BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY 2000

THE GOVERNOR'S CONCLUDING REMARKS

Ladies and Gentlemen,

Last year the Bank continued to be intensively involved in the execution of the institutional functions of monetary policy and banking supervision in a setting that was rendered more complex by growing international openness and by the profound changes taking place in the economy and finance.

The Bank is contributing in the appropriate fora to a redefinition of the fundamental structure and characteristics of an effective supervisory system to enable it to cope with developments in international finance.

The decisions that we are taking in the European System of Central Banks call for economic and institutional analysis that must increasingly look beyond national borders. We are responsible for implementing the Eurosystem's decisions in our money market.

The efficiency of the procedures for market intervention, the management of foreign exchange reserves, the settlement of interbank payments and the production of statistics has been confirmed. The printing of banknotes in euros began in June 1999.

In our day-to-day activities, we cooperate closely and fruitfully with other regulatory authorities, first and foremost those superintending the financial markets and safeguarding competition.

We have launched a project to expand the services that the Bank performs through its branches. An important aspect of this is the enhancement of supervisory activities and economic research. It is planned to make economic and financial information more widely available, to the benefit of local communities.

In September we inaugurated the Donato Menichella Centre, in the presence of the Head of State, the Cardinal Vicar of Rome, the President of the Senate, the Vice President of the Chamber of Deputies, the President of the Constitutional Court and the Minister of Foreign Affairs representing the Government. The Centre is the technological hub for the Bank's telematic links with its branches, the banking system, the other central banks and the financial markets.

The Bank takes care to develop and constantly update the skills of all its employees, who are called upon to possess increasingly high qualifications in order to continue to operate effectively in the changed economic and financial environment.

The Directorate and the Board of Directors wish to express their gratitude to the staff for performing their tasks with professionalism and dedication to the values of the Bank.

The world economy

Share prices again rose sharply in 1999: by 34 per cent in Germany, 51 per cent in France and 22 per cent in Italy. In Europe most of the gains came in the last few months of the year. In the United States the rise amounted to 20 per cent.

The upward trend in share prices began in 1995. They have more than tripled in the United States and the euro area and nearly tripled in Italy.

The exceptional growth of the US economy and the continuous reduction in both nominal and real interest rates worldwide were behind the prolonged rise. The crises in Asia and Latin America were overcome last year; the European economy is recovering.

However, these factors only partially explain the level of share prices.

In 1995 price-earnings ratios were approximately 17 in the United States and 14 in Europe, in line with long-term averages. They have increased steadily since then, reaching 27 in Europe, 33 in the United States and 29 in Italy at the end of 1999.

Such share prices can be justified if long-term earnings growth is twice that projected for the entire economy and the risk premium for shares is half the historically observed figure of 6 per cent.

The prices of shares in companies in the information technology and telecommunications industries were very high. Analysts are forecasting that over the next five years earnings in these sectors will grow in nominal terms by between 20 and 30 per cent a year, depending on the market; individual company results are widely dispersed around the mean.

The riskiness perceived by investors, which is implicit in share prices, is low for these securities too. They may be useful in diversifying portfolios.

Linking technologically advanced sectors with traditional ones may significantly increase the latters' productivity and profits.

The increase in share prices occurred at a time of abundant liquidity on an international scale; it began in the United States and spread to the European markets as a result of the activity of global investors.

Price-earnings ratios are structurally higher in Japan than in the US or European markets, partly as a reflection of the low level of interest rates. Japanese share prices declined from mid-1997 to the end of 1998; from then until the early months of this year they recovered considerably, in parallel with developments in the other Asian markets.

In Europe the rapid rise in share prices continued until the first few days of March, with a further gain of about 20 per cent over the December average; in Italy the increase was almost 30 per cent.

A correction began in all the markets in April, but yesterday prices in Italy were still higher than at the end of last year. In the US market they were back below the end-1999 level.

Price-earnings ratios remain out of line with those of the last fifty years.

Share prices in high technology sectors continued to rise sharply in the first quarter, increasing by 40 per cent in Europe and by 30 per cent in the United States. In subsequent weeks the indices declined, so that by last week they were again close to the levels prevailing at the end of 1999 in Europe and 15 per cent below the December level in the United States.

International liquidity

In the early months of 1995, in the wake of the financial crisis in Mexico, there was a sudden flight from the dollar, the pound sterling and the lira towards the yen, the German mark and the French franc. The dollar lost 10 per cent of its value against the other leading currencies; the lira depreciated sharply. The Japanese yen appreciated by 20 per cent in the space of only a few weeks.

An increase in interest rates in the United States would have aggravated the crisis and caused it to spread to other Latin American countries. At their meeting in Washington in April of that year, the Group of Seven countries agreed to reduce official rates in Germany and Japan and to purchase dollars against yen in the market.

In Japan the discount rate was lowered immediately from 1.75 to 1 per cent and again in September 1995 to 0.5 per cent. In Germany it was reduced from 4 to 3.5 per cent in August, to 3 per cent in December and to 2.5 per cent in April 1996. Massive intervention was undertaken in the foreign exchange markets. In the second half of 1995 the dollar recovered the ground it had lost in the early months of the year, the yen fell below the value at which it had begun the year and the surge in the exchange rate of the mark slowed down.

The sharp reduction in official rates in Japan was followed by a swift expansion of the monetary base; the Japanese banks increased their lending in international markets.

Highly leveraged institutions borrowed funds cheaply in order to invest in the American and European markets.

Thus began a prolonged period of expanding liquidity and falling interest rates in all the leading economies.

Real long-term interest rates, which had stood at 4.2 per cent in the first half of the nineties, fell to 2.8 per cent in the two years 1996-97 and to 1.4 per cent in 1998; they rose to 1.8 per cent last year.

Share prices began to rise.

In the leading industrial countries the ratio between the money supply, including deposits held abroad, and GDP fell until 1996 but has been rising steadily since 1997. The ratio between the notional value of derivatives and GDP, which stood at 1.3:1 in 1995, was close to 3.5:1 at the end of last year.

The stock market value of shares and government and corporate bonds has risen from a GDP multiple of 1.7 at the end of 1994 to one of 2.8 at the end of 1999.

Net inflows of direct investment to the United States increased from $60 billion in 1998 to $130 billion last year; inflows of portfolio investment grew from $164 billion to $237 billion over the same period.

