060*	*-98,034*	*-149,147*
liabilities	*189,589*	*146,949*	*197,790*	*144,313*	*160,092*
Financial derivatives	-4,425	-9,376	-13,090	5,976	1,973
Other investment	-137,891	-49,260	-71,674	-11,362	7,474
Reserve assets	14,203	16,285	29,817	6,474	9,458
Errors and omissions	**46,964**	**32,298**	**12,172**	**-6,111**	**-1,902**

Source*:* ECB.

There was a sharp turnaround in direct investment, which recorded net outflows of €46.9 billion in the first eight months of 2004, compared with net inflows of €6.1 billion in the year-earlier period. Direct investment abroad by euro-area residents decreased slightly (from €73.5 billion to €63.3 billion), while foreign investment in the euro area plunged from €79.5 billion to €16.5 billion. Non-residents reduced their purchases of equities and repatriated funds invested in other forms (mainly intercompany loans).

The negative balance on portfolio investment increased slightly, from €3.7 billion to €7.7 billion, as a result of a slightly larger increase in residents' investment abroad than in foreign investment in the area. Non-residents increased their purchases of debt securities from €146.9 billion to €160.1 billion and cut back those of shares from €47.1 billion to €42.4 billion. The pattern of residents' investment abroad appears to signal a moderate increase in their propensity for risk, with a rise in net investment in shares (from €35.9 billion to €61.1 billion) and a decline in that in bonds and money market instruments (from €161.8 billion to €149.1 billion).

In the first eight months of the year net inflows of "Other investment" amounted to €7.4 billion, compared with net outflows of €49.3 billion in the same period of 2003. Euro-area monetary and financial institutions generated net inflows of €40 billion, compared with €6.1 billion in the year-earlier period.

In Germany the current account surplus more than doubled to €50.1 billion in the first eight months of the year, compared with €21.3 billion in the year-earlier period, thanks to the increase in the trade surplus (from €80.4 billion to €103 billion) and the decrease in the deficit on the income account (from €13.8 billion to €8.8 billion). The current account balances of France and Spain deteriorated. In France the balance swung from a surplus of €4 billion in the first eight months of 2003 to a deficit of €2.7 billion in the same period of 2004, as the surpluses on services and income narrowed and the deficits on goods and transfers widened slightly. In Spain the current account deficit expanded from €10.6 billion to €19.6 billion in the first seven months of the year (3.8 per cent of GDP), mainly owing to the increase in the trade deficit from €19.5 billion to €26.6 billion.

In the first eight months Germany and France had net outflows of total direct and portfolio investment equal to €36.1 billion and €63.5 billion respectively; in the first seven months Spain's net inflows amounted to €20 billion, entirely attributable to portfolio investment in debt securities by non-residents. In Germany direct investment showed net outflows of €34.4 billion as result of a decrease in the stock of foreign investment in the country, which was not offset by a corresponding reduction in residents' investment abroad. Non-residents also made moderate net disposals of German shares, while increasing their portfolio investment in other securities. In France and Spain inflows and outflows of direct investment diminished only slightly on the year-earlier period.

Italy. – In the first eight months of 2004 Italy's current account deficit decreased by more than half with respect to the same period a year earlier, falling from €13.9 billion to €6.4 billion, or 0.7 per cent of GDP (Table 9). The improvement was primarily attributable to the balance on services, which went from a deficit of €2.5 billion to a surplus of €2.2

Table 9

Italy's balance of payments (1)
(millions of euros)

	2003			2004	
	H1	January-August	Year	H1	January-August
Current account	**-16,455**	**-13,907**	**-18,363**	**-10,308**	**-6,442**
Goods	-840	4,483	8,788	508	5,553
exports	*127,131*	*168,668*	*259,098*	*134,745*	*180,683*
imports	*127,971*	*164,185*	*250,310*	*134,237*	*175,130*
Services	-3,132	-2,459	-3,032	1,154	2,243
Income	-9,504	-11,684	-17,002	-9,042	-9,731
Current transfers	-2,979	-4,248	-7,117	-2,927	-4,506
Capital account	**43**	**114**	**2,454**	**301**	**434**
Financial account	**18,715**	**13,562**	**16,775**	**10,468**	**7,213**
Direct investment	-886	3,403	6,507	-3,917	-3,368
outward	*-10,781*	*-5,536*	*-8,037*	*-11,361*	*-13,319*
inward	*9,895*	*8,939*	*14,544*	*7,444*	*9,951*
Portfolio investment	25,271	3,648	3,373	22,394	12,778
Equity securities	-13,466	-13,395	-15,997	-11,634	-12,266
assets	*-2,198*	*-6,957*	*-13,806*	*-5,359*	*-10,857*
liabilities	*-11,268*	*-6,438*	*-2,191*	*-6,275*	*-1,409*
Debt instruments	38,737	17,043	19,370	34,028	25,044
assets	*-25,261*	*-34,494*	*-37,258*	*-2,709*	*-4,864*
liabilities	*63,998*	*51,537*	*56,628*	*36,737*	*29,908*
Financial derivatives	-3,661	-2,411	-4,831	660	1,076
Other investment	2,366	13,692	13,132	-7,066	-5,054
Reserve assets	-4,375	-4,770	-1,406	-1,603	1,781
Errors and omissions	**-2,303**	**232**	**-865**	**-462**	**-1,206**

(1) Provisional data for July and August 2004.

billion, and, as in Germany, an increase in the trade surplus (from €4.5 billion to €5.6 billion) and a decline in the deficit on the income account (from €11.7 billion to €9.7 billion); the deficit on transfers was virtually unchanged, edging up from €4.2 billion to €4.5 billion.

After decreasing in the previous two years, exports to both the euro area and other countries began to expand again, rising by 7.1 per cent in value terms with respect to the first eight months of 2003. The stimulus of the rapid growth in world demand more than offset the opposing effect of the slight appreciation of the nominal effective exchange rate (1.6 per cent on the year-earlier period). Merchandise imports also began to increase again, rising by 6.7 per cent in value terms. The trade surplus on a *fob-fob* basis began to widen. In the first seven months of 2004, the period for which foreign trade indices are available, the improvement in the terms of trade resulting from a 3.2 per cent increase in average export values compared with a 1.9 per cent rise for imports more than offset the negative differential between the rise in export volumes (2.4 per cent) and import volumes (2.8 per cent).

According to foreign trade data, in the first eight months of the year foreign sales increased in all the sectors in which Italian industry is specialized, with the exception of textiles and clothing, where exports were broadly unchanged. Exports of leather products and footwear began slowly to expand again after two years of decline. The largest gains came in exports of metals and metal products and mechanical machinery. The improvement in the overall trade balance was mainly due to the increase in the surplus on mechanical machinery and transport equipment. The deficit on energy-producing minerals, equal to 2.1 per cent of GDP in the first eight months of the year, expanded slightly owing to an increase in volumes imported.

The improvement in the balance on services is attributable to the rapid growth in receipts (up 9.5 per cent in the first eight months) and a small decline in expenditure abroad (1.5 per cent). The recovery in total receipts was driven by the spending of foreign travellers to Italy, which expanded sharply after two years of decline. Receipts from "Other business services" (mainly merchanting and other trade-related services, operational leasing and technical and professional services) made a significant contribution to overall inflows. Spending abroad on such services was broadly unchanged, reflecting the stagnation of industrial production (Table 10).

In the foreign travel sector, which accounts for 36 per cent of Italy's total trade in international services, in the first seven months of the year (the period for which the data from the UIC's tourism survey are available) receipts increased by 8.6 per cent with respect to the same period of 2003, despite a fall of 6.7 per cent in the number of visitors; in 2003 receipts had decreased by 2.1 per cent and visitors by 0.9 per cent. By contrast, the expenditure and number of Italian travellers abroad decreased by 8.3 and 17.2 per cent respectively, compared with increases of 2.4 and 3 per cent in 2003. The strong recovery

Table 10

Italy's trade in services
(millions of euros)

	January-June 2003			2003			January-June 2004		
	Credits	Debits	Balance	Credits	Debits	Balance	Credits	Debits	Balance
Total	**28,257**	**31,389**	**-3,132**	**62,932**	**65,964**	**-3,032**	**32,593**	**31,440**	**1,154**
of which: travel	*11,723*	*7,948*	*3,775*	*27,621*	*18,236*	*9,386*	*13,088*	*7,341*	*5,748*
transport	*4,330*	*6,859*	*-2,528*	*8,876*	*14,167*	*-5,291*	*4,743*	*7,017*	*-2,274*
construction	*866*	*876*	*-10*	*1,847*	*2,156*	*-309*	*790*	*1,060*	*-270*
other business services	*8,455*	*10,597*	*-2,142*	*18,532*	*21,787*	*-3,256*	*10,108*	*10,626*	*-518*

in overall travel receipts was fueled by the upturn in spending by visitors from countries outside the EU 25. In particular, after three years of steep decline due in part to geopolitical uncertainty, the spending and number of US travellers surged. If the trend continues in the second half of the year, receipts for all of 2004 from these visitors will return to around the level recorded in 2001. Much of the increase in average per capita spending can be attributed to the rise in the number of US visitors, whose per capita expenditure is more than three times the average for foreign tourists in Italy. Spending by EU travellers was virtually unchanged, as the decline in spending by French, Spanish and Austrian tourists was offset by higher expenditure by the British, the Dutch and visitors from other EU countries. Expenditure by foreign business travellers to Italy began to rise again, while spending for tourism and other personal reasons accelerated. The number and spending of Italian travellers abroad declined both within the enlarged European Union and in other countries. Spending fell in all of the main destinations (with the exception of Austria, Germany, Switzerland and the United Kingdom), especially the United States and Spain. The downward trend appears to be borne out by the general decline in domestic demand for tourist services, which also involved Italian destinations.

In the first eight months of the year the deficit on the income account amounted to €9.7 billion, a decrease of €2 billion on the year-earlier period, as outflows fell more steeply than inflows. In the first half of 2004 (the period for which disaggregated data on instruments is available) the narrowing of the overall deficit was mainly the result of the improvement in the balance on income from “Other investment”. By contrast, the deficit on income from portfolio investment (chiefly interest on securities and dividends) widened slightly: the increase in outflows appears mainly to be the consequence of the rise in gross liabilities, while that in inflows is primarily attributable to the rise in short-term interest rates on assets invested in the main markets outside the euro area.

The overall deficit on current account and capital account totaled €6 billion in the first eight months of the year (0.7 per cent of GDP), a decrease of €7.8 billion with respect to the year-earlier period. The surplus on the financial account came to €7.2 billion, a decrease of €6.3 billion. Net inflows were composed of portfolio investment, derivatives and a decrease of €1.8 billion in reserve assets. Transactions associated with direct investment and “Other investment” produced a small net outflow. Errors and omissions remained modest. According to preliminary estimates, at the end of June Italy’s net debtor position as a proportion of GDP increased by about 1 percentage point on the 5.8 per cent registered at the end of 2003, with the principle negative contribution coming from the balance on the financial account.

After two years of decline, Italy’s direct investment abroad appears to have turned upwards: outflows rose from €5.5 billion in the first eight months of 2003 to €13.3 billion this year (1.5 per cent of GDP). Net inflows of foreign direct investment in Italy also expanded slightly (from €8.9 billion to €10 billion).

Italian residents’ net foreign portfolio investment contracted sharply from its level in 2003, slumping from €41.5 billion to €15.7 billion. As in the euro area as a whole, the continuation of the moderate recovery in portfolio investment in shares issued by non-residents (from €7 billion to €10.9 billion) under way since the end of 2003 and the abrupt fall in investment in foreign debt securities (from €34.5 billion to €4.9 billion) would appear to signal a reallocation of the foreign investment of Italian residents (especially private non-bank investors) towards relatively riskier assets after more than two years characterized by a marked preference for liquidity. Net inflows of foreign portfolio investment in Italy, which had been decelerating since the fourth quarter of 2003, decreased by more than a third from €45.1 billion to €28.5 billion, owing to the contraction in net investment in debt securities issued by residents from €51.5 billion to €29.9 billion. While foreign investment in private bonds, which was practically nil in 2003, staged a moderate recovery, purchases of government securities dropped sharply (from €58.8 billion to €26.3 billion in the first half, the period for which disaggregated data are available; Table 11). These developments could be at least partially due to the narrowing of the

Table 11

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

	2003		2004
	January-June	Year	January-June
Government securities	58,814	61,942	26,287
BOTs	*16,058*	*13,949*	*-2,133*
BTPs	*28,803*	*49,545*	*5,483*
CCTs	*798*	*-1,834*	*14,486*
CTZs	*3,463*	*-4,461*	*2,946*
Republic of Italy issues	*9,730*	*2,990*	*5,470*
Other government securities	*-37*	*1,752*	*35*
Bonds	7,431	925	10,081
Bank securities	-1,285	-2,455	750
Equity securities	-11,877	-6,016	-6,841
Other securities (2)	-353	41	185
Total	**52,730**	**54,437**	**30,462**

(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.

positive differential between short-term interest rates in the euro area and those in the United States and the widening of the negative spread vis-à-vis British rates over the course of the year. Net disinvestment in Treasury bills amounted to €2.1 billion in the first half of 2004, compared with net purchases of €16.1 billion in the corresponding period of 2003; investment in Treasury bonds fell from €28.8 billion to €5.5 billion and that in Republic of Italy issues from €9.7 billion to €5.5 billion. The decline was only partially offset by the increase in purchases of Treasury credit certificates (from €0.8 billion to €14.5 billion). Net disinvestment in shares issued by Italian companies also continued (€1.4 billion in the first eight months), although this was less than one quarter of the figure for the same period of 2003.

Net outflows of "Other investment" amounted to €5.1 billion; in the first eight months of 2003 this item had shown net inflows of €13.7 billion. The Italian banking system reduced its net external funding by about two-thirds, from €45.6 billion to €14.9 billion. In 2003 it had raised funds abroad in order to rectify the large divergence between growth in lending and deposits in the domestic market; in the first eight months of 2004 these aggregates expanded by the same amount.

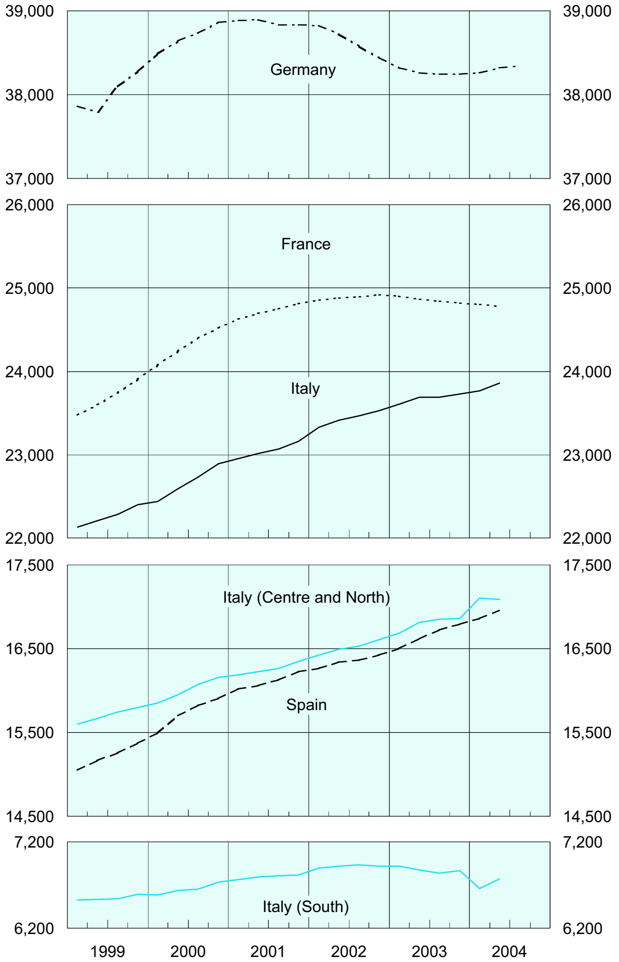
The labour market

The euro area

As in 2003, the expansion of employment in the euro area was very modest in the first half of 2004. The number of persons in work was just 0.2 per cent more than a year earlier.

Figure 18

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



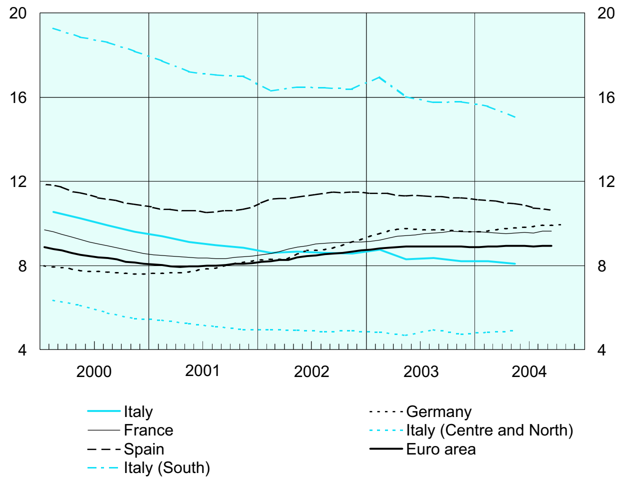
Sources: For Italy, Istat, national accounts and regional estimates; the quarterly segments are partly estimated. For the other countries, Eurostat, national accounts.

Once again the performance of the main economies diverged. The number of persons employed continued to increase at a rapid pace in Spain (2.1 per cent); it declined by 0.4 per cent in France, held steady in Germany after declining in both 2002 and 2003 and rose by 0.7 per cent in Italy (Figure 18).

The unemployment rate, which had risen from 8 per cent on a seasonally adjusted basis in 2001 to 8.9 per cent in 2003, held at that level in the first nine months of this year (Figure 19). In September the rate was 9.9 per cent in Germany, compared with 9.7 per cent a year earlier; in France it was 9.6 per cent, unchanged from September 2003; in Spain it was 10.6 per cent, down from 11.3 per cent. In Italy the unemployment rate in the second quarter declined to 8.1 per cent.

Figure 19

Unemployment rates in the main euro-area countries
(seasonally adjusted data; percentages) (1)



Sources: Istat and Eurostat.

(1) For Italy, quarterly Istat data; for the other countries, monthly data.

In the four largest euro-area economies per capita labour costs were an average of 2.2 per cent higher in the first six months than a year earlier (in 2003 as a whole they had risen by 2.3 per cent). Productivity increased by 1.3 per cent (compared with 0.3 per cent in 2003), so the rise in unit labour costs slowed from 2 per cent in 2003 to 0.8 per cent in the first half of 2004 (Table 12). Again, unit labour cost trends differed from country to country. There was a decline of 0.7 per cent in Germany and a modest increase of 0.7 per cent in France, while Spain registered a rapid, though slowing, increase of 3.4 per cent. In Italy, where labour productivity remained broadly unchanged at its 2003 level, unit labour costs rose by 3 per cent.

The decline in unit labour costs in Germany was the result of the very small rise in per capita labour costs and strong productivity gains, especially in industry. Major collective bargaining agreements

Table 12

Unit labour costs, per capita earnings, productivity and its components

(percentage changes on corresponding period)

	Cost of labour per employee (1)		Productivity						Unit labour costs	
					Value added (2)		Employment (1)			
	2003	2004-H1	2003	2004-H1	2003	2004-H1	2003	2004-H1	2003	2004-H1
					Industry excluding construction					
Germany	1.9	3.2	3.2	5.4	0.5	3.1	-2.6	-2.2	-1.2	-2.1
France	2.2	3.5	2.6	5.0	0.1	2.2	-2.4	-2.7	-0.4	-1.4
Italy	3.0	4.5	-0.4	1.7	-0.7	1.5	-0.3	-0.2	3.4	2.7
Spain	4.3	4.0	3.1	3.8	1.3	1.9	-1.8	-1.8	1.2	0.2
Euro 4 (3)	2.2	3.5	2.0	4.3	0.2	2.4	-1.7	-1.7	0.2	-0.7
					Services (4)					
Germany	1.5	-0.3	0.4	0.4	0.4	1.0	-0.1	0.6	1.1	-0.8
France	2.4	3.4	0.8	2.2	1.1	2.2	0.3	0.0	1.7	1.2
Italy	4.0	2.9	-0.1	-0.4	0.7	0.4	0.8	0.7	4.1	3.3
of which: private	2.7	0.9	-0.8	-1.2	0.7	0.3	1.5	1.5	3.5	2.1
public	5.5	5.1	1.0	1.0	0.6	0.5	-0.4	-0.4	4.4	4.1
Spain	4.3	3.8	-0.7	-0.5	2.1	2.7	2.8	3.3	5.0	4.3
Euro 4 (3)	2.3	1.8	0.0	0.5	0.8	1.4	0.8	0.9	2.4	1.3
					Total economy					
Germany	1.6	0.6	1.1	1.4	0.1	1.4	-1.0	0.0	0.4	-0.7
France	2.5	3.3	0.6	2.6	0.5	2.2	-0.1	-0.4	1.8	0.7
Italy	3.8	3.2	-0.2	0.2	0.3	0.7	0.4	0.6	4.0	3.0
Spain	4.2	3.9	0.2	0.5	1.9	2.5	1.8	2.0	4.1	3.4
Euro 4 (3)	2.3	2.2	0.3	1.3	0.5	1.6	0.2	0.3	2.0	0.8

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) Comprises wholesale and retail trade, transport and telecommunications, financial and real estate intermediation, and “other sectors”.

have been signed in 2004 extending the possibility of renegotiating nationwide organizational standards in company-level contracts. For metalworkers the agreement envisages the possibility of lengthening the working week from 35 to 40 hours for up to 50 per cent of a company's employees. Some firms have negotiated far-reaching revisions of the industry-wide contract, touching not only on hours but also on work organization and earnings.

In France rapid productivity growth (2.6 per cent, up from 0.6 per cent in 2003) almost entirely offset the rise of 3.3 per cent in per capita compensation. The productivity gain was especially large in industry excluding construction, where employment fell by 2.7 per cent and unit labour costs declined by 1.4 per cent. In services, too, output per worker rose faster in France than in the euro area as a whole, holding the rise in unit labour costs to 1.2 per cent.

In Spain, per capita labour costs rose by 3.9 per cent, again faster than in the other main countries. In industry excluding construction the rise was almost completely offset by the gain in productivity, so unit labour costs rose by just 0.2 per cent. In the service sector, where labour productivity fell by 0.7 per cent, unit labour costs increased by 4.3 per cent.

Italy

Employment. – Employment growth in Italy, spurred by the expansion of output, showed signs of picking up after having come nearly to a halt in the second half of 2003. According to the national accounts, in the first half of the year the number of persons employed rose by 0.4 per cent on the previous period and by 0.7 per cent on the first half of 2003. The elasticity of employment with respect to growth in value added remained high. Labour productivity accordingly failed to improve (gaining 0.2 per cent with respect to the first half of 2003), although the decline of the previous two years was halted.

At the end of September Istat released the results of the revised labour force survey for the first and second quarters. Compared with the previous surveys, employment is found to be higher, geographical disparities are significantly reduced, women's labour force participation is higher, and part-time work is more common.

According to the new survey, the number of persons employed in the second quarter was 22,438,000, or 0.7 per cent more than a year earlier. For the first half, the gain was 0.9 per cent (Table 13). The employment rate for the working-age population (15-64) was 57.2 per cent in the first half, the same as a year earlier.

The expansion of employment again involved mainly women (an increase of 1.6 per cent compared with the first half of 2003), whose share of total employment thus rose by 0.3 percentage points to 39.2 per cent. The female employment rate rose from 44.7 to 45 per cent, still well below the EU average of 56 per cent in 2003.

The number of self-employed workers increased by 1.4 per cent. The growth of payroll employment (0.7 per cent) was due entirely to open-ended jobs. The number of fixed-term workers diminished, and their share of total payroll employment fell from 11.8 to 11 per cent (Table 14).

The number of part-time employment contracts continued to increase, involving 12.5 per cent of all payroll employees, compared with 12.1 per cent in the first half of 2003. The increase was concentrated in services and among women workers; the share of women employees with part-time jobs rose from 23.5 to 24.5 per cent (Table 14).

Employment expanded in all branches of the economy except industry excluding construction, where the number of workers fell by 1.1 per cent compared with the first half of 2003 (Table 15). This decline followed two years of expansion during which the decrease in the direct and indirect costs of utilizing labour had more than offset the effects of the contraction in activity. The employment decline in the first half of 2004 mainly involved fixed-term employees (a fall of 52,000 or 10.3 per cent) and was concentrated in the North-East and the South. The share of workers receiving Wage Supplementation benefits also rose (Figure 20). The Bank of Italy's economic survey indicates that the decline in industrial employment could continue in the second half of the year.

Table 13

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

	2002 average		2003 average		H1 2003		H1 2004	
	Number	Percentage share (1)	Number	Percentage share (1)	Number	Percentage share (1)	Number	Percentage share (1)
Employees	**15,818**	**72.2**	**16,040**	**72.1**	**15,896**	**72.1**	**16,004**	**71.9**
open-ended contracts	....	....	....	....	14,017	63.6	14,187	63.8
full-time	....	....	....	....	12,497	56.7	12,608	56.7
part-time	....	....	....	....	1,521	6.9	1,579	7.1
fixed-term contracts	....	....	....	....	1,879	8.5	1,817	8.2
full-time	....	....	....	....	1,475	6.7	1,402	6.3
part-time	....	....	....	....	405	1.8	415	1.9
Self-employed	**6,095**	**27.8**	**6,202**	**27.9**	**6,159**	**27.9**	**6,248**	**28.1**
full-time	....	....	....	....	5,253	23.8	5,393	24.2
part-time	....	....	....	....	908	4.1	856	3.8
Total persons in work	**21,913**	**100.0**	**22,241**	**100.0**	**22,055**	**100.0**	**22,252**	**100.0**
men	13,392		13,544		13,464		13,525	
women	8,521		8,697		8,592		8,727	
Unemployed	**2,062**		**2,048**		**2,116**		**2,011**	
Labour force	**23,975**		**24,289**		**24,171**		**24,263**	
men	14,352		14,480		14,434		14,476	
women	9,624		9,809		9,737		9,787	
Non-labour-force	**....**		**....**		**....**		**....**	
non-working age (under 15)	....		....		....		....	
working age (15-64)	....		....		....		....	
not actively seeking work but would be immediately available	....		....		....		....	
non-working age (65 and over)	....		....		....		....	
Population	**....**		**....**		**....**		**....**	
Unemployment rate	**8.6**		**8.5**		**8.8**		**8.3**	
men	6.7		6.5		6.7		6.6	
women	11.5		11.4		11.8		10.8	
Participation rate (ages 15-64)	**62.1**		**62.9**		**62.7**		**62.4**	
men	74.1		74.9		74.8		74.3	
women	50.2		50.9		50.7		50.5	
Employment rate (ages 15-64)	**56.7**		**57.5**		**57.2**		**57.2**	
men	69.1		70.0		69.7		69.4	
women	44.4		45.1		44.7		45.0	

Source: Istat, labour force surveys.
(1) Of total employment.

Table 14

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

	Fixed-term		Part-time	
	H1 2003	H1 2004	H1 2003	H1 2004
Men	10.3	9.4	4.0	3.7
Women	14.0	14.1	23.5	24.5
North	9.7	9.2	12.6	13.1
Centre	11.8	11.5	13.0	13.9
South	15.6	15.3	10.7	10.5
Agriculture	44.1	43.4	11.3	9.2
Industry	9.5	8.6	5.3	5.6
Services	11.9	11.6	15.7	16.2
Total economy	**11.9**	**11.4**	**12.1**	**12.5**

Source: Istat, labour force surveys.

In the construction sector employment continued the protracted expansion under way since 1999, returning to rapid growth after the slowdown of the second half of last year with an increase of 51,000 or 2.9 per cent over the first half of 2003. Most of the increase (45,000 persons) was accounted for by self-employment, which rose to 41 per cent of the total.

Employment in the service sector also continued to rise, with an increase of 1.2 per cent (175,000) compared with the first half of 2003. The sector's share of total employment thus rose to 65.2 per cent. The service firms surveyed by the Bank of Italy expected further expansion in the second half of the year.

The employment gain came only in the Centre and North. In the South the number of persons working fell by a further 0.5 per cent (31,000) compared with the first half of 2003, after decreasing by 0.4 per cent in 2003 as a whole.

Unemployment and the supply of labour. – The seasonally adjusted unemployment rate came down by a tenth of a point to 8.1 per cent in the second quarter.

By comparison with the second quarter of 2003, the reduction amounted to 0.4 points, not seasonally adjusted. The rate declined by 0.9 percentage points in the Centre, where employment outstripped the growth of the labour force, and by 1.4 points in the South, where the decline in employment was more than offset by the fall in labour force participation. In the North the unemployment rate rose slightly, by 0.3 points, as the labour force expanded faster than employment. The seasonally adjusted unemployment rate in the second quarter was 4 per cent in the North, 6 per cent in the Centre and 15.9 per cent in the South.

Table 15

Employment by sector and geographical area in Italy, 2004
(unadjusted)

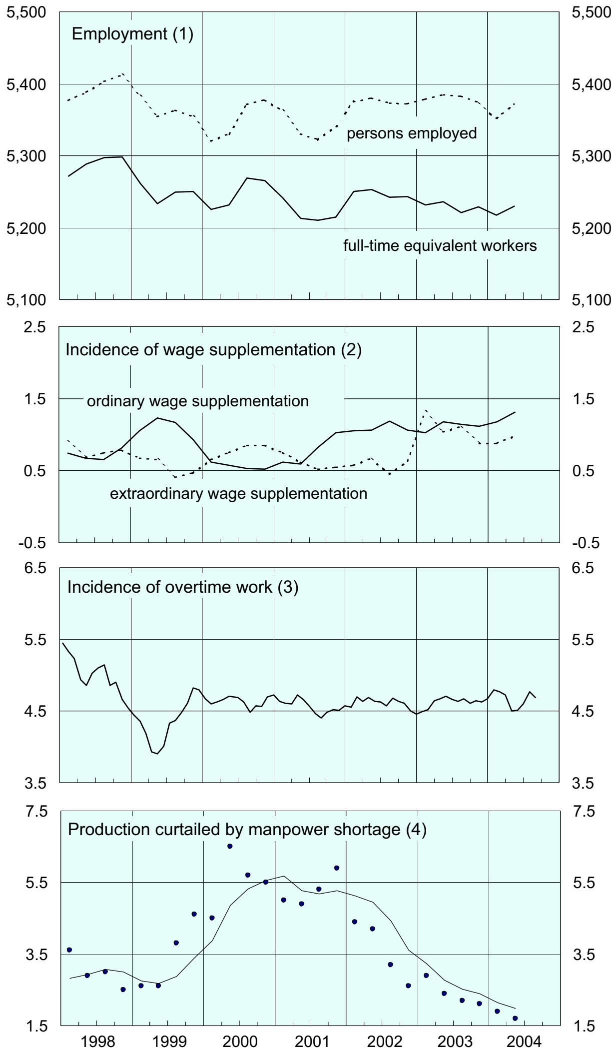
	Q2 2004	Average for H1 2004 on average for H1 2003			Q2 2004 on Q1 2004 (1)
	Percentage share of national total	Absolute change	Percentage change	Contribution, percentage point	Percentage change
		Sector			
Agriculture	4.2	27,500	3.1	0.1	1.9
Industry excl. contruction	22.6	-56,000	-1.1	-0.3	0.3
Contruction	8.2	50,500	2.9	0.2	4.6
Services	65.0	174,500	1.2	0.8	-0.2
		Geographical area			
North	50.9	57,000	0.5	0.3	-0.4
Centre	20.4	171,000	4.0	0.8	0.7
South	28.7	-31,000	-0.5	-0.1	1.6
Italy	**100.0**	**196,500**	**0.9**	**0.9**	**0.4**

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

Inverting the trend of recent years, labour force participation declined slightly in the first half compared with the first half of 2003, owing entirely to the decrease in the South. The participation rate of the population aged 15-64 slipped by 0.3 points to 62.4 per cent; the decline involved both men and women (from 74.8 to 74.3 and from 50.7 to 50.5 per cent respectively). In the South participation declined by 1.5 percentage points overall, to 54.3 per cent.

Figure 20

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



Sources: Based on Istat, national accounts and *Indagine sulle grandi imprese*, and on INPS and ISAE data.

(1) Respectively, total number of persons employed and standard labour units as defined in the national acounts. Quarterly data. – (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 according to national accounts. – (3) Monthly data. Total number of overtime hours as a percentage of total number of regular hours in industrial companies with at least 500 employees. – (4) Companies so reporting as share of total; percentages and moving averages of the four quarters ending in the reference quarter.

Labour costs and industrial relations. – Gross employee compensation per standard labour unit was 3.3 per cent higher in the first half of 2004 than a year earlier, according to Italy's national accounts, outstripping the rise in consumer prices by one percentage point. This average reflected widely differing developments in the public and private sectors, which showed gains of 6 and 2.3 per cent respectively. In part the increase in public compensation reflected back pay, owing to the delay in renewing the wage agreements for 2002-03.

In industry excluding construction the increase came to 4.5 per cent in the first half (compared with 2.8 per cent in 2003), which was 1 point more than national contractual wages (Figure 21). The difference stemmed in part from company level bargaining. Employee income, including social contributions charged to employers and workers, rose by 4.5 per cent. As productivity increased by 1.7 per cent, unit labour costs rose by 2.7 per cent.

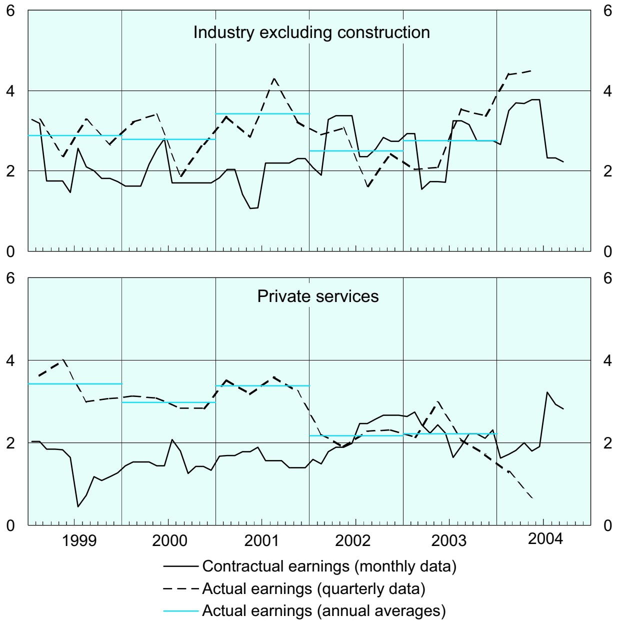
In the private service sector earnings increased by 0.9 per cent, reflecting the non-repetition of one-time payments made in the first half of 2003. Earnings growth in the sector should rise towards the economy-wide average in the second half of the year, thanks to the increases for wholesale and retail trade workers under the contract that went into effect in July. The smallness of the rise in the cost of labour attenuated the effects of a 1.2 per cent fall in productivity, so that unit labour costs only rose by 2.1 per cent.

During the year, contract renewals in industry were completed. July saw the renewal of the contract covering 1.8 million workers in wholesale and retail trade and business services, which had lapsed in December 2002. Considering the lateness of the renewal, the new agreement set wage increases not only for 2003-04 but also for the following two years. Like the other industry contracts renewed since the end of 2002, it took as reference not the Government's inflation target but expected inflation, in practice modifying the 1992 accords governing collective bargaining between the unions and employers. In the public sector, after considerable delay, many agreements were signed between the end of last year and August; as they covered the years 2002-03, however, they have all lapsed already. In the private sector the agreements covering banking and some transport and communications sectors await renewal.

Figure 21

Italy: per capita contractual and actual earnings

(seasonally adjusted data; percentages)



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

Almost half the contracts covering workers in industry excluding construction will expire in December, including that of metalworkers. Assuming that the negotiations are not concluded before the end of the year, contracts relating to some 55 per cent of the economy's wage bill will have to be renewed in 2005.

In the first nine months of 2004 contractual wages in the whole economy rose by 2.8 per cent compared with the same period of 2003. The information now available suggests that for the year as a whole the increase should come to around 3 per cent.

Legislative Decree 276 of 24 October 2003, which enacted very extensive revisions of employment contract forms, is still in course of implementation. Continuous collaboration contracts signed prior to the decree and not equivalent to the newly instituted project collaboration contracts lost their effectiveness on 24 October 2004. However, contracts extended by mutual agreement of the social partners remain in effect until October 2005. Trainee contracts too will disappear. For now, only those approved prior to 23 October 2003 remain valid. As for apprenticeship, pending the regions' enactment of implementing rules for the decree, the previous rules remain in effect. The Ministry of Welfare has now issued a decree defining the sphere of application of the provisions for jobs-on-call.

Prices and costs

Overview

In the first nine months of 2004 the harmonized index of consumer prices in the euro area showed an increase of 2.1 per cent by comparison with the year-earlier period, the same as in 2003 as a whole. The impact on euro-area inflation of higher world prices for energy sources was attenuated by the deceleration in unit labour costs fostered by the recovery in productivity and the moderation of the prices of unprocessed food products. The harmonized price index for Italy showed a year-on-year increase of 2.3 per cent for the same period, compared with 2.8 per cent in 2003 (Figure 22).

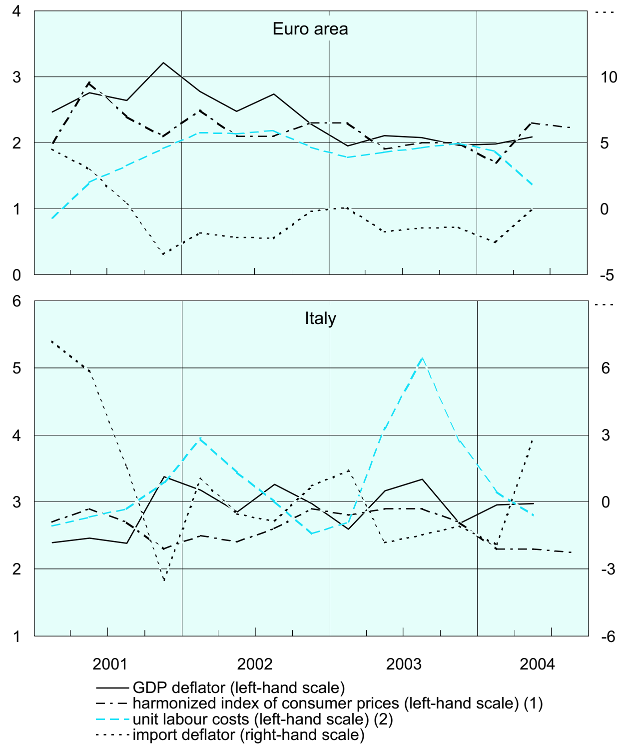
In the first nine months of 2004 oil prices in euros were about 15 per cent higher than in the same period last year. This led to a rapid increase in the energy components of the euro-area consumer price index (3.1 per cent). In Italy, however, the year-on-year rate of increase in the prices of energy products fell to 1.3 per cent, from 3.2 per cent in 2003, owing to the lag with which fluctuations in the price of oil, such as those recorded in 2003 and 2004, are reflected in electricity and gas charges.

Core inflation (the consumer price index net of unprocessed food and energy products) in the first nine months remained around 2 per cent in the euro area. It was fueled in some countries by sharp rises in some items whose prices are regulated, notably healthcare products and services in Germany and tobacco products in France. By contrast, core inflation in Italy subsided to 2.3 per cent, from 2.7 per cent on average in 2003. A substantial decline in the prices of some durable goods (telephone equipment and computers) was a contributory factor. These developments helped narrow the differential between consumer price inflation in Italy and the rest of the euro area to an average of 0.3 percentage points in the first nine months (0.9 points in 2003); the differential in core inflation also narrowed to 0.3 points.

Figure 22

Inflation indicators in the euro area and Italy

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



Sources: Based on Istat and Eurostat data.

(1) For Italy, for the years before 2002, the percentage changes are calculated with reference to harmonized indices that exclude price reductions for special offers. – (2) 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.

Prices and costs in the euro area

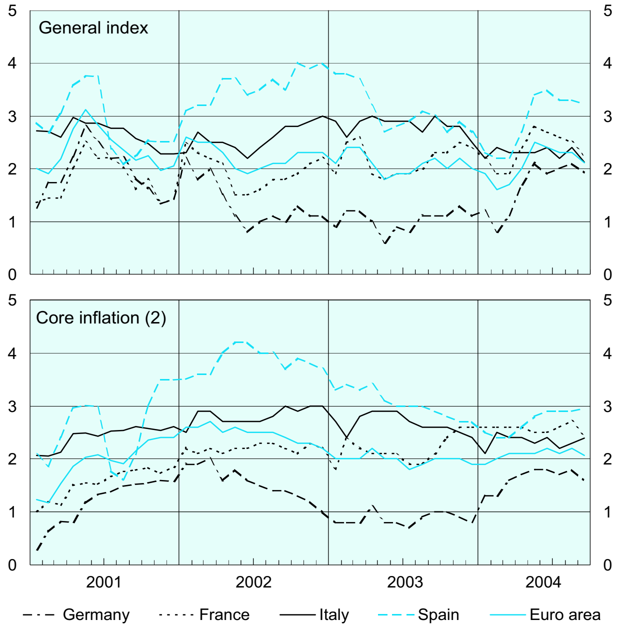
Consumer prices. – After falling to 1.7 per cent in the first quarter, consumer price inflation in the euro area rose to 2.3 per cent in the next two quarters under the impulse of the large increase in the prices of energy products (Figure 23).

Core inflation held steady at around 2 per cent (Table 16). The prices of non-food and non-energy products rose by less than 1 per cent. In this segment the pronounced slowdown in domestic costs and uncertainty about the strength of the recovery in the area dampened inflationary pressures from imported cost components. By contrast, the rate of increase in the prices of services rose slightly, from 2.4 per cent in the last quarter of 2003 to 2.6 per cent on average in the first nine months of this year, partly owing to increases in some regulated prices (especially hospital services). The difference in the first half of the year between the inflation rate for services and that for non-food and non-energy goods, net of items with regulated prices, is largely due to the sectoral differential in the rate of change in unit labour costs, which partially reflects much slower productivity growth in services than in industry.

Figure 23

Harmonized index of consumer prices (1)

(monthly data; twelve-month percentage changes)



Source: Based on Eurostat data.

(1) For Italy, for the years before 2002, 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 prices of the most volatile components of the index (energy products and unprocessed food) moved in opposite directions in 2004. The year-on-year rate of change in the prices of energy products, which was negative in the first quarter owing to the especially rapid increase in the corresponding period of 2003, turned upwards to average more than 6 per cent in the third quarter. The strong inflationary pressure exerted by energy products was partly offset by the progressive reduction in the inflation rate for unprocessed food products, which fell from 3.6 per cent in the fourth quarter of 2003 until it became slightly negative in September.

According to Eurostat's flash estimates, euro-area HICP inflation rose to 2.5 per cent in October on a twelve-month basis, from 2.1 per cent in September. The sharp acceleration appears to be attributable to a further increase in energy prices.

The dispersion of inflation rates in the euro area (measured by the standard deviation) diminished slightly in the first nine months of 2004 to an average of 0.8 percentage points, from an average of 1 point in 2003. The most "virtuous" countries in recent years, namely Germany and France, had inflation rates this year (1.7 and 2.4 per cent respectively) that were close to the area-wide average. These developments partially reflect large rises in some regulated prices.

