BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1985

ABRIDGED REPORT
FOR THE YEAR
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THE INTERNATIONAL ECONOMY

The performance of the world economy in 1984 was the best for many years. Nevertheless, the geographic imbalance of the recovery and, more especially, the disequilibria in international monetary relations still persist and have even worsened. In real terms, the national product of the industrial countries grew at a pace comparable only with that recorded as the world was emerging from the first oil crisis; in the case of the developing countries, one has to go back five years to find a better result. Only in Eastern European countries was there a slowdown in income growth. The pace of economic expansion differed widely among the leading industrial countries. The vigorous growth in the United States contrasted with the modest recovery in Europe, where the number of unemployed has been increasing steadily since 1973 and shows no sign of declining, at least in the short term.

Divergences between the industrialized countries in terms of their fiscal policies, the intensity with which they used monetary instruments and their decisions regarding exchange market intervention accentuated balance-of-payments and exchange rate disequilibria, thereby reinforcing the differences in their relative competitiveness. The US current account deficit exceeded $100 billion, Japan's surplus rose to $35 billion and that of the Federal Republic of Germany came to more than $6 billion. Outflows of capital from the last two countries totalled $50 billion. The US became a net foreign debtor, reversing its traditional role of capital exporter to the rest of the world, while the effective dollar exchange rate continued to rise in both nominal and real terms.

The economies of the less developed countries showed marked improvement. The rapid expansion in world trade enabled the developing countries to reduce their current account deficits to $33 billion from the 1982 level of $84 billion. Their external indebtedness continued to increase, but at only a quarter of the rate recorded immediately prior. to the payments crisis. The ratio of debt service to exports decreased further, but it still accounts for almost a quarter of their foreign earnings.

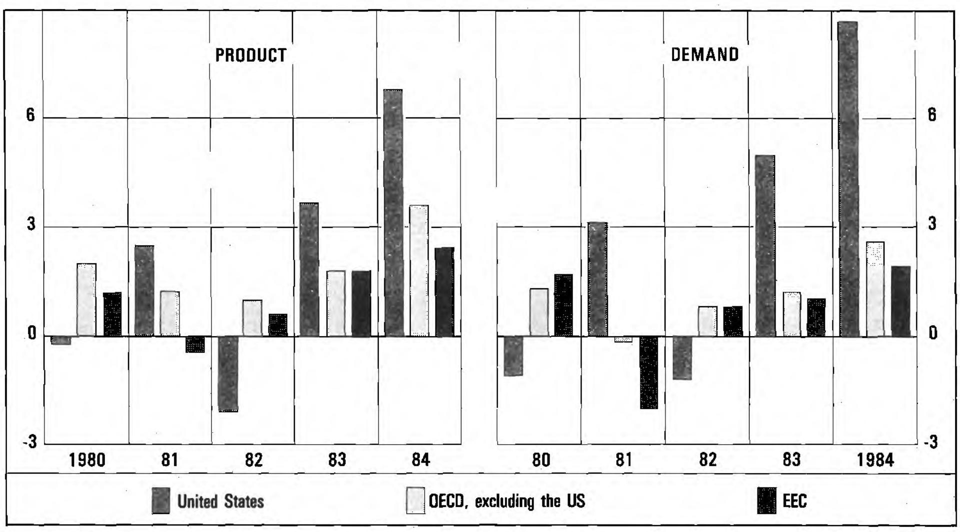
RECENT DEVELOPMENTS AND ECONOMIC POLICIES

In the industrialized countries as a whole output rose by 4.8 per cent in real terms in 1984 and the increase in consumer prices was less than 5 per cent. The expansion was due primarily to the exceptional growth in US domestic demand, which increased by 8.7 per cent, two percentage points more than the growth in GNP. The benefits of the American recovery were transmitted to the rest of the OECD area and to the developing countries. Nevertheless, the growth differentials between the United States and the other OECD countries remained substantial, being larger in terms of domestic demand and narrower in terms of gross product as a result of differences in real trade balances. Domestic demand expanded at a rate of 2.6 per cent in the rest of the OECD area and by barely 1.9 per cent in the EEC alone; gross product rose by 3.6 per cent in the rest of the OECD area and by 2.4 per cent in the EEC (Figure l).

Figure 1

GROSS PRODUCT AND TOTAL DOMESTIC DEMAND

(constant prices; % changes on previous year)



Source: OECD.

In the United States, fixed investment recorded very rapid growth (18 per cent in volume terms), stimulated on the one hand by the reduction in the cost of capital owing to the accelerated depreciation provisions and other tax concessions introduced in 1981 and on the other by the effects of the large and growing budget deficit.

In Japan too there was a recovery in domestic demand, which rose by 4.1 per cent, more than double the rate of the previous year, despite the restrictive stance of fiscal policy; fixed investment was the most dynamic component. Foreign demand made an even larger contribution than in 1983 ; net exports, which were particularly strong vis-à-vis the United States, accounted for about a third of the increase in GNP.

In the major European economies except France, investment grew faster than consumption, the reverse of the situation in 1983, reflecting improved profitability and further consolidating the recovery.

In the industrial countries as a whole, consumer prices rose by 4.7 per cent, slightly less than the year before despite the marked increase in levels of activity. This was made possible by the persistence with monetary policies aimed at reducing inflation, which helped curb the increase in nominal wages, and, in the case of the United States and Japan, by the beneficial effects of the continuing appreciation of their currencies, which have caused import prices to fall in recent years.

Unemployment in industrialized countries

The unemployment rate in the group of industrialized countries declined by half a percentage point to 8.5 per cent in 1984; the number of jobless came down from 32.5 million to about 31 million. This outturn was almost entirely due to the marked improvement recorded in the United States, where unemployment fell from the 1982 and 1983 level of 9.7 per cent, the highest since the war, to 7.5 per cent in 1984 and 7.3 per cent in March 1985. The reabsorption of unemployed workers reflected primarily increasing employment, which reacted swiftly to the recovery in production, growing by 4.2 per cent during the year, compared with 0.2 per cent in the other industrialized countries.

In the last decade unemployment has become particularly acute in the EEC countries. Between 1973 and 1984 the labour force in the four main EEC economies expanded by 3.5 million and the number of unemployed by 5 million. Employment in agriculture and industry contracted by 2.3 and 6.6 million respectively, while 7.4 million jobs were created in the services sector. Here the demand for labour in relation to the labour force grew faster than in the United States. In the US economy the labour force rose by more than 22 million, whereas employment increased by almost 20 million; 1.7 million jobs were created in industry and more than 18 million in the services sector, 2 million of which were in the public sector.

Europe's slowness in creating new jobs is due only in part to the weaker expansion in output. Between 1973 and 1984 the growth differential between the United States and the EEC was slight, with the former recording annual average increases of 2.3 per cent, as against 1.8 per cent in the Community. In the current recovery the stimulus generated by the expansion in US domestic demand has also spread to the European countries. However, the predicted slowdown in the American economy calls for coordinated demand stimulus by the EEC countries to offset the reduction in that emanating from foreign demand and thereby to achieve more satisfactory growth.

However, simulation exercises by various institutions suggest that the increase in employment to be gained from demand stimulus alone will be modest. It does not appear that such action will be sufficient by itself to make significant inroads into the current level of unemployment; it is essential that the rigidities in the European labour markets be corrected.

Monetary and fiscal policies in the industrialized countries

In most of the industrialized countries the money supply grew more slowly than in 1983, encouraging a further reduction in inflation without impeding the continuation of the recovery. At the same time, the income velocity increased after the slowdown recorded in 1982 and 1983, a pattern of behaviour observed in similar phases of previous cycles. The growth in key monetary aggregates was generally in line with the targets set, though with some variations dictated by changes in economic activity, especially in the United States.

Nominal interest rates declined in the main European countries except the United Kingdom; they fluctuated widely in the United States and in December were about one point below the level recorded at the beginning of the year. In Japan only long-term rates declined slightly. Adjusted for expected inflation, short-term interest rates remained very high, rising both with respect to the 1983 averages and in the course of the year in the United States and the main European countries except France, where they declined in the second half of 1984. Only in Japan was there a marked fall.

The ratio of the public sector deficit to GDP in the seven major industrialized countries declined last year for the first time since 1979, falling from 4.2 per cent in 1983 to 3.8 per cent in 1984. This reduction was primarily the result of the high level of economic activity. According to the OECD indicators measuring changes in the cyclically adjusted budget balance, the fiscal stance was expansionary in the

United States, Canada and Italy, while conditions in the other major industrial countries were generally restrictive. The wide disparities in fiscal policy between the major industrialized countries which had emerged at the beginning of the eighties therefore persisted throughout 1984.

The United Kingdom, Germany and Japan made the greatest progress in applying fiscal restraint; adjusted for cyclical movements, the cumulative changes in their budget balances over the past five years, which were equal to 5.2, 3.0 and 2.6 per cent of GDP respectively, indicate a restrictive stance, whereas in the United States there was a shift in the opposite direction equivalent to 2.4 per cent of GNP. The consequences of their efforts to reduce the public sector deficits were partly offset by the accompanying weakness in demand, on which the restrictive measures had a deflationary effect.

In contrast with previous years, the fiscal stimulus in the United States derived essentially from increased spending, particularly on defence and debt servicing. In Japan and Germany the deficit was reduced by curbing expenditure; in France the ratio of the deficit to GDP remained unchanged, despite greater rigour on the receipts side. In the United Kingdom the discretionary fiscal impulse was slightly expansionary, as expenditure on social security and interest payments exceeded the targets.

EXCHANGE RATES AND WORLD TRADE

Exchange rates

The dollar appreciated in effective terms for the fifth consecutive year, so that by February 1985 it was 45.6 per cent above its 1979 level and close to that of the early seventies. The year-on-year average appreciation came to 6.5 per cent in 1984. The currency weakened from the beginning of March to the end of April of this year, depreciating by 5.2 per cent. Its real effective exchange rate, measured on the basis of wholesale prices for manufactured goods, rose by 5.1 per cent in 1984. From 1979 to February 1985 its appreciation in real terms was 45.1 per cent.

Leaving aside short-term fluctuations, the dollar appreciated in spite of the marked worsening in the US current account, buoyed up as it was by the higher yields in the US money markets compared with those in other industrialized countries. These more favourable conditions are the result of expansionary fiscal policies and the monetary restrictions that have been in place since the beginning of the slowdown in inflation. Furthermore, economic growth and price stability in the United States, together with other, non-economic considerations, have increased investors' confidence in dollar assets. Taken together, these factors produced sufficient net inflows of private capital to finance the current account deficit at rising exchange rates, the reverse of the situation that prevailed in the second half of the seventies, when the current account deficit was accompanied by outflows of private capital and the weakening of the dollar was curbed by an increase in official external liabilities.

The Japanese yen was the only currency that did not lose ground against the dollar between 1983 and 1984. The yen began to appreciate at the end of 1982 and continued to strengthen throughout 1983 and the early months of 1984. In the second half of last year, however, it began to depreciate against the dollar. Its nominal effective exchange rate rose by 6.2 per cent between 1983 and 1984, though in real terms the appreciation came to only 2.1 per cent. The increase over the last two years was about 8 per cent, which almost completely offset the depreciation recorded in the preceding three years.

The currencies in the European Monetary System

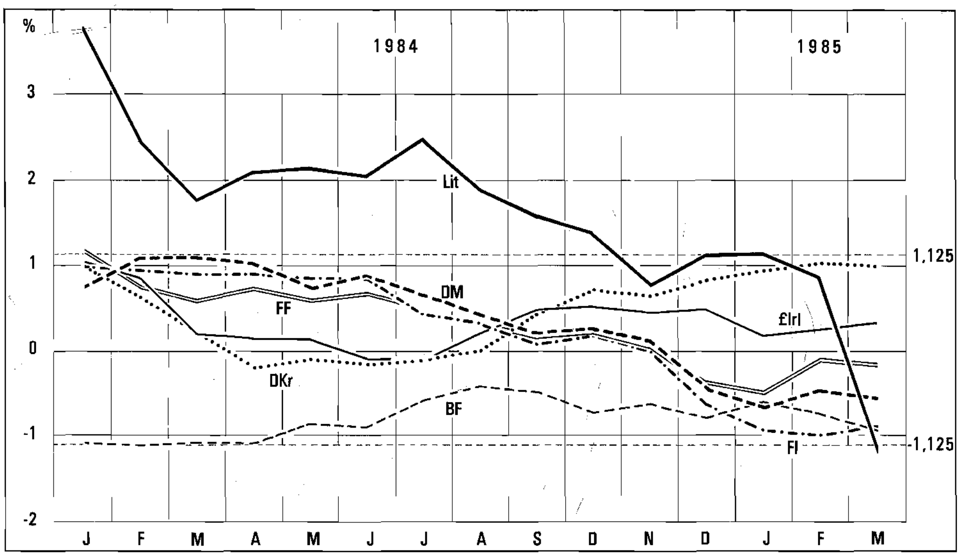
In 1984 the nominal effective exchange rate of the Deutschemark fell by 0.4 per cent compared with the previous year. It was affected above all by capital movements, which showed an outflow of about $10 billion, half of which comprised short-term non-bank capital. The current account surplus rose from $4 billion in 1983 to $6.3 billion in 1984. Year on year, the mark appreciated by 2.3 per cent against the other EMS currencies but lost about 10 per cent against the dollar and the yen. The trend in the dollar/mark exchange rate reflects the substantial widening of the real interest rate differential in favour of the United States and the weaker performance of the German economy.

The official bilateral central rates of the currencies participating in the EMS exchange rate agreements were last realigned in March 1983. Until September 1984 they tended to converge (Figure 2) and towards the middle of the month the bilateral exchange rates of the

Figure 2

EMS EXCHANGE RATES

(% changes with respect to central rates)



currencies subject to narrow margins of fluctuation were all within 1 per cent of their respective central rates. In September the mark and the guilder weakened and the Danish krone and the Irish pound moved upwards, widening the spread between market exchange rates and central rates. Nevertheless, no currency reached the compulsory intervention limits. The lira weakened over the same period; in January 1984 it was 4 per cent above the middle of the band, but it moved downwards in February and early March and again from August onwards. By the end of February 1985 it had crossed the narrow band to a position 2.3 per cent below the strongest currency. In general, exchange rate movements reflected short-term interest rate differentials. In addition, both the lira and the Belgian franc were strongly influenced by movements in the trade balance, which improved in Belgium and worsened in Italy, especially from the autumn of 1984 onwards.

The cohesion within the System over the last two years was due partly to the strength of the dollar, which tends to weaken the mark within the EMS, but also to the progress towards internal and external adjustment by the countries with relatively high inflation rates. France recorded a substantial improvement in its current account, reducing its deficit from $4.5 billion in 1983 to $1.2 billion in 1984. Belgium, Denmark and Ireland maintained high real short-term interest rates and implemented restrictive fiscal and incomes policies. These developments permitted a further convergence of inflation rates; the average rates calculated over a 12-month period continued to decline, falling from 7 per cent in December 1983 to 5.4 per cent in December 1984. The spread between the highest and lowest rates narrowed from 10 to 7.4 percentage points last year.

The pound sterling, which is a member of the EMS but not a pa rty to the System's exchange rate agreement, fluctuated widely around a general downward trend. Between the beginning of 1984 and April 1985 it lost 5 per cent in effective terms and 2.5 per cent against the other EMS currencies, mainly owing to excess supply in the oil markets and domestic monetary conditions. The substantial deterioration in the current account, which occurred despite a 3 per cent decline in the real effective exchange rate, also contributed to sterling's weakness. In early February 1985 there was a marked reversal of the trend and by the end of April the effective exchange rate had risen by 9 per cent.

World trade and the current account balances of the main groups of countries

World trade grew by around 9 per cent in volume, thereby ending a four-year period of stagnation. The recovery in trade was largely due to the import demand of industrialized countries (12.3 per cent), which had accounted for almost all of the modest growth of the previous year (2 per cent). The main beneficiaries were the non-oil LDCs, whose exports rose by 12 per cent. Fuel-exporting developing countries' exports rose by 2.5 per cent while their imports declined.

The terms of trade of the main areas showed little change. Only in the case of non-fuel exporting developing countries did the modest improvement of 0.6 per cent indicate a strengthening of the underlying trend that had emerged in 1983, when there had been a 2.4 per cent improvement. The shift reflected a recovery in commodity prices (excluding oil), which .rose by 11 per cent over the two years (only 2 per cent in 1984), increasing the purchasing power of these countries by 19 per cent in terms of manufactured goods.

In the last two years the improvements in the volume and terms of trade of the non-fuel exporting developing countries reduced their trade deficit from $60 to 20 billion, producing a similar contraction in their current account deficit from $65 billion in 1982 to $27 billion in 1984. The trade deficit of the industrialized countries increased from $10 billion in 1983 to $38 billion in 1984. Their current accounts showed an even larger deterioration, primarily owing to a reduction of about $9 billion in the surplus on services and private transfers. The fuel exporters, on the other hand, increased their trade surplus from $58 to 70 billion and their current account deficit decreased by a similar amount.

The industrial countries' foreign trade

The United States was the driving force behind the recovery in international trade for the second year in succession. The growth in the volume of US imports, which was already substantial in 1983 (10.4 per cent), accelerated to 23.6 per cent in 1984, more than two-and-a-half times the rate of growth in domestic demand, partly owing to the loss of competitiveness of American goods. Exports grew by 6.4 per cent, making good all of the decline recorded in 1983.

The US trade deficit came to $107.6 billion, an increase of $46.5 billion, almost twice the deterioration recorded in 1983. The terms of trade remained unchanged last year, whereas there had been a 5.5 per cent improvement in 1983. The current account deficit rose by $60 billion to more than $100 billion.

The Japanese current account surplus increased from $20.8 billion in 1983 to $35 billion last year as a result of a further expansion in the trade surplus to almost $45 billion. This was brought about by an improvement of 2.9 per cent in the terms of trade and an increase in trade volumes. In particular, exports rose by 15.5 per cent, compared with 8.7 per cent in 1983.

Despite substantial improvements in competitiveness and a slower economic expansion than in the Community's main competitors (the United States and Japan), the EEC countries increased the volume of their exports by only 7.7 per cent, less than the growth in world trade and only slightly more than the expansion in their imports (6.8 per cent). A worsening of the terms of trade, however, reduced their trade surplus from $9 billion in 1983 to $8 billion in 1984. The current account surplus remained stable at $1 billion. The improvement of $10 billion in the trade balance with the United States was offset by a deterioration of $7 billion vis-à-vis the newly industrializing countries of the Far East and one of $3 billion in trade with Comecon countries.

CAPITAL MARKETS, EXTERNAL DEBT AND INTERNATIONAL LIQUIDITY

International capital markets

Gross lending through the international markets exceeded $200 billion last year. A large part of this amount was due to the high level of refinancing and the expansion in note issuance and other back-up facilities, which remained largely undrawn. If double counting is also excluded, total net lending came to $145 billion, compared with $130 billion in 1983.

The markets' general preference for negotiable instruments led to strong growth in bond issues at the expense of bank loans. On the one hand, prime borrowers were able to obtain finance on favourable terms by issuing securities, while on the other the banks themselves sought to limit the growth in traditional forms of lending and to strengthen their own role in the securities markets.

The volatility and unpredictability of movements in interest rates and exchange rates and the need for financial intermediaries to restructure their balance sheets were a spur to financial innovation, with the development of forms of financing that are more flexible than traditional instruments and reapportion the risks between borrowers and lenders. The strong expansion in floating rate notes, interest rate and currency swaps, note issuance facilities (NIFs) and transferable bank loans blurred the traditional distinction between bank credit and bonds.

The trend towards a liberalization of international financial transactions continued last year. In particular, the agreement between Japan and the United States on the gradual liberalization of the Japanese capital markets came into effect. In addition, the United States and other industrialized countries abolished withholding tax on income from non-residents' holdings of securities issued by residents.

Gross medium and long-term bank credit rose from $77 billion in 1983 to $89 billion in 1984 owing to the expansion in back-up facilities ($29 billion, compared with $10 billion in 1983). Traditional syndicated loans decreased further, from $67 to 60 billion; a substantial part of this amount ($11 billion) consisted of loans granted under debt rescheduling agreements. Almost the entire increase in bank lending went to the industrialized countries.

The keen competition among the banks at a time of abundant liquidity created favourable conditions for borrowers. The average spread over LIBOR fell below 1 per cent and the rates charged to indebted developing countries also came down from the high levels recorded in 1983. With the new forms of financing such as NIFs, prime names were able on occasion to borrow at interest rates below LIBOR.

International bond issues rose by 45 per cent with respect to the previous year to stand at $111.5 billion, with all segments of the market recording increases. Fixed rate issues were concentrated in the second half of the year, as US borrowers were drawn to the market by the abolition of withholding tax and the fall in interest rates, which was particularly pronounced with regard to dollar-denominated instruments. Issues of floating rate notes ($38 billion) were twice as high as in 1983 and accounted for more than one-third of total issues.

The problems of external debt

The gross debt of Eastern European countries in convertible currencies, which had amounted to $92 billion at the time of the 1981 crisis, was estimated at $84 billion at the end of 1984. Net of deposits with banks reporting to the BIS, the reduction was even larger, with outstanding debt falling from $76 billion in 1981 to $62 billion in the year under review.

The developing countries' total external debt came to $828 billion at the end of 1984, compared with $791 billion in 1983. Measured in dollars, the growth in the indebtedness of this group of countries again slowed down, from 5.9 per cent in 1983 to 4.7 per cent. The ratio of debt to exports of goods and services fell from 158 per cent in 1983 to 151 per cent in 1984.

The tendency for both the overall flow of funds to indebted developing countries and the proportion from private sources to contract grew more pronounced last year. Credit from private sources, which had exceeded $84 billion in 1981, fell sharply to $14 billion in 1984 and the proportion of the total external borrowing requirement met by such credit decreased from more than 55 per cent to around 20 per cent; in the case of Latin American countries, the proportion diminished from 80 per cent to less than 15 per cent. For the present at least, no further bank lending to the most heavily indebted developing countries is envisaged, apart from loans in connection with rescheduling operations.

Long-term borrowing from official creditors has remained stable at around $30 billion a year for the last three years.

New IMF loans, which were granted entirely to indebted developing countries, came to $7.2 billion in 1984, 45 per cent less than in the preceding year; net of repurchases by member countries, lending fell from $11 billion in 1983 to $4.9 billion. Net disbursements by the Fund are expected to decrease further this year, to around $3 billion, owing to the substantial increase in repayments of loans granted from 1982 onwards. This trend will probably be accentuated in 1986, when net IMF lending to developing countries is expected to be almost nil.

Over the last three years official transfers remained stable at around $13 billion; however, direct investment gradually declined from $14 billion in 1981 to $9 billion last year.

The deflationary effects of the contraction in private credit were largely neutralized, in that the countries in debt to commercial banks are those that are best placed to profit from the expansion in world trade, by virtue of their level of development and the composition of their exports; in particular, the major Latin American debtor countries benefited from the large US trade deficit. However, there is a danger that the problems of many of these countries will again become acute if the signs of a weakening in the growth in trade that have appeared this year are confirmed.

International liquidity

In the last two years, the reduction in the use of reserves by many developing countries to cover external deficits and the increase in the official liabilities of the United States have led to a growth in official reserves following the reduction of more than $45 billion over the two years 1981-82. Official reserves, defined as the sum of foreign exchange, SDRs and reserve positions in the IMF, totalled $397 billion at the end of 1984, an increase of 4.6 per cent over 1983. By virtue of the appreciation of the dollar, the increase comes to 11.8 per cent if reserves are valued in SDRs.The end-1984 figure was still more than $13 billion below that recorded four years earlier.

The increase in official reserves was due almost entirely to the expansion in foreign exchange ($17 billion). As regards the forms in which the latter is held, there was an increase in the official liabilities of the United States in the latter part of the year and, above all, a recovery in Euro-currency deposits after three years of continuous decline.

IMF-related reserve assets expanded only marginally. The increase in the industrial countries' holdings of SDRs, which was due mainly to interest on their creditor positions vis-à-vis the IMF, was offset by a reduction in the nonoil developing countries' reserve positions as a result of these countries' drawings on the Fund's resources. IMF-related reserve assets fell from 14.8 to 14.3 per cent of total official reserves between 1983 and 1984.

Exchange rate fluctuations do not appear to have reduced the demand for reserves over the last decade; indeed, the majority of countries have continued to intervene in foreign exchange markets despite pursuing more flexible exchange rate policies. Reserves have had to be available to tackle the uncertainties associated with the large current payments disequilibria and exchange rate fluctuations and to maintain access to private capital markets. Growing recourse to external financing through borrowing in the markets has led to a substantial reduction in owned reserves and SDRs as a proportion of official reserves. Moreover, events since the 1982 debt crisis have demonstrated the continued need for an official mechanism for the creation of reserves, as borrowed resources have proved not to be a valid substitute for owned reserves. For many countries, borrowed funds suddenly ceased to be available in adequate amounts at the very moment of greatest need. The abrupt change in market conditions primarily reflected the deterioration in the financial position of many debtor countries, but it was also due partly to the policies of the major reserve currency countries.

The gold reserves of IMF member countries decreased marginally (from 947.3 to 945.8 million ounces). Sales of 2.7 and 0.4 million ounces by Colombia and South Africa respectively more than offset purchases by Brazil, Hungary and the Philippines. The market value of gold reserves fell for the second year in succession (from $361 to 292 billion), as the price of gold fell from $382 to $308 an ounce in the course of the year.

The decline in the price of gold was reflected in the value of official ECUs held by European countries, which fell from $43.9 to 37.2 billion between the end of 1983 and the end of 1984, when official assets in ECUs equalled 9.4 per cent of total reserves, compared with 14.8 per cent at the end of 1980.

THE ITALIAN ECONOMY

DEMAND, OUTPUT AND THE BALANCE OF PAYMENTS

The results for 1984

The recovery that had begun in 1983 after three years of stagnation and recession gained strength last year. Gross domestic product grew by 2.6 per cent, boosted by the expansion in exports and the further improvement in investment.

Despite being among the briskest in the Community, the recovery in output was insufficient to make a significant impact on the labour market; employment increased by only 0.3 per cent, as the further rise in the number of self-employed was largely offset by a continued fall in employees.

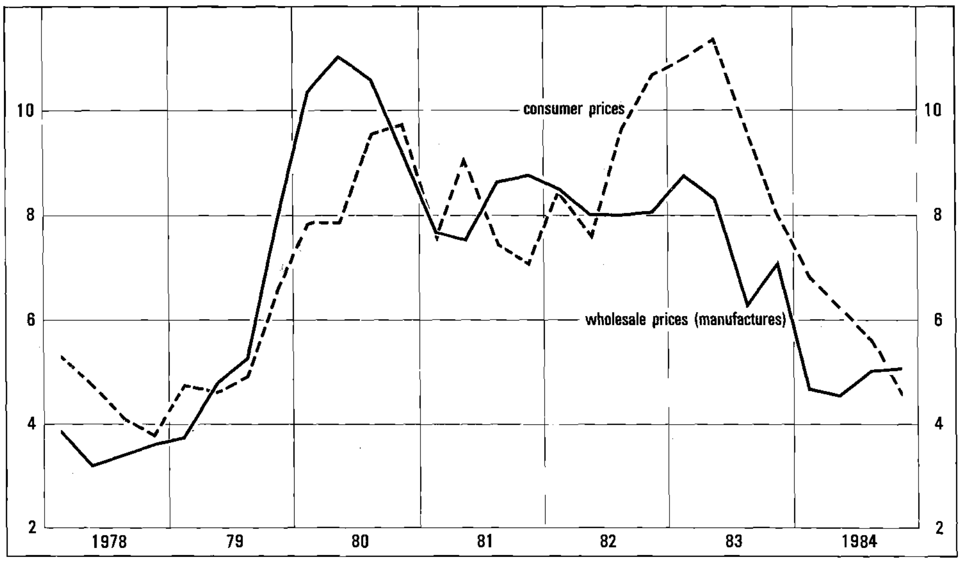
The increase in employment occurred only in the tertiary sector and mainly concerned companies offering corporate services; it continued to outweigh the decline in employment in industry and in the primary sector. The labour force grew by around 220,000 owing to demographic factors. Only 40 per cent of those entering the labour market found a job, so that the average number of persons seeking employment in 1984 approached 2,400,000. Forty-three per cent of the unemployed were concentrated in southern Italy and the islands, where the unemployment rate reached 14 per cent. The rate for the country as a whole rose from 9.9 per cent in 1983 to 10.4 per cent; it stood at 12.3 per cent if workers covered by the Wage Supplementation Fund are included.

The economic policy stance and a substantial increase in productivity encouraged a further slowdown in inflation and a large reduction in the differential between Italy and the other OECD countries (Figure 3). Consumer prices rose by 10.8 per cent, close to the target and more than 4 points lower than in 1983. In the second half of 1984 the twelve-month rate fell to single figures for the first time in eleven years.

Figure 3

ITALY'S INFLATION DIFFERENTIAL VIS-A-VIS THE OECD

(difference between inflation rates in the same period)



Source: Istat and OECD.

Despite the growth in exports, the balance of payments on current account closed with a deficit of 5,188 billion lire, compared with a surplus of 1,183 billion lire in 1983. The deterioration was due in small part to the worsening of the terms of trade, which was caused mainly by the appreciation of the dollar. The volume of imports increased by 9.6 per cent, a particularly large rise in relation both to the expansion in gross domestic product and that in overall demand. Invisibles produced a smaller surplus than in 1983; the modest growth in the surplus on tourist account was wiped out by the increase in net payments in respect of income from capital.

Budgetary measures reduced the ratio of the state sector borrowing requirement to GDP by one percentage point; however, they failed to reduce the GDP ratio of the general government deficit on current account or that of net indebtedness.

Monetary and exchange rate policies, which have been geared towards slowing the rise in prices ever since the beginning of the eighties, were combined with incomes policy measures for a time last year. Their impact on the monetary base kept real interest rates high and encouraged a deceleration in the credit aggregates in the latter part of the year. The external value of the lira declined by 6.4 per cent on average in 1984 as a result of a depreciation of 13.5 per cent against the dollar and 2.4 per cent against the Community currencies.

Fixing the degree of wage indexation in advance for the first half of the year reduced industry's annual average labour costs per employee by about two percentage points, though the increase still worked out at 13.7 per cent after adjustment to take account of the Wage Supplementation Fund. This and an increase of 8 per cent in labour productivity helped hold the increase in labour costs per unit of production to 5.3 per cent, compared with an average of 15.6 per cent in the preceding five years. With the lira cost of imported industrial inputs rising by 12.3 per cent, it was thus possible to limit the increase in total industrial unit costs to 8.8 per cent. Output prices rose by 10.7 per cent, so that profit margins widened.

Among the other costs controlled under the incomes policy measures, the prices of administered goods and services rose by 9.9 per cent, more or less in line with the target, with average monthly rates of growth slowing down from 0.7 per cent in the first half of the year to 0.5 per cent in the second. The prices of mass consumer goods rose by 9.8 per cent; as this was in line with the objectives for curbing inflation, the Government was able to reduce the social security contributions of retail firms.

Real gross per capita wages in the private sector remained practically unchanged. The nominal increase came to 10.7 per cent, with a spread of no more than 1 percentage point between the various branches; in the public sector, by contrast, the increase was in excess of 13 per cent.

Although the overall increase in gross wages in the private and public sectors matched the rise in consumer prices, households' disposable incomes increased by 2.2 per cent in real terms owing to the redistribution effect of fiscal policy and the increase in non-wage income of family enterprises. Consumer spending increased by only 2.0 per cent in real terms, despite the increase in disposable income, the slowdown in inflation and growing expectations that incomes would continue to rise. The worsening of labour market conditions and the persistence of high real interest rates dampened down the increase in spending, after two years in which it had remained virtually unchanged. The propensity to save recovered slightly, particularly the propensity to invest in financial assets.

The high level of interest rates did not prevent a strong recovery in investment. The growing awareness on the part of firms both large and small, private and public, that it was possible to raise profitability by means of investment aimed at improving product quality and finding more efficient combinations of production factors pushed the average annual increase in investment in plant, machinery and transport equipment up to 9.5 per cent; the widening of profit margins provided the means to finance such investment. Stocks needed to be replenished after the rundown of the previous year, but restocking was confined to meeting the needs of the recovery in output.

Gross investment increased by 7.7 per cent and fixed investment by 4.l per cent. The latter increased slightly as a proportion of GDP, but remained about 1 percentage point below the average for the three years from 1979 to 1981; at current prices, domestic savings formation was insufficient to finance investment and the change in stocks. Despite the increase in households' propensity to save and the formation of substantial corporate profits, the expansion in the general government deficit on current account made it impossible to achieve both higher investment and equilibrium in the balance of payments on current account simultaneously (Table 1).

Table 1

INVESTMENT AND SAVING

(as a percentage of gross domestic product)

	1978	1979	1980	1981	1982	1983	1984
				At constant prices			
Gross fixed investment	16.5	16.7	17.6	17.7	16.8	16.2	16.5
				At current prices			
Gross investment	20.0	21.3	25.0	21.3	20.1	17.7	18.6
Gross saving	22.4	23.0	22.6	19.0	18.4	17.9	17.7
Private sector	*27.8*	*28.1*	*26.0*	*25.8*	*25.6*	*24.3*	*24.5*
General government	*−5.4*	*−5.1*	*−3.4*	*−6.8*	*−7.2*	*−6.4*	*−6.8*

Exports, which rose by 7 per cent, were a particularly dynamic component of overall demand. The increase occurred mainly in the first half of the year and was stimulated by the strong expansion in world trade and the continued weakness of domestic demand. Export growth slowed down in the second half, owing partly to the weakening of world demand and partly to an upturn in the domestic market.

The real effective exchange rate remained virtually unchanged on an annual average basis, but rose by 1.6 per cent during the year. Losses in price competitiveness in relation to European countries, in particular the Federal Republic of Germany, were offset by gains vis-à-vis the dollar area. Sales to industrialized European countries increased by less than the average, while those to North America recorded the highest growth rates, boosted partly by the faster growth in economic activity than in Italy.

Italy's share of total exports by industrialized countries increased in the US market but declined in almost all other countries. There were significant reductions in some Eastern European markets and certain developing countries.

The growing integration of the Italian economy with the rest of the world, the fact that the cyclical recovery was based on the components of final demand with the highest import content, and the move towards limited restocking meant that the upturn in domestic activity was accompanied by a pronounced increase in imports. Imports of capital goods and intermediate goods and materials showed above-average rates of growth. The trade deficit increased from 11,448 to 19,163 billion lire, almost half of the expansion being due to the increase in the deficit in the energy account. In the past, Italy had made progress towards reducing the propensity to import energy, though less than other countries ; the improvement was not sustained last year, despite the gradual shift towards the greater use of natural gas.

The openness of the Italian economy has increased in recent years; the ratios of exports and imports to GDP rose further last year (Table 2), though the difference between them at constant prices remained broadly the same. The rise in the propensity to import and Italy's increased penetration of world markets are linked closely with changes in the structure of production but, other conditions remaining unchanged, they make Italy's development more dependent on world demand.

Table 2

EXPORTS, IMPORTS, BALANCE OF PAYMENTS ON CURRENT ACCOUNT AND NET EXTERNAL POSITION IN RELATION TO GDP

	1978	1979	1980	1981	1982	1983	1984
Exports of goods and services (at constant prices)	23.9	24.8	22.9	24.0	24.2	25.1	26.2
Imports of goods and services (at constant prices)	19.3	20.9	21.8	20.6	21.0	21.1	22.6
Balance of payments on current account.....................	2.4	1.7	−2.4	−2.3	−1.9	0.2	−0.7
Net external position (net of gold reserves)	0.3	3.3	0.4	−4.0	−6.2	−6.5	−7.4

Financing of the current account deficits accumulated from the early eighties onwards has produced a net external debtor position. At the end of last year, this exceeded 7 per cent of GDP if official gold reserves are left out of account. Interest payments on the country's growing foreign debt have steadily eroded the surplus on invisibles generated by tourist receipts. For this reason too, the external constraint has become more severe.

The prospects for 1985

The difficulties that the Italian economy is experiencing in eliminating disequilibria are illustrated by the results achieved in terms of the balance of payments, prices and public finance in the first few months of this year.

In the first quarter of 1985 the trade balance showed a deficit of 8,250 billion lire, almost double that recorded in the same period of 1984. Exports increased by 12.4 per cent in value terms, while imports grew by 22.6 per cent. In the first four months of the year the overall balance-of-payments deficit rose to 6,200 billion lire.

The strong appreciation of the dollar in late 1984 and early 1985 and the weakening of incomes policy are affecting prices and inflation expectations. Wholesale prices increased at an average monthly rate of 1.3 per cent in the first quarter, compared with one of 0.5 per cent in the preceding six months, while the slowdown in the twelve-month rate of consumer price inflation came to a halt at 8.6 per cent and gave way to a slight increase to 8.8 per cent in April.

The state sector borrowing requirement has been growing rapidly since November of last year. In the first four months of 1985 the deficit came to about 37 trillion lire, over 9 trillion lire more than in the same period a year earlier.

The latest indicators all predict limited growth in household consumption following the slight contraction recorded in the second half of 1984; available information suggests that high profits and the continued modernization and reorganization of industry will promote further growth in investment, though not at the rapid pace witnessed in the second half of last year.

Domestic demand is continuing to expand, but exports are showing further signs of weakening. The slowdown in economic activity in the United States is still not being offset by a better performance by the European economies; international institutions forecast a reduction of about one and a half points in the growth in Italy's export markets in 1985. The trend of exports is reflecting international cyclical developments and the level of domestic demand in Italy and abroad. The loss of competitiveness suffered in the second half of 1984 was made good by the fall in the effective exchange rate of the lira in March and April.

In the first three months of this year industrial production was 0.7 per cent higher than in the final quarter of 1984 on a seasonally adjusted basis. The rate of GDP growth in 1985 may approach that recorded in 1984, but the balance-of-payments deficit on current account may increase substantially both in absolute terms and as a percentage of GDP. As far as prices are concerned, the target of an average annual inflation rate of 7 per cent must now be regarded as almost unattainable in view of the increases recorded to date; nonetheless, it is essential that inflation should begin to come down again and that inflation expectations be brought back under control. To this end, there appears to be a need for incomes policy measures to hold down nominal wages and fiscal measures to contain the budget deficit.

DOMESTIC DEMAND

Consumers' expenditure

National consumers' expenditure, which had been virtually static in the previous two years, rose by 2.0 per cent in real terms in 1984 (Table 3). Private consumption made a smaller contribution to GDP growth than in the last cyclical recovery.

Consumer spending increased by 13.3 per cent in money terms; since disposable income at current prices increased somewhat faster (13.5 per cent), the propensity to consume declined slightly, from 76.8 to 76.6 per cent.

The annual increase in nominal income was primarily due to the buoyant growth of income from unincorporated business and self-employment; gross wages and salaries, on the other hand, kept pace more or less with inflation. The cancellation of wage indexation points following the agreement of 14 February, which reduced disposable income by about 0.5 per cent over the full year, slowed down consumption during the summer months; this effect was eliminated by the steady decline in inflation and by expectations of continued growth.

Including interest payments, the public sector's contribution to households' disposable income rose by about 0.5 percentage points. The increase in interest payments and in the wage bill of the general government sector, which was almost five percentage points higher than in the private sector (2.6 points in terms of wages per person), combined with a slower increase in direct taxes, largely due to the fading-out of the effects of one-off tax measures.

Investment

Gross investment recovered sharply (by 7.7 per cent in real terms), reversing the rapid downward trend that had persisted since 1981. The major contributory factors were a resumption of stockbuilding (305 billion lire at 1970 prices) and a 4.1 per cent growth in gross fixed capital formation.

Table 3

APPROPRIATION ACCOUNT FOR HOUSEHOLDS

	1982	1983	1984	
	% changes	% changes	% changes	billions of lire
Gross domestic earnings	16.3	13.8	10.9	245,287
of which: general government	*17.3*	*16.6*	*14.5*	*65,062*
Net labour income from abroad	27.2	10.4	−3.8	2,208
Gross income from unincorporated businesses and self-employment	16.2	10.3	18.0	174,700
Net interest	44.9	20.7	12.7	36,200
Dividends and other capital income	56.2	21.0	36.2	3,200
Social security benefits	22.9	23.0	11.1	130,500
of which: from general government	*23.3*	*22.8*	*11.0*	*119,649*
Employees' social security contributions (−)	29.5	21.5	12.2	17,574
Self-employed workers' social security contributions (−)	64.0	9.3	19.6	7,833
Direct taxation (−)	28.1	24.3	10.4	77,500
of which: condonation of income tax evasion	—	*103.6*	*−73.1*	*678*
surtax on imputed or actual rental income	—	—	*−84.0*	*168*
Other items	26.1	38.3	13.8	3,700
Gross disposable income	**17.1**	**13.8**	**13.5**	**492,888**
at 1970 prices (1)	..	−1.2	2.2	70,452
National consumers' expenditure	**17.2**	**14.6**	**13.3**	**377,781**
at 1970 prices	0.2	−0.5	2.0	53,999
Average propensity to consume *(percentage ratios)*	**76.2**	**76.8**	**76.6**	
Gross disposable income adjusted for inflation (2):				
A expected inflation	18.0	14.2	13.6	469,924
B real inflation	17.5	15.3	14.7	468,520

Source: Bank of Italy estimates.
(1) Adjusted using the implicit price deflator of households' national expenditure. — (2) In the case of A: the loss to be subtracted from disposable income is calculated on the basis of the product of the expected rate of inflation and the volume of net domestic financial assets at the beginning of the year. In the case of B: the loss on the flow of financial saving for the current year is added to the loss on the stock of financial assets, calculated on the basis of the real inflation rate.

As in the early stages of the previous investment cycle, the recovery in fixed capital formation was confined to an increase in the demand for machinery, equipment and transport equipment (9.5 per cent in real terms), with machinery and metal equipment, in particular, showing a very substantial rise (11.6 per cent). In contrast, investment in construction fell by a further 0.5 per cent, owing to a slowdown in the rate of growth of the residential sector and the weakness of planned additions to productive capacity.

Table 4

PUBLIC AND PRIVATE GROSS FIXED INVESTMENT BY BRANCH OF ECONOMIC ACTIVITY

(at 1970 prices)

Branch of activity	Billions of lire	Share of total	% changes					
	1984	1984	1979/1978	1980/1979	1981/1980	1982/1981	1983/1982	1984/1983
Agriculture, forestry and fisheries	891	6.1	1.8	0.4	−4.3	−7.7	−5.5	−0.9
Private	*583*	*4.0*	*9.0*	*3.5*	*−2.7*	*−16.8*	*6.4*	*−23.8*
Public (1)	*308*	*2.1*	*−30.8*	*7.8*	*−11.7*	*39.8*	*−42.2*	*129.9*
Industry	3,658	24.9	11.4	14.9	−3.4	−11.7	−7.4	7.7
Private	*2,435*	*16.6*	*15.3*	*14.1*	*−6.5*	*−14.6*	*−13.7*	*12.8*
Public (2)	*1,223*	*8.3*	*2.0*	*17.3*	*5.0*	*−4.7*	*6.2*	*−1.2*
Market services (3)	5,124	34.9	5.0	12.1	4.4	−2.3	0.1	6.6
Private	*3,466*	*23.6*	*10.8*	*14.8*	*14.8*	*−8.6*	*−2.2*	*3.0*
Public (2) (4)	*1,658*	*11.3*	*8.3*	*4.6*	*4.6*	*18.4*	*5.9*	*14.9*
of which:								
Transport and communications	2,142	14.6	−5.0	11.5	1.5	2.1	2.7	6.2
Private	*513*	*3.5*	*1.6*	*25.4*	*7.8*	*−21.2*	*−2.2*	*−16.6*
Public	*1,629*	*11.1*	*−8.1*	*4.1*	*2.5*	*18.7*	*5.0*	*16.2*
Distributive trades and other services	2,982	20.3	12.5	6.3	5.1	−5.1	−1.8	6.9
Private	*2,953*	*20.1*	*12.3*	*6.1*	*5.2*	*−5.3*	*−2.2*	*7.4*
Public (4)	*29*	*0.2*	*40.0*	*28.6*	*3.7*	*6.4*	*45.2*	*−30.2*
Dwellings	3,352	22.9	3.0	4.9	0.7	−4.5	−2.4	−0.7
Private	*3,088*	*21.1*	*0.9*	*7.9*	*1.8*	*−5.6*	*−1.3*	*−3.7*
Public (5)	*264*	*1.8*	*32.4*	*−26.5*	*−15.3*	*14.8*	*−19.1*	*55.3*
Non-market services	1,334	9.1	7.8	3.3	4.3	3.9	−10.2	1.7
Total economy	14,359	100.0	5.8	9.4	0.7	−5.2	−3.8	4.1
Private	*9,572*	*67.4*	*−0.2*	*4.4*	*0.9*	*−9.9*	*−4.2*	*0.8*
Public	*4,787*	*32.6*	*−7.8*	*11.4*	*0.5*	*7.3*	*−3.1*	*11.4*

Source: Istat.
(1) State payments for investment in agriculture. — (2) Including state-controlled companies. — (3) Excluding dwellings. — (4) Excluding banks of national interest. — (5) Subsidized housing.

The strong recovery in the demand for machinery, equipment and transport equipment was only partly matched by an increase in domestic production, since imports satisfied a larger proportion of demand than in recent years, expanding by 24.5 per cent in real terms.