In the euro area net outflows of direct investment have risen steadily, to reach $146 billion last year; outflows of portfolio investment contracted between 1998 and 1999.

Outflows of capital from Japan have decreased.

The behaviour of the exchange rates between the leading currencies appears to be dominated by such capital movements.

The availability and low cost of financing have facilitated mergers and acquisitions of firms within the leading economies and internationally.

Around 33,000 such operations were carried out in 1999. The overall value of those for which the terms are known was $3.3 trillion. In Europe the number of operations rose from 9,300 in 1998 to 13,300 in 1999; the value of those disclosed came to $1.4 trillion last year.

The expansionary stance of monetary policies prevented the financial crises that affected several countries and areas in the second half of the nineties from spreading to the rest of the world.

It helped foster the recovery of the world economy.

Consumer price inflation and production costs were held down in the United States by the considerable gains in productivity and the dampening effect of immigration on wages, and in Europe by restrictive budgetary policies and wage moderation.

The economic recovery has triggered sharp increases in the prices of raw materials and crude oil. Pressure on property prices also became apparent last year in several countries.

Inflation has been rising since the second half of 1999. In March consumer prices in the United States rose by 0.8 per cent, or by 3.7 per cent on a twelve-month basis. In April the increase was more modest. Producer prices and wages came under pressure. In the euro area the rate of increase in consumer prices rose to 2.1 per cent in March; in April it was 1.9 per cent; no wage pressure has emerged.

The increase in productivity

The US economy grew at an average annual rate of 2.3 per cent in the first half of the nineties. From 1996 onwards the growth in output quickened to an average of 4.1 per cent. Salaried employment in the private sector, excluding agriculture, rose by 2.6 per cent a year. In April of this year the unemployment rate fell to 3.9 per cent, its lowest level in the last three decades.

The federal budget, which still showed a deficit of 3.3 per cent of GDP in 1995, achieved a surplus of 0.5 per cent in 1999.

Per capita wages and salaries rose in real terms. The growth in consumption was fuelled by the increase in employment and the rise in share prices. Inflation has remained low for many years, despite the acceleration in demand; the current account deficit has increased.

Productivity rose markedly throughout the economy in the second half of the decade.

The productivity gains are the result of a steady rise in the flow of productive investment, which has grown by almost 10 per cent a year since the early nineties. According to official statistics, tangible and intangible investment in information technology has risen from 12 per cent of the total flow in the early eighties to 42 per cent.

The growth in output is founded on the substantial stock of scientific discoveries and technical knowhow accumulated over recent decades. The number of patents granted has increased rapidly.

The hallmark of innovations in electronics, information technology and communications is the wide range of uses to which they can be put in all sectors of activity and their ability to be integrated with existing technologies.

Given the great flexibility in the use of production factors, the spread of new technologies has led to changes in US corporate organization, which displayed a high degree of vertical integration, and improved the efficiency of interfirm and intersectoral relations.

The result has been a profound re-organization of the whole economy. Productivity has increased. Competition has become keener.

Hourly labour productivity in the private sector, excluding agriculture, had risen at an annual rate of 1.3 per cent between 1973 and the mid-nineties. The rate accelerated to 2.5 per cent over the last four years. Higher capital intensity accounted for 0.4 percentage points of the acceleration and the remaining 0.8 points can be ascribed largely to the reorganization of production induced by the widespread use of information technology.

The increase in productivity averaged 5.2 per cent a year over the last four years in manufacturing as a whole and almost 8 per cent in the durable goods industry.

Hourly productivity rose by 3.0 per cent in 1999; the annualized rate of increase was 6.9 per cent in the last quarter and 2.4 per cent in the first quarter of this year.

The growth potential of the US economy, which until a few years ago was estimated to be 2.5 per cent, is now put at between 3.5 and 4 per cent. It is not clear whether the technological and organizational changes now taking place will be able to guarantee substantial increases in productivity in the next few years. Nonetheless, there still appears to be ample scope for applying the new technologies and the use of information technology can produce further productivity gains in several sectors.

World economic developments

South Korea and the other countries of South-East Asia returned to rapid economic growth last year following the sharp recession of 1998; their persistent balance-of-payments deficits were transformed into surpluses.

In Japan the strongly expansionary fiscal policy that has been pursued since 1998, while considerably increasing the public debt, has prevented the economy from falling into depression, which would potentially have grave consequences worldwide. In the first quarter of 2000 investment rose and consumption also showed signs of improvement. After pausing in the second quarter, growth is expected to resume and continue for the rest of the year; it is still being held back by the high propensity to save.

In the United States the growth of gross domestic product accelerated in the fourth quarter to an annual rate of more than 7 per cent. Economic activity continues to expand rapidly, at an annual pace of 5.4 per cent in the first quarter. Growth could exceed 4.5 per cent for the current year as a whole.

In Latin America the economy performed better than expected. The euro area enjoyed an export-led recovery in the second half of the year; productive investment is growing and consumption is rising. So far, the rise in demand and output has been weakest in Germany and Italy.

In 2000 the world economy is expected to grow by more than 4 per cent and world trade in goods and services by 8 per cent.

With the reappearance of inflationary pressures, the monetary authorities in the three main economic areas are taking a less accommodating stance. Between June 1999 and April of this year, the Federal Reserve raised the federal funds rate by 1.25 percentage points. In the Eurosystem, we raised the rate on main refinancing operations by 0.5 points in November, followed by a series of further increases totalling 0.75 points. Japan is also expected to raise interest rates, abandoning its policy of keeping them close to zero.

In May the strong growth of consumption and inflationary pressures induced the Federal Reserve to raise its reference rate by a further 0.5 points to 6.5 per cent.

Short-term yield curves are upward-sloping in the United States and Europe. Yields on ten-year government bonds denominated in dollars are around 6.5 per cent; those on comparable euro-denominated paper are about one percentage point lower.

The deficit on the current account of the balance of payments of the world's largest economy is increasing. Although it is probably overestimated, the deficit might potentially have a destabilizing effect on the exchange rates between the major currencies. The improvement in economic activity in Latin America is accompanied by persistent external deficits; they have been readily financed so far, thanks to the abundance of world liquidity.

The rapid and unbroken increase in the global ratio of financial wealth to economic output over the past five years raises questions about the stability of the present situation.

Vigorous economic growth in Europe and Japan would ensure greater consistency between finance and the real economy and moderate the external payments imbalances of the major areas.

