BANCA D'ITALIA

ABRIDGED VERSION OF THE

REPORT

FOR THE YEAR

1983

PRESENTED BY THE GOVERNOR TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1984

ROME
PRINTING OFFICE OF THE BANCA D'ITALIA
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THE INTERNATIONAL ECONOMY

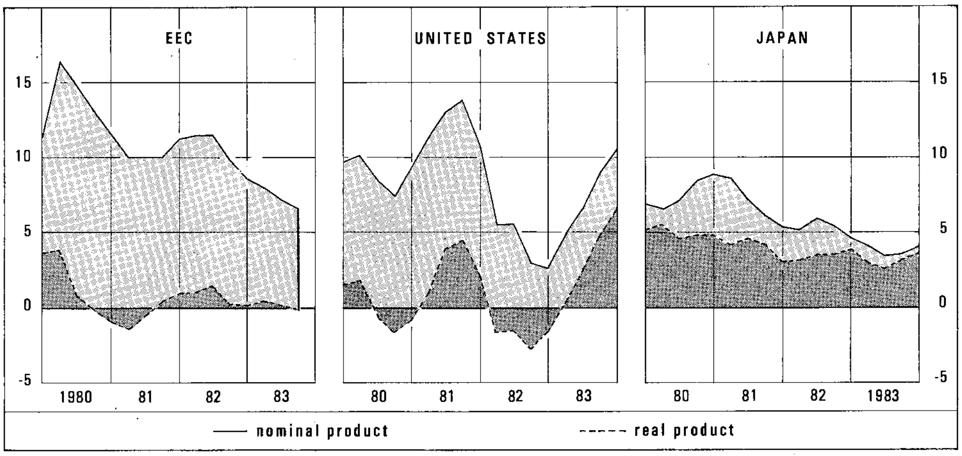
Business conditions and economic policies

The economic adjustment and anti-inflation policies followed by the leading industrial nations for the last three years produced a substantial improvement in underlying economic conditions in 1983. World GNP, which had stagnated in 1982, rose by 2 per cent -with no rekindling of inflation. Following the previous year's decline, world trade expanded by 2 per cent, entirely owing to increased trade among industrial countries. The developing countries got over the most acute phase of the financial crisis that had weighed so heavily on the international financial markets in 1982.

The most significant economic event for the industrial economies was the recovery in the United States. The other leading industrial nations also passed the low point of the cycle. Everywhere, the components of demand are tending towards more balanced growth than in the past. There remain, however, some problems for which no easy solution is in sight, first and foremost unemployment, particularly among the young. The growing American budget deficit, which helps keep interest rates high, gives grounds for concern. The US monetary authorities have repeatedly emphasized that an easing of monetary conditions depends on the adoption of measures to curb the Federal deficit. In the countries of the European Community, economic performance continues to be hampered by structural problems. Despite the progress made, the external financial situation of the developing countries is still precarious. While the economic recovery in the industrial countries may help improve the developing countries' trade balances by boosting their exports, their debt service burden remains substantial, while their ability to obtain additional credit appears to be limited.

Economic activity expanded at different rates and at different times in the industrial countries, accentuating cyclical divergences (Fig. 1). In the United States and Japan, GNP rose by 3.4 and 3.0 per cent respectively, sustained by domestic demand and, in Japan, by foreign demand as well. In the EEC, the only country to achieve comparable growth was the United Kingdom (3.0 per cent). GDP rose by 1.3 per cent in the Federal Republic of Germany and by 0.4 per cent in France. Industrial production in the United States increased by 6.4 per cent and at the end of the year was higher than the previous peak recorded in the third quarter of 1981. For the EEC as a whole, by contrast, industrial output remained at about the 1982 average.

Figure 1



Real and nominal gross product in the EEC, the United States and Japan (1)

(percentage changes on corresponding period in previous year)

Sources: National Bulletins, Eurostat

(1) GDP for the EEC; GNP for the United States and Japan.

The American recovery differed in several significant ways from previous upturns. Domestic demand rose more than in past recoveries (4.6 per cent), and the rise in gross fixed investment was particularly sharp (8.4 per cent). The main factors stimulating this exceptional rise were the large budget deficit, the fall in interest rates, the increase in real financial wealth caused in part by the slowdown of inflation, and the rise in corporate income.

In some of the major EEC economies, the production recovery was led at first by private consumption. In the second half of the year it was fuelled by the improved trend in foreign demand.

Overall economic policy stances were modified in 1983, principally as the result of changes in monetary policy, since the fiscal policy approach remained virtually unchanged. The easing of monetary conditions, which had begun in mid-1982 in the United States and then spread to the other industrial countries, ended in the second half of 1983. The halt was especially brusque in the United States. In the EEC, interest rates rose in the Federal Republic of Germany, Belgium and the Netherlands, while in all the other EEC countries but the United Kingdom the indicators pointed up the tightening of monetary conditions. In Japan, by contrast, there was no change in monetary policy, which continued to be moderately expansive.

The monetary authorities' caution in the current phase of the business cycle springs from the consideration that despite the gains made, economic adjustment has not yet been fully achieved, particularly in some countries. They are also well aware that in past cycles the premature and sometimes excessive relaxation of monetary constraint produced effects requiring them to be much less accommodating at a later stage.

Europe compared with the United States and Japan

The performance of the EEC economies over the past four years has been unsatisfactory, compared both with their own earlier record and with the performance of the United States and Japan over the same period. Income has increased only marginally, employment has declined and there has been a sharp drop in investment. Trade patterns, in particular, signal a steady erosion of European competitiveness.

Though the causes of Europe's relative economic and technological backwardness are multiple and complex, they can be traced, among other things, to the upheavals of the seventies and to the national and Community economic policies adopted to deal with them. As a rule, governments aimed to cushion their economies against external shocks or soften their impact. What was not recognized, however, was the message those upheavals conveyed: namely, the urgency of an appropriately conceived approach to the unavoidable process of economic restructuring. In short, the impulse to positive readjustment was missing and efforts to defend the existing situation were redoubled.

This general attitude had a number of consequences. In economic policy, there was an extension of the protection provided by the state through the assumption of some social security contributions and the payment of transfers and subsidies to individuals, companies and local authorities. In industrial relations, there was an extension of the forms of social protection and a consequent increase in the rigidity of the labour market. In the industrial and technological field, policies were fragmented and measures were limited in scale and scope, even where the need to foster restructuring and innovation was perceived and where the threshold for action was very high in terms of both the basic knowhow and the finance required. Even though the Community's overall employment of human and material resources for research has been comparable to that of its chief competitors, the research has not been linked closely enough into the productive process. All together, these policies have led to market fragmentation and distortion of competition, ultimately helping to generate an EEC internal market structure that does not fully answer the needs of firms.

Essentially, the actions of the Community reflect the policy orientations of its member governments, although Community institutions have furnished analyses and proposals to overcome contingent and structural problems in various countries. The disparity between the analytical findings and their application also depends partly on political and institutional factors, such as the lack of effective decision-making machinery in a Community that is being enlarged and whose members are a highly heterogeneous group. Economic factors may have played an even larger role in exacerbating conflicts over distribution among the member states. In a climate of slow growth and uncommonly severe external shocks, divergences between Community members have been brought to the surface by controversies over the EEC's financial difficulties, the budget outlook and the financial contribution of the individual member countries. Acute disagreement has thus arisen over Community spending guidelines, with the budget increasingly monopolized by agricultural policy at the expense of structural spending for industrial and technological innovation.

Exchange rates and world trade

Exchange rates

Throughout 1983 events on the foreign exchange markets were dominated by the further strengthening of the US dollar, whose nominal effective exchange rate rose by 5 per cent, reaching a level 26.5 per cent higher than the 1980 average.

The dollar fell 3 per cent against the yen but appreciated substantially against the major European currencies — 13.7, 22.5, 11.4, and 19.4 per cent against the Deutschemark, the French franc, the pound sterling and the Italian lira respectively. In January the dollar quotations of these four currencies fell to their lowest point in ten years. Between 1980 and the end of 1983 the dollar's effective real exchange rate, calculated on the basis of wholesale prices for manufactured goods, had thus risen by 25.4 per cent. The resulting loss in competitiveness of US products was substantial, paiticularly compared with French and German products (58 and 53 per cent respectively).

Between mid-January and mid-April of this year the upward trend of the dollar was interrupted, the nominal effective exchange rate dropping by 3 per cent. The depreciation ranged from 7.4 per cent against the Deutschemark to 4 per cent against the yen. In early May, rising interest rates in the United States pushed the dollar back up to its January peak. It is difficult to forecast the course of the US currency, since even in the last three-and-a-half years, when the basic trend of the dollar has been strongly upward, there has been no lack of such temporary dips. However, the enormous US deficit on current account forecast for 1984 ($70 to 80 billion) will exert strong downward pressure. On the other hand, the dollar kept rising throughout 1983, even though the movement of some fundamental variables indicated that the upward phase was at an end. Specifically, the deficit on current account had risen almost $30 billion to a record of $41 billion.

The effective exchange rate of the Japanese yen rose by 10.4 per cent over the year. The main contributing factors were the larger surplus on current account ($21 billion, compared with $7 billion in 1982), a modest economic recovery and marked success in curbing inflation. The deficit on capital account worsened slightly, however ($1 billion). Taking into account the variation in statistical discrepancies, the Japanese balance of payments improved by about $10 billion between 1982 and 1983.

Despite the Deutschemark's decline against the dollar and the yen (13.7 and 10.3 per cent respectively), its value was 3.8 per cent higher on an average annual basis. In the course of the year, however, it declined slightly. 'The evolution of short-term interest rates in Germany and the United States maintained a differential in nominal rates unfavourable to Germany. Meanwhile, the differential in real rates, which was also negative, -widened still further. There was a marked deterioration in the German balance on capital account, despite a lower net outflow of long-term capital of $3.5 billion, because short-term flows moved from a $4.8 billion surplus to a $4.2 billion deficit. The surplus on current account, at $3.3 billion, stood near the 1982 level of $3.5 billion.

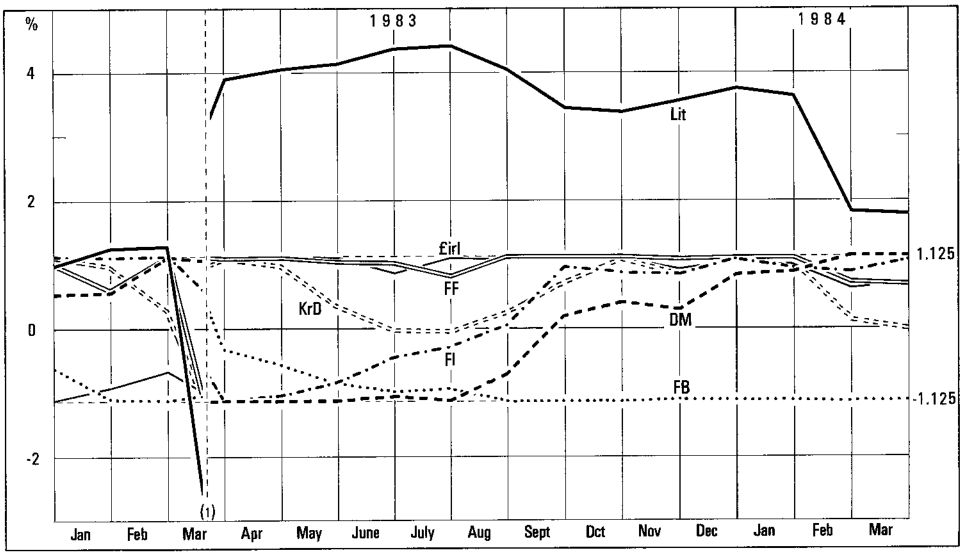
The pound sterling depreciated substantially on an average annual basis (7.3 per cent). As a "petro-currency", sterling fell sharply early in the year under the impact of the expected drop in posted crude oil prices, which also contributed to a sharp deterioration of the balance of payments on current account. After a partial recovery in the second quarter, the pound followed a gradual but steady downward trend in the succeeding months, as nominal interest rates came down faster than in the other leading industrial countries. 'The effective real exchange rate fell by 6 per cent year on year.

The European Monetary System. — In March 1984, the European Monetary System celebrated its fifth anniversary. Over these five years, progress has been made towards establishing the "zone of monetary stability" that was the primary object of its foundation. Despite numerous external disturbances and frequent realignments, exchange rates between EMS currencies have fluctuated significantly less than either their rates against other currencies or the rates of major non-member currencies. This was particularly true in the twelve months following the realignment of March 1983.

The official changes in the central rates agreed in March were reflected in market quotations only in part, and only for some currencies. The Irish pound's effective exchange rate against the basket of EMS currencies declined in 1983, as did those of the French and Belgian francs, though to a lesser degree. The mark and the pound sterling appreciated, especially the latter; the lira began to fall in August. These trends continued into January 1984, though with diminished intensity. In February and March, as the dollar weakened, sterling and the lira declined by 3.7 and 1.5 per cent respectively against the EMS basket. 'The mark, on the other hand, began to rise more swiftly again, rising by 1.4 per cent.

The relative positions of the currencies within the EMS band changed substantially in the first few months of this year. 'The mark continued to move upwards, reaching its upper intervention limit in March. On the other hand, the French franc, the Irish pound, the Danish krone and the lira, which had been above their central rates at the beginning of the year, began to move downwards (Fig. 2). The Belgian franc used all the room for manoeuvre afforded by the March 1983 realignment, and from August onwards it was almost constantly at its lower intervention level. In contrast to what happened in France, the devaluation and the accompanying structural adjustment measures, significant though they were, did not succeed in bolstering the exchange rate in the short run. A further package of budgetary and incomes policy measures therefore had to be enacted in March 1984.

Figure 2



Exchange rates within the EMS

(percentage changes in relation to central rates)

Two factors contributed to the greater stability of the EMS from March 1983 onwards, namely a reduction in the dispersion of inflation rates and current account balances. As regards inflation, the degree of dispersion is smaller, whether measured by standard deviation or by the coefficient of variation of consumer price increases in the individual countries with respect to the average rate for the entire area. The lesser dispersion in current account balances is more obvious; in Germany and the Netherlands the surpluses remained more or less at their 1982 levels, while the deficit countries moved closer to equilibrium. Italy actually achieved balance and, together with France, recorded the best results from this point of view. The lesser dispersion in the balances of payments of EMS countries is partly explained by cyclical lags. The major deficit countries (France and Italy) were still in recession in 1983, while in Germany the recovery was already under way. The prospects for exchange rate stability in the future will therefore depend not so much on balance-of-payments convergence, which could weaken if the cyclical differences narrowed or disappeared entirely, but on further progress in narrowing differentials in the rate of inflation, which remains particularly high in Italy, Ireland and France.

World trade and current account balances

In 1983, for the first time in ten years, the sole stimulus to world trade came from the imports of the industrial countries, primarily from other industrial states. The 4.1 per cent rise in imports was concentrated in North America, where imports at constant prices rose by 11.7 per cent, accounting for more than 70 per cent of the overall increase in world trade. Imports by industrial countries from the rest of the world rose by 1.8 per cent, according to OECD estimates. The imports of oil-producing countries declined by 10 per cent, after increasing by 45 per cent over the previous three years, while those of other developing countries slipped by 0.6 per cent.

The recovery in trade was accompanied by better equilibrium in the current account balances of the main groups of countries. The current account deficit of the non-oil developing countries contracted further, from $70 billion to $43 billion, thanks primarily to earnings on merchandise trade. The oil exporters, by contrast, recorded a small increase in their deficit, while the deficit of the industrial countries remained essentially unchanged. The relatively small overall deficit for the seven leading industrial nations, which grew by $9 billion, conceals considerable internal differences, most notably the huge US deficit and Japan's surplus. Meanwhile, the smaller industrial nations achieved an appreciable improvement, cutting their deficit from $18 to 7 billion. The countries of Eastern Europe recorded. a slight increase in their current account surplus, which rose from $6.5 to 7.6 billion, thus consolidating the turnaround of 1982, when a long period of uninterrupted deficits had come to an end.

The foreign trade of the industrial countries was strongly affected by the major cyclical differences between the leading economies and by significant changes in relative competitiveness.

The effects were particularly marked in the case of the United States, where domestic demand rose much faster than in the other industrial countries (4.6 per cent as against 1.0 per cent) and where the cumulative loss of competitiveness since 1980 was massive (26 per cent on the domestic market). The end result was that imports were 10 per cent higher in volume terms, with the December-to-December rise working out at 22 per cent. Excluding crude oil imports, which declined, the increase came to 13.6 per cent and for manufactures alone it was 15.2 per cent. The US trade deficit soared from $36 to 61 billion despite the improvement in the terms of trade, accounting for virtually all of the deterioration in the current account balance.

Unlike the United States, the EEC made only a modest contnlution to the world trade recovery. Exports within the Community, led primarily by demand in Germany and the United Kingdom, increased by 7.7 per cent in value terms, according to EEC Commission estimates, while exports to non-Community countries increased by 5.9 per cent. There was an improvement in the EEC's external trade balance, which went from a $1 billion deficit to a $6 billion surplus.

As has often been the case in recent years, Japan scored a major success in foreign trade, sharply distinguishing itself from the other industrial countries. While the volume rise in imports (1.3 per cent) was slower than that of domestic demand (1.6 per cent), exports rose by 8.7 per cent, much faster than those of the industrial countries as a whole. Japanese exports benefited primarily from the recovery in North America and in the other countries of the Far East, as well as from Japan's growing commercial penetration of the EEC market. The volume growth in exports was a decisive element in the $13.4 billion increase in Japan's trade surplus, which rose to $31.5 billion, more than half of it accounted for by the surplus in trade with the United States. Including slight improvements in the balances for services and transfer payments, the overall improvement in the current account balance amounted to $14 billion.

Capital markets, external debt and international liquidity

International capital markets

Total lending through the international markets diminished again in 1983 following the substantial decline of the previous year. First of all, the decline reflects the improvement in the external accounts of the smaller industrial nations and of some of the larger ones, France and Italy in particular. This reduced one major component of the demand for international credit. In addition, the foreign debt problems of the developing countries continued to condition the financial market, resulting in a strict limitation of access to all but prime quality borrowers.

As in 1982, the contraction was wholly due to a decrease in bank credits, while new international bond issues maintained the previous year's high level. 'The share of total lending accounted for by bonds has thus doubled over the past two years, from 25 to 50 per cent. In large part, this change in composition is the consequence of a decline in credits to developing countries.

The salient feature of bank lending is the increasing "split" in the market. On the one hand, borrowers in the industrial countries and in a small group of developing countries, mainly in Asia, have obtained the loans requested on more favourable terms. On the other hand, countries with external debt service problems, and the majority of African countries, had virtually no access to new "spontaneous" credit.

New bond issues continued to expand at a fast pace, sustained by a rapid process of innovation. Dollar-denominated bonds made up 57 per cent of the new issues market, down 7 percentage points from 1982. The share of new issues in Swiss francs and Deutschemark increased, encouraged by those currencies' prospects of appreciation and by their national markets' interest rate stability. Once again the most dynamic of the minor sectors was ECU issues: they amounted to the equivalent of $2.2 billion, as against $800 million in 1982, rising from 1 to 3, per cent of the market. In the first quarter of 1984 new ECU issues reached an annual rate of $4 billion.

Although the acute tensions that had arisen in the external position of the developing countries in 1982 eased gradually over the course of 1983, the reduced availability of external credit and the shortage of reserves continued to constitute quite a severe constraint. At the same time, the dimensions and complexity of foreign debt problems became more obvious.

The total debt of the non-oil developing countries grew much more slowly (up 6 per cent in the year, as against 13 per cent in 1982 and more than 18 per cent annually between 1979 and 1981). Nonetheless, it reached $669 billion, or 37 per cent of those nations' gross product and 150 per cent of their total exports.

The debt maturity structure of the non-oil developing countries improved in the course of the year as a result of the reduction in the short-term component and rescheduling of medium and long-term debt. One potential weakness is the large share of floating rate debt, which makes them vulnerable to future rises in interest rates.

Turning to the structure of the balance of payments and external financing of the developing countries, the last two years' improvement in the current account balance has been achieved almost exclusively by a reduction in imports, while the services balance has continued to deteriorate because of interest payments. 'These are therefore a fairly serious obstacle to growth. Further, in the last few years interest payments by these countries have increasingly outstripped the net new bank credits received, giving rise to substantial net transfers of resources abroad. Together with the decline in private lending, there has also been a drop in direct foreign investment ($8 billion in 1983, as against $11 billion in 1982 and $13 billion in 1981).

The reduction in direct investment and in private lending was only partially offset in 1983 by an increase in long-term official loans (from $22 to 23 billion) and in IMF credits (more than $10 billion last year, as against $7 billion the year before and $6 billion in 1981). About three-quarters of the funds disbursed by the IMF were subject to relatively stringent policy conditions to support countries' adjustment programmes. Such credits had represented two-thirds of the Fund's lending in 1982 and half in 1981.

Financing from multilateral development banks, by contrast, remained inadequate. Total gross disbursements amounted to $11 billion in 1983. Net of repayments, the figure was only $5 billion, or just 9 per cent of the non-oil developing countries' current account deficit and just over 1 per cent of their exports. These sums represent only slight nominal increases over the previous year, while in real terms, i.e. based on the costs of the projects financed, they entail an appreciable reduction.

International liquidity

There was greater creation of international liquidity last year, as a result of the US deficit on current account and the decreased use of official reserves to cover external deficits by the other industrial countries and the non-oil developing countries. This led to a recovery in total official reserves after the decrease of the two previous years. By the end of the year reserves totalled $388 billion, 6 per cent higher than at the end of 1982. Measured in SDRs, the increase appears even larger (12 per cent), because of the appreciation of the dollar. Reserves recovered to 22 per cent of world imports, about their 1979 ratio, after the low point of 20 per cent in 1981 and 1982.

Gold reserves decreased slightly (from 947 to 945 million ounces), following the 5 million ounce decline of the previous year. However, the market value of gold reserves fell considerably (from $433 to 361 billion), as the price of gold dropped from $457 to 382 an ounce in the course of the year.

THE ITALIAN ECONOMY

DEMAND, OUTPUT AND THE BALANCE OF PAYMENTS

Overall results

A recovery in production from mid-year onwards, a further slowdown in inflation and the restoration of balance-of-payments equilibrium were the main positive features of the Italian economy in 1983. 'The negative aspects were an increase in unemployment and a continued large cost and price differential in relation to the country's competitors.

Despite the cyclical upswing, which cushioned the fall, gross domestic product declined by 1.2 per cent, after having contracted by 0.4 per cent the previous year. In the first half of 1983 the recession was more acute than had been foreseen, with economic recovery lagging behind the more vigorous upturn in other countries.

The easing of inflationary pressures spread from wholesale to consumer prices, assisted by the trend in the cost of imports; the rise in consumer prices slowed down from 16.1 to 12.6 per cent over the year, or from 16,5 to 14.7 per cent on an annual average basis. Price competitiveness fell by 2.7 percentage points in terms of industrial wholesale prices but improved slightly in terms of average unit export prices.

The adjustment of the trade balance was aided by the cyclical differences between Italy and the world economy rather than by improvements in the terms of trade and in Italy's competitive position. On the other hand, it was impeded by the appreciation of the dollar and Italy's high propensity to import, which has been rising for several years, especially with regard to manufactured goods, in contrast to the trend in the OECD as a whole. Between 1982 and 1983 the trade deficit declined by 5,525 billion lire, or from 3.6 to 2.1 per cent of GDP. As invisibles also improved, the current account of the balance of payments closed with a surplus of 1,158 billion lire, compared with deficits of 7,412 billion in 1982, 9,225 billion in 1981 and 8,291 billion in 1980.

The improvement in the world economy and the contraction in domestic absorption induced a 3.9 per cent increase in the volume of exports. They provided the main stimulus for overall demand and for the recovery in output in the second half of the year.

The ratio of the net public sector deficit to GDP remained at the high level of the previous year. Responsibility for regulating domestic demand therefore continued to be assigned mainly to monetary and exchange rate policy, which was orientated towards consolidating the progress made towards price stability and real external adjustment without jeopardizing the chances of recovery. The reduction in nominal interest rates kept pace with the slowdown in inflation, while real interest rates remained high.

Households' real disposable income fell sharply in the first half of the year owing to tax collections, delays in the renewal of labour contracts and the reduction in the degree of wage indexation. In later months the lessening of fiscal drag, the increase in family allowances for certain income brackets and wage settlements in the public and private sectors induced a small increase in consumption following the recovery in exports. On an annual average basis, real disposable income declined for the first time since the second world war. However, households' purchasing power remained relatively high owing to the reduction in the erosion of financial assets as a result of the slowdown in inflation. 'This too helped keep the reduction in consumer spending below that in disposable income and hence to increase the propensity to consume.

Uncertainty about the prospects for demand growth, the further reduction in the capacity utilization rate and the high cost of borrowing continued to have an adverse effect on investment in the first half of the year, a trend that had begun in 1982. After mid-year investment showed signs of recovery, particularly in the sectors of plant, machinery and transport equipment. Over the year as a whole, however, fixed investment declined by a further 5.3 per cent in real terms. Construction passed through a period of stagnation.

The disparity between turnover and output widened further, confirming not only that inventory management was being rationalized but also that changes were occurring in industrial strategies and production processes. The high level of interest rates and the lack of speculation owing to exchange rate and price expectations accentuated the process of destocking, particularly in finished products. In national accounting terms, stocks declined by 500 billion lire at constant prices.

On the supply side there was an increase of 4.1 per cent in the value added of the farm sector (compared with a fall of 2.5 per cent in 1982) and little change in that of the services sector, while industrial value added declined by 3.5 per cent. The economic trend had an adverse effect on the labour market, although the repercussions on industrial employment were less severe in Italy than elsewhere owing to increased recourse to the Wage Supplementation Fund, which paid compensation in respect of 669 million hours, the equivalent of 417,000 employees. Both the public and private service sectors continued to engage staff, thereby offsetting the fall in industrial employment but having a detrimental effect on the increase in productivity in the economy as a whole. Despite the recession, hourly productivity in industry excluding construction increased by 1.2 per cent. The increased supply of labour and the lack of new employment opportunities caused the unemployment rate to touch 12 per cent, including workers covered by the Wage Supplementation Fund. The unemployment rate for young people under thirty years of age rose to 33 per cent.

Wage negotiations in the industrial sector were conducted in accordance with the guidelines laid down in the agreement of 22 January 1983. Wage increases nevertheless exceeded the planned rate of inflation; per capita earnings rose by 15.3 per cent, excluding workers covered by the Wage Supplementation Fund. In industry excluding construction, unit labour costs rose by 16.3 per cent, partly owing to increases in social security contributions. The lira prices of imported industrial inputs increased by 4.3 per cent, thanks to the continued favourable trend in the prices of primary products and intermediate goods, which was only partly offset by the strength of the dollar. The rise in costs for the economy as a whole was higher than that in the prices of manufactures and still larger than that in average unit export prices.

Inflation remains high, despite a reduction of 2 percentage points by comparison with 1982. The average increase in the private consumption deflator come to 15 per cent, compared with the target of 13 per cent, while public service charges and administered prices rose at a faster rate. The appreciation of the dollar greatly undermined progress in reducing inflation owing to its direct and indirect effects on the price mechanism. The differential between the rates of increase in consumer and wholesale prices, which had been widening until the early months of 1983, began to narrow later in the year. 'The gap between industrial costs and prices and the resultant squeeze on profit margins will have to be closed by achieving further productivity gains of the kind observed during the recession of the last three years. Despite the progress made, the differential between consumer price inflation in Italy and that in other countries widened to 10 percentage points visa-vis the OECD area and 8 points vis-a-vis the EEC.

'The stability of the lira against the other Community currencies generated favourable exchange rate expectations after the March realignment. 'The official reserves increased by 8,800 billion lire, partly owing to the inflow of capital via the banks. As current account equilibrium had been restored, Italy's net external debtor position showed no appreciable change from the level of more than $21 billion recorded at the end of 1982.

In the first three months of this year industrial output was almost 2 per cent higher than in the fourth quarter of 1983 on a seasonally adjusted basis. This encouraging production trend is confirmed by business surveys, which report increases in orders and in expected demand. Similar indications can be drawn from foreign trade data; in the first quarter exports grew at a sustained rate and imports expanded almost as rapidly, so that the trade deficit remained at the 1983 level. On the inflation front, wholesale prices showed a moderate increase owing to the rise in the lira prices of industrial materials and the recovery in production. 'The average monthly rate of increase came to around 1 per cent, the same as that in consumer prices. The twelve-month rates confirm the gradual deceleration in consumer price inflation, which fell below 12 per cent in April.

Factors conducive to a continuation of the recovery in economic activity are to be found primarily at the international level, whereas in Italy itself favourable elements are intertwined with potentially destabilizing factors.

Growth in the main industrialized countries appears to be strong and seems set to continue beyond 1984; world trade is expected to expand rapidly, with all countries contributing to the increase except the non-oil developing countries. The impact on Italian exports should be beneficial.

Among the domestic components of demand, investment is continuing to show the clear though modest recovery that first emerged in the second half of 1983, owing mainly to the investment programmes of major companies. Despite the low capacity utilization rate and the high level of real interest rates, investment is being stimulated by the improved prospects for demand and profits.

Balance-of-payments equilibrium and the availability of resources for investment presuppose resolute intentions and consistent patterns of behaviour that will allow the growth in economic activity and the slowdown in inflation to continue beyond the end of the year.

The Decree Law of 15 February on labour costs, which lapsed when it failed to receive parliamentary approval, was replaced in April by a new Decree under which the reduction in the degree of indexation applied only to the first half of the year. Despite this, the effects of incomes policy and productivity gains may keep the increase in industry's unit labour costs in 1984 markedly below that of last year. If the external components of inflation abate, there is a real chance of curbing the increase in the prices of manufactures, even if the deceleration in costs may be slow in feeding through to prices owing to time-lags in the adjustment mechanisms and the need to restore at least part of the reduction in profit margins suffered in 1983.

As far as prices under more direct government control are concerned, in March the indices for administered prices, public service charges and rents were already 7.8, 10.8 and 20.4 per cent respectively above the 1983 averages.

It is proving difficult to keep government expenditure down to the target of 90,800 billion lire set in September in the Forecasting and Planning Report for 1984, chiefly owing to delay in the approval of legislation on the condonation of building offences and on the centralized exchequer account. 'This and the effects of continuous growth in financial assets are tending to boost consumer expenditure, even though conditions in the labour market remain difficult. In these circumstances there is the danger that domestic demand will grow faster than the rate compatible with curbing inflation and, over the longer term, with restoring equilibrium in the current account of the balance of payments.

Assuming that budgetary policy will be implemented and that stock-building will slow down in the second half of the year, the increase in gross domestic product may come to about 3 per cent in 1984. The average rate of increase in consumer prices would have to fall from the 1 per cent a month recorded in the first quarter to 0.4 per cent a month for the rest of the year if the target of an annual average rise of 10 per cent is to be achieved. By the end of 1984 the twelve-month rate of increase may be below double figures.

Domestic demand

Consumers' expenditure

National consumers' expenditure, which had remained virtually stationary in 1982, declined by 0.7 per cent in real terms last year to a level below that recorded two years earlier; in per capita terms the decrease came to about 1 per cent. With the usual less marked cyclical variability, the decline in consumption mirrored that in disposable income, which contracted by 2.5 per cent in real terms owing mainly to the adverse trend in income from unincorporated business and self-employment and to the effects of the Government's special tax-raising measures (the condonation of tax evasion and the surtax on imputed or actual rental income) (see Table 1). Net of interest payments, the public sector's contribution to the formation of disposable income was therefore smaller than in the previous year, accounting for 15.3 per cent as against 15.9 per cent in 1982.

Given the fact that consumption declined by less than disposable income, the average propensity to consume rose from 75.9 per cent in 1982 to 77.3 per cent in 1983; during the year, however, the trend remained almost constant. The reluctance of consumers to reduce their-standard of living below that to which they were accustomed is the most immediate explanation for the rise in the average propensity to consume in a year when income was falling. However, a complex web of other factors must also be taken into account. Besides the special tax measures, which must have cut into expenditure on consumer durables as well as savings, the slowdown in inflation reduced the erosion of the purchasing power of households' financial assets, so that inflation-adjusted income showed a smaller contraction (see Table 1).

Expenditure on durable consumer goods was also adversely affected by the increase in the expected real yield on households' net financial assets, which once again increased the attractiveness of financial saving. The problems in the durable goods industry worsened, with purchases of vehicles falling for the first time since 1975.

Investment

Gross fixed capital formation declined by 5.3 per cent in real terms, practically the same rate as in the previous year, while net investment fell by 14.9 per cent compared with 14 per cent in 1982. The substantial reduction

Table 1

APPROPRIATION ACCOUNT FOR HOUSEHOLDS

	1981	1982		1983	
	billions of lire	billions of lire	percentage changes	billions of lire	percentage changes
Gross domestic earnings	167,133	194,281	16.2	219,516	13.0
of which: general government	*41,546*	*48,723*	*17.3*	*55,766*	*14.5*
Net labour income from abroad	1,635	2,079	27.2	2,293	10.3
Gross income from unincorporated business and self-employment	115,524	136,932	18.5	152,000	11.0
Net interest	18,459	27,064	46.6	32,500	20.1
Dividends and other capital income	1,190	1,681	41.3	1,957	16.4
Social security benefits	77,680	94,530	21.7	113,880	20.5
of which: from general government	*71,204*	*87,345*	*22.7*	*105,051*	*20.3*
Employees' social security contributions (−)	9,958	13,266	33.2	15,422	16.3
Self-employed workers' social security contributions (−)	3,654	5,621	53.8	6,807	21.1
Direct taxation (−)	44,076	56,150	27.4	72,660	29.4
of which: condonation of income tax evasion	—	*1,238*		*2,514*	
advance on surtax on imputed or actual rental income	—	—		*800*	
Other items	1,859	1,921		2,400	
Gross disposable income	**325,792**	**383,451**	17.7	**429,657**	12.1
at 1970 prices (1)	**69,706**	**70,087**	0.5	**68,353**	−2.5
National consumers' expenditure	**248,224**	**291,059**	17.3	**332,171**	14.1
at 1970 prices	**53,110**	**53,199**	0.2	**52,844**	−0.7
Average propensity to consume (percentages)	**76.2**	**75.9**		**77.3**	
Gross disposable income adjusted for inflation					
A expected inflation	306,536	364,014	18.8	409,101	12.4
B real inflation	300,639	355,761	18.3	403,710	13.5

Source: Bank of Italy estimates.

(1) Adjusted using the price deflator of households' national expenditure.

in inventories, the first since 1975, amounted to 506 billion lire at 1970 prices and led to a contraction of 12 per cent in total investment, compared with one of 4.8 per cent in 1982.

Implicit prices increased by 13.5 per cent, 3 percentage points less than in 1982, so that gross fixed investment rose by 7.5 per cent in value terms; if changes in inventories are taken into account, total investment declined by 2.0 per cent in money terms.

The contraction in gross fixed investment in volume terms was much less pronounced in construction (1.9 per cent) than in plant and transport equipment (9.1 per cent), which by their very nature are more susceptible to cyclical variations, as may be seen from their behaviour during the year, -with the annualized decrease of 13.1 per cent in the first half being partly offset by a recovery of 3.4 per cent in the second. The revival in investment, the strength of which is not yet clear, therefore coincided with the turning point of the cycle in the third quarter. As in similar phases of past cycles, it was confirmed by the improved demand expectations and the recovery in industrial cash flow. Expected real borrowing rates were positive and still high by past standards despite a slight reduction since the previous year, but this did not prove to be an obstacle.

The fall in investment affected all branches of economic activity but was particularly severe in industry, as it had been throughout the downward phase of the cycle (see Table 2). Private investment as a whole declined by 6.5 per cent, which was less than the decrease recorded in 1982, reflecting the recovery in the second half of the year. Public sector investment fell by 2.5 per cent, although on average over the last three years it has played a significant countercydical role.

Investment in manufacturing industry between 1971 and 1982

Between 1971 and 1982 fixed capital investment in manufacturing industry went through two phases of growth (1971-74 and 1979-80) and two of contraction (1975-78 and 1981-82, which continued into 1983), so that overall it remained at around the level recorded after the rapid expansion from 1966 to 1970. Over the same period hourly productivity increased at an average annual rate of 4.2 per cent (with per capita productivity rising at one of 2.6 per cent), even continuing to advance during the last recession. These global figures indicate the large-scale qualitative and sectoral reallocation of resources that was taldng place.

In the second half of the seventies the growth in the number of small and small-to-medium-sized firms ensured expansion in the manufacturing

Table 2

PUBLIC AND PRIVATE GROSS FIXED DOMESTIC INVESTMENT
BY BRANCH OF ECONOMIC ACTIVITY

Branch of activity	Billions of lire (at 1970 prices)	Percentage composition (at 1970 prices)	Percentage changes (at 1970 prices)		
	1983	1983	1981/1980	1982/1981	1983/1982
Agriculture, forestry and fisheries	921	6.8	−4.3	−7.7	−3.2
Private	773	5.7	−2.7	−16.8	7.5
Public (1)	148	1.1	−11.7	39.8	−36.2
Industry	3,214	23.6	−3.4	−11.7	−12.4
Private	2,056	15.1	−6.5	−14.6	−17.8
Public (2)	1,158	8.5	5.0	−4.7	−0.7
Market services (3)	4,659	34.3	4.4	−2.3	−3.0
Private	3,245	23.9	6.4	−8.6	−5.7
Public	1,414	10.4	−2.0	18.3	3.8
of which:					
Transport and communications	1,990	14.6	1.5	2.1	1.3
Private	600	4.4	7.8	−21.2	−4.8
Public	1,390	10.2	−2.5	18.7	4.2
Distributive trades, credit and various services	2,669	19.7	6.2	−5.1	−6.0
Private	2,645	19.5	6.1	−5.2	−5.9
Public	24	0.2	28.6	3.7	−14.3
Dwellings	3,361	24.7	0.7	−4.5	−2.9
Private	3,191	23.4	1.7	−5.6	−1.8
Public (4)	170	1.3	−15.3	15.8	−19.8
Non-market services	1,431	10.6	4.3	3.9	−2.1
Gross fixed investment	13,586	100.0	0.6	−5.2	−5.3
Private	9,265	68.2	0.5	−10.0	−6.5
Public	4,321	31.8	0.9	7.3	−2.5

Source: Istat.
(1) State payments for investment in agriculture. — (2) Including state-controlled companies. — (3) Excluding dwellings. — (4) Subsidized housing.

base of many industries and recently industrialized areas of the country. Towards the end of the decade a large proportion of medium-sized and major enterprises changed over from defensive measures aimed at achieving greater short-term flexibility to the restructuring of their manufacturing processes by means of automation and reductions in their labour forces. In so doing, however, many large private sector industrial groups made improper use of the Wage Supplementation Fund and transferred a substantial part of the burden of adjustment onto the public sector; this was particularly true of basic industries producing chemicals and metals. From the mid-seventies onwards this trend was accompanied by a massive shift of new investment from the chemical and metallurgical industries to traditional branches in which Italy was already highly specialized in 1970. 'The restructuring of basic industries that has been carried out so far appears to be insufficient to restore the viability of these sectors. 'The composition of the mechanical engineering sector changed substantially over the decade and investment in the sector increased as a proportion of the total for manufacturing, though its quota remains below the level in the other industrial countries. The traditional sectors have shown that, with above-average investment, organizational innovations and new products, they can still achieve sufficiently large productivity gains and improvements in quality to retain their crucial position in the international division of labour. Leaving aside certain engineering sectors and the aerospace industry, growth seems to be unsatisfactory in those branches that need large-scale initial investments of fixed capital and expertise and which are essential for the spread of new technology (electronic components, special chemical compounds, advanced materials, etc.).

The main factors behind the current restructuring of manufacturing industry are the shift of demand away from standardized products, the greater volatility of demand and the changes in relative prices as well as the increase in international competition. Such restructuring has been made possible by technological progress, in the shape of numerically controlled machines and industrial robots that permit a programmed series of actions to be modified without altering the physical characteristics of the machine and similar phases in the manufacture of different products to be standardized. Flexibility in the use of plant has increased greatly as a result. The transformation now taking place makes it possible to use advanced forms of mechanization for even small production runs and enables medium-sized and large firms to decentralize manufacture when this is advisable on organizational, legal or commercial grounds.

The growth in investment and productivity in individual sectors of manufacturing industry is illustrated in Table 3. In the chemical and iron and steel industries the strong investment activity up to 1974 led to the construction of production capacity that subsequently proved to be far in excess of requirements. In the chemical industry, excess supply and falling demand depressed the relative prices of chemicals to such an extent that companies were operating on extremely narrow profit margins or even at a loss, despite the large productivity gains due to the massive investment made.

Table 3

INVESTMENT AND PRODUCTIVITY IN MANUFACTURING INDUSTRY: 1971-1982

(at 1970 Prices)

Branch of activity	1971-1974		1975-1978		1979-1980		1981-1982 (1)		1971-1982 (1)	
	Average 1970=100	Average annual change %	Average 1970=100	Average annual change %	Average 1970=100	Average annual change %	Average 1970=100	Average annual change %	Average 1970=100	Average annual change %
					Investment					
Traditional sectors	**106.3**	**6.7**	**93.3**	**−7.8**	**121.9**	**18.1**	**124.3**	**−4.8**	**106.0**	**2.0**
Food	100.5	4.0	89.6	−5.8	121.2	18.9	128.7	−1.2	102.9	2.3
Textiles and clothing	110.9	9.4	90.7	−12.4	112.8	20.3	109.2	−10.6	103.7	0.8
Leather, footwear, furniture, timber	127.0	11.2	151.6	4.9	203.0	5.1	204.2	−0.1	156.8	6.7
Engineering	**98.0**	**4.6**	**96.3**	**−4.6**	**123.6**	**15.1**	**117.2**	**−10.8**	**103.8**	**1.5**
Metal products	88.3	4.6	86.2	−9.5	102.9	15.9	96.0	−11.1	90.9	−0.4
Industrial machinery	91.4	2.0	90.7	−3.5	105.3	8.3	105.0	−4.6	94.9	0.4
Office and precision machines	84.8	−3.5	76.7	0.1	141.1	36.8	145.2	−10.8	97.6	3.5
Electrical and electronic equipment	127.5	10.9	127.0	−2.0	176.4	15.9	157.0	−16.3	138.9	4.2
Motor vehicles and motorcycles	**129.7**	**10.2**	**93.6**	**−6.5**	**121.2**	**4.3**	**101.4**	**−17.3**	**112.4**	**0.1**
Basic industries	**120.5**	**4.6**	**89.6**	**−12.8**	**65.2**	**−0.1**	**63.1**	**−8.8**	**94.0**	**−4.1**
Chemicals	94.5	1.7	88.5	−12.2	53.5	−7.2	51.3	−6.3	81.0	−5.9
Metals	160.1	8.6	91.3	−13.4	83.1	8.1	81.1	−11.0	113.9	−1.9
Other sectors (2)	**92.2**	**2.7**	**73.7**	**−10.9**	**103.3**	**28.0**	**106.3**	**−7.7**	**88.8**	**0.6**
of which: Aerospace	*136.1*	*10.0*	*203.9*	*10.2*	*443.4*	*50.7*	*523.7*	*7.1*	*251.8*	*16.2*
Manufacturing industry	**108.3**	**5.0**	**88.0**	**−9.3**	**98.5**	**13.1**	**96.1**	**−9.0**	**98.0**	**−0.4**
					Output per employee					
Traditional sectors	**113.7**	**5.4**	**125.9**	**1.0**	**145.6**	**7.3**	**141.2**	**−3.2**	**127.7**	**2.8**
Food	114.9	5.3	125.0	1.7	143.4	5.2	144.7	−0.7	128.0	3.1
Textiles and clothing	108.1	3.1	117.1	0.5	133.9	8.9	129.6	−3.4	119.0	2.0
Leather, footwear, furniture, timber	118.6	8.1	136.1	0.7	159.7	7.6	146.2	−6.9	135.9	2.9
Engineering	**98.5**	**1.1**	**99.2**	..	**114.8**	**7.3**	**121.2**	**0.4**	**105.2**	**1.6**
Metal products	96.4	−0.1	89.4	−2.9	94.1	5.3	92.4	−4.3	93.0	−0.9
Industrial machinery	96.9	1.1	98.6	−1.2	104.3	4.9	98.1	−8.1	98.9	−0.7
Office and precision machines	111.9	8.6	141.7	6.7	244.5	19.4	325.3	12.3	179.5	10.3
Electrical and electronic equipment	97.4	−0.4	95.9	0.9	109.5	6.2	116.7	3.3	102.1	1.7
Motor vehicles and motorcycles	**97.7**	**−0.1**	**97.8**	**1.6**	**103.0**	**−0.6**	**103.0**	**−0.2**	**99.5**	**0.3**
Basic industries	**109.2**	**3.7**	**119.0**	**3.0**	**137.1**	**4.2**	**146.3**	**3.0**	**123.3**	**3.4**
Chemicals	111.0	3.7	129.3	5.7	158.5	6.1	177.4	6.6	136.1	5.2
Metals	107.1	3.7	108.2	−0.2	115.7	2.1	117.2	−1.1	110.6	1.3
Other sectors (2)	**108.9**	**3.3**	**113.3**	**1.4**	**133.3**	**6.9**	**138.7**	**0.7**	**119.4**	**2.8**
of which: Aerospace	*95.1*	*−2.5*	*109.2*	*8.1*	*166.5*	*24.9*	*263.2*	*19.9*	*139.7*	*8.8*
Manufacturing industry	**108.4**	**3.8**	**116.1**	**1.3**	**134.0**	**6.1**	**136.1**	**−0.7**	**119.9**	**2.6**

Source: Based on Istat data.

(1) Data on investment are available up to 1981. — (2) Non-metallic minerals and mineral products, rubber, plastic, paper and paper products, shipyards, aerospace, publishing and printing, other.

The difficulties of the iron and steel industry were exacerbated by the fact that both hourly and per capita productivity were increasing more slowly than the average for the economy as a whole. In Italy the metals industry constitutes a much larger proportion of the entire industrial sector than it does in the other major European countries, so that the effects of the crisis in this industry on the economy as a whole are amplified: in 1979 and 1980, despite the downward trend that began in 1974, the sector still accounted for 11.3 per cent of industrial investment, compared with 6.2 per cent in the Federal Republic of Germany, 6.7 per cent in the United Kingdom and 6.8 per cent in France.

Within the traditional sectors, the most mature branches, particularly some parts of the textile and food industries, underwent extensive change and investment did not resume until the end of the seventies. In the other sectors (clothing, leather, footwear, furniture and timber) fixed capital formation grew from 1976-77 onwards and was much faster. 'The traditionally decentralized nature of these activities and the importance attached to quality and product variety facilitated the spread of technical and organizational innovations and the expansion of small plant specializing in individual horizontally integrated stages of manufacture. Mechanization and the steady decline in employment in the traditional sectors (0.6 per cent a year between 1971 and 1982) brought substantial increases in productivity and profits.

The engineering sector was at the centre of a programme of reconstruction that entailed the development of new production methods alongside those traditionally used. 'The growth in investment permitted first a substantial increase in employment, partly on account of the proliferation of small manufacturing firms. Secondly, the restructuring of manufacturing processes and changes in the composition of inputs and production were accompanied by large productivity gains, an above-average rise in output prices, savings in inputs of raw materials and semi-manufactured goods. 'The increase in profit margins which ensued at the end of the decade boosted fixed capital formation.

The situation in the aerospace industry appears to be quite unique; over the decade under review the sector recorded very high rates of growth in investment, productivity and employment, with the labour force increasing from 19,000 to 32,000 employees. These achievements are attributable primarily to the speed of present advances in technology and to the strength of demand, which seems relatively immune to cyclical fluctuations, given the nature of the sector's products and the fact that more than 60 per cent of total production is sold abroad. The state has also played a crucial role, both in assuming risks directly through its shareholdings and in placing orders with the industry.

Domestic supply

Agriculture

Production, prices and incomes. — After declining in 1981 and 1982, the gross marketable production of the agricultural sector grew by 3.4 per cent last year, thereby returning to the underlying trend of the last decade. Thanks to a considerable increase in production subsidies and the fact that the consumption of intermediate inputs grew more slowly than gross marketable production, the sector's value added at factor cost increased at the even higher rate of 5.7 per cent, compared with decreases of 4.0 and 0.9 per cent respectively in the two preceding years.

'The value added price deflator rose by just over 10 per cent, a far lower rate than that for other market goods and services (15.5 per cent). Despite the deterioration in the sector's terms of trade, the ratio between per capita farm incomes and those in other sectors increased owing to the favourable trend in productivity, which continued to improve rapidly in agriculture (5.8 per cent) whereas it fell back slightly in the rest of the economy. The productivity gains were due entirely to the considerable increase in value added and were not augmented by reductions in manpower, as occurred in the past.

Changes in Italian farm prices are strongly influenced by the increases agreed in Brussels for products subject to Community regulation; in 1983 the increases came to 9.5 per cent in lira terms. In 1984 domestic prices should rise by even less, as the lira equivalent of the increases agreed by the EEC is of the order of 6.5 per cent.

The slowdown in the rate of increase in EEC prices is one of the results of the difficult compromise the Community reached this year between the need to discourage the further build-up of costly surpluses and the desire of each country to safeguard the incomes of its own farmers. 'The agreement also provides for extending the system of production quotas, with penalties on any amounts in excess, and for transferring to national budgets part of the burden of financing Community production aids. At the same time, in order to reduce the distortions of competition created by the Monetary Compensatory Amounts (MCAs) it was decided to gradually eliminate those already in existence and to reform the system of agricultural payments so that it would revolve around the currency that had appreciated the most among those making up the ECU. 'This leaves scope for new negative MCAs, created not only by the depreciation of the currencies within the Community area but also by the transformation of any positive MCAs stemming from currency realignments into negative MCAs. Overall, the compromise appears neither to attenuate the characteristics of Community agriculture that make it an "administered economy" nor to prevent the emergence of new distortions in production and trade.

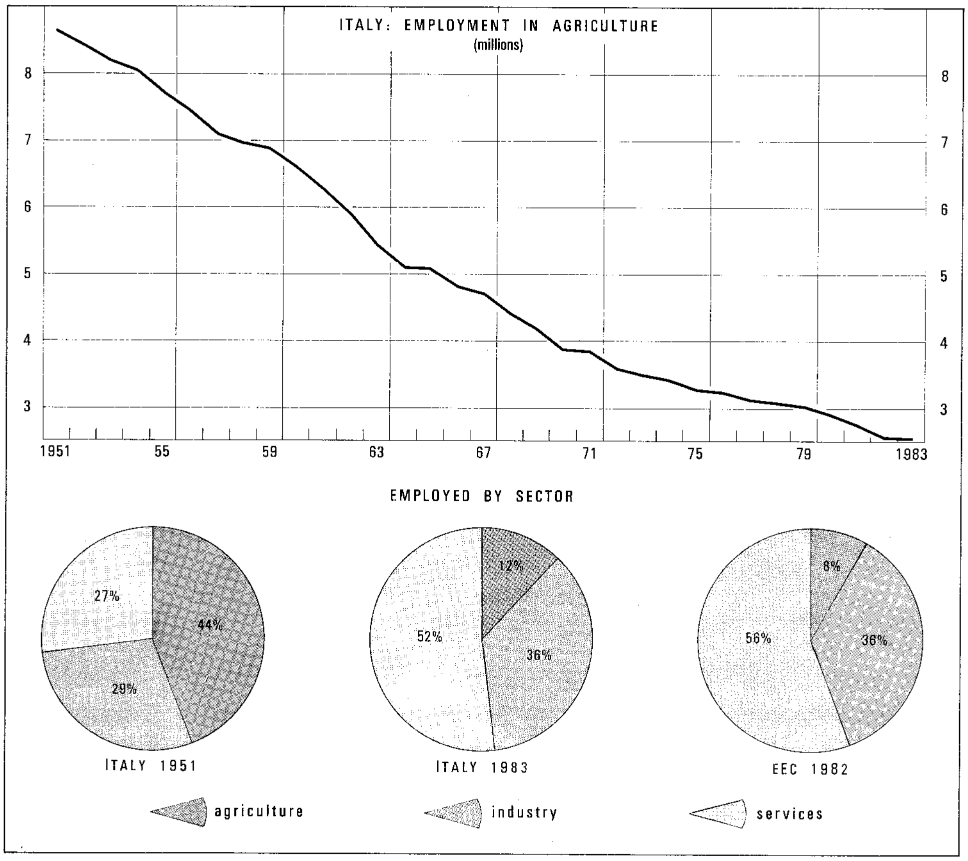
Halt in the flight from the land and structural developments. — The size of the agricultural work force remained unchanged in 1983 after the considerable reduction of around 13 per cent in the two preceding years. The number of employed workers again fell, but the decrease was offset by an increase in that of self-employed farmers, the first time this has occurred since official statistics have been kept.

Since the early fifties the farm sector has lost more than 6 million workers, equal to 70 per cent of the initial labour force. The flight from the land has eased on several occasions coinciding with or coming soon after downturns in the industrial cycle, the last pauses having been recorded in 1971 and 1976. The recent recession may partly explain the halt that occurred in 1983.

The age structure of the agricultural labour force, which is still dominated by older age groups, makes further reductions in farm employment seem likely; a similar conclusion may be drawn from the fact that the primary sector's share of total employment is still above the European average, despite the tremendous reduction since the early fifties (Fig. 3). On the other hand, the disparity between Italy and the more advanced economies has now narrowed considerably, and non-agricultural sectors, especially industry, no longer have the appeal that originally triggered the exodus. It is therefore legitimate to assert that the 1983 figures herald the gradual disappearance of this phenomenon, one of the most remarkable in recent history on account of its cultural and social consequences.

In other respects the structure of the agricultural sector continues to be rather backward. Even after the substantial reduction in the number of farms and in the area under cultivation during the seventies as a result of the steady drift away from the land, Italian agriculture is still dominated by very small farms; in 1977 farms of less than 5 hectares accounted for 68 per cent of the total number but only 22 per cent of the utilized area. Comparable data for 1982 derived from the 'Third Census of Agriculture have not yet been published, but figures have been released showing that the average utilized area per farm has remained unchanged since 1970.

Figure 3



Employment in agriculture

Source: Based on Istat and Eurostat data

Industry

Overall results. — Despite the moderate recovery in the second half of the year, there was a further reduction in industrial activity in 1983 (3.5 per cent in terms of value added); the contraction was larger in manufacturing (3.7 per cent) and smaller in construction (1.4 per cent) (Table 4). Production was affected by the decline in domestic demand, which lasted until the second quarter and was only partly offset by exports.

A comparison with previous economic cycles of the seventies reveals a number of features of the last recession (Fig. 4). This was the longest since the second world war and divides clearly into an initial phase of stagnation lasting about two years followed by a steep fall in activity that ended in July 1983; in the two previous cycles, by contrast, the decline in economic activity had continued without interruption. 'The upturn of the two previous cycles had been marked by brisker growth in domestic orders; it has been exports that have played a dominant role until now in the present ups-wing. There are also differences in expected ctemand and stocks of finished products; whereas previously orders expected 2-3 months ahead had regularly preceded the recovery, this did not happen in the latest cycle, in which expectations of growth were disappointed on several occasions. 'The forecasting errors did not, however, cause stocks of finished products to rise substantially above normal.