Producer prices and export prices. – In the first nine months of 2004 the index of the producer prices of manufactures sold within the euro area showed an increase of 1.8 per cent year on year, compared with 1.4 per cent in 2003 (Table 16). The increase was very slow in the first quarter (0.2 per cent) but accelerated to reach 3.4 per cent in September (Figure 24) under the impulse of the sharp rises in the prices of basic energy and non-energy materials (metals and food products). This trend was most pronounced in Italy, where producer price inflation rose from 0.4 per cent in the first quarter to 3.9 per cent in September. In Germany and France, the increase went from 0.1 and 0.2 per cent, respectively, in the first quarter to 2.3 and 3.1 per cent in September.

The rate of increase with respect to a year earlier in the prices of non-energy intermediate goods rose steadily over the period, from 1.0 per cent in the first quarter to 5 per cent in September. That in the prices of non-food consumer goods fell by an average of 1 percentage point in the first nine months, benefiting from the rapid rise in labour productivity in industry.

Table 16

Inflation indicators in Italy and the euro area
(percentage changes on year-earlier period)

	Italy							First 9 months of 2004	Euro area							First 9 months of 2004
	2002	2003	2003		2004				2002	2003	2003		2004			
			Q3	Q4	Q1	Q2	Q3				Q3	Q4	Q1	Q2	Q3	
Harmonized consumer prices																
General index	2.6	2.8	2.9	2.7	2.3	2.3	2.2	2.3	2.3	2.1	2.0	2.0	1.7	2.3	2.2	2.1
Excluding unprocessed food and energy products	2.8	2.7	2.6	2.5	2.3	2.3	2.3	2.3	2.5	2.0	1.9	2.0	2.0	2.1	2.1	2.1
of which: non food and non-energy products	*2.4*	*1.9*	*1.7*	*1.9*	*1.5*	*1.7*	*1.4*	*1.5*	*1.5*	*0.8*	*0.7*	*0.8*	*0.7*	*0.9*	*0.8*	*0.8*
services	*3.4*	*3.2*	*3.2*	*2.7*	*2.4*	*2.5*	*2.7*	*2.5*	*3.1*	*2.5*	*2.5*	*2.4*	*2.6*	*2.6*	*2.7*	*2.6*
Unprocessed food products	4.9	3.9	4.9	5.6	5.0	3.6	1.1	3.2	3.1	2.1	3.4	3.6	2.2	1.5	-0.3	1.1
Energy products	-2.6	3.2	2.7	1.6	-0.9	1.5	3.3	1.3	-0.6	3.0	2.1	1.6	-1.5	4.8	6.3	3.1
Producer prices																
General index	0.2	1.6	1.2	0.9	0.4	2.6	3.5	2.2	-0.1	1.4	1.1	1.0	0.2	2.0	3.1	1.8
Excluding food and energy products	1.1	1.2	0.7	0.8	1.2	2.7	3.8	2.6	0.3	0.5	0.2	0.2	0.3	1.2	2.3	1.3
of which: final consuption goods	*2.5*	*1.1*	*0.9*	*0.4*	*0.2*	*0.0*	*0.6*	*0.2*	*0.8*	*0.4*	*0.5*	*-0.3*	*-1.0*	*-1.2*	*-0.7*	*-1.0*
services	*0.4*	*1.5*	*0.6*	*0.9*	*1.8*	*4.6*	*6.4*	*4.3*	*-0.3*	*0.8*	*0.0*	*0.3*	*1.0*	*2.8*	*4.7*	*2.8*
Energy products	-4.0	2.5	1.7	-0.6	-5.0	2.3	4.6	0.5	-2.3	3.8	3.1	2.0	-2.6	3.7	5.8	2.2
Unit labour costs (1)																
Total economy	3.2	4.1	5.1	3.9	3.2	2.8	....	....	1.9	2.0	2.3	1.7	1.3	0.3	....	....
of which: industry excluding construction	*3.1*	*3.7*	*4.4*	*3.4*	*3.5*	*1.9*	....	....	*0.9*	*0.2*	*0.8*	*-0.5*	*0.7*	*-2.1*	....	....
services	*3.4*	*4.2*	*5.3*	*3.7*	*3.1*	*3.4*	....	....	*2.5*	*2.4*	*2.6*	*1.9*	*1.5*	*1.2*	....	....

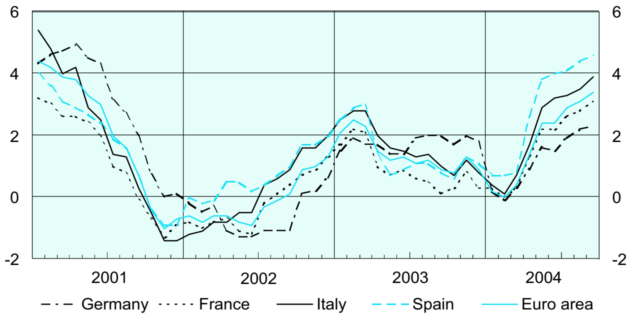
Source*:* Based on Eurostat data.
(1) For the euro area, the changes are calculated on the basis of the figures for France, Germany, Italy and Spain; for Italy and Spain, unit labour costs are based on standard labour units.

The prices of intermediate energy goods, which were 2.6 per cent lower in the first quarter than a year earlier, showed twelve-month growth of 7 per cent in September. The prices of food products for final consumption also accelerated, as the rising prices of raw materials drove up their twelve-month growth to 2.5 per cent in September, compared with an annual increase of 1.8 per cent in 2003.

Figure 24

General index of producer prices (1)

(twelve-month percentage changes)



Source: Eurostat.

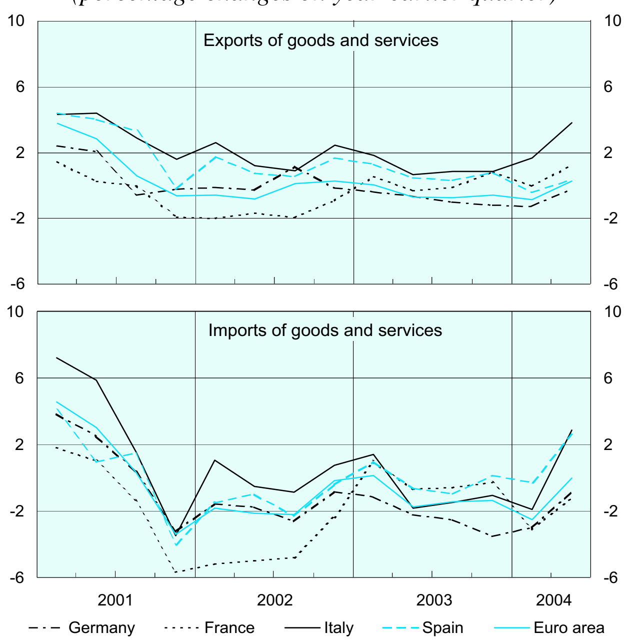
(1) The index refers to the prices of manufactured goods. The indices of the various countries are not strictly comparable, owing to differences of method.

Against a background of uncertainty about the strength of the recovery, the European Commission's indicator of euro-area manufacturers' pricing intentions, though rising during the year, has remained at low levels.

Figure 25

Export and import deflators

(percentage changes on year-earlier quarter)



Sources: Based on Eurostat and Istat data.

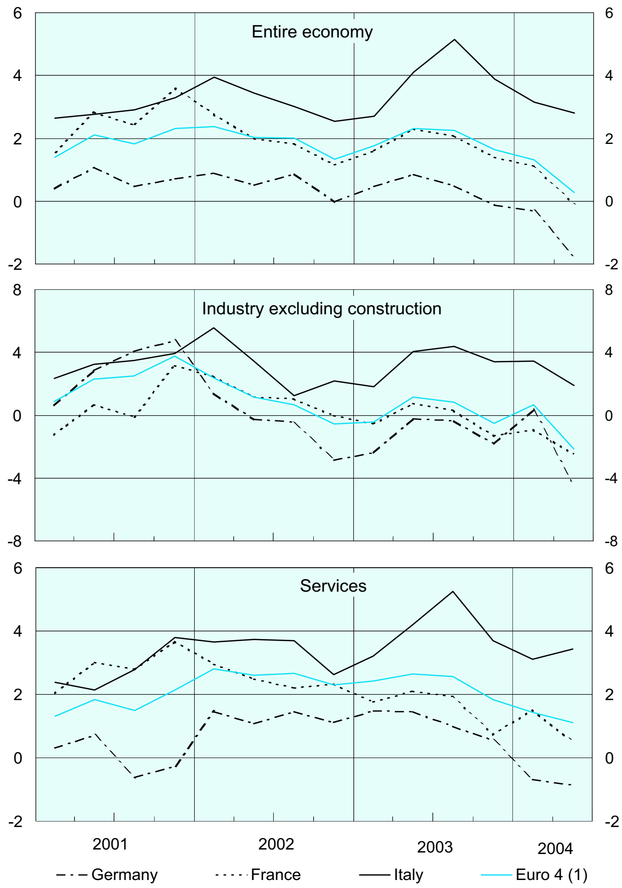
On the basis of the deflator for exported goods and services, the export prices of euro-area firms fell slightly in the first half of 2004 with respect to the year-earlier period (Figure 25). Exporters in the leading countries adopted different pricing policies in foreign markets: the deflator decreased by 0.8 per cent in Germany, but rose by 0.6 per cent in France and 2.7 per cent in Italy, reflecting faster-rising domestic costs.

Costs. – In 2004, as the appreciation of the euro in nominal effective terms came to a halt and the foreign-currency prices of raw materials rose, the role of imported cost components in curbing inflation diminished. The deflator of imported goods and services in the euro area, which fell by 1.1 per cent in 2003, continued to decline in the first quarter of this year (2.5 per cent with respect to a year earlier), before stabilizing in the second.

Figure 26

Unit labour costs

(percentage changes on year-earlier quarter)



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.

Reuters' survey of manufacturing firms shows the growth rate of input costs steadily rising in the first half of 2004 but levelling off thereafter.

Internal inflationary pressures in the euro area subsided in the first half of the year. With employment stable, even the modest recovery in economic activity generated appreciable productivity gains, causing the rate of growth in unit labour costs for the economy as a whole to slow from 2 per cent in 2003 to 0.8 per cent (Figure 26).

In industry excluding construction, in the euro area as a whole the year-on-year increase in value added in the first half was associated with a fall of 1.7 per cent in employment, boosting productivity by 4.3 per cent. The result was a 0.8 per cent reduction in unit labour costs on the corresponding period of the previous year. In the service sector the increase in unit labour costs came to 1.3 per cent, just over half as much as in 2003 as a whole, reflecting the moderate rise in productivity and a slight deceleration in earnings.

Prices and costs in Italy

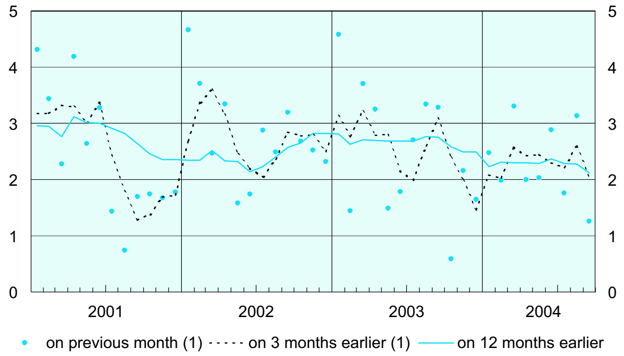
Consumer prices. – In January-September 2004 the year-on-year increase in the index of consumer prices for the whole population declined to 2.3 per cent, from 2.7 per cent in 2003 as a whole (Figure 27). Excluding the more volatile components and items whose prices are regulated, the fall was even greater: to 2.1 per cent, from 2.7 per cent in 2003. In October consumer price inflation is estimated to have decreased further, to a twelve-month rate of 2 per cent.

Among unregulated prices, the increase in those of non-food and non-energy products slowed to 0.8 per cent in the first nine months of 2004, from 1.9 per cent in 2003, benefiting from the moderation of domestic costs in an economic environment marked by uncertainty. A contribution of around 0.5 percentage points to the deceleration in these prices came from the exceptionally large drop in the prices of cellular telephones (-23.2 per cent in the first nine months; Table 17).

Figure 27

Italy: general consumer price index

(percentage changes)



Source: Based on Istat data.

(1) Seasonally adjusted and annualized.

Inflation for services whose prices are unregulated remained stable with respect to the year-earlier period (3.4 per cent, compared with 3.5 per cent in 2003), well above that for goods. After falling to 3.2 per cent in the first quarter, the year-on-year rate of increase in the prices of services rose to 3.7 per cent in the third. Around 0.4 percentage points of this increase was attributable to higher prices for air transport and professional services. The rapid rise in the prices of services reflects the continuing increase in unit labour costs (3.3 per cent in the first six months of 2004 on the corresponding period of 2003), due above all to the fall in productivity under way since 2002.

The contribution of items whose prices are regulated to the average increase in the general index in the first nine months amounted to 0.4 percentage points, largely attributable to the rise in the prices of tobacco products (9.7 per cent) and local services. The prices of regulated energy products, which depend only in part on oil prices and are adjusted with a lag of more than six months to movements in the prices of energy sources, benefited from the broad stability of the price of crude oil in the second half of 2003 and the first two months of 2004. This led to a fall in the price of electricity and a moderate increase in that of gas. If the recent tensions in the oil markets do not abate, price increases for energy products will be seen in the coming months.

Table 17

Consumer prices in Italy (1)

	Percentage changes on year-earlier period		Percentage weights	Contibutions to average inflation (percentage points)
	2003	first 9 months of 2004	2003	first 9 months of 2004
GENERAL INDEX	**2.7**	**2.3**	**100**	**-**
Unregulated goods and services	**2.8**	**2.3**	**82.0**	**1.9**
Unprocessed food products	4.2	3.5	6.9	0.2
of which: fruit	*6.0*	*5.7*	*1.0*	*0.1*
vegetables	*5.4*	*3.3*	*1.3*	*0.0*
Processed food products	2.4	2.5	9.8	0.2
Non-food and non-energy products	1.9	0.8	31.9	0.3
of which: telephones	*-3.9*	*-23.2*	*0.9*	*-0.2*
Unregulated services	3.5	3.4	30.3	1.0
of which: air transport	*2.7*	*9.1*	*0.6*	*0.1*
professional services	*1.2*	*5.5*	*0.7*	*0.0*
Energy products	2.3	3.8	3.1	0.1
Regulated goods and services	**2.2**	**2.0**	**18.0**	**0.4**
Medical products	-3.8	0.0	2.9	0.0
Tobacco products	8.3	9.6	1.9	0.2
Rents	2.8	2.8	3.1	0.1
Public services and utilities	2.7	0.8	10.0	0.1
of which: energy	*2.8*	*-3.7*	*2.8*	*-0.1*
gas	*5.1*	*0.2*	*0.2*	*0.0*

Source*:* Based on Istat data.
(1) General price index for the whole population.

Large-scale retailers in Italy have recently undertaken to curb prices for widely used non-durable goods (packaged food, personal care and household cleaning products). The impact of these initiatives may prove to be modest, since the items in question account for only a small percentage of the consumer price index basket. Recent empirical studies demonstrate that price adjustments to these products are made at intervals of a little less than one year.

Costs and profit margins. – Unit labour costs in the economy as a whole rose by an average of 3 per cent in the first two quarters year on year, decelerating from 4.1 per cent in 2003 (Figure 26). The reduction in the average rate of increase in labour costs per employee to 3.2 per cent in the first six months of 2004, from 3.8 per cent in 2003, was accompanied by a pick-up in productivity, which grew by 0.2 per cent, compared with a annual decline of 0.4 per cent in 2003. All of the productivity gains occurred in industry excluding construction, where in the first six months value added rose by an average of 1.5 per cent, compared with a decline of 1 per cent on average in 2003, while employment remained virtually stable.

More detailed information on Italian firms' costs and profit margins is provided by the input and output price indicators prepared by Istat for the national accounts (Table 18). On average in the first half of 2004, the acceleration in the costs of imported inputs in manufacturing more than offset the slowdown in the sector's labour costs, causing unit variable costs to rise by 3.1 per cent, compared with 2.3 per cent in 2003. Output prices rose by just under 3 per cent. In the service sector, the slowdown in the costs of domestic tangible inputs from other sectors moderated the increase in unit variable costs, which rose by 2 per cent, compared with 3.1 per cent in 2003; with output prices up by 3.1 per cent, profit margins are estimated to have widened by about 1 percentage point, despite the large increase in labour costs.

During 2004 Italian firms have raised their export prices in connection with the gradual recovery of demand. The increase with respect to the year-earlier period in the average unit values in euros of manufactures exported to EU countries rose from 2.2 per cent in the first quarter to 5 per cent in the second, in part reflecting the growing pressure from producer prices. The increase on the corresponding period in those of goods exported to non-EU markets rose from close to nil in the first quarter of 2004 to 4.4 per cent in the second. The rise in prices has been reflected in the performance of export volumes.

Inflation expectations

The professional forecasters surveyed by Consensus Economics in October expected inflation in 2004 to average 2.3 per cent in Italy and 2.1 per cent in the euro area (Table 19). Inflation expectations for the euro area have been revised upwards by almost half a percentage point since the start of the year, gradually adjusting to actual developments in inflation (Figure 28 and Table 19). On the basis of these forecasts, Italy's average inflation differential this year is expected to narrow to 0.6 percentage points vis-à-vis Germany and remain negligible vis-à-vis France.

In the opinion of professional forecasters, in 2005 annual inflation will be 2.1 per cent in Italy and 1.8 per cent in the euro area. These expectations are based in part on projections of favourable domestic cost developments in the major countries of the area.

According to the consumer surveys coordinated by the European Commission, euro-area consumers' inflation expectations for the subsequent twelve months rose slightly in the first half of 2004 and then declined in the third quarter. In Italy consumers' expectations of a fall in inflation remained stable.

Table 18

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

	Manufacturing (2)			Market services		
	Percentage weights	2003	2004 Jan.-June	Percentage weights	2003	2004 Jan.-June
Unit variable costs	**100.0**	**2.3**	**3.1**	**100.0**	**3.1**	**2.0**
Labour inputs	35.9	4.1	2.7	73.6	3.7	3.6
Other inputs	64.1	1.2	3.4	26.4	1.8	-1.7
domestic	*38.3*	*2.2*	*2.3*	*19.9*	*3.3*	*-3.5*
imported	*25.8*	*0.1*	*4.6*	*6.5*	*-2.4*	*4.0*
Output prices	**100.0**	**1.4**	**2.9**	**100.0**	**2.7**	**3.1**
on the domestic market	*58.3*	*2.2*	*1.9*	*91.3*	*2.7*	*3.1*
on export markets	*41.7*	*0.4*	*3.9*	*8.7*	*1.9*	*2.4*

Source*:* Istat.
(1) Indicators excluding intrasectoral transactions. – (2) Manufacturing does not include the sub-sectors "Manufacture of coke, refined petroleum products and nuclear fuel" and "Mining and quarrying except energy producing materials".

Table 19

Professional forecasters' inflation exspectations for 2004 and 2005 in the euro area (1)

	Forecasts for 2004		Forecasts for 2005	
	January 2004 survey	October 2004 survey	January 2004 survey	January 2004 survey
Italy	2.2	2.3	2.1	2.1
France	1.7	2.2	1.7	1.8
Germany	1.2	1.7	1.2	1.4
Spain	2.6	3.0	2.6	2.8
Euro area	1.7	2.1	1.7	1.8

Source*:* Consensus Economics.
(1) Monthly survey.

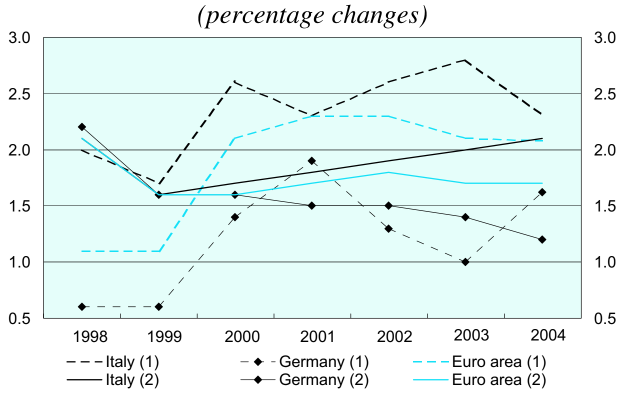
The gap, in existence since the introduction of the euro, between inflation as measured by the official statistics and inflation perceptions derived from consumer surveys has narrowed in Italy during the year. Plausibly, a contributory factor has been the fall in the prices of unprocessed food products, to which consumers appear to assign greater weight than that computed in the consumer price index basket owing to the frequency with which these items are purchased.

According to the quarterly survey of a sample of about 450 Italian firms jointly conducted by the Bank of Italy and *Il Sole 24 Ore* in September, the respondents expected to mark up their prices by 1.9 per cent over the next twelve months, less than the expected rise in consumer prices over the same period (2.5 per cent). The difference between the expected change in the general index of consumer prices and that in the prices of the firms surveyed has gradually narrowed in the course of 2004. Among the factors that might create inflationary pressures in the future, firms most frequently mentioned strains in raw materials markets.

Figure 28

Actual inflation and inflation expectations of professional forecasters

(percentage changes)



Sources: Eurostat for inflation, Consensus Economics monthly survey for inflation expectations.

(1) Harmonized index of consumer prices; percentage change on previous year. For 2004, percentage change in the first nine months on the corresponding period. – (2) Expectations of professional forecasters in January of the year indicated for average inflation in the year.

For the euro area, the longer-term expectations that can be derived from the prices of index-linked government securities indicate inflation holding broadly steady at around 2 per cent. Professional forecasters' expectations are also in line with that level.

THE PUBLIC FINANCES IN THE EURO AREA AND ITALY

The overall picture

Euro-area general government net borrowing is expected to grow further in 2004, continuing a trend under way since 2001. According to the forecasts recently released by the European Commission, it will rise to 2.9 per cent of GDP, from 2.7 per cent in 2003. The majority of countries will not achieve their budget targets. A slight increase in the ratio of debt to GDP is projected.

France and Germany are expected to have deficits exceeding the threshold of 3 per cent of GDP for the third consecutive year; in 2003 the EU Council had found an excessive deficit situation in both countries. In 2004 the excessive deficit procedure was also initiated for the Netherlands and Greece. The Commission forecasts that net borrowing in Greece will be 5.5 per cent of GDP this year.

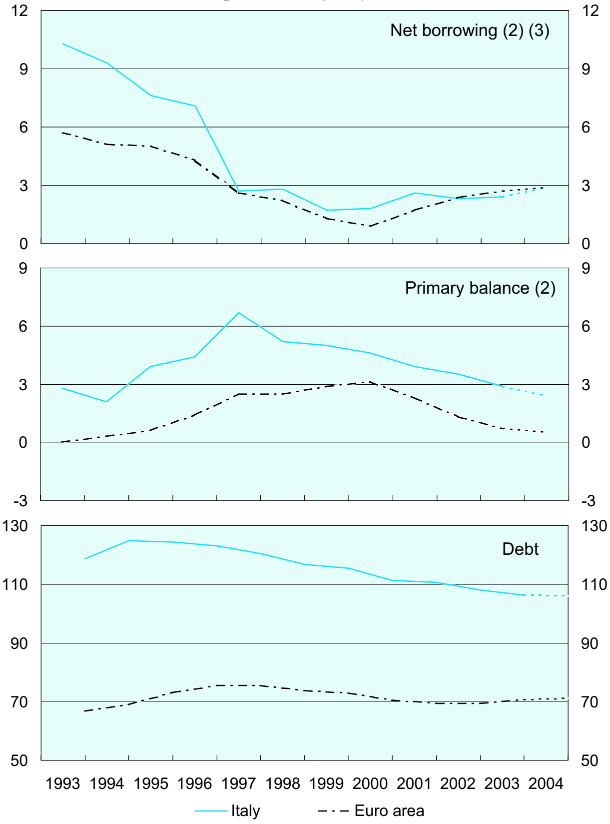
In Italy, the target for net borrowing in 2004 was raised in steps from 1.8 per cent of GDP in the summer of 2003 to 2.9 per cent last May. The changes were connected with the reduction in the size of the budget adjustment for 2004 and the downward revision of the estimate for economic growth. The target for the primary surplus was lowered from 3.1 to 2.4 per cent of GDP, implying a continuation of the contraction under way since 1998 (Figure 29).

The performance of the public finances in the first half of 2004 suggested that net borrowing might exceed the threshold of 3 per cent of GDP; in mid-July a supplementary budget adjustment officially estimated at €7.6 billion was approved. The Economic and Financial Planning Document for 2005-08, published at the end of July, confirmed the 2.9 per cent target for 2004. However, its projections for the performance of the public finances on a current legislation basis were worse than those in the preceding official documents and it revised the net borrowing targets for the coming years upwards.

In 2004 one-off measures are expected to curb net borrowing by around 1.5 percentage points of GDP, compared with 2 points in 2003 and 1.5 in 2002; this estimate includes receipts from property sales and securitizations, officially estimated at 0.5 points and largely still to be realized.

Figure 29

Italy and the euro area: general government net borrowing, primary balance and debt (1)
(as a percentage of GDP)



Sources: Based on Istat and EU Commission data; for Italy's debt, Bank of Italy; for the 2004 forecasts for Italy, the Update of the Economic and Financial Planning Document for the years 2005-08.

(1) Forecasts for 2004. Following the switch to ESA95, there is a break in the euro-area series of the balances between 1994 and 1995 and in that of the debt between 1995 and 1996.– (2) Excludes the proceeds of sales of UMTS licences. – (3) Includes the effects of swaps and forward rate agreements.

In the first nine months of this year the general government borrowing requirement, net of privatization receipts, was €61.4 billion, compared with €52.2 billion in the corresponding period of 2003.

If the Government's target for net borrowing is achieved, the gap between that balance and the general government net borrowing requirement would remain at the high levels recorded in the period 1999-2003.

Achieving the Government's target for the ratio of debt to GDP (106 per cent, compared with 106.2 per cent in 2003) implies the implementation of measures of a financial nature in the last two months of the year. The Economic and Financial Planning Document envisaged privatizations and asset disposals of €19.5 billion (1.4 percentage points of GDP), still partly to be realized.

Objectives and forecasts for the euro area

In most of the euro-area countries the budget results for 2004 look set to be less favourable than both the outturns for 2003 and the objectives indicated in the stability programme updates.

The updates, submitted between the end of 2003 and the beginning of 2004, delineated a gradual reduction in the ratio of euro-area general government net borrowing to GDP: from 2.7 per cent in 2003 to 2.3 per cent in 2004 and 1.8 per cent in 2005 (Table 20).

In the spring the European Commission forecast that area-wide net borrowing would remain stable at 2.7 per cent of GDP in 2004.

According to the forecasts released by the Commission in October, in 2004 the area's deficit will rise to 2.9 per cent of GDP and the surplus

Table 20

Euro area, EU-15 and EU-25: general government net borrowing and debt (1)
(as a percentage of GDP)

	Euro area			EU-15			EU-25		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Net borrowing (2)									
Stability and convergence programmes	2.7	2.3	1.8	2.6	2.2	1.7	-	-	-
European Commission (April 2004)	2.7	2.7	2.6	2.6	2.6	2.4	2.7	2.7	2.5
OECD (June 2004)	2.7	2.8	2.7	-	-	-	-	-	-
Outturn according to Eurostat (September 2004)	2.7	-	-	2.7	-	-	2.8	-	-
IMF (September 2004)	2.8	2.9	2.5	-	-	-	-	-	-
European Commission (October 2004)	2.7	2.9	2.5	2.7	2.7	2.4	2.8	2.8	2.4
Cyclically-adjusted net borrowing (3)									
OECD (June 2004)	1.7	1.6	1.8	-	-	-	-	-	-
IMF (September 2004)	1.7	1.7	1.4	-	-	-	-	-	-
Debt									
Stability and convergence programmes	70.2	70.1	69.4	63.8	63.9	63.3	-	-	-
European Commission (April 2004)	70.5	71.0	71.0	64.1	64.3	64.3	63.1	63.4	63.4
Outturn according to Eurostat (September 2004)	70.7	-	-	64.3	-	-	63.3	-	-
European Commission (October 2004)	70.7	71.1	71.1	64.2	64.4	64.5	63.2	63.5	63.5

Sources: Stability and convergence programmes submitted between the end of 2003 and the beginning of 2004; European Commission, Spring Forecasts, April 2004; OECD, Economic Outlook, June 2004; IMF, World Economic Outlook, September 2004; Eurostat, press communiqué, 23 September 2004; European Commission, Autumn Forecasts, October 2004

(1) GDP-weighted averages. – (2) Includes the effects of swaps and forward rate agreements. – (3) Excluding Luxembourg.

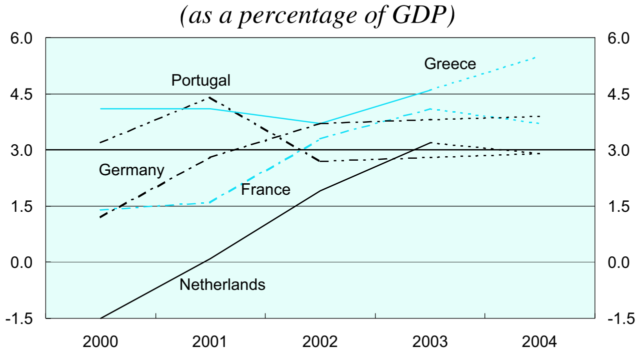
on current account is set to decline from 0.2 to 0.1 per cent of GDP. The overall budget balance is expected to deteriorate in nearly all the countries; an improvement is forecast only for France and the Netherlands.

In France and Germany the ratio of net borrowing to GDP is forecast at 3.7 and 3.9 per cent respectively and thus expected to exceed the 3 per cent threshold for the third consecutive year (Figure 30). In Greece it is estimated at 5.5 per cent, compared with 4.6 per cent in 2003 (after the recent revisions; see below). The deficit is forecast at 3 per cent of GDP in Italy and 2.9 per cent in the Netherlands and Portugal.

Figure 30

Net borrowing of selected euro-area countries (1)

(as a percentage of GDP)



Source: European Commission, Autumn Forecasts, October 2004.

(1) The countries considered are those whose deficit exceeded the threshold of 3 per cent of GDP in at least one of the years in the period 2000-03. The data exclude proceeds of sales of UMTS licences and include the effects of swaps and forward rate agreements.

The Commission expects the area's debt to rise from 70.7 per cent of GDP in 2003 to 71.1 per cent in 2004. Significant increases are forecast for Greece (2.3 percentage points, to 112.2 per cent), Germany (1.7 points, to 65.9 per cent), the Netherlands (1.6 points, to 55.7 per cent) and France (1.2 points, to 64.9 per cent).

For 2005 the Commission forecasts a reduction in the area-wide deficit to 2.5 per cent of GDP and a debt-to-GDP ratio unchanged at this year's expected level.

The excessive deficit procedure is still open in respect of France and Germany. In 2004 the procedure was also initiated against Greece and the Netherlands; the EU Council issued a recommendation calling on the two countries to correct the excessive deficit by 2005. An excessive deficit situation was also found to exist in six new member states (Cyprus, Malta, Poland, the Czech Republic, Slovakia and Hungary). In consideration of the specific circumstances of these countries, the Council called on each of them to correct the excessive deficit according to the schedule specified in their respective convergence programmes, submitted for the first time last spring.

In May 2004 the Council abrogated the excessive deficit procedure that had been initiated for Portugal with reference to the country's 2001 budget outturn; however, it asked the Portuguese government to adopt measures that would prevent new overshoots of the 3 per cent limit.

At the beginning of this year the Commission submitted the EU Council decision of 25 November 2003 to the Court of Justice for review. On that date the Council had decided to hold the excessive deficit procedure for France and Germany in abeyance and not to adopt the Commission's recommendations; in addition, it had formulated some requests regarding the objectives to be achieved.

In July the Court of Justice annulled the Council's decision to suspend the two procedures, finding that it did not conform with European rules inasmuch it did not reflect a proposal from the Commission. However, the Court determined that it was within the Council's power not to adopt the recommendations proposed by the Commission.

In September, with the second notification to the European Commission of information on 2003 net borrowing and debt, some euro-area countries submitted revised data with respect to those released in March.

The most substantial changes regarded Greece, which revised the figures for the period 2000-03; the outturn for 1999, which had been examined for the decision on Greece's participation in the monetary union, was not revised. Compared with the figures available in March, net borrowing was revised upwards by an average of 2.4 percentage points of GDP (2.9 points in 2003). Following the changes, Greece's deficit exceeded the 3 per cent ceiling in each of the four years 2000-03. The new data reflect the statistical revisions to some budget items and the reclassification of some transactions from real to financial. The ratio of debt to GDP was increased by an average of 7.7 percentage points (7.5 points in 2003, to 109.9 per cent). The revisions concerned the valuation of some outstanding liabilities and consolidation items of the general government debt.

Budgetary policy in Italy

The Economic and Financial Planning Document presented in July 2003 set a target for general government net borrowing of 1.8 per cent of GDP in 2004. The forecast for economic growth in 2004 was 2 per cent (Table 21). The target was raised to 2.2 per cent of GDP in September 2003 and to 2.9 per cent in May of this year. The first revision reflected the decision to reduce the size of the budget adjustment from 1.2 to 0.8 per cent of GDP, the second the lowering of the forecast for economic growth from 1.9 to 1.2 per cent.

Last spring it became clear that net borrowing might exceed the threshold of 3 per cent of GDP. In April the European Commission projected a deficit of 3.2 per cent for Italy and proposed to the EU Council that it serve an early warning.

In the Quarterly Report on the Borrowing Requirement, published at the beginning of May, the Government acknowledged that achieving the target

Table 21

Italy: public finance targets and estimates for 2004
(billions of euros and percentages)

	State sector net borrowing requirement (1)	General government				*Memorandum items*	
		Net borrowing	Primary surplus	Interest payments	Debt	Real GDP growth rate	Nominal GDP
Targets							
Economic and Financial Planning Document (July 2003)	….	….	….	….	….	2.0	1,354.1
as a percentage of GDP	….	*1.8*	*3.1*	*4.9*	*104.2*		
Forecasting and Planning Report and Economic and Financial Planning Document Update (September 2003)	*49.5*	*30.3*	*38.7*	*69.0*	….	*1.9*	*1,352.5*
as a percentage of GDP	*3.7*	*2.2*	*2.9*	*5.1*	*105.0*		
Stability Programme Update (November 2003)	….	….	….	….	….	1.9	1,352.0
as a percentage of GDP	….	*2.2*	*2.9*	*5.1*	*105.0*		
Estimates made during the year							
Quarterly Report on the Borrowing Requirement and Forecasting and Planning Report Update (May 2004)	62.0	39.7	29.5	69.2	….	1.2	1,351.5
as a percentage of GDP	*4.6*	*2.9*	*2.2*	*5.1*	*105.9*		
Economic and Financial Planning Document (July 2004)	62.0	39.6	32.1	71.7	….	1.2	1,350.1
as a percentage of GDP	*4.6*	*2.9*	*2.4*	*5.3*	*106.0*		
Forecasting and Planning Report and Economic and Financial Planning Document Update (September 2004)	….	….	….	….	….	1.2	1,353.9
as a percentage of GDP	….	*2.9*	….	….	*106.0*		

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

of 2.9 per cent of GDP for net borrowing depended on the occurrence of a series of contingencies, some of which were highly uncertain.

In the EU Council meeting of 11 May the Government undertook to adopt the measures needed to keep the deficit below 3 per cent of GDP. Taking note of this commitment, the Council decided to postpone the decision on sending Italy an early warning for two months. In the Council meeting of 5 July, the Government confirmed its commitment and outlined the corrective measures to be taken in the second half of 2004; the Council therefore decided not to serve an early warning on Italy, but underscored the need for careful monitoring of the performance of its public finances.

In the first half of the year the borrowing requirement was considerably higher than the figures registered in the corresponding period of 2003.

In mid-July the Government introduced the corrective measures that it had announced to the EU Council. They were officially estimated to total €7.6 billion (0.6 per cent of GDP) and included measures of an administrative nature amounting to €2 billion to be specified and adopted before the end of the year.

The measures helped to curb the growth of the borrowing requirement in the subsequent months. They allowed the Economic and Financial Planning Document for the years 2005-08 to confirm the objective for net borrowing in 2004 set at 2.9 per cent of GDP in the Quarterly Report on the Borrowing Requirement; the objective for the primary surplus was raised from 2.2 to 2.4 per cent, compared with the outturn of 2.9 per cent in 2003. The deficit on current account was projected at 0.6 per cent of GDP, compared with 0.2 per cent in 2003.

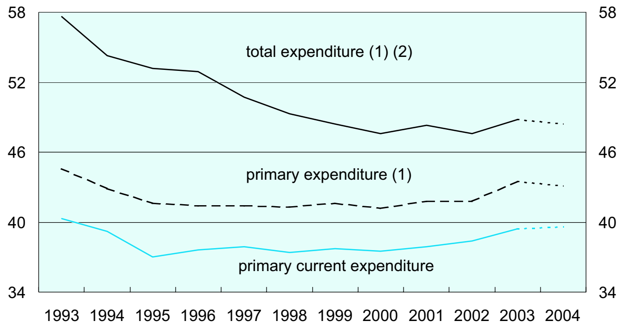
The forecast for the reduction in the debt ratio (-0.2 percentage points, to 106 per cent of GDP) was basically unchanged with respect to the May projection; privatizations receipts were expected to amount to €19.5 billion, or 1.4 per cent of GDP.

The Forecasting and Planning Report for 2005, presented in September, confirmed the July Document's forecasts for 2004. Compared with 2003, revenue is expected to decrease by 1 percentage point of GDP and total outlays by 0.4 points. Interest payments are projected to remain unchanged; primary current expenditure is expected to increase by 0.2 points (Figure 31).

Figure 31

Italy: general government expenditure

(as a percentage of GDP)



Sources: Based on Istat data. For 2004, forecasts from the Forecasting and Planning Report for 2005.

(1) Excludes the proceeds of sales of UMTS licences. – (2) Includes the effects of swaps and forward rate agreements.

In 2004 ample recourse was again made to one-off measures; including the effects of those introduced in previous years, the reduction in net borrowing deriving from such measures can be estimated for the whole year at 1.5 percentage points of GDP, compared with 2 points in 2003 and 1.5 in 2002. This estimate includes the receipts of property sales and securitizations planned by the Government (officially estimated at 0.5 percentage points), largely still to be realized.

The official estimates put the primary surplus for the current year at 2.4 per cent of GDP; excluding the impact of one-off measures and cyclical effects, it would be of the order of 1 per cent. A stable and adequate reduction of the ratio of debt to GDP requires a higher surplus.

The gap between the borrowing requirement, net of privatization receipts, and net borrowing is expected to remain at the high levels registered in the last five years (1.6 per cent of GDP on average).

The general government quarterly consolidated accounts

The countries of the European Union must make available the main public finance aggregates on a quarterly basis by 2005, in compliance with two Community regulations. The quarterly accounts are compiled in accordance with the ESA95 statistical and accounting standards and the European regulations on short-term statistics; the data are not seasonally adjusted.

Istat has been publishing these figures since October 2003. The aggregates are partly estimated on the basis of the short-term qualitative and quantitative data available at the time of calculation and are therefore particularly subject to revision.

On the basis of the estimates released by Istat on 12 October 2004, net borrowing amounted to 3.5 per cent of GDP in the first half of 2004, compared with 1,7 per cent in the corresponding period of 2003, The primary surplus fell from 3.9 to 1.3 per cent of GDP as a consequence of the slight increase in the primary expenditure ratio (from 41 to 41.4 per cent) and the substantial decline in the revenue ratio (from 44.9 to 42.7 per cent).

Revenue totaled €281.2 billion in the first half of 2004, 1.2 per cent less than in the first half of the previous year. Current revenue grew by 5.3 per cent, while capital revenue fell by 82 per cent, partly reflecting the different accounting treatment in the two periods of receipts from tax regularization schemes. In particular, in the first half of 2003 the receipts from regularization schemes (€19.3 billion) included revenue accrued during the period but collected subsequently in instalments; in the first half of 2004, owing to lack of data, they only consisted of the amounts recorded in the state budget (around €2.7 billion).

In the first six months of the year general government expenditure amounted to €304.3 billion, an increase of 3 per cent on the year-earlier period. Interest payments fell by 9.6 per cent. Total primary expenditure rose by 4.7 per cent, primary current expenditure by 4.6 per cent,

Compensation of employees rose by 6.1 per cent, reflecting the contract renewals for the two years 2002-03 for the employees of the national health service and communes, provinces and regions.

The growth in intermediate consumption was especially moderate (0.8 per cent).

General government expenditure and revenue

(millions of euros)

	First half			
	2003	2004	Percentage change on previous year 2003	Percentage change on previous year 2004
EXPENDITURE				
Compensation of employees	65,603	69,626	4.5	6.1
Intermediate consumption	31,639	31,903	5.2	0.8
Social benefits in cash	104,108	108,711	5.0	4.4
Interest payments	35,167	31,787	-5.1	-9.6
Other current expenditure	35,193	37,302	9.1	6.0
Current expenditure	**271,710**	**279,329**	**4.0**	**2.8**
as a percentage of GDP	*42.8*	*42.4*		
Current expenditure, net of interest payments	**236,543**	**247,542**	**5.5**	**4.6**
as a percentage of GDP	*37.3*	*37.6*		
Investment	14,667	17,435	12.8	18.9
Other capital expenditure	8,919	7,506	2.0	-15.8
Capital expenditure	**23,586**	**24,941**	**8.5**	**5.7**
Total expenditure, net of interest payments	**260,129**	**272,483**	**5.8**	**4.7**
as a percentage of GDP	*41.0*	*41.4*		
TOTAL EXPENDITURE	**295,296**	**304,270**	**4.3**	**3.0**
as a percentage of GDP	*46.5*	*46.2*		
REVENUE				
Direct taxes	73,576	80,535	-1.9	9.5
Indirect taxes	92,968	95,382	2.3	2.6
Social security contributions	75,917	79,053	7.1	4.1
Other current revenue	20,956	22,437	1.9	7.1
Current revenue	**263,417**	**277,407**	**2.4**	**5.3**
as a percentage of GDP	*41.5*	*42.1*		
Capital taxes	19,973	2,747	947.9	-86.2
Other capital revenue	1,328	1,081	-4.8	-18.6
Capital revenue	**21,301**	**3,828**	**545.3**	**-82.0**
TOTAL REVENUE	**284,718**	**281,235**	**9.3**	**-1.2**
as a percentage of GDP	*44.9*	*42.7*		
NET BORROWING	**10,578**	**23,035**	**-52.8**	**117.8**
as a percentage of GDP	*1.7*	*3.5*		
PRIMARY SURPLUS	**24,589**	**8,752**	**67.9**	**-64.4**
as a percentage of GDP	*3.9*	*1.3*		
Memorandum item:				
GDP	634,581	658,280	3.3	3.7

Source: Istat, *Conto trimestrale delle Amministrazioni pubbliche.*

Social benefits in cash increased by 4.4 per cent, reflecting the automatic adjustment of pensions to inflation (2.5 per cent).

Capital expenditure grew by 5.7 per cent. Investment rose by 18.9 per cent, partly as a consequence of the decline in the proceeds of property sales, while other capital expenditure fell by 15.8 per cent.

The performance of Italy's public finances during the year

In the first nine months of 2004 the Italian general government borrowing requirement, net of settlements of past debts and privatization receipts, was €61.2 billion, compared with €47.3 billion in the corresponding period of 2003 (Table 22). Settlements of past debts amounted to €0.2 billion, compared with €4.9 billion in the year-earlier period.

The state sector net borrowing requirement amounted to €57.7 billion in the first ten months of the year, €3.2 billion more than in the corresponding period of 2003.