The intensive and widespread use of new technologies in Europe would make a significant contribution to growth, competitiveness and employment.

Structural reforms of the public finances, the labour market and product markets are necessary to ease inflationary pressures and enable our economies to realize their growth potential.

The harmonious development of the world economy

Soundly based growth in the world economy requires a stable and efficient financial system.

The integration of capital markets improves the global allocation of savings; for the developing countries it relaxes the constraints on the availability of funds.

However, the risk of instability is increasing.

In the last few years investment by institutional investors has expanded at an extraordinary pace. At the end of 1998 the total assets of such intermediaries in the United States, Europe and Asia amounted to $30 trillion, roughly equal to global GDP. Banks have also contributed to the expansion of international finance.

If investors perceive that the return on capital invested in a given area is inadequate, sudden and massive capital outflows may ensue. The crisis may become acute if a large part of the external debt of the countries involved is short-term and denominated in foreign currencies.

The economic and social costs of financial crises are enormous.

The possibility of financial turbulence spreading poses a challenge to the ability of the international community to ensure the governability of a system marked by ever greater market integration.

Adequate evaluation of the risks is prevented by poor information on the use of funds, lack of transparency in the structures of intermediation and shortcomings in market oversight and banking supervision; these deficiencies may impede sound and prudent credit management.

There is serious concern about the quality of controls, especially in offshore financial centres.

The activity of intermediaries located in most of these centres eludes adequate checks on operating standards. Although the inflow of capital reflects the presence of innovative products and markets, the growth in the volume of transactions is also fuelled by low taxes, lax regulation and relatively impenetrable banking secrecy. The latter can be exploited for purposes of money laundering.

At the end of 1999 lending by banks domiciled in these centres to non-residents – mainly banks but also including a good number of heavily indebted non-bank intermediaries – totalled nearly $1.9 trillion, equivalent to about 4,000 trillion lire.

The Bank of Italy has allowed only Italian banks with effective internal control systems to set up establishments in these centres and has circumscribed their operations.

The Financial Stability Forum has asserted the need to improve the quality of information and strengthen supervisory arrangements in offshore centres.

For highly leveraged institutions, a risk control mechanism based on creditor banks has been proposed. The feasibility and advisability of exercising stricter prudential supervision over these intermediaries is being assessed.

Within the framework of the Group of Seven leading industrial countries, we have drafted a reform of the Bretton Woods institutions with the aim of adjusting their functions to the new global economic and financial environment.

The central role of the International Monetary Fund in promoting macroeconomic and financial stability is reaffirmed. The Fund's operations must be directed above all to crisis prevention through systematic surveillance of individual national economies. Funding must be provided in response to balance-of-payments requirements and to support structural reforms. The Fund must continue to grant subsidized credit to low-income countries in order to promote financial stability and economic growth.

An essential condition for growth in the world economy is an open trading system that eliminates tariff barriers and quantitative restrictions. The progress now being made could bring emerging countries with a large part of the world's population within the scope of the agreements. Consensus must be restored between the industrial and the developing countries in order to resume talks on agriculture and services with a view to a more equitable division of the benefits.

The World Bank and the regional development banks must foster growth and eradicate poverty in the backward countries in the medium term. Vast sections of the world's population must be given access to the primary goods of food, shelter, health care and education that they are currently denied. The initiative in favour of the heavily indebted poor countries must proceed.

Rapid, sustained growth in the world economy will also involve these countries, helping to ease their severe economic and social difficulties.

The year 2000 of the Christian era must go down in history as the year in which a start was made on correcting the huge international disparities in living standards. It can be the commencement of a period of more harmonious development in which all the nations of the Earth can participate with renewed dignity.

The financial system

The single currency has accelerated the integration of financial systems in Europe; it has stimulated efforts to find organizational structures for markets and intermediaries that are consonant with the rise in competition and the demand for new services.

The strengthening of the European system constitutes an element of stability for global finance. In Italy the financial system and intermediaries must continue their action in pursuit of efficiency gains.

In the euro area the ratio of the value of listed companies to gross domestic product was 90 per cent at the end of 1999, half the figure in the United States and the United Kingdom.

The capitalization of the Italian stock market stood at 66 per cent of GDP at the end of 1999; the increase of 35 percentage points from two years earlier is largely attributable to the rise in share prices. Italy's stock exchange has attained a high level of efficiency, but the number of listed companies remains small: there are 264, of which 44 were added in the last two years.

There are 968 listed companies in France, 1,043 in Germany and 718 in Spain.

The launch of the New Market in Italy has been an important factor for the flotation of firms operating in innovative sectors. It now lists twelve companies and many others have announced their intention to apply for admission. The market is part of a European circuit where the shares of 400 companies are traded.

At the end of 1999 the outstanding volume of bonds issued by residents was equal to 117 per cent of GDP in the euro area, compared with 180 per cent in the United States; the difference is largely due to the smaller stock of corporate bonds.

The value of Eurobonds issued by financial intermediaries and non-financial corporations of the area doubled in 1999; the presence of Italian companies increased. The benefits a wide market can bring for small and medium-sized firms have been confirmed.

The development of institutional investors in the euro area is still limited; pension fund assets are equal to 7 per cent of GDP, compared with 82 per cent in the United States.

Investment funds are more widespread. Their net assets are equal to 41 per cent of GDP, compared with 74 per cent in the United States. A quarter of the assets of European funds are administered by companies based in Luxembourg, where their profits are not taxed.

Venture capital activity is still underdeveloped in Europe and Italy. In 1998 and 1999 the 63 Italian and foreign intermediaries authorized to operate in Italy carried out more than 600 transactions. Less than 20 per cent of the total funding went to projects in high-technology sectors.

The structure of the banking system

In 1998 and 1999 there were 2,570 operations involving changes in the ownership structure of banks and other financial intermediaries in the European Union, nearly 50 per cent more than in the preceding two years.

The value of the 1,451 operations whose terms have been disclosed amounted to €430 billion; the average value of the operations carried out by Italian intermediaries was €860 million.

Corporate strategies were aimed at countering the erosion of profit margins by developing high-value-added services. The necessary investments are viable if they are made for large-scale production.

In the Italian banking system the number of banks in business has fallen from 1,176 to 872 since 1989. There have been 324 mergers; in another 137 takeovers the banks retained their legal personality. The target banks involved in mergers and acquisitions accounted for 40 per cent of total assets.