Table 4

INDUSTRIAL VALUE ADDED AT MARKET PRICES

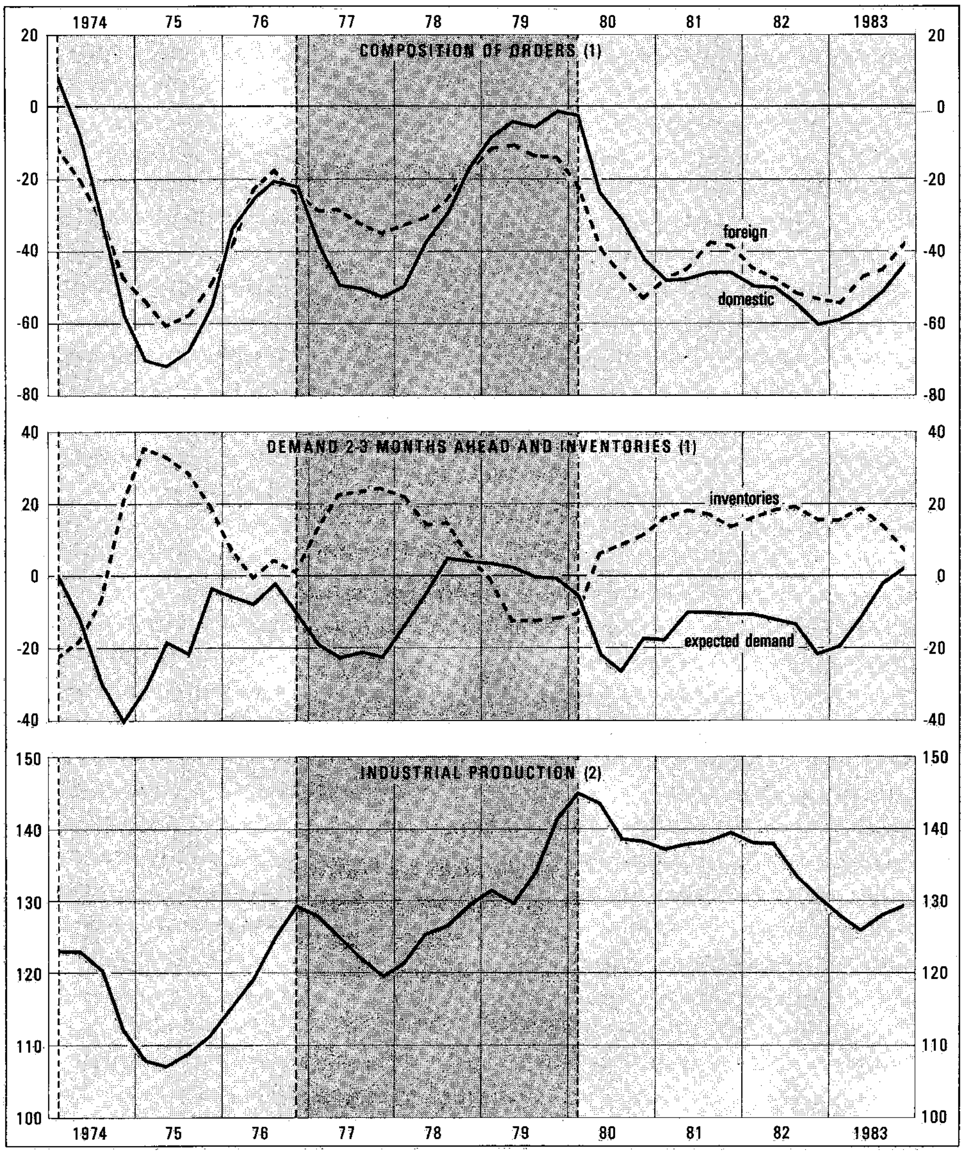
	Values at 1970 prices (billions of lire)			Percentage compos-ition 1983	Percentage changes		
	1981	1982	1983		1981/80	1982/81	1983/82
VALUE ADDED:							
including construction	36,299	35,618	34,388	100.0	−0.6	−1.9	−3.5
excluding construction	30,981	30,434	29,274	85.1	−0.9	−1.8	−3,8
Goods:							
manufactured goods	26,746	26,334	25,348	73.7	−0.9	−1.5	−3.7
energy products	4,235	4,100	3,926	11.4	−0.6	−3.2	−4.2
Construction and public works	5,318	5,184	5,114	14.9	1.0	−2.5	−1.4

Source: Istat.

Despite the steady slowdown in the growth of production potential, the reduction in economic activity in 1983 was reflected in the dedine in the capacity utilization rate during the first half of the year; in the second quarter it equalled the lowest point.reached in the 1975 recession (79.4 per cent). In the case of consumer goods industries the reduction was more marked than in previous cycles, whereas in the intermediate goods sector the utilization rate picked up strongly from 81.3 to 84.1 per cent in the second half of the year, thereby confirming the economic recovery. At the end of the year the overall situation was nevertheless still one of excess capacity in almost all major sectors, such that a general increase in demand could be absorbed without generating significant pressure.

Corporate management policy. — Corporate behaviour in 1983 should be seen in the context of the far-reaching organizational and management changes induced by the longest recession since the war. One of the most conspicuous aspects is the much higher volatility of production than in the

Figure 4



Production, demand and inventories in industry in -recent economic cycles

(1) Quarterly averages of net monthly returns from the ISCO-Mondo Economico survey; seasonally adjusted data in the case of domestic and foreign orders and expected demand. — (2) Based on seasonally adjusted Istat indices; base 1970 = 100, quarterly averages.

past. This can be explained in terms of the increased flexibility firms have acquired in their use of both labour and plant, in the one instance largely through recourse to the Wage Supplementation Fund and in the other thanks to the widespread technological modernization of Italian industry between 1979 and 1982. Another factor that enhanced flexibility in a number of firms was the growing practice of farming out a substantial proportion of certain technical operations to outside contractors. Firms were thus able to modify their production plans quickly at a cost well below that incurred in the past, as shown by their ability to keep stocks of finished goods close to normal levels.

Another fundamental variable that helps explain these behavioural differences is the cost of borrowing, which remained high throughout the period and constituted a major incentive to rationalize inventory management. In the second half of the year the high level of real interest rates and uncertainty as to when or whether the recovery would materialize induced firms to meet the increase in orders and sales only partly by expanding production and to use stocks instead as a cyclical buffer.

Services

Overall results. — The value added of market services remained unchanged in 1983, after growing by an average of 1.0 per cent in the two preceding years. The stagnation in the volume of services provided was the result of a contraction in wholesale and retail trade, transportation, and lodging and catering and increases in the communications and finance branches.

The increase of 0.6 per cent in non-market services was smaller than the average for the three preceding years (1.2 per cent). As in the last few years, the increase in the number of public servants was small (49,000) and contrasted with an intake of more than twice that figure during most of the seventies.

Changes in market services over the last decade. — Market services began to develop later in Italy than in other Western countries; only after the 1963-64 recession did the rate of growth of employment in services exceed that in industry. The increase in the number of jobs averaged around 100,000 a year between 1965 and 1974 and 150,000 a year thereafter. Over the last decade the rise in employment in service industries therefore helped first to expand and then to sustain overall employment.

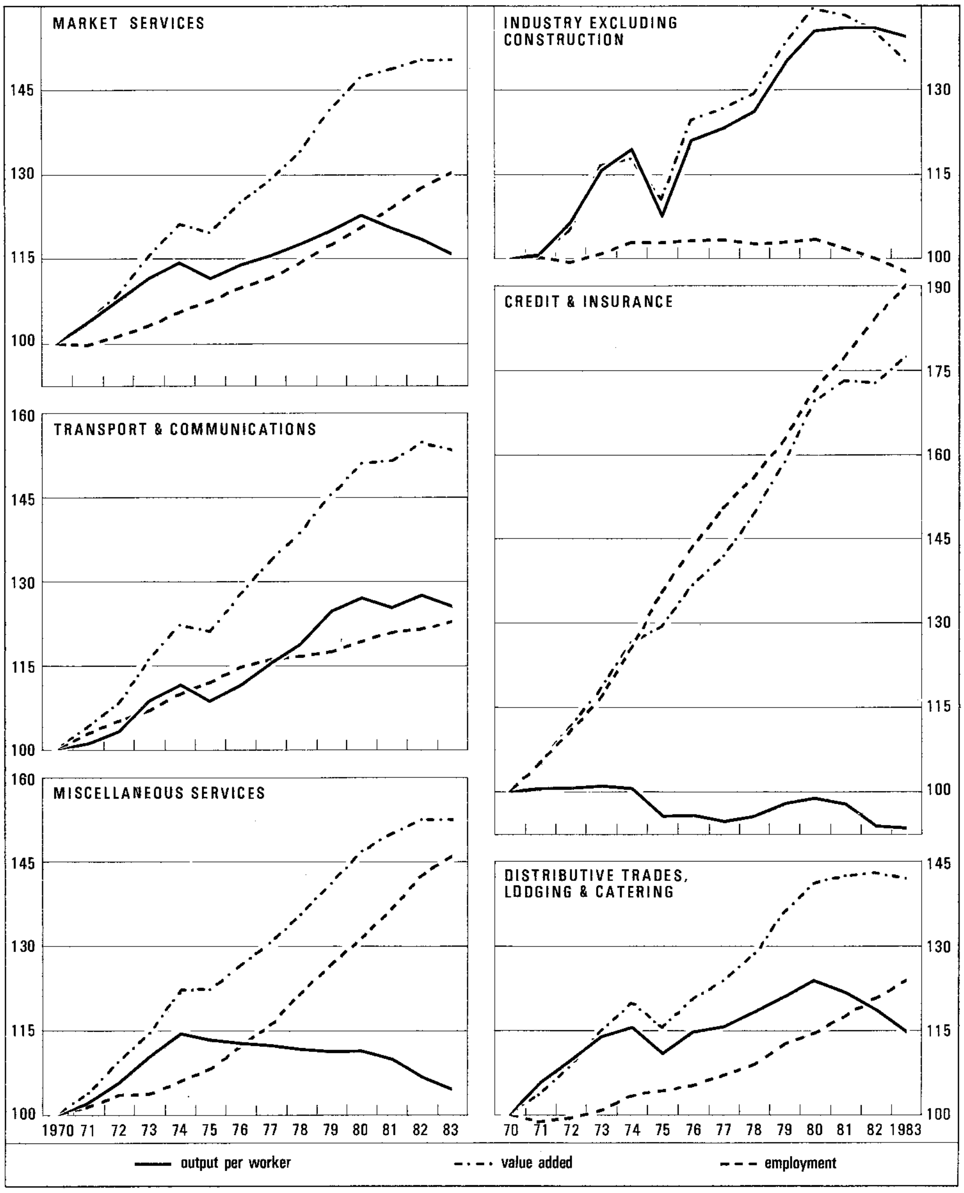
The value added of market services increased at an average rate of 5 per cent between 1965 and 1974 and at one of 2.3 per cent from then onwards. After the oil crisis the slowdown in output growth was therefore accompanied by an intensification in the use of labour. This apparent paradox can be explained by the fact that the way in which the services sector develops depends very much on the growth path of the whole economy in view of the diversity of the sector, which groups together limited companies and family firms, capital-intensive activities and operations with a minimum of fixed capital, services intended solely for intermediate use and those designed to be purchased by households.

In periods of rapid growth, investment in the services sector goes mainly into modern activities (services to firms, but also transportation, communications and finance) that have a high elasticity in relation to the value added of the economy. Between the beginning of the sixties and 1974 employment in the three last named sectors (for which comparable data are available) rose from 19.3 per cent of total employment in services to 22.6 per cent; in 1983 their share fell back to 21.8 per cent.

By contrast, the period of slow growth over the last decade led to a large increase in employment in labour intensive activities, such as distribution, lodging and catering and personal services. During this phase there was no let-up in the trend towards closer interdependence between industry and ser-vices and towards the emergence of new types of services, but the predominant increase in employment occurred in traditional activities, which did not undergo the structural changes that would have ensured the efficient deployment of the new resources. In contrast to the trend of the preceding fifteen-year period, the proportion of workers in distribution did not decline. The low capital intensity and continued backwardness of the distributive trades made entry easy for marginal entrepreneurs.

In market services as a whole, productivity grew at 2.9 per cent a year between 1965 and 1974 but slowed down to an average of 0.8 per cent in the next five years. From 1980 onwards the rates were negative, as the increases in output were smaller than those in employment (Fig. 5).

The data from the 1981 census show that no significant structural changes occurred in the distributive sector over the previous ten years; it is highly fragmented, consisting of a large number of local units that increased by a further 16 per cent over the decade (from 1,167,000 to 1,364,000) and has an average size of little more than two workers. The increase in the number of workers and firms was due chiefly to an expansion in the retail trade in goods other than food; a slow process of rationalization occurred in the food sector, where the distributive network contracted by 50,000 units.



Employment, value added and productivity
in market services and in industry excluding construction (1)

(indices, 1970 = 100)

Source: Based on Istat data.

(I) Value added (at 1970 prices) is at factor cost. Lettings are excluded from market services.

The commercial policy stance, which is designed to protect traditional outlets, prevented any increase in the number of large stores, whose share of the total sales area remained at 5 per cent throughout the decade. The gap between Italy and the other European countries widened; because of the small unit volume of sales, there was an increase in trade mark-ups, which were also affected by the steep rise in operating and labour costs over the last five years.

The demand from companies for services in the fields of auditing, taxation advice, research and management consultancy stimulated the development of new activities that are termed "advanced services". 'The census clearly reveals the rapid growth of such services, which has been particularly strong in market research and management consultancy, data processing and advertising; between 1971 and 1981 employment rose from 21,000 to 81,000 in these branches. The development of the advanced services sector is important not so much for the new employment opportunities, which are sometimes overestimated, but because both the reorganization of companies' productive activities and the spread of technological and operational innovations depend on the growing strength of the sector.

Employment, wages and prices

Employment

Employment increased by 0.2 per cent in 1983, partly offsetting the decline of the previous year (Table 5); however, the aggregate figure is the outcome of widely differing changes both in the various areas of the country and in individual sectors. There was a fairly substantial increase in southern Italy (1.2 per cent), but a contraction in the centre and North (0.4 per cent). The increase of 2.4 per cent in the number of self-employed workers contrasted with a decrease in that of employed workers, which was most prevalent among manual employees (2.4 per cent).

Table 5

EMPLOYMENT IN ITALY

(percentage changes on previous year)

Sector	Total employment				Employees			
	1980	1981	1982	1983	1980	1981	1982	1983
Agriculture	−2.8	−3.8	−5.6	−0.1	−1.4	−3.7	−3.7	−2.7
Industry	0.7	−0.7	−1.6	−2.5	0.4	−1.0	−2.1	−3.0
of which: energy	*1.6*	*1.0*	*−0.5*	*−0.5*	*1.5*	*1.0*	*−0.4*	*−0.6*
manufacturing	*0.6*	*−1.5*	*−1.9*	*−2.9*	*0.2*	*−1.9*	*−2.2*	*−3.2*
total excluding construction	*0.6*	*−1.5*	*−1.9*	*−2.8*	*0.3*	*−1.8*	*−2.2*	*−3.1*
construction	*1.1*	*1.8*	*−0.9*	*−1.6*	*0.8*	*1.6*	*−1.7*	*−2.7*
Market services	2.3	2.7	2.5	2.3	2.4	2.7	2.8	1.4
of which: distribution, lodging and catering	*1.7*	*2.5*	*2.6*	*2.6*	*0.7*	*2.2*	*3.8*	*0.4*
transport and communications	*1.6*	*1.6*	*0.1*	*1.0*	*1.6*	*1.3*	*−0.5*	*1.6*
credit and insurance	*5.8*	*3.1*	*2.3*	*3.2*	*5.9*	*3.2*	*2.4*	*3.2*
miscellaneous services	*3.8*	*3.8*	*3.9*	*2.4*	*5.0*	*4.8*	*4.3*	*2.3*
Market goods and services	0.8	0.1	−0.6	−0.1	0.9	—	−0.6	−1.4
Non-market services	1.1	2.1	0.7	1.5	1.1	2.1	0.7	1.5
TOTAL	0.8	0.5	−0.4	0.2	0.9	0.5	−0.3	−0.7

Source: Istat.

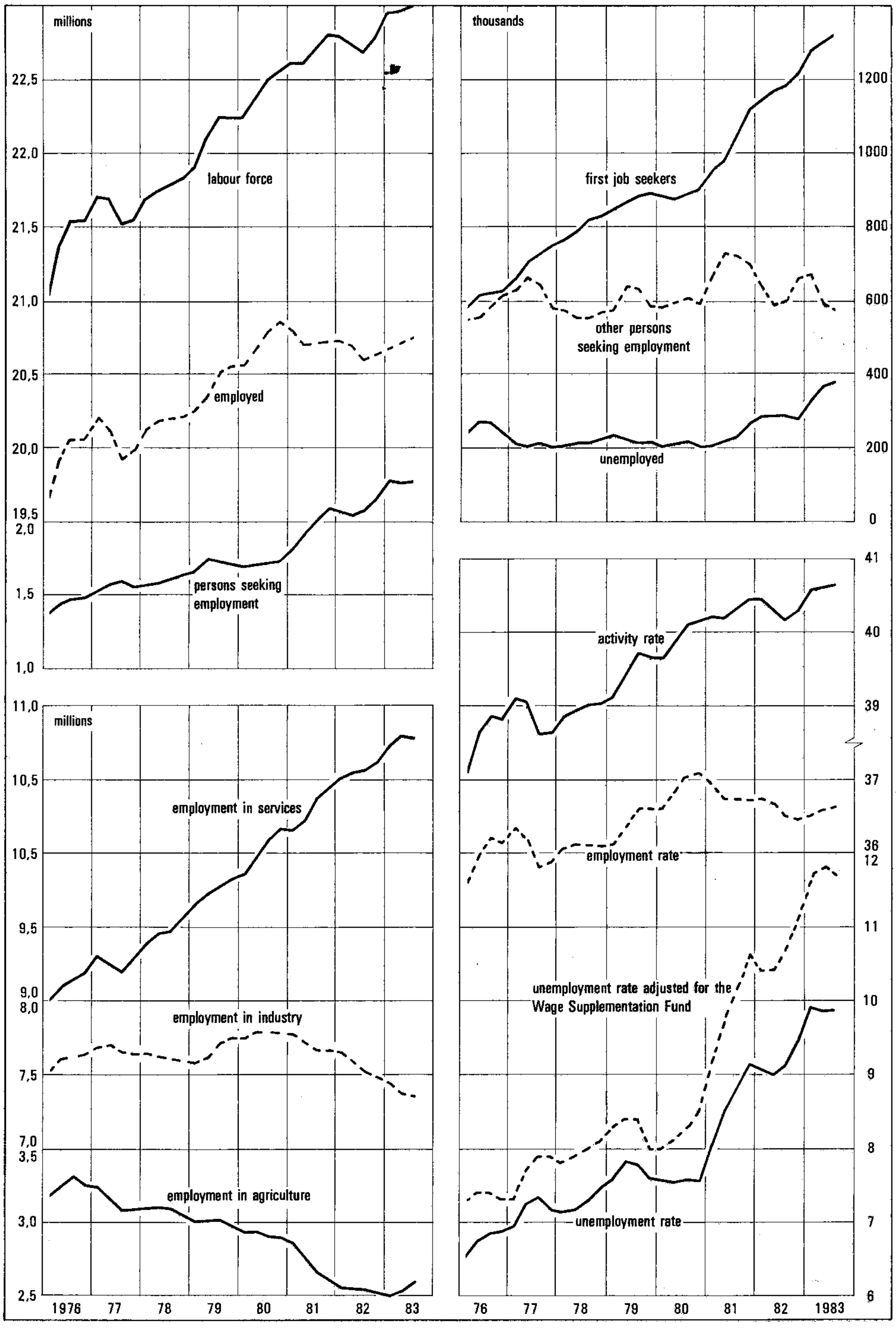
The demand for labour increased in all branches of the services sector, the overall increase amounting to about 222,000 (2.1 per cent). The expansion in employment in this sector has not faltered over the last three years, despite economic stagnation.

The contraction in economic activity was accompanied by a further decrease of 2.5 per cent in employment in industry, however; the fall was even more pronounced if one excludes construction. Moreover, in industry defined in this narrow sense, the reduction in the work force was mitigated by growing recourse to the Wage Supplementation Fund, which paid compensation in respect of 669 million hours in 1983, an increase of 22.5 per cent.

Productivity in industry excluding construction moved in step with the cycle, first declining and then increasing in the second half of the year as the recovery gradually took shape. The average for the year as a whole was positive; productivity per worker increased by 0.4 per cent after adjustment to take account of the Wage Supplementation Fund. As the number of hours worked fell sharply, there was a widening of the disparity between the growth in hourly productivity, which continued to follow its medium-term trend, and that in value added. 'This divergence first appeared at the end of the seventies, when firms succeeded in rationalizing and restructuring their manufacturing processes through intensive investment and greater flexibility in the use of labour. During the 1980-83 recession hourly productivity increased by 5.5 per cent despite the sharp contraction of 10.6 per cent in output, thus confirming the effectiveness with which Italian industry has adapted to changed external conditions.

In 1983 the labour force expanded by 1 per cent owing to the combined effects of population growth and a rise in the participation rate. The population increased by 0.2 per cent, whereas the activity rate rose to 40.6 per cent after remaining unchanged for two years. Disaggregated data show that the increase was due almost entirely to an increase in the proportion of women between the ages of 25 and 29 joining the labour force.

The number of persons seeking work increased to 2,278,000, more than three-quarters of whom were young people between the ages of 14 and 29. 'The highest percentage increase related to unemployed workers (25 per cent), whereas the largest increase in absolute terms (113,000) was registered by first-time job seekers. As a result of these developments, the unemployment rate rose to 9.9 per cent (or 11.7 per cent including the worker equivalent of hours paid by the Wage Supplementation Fund; Fig. 6). However, a more significant indicator of the worrying situation towards which the Italian labour market is heading is the rate of unemployment among young people under 25 years of age, which stood at 32 per cent in 1983, no less than 15 percentage points above the average for the major industrialized countries. If one looks only at adult unemployment, by contrast, Italy's rate of 4.8 per cent in 1983 is the second lowest after that of Japan. These figures are indicative of the way in which



Labour force, employment by sector of activity and persons seeking employment

Source: Based on Istat, Ministry of Labour and National Social Security Institute data, seasonally adjusted.

the trade unions' strategy of defending the jobs of those already in employment, cornbined -with the slowdown in the rate of economic growth, has led to rigidity in the labour market and harmed the employment prospects of the younger generation.

The recession that has just ended had a strong impact on unemployment. Between 1981 and 1983 the number of jobless rose by almost 600,000, 70 per cent of whom were new entrants to the labour market. 'This was one of the most significant features of the cyclical phase that ended in 1983: despite the substantial increase in the number of hours compensated by the Wage Supplementation Fund, firms tackled the adverse economic conditions by reducing employment on a large scale for the first time since the sixties.

Wages and salaries

The signing of the wage agreement for private sector engineering and metal workers in September closed the wage round for the main industrial sectors, general government, the distributive trades and farm workers. 'The negotiations were accompanied by the loss of 93 million working hours in industrial disputes, substantially fewer than in the preceding year, which had been notable for the controversy over termination of the wage indexation agreement.

The outline agreement signed by the trade unions and the employers' organizations on 22 January had a clear influence on the wage round as regards both working hours and wage increases. Engineering and metal workers in both the public and private sectors received increases for 1983 in excess of the ceilings on wage adjustments as a result of non-recurrent payments that more than compensated for the delay in reaching a settlement, whereas the increases agreed for workers in the chemical, textile and food industries remained within the limits. However, all the agreements provided for differentiation among the various grades, thereby indicating the desire to re-establish wage differentials, which have been steadily eroded by the effects of the uniform wage indexation mechanism.

In accordance with the agreement of 22 January, the meetings between the Government, the trade unions and the employers' organizations to monitor compliance with the constraints imposed by the agreement and to set the objectives for 1984 began in December of last year. As regards the first point, it emerged that salaries had breached the 13 per cent limit, but that consumer prices had risen by a comparable amount. With regard to the second aspect, in January 1984 the Government laid before the two sides of industry an outline agreement containing provisions on indexed wage increases, public service charges, administered prices and taxation in order to keep inflation within the target of 10 per cent. As one trade union group dissented, thereby preventing signature of an agreement, the Government issued two Decree Laws incorporating several of the more important provisions of the protocol.

Table 6

PERCENTAGE PROTECTION OF GROSS ANNUAL WAGES AND SALARIES IN INDUSTRY EXCLUDING CONSTRUCTION

(net of persons on the Wage Supplementation Fund)

	Changes in wages and salaries per employee		Price changes		Percentage protection (2)		Elasticity (3)	
	Total	Due to the scala mobile	Trade union cost of living index	Cost of living (1)	In relation to the trade union cost of living index	In relation to the cost of living	In relation to the trade union cost of living index	In relation to the cost of living
	Percentage changes							
1975	23.8	10.4	16.7	17.2	0.623	0.606	0.530	0.500
1976	22.1	9.7	16.7	16.5	0.582	0.587	0.677	0.689
1977	27.5	15.5	17.7	19.3	0.878	0.802	0.796	0.747
1978	16.5	10.1	12.7	12.4	0.797	0.814	0.784	0.758
1979	16.8	11.0	15.3	15.7	0.722	0.702	0.768	0.791
1980	21.1	13.0	18.2	21.2	0.717	0.614	0.740	0.629
1981	25.3	13.6	18.4	19.3	0.738	0.703	0.719	0.679
1982	17.0	10.9	16.0	16.4	0.682	0.665	0.686	0.651
1983	15.3	9.2	14.0	14.9	0.655	0.613	0.603	0.576

Sources: Based on Istat, Ministry of Labour and INPS data.

(1) The cost of living series is given on a uniform basis using Istat adjustment coefficients calculated for December of each base year; where the base is changed the average annual percentage changes do not coincide with those published by Istat. — (2) Assuming a system of 13 monthly salary payments; calculated as the ratio of the percentage change in wages and salaries per employee due to the scala mobile to that in the price index. — (3) Calculated as the ratio of the percentage change in wages and salaries per employee due to the scala mobile to that in the price index for the previous quarter.

The package of Decrees lapsed for lack of parliamentary approval within the prescribed time limit. In April the Government issued further Decree Laws with the same characteristics as the previous provisions, apart from the schedule of indexed wage increases, which was reduced from one year to six months, and the introduction of regulations to govern part-time working, training schemes and the possibility of engaging staff by direct selection.

Despite the wage settlements in the majority of sectors, there was a general, albeit modest slowdown in the growth of contractual wages in 1983, with the average increase in the private sector amounting to about 15 per cent, very close to the inflation rate. The main factors behind the slower rise in wages are to be found in the Government's incomes policy outlined in the agreement of 22 January and in its restraining effects on inflation, which were augmented by the general smallness of the increases in world market prices. The percentage protection provided by wage indexation in industry excluding construction for earnings adjusted to exclude the Wage Supplementation Fund diminished from 68 to 66 per cent, whereas their elasticity, which is measured in relation to the lagged inflation rate, fell from 69 to 60 per cent (Table 6).

Labour costs per employee slowed down less markedly, owing to the increase in social security contributions under the new legislation on severance payments and the raising of contribution rates; these measures came into effect in the second half of 1982 but did not produce their full impact until last year. Since at the same time productivity suffered its steepest decline for three years (1.2 per cent, Table 7), the rate of increase in unit labour costs was no lower than in the previous year in the private sector as a whole (17.5 per cent).

Prices

In 1983 the rate of inflation remained above the peaks reached in the preceding recession in 1977-78, although it continued to decline slowly. 'The general indices of wholesale and consumer prices increased by an average of 9.7 and 14.7 per cent respectively year on year (as against 13.9 and 16.5 per cent in 1982) and by 9.2 and 12.6 per cent respectively in the twelve months to December (compared with 11.9 and 16.2 per cent; Table 8). Retail prices therefore exceeded the 13 per cent inflation target by almost two percentage points owing to the faster increase in public service charges and unit labour costs.

In industry excluding construction the increase in total unit costs came to 11.1 per cent, more than 8 points below the level recorded in the last two years. This deceleration stems from the favourable trend in the producer prices of inputs of imported raw materials and semi-finished goods, especially energy, which partly offset the effects of the appreciation of the dollar on the cost of supplies. Unit labour costs, on the other hand, were adversely affected by the sharp contraction in production despite the upturn at mid-year.

The final prices charged by industry excluding construction increased at a rate not dissimilar to that in wholesale prices, that is to say by 9.3 per cent both year on year and in the twelve months to December. It is estimated that about one-third of this increase was due to imported inflation caused by the strengthening of the US dollar.

Table 7

LABOUR COSTS IN THE PRIVATE SECTOR

(percentage changes)

Year	Value added at market prices (1)	Total employment	Output per worker	Per capita employee income	Unit labour costs
			Private sector (excluding lettings) (2)		
1979	5.5	0.9	4.7	17.0	11.7
1980	4.6	0.8	3.8	21.2	16.9
1981	0.2	0.2	−0.2	19.9	20.3
1982	−0.7	−0.4	−0.2	17.2	17.4
1983	−1.4	−0.1	−1.2	16.2	17.5
			Agriculture		
1979	6.0	−2.7	8.8	19.4	9.8
1980	4,0	−2.8	7.1	23.8	15.8
1981	−0.1	−3.8	3.8	21.9	17.5
1982	−2.5	−5.6	3.2	19.6	15.9
1983	4.1	−0.1	4.4	17.8	12.8
			Industry excluding construction		
1979	6.1	0.3	6.0	16.5	10.0
1980	4.7	0.6	4.1	19.1	14.3
1981	−0.9	−1.5	0.6	20.2	19.6
1982	−1.8	−1.9	...	17.3	17.4
1983	−3.8	−2.8	−0.9	15.3	16.3
			Construction		
1979	2.6	−0.2	2.8	17.4	14.1
1980	4.0	1.1	3.1	20.6	16.9
1981	1.0	1.8	−1.0	18.2	19.6
1982	−2.5	−0.9	−1.3	17.3	18.9
1983	−1.4	−1.6	...	17.3	17.2
			Services (excluding lettings) (2)		
1979	5.4	3.1	2.2	16.4	13.8
1980	4.5	2.3	2.3	24.4	21.6
1981	1.1	2.7	−1.6	18.6	20.3
1982	0.9	2.7	−1.9	16.3	18.7
1983	...	2.3	−2.1	16.6	19.0

Source: Istat.

(1) 1970 prices; the data for agriculture, industry and services include imputed bank services. — (2) The data also include "other non-market services".

Yet again, the low level of capacity utilization and the gradual erosion of competitive advantages in the domestic market allowed only part of the increase in costs to be passed on to prices. Profit margins in industry excluding construction therefore continued to narrow, a tendency that seems to have affected the sector throughout the recent recession, although much less severely than at the time of the first oil crisis. Not only were the lira prices of inputs more favourable than they had been during the first oil shock, owing both to an easing of producer prices and to the greater strength of the lira's effective exchange rate, but productivity showed a countercyclical movement that had a positive effect on unit labour costs.

Table 8

WHOLESALE AND CONSUMER PRICES

(percentage variation of indices; 1980=100)

	1982	1983	Dec. 82 / Dec. 81	Dec. 83 / Dec. 82	Dec. 83 / 1983	June 83 / Dec. 82	Dec. 83 / June 83	Mar. 84 / Dec. 83
	Wholesale prices					**Composite rates on an annual basis**		
General index	13.9	9.7	11.9	9.2	4.9	6.1	12.4	13.5
Food	14.7	10.0	12.3	9.7	5.2	5.2	14.3	9.2
Industrial raw materials	13.6	7.0	10.2	9.2	6.6	1.0	18.1	14.9
oil	*13.3*	*5.1*	*19.0*	*1.4*	*7.2*	*−16.7*	*23.4*	*9.5*
non-oil	*13.7*	*7.6*	*7.5*	*11.8*	*6.4*	*7.3*	*16.5*	*16.8*
Industrial products	13.4	11.0	12.6	8.8	3.8	9.1	8.6	15.3
excluding oil products	12.8	10.8	11.5	9.9	3.9	11.0	8.6	12.9
	Consumer prices							
General index	16.5	14.7	16.2	12.6	5.1	13.2	12.0	13.2
Food products	16.4	12.3	15.5	10.1	4.5	9.5	10.7	10.2
Non-food products	15.7	14.1	16.0	11.0	4.8	10.8	11.1	14.0
Services	17.5	18.2	17.1	17.5	6.1	20.7	14.4	15.7

Source: Based on Istat data.

The differentials between the inflation rate in Italy and those elsewhere widened; in relation to the other EEC countries it amounted to 6 percentage points in terms of the wholesale prices of manufactures (excluding petroleum products) and 8 points in terms of consumer prices. 'The persistence and size of this disparity are among the most negative aspects of the Italian economy to emerge over the past ten years. To some extent the inflation differential is due to Italian industry's greater dependence on imported intermediate goods, and hence to its susceptibility to fluctuations in their prices, but it is largely ascribable to the faster increase in unit labour costs up to the end of the seventies. The importance of this factor subsequently declined, although in the last three years it again began to have an impact, albeit on a smaller scale, owing to downward wage rigidity in Italy in an international context of much more flexible wage rates.

Table 9

ADMINISTERED CONSUMER PRICES OF GOODS AND SERVICES

(percentage changes)

	Administered prices of goods and services				Monitored products
	Administered products	Public service charges	Rents	Total	
1981	19.6	24.8	15.3	20.2	17.3
1982	18.7	16.5	16.1	17.7	17.5
1983	13.6	21.6	18.8	16.7	12.5
Dec. 82 / Dec. 81	16.4	17.6	18.4	17.0	17.9
Dec. 83 / Dec. 82	11.1	19.7	25.9	16.0	7.9
Dec. 83 / 1983	4.5	5.7	13.8	6.4	4.4
	Composite rates on an annual basis				
June 83 / Dec. 82	9.0	27.9	11.7	14.6	5.1
Dec. 83 / June 83	13.2	12.1	42.0	17.3	10.8
Mar. 84 / Dec. 83	13.4	21.0	25.3	17.7	10.8

Source: Based on Istat data.

With regard to the differential in terms of consumer prices, the inflationary impact of the factors described above was amplified by the structure of the sector that is sheltered from world competition. Whereas the rise in labour costs in market services was more or less in line with that in manufacturing industry, and in some cases higher, the productivity trends diverged sharply. These differences were greater than in other countries and grew more pronounced in the second half of the seventies, thereby becoming an important source of imbalance and a structural cause of inflation. Hence the discrepancy between the rate of price increase in the protected sector and that in the sector exposed to international competition continued to widen over the last ten years, except during periods of strong currency depreciation.

These trends were reflected in the differential between consumer and wholesale prices that persisted throughout 1983. Its size was also due partly to the fact that public service charges and the prices of administered goods and services rose at a rate about 4 points in excess of the planned inflation rate of 13 per cent (Table 9).

The balance of payments on current account

Merchandise trade

The favourable trend in trade flows in volume terms and a slight improvement in the terms of trade produced an appreciable contraction in the trade deficit in 1983; on the basis of customs data, the shortfall decreased from 16,985 to 11,465 billion lire.

The delayed arrival and weaker intensity of the economic recovery in Italy had a strong impact on the volume of trade; exports rose by 5.2 per cent and imports by 1.4 per cent, their performance varying markedly in the course of the year. In the first half the slow recovery in the world economy and the deepening of the recession in Italy gave rise to a slight increase in exports and a fall in purchases from abroad; in the second half of the year the consolidation of the expansion in world demand was accompanied by strong growth in exports, which played a decisive role in stimulating the recovery in domestic production and hence caused a small increase in imports.

Exports were also boosted by the particularly low capacity utilization rates and further modest gains in competitiveness. Italy's share of world export markets increased in volume terms to a figure close to the particularly high levels recorded in 1978 and 1979.

Despite the depreciation of the lira against the US dollar, the terms of trade improved by an average of 2.3 per cent in 1983. The fall in the producer prices of raw materials, especially oil, brought the increase in import prices down to 3.5 per cent, compared with the rise of 5.9 per cent in the export price deflator.

A breakdown of trade by product shows that, as in earlier periods of adjustment, traditional manufacturing sectors made a major contribution to reducing the trade imbalance. The surplus on textiles, clothing, timber, furniture, footwear and leather increased by a total of about 2.7 trillion lire.

The deficit on the energy account showed a further increase of about 800 billion lire. The reduction in the price and volume of oil imports was outweighed by a deterioration in trade in petroleum products, which moved from approximate balance in 1982 to a deficit of about 2.5 trillion lire last year.

The changes in the geographic distribution of trade chiefly reflected the trend in the economic cycle. The most pronounced improvements occurred in trade with countries experiencing more rapid growth in domestic demand: the United States, the United Kingdom and, especially- in the first half of the year, the Federal Republic of Germany. Trade with the United States was further stimulated by the depreciation of the lira against the dollar, which averaged about 11 per cent on a year-on-year basis. The deficit vis-a-vis OPEC countries declined by about 1.5 trillion lire, mainly owing to a contraction in purchases of crude oil.

The process of specialization in trade in manufactures

During the last decade the effects on the trade balance of the deterioration in the terms of trade between manufactures and raw materials were held in check by an increase in the surplus of the manufacturing sector. At 1978 prices and net of products from oil and coal, the surplus increased from 5.5 trillion lire in 1972 to 13 trillion in 1983. 'The improvement was accompanied by an increase in trade in both directions: exports and imports increased by 5.0 and 4.8 per cent a year respectively, thus increasing the openness of the Italian economy (Fig. 7). These aggregate results are the outcome of different movements in the market shares of imported goods and in the proportion of production exported by the main branches of industry.

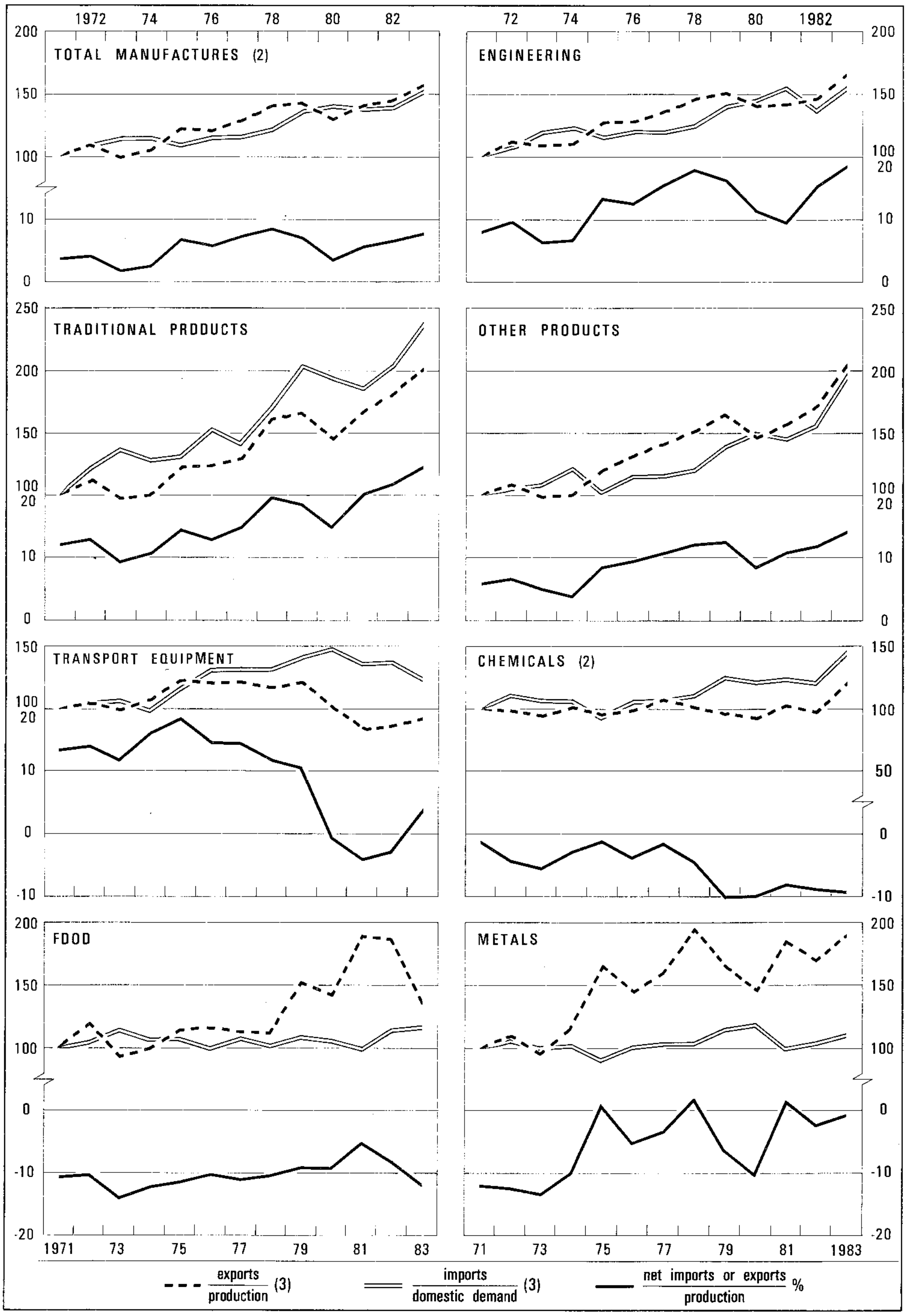
Throughout the decade the traditional sector as a whole and its constituent branches (furniture, leather, footwear, clothing, textiles, timber) experienced growing import penetration and an expansion in the proportion of output exported. The process of specialization therefore strengthened, leading to an increase in the trade surplus. A similar trend was evident in the mechanical engineering sector and in the "other branches" (non-metallic minerals, rubber, printing and publishing, miscellaneous).

In the transport equipment sector, by contrast, the increase in the propensity to import throughout the second half of the seventies was accompanied by a reduction in the proportion of output exported, indicating a weakening in the sector that has been reversed only in the last two years. Between 1977 and 1979 there was a similar trend in the chemical industry (net of oil refining and coal conversion), causing a deterioration in the balance that was not made good in the years that followed.

A feature common to the metals and food sectors was the persistence of imports at high but stable levels in relation to domestic demand without clear signs of a process of specialization.

The largest contribution to the improvement in the overall balance of manufacturing industry was made by those branches of the traditional sector in which the process of specialization was fastest. By contrast, the

Figure 7



Foreign trade in manufactures and industrial specialization (1)

Source: Based on Istat and ISCO data at constant prices

(1) Data for 1983 refer to the first nine months. — (2) Net of oil products and coal products. — (3) Index: 1971 = 100.

most serious constraints on the attainment of external equilibrium derived from the sectors in which specialization and the rationalization of production were weakest (chemicals, metals, food and, until 1980, transport equipment).

Invisibles

The surplus on invisibles increased by 2,507 billion lire to 5,834 billion. The outcome was influenced by the growth in tourist receipts, which produced an increase of 2,024 billion lire in net inflows of foreign exchange, and by an increase of 611 billion lire in the deficit on property income. Smaller variations occurred in other services and unrequited transfers, leading to an improvement of 1,094 billion lire in the overall balance on these items.

Tourism performed particularly well for the second year in succession, recording a surplus of about 11 trillion lire. The growth in receipts, which came to 21.6 per cent in money terms and about 6 per cent at constant prices, seems to be ascribable solely to an increase in average expenditure by foreign visitors owing to changes in the nationality mix, itself probably due to differences in real exchange rate movements in relation to the currencies of their home countries. In recent years Italy's competitive position has deteriorated overall but has shown substantial improvements in relation to the United States and the other major overseas countries with a high spending capacity (Australia, Canada and Japan). Despite the recession in Italy, expenditure on foreign travel increased by 21.1 per cent owing to the impetus from the faster rise in domestic consumer prices in relation to those abroad.

'The deficit on property income increased by very little, stabilizing at 5,918 billion lire. Medium and long-term loans outstanding remained largely stable in foreign currency terms, so that the deterioration in the balance was due partly to the banks' increased foreign indebtedness and partly to the depreciation of the lira against the dollar, while the reduction in interest rates on international markets from mid-1982 onwards had a favourable influence.

Capital flows, official reserves and lira exchange rates

Overall results

The picture of capital movements shows significant changes from the situation of the previous year (Table 10).

The large current account deficit of more than 7 trillion lire recorded in 1982 had been financed entirely by net inflows of medium and long-term capital from abroad. Substantial outflows of short-term capital totalling 5,127 billion lire had depleted the official reserves and the effective exchange rate of the lira had declined by 8.8 per cent.

In 1983 the elimination of the current account deficit meant that borrowing was not required and therefore helped bring about the large reduction in the inflow of medium and long-term capital; net inflows amounted to 948 billion lire, more than 6,000 billion lire less than in the preceding year.

Table 10

CAPITAL FLOWS
(net, in billions of lire)

	1982	1983
Medium and long-term capital	**7,250**	**948**
Investment	−1,076	−1,065
Loans	7,909	3,085
Trade credit	200	−840
Other	217	−233
Short-term capital	**−5,127**	**6,070**
Trade credit	−2,065	1,074
Banking flows (1)	−3,062	4,996

(1) Variation in the banks' net external position, corrected for exchange rate adjustments.

Italian lending abroad generated an outflow of 1,184 billion lire, compared with 856 billion in 1982. The reduction in the net inflow was nevertheless due primarily to the large decrease in net private borrowing abroad, which fell from 4,910 to 651 billion lire.

Movements of funds for investment continued to be a negative component in the overall balance, giving rise to a net outflow of 1,065 billion lire, similar to that recorded in 1982. Their composition altered, however; there was a much larger deficit on direct investment, whereas net portfolio investment changed from outflows in 1982 to inflows last year.

Medium and long-term trade credit showed a deficit of 840 billion lire, compared with a surplus of 200 billion lire in 1982, mainly because of new credits granted to foreign buyers of Italian goods as an accompaniment to the increase in Italian exports.

Persistent expectations of stability in the lira exchange rates for a large part of the year as well as large positive interest rate differentials stimulated considerable inflows of short-term funds, especially via the banks. The monetary authorities bought foreign exchange equivalent to more than 8 trillion lire from private holders, thereby recouping .the reserves lost the preceding year.

The growth in direct investment and the internationalization of Italian

The expansion of Italian enterprises in the international markets accelerated last year. New investment reached nearly 3,800 billion lire, compared with 2,716 billion in 1982, and disinvestment decreased; the net outflow almost tripled from 1,387 to 3,230 billion lire.

Italian direct investment abroad began to increase significantly at the end of the seventies. Since 1979 it has been higher than foreign direct investment in Italy, which itself has been rising; the trend that had prevailed since the end of the war has therefore been reversed. At the end of 1982 total Italian investment abroad already exceeded the corresponding foreign assets in Italy.

This development can be set in the context of the increasing internationalization of Italian industry, which is more intensive than the balance-of-payments statistics alone show. The expansion in productive activities has also been achieved by self-financing and, to a larger extent, by borrowing on the international capital market, with the parent companies' involvement often being limited to the granting of guarantees.

In the past, Italian investment abroad consisted largely in transferring entire manufacturing processes to sales markets in order to minimize costs. In the eighties, however, the motivations are more complex and new contractual forms have emerged. The exchange and exploitation of knowhow, the realization of economies of scale in production and/or distribution, the mounting of marketing campaigns and, in some instances, attempts to distribute risks better have meant that industrial cooperation agreements with non-resident enterprises haVe began to emerge alongside the traditional acquisition of plant abroad.

In this way foreign shareholdings have been rationalized and company structures modified, partly through closer collaboration with international enterprises. Numerous holding companies have therefore been set up outside Italian territory and granted blocks of shares in foreign and Italian affiliates. The concentration of shareholdings in a single entity has offered tax advantages, permitted more efficient management of group cash-flow and made it easier to raise funds in international markets.

Short-term capital inflows

The switch from massive outflows of short-term capital to equally large inflows at a time when the intake of longer-term funds was declining sharply was one of the most conspicuous events on the Italian balance-of-payments front in the last two years. Over that period the swing in net short-term trade credit and flows of banking capital amounted to more than 11 trillion lire, resulting from a net outflow of 5.1 trillion lire in 1982 and a net inflow of 6.1 trillion lire in 1983.

A minor but not insignificant part of this swing is ascribable to the settlement terms for merchandise trade. The deficit of 2,065 billion lire on trade credit that had been recorded in 1982, partly owing to the abolition of the deposit on foreign payments, turned into a surplus of 1,074 billion lire last year.

However, the behaviour of trade credit granted and received explains only one-quarter of the turnround in net short-term capital movements over the last two years. The remaining three-quarters is attributable to flows of banking capital.

During 1983 the banks' net foreign debtor position increased from 14,564 to 21,357 billion lire. However, valued at the weighted average exchange rates for the year, the net inflow came to 4,996 billion lire, compared with a reduction of 3,062 billion lire in 1982, and was less than the increase in the debt stock. 'The overall variation in the banks' net position is attributable mainly to the foreign currency component, where net liabilities increased by 5,933 billion lire, more than one-quarter of the increase being due to the doubling of gross liabilities in ECUs to more than 3 trillion at the end of the year.

The funds raised abroad were used in Italy largely to provide import and export finance; the outstanding volume of import credit increased by 3,574 trillion lire in the year to end-1983 while export credit expanded by 1,640 trillion.

The external debt and the exchange rates of the lira

The total net inflow of capital in 1983 was reflected in a further increase in the *non-official* net external debtor position, which had levelled out at $35 billion during 1982 after increasing steeply in 1980 and 1981; at the end of last year it stood at $41.2 billion, mainly owing to an increase in foreign loans, which rose from just over $39 to 40.5 billion, and to the net debt of the banking system, which was $2.3 billion higher than the level of $10.6 billion recorded at the end of 1982. On the assets side, net trade credit declined from $10.9 to 8.4 billion, while the volume of Italian loans to foreign borrowers outstanding at the end of the year remained at the 1982 level of $3.8 billion. There was a reversal of the trend that emerged two years ago towards a decrease in the short-term component of the non-official debtor position and an increase in the medium and long-term component.

Italy's *overall external financial position* showed a different pattern. After rising sharply the previous year, net debt increased only slightly to stand at $21.5 billion. *Official* assets (excluding gold reserves) increased by almost $6 billion, thus approaching the level reached at the end of 1981 before the rapid decline in 1982. Despite the current account surplus recorded during the year, the increase in the debtor position expressed in dollars was due to the different impact of exchange rate changes on assets and liabilities, which do not have the same currency mix.

The rebuilding of adequate foreign exchange reserves to meet the external commitments of Italian business and cater for the need to forestall and, where necessary, counteract speculative pressure on the lira was an important achievement of monetary and exchange rate policy, together with the substantial stability of the lira within the European Monetary System.

Between the beginning of 1983 and March 1984 the lira depreciated by 8.1 per cent in terms of the effective rate, by 15.4 per cent against the dollar and by 7.7 per cent against the Deutschemark. Within the EMS it remained continuously above the 2.25 per cent band after the realignment on 22 March 1983.

PUBLIC FINANCE

Despite the full impact of the measures taken in the second half of 1982 to reduce the budget deficit and the growing effects of others introduced in 1983, the borrowing requirement of the enlarged public sector rose from 79,550 to 93,070 billion lire between the two years, so that as a proportion of GDP it remained at the very high value of the previous year (17 per cent; Table 11). The limitations imposed on its growth were exceeded for the third consecutive year; the state sector borrowing requirement came to more than 88,000 billion lire, whereas the Government's Forecasting and Planning Report had set a target of 71,000 billion lire, slightly less than the outcome for the year before.

Table 11

BORROWING REQUIREMENTS

(as a percentage of GDP)

	1981	1982	1983
State sector borrowing requirement	13.2	15.4	16.5
Public sector borrowing requirement	13.3	16.2	17.0
Enlarged public sector borrowing requirement	13.6	16.9	17.4

The overshooting was due mainly to the gradual easing of the budgetary policy outlined in the second half of 1982 and implemented in the finance bill and other measures and to the limited effectiveness of the restrictions imposed on various items of expenditure and allocations to decentralized spending bodies. Some of the proposed measures, including the introduction of a wealth tax and the restructuring of VAT rates, were not put into effect, while others, such as the condonation of building offences and the introduction of a centralized exchequer account for most of the local authorities and public bodies, were postponed to 1984. Some of the provisions, especially those designed to curb expenditure, underwent substantial modification which reduced their scope and delayed their impact; a significant number of the measures decided were removed from the finance bill and incorporated into Decree Laws which expired several times and were resubmitted with amendments, some of them substantial, so that they were not converted into law until the end of the year.

Nonetheless, the measures implemented made it possible to mitigate the effects of the underlying forces stimulating expenditure. However, in view of the persistent stagnation in production, these effects were exacerbated by the intensified impact of the built-in stabilizers, which caused a slowdown in receipts and an increase in outlays. Some important measures, such as the condonation of tax evasion and of the non-payment of social security contributions and the local surtax on real or imputed rental income, were of a temporary nature, so that they will have no effect beyond 1984. The measures introduced in the last two years increased receipts and reduced outlays by an estimated 16 trillion in 1982 and by 32 trillion lire in 1983 (including savings on interest payments), equal to 3.4 and 6.0 per cent of GDP respectively. The latter figure is nearly twice that realized by means of the similar programme enacted in 1976, which had been the most significant action for twenty years. A substantial part of the improvement was achieveci by increasing indirect taxes, social security contributions and public service charges; however, this had the effect of postponing the slowdown in inflation.

Table 12

MAIN INDICATORS OF PUBLIC SECTOR FINANCES

(as a percentage of GDP)

	1981	1982	1983
Fiscal revenue (including EEC levies and social security contributions)	36.4	39.2	42.3
Total public sector expenditure	52.7	56.6	59.3
Deficit on current account	7.1	7.7	6.9
Net indebtedness	12,6	13,9	13,4

The net indebtedness of the public sector (public administration as defined for national accounting purposes and the autonomous government agencies) declined from 13.9 to 13.4 per cent of GDP (Table 12); the reduction would have been about one percentage point if no allowance were made for cyclical trends.

The considerable scope of the measures on the receipts side made it possible to increase the ratio of taxation to GDP by a further three percentage points (from 39.2 to 42.3 per cent, including the levies accruing to the EEC) following the increase of more than 4 points in the previous two years.

The corrective measures on the expenditure side were not enough to prevent a further rise in its share of GDP (from 56.6 to 59.3 per cent net of financial items), mainly on account of the trend in social security benefits, interest payments and wages and salaries.

Between 1970 and 1983 the public sector debt rose from 27.8 to 453.4 trillion lire. As a proportion of GDP it virtually doubled over the same period, rising from 44 to 85 per cent, a value significantly higher than the average for the main industrialized countries. 'The increase was particularly rapid in the last three years, when the debt grew by nearly 30 per cent at constant prices.

In the late seventies especially, there was a substantial increase in the share of the debt in the form of Treasury bills, which accounted for 36 per cent of total financial liabilities in 1982. Only in 1983 did this trend change, when the yield differential in relation to Treasury bills and expectations of a reduction in inflation encouraged net purchases of medium and long-term variable rate securities by the market, which accounted for about three-quarters of new borrowing. By contrast, the proportion of the debt consisting in Treasury bills taken up by the banks and the private sector dropped to 31 per cent; central bank financing also declined between 1981 and 1983, falling from 24 to 18 per cent.

The results of the policy of lengthening maturities in recent years become more evident from an examination of the average residual life of securities on the market. In 1982 the substantial placements of Treasury credit certificates had only halted the progressive reduction in this indicator, which had fallen to a little less than a year at the end of 1981. In 1983 the larger volume of such issues, the emphasis placed on four, five and seven-year certificates and the decrease in the share of 3-month Treasury bills raised the average residual maturity from one year to about eighteen months.

The outlook for 1984

If no action is taken, the tendency for expenditure and the public sector deficits to grow will be reinforced in 1984 by the cost of the second instalment of the salary increases for public employees and the revaluation of pensions and, above all, by the declining effects of temporary fiscal measures.