Considering that a surplus is normally recorded in the last two months of the year, and that this year, as in 2003, it will also include the extraordinary receipts expected from securitizations, the net borrowing requirement for the year is likely to be lower than the official estimates of €62 billion for the state sector (4.6 per cent of GDP) and €65.6 billion for the public sector (4.8 per cent of GDP).

The rolling twelve-month figure for the net borrowing requirement provides an indication of the performance of the public finances on a cash basis. After increasing significantly in the second half of 2003 and the first half of 2004, this figure has shown a slight decrease in the last few months while remaining at one of the highest levels in recent years. The performance is common to the borrowing requirement of both the state sector and general government (Figure 32).

In October 2003 Istat began publishing the quarterly consolidated general government accounts (see the box "The general government quarterly consolidated accounts"). On the basis of the estimates released on 12 October 2004, net borrowing in the first half of 2004 was equal to 3.5 per cent of GDP, compared with 1.7 per cent in the corresponding period of 2003. Interest payments fell from 5.5 to 4.8 per cent of GDP. The primary surplus declined from 3.9 to 1.3 per cent of GDP, owing to the slight increase in primary expenditure (from 41 to 41.4 per cent of GDP) and the considerable decrease in revenue (from 44.9 to 42.7 per cent of GDP). The last-mentioned development also reflects the different accounting treatment in the two periods of receipts from tax regularization schemes.

Table 22

Italy: main public finance indicators

(millions of euros)

	2001	2002	2003	2004
		General government net borrowing		
Whole year	32,262	28,403	31,832	39,000 (1)
as a % of GDP	*2.6*	*2.3*	*2.4*	*2.9* (1)
		State sector net borrowing requirement (2)		
Jan.-Oct.	38,634	49,888	54,478	57,700
Whole year	40,017	30,849	42,681	62,000 (1)
as a % of GDP	*3.3*	*2.4*	*3.3*	*4.6* (1)
		General government net borrowing requirement (2)		
Jan.-Sept..	30,035	41,801	47,254	61,166
Whole year	45,621	37,046	44,712	-
as a % of GDP	*3.7*	*2.9*	*3.4*	-
		General government gross borrowing requirement		
Jan.-Sept..	32,222	44,326	52,161	61,365
Whole year	50,328	40,445	36,393	-
as a % of GDP	*4.1*	*3.2*	*2.8*	-
		General government debt		
At 30 Sept.........	1,340,088	1,401,655	1,430,946	1,480,358
At 31 Dec..........	1,347,805	1,360,253	1,381,415	-
as a % of GDP	*110.6*	*107.9*	*106.2*	*106.0* (1)
		Memorandum items: Settlements of past debts		
Jan.-Sept.	6,509	2,703	4,907	214
Whole year	9,310	5,328	8,537	-
as a % of GDP	*0.8*	*0.4*	*0.7*	-
		Privatization receipts		
Jan.-Sept.	4,321	178	1	15
Whole year	4,603	1,929	16,855	-
as a % of GDP	*0.4*	*0.2*	*1.3*	-

Sources: For general government net borrowing, Istat; for the state sector borrowing requirement, Ministry for the Economy and Finance.

(1) Estimate contained in the Update of the Economic and Financial Planning Document for the years 2005-08. – (2) Net of settlements of past debts and privatization receipts.

The tax receipts of the state sector grew in the first ten months of the year by 2.6 per cent (2.5 per

Tax revenue

In the first ten months of the year state budget tax revenue on a cash basis amounted to €249.9 billion, an increase of 2.6 per cent on the figure for the corresponding period in 2003 (see table).[1]

The revenue from tax regularization schemes[2] *included in the accounts up to 31 October amounted to €6.6 billion, compared with €6.2 billion in the corresponding period in 2003. As was also the case last year, some of the payments made in the first ten months were still being held on accounts with the Treasury. It should also be noted that whereas payments totaling some €3 billion were made under tax regularization schemes in the last two months of 2003, no further large payments are expected this year.*

The increase in revenue was larger for direct taxes, 3.2 per cent and €4.2 billion. Indirect taxes grew by 1.9 per cent and €2.1 billion.

The growth in direct taxes reflects the good performance of withholdings from employee incomes and receipts of two one-off taxes: one on the capital gains on sales of businesses and equity investments and the other on the revaluation of company assets. The receipts generated by Ires, the new corporate income tax, were 4.9 per cent down on those generated in 2003 by Irpeg.

Receipts of personal income tax increased by 2 per cent and €1.9 billion. Withholdings from employee incomes grew by 2.9 per cent and €2.2 billion. The self-assessed part contracted by 5.7 per cent and €0.6 billion as a result of the start made in 2003 on the reform of personal income tax (see the box "The first step of the reform of personal income tax", in Economic Bulletin, No. 36, 2003).

Taken together, the taxes on interest income and capital gains generated 2.1 per cent and €0.2 billion less than in 2003, notwithstanding the above-mentioned increase of €0.6 billion in the tax on the capital gains on sales of businesses and equity investments. In particular, receipts of the tax on bank deposit interest decreased by €0.7 billion.

The growth in other direct taxes reflects the increase in receipts of the tax on the revaluation of company assets, from €1.3 billion to €3.6 billion, and that in revenue from tax regularization schemes, from €4.2 billion to €5.7 billion.

Turning to indirect taxes, receipts of VAT rose by 3.2 per cent and €2.3 billion. The yield of other business taxes fell by 2.7 per cent and €0.3 billion; net of the proceeds of regularization schemes, they rose by 7.2 per cent and €0.7 billion in connection with the extraordinary payment of €0.8 billion made in March by the banks acting as tax collection agents. This payment is the first instalment of an annual amount payable by these banks in proportion to the sums they collect from customers using the unified tax payment form. In 2003 there had been a single payment of €2.7 billion in December.

The total yield of excise duties and sales tax declined by 1.5 per cent and €0.3 billion.

Receipts from monopolies increased by 4.4 per cent and €0.3 billion as a result of the increases in the taxation of some brands of cigarettes. Proceeds of lotteries grew by 9 per cent and 0.1 billion.

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[1] In the first nine months of the year state budget tax revenue grew on an accrual basis by 4 per cent (for the definition of the aggregate, see the box "Tax revenue" in Economic Bulletin, No. 37, 2003); on a cash basis it grew by 3.5 per cent.

[2] In 2004 the revenue on a cash basis from tax regularization schemes includes both some instalments under schemes introduced in the budget for 2003 and the receipts generated by the extension of these schemes in the budget for 2004.

State budget tax revenue on a cash basis (1)

(millions of euros)

	January-October			
	2003	2004	% composition in 2004	% change on 2003
Direct taxes	**130,309**	**134,518**	**53.8**	**3.2**
Personal income tax	96,475	98,358	73.1	2.0
of which: withholdings from employee incomes	*76,598*	*78,796*		*2.9*
balances	*4,540*	*4,241*		*-6.6*
payments on account	*6,525*	*6,188*		*-5.2*
Corporate income tax (2)	15,486	14,722	10.9	-4.9
of which: balances	*5,942*	*5,924*		*-0.3*
payments on account	*9,457*	*8,675*		*-8.3*
Tax on interest income and capital gains	9,497	9,298	6.9	-2.1
Other (3) (4)	8,851	12,140	9.0	37.2
Indirect taxes	**113,317**	**115,426**	**46.2**	**1.9**
VAT	72,399	74,713	64.7	3.2
Other business taxes (4)	11,603	11,293	9.8	-2.7
Excise duties on mineral oils	15,723	15,732	13.6	0.1
Other excise duties and sales taxes	5,641	5,316	4.6	-5.8
Monopolies	6,476	6,764	5.9	4.4
Lotteries	1,475	1,608	1.4	9.0
TOTAL TAX REVENUE	**243,626**	**249,944**	**100.0**	**2.6**

Sources: Based on Bank of Italy and Ministry for the Economy and Finance data.

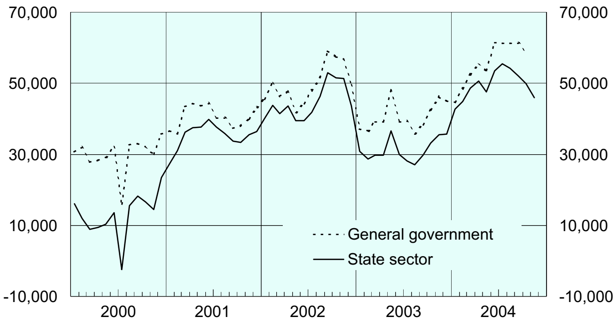
(1) The figures for 2004 are provisional. – (2) Legislative Decree 344/2003 introduced, with effect from 1 January 2004, a new system of corporate income tax (known as Ires instead of Irpeg). – (3) Includes receipts of inheritance tax, which are recorded in the state budget under “Business taxes and duties”. – (4) Includes the receipts from tax regularization schemes, which are classified in the national accounts as capital revenue.

cent net of those from regularization schemes). The increase was due above all to the growth of 3.2 per cent in direct taxes, which were buoyed by the good performance of payroll withholding taxes and the extraordinary taxes on corporate asset revaluations and disposals. Indirect taxes increased by 1.9 per cent (see the box "Tax revenue").

Figure 32

Italy: rolling twelve-month borrowing requirement (1)

(millions of euros)



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

In the future, the availability of data on the current year will be improved by the introduction of the General Government Transaction Information System, which will enter into operation in 2005.

The public debt in Italy

The Economic and Financial Planning Document published in July indicated a debt-to-GDP ratio of 106 per cent this year, 0.2 percentage points less than in 2003. On the basis of the Government's September estimate of nominal GDP growth for the year (4.1 per cent), the change implies an increase in the debt of around €54 billion, to €1,435 billion.

In the first nine months of the year the general government debt rose by €98.9 billion, compared with €70.7 billion in the corresponding period of 2003 (Table 23). The difference reflects the larger gross borrowing requirement (€61.4 billion, as against €52.2 billion), the larger volume of liabilities issued in connection with the increase in the Treasury's balances on its accounts with the Bank of Italy (€33.9 billion, as against €24.2 billion) and the transformation of Sace, the export credit insurance institute, into a company limited by shares (which involved a €3.7 billion increase in the debt). Issue discounts and premiums and the performance of the exchange rate of the euro did not have significant effects on the debt, whereas in the first nine months of 2003 they had curbed it by €3.4 billion and €2.2 billion respectively.

Table 23

Italy: change in general government debt and its components

(millions of euros)

	Jan.-Sept. 2003	Jan.-Sept. 2004
Change in debt	**70,693**	**98,943**
General government gross borrowing requirement	52,161	61,365
Settlements of past debts	*4,907*	*214*
Privatization receipts	*1*	*15*
Financing of the change in the Treasury's deposits with the Bank of Italy	24,165	33,860
Issue discounts and premiums	-3,441	113
Euro equivalent of foreign currency liabilities	-2,191	-99
Other (1)	0	3,705

(1) Effects connected with the transformation of Sace into a company limited by shares as of 1 January 2004.

In the last three months of the year the debt is likely to diminish, thanks in part to the favourable performance of the borrowing requirement. In October the increase deriving from the state sector net borrowing requirement (€6.7 billion) was more than offset by the proceeds on the sale of a part of the Treasury's holding of Enel shares (€7.6 billion). As mentioned earlier, in the last two months the state sector is expected to record a substantial surplus. In addition, the debt is likely to be curbed by a reduction in the Treasury's balances with the Bank of Italy; in the last three months of 2003 these were drawn down by €32.2 billion.

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

Overview

Since June 2003 the Governing Council of the European Central Bank has kept the minimum bid rate on main refinancing operations unchanged at 2 per cent (Figure 33).

In 2004 uncertainty has remained a feature of the short-term outlook for the euro-area economy. In the spring the release of favourable macroeconomic data had led to expectations of a faster recovery than previously foreseen. The expectations were not fulfilled, owing in part to the sharp rise in the price of oil. Consumer price inflation accelerated a little, but without undermining the environment of stable prices, thanks to widespread wage restraint.

The uncertain outlook for growth was reflected in long-term interest rates, which declined from the summer onwards in both nominal and real terms. In the first four months of the year the euro weakened against the dollar; subsequently, from mid-October onwards it strengthened significantly. The changes in the nominal effective exchange rate were less marked.

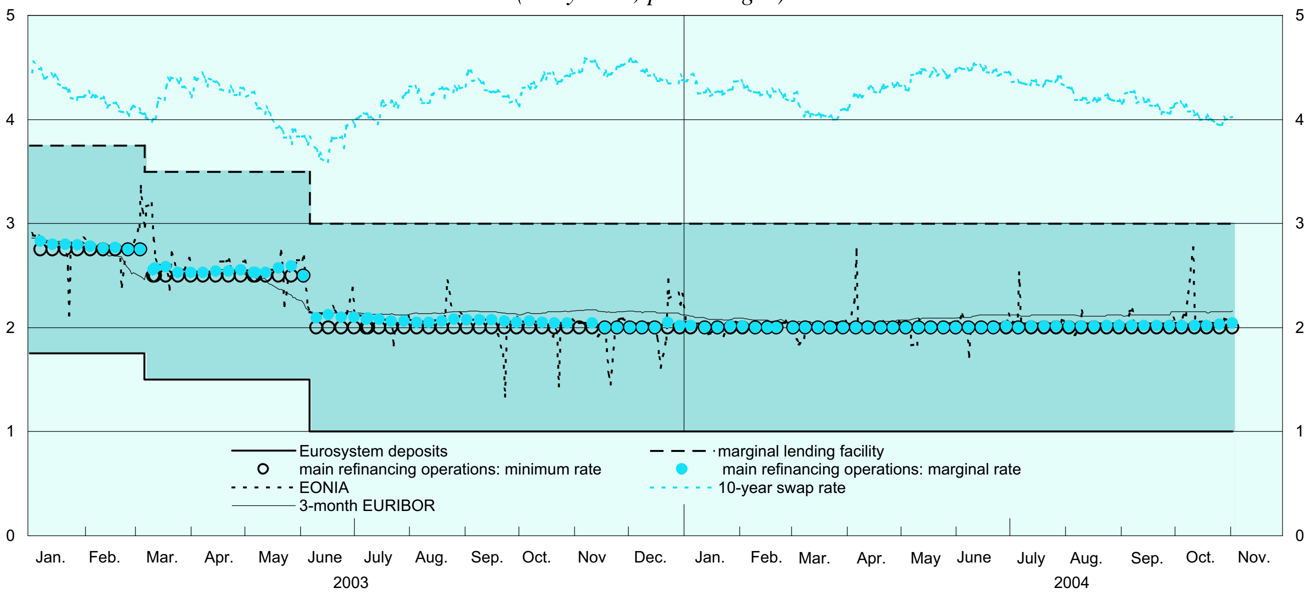
The money supply, fueled by expansionary policies and investors' preference for liquid assets, continued to grow at a rate of around 5 per cent, both in the euro area and in Italy. Italian households' financial investments have been prevalently in low-risk assets, above all liquid instruments, government securities and bank bonds.

In Italy, firms' operating profitability in the first six months of 2004 was virtually unchanged with respect to the first half of 2003. The fall in interest rates last year permitted a reduction in interest

Figure 33

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

(daily data; percentages)



Sources: ECB, Reuters and Telerate.

expense, thereby fostering a small increase in self-financing. Firms' financial debt rose to 62 per cent of GDP, but this was still some 15 percentage points below the average for their counterparts in the other main euro-area countries.

The credit granted by Italian banks has continued to expand rapidly, despite the slowdown in the demand of firms located in the Centre and North. There has been further strong growth in loans to households. Loan quality has not deteriorated with respect to 2003. Banks' profitability improved in the first half of the year.

The gain in firms' profitability and capital strength and the abundant liquidity of the international financial markets have encouraged the issue of corporate bonds. The premiums for credit risk have remained small. In Italy, banks and large firms have made substantial bond issues at conditions in line with those prevailing on the international markets; by contrast, issues by smaller firms and those with low credit ratings have continued to be limited.

Share prices in the euro area remained stable in the spring. The good results of listed companies buoyed up the equity markets. In the summer, stock price indices were hit by the rise in oil prices and the consequent uncertainty regarding the performance of the world economy; from mid-August onwards they began to rise again. The number of initial public offerings was relatively small both in the euro area and in Italy.

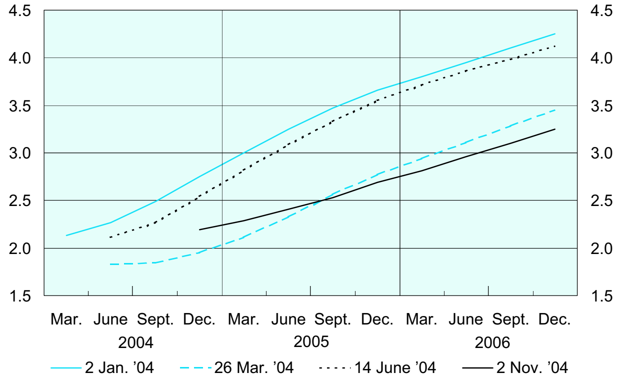
Interest rates and the exchange rate of the euro

Euro short-term interest rates have remained close to 2.1 per cent in 2004. Market expectations concerning future movements in rates have nonetheless fluctuated markedly, reflecting the considerable uncertainty surrounding the outlook for the euro-area economy. The forward yield curve implied by futures contracts in euros shifted downwards in the early part of the year (Figure 34); it rose in the spring and then fell again from mid-June onwards, partly owing to the adverse effect of the rise in the oil price on the prospects of recovery. At the beginning of November the prevailing view was that short-term interest rates would remain basically unchanged until the end of the year and rise moderately from the spring of 2005 onwards.

Figure 34

Rates on three-month Euribor futures contracts (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 (normally the 15th of each month).

At the short end, the slope of the yield curve has similarly reflected the change in the outlook for economic conditions in the euro area. The spread between 2-year and 3-month euro rates widened sharply in the second quarter of 2004 as a consequence of the improvement in macroeconomic prospects; in the following months it remained basically stable (Figure 35). Since the summer the spread between 10 and 2-year euro swap rates has narrowed owing to the faster fall of the former, which are more sensitive to the medium-term economic outlook.

Figure 35

Euro yield differentials

(*daily data; percentage points*)

Source: Reuters.

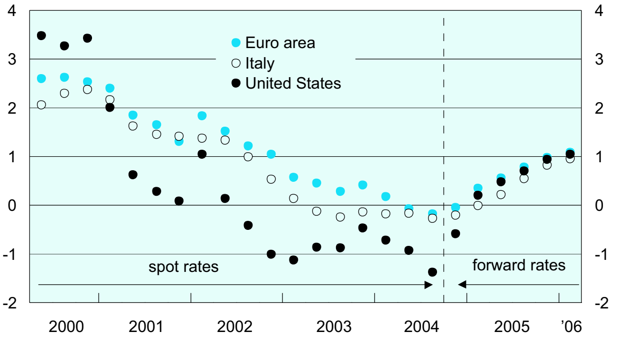
(1) Difference between the yields of 10-year and 2-year swaps. – (2) Difference between the yields of 2-year swaps and 3-month Euribor.

Real euro interest rates have continued to come down as a consequence of the slight increase in short-term inflation expectations; for shorter maturities they have been negative since the second quarter (Figure 36). In Italy the fall in the real short-term interest rate during the year was less sharp, owing to the smaller increase in inflation expectations. The market expects the strengthening of the recovery in 2005 to be accompanied by a gradual rise in real short-term rates, albeit to a level that would still be comparatively low.

Figure 36

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 December 2004, nominal rates implied by futures contracts in September), deflated using inflation expectations for the subsequent quarter measured by the quarterly Consensus Economics survey of professional forecasters.

At the long end of the market, euro interest rates have moved in line with the outlook for the economy. The yields of 10-year swaps rose to 4.5 per cent in the second quarter. They have fallen back since the summer with the emergence of fears about the outlook for growth, and stood at 4 per cent at the beginning of November.

Real long-term interest rates have also declined; measured on the basis of the prices of ten-year government bonds indexed to euro-area consumer prices, they fell from 1.9 per cent in June to 1.4 per cent at the beginning of November.

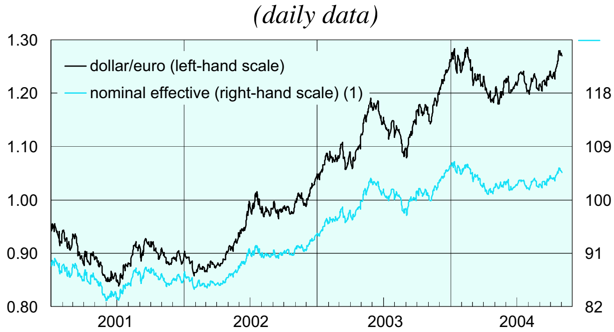
In 2004 real long-term interest rates in the euro area have fallen more than the corresponding nominal rates. This might signal an increase in the inflation expected in the long term, although this is not confirmed by the surveys of professional forecasters' inflation expectations. It might also be due to an increase in the risk premium built into unindexed securities at a time of uncertainty about inflation.

In the first four months of 2004 the euro weakened against the main international currencies (Figure 37). The depreciation was accompanied by a net outflow of capital for direct and portfolio investment amounting to about €30 billion (compared with a net inflow of about €33 billion in the corresponding period of 2003) and an external current account surplus of about €14 billion (compared with a deficit of about €4.5 billion in the corresponding period of 2003).

Figure 37

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

(daily data)



Source: ECB.

(1) Index, first quarter of 1999=100. A rise in the index indicates an appreciation.

In the following months, against a background of uncertainty about inflation and the strength of the US recovery, the euro fluctuated moderately and then strengthened from the beginning of the autumn onwards. From the beginning of May to the middle of November the euro appreciated by 8.6 per cent against the dollar, 3.6 per cent against the pound and 4.5 per cent against the yen, while its nominal effective exchange rate strengthened by 3.6 per cent. The appreciation against the dollar became more pronounced from mid-October onwards.

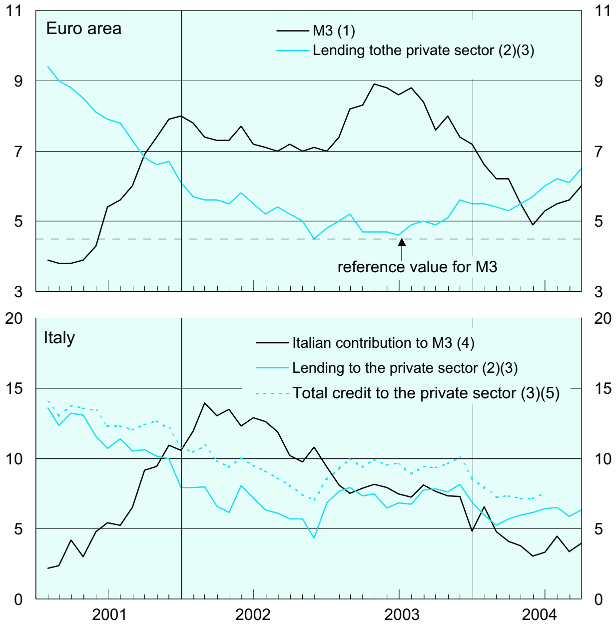
The money supply and credit

Euro-area M3 has grown more slowly than in 2003, partly as a consequence of the recovery in households' and firms' investment in longer-term financial assets. The average of the twelve-month rates of growth in M3 for the three months ending in September was 5.7 per cent, compared with 7.5 per cent for the year-earlier period (Figure 38).

Figure 38

Monetary and credit aggregates

(end-of-month 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 firms, 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.

The expansion of currency in circulation continued at a rapid pace in a period still marked by the rebuilding of cash balances by euro-area residents and strong demand for euros on the part of non-residents.

The growth of credit in the euro area accelerated slightly, fueled by the low level of bank interest rates. The twelve-month rate of growth in outstanding loans to the private sector was 6.5 per cent in September.

The growth rate of the Italian component of M3, calculated net of currency in circulation, was in line with that of the euro-area aggregate. The rate of increase in total credit to the private sector, including both bank loans and bonds, remained high (7.7 per cent in August; Table 24). The rate of growth in outstanding bank loans was lower, 6.3 per cent in the twelve months ending in September, compared with 6.9 per cent in the twelve months ending in December 2003.

Households' financial saving and the financing of enterprises in Italy

Households. – Against a background of rising disposable income, in the first six months of 2004 Italian households' financial saving (the balance of the changes in financial assets and liabilities) amounted to €53.9 billion, compared with €13.6 billion in the year-earlier period (Table 25). As a ratio to GDP it was equal to 8 per cent, above the average for the previous ten years.

Italian households have tended to concentrate their financial investments in less risky assets than in the past. On the domestic front they made net sales of investment fund units amounting to €7.3 billion, compared with €16.5 billion of net purchases in the first half of 2003; they also made net sales of bonds issued by Italian non-financial firms and non-bank financial firms amounting to €2.1 billion, or 3.9 per cent of the total outstanding. In June 2004 these bonds accounted for 1.8 per cent of households' total financial assets, compared with 1.3 per cent twelve months earlier. Modest purchases of shares and other equity were accompanied by a return to substantial net purchases of public-sector securities and bank bonds (€29.4 billion, compared with net sales of €9.9 billion in the first half of 2003) and liquid assets (deposits and short-term securities). Turning to external assets, households made net sales of bonds and net purchases of shares and investment fund units.

At the end of June 2004 Italian households' gross financial assets amounted to €3,000 billion, or about 2.2 times GDP, compared with an average of 1.9 for Germany, France and Spain at the end of 2003; their net financial assets amounted to €2,600 billion, or about 2 times GDP, compared with an average of 1.2 for the other leading euro-area countries. The difference is partly attributable to the lower level of Italian household debt. The increase

Table 24

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	105.8	15.0
2002 – Dec.	5.5	8.5	6.8	49.1	8.9
2003 – June	6.3	9.7	6.8	63.3	11.8
July	5.8	8.9	6.7	63.1	7.1
Aug.	6.1	9.4	7.8	60.9	5.6
Sept.	6.2	9.3	7.8	58.2	5.3
Oct.	6.5	9.6	7.6	64.0	6.6
Nov.	6.6	10.1	8.2	78.2	3.7
Dec.	5.5	8.6	6.9	63.7	3.1
2004 – Jan.	5.3	8.0	6.0	63.6	3.5
Feb.	5.1	7.2	5.3	59.7	2.8
Mar.	5.3	7.3	5.7	55.6	2.2
Apr.	5.0	7.2	6.0	46.1	1.9
May	5.3	7.1	6.2	39.6	2.3
June	5.5	7.5	6.4	45.9	1.3
July	5.7	8.0	6.5	….	….
Aug.	5.5	7.7	5.9	….	….
Sept.	….	….	6.3	….	….
	Percentage shares of stocks				
2004 – June	100.0	48.8	36.8	3.5	8.5

(1) Rounding may cause discrepancies in totals. The August figures for total credit and total credit to the private sector are estimated – (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 firms, 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.

of 8 per cent in the net financial wealth of Italian households compared with twelve months earlier reflected both the growth in net investments and the increase in the value of the equity component. The increase of 9.9 per cent in property prices in the first half of June 2004 compared with the corresponding period in 2003 contributed to increase the value of households’ real assets.

Households have continued to accumulate debt, recording an increase of €21 billion in the first six months of 2004. At the end of June the outstanding debt was equivalent to 26.5 per cent of GDP, about half the average for the euro area as a whole (Figure 39). The increase was mostly in the component consisting of medium and long-term loans for house purchases.

Firms. – According to estimates based on national accounts data, in the first six months of 2004 firms’ operating profitability (gross operating profit in relation to value added) remained virtually unchanged compared with the first half of 2003. The Bank of Italy’s survey of the short-term business outlook shows that the percentage of firms expecting to report a profit for 2004 is comparable to the figure for 2003. The reduction in interest expense in relation to value added (Figure 40) induced by the fall in interest rates contributed to an improvement in self-financing in the first half of the year; the sharp fall in stocks more than offset the increase in gross fixed investment. The financial deficit of firms amounted to €3.6 billion, compared with €12.5 billion in the year-earlier period.

Table 25

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

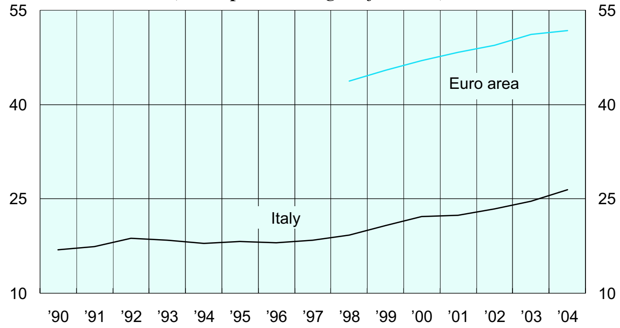
(millions of euros)

	Households (2)			Non-financial firms		
	Flows		Stocks	Flows		Stocks
	Jan.-June 2003	Jan.-June 2004	June 2004	Jan.-June 2003	Jan.-June 2004	June 2004
Assets						
Cash and sight deposits	6,446	11,103	492,862	5,036	8,112	128,084
Other deposits	-7,716	5,533	303,139	-326	671	10,746
Short-term securities	-9,595	15,276	22,252	-595	-100	266
Medium and long-term securities	-5,938	27,303	567,597	-578	7,819	35,789
of which: public-sector securities	*-19,682*	*16,923*	*203,624*	*-1,440*	*-333*	*10,043*
corporate bonds	*3,976*	*-2,077*	*53,921*	*328*	*7,538*	*14,109*
Investment fund units	16,537	-7,306	313,118	230	-102	4,355
Shares and other equity	2,305	3,328	631,458	13,017	5,475	396,689
External assets	-68	-1,946	207,280	11,319	12,497	293,919
of which: deposits	*-5,615*	*-1,616*	*6,237*	*-1,011*	*-661*	*20,710*
short-term securities	*-65*	*-179*	*169*	*-315*	*-151*	*1,185*
medium and long-term securities	*4,097*	*-4,577*	*87,634*	*494*	*-149*	*17,607*
shares and other equity	*-768*	*872*	*77,263*	*4,122*	*1,517*	*135,641*
investment fund units	*2,283*	*3,554*	*35,976*	*325*	*233*	*9,478*
Other financial assets (3)	26,995	22,588	494,836	-28,226	-8,655	257,918
of which: life insurance reserves	*21,772*	*16,377*	*286,366*	-	-	-
Total assets	**28,966**	**75,879**	**3,032,542**	**-123**	**25,717**	**1,127,766**
Liabilities						
Short-term debt (4)	-1,071	-1,844	51,771	-1,399	-5,183	308,886
of which: bank	*-1,124*	*-1,735*	*50,809*	*-674*	*-5,226*	*278,488*
Medium and long-term debt (5)	15,389	22,751	305,413	19,505	20,261	385,547
of which: bank	*12,988*	*20,471*	*277,429*	*18,118*	*18,370*	*312,585*
Securities	-	-	-	4,668	8,228	42,388
of which: medium and long-term	-	-	-	*3,712*	*6,761*	*35,201*
Shares and other equity	-	-	-	17,516	9,405	942,431
External liabilities	-	-	-	-2,442	2,894	261,918
of which: short-term debt	-	-	-	*424*	*-1,105*	*73,111*
medium and long-term debt	-	-	-	*-460*	*1,201*	*5,392*
medium and long-term securities	-	-	-	*-775*	*2,547*	*16,219*
shares and other equity	-	-	-	*-2,293*	*-2,479*	*134,922*
Other financial liabilities (6)	1,013	1,103	28,910	-25,422	-6,258	340,118
Total liabilities	**15,331**	**22,010**	**386,094**	**12,426**	**29,347**	**2,281,288**
Balance	**13,635**	**53,869**	**2,646,448**	**-12,549**	**-3,630**	**-1,153,522**

(1) Rounding may cause discrepancies in totals. – (2) Comprises consumer households, sole proprietorships with up to 5 workers and non-profit institutions serving households. – (3) Comprises the insurance reserves of the casualty sector and domestic trade credit; for households, also includes pension funds, severance pay provisions and the insurance reserves of the life sector; for enterprises, also includes domestic derivatives. – (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 derivatives.

Figure 39

Household debt (1)
(as a percentage of GDP)



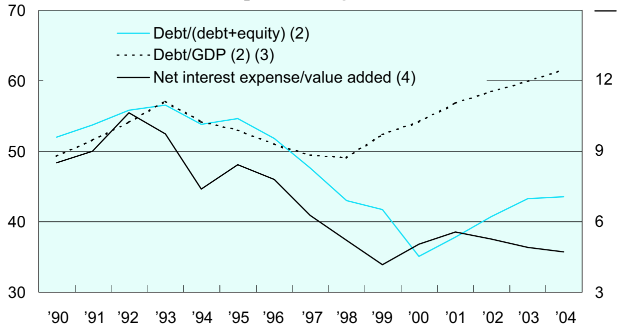
Sources: ECB and Bank of Italy; Eurostat and Istat for the GDP of the euro area and Italy.

(1) From 1995 onwards the data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. The figures for debt refer to June of each year; the latest figure available for the euro area refers to March 2004. GDP is for the full year (the figures for 2004 are estimated).

At the end of June firms' financial debt was equivalent to 34 per cent of the total sales revenues of the economy, compared with 33 per cent a year earlier. Firms' leverage (defined as the ratio of their financial debt to the sum of their financial debt and shareholders' equity valued at market prices) remained virtually unchanged at 43 per cent, comparable with the average of the other leading euro-area countries (about 42 per cent at the end of 2003). The leverage of listed companies, which are typically large, declined in 2003 both in Italy and in the other leading euro-area countries.

Figure 40

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



Source: For GDP and value added, 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 June of each year. – (3) GDP is for the full year (the figure for 2004 is estimated). – (4) Right-hand scale. Net interest expense and value added are for the full year except for the figure for 2004, which refers to the first half year. Bank of Italy estimates of net interest expense. The value added for 2004 is estimated on the basis of quarterly national accounts data.

Italian firms' leverage is marked by a high degree of dispersion. On the basis of 2002 balance sheet data for the sample of 40,000 mostly medium-sized and large companies surveyed by the Company Accounts Data Service, the value for the quartile of most indebted firms was in excess of 78 per cent, while for the quartile of least indebted firms it was 25 per cent or less.

Firms continued to increase the medium and long-term component of their debt; at the end of June it amounted to 53 per cent of their total financial debt, compared with 49 per cent a year earlier.

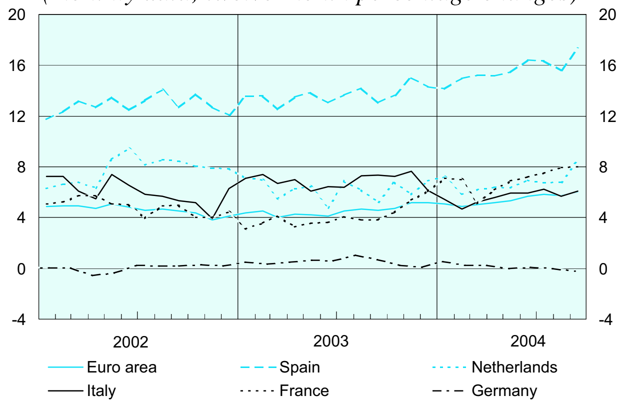
Net purchases of shares and other equity declined compared with the first six months of 2003. Mergers and acquisitions of majority interests by Italian non-financial firms mainly involved small companies, with 23 transactions totaling €280 million, compared with 36 transactions and €2.9 billion in the year-earlier period.

Bank lending

Bank lending in the euro area accelerated in the first nine months of 2004 (in September the twelve-month increase in outstanding loans was 6 per cent; Figure 41 and Table 26). It continued to stagnate

Figure 41

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 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 26

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)			
2003 - Mar.	5.3	8.0	1.9	7.3	1.8	5.8	4.0
June	6.0	8.2	1.7	9.2	-2.0	5.4	4.1
Sept.	5.6	8.5	1.4	9.3	-6.7	6.2	4.6
Dec.	5.6	8.1	1.8	8.4	-4.4	7.9	5.2
2004 - Mar.	5.1	9.4	0.1	6.7	-1.4	9.3	5.0
June	4.7	7.7	0.7	6.5	1.8	9.9	5.7
Sept.	5.4	8.0	2.1	6.3	3.3	11.1	6.0
				Italy (4)			
2003 - Mar.	4.3	7.0	-11.2	6.0	-2.2	8.7	6.9
June	4.9	8.3	-7.2	5.3	-9.1	6.4	6.9
Sept.	4.5	8.3	-9.2	6.0	-10.2	6.1	7.8
Dec.	2.2	5.9	-10.1	5.1	-15.7	8.7	6.7
2004 - Mar.	3.3	7.8	-7.8	5.6	-18.0	10.0	5.7
June	3.2	6.5	-8.8	5.4	-12.7	10.1	6.1
Sept.	3.5	6.6	-9.0	4.9	-9.3	12.1	6.1

(1) End-of-period data. The data for September 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 ECB's Monthly Bulletin. – (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.

Table 27

Main balance sheet items of Italian banks (1)

(end-of-period data)

	Percentage changes						Stocks (millions of euros)
	On 12 months earlier			On the preceding quarter, annualized (2)			
	Dec. 2002	Dec. 2003	Sept. 2004	2004 Q1	2004 Q2	2004 Q3	September 2004
Assets							
Securities	-15.6	4.2	2.3	6.8	9.3	-0.2	191,025
of which: government securities	*-19.8*	*-4.0*	*-9.4*	*3.3*	*0.3*	*-4.7*	*108,368*
Loans	6.3	6.7	6.1	3.5	9.0	6.8	1,122,771
of which: (3) *short-term (a)*	*0.5*	*-1.5*	*-2.3*	*-9.9*	*4.4*	*0.9*	*432,126*
medium and long-term (b)	*11.8*	*13.3*	*12.2*	*14.7*	*11.9*	*10.4*	*631,491*
(a)+(b)	*6.1*	*6.2*	*5.8*	*3.5*	*8.7*	*6.4*	*1,063,617*
repos	*-7.2*	*-1.1*	*-62.3*	*-12.9*	*-88.8*	*-78.6*	*1,053*
bad debts (4)	*1.9*	*10.6*	*10.6*	*5.5*	*12.7*	*2.0*	*53,958*
Memorandum item:							
net bad debts (5)	*-0.4*	*9.3*	*3.0*	*-33.1*	*18.7*	*-4.8*	*21,519*
External assets	19.8	1.2	7.1	12.9	-12.6	23.8	229,360
Liabilities							
Domestic funding (6)	8.0	4.5	6.6	8.7	5.4	7.8	1,132,027
Deposits	6.8	2.2	3.5	7.1	3.8	5.4	701,026
of which: (7) *overnight*	*7.2*	*5.9*	*6.6*	*14.5*	*4.8*	*7.3*	*522,865*
with agreed maturity	*-8.5*	*-10.1*	*-9.0*	*-9.4*	*-3.5*	*-9.8*	*40,823*
redeemable at notice	*5.4*	*5.1*	*4.9*	*12.9*	*2.8*	*2.8*	*66,581*
repos	*17.2*	*-15.7*	*-9.3*	*-29.8*	*2.4*	*5.7*	*63,202*
Bonds (6)	10.3	8.7	12.1	11.5	8.2	11.7	431,001
External liabilities	-3.0	11.3	1.2	20.4	-8.8	-8.5	290,499

(1) The figures for September 2004 are provisional. The percentage changes are calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (2) 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. – (7) Excludes those of central government.

in Germany, while in Spain the already rapid rate of growth rose further, especially in the property sector. The twelve-month rate of increase for Italian banks was 6.1 per cent in September, down from 6.7 per cent in December 2003 and back in line with the euro-area average (Table 27).

Bank lending in Italy. – The twelve-month growth in lending to non-financial firms slowed from 6.3 per cent in December 2003 to 2.6 per cent in September 2004 (Table 28). With economic activity still weak, there was an overall fall of 1 per cent in outstanding loans to manufacturing firms, with especially large decreases for the food processing and textile industries, where business contracted. By contrast, there were further large increases, of respectively 10.2 and 7.8 per cent, in loans to the construction industry and the service sector, above all real-estate brokers.

Table 28

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

	General govern-ment	Finance and insurance companies	Enterprises						Households		Total
				Holding companies	Non-financial corporations						
						Manu-facturing industry	Construc-tion	Services	Consumer house-holds	Producer house-holds (2)	
					Twelve-month percentage changes (3)						
					Centre and North						
2003 - June	-1.4	11.0	5.2	-2.0	5.8	2.1	10.2	7.6	8.7	9.2	6.4
Sept.	-3.7	9.8	7.2	-0.6	7.9	3.9	11.0	11.0	9.7	10.9	7.6
Dec.	-9.6	2.2	6.4	3.0	6.6	1.3	13.9	11.3	11.4	9.4	6.0
2004 - Mar.	-2.8	1.9	3.8	-4.0	4.5	-0.2	12.3	9.2	12.2	8.9	5.1
June	-4.1	1.8	3.8	-5.7	4.5	0.7	12.0	8.1	14.3	7.5	5.3
Sept.	0.8	4.7	2.0	-12.0	3.2	-1.4	10.0	7.3	14.5	5.9	5.0
					South						
2003 - June	4.9	-20.2	7.0	21.9	7.0	1.6	9.5	10.6	8.4	6.6	6.5
Sept.	8.4	-16.6	6.9	0.0	6.9	2.5	9.1	10.2	9.2	8.0	7.2
Dec.	11.1	6.8	6.1	-12.7	6.2	2.8	8.9	9.8	9.6	9.1	7.9
2004 - Mar.	0.5	-1.0	6.0	25.0	5.9	2.0	7.4	9.3	11.1	9.0	7.6
June	8.9	-0.7	7.3	20.2	7.3	2.3	10.4	10.5	14.4	7.9	9.8
Sept.	11.2	11.5	7.9	96.3	7.6	2.4	11.5	11.4	15.4	7.7	10.8
					ITALY						
2003 - June	-0.7	10.0	5.4	-1.8	5.9	2.0	10.1	7.9	8.6	8.6	6.5
Sept.	-2.3	9.0	7.2	-0.6	7.8	3.8	10.7	10.9	9.6	10.3	7.4
Dec.	-7.2	2.3	6.3	2.9	6.6	1.4	13.1	11.1	11.0	9.3	6.2
2004 - Mar.	-2.3	1.8	4.0	-3.8	4.6	-0.1	11.4	9.3	12.0	8.9	5.4
June	-2.5	1.8	4.2	-5.5	4.9	0.8	11.8	8.4	14.3	7.6	5.9
Sept.	2.1	4.9	2.6	-11.4	3.6	-1.0	10.2	7.8	14.7	6.3	5.8
					Stock of lending in September 2004 (4) *(millions of euros)*						
Centre and North	46,779	115,482	509,635	33,670	475,965	157,249	57,531	224,928	199,697	50,790	922,383
South	7,706	3,241	62,740	427	62,312	17,126	10,164	29,226	52,827	14,601	141,114
ITALY	54,484	118,723	572,374	34,097	538,277	174,359	67,696	254,176	252,524	65,391	1,063,617
					Percentage composition of lending in September 2004 (4)						
Centre and North	5.1	12.5	55.3	3.7	51.6	17.0	6.2	24.4	21.7	5.5	100.0
South	5.5	2.3	44.5	0.3	44.2	12.1	7.2	20.7	37.4	10.3	100.0
ITALY	5.1	11.2	53.8	3.2	50.6	16.4	6.4	23.9	23.7	6.1	100.0

(1) Loans exclude repos, bad debts and other minor items included in the aggregate reported in Table 26. The breakdown by geographical area is based on customer residence. – (2) Partnerships and sole proprietorships with up to 5 workers. – (3) Calculated net of reclassifications, exchange rate variations and other changes not due to transactions. – (4) The sum of stocks according to geographical area may differ from the total, as the data are derived from other items of supervisory reports.