The bulk of the additional investment in 1984 appears to have been concentrated in industry and in market services (excluding dwellings); in the former, the main stimulus came from the p rivate sector, while the latter benefited from substantial public sector investment, especially in transport. The public sector's overall contribution was far greater than that of the private sector and was higher than in the 1979 recovery (Table 4).

Information from many sources indicates that the reorganization of medium-sized and large enterprises has entailed a serious decline in employment, put at more than 17 per cent between 1980 and 1984 in the case of firms with more than 100 employees. Analysis of the investment behaviour of firms of this size shows that since 1978-79 there has been a substantial acceleration in the scrapping of plant and machinery, accompanied by limited, though highly innovative new investment. This resulted in a marked slowdown in the growth in production capacity, a substantial saving in the volume of resources invested in fixed capital and hence a sizable increase in the ratio of output to capital.

The empirical evidence relates to manufacturing firms with more than 100 employees, excluding sectors in which the characteristic size of firms is particularly small (less than 20 workers). In the period 1978-82 this category accounted for 61.5 per cent of investment in the whole of manufacturing industry and 43.2 per cent of its value added.

The service life of capital invested in machinery, equipment and transport equipment began to decrease substantially from 1978-79 onwards after remaining for many years at the level recorded in the late sixties. Assuming that disinvestment affects the oldest vintages, it has been estimated that the service life of capital decreased by about two years between 1978 and 1982 (Table 5).

This seems to confirm that in the early seventies medium-sized and large industrial firms did not immediately respond to the profound changes occurring in the labour, finished goods and commodity markets, as they were discouraged by the uncertain outlook and were seriously hampered by the structure of their balance sheets from 1974 onwards. The volume of investment carried out in the early seventies, which in the case of motor vehicles, basic metals and metal products was very substantial, should be seen as reflecting growth targets carried over from the previous phase of development rather than as a sign of an overall strategy of industrial modernization. It was only from 1978 onwards that the majority of medium-sized and large firms began to update their plant and equipment. The steady decline in the service life of capital as a result of the accelerated scrapping of about half a vintage of investment every year would suggest that this was not a temporary cyclical phenomenon. The structural nature of the determinants is confirmed by the fact that most sectors were affected, though to widely differing degrees.

Table 5

MEDIUM-SIZED AND LARGE INDUSTRIAL ENTERPRISES: SERVICE LIFE OF CAPITAL INVESTED IN MACHINERY, EQUIPMENT AND TRANSPORT EQUIPMENT

(in years)

	1969-74	1974-78	1978-80	1980-82
Food	16.8	17.1	16.3	14.8
Textiles	14.6	14.9	15.3	15.2
Ferrous and non-ferrous metals	17.8	18.4	18.5	18.2
Metal products	10.8	12.5	14.7	13.2
Industrial machinery	17.6	15.1	14.8	13.8
Office machinery	18.1	15.7	11.8	6.9
Electrical and electronic equipment	12.6	13.5	13.5	11.1
Motor vehicles and motorcycles	13.8	16.9	15.9	14.2
Shipbuilding and railway equipment	20.2	22.4	23.8	23.2
Non-metallic mineral products	23.6	23.8	22.2	21.9
Chemicals	19.6	19.4	17.6	14.4
Rubber and plastics	20.2	16.9	14.6	14.9
Paper, printing and publishing	21.0	21.1	19.9	19.8
Other sectors	10.2	13.2	14.2	14.5
Total...	**18.3**	**18.2**	**17.3**	**16.5**

Source: Based on Bank of Italy survey of company accounts.

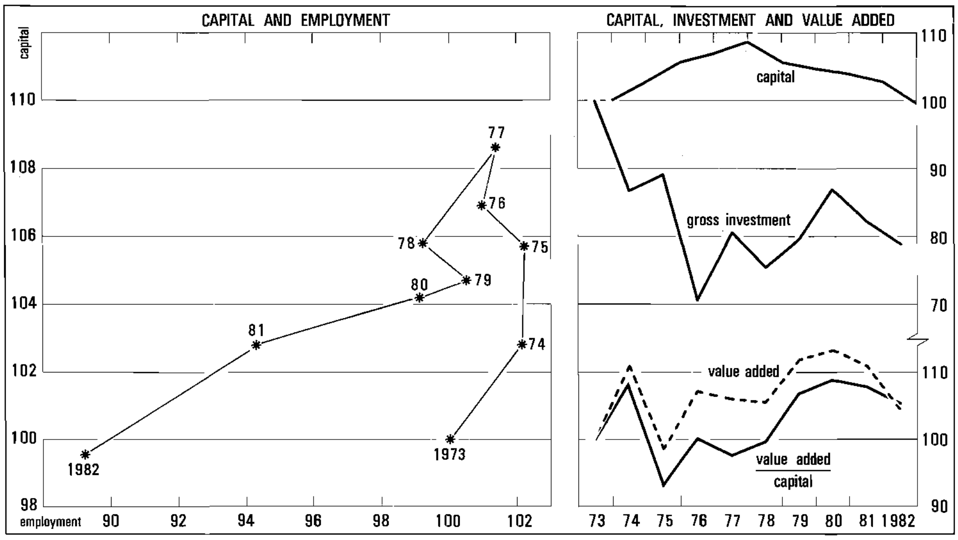
For medium-sized and large firms as a whole, the acceleration in scrapping coincided with the end of the trend decline in investment and in the ratio of investment to value added (Figure 4). Hence, firms took advantage of higher profits to invest in new plant while at the same time scrapping fixed capital that had become prematurely obsolete owing to structural changes. However, the expenditure on new purchases appears to have been less than total disinvestment at constant prices. Between 1978 and end-1982 there was therefore a real reduction of 8.2 per cent in the volume of financial resources tied up in fixed capital; in machinery, equipment and transport equipment the reduction amounted to 10.0 per cent.

Between the periods 1974-78 and 1978-82 the ratio of value added to capital rose by an average of 5.9 per cent in the manufacturing sectors in question. This change alone brought about an increase of about 3 percentage points in the ratio of gross product to capital for the whole of manufacturing industry. Hence, it does not seem that the adjustment undertaken by medium-sized and large firms in the second half of the seventies involved a massive substitution of capital for labour. Empirical evidence shows that a modernization of the structure of production is occurring in which the rationalization of the use of labour and the introduction of new technology are producing savings in both capital and labour by increasing their average utilization rates and flexibility of use; labour is being replaced by more skilled labour and capital by more efficient capital (Figure 4).

Figure 4

MEDIUM-SIZED AND LARGE INDUSTRIAL ENTERPRISES: CAPITAL, EMPLOYMENT AND VALUE ADDED

(1973 = 100; at 1970 prices)



Source: Istat, *Indagine sul prodotto lordo;* estimates based on Bank of Italy survey of company accounts.

In carrying out this modernization against a background of modest growth in final demand and the marked ability of small firms to expand their market share, medium-sized and large firms gave priority to adjustment and profitability rather than growth, so that installed capacity showed only a small increase.

The change in the composition of investment in machinery and equipment in the last decade is consistent with the empirical evidence of an improvement in the efficiency of capital. Whereas there were cyclical fluctuations in investment in "industrial machinery" and a marked decline in that in "metal products", investment in "office and precision machines" and in "electrical and electronic equipment" (electrical apparatus for industrial use and telecommunications, control systems for industrial processes, motors and generators) has increased almost without interruption since the beginning of the seventies, with an acceleration

Figure 5

INVESTMENT IN MACHINERY AND METAL EQUIPMENT, BY TYPE

(billions of lire at 1970 prices)

Source: Istat

between 1978 and 1980 (Figure 5). The last two categories, which incorporate most technological advances, accounted respectively for 25.5 and 27.3 per cent of total investment in machinery and metal equipment in the period 1978-83, compared with 9.7 and 24.7 per cent in the period 1970-72.

DOMESTIC SUPPLY

Agriculture

The year was a disappointing one for Italian farming. Output declined while the gap between costs and revenues widened; there was also a further decrease in the use of technical resources and labour in agriculture.

Gross marketable production contracted by 3.9 per cent in real terms after the substantial rise achieved in 1983; value added at factor cost decreased by slightly less (3.4 per cent). The decline, due principally to poor weather, was sharpest for tree crops such as olives, fruits and grapes; the South of Italy was hit hardest.

After the pause registered in 1983, the flight from the land resumed. The agricultural work force shrank by 94,000 (— 3.8 per cent), the decline affecting both employed workers and self-employed farmers. Only a minority of those leaving farming (32 per cent) shifted into other branches; owing to the age structure of the farm population, most of them retired from the labour force.

Agricultural producer prices rose by 6.2 per cent compared with 1983, much less than unit costs of intermediate materials (up 9.3 per cent) and investment goods (up 11.2 per cent). Measured by the deflators of value added, the farm sector's terms of trade with other sectors deteriorated by five percentage points. As a result, income per worker rose much more slowly in farming than in the rest of the economy, partly because for the first time since 1976 relative productivity trends worked against agriculture. If this pattern continues, it could jeopardize the expansion of agricultural output and aggravate Italy's trade deficit in food products. The widespread introduction of new technology and advanced techniques found in the other branches of the economy has barely touched agriculture; farm investment declined for the fourth consecutive year (— 0.9 per cent) to its lowest level since 1971.

The relatively small rise in farm prices reflected the limited increases agreed on by the EEC for the products subject to Community regulation. The restrictive revision of CAP guidelines in March 1984 reflected the need to keep the cost of the system down and prevent the production of surpluses that would be hard to market either inside or outside the Community.

Table 6

EEC AGRICULTURAL PRICE SUPPORT LEVELS

(% changes)

	1982			1983			1984		
	Common prices (1)	GDP deflator	Difference	Common prices (1)	GDP deflator	Difference	Common prices (1)	GDP deflator	Difference
Germany	6.9	4.6	2.3	2.0	3.2	−1.2	−0.6	1.9	−2.5
France	13.8	12.5	1.3	9.4	9.8	−0.4	5.0	7.0	−2.0
United Kingdom .	10.1	7.1	3.0	4.1	5.1	−1.0	−0.6	3.7	−4.3
Belgium	16.3	7.1	9.2	7.7	5.9	1.8	3.9	5.4	−1.5
Netherlands	8.2	6.1	2.1	2.6	1.8	0.8	−0.5	3.1	−3.6
Italy	16.1	17.8	−1.7	8.7	15.0	−6.3	6.4	10.7	−4.3
EEC (10 countries) ...	12.2	10.1	2.1	6.9	7.6	−0.7	3.3	5.6	−2.3

Source: Based on EEC data and Italy's *Relazione generale sulla situazione economica del Paese.*
(1) Market intervention prices (or equivalent) in ECUs, weighted according to national farm outputs and converted into national currencies at the green exchange rates, inclusive of all adjustments in those rates made in conjunction with decisions on prices or after the decisions on prices for the previous harvest year. The price changes refer to the market year, which begins in the year specified and continues in the following year.

All member countries kept agricultural price increases below the change in the GDP deflator, the largest differential being for Italy (Table 6). Furthermore, there was a strengthening of the principle of volume thresholds for surplus products, beyond which Community price support is cut off or reduced. Accordingly, more restrictive rules were adopted for those products already subject to thresholds, and the thresholds themselves were extended to a broader range of foodstuffs, covering some 35 per cent of EEC agricultural output by value. The agreements reached so far, which do not cover cereals, should produce even sharper reductions in real prices for the current year, although in Italy they will be partly offset by a 3.5 per cent devaluation of the green lira. It should also be pointed out that to improve the fundamental conditions of agriculture in the member countries, the Community's financial endowment for structural modernization was increased.

Industry

Production. — After three years of decline, industrial activity increased by 2.8 per cent in 1984, despite a further contraction in construction (Table 7). Value added in mining and manufacturing (including fuel and power products) increased by 3.3 per cent.

However, while the substantial contraction of 1983 has been made up, industrial output is still about 5 per cent below its pre-recession peak in 1980.

Table 7

INDUSTRIAL VALUE ADDED AT MARKET PRICES

	Values at 1970 prices (billions of lire)			Percentage composition	Percentage changes		
	1982	1983	1984	1984	1982/81	1983/82	1984/83
Value added:							
including construction	35,522	34,674	35,647	100.0	−2.1	−2.4	2.8
excluding construction	30,316	29,560	30,548	85.7	−2.1	−2.5	3.3
Goods:							
manufactured goods	26,108	25,493	26,454	74.2	−2.4	−2.4	3.8
energy products	4,208	4,067	4,094	11.5	−0.6	−3.4	0.7
Construction and public works	5,206	5,114	5,099	14.3	−2.1	−1.8	−0.3

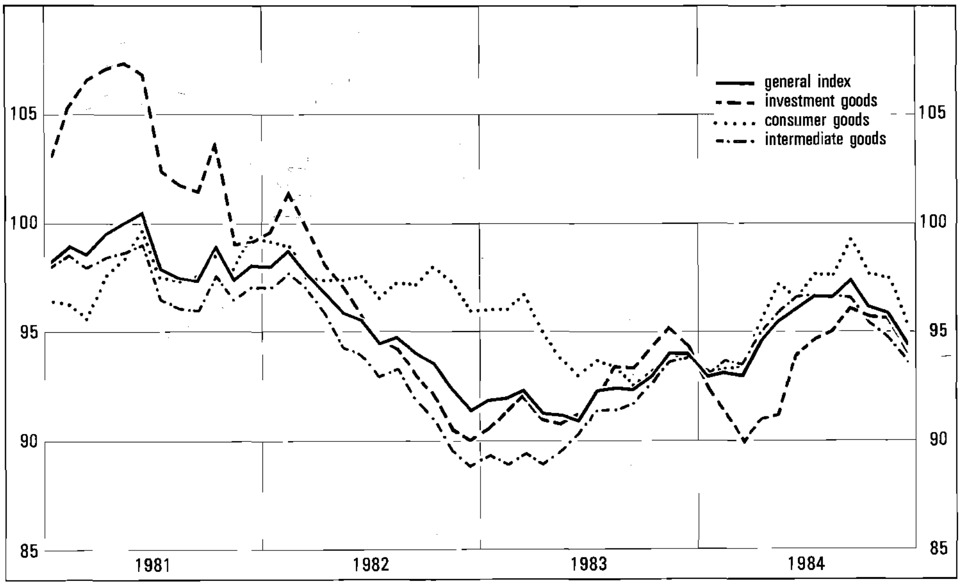
Source: Istat.

The recovery got under way in the second half of 1983, propelled primarily by export demand, and it proceeded through 1984 in fits and starts, with periods of stagnation both at the beginning and towards the end of the year (Figure 6).

Figure 6

INDUSTRIAL PRODUCTION

(seasonally adjusted; 1980 = 100)



Source: Based on Istat data.

There were sharp divergencies in the growth patterns of goods classed by economic use because of the differing evolution of the fundamental components of domestic demand, which in the course of the year gradually supplanted export demand as the driving force in the expansion. Intermediate goods recorded the strongest growth (4.7 per cent), thanks to the reconstitution of stocks of semi-finished products by most branches of industry, but this growth halted at mid-year. Starting in the summer months, final demand became more buoyant and stimulated the production of both consumer and investment goods, whose average increases for the year were 2.2 and 0.6 per cent respectively.

The expansion of activity engendered a gradual rise in capacity utilization. Isco surveys indicate that by. year's end this had reached 73.3 per cent (in 1980, at the peak of the expansive phase, it had been 77.7 per cent). The rise in capacity utilization during the year actually outstripped the rise in output, bearing witness to the ongoing elimination of obsolete capital by Italian industry.

Recent policy for technological innovation. — In the last few years, Italy's policy on industrial supply has been increasingly vigorous in favouring technological innovation and applied research. This orientation grows out of the belief that the competitiveness and the growth potential of the economy will depend on thoroughgoing modernization of the productive structure.

The economic legislation of the 1970s reflected only a partial awareness of the crucial role of technological innovation. The first systematic legislative treatment of the matter came with Law 46/1982, which revised the system of financing applied research administered by IMI and created a special Revolving Fund for Technological Innovation that dispenses subsidized medium-term loans.

It is still too early for an overall assessment of the effectiveness and macroeconomic importance of this new mechanism because virtually all the technological innovation programmes funded are still in course of implementation. Moreover, there are theoretical and practical difficulties in making a comparative cost-benefit analysis of different types of public support for technological innovation (subsidized loans, capital grants, tax incentives, services to firms, measures affecting vocational training, the labour market, scientific research, and so on). Nevertheless, the Fund certainly represents an advance over the previous legislation in its streamlined procedures and relatively prompt disbursement of public financing, and it has stimulated a substantial "demand for innovation" from firms.

The significance of this demand is demonstrated by the more than 500 applications for Fund loans received and accepted by the Ministry for Industry through the end of 1984. Table 8 shows the distribution of applicants and their proposed spending plans by geographic area, firm size and industry — the only industries eligible being those deemed of high priority by the Interministerial Committee for Industrial Policy (CIPI).

Table 8

FUND FOR TECHNOLOGICAL INNOVATION (LAW 46/1982): EXPENSES FINANCED THROUGH 1984

(% composition)

	Centre-North		South		Total
	Small and medium-sized firms	Large firms	Small and medium-sized firms	Large firms	
Speciality chemicals	2.7	16.1	0.2	0.9	19.9
Electronics	5.2	20.3	0.4	5.4	31.3
Motor vehicles and components	3.4	27.5	0.4	2.2	33.5
Aerospace	0.7	7.6	—	4.1	12.4
Steel	0.3	2.7	—	—	2.9
Total	**12.3**	**74.2**	**0.9**	**12.6**	**100.0**
Quota reserved by law	12.0	48.0	8.0	32.0	100.0

Source: Based on data of the Ministry for Industry.

As the table shows, the Fund's financing has gone primarily to large firms. The smaller ones (especially in the South) are underrepresented with respect both to their importance in their industries and to the portion of funding expressly reserved for them by the law, perhaps because in small and medium-sized firms investment in technological innovation is likely to affect the entire economic and financial structure. This means that these firms require guarantees of even prompter processing of applications and disbursement of funds.

These arguments were certainly decisive factors underlying Law 696/1983, which, drawing initially on the portion of the Fund reserved for small and medium-sized firms, established simplified procedures for contributions to the cost of the purchase or leasing of numerically controlled machines by small and medium-sized manufacturing and mining firms. The funds had to be replenished several times. The success of the law is a strong argument in favour of the approach taken, which fits in with the recent inclination towards near-automatic disbursement of relatively small loans as an effective means of promoting the transfer of new technology to minor enterprises.

In the South, not even the large firms manage to exploit the possibilities offered by the substantial quota of the funds reserved for them. In fact their demand for innovation, as reflected in the investment programmes presented with their loan applications to CIPI, is more or less proportional to their importance in the national economy. The institution of quotas does not therefore seem to be very effective. Instead, even more favourable terms for funding in the South could be set, or eligibility could be extended to other industries in the region.

The type of innovation described in the loan applications is no longer directed almost exclusively to the manufacture of new products as it was in the past. Many programmes now aim at making existing production processes more flexible and efficient through the use of microprocessors and numerically controlled machines. In any case, investment in equipment accounts for little more than a fifth of the total cost of the programmes funded (about 1.0 trillion lire of the 4.5 trillion covered by the law through 1984), while personnel costs — including training and retraining courses — amount to nearly 40 per cent, the rest going on services, materials and overheads, etc. The predominance of investment in human capital is a characteristic feature of the new "soft" technologies, which require large outlays on the stages of design of machinery, adaptation, and familiarization of personnel.

Services

The economic recovery stimulated the supply of market services, which expanded more than manufacturing (3.7 per cent). Employment increased by 5.2 per cent, fully offsetting the declines in agriculture and industry. For the second consecutive year the number of self-employed grew more than the number of employees, both in percentage (6.0 as against 4.5 per cent) and absolutely (202,000 as against 186,000).

The expansion of consumption and foreign trade spurred a growth in value added for the distributive trades of 4.1 per cent after two years of stagnation. Last year, both the number of retail outlets and the number of persons employed continued to expand. On the strength of rapid and sustained capital formation, value added in the communications industry has risen by 23.5 per cent over the past four years. Among the "miscellaneous" services, services to firms — which include those usually known as "advanced services" (advertising and public relations, market surveys and management consultancy, and data processing) — continued their sustained expansion, growing by some 8 per cent.

To contribute to the understanding of the new type of services, the Bank of Italy has begun a survey of a sample of manufacturing firms in Lombardy. The specific focus of the study is the development of services to industry and organizational changes, in particular the contracting-out of services formerly performed by the manufacturer and vice versa, i.e. the creation within the manufacturing firm of new departments to provide services equivalent to those formerly supplied by outside companies.

The initial findings of the survey underscore the rapid growth of demand for advanced services in the recent past and confirm that it will continue. They also show that the growth of the external and internal components of services to industry are complementary. This explains why the increase in the portion of the demand for services met internally — including data processing, thanks to the possibility of having systems tailor-made for the user — is accompanied by rapid growth in the number of firms and the work force in the advanced services sector (in Lombardy, the work force more than doubled between the 1971 and 1981 censuses, increasing by 16,000 in the sub-categories for which comparable figures are available).

The growth of value added in non-market services was 1.2 per cent in 1984. As in 1983, there was only a limited expansion of the number of government employees (31,000).

EMPLOYMENT, WAGES AND PRICES

Employment

The recovery in economic activity had a marginal effect on employment, which increased by only 0.3 per cent by comparison with the previous year (Table 9). Once again, the overall figure was the result of widely differing trends in the various industries and types of employment. For the third year in succession the number of employed workers declined while that of the self-employed increased. Moreover, the profound change in the structure of employment in Italy continued, with the services sector assuming growing importance; employment will probably continue to fall for the foreseeable future not only in agriculture but also in manufacturing owing to the fundamental restructuring of the corporate sector.

Table 9

EMPLOYMENT IN ITALY

(V *changes on previous year)*

Sector	Total employment				Employees			
	1981	1982	1983	1984	1981	1982	1983	1984
Agriculture	−3.8	−5.6	−0.1	−3.8	−3.7	−3.7	−2.7	−5.2
Industry	−0.7	−1.6	−2.5	−3.8	−1.0	−2.1	−3.0	−4.1
of which: fuel & power products	*1.0*	*−0.5*	*−0.5*	*−0.5*	*1.0*	*−0.4*	*−0.6*	*−0.5*
manufacturing	*−1.5*	*−1.9*	*−2.9*	*−3.6*	*−1.9*	*−2.2*	*−3.2*	*−4.0*
mining & manufacturing	*−1.5*	*−1.9*	*−2.8*	*−3.5*	*−1.8*	*−2.2*	*−3.1*	*−3.9*
construction	*1.8*	*−0.9*	*−1.6*	*−4.7*	*1.6*	*−1.7*	*−2.7*	*−4.7*
Market services	2.7	2.7	2.6	5.2	2.7	2.8	2.0	4.5
of which: wholesale & retail trade	*2.5*	*2.8*	*2.6*	*4.4*	*2.2*	*3.4*	*1.1*	*4.4*
transport and communications	*1.6*	*0.1*	*1.0*	*−0.4*	*1.3*	*−0.5*	*1.6*	*−1.0*
credit and insurance	*3.1*	*4.0*	*1.1*	*2.5*	*3.2*	*4.0*	*1.1*	*2.5*
miscellaneous services	*3.8*	*4.4*	*4.4*	*12.0*	*4.8*	*4.6*	*4.2*	*10.4*
Market goods and services	**0.1**	**−0.5**	**..**	**0.1**	**..**	**−0.5**	**−1.2**	**−1.0**
Non-market services	**2.1**	**1.4**	**1.0**	**1.0**	**2.1**	**1.4**	**1.0**	**1.0**
TOTAL	**0.5**	**−0.2**	**0.2**	**0.3**	**0.5**	**−0.1**	**−0.7**	**−0.5**

Source: Istat.

The increase in employment was entirely due to the services sector, where jobs grew by 400,000, or 4 per cent; the rise was concentrated in market services (5.2 per cent), though here too there were marked disparities. The most dynamic growth (12 per cent, or 200,000 jobs) was recorded by miscellaneous services, which include the provision of accounting, data processing and security services previously carried out by manufacturing firms themselves and which now tend to be contracted out as part of the general process of industrial rationalization. There was a smaller increase in the credit sector, while employment fell by 0.4 per cent in transport and communications.

The decline of employment in agriculture continued, with a fall of 3.8 per cent; however, the proportion of total employment for which the sector accounts, just over 10 per cent, is still higher than in the main European countries.

Despite the modest recovery in output, the number of people employed in mining and manufacturing contracted by a further 190,000, or 3.6 per cent, and the number of hours paid by the Wage Supplementation Fund continued to rise. The resultant increase in labour productivity was very large, working out at over 8 per cent after adjustment to eliminate the effect of the Wage Supplementation Fund. Output per man-hour rose by about two percentage points less, owing to a substantial increase in hours actually worked, although there was a slight decrease in contractual working hours.

The improvement in labour productivity derived not only from cyclical factors but also from the restructuring that has been taking place since the end of the seventies. In short, this has involved a drastic contraction in labour inputs — achieved partly through recourse to the Wage Supplementation Fund and partly by reducing the labour employed — and a period of intense investment and automation that has led to the installation of new, more flexible machinery that can be adapted more easily to increased market fluctuations. This retooling of industry was due to a number of factors, including the availability of high technology goods that are relatively easy to use, the high rate of increase in labour costs, the considerable constraints on manpower management until the end of the seventies and the decline in expectations of sustained growth in output in the medium to long term.

These factors together induced firms to move towards methods of production with a low labour content but requiring a higher level of skill. However, this trend was not uniform in all branches of industry, which fell into two broad groups: on the one hand engineering and basic industries (metals, chemicals and pharmaceuticals) and, on the other, industries producing traditional consumer goods. In the first group, employment was stable or increasing up to 1980; from then onwards there was a substantial reduction in the numbers employed and a parallel increase in productivity. The productivity gains are even more obvious if one looks at the figures corrected to take account of the Wage Supplementation Fund; for example, adjusted productivity increased by 60 per cent in the chemicals and pharmaceuticals sector between 1980 and 1984, while in the metals industry it rose by 20 per cent (Figure 7). Within the engineering sector a further distinction should be made between firms producing transport equipment and other companies, in which restructuring proceeded more slowly. The second group of industries (textiles, leather and skins, footwear, food) was already experiencing a slight reduction in the demand for labour in the early seventies, though the tendency strengthened in 1983-84; productivity gains in these industries were therefore more sustained over the entire period under consideration.

The different strategies adopted appear to be linked to the type of goods produced and the size of firms ; basic industries and those producing transport equipment, where companies are large, were restructured mainly by introducing new high-technology capital goods to replace labour; traditional light industries, where enterprises are predominantly smaller, experienced a less marked reduction in employment, partly owing to the greater flexibility of their workforce. The two groups also differ in their recourse to the Wage Supplementation Fund. Although recourse to the Fund has increased in all industries, it has assumed key importance in engineering, steelmaking and chemical firms and has strongly influenced the process of restructuring in these industries, whereas it is less important, though far from negligible, in textile and food processing companies.

The labour force continued to expand in 1984. The increase of 217,000, or 1 per cent, was due mainly to the greater relative size of the central age groups, which have high activity rates. However, only women increased their participation in the labour force. This difference in growth trends has been a feature of the Italian labour market for the last ten years. If the increase in the labour force over the period from 1975 to 1984 is broken down into one component ascribable to population changes at constant activity rates and another due to changes in labour market participation at constant population, the difference in the behaviour of the two components is clearly visible (Figure 8); the substantial increase in the female labour force is due largely to the continued growth in activity rates, while the modest increase in the male labour force appears to have been caused only by demographic factors, partly offset by a decline in activity rates.

The number of persons seeking work increased further to almost 2,500,000 as a result of the trends described above. The overall unemployment rate rose to 10.4 per cent, or 12.2 per cent if the worker equivalent of the hours paid by the Wage Supplementation Fund are included. In the course of the year, however, there was a

Figure 7

VALUE ADDED, EMPLOYMENT AND PRODUCTIVITY IN MINING AND MANUFACTURING

(indices, 1970 = 100)

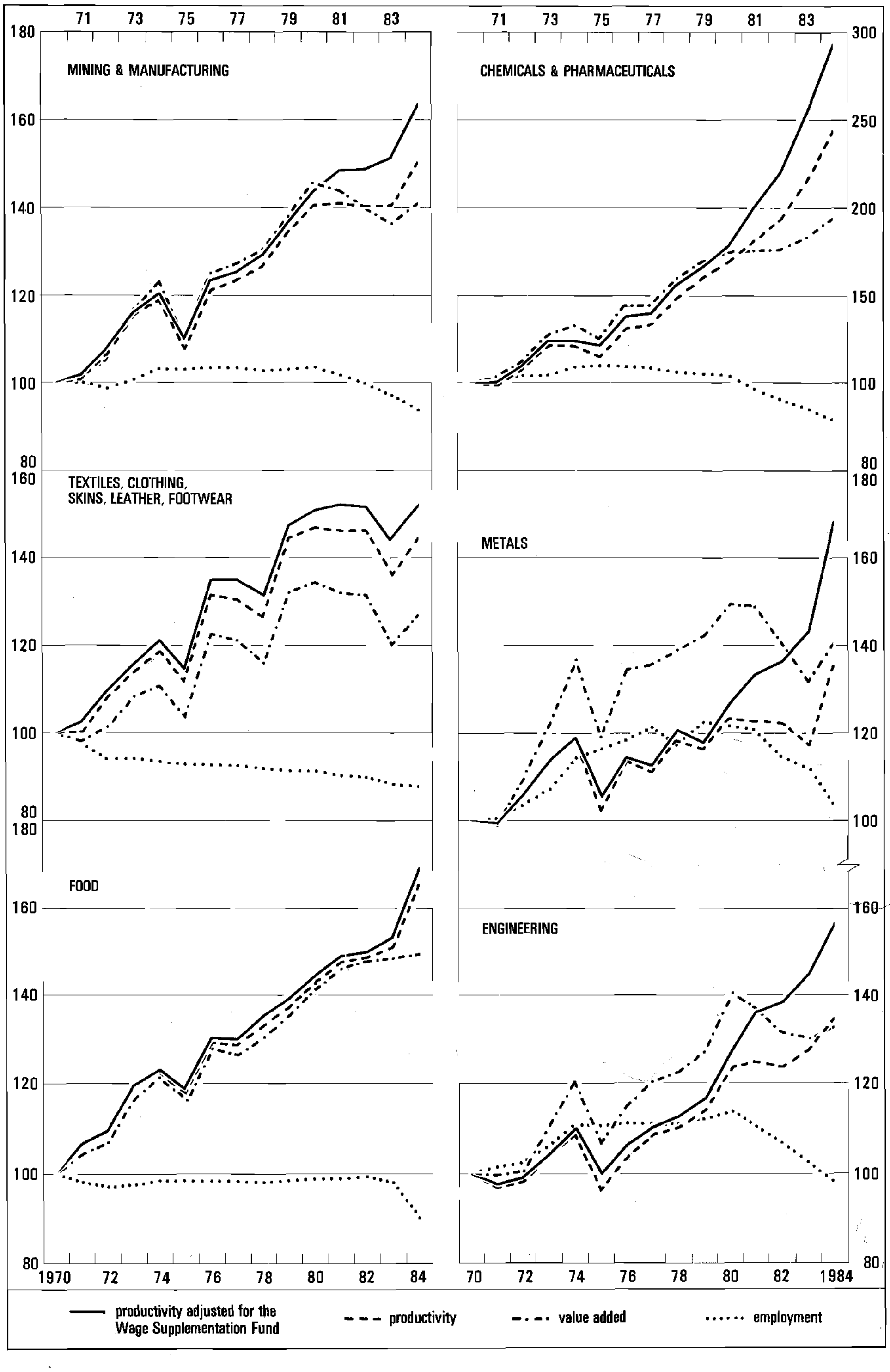
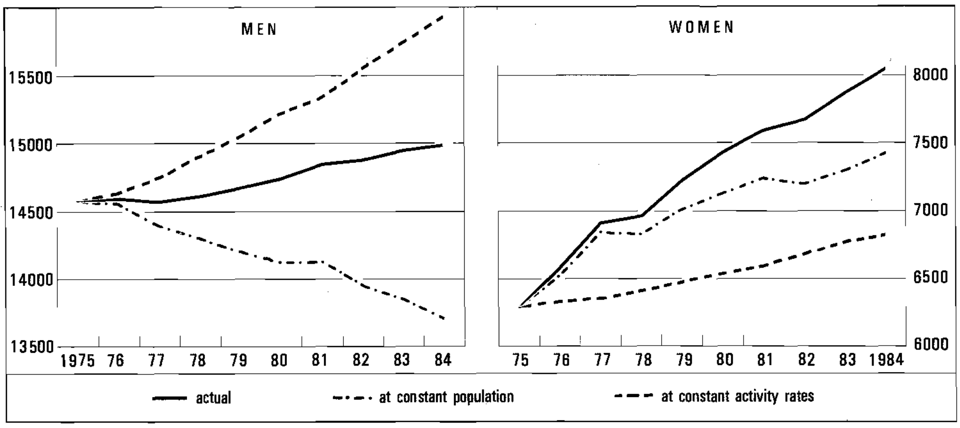


Figure 8

ACTUAL AND THEORETICAL LABOUR FORCE UNDER VARIOUS POPULATION AND ACTIVITY RATE HYPOTHESES

(thousands)



slight decrease from 10.6 per cent in the first quarter to 10.2 per cent in the last, chiefly on account of the strong expansion of employment in the services sector. As in 1983, the largest increase in unemployment occurred among those who had previously held a job (35.6 per cent), while for the first time for several years the number of young people seeking their first job decreased appreciably (9.6 per cent). These changes may indicate a reduction in the rigidity of the labour market as a result of modifications in the system of industrial relations and new legislation to make recruitment quicker and more flexible. Nevertheless, some degree of caution should be exercised in assessing these developments, owing to the amendments made in the Istat employment surveys, which may have led to some reclassification of persons seeking employment.

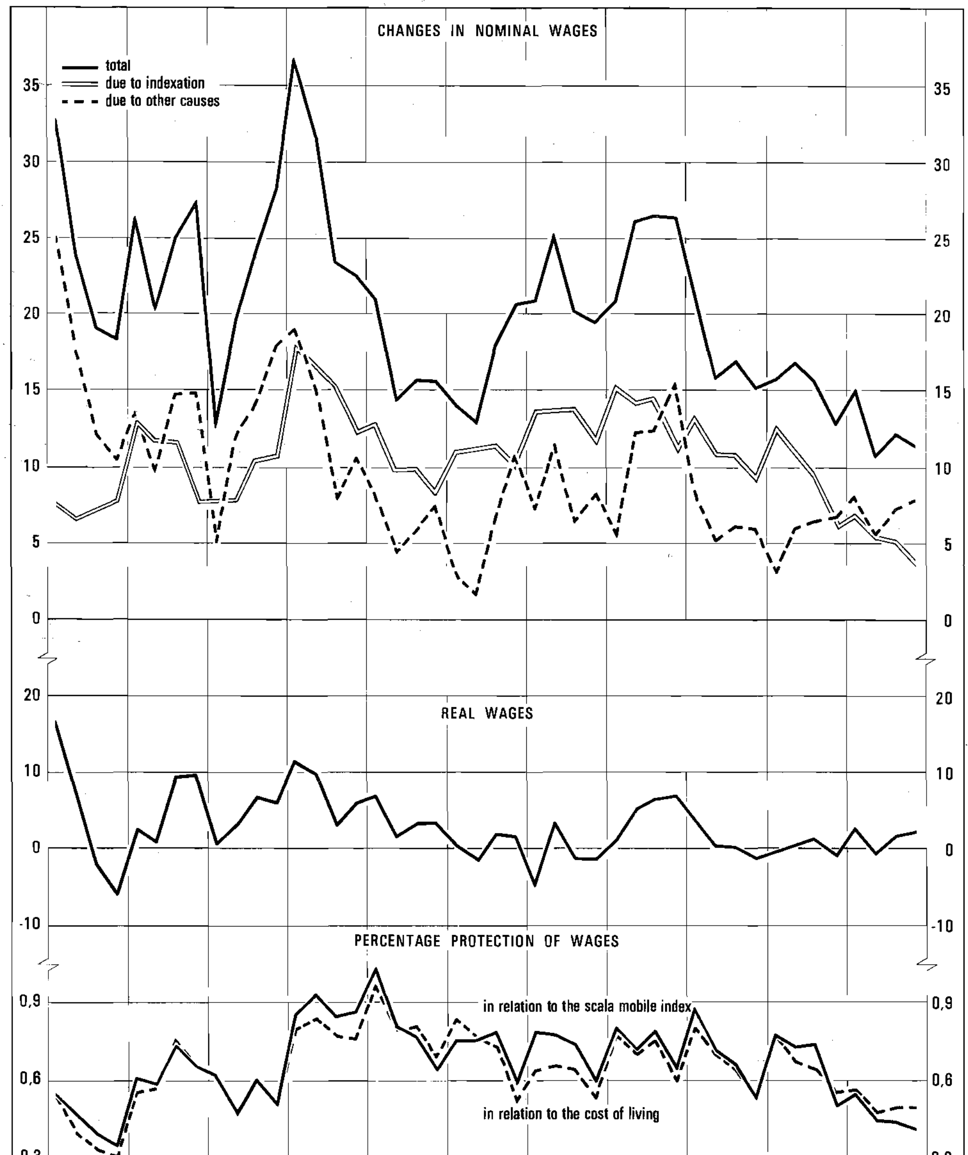
Wages and labour costs

In the economy as a whole, the rate of growth in actual per capita wages slowed down from 14.6 in 1983 to 11.5 per cent in 1984; as consumer prices rose by 10.8 per cent, there was a slight increase in real incomes. This overall rise was the result of different developments in the various sectors. In general government, gross per capita wages increased by more than 2 per cent in real terms, while in mining and manufacturing the increase came to 1.1 per cent, after adjustment to take account of the Wage Supplementation Fund (Figure 9). In the other sectors, by contrast, real wages remained more or less unchanged.

Figure 9

NOMINAL AND REAL PER CAPITA WAGES
AND THE PERCENTAGE PROTECTION OF WAGES
IN MINING AND MANUFACTURING (1)

(percentage changes over the same quarter of the previous year, percentage of inflation protection. Data net of persons covered by the Wage Supplementation Fund)



(1) Real wages are determined by the ratio of nominal wages to the consumer price index for the families of manual workers and employees. The percentage protection of wages is the ratio of the change in wages due to wage indexation to the change in the corresponding price index.

The general slowdown in wage growth was due to the deterioration in labour market conditions, which is now having a perceptible impact on all parts of the labour force, in contrast to what happened up to the beginning of the eighties. The effect of this situation was strengthened by the measure fixing wage adjustments in advance, which cut four points off the *scala mobile* indexation mechanism in the first two quarters of the year.

The degree of inflation-proofing provided by wage indexation declined temporarily from 65.5 per cent in 1983 to 44.5 per cent as a result of the above measure; but for this, the degree of protection would have been 60 per cent. According to elasticity data, calculated to take account of institutional lags between movements in the price index and wage adjustments, the degree of protection may be put at around 55 per cent in the absence of government action.

The slowdown in the rate of wage increase together with the strong rise in productivity led to a marked reduction in the growth in unit labour costs. The increase in mining and manufacturing was particularly small, falling from 15.3 to 5.3 per cent, the lowest value since 1972, mainly owing to the large productivity gains in the sector. The rate of increase in unit costs was halved in market services and construction; only agriculture moved against the general trend owing to a fall in productivity.

Prices

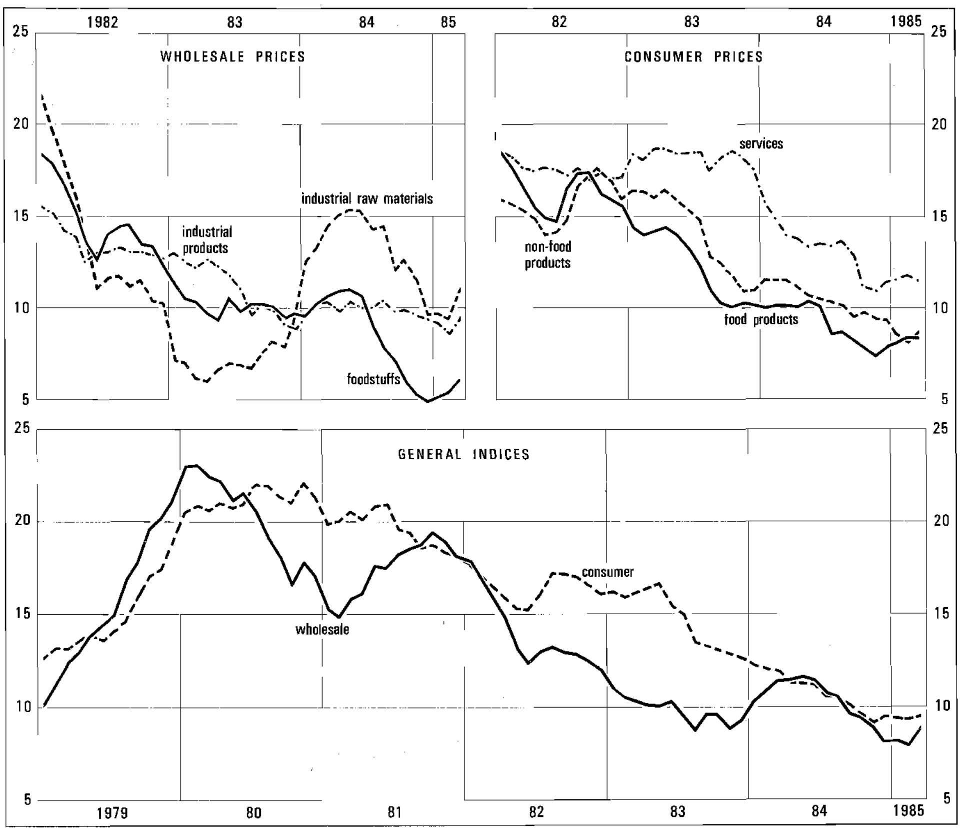
The slowdown in domestic prices continued in 1984; the average annual rate of inflation, measured in terms of consumer prices, fell from 14.7 to 10.8 per cent, the smallest rate of increase recorded in the last decade and only slightly above the target rate. The inflation differential in relation to the other industrialized countries, which had exceeded 8 percentage points in 1983, narrowed considerably; in the final quarter of 1984 it was between 4 and 5 points vis-à-vis both the OECD area and the EEC countries as a whole.

The process of curbing inflation, which began in mid-1980 after the rate of price increase had reached around 20 per cent, was initiated by the change in monetary policy, which created a favourable climate despite the large and growing public sector deficit by avoiding demand pressures or excessive liquidity that could have spilled over onto the foreign exchange markets, thereby triggering a wage/price spiral. The period under consideration can be divided into two phases (Figure 10). The first (1981-82) was characterized by the persistence of adverse external effects, such as the second oil shock and the steady appreciation of the dollar; the second (1983-84) saw the introduction of a coordinated wages and prices policy in Italy for the first time. The measures taken during the second phase served the common objective of curbing inflation, but they differed in kind. The reduction in the degree of wage indexation in January 1983 permanently reduced the role of the automatic components of wage determination. By contrast, the predetermination of cost-of-living adjustments in February 1984 had an impact on inflation, albeit a temporary one, by curbing labour costs and seeking to influence expectations. The measures involved announcing targets for the rise in prices, loosening the link between past and future inflation by setting cost-of-living adjustments in advance and controlling the rise in administered prices and public service charges.

Figure 10

WHOLESALE AND CONSUMER PRICES

(changes in monthly indices over the corresponding period of the previous year)



Source: Istat.

The results of these policies can be examined more easily by considering the various causes of inflation. Table 10 shows the rates of change in the main costs incurred by mining and manufacturing and the variation in these sectors' output prices, the main variable determining consumer prices. It indicates the strong containment of total costs, which rose in the last two years at only half the rate recorded previously. The increase in unit labour costs declined dramatically, owing both to the gains in productivity and efficiency described above and to the curbing of the nominal growth in labour incomes as a result of the policies pursued. Moreover, fixing the degree of wage indexation in advance in 1984 seems to have had a significant effect on inflation expectations. This certainly aided the fight against inflation by having a positive impact on the determinants of the prices of production factors and products.

Table 10

TOTAL UNIT COSTS AND FINAL PRICES IN MINING AND MANUFACTURING

(% changes)

	1979-80 (1)	1981-82 (1)	1983-84 (1)	1984	IV/83 / IV/82	IV/84 / IV/83
Unit labour costs (2)	12.3	19.2	10.2	5.3	7.0	5.2
Total input prices:	22.5	20.3	9.7	11.7	9.1	9.9
domestic	15.9	17.3	12.6	10.6	13.9	7.2
foreign:	26.4	22.1	8.3	12.3	6.6	11.3
energy	46.5	29.6	4.2	6.0	0.6	4.5
intermediate products	18.6	15.0	8.6	13.2	8.5	16.5
other raw materials	21.7	25.2	17.5	24.2	20.9	19.2
Total unit costs	**18.1**	**19.5**	**9.6**	**8.8**	**7.9**	**8.1**
Output prices	**19.5**	**18.0**	**10.5**	**10.7**	**9.9**	**8.2**

(1) Average of annual percentage changes. — (2) Net of persons on Wage Supplementation.

The reduction in domestic inflationary pressures was aided by the sharp deceleration in the prices of foreign inputs, which slowed down from 22.1 per cent in 1981-82 to 8.3 per cent in the two subsequent years. This development was encouraged by the relative stability of the lira against the main European currencies, whereas the continuous appreciation of the dollar was partly offset by the fall in world market prices for raw materials and finished products.