This being the case, the aim of corrective action has been to counteract the lessening of the tax burden and to curb expenditure. The timely approval of the finance law and some of the fiscal measures made it possible to set out the main points of budgetary policy from the very beginning of the year.

Based on official figures, the measures already taken and those now under discussion (the condonation of building offences and the centralized exchequer account) should lower the state sector borrowing requirement from its present trend value to 97 trillion lire. To achieve the objective set in the Forecasting and Planning Report (90.8 trillion lire) it will therefore be necessary to take further measures to reduce the deficit by about 6 trillion lire. As it is, the Report projects a further real expansion of more than 10 per cent in the public debt.

Although substantial, the measures taken in recent years are still not sufficient to restore budgetary equilibrium over the medium term. Efforts have been concentrated on increasing receipts in an attempt to match the growth in expenditure; moreover, part of the increase in revenues stems from temporary measures. At the same time, the provisions aimed at controlling expenditure, mainly by setting limits to the growth of government grants and loans to decentralized spending bodies, have proved largely ineffective. Furthermore, other measures have reduced the level of control over expenditure, in so far as they have increased the strength and leverage of the link with price developments. In particular, the recent innovations in the indexation of pensions have reduced the time-lag between price rises and pension increases and at the same time raised their price elasticity. The problems caused by the rise in the public debt are therefore bound to recur in the years to come, even assuming that the slowdown in inflation and the recovery in production will continue.

THE MONEY AND FINANCIAL MARKETS

In 1983 the Bank of Italy's policy was directed towards reducing inflation and eliminating the external deficit in order to allow the incipient recovery in output to consolidate on a sound and durable basis. The smallness of the rise in domestic demand, which was achieved partly by monetary policy, and the buoyancy of foreign demand made it possible to restore balance-of-payments equilibrium. 'The contribution of fiscal and incomes policies towards remedying the ills of the economy was still inadequate. The state sector borrowing requirement exceeded the Governmenes target by an amount equal to 3 per cent of gross national product and the rise in nominal incomes was sustained by increases of more than 16 per cent in labour costs per employee in the private sector. As a consequence, inflation could not be brought down below 12 per cent on a twelve-month basis.

The changeover from administrative credit controls to market mechanisms by removal of the ceiling on bank lending did not ease the restrictiveness of monetary policy. The phasing out of the ceiling was accompanied by central bank monitoring of bank lending; the banks were each asked to limit their loans in lire in the second half of the year to a level compatible with the monetary authorities' intermediate objectives, thereby sharing responsibility with the central bank for the economic and financial stability of the economy. 'The tight control of the monetary base helped keep the supply of domestic credit to the productive sector in line with the growth in national income and made it possible to regain control over the growth in the money supply and in liquid assets after the acceleration in late 1982.

The fact that after three years of recession and restrictive monetary policies Italy has barely managed to eliminate the balance-of-payments deficit and to reduce the rate of price increase to a level that is still four times as high as that in the Federal Republic of Germany illustrates the difficulties of bringing the Italian economy back onto the path of non-inflationary growth. In the last three years the objectives of monetary policy have been to curb inflation and support the exchange rate; this has encouraged enterprises to seek improvements in efficiency and has reinforced savers' propensity to invest in finandal assets. Perseverance in seeking to combat inflation even at a time of declining economic activity is motivated by the knowledge that the return to monetary stability is a fundamental objective of economic policy. This conviction, which is shared by all the major industrial countries, has meant that in the present economic cycle the stance of monetary policy has generally been restrictive, as reflected in the high level of interest rates everywhere. In Italy high real interest rates are also the inevitable price to be paid for defeating inflation, particularly in the light of the large public sector borrowing requirement.

The public sector borrowing requirement and interest rates. — The state sector's domestic borrowing requirement increased by 18.5 trillion lire more than intended; this was reflected in an expansion of 119.7 trillion lire in total domestic credit, which therefore overshot the target set by the Interministerial Committee for Economic Planning in January 1983 by 14.7 trillion lire. The new flow of credit represented 20.6 per cent of the initial amount outstanding; as a proportion of national income it increased from 21.3 per cent in 1982 to 22.3 per cent last year (Table 13 and Fig. 8). The state sector swallowed more than 70 per cent of domestic credit; in the initial phase of the preceding cycle in 1979 its share had barely exceeded 50 per cent.

Table 13

CREDIT, MONEY SUPPLY AND FINANCIAL ASSETS

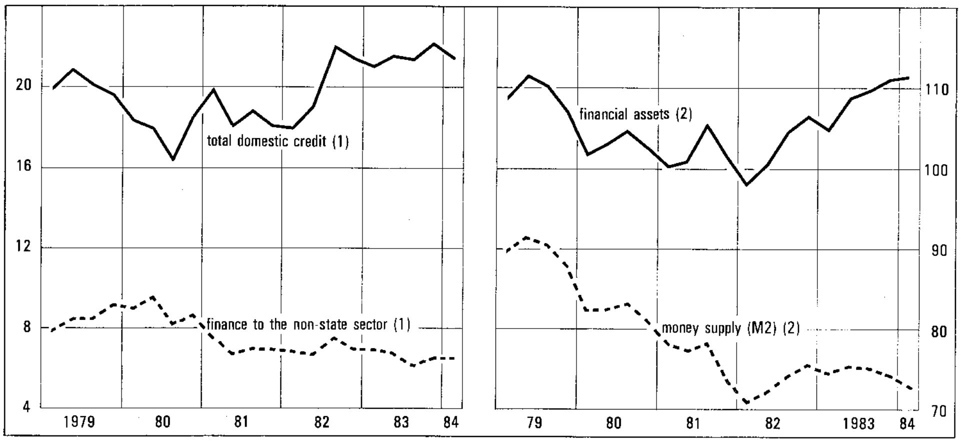
(12-month growth rates)

	Domestic credit		Finance to the economy (2)	Money supply (M_2)		Liquid assets (M_3)		Financial assets (3)	
	Finance to the non-state sector (1)	Total		Economy	Non-state sector	Economy	Non-state sector	Economy	Non-state sector
1979 - Dec.	16.5	18.7	18.0	20.5	20.4	23.4	23.2	22.0	22.3
1980 - Dec.	16.3	18.5	20.6	13.1	12.7	17.9	17.3	16.2	15.8
1981 - Dec. (4)...	13.5	18.0	18.2	12.3	9.9	18.5	16.0	19.1	16.7
1982 - Dec. (4)...	13.3	20.8	14.8	17.2	16.9	17.6	17.2	20.3	19.9
1983 - Dec.	12.8	20.6	14.1	12.7	13.3	14.2	14.6	20.2	20.4
1984 - Mar. (5) ..	13.9	21.2	....	12.6	13.1	14.9	15.0	22.5	22.6

(1) Financing by banks and special credit institutions and securities issued by enterprises on the domestic market. The non-state sector comprises the Economy (households and enterprises), insurance companies and public bodies not included in the state sector. — (2) Total financing comprises loans from credit intermediaries, bond issues, foreign loans, endowment funds allocated to public sector enterprises and share issues (cf. Table 14); rates of growth are calculated net of share issues owing to problems of valuation. — (3) Domestic financial assets, net of shares. — (4) Based on data adjusted for non-interest-bearing deposits on payments abroad. — (5) Provisional data.

The domestic public debt increased twice as fast as national income; over the last three years it has risen from 60 to 74 per cent of gross national product. Real interest rates, which had increased rapidly from 1980 onwards to a level close to the average for the other major European countries, had to be kept high to ensure that such a massive volume of financial assets would be taken up by the household and corporate sectors. Last year real interest rates on government paper remained high, equalling the peak reached in the first half of 1982; those on six-month Treasury bills averaged 5 per cent, calculated on the basis of consumer price developments. This led to an increase in the proportion of savings allocated to financial assets; despite the rise in the propensity to consume, households devoted 21 per cent of their disposable income to purchasing financial assets, 2 percentage points more than in 1982. The rate of increase in financial assets greatly exceeded the rise in prices.

Figure 8



Credit, money supply and financial assets of the non-state sector (1)

(as a ratio to GDP)

(1) Cumulative 12-month flows. — (2) Average quarterly levels.

The decline in nominal interest rates that had begun early in 1982 continued in parallel with the abatement of inflation. Having paused in the autumn and winter of 1982, the fall in rates resumed in 1983 and accelerated after the currency realignment in March; in April the official discount rate was reduced from 18 to 17 per cent. In the first half of the year average Treasury bill rates came down by almost two points to stand at about 17.5 per cent. At mid-year, when it had become clear that the public sector deficit would exceed the forecasts and the expected upturn was beginning to materialize, monetary policy had to reconcile conflicting requirements: too restrictive a stance would have impeded the still weak recovery in production, whereas too rapid a growth in domestic demand might have wiped out the progress made towards balancing the external accounts and jeopardized the success of anti-inflation policy, paitly through a deterioration in expectations. Monetary conditions abroad also indicated the need for caution, as during that period the central banks of both the United States and the Federal Republic of Germany were tightening their control over domestic monetary expansion. The downward movement in interest rates came to a standstill. The rapid growth in bank deposits during the summer as a result of the expansion in the state borrowing requirement was offset in the months that followed, partly by exercising tighter control over the banks' reserves. From the autumn onwards the banking system was almost permanently in debt to the central bank, which was able to influence liquidity conditions both by open market operations and by adjusting its lending to the banks.

The financing of the productive sector. — The policy of gradually reducing nominal interest rates and the monitoring of bank lending made it possible to hold the increase in finance to the non-state sector to 34.2 trillion lire, an increase of 12.8 per cent. The result was influenced by the brief slowdown in bank lending in lire in December; this was offset by the recovery in lending in January, which was due in part to the disappearance of certain distortions in the banking statistics that had developed during the period of administrative controls. The twelve-month rate of growth in lending to the non-state sector came to 13.7 per cent in November 1983 and 14.3 per cent in January of this year.

The low level of economic activity and investment in the first half of 1983 and the caution with which enterprises adapted their production plans during the upturn checked the demand for credit, which did not show signs of recovery until the closing months of the year. The high cost of credit in lire credit helped speed up destocking and spurred recourse to bank loans in foreign currency.

The growth differential between bank lending and special credit disappeared; this had developed from 1981 onwards owing to the ceiling on bank lending, which had caused some shift in intermediation from the banks to the medium-term credit institutions. The rate of growth in special credit fell from 18 per cent in 1982 to 14 per cent last year, partly owing to the downturn in investment, while that in bank lending rose from 10 to 14 per cent. The largest contraction occurred in short-term lending by the industrial credit institutions; there was also a slowdown in the growth of the new forms of finance, such as leasing and factoring, which had been stimulated partly by the administrative controls on bank credit. The loans market showed signs of greater elasticity after the expiry of the ceiling; in the second half of the year the rate of growth of lending to the economy differed from bank to bank. The average rate of interest on bank loans in lire declined by 2 points during 1983, the same as the fall in Treasury bill rates, to stand at 20.5 per cent at the end of the year. The decrease in rates charged by special credit institutions was less pronounced owing to the slower reduction in the cost of borrowed funds.

The fall in nominal interest rates reduced the ratio of net interest charges to sales in the industrial sector. However, the cost of borrowing did not have the same impact on all enterprises; it had a particularly adverse effect on the profit and loss accounts of those that were most heavily indebted or had not begun to restructure and. reorganize and which were therefore unable to derive the full productivity advantages from the pick-up in economic activity.

Table 1 4

TOTAL DOMESTIC CREDIT AND LOANS TO THE ECONOMY

(changes in billions of lire)

	1979	1980	1981	1982	1983
Total domestic credit	**53,796**	**63,197**	**72,975**	**100,313**	**119,759**
State sector borrowing requirement (1)	28,503	34,008	44,904	68,951	83,555
Finance to the non-state sector (2)	25,293	29,189	28,071	31,362	34,204
finance to public bodies (−) (3)	*2,000*	*1,619*	*1,900*	*3,321*	*4,150*
foreign loans (+)	*2,227*	*4,497*	*8,641*	*3,206*	*816*
endowment funds (+)	*671*	*2,581*	*3,158*	*7,115*	*9,303*
share issues (+) (4)	*770*	*1,929*	*2,263*	*2,188*	*2,629*
other items (+) (5)	*3,188*	*4,353*	*3,952*	*2,431*	*4,334*
Total finance to the economy	**30,149**	**40,930**	**44,185**	**42,981**	**47,136**

(1) Net of borrowing abroad, Treasury loans to credit institutions and securities issued to fund debts. — (2) The non-state sector comprises the Economy (households and firms), insurance companies and the public bodies not included in the state sector. Loans to the sector include the funding operations under footnote (1) and, for 1981 and 1982, exclude bank loans to finance the non-interest bearing deposit on payments abroad. — (3) Public bodies not included in the state sector; the figures also include loans to insurance companies and are adjusted for the funding operations under footnote (1). — (4) Net share issues of private sector companies and third parties' contributions to state-controlled enterprises. — (5) Bad debt of the credit institutions, acceptances, atypical securities and other minor items.

Despite the decrease in self-financing, the downturn in investment and the reduction in stocks enabled enterprises to limit their borrowing and increase their financial assets, mainly by buying Treasury credit certificates, which partially replaced Treasury bills as secondary liquidity, given the ease with which they can be mobilized through repurchase agreements. Total finance to the productive sector increased by 14.1 per cent, almost 3 points less than the growth in national income during the year (Tables 13 and 14). The modest increase in financing reflects not only the slowdown in the granting of special credit and issues of bonds but also the reduced inflow of medium and long-term loans from abroad. On the other hand, there was an increase in the state's allocations of endowment funds to public enterprises, which came to almost one-third the amount of loans granted by financial intermediaries. The growing importance of these transfers of public funds contrasts with the efficiency in the allocation of resources by the financial system.

Financial assets and the securities market — The rapid expansion in domestic credit was reflected in a substantial increase in financial assets, which rose by 20.2 per cent; as a proportion of national income, the financial wealth of households and enterprises increased by almost 7 points to stand at 119 per cent, the highest level in the last twenty-five years. The maintenance of a large interest rate differential between government securities and bank deposits kept down the demand for money and made it possible to expand the supply of securities. The increase in the withholding tax on interest from deposits at the beginning of October helped strengthen the shift away from liquid funds towards securities in the closing months of the year.

The narrower monetary aggregates (Mi and M2) expanded by about 13 per cent, almost 4 points less than in the previous year; liquid assets held by the non-state sector, including Treasury bills, increased by 14.6 per cent.

The overall size of the securities market increased further in 1983; net issues of government securities, bonds and special credit institutions' certificates of deposit came to 92 trillion lire, 15 trillion more than in the previous year and three times the amount recorded in 1980. Net recourse to the market (i.e. taking interest payments and redemptions into account) rose much less than in the two preceding years. Between 1980 and 1981 public and private sector borrowers had quadrupled their net take-up of funds and had almost doubled it again the following year; in 1983 the net flow of resources from the market only increased from 29 to 32 trillion lire and remained stable as a proportion of national income (Table 15). The shift in the structure of securities towards longer maturities was accompanied by inversion of the yield curve, which had taken on a slightly positive slope in the course of the year (Fig. 9).

Net issues of government securities were almost 45 per cent higher than in the preceding year, rising to more than 81 trillion lire; the public sector's net fund raising in the capital market rose from 20 to 36 trillion lire. Yield differentials and expectations of a decline in nominal interest rates made it possible to increase the supply of Treasury credit certificates, which made up 82 per cent of the sector's net issues compared with 49 per cent in 1982 and 7 per cent in 1981.

Table 15

NET RECOURSE TO THE SECURITIES MARKET (1)

(billions of lire)

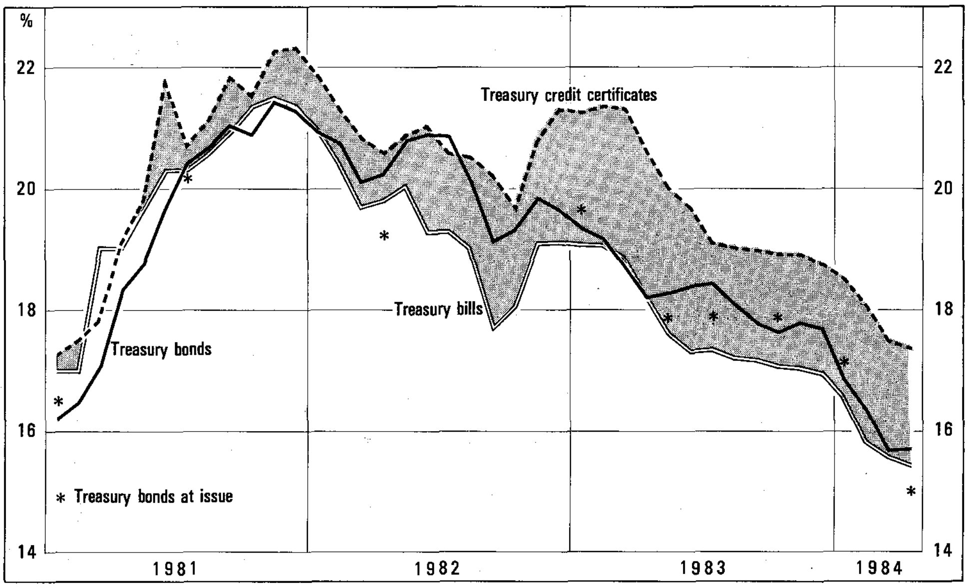
Issuers	1979	1980	1981	1982	1983
Public sector	5,563	5,825	15,158	19,996	36,109
Treasury bills	3,524	16,206	17,523	8,669	– 13,759
Other securities	2,039	– 10,381	– 2,365	11,327	49,868
Special credit institutions	– 1,132	– 460	1,797	6,459	– 3,442
Enterprises	– 547	– 959	– 725	2,563	– 218
TOTAL	**3,884**	**4,406**	**16,230**	**29,018**	**32,449**
As a percentage of GDP	*1.4*	*1.3*	*4.0*	*6.2*	*6.1*

(1) Gross issues less redemptions, premiums or discounts and paid coupons. For Treasury bills: gross issues less redemptions and premiums or discounts. For certificates of deposit of the special credit institutions: net issues less interest payments.

In this way the replacement of maturing public debt has been restricted, thereby enhancing the stability of the securities market, and the Treasury's borrowing costs have been reduced by eliminating the risk premium required on fixed interest securities. On the other hand, the growth in the public debt with yields linked to those on short-term securities has kept the state borrowing requirement highly responsive to variations in interest rates and is restricting the scope for monetary policy. The situation is the legacy of a long period of high and volatile inflation rates during which savers were deterred by continuously negative real yields and forsook the financial market, so that it had to be sustained by administrative measures such as the securities investment requirement. The return to a more balanced structure, which entails a lengthening of the average life of a larger portion of the financial assets of households and enterprises and an increase in the fixed interest component, presupposes a steady reduction in the inflation rate.

In a situation still marked by numerous uncertainties, the non-state sector was drawn towards Treasury credit certificates in view of the smaller risk of capital losses than on fixed interest securities. However, as they are less liquid than Treasury bills, it was necessary to pay a higher yield to compensate savers for the risk that the reference rate would become unrepresentative and that the secondary market might be inefficient. Moreover, for the market as a whole there is an essential difference between Treasury bills and Treasury credit certificates; the state has undertaken to redeem the former at short date, whereas the latter must be held by the market for a period of several years.

Figure 9



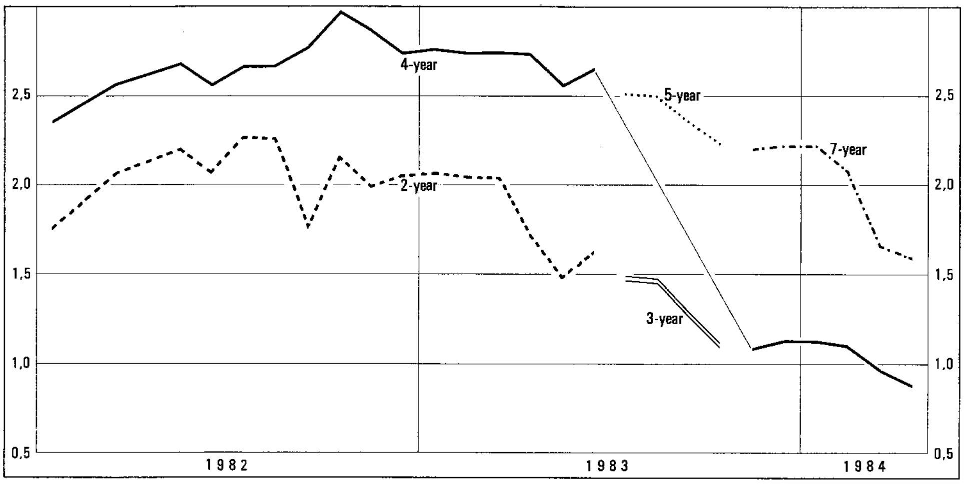
Interest rates (1)

(1) Average monthly yield on Treasury bonds and Treasury credit certificates on the secondary market; weighted average of the yields at the fortnightly auctions of 6-month Treasury bills.

Over the last two years changes have been made in the indexation mechanism and in the conditions of sale of Treasury credit certificates. Having achieved a wider distribution of these securities among investors and with nominal interest rates falling, the authorities gradually reduced the spread in relation to yields on six-month Treasury bills; in the case of the four-year certificates the spread came down from 3 points in the autumn of 1982 to less than 1 point last April. The shortest maturity of new issues was raised from two to four years during 1983 and the longest from four to seven years (Fig. 10). Net purchases of Treasury credit certificates by the non-state sector increased from 9.5 to 30 trillion lire and their share of financial portfolios rose from 4 to 8 per cent. The banks also stepped up their investments in Treasury credit certificates, thereby offsetting a reduction in holdings of Treasury bills; hence, after rising sharply in the second half of 1982 as a result of the shift in the public's preference from Treasury bills to deposits, the ratio of the banks' Treasury bill portfolios to deposits returned to the average for the last five years.

Net issues of Treasury bills came to 11.1 trillion lire, barely one-third the total for 1982; subscriptions by the non-state sector recovered by comparison with the preceding year and more than offset the reduction in the holdings of the credit institutions. The Treasury bill market ceased to expand; gross issues, which had increased almost fivefold between 1979 and 1982, were lower than in the preceding year; the average monthly volume of maturing securities fell steadily, giving the central bank better control over liquidity. The Treasury bill market, which had also become an outlet for medium-term investment in recent years, has developed into a market chiefly for the deployment of liquid funds.

Figure 10



Spread on Treasury credit certificates at issue (1)

(1) Difference between the yield on Treasury credit certificates and that on 6-month Treasury bills.

Issues of fixed interest government securities staged a recovery. In 1982 the non-state sector had reduced its investments in Treasury bonds by 1.2 trillion lire, but last year subscribed a net total of 3.4 trillion. However, the disparity between issuers' and investors' inflation expectations was still an obstacle to developing the fixed interest segment of the financial market. Some private issuers tried to provide a route towards investment in securities with a predetermined nominal yield by offering variable rate bonds automatically convertible into fixed interest securities or bonds with warrants for the subscription of future issues, also at a fixed rate of interest. The state made an issue of certificates with a 2.5 per cent coupon and provision for the principal to be revalued in line with changes in the GDP price deflator.

Private borrowers also made substantial issues of variable rate securities; they accounted for 44 per cent of gross issues by the special credit institutions and 75 per cent of those by enterprises. Net issues of bonds and certificates of deposit by these two groups declined by half between 1982 and 1983. The largest fall occurred in CDs, where the issue volume decreased from 8.5 to 1.2 trillion lire in line with the decline in lending by the special credit institutions, especially at short term. In 1982 private issuers had increased their borrowing partly to take advantage of the temporary tax exemption; the tax factor again affected issues last year, with half of the volume offered by the special credit institutions being concentrated in December, before the increase in withholding tax on interest to 12.5 per cent came into force.

The prospects for 1984

In the first four months of this year the state sector borrowing requirement came to 26 trillion lire, 3.5 trillion more than in the same period of 1983. It was financed by sales of securities to the public and the banks; savers' preference for medium and long-term securities, which was heightened by expectations of a fall in interest rates, made it possible to continue with the policy of lengthening the maturities of the public debt by increasing not only issues of Treasury credit certificates but also those of fixed interest securities.

The considerable purchases of government securities by savers were reflected in very reduced growth in bank deposits in the first four months of 1984. Over the same period, the growth in the productive sector's credit demand pushed the annual rate of increase in lending to more than 20 per cent (after adjustment for the effects of the distortions in the banking statistics at the end of 1983) and, in conjunction with the slow growth in deposits, created tight liquidity conditions in the banking system. The Bank of Italy offset only part of the absorption of liquidity caused by the increased subscriptions of government securities and by the adverse seasonal trend in the balance of payments by means of open market operations and fixed term advances.

From the beginning of the year onwards the slowdown in inflation permitted a gradual decline in interest rates despite the tight rein on bank reserves. The official discount rate was reduced by one point in February and a further half point in May, coming down to 15.5 per cent. Rates on three-month Treasury bills declined by two and a half points in the first five months of the year and those on new issues of Treasury bonds slipped below 15 per cent in April. Bank lending rates also began to fall again; minimum rates on loans in lire declined by more than a point in the first four months.

The targets for growth in the monetary and credit aggregates in 1984, which were published in February, were set in accordance with the

Government's declared objective of reducing inflation and with the maintenance of balance-of-payments equilibrium.

Actual growth of around 38 trillion lire in domestic credit to the private sector, equivalent to an annual rate of increase of the order of 12 per cent, seems quite adequate for financing economic activity. Up to now, the observed growth in this aggregate has been considerably higher than the target, partly owing to the statistical distortions mentioned above; between January and April the actual annual rate of growth came to about 15 per cent owing to the strength of the recovery and the rebuilding of stocks.

If the state sector borrowing requirement were to exceed the limit of 90.8 trillion lire during the year, domestic credit expansion and the resultant increase in the creation of financial assets would make it necessary to sell a larger volume of securities to savers in order to keep the growth in the bank deposits of households and enterprises at around 11 per cent in accordance with the normative forecasts for overall financial flows. Interest rates should move in accordance with the desired behaviour of the credit and monetary aggregates and should take account of the rate of domestic price increase and monetary conditions abroad.

The central bank's operations and the control of the monetary base

The control of the monetary base in 1983 and early 1984

In 1983, monetary policy was conducted largely through the control of the monetary base and bank reserves. The weakening demand for credit in the first half, together with tight control of monetary aggregates (made possible by stricter management of bank reserves, among other things) permitted the non-renewal of the ceiling on lira loans by the banks, which had first been introduced in 1973 and had been in effect uninterruptedly since 1976.

With the return of more orderly conditions in the securities market after the crisis of late 1982, growing investor interest in government securities, and especially Treasury credit certificates, made it possible to cover a large proportion of the budget deficit directly in the primary market. This facilitated the creation of an ample margin between the Treasury's actual current account overdraft and the legal limit, permitting the repayment in January 1984 of the extraordinary advance passed by Parliament a year earlier. In this fashion, substantial securities sales had a restrictive effect on the reserves of the banks, forcing them to resort increasingly to financing from the central bank.

The monetary base and bank reserves expanded by 12,618 and 8,537 billion lire respectively in 1983 (or 13.3 and 14.1 per cent, adjusting for changes in the compulsory reserve ratio; see Tables 16 and 17). This was slower than the previous year's expansion, although calculations on a calendar year basis do not show it because of the exceptional contraction in liquidity in the last few days of 1982. The extent of the slowdown is apparent if we compare the growth rates for the twelve months ending in January 1983 and January 1984 (using adjusted figures, 14.9 and 13.5 per cent respectively for the monetary base and 17.6 and 14.4 per cent for bank reserves).

Keeping the growth of the monetary and credit aggregates in line with the yearly targets was made more difficult by a large divergence from the initial forecasts for the Treasury's borrowing requirement and for foreign currency inflows. 'The control of bank reserves was achieved by substantial use of repurchase agreements on securities and fixed term advances. 'The make-up of the former differed markedly from the previous year's pattern (sales of 35,715 billion lire and purchases of 19,850 billion in 1983, as against 51,050 and 9,021 billion respectively in 1982). Fixed term advances rose sharply (25,427 billion lire, up from 6,045 billion the previous year).

Treasury borrowing in the market rose to 83,964 billion lire, or 94.9 per cent of its funding requirement (up from 82.5 per cent in 1982). Of this, 53,367 billion, or 60.3 per cent of the requirement (up from 32.3 per cent in 1982), consisted of sales of securities in the primary market. Seventy per cent of the creation of monetary base was due to the influx of foreign currency, the highest share since 1977.

Table 16

MONETARY BASE AND BANK DEPOSITS

(percentage changes on an annual basis) (*)

	1981	1982	1983	1982 Quarters I	II	III	IV	1983 Quarters I	II	III	IV	1984 1st qtr. (1)
Monetary base (2)	11.7	12.6	13.3	-1.1	29.2	14.1	14.7	11.8	15.7	14.4	11.1	3.1
Bank reserves (2)	8.1	13.1	14.1	-7.8	41.0	15.0	16.3	9.2	18.7	14.6	12.7	-2.6
Bank deposits	9.2	18.2	13.3	13.1	18.1	21.2	19.7	10.0	17.2	21.7	4.9	6.9
of which: of the Economy	*12.2*	*18.7*	*12.6*	*12.1*	*18.7*	*21.6*	*21.7*	*8.0*	*16.4*	*20.9*	*5.5*	*6.0*

(*) From end-of-period values. — (1) Provisional data. — (2) Net of P.O. deposits of the public and the banks. Adjusted for variations in the compulsory reserve coefficient and for the non-interest-bearing deposit against lending in excess of the ceiling.

The yields on Treasury bills and the rates on Bank of Italy repurchase agreements, which had risen again towards the end of 1982, were kept at high levels early in 1983. The purpose was to use strict control of bank liquidity to arrest the accelerated expansion of monetary aggregates that had been registered at the end of 1982. The rate offered on repurchase agreements peaked in early March, when the lira came under pressure in the foreign exchange markets. Following the realignment of EMS central rates and an improvement of Italy's external accounts, control over bank reserves could be eased, permitting a gradual lowering of interest rates on public securities, accompanied by a reduction in the discount rate from 18 to 17 per cent in April.

At the start of the second half of the year, the growth of deposits accelerated (see Table 16). In the months that followed, the upturn in economic activity was accompanied by a recovery of bank credit. The ceiling on bank loans had lapsed in July and been supplanted by the less rigorous constraint of supervision over loans, and there was a danger that too fast a growth in domestic demand might undo the progress made in restoring balance- of-payments equilibrium and curbing inflation. Consequently, a prudent stance was assumed: the aim was to preclude an excessive expansion of credit incompatible with the targets that had been set. Bank reserves were controlled more strictly, especially in September and

Table 17

MONETARY BASE (*)
(changes in billions of lire)

	1981	1982	1983 Year	1983 Quarters I	II	III	IV	1984 1st qtr. (1)
Foreign sector (2)	**25**	**−5,647**	**8,840**	**−351**	**6,099**	**1,311**	**1,781**	**−2,128**
Balance of payments	1,533	−2,521	3,793	−2,127	2,854	3,302	−236	
Net foreign position of banks	−1,521	−3,062	4,996	1,810	3,270	−1,822	1,738	
Treasury	**14,233**	**12,676**	**4,529**	**6,285**	**−6,209**	**−456**	**4,909**	**4,429**
Borrowing requirement	53,087	72,554	88,493	13,410	21,135	28,584	25,364	17,570
Net sales of securities	−33,663	−52,394	−74,976	−6,250	−25,836	−28,370	−14,520	−11,246
primary market	−1,446	−23,450	−53,367	−3,264	−19,590	−21,818	−8,695	−17,454
Treasury bills	564	−6,947	8,622	8,367	−4,711	187	4,779	708
Treasury credit certificates	−326	−20,489	−59,602	−13,593	−12,765	−22,410	−10,834	−16,016
Other securities	−1,684	3,986	−2,387	1,962	−2,114	405	−2,640	−2,146
Open market	−32,217	−28,944	−21,609	−2,986	−6,246	−6,552	−5,825	6.208
of which: repurchase agreements	*998*	*−401*	*−1,628*	*1,755*	*−1,318*	*1,293*	*−3,358*	*8,203*
Other forms of financing (3)	−5,191	−7,484	−8,988	−875	−1,508	−670	−5,935	−1,895
Refinancing	**119**	**638**	**−3**	**44**	**13**	**608**	**−668**	**15**
Other sectors	**−5,738**	**2,669**	**−748**	**−1,375**	**858**	**−1,043**	**813**	**315**
of which: deposits on foreign payments	*−3,822*	*3,822*	—	—	—	—	—	—
TOTAL (4)	**8,639**	**10,336**	**12,618**	**4,603**	**760**	**419**	**6,836**	**2,631**
The public	**4,430**	**3,528**	**4,080**	**−1,817**	**825**	**872**	**4,200**	**−2,313**
Banks	**4,209**	**6,807**	**8,537**	**6,420**	**−65**	**−453**	**2,635**	**4,944**
Compulsory reserves	2,946	8,544	9,091	5,941	−1,014	2,991	1,173	6,018
Non-interest-bearing deposits against excess lending	821	−519	−927	645	1,274	−2,820	−26	−2
Excess reserves	442	−1,218	373	−166	−325	−625	1.489	−1,072

(*) The breakdown of the creation of monetary base by channels has been modified by excluding advances granted under the Ministerial Decree of 27.9.1974 from "Refinancing" and eliminating from open-market sales of government securities under the heading "Treasury" those effected as a counterpart of such advances. Any discrepancies in the totals arise from rounding.

(1) Provisional data. — (2) The creation of monetary base by the foreign sector does not match the sum of the items indicated owing to differences between the balance-of-payments statistics and the consolidated balance sheet of BI-UIC and to the inclusion, up to January 1983, of the convertible currencies of banks. — (3) P.O. deposits of the public and the banks, foreign loans, indemnities lodged with the Deposits and Loans Fund, the social security institutions' deposits with the Treasury and loans granted by banks and special credit institutions to autonomous agencies. — (4) Net of P.O. deposits of the public and the banks.

October when the lira came under pressure. The restrictive measures consisted in part in the decision to offer the banks fixed term advances more costly for them than reverse repurchase agreements, and in part in controlling the quantity of repurchase agreements offered to the market to raise the interest rate. Meanwhile, the decline in Treasury bill yields, which had been minimal between June and September, was halted entirely in October.

The restoration of normal conditions in the foreign exchange markets and the slower expansion of the money supply (Table 16), due partly to increased withholding tax on interest from deposits, permitted resumption of the programme of bringing interest rates down in December.

The deposit of compulsory reserves in January 1984, plus the great interest of investors in Treasury credit certificates, sales of which on issue covered 91 per cent of the first quarter's borrowing requirement, gave rise to significant strains in the money market early in the year, despite the rapid decline in yields, corroborated by the lowering of the discount rate to 16 per cent in February. The actual cost of credit from the central bank was further lowered by a reduction in the surcharge required in the event of frequent resort to fixed term advances.

The finance to the banking system, in the dual form of repurchase agreements and fixed term advances, was at a high level in the first few months of 1984 - 5,234 billion lire a day in the first quarter, with a peak of 11,000 billion in the first few days of February, as against an average of 2,315 billion lire in the first quarter of 1983. Furthermore, postponement of settlement for part of the Treasury credit certificates was granted more frequently from February onwards.

In March a group of intermediaries was formed as an experiment to strengthen demand at Treasury bill auctions. The group has pledged to take up an agreed share of the bills offered at each auction and to see to their subsequent sale to the public; the Bank of Italy, for its part, will provide partial financing of the bills thus subscribed. At the end-March auction, the first one in which the group of intermediaries took part, all the securities issued were sold. The group received 1,521 billion lire in financing, which was reimbursed gradually over the next month.

The tight market conditions helped ease the pressure on the lira in February. The growth of monetary aggregates was modest. The decline in market interest rates was followed in early May by a further half-point reduction in the discount rate. At the same time compulsory reserve regulations were made slightly more permissive. Competitive bid auctions, which had been introduced a year earlier for three-month Treasury bills, were extended to six-month bills.

The evolution of instruments for intervention over the last decade

The changes made in 1983 in the instruments at the disposal of the monetary authorities continued and supplemented the evolution in the central bank's operating procedures. In fact, almost as soon as direct controls were imposed on bank credit in 1973-74, the tendency was to restore the conditions under which they could be eliminated.

Since the mid-seventies the monetary authorities have taken action on two principal fronts. First, to counteract the expansionary thrust of the budget deficit, substantial sales of government securities were required; this in turn, in the wake of the crisis in the securities market due to rising interest rates and inflationary expectations, required the creation of a market capable of taking them up. Second, the relationship between the monetary base and deposits had to be stabilized to facilitate use of the former for sufficiently precise control of the latter, and hence of bank credit.

The control of the monetary base and the money supply. — To encourage the development of a market in short-term securities, the tender mechanism for the sale of Treasury bills was modified in 1975. With the introduction of a non-binding base price, the right of a single intermediary to submit multiple bids, and the inclusion of the Bank of Italy among participants, the tender price was made more sensitive to market conditions. Non-bank purchasers were allowed to take part in the auctions in order to encourage sales of Treasury bills outside the banks. In the same year, marginal reserve requirements in monetary base were equalized for different classes of banks and different types of deposits, to engender closer and stabler linkage between the monetaiy base and the amount of deposits.

In the years that followed, the considerable upward movement that was possible in tender rates generated rapidly growing interest in Treasury bills, first from banks and then from savers. This made it easier to fund the budget deficit.

At this point the Bank, acting with the Treasury's agreement, was able to stop guaranteeing purchase of the Treasury bills not taken up by the market, as it had been doing since the reform of the auction system. The new rules of conduct for the central bank introduced in July 1981 attenuated the linkage between the size of the deficit and the creation of monetary base and brought about a closer correlation between the deficit and interest rates. This allowed monetary policy to act more independently, even in the very short run. The new rules also initiated a new trend in the pattern of the Bank's intervention in the market for government securities:

an increasing portion of the Treasury's funding requirement was covered by sales of securities in the primary market (rising from 30.2 per cent of total securities sales in 1979 to 71.2 per cent in 1983), while outright sales on the open market declined in importance. Increasingly, the control and stabilization of bank reserves was achieved through repurchase agreements. Introduced in late 1979, these were more suitable for the purpose owing to their flexibility in duration and interest rates.

At the end of 1982, application of the compulsory reserve requirement was extended to other forms of fund raising that had developed over the previous few years. At the same time, the marginal coefficient was raised to 25 per cent, after earlier increases in 1976 and 1981. These measures lessened the impact of sudden fluctuations in the monetary base on deposits and bank credit. It was also decided to make a gradual transition to reserve regulations based on the level of deposits, not their variation, so as to make the effect of changes in the coefficient more direct and more predictable and to eliminate the remaining disparities between different classes of banks.

In May 1983 a further change was made in the sale of Treasury bills, with the introduction of competitive bid auctions. Under the new system, each purchaser of securities receives the yield he himself proposes. The innovation, which at first applied only to three-month bills, was aimed both at holding down the Treasury's interest costs, by keeping the average tender rate below the marginal rate, and at encouraging the formation of a reservoir of demand constantly in excess of supply, but avoiding the risk of a fall in yields. 'This makes it possible to increase sales rapidly whenever deficit funding needs require it.

The rise in purchasers' demand for securities at issue put strains on the short-term funds market on settlement days. In recent months, as noted above, these strains were especially severe, and the greater flexibility of fixed term advances helped to ease them. The increase in the system's demand in the primary market was still further encouraged by the formation of the group of banks that purchase Treasury bills at auction and then sell them to savers. In this way they took over a function performed until then — de facto, though no longer by institutional necessity — by the central bank.

In short, the Bank of Italy is moving to gradually regain its proper operative function as financier to the banking system, which had been overlaid in the seventies by its role as securities intermediary. Combined with repurchase agreements and fixed term advances, the gradual reimbursement of refinancing on securities purchases permits short-term control of bank reserves. Outright sales and purchases of government securities by the Bank can thus be confined to meeting the needs of longer-term control of liquidity.

Taken as a whole, this evolution in the rules of conduct and instruments for intervention has sharpened the distinction between the funding of the Treasury's deficit and the exercise of monetary control. By facilitating both, it has made possible a stabilization of the rate of growth in the monetary base in the early eighties and a closer correlation between this and the rate of growth in the money supply.

Direct controls on bank credit. — A decade ago, the need for more timely and precise control over the expansion of credit than was possible through regulation of the monetary base and interest rates led the monetary authorities to supplement the traditional tools of intervention with a lending ceiling and a securities investment requirement for banks.

The lending ceiling was more pervasive than the investment requirement in its effects on the volume of credit available to the economy, but the two instruments had in common the potential to affect the composition of the credit available. This additional power was used at first to soften the impact of the credit squeeze on small businesses. Starting in 1976, foreign currency loans were exempted from the aggregate subject to the limits on growth in order to foster an inflow of foreign capital and so facilitate support of the lira. In 1974, 1976-77 and again in the early eighties the ceiling played a key role in diminishing the flow of credit to the private sector in order to stabilize aggregate demand, and hence the exchange rate and prices.

The disadvantages of prolonged use of this instrument emerged more and more clearly over time, however. The limitation of the ceiling to banks alone engendered the development of alternative types of finance through the special credit institutions and other, newly created types of intermediaries. Hence not only was the ceiling's effectiveness reduced, but the uniform rate of growth imposed on all banks alike caused distortions in the distribution of market shares within the banking system.

After seven years of uninterrupted application of the ceiling, its non-renewal in July 1983 had to be accompanied by precautionary measures to ensure an orderly transition to market rules. The Bank of Italy informed the banks of its target for the average system-wide growth in lira lending for the year as a whole. It reminded the banks of the need to respect that target and requested each bank to set its own internal target and inform the Bank of it, so that its compatibility with the aggregate could be verified. Monthly reporting of lira lending developments was also instituted, and the banks were urged to inform the central bank promptly of any divergence from their targets.

The phasing out of lending controls was accomplished smoothly. The target for growth in lending in lire was respected. At the end of 1983 the Bank's surveillance of loans was therefore discontinued. The only element remaining is the requirement of monthly reporting of the growth in lending, which has been extended to the special credit institutions as well in order to provide the authorities with more timely and more complete information.

The securities investment requirement, instituted like the lending ceiling in 1973, has also undergone substantial change over the years. Until 1976 the authorities sought to ensure a flow of medium and long-term credit at a time when rising inflation and worsening inflationary expectations had caused the bond market to collapse. To this end they kept the share of new deposits banks had to invest in medium and long-term securities at or above 30 per cent, and this had significant effects on the composition of bank balance sheets. In 1977, with the gradual return to more orderly money and credit markets and owing in part to ties between some banks and some special credit institutions, overall purchases of bonds by the banking system were above the required level.

The investment requirement was therefore reduced from 30 to 6.5 per cent from the second half of 1978 onwards and its sphere of applicability was narrowed to agricultural and real estate bonds, whose yields and maturities made their placement more difficult. However, the requirement to keep the securities purchased under the previous requirements in the portfolio and to renew them on maturity was retained.

There were no major modifications of the securities investment requirement in subsequent years. The banks' holdings of medium and long-term securities remained above the minimum, and there were signs of a recovery in bond demand from the public, thanks partly to more widespread use of variable rate securities. Consequently, the regulation could be relaxed still further. In renewing the provision for the first half of 1983 the investment requirement was reduced by one percentage point. In addition, the compulsory renewal provision was limited to 50 per cent of holdings as of the first half of 1983 and abolished as of the first half of 1984 for some types of securities, which accounted for 58 per cent of the total held under the requirement.

The restrictiveness of monetary policy and the public's increased interest in government securities were reflected in a slowdown in the growth of bank deposits, particularly towards the end of the year (Table 18). The volume of banking intermediation did not decrease in real terms, but the proportion of financial saving flowing to the banks declined from the previous year, continuing a trend that began at the end of the seventies and was interrupted only by the temporary disposals of government securities by the public in the closing months of 1982.

Table 18

BANK DEPOSITS AND LOANS (1)

(percentage rates of increase)

	1979	1980	1981	1982	1983					1984 1st quarter (2)
					Year	Quarters				
						I	II	III	IV	
Deposits	20.1	13.2	9.2	18.2	13.3	10.0	17.2	21.7	4.9	6.9
Loans (3)	21.8	19.5	10.2	9.8	13.9	14.3	15.6	9.3	16.6	29.6
Treasury bills (4)	6.2	40.4	5.6	44.9	−6.9	−12.5	68.7	23.7	−59.6	−7.7
Medium & long-term securities (5)	18.7	0.2	5.9	18.2	30.4	16.8	33.5	39.0	33.1	−1.3

(1) Quarterly data are at a seasonally adjusted annual rate. — (2) Provisional data. The figure for loans in the first quarter of 1984 is affected by the elimination of certain distortions in the banking statistics. The adjusted figure is around 18 per cent on an annual basis. — (3) Including investments in bankers' acceptances and the funding of bank loans but excluding loans to finance the deposit on purchases of foreign exchange in force from May 1981 to February 1982. The foreign currency component is valued net of exchange rate adjustments. — (4) Net of repurchase agreements with the Bank of Italy. — (5) Net of the effect of the funding of bank loans and repurchase agreements with the Bank of Italy.

The high cost of credit and the monitoring of bank loans in the second half of the year helped hold down the growth in lending. The ratio of bank loans to total lending to the economy nevertheless increased owing to the slowdown in special credit.

Despite falling interest rates, the banks improved the profitability of their securities portfolios by substituting variable rate securities for maturing fixed interest bonds and part of their holdings of Treasury bills. Their gross earnings margin was unaffected, however, as the spread narrowed between the yield on loans and the unit cost of borrowed funds.

The banks' profits per unit of intermediated funds remained at the 1982 level. In a year in which operating costs rose substantially, this was achieved by reducing net depreciation provisions and appropriations to reserves.

Bank lending

Bank lending increased in line with GDP on average, ending the decline in the ratio between the two aggregates that had begun in the mid-seventies (Fig. 11). The rate of growth in lending over the year came to about 14 per cent, 4 points more than in the previous year (Table 18). The positive differential between domestic rates and those abroad and the expectations of stability in EMS central rates after the March realignment increased the advantage of foreign currency borrowing, which rose by 19.1 per cent after having fallen by 5.4 per cent in 1982. Lending in lire rose by 13.3 per cent, only one and a half points more than in 1982.

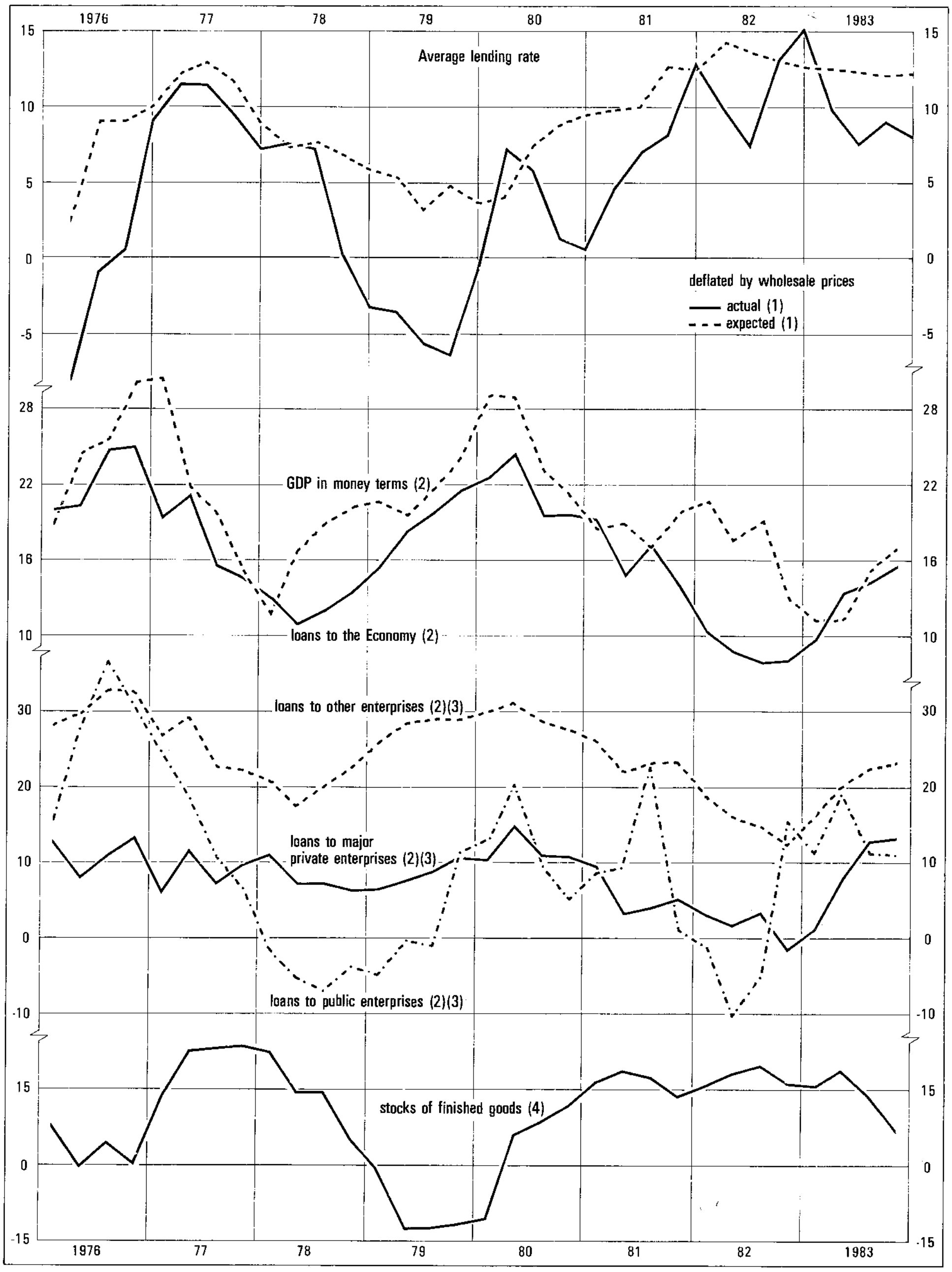
In the second half of 1983 the abolition of the ceiling on the expansion in lending reinforced the changes in market shares that had begun a year earlier, when unutilized lending margins had developed; during this period the dispersion of the rates of change in lending according to bank, sector of economic activity and geographic region widened distinctly by comparison with the period immediately preceding.

The dispersion of minimum lending rates declined markedly in the second half of 1983 owing to the reduced segmentation of the loans market. In an attempt to capture increased market shares, the banks offered increasingly favourable terms to prime customers. The spread between the minimum rate on bank loans and interbank deposit rates was 0.8 percentage points in December 1983, the smallest amount in the last five years. In the early months of 1984 rates of interest charged in some market centres were actually below interbank rates. Between the second and fourth quarters of 1983 the proportion of loans at rates below the prime rate of the Associazione Bancaria Italiana (ABI) also increased from 15 to 25 per cent.

Securities portfolios

The banks made net disinvestments in Treasury bills in 1983, the first time this has occurred. Their net disposals totalling 2,940 billion lire were offset by an increase in the proportion of variable rate securities, to which the entire expansion in the medium and long-term component can be attributed. The part of the holdings on which the yield adjusts promptly to changes in market rates (Treasury bills and variable rate securities) rose to 65.1 per cent; in 1980 it had been less than 41 per cent.

Figure II



Bank loans, real interest rates and economic activity

(1) The actual inflation rate is the rate observed in the subsequent six months on annual basis; the expected rate of inflation is calculated by the Bank of Italy using data from the ISCO-Mondo Economico survey. — (2) Rates of increase in the twelve months ending in the relevant quarter. — (3) Data from the Central Risks Office. — (4) Stocks of finished goods in industry (deviation from normal): averages of responses (net monthly balances) to the ISCO-Mondo Economico survey.

The shift in the composition of the banks' portfolios towards Treasury credit certificates was much more pronounced than that in the securities held by the public. 'Through the management of their portfolios the banks reconciled the Treasury's policy of lengthening the maturities of securities with the slower change in the public's preferences.

The change in the composition of securities portfolios was encouraged by the easing of the investment requirements; the proportion of deposits tied up in compulsory holdings of securities, at nominal value, fell from 18.3 to 16.0 per cent. In view of the special credit institutions' reduced financing needs, these institutions' bonds fell from 33.3 to 30.0 per cent as a proportion of total holdings of securities, after having reached a peak of 38.6 per cent in 1981.

Deposits

The growth in lira deposits eased from 18.2 per cent in 1982 to 13.3 per cent in 1983. The slowdown began early in the year but was interrupted during the summer as foreign exchange flowed in from abroad and the budget deficit expanded; it resumed strongly in the third quarter owing to various factors, such as the tightening of control over bank reserves by the monetary authorities, the increase in the rate of tax on interest receipts (which reduced the yield on deposits by about half a percentage point) and the public's greater interest in Treasury credit certificates. In the first four months of 1984 deposits increased at an annual rate of about 7 per cent, more than 4 percentage points below the rate for the corresponding period of 1983.

The phasing out of the ceiling on bank lending and the increase in the number of bank branches by 708 in the last two years revitalized competition for deposits. The dispersion of banks' deposit rates narrowed during the year; the maximum deposit rate gradually closed with Treasury bill yields and moved ahead in the first few months of 1984. 'The largest increases in deposits were recorded by the small banks, which have below-average holdings of securities and expanded their lending more strongly.

Banking disintermediation and the diversification of find-raising instruments. — As a proportion of domestic financial assets, deposits fell from 58.0 to 54.5 per cent, slightly below the level obtaining in the second half of the sixties. At the beginning of the seventies the absence of a short-term securities market and the acceleration in inflation made it difficult to sell securities to the public, thereby boosting bank deposits. The securities investment requirement acted in the same direction by increasing the banks' demand for securities and reducing yields. From the end of the seventies onwards this trend was reversed, mainly owing to widespread public acceptance of short-term, variable rate government securities enjoying tax exemption. The contrast between a restrictive monetary policy and an expansionary fiscal policy caused the money supply, and hence also deposits, to grow more slowly than total financial assets, which were expanding far faster than national income. Banking disintermediation was also due in part to the increased issues of certificates of deposit by the special credit institutions and the gradual easing of the securities investment requirement, which helped bring yields on medium and long-term securities up to market levels.

Despite the reduction in the banks' share of intermediation, the ratio between deposits and GDP is higher in Italy than in the other major industrialized countries with the exception of Japan. Sight deposits still often represent a financial investment rather than a reserve for transaction purposes.

The banks diversified their liabilities to contend with the pressure of competition for funds. In March 1984 certificates of deposit issued in accordance with the Ministerial Decree of 28 December 1982 came to about 5.5 trillion lire, a fairly substantial amount, especially given the relative newness of the instrument. The placing of these securities affected not sales of Treasury bills but traditional forms of time deposits, which slowed down markedly in 1983. The banks most active in the CD market were those that had seen their share of the deposit market contract in past years, such as the banks of national interest and some public law banks.

Bank interest rates

Calls for the banks to make a larger contribution towards reducing the cost of money intensified in 1983. Lending rates adjusted for the expected rate of inflation declined slightly but remained at a high level (Fig. 11). Nevertheless, considering the conditions in which the banks were operating, lending rates appear to be lower than in similar cyclical phases in the past. The differential between average lending rates and Treasury bill yields was 3.3 per cent in 1983, whereas it had been more than one point higher in 1978. 'The 1983 figure does not seem high if account is taken of the difference in tax treatment between these two forms of investment and of the higher operating costs and greater risk involved in lending.