Banking groups of a size comparable to that of their main European competitors have been formed; three of the 15 largest banks in the euro area are Italian.

The key to the success of group-based consolidation is its ability to combine the advantages of brand preservation with those deriving from the coordinated monitoring of risks, the curbing of costs and the integration of policies for the production and marketing of services.

The reorganization of the Italian banking system is not complete. It also needs to involve medium-sized intermediaries.

As supervisory authority, the Bank of Italy evaluates proposed consolidation projects and monitors their implementation. It assesses the adequacy of risk measurement and management systems. It calls on parent companies to take prompt action to rationalize branch networks and integrate information systems and procedures.

The reorganization of the banking system has progressed in parallel with privatizations. Since 1993 the share of assets attributable to banks controlled by the state or by foundations has fallen from 70 to 12 per cent.

In compliance with the legal restrictions designed to safeguard banking stability, industrial firms have acquired minority holdings in banks. The largest proportion of banks' share capital has been acquired by other intermediaries, both Italian and foreign; a substantial percentage has been sold to small investors.

Cross-shareholdings between banks are common in other financial systems; they reflect the need for diversification and the desire to enter business areas where the investee undertakings have gained considerable experience; links between banks and insurance companies have developed. An average of 3.5 non-group bank or insurance companies hold shares in the capital of the 15 largest euro-area banking groups. For the Italian banks in this set the average is 5, reflecting the larger number of foreign shareholders.

The participation of several intermediaries in the capital of banks was crucial to the privatization programme. The Bank of Italy ensures that this does not impede competition.

Italy's major banks have the ability to become significant players in important areas of business in Europe; success in other countries will consolidate their tendency to expand their supply of services and will increase their sources of income.

Competition

Competition with foreign intermediaries is intensifying; the latter have acquired significant market shares in several business areas. Liberalization of the rules on the establishment of banks and the opening of branches has strengthened competition in local credit markets.

Today the branch network reaches towns and cities where 97 per cent of the population lives; the average number of banks represented in each province has risen from 27 to 31 in the past decade.

Innovative ways of delivering financial services are helping to increase the information provided to customers and the possibility to choose from among a plurality of intermediaries. A total of 418 banks now offer firms facilities for carrying out transactions by computer; nearly a million customers make use of telephone banking.

In the newly-developed areas of business, small and medium-sized banks are also gaining ground. The ability to establish a position in these fields has beneficial effects on market shares in traditional types of operation and on profits.

The growing use of the Internet is concentrated at present on securities trading. Banks are providing increasing support for e-commerce projects. These activities are not without specific risks, which can affect the reputation of intermediaries; a strengthening of internal control systems is necessary.

The prudential and regulatory issues are being examined at both the domestic and international levels.

Competition has led to large shifts in market shares, over and above that deriving from mergers.

The redistribution of market shares has been most pronounced in the household loan market. Competition has helped to hold down interest rates;

mortgage rates have risen less in Italy than in the other euro-area countries since the spring of 1999.

The spread between short-term lending and deposit rates narrowed from 6.4 to 5.0 percentage points between 1991 and 1996, despite the increase in credit risk. In the next three years the spread narrowed by another point. At the end of 1999 it was in the middle of the range for the main countries of the euro area.

Mergers and acquisitions have created intermediaries that are able to attain higher levels of operational efficiency, to the benefit of customers.

Competition in local markets has not lessened. Empirical studies of provincial deposit markets have shown that during the nineties the rates and conditions applied by banks resulting from mergers tended to shift in favour of savers.

The lending rates of the banks with the largest shares of regional markets have declined, coming into line with those of other banks.

We have conducted 33 investigations since Law 287 of 1990 came into force. The Bank has verified whether the conduct of intermediaries constituted abuse of a dominant position in five cases and agreements in restraint of competition in another twelve.

Sixteen mergers have been examined for the formation of dominant positions; compensating measures, such as the closure or sale of branches and a temporary ban on the opening of new branches, were imposed in ten cases.

All five of the investigations initiated in 1999 on cases of concentration concluded with the imposition of compensating measures.

Two investigations concerning agreements were also conducted last year. The first concerned the manner of determining the commission for exchanging banknotes of the euro-area countries. As a result, the Bank issued a warning against schemes aimed at a uniform determination of the prices and conditions applied by banks.

The second investigation concerned agreements for the exchange of information on the main balance sheet aggregates and for the setting of certain commissions. Anti-competitive effects were found in two cases and fines amounting to 33 billion lire were levied.

The action of the Bank of Italy to promote and safeguard competition is bringing benefits primarily for small businesses and households.

Restoring efficiency

The profitability of the Italian banking system moved back closer to the European average; further improvements in efficiency are still needed, especially for the largest banks, which are those most exposed to foreign competition.

In 1998 banks' net profits were equal to 7.4 per cent of capital and reserves in Italy, 14.0 per cent in Spain, 10.2 per cent in Germany and 8.3 per cent in France. The gap between Italy and the average for those three countries was 3.4 percentage points; a year earlier it had been 7.4 points.

One percentage point of this difference is due to Italy's higher level of direct taxation.

In 1999 the return on equity rose to 9.3 per cent, owing in part to extraordinary income.

Banks' profits were sustained by earnings from asset management. Profits on trading in securities and foreign currencies diminished. Net interest income declined to 1.95 per cent of total assets, the lowest figure in thirty years. Operating expenses rose by 2.2 per cent.

Extraordinary income derived from the disposal of equity interests and the recording of tax benefits accrued in previous years. The tax burden will be eased by the application of dual income tax from this year onwards and the reductions in the rate of the regional tax on productive activities to take effect in 2001 and subsequent years.

The diminution in credit risk translated into a decrease in new bad loans to 1.4 per cent of total lending; in the South the ratio came down to 2.8 per cent.

The recovery in profitability stems from changes in the banks' product mix and improvements in operating efficiency. During the second half of the past decade the portion of gross income generated by services and trading in securities and foreign currencies rose from 26 to 43 per cent.

The number of bank employees declined by 8 per cent.

The major banks benefited from mergers and acquisitions, rapidly expanding their asset management and business services. The scope for developing financial market services has broadened; thanks to better information, domestic intermediaries enable firms to place bond issues in Europe at lower interest rates.

Each year from 1994 to 1997 the ten largest banks recorded an overall net loss, owing in part to loan losses generated in the past recession. Restructuring necessitated staff reductions; in the last three years voluntary redundancy payments were made to 11,200 employees. In 1998 and 1999 these banks' return on equity was on average 2 percentage points better than that of the rest of the banking system.