The factors described above were reinforced in 1984 by the freezing of rents and a policy aimed at curbing the rise in public service charges. In contrast to the previous year, the rate of increase in these charges and administered prices remained within the limits set.

TIE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

Merchandise trade

The trade balance on a transactions basis recorded a deficit of 19,163 billion lire, an increase of nearly 7.7 trillion lire on 1983. Most of this was due to the performance of trade volumes, since the terms of trade only worsened by around 1.5 per cent, principally as a consequence of the sharp rise in the dollar.

Almost half the deterioration in the trade balance was due to the 3.7 trillion lira widening of the energy deficit, while nearly all the rest was accounted for by the increase in the structural deficit of agriculture (1.8 trillion) and the decrease in the surplus of manufacturing industry (1.3 trillion).

The pick-up in domestic activity over the year and the financing difficulties with some Eastern European and OPEC countries were the principal reasons why the growth in the volume of Italy's exports was below that in its export market (6.6 per cent as against 7.9 per cent). In addition, Italy's competitiveness declined with respect to the other EEC countries, though this was partly offset by gains vis-à-vis North America and Japan. Italian exports lost market share in several major countries, while gaining ground (0.2 per cent) only in the United States.

The pronounced rise in imports (9.1 per cent in volume) was primarily the result of domestic demand having grown faster throughout the year than in the other Community countries, while compared with the other major countries it grew slower than in the United States, Canada and Japan.

The divergences between Italy and other countries with regard to the performance of domestic demand and competitiveness are reflected in the geographical composition of Italy's trade. The balance with the rest of the EEC worsened by 4.45 trillion lire, while that with North America improved by almost as much. The balances with the Eastern European and OPEC countries also worsened substantially — the former by around 2.5 trillion lire, exclusively on trade with the Soviet Union and Romania; the latter by around 0.7 trillion, primarily as a result of larger deficits with Algeria and Libya. In both these areas a considerable increase in Italy's imports, for the most part of oil and gas, was accompanied by a small rise or a fall in the value of its exports. This situation is partly the result of the international and bilateral constraints on the granting of preferential credit conditions, an important element in the support of exports to these countries.

Internationalization of the Italian economy and the external constraint

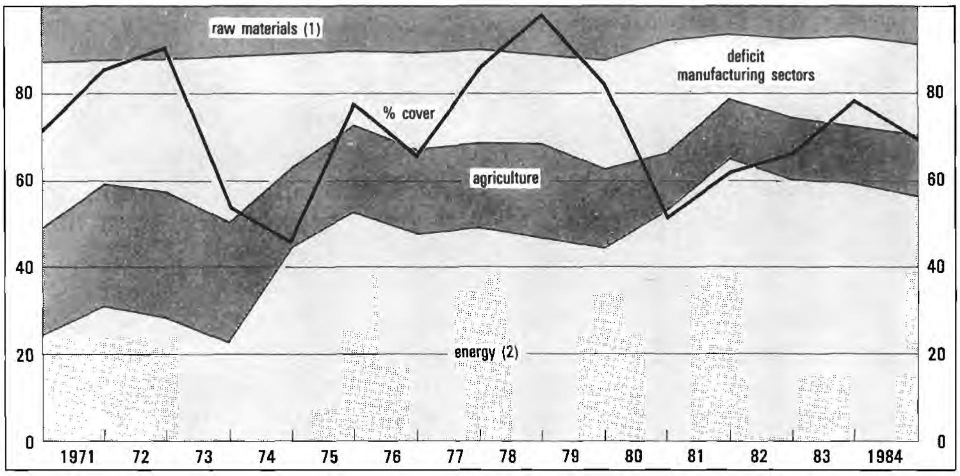
The trade deficit has steadily increased since the early seventies, even though Italy has been more successful than the other EEC countries in maintaining its share of world trade in manufactures and has recorded growing surpluses in this sector. The breakdown of the trade accounts of the last fifteen years shows that the deficits have been concentrated in agriculture, raw materials, energy, and a number of manufacturing products (basic metals, food and tobacco, and chemicals).

The proportion of the total shortfall of the deficit sectors offset by manufacturing surpluses declined sharply after both the oil crises from the 80 per cent of the early seventies and has averaged around 71 per cent over the last three years (Figure 1 1).

Figure 11

PERCENTAGE COMPOSITION OF SECTORAL TRADE DEFICITS AND THE PERCENTAGE OF THEIR TOTAL COVERED BY MANUFACTURING SURPLUSES

(at current prices)



Source: Based on Istat data.
(1) Excluding food. — (2) Primary sources and oil products.

The changes that have occurred over the last ten years in relative factor prices and the demand for goods, coupled with the spread of new technologies and the sharpening of international competition, have entailed a far-reaching adjustment in industry. The link between this and Italy's trade performance appears to be extremely close. The new combinations of productive factors, with greater use being made of intermediate inputs and highly flexible capital goods, have led to greater imports. Furthermore, the extensive innovations introduced in products and production processes, with the ensuing efficiency gains, have promoted greater export specialization and encouraged the internationalization of the Italian economy.

The average ratios of imports of intermediate and final investment goods to domestic output over the last six years rose by respectively 42 and 15 per cent compared with the previous ten years. Over the same lapse of time there was also a substantial increase in imports of both durable and non-durable consumer goods, excluding food (Figure 12).

Rises in import penetration have generally been coupled with even larger increases in the share of domestic production exported (Figure 12). The latter, which have often actually preceded the rise in imports and provided a partial explanation of their performance, appear to be the result of the enhanced specialization mentioned earlier, a process that has chiefly concerned traditional sectors.

The fact that Italy, unlike its major competitors, has internationalized its economy primarily through specialization in traditional sectors should not, however, be allowed to overshadow the general improvement in the quality of output stemming from the innovations made in products and production processes.

Invisibles

The surplus on invisibles amounted to 5,597 billion lire, 268 billion less than in 1983. The small rise in the surplus on foreign travel and unrequited transfers was more than offset by the nearly 1 trillion lira increase in the deficit on income from capital, which rose to 6,855 billion.

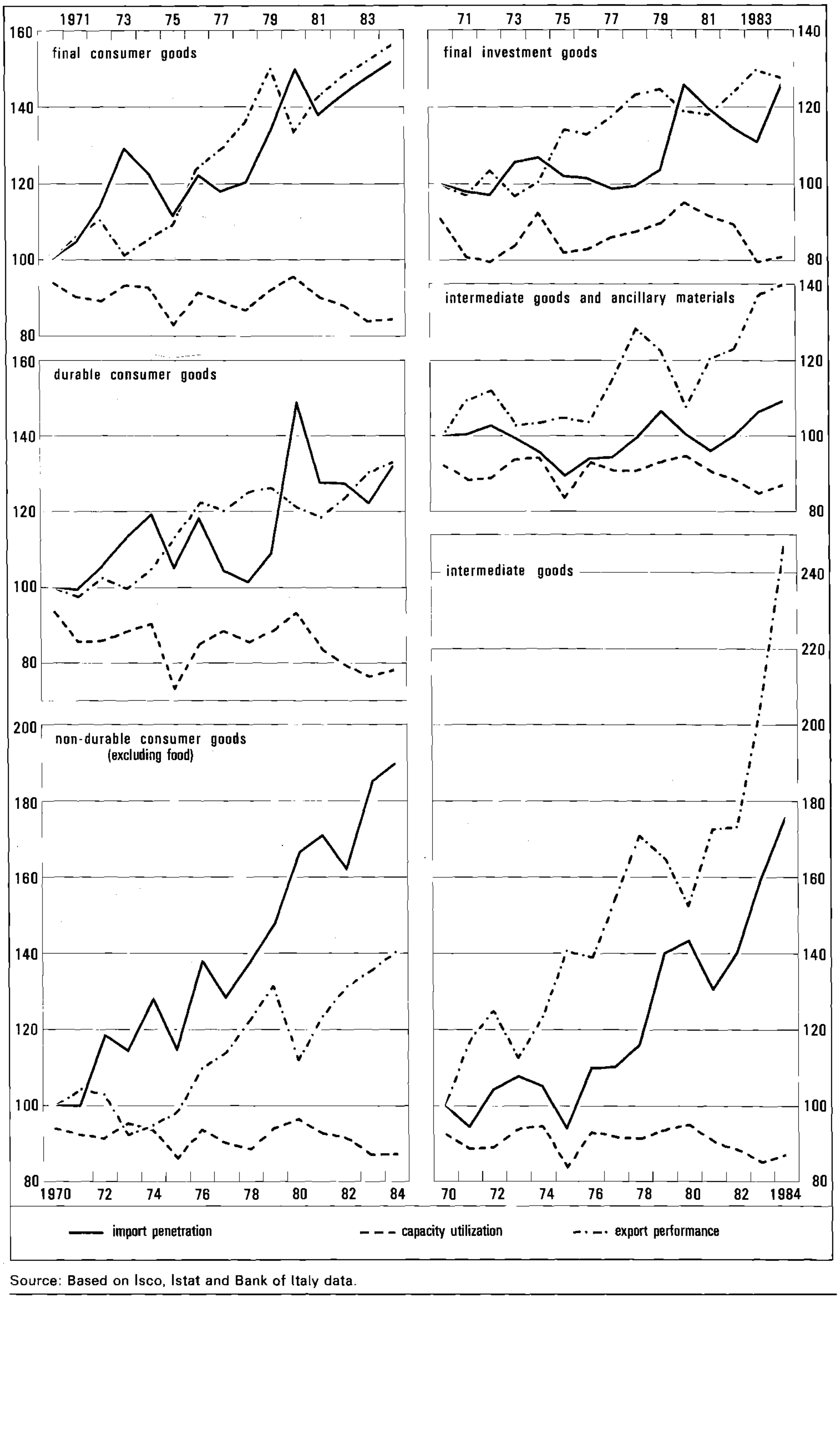
The heavier net interest burden was the combined effect of the slight rise in international interest rates compared with 1983, the increase in the net external debt expressed in dollars and, in particular, the depreciation of the lira against the dollar.

The growth in Italy's external interest burden in the eighties has helped to tighten the external constraint by reducing the contribution of invisibles to the financing of the trade deficit. In the period 1981-83 the deficit on income from capital averaged 56 per cent of the tourism surplus; in 1984 the ratio rose further to over 60 per cent.

Figure 12

IMPORT PENETRATION, EXPORT PERFORMANCE AND SECTORAL PLANT CAPACITY UTILIZATION

(indices, 1970 = 100 and % ratios)



Source: Based on Isco, Istat and Bank of Italy data.

After improving substantially for two years, the surplus on foreign travel only recorded a small increase of 458 billion lire, giving a total of 11.4 trillion. While tourism prices rose by 12.2 per cent in Italy, receipts grew by only 9.7 per cent. The decrease of approximately 3 per cent in the number of foreign tourists at a time when international tourist flows were expanding resulted in a further reduction in Italy's share of the world market.

Italian residents' expenditure on foreign travel amounted to 3,686 billion lire in 1984, an increase of 33 per cent compared with the previous year. The rise in real expenditure reflected both the increase in real incomes in Italy and the deterioration in the Italian tourist industry's competitive position. The normal factors explaining outward tourism thus produced their full effects, especially in view of the liberalization of tourist allowances that was implemented in the spring.

CAPITAL FLOWS

Movements of non-bank capital produced a net inflow of 2,363 billion lire last year, compared with one of 1,900 billion lire in 1983 (Table 11). Net borrowing abroad by the banks in the first two quarters of 1984 almost equalled the figure for the whole of 1983, but the inflow from this source slowed down in the second half of the year. Over the year as a whole, net inflows of banking capital amounted to more than 5 trillion lire and were entirely translated into official reserves. The lira remained almost continuously above the narrow band of fluctuation within the European Monetary System, notwithstanding some periods of weakness, while the US dollar appreciated by 16.7 per cent against the Italian currency.

Table I1

CAPITAL FLOWS

(net, in billions of lire)

	1983	1984
Non-banking flows	**1,900**	**2,363**
Medium and long-term capital	1,284	1,618
Investment	−1,065	−1,026
Loans	3,200	2,410
Trade credit	−618	19
Other	−233	215
Short-term trade credit	616	745
Banking flows (1)	**4,996**	**5,138**

(1) Variation in the banks' net external position, corrected for exchange rate adjustments. 1984 figures take account of the arrangements regarding the foreign assets held by Banco Ambrosiano in liquidation.

Investment and foreign loans

Direct investment continued to show a deficit, as it has since the beginning of the eighties, but the net outflow declined from 1,423 billion lire in 1983 to 1,238 billion lire last year.

Net foreign investment in Italian companies rose from 1,807 to 2,267 billion lire, while Italian investment abroad increased from 3,230 to 3,505 billion lire. Both developments reflected the increasing internationalization of Italian industry, which has gained momentum in recent years. Italian investment abroad and foreign investment in Italy outstanding at the end of the year totalled almost $20 billion, with a net position of $1.3 billion in Italy's favour.

Portfolio investment generated a net inflow of 173 billion lire against 353 billion lire in 1983.

The inflow of foreign capital (net of disinvestment) amounted to 535 billion lire, slightly less than that recorded in 1983 (603 billion lire); it was the result of gross flows of more than 5 trillion lire in each direction, almost double those of the preceding year. The attractiveness of Italian government securities to foreign investors was enhanced by the favourable yield differentials over similar securities denominated in other currencies, and especially European currencies, as a realignment of the lira within the EMS was not expected in the short term. The substantial volume of securities transactions last year reflects the short maturities of some newly subscribed paper and portfolio adjustments consequent on interest rate developments during the year.

The net outflow of Italian capital increased slightly to 362 billion lire. The gross figure was 1,766 billion lire, more than half of which represented purchases of units in foreign investment funds. However, part of this outflow was repatriated as a result of the investments in Italian securities which foreign funds are required to make under the regulations governing their activities in Italy. On the other hand, purchases of foreign securities by Italian investment funds were still negligible. Official restrictions on their foreign operations were eased at the end of the year in the context of a partial liberalization of foreign investment by residents.

Foreign loans, net of repayments, amounted to 4,205 billion lire, almost the same as the figure for 1983 (4,269 billion lire), which, in turn, was less than half the total for the year before. The public sector component increased substantially from 3,618 to 5,669 billion lire, two thirds of which was incurred in the last few months of the year, whereas the private sector component, which had contracted sharply in 1983 from almost 5,000 to 651 billion lire, showed a deficit for the first time since the end of the seventies, with repayments exceeding new loans by l,464 billion lire.

Medium and long-term export finance

The ability to offer adequate amounts of credit at attractive interest rates for periods longer than the short term to potential foreign buyers, and especially those in planned economies and developing countries, is now almost as important as price and quality considerations in determining the competitiveness of Italian exports.

Among the credit facilities granted by residents and recorded in the balance of payments, longer payment terms conceded by suppliers themselves have expanded by more in recent years than financial facilities permitting foreign buyers to pay for their purchases immediately.

Exports of goods have also been stimulated by buyer facilities granted by foreign banks under the Italian system of official subsidies for export credit; these facilities are not reflected in the balance of payments.

Official medium and long-term support for exports, which is provided by Mediocredito Centrale and SACE in their respective spheres, showed signs of recovering some of the ground it had lost in 1983.

The financial difficulties afflicting some of the non-oil developing countries of Latin America and Africa have caused lenders to curtail lending to these countries. Special problems have arisen for countries such as the Soviet Union and Algeria, which have frequently considered financial arrangements compatible with the Consensus to be unsatisfactory. This situation has limited the growth in their purchases of Italian goods but has favoured countries with low domestic interest rates able to offer credit facilities in domestic currency at rates acceptable to borrowers and in line with the international agreements.

More generally, recent amendments to the Consensus rules have led to a gradual reduction in permitted interest rate subsidies by raising minimum rates at a time of stable or falling market rates.

The Government recently discussed the need to resolve these problems and also expressed its intention to encourage the use of the ECU in international financial transactions, especially with countries exporting fuel and primary products. The ECU is now one of the low interest rate currencies recognized by the Consensus, with a commercial reference rate ascertained by the EEC Commission on the basis of provisional criteria.

Short-term capital flows, external debt and the exchange rates of the lira

The net inflow of short-term funds, in the form of trade credit and banking capital, rose from the 1983 figure of 5,616 to 5,883 billion lire.

There was a net inflow of 745 billion lire in respect of short-term trade credit, compared with one of 616 billion lire in 1983. The surplus on flows of banking capital also increased slightly, from 4,996 to 5,138 billion lire.

The main net creditor countries of Italian banks at the end of the year were Switzerland, the United Kingdom and France, with claims of 8,504, 5,250 and 4,064 billion lire respectively. The position vis-à-vis France was considerably higher than in the previous year, so that France may now be regarded as a major creditor of Italian banks alongside the other two countries, which have long possessed important international banking centres. The currency distribution of the banks' foreign positions reveals the substantial increase in ECU transactions: gross liabilities denominated in ECUs accounted for 10 per cent of the total (excluding liabilities in lire), whereas net ECU liabilities made up a little less than a quarter of the banks' overall net foreign currency debt. Bank lending in ECUs to residents accounted for almost as large a share of total lending in foreign currency.

Financing of the current account deficit recorded in 1984 resulted in a worsening of Italy's overall net external position. Including gold reserves and expressed in dollars at year-end exchange rates, it fell from $7.2 to 0.5 billion; if gold reserves are excluded, net debt increased from $19 to 21.1 billion. The net debtor financial position, which excludes assets and liabilities in respect of investment as well as gold, increased from $21 to 23.5 billion.

The renewed increase in net financial liabilities, after a year in which they had remained more or less stable, raised the ratio of debt to GDP from 6.5 to 7.4 per cent and to exports of goods and services from 24.1 to 26.2 per cent (Table 12).

Table 12

NET FINANCIAL POSITION AS A RATIO TO GDP AND EXPORTS

(percentages)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Net financial position/GDP	–5.5	–3.3	0.3	3.3	0.4	–4.0	–6.2	–6.5	–7.4
Net financial position/Exports (1)	–21.5	–12.4	0.9	11.4	1.3	–14.2	–21.8	–24.1	–26.2

(1) Exports of goods and services on a transactions basis.

From the beginning of 1984 to the end of March 1985 the lira depreciated by 8.5 per cent in effective terms and by 16.2, 5.0 and 4.0 per cent respectively against the dollar, the Deutschemark and the

ECU. It lost ground within the EMS, but maintained its position above the fluctuation band for most of the year. In March 1985 its market value fell below the central rates. Since 22 March 1983, when the currencies participating in the exchange rate agreement were last realigned, the lira has depreciated by 27.2 per cent against the dollar, by 6.3 per cent against the mark and by 6.4 per cent against the ECU; its effective rate has come down by 13.9 per cent.

PUBLIC FINANCE

The corrective measures taken in 1984 slowed down the fast-rising trend of the borrowing requirement of the public sector (general government as defined in the national accounts plus autonomous government agencies). Nonetheless, the PSBR rose from 91.5 trillion lire in 1983 to 102.5 trillion in 1984, while remaining just below 17 per cent as a ratio to GDP (Table 13). The funding needs of the state sector, which differs from the public sector by excluding the social security institutions, local government and part of the central government, rose from 88.6 to 95.35 trillion lire but nonetheless declined in relation to GDP from 16.4 to 15.6 per cent. The different growth in the two sectors' borrowing requirements was the result of banks having been made responsible for the settlement of part of local health units' accrued liabilities, thereby reducing these bodies' drawings from the Treasury while entailing a corresponding increase in their recourse to the banking system.

Table 13

BORROWING REQUIREMENTS (1)

(as a percentage of GDP)

	1982	1983	1984
State sector borrowing requirement	15.4	16.4	15.6
Public sector borrowing requirement	16.3	17.0	16.7
Enlarged public sector borrowing requirement ...	17.0	17.4	17.4

(1) The 1982 figures include a number of debt payment operations.

The slowdown in the growth in borrowing requirements was primarily due to the reduction in the balance of financial operations as a result of specific measures. The introduction of the centralized Treasury account curbed the expansion of the net disbursements of the central government to decentralized public bodies and thus reversed the rising trend of their balances with the banking system. For the public sector as a whole these balances decreased by 150 billion lire, compared with an increase of 5.7 trillion the previous year.

Disbursements to public corporations fell by roughly 2.9 trillion lire, partly as a result of their improved cash flows.

Analysis of the budget operations that most directly influence economic activity shows that fiscal policy had an expansionary effect on domestic demand and that this will carry over into this year. Even combined with the cyclical recovery, the measures taken to increase revenues and reduce expenditures failed to prevent a large increase in the net borrowing of the public sector. This rose from 69.8 trillion lire in 1983 to 89.8 trillion in 1984, or from 13.0 to 14.7 per cent of GDP (Table 14).

Table **14**

MAIN INDICATORS OF PUBLIC SECTOR FINANCES

(as a percentage of GDP)

	1982	1983	1984
Fiscal revenue (including EEC levies and social security contributions)	39.1	41.9	41.9
Total public sector expenditure	56.6	59.6	60.3
Deficit on current account (based on national accounts)	7.8	7.3	7.6
Net indebtedness (based on national accounts)	13.7	13.9	14.7
Net indebtedness (based on flow-of-funds accounts)	13.8	13.0	14.7

The expansionary impulse is found to be greater if it is assessed by deflating the various revenue and expenditure items and taking account of the loss of purchasing power incurred on the net liabilities of the public sector. This remains true even if the assessment is extended to include expenditure on financial items, which support economic activity in much the same way as transfer payments between 1983 and 1984 and fell sharply.

On the revenue side, the measures taken prevented the tax to GDP ratio from falling, as it would otherwise have done after the considerable rise recorded in 1983. Including the levies accruing to the EEC, the ratio remained steady at the 42 per cent level. The measures basically involved increases in corporate income tax and withholding tax on interest, a temporary change in the instalments of the latter, and a condonation of social security offences.

On the expenditure side the postponement of the payment of pension cost-of-living increases and the adoption of the target inflation rate for their calculation, together with the introduction of means testing for some social security benefits, produced an estimated saving in expenditure of around 2 trillion lire. According to the national accounts, the ratio of public sector spending (excluding financial operations) to GDP rose from 59.6 to 60.3 per cent. This was primarily due to the increase in expenditure on capital account and to the rise in the interest burden caused by the expansion of the debt.

In particular, provisional data indicate that, despite the limits set on public sector wages and recruitment, the expenditure for compensation of employees went up in line with national income. Central government transfers to INPS exceeded the amount fixed in the Finance Law by more than 4 trillion lire. Health expenditure pertaining to 1984 also exceeded the budget appropriations to the National Health Fund.

The stock of public debt grew from 455 trillion lire at end-1983 to 560.5 trillion at end-1984, and from 84 to 92 per cent of GDP. The share of the debt held by the market increased most (from 375.3 trillion to 467.6 trillion), while the ratio of central bank financing to the total debt decreased slightly (from 17.5 to 16.6 per cent), notwithstanding the large expansion in such financing to meet the needs of the Treasury.

The recent policy of lengthening the maturity of the debt was continued in 1984. The substantial results achieved owed much to the slowdown in inflation. The proportion of the total debt consisting of medium and long-term securities in the market rose between end-1983 and end-1984 from 33.1 to 37.3 per cent. That of Treasury bills, by contrast, continued to decrease (from 30.3 to 27.3 per cent).

The effect of the policies pursued is brought out more clearly by the lengthening in the average residual life of securities in the market. After falling to a low of just over a year in 1982, it rose to around a year and a half at end-1983 and to nearly two and a half years at end-1984. These results reflect the greater use of Treasury credit certificates and the gradual lengthening of their maturities from two to seven years.

The outlook for 1985

The fiscal policy formulated in the Finance Law and other important measures was designed, on the one hand, to prevent a fall in the tax to GDP ratio and, on the other, to keep the growth rates of expenditure on current and capital account down to respectively 7 and 10 per cent. The aim was to prevent the state sector borrowing requirement from exceeding the target then obtaining for 1984. In the absence of corrective measures, the budget deficit would have worsened.

On the revenue side the programme included not only the extension of extraordinary surtaxes and the earlier increases in advance payments of IRPEF and ILOR but also a reduction in the scope for VAT evasion and a condonation of building offences.

On the expenditure side, limits similar to last year's have been set on the recruitment of public employees, the Treasury financing of INPS and increases in public employees' wages. Simultaneously, however, pension increases have been approved for retired workers from both the private and the public sector that are expected to amount to nearly 4 trillion lire in 1985 (including the entitlements accrued in 1984) and to around 10 trillion when the measures produce their full effects in 1988.

According to the Report submitted to Parliament by the Treasury Minister in February of this year, the state sector borrowing requirement, fixed in the Government's Forecasting and Planning Report at 96.3 trillion lire, is likely to amount to 99.9 trillion.

Turning to revenues, it is worth stressing that, on the one hand, the receipts from some important taxes, including the withholding tax on interest, are likely to exceed the official forecast while, on the other, the time needed to implement the building offences condonation makes it unlikely that the forecast yield of 5 trillion lire will be realized in 1985. Moreover, the achievement of an unchanged tax to GDP ratio still requires the implementation of the increases in taxation announced in the Forecasting and Planning Report.

Achievement of the objectives on the expenditure side also appears to be far from certain. Even if inflation is on target, wages are likely to rise about one point faster than indicated in the Finance Law. The overshoot of the forecast for pensions could prove to be even larger than that indicated for wages. If both the recent pension increases and the corresponding accrued entitlements were to be paid in full during the year, the growth rate of this item would be nearly twice the 7 per cent targeted for current expenditure. Outlays on investment may also expand faster than foreseen, primarily owing to cost overruns due to the higher rates of inflation of earlier years.

The picture that emerges shows that the imbalances in public finances are still serious. Expenditures continue to grow faster than revenues even though the tax to GDP ratio has been substantially raised in recent years. Indeed, it is now in line with the average of the other major EEC countries, even though Italy's per capita income — one indicator of taxpaying ability — is below theirs.

THE MONEY AND FINANCIAL MARKETS

The outcome for the year

The central bank sought to maintain monetary and exchange conditions that would enable the slowdown in inflation to continue. The rise in investment, which was encouraged by the improvement in the general economic climate, produced a substantial increase in the demand for credit. As the year proceeded, the need for the large public deficit to be financed, and especially for vast amounts of accumulated debt to be renewed, exerted an increasing influence on monetary policy, which was reflected in the high level of real interest rates.

The monetary and credit aggregates were regulated via control of the monetary base supplemented by three changes in the official discount rate — two reductions in the first part of the year and one increase in the second. After ten years, 1984 was the first year in which monetary policy operated without the support of the ceiling on bank lending. Despite the cyclical upturn in the demand for credit, the new system of monetary control made it possible to maintain the required degree of restriction and to come close to the intermediate targets for credit and money.

According to the plan for financial flows submitted to the Interministerial Committee for Economic Planning in September 1983, the state sector borrowing requirement was to be kept to 90.8 trillion lire in 1984, with the domestic component not exceeding 84.5 trillion. The expansion in lending to the non-state sector (which includes non-state public bodies, firms and households) was set at 38 trillion, a rate of increase of 12.5 per cent. This growth in the credit aggregates was consistent with the official objective of reducing the average annual rate of inflation to 10 per cent while keeping the external accounts in balance. Real GDP was forecast to rise by about 2 per cent and investment by 3 per cent.

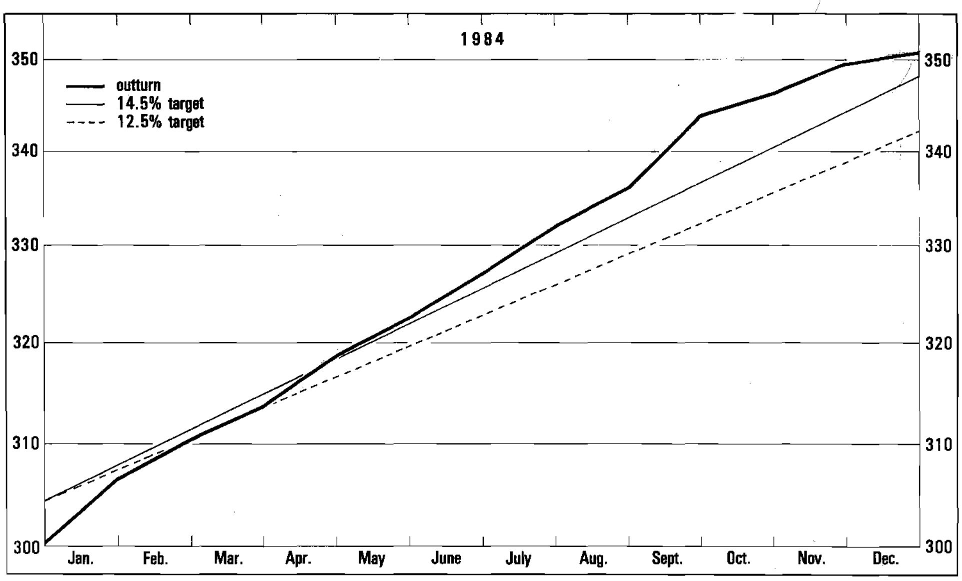
During the first half of 1984 the slowdown in inflation, coupled with the satisfactory performance of the external accounts and the moderate increase in the state sector borrowing requirement, permitted a reduction in Treasury bill yields of more than 2 points to below 15 per cent. In February the official discount rate was lowered by one point to 16 per cent. In May the further slowdown in inflation allowed an additional half-point decrease in the official rate, thus exploiting all the available scope for bringing down the cost of money. Throughout this period the growth in the money supply (M2) was below the 10 per cent target rate for the year judged compatible with the plan for financial flows.

However, in contrast with the moderate growth in money, the lively demand for credit that developed after the first quarter began to push lending to the non-state sector off the growth path consistent with the objective for the year (Figure 13). Firms' strong demand for credit consequent on the recovery in production and the greater use of bank credit for liquidity was substantially added to by the demand of the non-state public bodies. Simultaneously, the elimination of the ceiling on bank lending and the scope for banks to draw on their large securities portfolios enabled them to pursue active loan expansion policies. This course was reflected in the downward trend of interest rates.

Figure 13

THE FINANCING OF THE NON-STATE SECTOR

(seasonally adjusted; billions of lire; semi-log scale)



The first signs of a deterioration in the external accounts, the increasingly rapid rise in bank lending and the upturn in the growth of the money supply meant that a number of restrictive measures had to be taken during the summer with the aim of curbing the acceleration in domestic demand. First, with the aim of slowing down the rapid expansion in banks' foreign currency lending, they were required not to increase their borrowing abroad from July onwards and then the discount rate was raised by one point in September. The yields on government securities also rose again, though to a lesser extent. This upward adjustment in interest rates was followed by an increase in the issues of government securities, making monetary base control more effective and curbing the pace of bank deposit growth.

The meeting of the Interministerial Committee for Economic Planning held at the end of September agreed on the need to keep the growth of the credit aggregates in line with targets reflecting the new macroeconomic situation, in which GDP was expected to grow one point faster than originally foreseen and investment two points faster, together with a slight worsening in the external current account. The target rate of increase in credit to the non-state sector was raised to 14.5 per cent, corresponding to 44 trillion lire.

The restrictive measures taken caused the annualized rate of growth in lending to the non-state sector to fall to 13.3 per cent in the last four months of the year, compared with 16.2 per cent over the first eight months. Specifically, the rate for bank lending dropped by half from 20.8 to 10.1 per cent, in part owing to the November change in tax regulations, which made it less advantageous to finance the purchase of tax-exempt securities with bank loans and thereby removed a factor distorting credit flows. The slowdown in bank credit was offset to some extent by faster growth in the lending of the special credit institutions in connection with the strengthening of the recovery in investment and, in the last few weeks of the year, by local authorities' heavy drawings on loans for public works. The expansion of total credit thus ended by conforming closely to the new official target for the year, which was overshot by less than one point (Table 15).

Table 15

CREDIT, MONEY SUPPLY AND FINANCIAL ASSETS

(12-month growth rates)

	Domestic credit		Finance to the private sector (2)	Money supply (M2)		Liquid assets (M3)		Financial assets (3)	
	Finance to the non-state sector (1)	Total		Private sector	Non-state sector	Private sector	Non-state sector	Private sector	Non-state sector
1980 - Dec.	16.4	18.6	19.8	13.4	12.7	18.2	17.3	16.4	15.8
1981 - Dec. (4)..	13.5	18.1	17.7	12.5	9.9	18.8	16.0	19.2	16.9
1982 - Dec. (4)..	13.4	20.9	14.5	17.3	16.9	17.7	17.2	20.3	20.0
1983 - Dec.	13.1	20.7	13.5	12.6	13.3	14.1	14.6	20.1	20.5
1984 - Dec. (5)..	15.3	19.5	13.4	12.5	11.8	14.6	13.9	20.2	19.3
1985 - Mar. (6)..	14.8	20.2	....	15.1	14.3	15.2	14.5	19.7	19.0

(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 16); rates of growth are calculated net of share issues owing to problems of valuation. — (3) Domestic financial assets, net of shares and actuarial reserves. — (4) Adjusted for the deposit against purchases abroad. — (5) Adjusted for the distorsions in banking statistics connected with the elimination of the ceiling on bank lending. — (6) Provisional.

The financing of the private sector and total domestic credit

Lending to the non-state sector rose by 47,112 billion lire, at a rate of 15.3 per cent. This expansion was partly due to the more than 60 per cent increase on the previous year in the lending of the credit system to non-state public bodies to 7,017 billion lire. Total lending to the private sector (firms and households) rose by 13.4 per cent, as in 1983, and increased slightly in relation to GDP (Table 16).

Table 16

TOTAL DOMESTIC CREDIT AND LENDING TO THE PRIVATE SECTOR

(changes in billions of lire)

	1980	1981	1982	1983	1984
Total domestic credit	**63,271**	**73,334**	**100,391**	**120,545**	**138,476**
State sector borrowing requirement (1) .	34,015	45,242	68,987	85,542	91,364
Finance to the non-state sector (2) . (+)	29,256	28,092	31,404	35,003	47,112
finance to public bodies (3) ..... (−)	*1,585*	*1,752*	*3,372*	*4,389*	*7,017*
foreign loans .... (+)	*4,497*	*8,641*	*3,045*	*647*	*−778*
endowment funds............. (+)	*2,585*	*3,167*	*7,117*	*9,303*	*6,587*
share issues (4) .... (+)	*1,933*	*2,262*	*2,203*	*2,577*	*4,746*
other items (5)................. (+)	*3,665*	*3,520*	*3,228*	*4,319*	*5,209*
Total finance to the private sector .. (=)	**40,351**	**43,930**	**43,625**	**47,460**	**55,859**
as a percentage of GDP............	*11.9*	*10.9*	*9.3*	*8.8*	*9.1*

(1) Net of borrowing abroad, Treasury loans to credit institutions and securities issued to fund debts. — (2) The non-state sector comprises 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. The 1984 figures are adjusted for the distortions in banking statistics connected with the elimination of the ceiling on bank lending. — (3) Credit institutions lending to non-state public bodies, adjusted for the funding mentioned in footnote (1) above and local authorities' bond issues. — (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.

The elimination of the ceiling on bank lending led to an increase in the banks' share of the financing of the private sector. Despite the faster growth the special credit institutions recorded in the second half of the year, the increase in their lending fell more than 3 points below that of the banks. The upturn in investment boosted the momentum of leasing companies, which have now carved out a solid niche for themselves in the credit market, primarily among small and medium-sized firms. Factoring also gained ground with the start-up of new companies linked to large industrial groups. The development of these banking-related activities is described in greater detail in the section "The Special Credit Institutions and Leasing and Factoring Companies".

Firms' borrowing was moderated by the high level of self-financing consequent on the improvement in their gross operating profits and the smaller incidence of net financial costs. The latter stemmed not only from the drop in nominal interest rates but also from improved management of working capital. The rebuilding of stocks was kept in line with actual production needs and the composition of liquid assets shifted towards those offering higher returns.

Firms raised a larger volume of equity capital than in the previous year. Even though 1984 was marked by cyclical expansion and increased investment, the ratio of firms' loan capital to their output did not rise. The drive to improve the balance between own and borrowed funds is benefiting from the opening of the share market to new intermediaries such as Italian investment funds, which started business in the second half of 1984. Although only a small portion of the funds' resources has so far been put into shares, their activity has improved the tone of the stock exchange, which has also benefited from inflows of foreign capital. Firms' greater profitability, coupled with expectations of lower interest rates and the prospect of greater stability in the market owing to the presence of institutional investors, revived savers' interest in shares.

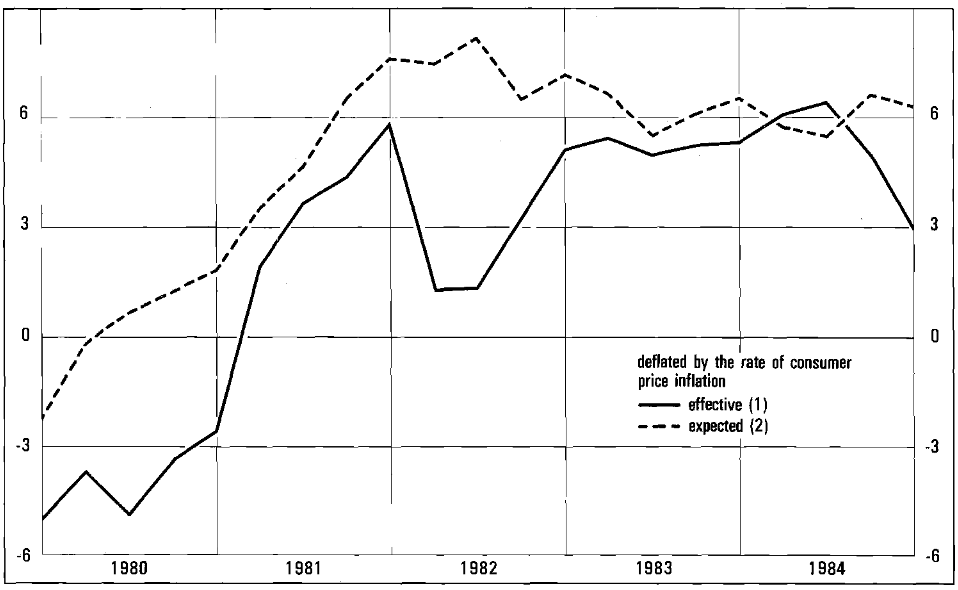
The public component of total credit again expanded much faster than that of the non-state sector. The state sector domestic borrowing requirement amounted to 91,364 billion lire, which was 6,864 billion above the original target and accounted for more than two thirds of the total flow of credit. Total domestic credit expanded by 138,476 billion lire or 19.5 per cent of the initial stock, as against 20.7 per cent in 1983. In relation to GDP, the flow of credit increased from 22.4 per cent the previous year to 22.6 per cent.

Financial assets

The expansion of total domestic credit described above led to the private sector's financial assets rising by 20 per cent, which was the same as in 1983 and almost twice the 1984 increase in GDP. To ensure that this flow of financial assets would be taken up by the private sector without creating money at a faster pace than the nominal increase in incomes, real interest rates on government securities had to be kept high. With reference to effective consumer price inflation, the real yield on six-month Treasury bills averaged around 5 per cent over the year, as in 1983. A rise in the first part of 1984 was followed by a gradual decrease in the second, so that at the beginning of 1985 the real rate returned to its autumn 1982 level (Figure 14).

Figure 14

REAL RATE OF INTEREST ON 6-MONTH TREASURY BILLS



(1) The nominal Treasury bill rate, calculated as the average of the last month of each quarter and the first month of the next, deflated by the annualized change in consumer prices over the six following months. — (2) The nominal Treasury bill rate, calculated as in footnote (1) above, deflated by the annualized expected change in consumer prices over the six following months compared with the six previous months using Mondo Economico survey data.

Partly as a consequence of the narrowing of the interest rate differential between government securities and bank deposits, the growth in the money supply in the second half of 1984 was slightly above the planned path, amounting to 11.8 per cent in December. Net of bank CDs, the growth in the money stock amounted to 10.9 per cent, compared with 12.5 per cent in 1983. The slowdown between the two years can be attributed in part to the reduction in the bank deposits of decentralized public bodies, which had to transfer part of their liquidity to the centralized Treasury account in 1984 in accordance with recent legislation.

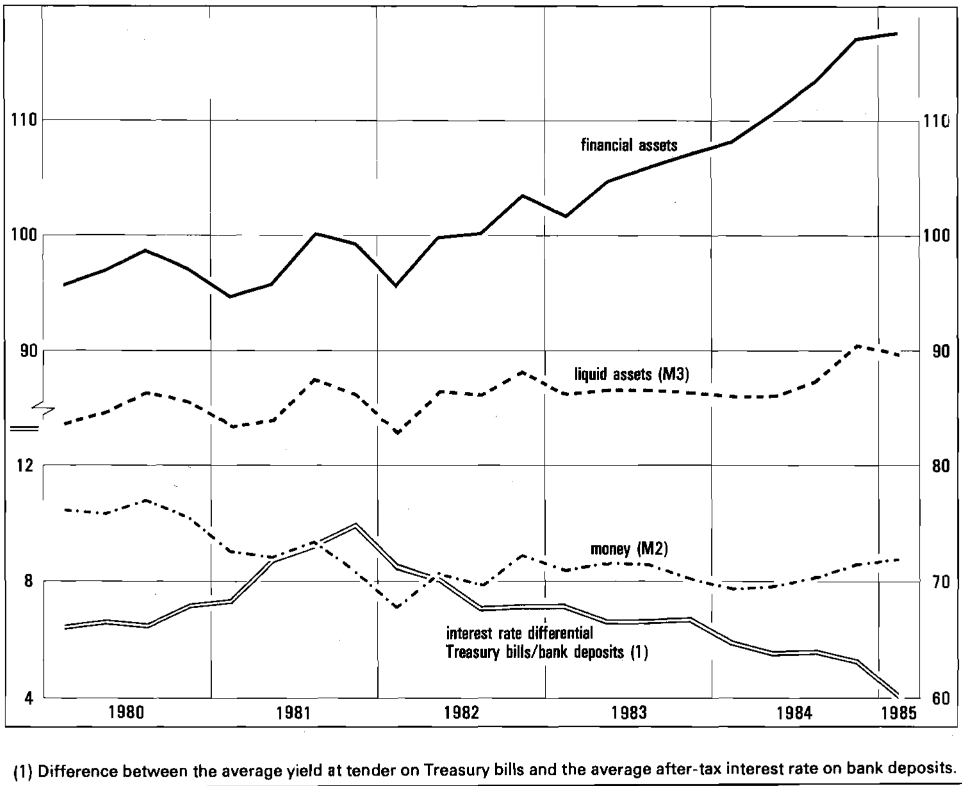
The moderate growth in the money supply, notwithstanding the upward revision of the targets for credit during the year, was made possible by the substantial increase in the bonds and government securities purchased by firms and households, who together took up 84 per cent of total net issues. The private sector's securities portfolio grew by 39 per cent, after expanding by 47 per cent in 1983. The strong demand for securities, sustained for most of the year by expectations of lower interest rates, permitted a reduction in the proportion of shorter-term securities.

The gradual reduction in inflation over the last three years combined with the cautious policy for lowering interest rates to support households' demand for securities and enable the growing supply of public sector financial assets to be placed (Figure 15). The money supply remained stable in relation to income, but the ratio of total private sector financial wealth to GDP rose from 99 to 117 per cent between end-1981 and end-1984, at an even faster pace than in the early seventies, the previous period of very rapid growth in debt and financial assets. Such rapid expansion of the debt aggravates the risk that potential excess demand will suddenly be unleashed in the markets for goods and money, thereby generating instability that could jeopardize the results obtained in the fight against inflation. Today's rate of increase in overall debt cannot be maintained except by keeping interest rates at such a high level as to impair investment, employment and public finances, and thus push the ratio of financial assets to GDP even higher. This vicious circle can only be avoided by putting a brake on the expansion of the public debt with measures curbing the growth in current expenditure net of interest payments.

Figure 15

FINANCIAL ASSETS OF THE PRIVATE SECTOR

(% ratios to GDP; seasonally adjusted averages)



(1) Difference between the average yield at tender on Treasury bills and the average after-tax interest rate on bank deposits.

The prospects for 1985

The fall in the rate of inflation and the less pronounced growth in lending to the private sector permitted the authorities to lower the discount rate to 15.5 per cent at the beginning of 1985. In the first quarter of this year the yield curve shifted downwards across the board. The November 1984 change in the tax regulations governing firms' holdings of tax-exempt securities made it advantageous for banks not to dispose of securities from their portfolios. In January and February this resulted in the seasonally high demand of the public for securities being concentrated on Treasury credit certificate issues, which were relatively small in comparison with the borrowing requirement. Another reason for demand having been so high was that investors heavily oversubscribed to counter proportional allotment. This temporary effect rapidly died away and by March the changed state of inflation expectations had already caused a fall in the demand for government securities. Faced with a substantial rise in the borrowing requirement, the Treasury was forced to use nearly all its overdraft facility with the Bank of Italy. Continued difficulty in raising funds in the market made it necessary to raise the yields on government securities by nearly one point.

Partly with the aim , of preventing instability in the financial markets, in the early months of 1985 the central bank allowed bank deposits and reserves to expand faster than was consistent with the plan for financial flows. This is based on growth in M2 of around 10 per cent, in line with that in GDP. The annual rate of growth in the money supply rose to 18 per cent over the first four months of the year. Net of certificates of deposit, issues of which expanded substantially, the money supply grew by 15 per cent. A gap thus opened between the rates of money supply growth and credit expansion. Despite the upturn in bank lending in April, the increase in credit to the non-state sector in the first four months was in line with the 12 per cent annual target set last autumn by the Interministerial Committee for Economic Planning.