In the recent recession the banks met the higher costs due to the increase in bad debts and operating expenses and to the heavy impact of compulsory reserves by depressing deposit rates rather than transferring the cost on to loans. In 1983 deposit rates remained on average more than 3.5 percentage points below the Treasury bill rate, whereas in 1978 and early 1979 the differential had amounted to about 1.5 points.

The calls for a larger reduction in the cost of bank credit were also caused by the delay over the last two years in adjusting lending rates to match cuts in yields more directly under the control of the monetary authorities. The time-lag had been conspicuously long in 1982, but it shortened last year, when the fall in interest rates on loans in lire (calculated on the basis of average quarterly data) was 2.1 percentage points, compared with a decrease of 1.4 points in average Treasury bill yields. Moreover, it was shorter than in previous periods of falling interest rates, such as that which ran from the end of 1976 to the second quarter of 1979. Deposit rates also adapted to money market conditions more quickly than in the past, although they declined by only 0.9 points during 1983.

Lags in the movement of bank interest rates usually tend to appear when rates are falling; they are due partly to the lack of synchronism between changes in the demand for loans and movements in official interest rates. At the beginning of such periods, as in 1977 and 1982, the fall in the cost of credit is checked by the increase in firms' borrowing requirements due to the rise in stocks of unsold goods (Fig. 11). Moreover, as losses on the portion of assets tied up in compulsory reserves decrease at such a time, banks may reduce the cost of fund raising less than the fall in yields on government securities.

A swifter adjustment of interest rates can be achieved by improving the working of the market. At present, in areas of the country where banking competition is keener, such as the North-West, bank interest rates move more quickly than in the rest of the country. A similar tendency can be observed in a sample of the main banks that have branches in urban areas and which are more active in the money and foreign exchange markets.

The reduction in the proportion of assets that must be held in the form of fixed interest securities should help mitigate the widening of the differential between lending and deposit rates in times of rising market yields. Changes in the banks' interest rate policy should be brought about not only by the increasing prevalence of certificates of deposit but also by the new criteria that the banks decided to follow from February 1984 onwards in setting the prime rate. It was agreed that changes in the rate of interest charged to prime customers should be decided by the banks themselves and that the ABI would confine itself to recording and publishing the average for the banking system as a whole. This modification should enable market forces to express themselves more immediately, particularly if changes in the prime rate are used more actively as a competitive weapon.

The banks' gross earnings margin, defined as the average yield on total assets plus net income from services less the average cost of liabilities, remained virtually unchanged in 1983, falling from 4.60 to 4.54 per cent of total intermediated funds. The decline in unit income from lending by one percentage point more than that in the cost of borrowed funds had an adverse effect on banking profits. The replacement of maturing fixed interest bonds by variable rate securities contributed greatly towards improving the yield on holdings of securities, a trend that began with the easing of the securities investment requirement in 1978.

Changes in the rules for compiling statistics on profit and loss accounts in 1983 caused a break in the data on the interest margin and on income from services, so that changes in these items between 1982 and 1983 cannot be evaluated accurately. In the new banking returns, interest accruing on marketable securities in the banks' own portfolios and receipts and expenses in connection with securities repurchase agreements are entered among interest received and paid, whereas previously they were included among net income from securities transactions. The changes cause a book increase in the interest margin and a reduction in net income from services (Table 19). The gross earnings margin, by contrast, is not greatly affected.

Operating costs increased from 2.64 to 2.94 per cent of total intermediated funds, mainly as a result of the increase in staff costs from 2.04 to 2.28 per cent, which was itself due primarily to the entry into force of the new labour agreement for bank employees but also reflects arrears of payments from past years.

The high risk of customer insolvency obliged the banks to increase their provisions for bad and doubtful debts by amounts that were only slightly less than the large sums allocated in the previous three years. Bad debts increased by 30 per cent, after rising by 31.5 per cent in 1982, and accelerated further in the first three months of this year. The ratio of bad debts to lending in lire came to just under 7 per cent in March 1984. Allocations for losses on securities, which had already declined substantially in 1982, could be reduced to negligible amounts owing to the fall in interest rates. Depreciation and total net provisions diminished from 1.11 to 0.74 per cent of intermediated funds, so that gross earnings per unit of intermediated funds remained unchanged despite the deterioration in operating results.

PROFIT AND LOSS ACCOUNTS OF THE BANKS: FORMATION OF PROFIT (1)

	1974-79 (2)	1980-83 (2)	1979	1980	1981	1982	1983 (*)
	As a percentage of intermediated funds						
Interest margin	**3.09**	**3.27**	**2.63**	**3.32**	**3.40**	**3.14**	**3.21**
Net income from services	0.98	1.34	1.10	1.15	1.42	1.46	1.33
of which: securities transactions	*0.30*	*0.55*	*0.45*	*0.43*	*0.56*	*0.65*	*0.55*
Gross earnings margin	**4.07**	**4.61**	**3.73**	**4.47**	**4.82**	**4.60**	**4.54**
Operating expenses	2.62	2.74	2.44	2.70	2.69	2.64	2.94
of which: staff costs	*2.20*	*2.16*	*1.98*	*2.19*	*2.13*	*2.04*	*2.28*
Operating profit	**1.45**	**1.87**	**1.29**	**1.77**	**2.13**	**1.96**	**1.60**
Depreciation and provisions	0.97	1.13	0.81	1.19	1.45	1.11	0.74
of which: in respect of loans	*0.32*	*0.44*	*0.32*	*0.43*	*0.44*	*0.46*	*0.42*
Profit before tax	**0.48**	**0.74**	**0.48**	**0.58**	**0.68**	**0.85**	**0.86**
Tax	0.32	0.47	0.30	0.36	0.40	0.55	0.57
Net profit	**0.16**	**0.27**	**0.18**	**0.22**	**0.28**	**0.30**	**0.29**
	Other data						
Number of employees	233,099	288,677	261,505	274,889	287,420	293,002	299,395
Funds intermediated per employee *(millions of lire)*	845	1,672	1,182	1,363	1,539	1,763	2,025
Cost per employee *(millions of lire)*	18.30	36.26	23.39	29.85	32.83	36.09	46.25
	Percentage rates of increase						
Cost per employee	12.33	18.57	12.23	27.62	9.98	9.93	28.15
Funds intermediated per employee:							
in nominal terms	14.83	14.41	14.65	15.31	12.91	14.55	14.86
at constant prices (3)	−0.99	−2.86	−0.96	−4.88	−4.81	−1.55	−0.11

(1) Excluding central credit institutions and, except for the item "Number of employees", credit institutions which at the dates in question submitted profit and loss returns at times other than the end of the year. The 1983 data for some items are not directly comparable with those for earlier years owing to changes in the rules for compiling banking returns. — (2) Average annual data. —(3) Deflated using the cost-of-living index. — (*) Provisional data.

The ratio of duties and taxes to total intermediated funds was almost identical with the high figure of the preceding year. Net profits per unit of intermediated funds therefore remained the same as in 1982, but their ratio to own funds fell by 1.3 points to 8.6 per cent. Own funds increased substantially last year, rising by 8,318 billion lire, owing partly to the application of Law No. 72 of 19 March 1983 on the revaluation of assets.

Operating costs between 1974 and 1983. — Non-staff operating costs, such as expenditure on materials and the maintenance of premises, rose swiftly throughout the last decade, increasing at an average annual rate of about 29 per cent. The trend in staff costs, by contrast, changed after 1979. In the second half of the seventies the banks increased their staff at an average annual rate of about 5 per cent, higher than in other service branches or in the banking systems of the major industrialized countries. At that time the strong expansion in intermediation and the small increase in costs per employee prevented this massive intake of personnel from increasing the ratio of staff costs to total intermediated funds. From 1980 onwards, costs per employee accelerated and there was a distinct deterioration in the ratio between intermediated funds and staff numbers owing to the appreciable slowdown in banking activity and an expansion in staff, which did not show signs of abating until 1982. At constant prices, intermediated funds per employee declined by an average of 2.9 per cent a year, compared with 1 per cent between 1974 and 1979. However, part of the deterioration in this ratio can be attributed to the expansion in the range of services offered, which is not reflected in the measure of banking output represented by intermediated funds.

The activity of the special credit institutions

Among the effects of the investment recession and the easing of direct controls on bank lending was slower growth in the special credit institutions' activities in 1983. Domestic lending rose by 13.9 per cent, as against 17.9 per cent in 1982. The stagnation in the demand for special credit was reflected in the institutions' available funds, which rose above the previous year's already high level. The ratio of funds available to contracted loans increased from 119 per cent at the end of 1982 to 124 per cent at the end of 1983.

The upward trend of the special credit institutions' share in total credit extended by the credit system was halted. While the expansion in bank lending accelerated with the beginning of the recovery in production, the contraction in investment, which had begun in 1982, had its full effect on the disbursement of medium-term special credit. The latter is ordinarily granted after the actual investments, which are usually prefinanced by banks.

Heightened competition from the banks and stricter observance of the requirement to specialize in longer-term lending led to slower expansion of short-term lending by the industrial credit institutions (up 5.6 per cent in 1983 as against 32.2 per cent in 1982). Such lending, benefiting at times from credit guarantees from banks, had expanded rapidly through the first half of 1982 (see Table 20).

Table 20

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS

(12-month growth rate)

	1980	1981	1982		1983	
	December	December	June	December	June	December
Industrial	13.3	21.3	22.4	19.9	11.7	9.6
of which: short-term	*50.8*	*58.1*	(1) *73,1*	*32,2*	*– 5.7*	*5.6*
Public works	7.2	10.6	10.4	18.9	23.7	32.2
Real estate	16.0	17.7	17.8	14.5	14.5	14.3
Agricultural	22.4	23.4	19.6	14.4	(2) 19.6	(2) 19.5
Total	**13.9**	**19.3**	**19.7**	**17.9**	**14.2**	**13.9**

(1) Change over the first six months at an annual rate. — (2) Excluding the data for the Banco di Sardegna, which started operations as an agricultural credit section on 1st January 1983, the growth rate of lending was 13.5 per cent in the twelve months ending 30 June and 13.2 per cent in the twelve months ending 31 December.

The recent trend in lending by the special credit institutions must be viewed against the backdrop of relatively modest growth over the past decade. After the rapid growth of the early seventies, aided by an abundance of public interest subsidy payments, the activities of the special credit institutions began to feel the impact of the instability ushered in by the oil crisis. In terms of the real economy this meant the difficulties of major groups in basic industries, and on the financial side it essentially took the form of high and variable interest rates. The resolution of the economic and financial problems generated by insolvencies in the chemical industry, the initial effects of the restructuring of subsidized credit for industry, and the spread of new financing instruments permitted a recovery in intermediation by the institutions in the early eighties. They benefited from the growth phase in the investment cycle that culminated in 1980 and from the limited expansion of bank lending.

Table 21

BANKS' SHARE IN FUND-RAISING OF THE SPECIAL CREDIT INSTITUTIONS (1)

(percentages)

	of total			of changes				
	1972	1979	1983	1979	1980	1981	1982	1983
Industrial	30.3	56.8	40.9	60.7	31.0	40.7	21.8	..
Public works		71.4	60.5	77.2	106.6	11.4	74.1	33.1
Real estate	35.7	73.7	63.0	74.7	95.6	60.1	28.5	38.1
Agricultural	43.0	70.5	71.5	99.4	92.3	90.6	55.3	54.8
Total . . .	**32.8**	**63.6**	**50.6**	**71.3**	**61.1**	**47.3**	**27.6**	**21.0**

(1) The supply of funds comprises bond purchases net of those on behalf of the Treasury, medium-term deposits, current-account financing, and shares in the institutions' capital. Fund-raising does not include compensatory loans on deposit with the central bank.

The special credit institutions have regained relative independence in fund-raising. Continuing the downward trend of the last five years, the share of the increase in their resources contributed by banks fell below the level it had been at prior to the introduction of the securities investment requirement (Table 21). This decline in double intermediation was encouraged by the introduction of new fund-raising instruments: in particular, large quantities of variable rate bonds and certificates of deposit were sold to the non-banking sector, which had almost continually disinvested in the institutions' securities throughout the later seventies. Fund-raising abroad assumed significant proportions (about 2.6 trillion lire, net of exchange rate variations), owing principally to a substantial increase in lending from EEC bodies, which was facilitated by Italian government assumption of the exchange risks. Given the steady attenuation of the investment requirement for banks, the public sector provided support for the institutions' fixed rate fund-raising, in part through such direct intervention as the purchase of securities by the Deposits and Loans Fund (about 700 billion lire net of repayments).

The special credit institutions' increasing business with the public sector also concerned the assets side of the balance sheet. Since the demand for credit from firms was relatively weak, the institutions increased their lending to local authorities and autonomous government agencies. Lending to the public sector increased by 5,258 billion lire, as against an increase of 3,004 billion the year before (Table 22).

Table 22

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS
BY CLASS OF BORROWER(1)

(changes in billions of lire)

	PUBLIC SECTOR			ECONOMY						TOTAL
		of which: local authorities	of which: autonomous public agencies	Financial and insurance companies	Non-financial firms	of which: state-controlled	Households	Total		
1982 - Subs.	283	88	—	−23	2,928	923	633	3,538		3,821
Non-subs.	2,721	1,389	821	746	6,231	481	1,133	8,110		10,831
Total	**3,004**	**1,477**	**821**	**723**	**9,159**	**1,404**	**1,766**	**11,648**		**14,652**
1983 - Subs.	168	114	—	−15	3,290	181	824	4,099		4,267
Non-subs.	5,090	3,108	1,640	233	2,919	−109	896	4,048		9,138
Total	**5,258**	**3,222**	**1,640**	**218**	**6,209**	**72**	**1,720**	**8,147**		**13,405**

(1) The distribution of the loans differs from that in Table a22 because the statistical sources and the definitions used differ.

The repercussions of the cyclical downturn were felt not only in lending but also in an increase in bad debts and overdue instalments (about 1.1 trillion lire), which were concentrated in the industrial and mortgage credit institutions (700 billion and 500 billion lire, respectively, or increases of 22 and 32 per cent). The sharper rise in bad debts and overdue instalments together with the limited expansion of lending by industrial credit institutions produced a higher ratio of the former to total lending; after years of downward movement, the ratio rose from 5.0 to 5.6 per cent.

Credit to industry and the services sector. — Disbursements of finance to industry (10,131 billion lire in 1983, down from 10,401 billion the previous year) declined slightly faster than did fixed industrial investment, in part because of the drop in short-term lending. The overall decrease would have been more substantial if the traditional support function of subsidized loans in recession periods had not been strengthened (Table 23).

Table 23

DOMESTIC LENDING BY THE SPECIAL
CREDIT INSTITUTIONS BY SECTOR

(billions of lire)

Type of credit	Agriculture		Housing		Industry		Transport, distribution & other services		Exports		Total	
	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983
						Disbursements						
Subsidized	2,848	3,054	851	989	2,282	3,208	766	574	2,216	1,951	8,963	9,776
Unsubsidized ..	1,673	1,625	2,335	2,717	8,119	6,923	10,111	10,967	—	—	22,238	22,232
Total . . .	**4,521**	**4,679**	**3,186**	**3,706**	**10,401**	**10,131**	**10,877**	**11,541**	**2,216**	**1,951**	**31,201**	**32,008**
						Net increase in lending						
Subsidized	706	933	854	890	813	1,235	288	394	1,160	815	3,821	4,267
Unsubsidized ..	207	119	1,605	1,607	3,248	1,480	5,771	5,932	—	—	10,831	9,138
Total . . .	**913**	**1,052**	**2,459**	**2,497**	**4,061**	**2,715**	**6,059**	**6,326**	**1,160**	**815**	**14,652**	**13,405**
						Percentage increases in lending						
Subsidized	*13.8*	*16.0*	*27.2*	*22.3*	*8.0*	*11.3*	*9.9*	*12.3*	*29.0*	*15.8*	*15.1*	*14.7*
Unsubsidized ...	*11.4*	*5.9*	*10.4*	*9.4*	*19.3*	*7.4*	*25.6*	*21.0*	—	—	*19.1*	*13.6*
Total . . .	*13.2*	*13.4*	*13.2*	*11.9*	*15.1*	*8.8*	*23.8*	*20.1*	*29.0*	*15.8*	*17.9*	*13.9*

The increase in disbursements of subsidized credit to industry (3,208 billion lire, up from 2,282 billion in 1982) was facilitated by the improved operational effectiveness of the chief legislative incentives. In addition, expectations of further declines in yields made it easier to place fixed rate securities — which are necessary to finance the subsidized loans — outside of state-supported channels.

Lending to the services sector as a whole was not greatly affected by the recessive phase, thanks essentially to the large increase in loans for public works, for the most part in the transportation sector, which more than offset the decrease in the flow of credit, partly short-term, to holding companies and leasing firms.

Credit to housing. — The special credit institutions' disbursements of credit to housing increased faster than did investment in the sector, but this was still not enough to reverse the trend towards a smaller role for the institutions in construction finance. Owing to high interest rates, the share of housing investment financed by special credit rose only slightly above the previous year's low level (13.6 per cent as against 12.8 per cent). Given stagnant demand in the housing industry, the mortgage credit institutions adopted a policy of sectoral diversification, essentially into non-residential construction: the share of lending to finance housing construction stood at 77.4 per cent at the end of 1983, down from 79.4 per cent at the end of 1982. Also, a larger portion of the credit granted to housing went for the purchase of already-existing properties.

Despite the crisis in traditional mortgage lending, there was little recourse to forms of financing designed to represent as constant as possible a burden in terms of the borrower's income. There were relatively few offers of mortgage loans with rising repayment instalments. For that matter, many institutions still offer only fixed rate mortgages.

The ratio of disbursements of subsidized credit to investment increased only slightly in 1983, from 3.4 to 3.6 per cent. Overall government intervention in the housing sector diminished, since there was a decline from 6.1 per cent to 5 per cent of investment in subsidized construction, which is wholly financed by the state.

In addition to the securities investment requirement for banks, other measures (the Investment and Employment Fund, an investment requirement for insurance companies, and measures enacted by regional governments) helped foster sales of fixed rate bonds.

Export credit — For the first time since Law 227 of 1977 went into effect, there was a decrease in subsidized export credits with deferred payment disbursed by the special credit institutions (Table 24). The primary factor in the decline was a drop in the demand for such credit, particularly from heavily indebted developing countries. After peaking in 1982 at 13.9 per cent, the ratio of disbursements to exports of final investment goods fell to 9.7 per cent, below the low points of the early seventies.

The contraction in export credit was particularly sharp in the first half of the year. It concerned not only the special credit institutions, which intermediated more than 60 per cent of the loans eligible for government contributions, but also such other agents as Italian and foreign banks and exporters. The number of applicafions approved by Mediocredito Centrale fell 40 per cent.

The decline was steeper for loans in foreign currency: specifically, the number of "triangular" loans made together with foreign banks fell by 77 per cent. The main factor in the decline was the narrowing of the differential between market and subsidized interest rates, which in many instances was virtually eliminated. While interest rates fell in the countries whose currencies are the main vehicles for export credit (primarily the dollar), minimum rates on export credit rose as a result of international agreements, better known as the Consensus. In part, this was due to a reclassification of some countries from the poor to the middle-income group.

Table 24

EXPORT CREDITS GRANTED BY THE SPECIAL CREDIT INSTITUTIONS (1)

(billions of lire)

	Disbursements			Net increases		
	Supplier credits	Buyer credits	Total	Supplier credits	Buyer credits	Total
1981	1,609	1,105	2,714	959	608	1,567
1982	2,216	1,284	3,500	1,160	720	1,880
1983	1,951	893	2,844	815	405	1,220
First half 1983	692	413	1,105	33	196	229
Second half 1983	1,259	480	1,739	782	209	991

(1) Excluding refinancing by UIC and compensation payments by SACE totalling, at end-1983, 2.800 billion (2.109 at end-1982).

For export credits in lire, which only the special credit institutions can grant, the incentive remains appreciable, though it too was reduced. While the subsidized interest rates remained unchanged after being raised by more than three points in 1982, the reference rates decreased slightly in the course of the year.

The decrease in export credits to the developing countries, which reduced their impoits of capital goods, was reflected in a larger share of the credits going to the centrally planned economies, mainly in the form of buyer credits.

Credit to agriculture. — Owing to its limited cyclical elasticity, itself due to the high proportion of subsidized lending, credit to agriculture, and especially short-term credit, expanded faster than total lending by the credit system. The end of the ceiling on the expansion of bank loans was reflected in an increase in the banks' share of the agricultural credit market, after the previous year's decline in the wake of the 1981 repeal of the exemption of loans under 130 million lire.

The agricultural credit institutions made further progress towards independence in fund-raising with an increase of 241 billion lire in certificates of deposit, placed primarily in the non-banking sector. By contrast, agricultural bonds, which increased by 704 billion lire including those issued by mortgage credit institutions, were entirely subscribed by banks (for more than the amount made compulsory by the investment requirement), because of the public's preference for variable rate securities, which are virtually non-existent in this sector.

Table 25

LENDING BY THE AGRICULTURAL CREDIT SYSTEM

(billions of lire)

	Agricultural special credit institutions (1)			Other authorized institutions			TOTAL		
	Subs.	Non-subs.	Total	Subs.	Non-subs.	Total	Subs.	Non-subs.	Total
	Disbursements in 1982								
Working credit	**1,830**	**885**	**2,715**	**3,036**	**2,136**	**5,172**	**4,866**	**3,021**	**7,887**
Improvement credit	**589**	**159**	**748**	**178**	**72**	**250**	**767**	**231**	**998**
	Disbursements in 1983								
Working credit	**2,224**	**988**	**3,212**	**3,400**	**2,632**	**6,032**	**5,624**	**3,620**	**9,244**
Current expenditures	1,305	510	1,815	2,424	1,598	4,022	3,729	2,108	5,837
Purchases of livestock	49	117	166	86	96	182	135	213	348
Purchases of machinery	130	69	199	306	239	545	436	308	744
Advances against agricultural products	52	2	54	71	6	77	123	8	131
Loans to agricultural agencies and cooperatives	688	290	978	513	693	1,206	1,201	983	2,184
Improvement credit	**605**	**178**	**783**	**195**	**75**	**270**	**800**	**253**	**1,053**
Rural construction	233	52	285	48	18	66	281	70	351
New plantings	13	3	16	7	—	7	20	3	23
Irrigation	30	10	40	7	21	28	37	31	68
Soil preparation	6	19	25	—	—	—	6	19	25
Expansion of holdings	64	13	77	15	2	17	79	15	94
Other improvements	259	81	340	118	34	152	377	115	492
	Outstanding credit at end-1983								
Working credit	**2,604**	**862**	**3,466**	**3,518**	**1,716**	**5,234**	**6,122**	**2,578**	**8,700**
Improvement credit	**3,878**	**825**	**4,703**	**1,057**	**336**	**1,393**	**4,935**	**1,161**	**6,096**

(1) As from 1st January 1983 the Banco di Sardegna operates through its agricultural credit section.

Working credit recovered from the previous year's slowdown, rising 15.9 per cent as against 12.4 per cent in 1982, thanks to increased farm output (gross marketable production increased 14.2 per cent as against a 13.2 per cent rise the previous year) and to the availability of government contributions. Widespread public credit subsidies, granted in large part by the regional governments, were reflected particularly in an acceleration in subsidized loans, which by year's end accounted for more than 70 per cent of working credit outstanding (Table 25). The regions' subsidized interest rates varied almost not at all from the nationwide minimum. The weighted average cost of short-term funds fell from about 13 per cent to about 12 per cent for the agricultural credit institutions. The large volume of agricultural bills rediscounted by the Bank of Italy (1,021 billion lire, as against 804 billion in 1982) also permitted concession of a large portion of unsubsidized credit at relatively low interest rates.

Improvement credit expanded more slowly than in the previous year (14.2 per cent as against 16.7 per cent). The ratio of disbursements to fixed investment also fell, from 16.8 to 16.2 per cent. The relatively small unsubsidized portion of the credit suffered from the high cost of fixed rate mortgages, which are virtually the only type of loan offered in this sector. Subsidized improvement credit may have been damaged by a tendency on the part of the central and local governments to concentrate subsidies on working credit.

Fund-raising and liquidity management

Fund-raising by the special credit institutions followed the same pattern as their lending, expanding less than the previous year (an increase of 17,585 billion lire as against 22,264 billion) and proving to be more highly differentiated according to type of institution.

Net bond issues were only slightly below the exceptionally high level of 1982 (7,982 billion lire, down from 8,309 billion). The trend in bond sales over the course of the year was affected by changes in the tax treatment of interest income on medium and long-term securities. Issues lagged in the first part of the year, partly owing to the end of the tax exemption that had been in effect through September 1982, but accelerated sharply in November (issues of 1,715 billion lire) and December (3,501 billion) because of the scheduled introduction of higher tax rates as of 1 January 1984.

The growth in certificates of deposit, by contrast, was quite modest, their outstanding value increasing by 1,204 billion lire, or 6.7 per cent, as against the 89.8 per cent increase of 1982. In keeping with the limited expansion of short-term lending, the industrial credit institutions did nothing to prevent the widening of the negative differential between the net yield on their shortest fixed rate certificates and that on Treasury bills, which had been opened up by the end of the temporary tax exemption for interest income.

As in 1982, the substantial margin between domestic and foreign interest rates encouraged resort to EIB loans, with the exchange risk covered fully or in part by the government. A portion of foreign fund-raising came in connection with foreign currency credits for the state railways.

Floating rate bonds further increased their share of total bond issues by the special credit institutions, to 52 per cent, up from 44 per cent in 1982 and 37 per cent in 1981. Late in the year there was a recovery in sales of fixed rate securities due to their more competitive yields on issue (18.5 per cent), which had remained unchanged since June in a period of generally weakening interest rates.

The downturn in investment and the surge of advance fund-raising towards the end of the year produced a further accumulation of resources (3,051 billion lire), which was accompanied by a far-reaching shift in the structure of investment towards longer maturities. The substitution of Treasury credit certificates for Treasury bills and certifibates of deposit, due chiefly to appreciable interest rate differentials, was even more pronounced for the industrial credit institutions, since they had less need of primary liquidity owing to the stagnation of disbursements.

Profit and loss accounts

Despite the lowering of the interest rates on new lending and fund-raising, the average lending and borrowing rates on the total of funds intermediated continued to rise. The former rose from 14.40 to 14.72 per cent, while the latter increased from 11.40 to 11.63 per cent (see Table 26).

The interest and gross earnings margins of the special credit institutions were 3.09 and 3.04 per cent respectively in 1983, as against 3.00 and 2.95 per cent in 1982. The slower growth in lending and the regained independence in fund-raising, then, did not interrupt the widening of margins that has been going on since 1975, and this permitted the institutions to build up substantial internal resources at a time of deterioration in the quality of their lending.

The institutions used a significant portion of these wider margins to meet increased operating expenses, and in particular staff costs. The number of employees increased by more than 6 per cent, in a development apparently unrelated to trends in the volume of intermediation. In addition, the stipulation of new collective labour contracts brought a rise of about 18 per cent in costs per employee.

Table 26

PROFIT AND LOSS ACCOUNTS OF THE SPECIAL CREDIT INSTITUTIONS: FORMATION OF PROFIT (1)

(as a percentage of total Ands intermediated)

	1975	1976	1977	1978	1979	1980	1981	1982	1983 (*)
Interest income	8.31	8.83	9.51	10.43	10.97	11.76	12.91	14.40	14.72
Interest expenses	6.83	7.10	7.62	8.18	8.57	9.03	9.99	11.40	11.63
Interest margin	**1.48**	**1.73**	**1.89**	**2.25**	**2.40**	**2.73**	**2.92**	**3.00**	**3.09**
Non-interest income	0.07	0.04	0.03	−0.01	−0.02	0.03	0.01	−0.05	−0.05
Gross earnings margin	**1.55**	**1.77**	**1.92**	**2.24**	**2.38**	**2.76**	**2.93**	**2.95**	**3.04**
Operating expenses	0.36	0.39	0.42	0.44	0.49	0.61	0.66	0.73	0.77
of which: staff costs	*0.29*	*0.31*	*0.33*	*0.34*	*0.37*	*0.44*	*0.44*	*0.44*	*0.48*
Operating profit	**1.19**	**1.38**	**1.50**	**1.80**	**1.89**	**2.15**	**2.27**	**2.22**	**2.27**
Depreciation and provisions	0.74	0.95	1.01	1.42	1.49	1.82	1.71	1.36	1.41
Contingent assets and liabilities	0.03	0.05	0.03	0.24	0.05	0.09	0.16	0.13	0.24
Profit before tax	**0.48**	**0.48**	**0.52**	**0.62**	**0.45**	**0.42**	**0.72**	**0.99**	**1.10**
Tax	0.28	0.26	0.29	0.41	0.24	0.24	0.32	0.42	0.39
Net profit	**0.20**	**0.22**	**0.23**	**0.21**	**0.21**	**0.18**	**0.40**	**0.57**	**0.71**
	OTHER DATA								
Number of employees	7,968	8,270	8,664	8,926	9,990	10,318	10,654	11,130	11,840
Funds intermediated per employee *(millions of lire)*	7,226	8,012	8,326	8,906	8,486	8,906	9,770	11,161	11,931
Cost per employee *(millions of lire)*	21.08	24.67	27.35	29.91	31.13	39.63	43.12	49.04	57.91

(*) Provisional data.

After a pause in 1982, depreciation and provisions resumed their upward movement, from 1,690 billion to 2,000 billion lire, as a consequence of the recession's negative impact on the quality of the institutions ' outstanding loan assets. Even net of the revaluation of their assets under Law 72 of 19 March 1983, the increase in bad debts and arrears was considerably smaller than the increase in capital and reserves, which expanded owing to transfers to provisions for bad and doubtful debts and the transfer to reserves of a large part of the previous year's net profit. The ratio of capital and reserves to lending rose on the year from 9.5 to 10.5 per cent (and from 11.1 to 12.4 per cent for the industrial credit institutions).

The stock exchange and other financial intermediaries

The stock exchange

In 1983 the stock exchange benefited from a number of long-awaited measures intended to increase demand for shares, improve investors' information about companies and broaden the spectrum of shares listed. Specifically, Parliament passed legislation on mutual investment funds, on the updating of coefficients for revaluation of assets on company books, and on tax concessions for the listing of new shares.

Some technical refinements contributed to the more efficient functioning of the stock exchange. These included the setting of the deadline for options execution one day earlier than the settlement date; the extension of real-time transmission of quotations of shares, bonds and options; the introduction of a new, automated procedure for the liquidation of stock rights, with the availability of the securities clearing system; and especially the setting of a uniform closing price for some securities traded in nine regional exchanges, a measure intended to encourage the formation of a single nationwide market.

These legislative and technical innovations had varying impact on overall turnover, on quotadons, and on the raising of venture capital. The value of shares traded was greater tly-tn in the previous year but much lower than in 1981 (5,880 billion lire, as against 3,770 billion in 1982 and 12,234 billion in 1981). Part of this increase was due to a rise in share prices, which went up by 23.6 per cent over the year as a whole (gaining 30.2 per cent in the first quarter and losing 5.1 per cent over the last three). Compared with other leading industrial countries, the portion of share investment income accounted for by dividends remained small, although it did increase significantly as a proportion of the value of the shares (2.9 per cent in the Milan stock exchange in December 1983, up from 2.1 per cent a year earlier).

Gross sliare issues in 1983 amounted to 12,534 billion lire, as against 8,812 billion in 1981 and 6,892 billion in 1982. Of this total, the amount accounted for by listed firms was 4,121 billion lire, up 39 per cent from 1982; and of this, 79 per cent (3,269 billion lire) was issued by state-controlled companies (see Table 27). All the new issues by state-controlled firms, except four with a total value of 278 billion lire, were bought exclusively by state holding companies. Public share offers with a view to market listing were modest (71 billion lire, down from 130 billion in 1982 and 163 billion in 1981).

Table 27

GROSS SHARE ISSUES

	Billions of lire				Percentage composition			
	1980	1981	1982	1983	1980	1981	1982	1983
Listed	**1,442**	**5,380**	**2,975**	**4,121**	*34.9*	*61.1*	*43.2*	*32.9*
State-controlled corporations	737	3,979	1,974	3,269	*17.8*	*45.2*	*28.7*	*26.1*
private firms	705	1,401	1,001	852	*17.1*	*15.9*	*14.5*	*6.8*
Unlisted	**2,691**	**3,432**	**3,917**	**8,413**	*65.1*	*38.9*	*56.8*	*67.1*
State-controlled corporations	920	1,255	1,247	5,996	*22.3*	*14.2*	*18.1*	*47.8*
private firms	1,771	2,177	2,670	2,417	*42.8*	*24.7*	*38.7*	*19.3*
Total	**4,133**	**8,812**	**6,892**	**12,534**	*100.0*	*100.0*	*100.0*	*100.0*
State-controlled corporations	1,657	5,234	3,221	9,265	*40.1*	*59.4*	*46.8*	*73.9*
private firms	2,476	3,578	3,671	3,269	*59.9*	*40.6*	*53.2*	*26.1*

In January 1984, share prices on the Milan stock exchange rose by 14.1 per cent. To test the solidity of the bull market, in early February the Consob raised the margin requirement on share purchases from 30 to 40 per cent and lowered the compulsory deposit on forvv'ard sales from 70 to 60 per cent. The measures were the opposite of those taken in July 1981, when share pn'ces fell sharply, or in April 1976, when the deposit on forward sales was first introduced, at 90 per cent. The resulting change in the market climate was reflected in a levelling off of share prices followed by a moderate decline. Still, at the end of the first four months prices stood 10.8 per cent higher than at the start of the year. In the over-the-counter market, by contrast, prices fell by 7.5 per cent in the same period, continuing the correction of their excessive rise between 1978 and 1981.

The insurance companies

After the banks and the special credit institutions, the leading institutional investors in the securities market are the insurance companies. They increased their portfolio holdings by 27.8 per cent in 1983 (as against 22.4 per cent in 1982), concentrating on lira-denominated securities and particularly bonds. The expansion of their real estate holdings was somewhat slower (24.6 per cent), and the increase, amounting to 1,677 billion lire, included not only new real estate investment but also the revaluation of properties under Law 72 that had not been made in the previous financial year. The expansion of real estate holdings was considerably greater for casualty than for life insurance companies. Turning to the other main balance-sheet assets of the insurance companies, mortgages granted increased by some 16 per cent while cash and bank deposits remained virtually unchanged, since the liquidity of their bond portfolio increased during the year (see Table 28).

Table 28

INVESTMENTS OF INSURANCE COMPANIES (1)

(Balance-sheet iterns in billions of lire)

	1982			1983 (2)		
	Life	Casualty	Total	Life	Casualty	Total
Real estate	3,332	3,482	6,814	3,666	4,825	8,491
Lira-denominated securities (3)	2,938	5,021	7,959	3,731	6,516	10,247
Foreign-currency securities (3)	483	981	1,464	558	1,240	1,798
Mortgages and annuities (4)	1,046	109	1,155	1,193	152	1,345
Cash and deposits	190	1,434	1,624	173	1,467	1,640
Total...	**7,989**	**11,027**	**19,016**	**9,321**	**14,200**	**23,521**

(1) Comprising business in Italy and abroad of Italian insurance companies, including INA, and business in Italy of affiliates of foreign companies. — (2) Estimated data. — (3) Including capital participations. — (4) Including loans against policies and against pledges of salary.

Securities investment was concentrated on government securities. With purchases in the amount of about 1 trillion lire, the insurance companies nearly doubled their portfolio holdings of Treasury credit certificates, while disinvestment of about 150 billion lire halved their modest holdings of Treasury bills. Especially significant, as a proportion of the quantities offered, were insurance company purchases of two new government securities that met their particular needs for portfolio diversification. These were Treasury certificates in ECUs and cost-of-living indexed Treasury certificates, introduced in 1982 and 1983 respectively. Insurance companies took up more than 200 billion lire worth of these securities. As for securities issued by the special credit institutions, disinvestment in industrial credit institution bonds (some 300 billion lire) was more than offset by investment in public works bonds (170 billion lire) and in those of the real estate insdtutions (600 billion). Purchases of the latter, which had also risen substantially in previous years, are partly attributable to the requirement that insurance companies invest in such securities. Finally, there were significant purchases of state railway and ENEL securities, for a total of 220 billion lire, and private firms' ordinary and convertible bonds, for a value of 230 billion lire (see Table a 18).

The net assets of foreign mutual investment funds rose over the year by 48.6 per cent, to 2,889 billion lire (see Table 29). Of this sharp increase, 26.4 per cent was accounted for by the revaluation of assets and the rest by fund-raising, in the amount of 341 billion lire. There was a decline in cash and bank deposits from 7.4 per cent of net assets in 1982 to 2.9 per cent in 1983, thanks to the large size and relatively good liquidity of their bond portfolio, of which 56 per cent, or 633 billion lire, was in Treasury credit certificates.

Table 29

MUTUAL FUNDS

(end-period balance-sheet values in billions of lire)

	1981 Dec.	1982				1983			
		Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
Equity funds									
Italian securities	1,328	1,442	1,312	1,367	1,385	1,757	1,852	2,032	2,132
of which: shares	*605*	*691*	*590*	*648*	*687*	*963*	*956*	*1,048*	*1,076*
Foreign securities	313	265	297	361	459	544	571	594	617
of which: shares	*286*	*236*	*229*	*264*	*349*	*434*	*473*	*497*	*540*
Total securities portfolio .	1,641	1,707	1,609	1,728	1,844	2,301	2,423	2,626	2,749
Liquidity	161	184	159	124	79	66	51	69	129
Total assets	1,804	1,877	1,769	1,859	1,944	2,370	2,520	2,748	2,889
Real estate funds									
Total assets	708	....	....	....	992	....	....	....	1,083

The mutual funds' securities portfolio was worth a total of 2,749 billion lire, 60 per cent of it held by just two funds. 60 per cent of the portfolio was shares and the rest bonds. Over the last two years there has been a tendency to shift towards share investment, which has risen by 81 per cent while bond investment has grown by 51 per cent.

Although the requirement to invest in Italy the funds raised in this country should favour Italian shares and bonds over foreign ones, the distribution actually shifted in favour of the foreign component in 1983. The funds' foreign-currency portfolio, the bulk of which is, in order, in US, Japanese and West German securities and 87 per cent of which is in shares, accounted for 23 per cent of the total portfolio on an average basis for the year, as against 20 per cent in 1982. This increase reflects the substantial rises in foreign share markets and the depreciation of the lira. Holdings in lire, equally divided between shares and bonds, clearly predominate, however, and it is therefore inappropriate that eight of the ten authorized funds publish their financial statements in dollars. Such a practice is a barrier to fuller information for investors.

The average yield on investment in shares or units of the foreign mutual funds was 26.4 per cent, gross of all costs. This compares with the yield on investment in shares of 27.2 per cent (including dividends) and in Treasury credit certificates of 21.9 per cent. The comparison is distorted, however, both by the greater incidence of purchase and sales commissions and operating expenses in investment in mutual funds and by differing tax treatment.

At year's end, the total net assets of mutual real estate investment funds amounted to 1,083 billion lire, up from 992 billion in 1982. Fund-raising, virtually all done in the first three quarters, brought in some 63 billion lire, which means that the revaluation of real estate assets was limited to about 3 per cent. The diminished flow of savings into this type of fund was related both to the stagnation of the real estate market and to the uncertainty connected with the implementation of the regulations governing the funds.

Other financial intermediaries

In recent years the financial markets have been enriched by the entry of new types of intermediaries and new instruments. These have helped meet the needs of the market operators, but their role in the present evolution of the market has also raised problems. The presence of a variety of intermediaries is beneficial for the financial system in that it stimulates competition and makes for greater efficiency through specialization. This is so, however, only on condition that they answer the real needs of market operators and are not merely efforts to evade the administrative regulations that govern the market. The separation of fund-raising from lending, for instance, which can be achieved through various legal schemes, may eliminate operating unity and give rise to major problems of coordination, with consequent inefficiency.

The growth in numbers and the diversity of forms taken by such intermediaries makes it desirable to examine this sector of the financial market and the changes that have taken place in it. The new intermediaries include leasing and factoring firms, holding companies in the broad sense, investment trusts and trust management companies.

The sector constituted by leasing companies, in which banks provide some 80 per cent of the funds, grew quite rapidly from 1976 to 1980. Aftervvards this growth slowed somewhat, particularly in 1983 with the end of the ceiling on the expansion of bank lending through traditional channels. According to data from the ABI, the industrial leasing contracts concluded by a group of 41 companies were valued at 2,252 billion lire. 'The amount accounted for by real estate leasing is still modest (90 billion lire) (Table 30).

Table 30

INTERMEDIATION BY LEASING AND FACTORING COMPANIES

(billions of lire)

	1981	1982	1983
		Value of contracts signed	
Industrial leasing	1,776	2,000	2,252
Real estate leasing	18	71	90
		Turnover	
Factoring	2,250	4,337	(1) 6,500

Source: ABI. Data for a sample of 30 leasing companies (41 in 1983) and 11 factoring companies.
(1) Estimate.

Factoring firms, which are concentrated in northern Italy, have mostly developed over the past three years, with turnover rising by more than 50 per cent each year. According to ABI estimates, the turnover of a group of 11 factoring companies in 1983 amounted to some 6,500 billion lire. This is an order of magnitude larger than the gross credit flow conceded by those intermediaries; considering, among other things, the short-term nature of the commercial credits granted (3 to 4 months on the average), this figure is strikingly high (Table 30).

Factoring has primarily concerned the domestic market, and for the most part it has taken the form of advances on individual invoices. Demand concerning the concession of external credits has been relatively limited.

The companies grouped together under the broad heading of "holding companies" perform a variety of functions, such as financial services, pure intermediation, and the gathering and investment of savings. Financial services may consist in acting as lead bank in a syndicated bank loan, planning of finance through the issue of banker's acceptances or atypical securities, handling operations concerning a firm's share capital and the formalities for stock exchange listing, or forming underwriting syndicates for shares or bonds.

Pure intermediation consists in the collection and transmission to brokers of buy and sell orders, like outside brokerage firms, or simply in bringing together buyers and sellers on the interbank lira market or the share market.

At times, fund-raising involves instruments of uncertain legal status which are known as atypical securities. One group of companies operates through single-venture contracts; and the securities they issue may be financial certificates, real estate certificates, agricultural certificates, and so on, depending on the type of transaction financed. Net issues of such securities, which we shall call participation certificates, amounted to 168 billion lire in 1983, sharply down from the previous year. A second group consists of equity certificates which partake simultaneously of the nature of a share and of a bond. Net fund-raising by means of such securities amounted to 51 billion lire in 1983 (Table 31).

Table 31

SECURITY ISSUES BY OTHER FINANCIAL INTERMEDIARIES (1)

(net issues in billions of lire)

	1981	1982	1983
Participation and equity certificates	204	306	219
Investment and equity notes (2)	38	54	32
Total...	**242**	**360**	**251**

(1) Data for Eurogest, Istituto Fiduciario Lombardo, Fininvest Italia, Italprogramme Finanziaria, Cofid, and Rigim. — (2) Including participation certificates issued by mutual fund management companies.

The resources so gathered are then employed in production, consumption, and real estate investment credits. In export credits, there is some experimentation with such relatively new instruments as forfaiting, involving the sale by the exporter of bills issued or endorsed by the foreign firm.

Investment trusts administer the property of their individual investors, and each investor's holdings remain distinct from those of the trust company. According to information furnished by people active in this sector, trust companies raised 1,542 billion lire in 1983, up from 655 billion in 1982.

Trust management companies manage funds entrusted to them by third parties in exchange for a share of operating profits or, if authorized, interest payments. A Ministry of Industry decree authorizes management companies to issue certain types of securities. If the company uses the single-venture contract, paying a share of operating profits to participants, such securities are called participation certificates. If the company offers an interest payment, they are called investment or equity notes.

The trend in financial balances

In 1983 the corporate sector's financial deficit remained virtually unchanged but that of the public sector increased further. Households again added to their surplus after the large expansion recorded in the two preceding years. The current account of the balance of payments, which had been in deficit between 1980 and 1982, therefore returned to broad balance (Table 32).

Table 32

FINANCIAL BALANCES
(billions of lire)

	Households	Enterprises	Public sector (consolidated) (1)	External sector
1976	22,516	−11,069	−14,690	2,343
1977	27,426	−12,044	−17,054	−2,175
1978	36,201	−9,347	−23,719	−5,261
1979	40,287	−7,933	−26,989	−4,553
1980	41,582	−26,810	−32,692	8,291
1981	56,286	−26,018	−53,684	9,225
1982	70,536	−18,876	−66,665	7,412
1983	87,077	−19,731	−75,473	−1.158

(1) Net indebtedness: includes actuarial reserves of social security funds.

The trend in the financial balances was affected by the monetary conditions prevailing during the year; the monetary climate was reflected in high interest rates, which checked the demand for credit on the part of enterprises and sustained households' propensity to invest in financial assets.

Saving and households' financial assets

A strong increase in households' financial saving and a shift towards medium and long-term assets were the salient features of 1983.

Table 33

FINANCIAL ASSETS OF HOUSEHOLDS (1)

	Levels at end		Flows				
	1978	1982	1979	1980	1981	1982	1983
Notes and coin	14,641	25,281	1,875	2,717	3,381	2,667	2,846
Bank deposits	121,710	224,393	23,788	21,166	20,653	37,076	29,678
Post office deposits	20,309	33,167	4,448	3,695	1,915	2,800	3,687
Treasury bills	8,927	62,580	7,658	14,116	21,595	10,284	14,769
Special credit institutions' deposits & savings certificates	4,939	13,990	423	414	1,356	6,858	1,364
Treasury credit certificates	3,641	21,352	2,737	1,404	3,270	9,193	26,940
Other medium & long-term securities (2)	19,049	22,659	109	– 2,564	2,437	1,144	7,831
Shares & participations (3)	10,419	28,612	– 1	714	916	26	69
Foreign assets	2,477	4,758	– 66	270	311	142	56
Other financial assets (4)	15,089	30,352	2,433	4,383	4,368	4,216	4,078
Total ...	**221,201**	**467,144**	**43,404**	**46,315**	**60,202**	**74,406**	**91,318**

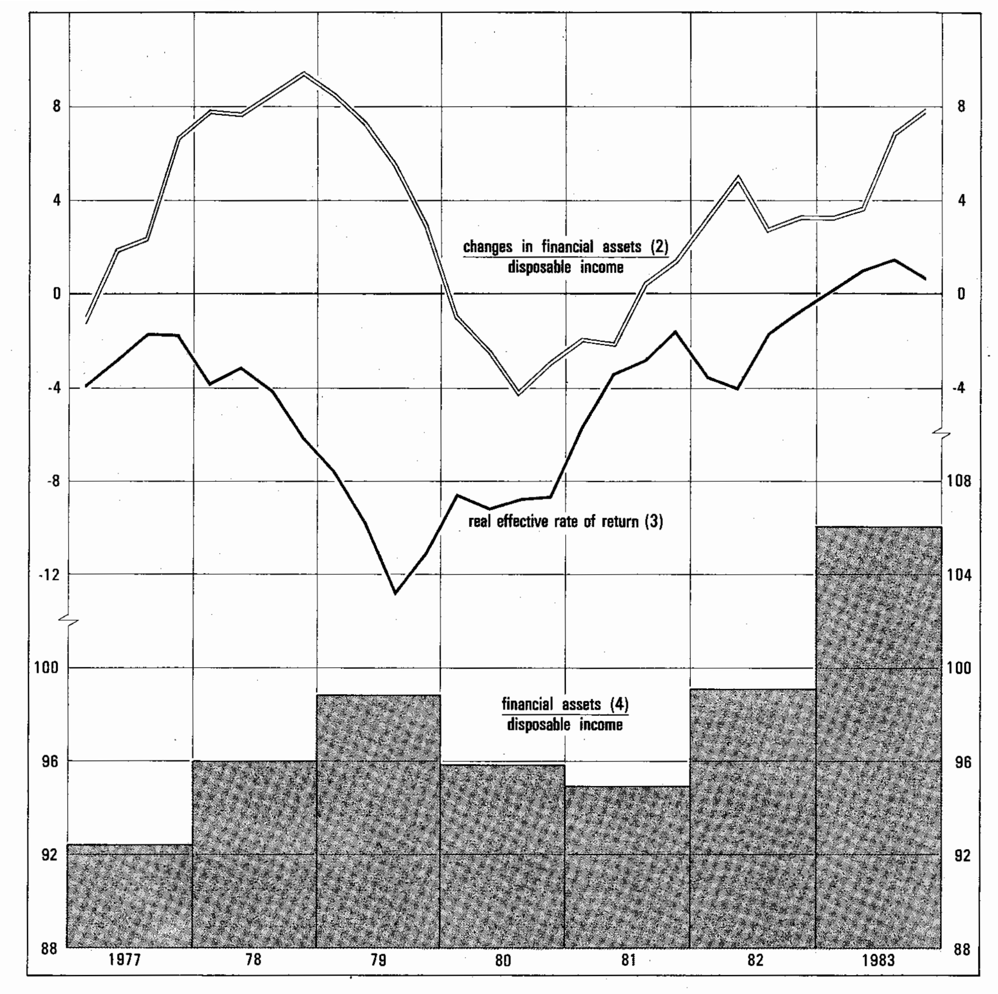
(1) Partly estimated data. — (2) Excluding foreign bonds. — (3) Excluding foreign participations. — (4) Actuarial reserves, atypical securities and bankers' acceptances.

Financial assets increased by about 91 trillion lire during the year (Table 33); net of shares and foreign assets, the rate of growth was 21 per cent. In relation to disposable income, the propensity to invest in financial assets worked out at 21.3 per cent, almost 2 percentage points higher than in the previous year and in contrast to the decline of 1.4 points in the overall propensity to save; financial assets therefore increased at the expense of investment in real assets. Whereas the prices of dwellings, which constitute the main component of real assets, rose much more slowly than the consumer price index, the real effective yield on households' portfolios net of taxes increased for the fifth consecutive year, with the annual average moving from — 3.0 per cent in 1982 to 0.3 per cent (Fig. 12).

In 1983 the composition of households' financial wealth shifted away from sight and short-term assets towards longer maturities. Bank deposits increased by 29.7 trillion lire, an annual rate of increase of 13.2 per cent, much lower than that in total financial assets; by contrast, Treasury bills, Treasury credit certificates and other medium and long-term securities increased faster than the average. Overall, the proportion of medium and long-term assets in total domestic financial assets net of shares, actuarial reserves and atypical securities rose from 14.3 per cent at the end of 1982 to

19.2 per cent last year. Treasury credit certificates expanded by 27 trillion lire to more than double the figure recorded the previous year and increased their share of the total from 5.3 to 9.9 per cent.

Figure 12



Households' financial assets (1)

(1) Net of shares, participations, actuarial reserves, atypical securities and foreign assets. — (2) Cumulative variations over four quarters, net of inflation-induced depreciation of financial assets. — (3) Weighted average of mean quarterk rates of return, net of taxes, deflated by the annualized change in consumer prices in the two subsequent quarters. — (4) Average levels of 5 quarterly data.

The financing of enterprises and their liquidity situation

Despite the decline in self-financing, the increase in firms' borrowing was modest (43.1 trillion lire, compared with 39.1 trillion in 1982) owing to the slowdown in investment and the appreciable reduction in inventories.

Lending by credit institutions, which increased by 13.8 per cent, and funds provided by public and private shareholders constituted almost all the finance to enterprises, as the flow of funds from the bond market and from medium and long-term foreign loans was greatly reduced (Table 34).

Table 34

ANALYSIS OF CORPORATE SECTOR FINANCING

	Levels at end		Flows				
	1978	1982	1979	1980	1981	1982	1983
	Billions of lire						
Loans: short-term (1)	69,959	124,456	15,646	16,473	11,149	13,055	18,848
of which: special credit institutions	*2,540*	*8,734*	*915*	*1,454*	*2,115*	*1,710*	*331*
medium and long-term (1)	50,464	111,106	8,993	13,154	21,016	12,250	9,697
of which: special credit institutions	*35,411*	*60,621*	*4,326*	*6,058*	*10,276*	*8,547*	*6,978*
foreign	*7,290*	*35,163*	*2,227*	*4,497*	*8,641*	*3,206*	*816*
Bonds	12,914	19,084	661	231	715	4,433	2,049
Shares	47,174	185,538	770	1,929	2,263	2,188	2,588
Endowment funds (2)	7,974	25,601	671	2,581	3,158	7,115	9,303
Financing by local authorities	3,312	4,649	195	219	716	207	844
Other financial liabilities (3)	4,630	15,348	198	1,496	1,038	– 120	– 234
Total	**196,427**	**485,782**	**27,134**	**36,083**	**40,055**	**39,128**	**43,095**

(1) Flows include bad debts and funded debts and are adjusted for bank loans used to finance the deposit on foreign payments and for exchange rate variations. — (2) Net of state-controlled enterprises' funded bank debts. — (3) Include acceptances bought by non-bank investors, atypical securities and, as regards year-end amounts, the bad debts of credit institutions.

The cost of borrowing in lire was one percentage point below the average for the preceding year; deflated by the average change in wholesale prices, the reduction in the real cost comes to 1.6 per cent, with a more marked decline in the second and third quarters. In the case of industry excluding construction, the trends in borrowing and interest rates led to a small increase in net interest charges (0.5 per cent); in relation to operating profits these remained at the level of the previous year (42.6 and 42.3 per cent in 1982 and 1983 respectively), while in relation to sales they declined slightly, from 7.9 to 7.2 per cent.

Interest payments on business loans are deductible from taxable income for the purposes of corporation tax and local income tax. The tax saving is a percentage of the interest on the debt; deduction in full in the year in which the debt is incurred is permissible only if total interest charges are less than the year's profits before interest charges and taxation, and only part may be deducted if firms invest resources in assets that generate tax-free returns (chiefly government securities).

In the last three years the rate of taxation of corporate income (derived by combining the rates of corporation tax and local income tax) steadily increased from 36.25 per cent in 1981 to 41.34 per cent in 1982 and 46.37 per cent last year. Moreover, in the last three years profits were not such that all firms could obtain the full tax saving from the deduction of interest charges. In the three years from 1981 to 1983 the average cost of borrowing in lire for industrial firms was 18.7, 19.1 and 18.1 per cent respectively; taking account of the effective ratio between total interest charges and gross profits and assuming that firms held no assets generating tax-free returns, the tax saving would have been equivalent to 5.7, 6.3 and 7.4 per cent of the value of the debt in the three years respectively and the average cost of corporate loan capital would have been reduced by an equivalent amount.

Firms' financial assets increased by 33 trillion lire, compared with 21.6 trillion in 1982; net of shares and foreign assets, they grew at a rate of 16 per cent, 3.4 points faster than debt.

THE SUPERVISION OF CREDIT INSTITUTIONS

Introduction

The need to keep supervisory regulations and practices in line -with the reality of a rapidly evolving financial system makes it necessary to interpret the underlying changes and to forecast the probable outcome in the longer term.

The recent long period of price and interest rate instability has permanently increased households' and firms' awareness of financial factors. Households have switched their attention from the nominal to the real yields on financial assets, and firms have been more careful to keep a suitable balance between their equity capital and their borrowings — a necessary condition for successful growth. These developments have increased the competition in financial markets.

The application of technological progress in electronics and telecommunications to the transfer of funds will lead to new forms of contact between banks and customers and hence to new forms of competition. Moreover, it will be easier for operators outside the credit system to compete with the traditional intermediaries in the supply of financial services.

Given certain conditions, a more competitive environment can be expected to produce a more efficient system, but also to involve greater risk in intermediation.

In such circumstances the principal task of supervisory control — that of seeking an acceptable equilibrium between the stability and efficiency of the financial system — tends to become more difficult and more delicate.