Banking is highly labour-intensive; productivity being equal, higher factor costs than those of competitors are not sustainable in the medium term.

Italian banks' per capita labour costs remained unchanged in 1999 at 114 million lire. In 1996 they were 31 per cent higher than the average in Germany, France and Spain. The gap narrowed to 17 per cent in 1998, 7 points of the improvement stemming from the abolition of health contributions, which were absorbed into the new regional tax on productive activities.

The new national labour contract for the banking industry came into effect in November. It provides for a total wage increase of 2.5 per cent over the four years from 1998 to 2001. Automatic seniority increments and entry-level salaries were revised. Action plans were agreed to make work organization more flexible, improve training and upgrade employees' skill levels.

The new contract brings opportunities for developing the system and increasing its efficiency that must be seized by management and trade unions.

The quality and quantity of the services banks provide to investors and firms must be raised by using new technologies and taking best advantage of flexibility in working practices and salaries.

The development of the capital market is tending to reduce the share of bank lending going to large firms. Banks are increasingly lending to smaller customers; the share of credit to households has risen from 15 to 19 per cent in the last three years, although this is still only half the average for the euro area.

Efforts to reinforce risk-control measures must continue, especially in a situation of strong loan demand, rising real estate prices and highly volatile share prices.

Under the provisions of the envisaged amendment of the Basle Capital Accord, banks will have to develop methods for classifying their customers so as to improve the measurement of insolvency risk, especially for firms that have not been rated by specialized agencies. The capital requirements for banks unable to adopt the more advanced techniques will be assessed using a standardized approach that could result in a higher solvency ratio.

The findings of regular on-site inspections have been more positive than in the past. Increasing importance is being given to assessing organizational structures.

In the three years from 1997 to 1999 inspections were conducted at 517 banks controlling 34 per cent of the banking system's total assets. Positive judgments were given for banks controlling 17 per cent of assets, while partially positive judgments were issued for banks with 13 per cent of assets. Findings of inadequacy were made for banks holding 4 per cent of assets, compared with 9 per cent between 1994 and 1996.

In an era in which capital moves swiftly in search of the highest-yielding investments, there is considerable scope for comparing the quality and cost of services offered by intermediaries at both the national and international levels.

Financial conditions must be created that will stimulate the growth of firms, especially those operating in innovative sectors, where risks and returns are high and the ability of companies to provide real guarantees against loans is limited. It is up to intermediaries to develop a broader range of financing options, including venture capital. The funds available within the Community from international financial institutions should be utilized.

The expansion of the stock market should be fostered by removing the factors that discourage Italian firms from seeking a listing.

Pension funds must grow to a size commensurate with that of the Italian economy in order to facilitate the reform of the pension system and increase the flow of funds to long-term investments. The reorganization of the banking system and an improvement in the structure of the capital market will help attract financial investment from abroad and lock savings into the Italian economy.

The banks' extensive knowledge of firms' activities can be used to foster the rapid spread of technological innovation, which is essential for increasing productivity, competitiveness and employment.

The Italian economy

Investment is increasing in the euro area, stimulated by the ample supply of loanable funds and the low cost of capital. Business expectations are leaning towards optimism.

Money market reference rates were reduced to 3 per cent at the end of 1998; we lowered the main refinancing rate again to 2.5 per cent in April of last year.

The yield on 10-year government securities fell below 4 per cent in early 1999.

Households have been adopting a cautious attitude towards spending for quite some time. Although it began to grow again in 1998, consumption is still being dampened by the smallness of the increase in employment.

Output stagnated in Germany and France from the spring of 1998 until the first quarter of last year. In Italy industrial production fell from December 1997 to May 1999.

After slowing down in the wake of the crises in Asia and Latin America, world trade in goods and services increased by 6 per cent in the second half of 1999.

Economic activity recovered swiftly in all countries and in all sectors, in association with the increase in exports. In December output in the euro area was 4 per cent higher than the low recorded in the early months of the year.

The expansion continued in the first quarter of this year. The largest increases were in the production of capital and intermediate goods; the supply of consumer goods rose more slowly.

The year-on-year increase in the money supply was 6.2 per cent in December 1999; in April the rate of growth rose to 6.5 per cent. Credit demand is increasing rapidly.

The easier monetary conditions fostered capital outflows. The weakening of the exchange rate sustained exports. The fall amplified the increases in the prices of oil and raw materials, causing consumer price inflation to rise to around 2 per cent.

The pressure on producer prices is a source of concern. The year-on-year increase in the manufacturing sector reached 6.2 per cent in March, while the prices of intermediate goods rose by 9.8 per cent.

Long-term interest rates began to rise again in May 1999. In order to counter inflationary pressures, we raised the reference rate by 50 basis points in the autumn and by a further 75 points in a series of steps in the early months of this year.

In 1998 the GDP of the eleven euro-area countries increased by 2.7 per cent. In 1999 it rose by 2.3 per cent.

In Italy, GDP increased slightly in the first half of 1999; in the second half it grew at an annual rate of 2.5 per cent. Growth for the year as a whole amounted to 1.4 per cent.

Although exports accelerated from the second quarter of 1999 onwards, they contracted by 0.4 per cent for the year as a whole.

Competitiveness

Public sector net borrowing decreased from 11.1 per cent of GDP in 1990 to 1.9 per cent last year.

Consumer price inflation fell from an annual average of around 10 per cent in the eighties to 3.9 per cent in the nineties, reaching 1.7 per cent in 1999.

Long-term interest rates declined from well above 10 per cent in the early nineties to under 5 per cent in 1999.

These figures testify to the restoration of macroeconomic stability that enabled Italy to participate in monetary union.

The macroeconomic imbalances accumulated in previous decades forced corrections on the Italian economy that had a significant impact on growth, employment and the structure of society.

Gross domestic product rose by an annual average of 1.4 per cent between 1990 and 1999, 0.7 points less than in the other ten countries of the euro area. The shortfall over the period as a whole was 7 percentage points.

The Italian economy's difficulties in keeping pace with the European and world economies became increasingly evident, especially in the second half of the decade.

In the four years from 1996 to 1999 world trade in goods and services increased by 28 per cent in volume terms. Italian exports grew by 10 per cent. Gross domestic product expanded by 6 per cent over the same period, while imports increased by 24 per cent.