Nonetheless, the present pace of state sector borrowing is pushing the expansion of total domestic credit off the path consistent with the plan for financial flows. As mentioned above, the faster-than-expected rise in the borrowing requirement has so far led to an acceleration in the growth of the money supply. The liquidity preference of savers and firms has been accentuated by the uncertainty about the cyclical development of the economy and the future course of prices. Corrective measures to curb the public deficit and put inflation back on a downward course are needed in order to improve expectations and thus reinforce central bank action to mop up the excess liquidity that might otherwise spill over into increased consumption and imports.

THE CENTRAL BANK'S OPERATIONS AND CONTROL OF THE MONETARY BASE

Control of the monetary base

The monetary authorities' task of controlling the growth in the monetary base and bank reserves in the light of the objectives for credit and money was made easier in 1984 by the strong demand for government securities, attributable in part to the improvement in inflation expectations. Faced with a sharply rising demand for credit, banks were able to increase their lending faster than their deposits for most of the year by rearranging their balance sheets after the removal of the ceiling on lending and substantially increasing their borrowing from abroad. In this way the banks further lengthened the lag with which central bank action affected the supply of credit to the private sector.

The pursuit of the objectives for credit and money required several changes in the discount rate and the yields on government securities. Credit control was also reinforced by the limit set on banks' net foreign borrowing, which had been stimulated in the first half of the year by favourable interest rate differentials and expectations of stable exchange rates.

Table 17

MONETARY BASE AND BANK DEPOSITS

(percentage changes on an annual basis) (*)

	1982	1983	1984	1983 Quarters I	II	III	IV	1984 Quarters I	II	III	IV	1985 I qtr. (1)
Monetary base (2)	12.6	13.3	12.5 (11.4)	11.8	15.1	16.5	10.1	3.0	24.5	3.8	17.6 (14.5)	9.7 (12.7)
Bank reserves (2)	13.1	14.1	14.0 (12.2)	9.6	17.6	18.7	10.5	−2.1	29.8	2.1	24.5 (19.3)	1.3 (5.7)
Bank deposits	18.2	13.3	11.6	11.7	17.1	19.0	5.4	9.8	9.3	15.4	12.9	19.2
of which: of the private sector	*18.7*	*12.6*	*12.8*	*9.7*	*16.3*	*18.3*	*6.0*	*9.2*	*12.0*	*15.8*	*15.2*	*18.1*

(*) Based on end-of-period values. The quarterly figures are seasonally adjusted; the monetary base and bank deposit figures can both be significantly influenced by changes in liquidity on the last day of the period. — (1) Provisional. — (2) Adjusted for the change in the compulsory reserve coefficient and for the non-interest-bearing deposit against lending in excess of the ceiling. The figures in brackets are adjusted for the estimated 1 trillion lira random rise in banks' cash balances at end-1984.

In 1984 the monetary base and bank reserves increased by respectively 13,847 and 9,986 billion lire (12.5 and 14.0 per cent, after adjusting for the changes in the compulsory reserve ratio; Tables 17 and 18), compared with 12,604 and 8,523 billion (13.3 and 14.1 per cent) in 1983. The growth of these two aggregates is less pronounced (respectively 11.4 and 12.2 per cent) when the end-December data are corrected for the abnormal rise in banks' cash balances caused by strikes in the banking industry.

The composition of monetary base creation differed substantially from that of 1983 — the foreign sector contributed 5,141 billion lire, which was almost entirely attributable to the net borrowing of the banks and just over half the increase in the monetary base financing of the Treasury (10,028 billion lire). In 1983 the better performance of the balance of payments had resulted in the ratio between the two channels having been roughly the inverse, with the foreign sector contributing 8,840 billion lire and the Treasury 4,514 billion.

The steady decrease in the direct participation of the central bank in the primary market for government securities and the increase in interventions to finance market operators both continued in 1984. Of the total net sales of government securities in the market, amounting to 75,410 billion lire, 93.4 per cent were made at issue. The corresponding figures in 1983 and 1982 were 71.1 and 44.7 per cent. Interventions to stabilize liquidity were mostly in the form of temporarily financing banks by means of fixed term advances, temporary purchases of securities and the financing of subscriptions of government securities. The net value of these operations was small, while their gross value amounted to 88,635 billion lire, compared with 49,101 and 19,329 billion in 1983 and 1982 respectively. By contrast, the temporary sales of government securities amounted to only 12,591 billion (down from 35,715 billion and 51,050 billion in the two previous years).

The increase in the marginal rate of the compulsory reserve ratio decided by the Credit Committee in December 1982 to make the link between the monetary base and the money supply closer and more stable raised the ratio of banks' reserves to their total deposits. Nonetheless, as a ratio to the total, the cost of deposits associated with compulsory reserves decreased from 2 to 1.6 percentage points between 1983 and 1984 as a result of the fall in market interest rates. For the banking system as a whole the ratio of compulsory reserves to the relevant deposit base, measured at end-January 1985 and end-December 1984, amounted to 19 per cent, as against 17.9 and 16.6 per cent respectively twelve and twenty-four months earlier. The effect of the Credit Committee measure is expected to wear off when the increases in reserves, which are bunched in January owing to the seasonal pattern of deposits, has brought the average reserve ratio of the banking system and each bank to 22.50 per cent.

Table 18

MONETARY BASE (*)

(changes in billions of lire)

	1982	1983	1984 Year	1984 Quarters I	II	III	IV	1985 1st qtr. (1)
Foreign sector (2)	**−5,647**	**8,840**	**5,141**	**−2,633**	**3,124**	**2,571**	**2,080**	**−4,146**
Balance of payments	−2,521	3,793	57	−3,222	−1,004	3,109	1,174	
Net foreign position of banks	−3,062	4,996	5,138	786	3,980	−535	907	
Treasury	**12,676**	**4,514**	**10,028**	**5,102**	**−3,850**	**1,138**	**7,639**	**10,132**
Borrowing requirement	72,653	88,604	95,351	18,425	19,861	25,383	31,682	27,724
Net sales of securities	−52,363	−74,789	−75,410	−11,231	−23,045	−22,789	−18,344	−16,948
primary market	−23,419	−53,180	−70,398	−17,440	−19,441	−18,949	−14,568	−14,555
Treasury bills	−6,947	8,632	−13,187	713	−4,724	−8,557	−619	4,090
Treasury credit certificates	−20,490	−59,602	−54,436	−16,015	−15,273	−9,569	−13,580	−16,546
other securities	4,018	−2,210	−2,775	−2,138	556	−823	−369	−2,099
open market	−28,944	−21,609	−5,012	6,209	−3,604	−3,840	−3,776	−2,393
of which: repurchase agreements	*−401*	*−1,628*	*2,661*	*8,203*	*−3,254*	*−2,235*	*−53*	*−1,261*
Other financing (3)	−7,614	−9,301	−9,913	−2,092	−666	−1,456	−5,699	−644
Refinancing	**638**	**−3**	**−218**	**17**	**2,215**	**−2,441**	**−9**	**17**
Other sectors	**2,670**	**−747**	**−1,104**	**158**	**−619**	**−649**	**7**	**−1,445**
of which: deposits on foreign payments	*−3,822*	—	—	—	—	—	—	—
TOTAL	**10,336**	**12,604**	**13,847**	**2,643**	**869**	**619**	**9,716**	**4,558**
Non-state sector	**3,528**	**4,081**	**3,861**	**−2,285**	**1,288**	**454**	**4,404**	**−1,511**
Banks	**6,807**	**8,523**	**9,986**	**4,928**	**−419**	**165**	**5,311**	**6,069**
Compulsory reserves	8,544	9,092	8,855	6,017	−1,488	1,785	2,540	8,928
Non-interest-bearing deposits against excess lending	−519	−927	−2	−2	—	—	—	—
Excess reserves	−1,218	359	1,133	−1,087	1,069	−1,621	2,771	−2,859

(*) Components may not add up to totals because of rounding.

(1) Provisional. — (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, loans granted by banks and special credit institutions to autonomous government agencies, and the deposits of social security institutions with the Treasury.

In the early months of 1984 money market conditions were very tight, notwithstanding the sharp drop in the yields at issue on government securities. This fall was convalidated in February by the reduction in the discount rate from 17 to 16 per cent. Market demand for securities, which was already substantial owing to seasonal factors, was boosted by expectations of further reductions in yields and was concentrated largely on Treasury credit certificates (Table 18). The central bank's interventions went some, but not all the way to offsetting the restrictive effects of primary market placements that actually involved overfunding in some months, as well as outflows of official reserves and the January compulsory reserve payment, which was particularly large owing to the increase in the marginal ratio mentioned above.

This tight liquidity situation made it possible to weather a short period of pressure on the exchange rate in February and hold down money supply growth. Bank deposits expanded in the first quarter at an annualized rate of 9.8 per cent. Demand for bank credit was cyclically high, partly as a result of restocking linked to the recovery in production. This period also saw the reappearance in banks' balance sheets of loans that had been diverted to other institutions while the ceiling on lending was in force or made self-liquidating within the monthly reporting period.

In the second quarter the interest of the public and the banking system in acquiring government securities, reinforced by expectations of lower inflation, made it possible to keep the growth in the money supply below the level compatible with the annual target. At the beginning of May the slowdown in inflation coupled with the arrival of summer — a seasonally favourable period for the lira — allowed the monetary authorities to accompany the decrease in market rates with a further reduction, in the discount rate of half a point. The restrictiveness surrounding bank reserves eased somewhat; temporary securities purchases were gradually unwound and less recourse was made to fixed term advances, the effective cost of which continued to come down. During this quarter, as in the rest of the year, the demand for Treasury bills at auction was buttressed by the group of intermediaries that started to perform this task in March.

In May the competitive bid system, which had been restricted to 3-month Treasury bills until then, was extended to 6-month bills. However, the Treasury dropped its practice for such issues of keeping a sizable differential between the issue floor-rate and the yield prevailing in the market, thereby making the tender price less responsive to demand.

The growth in bank credit in the second quarter gathered speed, with foreign currency lending expanding especially fast. The limit set in July on increases in banks' net external positions (see the section "Capital Flows") was intended to tighten the link between the growth in banks' lira deposits and their total lending. In the months that followed, uncertainty about the future course of yields gave rise to some difficulty in placing government securities, and especially those with long maturities. In addition to bank lending, deposits also showed signs of gathering pace (their annualized rate of increase rose from 9.3 per cent in the second quarter to 15.4 per cent in the third), while it began to be clear that the trade deficit was deteriorating.

At the end of the summer a series of measures were taken to counter these developments. The discount rate was raised by one point at the beginning of September; increases, albeit smaller, were also made in the yields on 3 and 6-month Treasury bills and in the first coupon on Treasury credit ce rtificates, thereby expanding the volume of sales. The curb on the growth of bank reserves was reinforced by the first temporary sales of government securities. The momentary strains that developed in the money market were coped with by granting fixed term advances, while the conditions on which finance was granted to the group of intermediaries in the Treasury bill market were made less flexible.

The increase in interest rates spread to bank loans and the consequent slowdown in bank credit was sufficient to bring it back into line with the new, higher targets that had been set. From mid-October the rates in the primary market for government securities turned down again; temporary sales of securities, which had been reinforced by outright sales in the secondary market in October, were stopped in November.

In the last two months of the year the Treasury borrowing requirement spurted unexpectedly without the rise being offset by larger sales of securities in the primary market. The change in the regulations governing the right of legal persons to deduct interest payments for tax purposes led banks and firms to hold on to the securities they owned when the provision took force. This reduced the liquidity of both groups' financial assets and led to a shortage of tax-exempt securities in the secondary market that pushed up their price. The Bank of Italy's outright sales of securities at the end of November and in December were designed both to mop up the excess liquidity and to provide the banks with securities with which to meet the demand of their customers. At the end of 1984 the average Treasury bill rate was 14.7 per cent, 2.6 points below that obtaining twelve months earlier.

At the beginning of 1985 the discount rate was lowered to 15.50 per cent once more in view of the good results achieved in containing inflation and the slowdown in the growth of the credit aggregates. At the same time the Bank of Italy announced a change in the regulations governing banks' overdraft facilities with the central bank with the aim of making their use more efficient.

In the first two months of 1985 there was the regular increase in the public's demand for securities serving to recompose their financial assets after the crediting of deposit interest. Owing to the new tax regulations the banks' sales were smaller than those recorded in the same period in similar years; net of repurchase agreements with the central bank, their securities portfolio decreased by 17,013 billion lire, compared with 19,523 billion in 1984. In view of the liquidity strains following the largest compulsory reserve payment of the year, the banks took up only a small part of the securities that the Bank of Italy offered for outright sale in this period to make good the lack of supply.

Non-bank operators consequently switched their demand to the primary market, and in particular to the issues of Treasury credit certificates, the coupon on which had been changed from six-monthly to yearly as of 1 January. The increase in the supply of securities was very small and the quantity sold failed to keep up with the rapid expansion of the borrowing requirement (about 14.4 trillion lire between January and February, as against 9,027 billion in the corresponding period of 1984). The restriction of liquidity caused by the gradually rising outflow of official reserves and the depositing of compulsory reserves was thus rapidly annulled. The finance granted to the banks after mid-January was repaid within a month and by February the Bank of Italy had already been forced to make temporary securities sales. Bank deposits shot upwards.

The tender method was used for Treasury credit certificates for the first time for the March issue (restricted to ten-year paper). The method allows the tender price to be brought into line with market conditions more rapidly and reduces the probability of large-scale over-subscription. For the method to work smoothly, however, the floor price must be fixed low enough to allow demand to influence the tender price. By contrast, it was fixed at a level that made the issue less attractive than the previous month's.

The drop in the demand for Treasury credit certificates was reflected in the quantity taken up. Net of redemptions, this was small, especially when compared with the very large Treasury borrowing requirement for the month (around 6.3 trillion lire the former, as against 13.3 trillion the latter). Treasury bills for their part recorded net disinvestment; the growth in excess reserves accelerated and the central bank had to step up its temporary sales of securities.

The outflow of foreign currency reserves, the halt in the downward trend of inflation and the rapid swelling of the Treasury borrowing requirement all helped to create uncertainty in the market about future yields. Confirmation of this is provided by the low level of demand for Treasury credit certificates at the early-April auction with the same conditions as in March. The need to finance the budget deficit in the market and to keep the growth in bank reserves under control made an increase in yields inevitable. At the mid-April auction the base yields on Treasury bills rose by an average of nearly one point. The adjustment was completed by increasing the first coupon on Treasury credit certificates and raising the yield on Treasury bonds. In May purchases of the former were satisfactory but the uncertainty surrounding expectations caused bond sales to fall well short of redemptions.

Central bank financing of the Treasury

The Treasury made frequent and substantial use of its overdraft facility with the central bank during the year. The strategy pursued for securities issues in 1983 had resulted in the amount utilized at end-year falling very considerably short of the limit (13,469 billion lire). This enabled the Treasury in January 1984 to repay the 8 trillion lira extraordinary advance made a year earlier without utilizing the increase in the overdraft limit consequent on the passing of the Finance Law. This increase in the limit, coupled with the net sales of securities, enabled the Treasury to keep the unutilized margin on its account (at the end of each month) above 7.5 trillion lire. In this period the Bank of Italy contributed only 7.7 per cent of the total demand for public securities in the primary market and the increase in its portfolio was small.

In the last quarter of 1984 the acceleration in the state sector borrowing requirement was met primarily by current account drawings, which rose by 10 trillion lire. By the end of the year the unutilized margin was down to only 1,282 billion lire, despite the limit having risen between November and December by around 1,200 billion. The Bank of Italy's portfolio of government securities decreased in this period by close to 5 trillion lire, primarily as a result of outright sales designed to mop up the liquidity created by Treasury drawings on its current account.

After the approval of the budget for 1985, the overdraft facility increased by around 7 trillion lire in January of this year and now amounts to over 50 trillion lire. In the first quarter sales of securities failed to finance the growing borrowing requirement and the Treasury drew close to 8.2 trillion lire, with the result that the overdraft facility was virtually exhausted at the end of March.

In 1984 the Treasury used the overdraft facility on its account with the Bank of Italy for a total, excluding the reimbursement of the extraordinary advance, of 10,554 billion lire, which accounted for 76 per cent of the total creation of monetary base. At the end of the year the Treasury's total overdraft was equal to 38 per cent of the stock of monetary base.

The size of these percentages confirms the longstanding tendency to make greater and greater use of this overdraft facility, which has grown into a form of permanent Treasury financing instead of a technical instrument for meeting temporary mismatches between revenues and outlays. Over the last ten years the rise in government expenditure, to the size of which the overdraft limit is linked, has been extremely fast. Indeed, the limit has risen at an average annual rate of close to 29 per cent, eleven points above the average growth in deposits, and actual use of the overdraft facility has expanded in parallel.

The difference comes down to around seven points if the calculation is limited to the last four years but, looking ahead, a difference of this order is bound to create problems for monetary control. Increasing its open market sales of securities is the only means available to the central bank for absorbing liquidity created via the Treasury current account that appears to jeopardize the monetary targets.

Over the last ten years it has been possible to cope with this situation by raising the average compulsory reserve ratio, which has boosted the demand for monetary base for any given rate of growth in deposits and thus partially offset the mushrooming of the least controllable component of its supply. However, since current legislation foresees the gradual unification of compulsory reserves with the same average ratio for all banks, the difficulties are likely to be accentuated in the future unless there is a narrowing of the gap between the growth rates of public expenditure and GDP.

BANKING

The economic recovery, together with the spur to competition produced by the removal of the ceiling on lending, quickened the pace of bank lending in 1984, which the central bank countered with reserve controls. At first, banks expanded their lending by sharply lowering the interest rates on loans. To deal with the disparity between the growth of lending and that of deposits, they liquidated short-term portfolio securities and increased their foreign borrowing. After the imposition of a freeze on their net external indebtedness and a rise in the discount rate, which the authorities decided on during the summer, the banks pursued a more cautious lending policy, raising interest rates and thus helping slow the expansion of credit. Contributing factors in the slowdown at the end of the year were the weakening of the economic expansion and the end of borrowing by firms to buy government securities.

Table 19

BANK DEPOSITS AND LOANS (1)

(percentage rates of increase)

	1980	1981	1982	1983	1984					1985 1st quarter (5)
					Year	Quarters				
						I	II	III	IV	
Deposits	13.2	9.2	18.2	13.3	11.6	9.8	9.3	15.4	12.9	19.2
Loans (2)	19.5	10.2	9.9	14.0	17.1	17.4	24.8	27.7	0.6	12.2
Treasury bills (3)	40.4	7.1	43.0	−11.4	−7.7	−39.3	6.2	13.9	0.8	−12.9
Medium & long-term securities (4)	0.2	5.4	18.8	30.4	12.0	7.8	7.9	−6.7	44.3	31.0

(1) Quarterly data are at a seasonally adjusted annual rate. — (2) 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. The 1984 figures are adjusted for the elimination of the ceiling on loans. — (3) Net of repurchase agreements with the Bank of Italy. — (4) Net of the effect of the funding of bank loans and repurchase agreements with the Bank of Italy. — (5) Provisional.

Adjusted for the distortions produced by the elimination of the ceiling, bank lending in 1984 expanded by 17.1 per cent (31.3 trillion lire), 3.1 percentage points more than in 1983 (Table 19). Thanks to this growth, the banks regained the share of credit to the private sector which they had lost to the special credit institutions following the imposition of the ceiling. Growth in deposits slowed from 13.3 per cent in 1983 to 11.6 per cent in 1984 (in absolute numbers, from 43.8 to 43.3 trillion lire). As in 1983, the increase in deposits was substantially less than the expansion in total financial assets. At the end of the year the banks' net external liabilities were 28.4 per cent greater than in December 1983, after adjustment for exchange rate changes. The expansion of securities portfolios slowed from 16.1 per cent to 6.8 per cent (24.2 and 11.9 trillion lire, respectively), one of the smallest rises of recent years.

Lending and borrowing rates declined less than the yield on government securities. On average, real interest rates on bank credit, i.e. lending rates net of the rate of wholesale price inflation, kept to the high levels attained in 1983 (Figure 16). What helped keep bank rates from declining further was the vigorous growth throughout much of the year in the demand for credit, together with the banks' more aggressive defence of the deposits they needed to finance the expansion of lending. Retaining their share of deposits was especially onerous in 1984, as more moderate inflation expectations encouraged the public to invest in long-term financial assets.

Under the impact of competition in both the loan and the deposit markets, the spread between the return on lending and the cost of deposits narrowed sharply. However, the effect of this factor on net interest income was offset by an increase in the share of loans in banks' assets. Bank profitability also benefited from substantial investment in Treasury credit certificates and by securities transactions with the public at a time of rising bond prices. Moreover, the favourable economic situation helped slow the expansion of bad and doubtful debts, necessitating smaller provisions to risk funds. Bank profit as a percentage of total assets was thus higher than in 1983.

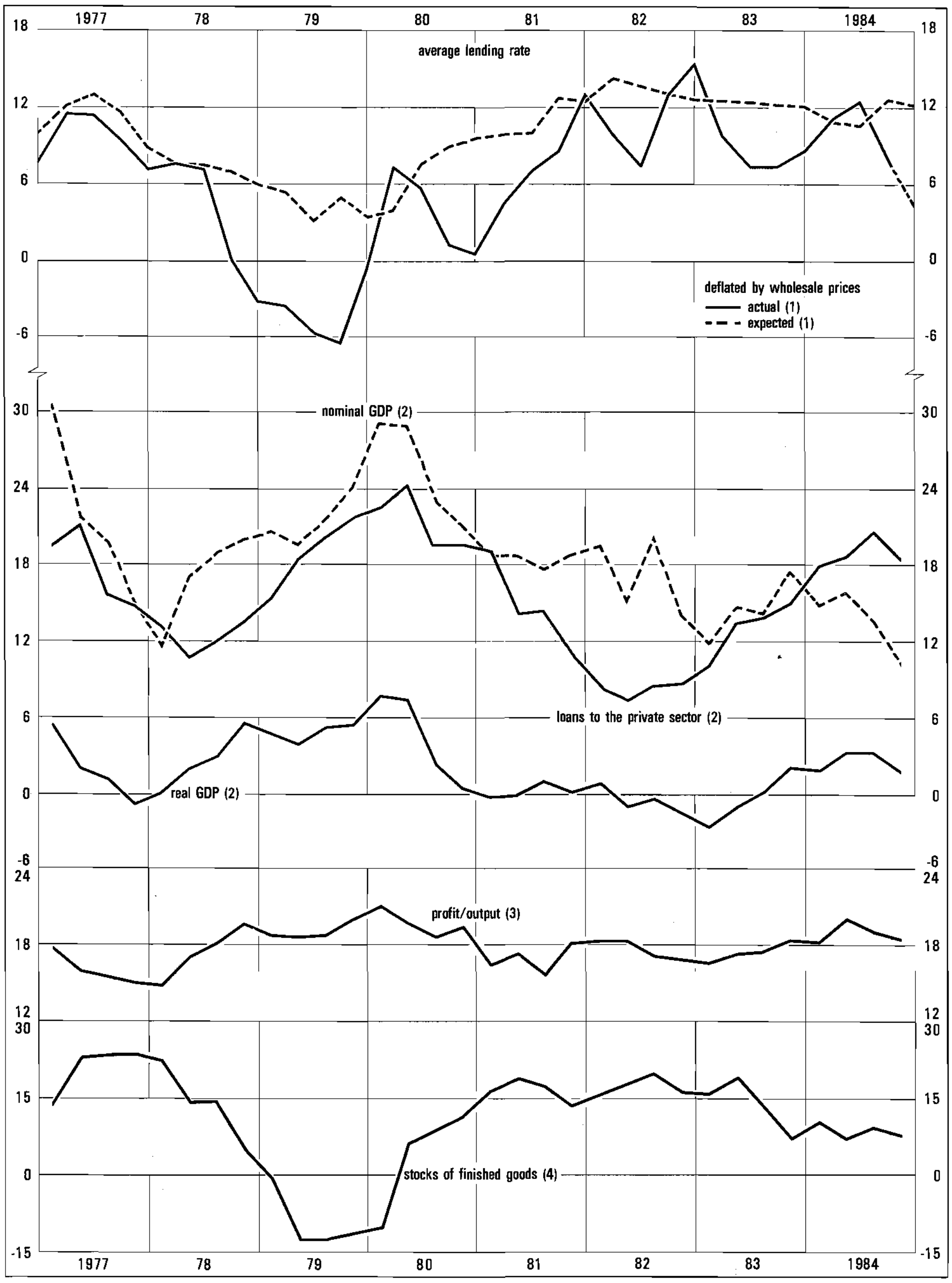
Bank lending and deposits

A significant share in the overall rise in bank lending was accounted for by foreign currency loans, which expanded by 34.5 per cent in 1984, while lending in lire rose by 14.8 per cent, only 1.5 percentage points more than in 1983. Foreign currency borrowing by bank customers, made attractive by higher domestic interest rates and the expected stability of the lira, increased by 4.5 trillion lire in the first half of the year and 2.9 trillion in the second half. The banks made ample use of the leeway allowed by present regulations, taking foreign currency deposits domestically, decreasing the lira share of their net external debt and negotiating spot foreign exchange against domestic lire (see the section "Capital Flows").

Lending to local units of the central government (including local health units) expanded by 38.0 per cent. At the same time, in compliance with the requirement to keep their holdings of liquidity

Figure 16

BANK LOANS, REAL INTEREST RATES AND ECONOMIC ACTIVITY



(1) The actual inflation rate is the rate observed in the subsequent six months on an 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) Ratio of gross operating profit to mining and manufacturing output net of intrasectoral transactions. — (4) Stocks of finished goods in industry (deviation from normal): averages of responses (net monthly balances) to the ISCO-Mondo Economico survey.

with the Treasury, these units reduced their bank deposits by 9.0 per cent. Excluding the public sector, the gap between the expansion of lending and that of deposits (15.9 and 12.8 per cent respectively) narrows from 5.5 to 3.1 percentage points.

Securities portfolios

Between December 1983 and December 1984, banks' securities portfolios declined as a percentage of deposits from 47.5 to 44.8 per cent. This was due primarily to the liquidation of Treasury bills, but a contributing cause was banks' limited purchases of special credit institution bonds.

The use of Treasury bills to meet liquidity needs stemmed in part from difficulties in obtaining funds on the interbank market. With the end of the ceiling on lending, the banks that had traditionally provided funds to that market made greater use of their liquidity for lending to ordinary customers. Interbank accounts, which had expanded by nearly 18 per cent per year over the previous five years, grew by only 5.4 per cent in 1984. Despite the decline of other money market rates, the interbank rate remained high: its yield differential over Treasury bills widened from 0.7 points at the end of 1983 to 2.6 points at end-1984, the largest since 1976. There was also a sharp decrease in the differential between the interbank rate and loan rates: the gap with respect to the minimum lending rate narrowed from 0.8 to 0.4 points during the year.

In the last two years, an overnight interbank market has developed in Italy, and, though still small in size, it has made a major contribution to banks' cash-flow management. The instrument of overnight lending was introduced to overcome some of the limitations of the traditional interbank market, such as the one-way flows of funds between banks and the supply and demand inelasticity of interest rates, due to the fact that interbank flows were predominantly stable investments of surpluses of deposits over loans. On the overnight market, funds are exchanged via deposits constituted one day and liquidated the next business day. Interest rates, which vary with the system's daily liquidity conditions, ranged in 1984 from 4.5 to 18.8 per cent, with 50 per cent of the daily figures falling between 14.1 and 18.8 per cent. About 100 banks took part in the market in 1984; the volume of daily flows usually ranged between 220 and 440 billion lire, with peaks of 1.5 trillion lire.

Banks' holdings of Treasury bills decreased by 8 per cent, while those of Treasury credit certificates expanded by 30 per cent (as against the 120 per cent rise recorded in 1983). As a percentage of deposits, credit certificates rose from 13.7 to 16.0 per cent during the year. The net effect was an increase in the portfolio share accounted for by securities whose yields react promptly to market rates: short-term and floating rate securities reached 73.8 per cent of the total, as against 64.8 per cent at the end of 1983.

Bond issues by special credit institutions expanded by only 2.8 per cent in 1984. This extremely modest growth was connected with a diversification of their sources of fund-raising (see the section "The Special Credit Institutions and Leasing and Factoring Companies"). Bond purchases also suffered significantly from the easing of the portfolio constraint on banks with the ending, in December 1983, of the requirement to replace the maturing bonds of the industrial credit institutions and with the reduction of the portfolio constraint from 5.5 to 4.5 per cent decided in June 1984. The share of bonds held in compliance with the constraint thus declined from 16.0 to 13.4 per cent of deposits (in 1982 it had been 18 per cent).

By offering higher yields than Treasury bills, albeit before taxes, some banks spurred the expansion of certificates of deposit, whose total value more than doubled in the course of the year to 7,535 billion lire in December. The incentive to issue CDs constituted by the higher yield on the compulsory reserves deposited against them was strengthened by a 1.1 point increase in the average reserve ratio and by a decrease in the difference between market yields and earnings on the reserve deposit. CDs continued their rapid expansion in the first quarter of 1985, reaching 12 trillion lire in total worth in March. Generated in part by seasonal factors, the increase was fuelled partly by stronger demand from the public, which turned to CDs for want of adequate offerings of government securities, and partly by a greater willingness of banks to take on long-term debt at a time in which expectations of declining interest rates were being revised.

The certificates were issued for the most part by several of the larger banks with branches concentrated in the big cities and higher than average ratios of compulsory reserves to deposits. More subject than others to disintermediation, these banks appear to be more inclined to differentiate the yield on deposits depending on the products offered.

With the development of a secondary market, certificates of deposit could become more widespread. The resulting improvement of their degree of liquidity would help make them a money market instrument proper, facilitating their placement with firms. At present, CDs are still primarily a form of time deposit, held chiefly by households, rather than tradable securities. For this reason their interest rates tend to follow other bank rates rather than the yields on Treasury bills or credit certificates.

Market share patterns

With the removal of the lending ceiling, the spurs to competition enacted in past years, especially the opening of new branches, and the pressures stemming from demand could take full effect. There was a significant increase in the dispersion of the rates of lending growth for individual banks. Consequently, the market shares held by the various categories of banks changed rapidly, and those of individual banks within each class more rapidly still.

Interest rates charged to comparable classes of customers became more uniform. Between the second quarter of 1983 and the fourth quarter of 1984, the range of minimum lending rates charged by the various legal categories of banks narrowed from 1.7 to 0.8 percentage points, and the group of customers being offered terms as good as or better than the prime rate was enlarged.

The redistribution of market shares worked to the advantage of the smaller banks, which had a lower ratio of loans to deposits and which had been more severely constricted by the ceiling. The evolving pattern of market shares was accompanied by differing interest rate policies during the year: the minimum lending rate was lowered by 0.9 points by the major and large banks and by 1.4 points by the rest of the banking system.

The intensified competition in the loan market was reflected in the deposit market, producing a substantial redistribution of shares there as well. There was a much closer correlation than in the past between the deposit and the loan growth rates of individual banks. Like that for loans, competition for deposits was fierce, especially with respect to those customers offered the best terms. The maximum interest paid on deposits was raised above that paid on Treasury bills, and the differential widened steadily through 1984, except in September and October, and continued to increase this year. Furthermore, between the second quarter of 1983 and the fourth quarter of 1984 the range of variability of maximum deposit rates among the various legal categories of banks narrowed from 1.3 to 0.5 points.

Profit and loss accounts

The banks' net interest income, as a percentage of total resources, remained virtually unchanged from 1983 at 3.36 per cent (Table 20). Despite a narrowing of 1.5 percentage points in the spread between the

Table 20

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

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
	As a percentage of total resources (2)										
Net interest income	**3.29**	**3.70**	**3.42**	**3.21**	**2.92**	**2.75**	**3.45**	**3.54**	**3.30**	**3.37**	**3.36**
Non-interest income	0.56	0.77	0.89	0.94	0.98	0.95	1.00	1.23	1.27	1.19	1.28
of which: securities transactions	*0.05*	*0.27*	*0.25*	*0.34*	*0.46*	*0.45*	*0.44*	*0.56*	*0.66*	*0.55*	*0.66*
Gross income	**3.85**	**4.47**	**4.31**	**4.15**	**3.90**	**3.70**	**4.45**	**4.77**	**4.57**	**4.56**	**4.64**
Operating expenses	2.69	2.98	3.04	2.91	2.78	2.72	3.01	2.95	2.97	3.15	3.15
of which: staff costs	*0.22*	*2.38*	*2.42*	*2.21*	*2.08*	*1.99*	*2.20*	*2.14*	*2.06*	*2.31*	*2.27*
Net income	**1.16**	**1.49**	**1.27**	**1.24**	**1.12**	**0.98**	**1.44**	**1.82**	**1.60**	**1.41**	**1.49**
Provisions (net)	0.84	1.10	0.95	0.87	0.76	0.69	0.99	1.30	0.99	0.72	0.71
of which: for loan losses	*0.26*	*0.38*	*0.29*	*0.37*	*0.37*	*0.33*	*0.44*	*0.44*	*0.46*	*0.42*	*0.39*
Extraordinary income and withdrawals from loan loss funds	**−0.06**	**−0.02**	**0.01**	**0.01**	**—**	**0.04**	**0.01**	**0.03**	**0.08**	**0.03**	**0.02**
Profit before tax	**0.26**	**0.37**	**0.33**	**0.38**	**0.36**	**0.33**	**0.46**	**0.55**	**0.69**	**0.72**	**0.80**
Tax	0.13	0.24	0.18	0.21	0.18	0.14	0.24	0.27	0.40	0.43	0.44
Net profit	**0.13**	**0.13**	**0.15**	**.17**	**0.18**	**0.19**	**0.22**	**0.28**	**0.29**	**0.29**	**0.36**
	Other data										
Number of employees	203,505	216,346	227,338	239,901	249,999	261,505	274,889	287,420	293,002	299,282	302,755
Total resources per employee *(billions of lire)*	589	639	745	868	1,002	1,177	1,355	1,536	1,755	2,001	2,216
Cost per employee *(millions of lire)*	13.1	15.2	18.0	19.2	20.8	23.4	29.9	32.8	36.1	46.2	50.2
	Percentage rates of increase										
Cost per employee	8.4	16.0	11.8	6.7	8.3	12.5	27.8	9.7	13.2	28.0	8.7
Total resources per employee:											
in nominal terms	....	8.5	16.6	16.5	15.4	17.5	15.1	13.4	14.3	14.0	10.7
at constant prices (3)	....	−7.4	0.1	1.4	2.7	1.5	−5.0	−4.5	−1.8	−1.0	0.1

(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 figures for net interest income and non-interest income, in particular income on securities transactions, are not comparable to those for previous years. They differ from the data published earlier in the definitions of some items. — (2) Net of costs and operating and extraordinary losses. — (3) Deflated using the cost-of-living index.

average yield on loans and the average cost of deposits, the margin was held steady thanks to an increase in the loan component of assets and, to a lesser extent, to the increased differential between the yield on securities portfolios and the cost of deposits. The average yield on securities portfolios declined from 16.9 to 16.4 per cent, less than the decline in market interest rates, as a consequence of banks' increasing the share of Treasury credit certificates in their portfolios, replacing Treasury bills and old, low-interest bonds.

Other net income increased from 1.19 to 1.28 per cent of total resources, the rise stemming entirely from earnings on securities transactions, thanks not only to larger volume but also to capital gains due to rising prices. Gross income, defined as total income less interest expenses, thus rose from 4.56 to 4.64 per cent of total resources.

The level of operating costs was unchanged on the year at 3.15 per cent of total resources. The share of staff costs declined only slightly (from 2.31 to 2.27 per cent), despite the fact that in 1983 they had been pushed significantly higher by the application of the new collective bargaining agreement and the payment of salary arrears.

Net income rose from 1.41 to 1.49 per cent of total resources, while depreciation and provisions remained virtually unchanged at the previous year's low level. Specifically, allocations to provisions against loan losses diminished slightly, from 0.42 to 0.39 per cent of total resources, thanks to a slower rise in bad and doubtful debts. Net profit increased from 0.29 to 0.36 per cent. The ratio of net profit to own funds also rose, from 8.6 to 9.0 per cent, even though the latter increased from 6.2 to 7.3 per cent of deposits.

The principal developments of the eighties

Last year, for the first time since the start of the decade, real total resources per employee held steady. In the preceding years, by contrast, this ratio declined sharply, owing primarily to the rapid slowdown in the growth of banking business in real terms. Banks moved in various ways to counteract the trend. On the inputs side, they stepped up automation and began to slow staff expansion, albeit lagging behind the start of the business contraction. On the output side, they extended the range of services, chiefly in the area of customer securities transactions. Banks also broadened their spheres of activity, forming specialized financial services companies. More recently, as noted above, they have regained their lost share of credit market business.

The banks have greatly improved their automatic data processing capabilities, of which a rough gauge is total memory capacity and the number of terminals in use. A survey by the Interbank Committee for Automation has found that these variables have been rising at annual rates of 22 and 18 per cent, respectively. Automation is now common even in smaller banks: 60 per cent of minor banks now perform all their own data processing, and almost all the rest use the services of outside data processing centres.

For the most part, the slowdown in bank staff expansion has come in the last three years, when the number of bank employees has risen by just 1.7 per cent per year, as against 4.8 per cent annually over the previous five years.

Securities transactions have expanded especially fast, and income from them now accounts for nearly half of total income from services. The amount of Treasury bills and credit certificates held by banks for customers has increased rapidly over the last five years, from a value of less than 9 per cent of deposits to about 48 per cent. The growth of other services has been much slower: their contribution to the formation of gross income is now only slightly greater than it was ten years ago (17 as against 14 per cent).

THE SPECIAL CREDIT INSTITUTIONS AND LEASING AND FACTORING COMPANIES

The special credit institutions

Last year was a turning point in the field of special credit; the rate of growth in domestic lending was almost the same as in 1983 (almost 14 per cent; see Table 21), but the distribution over the year was markedly different. The slowdown in activity that had occurred in 1983 persisted in the first half of the year, but in the second half, and especially in the final quarter, there was a recovery that carried over into the first few months of 1985. This development was preceded by a rise in the demand for credit from the very low levels recorded at the end of 1983; the expansion was particularly strong in demand for loans at market rates of interest, which had already reached a high level by the summer.

Table 21

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS

(% changes)

	1980	1981	1982	1983	1984
Industrial	13.3	21.3	19.9	9.6	12.0
of which: short-term	*50.8*	*58.1*	*32.2*	*5.6*	*39.1*
Public works	7.2	10.6	18.9	32.2	22.9
Real estate	16.0	17.7	14.5	14.3	(2) 10.9
Agricultural	22.4	23.4	14.4	(1) 19.5	(2) 25.0
Total	**13.9**	**19.3**	**17.9**	(1) **13.9**	(2) **14.0**

(1) Excluding the data for Banco di Sardegna, which began operations as an agricultural credit section on 1 January 1983, the growth rate of lending by the agricultural credit institutions was 13.2 per cent and that by the special credit institutions as a whole was 13.4 per cent. — (2) Taking into account the formation of the agricultural credit section of Istituto Bancario San Paolo di Torino, which began operations in October 1984 and to which have been attributed the agricultural improvement loans previously granted by its real estate credit section, the rate of growth of lending by the real estate credit institutions was 13.2 per cent, that by the agricultural credit institutions 12.6 per cent and that by the special credit institutions as a whole 13.6 per cent.

The cyclical upturn occurred mainly in industrial credit, which is linked more closely to investment in machinery, equipment and transport equipment. There was particularly rapid growth in credit with maturities of up to 18 months (short-term loans rose from about one quarter to around one third of total unsubsidized lending), despite the keener competition in this segment of the market as a result of the abolition of the ceiling on bank lending. The special credit institutions countered the competition from the banks by offering short-term funds at low interest rates; the differential between minimum bank rates and interest rates on loans at 18 months or less widened from 0.6 to 1.3 percentage points during the year. In the early part of the year in particular, this manoeuvre reduced the margin between lending rates and yields on certificates of deposit, the main source of funds for such operations. The rise in bank lending rates from September onwards favoured the activity of the institutions in this segment of the market towards the end of the year. By keeping interest rates on this kind of operation largely unchanged and allowing yields on certificates of deposit to follow the decline in rates on government securities, the special credit institutions were able to boost the growth in lending in the fourth quarter and at the same time ease the pressure on their profit margins.

The expansion in operations with maturities of up to 18 months was part of the institutions' search for new operating strategies. Loan demand from firms is now different from what it was in the past, when applications related predominantly to investment in large-scale plant with a long economic life. Changes in the terms for official assistance are also affecting medium and long-term lending; the gradual reduction in subsidized industrial credit is being offset by increasing recourse to low-cost loans using funds obtained from Community institutions under the Treasury's exchange guarantee. The expansion in the special credit institutions' short-term lending, which is tending to reduce the degree of specialization in the credit sector, is also being encouraged by fiscal and administrative factors; the heavy burden of duties on medium and long-term loans is diverting demand towards maturities of eighteen months or less, while certificates of deposit, which have made a decisive contribution in enabling the special credit institutions to diversify their resources and gain greater independence from the banks (Table 22), are taxed at a lower rate than the banks' fund-raising instruments and are not subject to compulsory reserves.

Table 22

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

(percentages)

	of stocks			of flows				
	1972	1979	1984	1980	1981	1982	1983	1984
Industrial	30.3	56.8	36.4	31.0	40.7	21.8	. .	−5.3
Public works		71.4	55.7	106.6	11.4	74.1	33.1	33.3
Real estate	35.7	74.1	60.8	93.9	66.0	29.3	40.9	26.1
Agricultural	43.0	68.9	63.0	96.4	63.6	51.1	45.1	29.0
Total	**32.8**	**63.6**	**46.4**	**61.1**	**47.3**	**27.6**	**21.0**	**11.0**

(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.

Lending

Domestic lending increased by 15,366 billion lire, compared with an expansion of 13,405 billion lire in 1983; adjusting the rise for the effects of the formation of one new agricultural credit section to which the operations previously conducted by the parent bank have been attributed, the growth rate came to 13.6 per cent, almost the same as that recorded in 1983.

Despite substantial lending to local authorities, the increase in loans to the public sector was much smaller than in 1983 in both absolute and relative terms owing to the decline in the financing of autonomous public agencies (Table 23). There was a strong increase in corporate lending, which accounted for about 65 per cent of the increase in special credit, as against 48 per cent in 1983.

Table 23

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS BY CLASS OF BORROWER

(changes in billions of lire)

	PUBLIC SECTOR			ECONOMY					TOTAL
		of which: local authorities	of which: autonomous government agencies	Financial and insurance companies	Non-financial firms	of which: state-controlled	Households	Total	
1983									
Subsidized	168	114	—	– 15	3,290	181	824	4,099	4,267
Non-subsidized .	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**
1984									
Subsidized	223	178	26	—6	3,667	291	789	4,450	4,673
Non-subsidized .	3,558	2,937	417	795	5,515	1,268	825	7,135	10,693
Total . . .	**3,781**	**3,115**	**443**	**789**	**9,182**	**1,559**	**1,614**	**11,585**	**15,366**

The slowdown in inflation, which aggravated the difficulties experienced by some businesses, particularly those that had borrowed at high fixed interest rates, was reflected in an increase in bad debts both in absolute terms (5,308 billion lire at the end of 1984, compared with 4,193 billion lire a year earlier) and as a percentage of lending (3.9 per cent, as against 3.5 per cent at the end of 1983 in the case of the special credit institutions and 4.0 per cent as against 3.7 per cent in that of industrial credit institutions). The largest increase in bad debts occurred in distribution and agriculture (60-70 per cent), although the amounts involved remained small; in industry, the branches worst affected appear to be clothing, building materials, wood and paper.

Credit to industry and the services sector. — Most of the growth in special credit occurred in industry and especially in services, which together accounted for well over half of total short-term credit.

The increase in lending to industry (3,540 billion lire, compared with a rise of 2,715 billion lire in 1983; Table 24) related mainly to operations at market rates, which expanded by 10.9 per cent, as against 7.4 per cent in 1983. Subsidized credit to the sector continued to account for a significant share of the total but grew at a slower rate (9.9 per cent, compared with 11.3 per cent in 1983) owing to the gradual fading of the effects of the laws under which subsidies are paid.

Table 24

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS BY SECTOR

(billions of lire)

Type of credit	Agriculture		Housing		Industry		Transport, distribution & other services		Exports		Total	
	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984
	Disbursements											
Subsidized . . .	3,054	3,421	989	1,089	3,208	3,596	574	835	1,951	1,877	9,776	10,818
Unsubsidized .	1,625	1,566	2,717	2,949	6,923	9,450	10,967	10,948	—	—	22,232	24,913
Total . . .	**4,679**	**4,987**	**3,706**	**4,038**	**10,131**	**13,046**	**11,541**	**11,783**	**1,951**	**1,877**	**32,008**	**35,731**
	Net increase in lending											
Subsidized . . .	933	1,235	890	1,049	1,235	1,200	394	407	815	782	4,267	4,673
Unsubsidized .	119	426	1,607	1,582	1,480	2,340	5,932	6,345	—	—	9,138	10,693
Total . . .	**1,052**	**1,661**	**2,497**	**2,631**	**2,715**	**3,540**	**6,326**	**6,752**	**815**	**782**	**13,405**	**15,366**
	Percentage increase in lending											
Subsidized . . .	*16.0*	*18.3*	*22.3*	*21.5*	*11.3*	*9.9*	*12.3*	*11.3*	*15.8*	*13.1*	*14.7*	*14.0*
Unsubsidized .	*5.9*	*19.9*	*9.4*	*8.5*	*7.4*	*10.9*	*21.0*	*18.5*	—	—	*13.6*	*14.0*
Total . . .	***13.4***	***18.7***	***11.9***	***11.2***	***8.8***	***10.5***	***20.1***	***17.8***	***15.8***	***13.1***	***13.9***	***14.0***

The proportion of the industrial credit institutions' lending that is at subsidized rates, which has declined significantly since the early seventies (from almost half of total loans at the end of 1973 to around one third at the end of last year), may increase considerably if approval is given to the bill on special aid to southern Italy being drafted by the Government, which confirms the role of subsidized credit as a fundamental instrument in overcoming regional disparities, despite the disadvantages that have emerged in the past.