The aim is not simply to smother these new competitive forces on principle, but to regulate their intensity and effects so as to reap the maximum benefit in terms of the efficiency and effectiveness of the financial system. To this end it will also be necessary to strengthen the instruments for controlling and defending the soundness of both individual intermediaries and the system as a whole.

This is consistent with the view that the entrepreneurial nature of banking needs to be reflected in supervision. Changes have already been made in the regulations, and others are in the pipeline, designed to abolish or diminish controls that tend to curtail the freedom of bankers' decisions.

On the other hand, supervisory control is being intensified, as regards not only the usual aspects of operations — profitability, liquidity and lending — but also banks' internal organization and especially that of their decision-making organs. Supervision is increasingly intended to control the overall performance of banks, their entrepreneurial behaviour and the effects this has on their soundness.

The regulations regarding credit institutions' shareholdings in other companies are based on this approach. On the one hand, banks have been left free to invest without prior authorization within certain limits; on the other, the regulatoty framework has been drawn more tightly and arrangements have been made for the supervisory authority to receive more information.

The same criterion of enhancing managerial independence underlies the regulation allowing the special credit institutions to issue medium-term savings certificates and medium-term CDs without prior authorization and extending the gamut of permitted transactions between these intermediaries and banks.

The diversification of the risks of the special credit institutions has also been put on an objective basis with the introduction of numerical parameters in place of the previous case-by-case authorization procedure. As regards the geographical limits on banks' lending, changes are being made in the regulations that will lead to a substantial liberalization. The review of the "supervisory handbook", which is now nearing' completion, also aims to minimize the red tape connected with controls and to provide banks with a clear and simple guide.

The supervisory authorities' policy is thus to increase the scope for entrepreneurial banking while making their own controls more effective. This was the cornerstone of the supervisory activity carried out in 1983 and described below.

Structure and operations of the credit system

Size and geographical distribution. — The supervisory authority's guidelines for the development of the banking system were given concrete application in 1983 through both the increase in banking concentration and the reorganization of banks' branch networks.

As regards the former, there are good grounds for believing that operating costs diminish as bank size increases, provided that branch networks are rationalized and competition is not decreased.

In its case-by-case analysis of proposed bank mergers the supervisory authority assesses their effects on the regional pattern of banking and cornpetition in local markets. The authority uses the instruments for the control of the banking system's geographical structure to regulate these effects in such a way as to achieve the largest possible gains in efficiency.

Policy thus continues to be to encourage a gradual and voluntary simplification of banking structures, especially among the small and medium-sized banks.

Concentration, of course, is not the only means of achieving economies of scale. There are two other promising solutions: the first lies in cooperation between banks for the joint operation of some competitively priced services and the second involves integration among affiliated banks leading to the formulation and implementation of group policies. Examples of banking groups that are managed in such a way already exist in Italy.

The acquisition of shareholdings in other banks nonetheless needs to be seen as a means of unrestricted geographical expansion only for large banks that are already operating on a national scale. For the others, the advantages of increased size have to be set against the need to avoid sudden changes in their local or regional nature, since this is often where their strength lies.

A similar criterion is adopted for the expansion and rationalization of branch networks. The larger banks are free to follow nation-wide strategies, while changes in the geographical scope of the other banks' networks must be compatible with their status.

The latest branch transfer plan was based on these criteria, which will also underlie future measures regulating the banks' geographical configuration.

In a recent report to the Council of Ministers the EEC Commission endorsed the extension to 1989 of the transitional period, foreseen by the Community Directive of 12 December 1977, during which member countries may continue to authorize the establishment of new banks in accordance with market needs. After this date authorization will be based exclusively on the fulfilment of objectively defined conditions.

This system will not apply to bank branches, since the Directive makes express provision for member countries to subject the opening of new branches to national legislation and regulations.

The bill enabling the Government to introduce legislation implementing the Community Directive in Italy has been resubmitted to this Parliament.

In the meantime the Bank of Italy has begun the preparatory work for the next branch plan. The focus is on updating the division of the country into area markets and improving the statistical indicators of the need for banking services in large towns.

While well aware of the effects that the development of automation is likely to have on the traditional forms of geographical expansion, the supervisory authority takes a favourable view of the tendency for banks to introduce automated equipment for simple operations. For obvious reasons of higher overall efficiency and lower costs, the authority encourages projects involving a number of banks. It will be possible for such projects to benefit from simplified supervisory procedures, in part owing to the close collaboration established between the banks and the authorities in this field.

The desire of a growing number of Italian banks to be present in foreign markets led to the authorization of 5 operational branches in 1983. The Credit Committee also laid down more flexible rules for the opening of representative offices to enable a larger number of banks to do so, either individually or jointly, provided that their volume of business with foreign markets is substantial.

Banks' statutes. — The analysis and assessment of banks' statutes seek to establish and improve guidelines that will promote the adoption of organizational solutions ensuring efficient and transparent management in line with the evolution of the credit market.

The removal of statutory limits on operations, the definition of organizational structures guaranteeing a balanced distribution of powers and adequate checks on operations, and the drafting of rules that will allow capital to be strengthened to match the greater riskiness of a wider range of operations are principles that can be uniformly applied to the whole banking system.

The validity of these principles was confirmed by the Credit Committee at its meeting on 27 October 1983 in connection with the complete revision of the statutes of savings and pledge banks. With reference to requests for minor changes in the provisions regarding the operations of such banks, the Committee declared that the condition for the removal of constraints on fund-raising and lending instruments was the existence of organizational structures that would enhance the interaction between the various levels of management and reinforce the system of internal checks.

The private sector banks have increasingly adopted streamlined and functional statutes with emphasis often being placed on their organizational structures. Specifically, they have achieved this by abandoning the traditional listing of permitted operations and striking a better balance in the assignment of powers. This is a condition for more efficient management, which will also have to be pursued through changes in the regulation of decentralized decision-making that will limit the scope of organs with delegated powers and reserve policy choices and the most important operational decisions to the board of directors.

Shareholdings. — During the year banks continued to carry out their plans for bringing their shareholdings into line with the principles laid down in the resolution of the Credit Committee of 28 January 1981.

The solution of the problem of foreign holding companies was simplified to some extent by Law 72 of 1983. This provided for the tax exempt revaluation of assets and thus reduced the tax liability of the capital gains realized as a result of disposals. The interests owned by the holding companies were acquired directly by the parent banks, which dealt with ineligible interests by sale, liquidation or changes in their statutes.

Largely as a result of this reorganization, the banks expressed the need for the supervisory authority to provide a clearer definition of the kinds of companies whose activities are considered to be closely related to banking. The new definition extends to holding companies that coordinate the capital, financial and organizational needs of Italian companies engaged in banking-related business. Under the Credit Committee resolution of October 1983 banks owning a number of such companies can be authorized to set up holding companies that are restricted to coordination, provided that this does not prejudice the powers of the supervisory authority.

Towards the end of the year the first mutual fund management companies were set up. Banks have been allowed to acquire majority stakes only if their size and organization are commensurate or if they have proven experience in dealing in securities. Eighteen such companies have been authorized, with the banks alone contributing more than 29 billion lire to their capital. An operational proposal has recently been put forward that would enable interested banks to set up companies specializing in merchant banking, albeit without transgressing the basic principle of the regulation of the Italian credit system — the separation of banking from industry. This is why preference has been given to the solution whereby merchant banking functions are performed by separate companies, to whose capital banks can contribute up to the amount of their own funds. The aim of this measure is to prevent borrowed funds from being locked in.

The same reasoning underlies the requirement that merchant banks should use their own funds to acquire minority interests in industrial and commercial companies. The consortium formula appears particularly suitable since it brings together the diversified experience and professional skills that are indispensable for this kind of business, as well as ensuring a solid capital base.

Lending limits. — Over the last few years, the changes made in supervisory regulations together with the unequal growth in the aggregates used to calculate lending limits, and especially the tendency for the banks to build up their own funds, have reduced the number of operations requiring prior authorization by the supervisory authority.

The greater freedom of banks in this field can be seen in the progressive increase in the overall limits and the diminished effectiveness of the threshold corresponding to one fifth of banks' equity capital, now effectively replaced by that based on banks' own funds.

Lending beyond the short term. — The Italian credit system is based on the principle of specialization by maturity of operations, which allows banks to lend at medium and long term only within limits that vary from one class of bank to another in accordance with a series of empirical and historical factors .

The regulation of foreign currency business, on the other hand, is the same for every class of bank. The supervisory authority is empowered to fix a revolving ceiling for each bank's fund-raising abroad with maturities of over 18 months (but not normally over 5 years) to be used for loans of matching maturities, mostly in connection with import and export financing. There is also provision for the fixing of ceilings for foreign currency loans beyond 18 months that are not matched by resources of similar maturity.

The policy traditionally pursued by the supervisory authority aims at a balanced maturity structure for foreign currency assets and liabilides. As part of this policy, the validity of which is confirmed by the risk of funds becoming locked in as a result of the rescheduling of important borrowing countries' debts, the authorities have requested credit institutions to improve their maturity matching by raising more medium-term funds in international markets.

Atypical securities. — Law 77 of 1983 introduced a form of control over access to the atypical securities market, though the system is different from that for issues of shares and bonds. Whereas the latter are subjected to a comprehensive set of controls, atypical securities are only controlled quantitatively by the Bank of Italy under Article 11 of the above law and evaluated by the Consob from the point of view of the transparency of the information provided.

The Bank of Italy has twenty days from the receipt of an issuing company's notification in which it may reduce the amount of the issue, stating the grounds for its decision. The Bank bases its control on the need to regulate the volume and composition of financial flows in accordance with the guidelines laid down by the Committee for Economic Planning and the Credit Committee.

The Minister of the Treasury issued a decree on 8 September specifying how the Bank of Italy was to perform its tasks, including ascertainment of the conformity of issues with the provisions of Article 11 of Law 77 and, specifically, the exclusion of any that are bond issues in all but name.

Mutual funds. — In pursuance of Law 77 of 23 March 1983, the Bank of Italy has drafted the regulations governing Italian mutual funds, the first of which were set up recently.

In July 1983 the provisions implementing the law were issued; those establishing how management companies are to invest their capital are especially important. They are designed to ensure that assets will be sufficiently realizable and stable; they also fix limits to investments with the aim of implementing the principle of risk diversification laid down by Law 77 and typical of this kind of financial intermediary.

In consultation with the Consob, standard reporting procedures were developed for management companies and individual funds; the criteria and methods for calculating the value of shares were also defined.

Another important task assigned to the Bank of Italy by Law 77 is the approval of each fund's by-laws. The general criteria drawn up by the supervisory authority are discussed with fund managers and the Bank of Italy collaborates closely with the management companies to arrive at solutions that respect both the letter and the spirit of the law, are compatible with the management companies' operational choices, and clearly explain to savers how each fund is regulated.

The promulgation of Law 77 has raised the problem of the foreign mutual funds authorized to sell shares in Italy by the Ministry of Foreign Trade under the foreign exchange regulations. It is inconceivable that these funds — which include financial and real estate, open and closed-end funds — should continue to operate in Italy without any control whatsoever except that regarding foreign exchange, precisely when the special type of financial intermediation performed by mutual funds is being subjected to specific regulation.

The evolution of the regulatory framework therefore requires the operators involved to find the best way to make the funds operating before Law 77 was passed compatible with the principles and general criteria it laid down. This is the aim of a bill that has been approved by the Council of Ministers.

Banking supervision

Capital adequacy. — At the end of 1983 — before banks' annual accounts had been approved, so that the 1983 results are not included — the banks' own funds amounted to 29,500 billion lire, an increase of 8,450 billion compared with end-1982 (1981-82, + 4,600 billion). This increase was partly due to Law 72 of 1983 regarding the revaluation of company assets. Even when this portion (about 40 per cent of the increase) is excluded, the expansion of banks' own funds continued the improvement recorded over the last few years in capital adequacy. This has been achieved by faster growth in own funds than in volume of business.

The ratio of own funds to lending rose from 12.6 to 15.3 per cent and that of own funds to borrowed funds from 6.1 to 7.6 per cent, in part owing to the slower growth in borrowed funds than in 1982 (Table 35).

Table 35

RATIOS OF CREDIT INSTITUTIONS' OWN FUNDS TO THEIR LENDING AND BORROWED FUNDS (1)

(end-of-year percentages)

	1979	1980	1981	1982	1983
BANKS (2)					
Own funds/lending	8.7	9.1	11.0	12.6	15.3
Own funds/borrowed funds	4.1	4.6	5.9	6.1	7.6
SPECIAL CREDIT INSTITUTIONS (3)					
Own funds/lending	9.1	9.9	9.9	10.0	11.0
Own funds/borrowed funds	8.4	9.3	9.4	9.2	10.1
CREDIT SYSTEM					
Own funds/lending	8.9	9.4	10.6	11.6	13.7
Own funds/borrowed funds	5.1	5.7	6.7	6.9	8.2

(1) The lending of the banks includes resident and non-resident direct credits, bad debts and the banks' own unpaid and protested bills. In the case of the banks, borrowed funds include deposits and funds in administration; in that of the special credit institutions, own bond proceeds, customers' deposits, and funds of local authorities, the Southern Italy Development Fund and Mediocredito centrale. — (2) Monthly sample excluding central credit institutions. — (3) Excluding Mediocredito centrale and Artigiancassa.

Inspections. — A total of 203 general inspections were started in 1983 (148 in 1982) and 2 sectoral inspections. Of these inspections, which covered banks in every legal category except that of public law banks, 141 were part of the annual plan and the rest were organized to meet special needs.

Extraordinary interventions

The basic features of the bank crises recorded in 1983 were very similar to those of previous years as regards both the causes and the imbalances in banks' accounts. There was further confirmation of the primarily operational nature of crises with improper and imprudent use being made of decision-making powers by members of banks' governing bodies. The fundamental causes of banks' difficulties are still those connected with the quality of lending and lead to high proportions of bad and doubtful debts. A worsening in the quality of loans and poor company management, like other qualitative elements in banking business, may not show up sufficiently clearly in accounting returns, which are of an essentially quantitative nature. The direct examination of the various aspects of banks' operations is of fundamental importance for the assessment of quality.

The changed context in which banks are now having to operate may result in poor quality loans becoming the leading cause of changes in the other major variables of banking — profitability and liquidity — thus intensifying and highlighting imbalances that could otherwise have been set right over time, as in the past, with the increase in the volume of intermediation.

The increase in the causes of instability — including the tendency for competitive conditions to change, which, if not too pronounced, can promote the efficiency of the banking system — makes it indispensable for banks to pursue their optimum configurations with regard to size, capital, organization and operations. This belief underlay the guidance imparted by the supervisory authority, all the more firmly in cases where there were signs of even incipient difficulties.

International cooperation

International cooperation in banking supervision was boosted in May 1983 by the Governors of the Group of Ten countries and Switzerland approving the new Concordat, the document prepared by the Basle

Committee on Banking Regulations and Supervisory Practices laying down the criteria upon which the supervision of banks' foreign establishments should be based.

Work continued on streamlining the procedure for the compulsory administrative liquidation of banks. The major outstanding case is that of Banco Ambrosiano and 1983 saw the completion of the takeover of its domestic assets and liabilities by Nuovo Banco Ambrosiano. —

With the aim of spreading the principles of the new Concordat to as many countries as possible, the Bank of Italy is to host an international conference of supervisory authorities in Rome in September. This will be the third conference of its kind after those organized in England in 1979 and in the United States in 1981.

The process of coordinating Community banking took an important step forward with the EEC Council of Ministers' approval in June of the directive on the supervision of credit institutions on a consolidated basis. Once the directive has been incorporated in Italian law, it will provide the authorities with another instrument that, in conjunction with those already available, will enhance the range and effectiveness of supervision.

After lengthy and difficult negotiations among the OECD countries, agreement was reached in October 1983 on a system of regular and automatic adjustments to the Consensus minimum interest rates on subsidized export credits. The adjustments will be based on the changes in the rates of the countries whose currencies are most used in international transactions. They will be made every six months whenever there is a change of not less than 0.5 points compared with the rates in force.

THE GOVERNOR'S CONCLUDING REMARKS

The Report presented to you today embodies a number of innovations; the descriptive sections of the text have been slimmed down, partly in view of the publication of the Bank's Economic Bulletin, and attention has been focussed on the analysis of specific issues, while the Stadstical Appendix has been reorganized so that it constitutes not only a supplement to the body of the Report but also a more systematic collection of data on the Italian and world economies. By publishing statistics, research papers, analyses of economic events and commentaries on economic policy, the Bank gives account of its own actions and fulfils its obligation to emphasize the social and economic value of monetary stability.

I wish to thank the management and staff of the Bank for the conscientious and constructive manner in which they again performed their duties last year. In the present time of change affecting both organizafional arrangements and technology, working methods must accord even more closely with criteria of efficiency. In managing human resources it is essential to maximize professional skills and improve productivity through dialogue with the trade union organizations and by other means. The plans to expand the Bank's central computing capacity, the development of new procedures and the action taken to increase the branches' operational and analytical potential are closely linked with these endeavours.

The Bank is deeply involved in Italy's many-sided reality, and thus participates in the authorities' campaign to combat the attempts of organized crime to use both age-old means and new opportunities provided by vast financial resources to penetrate the mechanisms that produce and manage the wealth of us all. In accordance with the provisions of the law, the Bank provides its technical expertise and professional resources at every institutional level. In its capacity as the supervisory authority, it takes steps to reinforce the banks' insfitutional defences against infiltration by illegal interests. It strives to ensure that the banking system will become more efficient in gathering the information requested in the proper manner by the bodies that have the difficult task of prosecuting criminal activities.

The world economy. Problems and prospects

Highlights in the world economic picture in 1983 were the vigorous recovery in the United States, its spread to the other industrial countries and continuing stagnation in most of the Third World.

In the United States, the expansive effect of the federal budget deficit was reinforced, partly as a result of the increase in real financial wealth, by a greater propensity to consume and the revival in housing demand. Fears that the recovery might not last long enough to affect investment were dispelled. In the other major industrial countries the end of the cyclical downswing was due mainly to a rise in consumer spending. This upward trend, which subsequently spread to the other components of demand, was fuelled by the massive increase in US imports. Trade in the OECD area expanded more than twice as fast as world demand. However, except in the United States and Canada, there has not yet been any positive effect on unemployment rates.

US monetary policy had allowed nominal and real interest rates to fall in the second half of 1982, although they remained at high levels. However, in 1983 and also in the first few months of this year, the failure to enact measures to cut the budget deficit, together with faster than expected growth, convinced the Federal Reserve Board of the need for stricter control of the monetary aggregates to avoid rekindling inflation. The outcome was renewed upward pressure on interest rates. In Europe, expansion of the money supply was curbed, but not severely enough to prevent the depreciation of European currencies against the dollar. The budget was deddedly restrictive in the Federal Republic of Germany, where policy continues to be directed towards reducing the structural deficit. In Japan, budgetary austerity continued for the fifth consecutive year and the ratio of the public sector borrowing requirement to GDP has been nearly halved to less than 3 per cent.

Prudent conduct of economic policy and, in a number of countries, continuing wage restraint, made possible a further deceleration of inflation. In the OECD area, consumer prices in March 1984 were 5.8 per cent higher than twelve months earlier.

Exchange rate movements made an important contribution to bringing down inflation in the United States. From 1980 to 1983, the revaluation of the dollar lowered inflation by more than one percentage point a year on average. The EEC countries suffered from the opposite effect. A number of European nations have turned to incomes polides and curbs on wage indexation to attenuate the real costs of disinflation. In Japan, the effective appreciation of the yen, wage restraint, and rising productivity have helped hold price rises well below the average for the industrial economies.

The countries of the Third World continued to suffer the repercussions of the debt crisis that had exploded in the summer of 1982, when they were hit simultaneously by world recession, plummeting export prices, high interest rates and the strong dollar. The crisis was further aggravated, especially in Latin America, by a reduction in foreign lending and massive outflows of domestic capital. The initial response was a drastic cutback in imports, which non-oil developing countries have reduced by $60 billion in the past two years, thus cutting their current account deficit in half.

The stranglehold of this combination of factors relaxed somewhat last year. After the precipitous drop recorded in 1982, the exports of non-oil developing countries expanded in volume and in value. The average annual interest costs on their bank debt declined by 2 percentage points in 1982-83, despite wider spreads. 'The combined interventions of the IMF and the major commercial banks prevented the feared collapse in the supply Of finance, with net new lending amounting to around $25 billion and the rescheduling of debt repayments to $40 billion.

Not all of the most heavily indebted countries had their foreign debt rescheduled, however; furthermore, the rescheduling only postponed their onerous obligations for a time, and they may now fall due just as the world recovery weakens. The recent rise in dollar interest rates has not only aggravated the short-term financial situation of the largest debtors but also created new problems for their economic adjustment programmes. Concerted action is needed to maintain a regular flow of funds, to deal with the problem of debt rescheduling in a longer-term perspective and to reduce uncertainty over financing terms. The action taken will have to be tailored to the situations of the individual debtor countries and their progress in domestic and external adjustment. This requires that the creditor banks should continue to provide their overall support with better coordination among themselves, and that the IMF should maintain its surveillance over adjustment programmes and continue to provide finance without impairing its monetary character. Most important, lending by the World Bank, the IDA and the regional development banks needs to be augmented. So far, these institutions' contribution to overcoming the financial difficulties of member countries has been limited by insufficient resources and inadequate procedures.

Exchange relations between the major monetary areas since the second oil shock have been markedly unstable. This can be attributed to the after-effects of the crisis itself, to the new stance of US economic policy, and to the cyclical differences between leading European economies. The attenuation of some of these factors has not brought exchange rate stability, nor caused rates to conform to developments in economic fundamentals.

The increase in the value of the dollar wa's coupled with expanding budget and external account deficits, so that the US currency rose far above the level consistent with the changes in its relative purchasing power. Real interest rate differentials partly explain the trend of the dollar, but not its short-term movements. The improved profitability of investment in the United States also attracted capital, thus helping to drive up the external value of the dollar. This tendency was reinforced by factors that were not strictly economic, such as America's reputation as a safe haven in times of global tensions and crisis.

These interlocking factors force countries to adopt a cautious monetary and fiscal stance, in part because calls for convergence and compatibility in economic policies have gone unheeded. 'There is cause for concern in the possible interaction between exchange rate rnovements, the creation of international liquidity and world inflation. If the current strength of the dollar should abruptly decline, massive portfolio changes would ensue, with a destabilizing impact on foreign exchange markets. International liquidity would not flow towards countries with payments deficits, but to other reserve-currency nations, thus giving them problems of monetary control.

In the current recovery, output and employment trends have been stronger in the United States and Japan than in Europe. However, sustained non-inflationary growth of the American economy is threatened by the large budget deficit, the external current account deficit, and strains in the money and financial markets.

Looking further back, and allowing for the difficulty of making valid comparisons between highly complex and variegated societies, Europe has proved less able to create jobs and expand its share of trade in advanced technology products.

The United States, with the same rate of income growth and with a labour market about the same size as Europe's, though with a faster-growing labour force, has created nearly 15 million jobs over the last decade, while employment in the European Community has declined by more than 3 million. Some 90 per cent of the new jobs in the United States were in the private services sector. In Europe, too, the services sector created the new jobs, but nearly half of them were in the public sector.

All the industrial nations have increased their specialization in exports of goods with a high technological content. In both the United States and Japan, the share of such products in overall exports has risen by 5 percentage points since 1970, while the EEC's gain has been only half that. Within the OECD area, the only country to increase its share has been Japan; the share of the United States has remained constant, while that of the EEC has declined.

The European economy is plentifully endowed with production factors and entrepreneurial skills, nor is there any lack of needs to meet. Realizing the potential for growth, however, will depend on Europe's ability to reduce the rigidities in the allocation of resources, lengthen the horizon of economic decision-making, channel savings into productive investment, and spend more on research.

Since 1960, the amount of savings absorbed by the public sector has risen markedly throughout the OECD area. The share of GDP accounted for by public spending has gone up 13 percentage points to an average of 42 per cent — 34 per cent in Japan, 38 per cent in the United States, and 52 per cent in the EEC. The faster growth of social spending in Europe has also increased the burden of social security contributions. At the beginning of the eighties, these accounted for 40 per cent of the cost of labour in the EEC, as against 27 per cent in the United States and 15 per cent in Japan.

Within the Community, market unification is still hampered by internal barriers. Regulatory and fiscal disparities persist, access to certain sectors remains restricted, and forms of protectionism linger on in the award of public contracts and in product authorization standards. European firms are denied the benefits of doing business in a large, integrated market that are enjoyed by American firms and to some extent by Japanese ones in the Pacific region. This hinders the creation of large European corporations and the introduction of new technology. It strengthens the incentive for cooperation with non-European firms, which can reasonably be expected to contribute more in the way of production technology and market outlets.

The difficulties besetting Europe are not only economic, social and technological but also institutional. The two oil shocks have made governments see the objective of integration as being of secondary importance compared with the immediate need to grapple with the consequences of the ensuing crisis. That objective must again be given priority: only by integrating can Europe hope to meet the challenge created by our major competitors' success in transforming their economies.

The creation of the EMS five years ago represented a leap forvvard in the endeavour to build a European monetary order. The system's record is a positive one, and it has proved to be a valid instrument in the process of monetary policy harmonization. The collaboration that has developed goes beyond the scope of the agreements. The exchange rates of the currencies subject to the EMS constraints have been much less volatile than those of the other principal currencies.

Recently, the trend towards greater European financial integration has regained vigour. The clearest sign of this is the development of the private ECU market. This confirms not only the innovative capacities of European, and especially Italian, financial intermediaries, but also the growing demand for a European monetary unit. The ECU's inherent advantage of greater stability compared with the component currencies and its built-in diversification of exchange risk have not escaped even non-European institutional investors.

The success of the ECU in private markets is a development that many people had not predicted. Its significance needs to be appreciated and the authorities must give operational and institutional encouragement to the spontaneous tendencies of the market. The mechanisms and arrangements of the EMS will also have to be strengthened with a view to the establishment of the European Monetary Fund.

Greater European financial integration presupposes concrete, albeit gradual, steps to harmonize structures and liberalize the movement of capital. If European enterprises are to increase their size, coordinate and finance research, and introduce new technology, steps will have to be taken to promote the mobilization of both equity and loan capital.

The cyclical recovery in the Italian economy

The aim of monetary and exchange policy in 1983 was to curb inflation and support an economic recovery compatible with the state of the Italian economy. The policy of gradually reducing interest rates and the guidelines applied during removal of the ceiling on bank lending maintained orderly conditions in the money and financial markets and ensured that stimulus from domestic demand would not prematurely augment that stemming from exports, which would have jeopardized the return to balance-of-payments equilibrium and the slowdown in inflation.

The rate of increase in consumer prices slowed down from 16.1 to 12.6 per cent in the course of the year. However, the annual average was two percentage points above the target of 13 per cent set by the Government in September 1982, and the inflation differential in relation to the other countries of the European Community widened to 8 points. The increase in lira import prices came to 5 per cent; labour costs in the private sector rose by 16.2 per cent per employee and by 17.5 per cent per unit of output as a result of a fall in productivity. Profit margins narrowed both in industry and in services.

The turning point of the cycle occurred at around mid-year, but it did not prevent a decline of 1.2 per cent in gross domestic product and a fall in fixed investment on an annual average basis. Employment remained practically unchanged; the number of persons unemployed, including workers covered by the Wage Supplementation Fund, rose to 12 per cent of the labour force.

The growth in exports, which exceeded that in imports by more than 3 points, triggered and sustained the recovery in production and, together with the improvement in the terms of trade, helped restore the balance-of-payments current account to equilibrium after three years of recession and deficits totalling 25 trillion lire. Italy's share of world export markets rose from 6.6 to 6.9 per cent. There was a surplus of $600 billion on medium and long-term capital movements, with inflows being almost entirely due to public sector borrowing. Enterprises obtained short-term trade credit from abroad and foreign currency loans from the banks; the banks' net foreign liabilities rose from $10.6 to 12.9 billion between the end of 1982 and the end of 1983. 'The official reserves increased by $6 billion. The country's net external debt remained unchanged at $21 billion, excluding official gold reserves. The lira depreciated by 4.9 per cent in effective terms, by 10.9 per cent against the dollar and by 1.8 per cent against the currencies of EMS member countries.

The combination of condnued rapid inflation and weak economic activity bears witness to the limitations and costs of pursuing adjustment predominantly by monetary means.

The public sector borrowing requirement amounted to 88.5 trillion lire, exceeding the target by 17.5 trillion lire and rising to 16.5 per cent of gross domestic product. Its influence on monetary policy was reflected in the fact that total domestic credit and financial assets expanded by more than had been planned.

Lending to the economy fell 4 trillion lire short of the forecast of 38 trillion. Total domestic credit increased by 20.6 per cent; as a proportion of gross domestic product it rose from 21:3 to 22.3 per cent.

The financial assets of households and enterprises increased by more than 20 per cent for the second year in succession owing to the stimulus from public sector debt, which increased at twice the rate recorded by national income; the ratio between such assets and GDP increased by 7 points to 119 per cent, the highest value recorded since the statistical series began in 1960.

In these circumstances, the Bank sought to create a pattern of market interest rates that was consistent with the need to sell securities to the public and to steer purchasers away from short-term paper towards medium-term securities. To this end it took steps to restrain the growth of the monetary base and coordinated its action with the policy on government debt.

The monetary base expanded by 13.3 per cent; the public's liquid assets increased by 14.6 per cent. The proportion of new assets taking the form of medium and long-term securities rose from 14 to 36 per cent. The maximum maturity for Treasury credit certificates was extended to five years in July and to seven in November; the public debt's average residual term to maturity, which had fallen to an all-time low of eleven months at the end of 1981, moved back up to eighteen months at the end of last year.

As we recalled on this occasion twelve months ago, the continued very high level of inflation in the first few months of 1983 and the need to restore orderly conditions in the government securities market prevented a reduction in interest rates. The expectation of changes in central rates within the EMS also militated in favour of caution. After the March realignment, the signs of an abatement in inflation, the formation of favourable exchange rate expectations and short-term capital inflows permitted a resumption of the downward movement in interest rates that had had to be abruptly reversed in the autumn of 1982. In April the discount rate was reduced from 18 to 17 per cent. The average Treasury bill rate, which had stood at 19.2 per cent at the end of 1982 and was still barely below 19 per cent in February, fell to 17.5 per cent in June.

When signs of a recovery in economic activity began to appear towards mid-year, several risk factors complicated the choices facing the central bank. The public sector borrowing requirement had been held in check in the first half of the year by the effects of the measures taken in 1982 and at the beginning of 1983, but subsequently it threatened to swell again. The salary increases won by public sector employees and the imminent renewal of labour contracts in the private sector made it likely that households' disposable income would increase. A strong growth in consumption on top of the increase in foreign demand that had just begun would have had immediate repercussions on the balance of payments, and the effort to restore profit margins in manufacturing industry would have taken the form of price increases rather than the pursuit of productivity gains. All of these factors suggested the need for a cautious monetary approach. Nevertheless, it was decided not to renew the credit ceiling, relying instead on arrangements for monitoring the trend in bank lending to ensure a smooth phasing out of administrative controls; there was a pause in the downward movement in interest rates.

The cyclical upturn began in the summer. At that time the current account of the balance of payments was barely in equilibrium and the twelve-month inflation rate was still running at 14 per cent for consumer prices and 10 per cent for the wholesale prices of manufactures.

The increase in the public sector borrowing requirement and in households' disposable income fuelled spending and the creation of bank deposits, which grew at an annual rate of 25 per cent in the three months from June to August, more than twice the rate recorded in the first five months of the year.

Businesses operating in export markets benefited most from the cyclical turnround by exploiting the progress they had made in modernizing their production processes and products. In the third quarter economic activity was over 2 per cent higher than in the preceding three months, although enterprises chose not to bring output entirely into line with demand. Sales increased more than production, so that stocks of finished goods declined. The high level of bank interest rates also discouraged the replacement of stocks of raw materials. Bank lending in lire increased at a lower annual rate than output.

At the end of September the Government presented its economic programme for 1984, which reaffirmed that monetary stability and economic recovery are complementary objectives to be pursued by means of a budgetary policy making substantial corrections in the underlying trend of revenue and expenditure, an incomes policy holding down the rise in nominal earnings in line with the intention to reduce inflation to 10 per cent, and a monetary policy operating within this set of objectives and instruments.

In the last three months of the year gross industtial output was 1.5 per cent higher than in the previous quarter, thereby exceeding the levels reached in the closing months of 1982. All components of demand seemed to be heading towards expansion, though to varying degrees. The recovery in the main industrial economies gained momentum, to the benefit of exports, which grew by 3.5 per cent between the third and fourth quarters. The balance of payments on current account remained in equilibrium. Credit demand showed more definite signs of reviving and in the industrial sector the ratio of net interest charges to sales declined.

Consumer prices continued to slow down, but the further strengthening of the dollar affected the lira prices of raw materials, thereby halting the deceleration in wholesale prices.

In the foreign exchange markets, a temporary weakening of the dollar in the early autumn generated tensions within the European Monetary System that also had repercussions on the lira. Control over bank reserves had to be tightened for the purposes of exchange rate stability and in view of the liquidity that had accumulated during the summer. In September the Bank of Italy stepped up the volume of securities repurchase agreements, producing a rise in short-term interest rates. The maintenance of high yields made it possible to increase the supply of Treasury credit certificates and thereby restrict the creation of monetary base through operations with the Treasury. The Bank regulated the liquidity of the banking system by granting fixed term advances; net of central bank lending, the banks' excess reserves fell to an extremely low level in October.

The tightness of liquidity helped bring the growth in bank deposits and in the money supply back into line with the objectives and combined with the monitoring of bank lending to prevent the peaks of credit demand from being met. Sales of government securities produced a steady increase in the unutilized margin on the Treasury's credit line with the Bank of Italy and created the conditions for repayment of the extraordinary advance of 8 trillion lire to which the Treasury had had to resort in January 1983.

From the beginning of the new year onwards the achievements in reducing inflation and the balance-of-payments deficit and in controlling the monetary and credit aggregates created scope for further reductions in interest rates on government paper and removal of the informal controls on bank lending. The official discount rate was reduced by one point in February and a further half point at the beginning of May. Treasury bill rates declined by two points during the first five months of the year and bank lending rates also resumed their downward path.

The fall in nominal interest rates did not prevent the Treasury from covering its borrowing requirement by attracting private savings. The structure of the public debt continued to shift towards longer maturities; net market sales of medium and long-term securities totalled about 30 trillion lire in the first five months of the year. The small scale of monetary base creation produced tighter liquidity and forced the banking system to borrow from the central bank.

The economic recovery is strengthening in many areas of industry. The growth in domestic demand is gradually complementing the expansion in exports; industrial production increased by about 2 per cent between the third quarter of 1983 and the first quarter of this year. Partial restocking to meet the needs of production gave rise to sustained import growth and a rapid expansion in bank lending, the book value of which is inflated by the statistical effect of the expiry of the ceiling and the measures taken during the transitional period.

Inflationary pressures remain strong, despite the progress made; consumer prices are coming down only slowly and wholesale prices are showing signs of accelerating. The revival in world demand is being reflected in the prices of industrial raw materials.

Production costs are being held in check by the combination of productivity gains and the reduction in the degree of wage indexation for the first half of 1984 imposed by the Decree Law under examination in Parliament; however, the difficulties encountered in implementing incomes policy are weakening its effect on prices, partly owing to their impact on expectations.

The reductions in the official discount rate went as far as was possible in bringing down the cost of money by this means. The high public sector borrowing requirement — the actual size of which is still fraught with uncertainty — and an excessive rise in domestic demand could create strains in the financial markets, which would inevitably affect interest rates.

To abandon monetary austerity would jeopardize the gains that have been made on the inflation and balance-of-payments fronts. If the opportunity for lasting growth is not to be missed, the work of correcting the imbalances and inefficiencies that fuel inflation will have to be continued with determination.

Objectives and instruments of monetary policy

After the second oil shock monetary and exchange policy had to be made increasingly restrictive by raising interest rates and, initially, by tightening the constraints on credit institutions and exchange market operators.

In the last four years the domestic public debt has increased at an annual rate of 25 per cent, rising from a 48 to a 60 per cent share of all financial assets. These have expanded at an annual rate of 18 per cent, with the money component falling from 83 to 69 per cent of the total, while the expansion of the monetary base was held to 13 per cent. Total domestic credit has grown at nearly 20 per cent annually; the divergence between the growth rates of the private and public sector components has continued to widen, the private sector's share of credit flows falling from 46 per cent in 1980 to 29 per cent in 1983.

Interest rates peaked in 1981 and then remained at a high level. Maintaining positive real yields on securities increased financial saving, thus limiting the effect of the public sector deficit on spending and making it possible to absorb some of the excess liquidity in the economy.

Positive real interest rates are normal in an economy with balanced growth, and in the past they have not been an obstacle to sustained investment. Exceptionally high interest rates are an inevitable feature of periods of monetary stabilization. The more deeply rooted inflation expectations are, and the less budgetary and incomes policy contribute to stabilization, the higher will be the cost of adjustment. Moreover, if the real interest rate remains above the .growth rate of the economy for any length of time, the progressive increase in the public debt in relation to GDP may prove incompatible with the economy's saving capacity.

It would be illusory to think that a rigorous monetary policy can by itself put public finances back on a sound footing; nonetheless, we can, and indeed must, expect that it should clearly reveal the incompatibility that has grown up between the different claims on resources. In this way it can help clarify the options available and the choices that will have to be made. The inevitability and urgency of these choices are there for all to see. Recognition of the inadequacy of the corrective measures taken so far must be a spur to implement, and not to water down, the adjustment programmes whose basic aims have now been clearly established.

To deliberately expand the monetaiy base, bolster bank intermediation and force interest rates down would imply acquiescence to the monetization of the public debt, creting the conditions for renewed inflationary pressures and accepting the most unjust way of reducing the burden of the public debt — the devaluation of savings. Such a choice is incompadble with the institutional duty of the central' bank. The Bank works to strengthen the currency, not to debase it, in the conviction that the rehabilitation of public finances, a return to growth and the reduction of inflation can be achieved.

Management of the exchange rate was integrated with monetary control not only as regards the formulation of policies but increasingly in their implementation as well. Full monetary stability can only be achieved through consistent behaviour by the social partners and the authorities entrusted with the government of the economy. When this consistency is lacking, an excessively rigid exchange rate wears out the industrial fabric; an exchange policy that stimulates cost reduction and product improvement can nonetheless make a decisive contribution — as it has in the last few years — to the curbing of inflation.

Another aim of our work in the field of monetary policy is to promote techniques for the regulation of money and credit that will increase the efficiency of the markets.

At a time when the size of the budget deficit and the difficulty of controlling its growth rendered the independent conduct of monetary policy both more necessary and more arduous, the progress made towards better control over central bank financing of the Treasury, by eliminating its underwriting function, was of fundamental importance both in principle and in practice.

The Bank of Italy finances the government primarily through two channels. The Treasury's current account overdraft facility was introduced as a means of increasing the flexibility of its liquidity management at a time when the short-term securities market was narrow, not as a permanent and privileged source of funds. Over the years the much faster rise in public expenditure than in income, coupled with the fact that the overdraft limit was linked to expenditure, caused a relative increase in this form of automatic monetary base creation that threatened to make the whole aggregate uncontrollable.

The other channel the Bank of Italy uses is the purchase of securities. Since 1981 these purchases have been entirely discretional, thus giving substance to the legislative limits on Treasury borrowing from the central bank, which are intended not only to regulate a technical instrument but also to enable monetary policy to pursue stability.

The extraordinary advance from the Bank of Italy to the Treasury that Parliament approved in January 1983 was an exceptional event — the consequence of the use of the Treasury's current account becoming increasingly deviant. In the months that followed the granting of the advance, the Treasury gradually improved the situation of its current account until it was in a position to repay the advance, within the time laid down by the law authorizing the loan. But this satisfactory result was more the outcome of higher interest rates than of a correction of the trends of revenues and expenditures.

Reaffirmation of the principle that monetary policy should be separate from management of the public debt was accompanied by innovations in funding the borrowing requirement designed to facilitate sales of securities in the market and improve control over the monetary base.

As regards the supply of government stocks, the Treasury has rationalized its recourse to issues of longer term securities and its auctions of short-term paper by spreading them over each month. Issues of the former, which are regulated in accordance with market demand, rose to 86 per cent of the total net issues of government securities in 1983. Treasury bills were restored to their function of providing marginal finance. Their yields must be free to vary sufficiently to ensure that issues are taken up completely at auction.

In 1983, 71 per cent of the net purchases of government securities by the public and credit institutions were made at issue and the rest in the secondary market. Prior to 1981 virtually all these purchases were intermediated by the Bank of Italy.

In these circumstances, in which the Treasury seeks to meet its needs in the market and a greater proportion of monetary base is being created through market operators, central bank lending to financial intermediaries in the form of advances and repurchase agreements is again becoming an important means of regulating liquidity. The maturities of fixed term advances have been set in days instead of weeks; the criterion for calculating interest value days has been revised; and the interval after a borrowing in which a subsequent borrowing triggers higher rates has been shortened. These changes make recourse to this instrument more flexible and less penalizing.

The Bank of Italy's repurchase operations in the secondary market expanded considerably, helping to neutralize the effect on the monetary base of the larger fluctuations in the balance of Treasury operations as well as making liquidity available on settlement days.

Since last March an experiment has been running with a voluntary group of intermediaries that guarantees to tender for a large proportion of the Treasury bills issued each month. The group can count on short-term financing by the Bank of Italy and performs the function of advancing and concentrating the demand that builds up over the month as Treasury expenditure generates liquidity. There is a corresponding reduction in the amount of securities the Bank of Italy takes up to sell in the secondary market.

The decision to rely more on monetary base control in the management of money and credit requires that interest rates be sufficiently mobile, both upwards and downwards. This means that financial institutions, and in the first place banks, will have to respond promptly even to small changes in market conditions. It also implies that there will have to be universal recognition of the impossibility of simultaneously imposing the quantity and the yield of the public's financial saving without annulling market mechanisms completely.

The disaffection with fixed rate long-term securities was the spontaneous, inevitable consequence of the persistence of inflation. The recourse to variable rate instruments has allowed borrowers and lenders to enter into multi-year contracts again. Compared with a short-term loan that is rolled over repeatedly in the market, a long-term variable rate debt involves not only lower transaction costs but also less risk of sudden difficulty in obtaining renewal. Compared with fixed rate bonds of the same maturity, variable rate securities expose borrowers to unforeseeable extra interest costs. Conversely, however, they reduce the premium that has to be paid to overcome the reluctance to invest of savers who have been badly burnt by inflation.

If the desirable revival of long-term fixed rate financing has so far had to be put off in view of its costliness, the policy of creating a money market and diversifying the public's financial assets has checked the erosion of monetary control due to the coexistence of a huge public debt with a high rate of inflation. In the years when financial wealth consisted almost entirely of bank deposits, and securities were taken up mainly by banks, monetary base impulses reached businesses and the public indirectly and with long lags, since their transmission depended on the behaviour of the banking system. Today, not only do changes in the yields on securities affect the ability of banks to raise funds, and hence the supply of loans, but they also have a direct and immediate effect on the behaviour of savers and firms.

Variable rate Treasury credit certificates are not money, either in a legal sense or in usual payment practices; nor is there a commitment to convert them into monetary base in the short term, as there is for Treasury bills. The fact that yields on a large proportion of government securities are directly linked to short-term rates lightens the debt burden as inflation slows and interest rates come down. On the other hand, a rise in interest rates increases the burden and reduces the restrictiveness of monetary policy. If inflation does not abate, the advantages of variable rate securities are curtailed and become all the smaller, the larger the public debt and their share in it grow. The search for new instruments and better debt management techniques may be useful, but a lasting assurance of the efficient working of financial markets and of the independence of monetary policy can only come from a reduction in the public sector's voracious appetite for saving.

Banking supervision

The central bank's supervisory activity has to be closely tied in with monetaiy policy and designed, in combination with that of the other competent authorities, to increase the efficiency and soundness of financial intermediaries and markets.

A purely administrative view of supervision weakens the links with monetary policy and thereby diminishes the effectiveness of both, but two other extreme positions appear equally detrimental. It is sometimes claimed that supervision can be used to mould financial structures into any desired configuration and eliminate any and every imperfection in their operation. More often it is imagined that supervisory controls can be all-pervasive and prevent all irregularities, inefficiencies and insolvencies among not only banks but also all companies selling securities to savers.

The first interpretation overrates the scope for engineering the credit system, whose structure is determined by a great many market and regulatory forces; and it underrates the obstacles that economic analysis encounters in determining the optimal conditions of financial intermediation. The second involves an excessive risk of saddling the central bank with the ultimate responsibility for the fate of individual intermediaries and for the outcome of individual positions. Such an approach would run directly counter to the principles underlying market economies and would seriously weaken monetaiy control by forcing the central bank to enter into specific commitments of an administrative and financial nature.

The protection of savings and the effective performance of the credit function are best ensured by a system of intermediaries and capital markets that can provide a stable and efficient framework for the supply of the services the economy requires. The task of the regulatory authorities is to create the basic conditions in which this ability can find full and independent expression. This involves both controlling and stimulating, partly by acting directly on members of the system and partly by preparing general measures and guidelines.

Parliament has recently extended the public control over the capital markets to mutual funds and atypical securities. This task has been entrusted to the Companies and Stock Exchange Commission (Consob) and the Bank of Italy, in accordance with the complementary nature of their responsibilities, which is made all the more effective by the working relationships between the two institutions.

The authorization of securities issues expresses no judgment on the solvency of issuers or the profitability of securities. It improves the monetary authorities' control over both the total flow of funds and its distribution among the major sectors of the economy and different financial instruments; it avoids possible sudden crowding-out effects caused by new issues with terms that differ too much from the market average; in short, it is consistent with the aims of credit control, including the maintenance of orderly conditions in capital markets. The excessive difference between the control procedures on atypical issues and the more comprehensive ones for shares and bonds may well influence issuers' choices. Uniform procedures should be introduced that would stnle a balance between the two extremes.

The authorization required by the Banking Law if issues are made through banks or the stock exchange is also designed to prevent a recurrence of the links between industry and finance that aggravated the crisis in the thirties. The transparency of banking and stock exchange business requires that the information to be supplied about the ownership of even unlisted banking companies should be specified by law.

Under the regulations governing mutual funds the supervision of their management companies will use some of the instruments of preventive regulation and successive monitoring that the Banking Law foresees for the broader and more detailed control of credit intermediaries. Foreign mutual funds operating in Italy still need to be brought under supervisory controls in addition to the existing exchange controls. The Government has recently approved a bill to fill this gap.

The banks play a basic role in financial intermediation: their deposits are the most common form of savings investment and the foundation of the payments system. The very nature of bank deposits suggests that their holders are relatively averse to risk and perhaps poorly equipped to assess it. The main focus of supervision must therefore continue to be on banks; even though it cannot guarantee the outcome, supervision must promote the efficient management of banking business.

The supervision of banks and special credit institutions has been strengthened, with attention now being paid not only to lending, capital adequacy and profitability but also to the quality of the organization of administration and accounting, with special reference to decision-making bodies. The regulations have been modified to improve supervisory effectiveness by eliminating administrative procedures that have become obsolete.

As regards shareholdings, the limits -within which credit institutions may operate without having to obtain prior authorization have been clearly defined. Strict regulations governing this aspect of banking business were laid down and provision was made to review them in the light of experience. The special credit institutions have been left free to issue savings certificates and medium-term certificates of deposit as they wish, provided they conform to the guidelines that have been established. The avoidance of excessive concentration in these institutes' lending is now entrusted to a range of quantitative parameters rather than to case-by-case authorization as in the past. Turning to the geographical limits on banks' lending operations, a revision of the regulations and procedures involved is nearing completion and the new system will allow substantially greater freedom.

If operators in credit markets are not to be faced with uncertainty, the exercise of control must follow clearly stated general criteria. Balance sheet ratios can be useful and, when appropriate, they are used, but as summary indicators that enhance rather than detract from the discretionary element in supervision.

Our present policy is to revise the operational regulations so as to extend banks' freedom of action, simplify supervisory controls and make them more effective. The purpose is to make them more powerful instruments in a broader action to foster entrepreneurial abilities in financial intermediation. If this greater scope for independent action is to be fully exploited, the cdterion of professional competence will have to be strictly adhered to, first and foremost in board and top management appointments.

The basic aim of the Bank of Italy's supervisory activity is to enhance the scope, internal competition and stability of the credit sector.

Only a system of diversified financial structures can satisfy the complex, changing requirements of the economy. This is confirmed by the universal trend towards a wider range of financial intermediaries, institutions and instruments.

In the last ten years of high infladon and pronounced financial imbalances between sectors, the markets succeeded in expanding their intermediation business, in part through rapid, large-scale technical innovation in securities. The first Italian mutual funds — some already . authorized and others about to be so — are likely to start operating in a matter of months. How much this will strengthen the capital markets will depend on how far the growth of the mutual funds themselves, firms' willingness to be listed and issue shares, and the start of merchant banking can be integrated. My remarks on merchant banking at last year's meeting triggered wide public discussion. Many operators have expressed interest in entering this sector on the authorities' condition that banks be clearly distinguished from other firms. Concrete proposals are at an advanced stage of preparation in the credit system and measures are being drafted to modify the regulations on banks' shareholdings so as to allow them to participate.

Increasing importance is attached to the objective of fostering competition, but through measures that will also counter undesired side-effects. Many of the structural changes that have been made in the Italian financial system in recent years have tended to increase competition permanently, albeit gradually.

The development of the securities markets has undermined the dominant position of bank deposits and widened savers' choice of investments.

The domestic credit system has become much more open to foreign competition. Starting from the interbank and corporate markets, foreign banks will be able to extend their operations to sectors of the retail market.

Branch authorization plans have promoted the entry of new banks into areas that had previously been dominated by long-established banks. Rather than being extended, the network needs to be rationalized. Policy in this field will seek to increase competition and efficiency as well as to strengthen banking services where demand is rising. Within the limits established by the criteria and numerical parameters laid down by the authorities, the banks will have greater scope to relocate existing branches.

The principle upon which the regulation of banking has been based is the need to create a uniform system by smoothing the edges of the division of intermediaries into different categories when this results in similar services being supplied on different terms.

The dispersion of bank deposit rates about the average has gradually diminished and is now close to that of lending rates. The removal of the ceiling on bank loans allows market forces to act freely. Another step in the same direction was the banks' abandonment of agreed guidelines for the prime rate in favour of each bank setting its own.

The competitive pressures produced by changes such as those introduced in the last few years are being relied on to curb banks' costs and margins, apart from any changes cyclical and monetary policy developments may produce. The banks' interest and gross earnings margins were virtually unchanged in 1983. The banking system will have to respond to the sometimes rather generic accusations of inefficiency levelled against it by enhancing the professional skills of management and staff, lowering the incidence of costs, innovating in organizational structures, in the quality of services and in the criteria for attributing expenditures and setting charges. Banks will have to take full advantage of the opportunities opened up by automation and more viable company size, to be achieved through mergers and takeovers in the medium-to-small size categories, and the joint management of services produced at competitive costs.

Market forces do not threaten, and in the long run will increase the stability of the Italian credit system. Nevertheless, banks and special credit institutions must continue to strengthen their capital bases: between 1979 and 1983 the ratio of own funds to borrowed funds rose from 5 to 8 per cent, in part as a result of the law passed in 1983 permitting the revaluation of assets. The lessons of the past, including the recent experience of other banking systems, confirm the need to build up provisions against the risk inherent in lending both to domestic customers and to heavily indebted countries abroad.

Only a few days ago the international legal dispute triggered by the failure of Banco Ambrosiano was settled with the signing of two agreements. The first was between the liquidators of Banco Ambrosiano and the creditors of the Luxembourg holding company and its foreign subsidiaries; the second, between the above and Istituto per le Opere di Religione. The settlement confirms the soundness of the position taken by the Italian monetary authorities; from the very first, they had recommended cooperation between the liquidators and the creditors as the best way to attenuate the effects of the failure. The agreements are the necessary condition for the realization of assets, which, together with the IOR's financial contribution, will enable both the creditors and the liquidators to recover large sums.

This concludes an important aspect of this serious case, which originated in fraudulent practices. The Banco Ambrosiano affair has spotlighted the need for greater international cooperation in banking supervision and underscored the requirement that the supervision be on a consolidated basis, which is not yet provided for under Italian law. Steps will also have to be taken to modify some anomalies arising from special territorial situations that have led to banking business being conducted outside the control of the Italian supervisory authorities.

The duties of the central bank are not limited to encouraging the credit system itself to develop better solutions to the problems of insolv' ency, but require it to improve the means for preventing cases of illiquidity from leading to failure.

It is essential that it should command a wide range of instruments for providing funds to individual banks at official rates. Performance of this function, which is basic to central banking, is hamstrung in Italy by outdated, inflexible legislation that limits the scope for supporting intermediaries with liquidity problems that lack securities for collateral or access to the interbank market. More specifically, the choice of assets eligible as security for Bank of Italy lending may perhaps be excessively restrictive, especially for banks under special administration.

Within the framework of current legislation the technical innovations introduced in the last few years have allowed total bank liquidity to be regulated through secondary market operations together with a more flexible use of fixed term advances to individual banks. Since the role of ordinary advances in offsetting the shortcomings of the interbank market is diminishing, they will be better able to satisfy banks' special requirements.

It is essential that the lender of last resort should be able to deal immediately with any liquidity problem that arises. But it must avoid creating the impression that the concession of central bank refinancing is a foregone conclusion. Only such a course can safeguard both stability and an efficient and prudent approach to risk assessment.

The prospects and conditions for a resumption of growth

The slow progress in reducing inflation and the seriousness of the problem of unemployment make it essenfial to broaden our analysis to include the set of conditions that must be achieved in public sector finance, in the productive sector and in incomes growth if the cyclical upswing is to be transformed into stable expansion.

In no other industrialized country has the public sector deficit remained so large for so long. The problems generated by the interaction between accumulated debt a.nd repeatedly large deficits are becoming critical. Public expenditure, including debt servicing, equalled 41 per cent of gross domestic product in 1974; by 1983 it had risen to 63 per cent. Revenue increased from 32 to 46 per cent over the same period, but failed to keep pace with the growth in expenditure. The ratio between the public debt and gross domestic product rose from 58 to 85 per cent.

The disequilibrium was due partly to the nature of Government policy, which reinforced its income redistribution function.

Social security expenditure absorbed an increasing share of national income, rising from 16 per cent in 1974 to 22 per cent in 1983. Pensions accounted for a large proportion; their share rose from 8 to 13 per cent of GDP and will expand further owing to demographic factors and the rules governing the pension system.

The crises in the productive sector caused subsidies and loans to enterprises to increase from 3 per cent of the value added of the industries involved in 1974 to 7 per cent in 1983. Over the same decade the government granted more than 20 trillion lire to the state holding companies, 13 trillion lire in the last three years; these vast sums were used not to finance new investment but mainly to cover part of their operating losses, which amounted to about 15 trillion lire in those three years.

Over the same decade, tax revenues increased to the point where the ratio of taxation to GDP approached those of the other Western European countries, partly as a result of the reforms of the early seventies; in the last three years the ratio rose by 7 points. The increase came primarily from direct taxes and from a tax base that is narrower, de jure and de facto, than in other countries. There are major exceptions to the principle of universal taxation: some categories of income are tax-exempt, others are assessed on a purely conventional basis and tax evasion appears to be quite widespread.