In the other ten euro-area countries GDP increased by 9.5 per cent over the four years. Exports and imports rose by 31 per cent.

If the comparison is extended to the five-year period from 1995 to 1999, Italian exports increased by 24 per cent, compared with 41 per cent in the other euro-area countries. World trade expanded by 39 per cent over the same period.

Domestic demand in Italy increased at the same pace as in the other European countries. Industrial production grew by 4.4 per cent in the four years to 1999; it expanded by 13 per cent in the other countries. Since 1994 it has increased by 10 per cent in Italy and by 16 per cent in the rest of the area.

The gap between supply and demand was covered by the surplus on the current account of the balance of payments. It declined from 43 trillion lire in 1995 (2.4 per cent of GDP) to 17 trillion in 1999 (0.8 per cent).

The inadequate response of output to demand, the high elasticity of imports and the slow growth in exports underscore the problems of our economy's competitiveness.

After the foreign exchange crisis of 1992, Italian industry's unit labour costs relative to those in the other industrial economies had returned to their level of the early eighties.

In 1996, following the depreciation of the lira in early 1995, relative unit labour costs had returned to their 1993 level. The re-entry into the European Exchange Rate Mechanism in November 1996 set the seal on the restored external stability of the lira.

It was not accompanied by parallel stability in unit labour costs.

Italy's loss of competitiveness vis-à-vis the other industrial countries in terms of unit labour costs amounted to 6.2 per cent between 1996 and 1999.

Measured in terms of producer prices, competitiveness decreased by 2.3 percentage points between 1993 and 1999. Over the same period, the competitiveness of industry in Germany and France improved by 7 and 8 percentage points respectively.

Productivity growth was inadequate.

Labour productivity in Italian manufacturing industry increased by an annual average of 2.1 per cent during the nineties.

Over the same period productivity increased by an annual average of 3.4 per cent in the United States. Labour productivity in industry rose by 3.0 per cent a year in Germany and by 3.7 per cent in France.

The gap widened in the second half of the decade.

The annual average rate of productivity growth in Italy fell to 0.7 per cent between 1995 and 1999; in the other major industrial countries it was on the order of 4 per cent.

The slowdown in productivity growth reflects a deficiency of innovation.

In Italy the rise in wages and contributions per unit of labour employed exceeded productivity growth by 12 percentage points between 1995 and 1999. By contrast, productivity gains exceeded the rise in labour costs by 4.4 points in France and 5 points in Germany.

The widening of the tax wedge played a significant role in Italy. Over the decade per capita gross earnings of public and private-sector employees rose by 42 per cent, nearly the same as the rise in consumer prices. In real terms, there was virtually no growth. Owing to the increased incidence of personal income tax, net earnings lost an estimated average of 5 per cent of their purchasing power in the nineties.

Domestic demand for consumption and investment increased more slowly than in the previous decade, although the rise was similar to that in the other European countries.

Supply did not respond.

The erosion of Italy's market shares was greater than can be explained by changes in relative costs. It reflects external diseconomies and an insufficient adjustment of the composition and quality of output.

The level of taxes and contributions, the rigidities in the labour market, the inadequacy of infrastructure, the regulatory obstacles that penalize small firms and the inefficiency of the public administration put a brake on development.

Employment

The number of people in work, as measured by labour force surveys, rose from 20,026,000 in 1995 to 20,692,000 in 1999. The increase over the four years was equal to 3.3 per cent; GDP per worker rose in real terms over the same period by 2.6 per cent.

In the other ten euro-area countries employment increased by 5.3 per cent between 1995 and 1999, GDP per worker by 4 per cent.

There was a change in the structure of employment in Italy during the nineties, especially in the second half of the decade.

The number of permanent full-time employees fell by about 627,000 between 1993 and 1995. It remained close to 12,600,000 until the spring of 1999, since when it has risen by about 120,000.

The recent increase in salaried employment has been concentrated in the service sector; it has consisted almost exclusively of part-time and fixed-term jobs. The number of employees with such new forms of contract rose from 1,600,000 in 1995 to 2,200,000 at the end of 1999.

It is becoming more difficult to find employment in the private sector on favourable conditions as regards job security, earnings growth and promotion on the basis of skills and experience.

Structural changes in employment took place in the nineties in all the countries with a long industrial tradition.

In order to respond to the competition from economies with very low labour costs and limited social protection, economic activity is tending to shift towards technologically advanced, high-quality products and services with a higher value added.

At the same time employment relationships are being deregulated and closer links created between wages and productivity.

Employment regulations are being enforced, avoiding exploitation of the weakest workers and guaranteeing adequate minimum earnings, safety at the workplace and social security cover.

Even more than in the unemployment rate, the structural weakness of Italy's system of employment is reflected in the employment rate, defined as the ratio of persons in any form of employment to the population of working age.

In the euro area as a whole the employment rate is 60 per cent; in Italy it is 52 per cent and in the Mezzogiorno it falls to 41 per cent.

The indicator is equal to 71 per cent in the Netherlands, which has a large number of part-time workers. High values, of 67 and 63 per cent respectively, are to be found in Portugal and Ireland, where earnings and labour costs are relatively low and the rules flexible.

The employment rate in the United States is 75 per cent.

The proportion of self-employed workers is particularly high in Italy, evidence of the difficulty of finding salaried employment, even in forms other than permanent full-time jobs. In the non-farm sector the proportion of self-employed workers is 27 per cent; Greece is the only country in the European Union in which it is larger. In the leading industrial countries the proportion is around 10 per cent, in the United States it is 7 per cent. In Spain and Portugal, whose economies are less developed than Italy's, it is 20 per cent.

The number of workers in the underground economy has risen to an abnormal level. Their earnings are well below the average; they have virtually no social security cover or accident insurance.

The difficulty of achieving growth and creating employment is reflected in the distribution of income and indicators of poverty.

The proportion of full-time workers whose net earnings are less than two thirds of the median value rose from 8 per cent in the second half of the eighties to 12 per cent in 1998.

In 1998 some 13 per cent of households had an income below the poverty line. The proportion in the South was 27 per cent; it had been rising since the beginning of the nineties.

The effects of the problems facing the economy have been unequally distributed across the country.

Of the 670,000 jobs created since 1995, 550,000 were in the Centre and North and 120,000 in the South.