In recent years, other instruments designed to reduce the cost of borrowing have increased in importance as the flow of subsidized credit has dried up. A considerable volume of loans have been granted at interest rates similar to those on international markets, financed by resources raised abroad with the aid of the government exchange guarantee; in particular, loans financed from EIB funds amounted to about 2,500 billion lire, compared with 2,000 billion lire in 1983.

Loans to the services sector continued to expand more rapidly than those to other sectors (11,783 billion lire or 17.8 per cent, compared with a rise of 11,541 billion lire or 20.1 per cent in 1983). Loans to firms in wholesale and retail distribution and the financial. sector expanded appreciably, as well as finance for non-market services included among transport, miscellaneous services and general government agencies, which was affected by the above-mentioned operations with local authorities.

Credit for housing. — The stagnation of housing investment had an impact on housing credit; loans increased by 2,631 billion lire, or 11.2 per cent (Table 24). Real estate credit institutions also felt the competition from bank mortgage lending; medium and long-term bank lending to households, which was mainly to finance house purchases, increased by about 2,300 billion lire, a growth rate of 23 per cent.

However, the increase in disbursements was higher than that in investment in housing (9.0 per cent, compared with 7.6 per cent), partly owing to the fall in nominal interest rates. Although the high real yields on financial assets are depressing housing demand and hence house prices, it is the nominal interest rate that sets the borrowing "threshold", given that repayment is in equal instalments.

The problems of the housing sector and the relative lack of appropriate financial instruments obliged the authorities to increase the subsidies to facilitate access to finance; subsidized credit, which has traditionally played only a small role in the housing sector, accounted for 40 per cent of the increase in this kind of lending. The availability of funds under Law no. 457 of 1978 (Ten-year Plan) permitted subsidized credit to expand at a rate of 21.5 per cent, while unsubsidized loans rose by 8.5 per cent.

Export credit. — The volume of export credit granted by the special credit institutions was particularly small for the second year in succession, amounting to 2,659 billion lire, compared with 2,844 billion lire in 1983 (Table 25); the ratio of disbursements to exports of capital goods continued to decline, falling from 9.4 to 7.8 per cent.

Table 25

EXPORT CREDITS GRANTED BY THE SPECIAL CREDIT INSTITUTIONS (1)

(billions of lire)

	Disbursements			Net increase		
	Supplier credits	Buyer credits	Total	Supplier credits	Buyer credits	Total
1982	2,216	1,284	3,500	1,160	720	1,880
1983	1,951	893	2,844	815	405	1,220
1984	1,877	782	2,659	782	−107	675
First half 1984	945	277	1,222	232	−236	−4
Second half 1984	932	505	1,437	550	129	679

(1) Excluding refinancing by UIC and compensation payments by SACE totalling 3,400 billion at end-1984 (2,800 billion at end-1983).

This trend partly reflects the gradual reduction in the institutions' role in financing exports on deferred payment terms, which was their exclusive preserve before the passage of Law no. 227 of 1977 ; in 1984 their operations in this field accounted for less than 50 per cent of total lending eligible for subsidies from Mediocredito Centrale.

The decline was particularly pronounced in buyer credits, where new lending was outweighed by substantial repayments. The special credit institutions are being affected by the gradual dying away the effects of the intergovernmental agreements on large credit lines, which in the past had constituted an important element in export promotion policies.

The demand for export finance in lire, which only the special credit institutions can provide, was weak, owing partly to the disparity between subsidized interest rates on loans in lire and those on foreign currency loans, which were much lower. Domestic funds were raised almost exclusively through the issue of variable rate bonds.

After stagnating in 1983, lending to developing countries began to rise again last year. The opposite appears to have occurred in credit to Eastern European countries, although it should be borne in mind that a number of large transactions were carried out directly by Mediocredito Centrale and are thus not included in the aggregate for the special credit institutions.

Agricultural credit. — In a particularly bad year for Italian agriculture, lending to the sector expanded at relatively high rates.

Working credit outstanding exceeded 10 trillion lire at the end of the year, having risen by 15.4 per cent (Table 26). Such a large acceleration appears to have been due to the need for farmers to raise short-term credit, which is particularly favourable on account of the official subsidies, to finance production in a year in which internally generated funds declined owing to the sector's unsatisfactory results. There was widespread recourse to assisted credit last year, increasing the already high proportion at preferential rates. Almost 90 per cent of the expansion in working credit was subsidized, largely on account of interest subsidies from the regions; by contrast, the application of EEC

Table 26

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 1983								
Working credit	**2,224**	**988**	**3,212**	**3,400**	**2,632**	**6,032**	**5,624**	**3,620**	**9,244**
Improvement credit	**605**	**178**	**783**	**195**	**75**	**270**	**800**	**253**	**1,053**
	Disbursements in 1984								
Working credit	**2,690**	**1,093**	**3,783**	**3,803**	**2,772**	**6,575**	**6,493**	**3,865**	**10,358**
Current expenditure	1,703	597	2,300	2,715	1,771	4,486	4,418	2,368	6,786
Purchases of livestock	39	100	139	80	110	190	119	210	329
Purchases of machinery	141	85	226	287	251	538	428	336	764
Advances against agricultural products	53	2	55	106	15	121	159	17	176
Loans to agricultural agencies and cooperatives	754	309	1,063	615	625	1,240	1,369	934	2,303
Improvement credit	**613**	**210**	**823**	**173**	**44**	**217**	**786**	**254**	**1,040**
Rural construction	242	53	295	42	9	51	284	62	346
New plantings	25	2	27	9	2	11	34	4	38
Irrigation	26	4	30	2	2	4	28	6	34
Soil preparation	8	16	24	—	1	1	8	17	25
Expansion of holdings	72	20	92	13	—	13	85	20	105
Other improvements	240	115	355	107	30	137	347	145	492
	Outstanding credit at end-1984								
Working credit	**3,344**	**1,079**	**4,423**	**3,965**	**1,656**	**5,621**	**7,309**	**2,735**	**10,044**
Improvement credit	**4,651**	**1,145**	**5,796**	**927**	**153**	**1,080**	**5,578**	**1,298**	**6,876**

(1) Since 1983 Banco di Sardegna has operated through an agricultural credit section; since October 1984 Istituto Bancario S. Paolo di Torino has operated through an agricultural credit section, to which have been attributed the agricultural improvement credits previously granted by its real estate credit section.

Regulation 2969 of 1983 on the prolongation of loans for livestock farmers had a very small effect. If one takes `account of loans recorded as unsubsidized credit but granted at low interest rates thanks to low-cost funds raised by rediscounting agricultural bills with the Bank of Italy (1,155 billion lire in 1984, compared with 1,022 billion lire in 1983), only a minimal amount of working credit was granted at market rates.

Improvement credit again grew more slowly than in the preceding year (12.8 per cent, compared with 14.2 per cent). Disbursements were almost the same as in 1983 (around 1,050 billion lire), despite an increase of 10.2 per cent in investment in the sector. Improvement loans therefore continued to decline as a proportion of total agricultural credit, contracting from 41.2 to 40.6 per cent. If one also bears in mind the stagnation in loans for the purchase of machinery, which are included in working credit, the financial resources used for investment are substantially less than those used for operational purposes.

The slowdown in lending cannot be attributed to supply conditions; the volume of long-term funds raised by the agricultural and real estate credit institutions was in fact substantial. Issues of agricultural bonds, which are boosted by the securities investment requirement, expanded by 909 billion lire, compared with 704 billion lire in 1983.

Fund-raising and liquid resources

The special credit institutions, and especially those in the industrial field, diversified their means of raising funds. They issued fewer bonds, which decreased from 59.3 to 56.0 per cent of total borrowed funds, and increased the proportion of resources obtained by borrowing abroad or issuing certificates of deposit. These changes further reduced their financial dependence on the banks, whose contribution to the institutions' resources declined from 50.6 to 46.4 per cent. The measure of 28 November concerning tax-exempt securities accentuated the seasonal pattern of net issues of bonds and certificates of deposit, with 43.1 per cent being concentrated in December; the same had occurred in the two preceding years, again owing to fiscal measures.

Net issues of securities (4,420 billion lire, compared with 7,962 billion in 1983) related to non-industrial sectors; the growth in issues by credit sections for financing public works was particularly strong

(17.6 per cent), whereas industrial credit institutions recorded net redemptions of 275 billion lire, compared with net issues of 1,337 billion lire in 1983.

The institutions differed in their use of variable rate instruments. These declined as a percentage of total bonds issued by real estate institutions and remained almost nil in the case of agricultural institutions, whereas the proportion issued by industrial institutions and sections for public works credit increased, though at a much slower pace than in previous years. This brought the floating rate portion of bonds outstanding at the end of the year to 23 per cent, compared with 20 per cent in December 1983. The industrial institutions, in particular, greatly increased the volume of funds raised by means of certificates of deposit, the volume of which increased by 4,216 billion lire, compared with a rise of 1,204 billion lire in 1983; these securities, which were used primarily to finance short-term lending, became easier to place, thanks partly to the substantial reduction in the yield differential in relation to paper with similar maturities, such as two-year Treasury bonds and twelve-month Treasury bills.

Finally, the persistence of a positive, though smaller differential between domestic and foreign interest rates encouraged borrowing abroad, most of which was covered by exchange guarantees; net of variations in exchange rates, the increase came to around 2,930 billion lire.

The institutions' liquid resources also increased in relation to their lending commitments (130.2 per cent, compared with 124.3 per cent at the end of 1983). There was a further change in composition, with an increase of 4,461 billion lire in Treasury credit certificates and reductions of 133 billion lire in bank deposits and 725 billion lire in holdings of Treasury bills.

The securities held by the institutions as a whole were heavily concentrated, with the four largest institutions holding 49.2 per cent of the total, as against 45.5 per cent at the end of 1983.

Profit and loss accounts

The institutions' interest income and interest expenses increased further as a proportion of total resources, though only slightly; income rose from 14.72 to 14.80 per cent and expenses from 11.63 to 11.66 per cent (Table 27). The change was due entirely to the fact that interest rates on new lending, though appreciably lower than those obtained in 1983, were higher than the rates on maturing operations, a large part of which had been granted at fixed rates.

Table 27

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

(as a percentage of total resources)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 (*)
Interest income	8.31	8.83	9.51	10.43	10.97	11.76	12.91	14.41	14.72	14.80
Interest expenses	6.83	7.10	7.62	8.18	8.57	9.03	10.00	11.40	11.63	11.66
Net interest income	**1.48**	**1.73**	**1.89**	**2.25**	**2.40**	**2.73**	**2.91**	**3.01**	**3.09**	**3.14**
Non-interest income...	0.07	0.04	0.03	−0.01	−0.02	0.03	0.01	−0.05	−0.05	0.02
Gross income	**1.55**	**1.77**	**1.92**	**2.24**	**2.38**	**2.76**	**2.92**	**2.96**	**3.04**	**3.16**
Operating expenses ...	0.36	0.39	0.42	0.44	0.49	0.61	0.66	0.73	0.77	0.82
of which: staff costs .	*0.29*	*0.31*	*0.33*	*0.34*	*0.37*	*0.44*	*0.44*	*0.44*	*0.48*	*0.50*
Net income	**1.19**	**1.38**	**1.50**	**1.80**	**1.89**	**2.15**	**2.26**	**2.23**	**2.27**	**2.34**
Depreciation and provisions	0.74	0.95	1.01	1.42	1.49	1.82	1.71	1.36	1.41	1.46
Extraordinary recoveries and expenditure	0.03	0.05	0.03	0.24	0.05	0.09	0.16	0.13	0.24	0.17
Profit before tax	**0.48**	**0.48**	**0.52**	**0.62**	**0.45**	**0.42**	**0.71**	**10.00**	**1.10**	**1.05**
Tax	0.28	0.26	0.29	0.41	0.24	0.24	0.32	0.42	0.39	0.42
Net profit	**0.20**	**0.22**	0.23	0.21	**0.21**	**0.18**	**0.39**	**0.58**	**0.71**	**0.63**
	OTHER DATA									
Number of employees ...	8,017	8,270	8,664	8,926	9,990	10,318	10,654	11,130	11,840	12,045
Total resources per employee *(millions of lire)*...............	7,182	8,012	8,326	8,906	8,486	8,906	9,768	11,154	11,926	13,184
Cost per employee *(millions of lire)*	20.95	24.67	27.35	29.91	31.23	39.64	43.18	49.06	56.93	66.17

(*) Provisional data.

Net interest income again increased slightly in relation to total resources, thanks mainly to a rearrangement of the main items of the institutions' balance sheets. The strongest effect was produced by the expansion in own funds; the ratio of own funds to total resources rose from 8.9 per cent in 1983 to 9.6 per cent.

The gross income ratio increased more than the net interest ratio, thanks to the expansion in other receipts owing to profits on securities transactions during a period of falling interest rates. The widening of the gross income ratio from 3.04 per cent in 1983 to 3.16 per cent in 1984 was partly absorbed by the increase in operating expenses from 0.77 to 0.82 per cent of total resources. In particular, staff costs increased from 0.48 to 0.50 per cent to stand at 797 billion lire, 18 per cent more than in 1983. The increase was due less to the expansion of 1.7 per cent in staff numbers than to the 16 per cent rise in average costs per employee, a considerably faster increase than that in total resources per employee and almost the same as the rate recorded the previous year.

In the light of the substantial increase in bad debts, the institutions' improved net income (2.34 per cent, compared with 2.27 per cent in 1983) enabled them to increase provisions and depreciation from 1.41 per cent of total resources in 1983 to 1.46 per cent; nevertheless, this was still below the level recorded in 1980 and 1981.

Profits before tax worked out at 1.05 per cent, slightly down on the figure of 1.10 per cent for 1983, when extraordinary recoveries had been particularly large. The tax burden increased slightly from 0.39 to 0.42 per cent, so that the net profits of around 1 trillion lire (the same as in 1983) worked out at 0.63 per cent of total resources, less than the particularly high level of 0.71 per cent recorded the previous year.

Leasing and factoring companies

In recent years, other intermediaries involved primarily in financing the productive sector have emerged alongside the banks and special credit institutions. In particular, a growing role is being played by leasing and factoring companies, whose operations last year generated total net financial flows to the economy estimated, on the basis of sample data, at more than 2 trillion lire, a growth rate of about 30 per cent.

The banks and special credit institutions have played a decisive part in the development of these companies, with which they have established close equity and operational links.

Leasing companies. — After a pause in 1983, the expansion in the activities of leasing companies resumed last year in connection with the upturn in investment; contracts signed by the group of 30 companies surveyed by the ABI increased by 26 per cent, against 13 per cent in 1983. In fact, the relationship between leasing operations and investment in machinery, equipment and transport equipment appears to be fairly stable.

The strong recovery in operations after the removal of the ceilings on bank lending indicates that leasing satisfies the financial needs of a segment of the market. Leasing contracts are a rapid means of providing small loans for capital goods that are quickly superseded, a need that is not satisfied by the banks and special credit institutions; banks tend to finance enterprises rather than individual investments and are subject to restrictions on operations longer than 18 months, while the special credit institutions have little to gain from small operations and have longer and more complicated procedures.

Lending to the leasing companies by the credit system, which represents their main source of funds, increased by 22 per cent; according to data from the Central Risks Office on the exposure of 91 companies, outstanding loans totalled 5 trillion lire at the end of the year. The expansion occurred largely in lending by banks, which increased their share of the total from 30 to 41 per cent at the expense of the special credit institutions.

Factoring companies. — The cyclical upturn and the strengthening of direct links with large industrial groups had a positive effect on the activity of factoring companies, which increased at a high rate similar to that recorded in previous years. Far from penalizing such companies by exposing them to keener competition from the banks, the abolition of direct credit controls allowed them wider access to short-term finance, to the benefit of their balance-sheet structure and the volume of their operations.

The volume of commercial claims assigned to the factoring companies is estimated to have totalled 4.8 trillion lire at the end of 1984, 48 per cent more than a year earlier. Their lending increased proportionately to 3.6 trillion lire. Despite considerable efforts to diversify, the factoring companies continue to be engaged predominantly in financial activities; advances remained almost constant in relation to total assigned claims, at an average of around 75 per cent.

A number of new companies made their mark last year, most of them controlled by major industrial groups; they provide factoring services primarily to settle the commercial claims and debts of group companies.

This development did not appreciably affect the factoring companies' dependence on bank credit, but it further reduced the relative size of their debt towards shareholding banks and credit institutions from 34 to 30 per cent of their total indebtedness, estimated at around 2.9 trillion lire at the end of the year. The abolition of the ceiling brought about a better maturity match between liabilities and assets by increasing the percentage of short-term debt to 75 per cent, compared with 65 and 62 per cent at the end of 1983 and 1982 respectively.

SECURITIES AND INSTITUTIONAL INVESTORS

Securities

In 1984 the public sector borrowing requirement was again the dominant influence on the securities market, which was broadened by the presence of new institutional investors and new instruments. The fall in nominal interest rates and the market's improved efficiency in allocating savings among instruments with different maturities steepened the positive slope of the yield curve.

Total issues of government securities and special credit institutions' bonds and certificates of credit declined after four years of continuous growth — as a percentage of GDP, gross issues fell from 71.7 per cent in 1983 to 61.5 per cent, while net issues decreased from 17.1 to 13.7 per cent. The lengthening of maturities on public debt and the resultant reduction in the proportion in the form of Treasury bills led to a decrease in gross issues. Net issues by all categories of issuer declined; net recourse to the market (i.e. issues less debt interest payments as well as redemptions) increased only in the case of the public sector (Table 28).

Table 28

ISSUES OF SECURITIES AND NET RECOURSE TO THE MARKET

(billions of lire)

	Gross issues		Net issues		Net recourse (1)	
	1983	1984	1983	1984	1983	1984
Public sector	357,633	344,235	81,013	73,006	36,169	19,289
Treasury bills	266,351	227,747	11,071	9,301	–13,778	–11,980
Treasury credit certificates .	74,650	95,250	66,652	56,738	52,638	31,413
Other securities	16,632	21,238	3,290	6,967	–2,691	–144
Special credit institutions	24,791	27,879	8,844	8,531	–4,438	–6,085
Firms and public corporations . .	4,298	4,476	2,374	2,035	–45	–695
Total . . .	**386,722**	**376,590**	**92,231**	**83,572**	**31,686**	**12,509**
As a percentage of GDP	*71.7*	*61.5*	*17.1*	*13.7*	*5.9*	*2.0*

(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.

Savings were attracted to the share market by the growth prospects of many listed companies, especially in the industrial sector, where profit and loss accounts had improved as a result of the restructuring of production and the fall in nominal interest rates. Net of double counting, the volume of new equity capital came to 9,774 billion lire, or l.6 per cent of GDP, after reaching the very high level of 10,899 billion lire (2 per cent) in 1983. There were sizable inflows of foreign capital.

The Italian investment funds, which began operations in the. second half of 1984, responded to the demand for portfolio diversification, which was boosted by the expansion in the share of wealth held in financial assets. The funds' activities expanded rapidly, so that by the end of the first quarter of 1985 their portfolio was worth 5 trillion lire, largely invested in government securities but with a substantial amount in shares. Foreign investment funds and trust management companies also recorded marked growth, mainly in the first half of the year in the case of the former. By contrast, there was a sharp contraction in certain atypical securities, which had become widespread in recent years owing to positive developments in the real estate sector and the lack of adequate regulation.

Bonds and government securities. — The Treasury's strategy of replacing short-term debt by medium and long-term paper has lengthened the average residual life of public debt from 1 year and 3 months in 1982 to 2 years and 2 months in 1984. Reducing the risk of instability due to the huge stock of short-term securities created the conditions for a more orderly development of the market. The decrease in the turnover of government securities was achieved by increasing the ratio of Treasury credit certificates to total Treasury debt instruments and progressively lengthening their maturities. At the end of the year, the average life of Treasury credit certificates was 4 years and 4 months (against 1 year and 11 months at end-December 1982), whereas the figures for Treasury bills and Treasury bonds were virtually unchanged, at 5 months against 4 and 12 months against 13 respectively. The importance of the exercise becomes even more apparent if one looks at the liquidity injected into the economy as a result of coupon payments, which, together with redemptions, reflect the average duration of the commitment taken by holders of securities. As a result of the lengthening of maturities, the total of redemptions and coupon payments substantially decreased as a percentage of GDP, from 63.3 per cent in 1982 to 51.7 per cent in 1984.

The Treasury diversified away from Treasury bills and Treasury credit certificates more than in the past. It made larger issues of Treasury bonds every 3 months throughout 1984 and then every month in the first quarter of 1985; Treasury certificates in ECUs for the domestic market were issued at intervals of about 3 months, while the issue frequency of those for circulation abroad was around 6 months. Net recourse to the market via these instruments was equal to 30.1 per cent of the total for the public sector, compared with 3.7 per cent in 1983 (Table 29).

Table 29

GOVERNMENT SECURITIES

(billions of lire)

	Treasury bills		Treasury credit certificates		Treasury bonds		Treasury certificates in ECU (1)	
	1983	1984	1983	1984	1983	1984	1983	1984
Total outstanding (2)	151,212	160,513	126,900	183,900	23,439	32,019	2,414	4,206
Gross issues	266,351	227,747	74,650	95,250	13,000	17,750	822	1,792
Premiums and discounts .	24,849	21,281	868	262	62	146	—	—
Redemptions	255,280	218,446	7,130	38,250	9,198	9,171	—	—
Coupons	—	—	14,014	25,325	2,993	4,105	213	308

(1) In circulation in Italy and abroad. — (2) End-of-period figures.

At the beginning of 1985 an important alteration was made in the characteristics of Treasury credit certificates by paying coupons annually and basing them on the yield on 12-month Treasury bills. The January and February issues were marked by an abnormal expansion in demand, for the reasons stated in the section "The Money and Financial Markets". In March, the system of uniform price auctions, which is already used for 12-month Treasury bills, was extended to Treasury credit certificates. Participation in the auction was limited to credit institutions, which were paid the usual commission of 1 per cent on condition that they passed on three quarters of it to the other financial institutions that had received the commission under the previous system of fixed-price subscriptions.

The major non-Treasury issuers in the market in recent years (special credit institutions, ENEL, ENI and IRI) were joined by autonomous government agencies, EFIM and international institutions, which made a return to the Italian market. Competition among issuers helped bring about a diversification in the characteristics of the bonds offered. ENEL continued to issue variable rate bonds, while modifying the system of capital indexation; IRI issued only bonds with warrants attached to encourage wider holding of the group's shares, whereas issues by international institutions satisfied most of the demand for long-term fixed rate securities (Table 30).

Table 30

BONDS

(billions of lire)

	State Railways		Special credit institutions		ENEL		IRI	
	1983	1984	1983	1984	1983	1984	1983	1984
Total outstanding (1)	3,177	4,706	85,729	90,159	10,841	11,886	3,848	3,904
Gross issues	2,000	1,800	14,587	12,538	2,471	2,774	300	350
Premiums and discounts .	—	—	292	61	1	—	—	—
Redemptions	257	271	6,655	8,162	1,388	1,729	233	294
Coupons	204	477	10,273	11,505	1,440	1,492	228	288

(1) End-of-period figures.

Shares and convertible bonds. — Favourable expectations as to stock market developments made it possible to carry out substantial capital increases and to place a sizable volume of convertible bonds. Subscriptions of new shares totalled 11,784 billion lire, of which 5,380 billion related to private sector companies, compared with 3,269 billion in 1983 (Table 31). About half of total gross issues was by quoted companies; 75 per cent of this component was concentrated in only five companies, of which two were in the private sector. The capital increases by these two companies (1,135 billion lire) represented a very substantial proportion of total fund-raising by quoted private sector companies (2,010 billion, against 852 billion in 1983).

The expansion in equity financing was also encouraged by the improvement in the quality of the official list now being undertaken by withdrawing the quotation of a number of shares that no longer meet the listing requirements (11 in 1984) and, more impo rtant, by admitting new firms (12 last year), some of which belong to groups not previously quoted. In resolution no. 1622 of 19 December 1984, Consob laid down the regulations for stock exchange listing, stating that fulfilment of the requirements constituted a necessary condition for continued quotation and setting a period of not more than three years for bringing currently quoted shares into line with the new regulations.

The interest in equity capital also extended to the *convertible bond* market. The volume of issues remained high, buoyed up by strong

Table 31

GROSS SHARE ISSUES

	Billions of lire				Percentage composition			
	1981	1982	1983	1984	1981	1982	1983	1984
Listed	**5,380**	**2,975**	**4,121**	**5,980**	*61.1*	*43.2*	*32.9*	*50.7*
state-controlled companies	3,979	1,974	3,269	3,970	*45,2*	*28,7*	*26,1*	*33,7*
private firms	1,401	1,001	852	2,010	*15.9*	*14.5*	*6.8*	*17.0*
Unlisted	**3,432**	**3,917**	**8,413**	**5,804**	*38.9*	*56.8*	*67.1*	*49.3*
state-controlled companies	1,255	1,247	5,996	2,434	*14.2*	*18.1*	*47.8*	*20.7*
private firms	2,177	2,670	2,417	3,370	*24.7*	*38.7*	*19.3*	*28.6*
Total	**8,812**	**6,892**	**12,534**	**11,784**	*100.0*	*100.0*	*100.0*	*100.0*
state-controlled companies	5,234	3,221	9,265	6,404	*59.4*	*46.8*	*73.9*	*54.4*
private firms	3,578	3,671	3,269	5,380	*40.6*	*53.2*	*26.1*	*45.6*

demand, as subscribers were attracted by the nominal rates offered and the rapid increase in market prices as a result of the rise in those of the shares into which the bonds could be converted. The high prices induced some firms to retire old issues early, thereby forcing their conversion into shares, in order to remove the interest on these securities from their profit and loss accounts and to achieve a better balance between loan capital and equity capital.

Units in investment funds. — The first Italian investment funds were well received and quickly accumulated a substantial volume of assets. Resources raised by the management companies amounted to 1.1 trillion lire in the second half of 1984 and grew rapidly in the following quarter at a rate of about 1.25 trillion a month as new funds entered the market and the promising results of the first few months' trading became known.

Units in investment funds may be registered or to bearer and may be bought by private individuals, non-profit-making organizations and life assurance companies up to the amount of their allocations to actuarial reserves. Income from holdings of fund units (profits or capital gains) is exempt from personal income tax.

Atypical securities and trust management companies. — The creation of Italian investment funds coincided with the liquidation of the two foreign real estate investment funds operating in Italy, which had run into difficulties as a result of applications to sell and the downturn in the property market, and with the almost complete disappearance of certain forms of fund-raising that had proliferated in the last few years before Law no. 77 of 23 March 1983 and Law no. 649 of 29 November 1983 laid down administrative and fiscal regulations for them.

Trust management companies expanded considerably; in contrast to investment funds, they aim at satisfying individual investment needs, since the pooled management of resources entrusted to them by individual savers is no longer permitted. Given the more complex administrative requirements imposed on trust management companies, they tend to aim at savers in the middle-to-high income brackets. Consob resolution no. 11815 of 10 September 1984 lays down the characteristics that trust management companies must have to ensure consistency with the law establishing investment funds.

Yields and price indices

Yields on the main medium and long-term bonds decreased by an average of 3 percentage points during the year, continuing the downward trend that began in 1982. All sections of the bond market were affected by the reduction in interest rates, which was interrupted only temporarily in the third quarter owing to the 1 point increase in the official discount rate. In the last few months of the year nominal rates began to decline slowly once again and continued to fall throughout the first quarter of 1985, largely as a result of the heavy demand for new issues. Rates on government securities were subsequently pushed upwards again by the need to finance the steadily expanding Treasury borrowing requirement and by the uncertainty about future inflation.

In 1984 the yield at issue on Treasury credit certificates declined substantially owing to the simultaneous reduction in 6-month Treasury bill rates and in the spread in relation to the reference rate, which, in the case of 7-year certificates, was cut from 1 to 0.5 percentage points on a 6-month basis. The yield differential in relation to Treasury bills, which reflects not only the spread but also the issue discount (not including the banks' subscription commission) and any premium or discount on the first coupon, was halved from 2.2 to 1.1 points per annum, or from 13.1 to 7.2 per cent in proportional terms.

As regards fixed rate securities, the reduction in yields at issue was more pronounced in the case of Treasury bonds (13.51 per cent in January 1985, against 17.13 per cent in January 1984) than in that of bonds issued by industrial credit institutions (13.66 per cent, against 16.10 per cent), so that the latter became slightly more competitive.

There was a similar movement in the secondary market, where rising prices led to sizable capital gains on sales of securities. Specifically, investments in Treasury credit certificates on the secondary market made at the end of 1983 and liquidated one year later produced an average ex post yield of 19.5 per cent, compared with 21.8 per cent in the previous year. The decline in coupons on ECU securities and the depreciation of the lira against the European currency unit resulted in a yield of 14.6 per cent on ECU-denominated Treasury certificates in 1984 and one of 21.3 per cent in the twelve months ending in April 1985.

Share prices rose by 15.7 per cent in 1984. Since distributed dividends averaged about 4 per cent of the year-end capitalization value, the gross yield on investments in shares came to more than 20 per cent. After a very positive beginning, stock market activity remained fairly steady throughout the year, with modest trading and small variations in price. However, there were periods of livelier activity when prices were being adjusted to the share exchange terms of mergers or to the unit prices paid in connection with sales of large blocks of shares. Between mid-December and mid-January 1985 the market situation changed again, with prices and trading increasing sharply; Consob adjusted the margin requirements to test the strength of the rise. After a brief pause, the increase in share prices resumed, in step with the upward trend in output and investment; the share index rose by 26 per cent in the first four months of 1985.

The favourable developments in the securities market in the second half of the year were reflected in the value of *units of Italian investment funds,* the index for which stood at 111.4 at the end of December (base = 100, 2 July 1984). The strong rise continued in early 1985, largely owing to the stimulus from the share market, so that by end-April a further rise of 10.1 per cent had been recorded. In the six months to the end of April, the gross average yield on investments in investment fund units was 16.1 per cent on a six-month basis, against 9.3 per cent on Treasury credit certificates and 27.4 per cent on shares. Gross ex post yields on investment funds placed mainly in shares recorded the highest gains (22.5 per cent). The results for the nine funds operating at the end of October 1984 ranged from 9.0 to 29.9 per cent.

Institutional investors

Insurance companies. — The assets of the insurance companies increased by 19 per cent compared with 1983, largely as a result of an expansion in their securities portfolio (28 per cent) and smaller increases in deposits (17 per cent) and real estate (8 per cent; Table 32). In particular, the rate of growth in real estate holdings fell back to the average values of 1980-81 after the increase over the last two years, which had been due to the revaluation of assets under Law no. 72 of 19 March 1983. Portfolio holdings, which accounted for 58 per cent of balance-sheet assets (against 54 per cent in 1983), increased in both the life assurance sector, where it was the fastest growing item of assets, and in the casualty sector, where the growth was more evenly spread across the balance sheet.

Table 32

ASSETS OF THE INSURANCE COMPANIES

(balance-sheet items in billions of lire)

	Deposits and cash	Securities (1)	Mortgages & annuities	Real estate	Total
			life sector		
1983	195	4,416	1,228	3,629	9,468
1984 (*)	209	5,679	1,334	3,705	10,927
			casualty sector		
1983	1,463	8,074	92	4,176	13,805
1984 (*)	1,727	10,264	118	4,689	16,798
			total		
1983	1,658	12,490	1,320	7,805	23,273
1984 (*)	1,936	15,943	1,452	8,394	27,725

(*) Partly estimated. — (1) In lire and foreign currency, including participations.

In the *life assurance sector,* which comprises more than 50 companies managing about two fifths of the total assets of the insurance sector, holdings of securities increased by 29 per cent, in line with the increase in premium income (28.6 per cent). Holdings of Treasury credit certificates more than doubled, from 904 to 1,889 billion lire. Bonds issued by the Treasury, the State Railways and ENEL declined slightly as a proportion of the total portfolio, but there was a more substantial decline in the share of bonds issued by the special credit institutions.

In the *casualty sector,* holdings of securities expanded by around 27 per cent, the same rate as in 1983. This was due more to increases in bonds issued by special credit institutions (34 per cent) and in shares (32 per cent) than to the rise in Treasury credit certificates (17 per cent). Securities denominated in foreign currency, which accounted for 13 per cent of the portfolio, increased by only a modest 11 per cent (Table 33).

Table 33

INSURANCE COMPANIES' PORTFOLIOS OF SECURITIES

(balance-sheet items in billions of lire)

	Public sector			Special credit institutions	Public corporations (1)	Firms	Certificates of deposit	Shares	Securities in foreign currency	Total
	Treasury bills	Treasury credit certificates	Other							
	life sector									
1983 ...	5	904	504	1,084	700	25	55	567	572	4,416
1984 (*)	5	1,889	554	1,105	775	94	21	682	554	5,679
	casualty sector									
1983 ...	174	1,334	638	2,671	461	89	73	1,393	1,241	8,074
1984 (*)	259	1,558	789	3,573	568	251	46	1,844	1,376	10,264
	total									
1983 ...	179	2,238	1,142	3,755	1,161	114	128	1,960	1,813	12,490
1984 (*)	264	3,447	1,343	4,678	1,343	345	67	2,526	1,930	15,943

(*) Partly estimated. — (1) Including international institutions.

Investment funds. — The net assets of the 21 funds in operation at the end of March 1985 amounted to 5,034 billion lire (against 1,163 billion in December 1984), of which 4,908 billion was in securities. The degree of concentration was quite high, with three of the twelve management companies accounting for 64 per cent of the total; the figure was influenced, however, by the different lengths of time the various funds have been operating.

The Italian portfolio was selected on the basis of risk diversification, though preference was given to securities in which there is a wide market to ensure good liquidity. The resources raised by the management companies were therefore invested mainly in long-term Treasury credit certificates, with purchases being spread over the various issues (Table 34).

The investment funds' portfolios include substantial holdings of Treasury bills. Purchases were negligible at first, but they became significant in the first quarter of this year as a result of growing uncertainty about future interest rate developments. In late 1984, by contrast, expectations of capital gains due to the anticipated decline in rates had generated fairly substantial demand for Treasury bonds and fixed rate bonds issued by the special credit institutions. Treasury certificates in ECUs, which did not appear in the funds' portfolios until the first quarter of the year, attracted little interest, and there was an almost total lack of demand for certificates of deposit. ENEL and State Railway bonds are very similar to one another, but demand for the latter was stronger, especially when new issues were made. The funds purchased particularly large amounts of convertible bonds issued directly by firms.

Table 34

ITALIAN INVESTMENT FUNDS

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

	1984		1985
	September	December	March
Treasury bills	13	31	329
Treasury credit certificates	221	693	2,880
Treasury certificates in ECU	—	—	51
Treasury bonds	1	48	251
State Railways	—	23	112
Special credit institutions	9	68	230
Public corporations	9	41	155
Firms (1)	9	39	106
Certificates of deposit	—	—	2
Shares	33	176	775
Securities in foreign currency	—	—	17
Securities portfolio	295	1,119	4,908
Net assets	310	1,163	5,034

(1) Including international institutions.

Although the bulk of the funds raised was invested in bonds, shares accounted for a significant portion of the securities portfolio (15.8 per cent); buying was concentrated almost exclusively on listed shares, in many cases new issues, a development that is likely to have a positive effect on applications for stock exchange listing. About 70 per cent of the share portfolio was held by just three funds.

The foreign component of the security portfolio was small (0.3 per cent), since it was only in the first quarter of this year that the funds could invest part of their resources abroad without being liable to the non-interest-bearing deposit on foreign investments; the exemption applies to investments in foreign securities not exceeding 10 per cent of the assets held at the end of the month six months before the purchase date.

Table 35

FOREIGN INVESTMENT FUNDS

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

	1982 Dec.	1983 March	1983 June	1983 Sept.	1983 Dec.	1984 March	1984 June	1984 Sept.	1984 Dec.
Italian securities	1,385	1,757	1,852	2,032	2,132	2,640	2,863	3,082	3,372
of which: shares	*687*	*963*	*956*	*1,048*	*1,076*	*1,279*	*1,305*	*1,430*	*1,685*
Foreign securities	459	544	571	594	617	563	514	621	585
of which: shares	*349*	*434*	*473*	*497*	*540*	*501*	*446*	*516*	*482*
Total securities portfolio	1,844	2,301	2,423	2,626	2,749	3,203	3,377	3,703	3,957
Net assets	1,944	2,370	2,520	2,748	2,889	3,386	3,610	3,912	4,233

The net assets of *foreign investment funds* rose from 2,889 to 4,233 billion lire, owing to the substantial volume of resources raised in the first six months of the year and the large rise in asset values, especially in the second half. Their securities portfolio accounted for about 93 per cent of their net assets and 83 per cent of it was concentrated in funds managed by companies belonging to two financial groups; the increase in this item was entirely due to the rise in the domestic component from 2,132 to 3,372 billion lire, while the foreign component decreased slightly, from 617 to 587 billion (Table 35). The Italian portfolio continued to be equally divided between shares (1,685 billion lire, as against 1,076 billion in 1983) and bonds (1,687 billion lire, compared with 1,056 billion), while 82 per cent of the foreign portfolio was in shares.

HOUSEHOLDS' SAVING AND THE FINANCING OF ENTERPRISES

The trend in financial balances

In 1984 the increase in the public sector's net debt was only partially offset by a further rise in households' financial surplus following the substantial increases in the previous three years (Table 36). Since the corporate sector's deficit recorded only a marginal change, there was an increase in the net foreign debt.

Table 36

FINANCIAL BALANCES

(billions of lire)

	Households	Enterprises	Public sector (consolidated) (1)	External sector
1976	21,755	–12,946	–15,705	2,343
1977	26,445	–7,517	–17,397	–2,175
1978	34,670	–7,910	–22,945	–5,261
1979	38,628	–6,423	–27,490	–4,553
1980	41,179	–25,693	–34,292	8,291
1981	55,278	–25,074	–54,558	9,225
1982	68,530	–18,179	–69,008	7,412
1983	87,710	–23,474	–76,923	–1,183
1984	102,351	–24,276	–95,580	5,188

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

The public sector's financial deficit rose from 77 to 96 trillion lire, or from 14.3 to 15.6 per cent of GDP. If the figures are adjusted for the decline in the real value of total debt caused by inflation, the position of the public sector is seen to have worsened by almost 3 percentage points.

Despite the recovery in fixed investment and the rebuilding of stocks, enterprises' borrowing abroad was small, largely as a result of a marked improvement in self-financing. The sector's financial deficit rose in absolute terms but declined slightly with respect to GDP, to 4 per cent in 1984. Making allowance for the fact that the slowdown in prices led to a smaller erosion of the real value of the debt, the corporate sector's financial deficit rose from 1.6 to 1.9 per cent of GDP between the two years.

Saving and households' financial assets

The share of households' disposable income earmarked for consumption came to 76.6 per cent in 1984, slightly less than in the previous year. As a consequence, the rise in the propensity to invest in financial assets of about half a point is likely to have occurred at the expense of investment in real assets.

Table 37

FINANCIAL ASSETS OF HOUSEHOLDS (1)

(billions of lire)

	Year-end stocks		Flows				
	1979	1983	1980	1981	1982	1983	1984
Notes and coin	16,518	28,363	2,717	3,381	2,669	3,078	2,647
Bank deposits	138,508	243,169	20,727	19,944	35,746	28,244	29,623
Post Office deposits	24,756	36,853	3,695	1,915	2,800	3,687	5,664
Treasury bills	16,224	78,919	14,173	22,199	10,246	16,075	19,136
Special credit institutions' deposits & savings certificates	5,362	15,354	414	1,356	6,858	1,364	4,287
Treasury credit certificates	6,501	48,749	1,404	3,257	9,162	26,764	30,124
Other medium & long-term securities (2)	20,044	30,683	– 2,600	2,037	1,212	8,040	9,050
Shares & participations (3)	10,797	37,998	714	916	26	65	1,181
Foreign assets	2,606	4,673	273	363	164	– 163	161
Other financial assets (4)	17,523	34,579	4,386	3,836	4,198	4,914	6,874
Total	**258,839**	**559,340**	**45,903**	**59,204**	**73,081**	**92,068**	**108,747**

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

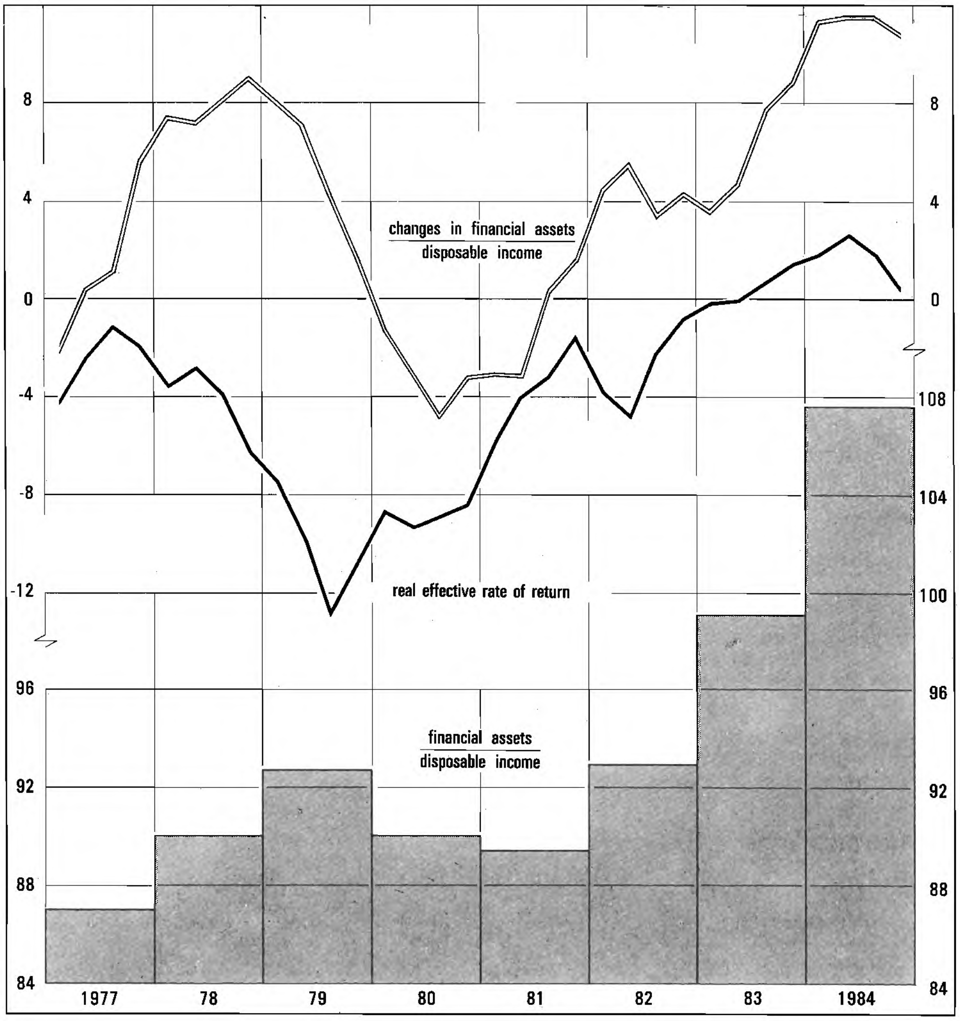
Households' gross financial wealth, net of shares and foreign assets, rose by 107.4 trillion lire (Table 37), equal to a growth rate of 20.8 per cent, whereas the growth in disposable income was 13.5 per cent. The ratio of financial assets to disposable income therefore increased by almost 9 points after rising by 6 points the previous year. This trend was made possible by the increase of more than

1 percentage point in the real yield on financial wealth (Figure 17), largely resulting from the rise in real interest rates on bank deposits and the increased share of Treasury credit certificates in households' portfolios.

Figure 17

HOUSEHOLDS' FINANCIAL ASSETS

(percentages)



The financing of enterprises and their liquidity situation

The flow of finance to firms totalled 53.5 trillion lire in 1984, compared with 43.1 trillion in 1983 (Table 38), the figure worked out at 49.9 trillion lire when adjusted for the estimated effect of distortions in banking statistics caused by the removal of the ceiling on bank lending.