Despite a number of corrective measures that have been taken, the financial imbalance is tending to worsen. Budget projections for the period from 1984 to 1988, which are based on the assumption of unchanged expenditure behaviour and take account of population trends, indicate that the rafio between the public sector borrowing requirement and gross domestic product will stay at the present level while the public debt will substantially exceed gross domestic product, even if inflation continues to fall, the recovery strengthens, the ratio of taxation to GDP gradually rises by a further two points and real interest rates on the public debt remain in line with economic growth.

The significance of such exercises, to which reference is made in the body of the Report, is clearly limited, not only because of their underlying assumptions but also their failure to take account of the feedback effects of the budget on real growth and prices. Leaving aside the figures themselves, the results nevertheless confirm the dilemma that the large public sector deficit and burgeoning debt are creating for monetary policy: whether to allow credit and the financial assets of the economy to expand at rates incompatible with non-inflationary growth in their more liquid components, or to induce a steady rise in real interest rates, with serious repercussions on investment and incomes.

A programme of action must be devised as a matter of urgency to eliminate the imbalance in public finances that has built up over the years; this should comprise measures to curb the growth in expenditure, increase revenues and limit the public debt and the debt servicing burden and should be constructed in such a way that they reinforce one another.

The effectiveness of a programme designed along these lines is endorsed by the results obtained by introducing a number of more demanding hypotheses into the calculations. For example, if the annual growth in expenditure -were held down to a rate 2 points below that in GDP and the ratio of taxation to GDP were gradually increased by 3 points from its present level but the other assumptions remained unchanged, the borrowing requirement net of interest payments would tend to diminish rapidly and would practically disappear over a period of five years. The debt burden would decline considerably in relation to income, because the reduced demand for funds would permit a reduction in real interest rates. The rise in the ratio between public debt and GDP would slow down and eventually stop. The overall state of public finances would then allow a better balance between the money supply and issues of securities and release new savings for increased investment.

Operational criteria that would hold the rise in expenditure to a rate consistently below that in output over the next few years are as difficult to apply as they are simple to draft; they would have to be sufficiently flexible, but without undermining their value as an indicator of the adequacy of the measures taken. In certain sectors, such as social security and health care, the need for changes that would restore control over the growth of expenditure was identified some time ago. Wages and salaries throughout the public sector would have to be held in check within the context of restrictions on the rise in all earned incomes.

On the revenue side, substantial increases might be obtained by improving administrative efficiency and taking specific measures to limit the scope for tax evasion and erosion of the tax base. The proposal to reduce the number of VAT rates and to institute more rigorous controls and verification procedures would go some way towards extending the tax net. Steps must also be taken to neutralize the effects of indirect taxation on the price indices that govern wage indexation.

Improved information on the actual and prospective state of the public finances would help reaffirm the rigorous provisions intended by the Constituent Assembly with regard to the budget and the financing of legislation entailing expenditure. Law 468 of 1978, which reformed important aspects of government accounting, acknowledged the need for well-defined and methodical decision-making procedures. However, the excessive recourse to special funds in financial legislation, the inadequate adherence to multi-year budgets and the fact that observance of the funding requirement under new spending legislation is often limited to the portion required for its first year of application have prevented the establishment of systematic control over public finances.

A public sector borrowing requirement that absorbs a growing proportion of households' saving and a public debt of vast and continually growing dimensions impose constraints on monetary policy, thereby adversely affecting the volume and cost of credit flowing to the productive sector. The opportunities and prospects for growth in the latter also depend on the state in which it emerges from the recession.

The cycle that began in 1978 and ended in the middle of last year comprised an initial period of vigorous expansion followed by the longest recession since the fifties. During this second phase the fall in production in Italy was smaller than in the other OECD countries. Investment activity continued for some time after demand expectations had become less auspicious; most important, the new capital goods embodied more advanced technology and production processes.

The urgency of the need to respond to changes in relative prices was accentuated by the second oil crisis, which broke when firms had still not absorbed the effects of either the first crisis or the explosion in wages and salaries. The flexibility provided by the Wage Supplementation Fund, which is itself in need of reform, and by an improvement in industrial relations meant that, despite the absence of labour mobility, productivity was no longer a by-product of the production process but could again be treated as the objective to be achieved in order to be competitive.

Technical innovations helped make production more flexible, partly through greater specialization in individual stages of manufacture, which was particularly beneficial to small and medium-sized enterprises. Competitiveness was regained both in sectors with large firms and a high price elasticity of exports and in industries where product quality is of paramount importance. Manufacturing industry as a whole recorded growing surpluses in its foreign trade, partly because the stagnation in domestic demand forced enterprises to turn to foreign markets.

The supposition that Italy is undergoing a process of deindustrialization, a hypothesis modelled on the debate taking place in other countries, is not borne out by empirical evidence, even though the Italian economy's response to the problems that have arisen in the past decade has been slow and incomplete.

With a few significant exceptions, Italy's share of world trade in products embodying advanced technology remains marginal. In other important sectors that are wrestling with crises on a world scale or are afflicted by long-standing structural deficiencies there has been delay in taking the necessary action.

In more general terms, little headway has been made in presenting industrial policy as a comprehensive plan in the European context. There must be clarity and continuity in the influence that the public sector exerts on the composition of supply and demand. Advances in productive activities require external economies that will be achieved by improving professional training and raising the efficiency of collective services. In the light of experience, sector-specific measures should be rethought and the scope for administrative discretion reduced. Only recently has the problem of redefining the rationale, means and limits of the state's direct involvement in productive activities been stated in operational terms.

For too long the state-controlled enterprises have been expected to resolve social conflicts; this has led to lax management, losses and the withdrawal of private capital. A large number of public sector enterprises cannot be restored to health unless the streamlining and restructuring measures are fully implemented. In others, profitability stands comparison with that in the private sector, but their operating results are seriously undermined by the impact of interest charges on their gross operating margin, sometimes owing to capital inadequacy from the outset and sometimes as a result of losses incurred in the years of more acute economic crisis.

A viable manufacturing sector able to contend with foreign competition continues to be the foundation for the development of the entire economy. However, success in world trade also depends on the ability of the rest of the economy to incorporate innovations and to put them to good effect. A more efficient utilization of resources is needed in service industries, which are less exposed to foreign competition. They account for a large share of general costs, and hence significantly influence industrial competitiveness. The increase in prices has been greater in sectors not exposed to international competition than in those that are; measured in terms of the implicit price deflators, the disparity averaged three percentage points a year between 1979 and 1983.

Marketable services comprise a broad and varied range of activities. The more advanced services, which provide enterprises with financial and management consultancy and electronic data processing capacity, are still of minor importance. Transportation, communications, finance and insurance are largely the preserve of medium-sized or large firms; nevertheless, the benefits of organizational improvements and economies of scale are not infrequently lost for lack of incentives to efficiency. Other branches of the services sector are dominated by family firms with low productivity and little by way of fixed assets.

The increase in employment in the private services sector and in general government has been considerable, amounting to 25 per cent over the last decade. Despite this intake, which partly reflects the difficulties in the labour market, unemployment has taken on serious proportions and characteristics; the average number of persons seeking work rose to 2,280,000 in 1983, or 2,700,000 if workers covered by the Wage Supplementation Fund are included.

The disparity between the youth unemployment rate and that for other age groups has widened in all the industrial countries; there is a real danger that we shall fail to give the younger generation a reasonable expectation of employment. The outlook is much more worrying in Italy, where one young person in three is looking for work; by way of comparison, the proportion is one in four in the United Kingdom, one in five in France, one in six in the United States and one in nine in the Federal Republic of Germany.

In Italy the number of entrants to the labour market will continue to be large for the whole of the next decade. Assuming constant participation rates according to sex and age, the labour force will expand at an annual average rate of 0.4 per cent until 1993, increasing by 900,000 in absolute terms. However, if one assumes, in line with recent experience, that activity rates among women will rise slightly, the growth in the labour force will amount to 1,500,000 by 1993.

Complefion of the process of resource reallocation and growth in incomes and employment require a steady accumulation of capital and equilibrium in the balance of payments on current account; the legacy of past deficits makes it inadvisable to borrow further sums in the international markets, while underlying exchange rate stability and wage restraint are essential if inflation is to be brought permanently into line with the rates prevailing in the other industrial countries.

Given the elasticity values for Italy's imports and exports, international demand and price scenarios suggest that long-term growth will be below the rate required to reduce unemployment. If national income and employment are to expand more rapidly, the external constraint must be eased; steps must be taken both to reduce the propensity to import, beginning with energy products, and to improve the ability to penetrate world markets by increasing the competitiveness of exports and switching to products with a higher value added that are likely to account for a rapidly growing share of world trade.

The creation of such conditions depends upon an intensification in investment, even if the benefits are not reaped until later. This might lead to an increase in the ratio of capital to GDP. If growth is not to be affected, the proportion of income saved and allocated to investment will have to rise. Savings formadon declined from 23 per cent of gross domestic product in the early seventies to 18 per cent in the last three years, mainly owing to the expansion in the current account deficit of general government. It is crucial that this trend be reversed, and this is the point at which stabilization policies and policies to steepen the growth path converge.

There are no automatic mechanisms that can guarantee the transformation of saving into investment; investment decisions, and hence the conditions in which they are made, are the driving force behind growth. The rise in wages and salaries stimulates the introduction of new technologies and changes in the structure of output, on which productivity gains also depend. Beyond a certain limit, however, it raises production costs and increases the pace at which labour is replaced by other production factors, thereby destroying new job opportunities. Continuity of investment requires a pattern of income distribution that avoids wage/price spirals and leapfrogging wage increases in the knowledge that combatting inflation coincides with safeguarding employment.

Ladies and Gentlemen,

The development of an economy is the result of cyclical, structural and institutional components that are more interdependent than can be described in a formal analytical framework.

Our actions to control money and credit and the remarks we have made in this, and other settings over the years have been motivated by the conviction that Italy's drift away from stability and growth must be rectified for reasons that transcend the merely economic. In the exercise of this office, we have warned on several occasions that monetary stability, the prime concern of the central bank, is related to the state of the public finances, of the productive sector and of the labour market, which are themselves closely interlinked. It was an awareness of these links that led us to assert three years ago that central bank autonomy, the tightening of budgetary procedures and a code of practice for collective bargaining were prerequisites for a return to monetary stability.

When the budget deficit inflates the public debt year by year and causes it to grow faster than national income, economic policy as a whole is jeopardized and the very possibility of countercyclical budgetary measures is endangered.

No economic logic can be invoked to support the monetary illusion that slower growth in nominal incomes entails a greater sacfifice than higher inflation. Within the context of measures to moderate all the indexation mechanisms, the *scala mobile* will have to be revised in ways which experience suggests can help to reduce inflation and absorb the effects of exceptional external events.

In past years the authorities took steps to moderate the adjustment costs of the crisis in terms of production and employment; the initial impact was cushioned by large-scale drawings on the foreign exchange reserves and foreign borrowing, which were employed to the maximum extent consistent with preserving Italy's internacional creditworthiness. Even when Italy had to face the most perverse interactions between prices and the exchange rate and between the budget deficit and the public debt, the necessary decisions were taken without losing sight of the longer-term problems. Reaffirmation of the principle that regulation of the money supply and management of the public debt should be separate, the modifications in the techniques of monetary control and the innovations urged or introduced in the financial system are aimed at increasing the effectiveness of the defences against disequilibria and strengthening the system's contribution to investment and growth.

The economic upturn has also begun in Italy, but the rate of price increase has not yet fallen to a level suggesting that the long period of inflation that began in the seventies has ended. The need to transform the recovery into stable and lasting growth goes hand in hand with the need to curb inflation while domestic demand is rising. These are not conflicting objectives, but two inseparable strands of one and the same problem.

The Italian economy has been beset by inflation and stagnation for far too long; for far too long, behaviour inconsistent with the need to reallocate resources and with the changed balance in world economic relations has given prices the impossible task of reconciling the irreconcilable, thereby stifling the prospects of growth. The conviction that high and prolonged inflation undermines every distributive mechanism and disrupts economic activity has slowly gained ground; if this realization is now widely shared, there cannot fail to be agreement on the corrective measures that are clearly required.

It is both necessary and possible to re-establish monetary stability and return to the path of growth. The Italian economy is not the victim of some mysterious canker.

The worldwide recoveiy has created a favourable economic climate; at home, exchange rate stability and productivity gains deriving from a higher degree of capacity utilization are helping to curb the increase in costs. However, unless expectations of a continued slowdown in prices are validated by continuity of intent and consistency of behaviour, the present combination of improved business confidence and a satisfactory composition of demand will once again give way to pressures emanating from the budget deficit and rising costs, to a rekindling of inflation and to the reappearance of external imbalance. It is within our power to prevent a relapse that would undo the progress so painstakingly achieved and offend the nation's conscience.

The conditions for restoring and maintaining stable growth that will open up the prospect of work for the younger generation are demanding. The capacity to save constitutes the foundation for such growth, and the will to invest provides the driving force; a distribution of national income that guarantees constructive patterns of behaviour is an essential requirement.

By curbing expenditure, fighting tax evasion and erosion of the tax base, enforcing the requirement to formulate multi-year budgets, complying with the obligation to provide tax cover for new expenditure and tightening budgetary procedures, fiscal policy will be able to stem the flood of public debt and release savings for investment.

As an adjunct to fiscal policy, incomes policy will have to be designed to check the rise in costs and to ensure that the newly created resources do not exclusively benefit those already working — employees and self-employed, public and private — but are used to reduce unemployment, strengthen the industrial base and bring sustainable balance-of-payments equilibrium.

It will be the task of the central bank to conduct monetary and credit policy in a manner consistent with curbing the rise in prices, to ensure an orderly flow of funds into investments, and to spur the banking system to greater efficiency.

THE BANK'S CAPITAL AND RESERVES

Capital. — Having remained unchanged during 1983, the distribution of the 300,000 shares of the Bank's capital was as follows at 31 December:

Shareholders with voting rights:

Savings banks and pledge banks	76	with	177,898	shares	and	471	votes
Public-law credit institutions	7	"	54,500	"	"	137	"
Banks of national interest	3	"	21,000	"	"	54	"
Social security institutions	1	"	15,000	"	"	34	"
Insurance companies	7	"	31,500	"	"	91	"
	94	with	299,898	shares	and	787	votes

Shareholders without voting rights:

Savings banks and pledge banks	12	with	102	shares
Total	106	with	300,000	shares

Reserves. — The changes in the ordinary and extraordinary reserve funds during 1983 are given below; the composition is also indicated in accordance with Article 2 (6) of Law No. 649 of 25 November 1983.

		Ordinary reserve fund	Extraordinary reserve fund
Amount at 31 December 1982		Lit. 228,106,811,338	Lit. 241,833,269,977
increase:	due to appropriation of 20 per cent of profits for the year 1982	" 36,823,833,789	" 36,823,833,789
decrease:	due to distribution to shareholders of a part of the income accruing in the course of 1982 (Article 56 of the Statutes)	" 173,866,215	186,133,785
		Lit. 264,756,778,912	Lit. 278,470,969,981
increase:	due to income received in 1983 from investment of reserves	" 30,447,100,876	" 36,896,165,286
Amount at 31 December 1983		Lit. 295,203,879,788	Lit. 315,367,135,267

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET AS

ASSETS

GOLD					
I on hand	Lit.			2,891,093,006,296	
II on deposit abroad	"			28,587,918,845,211	31,479,011,851,507
GOLD CREDITS (EMCF)	Lit.				10,849,631,389,914
CASH ON HAND	"				2,385,777,313,330
DISCOUNTS AND ADVANCES					
I portfolio discounts:					
— ordinary bills	Lit.		261,784,800,908		
— stockpiling bills	"		1,739,016,288,095	2,000,801,089,003	
II advances:					
— current account	Lit.		1,351,555,219,048		
— fixed term	"		—		
— under Treasury Decree of 27.9.1974	"		3,267,803,944,225	4,619,359,163,273	
III deferred payments in the clearing system	Lit.			—	6,620,160,252,276
BILLS FOR COLLECTION WITH CORRESPONDENTS	Lit.				—
EXTERNAL ASSETS IN FOREIGN CURRENCIES					
I ECUs	Lit.			13,091,455,595,282	
II other assets:					
— banknotes and foreign currency bills	Lit.		393,340,595		
— current accounts with correspondents	"		821,480,214,844		
— time deposits	"		944,056,809,677		
— other	"		—	1,765,930,365,116	14,857,385,960,398
DOLLAR CREDITS (EMCF)	Lit.				2,241,824,209,861
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)					
I current account	Lit.			18,316,454,775,738	
II special accounts	"			3,454,799,915,551	21,771,254,691,289
EXTRAORDINARY ADVANCE TO THE TREASURY	Lit.				8,000,000,000,000
TREASURY CURRENT ACCOUNT	"				23,287,733,365,695
SUNDRY CLAIMS ON THE GOVERNMENT	"				839,266,827,956
SECURITIES					
I government and government-guaranteed securities:					
— freely available	Lit.		36,548,475,795,947		
— investment of statutory reserves	"		499,057,418,817		
— investment of staff severance pay and pension funds	"		1,195,300,495,080	38,242,833,709,844	
II securities of companies and agencies:					
— investment of statutory reserves	Lit.		10,530,580,967		
— investment of staff severance pay and pension funds	"		357,698,978,691	368,229,559,658	
III shareholdings and participations:					
— in subsidiary companies and agencies					
investment of statutory reserves	Lit.	1,962,523,753			
investment of staff severance pay and pension funds	"	84,336,073,163	86,298,596,916		
— in associated companies and agencies					
investment of statutory reserves	Lit.	4,090,912,166			
investment of staff severance pay and pension funds	"	7,351,676,705	11,442,588,871		
— in other companies and agencies					
investment of statutory reserves	Lit.	49,759,152,166			
investment of staff severance pay and pension funds	"	77,396,612,843	127,155,765,009	224,896,950,796	38,835,960,220,298
carried forward	Lit.				161,168,006,082,524

LIABILITIES

NOTES IN CIRCULATION	Lit.		38,442,997,571,000
BANCA D'ITALIA DRAFTS	"		395,575,263,237
OTHER SIGHT LIABILITIES			
I transfer orders	Lit.	—	
II other	"	1,198,833,857	1,198,833,857
FREE DEPOSITS ON CURRENT ACCOUNT	Lit.		397,595,742,116
TIED DEPOSITS ON CURRENT ACCOUNT	"		1,000,000,000
DEPOSITS FOR CASH DEPARTMENT SERVICES	"		52,279,278,182
SPECIAL ACCOUNTS UNDER LAW No. 386 OF 17.8.1974	"		—
COMPULSORY DEPOSITS			
I compulsory bank reserves	Lit.	54,623,820,851,234	
II collateral for the issue of bankers' drafts and guaranteed personal cheques	"	712,034,277	
III tied deposits in relation to investment abroad	"	43,072,435,813	
IV in respect of companies in the process of incorporation	"	76,285,002,879	
V in respect of bank lending in excess of the ceiling	"	1,904,687,275	
VI other	"	48,546,223,701	54,794,341,235,179
DEPOSITS IN FOREIGN CURRENCY ON BEHALF OF THE UIC	Lit.		93,144,429,644
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC	"		3,361,655,485,907
EXTERNAL LIABILITIES			
I deposits in foreign currency	Lit.	1,183,810,871	
II external accounts in lire	"	255,279,294,392	256,463,105,263
ECU LIABILITIES (EMCF)	Lit.		13,091,455,599,775
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT	"		1,120,907,899,023
SUNDRY PROVISIONS			
I for gold price fluctuations (under Decree Law No. 867 of 30.12.1976)	Lit.	38,566,650,128,753	
II for losses ensuing from exchange rate management (under Decree Law No. 867 of 30.12.1976)	"	1,200,795,276,401	
III for losses on bill portfolio	"	234,919,178,078	
IV for losses on foreign exchange	"	1,210,000,000,000	
V for losses on securities	"	2,127,771,340,821	
VI for contingent losses	"	2,253,185,000,000	
VII for insurance cover	"	396,691,685,925	
VIII for building works	"	922,394,053,860	
IX for renewal of equipment	"	146,250,000,000	
X for taxation	"	970,260,310,241	
XI for staff severance pay and pensions	"	2,242,920,000,000	
XII for grants to BI pensioners and their surviving dependants	"	420,840,049	
XIII for severance pay to contract staff under Law No. 297 of 29.5.82	"	408,498,831	50,272,666,312,959
carried forward	Lit.		162,281,280,756,142

ASSETS

	brought forward Lit.			161,168,006,082,524
UIC ENDOWMENT FUND	Lit.			500,000,000,000
REAL PROPERTY				
I Bank premises	Lit.		1,434,266,405,967	
II investment of staff severance pay and pension funds	"		175,451,536,508	1,609,717,942,475
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS	Lit.			20,246,629,755
FURNITURE AND EQUIPMENT				
I furniture and fittings	Lit.		36,311,503,389	
II equipment	"		104,247,533,816	
III coins and collections	"		307,195,088	140,866,232,293
SUNDRY ITEMS				
I banknotes in production	Lit.		7,787,022,068	
II procedures, studies and designs of the technical departments:				
– completed	Lit.	35,277,035,509		
– in preparation	"	6,186,233,562	41,463,269,071	
III sundry debtors	Lit.		256,609,145,954	
IV other	"		976,077,805,441	1,281,937,242,534
ACCRUED INCOME	Lit.			1,437,162,680,252
PREPAID EXPENSES	"			—
	Lit.			166,157,936,809,833
MEMORANDUM ACCOUNTS				
I Securities and other valuables:				
– held as collateral	Lit.	8,848,617,363,698		
– other	"	325,783,820,816,202	334,632,438,179,900	
II Depositaries of securities and valuables:				
– domestic	Lit.	—		
– foreign	"	825,171,109,143	825,171,109,143	
III Unused credit limits on advance accounts	Lit.		1,595,101,324,980	
IV Debtors for securities receivable (BI forward sales)	"		330,000,000,000	
V Securities receivable (BI forward purchases)	"		3,680,000,000,000	
VI Debtors for foreign currency and lire receivable (BI forward sales)				
– domestic	Lit.	—		
– foreign	"	1,744,500,000,000	1,744,500,000,000	
VII Foreign currency and lire receivable (BI forward purchases)	Lit.		1,744,500,000,000	
VIII Exchequer for depreciation allowances	"		218,220,887,371	344,769,931,501,394
	TOTAL . . . Lit.			510,927,868,311,227

Audited and found correct. — Rome, 30 April 1984

THE AUDITORS

DOMENICO AMODEO
ALBERTO CAMPOLONGO
VITTORIO CODA
GIUSEPPE GUARINO
LUIGI GUATRI

THE ACCOUNTANT GENERAL

PIETRO SALONICO

LIABILITIES

brought forward Lit.			162,281,280,756,142
PROPERTY DEPRECIATION FUND ... Lit.			250,255,026,527
DEPRECIATION FUND FOR FURNITURE AND FITTINGS ... "			36,095,316,333
DEPRECIATION FUND FOR EQUIPMENT ... "			81,352,522,330
FUND FOR THE DEPRECIATION OF THE PROCEDURES, STUDIES AND DESIGNS OF THE TECHNICAL DEPARTMENTS ... "			13,480,431,860
SUNDRY ITEMS			
I sundry creditors ... Lit.		100,910,278,309	
II other ... "		542,651,675,696	643,561,954,005
ACCRUED EXPENSES ... Lit.			92,534,474,565
DEFERRED INCOME ... "			633,035,012,816
CAPITAL ... Lit.		300,000,000	
ORDINARY RESERVE FUND ... "		295,203,879,788	
EXTRAORDINARY RESERVE FUND ... "		315,367,135,267	610,871,015,055
REVALUATION SURPLUS RESERVE UNDER LAW No. 72 OF 19.3.1983 ... Lit.			1,304,000,000,000
NET PROFIT FOR DISTRIBUTION ... "			211,470,300,200
Lit.			166,157,936,809,833
MEMORANDUM ACCOUNTS			
I Depositors of securities and other valuables ... Lit.		334,632,438,179,900	
II Securities and valuables on deposit ... "		825,171,109,143	
III Holders of advance accounts for the portion of unused credit limits ... "		1,595,101,324,980	
IV Securities for delivery (BI forward sales) ... "		330,000,000,000	
V Creditors for securities for delivery (BI forward purchases) ... "		3,680,000,000,000	
VI Foreign currency and lire for delivery (BI forward sales) ... "		1,744,500,000,000	
VII Creditors for foreign currency and lire for delivery (BI forward purchases)			
– domestic ... Lit.	—		
– foreign ... "	1,744,500,000,000	1,744,500,000,000	
VIII Depreciation allowances ... Lit.		218,220,887,371	344,769,931,501,394
TOTAL . . . Lit.			510,927,868,311,227

THE GOVERNOR
CARLO AZEGLIO CIAMPI

PROFIT AND LOSS ACCO

EXPENDITURE AND LOSSES

COSTS OF ADMINISTRATION				
central and local boards	Lit.		1,215,498,670	
staff:				
wages and salaries and related	Lit.	447,486,005,007		
pensions and severance payments	"	200,820,773,483	648,306,778,490	
provision of services	Lit.		73,099,552,861	
other	"		102,699,270,261	825,321,100,282
TAXES AND DUTIES				
stamp duty on the circulation of banknotes and demand drafts	Lit.		—	
other taxes and duties:				
current year	Lit.	12,844,466,972		
previous years	"	740,611,244,720	753,455,711,692	753,455,711,692
INTEREST PAID				
on compulsory bank reserves	Lit.		2,918,146,003,309	
other	"		3,673,857,234	2,921,819,860,543
EXPENDITURE ON SECURITIES TRANSACTIONS	Lit.			6,312,381,544
EXPENDITURE ON FOREIGN TRANSACTIONS	"			52,986,477
LOSSES ON SECURITIES DEALINGS	"			—
EXCHANGE RATE LOSSES	"			—
LOSSES ON REALIZATION OF ASSETS	"			—
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES	"			1,070,714,818
TECHNICAL DEPARTMENTS — INITIAL STOCKS	"			16,854,950,144
VALUATION LOSSES				
on securities	Lit.		3,710,302,886	
on other assets	"		—	3,710,302,886
CONTRIBUTIONS TO THE TREASURY	Lit.			—
DEPRECIATION				
of Bank premises	Lit.		32,754,183,122	
of furniture and fittings	"		8,601,660,456	
of equipment	"		22,550,481,712	
of the procedures, studies and designs of the technical departments	"		7,823,393,310	
other	"		10,624,528	71,740,343,128
APPROPRIATION OF INVESTMENT INCOME TO RESERVES				
to ordinary reserve fund	Lit.		30,447,100,876	
to extraordinary reserve fund	"		36,896,165,286	67,343,266,162
			carried forward Lit.	4,667,681,617,676

INCOME AND PROFITS

INTEREST RECEIVED					
on discounts and advances:					
ordinary portfolio discounts	Lit.		25,942,331,754		
stockpiling portfolio discounts	"		17,248,443,006		
advances	"		303,091,213,661	346,281,988,421	
on lending to the Treasury	Lit.			346,695,521,043	
on lending to the UIC	"			754,424,440,130	
on lending abroad	"			354,741,203,347	
other	"			20,928,965,373	1,823,072,118,314
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES					
freely available					
fixed rate:					
Treasury bills	Lit.		663,755,927,036		
variable rate Treasury credit certificates	"		687,894,950,231		
other government and government-guaranteed securities	"		1,411,113,559,114	2,762,764,436,381	
investment of reserves and staff severance pay and pension funds					
fixed rate:					
government and government-guaranteed securities	Lit.	176,893,694,985			
other securities	"	23,667,745,989	200,561,440,974		
from participations (not represented by securities) in:					
subsidiary companies and bodies	Lit.	2,771,576,985			
associated companies and bodies	"	44,631,300			
other companies and bodies	"	14,725,671,207	17,541,879,492	218,103,320,466	2,980,867,756,847
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND	Lit.				74,408,750,316
PROFITS FROM DEALINGS IN AND REDEMPTION OF SECURITIES	"				437,375,647,026
EXCHANGE RATE GAINS	"				388,304,254,079
COMMISSIONS AND OTHER FINANCIAL REVENUE	"				164,081,436,545
INCOME FROM REAL PROPERTY	"				7,092,702,141
PROFITS FROM THE SALE OF:					
real property	Lit.			4,091,506,662	
other property	"			1,989,823,146	6,081,329,808
TECHNICAL DEPARTMENTS - FINAL STOCKS	Lit.				14,770,746,329
TECHNICAL DEPARTMENTS - PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR	"				14,419,925,578
VALUATION GAINS					
on securities	Lit.			—	
on other assets	"			—	—
carried forward	Lit.				5,910,474,666,983

PROFIT AND LOSS ACCO

EXPENDITURE AND LOSSES

	brought forward Lit.		4,667,681,617,676
ALLOCATIONS TO PROVISIONS			
for losses on bill portfolio	Lit.	—	
for losses on foreign exchange	"	—	
for losses on securities	"	100,000,000,000	
for contingent losses	"	100,000,000,000	
for insurance cover	"	72,000,000,000	
for building works	"	400,000,000,000	
for renewal of equipment	"	100,000,000,000	
for taxation	"	600,000,000,000	
for staff severance pay and pensions	"	426,720,000,000	
for grants to BI pensioners and their surviving dependants	"	90,854,329	
for severance pay of contract staff under Law No. 297 of 29.5.82	"	94,168,751	1,798,905,023,080
NON-OPERATING LOSSES AND EXTRAORDINARY CHARGES	Lit.		10,016,808,299
	Lit.		6,476,603,449,055
NET PROFITS	"		211,470,300,200
	TOTAL... Lit.		**6,688,073,749,255**

APPROPRIATION

TO ORDINARY RESERVE FUND ....

TO EXTRAORDINARY RESERVE FUND ....

TO SHAREHOLDERS ....

TO THE TREASURY ....

Audited and found correct. - Rome, 30 April 1984

THE AUDITORS

DOMENICO AMODEO
ALBERTO CAMPOLONGO
VITTORIO CODA
GIUSEPPE GUARINO
LUIGI GUATRI

THE ACCOUNTANT GENERAL

PIETRO SALONICO

INCOME AND PROFITS

	brought forward Lit.		5,910,474,666,983
WITHDRAWALS FROM PROVISIONS			
for losses on bill porfolio	Lit.	—	
for losses on foreign exchange	"	—	
for losses on securities	"	3,710,302,886	
for contingent losses	"	—	
for insurance cover	"	—	
for building works	"	32,754,183,122	
for renewal of equipment	"	—	
for taxation	"	740,611,244,720	
for staff severance pay and pensions	"	—	
for grants to BI pensioners and their surviving dependants	"	88,026,700	
for severance pay of contract staff under Law No. 297 of 29.5.82	"	5,909,769	777,169,667,197
NON-OPERATING PROFITS AND EXTRAORDINARY EARNINGS	Lit.		429,415,075
	TOTAL... Lit.		6,688,073,749,255

OF PROFITS

	Lit.	42,294,060,040
	"	42,294,060,040
	"	30,000,000
	"	126,852,180,120
	TOTAL... Lit.	211,470,300,200

THE GOVERNOR
CARLO AZEGLIO CIAMPI

ADMINISTRATION OF THE BANK OF ITALY
AS AT 31 DECEMBER 1983

BOARD OF DIRECTORS

Carlo Azeglio CIAMPI — GOVERNOR AND CHAIRMAN OF THE BOARD
Lamberto DINI — DIRECTOR GENERAL
Antonio FAZIO — DEPUTY DIRECTOR GENERAL
Carmelo OTERI — DEPUTY DIRECTOR GENERAL AND SECRETARY TO THE BOARD

DIRECTORS

Gaetano CARBONE*
Giovanni CASTELLANI
Carlo d'AMELIO*
Francesco CONTI
Gaetano DI MARZO
Luigi FALAGUERRA*
Luigi FANTOLA
Paolo Emilio FERRERI
Callisto GEROLIMICH COSULICH
Giuseppe GIOIA
Lucio MORODER
Giovanni Battista PARODI*
Giulio PONZELLINI

* Member of the Executive Committee

BOARD OF AUDITORS

Domenico AMODEO
Alberto CAMPOLONGO
Vittorio CODA
Giuseppe GUARINO
Luigi GUATRI

ALTERNATE AUDITORS

Natalino IRTI
Arnaldo MAURI

CENTRAL ADMINISTRATION

MANAGERS

Giovanni MAGNIFICO — CENTRAL MANAGER FOR CENTRAL BANK OPERATIONS
Pietro SALONICO — ACCOUNTANT GENERAL
Roberto MONTECCHIARI — SECRETARY GENERAL
Giorgio SANGIORGIO — CHIEF LEGAL ADVISER
Antonio MONTORO — INSPECTOR GENERAL
Luigi PATRIA — CENTRAL MANAGER FOR TECHNICAL DEPARTMENTS
Felice SCORDINO — CENTRAL MANAGER FOR THE ROME BRANCH
Vincenzo DESARIO — CENTRAL MANAGER FOR BANKING SUPERVISION
Tommaso PADOA SCHIOPPA — CENTRAL MANAGER FOR ECONOMIC RESEARCH

STATISTICAL APPENDIX

LIST OF TABLES

GOODS AND SERVICES AND DISTRIBUTION

(billions of lire

	Final domestic consumption			Gross fixed capital formation	Variations in stocks and statistical discrepancies	Exports			Total of sources and uses	Imports		
	Households	Collective consumption (1)	Total			Goods fob	Services (2)	Total		Goods cif	Services (3)	Total
				Uses								
1974	70,197	17,277	87,474	24,775	4,652	19,878	2,993	22,871	*139,772*	27,093	1,960	29,053
1975	81,446	20,027	101,473	25,776	−352	22,907	3,406	26,313	*153,210*	25,589	2,243	27,832
1976	99,504	24,049	123,553	31,396	5,666	31,210	4,675	35,885	*196,500*	37,240	2,603	39,843
1977	120,329	29,965	150,294	37,203	3,477	40,020	5,608	45,628	*236,602*	43,120	3,399	46,519
1978	139,902	36,381	176,283	41,494	2,940	47,563	6,533	54,096	*274,813*	48,638	3,921	52,559
1979	169,396	45,235	214,631	50,927	6,545	59,955	8,402	68,357	*340,460*	65,484	4,778	70,262
1980	212,488	57,307	269,795	67,016	17,648	66,776	10,360	77,136	*431,595*	86,698	6,154	92,852
1981	254,661	75,293	322,954	81,149	4,532	86,085	12,207	98,292	*513,927*	105,113	7,235	112,348
1982	299,545	90,171	389,716	89,560	5,332	99,286	14,524	113,810	*598,418*	117,844	9,184	127,028
1983	342,753	107,377	450,130	96,268	−3,236	110,649	16,119	126,768	*669,930*	123,767	10,259	134,026

Source: Istat

(1) Consumption of general government and private social security institutions. — (2) Net of final consumption in Italy by non-residents, which are, however, included in final

USE OF INCOME ACCOUNT

(billions of lire

	Final national consumption							
	Households			Collective consumption			Total final consumption	Gross capital formation
	Domestic	Net tourism	Total	General government	Private social security insitutions	Total		
1974	70,197	−1,189	69,008	16,714	563	17,277	*86,285*	29,427
1975	81,446	−1,540	79,906	19,362	665	20,027	*99,933*	25,424
1976	99,504	−1,993	97,511	23,133	916	24,049	*121,560*	37,062
1977	120,329	−3,324	117,005	28,991	974	29,965	*146,970*	40,680
1978	139,902	−4,211	135,691	35,257	1,124	36,381	*172,072*	44,434
1979	169,396	−5,515	163,881	43,890	1,345	45,235	*209,116*	57,472
1980	212,488	−5,927	206,561	55,636	1,671	57,307	*263,868*	84,664
1981	254,661	−6,437	248,224	73,297	1,996	75,293	*323,517*	85,681
1982	299,545	−8,486	291,059	87,694	2,477	90,171	*381,230*	94,892
1983	342,753	−10,582	332,171	104,372	3,005	107,377	*439,548*	93,032

Source: Istat.

Table a 1

OF GROSS DOMESTIC PRODUCT AND INCOME

at current prices)

Gross domestic product								Transactions with the rest of the world				
Gross operating surplus (4)	Compensation of employees			Net indirect taxes			Total GDP	Net compensation of employees	Net property & entre-preneurial income and other items	Net indirect taxes to the EEC	Gross national disposable income	Net national disposable income
	To resident workers	To non-resident workers	Total	To general government	To the EEC	Total						
Sources												
42,976	58,524	82	58,606	9,090	47	9,137	*110,719*	449	− 553	− 47	*110,568*	100,397
46,182	71,102	102	71,204	8,171	− 179	7,992	*125,378*	414	− 899	179	*125,072*	112,153
58,167	86,845	108	86,953	11,647	− 110	11,537	*156,657*	476	− 991	110	*156,252*	140,459
68,372	106,364	137	106,501	15,063	147	15,210	*190,083*	810	− 905	− 147	*189,841*	170,399
80,956	124,148	167	124,315	16,740	243	16,983	*222,254*	1,119	− 1,329	− 243	*221,801*	199,437
102,454	148,719	176	148,895	18,457	392	18,849	*270,198*	1,373	19	− 392	*271,198*	244,764
128,302	183,919	235	184,154	26,168	119	26,287	*338,743*	1,488	110	− 119	*340,222*	307,556
146,480	225,209	335	225,544	28,834	721	29,555	*401,579*	1,635	− 2,677	− 721	*399,816*	359,149
173,522	263,454	456	263,910	33,411	547	33,958	*471,390*	2,079	− 4,474	− 547	*468,448*	419,539
185,491	303,262	500	303,762	46,801	− 150	46,651	*535,904*	2,293	− 5,193	150	*533,154*	476,430

domestic consumption. — (3) Net of final consumption abroad by residents. (4) Net of imputed bank services.

Table a 2

AND CAPITAL ACCOUNT

at current prices)

Gross national saving								Gross national disposable income	Net lending or net borrowing (—) of the nation	
Transactions with the rest of the world: balances							TOTAL		Total	of which: balance of capital transactions
Goods and services	Net tourism	Compensation of employees	Property & entrepreneurial income	Net indirect taxes	Transfers	Balance of current transactions with the rest of the world				
− 6,182	1,189	449	− 631	− 47	78	− 5,144	*24,283*	*110,568*	− 5,212	− 68
− 1,519	1,540	414	− 956	179	57	− 285	*25,139*	*125,072*	− 377	− 92
− 3,958	1,993	476	− 1,070	110	79	− 2,370	*34,692*	*156,252*	− 2,343	27
− 891	3,324	810	− 1,230	− 147	325	2,191	*42,871*	*189,841*	2,175	− 16
1,537	4,211	1,119	− 1,257	− 243	− 72	5,295	*49,729*	*221,801*	5,261	− 34
− 1,905	5,515	1,373	− 782	− 392	801	4,610	*62,082*	*271,198*	4,553	− 57
− 15,716	5,927	1,488	− 996	− 119	1,106	− 8,310	*76,354*	*340,222*	− 8,291	19
− 14,056	6,437	1,635	− 4,069	− 721	1,392	− 9,382	*76,299*	*399,816*	− 9,225	157
− 13,218	8,486	2,079	− 5,885	− 547	1,411	− 7,674	*87,218*	*468,448*	− 7,412	262
− 7,258	10,582	2,293	− 6,558	150	1,365	574	*93,606*	*533,154*	775	201

Table a 3

LABOUR COSTS PER UNIT OF OUTPUT AND VALUE ADDED PER WORKER, BY SECTOR

Sector	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
	Labour costs by unit of output *(Current lire per thousand lire of value added at 1970 prices)*									
Market goods and services	*1,054.1*	*1,355.7*	*1,562.6*	*1,859.0*	*2,092.8*	*2,345.2*	*2,753.0*	*3,292.8*	*3,869.1*	*4,555.3*
Agriculture, forestry and fisheries	**1,192.9**	**1,462.5**	**1,861.8**	**2,353.6**	**2,669.3**	**2,926.8**	**3,386.4**	**3,974,1**	**4,599.8**	**5,201.6**
Industry	**995.7**	**1,336.2**	**1,494.9**	**1,782.3**	**1,999.2**	**2,213.8**	**2,542.5**	**3,039.3**	**3,572.0**	**4,172.1**
Excluding construction	980.9	1,320.8	1,458.9	1,721.0	1,910.5	2,104.1	2,405.8	2,875.0	3,367.8	3,924.5
Energy products	340.9	457.0	493.7	584.5	642.5	750.0	917.9	1,129.3	1,340.8	1,626.1
Manufactures	1,092.2	1,475.8	1,628.9	1,914.8	2,134.5	2,334.8	2,633.8	3,142.8	3,673.2	4,267.5
Construction	1,062.7	1,401.9	1,677.3	2,106.5	2,484.0	2,834.0	3,325.3	3,960.8	4,723.6	5,528.8
Services	**1,013.0**	**1,207.7**	**1,476.9**	**1,744.8**	**1,974.2**	**2,259.6**	**2,760.3**	**3,324.0**	**3,933.1**	**4,691.0**
Distributive trades, lodging & catering	997.6	1,330.7	1,536.7	1,889.8	2,159.4	2,445.0	2,958.5	3,652.8	4,403.2	5,378.3
Transport and communications	1,354.8	1,613.7	1,860.2	2,156.4	2,403.2	2,822.7	3,410.9	4,066.9	4,827.5	5,591.6
Finance and insurance	1,189.3	1,456.7	1,687.0	1,829.1	2,033.8	2,218.2	2,763.8	3,137.2	3,504.9	4,082.9
Miscellaneous services	888.7	1,129.0	1,327.4	1,620.8	1,845.9	2,123.5	2,578.1	3,197.1	3,825.9	4,560.6
Non-market services	**1,590.5**	**1,771.9**	**2,080.9**	**2,575.1**	**3,110.9**	**3,817.4**	**4,785.5**	**6,209.3**	**7,281.4**	**8,412.2**
General government	1,604.0	1,785.7	2,090.2	2,589.6	3,137.3	3,862.5	4,861.8	6,340.1	7,440.9	8,601.5
TOTAL	**1,114.6**	**1,396.4**	**1,610.6**	**1,929.5**	**2,198.1**	**2,498.8**	**2,967.0**	**3,621.3**	**4,255.7**	**4,995.7**
	Value added at market prices per worker *(thousands of lire at 1970 prices)*									
Market goods and services	*3,924.2*	*3,778.6*	*3,983.5*	*4,053.6*	*4,150.7*	*4,335.5*	*4,490.2*	*4,494.0*	*4,485.9*	*4,433.4*
Agriculture, forestry and fisheries	**1,637.1**	**1,762.1**	**1,705.0**	**1,736,6**	**1,816.7**	**1,978.9**	**2,117.4**	**2,200.0**	**2,272.5**	**2,367.4**
Industry	**4,201.3**	**3,836.3**	**4,227.9**	**4,291.1**	**4,395.5**	**4,634.9**	**4,814.8**	**4,819.3**	**4,807.4**	**4,761.6**
Excluding construction	4,562.2	4,142.8	4,634.6	4,705.3	4,851.3	5,135.1	5,346.2	5,376.8	5,381.8	5,326.4
Energy products	22,480.4	20,096.5	21,561.4	21,355.3	22,549.7	23,151.0	21,846.2	21,497.5	20,918.4	20,133.3
Manufactures	3,993.4	3,613.9	4,060.0	4,142.0	4,248.2	4,519.6	4,776.9	4,806.1	4,824.0	4,781.7
Construction	3,013.6	2,817.9	2,847.5	2,872.3	2,863.1	2,944.8	3,028.2	3,004.5	2,955.5	2,962.9
Services	**4,778.1**	**4,710.4**	**4,788.7**	**4,844.3**	**4,913.5**	**4,995.6**	**5,084.6**	**5,009.5**	**4,922.2**	**4,811.1**
Distributive trades, lodging & catering	3,334.4	3,239.5	3,330.2	3,377.9	3,452.6	3,535.8	3,625.5	3,560.0	3,478.4	3,371.0
Transport and communications	4,221.7	4,165.6	4,267.5	4,424.0	4,559.1	4,764.7	4,881.8	4,823.8	4,918.7	4,843.5
Finance and insurance	11,260.6	10,727.2	10,708.2	10,593.0	10,729.0	10,975.5	11,075.9	10,948.3	10,505.7	10,468.8
Miscellaneous services	4,465.3	4,453.5	4,421.0	4,420.5	4,391.0	4,381.8	4,399.4	4,330.8	4,215.4	4,113.3
Non-market services	**2,663.9**	**2,642.0**	**2,680.0**	**2,675.6**	**2,640.5**	**2,603.9**	**2,614.2**	**2,598.8**	**2,580.1**	**2,557.0**
General government	2,949.0	2,928.8	2,940.9	2,919.5	2,871.9	2,831.2	2,841.9	2,826.4	2,807.1	2,779.2
TOTAL	**3,730.6**	**3,597.9**	**3,774.1**	**3,829.4**	**3,902.3**	**4,048.0**	**4,177.9**	**4,173.4**	**4,158.6**	**4,106.7**

Source: Istat.

Table a 4

INDUSTRIAL PRODUCTION BY ECONOMIC PURPOSE

(indices, 1970=100; seasonally adjusted and corrected for the number of working days)

	CONSUMER GOODS			CAPITAL GOODS			INTER-MEDIATE GOODS AND MATERIALS	OVERALL INDEX
	Durable	Non-durable	Total	Plant & machinery	Transport equipment	Total		
1974	119.0	119.3	119.3	117.9	110.6	116.5	119.8	*119.1*
1975	98.7	114.5	110.3	107.4	103.8	106.8	108.0	*108.6*
1976	116.2	128.8	125.5	110.8	109.9	110.7	121.6	*121.2*
1977	120.8	126.1	124.7	115.7	111.8	114.9	120.7	*121.2*
1978	120.8	130.3	127.7	121.8	113.0	120.0	122.2	*123.8*
1979	129.2	143.4	139.6	130.9	119.0	128.4	127.9	*132.1*
1980	137.5	150.6	147.1	146.4	143.6	145.8	130.5	*138.7*
1981	123.2	147.8	141.2	151.7	169.4	155.3	125.4	*135.6*
1982	115.4	147.4	138.8	146.6	168.9	151.2	121.1	*132.1*
1983	111.1	141.3	133.2	130.8	175.6	140.0	115.2	*125.4*
1977 - I	126.2	133.0	131.1	121.9	119.7	121.9	125.5	*126.9*
II	121.5	124.7	123.9	116.6	110.0	115.1	120.8	*121.0*
III	119.8	127.0	125.2	115.1	110.9	114.0	119.4	*120.6*
IV	115.9	119.7	118.5	109.0	106.6	108.6	117.2	*116.3*
1978 - I	118.7	123.3	122.1	116.8	109.5	115.4	119.0	*119.5*
II	117.8	128.9	126.0	120.9	112.5	119.1	120.1	*122.0*
III	121.4	132.9	129.7	123.5	112.4	121.2	122.3	*124.7*
IV	125.4	136.0	133.1	125.9	117.7	124.3	127.4	*128.9*
1979 - I	124.7	138.3	134.7	123.0	111.3	120.6	126.3	*128.3*
II	123.1	140.1	135.7	125.1	108.5	121.6	124.6	*128.0*
III	129.1	144.3	140.0	132.6	122.2	130.5	128.6	*132.8*
IV	139.8	150.9	148.0	142.7	134.0	140.9	132.4	*139.1*
1980 - I	145.4	153.2	151.2	143.6	139.9	142.8	134.1	*141.5*
II	143.3	151.6	149.6	151.1	145.8	149.9	133.9	*141.9*
III	129.4	148.4	142.9	144.6	139.1	143.6	126.6	*134.9*
IV	132.0	149.1	144.6	146.3	149.6	147.0	127.3	*136.5*
1981 - I	126.7	144.8	140.0	152.1	165.3	154.8	125.7	*135.3*
II	129.0	148.3	143.3	145.2	170.6	150.4	127.1	*136.4*
III	122.1	146.7	139.7	155.3	167.9	158.0	123.8	*134.8*
IV	115.1	151.3	141.8	154.0	173.7	158.0	125.0	*136.1*
1982 - I	118.2	149.4	141.1	149.6	171.3	154.0	126.7	*136.1*
II	116.0	151.1	141.8	152.0	171.7	156.0	123.5	*135.0*
III	114.5	146.6	137.7	142.7	165.7	147.5	118.7	*129.9*
IV	112.9	142.4	134.6	142.3	166.7	147.3	115.6	*127.2*
1983 - I	110.9	145.9	136.5	132.5	168.5	139.9	113.3	*125.8*
II	108.6	138.7	130.7	128.6	170.2	137.1	113.6	*123.3*
III	113.6	141.0	133.4	131.4	178.3	141.3	116.5	*126.3*
IV	111.3	139.6	132.1	130.7	185.6	141.9	117.3	*126.4*

Source: Based on Istat data.

WHOLESALE PRICES BY ECONOMIC PURPOSE

(indices, 1980 = 100)

	Overall index	Final consumer goods: Food	Other non-durable goods	Durable goods	Total	Final capital goods	Intermediate goods and auxiliary materials	Foodstuffs (1)	Industrial goods (1)	Industrial raw materials (1)
1974	*42.8*	44.7	38.0	40.5	41.4	41.6	43.7	45.3	41.3	44.6
1975	*46.5*	50.5	42.5	47.1	46.9	50.6	45.2	51.2	46.0	42.2
1976	*57.1*	61.3	53.4	58.0	57.8	58.5	56.2	62.1	55.9	54.0
1977	*66.6*	72.8	65.5	68.1	69.3	68.0	64.0	72.9	66.0	60.6
1978	*72.2*	81.6	71.2	74.2	76.5	75.2	68.2	80.6	71.4	64.3
1979	*83.3*	89.9	80.2	84.6	85.4	84.5	81.4	89.0	81.7	80.4
1981	*116.6*	114.4	116.7	112.8	114.9	119.4	117.5	115.0	116.0	119.8
1982	*132.8*	133.4	134.6	125.0	131.9	137.1	132.6	131.9	131.6	136.1
1983	*145.7*	147.4	153.3	136.4	146.8	155.0	143.2	145.1	146.1	145.6
1982 - I	*127.6*	127.6	127.2	120.4	125.8	130.9	128.4	127.0	125.9	131.7
II	*130.2*	130.4	129.3	124.1	128.6	135.6	130.5	129.3	129.1	133.4
III	*134.4*	135.3	137.0	126.1	133.8	138.6	134.0	133.0	133.4	137.8
IV	*138.9*	140.3	144.9	129.4	139.3	143.3	137.7	138.2	138.1	141.3
1983 - I	*141.1*	142.8	148.9	132.4	142.4	148.6	138.8	140.6	141.7	140.6
II	*143.4*	144.5	152.0	135.2	144.7	153.3	140.5	142.0	144.8	142.0
III	*146.7*	148.8	153.9	137.3	147.8	156.8	144.0	146.3	147.1	146.4
IV	*151.6*	153.7	158.4	140.6	152.3	161.2	149.3	151.5	150.8	153.2
1984 - I	*156.4*	157.3	166.3	143.6	157.0	166.0	154.2	154.7	155.9	159.4

Source: Istat.
(1) Based on Istat data.

Table a 6

CONSUMER PRICES

(indices, 1980 = 100)

	POPULATION AS A WHOLE												Workers' & employees' households					
		Goods				Other than food & services								Categories of expenditure				
	Overall index	food	non-food	total	Services	clothing & footwear	housing, fuel & electricity	furniture, furnishings, etc.	medical care and health	transport & communication	recreation, entertainment, education, & cultural services	other goods & services	Overall index	food	clothing	electricity & other fuels	housing	miscellaneous expenditure
1974	*40.1*	41.9	38.0	39.9	40.8	38.4	38.8	41.8	48.9	35.3	44.4	35.5	*39.3*	41.7	38.7	32.4	46.9	37.0
1975	*46.9*	49.4	43.5	46.5	48.2	44.5	43.0	49.2	54.4	42.1	52.8	41.8	*46.1*	49.4	44.6	34.1	53.0	43.8
1976	*54.8*	57,9	51.1	54.5	55.5	51.7	48.3	56.6	59.1	53.2	59.2	48.5	*53.7*	57.6	51.9	38.5	58.5	51.6
1977	*64.1*	67.7	61.1	64.4	63.4	63.3	55.6	66.7	64.8	64.0	67.7	57.1	*63.4*	67.7	64.0	49.8	61.9	61.1
1978	*71.9*	76.4	67.9	72.2	71.1	72.7	60.7	73.5	73.6	69.6	74.5	65.1	*71.3*	76.7	73.4	55.2	66.9	68.2
1979	*82.5*	86.5	78.1	82.3	82.9	82.9	74.7	82.9	82.9	80.4	84.3	77.0	*82.6*	87.2	83.7	66.1	84.0	79.6
1981	*117.8*	116.3	117.1	116.8	120.6	117.1	120.3	118.4	122.8	117.8	115.8	119.8	*118.7*	116.3	117.2	126.6	116.3	120.6
1982	*137.2*	135.4	135.6	135.5	141.7	135.9	143.2	136.6	142.6	137.4	132.1	140.4	*138.1*	134.9	135.7	154.1	135.7	140.2
1983	*157.3*	152.0	154.7	153.4	167.5	154.4	170.2	154.3	159.2	160.9	155.3	163.7	*158.8*	152.3	154.0	182.3	161.9	162.6
1982 - I	*129.9*	128.4	128.1	128.2	134.3	128.9	134.1	129.5	135.9	128.8	126.8	133.1	*130.6*	127.9	128.7	142.1	128.9	132.6
II.....	*133.9*	131.7	131.9	131.8	139.2	133.6	137.9	134.6	141.4	131.8	129.8	138.3	*134.6*	130.9	133.5	145.9	133.2	137.1
III....	*139.4*	138.3	137.4	137.8	143.4	136.0	144.8	138.1	144.8	140.9	133.7	142.2	*140.3*	137.8	135.8	157.8	135.6	142.4
IV....	*145.6*	143.2	144.7	144.0	149.9	145.0	156.2	144.0	148.1	148.1	138.2	148.2	*146.9*	143.0	144.9	170.6	145.2	148.8
1983 - I	*150.9*	146.6	148.9	147.8	158.9	148.2	161.9	148.8	151.9	153.0	148.8	156.8	*152.1*	146.5	147.9	175.9	151.0	155.6
II.....	*155.3*	150.0	152.9	151.5	165.0	152.2	164.6	152.9	159.5	159.6	154.0	161.6	*156.6*	150.1	152.3	177.9	154.3	161.2
III....	*158.8*	153.8	155.8	154.8	169.2	154.3	168.7	155.7	161.6	163.2	157.1	166.1	*160.3*	154.4	154.2	184.0	157.3	164.7
IV....	*164.3*	157.7	161.0	159.5	177.0	162.6	185.4	159.9	163.8	167.9	161.4	170.3	*166.0*	158.4	161.8	191.6	185.0	168.9
1984 - I	*169.1*	161.4	166.1	163.9	182.7	165.8	194.9	164.1	166.7	173.5	166.9	176.0	*170.7*	161.9	164.9	200.6	194.7	174.0

Source: Istat.