Between 1990 and 1999 gross domestic product grew by 13.5 per cent in the Centre and North and by 7.1 per cent in the South: a differential that accentuated the disparities between the two Italies.

Between January 1999 and the early months of this year the increase in employment amounted to 1.1 per cent; from the middle of the year onwards it spread to the regions of the Mezzogiorno.

The short-term outlook

According to the International Monetary Fund, the Italian economy will grow by 2.7 per cent in 2000, the economy of the euro area by 3.2 per cent.

The European Commission expects the gross domestic product of the euro area to grow by 3.4 per cent; consumer prices are forecast to rise by an average of 1.8 per cent, a figure that is not consistent with the current exchange rate.

The growth rates of the euro-area countries are widely dispersed. Output is expected to increase by 7.5 per cent in Ireland, by 3.8 per cent in

Spain and by 3.7 per cent in France. For Germany and Italy, the Commission forecasts GDP growth of 2.9 and 2.7 per cent respectively.

Whether the Italian economy expands in line with the forecasts of international organizations will depend on the ability of Italy's exports and productive system to participate in the recovery of world trade and international growth.

Households' spending on consumption is still tending to slow down. It is being held back by the tightness of fiscal policy and slow income growth in previous years. Purchasing power is being eroded by the increases in utility charges and the prices of energy products.

Consumption should begin to pick up next year.

The low cost of capital, adequate profitability and tax incentives continue to sustain investment.

In all the leading industrial countries investment in construction has shown a sharply downward trend in recent decades. In Italy the increase in the tax burden on residential buildings and the reduction in public investment were contributory factors during the nineties.

Since last year investment in housing has been encouraged by the large fall in long-term interest rates and the tax incentives for the renovation of buildings.

Investment in plant, equipment, transport equipment and intangible goods has been growing for several years. Between 1995 and 1999 it rose by 23 per cent in real terms, four times the increase in gross domestic product.

Growth of nearly 7 per cent is expected in 2000.

In the last three months of 1999 industrial production was up by 3.4 per cent compared with the trough in the second quarter.

Surveys of business opinion continue to point to expectations of growth. In the first quarter of 2000 production was 0.5 per cent higher than in the last three months of 1999. In April it weakened; provisional estimates for May indicate a significant recovery.

Exports are forecast to grow by 9 per cent at constant prices, or faster than world trade; imports are not expected to rise by more than 6 per cent.

Compared with the lows recorded at the beginning of 1999, Italy's trade flows at current prices have been marked by a sharp rise not only in exports but also in imports; this is true as regards both the other countries of the European Union and the rest of the world. Non-price competitiveness continues to have an adverse effect on Italian trade.

The flexibility introduced into the labour market should lead to a further substantial increase in employment in the private sector, mainly in the form of fixed-term and part-time jobs.

This scenario suggests that it will be possible to reduce public sector net borrowing to around 1.5 per cent of GDP.

It is necessary to achieve the objective of a balanced budget in three years' time, by taking resolute action with regard to the primary surplus. The increases in short and long-term interest rates will have marginal repercussions on the public finances in 2000. Their impact will tend to grow in the coming years.

The public sector

The reduction in net borrowing from 7.6 per cent of GDP in 1995 to 1.9 per cent in 1999 was brought about initially by increasing the ratio of taxes and social security contributions to GDP; it was accompanied by a first substantial fall in interest payments. Subsequently, in the two years 1998-99, the ratio fell by 1.3 percentage points; interest payments fell by another 2.6 points in relation to GDP.

Of the 5.7 point reduction in the deficit in relation to GDP in the last four years, 4.7 points were due to the decline in interest payments.

Starting from 36 per cent in the mid-eighties, the ratio of taxes and social security contributions to GDP in Italy was raised to an average of 42 per cent in the first half of the nineties. Net borrowing showed only a marginal improvement because interest payments rose substantially at the same time.

In the nineties the gross saving of the private sector declined sharply in relation to national income, closely mirroring the improvement in the public finances. Between the two years 1995-96 and 1999 the ratio of the general government current account deficit to national income fell by 5.4 percentage points; the private-sector saving ratio fell from 26 to 20 per cent.

The increase in the tax burden and the decrease in transfer payments caused by the contraction in interest payments depressed households' disposable income. In real terms it rose by 2.2 per cent over the four years in question. If account is taken of the smaller erosion of financial wealth, households' disposable income can be estimated to have increased in real terms by 8 per cent over the period.

Despite the support this provided, the growth in consumption has been slowing since 1998. This has curbed the expansion in economic activity and the formation of income in the private sector.

The reduction in the economy's rate of growth is related to the steady and substantial increase in the tax burden over the last two decades. This was not matched by an improvement in the quality of expenditure. Significant progress has not been made in enhancing the efficiency and effectiveness of the public administration. Spending on public investment has declined. Pension expenditure has continued to increase even after the wide-ranging reforms enacted in 1993 and 1995.

The economy has failed to respond effectively by raising productivity and improving product quality. The fragmentation of production has increased. The composition of employment has deteriorated; flexibility has been achieved in part through recourse to undeclared workers.

The deficit spending of the eighties did not cause the Italian economy to grow more rapidly than the rest of Europe. The expansion of production and investment was hindered by inflationary pressures. The build-up of public debt accelerated.

The budgetary measures taken in the early nineties, especially the restrictions imposed in 1993, averted a financial crisis. But the drastic curbing of the deficit brought a reduction in gross domestic product and caused a sharp fall in investment.

Especially in the second half of the nineties, the adjustment of the public finances should have hinged on a more determined reduction in current expenditure, a drive to increase public investment and a decrease in taxes and social security contributions in relation to GDP.

The turning point for the functional efficiency of the public administration came with the reform and simplification of the legislative framework; in the last three years steps have been taken to streamline the bureaucracy.

Small enterprises, which form the core of the Italian economy, are still subject to an array of rules and a tax burden that hamper their growth.

The economy's competitiveness is diminished by the excessively slow working of the civil courts.

The basic concepts of the administrative system need to be re-examined with a view to improving its functional efficiency in an environment marked by increasing international openness and rapid changes in markets.

With economic activity picking up, fuelled for the time being by exports, the planned reduction in the tax burden should have a positive effect on domestic demand and supply.

Achieving a higher level of public investment depends first and foremost on the efficient working of government departments and the project-development capabilities of local authorities. The shortcomings in the latter must be made good by supportive action on the part of central government. Local authorities can also turn to the private sector for planning, design and advisory services.