Table 38

ANALYSIS OF CORPORATE SECTOR FINANCING

(billions of lire)

	Year-end stocks		Flows				
	1979	1983	1980	1981	1982	1983	1984
Loans: short-term (1)	83,206	142,586	16,534	11,216	12,969	19,463	31,896
of which: special credit institutions	*3,514*	*9,765*	*1,606*	*2,181*	*1,668*	*794*	*3,324*
medium and long-term (1)	59,962	125,629	13,142	20,849	12,060	8,595	7,618
of which: special credit institutions	*38,682*	*65,749*	*6,067*	*10,127*	*8,548*	*5,960*	*6,497*
foreign	*9,203*	*42,528*	*4,497*	*8,641*	*3,045*	*647*	*−778*
Bonds	13,096	21,139	193	820	4,589	2,392	1,906
Shares	69,224	247,832	1,933	2,262	2,203	2,577	4,746
Endowment funds (2)	8,847	32,408	2,585	3,167	7,117	9,303	6,587
Financing by local authorities	3,831	5,493	−105	715	207	844	1,160
Other financial liabilities (3)	7,309	17,914	1,343	3,352	−2,460	−70	−449
Total	**245,475**	**593,001**	**35,625**	**42,381**	**36,685**	**43,104**	**53,464**

(1) Flows include bad debts and funded debts and are adjusted for bank loans used to finance the deposit on external payments and for exchange rate variations. Not adjusted for the distortions in banking statistics connected with the removal of the ceiling on bank lending. — (2) Net of state-controlled enterprises' funded bank debts. — (3) Include acceptances bought by non-bank investors, atypical securities, an estimate of bank loans used to finance the deposit on external payments and, as regards year-end amounts, the bad debts of credit institutions.

Firms' domestic debt rose by 14.4 per cent, net of the adjustment referred to above, against 12.8 per cent in the previous year. This reflects the increase in the corporate sector's external borrowing requirement due to the recovery in investment in real and financial assets, despite inflows of equity capital and a satisfactory level of self-financing. Foreign borrowing declined over the year by about 800 billion lire as a result of substantial repayments, particularly by public corporations.

Corporate demand for loans was fostered by the banks, which were now free of restrictions on their lending and were engaging in keen competition among themselves. Short-term bank lending was the most vigorous component of corporate financing, increasing by 28.6 trillion lire or 53.4 per cent of total flows; over the previous four years, the share provided by the banks averaged 34 per cent. Lending by the special credit institutions rose from 6.8 trillion lire in 1983 to 9.8 trillion in 1984; its share of the total fell from 23.4 per cent in the previous four-year period to 18.4 per cent. Recourse to the bond market continued to decline; in 1984 it accounted for less than 4 per cent of the total financing of the corporate sector.

Interest rates on the main components of firms' debt fell in 1984. The average rate on total bank lending, which accounted for about half the sector's debt at the end of 1983, declined year on year by almost two points, from 19.6 to 17.7 per cent. The effect of this development on profit and loss accounts was lessened by the increase in the debt itself and by the fact that interest rate changes take time to affect the entire stock of liabilities.

From the more detailed information available on industrial firms, the average nominal cost of their lira debt can be estimated to have declined by 1.3 percentage points. In real terms, deflating by the variation in wholesale prices for the following half-year, it increased by about one percentage point. Nevertheless, the improvement in profits allowed firms wider scope for deducting interest charges from taxable income, so that the resultant tax saving reduced the effective cost of borrowing. There was a widespread improvement in the financial position of the industrial sector in 1984, thanks to the widening of gross profit margins on production from 17.4 to 18.9 per cent and to the recovery of more than 14 per cent in the value of production, thereby creating a substantial increase in profits and self-financing.

Firms' financial assets, net of shares and foreign assets, increased by about 24.8 trillion lire in 1984, or 17.5 per cent; this was markedly higher than the 1983 increase and the growth in GDP. Total foreign assets rose by 4.5 trillion lire, compared with 3.9 trillion in 1983.

THE SUPERVISION OF CREDIT INSTITUTIONS

The Italian financial system is undergoing a period of change brought about by the development of new technology, increasing financial integration at the international level and sharper competition between banks and non-bank intermediaries. The supervisory authorities are therefore concentrating their efforts on regulating market forces to ensure that they will contribute positively to the pursuit of a satisfactory balance between efficiency and stability throughout the banking system.

The reaffirmation of banks' independence in deciding their own affairs and of the entrepreneurial nature of credit intermediation is shifting the emphasis of regulatory controls away from single operations and onto the overall condition of the bank.

The supervisory objectives are being pursued not only by obtaining more detailed information on the position of each institution and by refining the methods of analysis, but also by strengthening prudential supervision and inspections.

The structure of the credit system

New banks. — Until now, the entry of new institutions to the Italian banking system has been governed by the resolution of the Interministerial Committee for Credit and Savings of 23 June 1966, which imposed a general ban on the establishment of new banks. Leaving aside the branches of foreign banks, the increase in the number of institutions in operation has therefore been due entirely to the setting up of rural and artisans' banks, which was permitted on certain conditions under subsequent decisions of the Committee.

Law no. 74 of 5 March 1985 empowered the Government to introduce legislation within 90 days implementing the provisions of EEC Commission Directive no. 780 of 12 December 1977.

The most important implication this will have for Italian credit regulations is the switch to a system of authorization based primarily on the fulfilment of objectively defined requirements.

However, Italy is one of the countries which may continue to make authorization of the establishment of new banks dependent on market needs until the end of the transition al period, which will run until 1989. Authorization may therefore be refused, even though all the conditions set out in the Commission Directive have been met, if the establishment of new banks does not appear to accord with the objectives of the Directive in terms of productivity, competition and banking services.

It will be the task of the banking authorities to ascertain whether the ban on the establishment of new credit institutions under the 1966 resolution is compatible with the new regulations implementing the EEC Directive.

The restrictions on the entry of new institutions did not apply to branches of foreign banks. Since the early seventies, the number of foreign banks operating in Italy has increased from 4 to 34, with a total of 54 offices. The admission of foreign institutions was one of the ways in which the banking authorities sought to stimulate greater competition within the Italian banking system. The general policy has been to avoid indiscriminate foreign access to the Italian market, selecting those banks whose size and operational strategies enable them to introduce new types of customer service and to offer constructive competition to the major domestic banks. As well as these branches, there are now five subsidiaries of foreign banks operating in Italy, with around 100 offices.

Similarly, the Bank of Italy has encouraged Italian banks to expand abroad, especially those whose size and trade-related activities are sufficiently large to support an international role. More flexible rules for the opening of representative offices were recently adopted.

Since the beginning of the seventies, the major Italian banks have more than doubled the number of their foreign branches and representative offices. By 31 January 1985, 13 major banks had been authorized to open 73 foreign branches, 51 banks had established 131 representative offices (some of them operated jointly) and 11 banks owned 24 banking subsidiaries abroad.

Geographical distribution. — Given the strict regulations governing the establishment of new banks in Italy, geographical expansion has assumed primary importance both in the strategies of the banks and in the policies of the supervisory authorities.

The Bank of Italy periodically draws up bank network plans to permit an orderly increase in competition at the local level and an adequate spread of banking services throughout the country. The banking system has been able to evolve gradually; banks have been given ample time to implement approved projects as well as scope for modifying their strategies.

In the interval between one plan and the next, the supervisory authorities have encouraged adjustments in the territorial distribution of branches to enable the banks to adapt to changing market conditions.

The Bank of Italy has already begun preparatory work on the next branch plan, the results of which will be made public by mid-1986. The composition of each market area will be made known to the banking community so that there will be wider understanding of the criteria for authorizing new branches and the guidelines on which they are based. Moreover, as soon as it is technically feasible, the banks will be informed of the statistical techniques used in drawing up the plan.

An important step towards the geographical rationalization of the banking network was taken last February, when new regulations were issued on the transfer of branches.

The amendments permit banks to transfer branches within the same district simply by informing the supervisory authorities. In other cases (i.e. transfers within the same market area or to districts without bank branches) the transfer may go ahead if the Bank of Italy does not raise objections within a short specified period.

These guidelines are likely to be developed further at a later date.

Changes in the geographical pattern of branches may therefore be made in two ways — by increasing the number of bank branches and by redistributing existing branches to an even greater extent than in the past.

Shareholdings. — The banks have now fully met the requirements of the regulations on Italian banks' foreign shareholdings, which were issued four years ago to simplify relationships within banking groups operating worldwide so that more effective control could be exercised both by the parent bank and by the supervisory authorities.

In ascertaining the existence and adequacy of supervisory practices in the countries in which foreign subsidiaries operate, the Bank of Italy attaches great importance to the fact that they comply with internationally agreed principles, providing that such compliance is not merely an empty declaration of intent.

As regards domestic shareholdings, banks continued to expand their activities in banking related financial services in 1984.

The bill on banks' shareholdings at present before Parliament contains a government amendment to bring companies engaging in merchant banking under a uniform set of regulations. The purpose of the amendment, which includes provision for an appropriate register to be kept by the Bank of Italy, is to ensure competition on broadly equal terms between banks and non-banks.

Lending limits. — The measures taken by the supervisory authorities to regulate the credit institutions' operations, and especially their lending, accord with the criteria for giving the banks greater freedom of action.

The most significant step in this direction has been the revision of the concept of the geographical scope of banking operations in the light of the changes that have occurred in the economy and in the conditions under which banks operate.

As a result of the revision, the number of banks authorized to lend throughout the country rose from 20 to 109 and the number permitted to operate in more than one region increased from 29 to 191. Moreover, the branches of foreign banks are no longer confined to the region in which they are established, but may now conduct business throughout the country with Italian clients with major foreign trade commitments.

Capital adequacy. — In 1984 the banks' own funds rose from 29,500 to 36,940 billion lire, a substantial increase, though less than that of the previous year (8,450 billion lire). The rate of increase was again higher than that in customers' deposits and lending, owing partly to further additions under Law no. 72 of 1983 on the revaluation of company assets, which accounted for about a quarter of the increase in the banks' own funds.

The ratio of own funds to lending rose from 15.3 to 15.7 per cent and that of own funds to borrowed funds from 7.6 to 8.4 per cent (Table 39).

Inspections. — A total of 205 general inspections and 4 sectoral inspections were instituted in 1984, compared with 203 and 2 respectively in the preceding year. Of the inspections carried out last year, 19 were organized to meet special needs (compared with 62 in 1983) and the rest were part of the annual programme.

Table 39

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

(end-of-year percentages)

	1980	1981	1982	1983	1984
Banks (2)					
Own funds/lending	9.1	11.0	12.6	15.3	15.7
Own funds/borrowed funds	4.6	5.9	6.1	7.6	8.4
Special credit institutions (3)					
Own funds/lending	9.9	9.9	10.0	11.0	11.8
Own funds/borrowed funds	9.3	9.4	9.2	10.1	11.0
Credit system					
Own funds/lending	9.4	10.6	11.6	13.7	14.3
Own funds/borrowed funds	5.7	6.7	6.9	8.2	9.1

(1) Banks' lending comprises loans to resident and non-resident customers, bad debts and the banks' own unpaid and protested bills. In the case of the banks, borrowed funds comprise deposits and trustee accounts; 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.

Steps towards self-regulation by the banking system

In 1984 and the first few months of this year, the banking community took a number of important initiatives that confirm its ability to regulate its own affairs in conformity with the general objectives of the supervisory authorities.

The publication and exchange of information. — The Bank of Italy invited the Italian Bankers' Association to consider introducing twice-yearly surveys of significant accounting data on the situation of the banks, in the belief that wider dissemination of such information would be in the interests of their creditors in general.

To make well-informed choices, the public must have frequent, detailed information on banks' liquidity, profitability and risk positions apart from the data that can be gleaned from their annual accounts.

Hence, the reports will be comprehensible to any reader, but they will also contain specialized information, since they are aimed primarily at observers accustomed to the techniques of financial analysis.

The banking community itself, which is interested in establishing more responsible interbank relationships and hence closer mutual checks and balances, has defined the contents of the new data and the methods to be used. All the main banks are participating in the project.

The deposit protection fund. — The profound changes occurring in the financial sector, the resultant increase in competition and the expansion in the banks' international operations have made it necessary to re-examine the question of deposit protection to determine who should bear the cost of banking failures and whether complete protection of depositors' rights would be appropriate.

Since it is in banks' own interests that the effects of a banking crisis be contained as far as possible, a mechanism should be sought whereby they bear part of the costs involved. As regards the extent of the guarantee, it would be desirable to find a formula that reinforced market selectivity by encouraging banks to be more prudent in their use of resources.

On a number of occasions the supervisory authorities have indicated guidelines for a scheme funded by the banks that would win the support of the entire banking system.

The banks have responded with plans for the creation of a voluntary deposit protection fund for all sections of the banking system except the rural and artisans' banks, which already have their own guarantee scheme.

The purpose of the fund is to guarantee the repayment of deposits by intervening in favour of banks placed in compulsory liquidation and by means of a wide range of measures to assist banks under special administration where rehabilitation appears feasible.

In keeping with the Bank of Italy's statutory role in the management of bank crises, the project provides for cooperation with the supervisory authorities, recognizing in particular their jurisdiction over the actions of the fund. However, the credit authorities must continue to have a discretionary instrument that they can use in cases where intervention by the fund would not be an appropriate way of safeguarding the general interests of the credit system.

The basic outline of the project now taking shape is consistent with the series of measures taken by the supervisory authorities over a period of several years to strengthen the independence and entrepreneurship of both public and private banks.

Improvements in supervisory instruments

Changes in regulations. — It is in the interests of both the supervisory authorities and the banking system that the banks have an increasingly clear regulatory framework in which to operate.

The revision of the Supervisory Instructions, which is now nearing completion, is designed to serve this purpose. The instructions regarding individual instruments of supervision have been standardized and the text has been updated and rationalized where necessary. The requirements have also been coordinated and simplified and purely formal procedures have been reduced to a minimum.

The legislation increasing the powers of supervision has also made significant progress in its passage through Parliament.

The bill on the identification of shareholders in publicly quoted companies and banks has now been passed. The measure is consistent with the provisions of the Banking Law requiring shares to be registered in order to safeguard the separation between banking and industry; it gives the supervisory authorities powers to demand specific information in order to identify the ultimate holders of capital, even though nominees may be interposed. If this information is not forthcoming, the voting rights of the unidentified shareholders are suspended.

International cooperation. — In September 1984 the Third International Conference of Banking Supervisors was organized in Rome by the Bank of Italy in cooperation with the Basle Committee on Banking Regulations and Supervisory Practices. The aim of the conference was to make an increasing number of countries aware of the problems arising from cross-border banking activities, which cannot be tackled effectively without closer cooperation.

The supervisory authorities of almost 90 countries were represented, many of which do not belong to the committees dealing with this matter. The conference did not confine itself to discussing common problems; it also produced practical results. The participants indicated their acceptance of the principles of international cooperation laid down in the 1983 Basle Concordat and their intention to take this as the basis for the further development of supervisory practices in their respective countries. They also agreed to the proposal of the Basle Committee to prepare a questionnaire on the various national supervisory systems. Analysis of the replies to the questionnaire will make it possible to set up a multilateral centre for the collection and exchange of information, which will make it easier to identify the institutional and practical obstacles that still impede effective collaboration between supervisory authorities.

Investment funds

During the first phase of the application of Law 77/1983 the Bank of Italy verified that funds met the conditions for entry to the market and approved the by-laws governing relations between management companies and subscribers.

Before approving funds' by-laws, the Bank checks that they conform with the law and are compatible with the general criteria laid down by the Bank.

These criteria, which were drawn up in the light of the problems reported by the funds, are designed to protect the weaker pa rty, since subscribers have to sign the contract without being able to amend it. The information to be provided to investors on the by-laws governing the operation of each fund, the equal treatment of unit holders with regard to subscription and redemption, and the stipulation that the fund by-laws form the only basis for a contract, accord with that objective.

Law no. 77 identifies a number of important coefficients which a properly-run management company must respect. The Bank of Italy will verify that the funds' operations comply with the coefficients in the course of examining their prudential returns; further checks may be carried out during inspections.

Since the implementation of Law no. 77, Italian and foreign investment funds have existed side by side. Pending legislation to regulate the foreign funds, the authorities have made them subject to the same operational requirements as apply to newly constituted Italian funds in order to avoid unfair competition.

On 30 November 1984 the Minister for Foreign Trade decreed that a portion of Italian funds' investments abroad equal to 10 per cent of their assets were exempt from the non-interest-bearing deposit required under the exchange control regulations. This modification was viewed favourably, as it provides wider scope for diversifying the funds' investments and increases their attractiveness to savers.

THE GOVERNOR'S CONCLUDING REMARKS

At the opening of this Meeting, the minds of all those who are in any way connected with this Institution will be turned to Donato Menichella with sincere and heartfelt recollection.

I wish to pay tribute to him in this forum just as I did at the meeting of the Board of Directors last July.

Others have already spoken about his lifetime of activity that spanned half a century and has already become a part of the country's history; much more still needs to be said.

I recall the Menichella who governed the Bank of Italy for twelve difficult but excitingly productive years. He ran the Bank with a firm confidence that stemmed from his outstanding ability, with an openness to ideas that reflected his acute and high mind, with a strict and reserved style imposed simply through moral strength and the consistency of his life. The lesson that effective government of the currency is also fostered by discretion is a legacy that the Bank values highly.

Rigorous intellectual discipline, a wealth of experience in many fields and a highly developed sense of service to the community were all endowments of the Bank before the appointment of Menichella, who inherited the guidelines laid down by Stringher and Einaudi. His actions were in perfect accord with that tradition, which he both epitomized and enriched, especially with his lucid and passionate commitment to the development of southern Italy.

Intellectual clarity and honesty were the basis for the firmness of Menichella's convictions, which were never dogmatic, and for the originality of his judgements, which were never preconceived. This attitude, which expressed his spirit even more than his mind, enabled him to explore the intricate paths leading to the reconciliation of efficiency with social demands. He recognized and cultivated the strong complementarity that exists between market forces and openness to international trade on the one hand, and public intervention and control on the other. He adopted the same pragmatic approach in his conduct of the Bank's affairs, fruitfully combining the functions of monetary policy and banking supervision, marrying austerity with complete confidence in the ability of the staff and a humanity that was the hallmark of all his actions.

For Menichella, a sound central bank able to neutralize the causes of instability inherent in credit systems by emphasizing preventive measures of monetary management and banking supervision was the indispensable basic condition for a balanced economy. He strove tenaciously and successfully to ensure that this condition would be satisfied in Italy: first by contributing decisively to the solution of the industrial and financial crisis of the thirties, which threatened to compromise the central bank itself; then by helping to define the institutional framework that still ensures the proper working of the credit system and the independence and effectiveness of the Bank of Italy's operations; and finally, as Governor, by using that independence and effectiveness to promote the steady development of the whole economy in the late forties and fifties.

However, a well-managed central bank alone might have been insufficient. It was especially important in an economy such as Italy's, with its longstanding geographical dualism and pronounced sectoral imbalances, that the Bank's action should be set in an even broader framework defining both the system whereby economic activity is governed and the conditions for structural interventions in the economy.

It should not be a surprise, though it is undoubtedly evidence of a comprehensive and farsighted vision, that Governor Menichella should have sought to develop ideas and plans for the institutions and instruments of industrial and regional policies.

Responsibility for such institutions and for the management of these instruments does not lie with the central bank and should not be entrusted to it. Nonetheless, only by eliminating the underdevelopment and even poverty of whole areas of the country would it have been possible to defuse the most dangerous "real" causes of instability. These are the causes with which monetary and credit policy is least well equipped to cope, and yet precisely those that can generate the greatest pressure for the involvement of the central bank in choices threatening to undermine its independence and ability to control credit.

Menichella successfully guided the Bank of Italy and the Italian economy through a decisive transformation, inspired by his awareness that instability does not stop at prices but attacks production and employment as well as saving and investment, thereby prejudicing the development of the economy.

Menichella combined this awareness, which was enhanced by his direct experience of some of the most traumatic events in Italian economic history, with farsightedness and an ability to formulate strategies for the long term, in which the objectives were set in conformity with carefully considered options and the instruments chosen in the light of their effectiveness for the task.

Menichella's style, his pragmatism and the discreet silence he observed for twenty-five years after retiring from the Governorship enhance the value of the heritage he has left the Bank and the country.

Let us pay homage to Donato Menichella in the quiet manner he preferred. As Luigi Einaudi said of him, "This is the man who abhors `noise' in connection with his actions". May his example inspire us in attending to the affairs of the Bank.

To increase our knowledge of the thinking and the achievements of Donato Menichella — first in the clarification of the regulation, ownership and management of banks and industry, and then in the government of the currency — the Bank of Italy and IRI have decided to organize a day of study and tribute to be held next January.

In order to commemorate Donato Menichella, the Board of Directors has approved the creation of two scholarships bearing his name, to be awarded to young graduates wishing to continue their study of development economics or credit legislation.

Carmelo Oteri, Deputy Director General, passed away last June. For more than forty years he had served the Bank with complete dedication, spending his entire career in the institution and giving it the benefit of his wide and varied experience. An authority on the working of the Bank, both in the Central Administration and in the branches, he was particularly involved with banking supervision and internal auditing, fields in which his ability to achieve results, his integrity and his discretion came to the fore. After becoming a member of the Directorate in 1982 he made valuable contributions to numerous aspects of the Bank's administration while continuing to monitor the problems of banking supervision.

He displayed an exceptional sense of dedication to the very end, bearing the pain of his illness with calm fortitude, determined to attend to the demands of his office. We all remember him with us in this room last year, a noble demonstration of devotion to duty.

Tommaso Padoa-Schioppa has been appointed to the Directorate. Having worked with him for many years, I am confident that the Bank will continue to benefit from his balanced judgement and technical competence.

The world economy, Europe's backwardness, the exchange rate system

The most significant international economic developments of 1984 were strengthening expansion and a further deceleration of inflation. Only in North America, however, was economic growth robust enough to reduce unemployment. In Europe, by contrast, the number of jobless rose to over 18 million. The external position of the developing countries improved, while payments imbalances and exchange rate disequilibria among the leading industrial countries worsened.

Gross national product in the OECD area increased by nearly 5 per cent, the fastest rate since 1976, powered principally by American domestic demand, which rose by 9 per cent. GNP grew by 7 per cent in the United States, 6 per cent in Japan and just over 2 per cent in Europe. World trade expanded by 9 per cent, trade between industrial countries by 14 per cent.

Despite the sustained expansion of economic activity, cost and price inflation slowed, thanks to non-accommodating monetary conditions, wage restraint and slack markets for primary products and oil. In the OECD countries, hourly wages in industry rose by 5.5 per cent, slightly less than in 1982 (from 1973 to 1982, the average annual rate of increase had been 11 per cent). On average for the seven leading industrial economies, unit labour costs in industry did not rise. The figures varied substantially from country to country, however, and this was reflected in inflation rate differentials. At the extremes, the increases in the GDP deflator and in labour costs were nearly ten percentage points higher in Italy than in Japan.

The exceptionally strong expansion of demand in the United States meant large-scale resort to savings from abroad. The need for additional resources was engendered chiefly by soaring investment. Net private investment jumped from $56 billion in 1982 to $95 billion in 1983 and over $230 billion last year. The balance-of-payments deficit on current account more than doubled to over $100 billion. In addition to the inflow of private capital from abroad, financing for the deficit was also provided by US banks which, in view of surging domestic demand for credit and the narrowing of lending opportunities elsewhere, sharply cut acquisitions of overseas assets from 1983 onwards.

The strains in US financial markets generated by the strict conduct of monetary policy were augmented by the federal budget deficit, which rose from $128 billion in 1982 to $185 billion in 1984. Failing significant corrective measures, the deficit will inevitably rise, even if the economic expansion continues.

A contributory factor in the evolving pattern of payments balances and exchange rates was the different mix of monetary and fiscal policies pursued in the other industrial countries. In Europe and Japan, the curbing of the public sector borrowing requirement and less restrictive monetary conditions eased the upward pressure on interest rates.

Confirmation of the new pre-eminence of financial transactions in determining exchange rates is found in the continued appreciation of the dollar despite the growing US payments deficit on current account. In 1984 the dollar gained 6 per cent against the yen, 21 per cent against sterling and 13 per cent against the other EMS currencies. Nominal and real interest rate differentials, the strong US expansion, the high expected yield on capital and the security of investments all helped bring about a notable diversification of portfolios, especially in Europe and Japan, and sustained the rising dollar.

The upward course of the US currency came to a halt only when signs of a slowdown in US economic growth appeared and only when, after a further steep rise in January and February, concerted action by the central banks of the main industrial countries reminded the markets that exchange risk is not a one-way proposition. The Bank of Italy took an active part, convinced of the usefulness of intervention in such cases.

Adjustment programmes enabled the developing countries to take advantage of the growth in the OECD area, significantly improving their external accounts. As defined by the IMF, the current account payments deficit of all the debtor countries decreased to $38 billion, as against the $113 billion registered in 1981. The improvement has been continuous, but whereas from 1981 to 1983 it stemmed chiefly from import containment, last year it was due entirely to export gains. The aggregate deficit of the seven most heavily indebted countries, which had stood at $40 billion in 1982, fell to $11 billion in 1983 and $1.5 billion last year.

The overall foreign debt of the developing countries has thus begun to decline in proportion to exports, and its maturity structure has improved. In the past two years debt totalling $228 billion, almost all with commercial banks, has been renegotiated. The agreements with Mexico and Argentina extended repayment deadlines by as much as fourteen years in some cases, and the margin over the base rate was halved.

The IMF has played its part in making this achievement possible, not only with its own lending but also by drafting economic adjustment programmes and promoting and coordinating finance through private markets.

Finding a definitive solution to the debt crisis is a long-term task for the international community, and future periods of renewed crisis are not out of the question. If the domestic effects of the policies by which the most heavily indebted countries have improved their external positions are to be bearable in the long run, these countries need to gain broader access to private markets and sufficient official funds. The current trends must be reversed. Budget problems have led most industrial countries to trim foreign aid and financing, and even the development banks have slowed the pace of lending. More than anything else, the determined pursuit of appropriate policies by the most heavily indebted countries requires sustained growth of demand and imports in the industrial countries.

The expansive thrust of the US economy is waning, and the other leading economies are having trouble filling America's role in sustaining world growth. In particular, even acknowledging the need to maintain monetary stability, the expansion of domestic demand in Japan and Germany remains modest, providing insufficient stimulus to fulfil these economies' growth potential.

The economic policies pursued by the major industrial countries, their interaction and their timing are crucial to the expansion of output and employment in the entire world economy. Inappropriate policies would further aggravate tensions in the exchange markets, worsen international financial imbalances and intensify the pressures making for the fragmentation of world trade. The foundations of international economic cooperation would be undermined.

The slow growth of output and investment in Europe not only damages world economic expansion but also jeopardizes the very capacity of Western Europe to retain its leading role in the international political and economic arena.

European growth is being held back by regulatory constraints, widespread market rigidity and a lag in technological innovation. In recent years the possibilities for expansion have been limited in many countries by restrictive fiscal policies aimed at scaling down the oversized public sector.

The continued restraint required in countries where adjustment has been incomplete should be complemented, in those where more headway has been made, by a less restrictive fiscal stance, temporarily buoying private investment and gradually lowering the incidence of taxation on income. Such measures would help smooth the transition to a new balance between the public and private sectors without impeding efforts to curtail the public sector's role.

Not only must Europe expand the volume of aggregate demand, it must also strengthen the productive base of the economy.

The technological challenge posed by the United States and Japan goes beyond industrial primacy: job creation and economic growth will depend on an intensified research effort, on the introduction of new technology and on accelerated capital formation.

The importance of advanced industries consists essentially in their ability to apply and disseminate technological changes at a time of rapid innovation. The process also takes place through the creation of new enterprises throughout the economy, their expansion, the elimination of the least able, and a shift of employment into the industries and regions where there is a demand for labour. If this evolution is impeded, the economy stagnates or declines.

For too long now the construction of the European Community has been marking time. What has been lacking is the ability to devise and put into operation institutional arrangements and decision-making procedures that can complete the creation of a unified European market for factors of production and products.

The readiness of businessmen to respond promptly to innovation stimuli has been diminished by the limited mobility of labour and capital, the rigidity of the wage structure, the impediments to the movement of goods and the inefficiency sometimes connected with the expansion of the public sector. The emphasis on keeping and defending what we already have has ultimately worked to the detriment of entrepreneurial initiative and the ability to create jobs. Difficulties have also been encountered in implementing the industrial policy guidelines for tackling excess capacity in particular industries and promoting common programmes in such fields as telecommunications, data processing and basic research. Also lacking, finally, has been the stimulus to technological innovation that might derive from better coordination of public investment expenditure.

The rise of truly "European" firms, with European-wide operations, financing and access to research findings, is hindered by institutional and market segmentation.

One limitation is the incomplete integration of money and financial markets. Of necessity, their integration can only proceed together with economic convergence and institutional harmonization.

The successful working of the EMS should not mislead us into underestimating the latent tensions. Significant advances have been made in relations between central banks and in strengthening the ECU in private markets, and more progress may follow. But the ultimate gauge of the system's performance is success in creating an area, of monetary stability. Progress towards that objective has been unsatisfactory.

The increasing use of the ECU underscores its potential as a vehicle for monetary integration, but turning that potential into reality will require stronger official suppo rt: in particular, the recognition of the ECU as a currency by all the members of the Community. This would mean greater use of the ECU in stabilization interventions within the EMS. It would open up the prospect of a significant enhancement of the role of the European Monetary Cooperation Fund, both in the coordination of exchange market intervention and in concerted supervision of the creation of ECU-denominated deposits and financial assets.

The increase over the years in the volume and mobility of international capital flows has amplified the impact that largely uncoordinated national policies have had on exchange rates and aggravated the difficulties of regulating international liquidity. Increasingly, the demand for reserves has been met by market borrowing. The creation of reserves has come to depend in large measure on the banks' assessment of the creditworthiness of borrowing countries and on monetary conditions in the leading economies.

Longstanding uncertainty about the markets' ability to reconcile competition and stability has acquired new urgency. It is true that international financial operators can cover themselves against exchange or illiquidity risks, but when a series of unfavourable events takes on macroeconomic importance, the monetary authorities have a duty to safeguard stability, and the cost must be borne by the entire community.

The Group of Ten is currently engaged in a thorough discussion of the necessary conditions for less unstable exchange rates between the major currencies and better control over international liquidity. The report drafted by the G-10 Deputies will be presented at next month's meeting of Finance Ministers and central bank Governors in Tokyo.

I am convinced that we cannot afford to relax our commitment to pursue more stable exchange rates, even though today no practicable alternatives to the floating rate system are in sight.

The system of flexible exchange rates did help produce balance-of-payments adjustment to a series of jarring shocks to world economic equilibrium. Nevertheless, changes in the real exchange rates of the leading currencies of the order of 50 per cent, first in one direction and then in the other, as we have experienced in the last decade, are bound to produce distortions in resource allocation and engender the risk of sudden, sharp corrections with dangerous implications for economic and financial stability. The temptation of each country to seek a way out of its difficulties by imposing limitations and constraints on foreign trade may recur.

Exchange market intervention by central banks can curb speculation and counter temporary market disorder. If it is not neutralized, and therefore influences domestic monetary conditions, such intervention can affect market trends.

Restoring better-balanced international monetary relations will require greater convergence between developments in the major economies and compatibility among their fiscal and monetary policies. The likely international repercussions must weigh more heavily in national economic policy decisions, and exchange rate stability must once again become a high-priority objective. These goals can be pursued through multilateral surveillance, endowing the IMF with broader and more incisive powers to urge adjustments when the policies adopted by the leading countries fail to produce sufficiently stable exchange rates.

Once the present disequilibria are on the way to solution, consideration should be given to establishing target zones for exchange rates between the major currencies as a possible way of strengthening discipline; their implications for market intervention and domestic economic policies would have to be accepted. The experience gained in running the EMS may prove helpful in this respect.

Moreover, a convergence towards non-inflationary growth and economic policy compatibility would make a major contribution to the more orderly expansion of international liquidity. Measures are also necessary to improve the working of private markets in liquidity creation and to bring about a suitable balance between private and public sources of funds.

As to the first point, it is closer cooperation among supervisory authorities above all else that can help stabilize the international banks' contribution to liquidity creation, as was noted at the Third International Conference of Banking Supervisors in Rome last September. As to the second point, the IMF's role in coordinating the flow of credit to debtor countries in the last few years may be a harbinger of broader liquidity-regulating functions. The regular creation of even limited amounts of SDRs would strengthen the Fund's role and enhance the stability of the system by making at least some portion of international reserves independent of the risk assessments of the banks and the monetary policies of the major countries.

Finally, it is worth re-emphasizing the distinction and the complementarity between the two central institutions of the Bretton Woods system. Specifically, better coordination between them could ensure that the gradual decline in recourse to Fund credit with the end of the most acute phase of the debt crisis is accompanied by a sufficient expansion in World Bank lending to facilitate structural adjustment.

The slowdown in inflation and the recovery in output in Italy: progress and difficulties

A year ago, in describing the state of the Italian economy, I said that there were no obstacles to a return to balanced, non-inflationary growth that could not be overcome by wide-ranging, determined action. At that time, the economy was responding positively to a convergence of economic behaviour and measures adopted over time in all areas of economic policy. Subsequent events, with a first phase of favourable results and expectations followed by a second phase marked by the emergence of new difficulties, have shown that this judgement was well founded. Indeed, I feel that it deserves to be reiterated today.

The strict stance of monetary and exchange rate policy was reinforced by a number of measures: first, an incomes policy, which consisted in setting guidelines for wage increases and encouraging compliance with them by means of the agreement of January 1983 and the measures of February 1984; secondly, measures to curb the expansion in the public sector borrowing requirement; and finally, a careful graduation in the increases in utility charges and administered prices.

This combination of measures brought a change in expectations; despite the appreciation of the dollar, it made it possible to achieve a marked slowdown in inflation at the same time as a recovery in output and investment. By the autumn, however, while the expansion in investment had strengthened, the budgetary and incomes measures were already encountering obstacles, with a consequent loss in continuity and effectiveness. Monetary policy continued to have a restrictive stance, which was reflected in high nominal and real interest rates. The relaxation of demand and cost constraints coincided with the pause in the slowdown in inflation and the worsening of the trade deficit.

On average, the figures for 1984 reflect the prevalence for most of the year of the positive aspects I mentioned. The target for inflation was essentially achieved, with consumer prices rising by 10.8 per cent, four points less than in 1983. The inflation differential between Italy and the rest of the EEC narrowed from eight points to five. After eleven years of double-digit inflation, the rate of increase in the cost of living fell to less than 9 per cent in the autumn. Real gross domestic product expanded by 2.6 per cent, ending the recession that had begun in 1980.

The rise of 8.0 per cent in labour productivity in industry, an exceptional figure even for the initial phase of a cyclical upturn, offset a large part of the increase of 13.7 per cent in per capita labour costs and held the increase in labour costs per unit of output down to 5.3 per cent. Since the prices of other inputs of goods and services rose by 11.7 per cent, the increase in total industrial costs per unit of output came to 8.8 per cent.

The economic policy measures, the unchanged monetary stance, the lower inflation rate and the lira's satisfactory performance in the EMS created a climate of greater certainty in which the restoration of profit margins, firms' improved self-financing capacity and the need to continue with restructuring the productive sector stimulated an expansion of 4.1 per cent in gross fixed investment. Expenditure on machinery and equipment rose by more than 10 per cent, making good a large part of the decline that had begun in 1981.

The rise in output and investment was accompanied by an increase of 60,000 in employment; though far from sufficient to absorb the growth in the labour force, this is indicative of the service sector's potential for creating jobs, which are declining in agriculture and manufacturing industry. As a result of the increase in the labour force, the number of unemployed rose by 128,000 to just under 2,400,000, of whom almost half are first-time job seekers.

To consolidate and continue this simultaneous improvement on both the output and inflation fronts while maintaining external balance, additional measures would have had to be taken in the course of the year to maintain the curb on costs and prevent a new surge in the public sector deficit.

By contrast, increasing difficulties were encountered in implementing incomes policy. Whereas in the private sector gross per capita wages rose in line with prices, in the public sector they increased by 2.3 per cent in real terms. Furthermore, the measures to broaden the tax base for income from self-employment and entrepreneurial income could not be introduced until the end of the year.

The measures aimed at increasing revenue and reducing expenditure succeeded only in limiting the underlying deterioration in public finances. Over the year as a whole, the Treasury borrowing requirement, which is the financial aggregate available on a monthly basis, came to 95,350 billion lire; as a ratio to GDP, it was one percentage point less than in the preceding year. However, there was a further increase, from 13.9 to 14.7 per cent of output, in the public sector's net borrowing, the difference between non-financial receipts and expenditure, which have a more direct impact on the demand for goods and services; the deterioration in the ratio is reduced, but not eliminated, if interest charges are excluded.

In the second half of the year, the stimulus generated by fixed investment was only partly offset by the containment of consumption and stock-building. The expansion in domestic demand gained momentum, with serious repercussions on the balance of payments.

The effect was most evident in imports of goods and services. Whereas in 1983 they had stagnated in volume terms, in 1984 they rose by 9.6 per cent, primarily owing to increased purchases of capital goods and intermediate products. The increase in the lira value of imports was accentuated by the appreciation of the dollar. Moreover, exports began to slow down at mid-year. Though rising by 7 per cent in volume during the twelve months, they failed to profit fully from the growth in world demand. Gains in the United States market offset part, but not all of the losses sustained in the Community countries. The situation was aggravated by the worsening of the trade deficits vis-à-vis some North African and Eastern European countries, owing largely to difficulties unconnected with price competitiveness.

Developments in 1984 once again highlighted the structural weakness of Italy's foreign trade, to which I shall return in due course. The less than satisfactory results from tourism contributed to the renewed deficit on current account after the modest surplus of 1983 had broken the string of substantial deficits recorded in the preceding three years. The 1984 deficit came to 5.2 trillion lire, with an appreciable deterioration in the second half of the year.

In this situation, monetary and credit control benefited at first from the dual commitment to incomes and fiscal policies. When the effectiveness of these weakened, the control became more difficult.

In the first few months of 1984, the slowdown in inflation and the improvement in expectations had made it possible to reinforce the decline in nominal interest rates by making two cuts in the discount rate, one in February and the other at the beginning of May.

In the late spring the credit aggregates began to accelerate. The banks expanded the supply of credit by borrowing abroad. The initial signs of a deterioration in the trade balance indicated an excessively fast growth in domestic demand that high interest rates were not sufficient to curb. At the end of July it was decreed that the banks' net foreign borrowing should not exceed the June level at constant exchange rates.

The acceleration in the credit aggregates was confirmed by the July data and spread to bank deposits. Corrective action was decided upon at the beginning of September. The discount rate was increased by one point to 16.50 per cent and bank liquidity was severely tightened. Interest rates on bank loans responded promptly. The increase in the yield on Treasury bills of up to 6 months and in the first coupon of Treasury credit certificates reinforced the demand for Treasury securities. At the same time, it became clear that the real economy was growing faster than had been forecast, particularly investment; accordingly, the Interministerial Committee for Economic Planning approved an upward revision of two percentage points in the annual target rate for the expansion in lending to the productive sector.

The measures had the effect of curbing the growth in credit to the economy. In the autumn the slowdown in inflation continued and the fall in nominal interest rates on government securities was resumed. These developments, together with the approval of the Finance Law and the introduction of fiscal measures by decree law, made it possible to reduce the discount rate to 15.50 per cent on 3 January.

Over the year as a whole, the trend of interest rates on government securities followed that of inflation, with a lag that disappeared in the first few months of 1985. The yield on Treasury bills has fallen by three points since the beginning of 1984 and that on Treasury credit certificates by nearly five, calculated on the basis of the first coupon. Over the same period nominal bank lending rates have declined by almost two points.

The year-on-year expansion in the monetary and credit aggregates did not diverge appreciably from the targets set in

September. Adjusted for changes in the compulsory reserve ratio and for random movements in the last few days of the year, the monetary base expanded by 11.4 per cent, two points less than in 1983. The money supply, net of certificates of deposit, grew at about the same rate. Credit to the private sector increased by 15 per cent and total domestic credit by 19 per cent. Under the pressure of the state sector borrowing requirement, holdings of financial assets rose by a further seven points in relation to GDP.

In the new year the growth in the state sector borrowing requirement accelerated further. The expectation that a referendum would be held on the reduction in wage indexation enacted in the first half of 1984 accentuated the uncertainty about the future course of industrial relations, costs and prices. The deterioration in the trade balance grew worse.

The lira depreciated within the EMS from mid-February onwards, whereas throughout 1984 improved confidence in the Italian economy and the nominal interest rate differentials had kept the lira strong to the point that substantial purchases of Deutschemarks were made. The movement was accentuated by the depreciation of the dollar in the principal foreign exchange markets. The situation stabilized in April. Since the realignment of March 1983, Italy's price competitiveness in terms of real exchange rates has declined by 2 percentage points with respect to the EMS countries and increased by 1 point in relation to the other main OECD countries.

In the first four months of 1985 lending to the private sector continued to grow at the slower rate recorded in the latter part of 1984 and in line with the target for 1985. However, the expansion in the state sector borrowing requirement caused the growth in total domestic credit and the non-state sector's financial assets to accelerate; the expansionary monetary pressures intensified as a result of the Treasury's demand for credit, so that in the first four months of the year the money supply, net of certificates of deposit, increased at an annual rate of 15 per cent.

In January and February, when uncertainty was not yet the dominant influence on expectations, the demand for government securities was concentrated on the primary market owing to the short-term effects of a change in fiscal regulations. The legislation had the desired effect of removing the incentive for firms to borrow in order to buy securities, but in the short term it also reduced the substantial sales of government securities that the banks usually make from their own portfolios in the first few months of the year. The January and February issues of Treasury credit certificates were heavily oversubscribed owing to widespread expectations that applications would be scaled down; this largely fictitious excess demand gave the fleeting impression that interest rates might decline further. In March the demand for securities fell sharply, whereas the borrowing requirement continued to expand; the overdraft on the Treasury current account was used to the full.

In April it became necessary to raise the yields on government securities to sustain demand and slow down the creation of monetary base via the Treasury. The rise in interest rates on securities was not accompanied by a similar movement in bank rates; the widening of the yield differential between government securities and bank deposit rates will help bring the monetary aggregates back on course.

In many ways, the data available so far on the state of the Italian economy paint a disturbing picture. The state sector borrowing requirement amounted to about 37 trillion lire in the first four months of this year, 9 trillion lire more than in the same period of last year, displaying a trend incompatible with the targets for 1985. In the first quarter the trade balance registered a deficit of more than 8 trillion lire, twice that of the first quarter of 1984, a trend that is broadly confirmed by data on the balance of payments on a cash basis up to April. Domestic demand is expanding faster than in other major countries. There has been no slowdown in consumer price inflation for six months, while the rate of increase in wholesale prices has accelerated since the beginning of the year.

Monetary policy is therefore seeking to limit the repercussions of these imbalances. However, a more vigorous incomes policy and prompt budgetary measures are needed to remove the factors causing the deterioration of the Italian economy and restore a climate of confidence.

The path to growth and employment

The close links in the Italian economy between cyclical difficulties and structural problems have been thrown sharply back into relief by the reappearance of storm clouds. It is therefore apposite that we should re-examine the long-term issues that were raised at last year's Meeting and ask what conditions will be necessary to avoid dissipating the progress that has been made and to permit a strengthening of the productive economy, the prerequisite of sustained and balanced growth.

Studies conducted by various institutions have confirmed the seriousness of the risk that demographic developments together with the composition of labour supply and demand will entail an increase in unemployment. The national rate, not counting workers on Wage Supplementation, is 10.4 per cent, rising to 14 per cent in the South. Three quarters of the unemployed are less than thirty years old. Projections up to the early nineties, when demographic pressures will have eased, indicate an increase in the labour supply of between 150,000 and 200,000 persons per year — largely in the Mezzogiorno.

The southern question thus re-emerges as the key to the economic and social progress of the whole Italian nation.

The obstacles to a return to stable growth and at the same time the potential for such a development are most directly evident in connection with the external accounts and investment.

The openness of the Italian economy, which has increased in recent years, offers opportunities for a more efficient use of resources and a greater satisfaction of needs. These opportunities will have to be grasped by giving a positive twist to the stimuli emanating from foreign trade. By contrast, the conditions obtaining today inside and outside Italy mean that our economic and financial relations with the rest of the world act in various ways as a severe constraint on growth.

Over the last five years foreign debt has expanded to finance current account deficits amounting to 29 trillion lire. At the end of 1984 the net external position, excluding the gold reserves, amounted to — $23.5 billion. In this situation small current account deficits financed with capital inflows can be accepted, provided they are temporary and matched by investment designed to increase the country's competitiveness and productive capacity.

The prospective expansion of the world economy in the medium term will not in itself be enough to loosen the current account constraint. Forecasts made by international organizations indicate that the average annual growth in the industrial countries' GDP through 1990 will not exceed 3 per cent and the expansion in world trade 5 per cent, while inflation is expected to run at around 4 per cent.

Italian industry's technology and the private sector's propensity to save do not rule out the possibility of our economy growing faster than others. Nonetheless, the factors generating inflation and the current values of the fundamental determinants of Italy's foreign trade force growth to be at a slower rate than is needed to reduce unemployment.

On the assumption that the volume of exports will grow over the next five years at the same rate as world trade, that the terms of trade will remain unchanged and that the income elasticity of imports will stay close to its medium-term value, the annual GDP growth rate compatible with current account balance is around 2.5 per cent. With productivity rising at a rate of approximately 2 per cent, the excess supply of labour could continue to increase and amount to nearly 3 million persons by 1990.

Notwithstanding the limits of such exercises, the above scenario confirms the need to act to modify the parameters of the Italian economy, starting with those relevant to our foreign trade.

The trade deficit includes a number of structural components, originating in the weakness of whole sectors. The burden of imports remains substantial for food and agricultural products, and above all for energy.

Even large and persistent deficits in specific sectors can be offset by other items of the trade balance. What counts, in the final analysis, is an economy's ability to produce efficiently and specialize in activities that make the best use of its comparative advantages and domestic resources. The surplus on manufactures has risen considerably, even in real terms, but this effort has not sufficed.