MAIN ITEMS OF THE BALANCE OF

(in billions

	CURRENT ACCOUNT									
	GOODS (FOB)						SERVICES & TRANSFERS		CURRENT ACCOUNT BALANCE	
	Imports		Exports		Balance		Balance		Unad-justed (5+7)	Seasonally adjusted (6+8)
	Unad-justed	Seasonally adjusted	Unad-justed	Seasonally adjusted	Unad-justed	Seasonally adjusted	Unad-justed	Seasonally adjusted		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1974	25,069		19,548		−5,521		309		*−5,212*	
1975	23,325		22,563		−762		385		*−377*	
1976	34,309		30,782		−3,527		1,184		*−2.343*	
1977	39,639		39,521		−118		2,293		*2.175*	
1978	44,587		47,047		2,460		2,801		*5,261*	
1979	60,069		59,278		−791		5,344		*4,553*	
1980	79,814		65,823		−13,991		5,700		*−8,291*	
1981	97,043		85,011		−12,032		2,807		*−9,225*	
1982	108,707		97,968		−10,739		3,327		*−7,412*	
1983	114,087		109,411		−4,676		5,834		*1,158*	
1982 - I	27,942	*26,726*	23,640	*23,668*	−4,302	*−3,058*	−877	*797*	*−5,179*	*−2,261*
II	27,107	*26,307*	25,198	*24,355*	−1,909	*−1,952*	1,267	*675*	*−642*	*−1,277*
III	25,107	*27,561*	22,844	*24,105*	−2,263	*−3,456*	2,598	*1,042*	*335*	*−2,414*
IV	28,551	*28,113*	26,286	*25,840*	−2,265	*−2,273*	339	*813*	*−1,926*	*−1,460*
1983 - I	27,748	*26,534*	25,477	*25,510*	−2,271	*−1,024*	−374	*1,605*	*−2,645*	*581*
II	27,965	*27,227*	27.364	*26.346*	−601	*−881*	2.223	*1.467*	*1.622*	*586*
III	26,729	*29,285*	26,108	*28,005*	−621	*−1,280*	2,943	*1,190*	*2,322*	*− 90*
IV	31,645	*31,041*	30,462	*29,550*	−1,183	*−1,491*	1,042	*1,572*	*−141*	*81*

(*) A minus sign indicates an increase in assets or a decrease in liabilities.

PAYMENTS ON A TRANSACTIONS BASIS

of lire)

CAPITAL MOVEMENTS			ERRORS AND OMISSIONS	CHANGES IN OFFICIAL RESERVES	CHANGES IN BANKS' NET EXTERNAL POSITION (*)	EXCHANGE RATE ADJUSTMENTS	OVERALL BALANCE
Medium and long-term	Short-term	Total					
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
1,286	273	1,559	− 62	2,995	602	118	*−3,715*
− 135	− 392	− 527	− 535	1,795	− 259	− 97	*− 1,439*
295	1,189	1,484	− 672	− 196	2,638	− 911	*− 1,531*
895	− 949	− 54	− 391	− 5,061	3,493	− 162	*1,730*
910	409	1,319	416	− 5,697	− 1,158	− 141	*6,996*
− 266	− 2,138	− 2,404	− 325	− 2,626	1,004	− 202	*1,824*
3,054	− 305	2,749	− 716	− 1,946	7,886	318	*− 6,258*
9,652	1,734	11,386	− 628	− 2,208	1,322	− 647	*1,533*
7,250	− 2,065	5,185	− 294	3,921	− 1,505	105	*− 2,521*
948	1,074	2,022	613	− 11,183	6,792	598	*3,793*
1,863	− 1,165	698	973	3,716	− 174	− 34	*−3,508*
2,488	− 487	2,001	− 671	− 1,298	409	201	*688*
844	1,038	1,882	− 428	− 2,394	517	88	*1,789*
2,055	− 1,451	604	− 168	3,897	− 2,257	− 150	*− 1,490*
782	− 179	603	− 85	− 137	2,231	33	*− 2,127*
− 45	− 590	− 635	1,868	− 6,554	3,681	18	*2,855*
580	1,439	2,019	− 1,038	− 2,603	− 1,122	422	*3,303*
− 369	404	35	− 132	− 1,889	2,002	125	*− 238*

BALANCE OF PAYMENTS

(in billions

	CURRENT ACCOUNT							CAPITAL MOVEMENTS	ERRORS & EMISSIONS
	Goods	Freight	Foreign travel	Emigrants' remittances	Income from capital	Other services	Total		
									R e c e
1974	18,953	800	1,245	512	1,726	1,994	*25,230*	7,610	415
1975	22,496	873	1,684	665	1,063	2,351	*29,132*	2,724	168
1976	29,449	1,011	2,101	743	1,070	3,358	*37,732*	2,880	760
1977	39,682	1,370	4,202	1,246	1,191	3,901	*51,592*	3,477	625
1978	45,992	1,507	5,334	1,655	1,721	4,587	*60,796*	4,829	500
1979	55,021	1,864	6,816	2,005	2,747	6,077	*74,530*	7,603	1,026
1980	65,419	2,346	7,032	2,211	4,067	7,584	*88,659*	10,422	682
1981	83,093	2,623	8,585	2,614	6,020	8,804	*111,739*	19,039	655
1982	94,866	2,634	11,278	3,166	7,067	11,048	*130,059*	19,324	2,504
1983	103,614	2,975	13,721	3,447	5,722	12,953	*142,432*	18,390	3,101
									P a y
1974	25,434	—	798	—	2,235	2,592	*31,059*	5,407	504
1975	24,969	—	685	—	1,827	3,004	*30,485*	2,432	546
1976	33,416	—	588	—	1,982	3,381	*39,367*	3,133	402
1977	42,586	—	788	—	2,143	4,516	*50,033*	3,196	735
1978	45,996	—	1,024	—	2,656	5,815	*55,491*	3,374	265
1979	62,247	—	1,252	—	3,418	6,677	*73,594*	6,985	755
1980	83,770	—	1,633	—	5,040	8,361	*98,804*	6,318	899
1981	97,110	—	1,892	—	10,171	10,241	*119,414*	9,278	1,208
1982	112,055	—	2,350	—	12,882	12,820	*140,107*	11,474	2,827
1983	112,790	—	2,768	—	12,140	14,028	*141,726*	15,218	3,186
									B a l
1974	−6,481	800	447	512	−510	−598	*−5,829*	2,203	−89
1975	−2,472	873	998	665	−764	−653	*−1,353*	292	−378
1976	−3,967	1,011	1,513	743	−912	−24	*−1,636*	−253	358
1977	−2,904	1,370	3,414	1,246	−952	−615	*1,559*	281	−110
1978	−4	1,507	4,311	1,655	−935	−1,228	*5,306*	1,455	235
1979	−7,225	1,864	5,564	2,005	−672	−601	*934*	618	272
1980	−18,351	2,346	5,399	2,211	−973	−777	*−10,145*	4,104	−217
1981	−14,017	2,623	6,693	2,614	−4,151	−1,437	*−7,675*	9,761	−553
1982	−17,189	2,634	8,928	3,166	−5,815	−1,772	*−10,048*	7,850	−323
1983	−9,176	2,975	10,953	3,447	−6,418	−1,075	*706*	3,172	−85

(1) Imports cif, exports fob. — (2) A minus sign indicates an increase in assets or a decrease in liabilities.

Table a 8

ON A SETTLEMENTS BASIS

of lire)

OVERALL BALANCE	CHANGES IN OFFICIAL RESERVES (2)								CHANGES IN BANKS' NET EXTERNAL POSITION (2)	EXCHANGE RATE ADJUST-MENTS
	Gold	Convertible currencies	ECUs	SDRs	Reserve position in the IMF	Short-term liabilities	Medium & long-term position	Revaluation of gold		
i p t s										
—	—	—	—	71	184	—	3,674	—	602	118
—	—	1,242	—	77	—	—	494	—	—	—
—	—	—	—	—	—	66	1,665	6,351	2,638	—
—	—	—	—	—	—	94	—	1,643	3,493	—
—	—	—	—	—	—	—	—	2,072	—	—
—	—	781	—	—	11	—	—	8,262	1,004	—
—	—	—	—	—	—	139	281	22,550	7,886	318
—	—	—	—	—	—	—	379	773	1,322	—
—	2,343	2,519	2,544	—	—	—	—	—	—	105
—	—	—	—	13	—	211	9	13,686	6,792	598
m e n t s										
—	—	743	—	—	—	191	—	—	—	—
—	—	—	—	—	—	18	—	—	259	97
—	6,351	1,914	—	13	—	—	—	—	—	911
—	1,658	4,197	—	46	—	—	897	—	—	162
—	2,080	1,774	—	118	262	37	3,498	—	1,158	141
—	4,247	—	5,974	232	—	20	1,207	—	—	202
—	18,030	2,221	4,008	143	514	—	—	—	—	—
—	623	1,506	703	324	113	91	—	—	—	647
—	—	—	—	168	73	37	284	2,923	1,505	—
—	10,949	8,451	5,013	—	689	—	—	—	—	—
a n c e										
−3,715	—	−743	—	71	184	−191	3,674	—	602	118
−1,439	—	1,242	—	77	—	−18	494	—	−259	−97
−1,531	−6,351	−1,914	—	−13	—	66	1,665	6,351	2,638	−911
1,730	−1,658	−4,197	—	−46	—	94	−897	1,643	3,493	−162
6,996	−2,080	−1,774	—	−118	−262	−37	−3,498	2,072	−1,158	−141
1,824	−4,247	781	−5,974	−232	11	−20	−1,207	8,262	1,004	−202
−6,258	−18,030	−2,221	−4,008	−143	−514	139	281	22,550	7,886	318
1,533	−623	−1,506	−703	−324	−113	−91	379	773	1,322	−647
−2.521	2,343	2,519	2,544	−168	−73	−37	−284	−2,923	−1,505	105
3,793	−10,949	−8,451	−5,013	13	−689	211	9	13,686	6,792	598

Table a 9

INDICATORS OF COMPETITIVENESS BASED ON WHOLESALE PRICES AND AVERAGE UNIT PRICES FOR EXPORTS OF MANUFACTURES

(indices, 1980 = 100)

	ITALY'S COMPETITIVENESS IN RELATION TO:								
	13 industrialized countries (1)		EEC countries	Federal Republic of Germany	France	United Kingdom	Belgium	Nether-lands	United States
	Wholesale prices	Average unit prices							
1974	*97.1*	*97.1*	*96.8*	97.6	86.3	128.7	93.2	98.0	98.6
1975	*98.3*	*99.1*	*98.2*	99.8	90.4	122.3	91.1	97.5	97.9
1976	*93.2*	*94.4*	*94.4*	93.6	89.1	123.0	87.5	92.7	87.3
1977	*95.6*	*97.3*	*96.5*	93.8	96.9	119.9	87.9	90.9	91.2
1978	*93.6*	*93.0*	*94.4*	91.2	96.7	112.5	86.8	89.2	96.3
1979	*94.9*	*95.5*	*94.5*	92.6	94.1	107.4	90.6	93.9	99.8
1981	*96.5*	*96.6*	*100.0*	101.6	100.5	91.3	103.1	99.5	78.6
1982	*95.9*	*96.3*	*100.1*	98.7	103.6	92.6	112.3	94.2	72.3
1983	*98.4*	*95.4*	*103.8*	100.9	107.2	100.0	120.1	97.3	70.6
1982 - I	*95.1*	*95.8*	*99.2*	99.6	100.6	92.1	107.6	94.7	74.7
II	*95.3*	*96.5*	*99.2*	98.3	100.9	92.5	112.6	94.6	73.8
III	*96.1*	*98.5*	*100.5*	98.3	106.0	91.3	113.9	93.8	70.7
IV	*96.9*	*94.3*	*101.3*	98.5	106.9	94.3	115.2	93.9	70.1
1983 - I	*99.6*	*95.4*	*104.3*	100.8	107.6	105.9	118.2	96.4	74.4
II	*99.1*	*94.6*	*104.1*	100.6	109.0	99.4	119.5	97.9	72.3
III	*97.8*	*95.2*	*103.5*	101.2	106.9	96.9	120.8	97.2	68.3
IV	*97.2*	*96.4*	*103.2*	101.0	105.3	97.6	122.0	97.9	67.5
1984 - I (2)	*97.1*	..	*103.2*	101.3	104.5	98.5	122.8	96.8	67.3

Source: Based on Istat, OECD and IMF data.

(1) The United States, Canada, Japan, the Federal Republic of Germany, France, the United Kingdom, the Netherlands, Belgium, Denmark, Ireland, Switzerland, Austria and Sweden. — (2) Provisional data.

Table a 10

ITALY'S EXTERNAL FINANCIAL POSITION

(in billions of dollars)

	1976	1977	1978	1979	1980	1981	1982	1983
Bank of Italy & UIC (1)	3.2	8.1	11.1	18.2	23.1	20.1	14.1	20.2
Banks	12.8	15.4	23.1	30.1	31.3	37.1	34.9	35.7
Other channels: trade credit (2)	7.6	8.7	12.0	17.0	16.7	14.8	13.1	11.9
Short-term assets	**23.6**	**32.2**	**46.2**	**65.3**	**71.1**	**72.0**	**62.1**	**67.8**
Bank of Italy & UIC	0.9	1.2	1.5	1.7	1.5	1.2	0.9	0.7
Banks	0.1	—	0.1	—	0.1	0.2	0.2	0.2
Other channels: foreign loans	2.7	2.6	3.0	3.4	3.6	3.6	3.8	3.8
trade credit	9.4	9.2	10.4	11.6	10.6	9.0	8.8	8.6
Medium & long-term assets	**13.1**	**13.0**	**15.0**	**16.7**	**15.8**	**14.0**	**13.7**	**13.3**
TOTAL ASSETS	**36.7**	**45.2**	**61.2**	**82.0**	**86.9**	**86.0**	**75.8**	**81.1**
Bank of Italy & UIC	0.1	0.2	0.2	0.2	0.3	0.2	0.1	0.2
Banks	16.8	23.4	30.0	38.4	47.0	50.2	44.9	48.0
Other channels: trade credit (2)	7.4	7.1	9.3	11.6	11.7	12.9	10.5	11.2
Short-term liabilities	**24.3**	**30.7**	**39.5**	**50.2**	**59.0**	**63.3**	**55.5**	**59.4**
Bank of Italy & UIC: monetary liabilities	7.0	6.3	2.7	1.2	1.2	1.0	0.4	0.3
SDR account	0.4	0.4	0.4	0.6	0.7	0.8	0.8	0.7
Banks	0.1	0.1	0.3	0.3	0.3	0.5	0.8	0.8
Other channels: borrowing abroad	13.8	14.1	16.6	17.6	23.6	33.2	39.1	40.5
of which: compensatory loans special account	*4.6*	*3.9*	*3.1*	*0.6*	*0.7*	*0.5*	*0.3*	*0.2*
trade credit	0.9	0.9	1.0	0.9	0.8	0.7	0.5	0.9
Medium & long-term liabilities	**22.2**	**21.8**	**21.0**	**20.6**	**26.6**	**36.2**	**41.6**	**43.2**
TOTAL LIABILITIES	**46.5**	**52.5**	**60.5**	**70.8**	**85.6**	**99.5**	**97.1**	**102.6**
Bank of Italy & UIC (1)	3.1	7.9	10.9	18.0	22.8	19.9	14.0	20.0
Banks	−4.0	−8.0	−6.9	−8.3	−15.7	−13.1	−10.0	−12.3
Other channels: trade credit	0.2	1.6	2.7	5.4	5.0	1.9	2.6	0.7
Short-term balance	**−0.7**	**1.5**	**6.7**	**15.1**	**12.1**	**8.7**	**6.6**	**8.4**
Bank of Italy & UIC	−6.5	−5.5	−1.6	−0.1	−0.4	−0.6	−0.3	−0.3
Banks	—	−0.1	−0.2	−0.3	−0.2	−0.3	−0.6	−0.6
Other channels: loans	−11.1	−11.5	−13.6	−14.2	−20.0	−29.6	−35.3	−36.7
trade credit	8.5	8.3	9.4	10.7	9.8	8.3	8.3	7.7
Medium & long-term balance	**−9.1**	**−8.8**	**−6.0**	**−3.9**	**−10.8**	**−22.2**	**−27.9**	**−29.9**
OVERALL BALANCE	**−9.8**	**−7.3**	**0.7**	**11.2**	**1.3**	**−13.5**	**−21.3**	**−21.5**

(1) Net of gold reserves. From 1979 onwards the figures include ECUs created against transfers of gold. — (2) The assets include exports on deferred payment terms and advance payments for imports; the liabilities, include advance receipts in respect of exports and imports on deferred payment terms.

Table a 11

CONSOLIDATED ACCOUNT OF THE PUBLIC SECTOR

(in billions of lire)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Revenue										
Current revenue	**36,419**	**41,965**	**55,477**	**69,481**	**85,115**	**102,300**	**134,484**	**166,930**	**208,331**	**255,418**
Direct taxes	6,949	8,440	12,334	16,458	22,408	26,628	38,045	51,575	67,229	84,134
Indirect taxes	10,870	10,962	15,021	19,485	22,368	25,347	34,128	39,025	47,680	60,242
Social security contributions	14,206	17,569	21,910	26,191	31,081	39,227	48,960	59,145	73,777	87,975
— actual	(12,974)	(16,233)	(19,929)	(23,732)	(27,772)	(34,947)	(43,755)	(52,516)	(66,150)	(78,069)
— imputed	(1,232)	(1,336)	(1,981)	(2,459)	(3,309)	(4,280)	(5,205)	(6,629)	(7,627)	(9,906)
Income from capital	1,010	931	1,124	1,370	1,734	2,408	3,153	3,792	4,090	4,413
Sales of goods and services	2,375	2,939	3,874	4,522	5,324	6,115	6,716	8,636	10,989	13,197
Other	1,009	1,124	1,214	1,455	2,200	2,575	3,482	4,757	4,566	5,457
Capital account revenue	**229**	**194**	**301**	**1,115**	**339**	**267**	**580**	**681**	**868**	**879**
TOTAL REVENUE	**36,648**	**42,159**	**55,778**	**70,596**	**85,454**	**102,567**	**135,064**	**167,611**	**209,199**	**256,297**
Expenditure										
Current expenditure	**40,975**	**51,015**	**63,220**	**77,687**	**98,046**	**116,535**	**147,680**	**195,575**	**244,679**	**292,472**
Wages and salaries	14,509	16,486	19,774	24,846	30,182	37,617	47,698	64,026	75,455	87,611
Intermediate consumption	5,532	6,757	7,750	9,519	11,415	14,435	17,686	22,796	28,736	35,691
Social services	15,205	19,629	24,434	28,963	36,577	42,426	53,465	71,204	87,345	105,051
Subsidies to firms	1,016	1,596	2,273	2,782	3,863	4,077	4,784	5,375	7,889	9,747
Interest payments	3,691	5,285	7,439	9,664	13,360	16,046	21,525	29,465	40,570	50,137
Other	1,022	1,262	1,550	1,913	2,649	1,934	2,522	2,709	4,684	4,235
Capital account expenditure	**4,763**	**6,801**	**7,791**	**9,521**	**11,005**	**13,413**	**17,718**	**22,775**	**29,919**	**35,403**
Gross investment	3,846	4,991	6,169	7,372	8,101	9,610	13,094	17,293	21,898	26,541
Capital grants	861	1,104	1,478	2,091	2,247	2,522	2,977	4,744	7,025	8,215
Other	56	706	144	58	657	1,281	1,647	738	996	647
TOTAL EXPENDITURE	**45,738**	**57,816**	**71,011**	**87,208**	**109,051**	**129,948**	**165,398**	**218,350**	**274,598**	**327,875**
Deficit on current account	**-4,556**	**-9,050**	**-7,743**	**-8,206**	**-12,931**	**-14,235**	**-13,196**	**-28,645**	**-36,348**	**-37,054**
Total deficit	**-9,090**	**-15,657**	**-15,233**	**-16,612**	**-23,597**	**-27,381**	**-30,334**	**-50,739**	**-65,399**	**-71,578**

Source: Based on data contained in the *Relazione generale sulla situazione economica del paese.*

Table a 12

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT

(in billions of lire)

	1976	1977	1978	1979	1980	1981	1982	1983
Medium and long-term securities, excluding BI portfolio	761	7,931	14,203	12,236	–2,284	5,823	23,680	67,552
Treasury bills, excluding BI portfolio	2,087	15,077	9,270	9,926	26,218	28,627	28,837	10,415
Treasury bills in compulsory reserves	–652	—	—	—	—	—	—	—
Post Office funds	2,636	3,211	4,871	6,748	2,195	2,591	3,586	4,937
Lending by credit institutions	2,545	–2,465	–579	1,993	504	136	4,880	5,841
to: local authorities	*2,454*	*–2,564*	*–433*	*1,667*	*233*	*1,579*	*3,101*	*3,244*
social security institutions	*67*	*191*	*154*	*255*	*281*	*–1,255*	*242*	*225*
autonomous agencies	*–54*	*30*	*–159*	*138*	*–105*	*–79*	*1,009*	*2,142*
hospitals	*–16*	*–91*	*–151*	*–26*	*–95*	*–55*	*–158*	*–14*
other central government bodies	*34*	*23*	*5*	*–42*	*135*	*–87*	*688*	*131*
municipal enterprises	*60*	*–54*	*5*	*1*	*55*	*33*	*–2*	*113*
Other domestic debt (1)	112	137	234	160	136	79	160	223
Foreign debt	202	77	273	581	787	2,515	2,539	981
TOTAL...	**7,691**	**23,968**	**28,272**	**31,644**	**27,556**	**39,771**	**63,682**	**89,949**
Borrowing from BI-UIC	9,938	–4,008	5,024	343	9,930	13,692	12,593	1,259
of which: overdraft on BI account	*1,694*	*–420*	*1,910*	*3,476*	*8,944*	*6,186*	*6,598*	*–8,622*
TOTAL BORROWING REQUIREMENT...	**17,629**	**19,960**	**33,296**	**31,987**	**37,486**	**53,463**	**76,275**	**91,208**
Financing of Enel			**1,070**	**1,212**	**2,792**	**968**	**3,271**	**1,861**
of which: bond issues			*1,039*	*353*	*473*	*–844*	*1,096*	*800*
loans from credit institutions			*–269*	*477*	*58*	*–109*	*793*	*–309*
borrowing abroad			*300*	*382*	*2,261*	*1,921*	*1,382*	*1,370*
TOTAL BORROWING REQUIREMENT OF THE ENLARGED PUBLIC SECTOR			**34,366**	**33,199**	**40,278**	**54,431**	**79,546**	**93,069**

(1) Treasury currency in circulation, loans of insurance institutions to local authorities, stockpiling bills not yet rediscounted and bank deposits with the Treasury.

Table a 13

EXPENDITURE, REVENUE AND STATE SECTOR BORROWING REQUIREMENT

(in billions of lire)

	1979	1980	1981	1982	1983
EXPENDITURE					
Wages, salaries and pensions	24,160	30,892	40,850	49,168	57,893
Purchases of goods and services	6,821	8,028	9,613	11,859	15,426
Interest payments	14,414	19,235	27,328	38,695	47,449
Direct investment	4,427	5,458	6,971	8,692	11,228
Loans and shareholdings	3,457	6,708	8,149	13,621	15,985
of which: to local authorities	*1,386*	*1,797*	*2,751*	*3,900*	*3,793*
to financial institutions	*775*	*1,802*	*1,920*	*1,371*	*1,759*
to public enterprises' endowment funds	*836*	*2,556*	*3,006*	*7,384*	*9,431*
Disbursements to: local authorities	27,700	39,005	44,579	56,936	72,086
of which: health care	*11,051*	*17,556*	*18,411*	*24,309*	*30,656*
social security agencies	7,927	10,003	12,574	23,166	26,649
enterprises	5,017	5,463	5,924	8,899	11,579
households	1,871	1,940	2,575	3,028	3,979
other	1,687	2,109	4,293	4,616	4,471
Other expenditure	3,105	6,085	4,375	8,029	9,591
EXPENDITURE ...	**100,586**	**134,926**	**167,231**	**226,709**	**276,336**
REVENUE					
DIRECT TAXES	**24,653**	**35,472**	**46,802**	**62,620**	**78,931**
of which: Personal income tax	14,773	22,340	29,396	37,407	47,881
Corporation tax	1,488	2,411	3,168	3,694	5,514
Local income tax	3,381	4,016	5,277	6,310	7,687
Withholding tax on interest income	3,684	5,841	8,133	10,965	10,803
INDIRECT TAXES	**28,444**	**36,902**	**42,808**	**52,408**	**66,172**
of which: Value added tax	14,843	20,504	24,104	29,196	36,278
Business taxes (stamp duties, duties on government concessions, etc.)	3,535	4,682	5,228	6,090	7,528
Tax on oil products	5,692	6,543	7,027	8,244	11,583
Other taxes on manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)	800	909	1,039	1,176	1,298
Tax on tobacco consumption	1,683	2,000	2,299	3,199	3,732
Total tax revenue	**53,097**	**72,374**	**89,610**	**115,028**	**145,103**
EEC levies	1,836	2,286	2,996	3,516	4,113
Sales of goods and services	4,308	4,978	6,583	8,349	10,351
Payments by the social security sector	7,038	13,018	11,507	19,222	18,250
Other income	3,995	6,199	7,128	8,752	10,026
TOTAL REVENUE...	**70,274**	**98,855**	**117,824**	**154,867**	**187,843**
BORROWING REQUIREMENT	**30,312**	**36,071**	**49,407**	**71,842**	**88,493**

THE PUBLIC DEBT

(nominal amounts in billions of lire and percentage breakdown)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
	Amounts outstanding								
Medium & long-term securities, excluding BI portfolio	15,012	16,305	24,805	39,338	51,930	49,474	55,862	81,147	150,616
Treasury bills, excluding BI portfolio	7,545	9,632	24,709	33,979	43,905	70,123	98,750	127,587	138,002
Treasury bills in compulsory reserves	652	–	–	–	–	–	–	–	–
Post Office funds	13,387	16,023	19,234	24,105	30,853	33,048	35,639	39,225	44,162
Lending by credit institutions	13,645	16,190	14,125	13,546	15,539	16,043	16,179	21,059	26,900
to: local authorities	*10,146*	*12,600*	*10,036*	*9,603*	*11,270*	*11,503*	*13,082*	*16,183*	*19,427*
social security institutions	*1,520*	*1,587*	*1,778*	*1,932*	*2,187*	*2,468*	*1,213*	*1,455*	*1,680*
autonomous agencies	*274*	*220*	*650*	*491*	*629*	*524*	*445*	*1,454*	*3,596*
hospitals	*1,111*	*1,095*	*1,004*	*853*	*827*	*732*	*677*	*519*	*505*
other central government bodies	*289*	*323*	*346*	*351*	*309*	*444*	*357*	*1,045*	*1,176*
municipal enterprises	*305*	*365*	*311*	*316*	*317*	*372*	*405*	*403*	*516*
Other domestic debt	921	1,033	1,170	1,404	1,564	1,700	1,779	1,939	2,162
Foreign debt	1,061	1,474	1,616	1,941	2,393	3,432	6,414	9,530	11,968
TOTAL	**52,223**	**60,657**	**85,659**	**114,313**	**146,184**	**173,820**	**214,623**	**280,487**	**373,810**
Borrowing from BI-UIC	30,773	40,994	38,026	43,153	43,255	52,978	66,555	78,670	79,629
of which: medium & long-term securities	*13,588*	*16,081*	*24,882*	*30,771*	*27,759*	*28,261*	*29,647*	*28,891*	*30,393*
Treasury bills	*11,654*	*18,028*	*7,588*	*3,987*	*3,657*	*2,641*	*8,099*	*12,086*	*12,668*
overdraft on BI account	*3,522*	*5,216*	*4,796*	*6,706*	*10,182*	*19,126*	*25,312*	*31,910*	*23,288*
other borrowing	*2,009*	*1,669*	*760*	*1,689*	*1,657*	*2,950*	*3,497*	*5,783*	*13,280*
GRAND TOTAL	**82,996**	**101,651**	**123,685**	**157,466**	**189,439**	**226,798**	**281,178**	**359,157**	**453,439**
of which: state sector	*69,757*	*84,998*	*109,630*	*144,403*	*174,758*	*211,640*	*265,645*	*339,903*	*431,472*
	Percentage breakdown								
Medium & long-term securities, excluding BI portfolio	18.1	16.0	20.1	25.0	27.4	21.8	19.9	22.6	33.2
Treasury bills, excluding BI portfolio	9.1	9.5	20.0	21.6	23.2	30.9	35.1	35.5	30.5
Treasury bills in compulsory reserves	0.8	–	–	–	–	–	–	–	–
Post Office funds	16.1	15.8	15.6	15.3	16.3	14.6	12.7	10.9	9.7
Lending by credit institutions	16.4	15.9	11.4	8.6	8.2	7.1	5.8	5.9	5.9
Other domestic debt	1.1	1.0	0.9	0.9	0.8	0.7	0.6	0.5	0.5
Foreign debt	1.3	1.5	1.3	1.2	1.3	1.5	2.2	2.7	2.6
Borrowing from BI-UIC	37.1	40.3	30.7	27.4	22.8	23.4	23.7	21.9	17.6

BANKS' ASSETS

(billions

	ASSETS										
	Bank reserves			Lending		Bad debts & protested bills	Shares	Interbank accounts	Accounts with special credit institutions		External assets (5)
	Excess reserves in lire (2)	Compulsory reserves (3)	Deposits against excess lending	Loans & bankers' acceptances	Lira securities (4)					of which: savings certificates & CDs	
1974 — Dec.	4,280	10,652	—	52,045	27,562	807	812	12,757	1,352	—	8,336
1975 — »	3,429	12,047	—	59,397	39,450	1,048	1,032	18,405	1,278	—	10,261
1976 — »	2,412	16,624	—	72,693	44,788	1,308	1,329	23,367	1,425	128	10,630
1977 — »	3,251	20,265	—	79,154	67,415	1,932	1,601	26,685	2,761	1,148	12,819
1978 — »	5,092	25,282	—	86,834	86,396	2,732	1,966	35,297	3,642	1,319	18,247
1979 — » (9) . . .	3,900	30,668	—	105,673	99,805	4,118	2,307	41,872	3,717	1,090	23,060
1980 — »	4,393	33,740	591	126,720	112,492	5,775	3,069	54,282	4,759	1,312	27,409
1981 — »	4,869	36,641	1,298	142,455	120,295	7,046	3,497	65,951	6,598	1,699	40,523
1982 — Jan.	2,765	42,902	1,604	141,918	107,905	7,201	3,516	47,087	6,604	1,594	35,936
Feb.	3,063	41,456	1,750	140,600	109,266	7,374	3,806	47,239	7,260	1,830	32,565
March . . .	2,421	40,966	937	140,183	112,254	7,568	3,834	48,546	7,372	1,953	32,367
April	2,582	40,951	1,027	140,120	114,812	7,631	3,903	48,510	7,503	2,009	28,821
May	3,173	40,826	1,312	139,406	114,693	7,785	3,998	49,668	7,543	2,150	28,110
June	3,555	40,371	1,856	140,786	120,212	7,965	4,061	48,485	7,349	2,304	31,022
July	2,801	41,538	1,164	144,953	127,201	8,186	4,069	50,568	6,974	2,469	30,889
Aug.	2,944	41,844	1,034	144,158	132,416	8,442	4,073	51,635	6,410	2,622	29,811
Sept. (*) . .	3,741	42,218	1,072	143,973	140,524	8,542	4,578	52,871	6,692	3,358	30,318
Oct. (*) . .	4,707	43,280	943	147,380	142,289	8,773	4,990	54,807	6,825	3,352	34,102
Nov. (*) . .	4,334	44,032	531	148,586	142,789	9,019	5,242	61,541	6,895	3,266	39,121
Dec. (*) . .	3,648	45,171	820	155,312	151,940	9,266	5,161	77,547	7,507	3,556	42,386
1983 — Jan.	2,774	52,517	1,477	155,361	138,489	9,583	5,318	53,898	7,344	3,432	36,792
Feb.	2,743	51,696	2,106	155,064	137,244	9,769	5,364	52,787	7,209	3,352	33,801
March . . .	3,393	50,938	1,443	157,674	134,714	9,937	5,376	56,476	6,963	3,269	30,589
April	2,907	50,211	2,148	160,258	143,022	10,145	5,399	54,587	7,241	3,242	30,983
May	2,970	50,248	2,102	161,215	144,410	10,406	5,449	55,161	6,836	3,307	31,480
June	3,088	49,937	2,588	161,969	150,981	10,331	5,885	58,087	6,996	3,380	34,436
July	2,979	51,475	2,493	169,636	155,334	10,585	6,120	54,982	6,834	3,335	33,732
Aug.	3,902	52,123	115	165,674	159,678	10,869	6,204	60,180	6,884	3,329	35,553
Sept.	2,486	52,878	26	164,461	166,454	11,049	6,309	61,166	6,902	3,307	35,770
Oct.	2,826	53,937	26	170,885	165,183	11,294	6,413	56,973	7,744	3,194	36,941
Nov.	3,763	54,421	—	174,326	167,172	11,460	6,461	61,075	7,232	3,098	44,472
Dec.	3,940	54,287	—	178,790	180,100	11,565	6,605	89,305	7,625	3,451	52,271
1984 — Jan.	3,530	62,996	—	184,352	158,166	12,201	6,774	56,369	6,908	3,165	....
Feb.	2,740	61,240	—	185,432	153,802	12,526	6,886	56,280	7,113	3,029	....

(1) Any discrepancies are due to rounding. — (2) Excluding deposits with the Post Office and the Deposits and Loans Fund. — (3) Includes backing for cashiers' cheques. — (4) Treasury bills are at face value, medium and long-term securities at book value. — (5) UIC source. — (6) Lira deposits of resident customers. — (7) Third parties' funds held in trust and residents' foreign currency accounts. — (8) UIC source.

AND LIABILITIES (1)

of lire)

LIABILITIES									MEMORANDUM		
Deposits (6)	Other domestic funds (7)	Lending by BI-UIC	Interbank accounts	Deposits of special credit institutions	Funds raised abroad (8)	Funds raised abroad: of which: non-residents' lira accounts	Equity capital	Other items (net)	Loan guarantees	Loan guarantees: of which: bankers' acceptances issued	
80,926	1,098	4,215	13,042	2,681	9,431	658	2,698	4,512	6,076	—	..... Dec. — 1974
101,167	952	3,817	16,832	4,172	11,136	608	4,114	4,157	9,495	—	 1975
123,405	1,458	2,345	21,310	4,958	13,966	609	5,147	1,987	14,500	—	 1976
152,025	1,232	2,552	24,332	4,664	19,319	798	6,518	5,241	17,211	—	 1977
187,088	2,577	2,315	31,486	4,945	24,035	942	7,750	5,292	22,238	—	 1978
224,644	2,305	5,079	35,749	4,798	29,795	1,109	9,795	2,955	26,166	696	 1979
254,341	1,900	2,427	47,414	5,377	41,590	1,320	12,462	7,719	32,405	2,536	 1980
277,771	2,066	2,981	58,306	5,039	55,694	1,638	16,758	10,558	39,393	3,572	 1981
269,602	1,982	3,211	45,203	5,089	51,397	1,746	16,819	4,135	39,777	3,557	.. Jan. — 1982
267,482	2,171	2,876	42,876	4,998	48,911	1,741	16,913	8,152	40,000	3,512	.. Feb.
268,955	2,411	3,419	44,020	5,080	47,713	1,660	18,126	6,724	41,887	3,202	.. March
270,175	2,142	2,894	44,323	4,493	42,692	1,680	20,559	8,582	42,118	3,408	.. April
269,118	2,215	2,923	43,956	4,296	42,119	1,638	20,726	11,161	42,457	3,668	.. May
273,582	2,322	3,010	44,051	5,226	46,746	1,904	20,750	9,975	43,375	3,657	.. June
274,761	2,214	3,226	46,468	5,543	47,035	2,106	20,979	18,117	44,696	3,632	.. July
276,841	2,248	3,207	48,542	5,431	46,337	2,305	20,664	19,497	44,415	3,427	.. Aug.
281,993	2,287	3,707	49,772	6,120	46,652	2,304	21,402	22,596	44,978	3,501	.. Sep.
285,488	2,211	3,496	54,812	4,796	47,828	2,260	21,422	28,043	45,878	3,103	.. Oct.
291,758	2,430	3,584	53,692	3,951	53,798	2,303	21,463	31,414	45,870	2,952	.. Nov.
328,448	2,318	3,625	68,589	6,632	56,339	2,294	21,309	11,498	45,966	2,707	.. Dec.
319,409	2,367	5,577	50,302	6,324	51,999	2,295	21,452	6,123	45,446	2,538	.. Jan. — 1983
316,575	2,342	4,176	47,157	5,834	48,497	2,260	21,500	11,702	45,755	2,393	.. Feb.
315,747	2,654	3,555	49,118	4,783	46,726	2,272	22,277	12,643	47,405	2,508	.. March
316,883	2,675	5,026	50,376	4,375	47,918	2,234	23,851	15,797	48,077	2,541	.. April
315,231	2,658	5,122	48,934	4,222	50,914	2,359	25,412	17,784	49,668	2,465	.. May
321,283	3,048	6,069	51,532	5,284	53,853	2,520	28,647	14,582	52,733	2,231	.. June
324,125	3,000	7,082	51,795	4,119	54,014	2,683	28,697	21,338	52,360	1,851	.. July
327,782	3,149	5,864	54,810	3,725	54,727	2,716	28,728	22,397	51,171	1,661	.. Aug.
332,188	3,053	7,068	56,944	3,772	54,234	2,660	28,855	21,387	49,244	1,513	.. Sep.
334,115	3,061	8,297	50,897	3,783	55,872	2,791	28,924	27,273	49,189	1,443	.. Oct.
332,351	3,166	6,365	57,253	3,745	64,404	2,697	29,125	33,973	49,472	1,426	.. Nov.
372,240	3,568	6,349	83,285	5,276	72,669	3,022	29,531	11,570	51,851	1,590	.. Dec.
361,125	3,563	9,918	51,556	4,979	....	3,067	29,532	....	52,336	1,398	.. Jan. — 1984
354,492	3,886	9,550	51,657	4,597	....	3,001	29,363	....	51,975	1,234	.. Feb.

— (9) Owing to errors in the procedures previously used by some banks for automatically calculating loans, a break in the series occurs in December 1979; the discrepancy has been estimated at about 350 billion lire and is ascribable entirely to short-term lending in lire. — (*) The data on excess reserves have been estimated to take account of entries delayed as a result of industrial action by bank employees.

BANKS' PROFIT AND LOSS ACCOUNTS,

(in billions

	INTEREST RECEIVED						INTEREST PAID					Interest margin
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities & participations	Interbank accounts	Foreign currency assets	Total (a)	Domestic deposits in lire	BI-UIC financing	Interbank accounts	Foreign currency liabilities	Total (b)	(c) = (a) — (b)
												Banks and savings
1974	381	6,764	1,717	917	1,412	11,192	5,069	107	832	1,351	7,359	3,833
1975	536	8,083	2,703	1,216	668	13,206	6,502	116	1,010	602	8,230	4,976
1976	832	11,452	3,153	1,835	737	18,009	10,137	127	1,446	677	12,387	5,622
1977	1,050	13,641	5,370	2,302	1,030	23,393	14,246	97	1,616	986	16,945	6,448
1978	1,307	13,228	7,337	2,226	1,416	25,514	15,368	70	1,636	1,387	18,461	7,053
1979	1,597	14,831	8,986	2,621	2,259	30,294	17,970	92	1,919	2,190	22,171	8,123
1980	1,806	22,638	10,495	3,733	4,070	42,742	23,376	107	2,984	3,819	30,286	12,456
1981	2,010	28,957	12.654	5.302	7,025	55,948	30,030	127	4,056	6,678	40,891	15,057
1982	2,284	31,827	16,782	6,591	6,511	63,995	36,542	118	5,019	6,277	47,956	16,039
1983 (*)	2,903	33,834	22,454	6,957	5,640	71,608	41,414	235	5,263	5,477	52,389	19.219
												Banks
1974	381	5,365	1,109	578	1,401	8,834	3,865	91	777	1,344	6,077	2,757
1975	525	6,435	1,875	695	658	10,188	4,837	95	939	596	6,467	3,721
1976	780	9,112	2,127	1,094	722	13,835	7,661	101	1,350	667	9,779	4,056
1977	946	10,822	3,761	1,380	978	17,887	10,577	77	1,459	944	13,057	4,830
1978	1,131	10,362	5,149	1,313	1,336	19,291	11,154	57	1,498	1,311	14,020	5,271
1979	1,331	11,465	6,212	1,556	2,113	22,677	12,743	77	1,765	2,052	16,637	6,040
1980	1,486	17,428	7,254	2,398	3,803	32,369	16,640	89	2,771	3,571	23,071	9,298
1981	1,627	22,132	9,088	3,429	6,566	42,842	21,468	108	3,765	6,244	31,585	11,257
1982	1,814	24,070	12,077	4,545	6,096	48,602	25,939	100	4,651	5,890	36,580	12,022
1983 (*)	2,259	25,401	15,659	4,806	5,046	53,171	29,087	206	4,795	5,087	39,175	13,996
												Banks of
1974	105	1,325	288	47	658	2,423	986	28	202	646	1,862	561
1975	142	1,522	636	74	318	2,692	1,106	38	320	317	1,781	911
1976	213	1,938	540	101	327	3,119	1,703	20	376	323	2,422	697
1977	234	2.305	802	126	389	3,856	2,093	19	384	399	2,895	961
1978	264	2,062	939	135	532	3,932	2,032	9	342	541	2,924	1,008
1979	288	2,229	1,011	117	858	4,503	2,111	18	385	855	3,369	1,134
1980	294	3,323	1,211	108	1,509	6,445	2.681	25	640	1,398	4,744	1,701
1981	319	4,116	1,426	163	2,656	8,680	3,499	26	680	2,507	6,712	1,968
1982	352	4,530	1,988	286	2,415	9,571	4,211	26	827	2,331	7,395	2,176
1983 (*)	406	4,577	2,198	396	1,994	9,571	4,470	40	699	1,984	7,192	2,379
												Public-law
1974	95	1,474	348	81	449	2,447	1,043	39	205	413	1,700	747
1975	136	1,759	517	89	195	2,696	1,293	24	221	161	1,699	997
1976	202	2,515	627	148	230	3,722	2,026	33	322	194	2,575	1,147
1977	253	2,728	1,199	227	320	4,727	2,806	21	341	304	3,472	1,255
1978	297	2,590	1,562	230	404	5,083	2,926	21	378	403	3,728	1,355
1979	360	2,829	1,941	341	645	6,116	3,444	29	430	623	4,526	1,590
1980	409	4,178	2,383	498	1,144	8,612	4,533	34	691	1,074	6,332	2,280
1981	448	5,236	3,190	641	1,834	11,349	5,760	47	1,101	1,760	8,668	2,681
1982	492	5,903	3,807	919	1,765	12,886	6,970	42	1,512	1,699	10,223	2,663
1983 (*)	673	6,420	5,005	1,023	1,412	14,533	7,857	126	1,710	1,448	11,141	3,392

(1) Any discrepancies are due to rounding. The 1983 data for some items are not directly comparable with those for earlier years owing to changes in the rules for compiling banking —
(*) Provisional data.

BY CATEGORY OF BANK (1)

of lire)

Net income from services (d)	of which: securities transactions	Gross earnings margin (e) = (c) + (d)	Operating costs (f)	of which: staff costs	Operating surplus (g) = (e) − (f)	Depreciation & provisions (h)	of which: for loan losses	Taxes (i)	Net profit (g) − (h) − (i)	Inter-mediated funds	No. of staff	
banks (2)												
812	36	4,645	3,057	2,663	1,588	1,076	316	363	149	120,501	203,505	 1974
1.245	375	6,221	3,847	3,295	2,374	1.675	522	508	191	139,299	216,346	 1975
1.755	425	7,377	4,829	4,100	2,548	1,783	402	502	263	169,968	227,338	 1976
2,269	699	8,717	5,589	4,610	3,128	2,062	773	718	348	209,480	239,901	 1977
2,859	1,155	9,912	6,397	5,212	3,515	2,216	925	847	452	257,654	249,999	 1978
3,413	1,389	11,536	7,549	6,119	3,987	2,505	1,007	921	561	309,073	261,505	 1979
4,313	1,624	16,769	10,120	8,206	6,649	4,467	1,631	1,352	830	374,590	274,889	 1980
6,269	2,479	21,326	11,896	9,437	9,430	6,402	1,945	1,783	1,245	442,430	287,420	 1981
7,489	3,353	23,528	13,499	10,433	10,029	5,676	2,337	2,844	1,509	509,626	293,002	 1982
7,986	3,310	27,205	17,615	13,666	9,590	4,414	2,484	3,432	1,744	598,230	299,395	... (*) 1983
716	131	3,473	2,287	1,994	1,186	793	272	262	131	....	154,286	 1974
916	281	4,637	2,853	2,434	1,784	1,245	452	386	153	107,163	164,618	 1975
1,334	335	5,390	3,552	3,006	1,838	1,236	332	387	215	130,876	172,651	 1976
1,639	478	6,469	4,066	3,341	2,403	1,552	658	560	291	161,115	182,352	 1977
2,006	802	7,277	4,692	3,816	2,585	1,592	760	617	376	197,173	189,920	 1978
2,366	946	8,406	5,596	4,536	2,810	1,651	785	679	480	233,365	199,478	 1979
3,027	1,127	12,325	7,486	6,067	4,839	3,062	1,328	1,068	709	284,762	210,449	 1980
4,558	1,776	15,815	8,814	6,994	7,001	4,561	1,538	1,360	1,080	338,276	219,741	 1981
5,295	2,283	17,317	10,009	7,725	7,308	3,892	1,697	2,092	1,324	391,021	224,833	 1982
5,908	2,477	19,904	12,995	10,036	6,909	2,919	1,566	2,491	1,499	455,556	230,196	... (*) 1983
national interest												
197	28	758	640	570	118	67	81	36	15	....	39,453	 1974
239	65	1,150	735	638	415	332	240	65	18	30,270	41,800	 1975
321	57	1,018	899	773	119	82	72	27	10	34,471	42,438	 1976
360	83	1,321	990	827	331	242	144	71	18	39,792	43,659	 1977
399	113	1,407	1,114	925	293	195	145	75	23	46,783	45,106	 1978
498	159	1,632	1,300	1,076	332	234	215	86	12	52,908	47,241	 1979
671	220	2,372	1,699	1,390	673	486	273	154	33	66,188	48,464	 1980
1,099	373	3,067	1,970	1,578	1,097	912	243	86	99	78,685	50,097	 1981
1,082	386	3,258	2,264	1,769	994	559	372	337	98	90.415	51,373	 1982
1.281	550	3,660	2,861	2,263	799	287	445	399	113	101,638	51,393	... (*) 1983
banks												
221	47	968	671	593	297	241	71	38	18	....	47,378	 1974
290	103	1,287	862	755	425	348	46	57	20	30,259	50,517	 1975
416	110	1,563	1,047	905	516	404	68	94	18	37,871	52,459	 1976
556	176	1,811	1,199	1,016	612	463	151	144	5	46,889	55,428	 1977
668	299	2,023	1,357	1,144	666	519	171	121	26	57,683	56,132	 1978
729	315	2,319	1,652	1,394	667	496	172	138	33	68,184	58,530	 1979
928	387	3,208	2,168	1,839	1,040	789	319	209	42	83,383	61,937	 1980
1,367	560	4,048	2,559	2,146	1,489	1,177	430	251	61	98,522	64,233	 1981
1,705	785	4,368	2,865	2,335	1,503	951	310	399	153	117,692	65,849	 1982
1,869	725	5,261	3,893	3,153	1,368	692	228	536	140	138,368	67,319	... (*) 1983

returns — (2) Except in the item "Number of staff", excludes credit institutions which, at the date in question, submitted profit and loss returns at times other than the end of the year.

BANKS' PROFIT AND LOSS ACCOUNTS,

(in billions

	INTEREST RECEIVED						INTEREST PAID					Interest margin
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities & participations	Interbank accounts	Foreign currency assets	Total (a)	Domestic deposits in lire	BI-UIC financing	Interbank accounts	Foreign currency liabilities	Total (b)	(c) = (a) – (b)
												Ordinary commercial
1974	124	1,746	318	316	262	2,766	1,268	17	323	258	1,865	901
1975	167	2,156	479	346	121	3,269	1,649	22	338	103	2,112	1,157
1976	249	3,172	625	540	140	4,726	2,669	34	530	132	3,365	1,361
1977	306	3,899	1,113	625	217	6,160	3,730	27	592	195	4,544	1,616
1978	373	3,788	1,702	558	319	6,740	3,994	20	631	290	4,935	1,805
1979	439	4,197	2,080	631	485	7,832	4,545	20	794	456	5,815	2,017
1980	495	6,439	2,292	1.015	897	11,138	5,868	22	1,206	856	7,952	3,186
1981	541	8,269	2,875	1,367	1,583	14,635	7,601	25	1,632	1,496	10,754	3,881
1982	595	8,566	3,992	1,624	1,378	16,155	8,912	21	1,830	1,328	12,091	4,064
1983 (*)	719	8,916	5,225	1,683	1,103	17,646	9,960	27	1,900	1,152	13,039	4,607
												Cooperative
1974	57	820	154	135	32	1,198	569	8	48	26	651	547
1975	80	998	244	186	24	1,532	790	11	60	14	875	657
1976	117	1,486	336	304	25	2,268	1,263	14	122	18	1,417	851
1977	152	1,889	648	402	53	3,144	1,949	9	143	45	2,146	998
1978	197	1,922	946	390	81	3,536	2,202	7	147	77	2,433	1,103
1979	244	2,210	1,180	467	125	4,226	2,643	10	156	118	2,927	1,299
1980	288	3,488	1,368	777	253	6,174	3,558	8	234	243	4,043	2,131
1981	319	4,511	1,597	1,258	493	8,178	4,608	10	352	481	5,451	2,727
1982	375	5,071	2,290	1,716	538	9,990	5,846	11	482	532	6,871	3,119
1983 (*)	460	5,489	3,231	1,703	538	11,421	6,801	13	486	503	7,803	3,618
												Savings
1974	—	1,400	608	339	11	2,358	1,204	17	54	7	1,282	1,076
1975	11	1,648	828	521	9	3,017	1,665	20	71	6	1,762	1,255
1976	52	2,341	1,026	740	15	4,174	2,475	27	96	10	2,608	1,566
1977	105	2,819	1,609	921	52	5,506	3,669	20	157	42	3,888	1,618
1978	176	2,866	2,188	913	80	6,223	4,214	13	138	76	4,441	1,782
1979	266	3,366	2,774	1,065	146	7,617	5,227	15	154	138	5,534	2,083
1980	320	5,210	3,241	1,335	267	10,373	6,736	18	213	248	7,215	3,158
1981	383	6,825	3,566	1,873	459	13,106	8,562	19	291	434	9,306	3,800
1982	470	7,757	4,705	2,046	415	15,393	10,603	18	368	387	11,376	4,017
1983 (*)	644	8,432	6,795	2,151	414	18,436	12,327	30	468	390	13,215	5,221
												Central credit
1974	—	272	59	102	—	433	19	77	389	—	485	–52
1975	—	380	263	126	—	769	49	15	605	—	669	100
1976	—	636	272	182	—	1,090	34	72	950	—	1,056	34
1977	1	610	519	214	1	1,345	35	34	1,181	2	1,252	93
1978	4	602	527	181	2	1,316	35	33	1,149	2	1,219	97
1979	4	43	66	195	2	310	4	1	261	3	269	41
1980	6	468	435	414	4	1,327	29	122	1,160	11	1,322	5
1981	8	650	529	567	6	1,760	14	34	1,595	18	1,661	99
1982	21	780	596	812	5	2,214	42	29	1,909	9	1,989	225
1983 (*)	41	629	773	811	12	2,266	49	86	1,921	17	2,073	193

(1) Any discrepancies are due to rounding. The 1983 data for some items are not directly comparable with those for earlier years owing to changes in the rules for compiling banking —
(*) Provisional data.

BY CATEGORY OF BANK (1)

of lire)

Net income from services (d)	of which: securities transactions	Gross earnings margin (e) = (c) + (d)	Operating costs (f)	of which: staff costs	Operating surplus (g) = (e) − (f)	Depreciation & provisions (h)	of which: for loan losses	Taxes (i)	Net profit (g) − (h) − (i)	Inter-mediated funds	No. of staff	
banks (2)												
206	49	1,107	644	543	463	303	80	98	62	....	43,778	 1974
257	87	1,414	837	684	577	369	103	143	65	32,185	46,962	 1975
418	135	1,779	1,061	872	718	453	118	142	123	39,701	50,521	 1976
490	165	2,106	1,226	972	880	484	227	220	176	49,724	54,065	 1977
640	298	2,445	1,442	1,130	1,003	517	293	268	218	61,379	57,061	 1978
774	353	2,791	1,718	1,337	1,073	514	270	275	284	73,947	59,895	 1979
967	391	4,153	2,331	1,823	1,822	971	442	430	421	87,949	64,109	 1980
1,454	655	5,335	2,744	2,095	2,591	1,341	484	637	613	104,274	67,636	 1981
1,672	792	5,736	3,038	2,260	2,698	1,257	548	787	654	114,485	69,137	 1982
1,811	834	6,418	3,808	2,805	2,610	1,058	424	836	716	133,017	70,300	... (*) 1983
banks												
92	7	639	332	288	307	182	41	90	35	....	23,677	 1974
130	27	787	420	357	367	195	62	122	50	14,449	25,339	 1975
179	34	1,030	546	456	484	296	75	123	65	18,833	27,233	 1976
233	54	1,231	651	526	580	363	135	125	92	24,711	29,200	 1977
299	92	1,402	779	617	623	361	150	153	109	31,328	31,621	 1978
365	119	1,664	926	728	738	407	128	180	151	38,327	33,812	 1979
461	129	2,592	1,288	1,015	1,304	816	295	275	213	47,241	35,939	 1980
638	188	3,365	1,541	1,175	1,824	1,131	381	386	307	56,795	37,775	 1981
836	320	3,955	1,842	1,361	2,113	1,125	467	569	419	68,429	38,474	 1982
947	368	4,565	2,433	1,814	2,132	883	468	720	529	82,533	41,184	... (*) 1983
banks												
97	−96	1,173	770	669	403	283	44	101	19	....	49,219	 1974
329	94	1,584	994	861	590	431	71	122	37	32,136	51,728	 1975
421	90	1,987	1,277	1,095	710	547	70	116	47	39,092	54,687	 1976
630	221	2,248	1,523	1,269	725	510	115	159	56	48,365	57,549	 1977
853	352	2,635	1,704	1,395	931	624	166	230	77	60,481	60,079	 1978
1,047	443	3,130	1,953	1,584	1,177	854	222	242	81	75,707	62,027	 1979
1,286	497	4,444	2,634	2,139	1,810	1,405	302	284	121	89,829	64,440	 1980
1,711	703	5,511	3,082	2,443	2,429	1,841	407	423	165	104,154	67,679	 1981
2,194	1,070	6,211	3,490	2,708	2,721	1,784	639	752	185	118,605	68,169	 1982
2,078	832	7,299	4,620	3,630	2,679	1,495	918	940	244	142,674	69,199	... (*) 1983
institutions (2)												
101	99	49	15	11	34	16	10	4	14	....	654	 1974
−23	−25	77	22	14	55	31	14	7	17	7,045	705	 1975
30	24	64	29	20	35	13	1	9	13	8,133	821	 1976
−220	−227	−127	32	20	−159	−136	54	10	−33	9,879	885	 1977
−217	−224	−120	35	22	−155	−142	52	13	−26	10.060	914	 1978
14	7	55	28	17	27	10	—	5	12	3,259	1,032	 1979
53	36	58	61	38	−3	−3	−26	18	−18	13,628	1,140	 1980
94	72	193	73	46	120	40	1	31	49	16,358	1,191	 1981
93	67	318	86	51	232	141	23	32	59	17,848	1,284	 1982
124	92	317	115	72	202	89	62	67	46	17,451	1,345	... (*) 1983

returns — (2) Except in the item "Number of staff", excludes credit institutions which, at the date in question, submitted profit and loss returns at times other than the end of the year.