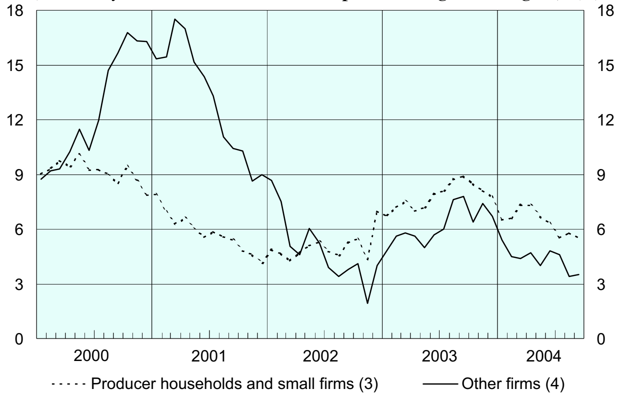
The growth in loans to larger companies slowed down (Figure 42); the deceleration was especially sharp for syndicated loans. Their overall growth, equal to 3.5 per cent in the twelve months ending in September, was much less than that of 5.5 per cent in loans to producer households and small firms (sole proprietorships and partnerships with fewer than 20 workers). The slowdown in the bank borrowing of some large groups was accompanied by greater recourse to the bond market (see the section on "Bank and corporate bonds").

The loans of "small" and "minor" banks continued to expand rapidly and significantly faster than those of other banks, as regards lending both to small firms (9.2 per cent, compared with 2.7 per cent for large banks) and to larger firms (respectively 12.3 and 0.1 per cent). Smaller banks' share of outstanding loans to the productive sector rose from 32 per cent in December 2003 to 33 per cent in September 2004.

Figure 42

Lending to firms in Italy by size of firm

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



(1) Loans exclude repos, bad debts and some minor items included in the aggregate reported in Table 26. – (2) Calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (3) Sole proprietorships and partnerships with fewer than 20 workers. – (4) Excludes holding companies.

Encouraged by the low level of interest rates, firms continued to lengthen the maturities of their

Table 29

Lending by Italian banks to firms by maturity, sector, size and geographical area (1)

(twelve-month percentage changes) (2)

	North and Centre		South		ITALY	
	Dec. 2003	Sept. 2004	Dec. 2003	Sept. 2004	Dec. 2003	Sept. 2004
Firms and producer households (3)						
short-term	-1.1	-3.5	2.2	2.5	-0.8	-2.8
medium and long-term	16.6	10.7	11.0	12.1	15.8	10.9
Total ...	**6.9**	**3.4**	**6.7**	**7.6**	**6.9**	**3.9**
			By sector of economic activity			
of which:						
Manufacturing industry						
short-term	-2.5	-6.6	3.0	4.0	-2.0	-5.7
medium and long-term	7.4	6.6	2.5	0.3	6.9	5.9
Total ...	**1.3**	**-1.4**	**2.8**	**2.4**	**1.4**	**-1.0**
Construction						
short-term	8.2	4.6	5.2	8.2	7.8	5.1
medium and long-term	18.9	14.4	11.5	13.8	17.7	14.4
Total ...	**13.9**	**10.0**	**8.9**	**11.5**	**13.1**	**10.2**
Services						
short-term	3.7	1.0	3.5	6.6	3.6	1.6
medium and long-term	20.0	13.4	16.7	16.1	19.8	14.4
Total ...	**11.3**	**7.3**	**9.8**	**11.4**	**11.1**	**7.8**
			By size			
Producer households and small firms (4)						
short-term	1.0	-0.5	1.1	1.0	1.0	-0.3
medium and long-term	13.1	9.1	14.6	12.1	13.4	9.6
Total ...	**7.6**	**5.0**	**8.8**	**7.6**	**7.8**	**5.5**
Medium-sized and large firms (3)						
short-term	-1.6	-4.1	2.6	3.1	-1.1	-3.4
medium and long-term	18.0	11.2	9.3	12.2	16.9	11.3
Total ...	**6.8**	**3.0**	**5.9**	**7.6**	**6.7**	**3.5**

(1) Loans exclude repos, bad debts and some minor items included in the aggregate reported in Table 26. 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 and partnerships with fewer than 20 workers.

bank loans, a development that was widespread across branches of economic activity, geographical areas and size classes (Table 29). In some cases the restructuring of the debt of companies with less solid financial positions contributed to the shift towards medium and long-term loans. At the end of September 2004 medium and long-term loans accounted for 60 per cent of the bank borrowing of smaller firms and 50 per cent of that of medium-sized and large firms, compared with 58 and 48 per cent at the end of December 2003.

The growth in bank lending to consumer households accelerated further and was equal to 14.7 per cent in September 2004. In the first nine months of the year new mortgage loans for house purchases amounted to €36.9 billion, compared with €30.4 billion in the corresponding period of 2003. The proportion granted at variable rates or at rates renegotiable within one year rose from just above 75 per cent in 2003 to 87 per cent. The twelve-month rate of growth in consumer credit disbursed by banks was 15.4 per cent in September, compared with 9.9 per cent in December 2003.

Although the credit granted to households has grown faster in Italy than in the rest of the euro area in recent years, as a percentage of total bank loans it is still much lower than the average for the euro area: respectively 30 and 45 per cent on the basis of internationally comparable data (Table 30).

The growth in bank lending differed across the country. In the Centre and North the rate of growth in outstanding bank loans to resident customers slowed from 6 per cent at the end of 2003 to 5 per cent in September 2004 (Table 28), whereas in the South it accelerated from 7.9 to 10.8 per cent.

The small slowdown in the growth of total loans was accompanied by an increase in banks' liquidity. The ratio of liquid assets (cash and securities) to liquid assets plus loans, which had reached a minimum in December 2003, rose by 1.5 percentage points to 16.8 per cent. Reflecting the different rates of growth in loans recorded by small and minor banks and by larger banks, the former's liquidity ratio fell to 18.9 per cent while the latter's rose to 16.3 per cent.

Table 30

Bank lending to households by purpose (1)

(September 2004)

	Loans for house purchases	Consumer credit	Other loans	Total
	Twelve-month percentage changes (2)			
Italy	19.2	14.3	3.8	12.5
Germany	2.4	0.6	-2.8	1.0
France	12.7	4.7	4.5	9.9
Spain	19.1	12.2	14.5	17.3
Euro area	9.8	6.2	1.8	7.8
	As a percentage of total outstanding bank loans			
Italy	15.6	3.3	11.1	30.0
Germany	35.5	6.6	11.7	53.9
France	30.5	9.5	5.3	45.3
Spain	33.5	6.4	8.9	48.9
Euro area	30.8	6.2	8.4	45.5

(1) Consumer households, producer households (sole proprietorships and partnerships with up to 5 workers) and non-profit institutions serving households. – (2) Calculated net of reclassifications, exchange rate variations and other variations not due to transactions.

Loan quality. – Despite the persistent weakness of the economy, the quality of banks' loan portfolio has not changed significantly compared with the previous year. In the twelve months ending in June 2004 new bad debts amounted to 1.1 per cent of the outstanding loans at the beginning of the period, compared with 1.2 per cent in 2003 (Table 31). In the Centre and North the ratio remained unchanged at 1.1 per cent, whereas in the South it fell from 1.7 to 1.5 per cent. The stock of bad debts rose slightly, from 4.7 per cent of total outstanding loans at the end of 2003 to 4.8 per cent in September 2004. Banks' exposure to customers in temporary difficulty ("substandard loans") remained virtually unchanged; in June it was equal to 2 per cent of outstanding loans.

Credit conditions and interest rates. – Credit conditions remained generally easy in the first eight months of 2004.

Table 31

Italians bank's bad debts and substandard loans by geographical area and economic sector (1)

	General govern-ment	Finance and insurance companies	Firms						Households		Total
				Holding companies	Non-financial corporations						
						Manu-facturing	Construc-tion	Services	Consumer households	Producer house-holds (2)	
					Twelve-mpnth percentage changes in bad debts (3)						
					December 2003						
Centre and Nord	-18.9	20.8	23.1	42.8	22.6	49.8	4.7	12.6	-0.6	7.8	15.6
South	-0.2	-20.0	1.9	31.8	1.6	10.7	0.2	-5.2	2.5	3.9	2.4
ITALY	-4.7	11.5	16.3	41.0	15.8	38.7	3.1	6.9	0.7	5.8	10.6
					September 2004						
Centre and Nord	-47.0	15.8	20.3	23.8	20.2	40.4	4.8	13.5	5.3	0.3	14.4
South	-3.1	-16.6	5.5	-4.6	5.6	16.3	-0.3	3.3	3.2	1.6	3.8
ITALY	-13.6	9.6	15.8	18.9	15.8	34.5	3.1	10.3	4.4	1.0	10.6
					New bad debts as a percentage of outstanding loans (4)						
					December 2003						
Centre and Nord	0.0	0.2	1.7	....	....	2.6	2.2	1.2	0.7	1.3	1.1
South	0.0	0.1	2.5	....	....	3.7	2.2	2.1	0.8	2.2	1.7
ITALY	0.0	0.2	1.8	....	....	2.7	2.2	1.3	0.7	1.5	1.2
					June 2004						
Centre and Nord	0.0	0.1	1.6	....	....	2.5	1.8	1.2	0.7	1.3	1.1
South	0.0	0.1	2.1	....	....	3.2	2.0	1.7	0.9	2.0	1.5
ITALY	0.0	0.1	1.6	....	....	2.5	1.8	1.2	0.7	1.4	1.1
					Twelve-month percentage changes in substandard loans						
					December 2003						
Centre and Nord	20.4	-8.8	1.0	-60.6	3.8	-0.3	7.1	2.5	7.8	12.1	3.4
South	-14.9	-7.6	1.5	-35.8	1.5	9.3	-7.7	-5.4	9.1	24.0	6.7
ITALY	-4.4	-8.7	1.1	-60.4	3.4	1.5	3.0	1.3	8.1	15.2	4.1
					June 2004						
Centre and Nord	-30.6	-38.4	-0.8	79.2	-2.1	-2.7	-22.0	-2.6	3.4	7.4	0.3
South	-20.5	26.1	-6.9	-34.5	-6.8	-18.8	-1.4	-9.2	6.5	7.4	-1.0
ITALY	-24.4	-35.5	-1.9	77.1	-3.0	-5.9	-17.3	-3.6	4.2	7.4	0.1

(1) The breakdown by geographical area is based on customer residence. – (2) Partnerships and sole proprietorships with up to 5 workers. – (3) Not adjusted for debt cancellations and assignments. – (4) New adjusted bad debts in the last twelve months as a percentage of outstanding loans other than adjusted bad debts at the beginning of the period. 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.

Between December 2003 and August 2004 undrawn overdraft facilities remained ample for all categories of customer. Firms' overshoots of overdraft limits diminished slightly to 10.1 per cent of the total facilities granted. The spread between the average and the minimum interest rate, which tends to widen when the supply of credit contracts, remained almost stable at 2.7 percentage points. The proportion of corporate loans backed by real or personal security rose slightly, to reach 55 per cent in June.

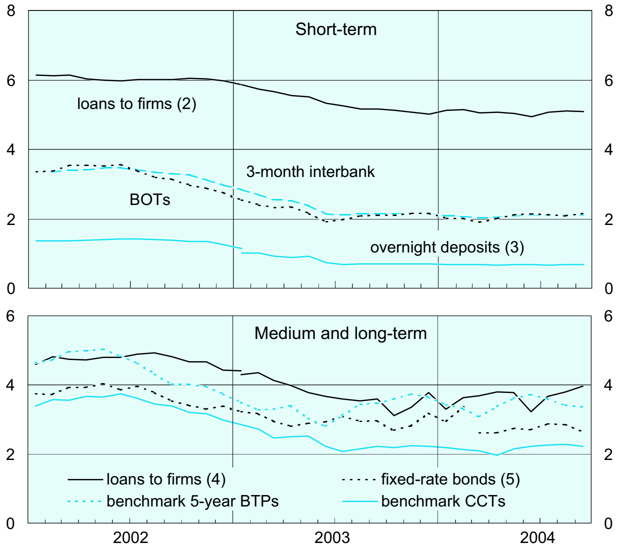
According to the responses of the 7 Italian banking groups that participate in the quarterly survey of bank lending in the euro area, in the first nine months of 2004 credit standards remained basically unchanged.

The downward trend of bank lending rates has come to a halt both in Italy and in the euro area (Figures 43 and 44). The present levels are extremely low in real as well as nominal terms. In September the average rate on outstanding loans to households and non-financial firms was 4.9 per cent in Italy and 5 per cent in the euro area.

Figure 43

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

(monthly data; percentages)



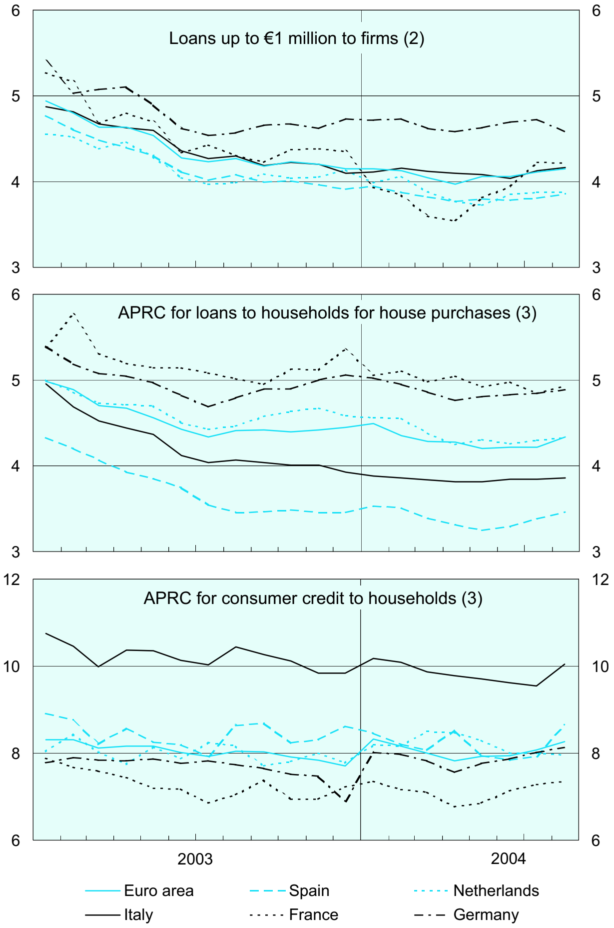
Sources: Based on Bank of Italy, MTS and MID data.

(1) The rates refer to transactions in euros. Since January 2003 the data on bank interest rates are those 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 overnight deposits. Since January 2003, average rate on overnight 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. Data drawn from 10-day statistical reports. The sample of reporting banks was changed in March 2004.

Figure 44

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 for non-financial corporations 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.

In Italy the rate on new loans to firms is 3.5 per cent; that on new loans of less than €1 million (which approximates the conditions applied to smaller firms) is 4 per cent.

The annual percentage rate of charge (APRC) for loans for house purchases decreased between

December 2003 and September 2004 by 0.1 percentage point to 3.8 per cent in Italy and by 0.2 points to 4.2 per cent in the euro area. By contrast, the APRC for consumer credit remained unchanged in Italy at 9.9 per cent and rose by 0.5 points to 8.2 per cent in the euro area.

In the first nine months of 2004, with bank loans expanding much faster in the South than in the Centre and North, the differential between the rate on short-term bank loans to firms in the two areas widened; after adjusting for regional differences in the composition of firms by size and sector, it increased by around 0.2 percentage points to 1.5 points. The differential reflects the greater incidence of bad debts and substandard loans in the South.

Italian banks' funding

The rate of growth in domestic funding rose to 6.6 per cent in the first nine months of 2004 (Table 27). Most of the acceleration was due to the growth in bond issues (12.1 per cent), above all Eurobond issues. The share of total bond loans consisting of subordinated securities declined from 13.7 to 13.1 per cent. Deposits expanded by 3.5 per cent, compared with 2.2 per cent in 2003.

With the shift in banks' loan portfolio towards the medium and long term, the greater recourse to bond issues helped to maintain the mismatch between the duration of assets and liabilities unchanged. At the end of September it was equal to 5.6 months, as at the end of 2003. Adding in off-balance-sheet assets and liabilities, which include hedging transactions with derivatives, the mismatch falls to 1.4 months at the end of September.

Bank deposit rates remained virtually unchanged, reflecting the stability of money market rates. In September the average interest rate paid on households' current accounts was 0.6 per cent, compared with 0.7 per cent for the euro area as a whole.

At the end of September Italian banks' net external debtor position was €61 billion, equal to 2.8 per cent of their total liabilities and down from €74 billion at the end of December 2003. Over the same period the proportion of net foreign funding subject to exchange rate risk rose from 34 to 40 per cent.

Italian banks' profitability

Banks' profits improved significantly in the first half of 2004. Return on equity rose to 9.9 per cent on an annual basis, compared with 7.6 per cent in the year-earlier period and 7.2 per cent in 2003 as a whole. The improvement reflected both the reduction of 0.9 per cent in charges for credit risks compared with the year-earlier period and the increase of 5.1 per cent in operating profit.

The improvement in operating profitability was the result of the increase of 2.4 per cent in gross income. Non-interest income rose by 7.3 per cent, above all as a consequence of the rise of 54 per cent in net income from securities and foreign exchange trading and 6.2 per cent in income from services, with an increase of 3.9 per cent in the contribution of collection and payment commissions. Net interest income declined by 0.6 per cent, primarily owing to the reduction in the interest margin. Operating expenses recorded a small increase of 0.8 per cent that was due to the growth of 1.4 per cent in staff costs.

At the end of 2003 the banking system's consolidated supervisory capital amounted to €139.9 billion, 4.1 per cent more than a year earlier (Table a39). The solvency ratio (supervisory capital over risk-weighted assets) was 11.4 per cent, compared with 11.2 per cent in December 2002.

The government securities market

In the first eight months of 2004 net issues of euro-area government securities amounted to €220 billion, an increase of 20 per cent on the year-earlier period.

In Italy, net issues in the first nine months rose by 15.4 per cent to €73 billion (Table 32), reflecting both the growth in the state sector total borrowing requirement and the increase in the balances on the Treasury's accounts with the Bank of Italy.

Table 32

Issues of Italian government securities (1)
(millions of euros)

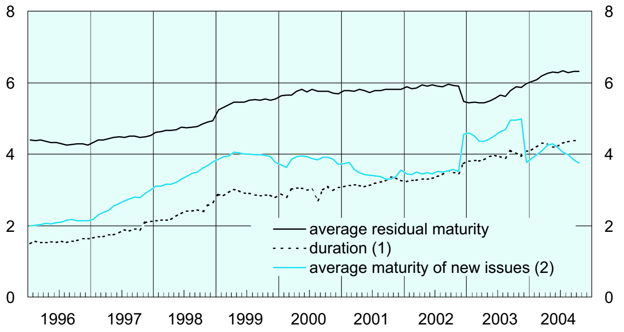
	2003	2003 Jan.-Sept.	2004 Jan.-Sept.	2003	2003 Jan.-Sept.	2004 Jan.-Sept.
		Gross issues			**Net issues** (2)	
BOTs	214,093	173,693	184,550	5,905	23,405	24,450
CTZs	31,185	29,535	27,128	-7,907	1,624	4,512
CCTs	38,313	33,310	29,027	-16,313	-9,680	-2,766
BTPs	144,882	119,572	122,003	31,764	40,317	40,961
Other	. .	. .	. .	-1,180	-1,180	-50
Total	**428,473**	**356,110**	**362,708**	**12,269**	**54,486**	**67,107**
Republic of Italy issues	21,998	18,456	13,980	5,582	8,474	5,571
Total government securities	**450,471**	**374,566**	**376,688**	**17,851**	**62,960**	**72,678**

(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 October 2004 the average residual maturity of the debt was 6 years and 4 months and its average duration 4 years and 5 months, in both cases an increase of 4 months on the end of 2003 (Figure 45).

Figure 45

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 twelve months ending in the month indicated. The higher level of the series between December 2002 and November 2003 is due to the government bond conversion carried out at the end of 2002 between the Ministry for the Economy and Finance and the Bank of Italy.

In the first half of 2004 there was a return to substantial net purchases of Italian government securities by households (included among "other investors"; Table 33), after three successive half-years of net disposals. By contrast, net purchases by non-residents declined to €26.3 billion, compared with €59 billion in the year-earlier period. At the end of June non-residents held nearly half the public-sector securities outstanding.

The differential between the yields on ten-year BTPs and German Bunds has not changed significantly, remaining close to 15 basis points. Nor did the downward revision of Standard and Poor's rating of Italian government securities in July, from AA to AA-, have any significant effect on the yield differentials of Italian securities with respect to swap rates or the average yield of the government securities of the three euro-area countries that ran a budget surplus in 2003 (Belgium, Finland and Spain).

Prolonging the trend of recent years, in the first ten months of 2004 the average daily volume of trading in Italian government securities on the MTS secondary market fell to €7.6 billion, a decrease of 12 per cent compared with the year-earlier period. By contrast, the average daily volume of trading in repos increased by 16 per cent to €57 billion.

Table 33

Outstanding amounts 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	Other (2)	Total			
	Net purchases in January-June 2004								
Central bank	. .	. .	289	2.346	. .	2.635	-12	2,622	. .
Banks	6,578	670	-47	-1,552	203	5,852	9,227	15,079	10,816
Investment funds (3)	3,979	-1,044	-1,184	-5,168	669	-2,748	-273	-3,021	-165
Other investors (4)	14,348	-2,524	1,359	42,858	6,331	62,374	32,999	95,373	-9,532
of which:									
non-residents (5)	*-2,133*	*2,946*	*14,486*	*5,483*	*5,470*	*26,252*	. . . .	. . . .	*-6,275*
Total	**24,905**	**-2,897**	**417**	**38,484**	**7,204**	**68,113**	**41,940**	**110,053**	**1,120**
	Outstanding amounts at end-June 2004								
Central bank	. .	. .	10,689	39,798	1,020	51,506	162	51,669	5,740
Banks	25,671	5,501	41,393	20,262	6,267	99,094	68,041	167,135	32,899
Investment funds (3)	33,749	7,951	36,384	55,524	2,944	136,552	11,083	147,635	16,869
Other investors (4)	85,130	37,083	107,996	623,948	102,816	956,974	520,826	1,477,800	462,753
of which:									
non-residents (5)	*55,388*	*23,280*	*48,924*	*373,590*	*90,142*	*591,325*	. . . .	. . . .	*61,893*
Total	**144,550**	**50,535**	**196,461**	**739,532**	**113,047**	**1,244,126**	**600,113**	**1,844,238**	**518,261**
Percentage share of the total outstanding amount of public-sector securities	**11.6**	**4.1**	**15.8**	**59.4**	**9.1**	**100.0**			

(1) Outstanding amounts 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) Excludes the securities of local governments, autonomous government agencies and Ente F.S.

Bank and corporate bonds

Issuance. – In the first eight months of 2004 net issues of bank and corporate bonds in the euro area remained substantial at €244 billion as financing costs remained low (Table 34). Developments in gross issues on the international market suggest that issuance continued apace in the remainder of the summer (Table 35).

While net issues by banks rose from €116 billion to €192 billion year-on-year in the first eight months, those of other financial corporations, which include notes issued as part of securitizations, fell by nearly half. Net issues by non-financial corporations also contracted sharply against a background of weak investment and M&A activity. In addition, it is likely that some firms had brought their fund-raising forward to 2003, when financing costs were already very low and interest rates were expected to rise.

In Italy the volume of net bond issues in the first nine months was substantial, about €54 billion and equal to a year-on-year increase of 31 per cent. Banks stepped up their net issues, partly with a view to lengthening the duration of their liabilities. Net issues by Italian non-financial corporations ran counter to the trend in the euro area and rose to €11 billion. Nearly all issues were made by large and medium-sized firms, as small or poorly rated companies made little recourse to the market.

Table 34

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

(millions of euros)

	2002	2003	2003		2004	
			Jan.-Aug.	September	Jan.-Aug.	September
			Italy			
Banks	33,239	32,036	13,506	2,485	23,823	7,382
Other financial corporations	27,792	30,956	23,113	-36	10,835	1,164
Non-financial corporations	6,601	3,629	2,137	-102	10,842	-136
Total	**67,632**	**66,621**	**38,756**	**2,347**	**45,500**	**8,410**
			Euro area			
Banks	115,095	185,310	116,163	19,701	191,710	....
Other financial corporations	114,971	130,135	79,618	12,488	46,398	....
Non-financial corporations	29,429	54,103	42,390	-2,375	5,714	....
Total	**259,495**	**369,548**	**238,171**	**29,814**	**243,822**	**....**

Sources: Bank of Italy and ECB.

(1) Bonds with a maturity at issue of more than one year 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 do not include issue discounts or premiums and are therefore equal to the difference between the face value of the securities issued and that of the securities redeemed.

Table 35

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

(number of issues; amounts in millions of euros)

	1998	1999	2000	2001	2002	2003	2003 Jan.-Sept.	2004 Jan.-Sept.	2003	2004		
									Q3	Q1	Q2	Q3
							Italy					
Number of issues	46	114	204	275	239	193	148	189	41	56	81	52
Value of issue	9,392	41,931	50,515	73,733	54,005	52,968	33,419	58,856	7,532	15,655	27,613	15,589
of which: by non-financial corporations.	*4,056*	*24,319*	*13,804*	*24,105*	*14,838*	*14,053*	*8,229*	*13,674*	*2,105*	*3,445*	*9,581*	*647*
							France					
Number of issues	61	183	248	237	243	319	219	317	66	130	118	69
Value of issue	12,333	50,175	64,116	89,281	68,826	81,981	64,603	52,095	15,189	19,800	21,768	10,527
of which: by non-financial corporations.	*4,886*	*32,045*	*42,606*	*69,072*	*36,401*	*48,491*	*41,617*	*24,726*	*8,731*	*9,411*	*8,853*	*6,462*
							Germany					
Number of issues	326	653	703	525	495	579	428	492	131	193	150	149
Value of issue	53,954	118,603	147,009	137,751	113,813	123,047	96,410	88,517	22,034	35,063	21,882	31,572
of which: by non-financial corporations.	*7,268*	*19,559*	*45,283*	*56,877*	*54,303*	*49,055*	*42,618*	*25,740*	*8,518*	*6,939*	*7,855*	*10,946*
							Euro area					
Number of issues	740	1,457	1,798	1,722	1,702	2,080	1,492	1,796	451	686	611	499
Value of issue	125,276	316,259	408,680	452,527	365,650	471,488	339,132	362,962	87,385	132,630	121,713	108,619
of which: by non-financial corporations.	*26,729*	*100,618*	*142,919*	*181,342*	*122,134*	*139,740*	*111,596*	*72,506*	*26,985*	*20,820*	*29,547*	*22,140*

Source: Based on Dealogic data.

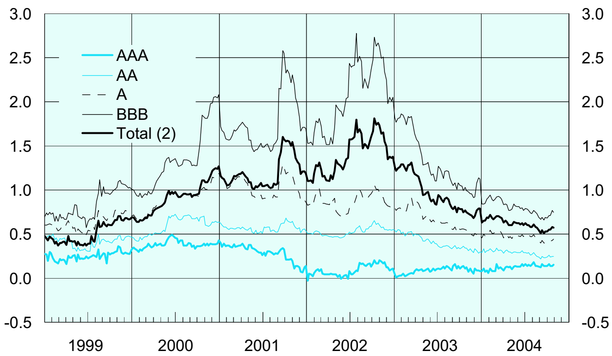
(1) Medium and long-term bonds issued on the Euromarket by private-sector borrowers belonging to a corporate group resident in the country or area indicated, at face value; includes private placements and issues placed simultaneously on the Euromarket and the US domestic market. Non-financial corporations 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.

Yields. – In the euro area the yield differential between the euro-denominated bonds of non-financial corporations and government securities, which was already very small at the end of 2003, continued to narrow in the first ten months of the year, contracting by 7 basis points to about 60 basis points (Figure 46). There was also a slight decline in premiums on credit default swaps, which are derivative contracts used to hedge the risk of default by large borrowers in the bond market. These developments appear to be attributable to a decline in credit risk premiums.

Figure 46

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

(end-of-week 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 corporations 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-.

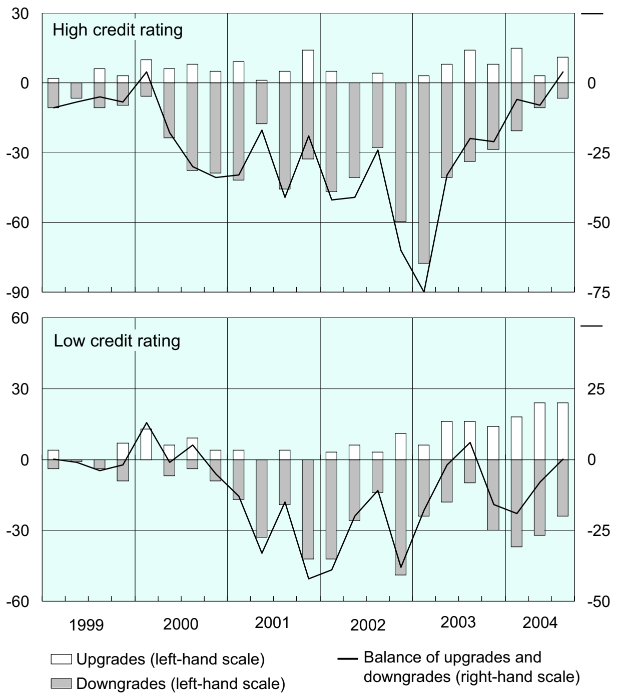
This year has seen a pronounced improvement in the ratings assigned to issuers by rating agencies. In August, for the first time since the start of 2000, Moody's announced more upgrades of highly-rated companies than downgrades, although the difference was small (Figure 47).

The progressive strengthening of corporate earnings and balance sheets helped to curb credit risk premiums: in the first nine months of 2004 the default rate in the international bond market fell from 1 to 0.2 per cent. The narrowness of spreads may also reflect the abundance of international liquidity as well as carry trades in riskier securities (purchases of long-term securities financed with short-term borrowing), favoured by the persistence of very low short-term interest rates.

Figure 47

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

(quarterly data; 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 ratings are those rated before the revision at least (lower than) Baa3.

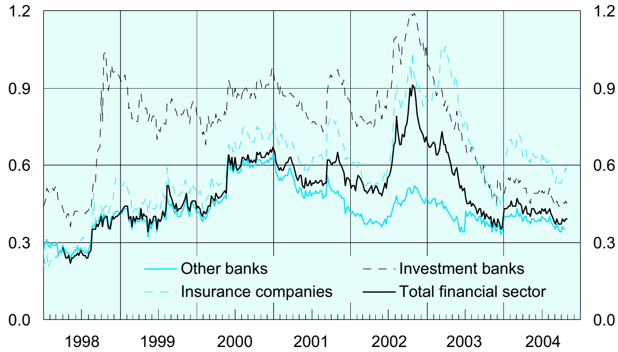
The reduction in yield differentials vis-à-vis government securities during 2004 was greatest for companies most sensitive to cyclical conditions, such as the media sector. Among financial corporations, the decrease was most marked for insurance companies, which posted strong operating results (Figure 48).

Yields at issue for highly rated Italian companies issuing Eurobonds in 2004 were in line with market yields. Secondary market yields on securities issued by a sample of unrated or low-rated Italian firms began to fall again after the sharp rise following the insolvency of the Parmalat Group (see the box "The impact of the Ciro and Parmalat crises on the market of Eurobonds issued by Italian non-financial companies" in *Economic Bulletin* No. 38, 2004).

Figure 48

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

(end-of-week data; percentage points)



Source: Merrill Lynch.

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

The stock markets

Price developments. – A number of opposing factors have affected share prices in the euro area since March, when the rising trend in stock indices came to an end (Figure 49). Expectations of a pick-up in economic activity and the improvement in the profitability of listed companies buoyed share prices. However, price developments were intermittently affected by fears of a rapid increase in interest rates and, starting in the summer, by the surge in oil prices and uncertainty about the performance of the world economy. Since mid-August share prices have begun to rise again. In the first ten months of the year, the Dow Jones Euro Stoxx index gained 4.1 per cent. In Italy, the increase in share prices (8.5 per cent) was similar to that in Spain (10 per cent), while smaller gains were recorded in France (4.2 per cent) and Germany (0.9 per cent).

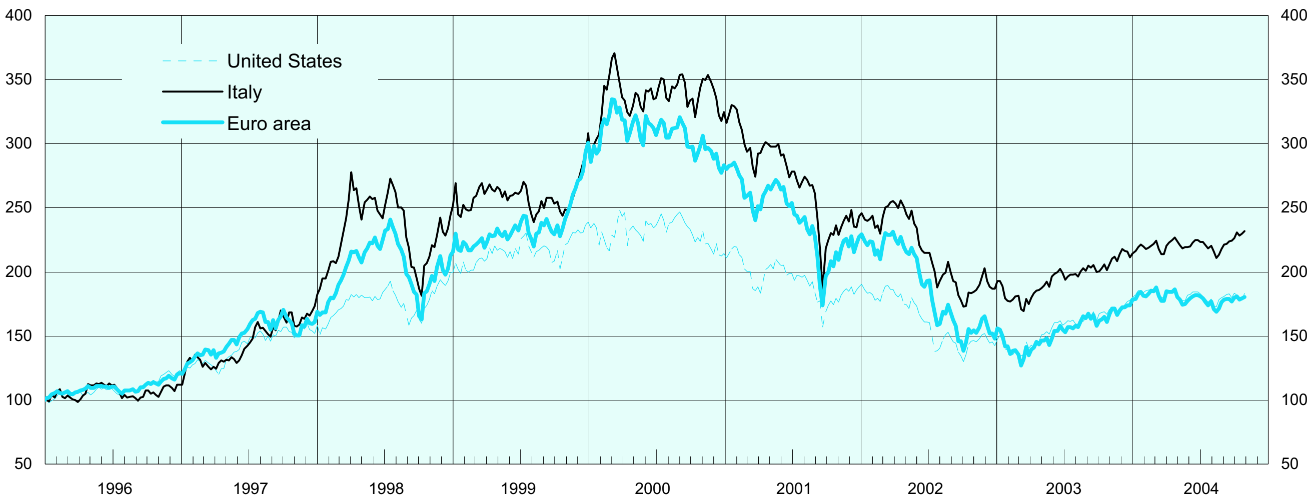
Listed companies in the euro area continued to post strong earnings overall. In some cases results for the second quarter of 2004 exceeded expectations. According to IBES, financial analysts' forecasts for growth in corporate earnings in 2004 and 2005 gradually improved over the first ten months of the year.

Share prices in the euro area are currently at a level consistent with long-term growth forecasts. In Italy and the other main euro-area countries the

Figure 49

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, Standard & Poor's 500 for the United States.

The low volatility of interest rates and share prices

The volatility of interest rates and share prices in international markets, which was very high between 2001 and 2003, has fallen in recent months to very low levels, comparable to those seen in the mid-1990s. These developments have involved both actual volatility and expected volatility, as measured by the volatility implied by option prices (see the figure). Share price volatility remained modest even during the summer, when geopolitical tensions were joined by new potential sources of uncertainty regarding the speed and magnitude of the rise in short-term interest rates in the United States, further increases in oil prices and the general performance of the world economy.

Macroeconomic and technical factors contributed to curbing the fluctuations in share and bond prices.

In 2004 the Federal Reserve's communication policy enabled investors to anticipate the increases in short-term interest rates, reducing the uncertainty about the size and timing of these moves. The stability of inflation expectations, which were not significantly affected by the sharp rise in oil prices, also helped to keep interest-rate volatility low. In addition, the earnings and balance sheet situation of listed companies have strengthened considerably since 2003 in a context of general international economic recovery. The resulting improvement in firms' ability to withstand negative shocks may have favoured a decline in the uncertainty of investment in equities.

Among the technical factors, the sharp increase in the supply of derivatives offering protection against the risks associated with changes in interest rates and share prices may have contributed to reducing volatility. In particular, the expansion in the supply of these instruments in international markets by investment banks and hedge funds may have contributed to reducing option prices and therefore the level of implied volatility. [1]

Prices may also have been steadied by transactions by issuers to hedge the risk associated with reverse convertible instruments, [2] *issuance of which increased significantly in the first nine months of 2004 (to €14 billion, compared with an average of €6 billion in the corresponding period of the three years 2001-03, according to Dealogic figures for European issuers). In order to hedge the exposure to changes in the price of the underlying financial asset (usually a security or stock index), the issuer of a reverse convertible needs to purchase the underlying if its price falls and sell it if its price rises.*

Finally, the sharp drop in mortgage refinancing in the US property market may have led to a reduction in transactions to hedge interest-rate risk by federal

earnings/price ratio rose slightly over the summer, remaining close to its long-term average (Figure 50).

The volatility implied by the prices of stock index options remained modest in all the main European markets (see the box "The low volatility of interest rates and share prices"). Indicators of risk aversion gleaned from stock index options also stayed at a very low level.

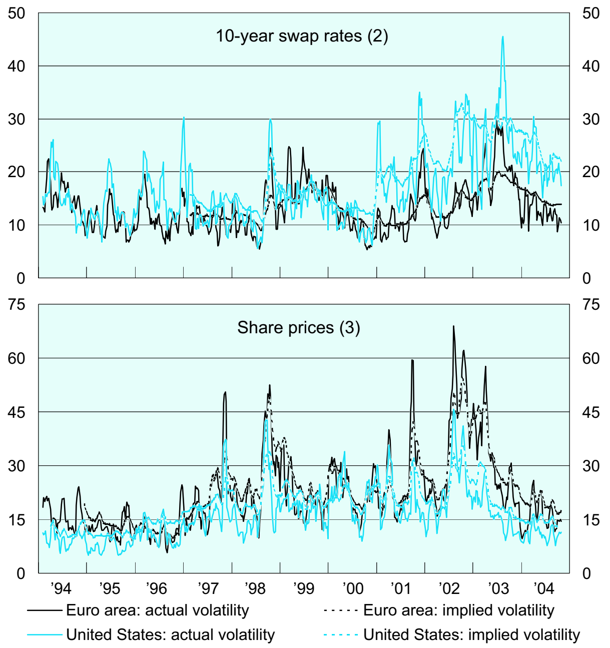
In the euro area the performance of equities in the first ten months differed considerably among the main sectors of economic activity, primarily reflecting the different impact of higher oil and raw materials prices on profit forecasts.

Share prices in the energy and steel industries jumped by 12 and 27 per cent respectively, while from the summer onwards the prices of some companies in the air transport and consumer durables sectors (including automobiles and household appliances) declined.

Share prices also fell in high-technology industries (14 per cent) and, to a lesser extent, in IT services (4 per cent).

Actual and implied volatility of interest rates and share prices (1)

(end-of-week data; percentages, on an annual basis)



Source: Based on Bloomberg data.

(1) Actual volatility is calculated as the standard deviation of the last 20 daily percentage changes in interest rates and stock indices. The implied volatility of interest rates and share prices regard 3-month options on 10-year swap rates (swaptions) and stock index options, respectively; moving averages for the 20 days ending on the date indicated. – (2) For the euro area, 10-year swaps denominated in German marks until 1998 and euros subsequently. – (3) Indices: Dax for the euro area, Standard & Poor's 500 for the United States.

mortgage agencies, which in the past had contributed to accentuating interest rate fluctuations.

Other conditions being equal, the low volatility of prices reduces the risk of individual financial instruments. Nevertheless, it may also prompt investors to seek higher yields and increase their exposure to the financial market, thereby raising the overall risk of their portfolios in an environment already characterized by low interest rates and a progressive decline in investors' risk aversion.[3] *Signs of an increase in the market risks assumed by investors are evident in the quarterly value-at-risk figures reported by the leading international banks, which in many cases have risen significantly. If risks are not adequately hedged, a rise in the volatility of securities prices could also increase the liabilities of option writers.*

[1] Under standard hypotheses, there is a positive relationship between option prices and implied volatility.

[2] A reverse convertible security combines a traditional bond with a put option giving the issuer the right to redeem the security at maturity by delivering a specified quantity of another financial asset (the underlying). In order to compensate the holder of the security for the risk that it might be repaid at below face value, reverse convertibles generally have a higher nominal yield than traditional bonds.

[3] According to indicators derived from stock index options, risk aversion has been falling since the end of 2003.

The sectoral pattern of performance on the Italian stock exchange was similar to that in the euro area, with the exception of the substantial rise in insurance shares (13 per cent). Share prices on the Nuovo Mercato fell sharply (19 per cent), primarily owing to the financial difficulties of a telecommunications company, which account for a significant portion of the market's overall capitalization.

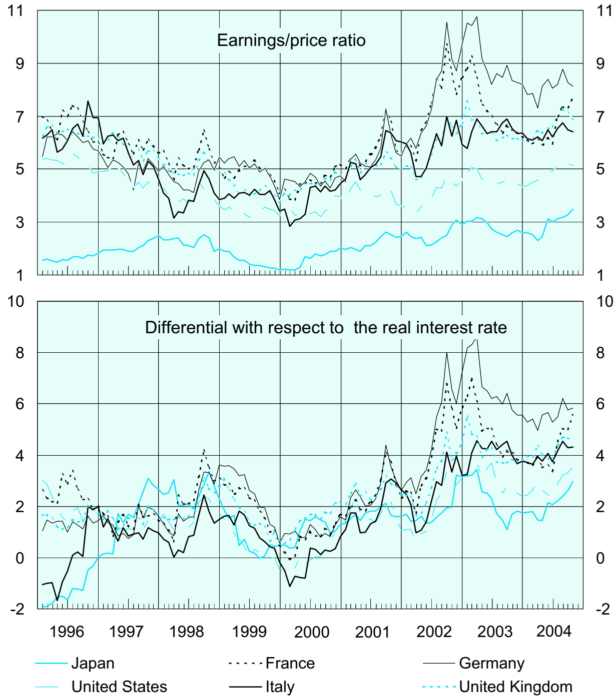
Listed companies. — The number of new listings in the euro area began to rise again. In the first nine months of the year 53 companies went public, although the figure is significantly lower than the average of 138 new listings in the corresponding period of the years between 1995 and 2003. In Italy, 5 companies obtained a listing in the first nine months, compared with an average of 11 in the same period between 1995 and 2003.

At the end of September 2004, the total market value of the 267 resident companies listed on the Italian stock exchange amounted to 39 per cent of GDP. The corresponding ratio was 38 per cent in Germany, 68 per cent in France, 123 per cent in the United Kingdom and 129 per cent in the United States.

Figure 50

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.

Investment funds

In the first six months net subscriptions of investment funds in the euro area were almost unchanged compared with the first half of 2003. In nine euro-area countries, they amounted to €122 billion. The increase in net fund-raising by equity and balanced funds was offset by a fall in bond and money market funds.

In Italy, by contrast, investment funds recorded net redemptions of €13.5 billion in the first nine months (Table 36). Net redemptions of equity and balanced funds continued, albeit at a slower pace than in the preceding months, while the net fund-raising of bond and money-market funds also turned negative. Only flexible funds continued to show modest net inflows.

In the first nine months of the year, the average yield of Italian investment funds was 1.5 per cent. Returns were higher for equity funds (2 per cent) and lower for money-market funds (0.9 per cent); yields on flexible, balanced and bond funds were about 1.7 per cent.