Over the last five years the real exchange rate of the lira, calculated on the wholesale prices of manufactures, has fluctuated moderately about a virtually flat trend. A greater nominal depreciation could have aggravated inflation and would have further delayed the modernization of the productive system and the search for cost savings while providing only a temporary improvement in firms' export prospects. Relaxing the rigour of exchange rate policy today would not only revive inflation but also threaten to halt the positive developments under way.

In several sectors, including engineering and textiles, Italian industry has succeeded in increasing its share of the world market as a result of innovations in production processes and improvements in product quality. For the most part, however, industry is still geared to exporting goods for which the growth in world demand is slow and whose technological content is relatively small.

The new products and production processes require a high proportion of imported intermediate goods. However, the really worrying development is the increasing import penetration of final goods, which are by no means limited to capital goods.

There are still limits to the ability of domestic supply to satisfy the demand for an increasingly varied range of products, even though manufacturing industry has been realizing the necessary modernization through automation and the introduction of new technologies ever since the 1978-80 investment cycle. More efficient and flexible capital goods have largely replaced the earlier equipment, which was made rapidly obsolete by the acceleration in technical progress. The new equipment has entailed a general decrease in both labour and capital per unit of output. It has also encouraged the development of a more diversified productive system, comprising a growing number of highly versatile firms.

The restructuring of the manufacturing sector has been accompanied by an improvement in firms' capital structures. Companies have been able to improve their profit margins and increase the flow of equity capital. The ratio of net worth to fixed assets has improved. The scale of indebtedness has decreased. Public aid has supported the regeneration of industrial firms, imposing a burden on the budget. It will now be possible for greater attention to be paid to the aims of development in assessing and deciding further aid.

Industrial restructuring needs to be focused to an even greater extent on sectors allowing exports with high demand elasticities and low price elasticities or that offer a potential for import substitution. In the phase we are currently traversing, the increase in the propensity to import is the price that has to be paid to acquire and develop the necessary technologies and to expand export markets. To abandon this process in mid-stream would entail giving up the benefit, in terms of a lasting ability to export, that was the justification for incurring the cost.

The need to invest in restructuring is not restricted to the sector exposed to international competition. The interaction between industry and services requires that the effort to curb costs and prices and to upgrade supply be extended primarily to the sectors that meet domestic demand and the needs of industry itself — i.e. government and most of the services sector. It is in a more efficient services sector, geared towards the provision of new services, that the opportunities for creating new jobs will mostly lie.

The creation of employment depends on investment coupled with more flexible labour relations. The whole economy's propensity to save will have to rise, in the first place through a reduction in the public sector's dissaving. Only in this way will it be possible to finance the volume of investment needed to complete the current phase of innovation in plant and production processes and simultaneously broaden the productive base.

The changes made since the second oil crisis are evidence of an economy that has found the drive to promote adjustment and growth. But if inflation and unemployment are to be overcome, the response of the productive system will have to be reinforced by returning public finances to an even keel, holding down wage increases, reorganizing labour market institutions, and renewing the commitment to the development of the South.

Curbing government current expenditure would increase the scope for intervention not only in infrastructures but also in the fields of research, innovation and vocational training — prerequisites of increased employment. Industrial policy will have to be focused more on creating conditions that will support firms' commitment to higher productivity and technical progress than on providing blanket protection for declining sectors. In particular, it can help to improve the proportions of imported and domestic technology. The implementation of Law no. 46 of 1982 on applied research and innovation has shown that there is no lack of projects. The ability to make this aid reach the South and small firms needs to be enhanced.

The various quantitative hypotheses put forward for the adjustment of public finances have so far given rise to few concrete measures. To set public finances on such a course will require considerable government action; the need for this is widely recognized; its inevitability stems from ten years of large deficits. In the last few days the Treasury Minister's targets for adjusting the government's finances and curbing the public debt were reset and clarified. As a first step it is important that a correction be made to the overshoot of the budget aggregates compared with the objectives for this year, so as not to have to advance the base line of the multi-year strategy.

The correction of the trend growth of expenditure must aim at eliminating the borrowing requirement net of debt interest. If it is to have lasting effects, the adjustment must involve the reform of the sectors that tend to push up the deficit most, such as social security, local government and health care. Some of these sectors already suffer from serious imbalances that are destined to become incompatible with the equilibrium of the whole economy, while others provide services that suffer from qualitative shortcomings of a scale and frequency suggesting inappropriate administrative and organizational arrangements.

As a further step in the adjustment process, it is necessary to strengthen the rules and institutional arrangements for ensuring economic compatibility in the procedures for deciding expenditure. A significant advance would be made by reformulating the rule laid down in Article 81 of the Constitution in the manner proposed by the Commission for Institutional Reforms — the principle of balance between current outlays and tax and other receipts; the obligation for every bill to be accompanied by the report of a technical body quantifying the related expenditure commitments; increased powers for the Court of Auditors; and special majority rules for the approval of expenditure laws returned to Parliament by the Head of State as breaching the above-mentioned provision of the Constitution.

During the adjustment phase public sector wages will have to respect the guidelines laid down by the Government for labour incomes in the whole economy. Coupled with a fairer distribution of the fiscal burden, this condition forms the cornerstone of a far-reaching policy for incomes designed to grapple with both inflation and unemployment. A society that is truly concerned about the problem of unemployment must be ready to subordinate every other economic interest to the creation of new jobs.

The experience gained in 1984 confirms that holding down rises in nominal incomes can reduce the pressure on prices and defend competitiveness, thereby protecting employment without prejudicing real earnings. The additional resources made available by gains in productivity must flow into investment to increase the availability of jobs, encouraged where necessary by appropriate fiscal or fiscal-related measures.

It is only recently that legislation has started to incorporate changes that will better enable labour relations to cope with the need for added flexibility created by technological advance. Innovations in this area could include part-time work, the coordination of labour mobility, and incentives for vocational training and retraining. These are the principles underlying the plan for employment drawn up by the Minister of Labour. If its objectives are to be achieved, the first problem that will have to be tackled is that of automatic wage adjustment mechanisms, in conjunction with that of pay differentials.

Setting the budget to rights is also indispensable for a renewed attack on both the old and the new economic imbalances in the Mezzogiorno.

In the last thirty years the southern economy has undergone an unprecedented process of transformation and development. The result can be summarized in terms of per capita income, which tripled in absolute terms and rose from 51 per cent of the figure for the rest of the country in 1960 to 62 per cent in 1973. Since then the gap has ceased to narrow.

Nor is it possible to envisage a revival of mass emigration as a solution to the socially disruptive problem of unemployment in the South.

The productivity gap with respect to the Centre and North of Italy discourages new ventures and the creation of jobs. The relief granted on social security contributions is designed to offset this handicap, but the remaining discrepancy gives rise to wage differentials and higher levels of unemployment.

The primary task of public intervention, however, is to eliminate the differences in productivity by generating external economies, improving infrastructures, and promoting new productive ventures and capacity in the Mezzogiorno.

The objective of loosening the external constraint, which acts as a brake on the whole economy, is at one with the need to continue the modernization of southern agriculture. The growth of technologically advanced sectors can also be encouraged by giving preferential treatment to investment in the South, both in industry and in services. The potential for tourism needs to be exploited to the full.

The development of southern Italy is entrusted in the first place to the organizing ability and commitment of society in the South. The administrative and entrepreneurial skills that have already emerged in some areas would benefit from decentralization of the instruments and powers associated with public intervention. By contrast, the powers of effective coordination that the law has entrusted to central bodies remain of vital importance for the stimulation and support of productive ventures in the weakest areas.

Money and finance

When dealing with instruments of monetary control and financial structures, the objectives of bringing down inflation and generating growth are pursued in tandem so as to exploit their complementarity. The main obstacles are the difficulties affecting public finances, which distort financial flows and make it imperative to keep real interest rates high.

The long series of measures to develop a money market in Italy made it possible to manage money and credit predominantly by indirect means and at the same time encouraged reliance on such methods.

More recently, the removal of the ceiling on bank lending has stimulated competition among the credit institutions; the rates of growth in lending by individual banks have begun to diverge, whereas in the past they were necessarily uniform, and the interest rates charged by different banks to similar categories of customer have become broadly the same. Between 1982, the last year in which the credit ceiling was fully operational, and 1984 the dispersion in the rates of lending growth more than doubled, while the range of variation between the minimum interest rates of the thirty largest banks diminished from 4 to 2 percentage points. The margin between lending and deposit rates narrowed. The recent change in the regulations governing tax-free securities purchased by firms gave the banks a further incentive to shift from portfolio investment to lending.

The tendency for loans to recover their predominant position in bank assets reinforces the link between banking institutions and productive activity and that between monetary base and credit.

By enhancing their ability to set the terms and conditions for deposits and loans in the light of market trends, the banks help make the transmission of monetary policy faster and more effective. Interest rate responses have improved in recent years, but they remain slow and too strongly conditioned by expectations of changes in official rates, and operators do not make full use of the information to be gleaned from liquidity trends and market movements.

In the new configuration of the credit market, the key elements of monetary control are sales and purchases of securities, the refinancing of banks, and compulsory reserves.

The provision of finance to the banks and securities repurchase agreements act as a link between the permanent supply of monetary base, which is managed in accordance with the annual targets, and the banks' demand for monetary base, part of which is inelastic in the short term owing to the lagged payment of compulsory reserves. By using the various means at its disposal for temporarily influencing reserves, the central bank causes banks to make choices and behave in ways that will put the monetary aggregates back on course. Depending on circumstances, it relies on market mechanisms or on regulating the quantity of money, allowing wider fluctuations than under a system of direct controls. In 1984, deferred payment securities transactions, securities repurchase agreements and fixed-term advances came to a gross total of more than 100 trillion lire.

New provisions that came into force at the beginning of this month introduced a commission on central bank overdraft facilities and made it possible to revoke them even for limited periods, thereby allowing credit lines to be adjusted to the actual needs of individual banks and making them controllable for the purposes of monetary policy.

The pressures that public finances exert on the growth in monetary base are impairing the compulsory reserve instrument's function as a stabilizer of money creation. In these conditions a high reserve ratio is an indispensable corrective. Like every constraint, compulsory reserves limit the banks' operational freedom and impose a cost. In the short term the unchanging rate of return on compulsory reserves increases the effectiveness of interest rate policy in regulating the money supply. Despite the increase in the reserve ratio, the cost of keeping reserves has tended to decrease in recent years with the fall in interest rates and the strengthening of the banks' capital bases. Furthermore, there has been a gradual narrowing of cost differentials between the various types of banking institution, which until 1975 were subject to regulations that differed widely, partly depending on the composition of their borrowed funds. The average reserve ratios of banks of national interest and savings banks now constitute the two extremes of the range, but the difference has narrowed to five percentage points.

A monetary and credit policy designed to restore stability requires that the government should raise the finance it needs primarily in the market. Substantial progress has been made towards meeting this condition: firstly, the reform of Treasury bill auctions in 1975, which introduced ample scope for interest rates to fluctuate and, most recently, the agreement in 1981 whereby the central bank's purchases of securities at issue are discretionary and dictated purely by the objectives of monetary base control.

In 1984 more than 90 per cent of investors' purchases of government securities were made in the primary market, compared with 45 per cent in 1982. This healthy development contrasts, however, with the scope for monetary financing of part of the government deficit utterly unconstrained by market mechanisms or monetary policy, thanks to the legal provision tying the limit on the Treasury's overdraft facility to approved budget expenditure. This provision has allowed the facility to expand by an annual average of 29 per cent over the past decade, bringing it to 50 trillion lire. Moreover, drawings on the facility have been consistently high for many years, in violation of the original purpose of ensuring cash flow flexibility.

Although the problems caused for the economy by the state of public finances spring mainly from the imbalance between the supply of and demand for real resources and must be resolved in that field, the last few years have confirmed the financial benefits that can accrue from management of the public debt. The market in government securities has gained operational viability and depth; in the last two years the average maturity of securities has been lengthened from 15 to 26 months and the responsiveness of yields on floating rate securities to movements in short-term rates has been dampened by changing over to twelve-month Treasury bills as the reference basis. However, during the same two years the public debt rose from 77 to 92 per cent of gross domestic product.

The tender system may be a technically superior way of setting the yield on a particular issue, at least as far as short-term paper offered to professional investors is concerned; however, it is efficient only if issuers avoid imposing constraints on the price and quantity of the issue, as may occur if the floor price is too close to current prices. In the case of Treasury bills, the narrowness of this differential tends to concentrate demand at the floor price, reduces the downward pressure of competition on yields and removes the assurance that the entire issue will be placed. For the same reason, the use of the tender method for Treasury credit certificates, which was introduced in response to the abnormal results produced by special circumstances at the time of the issues in January and February of this year, has not yet brought the hoped-for advantages.

Furthermore, if tenders are to operate properly, the banks and other specialized intermediaries must assess market trends correctly. The freedom of interest rates to move and the ability of market participants to reach equilibrium prices are conditional on one another and must grow simultaneously.

The changes that have occurred in the level and distribution of incomes and the need to reconcile the demands of a multitude of market participants call for capacious and diversified channels of banking intermediation and savings transformation.

For an enterprise, which derives its own profit from the assumption of risk, equity capital forms the very basis of its activity, determines and conditions its scope for growth and enables it to weather the adverse phases of the market. A body of shareholders interested in long-term profits rather than speculative gains is an indispensable backstop for the enterprise. In Italy's experience, reluctance to raise capital in the share market for fear of losing control of the firm has been at the root of crises in companies with good production and marketing but weak finances. It is in the interests of the credit institutions themselves to encourage adequate capitalization in their corporate customers, thereby at one and the same time strengthening the finances of the company, expanding the share market and improving their own assets.

The placement of a greater volume of new share issues depends on increasing the portion of households' portfolios given over to this type of security. There are limits to the expansion in direct sales: most individual savers lack the information and often the ability needed to evaluate offerings, they have insufficient capital to spread their risks and they are unlikely to have any long-term financial strategy. Some form of specialized intermediation is thus essential. In other countries, where individuals have been reducing their direct holdings of shares for some time, abundant equity capital nonetheless continues to flow to firms because institutional investors such as mutual funds and pension funds channel households' wealth into the stock market.

The success achieved by investment funds in their first few months of activity has demonstrated their ability to meet savers' needs. The resources collected by funds with a high equity content open up the prospect of overcoming the shortage of demand for shares. At the end of April their investments in shares amounted to 1 trillion lire.

Reform of the pension system could also generate a substantial flow of funds to the capital market. Pension schemes constitute financial intermediation aimed at transforming current savings into the assurance of future income for those who have reached the end of their working life. In state systems, which are based on the principles of solidarity and support for those on minimum pensions, the need for balance between the benefits promised and the resources invested to generate future income still applies, but the sphere in which that balance is achieved is wider, encompassing the entire economy's capacity for investment and growth. The difficulties with which the pension system is already grappling reflect the failure to comply with this compatibility requirement; they are bound to grow worse and constitute an inescapable problem for the public sector. The development of supplementary schemes that would encourage individuals to acquire pensions commensurate with the contributions they were willing to pay would help stabilize public finances and the economy as a whole by increasing the formation of productive capital.

The existence of a larger body of demand for shares makes it even more necessary to avoid a shortage of supply: more firms must be brought to the stock market. The stock exchange lists do not faithfully reflect the productive system of which they should be a cross-section. Fewer companies are now quoted on the Milan Stock Exchange than in the days of Giolitti, and yet there is no lack of enterprises that meet the listing requirements.

Two years ago we expressed the hope that the banking system, in particular, would establish financial bodies to engage in merchant banking, partly to permit new firms easier access to the share market. Several banks have already joined with other investors in ventures of this kind, thereby demonstrating that they appreciated the improvement this could make to the financial structure of companies and, indirectly, to their own business prospects. They are now waiting for the legal framework of the new institutions to be defined.

The diversification of the financial system, which has seen the creation of new types of market operators and financial instruments in recent years, has raised problems in determining the legal status of intermediaries and defining the necessary requirements for the orderly working of the system.

Developments in other countries have been varied. In some countries, non-traditional financial activity is exempt from specific regulation; in others it is subject to supervision only if it is conducted by particular categories of banks, while in yet others the compass of banking supervision has been widened to include all types of financial intermediation, or provision has been made for a plurality of forms and supervisory bodies.

As far as the conduct of monetary policy is concerned, it may be sufficient if the central bank is given the means to monitor the new forms of saving and credit in the same way as traditional instruments.

However, from the point of view of the stability of the financial system as a whole and the rectitude of financial operations, there is a need not only for an increasing standardization of contracts giving market participants legal certainty, but also for general rules to govern essential aspects of this type of activity. The requirements for intermediaries engaging in such operations, the transactions permitted or prohibited, the information to be disclosed to customers and to the market and the conditions for selling the instruments could be laid down for the specific categories of intermediary involved, along the lines of the law establishing investment funds.

It may also prove necessary to establish prudential supervision for certain types of intermediary, although this will not eliminate the higher degree of risk inevitably associated with saving in forms other than bank deposits. The intensity of supervision and the designation of the institutions responsible for exercising it would depend on the nature of the activity involved.

The credit institutions and the defence of efficiency and stability

Under the influence of the internationalization of financial activities, technological advance and increased competition from other intermediaries, the banking industry is undergoing a transformation that is being encouraged and shaped by regulatory changes affecting the three most significant phases in the life of a banking institution: entry to the market, operational activities and situations of crisis.

The methods employed by the supervisory authorities are themselves designed to increase the banks' independence in decision-making and their sense of responsibility. This does not signify that ultimate power rests with the market. Experience here and elsewhere has confirmed that market forces are not in themselves enough to ensure the efficiency and stability of the credit system; the defence of these characteristics transcends the interests and objectives of individual institutions and requires the involvement of the credit authorities.

The conditions for entry to the banking markets are tending to enhance competition.

Law no. 74 of 5 March 1985 reaffirmed the entrepreneurial nature of banking activities and that the way the Bank of Italy exercises control over entry to the market is through its powers of authorization. The Government has been empowered to apply the principle that entry to the banking sector depends mainly on meeting set objective requirements. When the necessary regulations have been issued, it will be possible to establish new banks in accordance with the criteria laid down in the First Community Directive on the harmonization of banking legislation. A transitional period will smooth the gradual changeover to the new authorization arrangements. The law recently approved, which permits the holders of capital in companies engaging in credit operations to be identified, is an important factor enhancing the transparency of bank ownership.

The regulations on the transfer of bank branches have been liberalized for movements within the same banking centre or market area or to towns not previously served. There is scope for further change in this direction.

The branch network plan that will be drawn up next year will be based on updated information and improved statistical techniques. The results of the market area surveys will be made available to the banks in advance so that they may make their submissions on the basis of more complete information.

The functions of the bank branch as a means of penetrating a local market, establishing personal contact with customers and offering a range of services are being transformed under the pressure of new technology; the changes that are occurring should alert the banks to the need for caution in planning to expand in ways that may create inflexible sources of cost.

The last ten years have seen an intensification in the osmosis of banking systems across national borders. Five subsidiaries of foreign banks are now operating in Italy, with a total network of more than 100 offices. In addition, the number of branches of foreign banks has tripled; today there are 34, with 54 offices. When the abolition of the ceiling on bank lending made interbank operations less attractive, some of the more dynamic foreign banks responded by successfully extending their activities from wholesale banking to the provision of more direct services to customers.

Similarly, the presence of the major Italian banks in foreign markets has also increased; 13 banks are operating 73 foreign branches and own 24 subsidiaries. At the same time, the rearrangement of foreign shareholdings has been completed; without impairing the operational ability of this important and sensitive sector, the links between the various institutions have been rationalized and the institutions themselves brought under the direct control of the parent banks, and hence under the purview of the supervisory authorities. The effectiveness of control will be significantly increased by the bill now before Parliament requiring the consolidation of accounts.

Competition works slowly and unseen on the operations of credit institutions; the potential of the competitive stimuli injected in recent years is greater than their effects to date would seem to indicate.

The banking system is now being compared more harshly with the rest of the economy, particularly as regards the persons selected to serve as directors. However, the personal and professional ability of the banker is thwarted if he is not permitted to exercise his full powers and responsibilities over a clearly defined period. When the terms of office of the boards of the public sector banks are extended for reasons other than the intended purpose of filling temporary vacancies, the sense of security and motivation of directors are undermined, doubt is cast upon the certainty of programmes and policies and the operational ability of the bank is jeopardized.

The success of a banking enterprise is epitomized in the two critical variables of capital adequacy and earning capacity. However, high profitability deriving from particular market positions or a substantial capital base on which the net profits do not provide an adequate return may obscure an unsatisfactory state of affairs.

A comparison between the resources used by the banks and the range of products and services they offer shows that there is room to raise efficiency and to meet the needs of an advanced economy and increasingly sophisticated customers. The credit institutions must take steps to improve both the human and technical resources employed and the quality and variety of their products; the provision of greater information to the public is an aspect of service quality and represents an effective instrument of competition available to the banks.

In many countries, new technology is not only permitting improvements in productivity but is also rapidly changing the payments system, the efficiency and security of which are essential to the soundness of the currency. The banks play a fundamental role in the payments system, one that they cannot renounce. Italy has ground to make up, despite a number of significant achievements. A study prepared recently at the Bank for International Settlements shows that both the new and more sophisticated payment methods and the traditional bank payment instruments are less widely used in Italy than in other countries, partly on account of the habits of the public.

The application of new technology to banking activities raises problems of legal definition, of operational efficiency and security, and of the balance between competition and cooperation. With regard to the last aspect, the desire to prevent the development of monopolies or discrimination against particular sectors of the banking system cannot be carried to the point where the more dynamic banks are prevented from reaping the benefits of their ability to innovate and constrained to adopt the pace of their more reluctant or less efficient fellows.

At a time when innovation and competition are inducing the banks to exploit economies of scale more actively, they should review their corporate strategies in the light of a careful assessment of the prospects in their markets and ascertain in advance where possible difficulties may lie.

Voluntary mergers and cooperation agreements among banks, particularly in the categories where small institutions abound and where closed markets sometimes operate, may simultaneously increase both the stability and the efficiency of the system. The formation of large banking groups in recent years, in some cases as a result of the need to resolve specific problems, has not weakened competition. However, the streamlining of the system cannot be confined to times of emergency.

The simplification of administrative procedures and authorizations for individual operations has not made the central bank any less attentive in monitoring the overall operations of the banks and intervening to expedite the correction of anomalies and malfunctions. Steps in this direction include the new "Supervisory Instructions", which will be published shortly, and the revision of the statistical returns, which will reduce the quantity of data required but improve their informative value.

In response to the request made to the banking system, a group of banks is now beginning to publish uniform data at regular intervals which will significantly enhance the information available on their activities. The public will be able to obtain specific indicators of the soundness, liquidity and profitability of individual institutions.

Reliable data, which depend on adequate internal auditing and accounting arrangements, are essential to the proper working of the market, correct decisions by banks' boards and effective intervention by the supervisory authorities.

In the web of relations between the banking system and the public sector, those relating to taxation have been assuming growing importance.

The tax regime applying to the banks has become more onerous, partly because of the measure relating to the treatment of firms' holdings of tax-free securities; the need for clearer regulations and closer consideration of certain peculiarities of banking activities is therefore becoming all the more urgent. In view of their vagueness, the provisions on the balance-sheet entries for foreign currency assets and liabilities and interest on accounts with foreign banks are open to interpretations that could paralyze the banks' foreign currency operations. By the same token, the possibilities afforded by the present legislation regarding allocations to provisions for bad and doubtful debts cannot be fully exploited. Having to await the formal conclusion of long and complex administrative procedures and bankruptcy proceedings before being able to write off losses that are already certain imposes unwarranted costs on the banks.

The prudential rules and constraints with which the banks must comply, careful preventive supervision and the efforts made to strengthen banks' capital bases are designed to ensure the soundness of the banks and the stability of the banking system and, by extension, to protect savings. This notwithstanding, the closure of institutions that are no longer viable remains an inescapable feature of the banking sector, as of any other industry. In such cases, it is the paramount responsibility of the credit authorities to prevent the crisis of one institution from spreading to the entire system.

Already in the past we have described the inadequacy of the refinancing instruments available to the central bank. In particular, there would appear to be a need to re-examine the guarantees against which the Bank of Italy may grant advances and to broaden the scope for intervention, particularly with regard to banks under special administration.

Experience in Italy and elsewhere led us last year to urge the establishment of new forms of depositor protection to supplement those already in existence. On the basis of the indications we gave, the Italian Bankers' Association has drafted a plan to set up a deposit guarantee fund financed by member banks to intervene in the event of a bank being placed under special administration or in compulsory liquidation. This innovation demonstrates that the banking system can satisfy a widely recognized need of its own accord.

The establishment of the fund does not affect the responsibilities of the supervisory authorities in any respect. The actions that the fund can take will depend on decisions by the credit authorities to ascertain and eliminate the factors at the root of the crisis and, in the event of a collapse, to lay down the terms for disposal of the bank's assets.

In addition, the credit authorities must continue to have a discretionary instrument to protect interests involving the functioning of the banking system itself that cannot be safeguarded by the fund. The need for such an instrument has been confirmed by recent experience in countries that have extensive deposit protection schemes.

Ladies and Gentlemen,

To have brought down the rate of inflation by four percentage points and increased output and investment is an important achievement, not only in quantitative terms but also because it indicates the direction in which we have to move. At the same time, the difficulties and uncertainties of the present economic situation show how the progress achieved so far can be jeopardized by interruptions in the therapy.

Over the years, the country has come to realize that inflation is not an inevitable accompaniment to economic development, that the rehabilitation of the economy need not entail enduring severe crises erroneously supposed to be cathartic, that stability and growth are not mutually incompatible and that they can be achieved once again if policies and behaviour are both directed towards that end. When that has been the case in the past, economic variables and expectations have been swift to react positively.

Squeezed between the appreciation of the dollar, the expansion in the public sector borrowing requirement and the rise in nominal incomes, the central bank took action to defend the currency while paying heed to the state of the economy and the need to strengthen the financial system, which must gear itself increasingly towards sustaining investment and growth.

The criticism sometimes made that central bank policy is excessively severe or permissive is refuted by the fact that the slowdown in inflation has been accompanied by a revitalization of the business sector, not a weakening. Today, funds are no longer being raised to cover losses, as was often the case a few years ago, but to finance investment and production.

The budget imbalance remains serious. It is here that the central bank's room for manoeuvre is restricted and where it is becoming difficult to reconcile monetary control with financing of the deficit. The risks associated with the accumulation of public debt disappear if the budget is balanced; it is budget measures that must be taken to break the vicious circle of debt and interest payments.

The economic outlook has been darkening in recent months. Growing difficulties are looming in the field of public finances, and incomes policy has lost momentum. We have come to a halt in mid-stream and are in danger of drifting backwards. It is crucially important that economic policy be brought back on course.

The most worrying signs are those emerging in the behaviour of prices and the deterioration in the balance of payments. It would be shortsighted of us not to realize the fundamental link between inflation and the ability to hold on to our markets abroad; we would be deluding ourselves if we believed that devaluation of the currency could be a valid substitute for cost and price discipline. The link between the external constraint and economic growth is no less crucial; the imbalance that develops in Italy's foreign trade as a result of even a modest expansion in domestic demand constitutes a serious threat for the future.

Easing the constraints on the country's growth potential requires a considerable commitment; a highly civilized nation should, above all, have the courage to submit to self-imposed rules and limitations in giving effect to the right to work that is enshrined in the Constitution.

The path ahead is still arduous, but there is an increased awareness that the fundamental problems cannot be evaded; the objectives have been defined and are widely accepted.

It is our duty to persevere in the action we have begun in managing the currency and the exchange rate; support from other policies will enable Italy to make further decisive progress towards growth and stability.

THE BANK'S CAPITAL AND RESERVES

Capital. — Having remained unchanged during 1984, 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 1984 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 1983	Lit.	295,203,879,788	Lit.	315,367,135,267
increase: due to appropriation of 20 per cent of profits for the year 1983	"	42,294,060,040	"	42,294,060,040
due to income received in 1984 from investment of reserves	"	38,285,274,394	"	46,252,044,318
decrease: due to distribution to shareholders of a part of the income accruing in the course of 1983 (Article 56 of the Statutes)	"	228,621,290		242,378,710
Amount at 31 December 1984	Lit.	375,554,592,932	Lit.	403,670,860,915

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET AS

ASSETS

GOLD				
I on hand . . . Lit.			2,790,380,621,453	
II on deposit abroad . . . "			27,592,047,222,143	30,382,427,843,596
GOLD CREDITS (EMCF) . . . Lit.				10,471,680,127,339
CASH ON HAND . . . "				2,523,314,948,811
DISCOUNTS AND ADVANCES				
I portfolio discounts:				
— ordinary bills . . . Lit.		319,549,003,711		
— stockpiling bills . . . "		1,830,798,985,799	2,150,347,989,510	
II advances:				
— current account . . . Lit.		985,145,541,540		
— fixed term . . . "		49,997,000,000		
— under Treasury Decree of 27.9.1974 . . . "		—	1,035,142,541,540	
III deferred payments in the clearing system . . . Lit.			—	3,185,490,531,050
BILLS FOR COLLECTION WITH CORRESPONDENTS . . . Lit.				—
EXTERNAL ASSETS IN FOREIGN CURRENCIES				
I ECUs . . . Lit.			13,264,744,228,244	
II other assets:				
— banknotes and foreign currency bills . . . Lit.		615,578,309		
— current accounts with correspondents . . . "		1,109,151,403,060		
— time deposits . . . "		715,606,157,253		
— other . . . "		88,031,229,550	1,913,404,368,172	15,178,148,596,416
DOLLAR CREDITS (EMCF) . . . Lit.				2,793,064,135,796
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)				
I current account . . . Lit.			25,584,653,146,167	
II special accounts . . . "			3,437,424,331,127	29,022,077,477,294
EXTRAORDINARY ADVANCE TO THE TREASURY . . . Lit.				—
TREASURY CURRENT ACCOUNT . . . "				41,842,389,286,627
SUNDRY CLAIMS ON THE GOVERNMENT . . . "				775,157,543,839
SECURITIES				
I government and government-guaranteed securities:				
— freely available . . . Lit.		37,205,157,763,907		
— investment of statutory reserves . . . "		572,444,290,397		
— investment of staff severance pay and pension funds . . . "		1,152,062,856,709	38,929,664,911,013	
II securities of companies and agencies:				
— investment of statutory reserves . . . Lit.		29,642,280,462		
— investment of staff severance pay and pension funds . . . "		648,132,090,242	677,774,370,704	
III shareholdings and participations:				
— in subsidiary companies and agencies				
investment of statutory reserves . . . Lit.	1,961,959,042			
investment of staff severance pay and pension funds . . . "	96,421,492,370	98,383,451,412		
— in associated companies and agencies				
investment of statutory reserves . . . Lit.	4,925,912,166			
investment of staff severance pay and pension funds . . . "	6,835,073,697	11,760,985,863		
— in other companies and agencies				
investment of statutory reserves . . . Lit.	73,802,722,046			
investment of staff severance pay and pension funds . . . "	122,538,952,970	196,341,675,016	306,486,112,291	39,913,925,394,008
carried forward Lit.				176,087,675,884,776

LIABILITIES

NOTES IN CIRCULATION	Lit.		43,198,433,619,000
BANCA D'ITALIA DRAFTS	"		554,575,646,119
OTHER SIGHT LIABILITIES			
I transfer orders	Lit.	10,000,000,000	
II other	"	2,886,225,949	12,886,225,949
FREE DEPOSITS ON CURRENT ACCOUNT	Lit.		420,055,958,789
TIED DEPOSITS ON CURRENT ACCOUNT	"		—
DEPOSITS FOR CASH DEPARTMENT SERVICES	"		85,634,772,218
SPECIAL ACCOUNTS UNDER LAW No. 386 OF 17.8.1974	"		—
COMPULSORY DEPOSITS			
I compulsory bank reserves	Lit.	63,479,343,146,191	
II collateral for the issue of bankers' drafts and guaranteed personal cheques	"	63,745,524	
III tied deposits in relation to investment abroad	"	35,918,046,033	
IV in respect of companies in the process of incorporation	"	81,427,224,520	
V in respect of bank lending in excess of the ceiling	"	—	
VI other	"	83,709,606,498	63,680,461,786,766
DEPOSITS IN FOREIGN CURRENCY ON BEHALF OF THE UIC	Lit.		17,444,999,995
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC	"		3,419,979,331,132
EXTERNAL LIABILITIES			
I deposits in foreign currency	Lit.	1,212,394,061	
II external accounts in lire	"	239,795,738,485	241,008,132,546
ECU LIABILITIES (EMCF)	Lit.		13,264,744,263,135
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT	"		924,623,194,880
SUNDRY PROVISIONS			
I for gold price fluctuations (under Decree Law no. 867 of 30.12.1976)	Lit.	37,092,114,858,267	
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	"	1,500,000,000,000	
V for losses on securities	"	2,726,577,160,914	
VI for contingent losses	"	2,403,185,000,000	
VII for insurance cover	"	592,691,685,925	
VIII for building works	"	1,352,616,938,307	
IX for renewal of equipment	"	296,250,000,000	
X for taxation	"	1,530,994,494,241	
XI for staff severance pay and pensions	"	2,471,620,000,000	
XII for grants to BI pensioners and their surviving dependants	"	447,115,681	
XIII for severance pay to contract staff under Law no. 297 of 29.5.82	"	94,337,847	51,402,306,045,661
		carried forward Lit.	177,222,153,958,190

BALANCE SHEET AS

ASSETS

	brought forward Lit.			176,087,675,884,776
UIC ENDOWMENT FUND Lit.				500,000,000,000
REAL PROPERTY				
I Bank premises		Lit.	1,427,892,490,933	
II investment of staff severance pay and pension funds		"	183,447,675,481	1,656,340,166,414
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS Lit.				21,801,935,502
FURNITURE AND EQUIPMENT				
I furniture and fittings		Lit.	46,993,307,301	
II equipment		"	118,496,623,776	
III coins and collections		"	307,195,088	165,797,126,165
SUNDRY ITEMS				
I banknotes in production		Lit.	10,543,668,125	
II procedures, studies and designs of the technical departments:				
– completed Lit.	43,921,927,836			
– in preparation "	5,245,875,767		49,167,803,603	
III sundry debtors		Lit.	270,108,884,480	
IV other		"	658,104,144,498	987,924,500,706
ACCRUED INCOME Lit.				1,614,238,900,527
PREPAID EXPENSES "				—
			Lit.	181,033,778,514,090
MEMORANDUM ACCOUNTS				
I Securities and other valuables:				
– held as collateral Lit.	3,887,152,953,248			
– other "	430,613,880,333,653		434,501,033,286,901	
II Depositaries of securities and valuables:				
– domestic Lit.	7,275,000,000			
– foreign "	934,323,045,227		941,598,045,227	
III Unused overdraft facilities		Lit.	1,661,267,064,081	
IV Debtors for securities receivable (BI forward sales)		"	—	
V Securities receivable (BI forward purchases)		"	1,655,000,000,000	
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		"	200,107,539,149	442,448,005,935,358
			TOTAL . . . Lit.	**623,481,784,449,448**

Audited and found correct. — Rome, 24 April 1985

THE AUDITORS

DOMENICO AMODEO
ALBERTO CAMPOLONGO
VITTORIO CODA
GIUSEPPE GUARINO
LUIGI GUATRI

THE ACCOUNTANT GENERAL

PIETRO SALONICO

LIABILITIES

	brought forward Lit.			177,222,153,958,190
PROPERTY DEPRECIATION FUND	Lit.			300,032,142,080
DEPRECIATION FUND FOR FURNITURE AND FITTINGS	"			46,767,680,202
DEPRECIATION FUND FOR EQUIPMENT	"			100,200,692,152
FUND FOR THE DEPRECIATION OF THE PROCEDURES, STUDIES AND DESIGNS OF THE TECHNICAL DEPARTMENTS	"			20,931,441,367
SUNDRY ITEMS				
I sundry creditors	Lit.		149,564,552,400	
II other	"		219,527,046,705	369,091,599,105
ACCRUED EXPENSES	Lit.			108,390,556,890
DEFERRED INCOME	"			387,405,356,480
CAPITAL	Lit.		300,000,000	
ORDINARY RESERVE FUND	"		375,554,592,932	
EXTRAORDINARY RESERVE FUND	"		403,670,860,915	779,525,453,847
REVALUATION SURPLUS RESERVE UNDER LAW No. 72 OF 19.3.1983	Lit.			1,304,000,000,000
NET PROFIT FOR DISTRIBUTION	"			395,279,633,777
	Lit.			181,033,778,514,090
MEMORANDUM ACCOUNTS				
I Depositors of securities and other valuables	Lit.		434,501,033,286,901	
II Securities and valuables on deposit	"		941,598,045,227	
III Holders of unused overdraft facilities	"		1,661,267,064,081	
IV Securities for delivery (BI forward sales)	"		—	
V Creditors for securities for delivery (BI forward purchases)	"		1,655,000,000,000	
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.		200,107,539,149	442,448,005,935,358
	TOTAL . . . Lit.			**623,481,784,449,448**

THE GOVERNOR

CARLO AZEGLIO CIAMPI

PROFIT AND LOSS ACCO

EXPENDITURE AND LOSSES

COSTS OF ADMINISTRATION				
central and local boards	Lit.		1,305,794,723	
staff:				
wages and salaries and related costs	Lit.	484,088,973,954		
pensions and severance payments	"	218,061,217,082	702,150,191,036	
provision of services	Lit.		71,985,894,133	
other	"		117,829,863,065	893,271,742,957
TAXES AND DUTIES				
stamp duty on the circulation of banknotes and demand drafts	Lit.		—	
other taxes and duties:				
current year	Lit.	20,327,902,885		
previous years	"	419,265,816,000	439,593,718,885	439,593,718,885
INTEREST PAID				
on compulsory bank reserves	Lit.		3,445,680,916,551	
other	"		5,587,014,781	3,451,267,931,332
EXPENDITURE ON SECURITIES TRANSACTIONS	Lit.			5,126,929,787
EXPENDITURE ON FOREIGN TRANSACTIONS	"			31,312,579
LOSSES ON SECURITIES DEALINGS	"			—
EXCHANGE RATE LOSSES	"			—
LOSSES ON REALIZATION OF ASSETS	"			—
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES	"			1,101,269,731
TECHNICAL DEPARTMENTS — INITIAL STOCKS	"			14,770,746,329
VALUATION LOSSES				
on securities	Lit.		1,194,179,907	
on other assets	"		—	1,194,179,907
CONTRIBUTIONS TO THE TREASURY	Lit.			250,000,000,000
DEPRECIATION				
of Bank premises	Lit.		49,777,115,553	
of furniture and fittings	"		12,250,791,553	
of equipment	"		20,617,737,601	
of the procedures, studies and designs of the technical departments	"		9,596,092,550	
other	"		886,133	92,242,623,390
APPROPRIATION OF INVESTMENT INCOME TO RESERVES				
to ordinary reserve fund	Lit.		38,285,274,394	
to extraordinary reserve fund	"		46,252,044,318	84,537,318,712
			carried forward Lit.	5,233,137,773,609

INCOME AND PROFITS

INTEREST RECEIVED				
on discounts and advances:				
ordinary portfolio discounts . . . . . Lit.		28,325,807,082		
stockpiling portfolio discounts . . . . . "		18,205,302,712		
advances . . . . . "		293,505,562,860	340,036,672,654	
on lending to the Treasury . . . . . Lit.			347,441,289,852	
on lending to the UIC . . . . . "			1,431,074,854,322	
on lending abroad . . . . . "			417,698,566,168	
other . . . . . "			23,711,575,137	2,559,962,958,133
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES				
freely available				
fixed rate:				
Treasury bills . . . . . Lit.		544,257,962,433		
variable rate Treasury credit certificates . . . . . "		1,700,502,199,359		
other government and government-guaranteed securities . . . . . "		1,795,838,182,682	4,040,598,344,474	
investment of reserves and staff severance pay and pension funds				
fixed rate:				
government and government-guaranteed securities . . . . . Lit.	198,921,385,845			
other securities . . . . . "	66,273,590,443	265,194,976,288		
from participations (not represented by securities) in:				
subsidiary companies and bodies . . . . . Lit.	3,930,759,115			
associated companies and bodies . . . . . "	1,020,516,300			
other companies and bodies . . . . . "	16,704,768,521	21,656,043,936	286,851,020,224	4,327,449,364,698
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND . . . . . Lit.				25,000,000,000
PROFITS FROM DEALINGS IN AND REDEMPTION OF SECURITIES . . . . . "				429,854,245,084
EXCHANGE RATE GAINS . . . . . "				647,848,152,391
COMMISSIONS AND OTHER FINANCIAL REVENUE . . . . . "				206,083,124,250
INCOME FROM REAL PROPERTY . . . . . "				8,506,885,606
PROFITS FROM THE SALE OF:				
real property . . . . . Lit.			1,000,000	
other property . . . . . "			1,132,638,857	1,133,638,857
TECHNICAL DEPARTMENTS - FINAL STOCKS . . . . . Lit.				16,603,240,336
TECHNICAL DEPARTMENTS - PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR . . . . . "				10,126,196,480
VALUATION GAINS				
on securities . . . . . Lit.			—	
on other assets . . . . . "			—	—
carried forward Lit.				8,232,567,805,835

PROFIT AND LOSS ACCO

EXPENDITURE AND LOSSES

	brought forward Lit.		5,233,137,773,609
ALLOCATIONS TO PROVISIONS			
for losses on bill portfolio	Lit.	—	
for losses on foreign exchange	"	290,000,000,000	
for losses on securities	"	600,000,000,000	
for contingent losses	"	150,000,000,000	
for insurance cover	"	196,000,000,000	
for building works	"	480,000,000,000	
for renewal of equipment	"	150,000,000,000	
for taxation	"	980,000,000,000	
for staff severance pay and pensions	"	228,700,000,000	
for grants to BI pensioners and their surviving dependants	"	116,129,632	
for severance pay of contract staff under Law no. 297 of 29.5.82	"	22,654,632	3,074,838,784,264
NON-OPERATING LOSSES AND EXTRAORDINARY CHARGES	Lit.		1,875,954
	Lit.		8,307,978,433,827
NET PROFITS	"		395,279,633,777
	TOTAL... Lit.		**8,703,258,067,604**

APPROPRIATION

TO ORDINARY RESERVE FUND ....

TO EXTRAORDINARY RESERVE FUND ....

TO SHAREHOLDERS ....

TO THE TREASURY ....

Audited and found correct. - Rome, 24 April 1985

THE AUDITORS

DOMENICO AMODEO

ALBERTO CAMPOLONGO

VITTORIO CODA

GIUSEPPE GUARINO

LUIGI GUATRI

THE ACCOUNTANT GENERAL

PIETRO SALONICO

INCOME AND PROFITS

brought forward	Lit.		8,232,567,805,835
WITHDRAWALS FROM PROVISIONS			
for losses on bill portfolio	Lit.	—	
for losses on foreign exchange	"	—	
for losses on securities	"	1,194,179,907	
for contingent losses	"	—	
for insurance cover	"	—	
for building works	"	49,777,115,553	
for renewal of equipment	"	—	
for taxation	"	419,265,816,000	
for staff severance pay and pensions	"	—	
for grants to BI pensioners and their surviving dependants	"	89,854,000	
for severance pay of contract staff under Law no. 297 of 29.5.82	"	264,632,218	470,591,597,678
NON-OPERATING PROFITS AND EXTRAORDINARY EARNINGS	Lit.		98,664,091
TOTAL...	Lit.		**8,703,258,067,604**

OF PROFITS

	Lit.	79,055,926,755
	"	79,055,926,755
	"	30,000,000
	"	237,137,780,267
TOTAL...	Lit.	**395,279,633,777**

THE GOVERNOR

CARLO AZEGLIO CIAMPI

ADMINISTRATION OF THE BANK OF ITALY

AS AT 31 DECEMBER 1984

DIRECTORATE

Carlo Azeglio CIAMPI	— GOVERNOR AND CHAIRMAN OF THE BOARD OF DIRECTORS
Lamberto DINI	— DIRECTOR GENERAL
Antonio FAZIO	— DEPUTY DIRECTOR GENERAL
Tommaso PADOA-SCHIOPPA	— DEPUTY DIRECTOR GENERAL AND SECRETARY TO THE BOARD OF DIRECTORS

BOARD OF 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

ALTERNATES

Natalino IRTI
Arnaldo MAURI

CENTRAL MANAGERS

MANAGERS

Pietro SALONICO	— ACCOUNTANT 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
Antonio FINOCCHIARO	— SECRETARY GENERAL
Rainer Stefano MASERA	— CENTRAL MANAGER FOR ECONOMIC RESEARCH
Pierluigi CIOCCA	— CENTRAL MANAGER FOR CENTRAL BANK OPERATIONS

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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							
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	329,954	81,149	4,532	86,085	12,207	98,292	*513,927*	105,113	7,235	112,348
1982 . . .	299,470	89,806	389,276	89,560	4,866	99,286	14,524	113,810	*597,512*	117,939	9,089	127,028
1983 . . .	343,981	106,651	450,632	96,766	−1,511	110,649	16,119	126,768	*672,655*	123,849	9,808	133,657
1984 . . .	388,869	122,239	511,108	109,714	4,268	129,291	19,934	149,225	*774,315*	150,150	12,053	162,203

Source: Istat.