(billions

	ASSETS										
		Loans						Own portfolio (5)			
	Cash and deposits (2)	Domestic (3)	Financing of stockpiling (4)	Foreign: Buyer credits	Foreign: Credits to non-residents	Total	Loans on behalf of the Treasury	Governmennt securities	Bonds (6)	Shares & participations	TOTAL
1974	7,418	31,039	465	816	253	32,573	11,493	97	540	211	52,332
1975	8,274	37,038	537	1,037	252	38,864	13,610	796	582	226	62,352
1976	9,105	42,043	552	1,427	345	44,367	13,209	568	603	289	68,141
1977	8,038	47,915	568	1,704	319	50,506	12,959	1,283	455	330	73,571
1978	8,384	54,445	677	1,762	325	57,209	12,670	1,733	546	406	80,948
1979	5,607	60,253	682	1,923	233	63,091	12,059	2,202	499	745	84,203
1980	6,122	68,644	714	2,588	228	72,174	11,403	2.205	586	866	93,356
1981	4,854	81,877	591	3,196	441	86,105	10,572	2,860	2,041	1,105	107,537
1982 — Jan.	5,329	82,317	591	3,148	417	86,473	10,572	3,941	2,041	1,105	109,461
Feb.	5,333	83,556	591	3,265	427	87,839	10,572	4,499	2,041	1,105	111,389
March ...	5,616	84,926	600	3,570	427	89,523	10,572	5,084	2,467	1,259	114,521
April	4,617	86,147	600	3,560	438	90,745	10,572	5,458	2,467	1,259	115,118
May	4,312	87,416	600	3,590	449	92,055	10,567	5,181	2,467	1,259	115,841
June	5,708	88,365	614	3,769	431	93,179	10,223	4,848	2,080	1,283	117,321
July	5,306	90,090	614	3,645	444	94,793	10,223	6,247	2,080	1,283	119,932
Aug.	5,744	91,533	614	3,728	440	96,315	10,223	6,866	2,080	1,283	122,511
Sept.	7,452	92,229	627	3,795	478	97,129	10,223	10,282	2,726	1,420	129,232
Oct.	5,038	92,871	627	3,955	514	97,967	10,223	10,962	2,726	1,420	128,336
Nov.	3,815	93,863	627	3,901	486	98,877	10,190	10,623	2,726	1,420	127,651
Dec.	5,452	96,529	627	3,916	443	101,515	9,913	8,149	2,373	1,558	128,960
1983 — Jan.	5,196	96,824	627	3,852	421	101,724	9,914	10,156	2,373	1,559	130,922
Feb.	4,975	97,264	627	3,840	409	102,140	9,914	10,250	2,373	1,559	131,211
March ...	4,751	98,674	704	3,926	401	103,705	9,914	10,063	2,746	1,583	132,762
April	3,808	99,377	704	3,937	381	104,399	9,914	10,017	2,746	1,583	132,467
May	3,681	100,201	704	4,011	378	105,294	9,909	9,711	2,746	1,583	132,924
June	4,576	100,910	714	4,113	397	106,134	9,593	9,992	2,354	1,763	134,412
July	4,706	101,524	714	4,094	393	106,725	9,595	11,278	2,354	1,763	136,421
Aug.	3,446	103,005	714	4,341	411	108,471	9,596	12,108	2,354	1,763	137,738
Sept.	4,089	103,806	722	4,298	413	109,239	9,596	11,995	2,420	1,738	139,077
Oct.	3,600	104,542	722	4,285	382	109,931	9,596	11,538	2,420	1,738	138,823
Nov.	3,829	105,631	722	4,344	385	111,082	9,571	11,393	2,420	1,738	140,033
Dec.	5,195	109,934	727	4,321	372	115,354	9,684	11,409	2,497	1,882	146,021
1984 — Jan.	6,331	109,583	727	4,148	337	114,795	9,222	12,432	2,497	1,882	147,159
Feb. (*) ..	5,522	110,494	727	3,991	325	115,537	9,219	14,190	2,497	1,882	148,847

(1) From January 1983 onwards includes the agricultural credit section of the Banco di Sardegna (the data on the agricultural credit operations of this institution were previously — (3) From December 1981 onwards includes financing of voluntary stockpiling operations, equal to 93.3 billion lire at that date. From September 1983 onwards includes maturing bad stockpiling operations, which is included among agricultural working credit. — (5) Including securities in foreign currencies. — (6) From the fourth quarter of 1981 onwards includes certificates and other medium-term deposits. — (8) Includes the proceeds of bond issues disbursed to special credit institutions. — (9) Includes compensatory loans in foreign currency reserves created out of net profits, and "Other equity funds", which include provisions of a reserve nature created out of gross profits and on which third parties have no claim. At the items defined as fund-raising plus bonds issued on behalf of the Treasury. — (*) Estimated data.

SPECIAL CREDIT INSTITUTIONS (1)

of lire)

LIABILITIES											
Bonds		Certificates of deposit (7)	Rediscounts	Short-term financing	Public funds	Mediocredito centrale funds (8)	Foreign currency loans (9)	Equity capital (10)	Other	TOTAL (11)	
On behalf of the Treasury	Other										
11,753	26,358	3,146	468	1,435	1,613	1,171	4,818	2,079	12	52,853	 1974
13,858	32,777	4,080	477	1,494	1,795	1,293	4,418	2,401	35	62,628	 1975
13,589	38,172	4,269	505	1,522	2,056	1,418	5,682	2,889	45	70,147	 1976
13,367	43,731	5,193	524	1,697	2,097	1,409	5,406	3,475	26	76,925	 1977
12,970	49,436	6,519	575	2,398	2,177	1,452	5,081	4,222	20	84,850	 1978
12,280	54,693	6,695	595	2,756	2,479	1,515	3,074	5,339	23	89,449	 1979
11,714	60,979	7,444	602	3,620	2,680	1,697	4,007	6,772	25	99,540	 1980
10,905	68,863	9,515	696	5,034	3,091	2,097	5,953	8,360	34	114,548	 1981
10,898	68,847	9,670	696	4,463	3,092	2,125	6,062	8,360	34	114,247	.. Jan. — 1982
10,856	69,256	10,432	696	5,396	3,200	2,189	6,271	8,360	34	116,690	.. Feb.
10,846	70,180	11,344	660	5,521	3,166	2,226	7,019	9,019	24	120,005	.. March
10,664	70,327	11,948	660	5,410	3,204	2,232	7,131	9,019	24	120,619	.. April
10,576	70,887	12,475	660	5,323	3,219	2,230	7,099	9,019	24	121,512	.. May
10,351	72,537	13,453	761	5,068	3,219	2,234	7,494	9,765	35	124,917	.. June
10,247	73,035	14,400	761	4,087	3,274	2,232	7,599	9,765	35	125,435	.. July
10,247	73,671	15,211	761	4,104	3,268	2,287	8,077	9,765	35	127,426	.. Aug.
10,029	77,809	16,749	750	3,756	3,497	2.285	8,224	9,814	34	132,947	.. Sept.
10,027	77,193	17,004	750	3,638	3,387	2,261	8,428	9,814	34	132,536	.. Oct.
10,016	77,062	17,252	750	3,821	3,446	2,320	8,378	9,814	34	132,893	.. Nov.
10,015	77,172	18,060	699	4,230	3,712	2,379	9,605	10,028	22	135,922	.. Dec.
9,518	76,532	18,400	699	4,038	3,743	2,358	9,478	10,028	22	134,816	.. Jan. — 1983
9,507	76,589	17,817	699	4,647	3,811	2,358	9,713	10,028	22	135,191	.. Feb.
9,482	76,942	18,765	812	3,866	4,063	2,382	10,103	10,715	24	137,154	.. March
9,479	76,968	18,871	812	4,059	4,029	2,360	10,255	10,715	24	137,572	.. April
9,471	77,914	18,915	812	3,857	4,224	2,369	10,147	10,715	24	138,448	.. May
9,470	78,874	19,709	799	3,776	4,359	2,320	11,263	11,961	31	142,562	.. June
9,152	78,547	19,550	799	3,749	4,400	2,295	11,813	11,961	31	142,297	.. July
9,139	78,658	19,361	799	3,820	4,651	2,341	12,295	11,961	31	143,056	.. Aug.
9,125	79,494	19,000	872	3,766	4,756	2,358	12,629	12,188	22	144,210	.. Sept.
9,123	79,918	18,546	872	4,522	4,746	2,400	12,715	12,188	22	145,052	.. Oct.
9,122	81,633	18,262	872	4,413	4,633	2,440	13,449	12,188	22	147,034	.. Nov.
9,120	85,134	19,264	818	4,540	4,696	2,436	13,961	12,612	31	152,612	.. Dec.
8,626	84,425	19,062	818	4,159	4,707	2,388	14,087	12,612	31	150,915	.. Jan. — 1984
8,613	85,169	19,441	818	4,463	3,515	2,441	13,848	12,612	31	150,951	.. Feb.

included in the figures on the banks). — (2) Including liquid funds in foreign currencies. The volume of deposits with the Bank of Italy is derived from the accounts for that institution. loans of all the institutions (previously only those of the real estate institutions and public works sections). — (4) From December 1981 onwards excludes financing of voluntary securities issued by the Deposits and Loans Fund totalling 1,275.3 billion lire at end-December 1981, 1,510.2 billion at end-1982 and 1,363.1 billion at end-1983. — (7) Includes savings deposited with the Bank of Italy. — (10) Paid-up capital and reserves. As from March 1980 the components of equity capital have been classified as "Own funds", comprising capital and end-December 1979 equity capital according to the new definition, which includes certain items previously excluded, stood at 5,645.8 billion lire net of uncalled capital. — (11) Refers to

FINANCIAL MARKET:

(billions

	Treasury bills (1)	BONDS AND										
		Public sector									Special credit	
		Government securities					Local government agencies	State railways	Bonds on behalf of Treasury	Total	Industrial	Public works
		Variable rate Treasury credit certificates	Treasury bonds	Other certificates	Bonds of Deposits & Loans Fund	Other						
												Gross
1974	18,385	—	324	1,927	839	—	—	170	1,144	*4,404*	2,685	181
1975	34,175	—	3,000	1,463	943	34	320	200	2,510	*8,470*	4,667	893
1976	46,500	—	1,500	2,489	500	309	—	100	238	*5,136*	3,452	829
1977	66,400	5,500	1,654	6,585	4,851	127	—	300	366	*19,383*	3,718	1,035
1978	62,750	9,683	10,461	1,484	1,795	—	—	200	244	*23,867*	3,761	1,523
1979	58,250	15,250	4,825	244	168	—	—	100	—	*20,587*	3,740	1,414
1980	127,500	12,930	21	—	—	—	—	—	147	*13,098*	5,375	768
1981	198,041	9,200	5,500	2,685	1,275	—	—	—	—	*18,660*	6,478	1,011
1982	273,278	47,250	3,050	1,459	429	84	—	—	—	*52,272*	7,153	1,536
1983	266,351	74,650	13,000	1,740	—	—	—	2,000	—	*91,390*	6,152	2,735
												Re
1974	11,682	—	298	161	34	95	6	75	345	*1,014*	568	72
1975	27,184	—	1,029	154	52	108	6	86	404	*1,839*	805	63
1976	38,595	—	21	344	59	152	10	104	508	*1,198*	1,154	86
1977	61,605	—	547	437	87	199	15	120	587	*1,992*	1,544	109
1978	56,869	—	806	765	757	189	15	151	640	*3,323*	1,907	150
1979	48,428	5,000	3,167	1,076	758	163	19	165	692	*11,040*	2,163	192
1980	102,000	10,184	1,716	1,209	792	124	31	188	712	*14,956*	2,706	238
1981	164,258	6,250	1,500	1,196	800	137	25	205	810	*10,923*	3,666	288
1982	240,674	19,000	4,661	1,772	980	144	35	238	889	*27,719*	4,602	338
1983	255,270	7,130	9,199	1,758	1,000	122	38	270	896	*20,413*	4,817	417
												Premiums/discounts
1974	—	—	1	153	69	—	—	13	180	*416*	285	11
1975	—	—	77	59	93	4	19	11	330	*593*	715	113
1976	—	—	37	219	95	30	—	10	50	*441*	591	131
1977	—	—	158	986	806	26	—	30	67	*2,073*	463	133
1978	—	—	281	199	298	—	—	16	34	*828*	323	202
1979	—	24	122	34	21	—	—	5	—	*206*	135	121
1980	—	55	1	—	—	—	—	—	9	*65*	256	78
1981	—	134	92	—	—	—	—	—	—	*226*	172	36
1982	—	873	19	—	—	—	—	—	—	*892*	83	28
1983	—	868	62	—	—	—	—	—	—	*930*	102	72
												Net
1974	6,703	—	25	1,613	736	−95	−6	82	619	*2,974*	1,832	98
1975	6,991	—	1,894	1,250	798	−78	295	103	1,776	*6,038*	3,147	717
1976	7,905	—	1,442	1,926	346	127	−10	−14	−320	*3,497*	1,707	612
1977	4,795	5,500	949	5,162	3,958	−98	−15	150	−288	*15,318*	1,711	793
1978	5,881	9,683	9,374	520	740	−189	−15	33	−430	*19,716*	1,531	1,171
1979	9,822	10,226	1,536	−866	−611	−163	−19	−70	−692	*9,341*	1,442	1,101
1980	25,500	2,691	−1,696	−1,209	−792	−124	−31	−188	−574	*−1,923*	2,413	452
1981	33,783	2,816	3,908	1,489	475	−137	−25	−205	−810	*7,511*	2,640	687
1982	32,604	27,377	−1,630	−313	−551	−60	−35	−238	−889	*23,661*	2,468	1,170
1983	11,081	66,652	3,739	−18	−1,000	−122	−38	1,730	−896	*70,047*	1,233	2,246

(1) For these securities the net issues are obtained by deducting redemptions from gross issues.

GROSS AND NET ISSUES OF SECURITIES

of lire)

GOVERNMENT SECURITIES											
institutions		Government agencies and firms							TOTAL bonds & government securities	SHARES	
Real estate	Total	ENEL	ENI	IRI EFIM	Motor-ways (IRI)	Private firms	International institutions	Total			
issues											
804	*3,670*	519	—	—	—	23	10	*552*	*8,626*	815	1974
2,252	*7,812*	1,024	300	300	150	94	30	*1,898*	*18,180*	1,808	1975
2,81C	*7,091*	1,202	—	100	100	163	—	*1,565*	*13,792*	2,135	1976
2,981	*7,734*	1,297	200	157	—	256	—	*1,910*	*29,027*	2,357	1977
3,C88	*8,372*	1,300	65	140	—	259	—	*1,764*	*34,003*	3,608	1978
3,240	*8,394*	600	—	610	—	100	—	*1,310*	*30,291*	3,893	1979
4,172	*10,315*	1,195	—	—	—	171	50	*1,416*	*24,829*	4,133	1980
5,372	*12,861*	300	742	502	—	807	—	*2,351*	*33,872*	8,812	1981
5,782	*14,471*	2,386	611	2,300	—	893	—	*6,190*	*72,933*	6,892	1982
5,700	*14,587*	2,430	352	300	—	1,175	—	*4,257*	*110,234*	12,534	1983
demptions											
429	*1,069*	164	43	50	29	141	12	*439*	*2,522*	—	1974
443	*1,311*	158	50	55	34	77	8	*382*	*3,532*	—	1975
533	*1,773*	200	80	83	33	81	13	*490*	*3,461*	—	1976
610	*2,263*	212	117	52	39	81	13	*514*	*4,769*	—	1977
647	*2,704*	230	95	83	49	81	13	*551*	*6,578*	—	1978
841	*3,196*	251	116	112	52	84	18	*633*	*14,869*	—	1979
1,036	*3,980*	692	116	127	54	99	12	*1,100*	*20,036*	—	1980
976	*4,930*	1,158	117	123	110	98	13	*1,619*	*17,472*	—	1981
1,136	*6,076*	1,295	63	131	134	114	19	*1,756*	*35,551*	—	1982
1,410	*6,644*	1,612	64	246	134	115	18	*2,189*	*29,246*	—	1983
and double counting											
152	*448*	19	—	—	—	—	—	*19*	*883*	44	1974
263	*1,091*	40	33	24	21	1	1	*120*	*1,804*	136	1975
433	*1,155*	58	—	7	12	6	—	*83*	*1,679*	263	1976
462	*1,058*	64	26	20	—	—	—	*110*	*3,241*	511	1977
381	*906*	46	4	7	—	—	—	*57*	*1,791*	623	1978
286	*542*	12	—	22	—	—	—	*34*	*782*	1,161	1979
353	*687*	47	—	—	—	—	5	*52*	*804*	1,048	1980
215	*423*	4	3	22	—	1	—	*30*	*679*	1,626	1981
137	*248*	14	5	—	—	—	—	*19*	*1,159*	888	1982
129	*303*	38	—	—	—	—	—	*38*	*1,271*	1,635	1983
issues											
223	*2,153*	336	−43	−50	−29	−118	−2	*94*	*5,221*	771	1974
1,546	*5,410*	826	217	221	95	16	21	*1,396*	*12,844*	1,672	1975
1,844	*4,163*	944	−80	10	55	76	−13	*992*	*8,652*	1,872	1976
1,909	*4,413*	1,021	57	85	−39	175	−13	*1,286*	*21,017*	1,846	1977
2,060	*4,762*	1,024	−34	50	−49	178	−13	*1,156*	*25,634*	2,985	1978
2,113	*4,656*	337	−116	476	−52	16	−18	*643*	*14,640*	2,723	1979
2,783	*5,648*	456	−116	−127	−54	72	33	*264*	*3,989*	3,085	1980
4,181	*7,508*	−862	622	357	−110	708	−13	*702*	*15,721*	7,186	1981
4,509	*8,147*	1,077	543	2,169	−134	779	−19	*4,415*	*36,223*	6,004	1982
4,161	*7,640*	780	288	54	−134	1,060	−18	*2,030*	*79,717*	10,899	1983

SOURCES AND USES OF MONETARY BASE (*)

(changes in billions of lire)

	SOURCES								TOTAL MONETARY BASE	USES				
	Foreign sector			TREASURY			REFINANCING	OTHER SECTORS		PUBLIC	Bank reserves			
	Balance of payments	Banks' net external position	TOTAL (1)	Borrowing requirement	Other financing (2)	TOTAL					Compulsory reserves	non-interest-bearing deposit against excess lending	Excess reserves	TOTAL
1974	−3,716	654	−3,063	8,973	763	8,210	135	−2,064	*3,217*	1,162	1,494	—	560	2,055
1975	−1,438	−274	−1,714	16,469	12,388	4,081	785	1,388	*4,538*	1,780	1,634	—	1,125	2,758
1976	−1,531	2,647	1,102	14,866	5,331	9,535	−1,656	−4,018	*4,963*	1,692	4,415	—	−1,144	3,271
1977	1,730	3,425	5,140	22,554	26,530	−3,976	227	5,003	*6,395*	1,835	3,664	—	896	4,560
1978	6,997	−1,066	5,911	34,278	29,294	4,984	−56	−979	*9,860*	2,936	5,076	—	1,848	6,925
1979	1,827	1,054	2,868	30,370	29,610	760	2,624	689	*6,941*	2,631	5,508	—	−1,198	4,310
1980	−6,258	6,932	705	37,010	27,270	9,740	−2,576	1	*7,869*	3,670	3,046	626	527	4,199
1981	1,533	−1,521	25	53,087	38,854	14,233	119	−5,738	*8,639*	4,430	2,946	821	442	4,209
1982	−2,521	−3,062	−5,647	72,554	59,878	12,676	638	2,669	*10,336*	3,528	8,544	−519	−1,218	6,807
1983	3,793	4,996	8,840	88,493	83,964	4,529	−3	−748	*12,618*	4,080	9,091	−927	373	8,537
1982 - Jan.	1	−195	−242	3,966	251	3,715	229	−998	*2,704*	−1,808	6,313	280	−2,081	4,512
Feb.	−1,326	455	−871	5,643	6,521	−878	−334	1,115	*−968*	−5	−1,446	201	282	−963
March	−2,183	−1,334	−3,517	4,349	4,950	−601	541	1,402	*−2,176*	−179	−492	−872	−633	−1,997
April	−677	−1,459	−2,136	7,845	5,569	2,276	−523	982	*599*	276	86	6	231	323
May	262	113	374	4,444	4,002	442	59	−316	*559*	−170	−258	422	564	728
June	1,103	1,351	2,455	2,577	4,328	−1,751	87	565	*1,356*	858	−427	586	339	498
July	938	360	1,297	9,828	8,537	1,291	215	−513	*2,291*	2,567	1,177	−755	−698	−276
Aug.	1,146	329	1,471	5,957	8,866	−2,909	−19	−258	*−1,715*	−2,026	366	−139	84	311
Sept.	−295	−321	−619	8,315	6,978	1,337	501	−12	*1,208*	13	334	76	785	1,195
Oct.	323	−2,877	−2,557	8,507	3,228	5,279	−211	−445	*2,067*	197	1,084	−148	934	1,870
Nov.	−2,816	903	−1,906	3,980	1,235	2,745	55	−335	*558*	681	720	−470	−373	−123
Dec.	1,003	−387	605	7,143	5,412	1,731	38	1,482	*3,856*	3,124	1,088	296	−652	732
1983 - Jan.	−474	1,174	815	2,067	−1,798	3,865	1,953	−1,519	*5,114*	−2,379	7,675	681	−863	7,493
Feb.	−248	−418	−642	6,575	4,667	1,908	−1,809	277	*−265*	−18	−928	651	30	−247
March.	−1,405	1,054	−524	4,768	4,255	513	−101	−134	*−245*	580	−805	−687	667	−825
April	1,210	872	2,048	9,158	11,440	−2,282	3	−128	*−360*	71	−669	759	−522	−431
May	−1,244	2,423	1,089	6,226	7,487	−1,261	94	−375	*−452*	−484	43	−25	14	32
June	2,888	−25	2,961	5,751	8,417	−2,666	−83	1,360	*1,572*	1,239	−390	539	184	333
July	2,038	687	2,748	9,904	7,611	2,293	65	−765	*4,340*	2,947	1,576	−75	−107	1,394
Aug.	1,463	−1,632	−254	9,535	12,578	−3,043	−17	−557	*−3,871*	−2,514	619	−2,639	662	−1,358
Sept.	−199	−877	−1,183	9,145	8,851	294	559	279	*−50*	439	797	−105	−1,181	−489
Oct.	−662	469	−37	8,192	7,145	1,047	1,228	−893	*1,345*	−12	1,023	−1	335	1,357
Nov.	742	929	1,706	9,126	7,047	2,079	−1,881	−218	*1,687*	262	495	−26	956	1,425
Dec.	−316	340	112	8,046	6,263	1,783	−15	1,924	*3,804*	3,951	−345	—	198	−147

(*) The definition of the channels for the creation of monetary base has been amended. The advances granted under the Ministerial Decree of 27.9.1974 have been excluded from "Refinancing" and the securities purchased in the market with those advances have been excluded from "Other financing" of the Treasury. Any discrepancies are due to the rounding of decimals.

(1) The creation of monetary base by the foreign sector does not match the sum of the items indicated owing to differences between the balance-of-payments statistics and the consolidated balance sheet of BI-UIC and to the inclusion of the convertible currencies of banks up to January 1983. — (2) Securities sold in the market (excluding those purchased with advances under the Ministerial Decree of 27.9.74), P.O. deposits, foreign loans, the social security institutions' deposits with the Treasury, indemnities lodged with the Deposits and Loans Fund and loans granted by banks and special credit institutions to the autonomous agencies.

INTEREST RATES: BANK OF ITALY OPERATIONS

(Percentages)

	OFFICIAL							EFFECTIVE				
	Current accounts (1)			Bill discounting					Repurchase agreements			
		Tied							Purchases		Sales	
	At sight	8-day	Compulsory reserves (3)	Ordinary bills (base rate)	Agricultural working and improvement credits	Ordinary advances		Fixed-term advances	Minimum	Average	Maximum	Average
From 1 Jan. 1958	0.50	1.50	4.25	4.00	4.00	4.00	1982 - Jan. . . .	19.13	19.40	19.48	19.60	19.47
to: 7 June 1958	»	»	3.75	3.50	3.50	3.50	Feb. . .	19.00	19.50	19.55	19.15	18.83
14 Aug. 1969	»	»	»	4.00	»	4.00	March	21.10	—	—	19.00	18.52
9 March 1970	»	»	»	5.50	»	5.50	April . .	22.00	—	—	20.85	19.70
1 Oct. 1970	»	»	5.50	»	»	»	May . .	22.00	—	—	20.85	20.59
11 Jan. 1971	»	»	»	»	»	5.00	June . .	—	19.00	19.00	19.00	18.66
5 April 1971	»	»	»	5.00	»	»	July . . .	19.00	—	—	17.90	17.63
14 Oct. 1971	»	»	»	4.50	»	4.00	Aug. . .	22.00	—	—	17.50	17.17
31 Jan. 1972	»	»	»	»	3.50	»	Sept. . .	18.43	16.80	17.52	16.25	16.17
10 April 1972	»	1.00	»	4.00	»	3.50	Oct. . .	20.75	—	—	17.80	16.99
17 Sept. 1973	»	»	»	6.50	6.50	6.50	Nov. . .	19.81	—	—	18.25	18.15
20 March 1974	»	»	»	9.00	9.00	9.00	Dec. . .	21.00	18.45	18.60	18.25	18.14
27 Dec. 1974	»	»	»	8.00	8.00	8.00						
28 May 1975	»	»	»	7.00	7.00	7.00	1983 - Jan. . . .	20.87	18.40	18.54	18.25	18.20
15 Sept. 1975	»	»	»	6.00	6.00	6.00	Feb. . .	20.87	18.70	19.12	—	—
2 Feb. 1976	»	»	»	7.00	7.00	7.00	March	20.64	18.50	19.25	18.50	17.93
25 Feb. 1976	»	»	»	8.00	»	8.00	April . .	—	—	—	17.60	16.97
18 March 1976	»	»	»	12.00	»	12.00	May . .	19.30	17.30	17.49	16.90	16.42
4 Oct. 1976	»	»	»	15.00	»	15.00	June . .	20.00	17.60	17.80	16.00	15.67
13 June 1977	»	»	»	13.00	»	13.00	July . . .	19.16	17.90	17.99	16.00	15.11
29 Aug. 1977	»	»	»	11.50	»	11.50	Aug. . .	19.52	18.15	18.20	14.45	14.07
4 Sept. 1978	»	»	»	10.50	»	10.50	Sept. . .	19.71	—	—	14.80	14.27
8 Oct. 1979	»	»	»	12.00	»	12.00	Oct. . .	19.90	—	—	—	—
6 Dec. 1979	»	»	»	15.00	»	15.00	Nov. . .	20.00	—	—	16.25	15.26
29 Sept. 1980	»	»	»	16.50	»	16.50	Dec. . .	19.81	18.10	18.96	16.00	15.43
23 March 1981	»	»	»	19.00	9.50	19.00						
25 Aug. 1982	»	»	»	18.00	»	18.00	1984 - Gen. . .	19.96	17.00	17.83	—	—
11 April 1983	»	»	»	17.00	9.00	17.00	Feb. . .	18.52	15.20	16.63	—	—
16 Feb. 1984	»	»	»	16.00	8.50	16.00	March	17.45	14.50	16.07	—	—
7 May 1984	»	»	»	15.50	»	15.50	April . .	16.65	15.00	15.74	—	—

(1) Current accounts of banks, social security institutions, insurance companies and, as from 1 January 1963, central credit institutions, special credit insitutions, holding companies and public bodies. Until 10 April 1972 there was also provision for 15-day, 3-month and 6-month tied accounts at 2, 2.50 and 2.75% respectively. — (2) From 24 March 1969 onwards the average rate of interest, weighted in accordance with the penalty of 0.50 percentage point for each new transaction occurring within 6 months of the preceding one up to a maximum of 1.50 points over the base rate. On 18 June 1973 the penalty was increased to 1 percentage point and the maximum to 3 points. From 31 December 1973 onwards penalties of 3, 2 or 1 point have been applied to each transaction occurring within 90, 120 or 150 days of the preceding transaction (between 27 December 1974 and 27 May 1975 the penalties were 3.5, 2,5 and 1.5 points respectively); as from 16 February 1984 the relevant periods were reduced to 5, 15 and 30 days. — (3) Since 28 December 1982 the rate of interest on the proportion of reserves corresponding to the ratio of certificates of deposit to total funds subject to reserve requirements has been fixed at 9.50%.

INTEREST RATES: MONEY MARKET AND THE BANKS

(percentages)

	TREASURY BILL YIELDS (1)				BANK INTEREST RATES								
	3-month bills	6-month bills	12-month bills	Average (2)	Interbank accounts (3) (4)	Deposits (5)	Loans (6)		Deposits (3)		Loans (3)		ABI prime rate (7)
							in lire	Total	Maximum	Normal	Minimum	Normal	
1974	15.32	12.64	15.61	14.12	–	8.06	14.31	14.22	–	–	–	–	–
1975	12.04	8.44	9.23	11.01	–	7.99	15.28	15.08	–	–	–	–	13.44
1976	17.81	16.49	14.25	16.63	–	10.95	17.73	17.33	–	–	–	–	17.67
1977	14.87	15.42	15.35	15.24	–	12.26	19.53	18.58	–	–	–	–	18.41
1978	11.47	12.18	12.51	11.99	–	10.66	16.86	16.00	–	–	–	–	15.71
1979	13.66	12.14	12.57	12.51	11.71	10.24	15.96	15.43	12.39	9.29	14.64	17.95	15.43
1980	15.94	15.98	15.47	15.92	16.77	11.79	20.32	19.41	14.86	10.88	19.03	22.14	19.93
1981	19.63	19.84	19.12	19.70	19.31	13.89	22.89	21.83	17.60	12.55	21.44	24.70	22.13
1982	19.40	19.37	19.43	19.44	19.91	15.03	23.08	21.65	18.82	13.44	21.62	25.03	21.54
1983	17.83	17.77	18.05	17.89	18.31	14.24	21.24	19.58	17.63	12.47	19.44	23.47	19.19
1982 - Jan.	20.83	20.96	19.98	20.82	20.49	–	–	–	18.90	13.35	22.28	25.40	22.50
Feb.	20.10	20.41	19.98	20.25	20.46	–	–	–	18.98	13.46	22.35	25.43	22.50
March	19.43	19.66	19.98	19.62	20.48	15.18	23.44	22.11	18.97	13.51	22.09	25.28	21.75
April	20.69	19.78	19.98	20.18	20.40	–	–	–	18.89	13.51	21.88	25.14	21.75
May	20.79	20.05	19.98	20.35	20.51	–	–	–	18.88	13.52	21.85	25.14	21.75
June	19.11	19.29	19.76	19.33	20.51	15.19	23.10	21.83	18.97	13.56	21.84	25.18	21.75
July	18.83	19.27	19.76	19.22	20.24	–	–	–	18.99	13.62	21.77	25.17	21.75
Aug.	18.31	19.01	19.35	18.89	19.96	–	–	–	18.98	13.61	21.72	25.11	20.75
Sept.	17.54	17.72	18.62	17.95	19.09	14.75	23.15	21.65	18.59	13.28	21.07	24.74	20.75
Oct.	18.07	18.05	18.62	18.22	18.76	–	–	–	18.53	13.25	20.89	24.63	20.75
Nov.	19.54	19.09	18.62	19.26	18.91	–	–	–	18.57	13.29	20.87	24.60	20.75
Dec.	19.51	19.11	18.55	19.17	19.05	15.00	22.62	20.99	18.60	13.31	20.85	24.55	20.75
1983 - Jan.	19.51	19.09	18.62	19.16	19.07	–	–	–	18.66	13.34	20.83	24.34	20.75
Feb.	19.07	19.09	18.62	18.98	19.14	–	–	–	18.24	12.89	20.44	24.00	20.00
March	18.58	18.88	18.57	18.73	19.12	14.78	22.31	20.67	18.14	12.93	20.19	23.84	20.00
April	17.84	18.27	18.26	18.17	18.70	–	–	–	18.02	13.00	19.93	23.72	19.50
May	17.36	17.65	17.97	17.64	18.16	–	–	–	17.60	12.52	19.36	23.44	18.75
June	17.34	17.35	17.94	17.48	18.03	14.09	21.36	19.60	17.42	12.28	19.07	23.23	18.75
July	17.37	17.35	17.94	17.50	17.90	–	–	–	17.37	12.18	19.02	23.20	18.75
Aug.	17.34	17.24	17.89	17.48	17.90	–	–	–	17.36	12.13	18.96	23.20	18.75
Sept	17.06	17.18	17.88	17.41	17.81	13.98	20.79	19.08	17.24	12.10	18.93	23.18	18.75
Oct.	17.34	17.08	17.74	17.39	17.83	–	–	–	17.16	12.06	18.88	23.16	18.75
Nov.	17.58	17.05	17.74	17.41	18.01	–	–	–	17.15	12.08	18.84	23.15	18.75
Dec.	17.54	16.95	17.47	17.29	18.04	14.09	20.48	18.98	17.17	12.11	18.80	23.13	18.75
1984 - Jan.	16.81	16.55	16.84	16.72	18.04	–	–	–	17.12	12.13	18.70	23.03	18.50
Feb.	15.79	15.81	16.00	15.91	17.82	–	–	–	16.93	12.07	18.52	22.90	18.50
March	15.66	15.61	15.81	15.71	17.41	–	–	–	16.40	11.74	17.85	22.37	17.50
April	15.60	15.45	15.67	15.57	17.35	–	–	–	16.25	11.64	17.58	22.16	17.50

(1) Annual compound rates; the calculation is based on the financial year until 1976 and on the calendar year from 1977 onwards. The annual rates are averages of the monthly rates. — (2) Weighted average of allotment rates in the public auctions. — (3) Monthly average of rates reported at 10-day intervals. — (4) Maximum rate applied to the lira sight deposits of resident credit institutions with a debit balance of more than 1 billion lire. — (5) Average end-quarter rates on sight and time deposits and current accounts of 20 million lire or more recorded by the Central Risks Office. — (6) Quarterly average of lending rates recorded by Central Risks Office. — (7) The monthly data relative to the end of the month in question, whereas the annual data are weighted averages of the monthly rates.

Table a 22

INTEREST RATES: SECURITIES

(average percentage values)

	Variable rate Treasury credit certificates	Other government securities: Treasury bonds	Other government securities: Total	Bonds: Credit institutions: industrial	Bonds: Credit institutions: real estate	Bonds: ENEL ENI IRI	Bonds: Firms	Bonds: Total	Shares
1974	....	9.61	9.11	10.20	7.83	10.68	10.86	9.43	2.95
1975	....	10.04	10.06	10.82	8.66	11.38	11.57	10.56	4.89
1976	....	12.66	12.62	13.39	12.15	13.43	14.35	13.13	4.15
1977	....	14.71	14.71	14.56	14.48	14.53	15.40	14.60	4.58
1978	....	13.05	13.18	13.34	13.61	13.36	14.02	13.52	4.92
1979	....	13.02	13.12	13.58	13.69	13.68	14.48	13.78	3.18
1980	....	15.25	15,30	15.39	15.16	15.71	16.56	15,65	2.43
1981	20.25	19.36	19.35	19.68	19.54	19.44	21.52	19.78	1.89
1982	20.78	20.22	20.21	20.28	21.58	20.19	21.39	20.62	2.24
1983	19.82	18.30	18.25	17.93	18.72	17.68	18.52	17.99	2.45
1982 - Jan.	21.84	20.94	20.97	20.57	21.53	20.51	21.83	20.87	2.14
Feb.	21.26	20.73	20.70	20.44	21.67	20.13	21.87	20.76	2.06
March	20.84	20.08	20.07	20.43	21.29	20.43	21.36	20.69	1.99
April	20.55	20.22	20.22	20.50	21.51	20.66	21.38	20.83	2.12
May	20.83	20.82	20.77	20.71	21.88	20.84	21.62	21.01	2.23
June	21.05	20.90	20.78	20.75	22.06	20.93	21.82	21.07	2.47
July	20.58	20.85	20.77	20.44	21.92	20.82	21.50	20.91	2.53
Aug.	20.51	20.12	20.11	20.20	21.50	20.21	21.42	20.59	2.34
Sept.	20.21	19.15	19.18	19.80	21.18	19.45	21.10	20.11	2,36
Oct.	19.64	19.31	19.38	19.66	21.19	19.41	20.87	20.07	2.32
Nov.	20.77	19.84	19.90	19.96	21.49	19.69	21.11	20.32	2.18
Dec.	21.32	19.62	19.70	19.86	21.78	19.24	20.85	20.15	2.12
1983 - Jan.	21.26	19.33	19.33	19.55	21.27	19.29	20.31	19.76	2.04
Feb.	21.37	19.18	19.13	19.21	20.80	18.73	19.69	19.27	1.79
March	21.31	18.76	18.74	18.28	18.91	17.87	18.76	18.23	1.74
April	20.61	18.21	18.11	17.77	18.70	17.37	18.19	17.84	1.86
May	20.00	18.29	18.13	17.92	18.44	17.82	18.34	17.92	2.03
June	19.66	18.39	18.22	17.90	18.49	17.76	18.44	17.91	2.74
July	19.07	18.42	18.34	17.64	18.32	17.52	18.24	17.74	2.74
Aug.	19.03	18.11	18.11	17.50	18.19	17.48	18.54	17.68	2.63
Sept.	18.98	17.79	17.82	17.47	17.97	16.92	18.39	17.46	2.69
Oct.	18.90	17.64	17.65	17.20	17.72	16.73	17.75	17.22	3.23
Nov.	18.93	17.78	17.78	17.43	17.72	17.30	17.74	17.43	2.93
Dec.	18.76	17.69	17.69	17.33	18.09	17.37	17.81	17.47	2.93
1984 - Jan.	18.48	16.92	16,91	16.59	17.56	16.01	16.79	16.59	2.62
Feb.	18.03	16.33	16.34	15.80	17.16	15.36	15.89	15.89	2.49
March	17.48	15.68	15.69	15.25	16.33	15.04	15.04	15.35	2.39
April	17.37	15.74	15.74	15.08	15.96	14.72	15.27	15.16	2.43

FINANCIAL ASSETS OF THE

(stocks *in*

	1975	1976	1977	1978	1979
FINANCIAL ASSETS					
Domestic	**176,929**	**208,860**	**246,115**	**306,838**	**391,012**
notes and coin	12,304	13,953	15,780	18,533	21,001
demand deposits: with banks	45,567	55,535	68,223	83,566	104,145
with the Post Office	1,471	1,841	2,538	3,598	5,918
M_1	*59,342*	*71,329*	*86,541*	*105,697*	*131,064*
bank savings deposits	48,731	59,879	73,577	87,112	100,838
P.O. savings deposits	11,847	14,086	16,538	20,308	24,757
M_2	*119,920*	*145,294*	*176,656*	*213,117*	*256,659*
Treasury bills	236	2,605	6,231	9,952	18,490
M_3	*120.156*	*147,899*	*182,887*	*223,069*	*275,149*
Banker's acceptances	..	..	..	..	60
Deposits and savings certificates with special credit institutions	3,727	3,669	3,905	4,939	5,362
Medium and long-term securities	17,057	17,345	17,757	23,932	27,862
of which: *Treasury credit certificates*	*12*	*45*	*1,269*	*3,788*	*6,865*
Shares (1)	25,551	27,813	27,372	38,466	63,474
Other financial assets	10,438	12,134	14,194	16,432	19,105
Actuarial reserves	*10,195*	*11,863*	*13,893*	*16,041*	*18,420*
Deposits on payments abroad + other (2)	*243*	*271*	*301*	*391*	*685*
Foreign (1)	....	**13,085**	**14,190**	**16,277**	**20,006**
Short-term loans (net)	....	175	1,395	2,240	4,342
Mortgages	....	8,402	7,860	8,643	9,533
Medium and long-term securities	853	1,295	1,209	1,380	1,747
Shares and participations	2,717	3,213	3,726	4,014	4,384
TOTAL ...	....	**221,945**	**260,305**	**323,115**	**411,018**
AGAINST FINANCING OF					
Economy	**130,598**	**157,533**	**178,724**	**215,062**	**267,893**
Short-term borrowing	47,061	57,566	66,226	74,396	89,917
banking system	*45,932*	*56,187*	*64,541*	*71,856*	*86,462*
special credit institutions	*1,129*	*1,379*	*1,685*	*2,540*	*3,455*
Medium and long-term borrowing	45,611	57,947	67,677	77,398	87,603
mortgages: banks	*5,286*	*6,546*	*7,987*	*10,320*	*13,888*
special credit institutions (3)	*30,663*	*34,820*	*39,266*	*43,703*	*47,253*
public sector	*470*	*521*	*3,157*	*3,171*	*3,646*
foreign	..	*5,781*	*5,578*	*7,290*	*9,207*
bonds	*9,192*	*10,279*	*11,689*	*12,914*	*13,609*
Shares and participations	36,270	39,833	41,576	58,460	82,719
shares	*30,835*	*32,943*	*33,133*	*47,174*	*70,365*
endowment funds	*3,754*	*4,417*	*5,595*	*7,974*	*8,847*
financing by local authorities	*1,681*	*2,473*	*2,848*	*3,312*	*3,507*
Other financial liabilities (4)	1,656	2,187	3,245	4,808	7,654
Foreign sector	....	**– 2,080**	**210**	**7,163**	**20,296**
Public sector (consolidated)	**65,647**	**86,409**	**104,377**	**128,238**	**155,361**
Unclassified (5)	....	**– 19,917**	**– 23,006**	**– 27,348**	**– 32,532**

(1) Data for 1983 are estimated. — (2) Includes atypical securities. — (3) Includes insurance companies. — (4) Bad debts of credit institutions, acceptances purchased by

Table a 23

ECONOMY AND THEIR COUNTERPARTS

billions of lire)

1980	1981	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II	1983 III	1983 IV
557,749	**641,095**	....	....	....	**729,894**	....	....	....	**869,122**
24,545	28,839	26,787	27,769	28,246	32,308	30,407	31,229	32,174	36,020
121,452	138,739	130,585	134,493	138,333	164,648	151,265	154,527	159,826	182,913
4,331	5,752	5,470	5,218	5,153	7,346	7,607	7,617	8,767	9,701
150,328	*173,330*	*162,842*	*167,480*	*171,732*	*204,302*	*189,279*	*193,373*	*200,767*	*228,634*
112,163	124,215	123,705	124,375	128,786	147,765	147,679	149,095	153,548	168,907
28,452	30,367	30,531	30,401	30,388	33,167	33,393	33,338	33,488	36,853
290,943	*327,912*	*317,078*	*322,256*	*330,906*	*385,234*	*370,351*	*375,806*	*387,803*	*434,394*
34,227	58,378	71,749	79,367	77,514	70,147	80,436	84,265	86,134	85,911
325,170	*386,290*	*388,827*	*401,623*	*408,420*	*455,381*	*450,787*	*460,071*	*473,937*	*520,305*
1,245	1,849	1,583	2,374	2,266	1,477	1,789	1,491	1,039	998
5,776	7,132	9,034	10,797	12,949	13,990	14,976	15,942	15,300	15,354
27,291	34,224	40,416	41,648	45,817	47,306	60,063	70,405	81,664	87,447
8,414	*11,926*	*16,309*	*17,753*	*19,994*	*22,477*	*31,997*	*40,434*	*49,498*	*52,862*
175,454	180,739	....	....	....	179,812	....	....	....	208,267
22,813	30,861	28,134	29,322	30,545	31,928	32,951	34,192	35,338	36,751
21,801	*25,543*	*26,719*	*27,895*	*29,071*	*30.247*	*31,397*	*32,547*	*33,697*	*34,846*
1,012	*5,318*	*1,415*	*1,427*	*1,474*	*1,681*	*1,554*	*1,645*	*1,641*	*1,905*
22,935	**23,382**	....	....	....	**28,531**	....	....	....	**31,327**
4,653	2,280	....	....	....	3,562	....	....	....	1,162
9,988	11,087	....	....	....	12,525	....	....	....	15,525
2,148	1,376	....	....	....	1,735	....	....	....	1,492
6,146	8,639	....	....	....	10,709	....	....	....	13,148
580,684	**664,477**	....	....	....	**758,425**	....	....	....	**900,449**
419,187	**472,254**	....	....	....	**518,288**	....	....	....	**595,318**
107,347	122,576	120,876	121,823	124,762	134,058	136,311	139,458	141,124	153,663
102,438	*115,552*	*113,219*	*113,440*	*116,176*	*125,324*	*127,603*	*131,084*	*133,112*	*144,598*
4,909	*7,024*	*7,657*	*8,383*	*8,586*	*8,734*	*8,708*	*8,374*	*8,012*	*9,065*
104,056	129,971	....	....	....	152,307	....	....	....	164,491
17,970	*21,154*	*21,395*	*21,702*	*21,928*	*22,415*	*22,820*	*23,415*	*24,066*	*25,353*
53,552	*63,890*	*66,197*	*68,797*	*71,549*	*73,847*	*75,800*	*77,133*	*79,640*	*81,500*
3,637	*2,079*	*1,952*	*1,925*	*1,844*	*1,798*	*1,803*	*2,231*	*2,038*	*2,062*
15,010	*28,217*	....	....	....	*35,163*	....	....	....	*34,405*
13,887	*14,631*	*17,416*	*18,035*	*19,260*	*19,084*	*20,352*	*20,263*	*21,105*	*21,171*
196,366	205,616	....	....	....	215,788	....	....	....	257,899
180,135	*182,753*	....	....	....	*185,538*	....	....	....	*217,502*
12,505	*18,421*	....	....	....	*25,601*	....	....	....	*34,904*
3,726	*4,442*	....	....	....	*4,649*	....	....	....	*5,493*
11,418	14,091	14,944	16,024	16,839	16,135	17,859	17,764	18,798	19,265
30,337	**13,931**	....	....	....	**2,416**	....	....	....	**7,719**
180,834	**230,112**	....	....	....	**325,819**	....	....	....	....
– 49,674	**– 51,820**	....	....	....	**– 88,098**	....	....	....	....

non-bank investors and atypical securities. — (5) Includes discrepancies.

TOTAL DOMESTIC CREDIT AND FINANCIAL ASSETS

(flows in billions of lire)

	Finance to non-state sector (a)	State sector domestic borrowing requirement (b)	Total domestic credit (a) + (b)	Foreign sector (1)	Other items & discrepancies	Financial assets (2)	of which: M_2	of which: M_3
1974	12,547	8,796	21,343	−3,716	−5,612	12,015	13,752	13,873
1975	16,896	14,238	31,134	−1,438	−3,994	25,702	24,305	24,314
1976	19,844	14,200	34,044	−1,531	−1,549	30,964	26,612	29,171
1977	17,371	17,923	35,294	1,730	−811	36,213	33,681	37,517
1978	17,686	31,706	49,392	6,997	−1,839	54,550	43,231	47,156
1979	25,293	28,503	53,796	1,824	5,460	61,080	47,088	56,027
1980	29,189	34,008	63,197	−6,258	−3,951	52,988	35,454	51,637
1981	28,070	44,905	72,975	1,533	−5,582	68,926	31,008	55,749
1982	31,362	68,951	100,313	−2,521	−11,243	86,549	58,404	69,673
1983	34,204	85,555	119,759	3,793	−11,878	111,674	53,708	69,491
1982 - Jan.	−113	3,510	3,397	1	−3,323	75	−8,555	−1,804
Feb.	819	5,473	6,292	−1,326	−1,924	3,042	−2,334	1,691
March	3,653	4,050	7,703	−2,183	−960	4,560	102	2,618
April	1,583	7,705	9,288	−677	−5,534	3,077	1,285	3,590
May	886	4,462	5,348	262	−4,316	1,294	−1,222	2,555
June	2,498	1,989	4,487	1,103	5,564	11,154	5,290	6,748
July	5,758	9,685	15,443	938	−11,483	4,898	4,096	3,264
Aug.	453	5,661	6,114	1,146	−3,680	3,580	−259	1,365
Sept.	1,443	7,965	9,408	−295	−3,744	5,369	5,462	2,890
Oct.	3,454	8,046	11,500	323	−8,310	3,513	4,084	1,349
Nov.	2,008	3,864	5,872	−2,816	6,206	9,262	7,939	6,423
Dec.	8,920	6,541	15,461	1,003	20,261	36,725	42,516	38,984
1983 - Jan.	475	1,984	2,459	−474	−3,419	−1,434	−9,918	−4,938
Feb.	206	6,610	6,816	−248	−2,924	3,644	−3,626	−232
March	4,464	4,697	9,161	−1,405	−113	7,643	−671	1,451
April	2,935	8,852	11,787	1,210	−6,266	6,731	1,175	1,867
May	1,327	6,055	7,382	−1,244	−1,727	4,411	−2,022	653
June	572	5,441	6,013	2,888	2,257	11,158	7,454	7,882
July	8,504	9,671	18,175	2,038	−11,468	8,745	6,247	5,633
Aug.	−2,833	9,115	6,282	1,463	−1,489	6,256	878	2,862
Sept.	−143	9,323	9,180	−199	−426	8,555	4,791	5,228
Oct.	6,649	7,416	14,065	−662	−2,540	10,863	2,517	3,554
Nov.	4,489	8,980	13,469	742	−10,138	4,073	−1,444	1,325
Dec.	7,559	7,411	14,970	−316	26,375	41,029	48,327	44,206
Amounts oustanding as of Dec. 1983	**306,537**	**398,312**	**704,850**	**....**	**....**	**659,346**	**456,958**	**544,434**
1984 - Jan.	4,666	1,695	6,361	−750	−398	5,213	−12,093	−2,894
Feb.	1,954	6,336	8,290	−599	....	....	−6,832	−1,075
March	2,355	9,217	11,572	....	....	....	2,058	3,850

(1) Overall balance of the balance of payments. — (2) Domestic financial assets of the non-state sector, net of shares, participations, atypical securities and actuarial reserves.

Table a 25

FINANCING OF INVESTMENT

(flows in billions of lire)

	Households	Firms and dwellings	Public sector (consolidated) (1)	Credit institutions (consolidated) (2)	TOTAL	Foreign sector
			1982			
Fixed investment	—	65,809	21,898	1,853	89,560	—
Changes in stocks	—	5,332	—	—	5,332	—
Capital transfers	—	−7,415	7,153	—	−262	262
Financial assets	74,406	19,066	12,231	76,152	181,855	10,287
liquid assets	52,827	16,262	1,245	16,905	87,239	82
medium and long-term securities	10,400	1,714	271	17,224	29,609	217
shares and participations	106	2,572	8,057	983	11,718	281
other loans (net) (3)	11,073	−1,482	2,658	41,040	53,289	9,707
FINANCIAL REQUIREMENT	**74,406**	**82,792**	**41,282**	**78,005**	**276,485**	**10,549**
Gross saving (4)	73,535	40,091	−38,611	12,203	87,218	7,412
Financial liabilities (5)	871	39,747	78,896	66,996	186,510	2,875
short-term borrowing (6)	1,481	10,674	46,169	58,038	116,362	930
mortgages and other loans: domestic	−610	11,924	6,173	3,402	20,889	858
foreign	—	3,206	2,638	2,399	8,243	—
medium and long-term securities	—	4,433	23,916	2,137	30,486	−380
shares and participations	—	9,510	—	1,020	10,530	1,467
Adjustments	—	2,954	997	−1,194	2,757	262
SOURCES OF FINANCE	**74,406**	**82,792**	**41,282**	**78,005**	**276,485**	**10,549**
NET FINANCIAL INVESTMENT	**73,535**	**−20,681**	**−66,665**	**9,156**	**−4,655**	**7,412**
			1983			
Fixed investment	—	67,987	26,541	1,740	96,268	—
Changes in stocks	—	−3,236	—	—	3,236	—
Capital transfers	—	−8,184	7,983	—	−201	201
Financial assets	91,318	25,248	19,546	92,600	228,712	28,555
liquid assets	50,980	13,946	5,451	6,164	76,541	−69
medium and long-term securities	34,340	4,281	806	36,148	75,575	—
shares and participations	556	2,430	11,308	670	14,964	2,410
other loans (net) (3)	5,442	4,591	1,981	49,618	61,632	26,214
FINANCIAL REQUIREMENT	**91,318**	**81,815**	**54,070**	**94,340**	**321,543**	**28,756**
Gross saving (4)	90,427	32,442	−39,210	10,330	93,989	−1,158
Financial liabilities (5)	891	46,445	95,019	83,804	226,159	29,713
short-term borrowing (6)	1,122	18,848	17,545	66,896	104,411	24,648
mortgages and other loans: domestic	−231	11,997	8,342	6,210	26,318	1,582
foreign	—	816	981	6,031	7,828	—
medium and long-term securities	—	2,049	68,151	3,743	73,943	−234
shares and participations	—	12,735	—	924	13,659	3,717
Adjustments	—	2,928	−1,739	206	1,395	201
SOURCES OF FINANCE	**91,318**	**81,815**	**54,070**	**94,340**	**321,543**	**28,756**
NET FINANCIAL INVESTMENT	**90,427**	**−21,197**	**−75,473**	**8,796**	**2,553**	**−1,158**

(1) The difference between the sector's financial liabilities and the total borrowing requirement shown in Table a 11 is due essentially to inclusion of the actuarial reserves of the social security institutions. — (2) Includes insurance companies. — (3) The figures for the credit institutions include bad debts and arrears of payments. — (4) Households' gross saving has been equated to the net financial investment. — (5) The financial liabilities include the bad debts of the credit institutions and have been adjusted for securities issued to fund debts. The figures for the external financing of the sector "Firms and dwellings" were obtained by adding to firms' liabilities an estimate of mortgages received by households for investments in dwellings. — (6) Includes BI-UIC funding to the Treasury, the Deposits and Loans Fund and the autonomous agencies.

LIST OF ABBREVIATIONS

ABI	Associazione bancaria Italiana Italian Banking Association —
B1	lianca d'Italia
BIS	Bank for International Settlements
CD	Certificate of Deposit
Confindustria	Confederazione Generale dell'Industria 1taliana — Confederation of Italian Industry —
Consob	Commissione Nazionale per le Societa e la Borsa — Companies and Stock Exchange Commission —
Crediop	Consorzio di credito per le opere pubbliche — Credit Consortium for Public Works —
ECU	European currency unit
EEC	European Economic Community
EFIM	Ente partecipazioni e finanziamento industria manifatturiera — Shareholding and Financing Agency for Manufacturing Industry
El B	European Investment Bank
EMCF	European Monetary Co-operation Fund
EMF	European Monetary Fund
EMS	European Monetary System
ENEL	Ente nazionale energia elettrica — National Electricity Agency —
ENI	Ente nazionale idrocarburi — National Hydrocarbon Agency —
ESA	European System of Integrated Accounts
EUA	European unit of account
GDP	Gross domestic product
IMF	International Monetary Fund
INPS	Istituto nazionale per la previdenza sociale — National Social Security Institute —
IRI	Istituto per la ricostruzione industriale — Institute for Industrial Reconstruction —
ISCO	Istituto nazionale per lo studio della congiuntura — National Institute for the Study of the Economic Situation —
Istat	Istituto centrale di statistica — Central Institute for Statistics —
LIBOR	London interbank offered rate
MCA	Monetary Compensatory Amounts
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PSBR	Public sector borrowing requirement
SACE	Sezione speciale per l'assicurazione del credito all'esportazione — Special department for the insurance of export credits —

SDR	Special drawing right
SIP	Societa Italiana per l'Esercizio Telefonico
STET	Societa Finanziaria Telefonica
TDC	Total domestic credit
TOE	Tons of oil equivalent
UIC	Ufficio italiano dei cambi — Italian Foreign Exchange Office —
VAT	Value added tax