Consumer price inflation in Italy in 2000 will be about 2.3 per cent, higher than in the other European Union countries.

An increase in interest rates in line with that implicit in the yield curve may again depress growth in 2001.

It is essential that Italian exports keep pace with the growth in world trade and reverse the tendency they have shown in the last few years to lose market share.

Ladies and Gentlemen,

The recovery under way in Europe and Italy must mark the start of a new period of growth.

The depreciation of the common currency has boosted the competitiveness of European industry, but it is a short-lived benefit.

The ratio between financial assets in the euro area and the rest of the world has changed to our disadvantage. The relative value of European firms has declined.

This trend must be reversed.

Confidence in the currency and in the institutions responsible for managing the economy fosters growth by attracting investment.

Money is the counterpart of the credit granted to the economy. As the economy strengthens, so will the currency.

Europe must invest and innovate. There is a need for uniform taxation of financial assets and harmonization of company law and taxation. A citizens' Europe calls for conditions, especially as regards pensions and welfare, that will allow workers to move easily within the area.

Economic competitiveness has its roots in the real economy and the ability of firms to derive ever greater value added from the resources of capital and labour.

In Italy the deterioration in growth during the nineties can be traced back to imbalances that had developed over the years.

By reducing competitiveness, the slowdown in productivity growth in the second half of the decade was reflected in a contraction in Italy's share of world trade in goods and services and an unsatisfactory increase in industrial output.

Thanks to the resolutely disinflationary monetary policy pursued since 1994, the closing of the gap between public expenditure and revenue and the objective of participation in the single European currency, we were able to restore monetary stability.

However, the structural problems of the fragmentation of industry and the paucity of innovative products are reappearing.

The emergence of a renewed risk of inflation and the need to improve competitiveness call for a definitive reform of the pension system and the elimination of the still considerable rigidities in the labour market.

A closer relationship must be established between labour costs, which include a substantial tax wedge, and productivity.

It is necessary to introduce bargaining arrangements and types of employment contract more in tune with the changes that have occurred in the global environment in which the economy has to operate.

Cooperation between the two sides of industry is an essential requisite.

The confrontational episodes at the heart of industrial relations must translate, over the long term, into strategic cooperation aimed at achieving cost-effective production, competitiveness and growth.

There is scope for the application of new technologies, especially information technology, for the creation of new products and for the reorganization of the economy.

It is up to entrepreneurs to achieve advances in this area; legislation, taxation and the labour market must create a favourable environment.

Small businesses have always been one of the strengths of the Italian economy. They have flexible forms of organization. The administrative and fiscal constraints that limit their growth must be removed.

Industrial districts give small enterprises the chance to enjoy some of the advantages available to larger firms. Information technology can widen the confines of districts, lead to a nationwide reorganization of relations between firms and sectors and increase the efficiency of the economy as a whole.

The new economy is nothing more than the reorganization of existing economic structures by applying information and innovation. It calls for knowhow and expertise, which can be derived from closer cooperation between firms and research bodies and universities. Innovative technologies and forms of organization can be imported from the advanced economies; they need to be adapted to suit the features of our own system of production.

Small firms and the Mezzogiorno can benefit enormously from these advances.

The upturn in the world economic cycle offers an opportunity to undertake the necessary reform of legislation, public expenditure and taxation.

It is time to act.

The planned easing of the tax burden this year must constitute a credible first step towards larger reductions over the medium term. The growth in current expenditure must be curbed, thereby reducing its ratio to GDP.

We must combine the reduction in the deficit with higher public investment.

A place can be found in economic and financial planning for guidelines that encourage the emergence of new ways of raising productivity and improving product quality. The environment and the cultural heritage are two reservoirs of wealth for the years to come, and not only in the economic sense.

The new economy will benefit from the information on the situation of a host of small and medium-sized enterprises that the major banks already possess.

The combination of banking with the knowledge and resources of firms in the high technology sector must also bring benefits for the whole economy.

The strengthening of a banking system in which the strategic decisions continue to be taken in this country anchors the ownership of industrial groups to domestic savings.

In the not too distant past, after the abandonment of the monetary order created at Bretton Woods, it was held that a financial system left to develop and operate in accordance with market forces could automatically lead to growth and stability in the world economy.

The last two decades have seen not only rapid advances in emerging countries, but also the marginalization of some weaker economies and bouts of instability, which were in danger of engulfing the financial systems and economies of large as well as small countries.

The need for a system of financial governance by means of global supervision that leaves individual intermediaries the degree of freedom consistent with stability is reasserting itself forcefully.

Financial capitalism has shown itself to be a powerful factor in the creation of wealth, but also to be even more unstable than traditional industrial capitalism.

A concept of economic and financial power based on the formation of large conglomerates combining industrial, commercial and financial activities has proved not to be a winning formula. This lesson comes from some economies in the Far East, whose fragility at times of serious financial turmoil has given rise to crises with far-reaching consequences.

Systems in which there is a clear separation between financial intermediation and industrial activity have been shown to be superior in terms of stable long-term growth. This is the model adopted in Italy. While we are keen to foster a greater spirit of competition in the banking sector, a dangerous intermingling of industry, commerce and finance must be avoided.

Globalization raises new problems for development and the distribution of wealth at world level. Global finance is a source of progress, but it can also undermine existing arrangements in more backward economies, thereby marginalizing them.

A new awareness of the need to pay attention to the redistributive effects of growth has emerged among the leaders of the more developed countries as well.

International cooperation must be intensified; imbalances are still too prevalent. The Holy Father recently spoke out to warn us and exhort us to globalize solidarity.

Human rights demand it; the economy needs it.

Turning once more to Italy, we must meditate again on the principles enunciated in our Constitution. Liberty, equality and fraternity, freedom and independence are values enshrined in the law of nations with a long tradition of democracy. Their spirit permeates all modern constitutions.

The fathers of our Constitution wanted the central value of our laws to be Man, for whom work is a precondition for complete personal realization, including the effective exercise of civil and political rights.

The advances in macroeconomic stability achieved in recent years have created a valid base from which to defeat the form of social marginalization that comes from unemployment.

This objective is within our reach.

It is also an objective that we must all share. It is the point at which economic, social and political aims converge. It is for the state and its institutions to find the ways and means of achieving it.

It is the factor on which the future of our civilization, our values, the development of Italian society and our young people depend.