At the end of September the net assets of harmonized investment funds run by Italian intermediaries amounted to €493.4 billion, virtually unchanged compared with the end of 2003.

Table 36

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

(millions of euros)

	2002	2003	2003 Jan.-Sept.	2004 Jan.-Sept.
		Net assets *(end-of-period outstanding amounts)*		
Italian funds	360,557	378,781	382,384	361,658
Foreign funds (2)	97,536	118,609	112,001	131,791
Total	**458,093**	**497,390**	**494,385**	**493,449**
		Net fund-raising *(flows)*		
Italian funds	-12,340	6,628	14,548	-22,865
Foreign funds	4,371	15,581	10,811	9,317
Total	**-7,970**	**22,209**	**25,359**	**-13,548**
		Gross fund-raising *(flows)*		
Italian funds	190,254	212,644	166,063	109,421
Foreign funds	87,109	91,378	68,874	66,438
Total	**277,363**	**304,022**	**234,937**	**175,859**

Sources: Bank of Italy and Assogestioni.

(1) The figures refer to harmonized investment funds. The data for the last few months of 2004 are provisional. – (2) Value of units subscribed by Italian investors.

SHORT-TERM ECONOMIC PROSPECTS

The world economy

In 2004 the expansion in economic activity spread to all areas of the globe, although the pace of growth differed according to region. World output is expected to increase by an average of 5 per cent, the largest rise since 1976. Growth was rapid in the first quarter but slowed in the second and third, partly owing to the effect of higher oil prices. The expansion is expected to continue in the last quarter, although at a slower rate than in the first.

In the United States the slight acceleration in growth in the third quarter, to 3.7 per cent on an annual basis, is attributable to private consumption. About 1 percentage point of GDP growth was due to the increase in car purchases, which were boosted by special offers on the part of manufacturers. Business investment continued to expand rapidly and is expected to sustain growth in the coming quarters thanks to high profits and favourable financing terms.

The waning of the fiscal stimulus, the rise in energy prices and the slowdown in mortgage refinancing will make consumption growth more dependent on developments in employment, which has begun to expand at a satisfactory pace again after stagnating in June and July.

As unused capacity decreased, the Federal Reserve gradually raised its target for the federal funds rate. Thanks to the growth of the economy, the budget deficit stabilized in 2004; it is forecast to decline next year if no new measures are adopted.

On the basis of adverse developments in the main leading indicators, private forecasters expect activity to decelerate in the United States in the fourth quarter. For 2004 as a whole, output is set to rise by 4.4 per cent. In an environment of rising interest rates and a less expansive budgetary stance, GDP is forecast to grow by 3.5 per cent in 2005, in line with the increase in potential output.

Despite the gain in competitiveness generated by the depreciation of the dollar since the start of 2002, the current account deficit in 2005 is expected to remain unchanged at 5.4 per cent of GDP. The persistence of the external imbalance is a source of concern owing to its potential impact on US interest rates and the exchange rate.

In the euro area economic growth remained considerably slower than the world average. The rise in employment was very small.

In Japan output stagnated in the third quarter after growing relatively slowly in the second. Thanks to the strong expansion registered in the first quarter, output is still expected to increase by about 4 per cent for the year as a whole, the fastest pace in a decade. It is forecast to slow sharply next year, to around 2 per cent. The IMF expects rapid growth to continue in China in 2004 (9 per cent); the forecast for 2005 is 7.5 per cent.

On the whole, therefore, the international outlook is favourable, but the risks have increased recently in view of the volatility of the dollar's exchange rate and the high level of oil prices. The dollar fell to a new all-time low against the euro in November.

Between April 2003 and the first half of November this year the price of oil rose by around 70 per cent. The increase was larger than had been forecast up until a few months ago. If prices remain at today's high levels, the repercussions on growth in the advanced countries might not be negligible. However, they would be considerably less than those of the oil shocks of the 1970s, because oil prices today are lower in real terms and the advanced economies have a smaller energy requirement. The risks deriving from high oil prices are also mitigated

Table 37

Forecast performance of selected international macroeconomic variables
(percentage changes on previous year unless indicated otherwise)

	2004 (1)		2005 (1)		
	IMF	Consensus Forecasts	IMF	European Commission	Consensus Forecasts
	Sept. 2004	8.11.04	Sept . 2004	Oct. 2004	8.11.04
GDP (2)					
United States	4.3	4.4	3.5	3.0	3.4
Japan	4.4	4.3	2.3	2.1	1.8
Euro area	2.2	1.9	2.2	2.0	1.9
Emerging economies	6.6	-	5.9	-	-
of which: Asia	7.6	-	6.9	6.9 (3)	-
of which: China	*9.0*	*9.2*	*7.5*	*8.2*	*8.0*
Latin America	4.6	5.4	3.6	3.7	3.9
of which: Argentina	*7.0*	*7.7*	*4.0*	*4.2*	*4.8*
Brazil	*4.0*	*4.7*	*3.5*	*3.5*	*3.7*
Mexico	*4.0*	*4.1*	*3.2*	*3.6*	*3.7*
Central and Eastern Europe	4.9 (4)	-	4.7 (4)	4.4 (5)	-
Consumer prices					
United States	3.0	2.6	3.0	2.8	2.4
Japan	-0.2	-0.1	-0.1	0.2	..
Euro area	2.1	2.2	1.9	1.9	1.9
Emerging economies	6.0	-	5.5	-	-
of which: Asia	4.5	-	4.1	-	-
of which: China	*4.0*	*4.3*	*3.0*	-	*3.7*
Latin America	6.5	7.2 (6)	6.1	-	6.4 (6)
of which: Argentina	*4.8*	*6.4* (6)	*7.1*	-	*7.5* (6)
Brazil	*6.6*	*7.2* (6)	*5.9*	-	*6.1* (6)
Mexico	*4.4*	*5.2* (6)	*4.0*	-	*4.2* (6)
Central and Eastern Europe	5.3 (4)	-	4.0 (4)	3.5 (5)	-
World trade (2) (7)	**8.8**	-	**7.2**	**8.0** (8)	-
Oil prices					
Average of the three leading grades ($ per barrel)	37.3	-	37.3	45.1 (9)	39.7 (10)

Sources: IMF, *World Economic Outlook*, September 2004; European Commission, *Economic Forecasts*, Autumn 2004; *Consensus Forecasts*, 8 November 2004; *Asia Pacific Consensus Forecasts*, 8 November 2004; *Latin American Consensus Forecasts*, 15 November 2004.

(1) Forecasts. – (2) At constant prices. – (3) Includes recently industrialized economies. – (4) Includes Malta and Cyprus. – (5) Includes only the ten new EU members. Bank of Italy calculations. – (6) Change for the twelve months ending in December. – (7) Goods and services. – (8) Goods. – (9) Brent. – (10) WTI; end-November 2005 price.

by the low and stable inflation expectations resulting from the action of the monetary authorities in the leading countries.

The euro area

In the euro area the contributions to growth of the various components of demand in the first half of the year differed widely from country to country. In Germany, exports continued to be the only component driving the economy. In France, Spain and Italy, the main support to output growth was domestic demand.

Signs of a slowdown in economic activity emerged in the third quarter. The EuroCOIN coincident cyclical indicator ended the rising trend under way since the start of the year and in September fell below its long-term average. Industrial production, which had been expanding since the beginning of the year in all the main economies except Italy, stagnated. According to Eurostat's preliminary estimate, GDP grew by 0.3 per cent with respect to the second quarter and at an annual rate of 1.2 per cent. The European Commission's surveys confirm that the economy continues to grow but do not suggest any acceleration in the next few months.

The latest Consensus Forecasts projections, which do not incorporate the results for the third quarter, put area-wide GDP growth at 1.9 per cent for the year; growth in the second half is expected to remain modest.

Nor do the Consensus Forecasts projections point to any marked strengthening of euro-area activity in 2005; year-on-year growth is forecast at 1.9 per cent (down from 2.1 per cent predicted in March). Within this scenario, the recent signs of world economic slowdown, the tensions in the oil market and the loss of competitiveness due to the appreciation of the euro constitute elements of uncertainty.

Twelve-month consumer price inflation in the euro area rose to 2.4 per cent in October, reflecting the surge in raw materials prices. According to Consensus Forecasts, inflation will average 2.2 per cent in 2004, about half a percentage point more than had been expected at the start of the year, and decline to 1.9 per cent in 2005. Even though a more unfavourable trend in crude oil prices than that currently expected by the market cannot be ruled out, the threat to price stability remains limited, thanks above all to wage moderation, which has been confirmed by recent collective bargaining agreements in the main countries.

Monetary conditions are conducive to a strengthening of the expansion in economic activity. The minimum rate on the Eurosystem's main refinancing operations now stands at 2 per cent. Real three-month interest rates in euros are slightly negative.

The uncertainty about the outlook for growth has been reflected in forward interest rates, which since the summer have fallen in both nominal and real terms across the maturity spectrum. Businessmen expect the strengthening of the economic recovery in 2005 to be accompanied by a gradual rise in nominal and real yields, which would nevertheless remain at modest levels throughout the year.

Euro-area general government net borrowing is expected to show a further increase this year. According to European Commission estimates, the overall deficit will rise from 2.7 per cent of GDP in 2003 to 2.9 per cent; in 2000 it was equal to 0.9 per cent of GDP. The ratio of debt to GDP is expected to increase again, reaching 71.1 per cent.

In Germany and France the deficit is forecast to remain above the threshold of 3 per cent of GDP for the third consecutive year, at just under 4 per cent. On the basis of recent statistical revisions, the deficit in Greece is expected to reach 5.5 per cent. Deficits of between 2.9 and 3 per cent of GDP are forecast in Italy, the Netherlands and Portugal.

The Italian economy

In the first half of 2004 GDP growth in Italy amounted to 1.4 per cent on an annual basis, lower than in the euro area.

The budget for 2005

According to official estimates, the budget for 2005 will reduce net borrowing on a current legislation basis by €24 billion (1.7 per cent of GDP). The measures contained in the Finance Bill submitted by the Government in September are expected to bring an improvement of €22.6 billion in the balance, the result of a net increase in tax revenues of €5.6 billion, a net reduction in primary expenditure of €8.3 billion, a decrease in interest payments of €1.5 billion and disposals of assets totaling €7.1 billion (see table). The remaining improvement in the balance is expected to come from amendments to the tables attached to the Finance Bill and the budget on a current legislation basis.

Increase in revenue. *– The expected additional tax revenue amounts to €7.1 billion, of which €2.5 billion is of a one-off nature.*

Measures are planned to expand tax bases and bring a larger part into the fiscal net, with an estimated increase in revenue of €5.1 billion.

In particular, changes to sector studies that will be applicable to 2004 incomes are expected to bring in an additional €3.8 billion, of which €1.8 billion of a one-off nature. The measures concern: enlarging the scope of the studies for the purpose of assessing income; the introduction of a revision every four years in agreement with the relevant trade associations, together with an automatic annual update based on national accounts indicators. The possibility for taxpayers to bring the incomes they declare into line with the results of sector studies without incurring penalties or costs is made permanent.

The other measures aimed at enlarging and recovering tax bases concern: the tax treatment of cooperative societies and their consortia (€0.5 billion); the taxation of property rental income (€0.3 billion); the possibility of revising, at the request of municipalities, the classification of buildings in the land register for rating purposes (€0.1 billion); the legislation aimed at countering the evasion of VAT (€0.2 billion); and the tax on solid urban waste (€0.2 billion).

Provision is made for an increase in the basic tax rate on tobacco to produce €0.5 billion of additional revenue. Another €0.5 billion is expected from raising the tax on lotto, introducing new enalotto drawings and changing the tax regime for video games.

With reference to companies, a substitute tax is introduced for the release of reserves set aside out of income with the tax suspended (€0.3 billion).

The budget is completed by a series of measures, mostly of a one-off nature, aimed at accelerating the collection of taxes (€0.8 billion).

Another measure introduces an ex ante tax agreement scheme reserved to firms and self-employed workers whose revenues did not exceed €5,164,569 in 2003. The scheme provides for the tax authorities to send individual proposals, based on the results of sector studies, establishing in advance the amount of income from taxpayers' ordinary activities on which they will be taxed in the three following years. The advantages for taxpayers who accept the proposal are: a) the application of a more favourable tax regime to income in excess of the amount agreed; b) restrictions on the powers of the authorities to carry out controls for tax purposes; and c) exemption from the payment of social security contributions for income in excess of the amount agreed. According to the official estimates, the scheme will be revenue neutral.

Decrease in revenue. *– This is forecast at €1.5 billion and is due to the extension of indirect tax reliefs introduced in earlier years and aimed primarily at firms. More specifically, revenue is to be reduced by €0.7 billion following the extension of reliefs applying to agriculture (a reduced rate for the regional tax on productive activities and a special VAT regime). In addition, the extension of the partial deductibility of VAT on company cars will reduce revenue by €0.2 billion, that of some excise duty reliefs by €0.2 billion and that of reliefs for road hauliers by €0.1 billion.*

Decrease in expenditure*. – The proposals included in the Finance Bill are expected to reduce primary expenditure by €9.2 billion. Better management of financial assets is expected to result in a reduction of €1.5 billion in interest payments.*

The savings in primary expenditure are to come mainly from the introduction of a cap of 2 per cent on the nominal increase in general government expenditure with respect to the amounts indicated for 2004 in the Forecasting and Planning Report published in September. The cap will also be in force in 2006 and 2007. It applies to all the expenditure included in the *calculation of net borrowing apart from: a) interest payments on government securities; b) social benefits in cash related to entitlements (basically pensions); c) transfers to the European Union; and d) costs in connection with constitutional bodies.*

Central government is expected to generate €3.3 billion of savings, of which €2.1 billion on capital expenditure.

As regards local government, the cap on the growth in expenditure is incorporated in the revision of the rules of the domestic stability pact that should reduce outlays by €1.3 billion. For provinces and municipalities, the existing limit for the budget balance is to be replaced by a cap on the growth of expenditure, in line with that already introduced for the regions. The budget requires the growth in expenditure of each local authority not to exceed 4.8 per cent next year with respect to the level in 2003. The health service is excluded and subject to special rules. The cap may be exceeded in the case of investment expenditure, but only if this is matched by additional revenue deriving from increases in taxes and tariffs. In this respect, from 2005 onwards under the law in force local authorities will again be able to receive the revenue deriving from the increases in personal income surtax and Irap rates that were suspended in the two preceding years.

Expenditure on the health service in 2005 is set at €88.3 billion. Compared with the figure on a current legislation basis indicated in the Economic and Financial Planning Document published in July, the saving is expected to be nearly €4.3 billion; compared with the expenditure on the health service indicated for 2004 in the same document, there would be a reduction of 1.6 per cent.

Additional savings are expected to come from measures concerning public employment (€0.1 billion), education (€0.1 billion) and capital expenditure (€0.1 billion).

***Increase in expenditure.** – The budget is forecast to increase expenditure by €0.9 billion, of which €0.1 billion on capital account. The proposed measures concern revisions of outlays deriving from existing legislation (€0.5 billion), staff costs (€0.1 billion) and the implementation of provisions introduced with the reform of the school system (€0.1 billion).*

***Disposals of public assets.** – These are expected to generate €7.1 billion of revenue, of which €4.1 billion in relation to buildings and state property rights and €3 billion from the transfer of part of the road network to companies controlled directly or indirectly by the state.*

Estimated effects of the budget on the general government consolidated accounts (1)

(millions of euros)

REVENUE	
Increase in revenue	**7,090**
Measures concerning tax bases	5,060
Sector studies	*3,810*
Income of cooperative societies	*470*
Property rental income	*310*
Rating coefficients	*120*
Evasion of VAT	*190*
Evasion of the urban waste tax	*160*
Increase in the basic tax rate on tobacco	500
Video games, lotto and enalotto	480
Release of reserves subject to suspended tax	270
Other measures	780
Decrease in revenue	**-1,460**
Extension of tax relief for agriculture	-740
Extension of VAT deductibility for company cars	-180
Extension of excise duty reliefs	-240
Extension of reliefs for road hauliers	-120
Other measures	-180
Net change in revenue	**5,630**
EXPENDITURE	
Decrease in expenditure	**-9,230**
Central government current expenditure	-1,200
Central government capital expenditure	-2,060
Health service	-4,250
Other local government expenditure	-1,270
Other measures	-450
Increase in expenditure	**900**
Education	110
Staff costs	80
Other current expenditure	610
Other capital expenditure	100
Net change in expenditure	**-8,330**
DISPOSALS OF PUBLIC ASSETS	**7,100**
TOTAL REDUCTION IN PRIMARY BALANCE	**21,060**
Interest expenditure	**-1,520**
TOTAL REDUCTION IN NET BORROWING	**22,580**

(1) Based on official estimates (Annex 7 of the Finance Bill). The table does not include the effects of some amendments made to the tables attached to the Finance Bill and the budget on a current legislation basis.

Economic activity was buoyed by household consumption, which declined slightly, however, in the second quarter, and by a recovery in investment. Net exports subtracted around 1 percentage point from the growth in GDP on an annual basis.

According to preliminary estimates released by Istat, in the third quarter GDP grew by 0.4 per cent with respect to the previous quarter and by 1.7 per cent on an annual basis. The most recent short-term data do not signal a robust acceleration in activity in the fourth quarter. In contrast with developments in the other main euro-area countries, industrial production is fluctuating around the levels of last year; according to initial estimates, manufacturing activity continued to stagnate in October and November.

According to the IMF, Italy's GDP will grow by 1.4 per cent in 2004. The Bank of Italy's September survey of industrial and service firms found signs of a moderate expansion in activity. The IMF predicts an increase in GDP of 1.7 per cent in 2005, the same figure as the private forecasters polled by Consensus Forecasts. These forecasts are subject to the uncertainty surrounding the future behaviour of oil prices and the exchange rate. The modest recovery is expected to involve all the main components of domestic demand: investment is expected to grow by 3 per cent and consumption by around 2 per cent; net exports would make basically no contribution to GDP growth.

The twelve-month inflation rate remained around 2.3 per cent through the summer; it fell to 2 per cent in October. On a seasonally adjusted basis, the annualized three-month increase in consumer prices fell to 1.3 per cent, thanks to the reduction in the prices of fresh food products and some durable goods, which more than offset the inflationary pressures of energy sources.

The level reached by oil prices, whose impact on domestic prices has been curbed until now by the gradualness with which gas and electricity tariffs are adjusted, will produce a moderate rise in the prices of the energy-linked items of the index basket in the coming months. Nevertheless, the estimates published by Consensus Forecasts indicate that inflation should average 2.2 per cent in 2004 and remain around that level in 2005.

Credit supply conditions remain favourable. The results of the latest survey on bank lending in the euro area suggest that loan approval standards in Italy will remain broadly stable in the near future. Fund-raising on the international bond market by Italian non-financial corporations has continued apace during the year; prices in the secondary market are in line with the averages for euro-area firms. Recourse to the market on the part of smaller or poorly rated firms remains limited.

In September the Government confirmed its forecast for general government net borrowing in 2004 of €39.6 billion (2.9 per cent of GDP).

In the first nine months of the year the general government borrowing requirement, net of privatization receipts, amounted to €61.4 billion. The final figure for the year should be significantly below the Government's May estimate of €71 billion (5.3 per cent of GDP). However, the gap with respect to net borrowing would still be large.

According to the Government's forecasts, the ratio of debt to GDP will fall from 106.2 per cent in 2003 to 106 per cent.

In September the Government confirmed the July Economic and Financial Planning Document's estimate for 2005 of net borrowing on a current legislation basis equal to 4.4 per cent of GDP and its target of 2.7 per cent for this balance. Budgetary measures whose impact is officially estimated at 1.7 percentage points of GDP have been introduced in order to achieve this result. They include €8.3 billion of expenditure savings, €5.6 billion of additional tax revenue and €7.1 billion of receipts from asset disposals (see the box "The budget for 2005").

The expenditure savings are to come mainly from the introduction of a cap of 2 per cent on the annual nominal increase in a substantial part of primary expenditure: the cap will also apply in 2006 and 2007. The revenue measures aim to reduce tax evasion and avoidance. The asset disposals concerning State roads and some buildings necessary for the operation of general government improve the accounts for 2005 to the detriment of the subsequent fiscal years.

The introduction of a limit on expenditure growth provides a useful reference point for budgetary policy. The 2 per cent cap is equivalent to holding the total volume of services and transfers provided to the public unchanged in real terms; in the medium term it would allow a significant reduction in the ratio of primary expenditure to GDP.

Compliance with the limit requires a modification of the rules and practices that regulate the disbursement of expenditure; in the health sector, rationalizing measures are needed to prevent the creation of new concealed debt. In the longer term, the curbing of spending will require a review of the activities performed by the public sector, a drive to enhance the efficiency of government bodies and structural reforms in the main sectors of expenditure.

It is essential to achieve the objective for net borrowing next year in order to strengthen growth. Careful monitoring will be necessary to avert spending overshoots.

For the years after 2005 the Economic and Financial Planning Document envisages a gradual reduction of the deficit, which it projects will fall to 0.9 per cent of GDP in 2008. The primary surplus, equal to 2.4 per cent of GDP in 2005, is expected to rise progressively to 4.7 per cent in 2008. Receipts from temporary measures are projected to diminish next year and fall to nil in 2006.

The Government recently announced the general guidelines for action to relaunch the economy. The reduction in the taxation of firms and households would help create the conditions for faster economic growth; if it is to have a positive effect on expectations, it must be based on the enduring containment of the growth in current expenditure. The tax measures must be framed in a context of conditions conducive to the expansion of investment and the strengthening of growth.

Based on information available at 19 November 2004. The preceding chapters are updated to 13 November, the Appendix to 5 November.

Documents

Credit risk transfer between the banking sector and the insurance industry in Italy (*)

The development of the techniques of securitization and derivatives contracts have brought new opportunities for the more efficient allocation, diversification and mitigation of risk.

The supervisory authorities of the Group of Ten countries, the central banks and the international committees concerned with supervision and financial stability have increasingly focused on credit risk transfer, specifically between the banking and insurance sectors.

Studies of the phenomenon have been carried out to assess the adequacy of risk management techniques and accounting criteria and to evaluate the systemic risk profile. Attention has centred on the complex structure of the contracts, the sectoral and geographical reallocation of risks, and the possibility that regulatory arbitrage might prompt the transfer of risk to intermediaries or markets that are subject to less stringent regulation and control.

In 2003 ISVAP and the Bank of Italy, as supervisory authorities, respectively, for the insurance industry and the banking sector, set up a working party to analyze the magnitude of credit risk transfer (CRT) between banks and insurance companies in Italy.

The final report[1] concludes that CRT between Italian banks and insurance companies is limited. The study covers not only traditional credit claim transfers and credit guarantees granted to banks by insurance companies, but also the innovative CRT instruments developed in recent years, such as credit derivatives and securitization.

The working party used data for 2002 and the first half of 2003 from ISVAP's and the Bank of Italy's statistical archives; the study covers the CRT operations performed by banks and insurance companies domiciled in Italy.

The innovative instruments were used by Italian banks mainly to transfer credit risk to financial intermediaries abroad or to other banks at home.

Italian insurance companies held (at the time the data were collected) limited amounts of asset-backed securities arising out of the securitization of bank credits, most of which were senior tranches, i.e. the least risky securities. Their use of credit derivatives was found to be negligible.

The study includes an overview of the international documents relating to CRT and some figures on the volume of the financial transfers between Italy's banking and insurance sectors in the form of direct equity investments, subordinated loans and other securities subscribed. The document also examines the risks that are typical of the two sectors, the respective supervisory rules governing them, and the prudential treatment of CRT instruments in each.

(*) *Prepared by the Banking Supervision Department.*

[1] *"Il trasferimento del rischio di credito tra il settore bancario e il settore assicurativo. L'esperienza italiana" is available in Italian on the Bank's website at www.bancaditalia.it.*

Speeches

Fact-finding preliminary to the examination of the budget documents for the period 2005-07

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

Rome, 13 October 2004

The international economy

The world economic recovery has steadily gained momentum in the United States since the spring of 2003 and has been sustained by the growth of the Asian economies; during 2004 it spread to several other regions. World economic activity expanded rapidly in the first quarter of this year, but slowed in the second, partly as a reaction to the rise in oil prices.

In the United States GDP growth fell from 4.5 per cent on an annual basis in the first quarter to 3.3 per cent in the second. Higher energy costs weighed heavily on the growth in household expenditure, which slowed sharply from 4.1 to 1.6 per cent. On the other hand, investment picked up strongly in the second quarter, rising by nearly 14 per cent.

In the United States payroll employment edged up in June and July, then rose by 128,000 units in August and 96,000 in September. Private consumption is expected to resume growing at around 4 per cent in the third quarter. However, the recent performance of the leading indicators of the business cycle casts doubt on the strength of the recovery in the last part of the year, though not on its continuation.

The rise in the prices of energy products has had no effect so far on core inflation or on inflation expectations. The Federal Reserve intends to bring the federal funds rate back to what it deems to be equilibrium levels at a measured pace.

The International Monetary Fund estimates that GDP growth in the United States will reach 4.3 per cent this year, compared with 3 per cent in 2003, and will amount to 3.5 per cent in 2005, in line with the expansion of potential output. The continued recovery will be sustained by the good balance-sheet situation and profitability of firms and banks and by favourable financing conditions. With the phasing out of the earlier fiscal stimulus, consumption will depend crucially on labour market performance.

According to the latest forecasts by the Congressional Budget Office the federal deficit for the 2004 financial year will amount to 3.6 per cent of GDP; this represents an improvement of around 0.5 percentage points on the estimate issued in the spring that can be ascribed to the more favourable performance of the economy. Even when the tax cuts approved this month are taken into account, the deficit could fall to around 3 per cent of GDP in 2005.

In Japan economic activity slowed in the second quarter, partly owing to the fall in public investment. The slowdown was temporary, as in the third quarter output is already showing signs of an upturn. According to the International Monetary Fund, GDP is expected to grow by 4.4 per cent in 2004 but by only 2.3 per cent in 2005.

In the emerging Asian economies GDP growth will continue at a rate of about 7 per cent in both 2004 and 2005.

In all the main Latin American countries economic activity, which had stagnated for three years, has begun to expand rapidly again. IMF estimates set GDP growth at 4.6 per cent in 2004 and 3.6 per cent in 2005.

The sharpening of international tensions and the jump in oil prices cast a shadow over the progress of the world economic recovery. Nonetheless, the main international centres and institutions still show an underlying optimism. Growth of 5 per cent is forecast for 2004, a higher value than at any other time in the past twenty-five years; in 2005 it is again expected to top 4 per cent.

Cyclical developments in the euro area and Italy

In the first half of 2004 euro-area GDP grew by 2.2 per cent on an annual basis, indicating that the recovery remains weak compared with the world economic cycle. France recorded the highest growth rate among the main countries.

Except in Germany, output growth was driven mainly by consumption; investment again expanded at a moderate pace, rising by 0.5 per cent on an annual basis. In Germany GDP growth was sustained by exports, while final domestic demand contracted, a trend under way since the second half of 2001.

As the upturn in world trade gained strength, in the first half of 2004 euro-area exports rose by 7 per cent on an annual basis, the largest increase since the end of 2000. Despite the significant expansion in imports, foreign trade contributed 0.7 percentage points to the growth of GDP.

In Italy economic activity accelerated slightly in the first half of the year, although still considerably less than in the rest of the area.

The performance of the economy continued to be adversely affected by the weakness of exports. These declined further in volume in the first half of the year despite the recovery of activity both at world level and in the euro area; the upturn in the second quarter, however, suggests that there is hope for a better result in the second half of the year. Imports, on the other hand, increased in the first half of 2004. Overall GDP growth was reduced by 0.5 percentage points, equal to 0.9 points on an annual basis.

Italy's oft-mentioned loss of world market shares has accelerated since 2002.

Calculated on the basis of unit labour costs, the price competitiveness of Italian exports fell by 16 per cent between 2002 and 2003; this is 13 and 8 percentage points more than the figures for German and French exports respectively. The gap can be attributed mostly to the trend in productivity, which declined in Italy.

Domestic demand was buoyed by the upturn in investment thanks to low interest rates and the availability of credit. Household spending expanded in line with the average for the other European countries.

In the euro area consumer price inflation rose to 2.3 per cent in the second quarter in response to tensions on the market for energy products. In Italy the increase in harmonized consumer prices was close to the average for the other countries from the second quarter onwards.

The professional forecasters surveyed by *Consensus Forecasts* in September expect annual inflation in 2004 to be 2.3 per cent in Italy and 2.1 per cent in the euro area as a whole.

In the service sector Italian unit labour costs rose in the first half of the year by over 2 percentage points more than the average for the main euro-area countries. In industry excluding construction the gap was more than 4 percentage points on an annual basis, onc e again due to Italy's less satisfactory productivity performance.

Employment, which had virtually stagnated in the last half of 2003, picked up in the following six months, rising more sharply than in the other euro-area countries. The unemployment rate, calculated according to the new labour force survey, continued to fall, reaching 8.1 per cent on a seasonally adjusted basis in the second quarter of 2004; in the other European countries it remained stationary.

With tensions on the oil market becoming sharper there are as yet no signs of output in Italy accelerating in the second half of the year.

Overall, GDP is expected to grow in 2004 by 1.2 per cent, compared with 2 per cent in the euro area. The recovery will probably gain strength in the coming year. Economic policy measures are needed to boost growth in Italy to around 2 per cent, which would be in line with the forecast average for the other euro-area countries.

The difficulty of controlling the public finances in recent years

In the past three years repeated recourse to temporary measures made it possible to contain the budget deficit and avoid restrictive effects on economic activity. Nonetheless, some charges were deferred to future years. The tax regularization schemes and other one-off measures distracted attention from the underlying performance of the public finances; the structural adjustment of the deficit and spending was postponed.

In the past five years primary current expenditure increased by an average of 5 per cent per annum, rising from 37.4 per cent of GDP in 1998 to 37.9 per cent in 2001 and 39.4 per cent in 2003. Including the further increase forecast for this year, the ratio will return close to the levels of the early 1990s and only just below the peak recorded in 1993.

The public finances can only be corrected on a lasting basis by means of structural expenditure reforms, rationalization measures and adequate budget constraints for local authorities.

Between 1998 and 2003 the ratio to GDP of tax and social security receipts, including the revenue from tax amnesties, remained virtually constant at just under 43 per cent.

The primary surplus progressively contracted from 5.2 per cent of GDP in 1998 to 3.9 per cent in 2001 and 2.9 per cent in 2003. In the past year, excluding one-off measures, it fell below 1 per cent, far less than is needed to achieve a substantial reduction in the ratio of public debt to GDP. In the last two years temporary measures, financial operations and sales of assets were used for the purpose.

The reduction in interest expenditure from 8 per cent of GDP in 1998 to 5.3 per cent in 2003 helped to curb the deficit. The improvement can be ascribed in part to the worldwide decrease in interest rates.

Finally, it should be recalled that between 1999 and 2003 the general government borrowing requirement, net of privatization receipts, exceeded net borrowing on average by about 1.6 percentage points of GDP, a figure out of line with the results for previous years. The large borrowing requirement was reflected in the growth of the debt.

The difficulty of controlling deficits has become evident during the course of this year.

The Economic and Financial Planning Document of July 2003 set a general government net borrowing target of 1.8 per cent of GDP for 2004. The economy was forecast to grow by 2 per cent.

The target was later revised several times.

In the spring of this year the risk of overshooting the limit of 3 per cent of GDP became apparent. The Quarterly Report on the Borrowing Requirement still indicated that net borrowing would amount to 2.9 per cent of GDP; meeting the target depended on the occurrence of a series of contingencies.

In May the Government acknowledged at European level that there was the risk of overshooting the 3 per cent limit and proposed the adoption of additional measures to keep the 2004 deficit below the limit.

On 31 May we indicated that an overshoot of up to 3.5 per cent of GDP was probable in the absence of immediate corrective measures.

On 5 July the European Council took note of the Government’s commitment to take the necessary corrective measures; it underscored the need for Italy’s public finances to be carefully monitored in the subsequent months. Deficit-reduction measures officially estimated at €7.6 billion, or 0.6 per cent of GDP, were accordingly approved.

The Economic and Financial Planning Document published at the end of July 2004 set out the actual situation of the public finances, which showed a marked imbalance for 2005 as well. Taking account of the measures that had just been approved, the Document confirmed the estimate of 2.9 per cent of GDP for net borrowing in 2004.

The primary surplus was estimated at 2.4 per cent of GDP, half a percentage point less than in the previous year owing to smaller receipts from tax amnesties. According to the estimates, the ratio of tax and social security contributions to GDP would decline by 1 percentage point, to 41.8 per cent; primary current expenditure would rise by 0.3 points, to 39.7 per cent of GDP.

For the current year the overall impact of temporary measures on the primary balance can be estimated at about 1 percentage point of GDP, about half as large as in 2003.

For the state sector alone, in the first nine months of the year the borrowing requirement, net of settlements of past debts and privatization receipts, amounted to €51.1 billion, more than €7 billion higher than in the corresponding period of 2003. The growth in the borrowing requirement would have been greater in the absence of the measures taken in July.

The Economic and Financial Planning Document indicates a reduction of 0.2 percentage points in the ratio of the debt to GDP in 2004, to 106 per cent. The contribution of privatizations is estimated at €19.5 billion, or 1.4 per cent of GDP.

The public finance objectives for 2005 and the subsequent years

In the absence of corrective measures, the Economic and Financial Planning Document shows net borrowing as rising in 2005 to 4.4 per cent of GDP, much higher than the figures indicated in the previous planning documents. For the subsequent years a slight improvement in the balances is expected; as usual, however, the baseline forecast is formulated on a current legislation basis, which does not include outlays for contract renewals or new investment projects.

In the baseline scenario, the 2005 state sector borrowing requirement on a cash basis is projected to be almost 6 percentage points of GDP; this would bring the process of reducing the debt ratio to a halt.

A rethinking of fiscal policy appeared necessary.

The budget correction for 2005 was set at €24 billion, 1.7 percentage points of GDP, of which €17 billion attributable to measures of a permanent nature.

The objective for 2005 net borrowing, previously set at 1.5 per cent of GDP, was raised to 2.7 per cent; the primary balance targeted at 2.6 per cent.

In order to curb the expansion of the debt, a total of €100 billion in receipts were planned to come in the four years 2005-08 from privatizations, securitizations and property sales.

In September, the Planning Document Update and the Forecasting and Planning Report confirmed the objective for net borrowing in 2005 and reduced the objective for the primary balance to 2.4 per cent. The ratio of the debt to GDP was now forecast to decline from an expected 106 per cent in 2004 to 104.1 per cent, benefiting from the effects of substantial asset sales as early as next year.

Net borrowing would gradually diminish in the three subsequent years to 0.9 per cent of GDP in 2008.

The planned figures for total revenue and expenditure for 2005 were announced at the time the budget was presented. Including the effects of the Finance Bill, which does not contain the tax relief measures connected with the next step of the tax reform, which are to be entrusted to separate legislation, total revenue is set to grow by 2.8 per cent in nominal terms. Tax receipts are forecast to rise by 3.5 per cent, as against the figure of 1.6 per cent implicit in the Planning Document's baseline scenario. Primary expenditure is set to rise by 2.6 per cent, compared with 3.7 per cent in the baseline scenario, and capital expenditure, excluding privatization receipts, by 2.7 per cent.

The budget for 2005

The budget presented on 29 September is intended to reduce net borrowing in 2005 by €24 billion. On the basis of the technical report, the effects deriving from the Finance Bill amount to €22.6 billion; the further correction in the balance would come from changes incorporated in the tables remodulating budget allocations annexed to the bill.

The measures provide for a net increase in revenue of €5.6 billion, expenditure savings of around €8.4 billion and receipts from transactions in respect of assets totaling €7.1 billion; of the latter receipts, €4.1 billion is to come from the exploitation and sale of public property and €3 billion from the transfer of part of the highway network to companies under state control. Savings of €1.5 billion are expected to come from measures that affect interest payments.

The Government has announced that it will present measures supplementing the budget for 2005 with a view to strengthening economic growth. These are likely to include reductions in the regional tax on productive activities and personal income tax and incentives for innovation and competitiveness. As indicated in the Economic and Financial Planning Document of last July, funding these measures will require additional resources with respect to those provided for in the Finance Bill.

a) Tax revenue

The €5.6 billion adjustment in tax revenue consists of €7.1 billion of increases and €1.5 billion of decreases.

Around €5.1 billion of the planned increase in revenue can be attributed to a set of measures designed to enlarge tax bases.

Provisions will be introduced to modify the rules governing sector studies and strengthen their use for tax assessment; these are expected to generate an additional €3.8 billion.

More specifically, a revision of sector studies is to be carried out every four years, in agreement with professional and trade associations, and the studies are to be updated automatically each year on the basis of the aggregates shown in the national accounts. The possibility will be introduced for taxpayers to amend their tax returns so that they are in line with the results of the studies, without incurring sanctions or penalties.

The results of the sector studies will provide the basis for the three-year ex-ante tax agreement, which will be progressively applied starting next year. This measure will have no effect on revenue in 2005.

A further €1.3 billion will come mainly from measures to broaden the tax bases for buildings and cooperative societies and from provisions regarding VAT for specific sectors.

A series of other measures are expected to generate €2 billion of additional receipts: €1 billion from the increase in the taxation of tobacco products and lotteries and provisions regarding the Enalotto pool and video games, and about €1 billion from other, largely temporary measures.

Revenue will be decreased by around €1.5 billion by the renewal of some sectoral indirect tax reliefs.

b) Expenditure

The net savings with respect to the baseline projection of expenditure growth are estimated at €8.4 billion.

They are mainly connected with the introduction of a 2 per cent cap on the nominal increase in general government primary expenditure with respect to the provisional figures for the current year. Social benefits in cash, Italy's contributions to the European Community budget and expenditure for the Constitutional organs are excluded; for the first of these items, the Government estimates that expenditure will grow by 3.9 per cent. For primary expenditure as a whole, the Economic and Financial Planning Document indicates a baseline growth rate of the order of 5 per cent in 2005.

According to the official estimates, the cap on expenditure growth would reduce central government disbursements by €3.3 billion; this includes €2.1 billion of capital expenditure. The reduction in local government spending would amount to €1.3 billion.

Savings of around €4.3 billion are expected to be achieved in the health care sector. The Finance Bill fixes the level of expenditure by the National Health Service in 2005 at €88.3 billion, compared with the baseline figure of €92.5 billion indicated in the Economic and Financial Planning Document last July. The expenditure ceiling established for 2005 is €1.4 billion lower than the amount indicated for 2004 in the July Document.

Lastly, provision is made for spending increases totaling €0.9 billion for education, public employment and other items on current and capital account.

c) Local finances

For local authorities as a whole, observance of the 2 per cent ceiling on the nominal increase in expenditure is pursued by means of a revision of the Domestic Stability Pact. For municipal and provincial governments, the constraint on the deficit is replaced by a ceiling on spending growth, in the same way as for regional governments.

According to the Finance Bill, investment expenditure can exceed the ceiling only when financed by additional revenue deriving from higher tax rates and public service and utility charges. Starting in 2005 local authorities' power to increase the surcharges levied on personal income tax and the regional tax on productive activities will be restored.

For each authority, the rule is that current and capital expenditures may not increase by more than 4.8 per cent with respect to 2003. The reference aggregate excludes staff costs, expenses deriving from financial transactions, and payments to other public authorities. For the regions, health care expenditure, which is subject to specific restrictions, is also excluded from the general ceiling.

To sum up, the estimated €5.6 billion in additional tax revenues is to come primarily from measures for the permanent enlargement of the tax base. The most important one is the revision of sector studies, which is expected to boost revenue by €3.8 billion.

Net expenditure savings of €8.4 billion depend largely on the possibility of applying the 2 per cent ceiling on expenditure increases. Excluding the health care sector, the spending cap is expected to generate savings of about €4.6 billion. Forecast savings on health care amount to €4.3 billion. Other measures will entail additional outlays of €0.5 billion.

Savings of €1.5 billion will come from a decrease in net interest payments. Additional spending cuts worth €1.4 billion should come from the remodulation of budgeted appropriations, on the basis of the tables annexed to the Finance Bill.

Finally, asset disposals amounting to €7.1 billion are planned.

Evaluation of the budget

The aim of the Government's economic policy is to combine containment of the deficit and the debt with action to enhance competitiveness and safeguard households' purchasing power.

The measures approved at the end of September outline only the corrective action intended to hold the deficit under 3 per cent of GDP in 2005.

The action to boost economic growth, including tax reductions, is to be included in special measures not yet drafted, which are to be approved before the end of the year.

The setting of a limit to growth in spending creates a point of reference for budgetary policy. It can become an effective tool in pursuing the adjustment of the public finances. The 2 per cent ceiling is tantamount to keeping the total services and transfer payments citizens receive unchanged in real terms.

For the measure to be effective, however, it is necessary to ensure the regulatory and procedural conditions for the limit to be applied to all the relevant spending items. A review of expenditure needs, item-by-item, is indispensable. In a number of cases existing legislation will have to be modified.

Application of the ceiling for four years to all non-interest outlays, without exception, would reduce their ratio to GDP by 3.9 percentage points in the macroeconomic scenario set out in the update of the Economic and Financial Planning Document.

In the medium term, in order for the ceiling not to hinder the efficient utilization of public resources, it is necessary for different budget components to grow at different rates, depending on the priorities of public policy action.

Special attention must be paid to investment expenditure, in view of its impact on economic activity.

As regards local finances, with a view to making authorities responsible for the administration of their financial resources, the spending caps should be gradually replaced by constraints on their budget balances. The granting of sufficient scope for fiscal autonomy and the definition of central government transfers must be accompanied by the obligation to fund spending increases out of additional revenues, avoiding the accumulation of liabilities that the central government later has to cover.

Two thirds of the primary current expenditure savings involve health care. The creation of new concealed debt must be avoided. Only intervention to increase the efficiency of the services and rationalize health care can bring lasting savings that will be maintained in future years.

On the revenue side, the measures are aimed at reducing tax evasion and avoidance and distributing the tax burden more fairly. Gradual, steady action in this regard is not only desirable *per se* but necessary to ensure the cogency of tax rules. Recurrent tax amnesties affect future revenues; they may undermine compliance with the rules.

Inevitably, estimates of the effects of tax measures are subject to a degree of uncertainty. The effectiveness of the rules on sector studies, from which a significant contribution is expected as early as 2005, requires their rapid revision and updating, and hence full, active cooperation between the revenue service and the business organizations involved. An increase in disputes must be avoided.

In the absence of new tax reductions there would be a slight decrease in 2005 in the ratio of tax revenues, including those from amnesties, to GDP. The decline could be annulled if local authorities were to increase their revenues.

In recent years there has been substantial recourse to real estate disposals involving properties used by private parties. These sales are justified by considerations of efficiency in the allocation of resources.

A different matter is the sale of buildings used in the operation of government agencies and departments, now being defined by the Public Building Fund, and the proposed transfer of parts of the state road network to an institution outside the perimeter of general government although still under state control. In both cases the state would undertake to lease the facilities back. Such operations impose additional budgetary outlays in future years.

The measures necessary to boost economic growth require the procurement of additional resources beyond those provided for in the Finance Bill.

Conclusions

The state of the Italian public finances that emerged in the middle of this year is highly serious.

In the absence of corrective measures, the state sector borrowing requirement would rise to 6 per cent of GDP in the next few years. The balance net of interest payments would be negative. Public debt would rise in relation to GDP.

In July the Economic and Financial Planning Document clarified the state of the accounts. For 2005 it projected net borrowing equal to 4.4 per cent of GDP on a current legislation basis.

The readjustment plan set out is demanding and, given the scale of the effort required, necessarily gradual.

In the medium term, adjustment of the public finances is crucial to growth; it fosters investment; it creates scope for improving the infrastructural endowment.

The planned action to curb spending is designed to break the upward trend stretching back several years. Countering the erosion of tax bases could permit a future reduction in tax rates.

The gap between the borrowing requirement and net borrowing remains wide; it needs to be analyzed further.

There remain areas of uncertainty and risks that must be defused in order not to jeopardize the projected budget balance. Some of the measures could weigh on future budgets.

In the medium term, maintaining the expenditure limits will require structural reform in the main areas of the public sector. No reduction in tax revenue not based on a slowdown in the growth of spending is sustainable.

In a broader perspective, the adjustment of the public finances must also address the ongoing process of decentralization of powers and functions. Administrative costs must not be increased, while the adjustment process must conform to the principles of cohesion and solidarity.

The Ministry for the Economy, local governments and the Bank of Italy are developing an information system for the real-time, distance registration of the accounting data of all public bodies through their treasury managers. This will make the accounting data of individual bodies more accurate and available sooner. The banking system is cooperating fully in the project.

For effective implementation of the measures adopted, developments in the public finances and compliance with the 2 per cent ceiling should be monitored, preferably on a monthly basis. This task could be assigned to a High Commission or to some other institutional body at a sufficiently high level.

Successfully fostering economic growth requires an immediate start on action to improve productivity and enhance competitiveness.

Table 1

Unconsolidated central government borrowing requirement
(millions of euros)

	Year			First 8 months		
	2001	2002	2003	2002	2003	2004 (1)
Net borrowing requirement (net of debt settlements and privatization receipts)	**43,385**	**31,473**	**18,894**	**31,240**	**33,098**	**48,360**
Debt settlements	9,310	5,328	8,537	1,262	4,437	211
- in securities	*563*	*1*	*575*	*1*	*573*	*2*
- in cash	*8,747*	*5,326*	*7,961*	*1,260*	*3,865*	*209*
Privatization receipts	-4,603	-1,929	-16,855	-178	-1	-15
Total borrowing requirement	**48,092**	**34,871**	**10,575**	**32,324**	**37,535**	**48,556**
FINANCING						
Medium and long-term securities	11,931	21,350	13,656	30,526	19,481	35,721
Short-term securities	11,691	-97	6,083	16,761	22,924	24,389
Treasury current accounts with BI	-2,119	212	8,013	-16,348	-19,259	-34,553
Other Bank of Italy net financing	42	111	136	95	48	-99
Post Office funds	16,410	11,496	-64,806	3,226	5,122	298
MFI loans	-2,375	-1,419	-3,002	-3,788	-2,311	-157
Other domestic financing	4,761	-280	46,316	-273	1,779	17,347
Foreign loans (2)	7,750	3,499	4,179	2,126	9,751	5,611
Memorandum item:						
Net borrowing requirement of the state sector (3)	40,017	30,849	42,681	34,378	33,188	42,533

(1) Provisonal data. – (2) Includes commercial paper. – (3) Source: *Relazione Trimestrale di Cassa* and Ministry for the Economy and Finance press releases.

Table 2

General government borrowing requirement

(millions of euros)

	Year			First 8 months		
	2001	2002	2003	2002	2003	2004 (1)
Net borrowing requirement (net of debt settlements and privatization receipts)	**45,621**	**37,046**	**44,712**	**33,453**	**34,676**	**51,785**
Debt settlements	9,310	5,328	8,537	1,262	4,437	211
- in securities	*563*	*1*	*575*	*1*	*573*	*2*
- in cash	*8,747*	*5,326*	*7,961*	*1,260*	*3,865*	*209*
Privatization receipts	-4,603	-1,929	-16,855	-178	-1	-15
Total borrowing requirement	**50,328**	**40,445**	**36,393**	**34,537**	**39,113**	**51,981**
FINANCING						
Medium and long-term securities	12,984	22,729	15,063	31,079	18,835	36,088
Short-term securities	11,573	-40	6,057	16,813	22,970	24,315
Treasury current accounts with BI	-2,119	212	8,013	-16,348	-19,259	-34,553
Other Bank of Italy net financing	42	111	136	95	48	-99
Post Office funds	16,410	11,496	-64,806	3,226	5,122	298
MFI loans	-2,442	-1,406	-4,066	-3,780	-3,140	1,829
Other domestic financing	4,761	-397	68,757	-273	3,686	18,274
Foreign loans (2)	9,116	7,739	7,241	3,726	10,851	5,829

(1) Provisonal data. – (2) Includes commercial paper.

Table 3

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

REVENUE	
Increase in revenue	**14,190**
Sales of assets	7,000
Sales of state property and property rights	100
Measures concerning tax bases	5,060
Strengthening of sectoral studies	*3,810*
Taxation of the income of cooperative companies	*470*
Taxation of income from property apart from first homes	*310*
Rerating of property	*120*
Measures to counter VAT evasion	*190*
Tax on urban waste	*160*
Increase in the tobacco basic rate	500
Video games and betting	480
Substitute tax on firms	270
Other	780
Decrease in revenue	**-1,460**
Extension of agricultural tax reliefs	-740
Extension of partial VAT deductibility for company cars	-180
Extension to 2005 of excise duty reliefs	-240
Extension to 2004 of reliefs for road hauliers	-120
Other	-180
NET CHANGE IN REVENUE	**12,730**
EXPENDITURE	
Reduction in expenditure	**-9,230**
2% limit on increase in government departments' current expenditure	-1,200
2% limit on increase in government departments' capital expenditure	-2,060
Health care	-4,250
Limit on increase in local government other expenditure (4.8% on 2003)	-1,270
Other	-450
Increase in expenditure	**900**
Education	110
Public employment	80
Other current expenditure	610
Other capital expenditure	100
NET CHANGE IN EXPENDITURE	**-8,330**
TOTAL REDUCTION IN THE PRIMARY BALANCE	**21,060**
Interest payments	-1,520
TOTAL REDUCTION IN NET BORROWING (1)	**22,580**

(1) Based on official estimates.
The table does not include the effects of the measures contained in the tables attached to the Finance Bill.

Table 4

Budget Forecasts in the Economic and Financial Planning Documents for 2004-07 and 2005-08 and Updates (1)

(as a percentage of GDP)

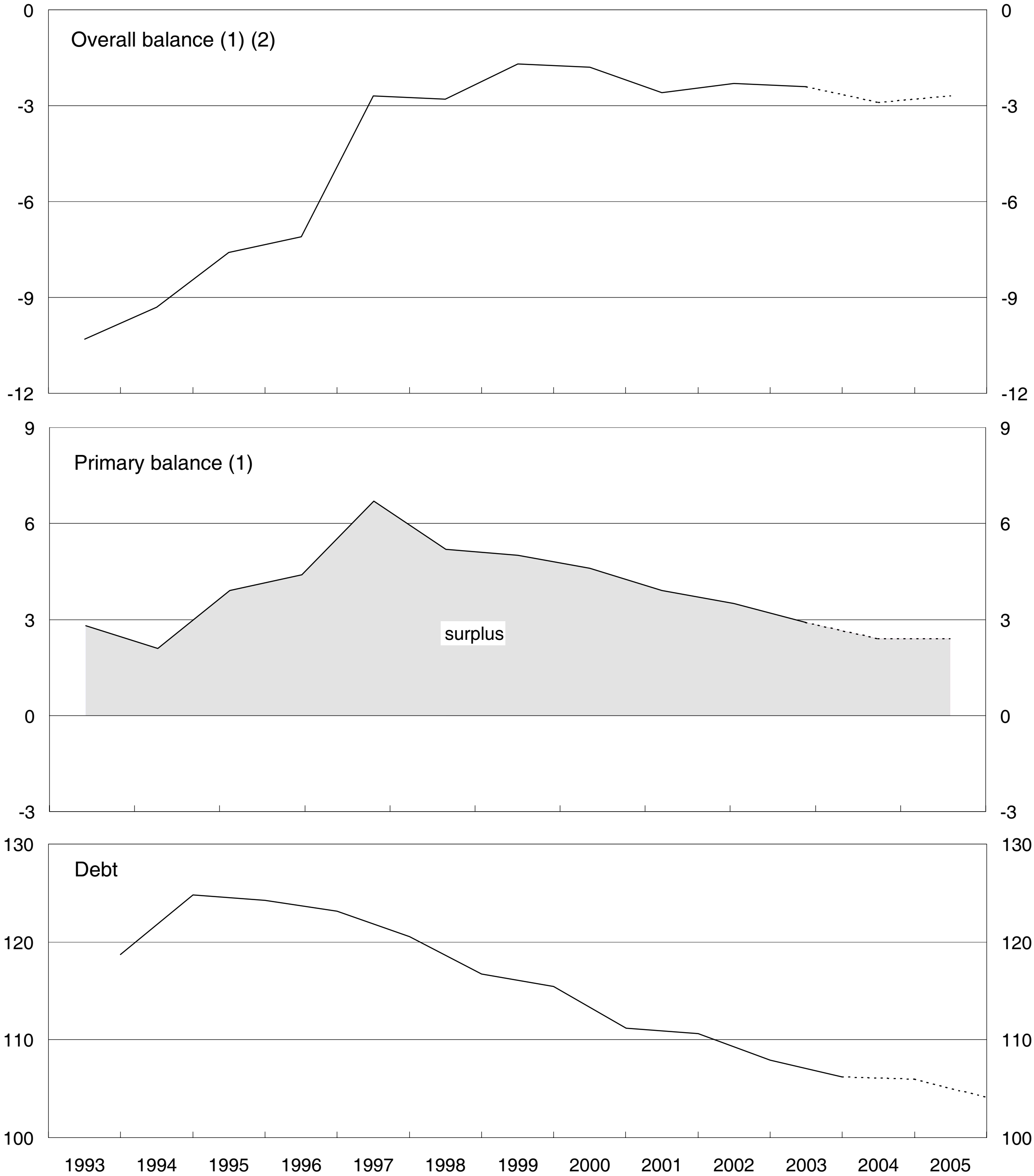
	2003	2004				2005			2006			2007			2008	
	Outturn	EFPD 2004-07		EFPD 2004-07		EFPD 2004-07	EFPD 2005-08		EFPD 2004-07	EFPD 2005-08		EFPD 2004-07	EFPD 2005-08		EFPD 2005-08	
		July	Sept. (2)	July	Sept. (2)		July	Sept. (2)		July	Sept. (2)		July	Sept. (2)	July	Sept. (2)
Net borrowing	2.4	1.8	2.2	2.9	n.a.	1.2	2.7	2.7	0.5	2.2	2.0	-0.1	1.7	1.4	1.2	0.9
of which: *current*	*0.2*	*n.a.*	*-0.5*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
capital	*2.2*	*n.a.*	*2.8*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Primary surplus	2.9	3.1	2.9	2.4	n.a.	3.8	2.6	2.4	4.6	3.3	3.3	5.2	4.0	4.0	4.8	4.7
Total revenue	46.3	n.a.	44.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which: *taxes and social* security contributions .	*42.8*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Primary expenditure	43.5	n.a.	41.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which: *current*	*39.4*	*n.a.*	*38.3*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
capital	*4.1*	*n.a.*	*3.5*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Interest payments	5.3	4.9	5.1	5.3	n.a.	5.0	5.3	5.1	5.0	5.5	5.3	5.1	5.7	5.4	6.0	5.6
Debt	106.2	104.2	105.0	106.0	n.a.	101.7	104.1	104.1	99.4	101.9	101.9	97.1	99.3	99.2	98.1	98.0

(1) Rounding may cause discrepancies in totals. – (2) Update of the Economic and Forecasting Planning Document for 2004-07 and 2005-08, presented by the Prime Minister and the Minister for the Economy and Finance on 30 September 2003 and 30 September 2004.

Figure 1

General government overall balance, primary balance and debt

(as a percentage of GDP)

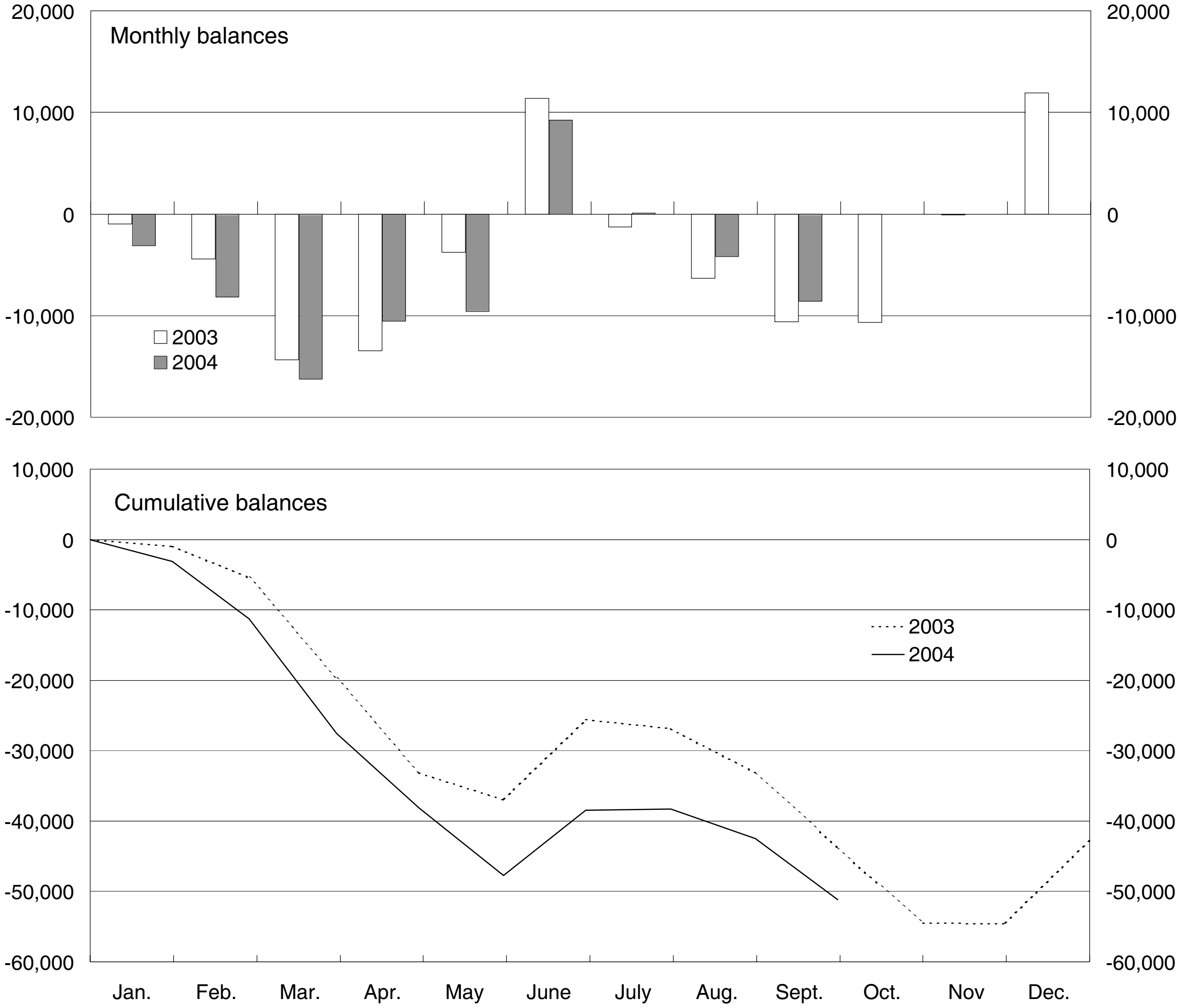


Sources*:* Based on Istat data and Bank of Italy data for the debt. For the years 2004 and 2005, Update of the Economic and Financial Planning Document for 2005-08.
(1) Excludes the proceeds of the sale of UMTS licences. – (2) The figures include the effects of swaps and forward rate agreements.

Figure 2

Monthly profile of the state sector borrowing requirement in 2003 and 2004 (1)

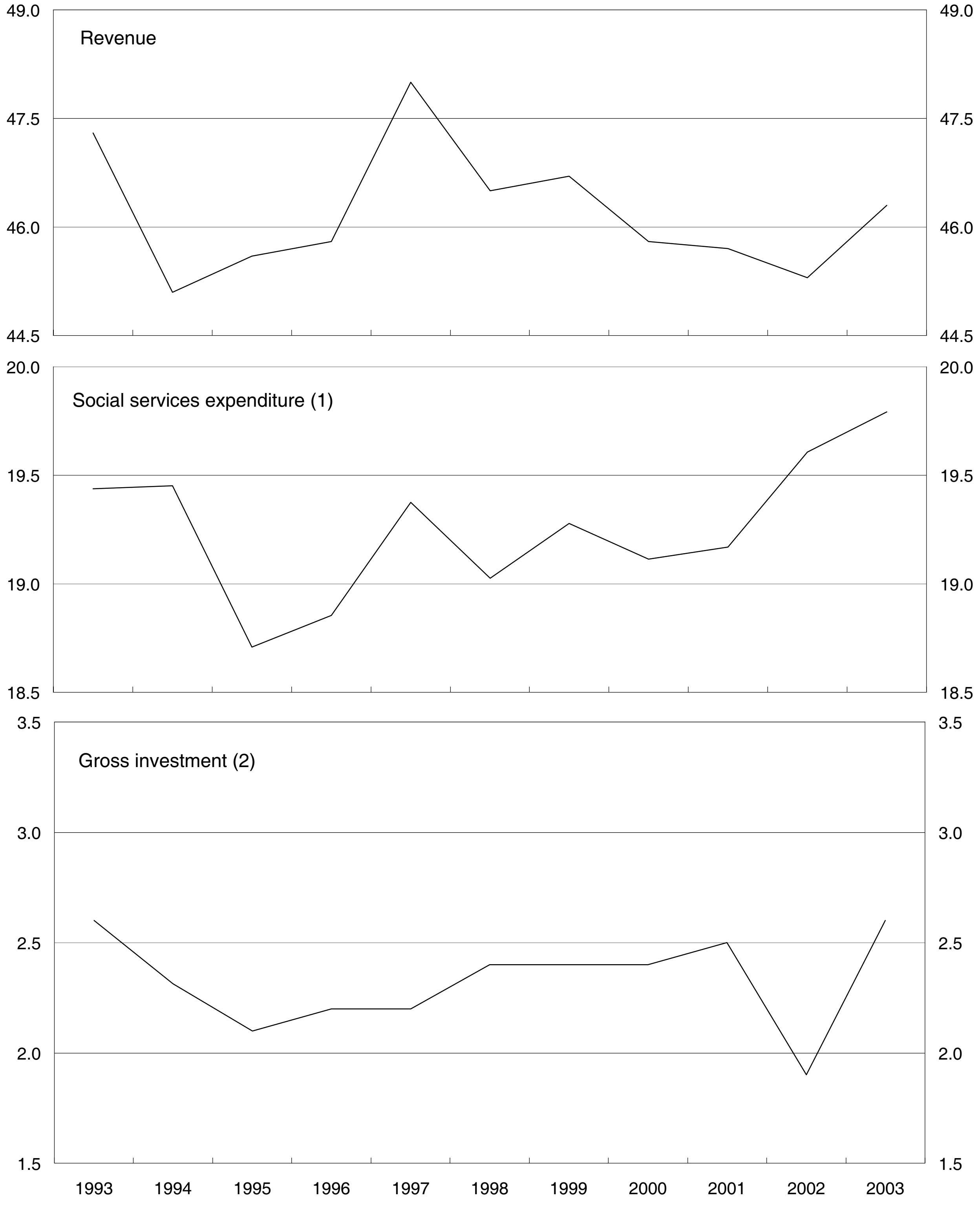
(millions of euros)



Source: *Relazione Trimestrale di Cassa* and Ministry for the Economy and Finance press releases.
(1) Excludes privatization receipts and settlements of past debts. A plus sign indicates a surplus, a minus sign a deficit.

Figure 3

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



Source: Based on Istat data.
(1) Includes social services in money and in kind. – (2) This item includes the proceeds of sales of public property with a negative sign.

2004 World Savings Day

Address by Antonio Fazio, Governor of the Bank of Italy, to the ACRI-Association of Italian Savings Banks

Rome, 5 November 2004

1. The international economy

The recovery in economic activity, which began in the spring of 2003 in the United States and was sustained by the growth of the Asian economies, has gradually spread to Europe and Latin America.

In the first half of 2004 the world economy continued to expand rapidly; in the second half the pace moderated, partly as a consequence of the rise in the price of oil.

In the United States economic activity slowed in the second quarter, after expanding strongly in the first; the growth in household spending slowed to 1.6 per cent, but that in investment accelerated to 13.9 per cent. In the third quarter GDP grew by 3.7 per cent, fueled by a pick-up in consumption and the continuation of the expansionary phase of the investment cycle, which has now spread from IT products to include traditional capital goods.

Payroll employment rose, at a monthly rate of 300,000 from March to May and of 100,000 from June to September.

The economic expansion will remain strong in the last few months of this year and will carry over into next year.

Core inflation, measured by the deflator of consumption excluding energy and fresh food products, has held steady since March at around 1.5 per cent on a twelve-month basis. In view of the progressive reduction in unutilized capacity, the Federal Reserve began to raise the federal funds rate at a measured pace, so that it now stands at 1.75 per cent.

The budget deficit, after worsening progressively for three years, has stabilized in 2004, thanks to the growth of the economy. According to the estimates put out by the Congressional Budget Office, the federal deficit, including the social security balances, was 3.6 per cent of GDP in fiscal 2004, virtually unchanged compared with the previous fiscal year and 0.5 percentage points less than estimated in the spring.

The deficit on the external current account was equal to 5.4 per cent of GDP in the first half of 2004. From March to September the dollar fluctuated between 1.20 and 1.24 against the euro; since the middle of October a further weakening of the US currency has taken it to 1.28 against the euro. Since February 2002, when the prolonged decline of the dollar began, US competitiveness – measured by the fall in the real effective exchange rate, that is with account taken of inflation differentials – has improved by 13 per cent.

In Japan, exports continued to expand very fast in the first half of the year, at an annualized rate of nearly 19 per cent in real terms, despite the slowdown in those to Asia. Productive investment increased by 12 per cent. The slowdown in GDP growth from 6.4 per cent in the first quarter to 1.3 per cent in the second was partly due to the fall in public investment. The latest data available indicate that economic activity is likely to have remained weak in the third quarter.

Growth continued at a rapid pace in China, India and the other emerging Asian economies. The recovery has spread to the countries of Latin America.

In the last few weeks the persistence of international tensions has aggravated the threats to the continuation of the strong phase of global expansion. In real terms the price of oil has risen to 50 per cent of the peak recorded during the upswing at the end of the 1970s; the latest figures available suggest that the rising trend may have come to a halt.

2. The state of the financial markets

The yields on US government bonds rose between mid-March and mid-May, primarily in response to the faster-than-expected growth in economic activity, by 1.2 percentage points to 4.9 per cent; they subsequently came down and are about 4 per cent today.

In the euro area the yields on ten-year government bonds have also come down and are about 4 per cent; in Japan they are about 1.5 per cent.

The abundant liquidity of the financial markets is helping to keep interest rates down and at the same time to reduce the volatility of the prices of shares and bonds.

The risk premiums on US corporate bonds have remained virtually unchanged, at a historically low level. Stock market indices have remained near the highs reached at the end of 2003; the price/earnings ratio has returned close to its long-term average value.

The volatility of stock and bond prices has been extremely low. In an environment marked by abundant liquidity and low interest rates, major international intermediaries have reacted to the weakness of the demand for credit by increasing the share of investments in high-yield instruments, in order to improve the return on capital. They have increased the supply of derivative instruments that provide protection against possible variations in the value of financial assets and assumed the related risks. The increased supply is deemed to have caused a fall in the price, and hence in the volatility, of options, which has spread to the cash markets. In such a situation, a return to normal levels of volatility could bring substantial losses.

In the emerging countries, after the rise in risk premiums that occurred in the spring as a consequence of expectations of an imminent increase in US interest rates, financial conditions have become easier everywhere; the recovery in exports has been a contributory factor. The low cost of financing has encouraged numerous emerging countries to bring forward bond issues and increase their amount. In the first half of 2004 the value of the gross issues of the emerging countries as a group was two thirds of the historically high value of nearly $100 billion recorded in the whole of 2003.

3. Economic developments in the euro area and Italy

The upturn in economic activity in the euro area has not been as buoyant as in the rest of the world. In the first half of this year GDP expanded at an annual rate of 2.3 per cent. Between the first and second quarters there was a slight slowdown.

Growth was sustained chiefly by household spending. Consumption expanded substantially in France; in Germany it continued to contract.

Investment continued at a modest level, growing at an annual rate of 0.7 per cent. A pronounced acceleration in France contrasted with continuing contraction in Germany, once again determined by investment in construction.

The area's exports accelerated to an annual growth rate of 7 per cent in the first six months of the year, fueled by the powerful expansion of world trade and the stabilization of the effective exchange rate of the euro. This result reflects the good performance of German exports, which are highly competitive even at current exchange rates. The stimulus to economic activity was blunted by the substantial increase in imports.

The contribution of net exports to GDP growth was negative in both France and Italy.

Italian economic growth picked up slightly in the first half but remained significantly below the area average. Italian GDP growth followed the area-wide trend in decelerating between the first and second quarters.

The main impediment to Italian economic growth is weak export performance. After diminishing in the first quarter, foreign sales increased appreciably in the second; growth apparently continued in the third quarter, albeit at a slower pace. For the year, export growth is projected to be much less than the growth in world trade; Italy's share of the world market is expected to decrease further.

Italian export penetration has met with difficulties both in the euro area and in the rest of the world. The loss of market shares began to intensify in 2002.

With deteriorating competitiveness and the unfavourable trend in exports, industrial production recorded no increase between the second quarter of 2003 and the third quarter of 2004; in the euro area as a whole it grew by 2.8 per cent. Compared with the average for 2000, in September industrial production was down in Italy by 2.8 per cent; in the euro area, it showed an increase of 2.5 per cent.

In the first half of this year Italian investment recouped the decline registered in 2003. The most substantial increase was in investment in machinery, equipment and transport equipment. Household expenditure increased at an annual rate of 1.6 per cent. This gain came entirely in the first quarter; in the second consumption showed a marginal decline, due to spending on services. Purchases of durable goods continued to grow strongly, in connection with easy credit terms and a modest recovery in households' confidence.

In the second quarter the twelve-month rate of consumer price inflation in Italy was around 2.3 per cent. In the last few months it has fallen below the average for the other euro-area countries. The effects of higher oil prices on electricity and gas prices have yet to be felt.

According to national accounts data, in the first half of the year the number of persons employed in Italy rose by 0.6 per cent on an annual basis. For the euro area as a whole the increase was scarcely 0.2 per cent. In recent years the increase in the number of persons employed, despite the stagnation of economic activity, has been driven by the greater flexibility of the labour market and the moderation of real wage growth.

Nevertheless, in the first half of the year unit labour costs in the service sector grew more than two percentage points faster on an annual basis than the average for the main euro-area countries. In industry excluding construction the gap exceeded four points. The main factor was labour productivity, which evolved less favourably in Italy than in the other countries.

The unemployment rate has continued to fall, but geographical disparities remain extremely great.

4. Looking ahead

The expansion in the world economy in 2005 will not match the exceptional rate of growth estimated for the current year, of the order of 5 per cent.

In September the International Monetary Fund forecast growth of 4.3 per cent next year. It may be lower than that in view of the uncertainties stemming from international political tensions and the rise in oil prices, although this appears to have run its course.

In the United States output is expected to grow by 3 to 4 per cent, in line with its potential; in Asia growth should be between 6 and 7 per cent, and in Japan, between 2 and 2.5 per cent.

The rapid expansion in world trade is expected to continue, although not as fast as this year.

The euro-area economy will continue to grow in the last part of the year and in 2005.

In view of recent trends, the expansion of the Italian economy appears uncertain.

Industrial production has not yet shown any sign of recovery. Preliminary estimates indicate that in October the level was no higher than at the end of 2003. Gross domestic product rose by 0.5 per cent in the first quarter and 0.3 per cent in the second; the increase is expected to remain about the same in the third quarter. For the year as a whole the estimated increase is 1.2 per cent, which is well below the average for the other European countries.

Household consumption is increasing in line with GDP. The sharp upturn in world trade concerns Italy's exports as well; if the recovery observed in the second quarter continues, they may increase by as much as 5 per cent in volume in 2004.

After falling sharply in 2003, investment is showing signs of recovery.

According to a survey conducted by the Bank of Italy's branches between 17 September and 7 October on 4,157 firms, including 3,094 in industry excluding construction and 1,063 providing non-financial services, capital spending in 2004 will be only slightly below the amount initially planned; the recovery in investment is expected to continue in 2005, both in the service sector and in industry.

In the first nine months of this year, the majority of firms saw their turnover increase in nominal terms with respect to the year-earlier period; during the third quarter orders showed some improvement with respect to June; a large percentage of firms in industry and services expect demand to pick up further in the next six months.

In view of the favourable performance of international trade, it is expected that output will be sustained by exports. Poor competitiveness on the domestic market will entail a sharp rise in imports; GDP growth will be faster than this year; however, on the basis of current trends, it will amount to less than 2 per cent.

Estimates made with the Bank of Italy's econometric model indicate that investment in machinery, equipment, and means of transport could expand by 3 to 4 per cent in real terms.

5. Economic policy

The twelve-month inflation rate fell to 2 per cent in October, according to preliminary data.

On a seasonally adjusted basis, the consumer price index registered a slight decrease with respect to September. This is a development whose interpretation is multifaceted. Undoubtedly, the weakness of demand played a part in the decrease. After the criticisms and discussion of the behaviour of the distributive trades on the occasion of the changeover to the euro, the sector needs to regain consumers' confidence. A broadly shared determination to act in this direction can bring benefits for the level of economic activity and for the distributive sector itself.

In a cyclical phase that remains uncertain but is showing signs of improving, it is crucial to launch policies designed to create the conditions for faster economic growth.

It is indispensable to proceed with the adjustment of the public finances. Curbing the rate of growth of current expenditure is part of this strategy; the recoupment of tax bases is necessary in order to reduce the benefits accruing to tax evasion and avoidance.

There is ample scope for increasing the efficiency of the public sector. Major advantages can come from further administrative simplification and a drastic reduction in authorization procedures.

Structural measures can contain the rise in expenditure on health care, without affecting the quality and availability of services.

In the medium term, the size and certainty of the expenditure savings connected with the changes in the pension system will have to be verified in depth.

The process of decentralization of government powers must necessarily involve a transfer of personnel and administrative units.

In a context of deficient infrastructural endowment even in such essential services such transport, water supply and the provision of energy at moderate costs, spending on public works in 2004 remained at the previous year's levels in real terms. Extraordinary measures and adequate financing can accelerate the transition from the phase of decision-making to that of project execution. Arrangements to prevent or resolve conflicts of authority, together with innovative mechanisms of cooperation with the banking system, can help to get the projects effectively under way. Private enterprise can take on an important share of the cost of the investments, when these regard the provision of services remunerated by user charges.

The intensification of activity in this sector enhances the competitiveness of the economy; it will yield immediate results in terms of an increase in domestic demand.

The policies of liberalization, of stimulating competition, must be strengthened. Tax reduction will have a positive effect on expectations and growth if it does not lead to an increase in the public sector's deficit and debt.

If, in other words, it is perceived as sustainable.

It is necessary to move to lighten the fiscal burden for firms as well. Measures aimed at facilitating their expansion in size and encouraging technological innovation are indispensable in order to operate well in a system increasingly exposed to international competition.

The situation of firms in the last three years has been affected by the uncertainty of the cyclical situation. Banks have continued to provide support in this difficult phase. In the context of the new collaborative relationships, they are committed to making it still easier for small firms and innovative enterprises to obtain access to credit, in part by offering a wider range of services.

There can be no delay in an organic reform of bankruptcy law. Although the conditions for a complete overhaul in the near future may be lacking, some institutes can be reformed and new ones introduced. Legislation must be adopted to provide for timely management of corporate crises, outside the framework of bankruptcy procedures or before recourse to them becomes necessary. Reform of the law on revocations in bankruptcy is needed to ensure certainty in relationships between the company and its creditors, especially suppliers and banks, and to avoid the sudden interruption of financing to the firm, due in the first place to the legal aspects involving penal responsibility.

We are in a difficult moment for our economy.

In a situation of less-than-full employment of productive factors and low growth, the formation of saving in the economy and the amount of savings at households' disposal depend on increasing investment and accelerating growth.

The defence of savings, above all through the stability of intermediaries, and the allocation of these resources by the banking system to the benefit of the most valid and innovative firms through efficient disbursement are indispensable in order to raise the economy's potential growth rate.

Consistent action on the part of politicians, the social partners and firms themselves must strengthen the signs of recovery.

The perception by firms and households of a will to proceed in this direction by making up the shortcomings and encouraging productivity and competitiveness can dispel pessimism, foster a more solid recovery of economic activity and investment and put our economy back on the track of growth.

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Table a1

GDP at constant prices

	Percentage of world GDP in 2003 (1)	1999	2000	2001	2002	2003	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.0	4.4	3.7	0.8	1.9	3.0	7.4	4.2	4.5	3.3	3.7
Japan	7.0	0.1	2.8	0.4	-0.3	2.4	2.2	7.6	6.4	1.3	....
Euro area	15.8	2.8	3.5	1.6	0.8	0.5	1.9	1.5	2.8	2.0	....
Germany	*4.5*	*2.0*	*2.9*	*0.8*	*0.1*	*-0.1*	*1.1*	*1.2*	*1.7*	*1.9*	....
France	*3.2*	*3.2*	*3.8*	*2.1*	*1.2*	*0.5*	*3.0*	*2.1*	*3.2*	*2.8*	....
Italy	*3.0*	*1.7*	*3.0*	*1.8*	*0.4*	*0.3*	*1.6*	..	*2.1*	*1.1*	....
United Kingdom	3.2	2.9	3.9	2.3	1.8	2.2	3.8	4.2	2.7	3.6	(1.7)
Canada	1.9	5.5	5.2	1.8	3.4	2.0	1.4	3.3	3.0	4.3	....
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	0.8	-3.4	-0.8	-4.4	-10.9	8.8	10.2	11.7	11.3	7.0	....
Brazil	2.8	0.8	4.4	1.3	1.9	-0.2	-1.5	-0.1	2.7	5.7	....
Mexico	1.8	3.7	6.6	-0.1	0.7	1.3	0.6	2.0	3.7	3.9	....
Asia											
China (2)	12.6	7.1	8.0	7.5	8.3	9.3	8.7	9.3	9.8	9.7	9.5
India (3)	5.7	6.1	5.4	4.5	4.7	7.0	8.6	10.5	8.2	7.4	....
Indonesia	1.4	0.8	4.9	3.8	4.3	4.5	3.7	4.1	5.0	4.3	....
Malaysia	0.5	6.1	8.9	0.3	4.1	5.3	5.3	6.6	7.6	8.0	....
South Korea	1.7	9.5	8.5	3.8	7.0	3.1	2.4	3.9	5.3	5.5	....
Taiwan	1.1	5.4	5.9	-2.2	3.6	3.3	4.0	5.7	6.7	7.7	....
Thailand.........................	0.9	4.4	4.8	2.1	5.4	6.8	6.6	7.8	6.6	6.3	....
Europe											
Poland	0.8	4.1	4.0	1.0	1.4	3.8	4.0	4.7	6.9	6.1	....
Russia	2.6	6.3	10.0	5.1	4.7	7.3	6.5	7.6	7.5	7.3	....
Turkey	0.9	-4.7	7.3	-7.5	7.9	5.8	5.5	6.1	10.1	13.4	....

(1) On the basis of purchasing power parities. – (2) For quarterly data, percentage change in cumulative GDP over the year up to the quarter in question. – (3) GDP at factor cost.

Table a2

Industrial production

	2000	2001	2002	2003	April 2004	May 2004	June 2004	July 2004	August 2004	September 2004
	(percentage changes on previous period; seasonally adjusted data)									
Industrial countries										
United States	4.4	-3.4	-0.6	0.3	0.5	0.8	-0.3	0.7	-0.1	0.1
Japan	5.2	-6.5	-1.3	3.3	3.5	0.8	-1.3	..	0.1	(-0.7)
Euro area	5.2	0.4	-0.5	0.3	0.3	0.5	-0.1	0.2	-0.6	....
Germany	*5.6*	*0.2*	*-1.0*	*0.4*	*1.6*	*1.0*	*-1.3*	*1.3*	*-1.2*	....
France	*4.2*	*1.1*	*-1.4*	*-0.3*	*-0.3*	*0.4*	*0.5*	..	*-1.9*	....
Italy	*3.1*	*-0.6*	*-1.6*	*-1.0*	*0.5*	..	*-0.7*	*0.3*	*-0.8*	....
United Kingdom	1.9	-1.6	-2.5	-0.1	0.8	0.4	-0.3	-0.5	-0.8	....
Canada	8.6	-3.9	1.5	0.8	0.1	0.5	0.9	0.2	....	....
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	-1.0	-4.9	-7.3	12.9	1.9	6.6	11.2	8.0	8.6	5.9
Brazil	6.6	1.6	2.7	..	6.7	7.8	13.0	9.6	13.1	....
Mexico	6.0	-3.4	-0.3	-0.8	3.9	2.3	5.4	3.9	5.2	....
Asia										
China	11.2	9.7	12.8	16.7	19.1	17.5	16.2	15.5	15.9	16.1
India	7.4	2.3	4.6	6.2	8.7	6.7	7.5	8.5	7.9	....
Indonesia	3.6	-1.1	-7.1	4.5	-	-	-	-	-	-
Malaysia	19.1	-4.1	4.6	9.3	14.5	12.5	12.9	9.9	10.6	....
South Korea	16.8	0.7	8.1	5.1	11.2	13.5	12.4	13.0	10.6	....
Taiwan	6.9	-7.8	7.9	7.1	13.5	16.3	16.0	9.2	8.6	8.1
Thailand	3.1	2.2	7.7	12.3	6.8	6.5	9.0	9.5	6.1	....
Europe										
Poland	7.5	0.4	1.4	8.7	21.8	12.2	15.8	6.0	13.8	9.2
Russia	11.9	4.9	3.7	7.0	6.7	5.5	9.2	4.4	6.8	3.5
Turkey	5.4	-8.8	9.2	8.5	14.9	16.0	14.8	12.8	8.8	....

Table a3

Consumer prices

	1999	2000	2001	2002	2003	May 2004	June 2004	July 2004	August 2004	September 2004
					(percentage changes on year-earlier period)					
Industrial countries										
United States	2.2	3.4	2.8	1.6	2.3	3.1	3.3	3.0	2.7	2.5
Japan	-0.3	-0.7	-0.7	-0.9	-0.3	-0.5	..	-0.1	-0.2	..
Euro area (1)	1.1	2.1	2.3	2.3	2.1	2.5	2.4	2.3	2.3	2.1
Germany	*0.6*	*1.4*	*1.9*	*1.3*	*1.0*	*2.1*	*1.9*	*2.0*	*2.1*	*1.9*
France	*0.6*	*1.8*	*1.8*	*1.9*	*2.2*	*2.8*	*2.7*	*2.6*	*2.5*	*2.2*
Italy	*1.7*	*2.6*	*2.7*	*2.6*	*2.8*	*2.3*	*2.4*	*2.2*	*2.4*	*2.1*
United Kingdom	2.3	2.1	2.1	2.2	2.8	2.3	2.3	2.2	2.2	1.9
Canada	1.7	2.7	2.5	2.2	2.8	2.5	2.5	2.3	1.9	1.8
Emerging countries										
Latin America										
Argentina	-1.2	-0.9	-1.1	25.9	13.4	4.3	4.9	4.9	5.3	5.9
Brazil	4.9	7.0	6.8	8.5	14.7	5.2	6.1	6.8	7.2	6.7
Mexico	16.6	9.5	6.4	5.0	4.5	4.3	4.4	4.5	4.8	5.1
Asia										
China	-1.4	0.3	0.7	-0.8	1.3	4.4	5.0	5.3	5.3	5.2
India	4.7	4.0	3.8	4.3	3.8	2.8	3.0	3.2	4.6	....
Indonesia	20.5	3.7	11.5	11.9	6.6	6.8	7.2	7.6	6.8	6.4
Malaysia	2.7	1.5	1.4	1.8	1.1	1.2	1.3	1.3	1.4	1.6
South Korea	0.8	2.3	4.1	2.8	3.5	3.3	3.6	4.4	4.8	3.9
Taiwan	0.2	1.3	..	-0.2	-0.3	0.9	1.7	3.3	2.6	2.8
Thailand	0.3	1.6	1.7	0.6	1.8	2.4	3.0	3.1	3.1	3.6
Europe										
Poland	7.3	10.1	5.5	1.9	0.8	3.4	4.4	4.6	4.6	4.4
Russia	85.7	20.8	21.6	16.0	13.6	10.2	10.2	10.5	11.3	11.5
Turkey	64.9	54.9	54.4	45.0	25.3	8.9	8.9	9.6	10.0	9.0

(1) As of January 2001, includes Greece.

Table a4

External current account

	1999	2000	2001	2002	2003	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
	(billions of dollars; seasonally adjusted quarterly data)									
Industrial countries										
United States	-296.8	-413.5	-385.7	-473.9	-530.7	-133.9	-131.6	-127.0	-147.2	-166.2
Japan	114.7	119.6	87.8	112.8	136.4	33.6	36.4	39.4	46.0	43.0
Euro area	-22.8	-62.3	-15.1	53.0	29.3	0.5	6.2	14.2	22.1	19.6
Germany	*-24.4*	*-25.5*	*1.8*	*43.5*	*55.0*	*6.8*	*19.0*	*19.8*	*27.6*	*28.1*
France	*42.3*	*18.3*	*21.6*	*14.7*	*5.5*	*2.8*	*2.1*	*-0.5*	*1.0*	*-0.8*
Italy	*8.1*	*-5.7*	*-0.8*	*-9.4*	*-20.7*	*-6.3*	*-3.8*	*-4.3*	*-3.7*	*-4.7*
United Kingdom	-39.5	-36.2	-32.1	-27.1	-33.5	-9.4	-10.9	-9.1	-10.1	-11.6
Canada	1.8	19.6	16.2	14.4	17.3	3.8	4.8	5.1	6.3	7.7
	(billions of dollars; quarterly data, not seasonally adjusted)									
Emerging countries										
Latin America										
Argentina	-11.9	-9.0	-3.9	9.1	7.8	3.0	1.7	1.1	0.3	1.7
Brazil	-25.3	-24.2	-23.2	-7.6	4.0	0.4	3.3	0.2	1.6	2.8
Mexico	-14.0	-18.2	-18.2	-13.8	-8.9	-1.6	-2.1	-3.3	-1.8	-0.5
Asia										
China	15.7	20.5	17.4	35.4	29.6	-	-	-	-	-
India	-3.2	-5.1	-0.8	4.8	6.5	-0.3	2.3	3.3	3.4	1.9
Indonesia	5.8	8.0	6.9	7.8	7.3	2.2	2.3	1.6	-0.7	0.8
Malaysia	10.7	8.4	7.3	8.0	13.4	3.4	3.4	2.8	4.0	3.4
South Korea	24.5	12.3	8.0	5.4	12.3	2.4	3.8	7.7	6.1	7.0
Taiwan	8.0	8.9	18.2	25.6	29.2	6.7	6.8	8.0	5.9	5.1
Thailand	12.5	9.3	6.2	7.0	8.0	1.3	1.8	2.5	2.2	0.6
Europe										
Poland	-12.5	-10.0	-5.4	-5.0	-4.6	-1.3	-0.6	-0.9	-0.7	-1.6
Russia	24.6	46.8	33.9	29.1	35.8	8.2	7.4	8.7	12.8	11.1
Turkey	-1.3	-9.8	3.4	-1.5	-6.9	-2.3	1.4	-3.2	-5.2	-4.2

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	4.75
2000	6.50	”	4.75	6.00	5.75
2001	1.75	0.10	3.25	4.00	2.25
2002	1.25	”	2.75	”	2.75
2003 - Oct.	1.00	0.10	2.00	3.50	2.75
Nov.	”	”	”	3.75	”
Dec.	”	”	”	”	”
2004 - Jan.	”	”	”	”	2.50
Feb.	”	”	”	4.00	”
Mar.	”	”	”	”	2.25
Apr.	”	”	”	”	2.00
May	”	”	”	4.25	”
June	1.25	”	”	4.50	”
July	”	”	”	”	”
Aug.	1.50	”	”	4.75	”
Sept.	1.75	”	”	”	2.25
Oct.	”	”	”	”	2.50
			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	0.13	2.33	3.67	2.96
2003 - 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	2.32
Mar.	1.05	0.09	2.03	4.23	2.16
Apr.	1.09	0.28	2.05	4.33	2.07
May	1.21	0.05	2.09	4.46	2.07
June	1.46	0.04	2.11	4.73	2.10
July	1.55	0.02	2.12	4.79	2.11
Aug.	1.68	0.07	2.11	4.90	2.15
Sept.	1.86	0.31	2.12	4.88	2.41
Oct.	2.04	0.02	2.15	4.84	2.58

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 - 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	4.45
Mar.	3.83	1.36	3.91	3.98	4.17	4.76	4.26
Apr.	4.35	1.51	4.10	4.19	4.35	4.99	4.61
May.	4.72	1.49	4.25	4.34	4.49	5.15	4.77
June	4.73	1.77	4.31	4.39	4.54	5.24	4.93
July	4.50	1.80	4.24	4.27	4.44	5.14	4.75
Aug.	4.28	1.65	4.08	4.11	4.28	5.03	4.63
Sept.	4.13	1.51	4.02	4.09	4.25	4.95	4.60
Oct.	4.10	1.49	3.89	3.89	4.13	4.81	4.55
				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 - 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
Mar.	207.51	82.41	152.03	195.33	206.77	134.94	194.77
Apr.	209.25	87.02	155.46	200.10	212.95	136.77	195.40
May.	203.76	81.44	147.94	194.07	208.14	134.26	186.93
June	209.17	83.94	151.59	198.20	211.65	135.23	190.61
July	204.33	83.07	148.63	193.99	209.79	132.04	190.37
Aug.	201.04	80.76	143.58	190.69	204.40	132.22	187.13
Sept.	206.31	81.27	148.68	196.54	211.72	137.54	192.16
Oct.	206.42	80.41	150.25	197.74	217.34	139.98	198.76

Table a7

Ecu/euro exchange rates and the price of gold

	Units of national currency per euro (per ecu until December 1998)								Gold (dollars per ounce)
	US dollar	Japanese yen	Canadian dollar	Pound sterling	Danish krone	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
2002 - 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
2004 - Q1	1.250	133.97	1.648	0.6799	7.449	8.631	9.184	1.569	423.70
Q2	1.205	132.20	1.637	0.6670	7.439	8.263	9.145	1.537	395.80
Q3	1.222	134.38	1.600	0.6722	7.437	8.389	9.158	1.536	412.35
2003 - 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
2004 - 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
Mar.	1.226	133.13	1.631	0.6712	7.449	8.541	9.235	1.567	423.70
Apr.	1.199	129.08	1.607	0.6653	7.444	8.298	9.165	1.555	388.50
May	1.201	134.48	1.654	0.6716	7.440	8.207	9.128	1.540	393.25
June	1.214	132.86	1.649	0.6643	7.434	8.286	9.143	1.519	395.80
July	1.227	134.08	1.622	0.6658	7.435	8.475	9.196	1.527	391.40
Aug.	1.218	134.54	1.601	0.6694	7.436	8.331	9.186	1.539	407.25
Sept.	1.222	134.51	1.577	0.6813	7.438	8.360	9.092	1.543	412.35
Oct.	1.249	135.97	1.560	0.6914	7.438	8.235	9.062	1.543	425.55

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	105.5	123.2	97.9	97.8
1999	107.0	90.4	91.2	94.3	102.5	122.6	97.8	95.4
2000	113.3	95.4	84.8	89.7	99.3	121.1	97.4	90.2
2001	119.5	84.7	87.6	90.3	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	94.8	95.9	108.6	115.6	99.2	97.4
2002 - Q2	116.9	79.5	88.5	91.2	102.2	119.0	96.1	97.1
Q3	113.7	81.5	89.5	92.8	104.2	120.0	94.8	98.6
Q4	115.1	78.4	90.1	93.1	105.0	120.5	94.3	98.5
2003 - Q1	115.0	77.0	92.7	94.6	106.9	116.5	94.8	99.0
Q2	111.0	75.8	95.4	96.3	109.0	114.6	99.0	98.2
Q3	111.6	76.4	95.2	96.1	108.8	114.8	100.2	96.1
Q4	107.0	80.0	95.9	96.7	109.5	116.7	102.8	96.4
2004 - Q1	105.7	78.4	96.0	97.3	110.2	121.2	102.2	95.8
Q2	108.9	77.0	94.3	95.8	109.4	121.4	101.1	96.3
2003 - Aug.	112.6	75.9	95.0	96.0	108.8	114.6	99.3	96.2
Sept.	111.0	78.0	94.9	95.7	108.5	114.8	101.4	95.7
Oct.	108.1	80.1	95.5	96.3	109.2	116.0	102.6	96.3
Nov.	107.3	80.3	95.4	96.4	109.1	116.8	103.2	95.7
Dec.	105.8	79.6	96.7	97.3	110.3	117.3	102.5	97.2
2004 - Jan.	105.3	79.0	96.4	97.7	110.6	119.5	102.6	96.5
Feb.	105.3	78.4	96.2	97.4	110.3	122.2	101.6	95.7
Mar.	106.5	77.9	95.3	96.7	109.8	122.0	102.2	95.2
Apr.	107.7	78.7	94.2	95.7	108.9	121.5	102.0	95.2
May	109.8	75.5	94.5	96.0	109.7	120.7	100.6	96.2
June	109.1	76.8	94.3	95.8	109.8	122.2	100.6	97.4
July	108.8	76.2	94.8	96.2	109.9	122.0	102.2	96.6
Aug.	109.5	75.4	94.6	96.2	109.9	120.9	102.5	95.5

(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					
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
2002 - Q2	0.3	1.0	0.4	-1.6	0.8	-0.2	0.7	1.0	0.1
Q3	0.2	-0.4	0.1	3.4	1.8	2.5	0.5	-4.5	0.4
Q4	0.3	4.2	1.1	2.5	5.8	4.4	0.6	1.5	-0.4
2003 - Q1	-0.1	-5.2	-1.3	-0.9	-8.9	-5.6	-0.2	8.0	-6.3
Q2	-0.1	1.1	0.1	..	-0.9	-0.5	0.4	-0.1	0.2
Q3	0.4	2.4	0.8	-0.6	-0.4	-0.5	0.6	-5.1	6.8
Q4	..	-1.6	-0.3	-0.3	-0.4	-0.4	-0.3	5.0	-3.8
2004 - Q1	0.5	0.4	0.5	2.0	3.1	2.6	1.1	-1.3	-1.1
Q2	0.3	2.7	0.8	1.5	1.2	1.4	-0.3	-1.9	4.7
				Implicit prices					
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	3.1	0.1	2.4	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
2002 - Q2	0.5	0.5	0.5	0.8	0.3	0.5	0.8	0.4	..
Q3	0.9	-0.9	0.5	0.9	-0.4	0.2	0.4	2.3	..
Q4	0.5	-0.4	0.3	0.8	0.4	0.5	0.7	-2.0	1.0
2003 - Q1	0.6	2.2	1.0	1.0	0.5	0.9	0.8	0.8	0.7
Q2	1.1	-2.7	0.3	0.7	-0.4	0.1	0.5	1.9	-1.2
Q3	1.1	-0.5	0.7	0.6	0.7	0.7	0.6	2.7	0.3
Q4	-0.1	..	-0.1	0.7	-0.3	0.1	0.5	-3.8	1.0
2004 - Q1	0.9	1.3	1.0	0.9	0.8	0.8	0.4	2.1	1.5
Q2	1.1	2.0	1.3	0.8	-0.2	0.3	0.7	4.8	0.9

Table a10

Industrial production and ISAE business opinion indicators

(seasonally adjusted data)

	Industrial production (indices, 2000=100)					ISAE business opinion indicators (average balance of monthly responses; percentage points)				
						Level of orders				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	domestic	foreign	total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
1997	95.1	94.7	96.8	95.0	93.0	-19.1	-15.3	-13.7	17.2	6.3
1998	96.8	96.9	97.0	97.2	95.6	-16.3	-12.9	-11.7	15.7	8.1
1999	97.0	98.7	97.3	95.1	97.3	-19.7	-20.7	-16.6	17.8	7.5
2000	100.0	100.0	100.0	100.0	100.0	0.1	-2.3	4.4	27.0	4.0
2001	99.4	100.4	99.8	98.2	99.6	-15.8	-18.6	-12.8	15.0	10.1
2002	97.8	98.5	97.3	95.6	103.8	-17.6	-22.3	-15.4	18.4	6.8
2003	96.8	97.6	94.0	94.4	108.2	-22.3	-27.7	-20.5	16.3	6.9
1997 - Q1	92.0	93.3	93.3	90.2	91.1	-28.0	-23.3	-23.0	12.5	7.1
Q2	95.3	94.8	97.7	95.5	93.1	-22.0	-16.3	-17.0	13.2	6.3
Q3	96.4	96.2	98.3	96.7	93.3	-14.2	-10.5	-8.2	20.1	5.2
Q4	97.5	95.7	99.5	98.8	95.0	-12.2	-11.1	-6.6	23.1	6.5
1998 - Q1	97.0	95.1	97.6	98.9	94.7	-10.5	-6.4	-5.1	23.9	6.7
Q2	97.3	97.1	97.7	98.5	94.7	-13.7	-8.6	-7.9	18.0	7.1
Q3	96.7	97.1	97.3	96.1	95.6	-17.3	-15.4	-13.4	11.2	8.6
Q4	95.5	96.8	93.3	94.3	97.0	-23.5	-21.1	-20.7	9.7	10.1
1999 - Q1	95.2	97.0	96.0	93.2	97.8	-27.6	-27.6	-24.8	9.0	9.3
Q2	95.1	96.4	95.8	93.8	95.2	-25.8	-26.4	-23.2	13.9	8.0
Q3	97.0	99.6	96.7	94.6	97.5	-15.6	-17.6	-13.1	20.7	6.6
Q4	98.3	99.4	98.2	97.3	98.1	-9.8	-11.0	-5.3	27.5	6.1
2000 - Q1	98.6	97.8	99.3	98.6	99.5	-2.6	-4.0	0.9	28.2	2.4
Q2	100.3	100.7	101.0	100.2	100.8	3.0	-1.5	5.9	27.4	3.0
Q3	100.5	100.3	100.8	100.2	100.5	1.3	-0.8	6.0	28.2	4.8
Q4	102.1	103.4	101.0	102.6	99.3	-1.2	-2.9	4.7	24.2	5.9
2001 - Q1	101.9	104.1	103.2	100.9	97.6	-7.8	-10.6	-4.0	21.1	9.5
Q2	100.2	100.9	100.7	99.4	98.7	-12.6	-14.9	-8.3	20.0	10.5
Q3	98.8	99.2	98.8	97.9	99.2	-18.4	-19.5	-15.6	13.3	9.3
Q4	97.2	97.9	96.5	95.0	102.9	-24.3	-29.7	-23.3	5.8	11.0
2002 - Q1	97.4	99.2	96.9	95.2	103.0	-18.2	-24.4	-15.1	18.4	8.7
Q2	98.1	98.8	97.2	95.5	104.5	-15.9	-19.2	-11.8	22.3	8.1
Q3	98.3	97.9	97.7	96.4	105.3	-20.1	-24.2	-18.7	18.2	5.3
Q4	97.8	98.4	97.6	95.5	102.7	-16.2	-21.5	-16.1	14.9	5.0
2003 - Q1	97.5	97.7	94.7	96.1	107.9	-17.6	-22.6	-16.2	16.3	4.9
Q2	96.4	97.2	93.2	93.8	107.9	-24.1	-29.5	-22.7	15.4	6.3
Q3	97.8	98.9	95.2	94.8	109.4	-26.1	-31.0	-24.2	16.5	7.7
Q4	97.6	98.8	95.4	94.4	108.7	-21.5	-27.9	-19.1	17.2	8.7
2004 - Q1	97.3	99.2	94.5	93.8	108.6	-22.0	-24.7	-19.1	16.6	9.6
Q2	97.6	98.3	95.2	95.1	109.0	-18.5	-18.6	-15.7	17.8	5.6
Q3	....	....	....	....	....	-16.3	-14.1	-12.6	18.5	6.6

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	1,030	5,052	1,521	13,245	20,847	2,560	23,407	10.9	60.4
2000	1,014	5,016	1,560	13,621	21,210	2,388	23,599	10.1	61.0
2001	1,018	4,988	1,641	13,958	21,605	2,164	23,769	9.1	61.6
2002	990	5,029	1,674	14,221	21,913	2,062	23,975	8.6	62.1
2003	968	5,080	1,742	14,452	22,241	2,048	24,289	8.4	62.9
1999 - Q1	989	5,050	1,463	13,045	20,547	2,641	23,188	11.4	59.8
Q2	1,012	4,985	1,512	13,261	20,770	2,619	23,389	11.2	60.4
Q3	1,061	5,074	1,554	13,365	21,054	2,487	23,542	10.6	60.7
Q4	1,056	5,097	1,556	13,308	21,017	2,491	23,508	10.6	60.7
2000 - Q1	979	4,961	1,517	13,306	20,763	2,539	23,302	10.9	60.2
Q2	989	4,925	1,538	13,609	21,062	2,437	23,499	10.4	60.8
Q3	1,032	5,079	1,582	13,754	21,447	2,298	23,745	9.7	61.4
Q4	1,057	5,097	1,601	13,814	21,569	2,279	23,848	9.6	61.6
2001 - Q1	990	5,024	1,596	13,771	21,381	2,276	23,658	9.6	61.2
Q2	1,004	4,949	1,625	13,889	21,468	2,168	23,636	9.2	61.2
Q3	1,036	4,984	1,673	14,105	21,798	2,090	23,888	8.7	61.9
Q4	1,041	4,994	1,670	14,065	21,771	2,122	23,893	8.9	61.9
2002 - Q1	953	4,990	1,638	14,124	21,705	2,095	23,800	8.8	61.7
Q2	964	5,003	1,643	14,206	21,816	2,107	23,923	8.8	62.0
Q3	1,025	5,054	1,704	14,294	22,077	1,994	24,071	8.3	62.3
Q4	1,017	5,068	1,710	14,259	22,054	2,053	24,107	8.5	62.4
2003 - Q1	890	5,045	1,730	14,170	21,835	2,186	24,021	9.1	62.4
Q2	901	5,104	1,756	14,514	22,275	2,046	24,321	8.4	63.0
Q3	1,059	5,143	1,713	14,477	22,392	1,938	24,330	8.0	62.9
Q4	1,020	5,028	1,767	14,647	22,462	2,023	24,485	8.3	63.2
2004 - Q1	903	4,956	1,747	14,459	22,065	2,099	24,164	8.7	62.2
Q2	943	5,081	1,840	14,574	22,438	1,923	24,361	7.9	62.5

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)	*30.7*	*31.6*	*9.9*	*6.9*	*16.8*	*2.9*	*82.0*	*2.7*	*12.2*	*14.9*	*3.1*	*100.0*	*62.3*	*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	2.6
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	2.5
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
2004 - Jan. ...	1.3	3.2	2.8	5.5	3.9	-1.7	2.4	1.6	1.6	1.6	2.7	2.3	2.2	2.0
Feb. ..	1.2	3.1	2.8	5.7	4.0	-2.4	2.4	0.6	2.6	2.2	2.7	2.3	2.2	2.2
Mar. ..	0.9	3.2	2.7	5.1	3.7	-3.2	2.2	0.2	3.6	2.9	2.7	2.3	2.1	1.9
Apr. ...	0.8	3.5	2.6	4.5	3.4	0.7	2.3	-2.4	2.4	1.5	3.0	2.2	2.1	2.0
May ...	0.7	3.3	2.6	3.8	3.1	6.4	2.4	-2.8	2.4	1.4	3.0	2.3	2.0	2.1
June ..	0.6	3.6	2.4	3.2	2.8	9.6	2.5	-2.9	2.7	1.6	3.0	2.4	2.1	2.2
July ...	0.6	3.6	2.4	2.2	2.3	9.0	2.4	-2.3	2.7	1.8	2.8	2.3	2.1	2.1
Aug. ..	0.6	3.7	2.3	1.4	1.9	9.0	2.4	-2.3	2.7	1.8	2.8	2.3	2.2	2.1
Sept. .	0.6	3.8	2.1	-0.2	1.1	7.9	2.2	-2.3	2.5	1.6	2.8	2.1	2.2	1.8

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*
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
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
Feb.	2.0	2.4	2.3	4.0	5.2	4.5	-1.0	2.5	2.4
Mar.	1.5	2.3	2.0	5.1	4.7	4.9	-1.5	2.4	2.3
Apr.	1.8	2.5	2.2	3.6	4.2	3.9	-0.8	2.4	2.3
May	1.6	2.4	2.0	3.7	3.6	3.6	1.9	2.3	2.3
June	1.6	2.6	2.2	3.6	3.0	3.3	3.5	2.4	2.4
July	1.3	2.6	2.0	3.6	2.1	3.0	3.4	2.2	2.2
Aug.	1.4	2.7	2.2	3.4	1.4	2.6	3.5	2.3	2.4
Sept.	1.6	2.8	2.3	3.3	-0.2	1.8	3.0	2.4	2.1

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.

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	*31.0*	*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	2.1	2.8	3.0	2.0	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	3.8	3.6	0.7	2.0	2.0
Nov.	0.7	2.4	1.7	4.0	3.8	3.9	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	-0.4	1.9	1.9
Feb.	0.8	2.6	1.8	3.2	1.9	2.7	-2.2	2.0	1.6
Mar.	0.7	2.5	1.8	4.1	1.7	3.1	-2.0	2.1	1.7
Apr.	1.0	2.5	1.8	3.9	1.6	2.9	2.0	2.1	2.0
May	0.9	2.6	1.8	3.9	1.7	3.1	6.7	2.1	2.5
June	0.9	2.6	1.9	3.8	1.2	2.8	5.9	2.2	2.4
July	0.7	2.7	1.8	3.8	0.7	2.6	5.9	2.1	2.3
Aug.	0.9	2.7	1.9	3.6	-0.2	2.1	6.5	2.2	2.3
Sept.	0.9	2.6	1.9	3.4	-1.5	1.4	6.4	2.1	2.1

Source: Eurostat.

(1) Weighted average of the harmonized indices of the euro-area countries. 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 a15

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
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	1.2	1.3	2.2	2.6	2.3	2.5	1.9	1.9
Feb.	2.4	2.5	0.8	1.3	1.9	2.6	2.2	2.4	1.6	2.0
Mar.	2.3	2.4	1.1	1.6	1.9	2.6	2.2	2.4	1.7	2.1
Apr.	2.3	2.4	1.7	1.7	2.4	2.6	2.7	2.6	2.0	2.1
May......	2.3	2.3	2.1	1.8	2.8	2.5	3.4	2.8	2.5	2.1
June	2.4	2.4	1.9	1.8	2.7	2.5	3.5	2.9	2.4	2.2
July	2.2	2.2	2.0	1.7	2.6	2.6	3.3	2.9	2.3	2.1
Aug.	2.4	2.3	2.1	1.8	2.5	2.7	3.3	2.9	2.3	2.2
Sept. ...	2.1	2.4	1.9	1.6	2.2	2.4	3.2	3.0	2.1	2.1

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).

Table a16

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	2.7	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	0.0	-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
2004 - Jan.	0.2	2.7	1.1	1.2	-3.6	0.9	0.4
Feb.	0.1	2.6	1.2	1.5	-5.9	1.1	0.1
Mar.	0.0	3.1	1.3	2.8	-5.6	1.7	0.7
Apr.	0.0	2.6	1.6	3.9	-1.2	2.3	1.7
May	-0.2	2.8	1.7	4.5	4.3	2.6	2.9
June	-0.1	2.9	2.0	5.2	3.8	3.1	3.2
July	0.3	2.1	1.7	5.9	3.8	3.4	3.3
Aug.	0.8	1.1	1.9	6.6	4.2	3.9	3.5
Sept.	0.9	-0.1	2.0	6.8	5.9	4.1	3.9

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	0.4	0.4	2.6	0.3	0.9
2002 – Aug.	0.1	-0.2	-5.9	0.2	-1.1	0.2	0.2	0.2	0.2	0.1
Sept.	-0.1	0.0	-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	0.0	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.	0.0	-0.3	9.0	-0.1	2.0	0.2	-0.3	-0.8	0.1	0.1
Oct.	0.0	-0.4	7.9	-0.2	1.7	0.0	-0.1	-0.6	0.1	0.3
Nov.	0.0	-0.1	8.5	0.0	2.0	-0.2	0.2	1.0	0.2	0.8
Dec.	-0.3	-0.1	8.0	-0.1	1.8	-0.6	0.3	-1.0	0.0	0.3
2004 – Jan.	-0.3	-0.2	0.7	-0.1	0.2	-1.0	0.4	-1.7	0.1	0.3
Feb.	-0.5	0.1	-0.7	0.0	-0.1	-1.0	0.9	-4.3	0.3	0.0
Mar.	-0.7	0.6	-1.1	0.1	0.3	-1.3	1.3	-3.1	0.3	0.3
Apr.	-1.0	1.5	0.7	0.5	0.9	-1.3	1.6	2.5	0.4	1.3
May	-1.3	2.0	3.9	0.7	1.6	-1.4	1.9	7.4	0.5	2.2
June	-0.9	2.2	2.9	0.8	1.5	-1.6	2.3	6.3	0.7	2.2
July	-0.9	3.3	2.7	1.4	1.9	-1.1	3.3	6.7	1.4	2.6
Aug.	-0.6	4.0	3.1	1.8	2.2	-0.8	3.7	7.2	1.7	2.8
Sept.	-0.6	4.2	3.4	1.9	2.3	-0.5	4.0	9.0	1.8	3.1
	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	16.4	2.8	5.3
2001	3.0	1.4	-2.0	1.8	1.7	1.7	1.2	2.6	1.2	2.0
2002	1.9	0.2	-1.3	1.1	0.7	0.8	-0.3	-2.3	0.3	-0.1
2003	2.3	0.8	1.3	1.3	1.4	0.4	0.8	3.8	0.5	1.4
2002 – Aug.	2.0	0.9	-1.7	1.4	0.7	0.9	0.3	-2.5	0.6	-0.1
Sept.	2.0	0.8	-0.3	1.4	1.0	0.9	0.4	-2.0	0.6	0.1
Oct.	1.9	1.1	3.8	1.5	1.7	0.6	0.7	1.8	0.7	0.9
Nov.	2.2	1.4	4.1	1.7	1.7	0.7	0.9	1.8	0.8	1.0
Dec.	2.1	1.9	6.2	1.9	2.0	0.9	1.1	3.4	0.9	1.3
2003 – Jan.	2.3	1.2	7.4	1.5	2.5	0.7	1.4	6.6	0.9	2.1
Feb.	2.5	1.5	8.9	1.7	2.9	0.7	1.8	8.1	1.0	2.5
Mar.	2.7	1.5	9.5	1.7	3.0	0.8	1.8	7.3	1.1	2.3
Apr.	2.5	1.3	1.3	1.5	1.4	0.8	1.6	3.2	1.0	1.5
May	2.2	1.0	-2.3	1.4	0.7	0.8	1.3	1.7	0.8	1.2
June	2.6	0.4	-0.9	1.2	0.9	0.7	0.7	3.1	0.6	1.3
July	2.4	0.1	0.2	1.0	1.1	0.6	0.1	3.3	0.3	1.1
Aug.	2.4	0.0	0.1	0.9	1.1	0.3	-0.2	4.1	0.1	1.2
Sept.	2.5	0.3	-2.4	1.1	0.8	0.4	0.0	1.8	0.2	0.9
Oct.	2.2	0.7	-3.6	1.2	0.6	0.0	0.2	1.1	0.2	0.8
Nov.	2.1	0.9	-0.4	1.3	1.3	-0.3	0.4	3.2	0.2	1.3
Dec.	1.6	1.0	-1.2	1.2	1.1	-0.7	0.4	1.7	0.1	0.9
2004 – Jan.	1.3	1.4	-3.6	1.3	0.7	-0.9	0.5	-1.5	0.2	0.2
Feb.	1.1	2.0	-5.4	1.6	0.7	-0.9	0.9	-3.5	0.3	0.0
Mar.	1.0	2.6	-5.6	1.9	0.8	-1.1	1.5	-2.8	0.6	0.4
Apr.	1.0	3.7	1.3	2.3	2.6	-1.2	2.3	1.2	1.0	1.4
May	1.1	4.4	7.2	2.6	3.8	-1.3	2.8	5.4	1.2	2.4
June	1.0	4.8	7.1	2.8	4.0	-1.2	3.3	4.4	1.5	2.4
July	1.0	5.3	7.2	3.2	4.1	-0.9	4.2	5.2	2.1	2.9
Aug.	1.0	5.7	9.0	3.4	4.4	-0.7	4.8	5.3	2.4	3.1
Sept.	1.2	5.8	11.0	3.4	4.6	-0.5	5.0	7.0	2.5	3.4

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	0.0	4.4	1.7	1.0	6.1	3.2
1998	1.6	-6.6	-1.6	2.9	4.0	3.4
1999	0.7	3.4	1.7	1.6	4.2	2.7
2000	7.8	30.4	16.3	5.0	12.2	8.0
2001	4.7	-0.3	2.7	3.1	4.4	3.6
2002	0.7	-2.3	-0.5	1.5	1.3	1.4
2003	1.4	-1.9	0.0	1.3	0.4	0.8
2000 – Q1	5.8	32.8	15.4	4.8	11.5	7.6
Q2	8.4	30.8	16.6	5.6	11.2	7.9
Q3	9.3	26.2	15.8	6.0	12.3	8.7
Q4	7.7	32.1	17.1	3.5	13.8	7.9
2001 – Q1	6.8	9.4	7.9	2.3	8.0	4.8
Q2	6.4	6.0	6.2	3.8	6.5	5.0
Q3	2.4	0.1	1.3	3.2	3.0	3.1
Q4	3.3	-14.2	-4.1	2.9	0.1	1.6
2002 – Q1	2.3	-4.8	-0.6	3.7	1.6	2.7
Q2	0.0	-3.0	-1.2	0.7	0.5	0.6
Q3	0.9	-3.9	-1.0	0.0	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
Q4	1.1	-3.6	-0.9	1.1	0.0	0.5
2004 – Q1	0.6	-4.9	-1.7	2.2	0.2	1.2
Q2	2.3	6.0	3.9	5.0	4.4	4.6

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

(millions of euros)

	Current account							Capital account			
	Goods	Services	Income	Transfers				Intangible assets	Transfers		
				Private		Public			Private	Public	
					Emigrants' remittances		EU institutions				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	14,049	-3,043	-15,396	-4,567	-476	-1,057	-5,727	-206	227	-88	1,625
2003	8,788	-3,032	-17,002	-1,553	-912	-5,564	-6,289	-86	216	2,324	3,635
2002 - Q2	2,869	115	-6,392	-262	-96	-1,648	-2,466	-85	6	-453	349
Q3	5,614	1,378	-3,067	-1,435	-153	-426	-2,021	-36	0	-14	219
Q4	3,199	-1,717	-3,799	-2,323	-142	-118	-1,656	-77	76	60	391
2003 - Q1	-1,035	-3,254	-3,168	-1,087	-162	744	-67	-50	45	361	778
Q2	195	122	-6,336	130	-187	-2,766	-2,912	-5	74	-382	150
Q3	5,552	1,257	-2,801	-118	-240	-2,405	-2,416	-54	22	54	164
Q4	4,076	-1,157	-4,697	-478	-322	-1,137	-894	23	74	2,292	2,543
2004 - Q1	-381	-1,034	-1,831	-447	-340	-410	-165	-22	1	118	518
Q2	889	2,188	-7,211	61	-424	-2,131	-2,034	-64	7	262	394
2002 - Aug.	1,609	-258	-731	-570	-72	10	-528	-24	0	68	93
Sept.	490	702	-1,256	-469	-39	-615	-1,205	-7	2	-86	27
Oct.	2,050	-269	-903	-503	-39	-282	-849	-45	-9	-57	132
Nov.	882	-618	-1,023	-771	-39	-18	-539	-13	54	69	118
Dec.	267	-830	-1,873	-1,049	-63	182	-268	-20	31	49	141
2003 - Jan.	-1,391	-1,022	-1,475	-694	-63	328	-28	-15	26	118	188
Feb.	185	-1,399	-535	-233	-47	376	118	-31	13	129	202
Mar.	171	-833	-1,159	-160	-52	40	-157	-3	6	113	388
Apr.	28	-338	-1,060	8	-45	-820	-903	-21	6	-378	50
May	267	254	-2,041	102	-79	-769	-802	-2	44	16	51
June	-100	207	-3,234	19	-63	-1,177	-1,207	18	25	-20	49
July	3,485	1,210	-1,453	-80	-59	-473	-485	-23	44	40	78
Aug.	1,838	-537	-727	-87	-88	-628	-623	2	-31	39	74
Sept.	229	583	-621	50	-94	-1,304	-1,308	-32	9	-25	12
Oct.	3,306	227	-1,350	-44	-107	-628	-573	-4	17	45	130
Nov.	823	-1,221	-1,126	-206	-86	-407	-321	18	41	61	121
Dec.	-53	-163	-2,220	-228	-130	-102	0	9	16	2,185	2,292
2004 - Jan.	-1,740	180	-593	-259	-114	-80	25	-9	-9	68	186
Feb.	-194	-452	-444	-175	-107	-55	51	-11	5	115	197
Mar.	1,553	-762	-794	-13	-119	-275	-241	-3	6	-65	135
Apr.	741	126	-1,637	-55	-130	-837	-777	-28	-2	41	72
May	1,016	1,210	-2,601	-3	-144	-839	-808	-8	2	34	69
June	-868	852	-2,973	118	-150	-455	-450	-28	7	187	253
July	3,247	1,022	-865	….	….	….	….	….	….	….	….
Aug.	1,798	67	176	….	….	….	….	….	….	….	….

Table a20

Balance of payments: financial account

(millions of euros)

	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	8,296	-7,311	-2,710	-3,111
2003	-8,037	14,544	-51,064	54,437	-19,860	32,992	-4,831	-1,406
2002 - Q2	-4,351	3,876	-6,185	11,234	1,049	-1,298	-172	190
Q3	-4,674	2,369	-609	19,761	2,844	-18,333	-1,043	-2,091
Q4	-5,146	6,140	-586	11,240	-11,599	8,435	-1,761	-1,767
2003 - Q1	-3,847	3,727	-10,410	15,481	-21,327	29,583	-1,522	-3,786
Q2	-6,934	6,168	-17,049	37,249	-12,416	6,526	-2,139	-589
Q3	3,900	-212	-18,104	11,699	10,532	-11,662	366	-1,021
Q4	-1,156	4,861	-5,501	-9,992	3,351	8,545	-1,536	3,990
2004 - Q1	-3,126	2,731	-7,072	14,713	-18,022	14,664	335	505
Q2	-8,235	4,713	-996	15,749	7,543	-11,251	325	-2,108
2002 - Aug.	-2,017	197	-4,158	-1,639	11,360	-3,669	-522	78
Sept.	-858	619	-51	7,453	-1,812	-1,369	-238	-2,367
Oct.	-1,301	852	-142	7,471	-9,115	5,604	-382	-704
Nov.	-1,014	1,511	1,943	2,113	-6,139	4,541	-1,369	224
Dec.	-2,831	3,777	-2,387	1,656	3,655	-1,710	-10	-1,287
2003 - Jan.	-1,248	1,525	-8,079	5,436	-2,496	12,517	-565	-3,070
Feb.	-1,009	1,452	-3,457	-695	-13,775	21,219	-882	-239
Mar.	-1,590	750	1,126	10,740	-5,056	-4,153	-75	-477
Apr.	-2,791	1,257	-4,681	18,624	2,703	-11,270	-115	-278
May	-2,458	3,631	-5,036	5,357	-9,656	11,438	-920	664
June	-1,685	1,280	-7,332	13,268	-5,463	6,358	-1,104	-975
July	3,198	-685	-7,662	1,640	9,935	-10,730	1,060	-317
Aug.	2,047	-271	-6,330	-9,271	10,212	1,909	190	-78
Sept.	-1,345	744	-4,112	19,330	-9,615	-2,841	-884	-626
Oct.	3,143	661	-8,862	-6,134	10,303	102	111	683
Nov.	-2,103	1,110	-703	5,120	-5,741	4,317	-339	302
Dec.	-2,196	3,090	4,064	-8,978	-1,211	4,126	-1,308	3,005
2004 - Jan.	-1,453	1,148	-2,751	21,782	-21,855	5,830	1	-219
Feb.	-184	1,025	-2,330	-6,175	7,672	2,336	-163	-283
Mar.	-1,489	558	-1,991	-894	-3,839	6,498	497	1,007
Apr.	-2,870	2,892	-3,376	-413	15,487	-9,214	101	-962
May	-1,289	618	-4,184	-5,332	8,797	3,127	-117	-388
June	-4,076	1,203	6,564	21,494	-16,741	-5,164	341	-758
July	-966	1,118	-1,549	-2,028	379	-1,443	324	1,934
Aug.	-992	1,389	-6,104	65	-1,853	4,929	92	1,450

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	17,422	-1,126	-6,207	-25,726	15,450	-4,601	-36,575	-29,755
2001	352,007	426,396	-74,389	25,852	432	-1,791	-50,328	4,603	-9,310	-45,621	-43,385
2002	352,900	407,737	-54,838	19,154	-400	-4,761	-40,445	1,929	-5,328	-37,046	-31,473
2003	382,390	442,696	-60,306	49,071	-75	-25,158	-36,393	16,855	-8,537	-44,712	-18,898
2000 - Q1	73,190	81,696	-8,506	-2,910	-671	-1,551	-12,966	22	-3,096	-9,892	-8,431
Q2	70,049	88,282	-18,233	5,924	17,259	-675	-12,983	40	-330	-12,693	-11,526
Q3	88,533	77,471	11,062	-17,333	-14,625	98	-6,173	54	-152	-6,075	-6,074
Q4	119,094	140,359	-21,265	31,740	-3,089	-4,079	6,397	15,335	-1,023	-7,915	-3,725
2001 - Q1	73,661	97,057	-23,396	8,685	1,232	-259	-14,970	4,263	-1,672	-17,561	-17,238
Q2	68,753	83,893	-15,140	2,421	17,737	616	-12,103	57	-3,502	-8,658	-9,499
Q3	97,754	119,170	-21,416	15,656	-18,406	611	-5,149	1	-1,335	-3,815	-3,749
Q4	111,840	126,276	-14,437	-909	-130	-2,759	-18,105	282	-2,801	-15,586	-12,900
2002 - Q1	63,905	78,188	-14,282	-3,921	-668	-1,842	-20,046	95	-409	-19,732	-17,478
Q2	75,128	85,128	-9,999	1,777	16,644	-770	-8,993	83	-389	-8,687	-7,640
Q3	88,577	107,588	-19,011	3,158	-16,377	566	-15,287	0	-1,905	-13,383	-14,073
Q4	125,289	136,834	-11,545	18,141	1	-2,714	3,881	1,752	-2,625	4,755	7,719
2003 - Q1	68,394	88,903	-20,509	612	-138	-2,447	-22,344	0	-591	-21,752	-19,450
Q2	78,859	100,268	-21,409	10,773	15,598	-1,148	-11,784	1	-2,866	-8,918	-7,742
Q3	86,989	94,953	-7,964	-10,700	-14,121	630	-18,034	0	-1,450	-16,584	-17,847
Q4	148,147	158,572	-10,424	48,386	-1,415	-22,193	15,768	16,855	-3,629	2,543	26,141
2004 - Q1	67,049	79,895	-12,845	-17,792	9	-1,920	-32,557	0	-158	-32,399	-30,572
Q2	77,936	113,441	-35,505	21,744	19,561	-986	-14,748	15	-17	-14,747	-13,783
Q3	97,159	84,654	12,505	-25,286	-19,433	-1,278	-14,060	0	-39	-14,021	-13,004
2004 - Jan.	22,768	25,754	-2,986	-2,738	-121	-430	-6,154	0	-136	-6,019	-5,446
Feb.	20,933	34,563	-13,629	4,129	348	-156	-9,656	0	-11	-9,645	-9,610
Mar.	23,348	19,578	3,770	-19,183	-218	-1,334	-16,747	0	-11	-16,735	-15,516
Apr.	22,128	33,455	-11,327	-5	2,345	-653	-11,985	15	-6	-11,994	-11,293
May	25,355	35,533	-10,178	-171	82	-1,115	-11,464	0	-5	-11,460	-10,395
June ...	30,453	44,454	-14,000	21,920	17,134	781	8,701	0	-6	8,707	7,905
July	47,498	42,178	5,321	-3,158	-18,731	-763	1,399	0	-28	1,427	2,104
Aug. ...	30,445	21,653	8,793	-14,003	-721	-151	-5,361	0	-8	-5,353	-5,378
Sept. ..	19,215	20,823	-1,608	-8,125	19	-364	-10,097	0	-3	-10,095	-9,730

(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	*of which:* issued abroad	Short-term securities	*of which:* issued abroad	PO deposits	Lending by FMIs: resident	Lending by FMIs: non-resident	Other	*of which:* change in central bank current accounts	Borrowing requirement
2000	35,627	16,005	-17,830	-237	4,753	-2,799	-3,518	9,494	9,708	25,726
2001	23,200	10,216	11,775	202	16,410	-2,442	-1,301	2,685	-2,119	50,328
2002	31,762	9,032	-372	-333	11,496	-1,406	-960	-74	212	40,445
2003	23,463	8,400	6,057	0	-64,806	-4,066	-1,160	76,906	8,013	36,393
2000 - Q1	21,304	5,224	-4,267	272	1,991	-3,780	-1,584	-698	603	12,966
Q2	19,783	5,700	-484	2,787	235	-129	-487	-5,935	-5,822	12,983
Q3	2,636	4,462	-1,745	-3,008	430	-1,854	-165	6,870	6,934	6,173
Q4	-8,096	620	-11,334	-287	2,097	2,963	-1,282	9,257	7,992	-6,397
2001 - Q1	21,886	5,742	13,507	692	2,408	-1,211	-12	-21,608	-20,548	14,970
Q2	10,322	-1,021	6,072	502	965	-426	-452	-4,378	-5,073	12,103
Q3	-10,555	552	2,487	-330	2,146	-3,050	-190	14,311	14,197	5,149
Q4	1,548	4,942	-10,291	-663	10,891	2,245	-648	14,361	9,305	18,105
2002 - Q1	27,266	7,376	14,864	-222	2,559	606	-46	-25,204	-23,866	20,046
Q2	508	-4,526	8,191	1,392	-401	-1,450	-798	2,942	2,885	8,993
Q3	7,885	2,731	-3,460	99	1,099	-1,909	56	11,616	10,507	15,287
Q4	-3,898	3,452	-19,968	-1,601	8,238	1,347	-173	10,572	10,686	-3,881
2003 - Q1	19,174	8,612	20,465	1,705	2,079	-543	-33	-18,799	-21,965	22,344
Q2	5,060	-1,548	5,779	2,208	1,728	730	-416	-1,098	-475	11,784
Q3	18,545	-279	-27	-1,203	2,678	-2,776	-31	-356	-1,742	18,034
Q4	-19,315	1,615	-20,161	-2,709	-71,292	-1,478	-680	97,158	32,195	-15,768
2004 - Q1	14,868	2,336	25,031	3,067	-209	2,214	-456	-8,892	-19,899	32,557
Q2	26,325	1,233	3,107	203	633	641	-228	-15,730	-22,213	14,748
Q3	6,978	639	-2,184	-1,626	-306	-258	-14	9,844	8,243	14,060
2004 - Jan.	8,114	-585	13,512	1,890	322	1,512	-17	-17,289	-21,720	6,154
Feb.	6,507	1,282	3,073	14	524	299	-408	-339	-5,356	9,656
Mar.	247	1,638	8,446	1,164	-1,056	403	-31	8,736	7,177	16,747
Apr.	8,925	-143	3,423	565	447	553	-41	-1,321	-2,375	11,985
May	9,416	-85	-288	-319	-238	1,148	-56	1,482	-67	11,464
June	7,984	1,460	-28	-43	424	-1,060	-131	-15,890	-19,772	-8,701
July	-4,481	361	-1,129	-803	101	-483	0	4,593	7,658	-1,399
Aug.	3,578	273	-383	-156	-227	-547	0	2,940	-99	5,361
Sept.	7,880	4	-672	-667	-180	773	-14	2,311	685	10,097

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 FMIs	Borrowing from central bank	Other domestic debt	Total	*Memorandum items:* Claims on central bank	Treasury payments account	Sinking fund	Unconsolidated central government debt
2000	946,296	101,846	111,218	66,924	62,493	8,323	1,297,100	19,535	15,126	4,219	1,264,110
2001	965,580	113,699	127,629	63,487	64,326	13,085	1,347,805	21,559	21,287	176	1,312,572
2002	993,053	113,145	139,124	61,062	41,181	12,688	1,360,253	21,275	20,618	633	1,319,546
2003	1,001,230	119,382	74,318	55,759	49,281	81,444	1,381,415	13,253	13,215	24	1,315,070
2000 - Mar.	933,844	115,486	108,456	67,854	61,995	7,061	1,294,695	28,461	28,407	42	1,267,066
June	952,391	114,925	108,692	67,220	62,994	7,037	1,313,257	34,372	32,883	1,388	1,284,461
Sept. ...	957,924	113,180	109,122	65,298	62,934	6,969	1,315,426	27,433	25,290	2,046	1,286,620
Dec.	946,296	101,846	111,218	66,924	62,493	8,323	1,297,100	19,535	15,126	4,219	1,264,110
2001 - Mar.	968,241	115,355	113,626	65,717	61,899	7,220	1,332,057	40,051	28,260	11,632	1,298,734
June	978,964	121,504	114,592	64,877	63,331	7,966	1,351,233	45,162	43,004	1,962	1,318,746
Sept. ...	966,575	123,989	116,738	61,622	63,235	7,929	1,340,088	30,819	29,642	1,126	1,307,546
Dec.	965,580	113,699	127,629	63,487	64,326	13,085	1,347,805	21,559	21,287	176	1,312,572
2002 - Mar.	995,287	128,563	130,188	64,050	63,003	11,698	1,392,788	45,385	45,124	205	1,355,304
June	993,413	136,757	129,787	61,752	64,013	11,717	1,397,439	42,467	42,239	205	1,358,921
Sept. ...	999,856	133,187	130,886	59,905	65,009	12,811	1,401,655	31,956	31,728	209	1,363,824
Dec.	993,053	113,145	139,124	61,062	41,181	12,688	1,360,253	21,275	20,618	633	1,319,546
2003 - Mar.	1,010,250	133,606	141,203	60,460	40,517	15,831	1,401,868	43,230	42,578	638	1,358,899
June	1,011,839	139,394	142,932	60,735	41,198	15,183	1,411,281	43,714	43,072	619	1,367,181
Sept. ...	1,030,317	139,508	145,610	57,936	41,042	16,535	1,430,946	45,439	44,804	629	1,388,129
Dec.	1,001,230	119,382	74,318	55,759	49,281	81,444	1,381,415	13,253	13,215	24	1,315,070
2004 - Jan.	1,009,656	132,898	74,640	57,260	49,645	89,571	1,413,669	34,964	34,927	31	1,346,770
Feb.	1,015,344	135,970	75,165	57,145	50,245	94,584	1,428,453	40,320	40,282	31	1,361,526
Mar.	1,015,431	144,416	74,109	57,529	50,514	96,113	1,438,112	33,143	30,795	2,341	1,369,940
Apr.	1,023,726	147,839	74,556	58,029	50,859	97,168	1,452,177	35,518	33,170	2,341	1,383,265
May	1,032,719	147,551	74,318	59,119	51,481	98,709	1,463,896	35,584	35,237	341	1,393,954
June ...	1,040,177	147,523	74,742	57,929	51,759	102,595	1,474,725	55,364	55,009	341	1,405,595
July	1,035,478	146,391	74,843	57,445	51,972	99,678	1,465,807	47,698	47,059	633	1,395,985
Aug.	1,038,857	146,008	74,616	56,898	52,584	102,714	1,471,677	47,797	35,102	12,690	1,401,584
Sept. ...	1,045,760	145,336	74,436	57,651	52,842	104,334	1,480,358	47,113	34,417	12,690	1,409,940

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
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	2.35	2.33	2.31	2.35
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
Feb.	1.98	1.98	2.09	2.01	2.02	2.03	2.06	2.06	2.08	2.16
Mar.	1.97	1.83	1.98	1.83	1.90	2.01	2.04	2.02	2.00	2.03
Apr.	1.95	2.00	2.03	2.03	2.00	2.07	2.05	2.04	2.05	-
May	2.01	2.06	2.24	-	2.11	2.01	2.06	2.08	2.18	-
June	2.04	2.09	2.31	-	2.14	2.03	2.08	2.11	2.21	-
July	2.02	2.11	2.24	-	2.12	2.06	2.07	2.11	2.19	-
Aug.	1.98	2.06	2.19	-	2.09	2.03	2.08	2.11	2.15	2.31
Sept.	2.00	2.12	2.28	-	2.16	2.05	2.08	2.11	2.19	2.38

(1) Before tax: the annual values are obtained as the aritmetic 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							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: households	up to 2 years	more than 2 years				*of which:* up to 1 year	
2003 - Jan.	1.31	1.02	0.92	2.39	4.05	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	1.74	3.74	0.88	1.93	1.49	1.48	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
Feb.	0.87	0.68	0.59	1.58	3.65	0.94	1.92	1.53	1.51	1.89
Mar.	0.88	0.68	0.59	1.56	3.72	1.02	1.89	1.50	1.48	1.87
Apr.	0.85	0.67	0.58	1.54	3.70	0.96	1.88	1.47	1.46	1.85
May	0.86	0.67	0.58	1.54	3.69	0.97	1.88	1.48	1.47	1.88
June	0.86	0.68	0.58	1.51	3.65	0.98	1.90	1.49	1.48	1.91
July	0.84	0.66	0.57	1.50	3.62	0.91	1.92	1.49	1.48	1.92
Aug.	0.86	0.67	0.58	1.49	3.62	0.93	1.92	1.51	1.50	1.90
Sept.	(0.87)	(0.69)	(0.59)	(1.48)	(3.59)	(0.94)	(1.93)	(1.50)	(1.49)	(1.92)

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.	4.27	4.87	4.85	5.26	4.83	3.76	3.65	3.80	4.35
Feb.	4.21	4.81	4.81	5.16	4.72	3.74	3.61	4.07	4.30
Mar.	4.06	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	3.36	3.33	3.34	3.90
June	3.59	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	3.10	3.06	3.05	3.93
Aug.	3.71	4.30	4.28	4.68	4.60	3.33	3.35	3.07	4.28
Sept.	3.62	4.18	4.16	4.70	4.69	3.21	3.21	3.00	3.90
Oct.	3.55	4.22	4.19	4.75	4.77	3.08	3.14	2.55	3.84
Nov.	3.55	4.20	4.17	4.73	4.81	3.04	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	4.09	4.74	4.69	2.97	2.95	2.78	3.74
Feb.	3.58	4.15	4.10	5.21	4.84	3.05	3.01	3.21	3.21
Mar.	3.55	4.12	4.10	4.84	4.70	3.05	2.97	3.30	3.74
Apr.	3.61	4.09	4.07	4.77	4.68	3.19	3.06	3.64	3.82
May	3.51	4.08	4.06	4.68	4.55	3.06	2.97	3.28	4.02
June	3.34	4.04	4.01	4.67	4.78	2.95	2.94	2.84	3.19
July	3.47	4.13	4.10	4.97	4.75	3.07	3.02	3.34	3.79
Aug.	3.48	4.16	4.14	4.95	4.88	2.91	2.89	3.15	3.49
Sept.	(3.46)	(4.04)	(4.02)	(4.66)	(4.77)	(3.08)	(2.94)	(3.23)	(5.26)

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.	4.50	4.25	4.33	5.49	5.00
Mar.	4.40	4.14	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	4.00	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.	3.90	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	3.61	3.67	5.06	5.02
Feb.	3.76	3.59	3.80	5.08	5.13
Mar.	3.69	3.53	3.79	4.97	4.98
Apr.	3.65	3.52	3.79	5.16	4.98
May	3.65	3.50	3.92	5.13	5.04
June	3.69	3.54	3.83	5.12	5.24
July	3.67	3.51	4.03	5.16	5.29
Aug.	3.71	3.55	3.90	5.31	5.28
Sept.	(3.68)	(3.51)	(3.93)	(4.77)	(5.33)

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	9.77	10.08	8.19	5.10	5.86	5.15	4.96	10.75
	9.49	10.99	9.48	8.02	4.94	5.52	5.21	4.68	10.46
	9.12	9.34	9.30	7.99	4.91	5.52	5.47	4.52	9.99
	9.40	10.55	9.31	7.69	4.85	5.30	5.22	4.44	10.36
	9.40	10.66	9.38	7.51	4.75	5.38	5.30	4.36	10.36
	9.25	10.53	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	7.33	4.46	4.86	4.85	4.00	9.84
	9.08	10.87	8.65	7.34	4.54	4.88	4.92	3.93	9.84
	9.33	10.57	9.23	7.75	4.58	5.10	4.90	3.88	10.18
	9.23	10.43	9.17	7.79	4.68	5.12	4.83	3.86	10.09
	9.06	10.74	8.78	7.57	4.43	4.99	4.99	3.84	9.86
	8.99	10.71	8.68	7.41	4.39	4.93	4.82	3.82	9.79
	8.91	10.75	8.69	7.40	4.53	4.76	4.96	3.81	9.71
	8.82	10.69	8.62	7.64	4.68	4.91	4.84	3.84	9.61
	8.80	10.86	8.58	7.62	4.91	5.03	4.92	3.84	9.54
	9.22	11.68	8.84	7.59	4.62	4.86	4.84	3.85	10.04
	(9.09)	(11.14)	(8.84)	(7.70)	(4.74)	(4.93)	(4.90)	(3.84)	(9.86)

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.	6.62	5.49	5.70	5.48	8.65	8.00	6.07	9.07
Feb.	6.58	5.46	5.68	5.45	8.61	8.04	6.02	9.03
Mar.	6.53	5.40	5.57	5.39	8.56	8.06	5.96	8.96
Apr.	6.45	5.28	5.47	5.27	8.51	8.05	5.89	8.90
May	6.39	5.22	5.43	5.21	8.48	8.06	5.83	8.87
June	6.30	5.11	5.20	5.11	8.36	8.01	5.78	8.79
July	6.13	4.89	4.95	4.89	8.25	7.96	5.60	8.70
Aug.	6.09	4.85	4.93	4.85	8.22	7.99	5.55	8.66
Sept.	6.07	4.83	4.90	4.83	8.20	7.97	5.54	8.65
Oct.	6.00	4.77	4.88	4.76	8.18	7.93	5.49	8.59
Nov.	5.96	4.74	4.85	4.73	8.11	7.91	5.46	8.53
Dec.	5.90	4.68	4.76	4.68	8.05	7.86	5.42	8.44
2004 - Jan.	5.89	4.66	4.76	4.66	8.18	7.84	5.40	8.56
Feb.	5.85	4.62	4.72	4.62	8.21	7.79	5.37	8.60
Mar.	5.80	4.58	4.69	4.57	8.13	7.75	5.33	8.51
Apr.	5.75	4.52	4.65	4.51	8.13	7.72	5.30	8.56
May	5.71	4.49	4.62	4.49	8.08	7.71	5.30	8.49
June	5.71	4.50	4.71	4.49	8.10	7.70	5.29	8.50
July	5.69	4.44	4.58	4.44	8.19	7.76	5.29	8.60
Aug.	5.68	4.44	4.56	4.44	8.23	7.75	5.28	8.63
Sept.	(5.66)	(4.43)	(4.54)	(4.42)	(8.21)	(7.73)	(5.28)	(8.60)

(1) Includes overdrafts.

	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	4.60	4.84	6.47	6.18	6.95
5.14	5.66	4.56	4.76	6.43	6.11	6.90
5.05	5.54	4.54	4.67	6.26	6.01	6.74
5.00	5.52	4.48	4.60	6.19	5.99	6.69
4.83	5.32	4.33	4.45	6.04	5.79	6.55
4.66	5.25	4.05	4.21	5.95	5.71	6.45
4.59	5.16	4.03	4.18	5.88	5.63	6.39
4.56	5.15	3.98	4.15	5.86	5.63	6.38
4.52	5.13	3.95	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	5.77	5.60	6.26
4.49	5.15	3.93	4.01	5.79	5.62	6.29
4.42	5.06	3.85	4.00	5.66	5.54	6.18
4.40	5.07	3.83	3.94	5.67	5.54	6.18
4.37	5.04	3.81	3.93	5.61	5.52	6.11
4.34	4.94	3.82	3.92	5.54	5.42	6.06
4.41	5.07	3.88	3.92	5.71	5.54	6.22
4.41	5.10	3.85	3.92	5.75	5.58	6.26
(4.39)	(5.10)	(3.84)	(3.90)	(5.72)	(5.58)	(6.23)

Banks and money market funds: balance sheet

(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
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 - Sept. ...	7,201	317,886	54,409	1,017,697	72,103	110	13,327	73,491	49,439	172,741	18,187
Oct.	6,846	312,613	54,634	1,021,261	69,313	109	13,223	75,218	49,572	171,805	18,026
Nov.	6,823	317,064	54,977	1,029,328	70,147	111	13,353	71,405	49,959	177,862	18,887
Dec......	9,488	325,056	52,867	1,048,297	74,876	110	16,027	69,670	56,184	167,108	19,075
2004 - Jan.	6,779	326,878	54,289	1,037,715	71,392	110	14,914	79,982	57,145	167,962	19,384
Feb.	6,506	325,946	54,580	1,032,675	67,110	95	14,636	72,564	57,166	169,467	21,965
Mar.	7,013	333,022	54,996	1,035,291	72,990	97	15,083	76,093	60,697	172,857	21,296
Apr.	6,859	324,776	55,586	1,042,540	72,678	89	12,898	74,365	61,019	173,257	20,982
May	7,453	321,846	56,736	1,045,436	70,118	93	12,686	72,392	63,568	169,905	22,336
June ...	7,066	314,739	55,787	1,062,308	67,729	89	12,314	71,971	63,438	176,634	23,382
July	7,271	328,100	55,187	1,066,913	74,673	89	12,015	72,980	62,835	173,261	23,398
Aug.	7,289	330,127	54,637	1,061,595	77,227	89	11,814	71,584	62,244	173,180	23,210
Sept. ...	(7,476)	(323,711)	(55,401)	(1,069,506)	(75,979)	(89)	(12,114)	(73,092)	(62,965)	(179,401)	(23,810)

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
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 - Sept.	301,278	8,146	672,388	122,596	187	11,050
Oct.	300,909	8,414	678,259	115,077	118	9,386
Nov.........	304,412	8,251	677,018	121,585	10	9,194
Dec.........	313,742	7,730	691,960	118,928	17	9,268
2004 - Jan.	322,317	7,670	680,193	124,308	2,220	11,779
Feb.	320,193	7,639	674,498	131,632	2,013	10,806
Mar.	328,313	7,767	681,983	129,437	1,012	12,546
Apr.	326,295	7,707	689,163	126,336	339	10,727
May	328,402	7,447	688,606	130,814	1,263	11,264
June	316,705	8,002	696,551	128,988	503	10,472
July	335,645	7,392	696,652	128,835	302	10,550
Aug.	336,390	7,292	683,742	133,739	24	11,044
Sept.	(335,470)	(7,555)	(693,471)	(122,358)	(12)	(12,195)

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				
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
6,495	16,611	9,344	18,518	47,071	43,778	6,223	10,575	8,099	45,944	193,185	2,203,823
6,532	17,321	9,791	18,499	47,370	45,249	6,126	11,701	9,230	45,610	180,219	2,191,298
7,117	18,617	9,679	18,143	48,309	46,084	5,997	11,698	9,284	45,432	184,273	2,215,813
6,941	17,475	9,494	15,730	51,008	43,453	5,219	12,154	7,635	46,545	190,490	2,246,138
7,432	20,500	10,303	16,163	52,030	43,619	5,345	12,389	7,800	45,920	209,232	2,268,633
7,490	23,133	10,497	15,596	52,446	46,254	5,090	12,454	9,501	46,648	202,080	2,255,227
7,994	22,229	10,696	17,760	53,268	50,735	5,182	12,426	9,513	46,564	211,858	2,299,036
8,541	23,115	10,280	17,717	53,699	54,540	5,155	12,788	9,497	46,587	199,108	2,287,478
9,013	24,232	10,614	17,856	55,497	58,354	5,380	12,581	9,447	46,633	197,819	2,291,365
8,678	23,065	9,833	18,361	52,544	54,153	5,405	12,580	8,106	46,774	205,482	2,301,870
8,126	25,102	9,056	18,567	51,827	49,604	5,394	12,314	9,561	46,955	190,931	2,305,625
8,216	25,951	8,729	18,263	51,660	48,599	5,380	12,547	9,998	46,979	182,946	2,293,768
(8,615)	(24,731)	(8,674)	(18,653)	(51,345)	(44,318)	(5,617)	(12,323)	(10,299)	(47,070)	(195,158)	(2,311,984)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
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
153,968	100,377	383,934	153,926	295,974	2,203,823
162,119	100,008	386,890	153,794	276,322	2,191,298
160,559	105,895	388,692	153,986	286,211	2,215,813
159,227	107,031	399,958	156,726	281,551	2,246,139
159,117	106,102	399,519	158,496	296,910	2,268,633
153,448	105,666	402,231	158,980	288,120	2,255,228
162,022	103,597	411,171	160,934	300,254	2,299,036
159,241	102,921	413,970	161,431	289,347	2,287,477
156,257	103,021	420,029	161,476	282,787	2,291,365
158,388	106,295	419,267	161,628	295,072	2,301,871
160,558	105,967	421,826	161,469	276,427	2,305,624
159,880	107,269	423,527	161,463	269,398	2,293,768
(155,933)	(105,970)	(431,001)	(161,669)	(286,348)	(2,311,984)

Table a31

Banks and money market funds: 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				
2001	438,230	44,577	5,818	57,148	76,075	12,481	317,688
2002	479,412	38,914	3,497	61,701	89,165	13,962	350,937
2003 - Jan.	453,487	37,318	3,354	61,272	82,406	13,803	350,783
Feb.	456,701	36,972	3,330	61,659	81,044	13,514	352,127
Mar.	466,623	36,262	3,265	62,026	78,235	13,472	356,886
Apr.	473,356	36,525	3,540	62,282	78,738	13,386	359,215
May	477,871	36,024	3,448	61,988	79,319	13,393	363,477
June	485,682	35,844	3,710	62,151	71,517	13,182	364,608
July	478,949	35,427	3,703	62,566	73,698	12,024	365,585
Aug.	473,584	34,180	3,652	63,381	73,823	12,232	366,240
Sept.	481,674	34,480	3,642	63,455	70,683	11,557	369,493
Oct.	485,865	34,525	3,548	63,459	72,406	11,098	372,885
Nov.	485,608	33,675	3,850	63,363	72,546	10,875	375,049
Dec.	505,648	33,109	3,050	64,814	68,074	11,074	386,198
2004 - Jan.	498,772	32,622	3,040	64,640	63,334	11,047	385,708
Feb.	491,536	32,889	2,963	64,959	64,307	11,063	388,421
Mar.	499,812	32,397	2,646	65,472	63,157	10,953	397,402
Apr.	507,710	32,341	2,622	65,497	63,417	10,712	398,894
May	508,606	31,713	2,371	65,450	62,309	10,484	405,139
June	516,367	32,283	2,307	65,472	61,416	9,709	404,929
July	515,933	31,399	2,240	65,683	63,038	9,463	407,692
Aug.	499,318	31,356	2,220	66,586	65,548	9,282	409,884
Sept.	(512,317)	(31,358)	(2,196)	(66,531)	(63,112)	(9,521)	(417,066)

Table a32

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			
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 - 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	51,243	23,140
2004 - Jan.	447,120	434,764	584,251	579,279	1,031,371	1,014,043	22,824	51,597	22,223
Feb.	436,986	424,591	590,843	586,033	1,027,829	1,010,624	20,456	51,969	20,846
Mar.	434,539	421,157	598,062	593,215	1,032,601	1,014,372	21,191	52,082	19,591
Apr.	431,596	418,157	607,819	602,812	1,039,414	1,020,969	18,833	52,493	19,953
May	429,409	416,235	613,016	608,033	1,042,425	1,024,268	18,554	52,889	20,396
June	441,020	426,778	618,113	613,185	1,059,133	1,039,963	17,891	53,226	20,706
July	436,973	424,136	624,662	619,671	1,061,635	1,043,806	17,713	53,385	21,158
Aug.	429,073	416,313	626,316	621,290	1,055,389	1,037,603	17,390	53,662	21,281

	Securities: book value							
	Italian government securities					Other securities		Total
		of which:					*of which*: bonds issued by banks	
		BOTs and BTEs	CTZs	CCTs	BTPs			
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 - 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
2004 - Jan.	90,017	23,334	4,966	39,526	21,585	55,500	47,747	145,517
Feb.	89,838	24,166	5,750	39,868	19,434	55,637	47,553	145,475
Mar.	93,316	27,305	5,686	40,349	19,404	59,522	51,519	152,838
Apr.	92,383	26,479	5,562	41,220	18,228	59,769	51,781	152,152
May	91,166	26,797	5,287	39,538	18,658	60,685	53,220	151,851
June	93,668	25,381	5,295	41,718	20,497	61,684	53,563	155,353
July	88,437	20,704	5,599	42,149	19,240	61,089	53,005	149,526
Aug.	87,155	20,999	5,079	42,223	18,115	60,788	52,668	147,943

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	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2002 - 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	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2004 - Q1	134,983	29,624	7,398	57,827	37,287	10,750	16,776	162,508
Q2	137,252	33,262	7,620	56,387	36,619	11,008	17,041	165,301
2003 - 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	17,105	170,396
Dec.	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2004 - Jan.	135,010	25,539	8,468	59,919	38,147	11,195	17,189	163,394
Feb.	136,402	26,708	8,853	58,995	38,863	10,981	17,010	164,393
Mar.	134,983	29,624	7,398	57,827	37,287	10,750	16,776	162,508
Apr.	137,017	33,699	8,394	55,358	36,580	10,622	17,075	164,714
May	135,782	32,183	8,834	55,099	36,369	10,971	16,645	163,397
June	137,252	33,262	7,620	56,387	36,619	11,008	17,041	165,301
July	136,292	37,249	8,052	50,406	37,199	10,135	16,549	162,975
Aug.	137,280	34,913	8,516	51,232	39,519	9,735	16,256	163,270

Table a33

Non-residents	of which: shares	Other financial assets	Total portfolio	Net assets	Memorandum items: gross subscriptions	Memorandum items: 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
167,792	70,138	138	336,962	378,781	212,644	6,628	 2003
162,545	64,681	111	315,585	357,475	46,198	-2,937	.... Q3 - 2002
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
167,792	70,138	138	336,962	378,781	46,581	-7,919	.... Q4
169,285	72,472	168	331,961	377,785	42,356	-6,882	.... Q1 - 2004
166,859	70,098	130	332,291	369,918	38,092	-7,959	.... Q2
167,345	65,094	219	337,907	382,384	16,664	-3,531	.... Sept. - 2003
170,997	70,028	221	342,889	382,588	16,413	-3,447	.... Oct.
167,420	68,963	179	337,995	377,776	15,924	-3,747	.... Nov.
167,792	70,138	138	336,962	378,781	14,244	-725	.... Dec.
169,445	71,750	144	332,983	378,765	12,776	-3,052	.... Jan. - 2004
170,203	73,001	181	334,778	377,981	13,097	-2,145	.... Feb.
169,285	72,472	168	331,961	377,785	16,483	-1,685	.... Mar.
167,938	70,922	174	332,826	376,218	13,866	-917	.... Apr.
169,219	69,585	181	332,797	371,676	12,947	-3,150	.... May
166,859	70,098	130	332,291	369,918	11,279	-3,892	.... June
161,315	66,803	117	324,407	362,805	10,525	-3,587	.... July
160,170	65,535	127	323,567	363,642	9,039	-1,052	.... Aug.

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	1,125	2,049
2002	6,310	3,036	4,079	-8,608	7,812	644
2003	14,581	12,457	1,778	-4,295	4,506	802
2002 - Q3	1,730	-1,159	212	-437	3,226	245
Q4	4,421	507	240	5,357	-1,603	244
2003 - Q1	10,501	5,387	-936	4,239	1,670	432
Q2	3,407	3,463	97	-5,289	5,175	-205
Q3	2,805	356	1,393	1,780	-843	331
Q4	-2,132	3,251	1,224	-5,025	-1,495	244
2004 - Q1	-6,266	176	-1,340	-4,566	-597	-477
Q2	3,657	3,804	296	-602	-587	65
2003 - Sept.	-528	-1,342	-667	2,446	-975	151
Oct.	1,237	4,561	625	-3,321	-566	-59
Nov.	-2,701	-1,037	651	-969	-1,233	688
Dec.	-668	-273	-52	-736	304	-385
2004 - Jan.	-5,933	-3,875	-242	-2,288	286	36
Feb.	1,289	1,133	407	-1,039	713	-247
Mar.	-1,622	2,918	-1,505	-1,239	-1,596	-267
Apr.	2,896	4,156	1,018	-1,922	-671	-189
May	-875	-1,442	450	-47	-197	251
June	1,636	1,090	-1,171	1,366	281	2
July	-174	4,145	462	-5,660	837	-784
Aug.	414	-2,158	411	473	2,028	-450

Table a34

		Non-residents				
Shares	Total		*of which:* shares	Other financial assets	Total portfolio	
-5,767	-7,122	-7,562	-12,374	-27	-14,712	 2001
-4,400	2,554	-15,937	-2,617	-43	-13,426	 2002
-1,377	14,006	8,562	2,308	30	22,597	 2003
-3,528	-1,553	-4,759	-1,946	-33	-6,345	.... Q1 - 2002
-1,060	3,605	-5,546	-1,634	-3	-1,944	.... Q2
-1,146	9,787	-595	-3,016	2	9,194	.... Q1 - 2003
-41	3,161	6,546	2,673	102	9,809	.... Q2
-625	2,511	4,294	1,393	7	6,812	.... Q3
434	-1,454	-1,683	1,259	-81	-3,218	.... Q4
-182	-6,924	-3,432	-1,131	30	-10,326	.... Q1 - 2003
-29	3,693	-92	-2,065	-38	3,563	.... Q2
-109	-487	395	480	. .	-92	.... Sept. - 2003
54	1,233	255	650	2	1,489	.... Oct.
549	-1,465	-962	610	-42	-2,469	.... Nov.
-169	-1,222	-976	-1	-41	-2,238	.... Dec.
-24	-5,921	-1,097	-670	6	-7,011	.... Jan. - 2004
-193	850	-617	203	37	270	.... Feb.
35	-1,854	-1,718	-663	-13	-3,585	.... Mar.
49	2,757	264	-1,084	6	3,027	.... Apr.
4	-621	3,217	-156	7	2,603	.... May
-82	1,557	-3,573	-826	-51	-2,067	.... June
84	-874	-2,676	-760	-13	-3,563	.... July
-219	-254	-1,680	-990	10	-1,924	.... Aug.

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
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								
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	94,786	2,318	65,778	22,772	34,090	2,890	8,289	2,016
Total ...	**144,471**	**4,481**	**87,410**	**44,522**	**38,899**	**23,543**	**12,746**	**6,046**
2003 - Q1								
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	4,297	326	1,633	1,735	903	5,588	878	623
Asset management cos	96,976	5,790	66,010	21,124	40,816	2,877	9,321	1,768
Total ...	**145,587**	**7,795**	**86,705**	**42,858**	**47,582**	**27,350**	**13,789**	**5,201**
2003 - Q3 (2)								
Banks	43,962	1,621	20,307	18,642	5,775	19,375	3,689	2,884
Securities firms	4,519	423	1,901	1,525	910	6,011	958	696
Asset management cos	82,267	5,261	54,406	18,073	38,362	2,830	7,414	1,600
Total ...	**130,748**	**7,305**	**76,614**	**38,240**	**45,047**	**28,216**	**12,061**	**5,180**
2003 - Q4 (2)								
Banks	43,018	1,812	18,510	18,896	5,466	19,554	4,188	3,427
Securities firms	3,867	191	1,936	1,330	915	6,590	1,025	939
Asset management cos	81,159	5,415	50,480	20,837	41,531	2,525	7,911	1,743
Total ...	**128,044**	**7,418**	**70,926**	**41,063**	**47,912**	**28,669**	**13,124**	**6,109**
2004 - Q1 (2)								
Banks	43,259	2,384	17,407	19,278	5,035	19,157	4,038	3,602
Securities firms	3,575	267	1,639	1,242	904	7,574	991	1,075
Asset management cos	83,591	5,073	53,652	21,176	43,707	3,127	9,223	1,844
Total ...	**130,425**	**7,724**	**72,698**	**41,696**	**49,646**	**29,858**	**14,252**	**6,521**
2004 - Q2 (2)								
Banks	42,758	2,214	19,136	17,346	5,368	20,070	4,073	3,626
Securities firms	3,867	369	1,970	1,155	974	7,648	1,003	983
Asset management cos	82,968	5,807	53,309	19,822	44,590	3,830	9,827	1,678
Total ...	**129,593**	**8,390**	**74,415**	**38,323**	**50,932**	**31,548**	**14,903**	**6,287**

(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	
							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**
							2002 - Q4
53,816	33,441	1,844	159,076	164,446	16,538	-192	.... Banks
5,009	13,967	202	32,832	34,171	2,034	-2,342	.... Securities firms
54,086	1,571	36	197,766	204,065	22,534	-1,748	.... Asset management cos
112,911	**48,979**	**2,082**	**389,674**	**402,682**	**41,106**	**-4,282**	... **Total**
							2003 - Q1
47,228	34,045	1,245	154,564	160,242	13,630	-1,750	.... Banks
4,395	13,446	241	29,272	30,220	2,689	-3,693	.... Securities firms
52,516	1,309	69	200,317	206,236	31,367	1,620	.... Asset management cos
104,139	**48,800**	**1,555**	**384,153**	**396,698**	**47,686**	**-3,823**	... **Total**
							(2) **2003 - Q2**
47,249	34,845	1,306	158,863	164,970	13,426	-2,088	.... Banks
4,360	14,295	297	31,240	32,176	2,574	-1,090	.... Securities firms
56,775	1,272	92	209,892	216,136	14,830	4,364	.... Asset management cos
108,384	**50,412**	**1,695**	**399,995**	**413,282**	**30,830**	**-7,542**	... **Total**
							(2) **2003 - Q3**
46,725	35,563	1,331	159,309	165,149	9,013	691	.... Banks
4,294	3,323	421	21,133	21,927	1,741	-10,371	.... Securities firms
69,719	2,017	114	204,328	209,868	23,575	-976	.... Asset management cos
120,738	**40,903**	**1,866**	**384,770**	**396,944**	**34,329**	**-10,656**	... **Total**
							(2) **2003 - Q4**
45,684	36,651	1,403	159,392	165,542	12,654	173	.... Banks
4,148	3,350	355	21,189	22,071	2,453	-89	.... Securities firms
75,646	2,036	1,958	214,509	220,632	24,230	8,958	.... Asset management cos
125,478	**42,037**	**3,716**	**395,090**	**408,245**	**39,337**	**9,041**	... **Total**
							(2) **2004 - Q1**
43,999	37,555	825	157,469	163,234	7,554	-2,883	.... Banks
4,159	3,313	278	21,870	22,626	2,108	208	.... Securities firms
79,289	2,343	1,841	224,968	230,340	18,630	4,384	.... Asset management cos
127,447	**43,211**	**2,944**	**404,307**	**416,200**	**28,292**	**1,709**	... **Total**
							(2) **2004 - Q2**
41,016	35,309	1,062	153,282	158,027	13,533	-4,202	.... Banks
3,692	3,817	256	22,236	22,918	1,596	237	.... Securities firms
85,411	2,655	1,847	232,800	239,456	20,414	10,708	.... Asset management cos
130,119	**41,781**	**3,165**	**408,318**	**420,401**	**35,543**	**6,743**	... **Total**

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
2000	489,429	57,611	128,040	675,080	68,303
2001	524,623	52,623	138,556	715,802	76,213
2002	572,306	50,669	151,025	774,000	89,310
2003 - Jan.	543,122	51,103	151,517	745,742	82,605
Feb.	548,595	52,895	154,023	755,513	81,453
Mar.	558,958	51,712	156,651	767,321	78,515
Apr.	567,873	52,190	155,873	775,936	78,968
May	576,539	50,950	156,183	783,672	79,588
June	586,878	49,504	156,872	793,254	71,949
July	582,052	49,026	157,795	788,873	73,944
Aug.	577,810	49,426	159,889	787,125	74,141
Sept.	586,491	49,219	160,236	795,946	70,940
Oct.	590,768	48,128	161,336	800,232	72,912
Nov.	594,205	46,690	162,802	803,697	72,903
Dec.	616,242	43,955	165,920	826,117	68,468
2004 - Jan.	608,386	46,846	167,713	822,945	63,554
Feb.	603,202	45,704	168,759	817,665	64,516
Mar.	612,009	46,435	170,351	828,795	63,989
Apr.	621,281	45,624	171,980	838,885	63,585
May	623,585	46,078	172,871	842,534	62,436
June	629,424	45,928	173,877	849,229	61,587
July	636,717	45,218	175,053	856,987	63,309
Aug.	619,585	45,934	177,993	843,512	65,725
Sept.	(633,442)	(45,784)	(179,090)	(858,316)	(63,248)

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
10,039	11,137	764,559	419,749	605,400	694,879
26,103	10,118	828,236	467,117	658,296	770,730
41,690	9,814	914,814	510,801	712,495	853,309
87,243	9,953	925,543	485,079	687,699	867,500
90,166	9,529	936,661	489,184	696,102	877,250
94,178	9,892	949,906	498,640	707,003	889,588
96,298	9,477	960,679	505,487	713,550	898,293
97,259	9,326	969,845	512,625	719,758	905,931
97,276	9,442	971,921	521,811	728,187	906,854
98,839	8,533	970,189	514,993	721,814	903,130
101,035	8,779	971,080	510,412	719,727	903,682
98,782	8,457	974,125	518,922	728,377	906,556
98,733	7,975	979,852	521,791	731,255	910,875
104,336	7,758	988,694	523,952	733,444	918,441
105,463	7,197	1,007,245	542,936	752,811	933,939
104,418	6,818	997,735	536,533	751,092	925,882
103,993	6,976	993,150	530,457	744,920	920,405
101,870	6,432	1,001,086	538,546	755,332	927,623
101,142	5,790	1,009,402	545,780	763,384	933,901
101,250	6,138	1,012,358	547,209	766,158	935,982
104,461	5,373	1,020,650	551,617	771,422	942,843
104,107	5,065	1,029,468	556,611	776,882	949,362
105,361	4,161	1,018,760	540,060	763,987	939,235
(103,933)	(4,197)	(1,029,694)	(553,197)	(778,071)	(949,449)

Financial assets: residents of Italy

(end-of-period stocks; millions of euros)

	Total monetary assets	Other deposits	BOTs		Medium and long-term securities			
				held by non-money-market funds	Government securities		Other debt securities	
						held by non-money-market funds		held by non-money-market funds
2000	758,696	48,209	31,167	2,979	412,679	113,326	260,542	8,764
2001	825,479	43,425	36,654	5,496	424,336	94,888	308,986	10,740
2002	908,645	40,478	42,896	7,020	432,554	88,532	358,330	10,021
2003 - Jan.	916,558	40,026	48,039	4,068	439,051	67,582	354,513	9,186
Feb.	926,183	39,686	49,189	4,468	436,558	68,556	357,897	9,496
Mar.	939,781	39,285	46,924	5,095	436,679	69,528	363,987	9,767
Apr.	951,595	39,239	42,698	4,195	429,230	68,815	367,557	9,840
May	961,273	38,798	36,573	4,146	416,413	71,018	374,687	9,533
June	963,774	38,769	33,004	4,406	409,454	70,867	378,784	9,605
July	963,502	38,474	27,948	4,605	417,534	71,404	386,708	9,704
Aug.	963,370	38,205	31,525	3,878	422,863	72,114	388,619	9,709
Sept.	965,808	37,968	31,168	3,311	419,568	74,644	391,550	9,777
Oct.	973,125	37,715	28,214	5,032	427,293	71,483	397,820	9,760
Nov.	982,243	37,915	27,499	4,866	427,644	66,698	405,755	10,602
Dec.	1,001,757	37,223	17,372	4,195	407,451	65,724	414,435	10,013
2004 - Jan.	990,106	37,069	17,306	4,722	406,033	63,779	412,128	10,036
Feb.	986,460	36,829	25,414	4,674	413,942	64,306	415,336	9,831
Mar.	993,255	36,336	22,431	5,944	416,789	62,928	421,676	9,563
Apr.	1,003,815	36,144	33,370	7,339	422,162	61,975	424,011	9,351
May	1,005,659	35,721	38,333	6,584	433,808	61,586	427,929	9,656
June	1,014,912	(35,492)	35,493	5,796	421,540	60,852	434,072	9,601

Table a37

Other domestic assets held by non-money-market funds	Other financial assets	Total domestic financial assets	External financial assets	held by non-money-market funds	Total financial assets	*Memorandum item:* Shares/units of investment funds	non-money-market funds
44,275	937	1,556,505	723,006	239,260	2,279,511	449,931	439,891
26,053	984	1,665,917	733,196	215,399	2,399,113	403,689	377,586
18,123	1,035	1,802,062	631,529	162,552	2,433,591	360,557	318,867
17,070	1,043	1,816,300	628,165	156,042	2,444,465	359,329	271,532
16,416	1,039	1,826,968	626,552	150,470	2,453,520	360,343	269,552
15,067	1,043	1,842,765	629,154	146,676	2,471,919	360,275	265,322
16,683	1,051	1,848,054	630,694	150,781	2,478,748	368,945	271,572
17,500	1,061	1,846,304	637,975	153,394	2,484,280	373,710	275,324
16,334	1,057	1,841,177	654,083	158,739	2,495,260	378,491	279,928
15,879	1,064	1,851,108	658,708	163,174	2,509,816	382,887	282,696
15,822	1,071	1,861,476	667,438	167,797	2,528,913	388,165	285,744
15,444	1,061	1,862,567	665,787	165,098	2,528,354	382,384	282,212
16,195	1,061	1,881,421	677,281	168,839	2,558,703	382,588	282,827
17,105	1,049	1,899,210	669,589	165,100	2,568,799	377,776	272,176
16,777	1,170	1,896,184	666,014	166,152	2,562,198	378,781	272,083
17,189	1,069	1,880,899	671,298	169,414	2,552,197	378,765	272,997
17,010	1,065	1,896,057	671,307	171,255	2,567,364	377,981	272,663
16,775	1,065	1,908,327	677,151	171,959	2,585,478	377,785	274,540
16,980	1,273	1,937,755	673,746	168,414	2,611,500	376,218	273,676
16,645	1,269	1,959,364	679,197	173,104	2,638,561	371,676	269,054
17,057	(1,265)	(1,959,830)	679,972	170,681	(2,639,803)	369,918	264,024

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
2000	862,250	17,284	7,995	879,534	180,508	1,060,042
2001	922,575	36,479	13,629	959,054	207,809	1,166,863
2002	979,517	54,511	13,189	1,034,028	227,113	1,261,141
2003 - Jan.	991,030	53,729	15,366	1,044,758	226,546	1,271,305
Feb.	993,263	56,486	16,198	1,049,749	235,858	1,285,607
Mar.	991,292	58,915	16,740	1,050,207	236,156	1,286,363
Apr.	994,691	62,565	18,311	1,057,256	239,428	1,296,684
May	994,760	65,423	18,337	1,060,183	241,550	1,301,732
June	1,008,839	67,393	18,172	1,076,232	244,259	1,320,491
July	1,012,438	74,182	18,822	1,086,620	233,648	1,320,268
Aug.	1,014,234	75,010	18,881	1,089,244	229,804	1,319,048
Sept.	1,017,697	74,659	18,251	1,092,356	228,566	1,320,922
Oct.	1,021,261	77,546	18,090	1,098,807	230,451	1,329,258
Nov.	1,029,328	84,512	18,952	1,113,840	231,084	1,344,924
Dec.	1,048,297	88,081	19,139	1,136,377	233,704	1,370,082
2004 - Jan.	1,037,764	88,448	19,437	1,126,212	233,989	1,360,201
Feb.	1,032,675	90,927	22,019	1,123,602	241,951	1,365,553
Mar.	1,035,387	92,125	21,350	1,127,512	240,867	1,368,379
Apr.	1,042,540	92,230	21,037	1,134,770	243,183	1,377,953
May	1,045,436	92,704	22,390	1,138,140	245,967	1,384,106
June	1,062,308	99,816	23,436	1,162,124	246,202	1,408,326

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	
1,297,100	1,212,760	269,893	2,092,294	2,357,142	34,641
1,347,805	1,253,836	272,208	2,212,890	2,514,669	36,882
1,360,253	1,262,019	246,341	2,296,047	2,621,395	43,290
1,382,783	1,281,729	263,775	2,326,487	2,654,088	43,247
1,393,267	1,287,011	267,257	2,336,760	2,678,874	43,761
1,401,868	1,294,629	267,315	2,344,836	2,688,231	46,411
1,407,854	1,299,370	266,475	2,356,626	2,704,538	51,297
1,412,945	1,305,854	270,694	2,366,036	2,714,677	55,762
1,411,281	1,305,362	272,078	2,381,594	2,731,771	53,631
1,409,448	1,302,410	271,323	2,389,030	2,729,716	47,550
1,413,828	1,306,240	271,883	2,395,485	2,732,877	47,886
1,430,946	1,325,888	271,708	2,418,244	2,751,868	49,015
1,425,363	1,320,948	270,483	2,419,755	2,754,621	50,645
1,435,288	1,330,880	277,083	2,444,720	2,780,212	51,718
1,381,415	1,279,226	273,698	2,415,603	2,751,497	49,131
(1,413,669)	(1,309,706)	276,409	(2,435,918)	(2,773,870)	49,478
(1,428,453)	(1,324,006)	279,290	(2,447,608)	(2,794,006)	52,252
(1,438,112)	(1,329,944)	283,445	(2,457,456)	(2,806,491)	56,731
(1,452,177)	(1,343,938)	284,314	(2,478,708)	(2,830,130)	60,713
(1,463,896)	(1,356,221)	282,431	(2,494,360)	(2,848,002)	64,326
(1,474,725)	(1,365,682)	288,392	(2,527,806)	(2,883,051)	60,271

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)
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	182	3,233	17.8	1,792	3	14	..
Total ...	**97,434**	**39,180**	**34,286**	**129,217**	**10.4**	**31,722**	**6**	**550**	**0.6**
June 2002									
Banks in the Centre and North.....	94,842	40,734	36,077	130,512	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**	**133,661**	**11.0**	**37,180**	**6**	**78**	**0.1**
December 2002									
Banks in the Centre and North.....	95,801	40,004	35,920	131,093	11.1	37,769	6	196	0.2
Banks in the South	3,027	269	164	3,292	18.1	1,837	1	2	..
Total ...	**98,828**	**40,273**	**36,084**	**134,385**	**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	38,437	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**	**40,374**	**6**	**236**	**0.3**
December 2003									
Banks in the Centre and North.....	101,257	41,184	36,882	136,357	11.3	40,556	-	-	-
Banks in the South	3,145	342	235	3,485	18.1	1,940	-	-	-
Total ...	**104,402**	**41,526**	**37,117**	**139,842**	**11.4**	**42,496**	**-**	**-**	**-**

(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.

Table a2

Sources: IMF, Eurostat, Istat and national statistics.

For Italy, see the note 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, 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 seasonally adjusted aggregate figure may differ from the weighted mean of the seasonally adjusted components.

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 2004. 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, 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 are also 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 in the indices for these two countries and the euro-area average. 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 2002 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 evaluated 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 MFIs are provided directly by the borrowers and do not include loans raised abroad indirectly via resident MFIs. The stocks of lending by resident MFIs are based on accounting supervisory reports.

The figures for "Medium and long-term securities" and "Lending by MFIs" 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. The average overnight rate excludes transactions concluded in the large-deal segment.

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 new business lending rates applied 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. In the case of overnight deposits, deposits redeemable at notice and overdrafts the concept of new business coincides with that of outstanding amounts. The average interest rate on the total outstanding amount of deposits is calculated as the weighted average of the interest rates on overnight deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities. 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.

Tables a30 and a31

These tables refer 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.

The annual data refer to the month of December.

In Table 30 the item "Loans" includes repo assets and bad debts. "Deposits" include overnight deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities. The item "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.

In Table 31 deposits and debt securities refer to those of other general government (communes and provinces and social security institutions) and other sectors (households, non-financial corporations, and financial and insurance corporations). 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 and are calculated in accordance with the traditional definitions published by the Bank of Italy.

As regards residents of Italy, the table divides loans between those at short term (up to 18 months) and those at medium and long term (more than 18 months). The indication "lire/euros" means that the figures include amounts in euros and the euro-area currencies. "Other securities" refer to banks' holdings of bonds issued by residents.

The annual data refer to the month of December.

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, postal current accounts, 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. Postal current accounts for the period prior to 2003 are estimated.

"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.

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.

Consolidated supervisory capital consists, in addition to the components of individual bank supervisory capital, of the characteristic items resulting from the consolidation itself (positive or negative consolidation differences, etc.). The deductions consist of unconsolidated shareholdings, hybrid capital instruments and subordinated loans to banks and financial companies.

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
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/Ires	—	*Imposta sul reddito delle persone giuridiche/delle società* 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
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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