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

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 institutions	Total		
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	299,470	−8,468	290,984	87,329	2,477	89,806	*380,790*	94,426
1983	343,981	−10,582	333,399	103,824	2,827	106,651	*440,050*	95,255
1984	388,869	−11,088	377,781	119,025	3,214	122,239	*500,020*	113,982

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 national disposable income	Net national disposable income
Gross operating surplus (4)	Compensation of employees			Net indirect taxes			GDP	Net compensation of employees	Net property & entre-preneurial income and other items	Net indirect taxes to the EEC		
	To resident workers	To non-resident workers	Total	To general government	To the EEC	Total						
	Sources											
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
172,175	263,895	456	264,351	33,411	547	33,958	*470,484*	2,079	–4,974	–547	*467,542*	418,633
186,819	305,092	497	305,589	46,765	–175	46,590	*538,998*	2,296	–5,183	175	*536,286*	480,350
217,998	340,308	561	340,869	53,428	–183	53,245	*612,112*	2,208	–6,345	183	*608,158*	*545,668*

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				
–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	8,468	2,079	–5,885	–547	1,411	–7,674	*86,752*	*467,542*	–7,412	262
–6,889	10,582	2,296	–6,539	175	1,356	981	*96,236*	*536,286*	1,158	177
–12,978	11,088	2,208	–7,672	183	1,327	–5,844	*108,138*	*608,158*	–5,520	324

Table a 3

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

Sector	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
	Labour costs by unit of output *(Current lire per thousand lire of value added at 1970 prices)*									
Market goods and services	*1,355.7*	*1,562.6*	*1,859.0*	*2,092.8*	*2,345.2*	*2,753.0*	*3,292.8*	*3,888.6*	*4,530.2*	*4,946.2*
Agriculture, forestry and fisheries	**1,462.5**	**1,861.8**	**2,353.6**	**2,669.3**	**2,926.8**	**3,386.4**	**3,974.1**	**4,600.0**	**4,972.6**	**5,612.5**
Industry	**1,336.2**	**1,494.9**	**1,782.3**	**1,999.2**	**2,213.8**	**2,542.5**	**3,039.3**	**3,600.0**	**4,148.4**	**4,368.2**
Excluding construction	1,320.8	1,458.9	1,721.0	1,910.5	2,104.1	2,405.8	2,875.0	3,396.7	3,904.6	4,103.1
Energy products	457.0	493.7	584.5	642.5	750.0	917.9	1,129.3	1,306.3	1,619.1	1,812.0
Manufactures	1,475.8	1,628.9	1,914.8	2,134.5	2,334.8	2,633.8	3,142.8	3,723.4	4,255.4	4,441.9
Construction	1,401.9	1,677.3	2,106.5	2,484.0	2,834.0	3,325.3	3,960.8	4,737.2	5,494.3	5,893.6
Services	**1,270.7**	**1,476.9**	**1,744.8**	**1,974.2**	**2,259.6**	**2,760.3**	**3,324.0**	**3,943.2**	**4,696.2**	**5,247.0**
Distributive trades, lodging & catering	1,330.7	1,536.7	1,889.8	2,159.4	2,445.0	2,958.5	3,652.8	4,422.2	5,280.1	5,904.3
Transport & communications	1,613.7	1,860.2	2,156.4	2,403.2	2,822.7	3,410.9	4,066.9	4,827.6	5,492.5	5,889.0
Finance and insurance	1,456.7	1,687.0	1,829.1	2,033.8	2,218.2	2,763.8	3,137.2	3,501.2	4,430.1	4,831.9
Miscellaneous services	1,129.0	1,327.4	1,620.8	1,845.9	2,123.5	2,578.1	3,197.1	3,848.9	4,487.6	5,241.6
Non-market services	**1,771.9**	**2,080.9**	**2,575.1**	**3,110.9**	**3,817.4**	**4,785.5**	**6,209.3**	**7,241.3**	**8,454.7**	**9,514.2**
General government	1,785.7	2,090.2	2,589.6	3,137.3	3,862.5	4,861.8	6,340.1	7,397.8	8,655.4	9,748.6
TOTAL . . .	**1,396.4**	**1,610.6**	**1,929.5**	**2,198.1**	**2,498.8**	**2,967.0**	**3,621.3**	**4,266.4**	**4,978.5**	**5,464.4**
	Value added at market prices per worker *(thousands of lire at 1970 prices)*									
Market goods and services	*3,778.6*	*3,983.5*	*4,053.6*	*4,150.7*	*4,335.5*	*4,490.2*	*4,494.0*	*4,481.7*	*4,472.6*	*4,582.9*
Agriculture, forestry and fisheries	**1,762.1**	**1,705.0**	**1,736.6**	**1,816.7**	**1,978.9**	**2,117.4**	**2,200.0**	**2,272.5**	**2,474.8**	**2,450.2**
Industry	**3,836.3**	**4,227.9**	**4,291.1**	**4,395.5**	**4,634.9**	**4,814.8**	**4,819.3**	**4,794.4**	**4,801.2**	**5,128.3**
Excluding construction	4,142.8	4,634.6	4,705.3	4,851.3	5,135.1	5,346.2	5,376.8	5,360.9	5,378.5	5,757.3
Energy products	20,096.5	21,561.4	21,355.3	22,549.7	23,151.0	21,846.2	21,497.5	21,469.4	20,856.4	21,103.1
Manufactures	3,613.9	4,060.0	4,142.0	4,248.2	4,519.6	4,776.9	4,806.1	4,782.6	4,809.1	5,174.9
Construction	2,817.9	2,847.5	2,872.3	2,863.1	2,944.8	3,028.2	3,004.5	2,968.1	2,962.9	3,099.7
Services	**4,710.4**	**4,788.7**	**4,844.3**	**4,913.5**	**4,995.6**	**5,084.6**	**5,009.5**	**4,925.5**	**4,825.9**	**4,755.0**
Distributive trades, lodging & catering	3,239.5	3,330.2	3,377.9	3,452.6	3,535.8	3,625.5	3,560.0	3,382.1	3,384.1	3,367.5
Transport & communications	4,165.6	4,267.5	4,424.0	4,559.1	4,764.7	4,881.8	4,823.8	4,918.7	4,907.9	5,080.8
Finance and insurance	10,727.2	10,708.2	10,593.0	10,729.0	10,975.5	11,075.9	10,948.3	10,516.7	10,688.5	10,919.8
Miscellaneous services	4,453.5	4,421.0	4,420.5	4,391.0	4,381.8	4,399.4	4,330.8	4,218.6	4,087.8	3,831.3
Non-market services	**2,642.0**	**2,680.0**	**2,675.6**	**2,640.5**	**2,603.9**	**2,614.2**	**2,598.8**	**2,580.1**	**2,577.0**	**2,581.6**
General government	2,928.8	2,940.9	2,919.5	2,871.9	2,831.2	2,841.9	2,826.4	2,807.1	2,803.9	2,809.4
TOTAL . . .	**3,597.9**	**3,774.1**	**3,829.4**	**3,902.3**	**4,048.0**	**4,177.9**	**4,173.4**	**4,155.1**	**4,144.4**	**4,233.7**

Source: Istat.

Tav. a 4

INDUSTRIAL PRODUCTION BY ECONOMIC PURPOSE

(indices, 1980=100; seasonally adjusted)

	FINAL INVESTMENT GOODS				FINAL CONSUMER GDODS				INTERMEDIATE GODDS				OVERALL INDEX
	For industry	Transport equipment	Multi-sector	Total	Durable	Semi-durable	Non-durable	Total	For industry	For consumer goods	Mixed purpose	Total	
1975	87.9	70.8	51.2	72.0	70.2	76.5	73.8	73.5	76.2	80.5	80.7	73.5	*76.7*
1976	89.2	75.4	57.3	75.6	83.4	90.2	81.1	84.0	83.8	95.5	91.7	84.0	*86.2*
1977	94.2	77.7	60.2	79.3	88.4	90.7	79.9	85.0	86.8	91.2	91.6	85.0	*87.2*
1978	90.6	78.4	72.6	82.1	88.6	82.0	87.3	86.3	85.6	93.8	93.1	86.3	*88.8*
1979	89.1	82.4	88.6	87.7	94.0	94.9	94.3	94.4	91.6	100.4	97.6	94.4	*94.7*
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	*100.0*
1981	101.2	114.5	100.8	103.4	90.7	99.9	102.3	97.4	98.8	100.4	97.4	97.4	*98.4*
1982	88.3	112.7	105.2	95.8	88.8	101.1	103.9	97.6	91.0	99.4	93.7	97.6	95.4
1983	79.5	121.0	110.3	92.6	85.3	92.0	104.7	94.2	86.6	96.0	90.9	94.2	*92.3*
1984	77.4	119.4	115.9	92.1	89.5	94.5	106.0	96.9	87.6	102.6	95.2	96.9	*95.2*
1978 - I	90.9	76.8	62.9	78.5	85.9	77.4	81.7	81.8	85.4	87.3	90.1	81.8	*85.2*
II	91.5	79.2	69.7	81.6	87.4	78.5	87.5	85.2	83.2	92.1	91.8	85.2	*87.7*
III	89.7	76.1	76.1	82.4	88.6	84.5	88.6	87.6	85.3	95.9	93.3	87.6	*89.4*
IV	90.4	81.5	81.8	85.7	92.4	87.5	91.3	90.7	88.4	99.9	97.2	90.7	*92.9*
1979 - I	86.4	78.7	81.2	83.1	91.0	90.5	91.0	90.9	86.4	99.2	96.1	90.9	*92.0*
II	84.1	77.0	86.3	83.5	90.5	93.7	93.0	92.5	90.1	96.4	94.8	92.5	*92.0*
III	89.9	83.5	91.1	89.1	93.9	95.0	95.1	94.7	93.1	104.0	99.1	94.7	*95.9*
IV	96.1	90.5	96.0	95.0	100.5	100.3	98.2	99.4	96.9	101.8	100.4	99.4	*99.1*
1980 - I	100.6	100.0	96.3	99.0	106.3	105.0	101.5	103.7	99.6	104.4	103.3	103.7	*102.7*
II	103.0	103.8	100.4	102.3	105.2	104.1	99.3	102.1	101.4	104.5	103.3	102.1	*102.7*
III	98.0	93.7	99.5	97.7	92.6	94.6	98.1	95.7	98.5	93.8	95.4	95.7	*95.9*
IV	98.4	102.5	103.7	101.0	95.9	96.3	101.2	98.5	100.5	97.2	98.0	98.5	*98.7*
1981 - I	103.4	112.4	105.9	105.4	92.4	96.8	99.6	96.2	99.5	98.3	98.5	96.2	*98.9*
II	106.6	116.7	101.1	107.3	93.0	100.2	102.1	98.3	101.7	102.0	98.7	98.3	*100.0*
III	98.9	114.8	98.9	101.7	89.2	101.1	102.8	97.4	97.8	99.7	96.1	97.4	*97.5*
IV	95.7	114.2	97.3	99.2	88.2	101.5	104.8	97.9	96.2	101.5	96.4	97.9	*97.4*
1982 - I	96.5	114.7	105.5	101.4	89.9	103.8	103.9	98.8	96.7	102.3	97.6	98.8	*98.6*
II	90.4	112.4	105.0	97.1	89.3	101.4	102.1	97.3	92.7	98.1	94.3	97.3	*95.8*
III	85.7	111.4	106.5	94.2	88.0	100.1	104.0	97.1	88.0	101.3	93.2	97.1	*94.7*
IV	80.6	112.3	103.7	90.6	87.9	99.0	105.5	97.3	86.8	96.0	89.7	97.3	*92.4*
1983 - I	80.7	114.2	106.0	91.4	86.1	97.1	105.2	96.0	85.6	94.9	89.1	96.0	*91.8*
II	77.5	120.0	108.2	90.8	83.5	91.0	105.6	93.5	86.1	94.2	89.7	93.5	*91.2*
III	80.2	121.4	110.8	93.3	85.6	91.5	102.5	93.3	86.3	95.6	91.4	93.3	*92.4*
IV	79.6	128.5	116.2	95.2	86.2	88.5	105.7	93.9	88.4	99.4	93.6	93.9	*93.9*
1984 - I	76.6	122.5	105.6	90.1	87.2	88.8	104.0	93.7	86.3	99.9	93.6	93.7	*93.0*
II	77.2	116.7	107.9	90.0	90.5	95.1	107.0	97.7	86.8	103.1	95.9	97.7	*95.5*
III	78.6	121.8	119.4	94.0	90.9	95.0	107.3	98.0	89.0	103.9	96.5	98.0	*96.6*
IV	77.3	116.6	130.6	94.5	89.5	99.0	105.8	98.0	88.4	103.4	94.8	98.0	*95.8*

Source: Based on Istat data.

Table a 5

WHOLESALE PRICES BY ECONOMIC PURPOSE

(indices, 1980 = 100)

	Overall index	Final consumer goods				Final capital goods	Intermediate goods and auxiliary materials	Foodstuffs	Industrial goods	Industrial raw materials
		Food	Other non-durable goods	Durable goods	Total					
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*	114.6	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
1984	*160.8*	161.3	170.4	147.7	161.1	170.2	158.8	157.5	160.7	164.9
1978 - I	*69.9*	78.5	69.4	71.7	73.9	72.0	66.3	78.0	69.1	62.3
II	*71.5*	81.1	70.6	73.7	75.9	74.2	67.6	80.1	70.6	63.8
III	*72.8*	82.9	71.9	74.9	77.3	76.3	68.5	81.4	72.1	64.6
IV	*74.4*	84.4	73.1	76.6	78.8	78.1	70.2	83.0	73.8	66.3
1979 - I	*77.7*	87.1	75.2	79.3	81.3	80.7	74.3	85.7	76.4	71.6
II	*81.3*	89.1	77.1	82.1	83.4	83.2	79.2	87.7	79.5	78.1
III	*84.7*	90.2	81.2	86.3	86.2	85.5	83.4	89.2	83.0	83.5
IV	*89.5*	93.7	87.0	90.8	90.7	88.6	88.7	93.5	87.9	88.4
1980 - I	*95.4*	96.8	94.9	94.9	95.7	93.9	95.5	97.0	94.2	96.2
II	*98.8*	98.4	98.2	98.6	98.3	98.5	99.2	98.1	98.6	99.9
III	*101.0*	100.7	100.6	101.5	100.8	102.3	100.9	100.2	101.7	100.5
IV	*104.8*	104.1	106.3	105.0	105.3	105.3	104.4	104.7	105.6	103.3
1981 - I	*109.2*	107.2	110.6	107.8	108.4	111.4	109.4	108.0	109.5	110.0
II	*114.8*	113.1	113.9	110.3	113.1	117.6	115.8	113.6	114.2	117.6
III	*118.8*	115.6	117.7	113.7	116.0	122.5	120.5	116.3	118.0	123.7
IV	*123.6*	122.5	124.5	116.1	122.0	126.1	124.3	122.2	122.3	127.8
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
II	*159.9*	161.3	168.8	146.9	160.4	169.2	157.8	157.5	159.4	163.5
III	*161.9*	162.5	170.9	148.9	162.1	171.2	160.0	158.0	161.9	166.3
IV	*165.0*	164.3	175.6	151.4	165.0	174.5	163.2	159.5	165.4	170.4
1985 - I	*169.4*	167.9	182.3	155.1	169.6	179.5	167.5	163.2	170.0	175.4

Source: Based on Istat data.

Table a **6**

CONSUMER PRICES

(indices, 1980 = 100)

	POPULATION AS A WHOLE												Worker and employee households					
		Goods				Other than food & services								Categories of expenditure				
	Overal index	food	non-food	total	Services	clothing & foot-wear	hous-ing, fuel & electri-city	furni-ture, furni-shings, etc.	medical care and health	tran-sport & commu-nications	recrea-tion, enter-tainment, educa-tion, & cultural services	other goods & services	Overall index	food	clothing	electri-city & other fuels	housing	miscel-laneous ex-pendi-ture
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
1984	*174.3*	165.9	170.8	168.5	189.7	171.9	198.8	169.0	177.3	178.1	172.7	182.1	*175.6*	166.3	170.8	202.6	199.1	179.3
1978 - I	*68.9*	72.8	65.5	69.2	68.0	70.0	58.9	71.3	69.7	67.2	72.6	61.9	*68.3*	72.9	70.5	53.7	65.2	65.5
II	*71.0*	75.5	67.2	71.4	70.0	71.8	60.0	72.8	72.3	69.0	73.9	63.8	*70.4*	75.8	72.5	54.3	66.5	67.4
III	*72.7*	77.7	68.4	73.1	71.8	72.8	61.5	73.9	74.2	70.3	74.7	65.9	*72.2*	78.0	73.6	56.3	67.4	68.8
IV	*74.8*	79.6	70.5	75.1	74.4	76.2	62.2	76.2	78.0	72.0	76.6	68.5	*74.3*	80.2	76.9	56.6	68.5	71.1
1979 - I	*77.8*	82.4	72.4	77.4	78.6	77.9	68.8	78.6	79.4	74.4	79.8	71.4	*77.4*	83.1	78.6	58.3	79.8	73.8
II	*80.6*	85.4	74.9	80.2	81.6	80.7	71.2	81.0	81.8	77.9	82.6	74.2	*80.7*	86.3	81.7	59.9	82.4	77.5
III	*83.4*	87.6	79.0	83.4	83.6	83.0	75.7	83.7	83.3	81.7	85.4	78.1	*83.5*	88.3	83.9	67.7	83.8	80.8
IV	*88.1*	90.6	85.9	88.3	87.8	89.8	83.1	88.0	86.9	87.5	89.3	84.1	*88.4*	91.2	90.7	78.3	89.8	86.1
1980 - I	*93.8*	95.0	93.2	94.1	93.1	93.4	92.8	93.1	90.5	94.5	93.5	93.6	*94.0*	95.2	93.4	90.9	95.2	93.3
II	*97.5*	97.8	97.2	97.5	97.4	98.0	96.6	98.3	95.6	98.3	97.6	96.8	*97.5*	97.7	98.1	94.7	98.3	97.5
III	*101.6*	101.3	102.2	101.8	101.3	100.6	103.0	101.7	101.7	102.3	101.0	101.9	*101.5*	101.2	100.5	106.3	99.9	101.7
IV	*107.1*	105.8	107.4	106.6	108.1	108.0	107.6	106.9	112.3	104.9	107.9	107.6	*107.0*	105.9	108.0	108.1	106.6	107.5
1981 - I	*111.0*	109.2	110.8	110.0	113.7	110.7	112.1	111.7	116.8	111.6	111.1	112.5	*112.0*	109.5	111.2	114.1	111.6	114.0
II	*115.9*	114.5	115.4	115.0	118.4	115.2	117.8	116.8	121.0	115.7	113.5	118.2	*116.8*	114.5	115.3	123.6	113.8	118.7
III	*119.4*	118.2	118.4	118.3	122.2	117.2	123.2	120.1	124.2	119.3	116.6	121.6	*120.2*	117.8	117.2	131.8	116.5	122.3
IV	*124.9*	123.5	124.0	123.8	127.9	125.3	128.2	124.9	129.3	124.6	121.9	126.8	*125.8*	123.3	125.3	136.8	123.4	127.4
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
II	*173.0*	165.2	169.4	167.4	187.4	169.7	198.3	167.4	175.3	176.0	171.5	180.1	*174.3*	165.5	169.0	201.5	198.5	177.7
III	*175.5*	166.9	171.3	169.3	191.9	171.7	199.0	169.9	181.2	179.8	174.2	183.7	*176.7*	167.4	170.7	201.0	200.4	180.8
IV	*179.7*	169.8	176.2	173.2	196.8	180.3	202.9	174.6	186.2	183.1	178.4	188.4	*180.6*	170.3	178.5	207.1	202.6	184.8
1985 - I	*184.9*	174.6	180.2	177.6	203.9	183.8	209.3	179.0	197.6	186.5	184.8	194.3	*185.4*	175.0	181.3	218.8	204.4	189.8

Source: Istat.

MAIN ITEMS OF THE BALANCE OF

(billion

	CURRENT ACCOUNT									
	GOODS (FOB)						SERVICES & TRANSFERS		CURRENT ACCOUNT BALANCE	
	Imports		Exports		Balance		Balance		Un-adjusted (5 + 7)	Un-adjusted (6 + 8)
	Un-adjusted	Seasonally adjusted	Un-adjusted	Seasonally adjusted	Un-adjusted	Seasonally adjusted	Un-adjusted	Seasonally adjusted		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
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	114,063		109,381		−4,682		5,865		*1,183*	
1984	138,593		127,808		−10,785		5,597		*−5,188*	
1980 - I	20,446	19,523	15,977	15,910	−4,469	−3,613	722	1,843	*−3,747*	−1,770
II	19,883	19,512	16,785	16,104	−3,098	−3,408	1,678	1,334	*−1,420*	−2,074
III	18,517	20,169	15,392	16,357	−3,125	−3,812	2,209	1,237	*−916*	−2,575
IV	20,968	20,610	17,669	17,452	−3,299	−3,158	1,091	1,286	*−2,208*	−1,872
1981 - I	23,440	22,405	19,217	19,103	−4,223	−3,302	−490	749	*−4,713*	−2,553
II	25,394	24,909	21,543	20,672	−3,849	−4,237	1,124	723	*−2,725*	−3,514
III	22,617	24,643	20,997	22,283	−1,620	−2,360	1,643	621	*23*	−1,739
IV	25,592	25,086	23,252	22,953	−2,340	−2,133	530	714	*−1,810*	−1,419
1982 - I	27,942	26,780	23,640	23,492	−4,302	−3,288	−877	707	*−5,179*	−2,581
II	27,107	26,607	25,198	24,243	−1,909	−2,364	1,267	780	*−642*	−1,584
III	25,107	27,409	22,844	24,245	−2,263	−3,164	2,598	1,119	*335*	−2,045
IV	28,551	27,911	26,286	25,988	−2,265	−1,923	339	721	*−1,926*	−1,202
1983 - I	28,059	26,942	25,387	25,191	−2,672	−1,751	−366	1,549	*−3,038*	−202
II	28,225	27,711	27,080	26,077	−1,145	−1,634	2,232	1,616	*1,087*	−18
III	26,285	28,755	26,382	27,962	97	−793	2,949	1,190	*3,046*	397
IV	31,494	30,655	30,532	30,151	−962	−504	1,050	1,510	*88*	1,006
1984 - I	33,611	32,309	32,476	32,224	−1,135	−85	−757	1,117	*−1,892*	1,032
II	34,724	34,096	32,373	31,205	−2.351	−2,891	1,999	1,261	*−352*	−1,630
III	32,482	35,546	30,697	32,528	−1,785	−3,018	3,058	1,347	*1,273*	−1,671
IV	37,776	36,642	32,262	31,851	−5,514	−4,791	1,297	1,872	*−4,217*	−2,919

(*) The 1984 figures are adjusted for the arrangements regarding the foreign assets of Banco Ambrosiano in liquidation. — (**) A minus sign indicates an increase ir

Table a 7

PAYMENTS ON A TRANSACTIONS BASIS

of lire)

CAPITAL MOVEMENTS			ERRORS AND OMISSIONS	CHANGES IN BANKS' NET EXTERNAL POSITION (*)	CHANGES IN OFFICIAL RESERVES (**)	EXCHANGE RATE ADJUSTMENTS	OVERAL BALANCE (9 + 13 + 14) = −(15 + 16 + 17)
Medium and long-term	Short-term	Total					
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
−135	−392	−527	−535	−259	1,795	−97	*−1,439*
295	1,189	1,484	−672	2,638	−196	−911	*−1,531*
895	−949	−54	−391	3,493	−5,061	−162	*1,730*
910	409	1,319	416	−1,158	−5,697	−141	*6,996*
−266	−2,138	−2,404	−325	1,004	−2,626	−202	*1,824*
3,054	−305	2,749	−716	7,886	−1,946	318	*−6,258*
9,652	1,734	11,386	−628	1,322	−2,208	−647	*1,533*
7,250	−2,065	5,185	−294	−1,505	3,921	105	*−2,521*
1,284	616	1,900	710	6,792	−11,183	598	*3,793*
1,618	745	2,363	2,882	6,654	−7,666	955	*57*
955	1,054	2,009	−55	2,970	−1,454	277	*−1,793*
375	−440	−65	−768	−66	2,213	106	*−2,253*
762	203	965	−447	999	−326	−275	*−398*
962	−1,122	−160	554	3,983	−2,379	210	*−1,814*
1,642	169	1,811	−505	−18	3,321	104	*−3,407*
3,178	113	3,291	463	1,118	−1,567	−580	*1,029*
1,320	3,202	4,522	−587	−1,547	−2,453	42	*3,958*
3,512	−1,750	1,762	1	1,769	−1,509	−213	*−47*
1,863	−1,165	698	973	−174	3,716	−34	*−3,508*
2,488	−487	2,001	−671	409	−1,298	201	*688*
844	1,038	1,882	−428	517	−2,394	88	*1,789*
2,055	−1,451	604	−168	−2,257	3,897	−150	*−1,490*
685	−169	516	394	2,231	−137	33	*−2,127*
113	894	1,007	761	3,681	−6,554	18	*2,855*
537	146	683	−427	−1,122	−2,603	422	*3,303*
−51	−255	−306	−18	2,002	−1,889	125	*−238*
511	273	784	−2,114	826	2,194	202	*−3,222*
−1,196	−1,399	−2,595	1,943	4,218	−3,189	−25	*−1,004*
846	−176	670	1,166	630	−4,285	546	*3,109*
1,457	2,047	3,504	1,887	980	−2,386	232	*1,174*

assets or a decrease in liabilities.

BALANCE OF PAYMENT

(billion

	CURRENT ACCOUNT							CAPITAL MOVEMENTS	ERRORS & OMISSIONS	OVERALL BALANCE
	Goods (2)	Freight	Foreign travel	Emigrants' remittances	Income from capital	Other services	Total			
										Rece
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	2,982	–
1984	120,408	3,859	15,098	3,865	7,668	16,540	*167,438*	28,543	5,262	–
										Pay
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	3,067	–
1984	138,760	–	3,686	–	15,222	17,024	*174,692*	25,004	1,490	–
										Bal
1975	–2,473	873	999	665	–764	–653	*–1,353*	292	–378	*–1,439*
1976	–3,967	1,011	1,513	743	–912	–24	*–1,636*	–253	358	*–1,531*
1977	–2,904	1,370	3,414	1,246	–952	–615	*1,559*	281	–110	*1,730*
1978	–4	1,507	4,311	1,655	–935	–1,228	*5,306*	1,455	235	*6,996*
1979	–7,226	1,864	5,564	2,005	–672	–601	*934*	618	272	*1,824*
1980	–18,351	2,346	5,399	2,211	–973	–777	*–10,145*	4,104	–217	*–6,258*
1981	–14,017	2,623	6,693	2,614	–4,151	–1,437	*–7,675*	9,761	–553	*1,533*
1982	–17,189	2,634	8,928	3,166	–5,815	–1,772	*–10,048*	7,850	–323	*–2,521*
1983	–9,176	2,975	10,953	3,447	–6,418	–1,075	*706*	3,172	–85	*3,793*
1984	–18,352	3,859	11,412	3,865	–7,554	–484	*–7,254*	3,539	3,772	*57*

(1) Components may not add up to totals because of rounding. – (2) Imports cif, exports fob. – (3) The 1984 figures are adjusted for the arrangements regarding the foreign assets

Table a 8

ON A SETTLEMENTS BASIS (1)

of lire)

CHANGES IN BANKS' NET EXTERNAL POSITION (3)	CHANGES IN OFFICIAL RESERVES (4)									EXCHANGE RATE ADJUST-MENTS
	Gold	Convertible currencies	ECUs	SDRs	Reserve position in the IMF	Short-term liabilities	Medium & long-term position	Revaluation of gold (5)	Total	
ipts										
–	–	1,242	–	77	–	–	494	–	*1,813*	–
2,638	–	–	–	–	–	66	1,665	6,351	*8,082*	–
3,493	–	–	–	–	–	94	–	1,643	*1,737*	–
–	–	–	–	–	–	–	–	2,072	*2,072*	–
1,004	–	781	–	–	11	–	–	8,262	*9,054*	–
7,886	–	–	–	–	–	139	281	22,550	*22,970*	318
1,322	–	–	–	–	–	–	379	773	*1,152*	–
–	2,343	2,519	2,544	–	–	–	–	–	*7,406*	105
6,792	–	–	–	13	–	211	9	13,686	*13,919*	598
6,654	1,512	–	–	–	–	–	–	–	*1,512*	955
ments										
259	–	–	–	–	–	18	–	–	*18*	97
–	6,351	1,914	–	13	–	–	–	–	*8,278*	911
–	1,658	4,197	–	46	–	–	897	–	*6,798*	162
1,158	2,080	1,774	–	118	262	37	3,498	–	*7,769*	141
–	4,247	–	5,974	232	–	20	1,207	–	*11,680*	202
–	18,030	2,221	4,008	143	514	–	–	–	*24,916*	–
–	623	1,506	703	324	113	91	–	–	*3,360*	647
1,505	–	–	–	168	73	37	284	2,923	*3,485*	–
–	10,949	8,451	5,013	–	689	–	–	–	*25,102*	–
–	–	6,207	6	252	437	92	294	1,890	*9,178*	–
ance										
–259	–	1,242	–	77	–	–18	494	–	*1,795*	–97
2,638	–6,351	–1,914	–	–13	–	66	1,665	6,351	*–196*	–911
3,493	–1,658	–4,197	–	–46	–	94	–897	1,643	*–5,061*	–162
–1,158	–2,080	–1,774	–	–118	–262	–37	–3,498	2,072	*–5,697*	–141
1,004	–4,247	781	–5,974	–232	11	–20	–1,207	8,262	*–2,626*	–202
7,886	–18,030	–2,221	–4,008	–143	–514	139	281	22,550	*–1,946*	318
1,322	–623	–1,506	–703	–324	–113	–91	379	773	*–2,208*	–647
–1,505	2,343	2,519	2,544	–168	–73	–37	–284	–2,923	*3,921*	105
6,792	–10,949	–8,451	–5,013	13	–689	211	9	13,686	*–11,183*	598
6,654	1,512	–6,207	–6	–252	–437	–92	–294	–1,890	*–7,666*	955

of Banco Ambrosiano in liquidation. – (4) A minus sign indicates an increase in assets or a decrease in liabilities. – (5) Including the revaluation of ECUs issued against gold.

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		EEC countries	Federal Republic of Germany	France	United Kingdom	Belgium	Nether-lands	United States
	Wholesale prices	Average unit prices							
1975	*98.5*	*99.1*	*98.2*	99.8	90.4	122.3	91.1	99.6	97.9
1976	*93.2*	*93.2*	*94.4*	93.6	89.1	123.0	87.5	91.9	87.3
1977	*95.6*	*95.9*	*96.5*	93.8	96.9	119.9	88.0	89.9	91.2
1978	*93.5*	*92.0*	*94.4*	91.2	96.7	112.5	86.9	88.7	96.3
1979	*94.9*	*94.9*	*94.4*	92.6	94.1	107.4	90.6	93.7	99.8
1981	*96.5*	*97.1*	*100.0*	101.6	100.4	91.3	103.2	99.5	78.6
1982	*95.9*	*96.5*	*100.1*	98.7	103.5	92.6	112.3	94.9	72.3
1983	*98.4*	*94.7*	*103.7*	100.9	106.7	99.9	120.1	98.1	70.6
1984	*98.0*	*96.3*	*104.4*	103.8	102.5	101.6	124.5	100.4	65.5
1978 - I	*93.4*	*93.2*	*94.1*	90.0	99.8	109.5	85.1	86.6	94.3
II	*94.1*	*92.6*	*95.1*	91.8	97.2	115.3	87.3	88.7	94.6
III	*94.2*	*94.0*	*95.5*	93.3	95.7	113.1	89.2	91.3	97.6
IV	*92.4*	*91.9*	*92.8*	89.8	94.2	111.9	85.8	88.3	98.8
1979 - I	*92.2*	*93.1*	*92.1*	89.8	92.0	110.4	85.8	88.4	98.5
II	*94.4*	*92.6*	*94.3*	92.6	93.8	106.8	90.3	93.7	97.8
III	*95.6*	*96.8*	*95.1*	93.7	94.9	103.4	92.3	95.7	101.1
IV	*97.2*	*97.1*	*96.3*	94.2	95.5	108.9	93.8	97.0	101.7
1980 - I	*99.3*	*98.8*	*98.5*	97.2	97.9	105.6	97.8	98.0	101.7
II	*99.6*	*99.6*	*99.4*	98.8	99.8	101.3	98.8	99.7	100.2
III	*100.4*	*101.4*	*100.4*	100.4	101.0	99.2	100.5	99.4	102.0
IV	*100.4*	*100.0*	*101.5*	103.4	101.0	94.2	102.6	102.3	96.3
1981 - I	*98.7*	*98.5*	*101.2*	103.6	102.4	88.8	103.4	100.9	86.6
II	*96.0*	*95.8*	*99.5*	101.4	100.3	87.5	102.9	100.5	77.2
III	*96.4*	*98.7*	*100.6*	102.6	99.3	94.3	104.0	100.8	73.7
IV	*94.9*	*95.3*	*98.6*	98.9	99.6	94.7	102.3	95.9	76.8
1982 - I	*95.1*	*95.9*	*99.2*	99.6	100.4	92.1	107.6	95.3	74.7
II	*95.3*	*96.1*	*99.2*	98.3	100.9	92.5	112.6	95.2	73.8
III	*96.1*	*98.6*	*100.5*	98.3	105.9	91.3	113.9	94.5	70.7
IV	*96.9*	*95.2*	*101.3*	98.5	106.6	94.3	115.2	94.5	70.1
1983 - I	*99.6*	*95.8*	*104.2*	100.8	107.2	105.9	118.2	97.1	74.4
II	*99.0*	*93.6*	*104.1*	100.6	108.6	99.4	119.5	98.6	72.3
III	*97.8*	*93.1*	*103.5*	101.2	106.4	96.9	120.8	97.9	68.3
IV	*97.1*	*96.1*	*103.0*	101.0	104.6	97.5	122.0	98.7	67.5
1984 - I	*97.0*	*95.1*	*103.0*	101.5	103.2	98.6	123.2	98.1	67.3
II	*98.0*	*95.1*	*103.9*	103.0	102.5	100.8	124.2	99.5	68.0
III	*98.4*	*97.2*	*104.9*	104.8	102.2	102.3	124.9	101.2	64.4
IV	*98.7*	*97.6*	*105.8*	105.8	102.2	104.7	125.7	103.0	62.6

Source: Based on Istat, OECD and IMF data.

Table a 10

ITALY'S EXTERNAL FINANCIAL POSITION

(billions of dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Bank of Italy and UIC (1)	3.2	8.1	11.1	18.2	23.1	20.1	14.1	20.2	20.9
Banks	12.8	15.4	23.1	30.1	31.3	37.1	34.9	35.7	37.4
Other channels: trade credit (2)	7.6	8.7	12.0	17.0	16.7	14.8	13.1	12.5	11.9
Short-term assets	**23.6**	**32.2**	**46.2**	**65.3**	**71.1**	**72.0**	**62.1**	**68.4**	**70.2**
Bank of Italy and UIC	0.9	1.2	1.5	1.7	1.5	1.2	0.9	0.7	0.6
Banks	0.1	. .	0.1	. .	0.1	0.2	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	4.3
trade credit	9.4	9.2	10.4	11.6	10.6	9.0	8.8	8.2	7.2
Medium & long-term assets	**13.1**	**13.0**	**15.0**	**16.7**	**15.8**	**14.0**	**13.7**	**12.9**	**12.3**
TOTAL ASSETS. . .	**36.7**	**45.2**	**61.2**	**82.0**	**86.9**	**86.0**	**75.8**	**81.3**	**82.5**
Bank of Italy and UIC	0.1	0.2	0.2	0.2	0.3	0.2	0.1	0.2	0.1
Banks	16.8	23.4	30.0	38.4	47.0	50.2	44.9	48.0	52.1
Other channels: trade credit (2)	7.4	7.1	9.3	11.6	11.7	12.9	10.5	10.7	10.6
Short-term liabilities	**24.3**	**30.7**	**39.5**	**50.2**	**59.0**	**63.3**	**55.5**	**58.9**	**62.8**
Bank of Italy and 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	0.7
Banks	0.1	0.1	0.3	0.3	0.3	0.5	0.8	0.8	0.6
Other channels: borrowing abroad	13.8	14.1	16.6	17.6	23.6	33.2	39.1	40.5	40.6
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	1.1	1.3
Medium & long-term liabilities	**22.2**	**21.8**	**21.0**	**20.6**	**26.6**	**36.2**	**41.6**	**43.4**	**43.2**
TOTAL LIABILITIES . . .	**46.5**	**52.5**	**60.5**	**70.8**	**85.6**	**99.5**	**97.1**	**102.3**	**106.0**
Bank of Italy and UIC (1)	3.1	7.9	10.9	18.0	22.8	19.9	14.0	20.0	20.8
Banks	–4.0	–8.0	–6.9	–8.3	–15.7	–13.1	–10.0	–12.3	–14.7
Other channels: trade credit	0.2	1.6	2.7	5.4	5.0	1.9	2.6	1.8	1.3
Short-term balance	**-0.7**	**1.5**	**6.7**	**15.1**	**12.1**	**8.7**	**6.6**	**9.5**	**7.4**
Bank of Italy and UIC	–6.5	–5.5	–1.6	–0.1	–0.4	–0.6	–0.3	–0.3	–0.1
Banks	–	–0.1	–0.2	–0.3	–0.2	–0.3	–0.6	–0.6	–0.4
Other channels: loans	–11.1	–11.5	–13.6	–14.2	–20.0	–29.6	–35.3	–36.7	–36.3
trade credit	8.5	8.3	9.4	10.7	9.8	8.3	8.3	7.1	5.9
Medium and long-term balance	**-9.1**	**-8.8**	**-6.0**	**-3.9**	**-10.8**	**-22.2**	**-27.9**	**-30.5**	**-30.9**
OVERALL BALANCE . . .	**-9.8**	**-7.3**	**0.7**	**11.2**	**1.3**	**-13.5**	**-21.3**	**-21.0**	**-23.5**

(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.

CONSOLIDATED ACCOUNT OF THE PUBLIC SECTOR

(billions of lire)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Revenue										
Current revenue	**41,965**	**55,477**	**69,481**	**85,115**	**102,300**	**134,484**	**166,930**	**208,206**	**255,184**	**289,047**
Direct taxes	8,440	12,334	16,458	22,408	26,628	38,045	51,575	66,686	83,346	93,789
Indirect taxes	10,962	15,021	19,485	22,368	25,347	34,128	39,025	47,680	60,396	69,460
Social security contributions	17,569	21,910	26,191	31,081	39,227	48,960	59,145	73,791	87,941	99,441
– actual	16,233	19,929	23,732	27,772	34,947	43,755	52,516	66,150	78,048	88,410
– imputed	1,336	1,981	2,459	3,309	4,280	5,205	6,629	7,641	9,893	11,031
Income from capital	931	1,124	1,370	1,734	2,408	3,153	3,792	4,229	4,395	4,308
Sales of goods and services	2,939	3,874	4,522	5,324	6,115	6,716	8,636	11,054	13,649	15,099
Other	1,124	1,214	1,455	2,200	2,575	3,482	4,757	4,766	5,457	6,950
Capital account revenue	**194**	**301**	**1,115**	**339**	**267**	**580**	**681**	**867**	**871**	**1,129**
TOTAL REVENUE	**42,159**	**55,778**	**70,596**	**85,454**	**102,567**	**135,064**	**167,611**	**209,073**	**256,055**	**290,176**
Expenditure										
Current expenditure	**51,015**	**63,220**	**77,687**	**98,046**	**116,535**	**147,680**	**195,575**	**244,934**	**294,674**	**335,390**
Wages and salaries	16,486	19,774	24,846	30,182	37,617	47,698	64,026	75,064	88,262	100,359
Intermediate consumption	6,757	7,750	9,519	11,415	14,435	17,686	22,796	28,802	34,802	40,182
Social services	19,616	24,421	28,963	36,577	42,426	53,465	71,204	87,795	107,837	119,649
Subsidies to firms	1,596	2,273	2,782	3,863	4,077	4,784	5,375	7,889	9,937	10,154
Interest payments	5,285	7,439	9,664	13,360	16,046	21,525	29,465	40,592	49,845	60,335
Other	1,275	1,563	1,913	2,649	1,934	2,522	2,709	4,792	3,991	4,711
Capital account expenditure	**6,801**	**7,791**	**9,521**	**11,005**	**13,413**	**17,718**	**22,775**	**28,786**	**36,198**	**44,937**
Gross investment	4,991	6,169	7,372	8,101	9,610	13,094	17,293	21,877	26,020	29,531
Capital grants	1,104	1,478	2,091	2,247	2,522	2,977	4,744	6,380	9,025	11,894
Other	706	144	58	657	1,281	1,647	738	529	1,153	3,512
TOTAL EXPENDITURE	**57,816**	**71,011**	**87,208**	**109,051**	**129,948**	**165,398**	**218,350**	**273,720**	**330,872**	**380,327**
Deficit on current account	**–9,050**	**–7,743**	**–8,206**	**–12,931**	**–14,235**	**–13,196**	**–28,645**	**–36,728**	**–39,490**	**–46,343**
Total deficit	**–15,657**	**–15,233**	**–16,612**	**–23,597**	**–27,381**	**–30,334**	**–50,739**	**–64,647**	**–74,817**	**–90,151**

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

Table a 12

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT (1)

(billions of lire)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Medium and long-term securities, excluding BI portfolio	760	7,923	14,192	12,222	–2,286	5,811	23,642	67,372	56,250
Treasury bills, excluding BI portfolio	2,087	15,078	9,270	9,926	26,218	28,627	28,837	10,405	15,240
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	6,057
Lending by credit institutions	2,677	–3,022	–138	2,093	520	280	5,144	6,086	8,696
to: *central government bodies*	*35*	*35*	*32*	*–41*	*142*	*122*	*790*	*166*	*–6*
social security institutions	*67*	*190*	*155*	*255*	*280*	*–1,254*	*242*	*225*	*755*
local authorities	*2,570*	*–3,224*	*–170*	*1,740*	*148*	*1,459*	*3,105*	*3,441*	*6,651*
autonomous govt. agencies	*–54*	*30*	*–159*	*137*	*–104*	*–79*	*1,009*	*2,142*	*1,315*
municipal enterprises	*60*	*–53*	*5*	*2*	*55*	*33*	*–1*	*113*	*–19*
Other domestic debt (1)	111	137	234	160	136	79	160	209	232
Foreign debt	202	77	273	581	787	2,515	2,570	1,259	2,271
TOTAL ...	**7,821**	**23,405**	**28,702**	**31,730**	**27,569**	**39,903**	**63,940**	**90,266**	**88,745**
Borrowing from BI-UIC	9,938	–4,008	5,024	343	9,930	13,692	12,589	1,259	13,726
of which: overdraft on BI account	*1,694*	*–420*	*1,910*	*3,476*	*8,944*	*6,186*	*6,598*	*–8,622*	*18,554*
TOTAL BORROWING REQUIREMENT	**17,759**	**19,397**	**33,726**	**32,073**	**37,500**	**53,595**	**76,529**	**91,525**	**102,471**
Financing of ENEL			**898**	**1,068**	**2,790**	**1,056**	**3,389**	**2,142**	**3,823**
of which: bond issues			*867*	*209*	*471*	*–756*	*1,214*	*1,081*	*1,045*
loans from credit institutions			*–269*	*477*	*58*	*–109*	*793*	*–309*	*2,991*
borrowing abroad			*300*	*382*	*2,261*	*1,921*	*1,382*	*1,370*	*–213*
TOTAL BORROWING REQUIREMENT OF THE ENLARGED PUBLIC SECTOR			**34,624**	**33,141**	**40,290**	**54,651**	**79,918**	**93,667**	**106,294**

(1) Components may not add up to totals because of rounding. – (2) Treasury currency in circulation, loans of insurance companies to local authorities, stockpiling bills not yet rediscounted and bank deposits with the Treasury.

Table a 13

EXPENDITURE, REVENUE AND THE STATE SECTOR BORROWING REQUIREMENT

(billions of lire)

	1980	1981	1982	1983	1984
EXPENDITURE					
Wages, salaries and pensions	30,892	40,850	49,662	57,841	64,589
Purchases of goods and services	8,028	9,613	11,551	15,249	18,182
Interest payments	19,235	27,328	38,914	47,328	56,721
Direct investment	5,458	6,971	8,684	11,287	12,021
Loans and shareholdings	6,522	8,074	12,872	16,053	12,915
of which: to local authorities	*1,797*	*2,751*	*3,901*	*3,896*	*3,725*
to financial institutions	*1,634*	*1,864*	*573*	*1,767*	*1,716*
to public enterprises' endowment funds	*2,556*	*3,006*	*7,384*	*9,431*	*6,548*
Disbursements to: local authorities	39,005	44,579	56,936	72,288	75,598
of which: health care	*17,556*	*18,411*	*24,309*	*30,656*	*32,799*
social security institutions	10,003	12,574	23,176	26,318	29,679
enterprises	5,463	5,924	9,086	11,500	13,355
households	1,940	2,575	3,028	4,679	6,114
other	2,109	4,293	4,614	4,484	8,584
Other expenditure	6,278	4,659	7,944	9,440	11,647
TOTAL EXPENDITURE ...	**134,933**	**167,440**	**226,467**	**276,467**	**309,405**
REVENUE					
DIRECT TAXES	**35,472**	**46,802**	**62,642**	**79,145**	**88,115**
of which: Personal income tax	22,340	29,396	37,407	47,862	53,692
Corporate income tax	2,411	3,168	3,694	5,515	8,232
Local income tax	4,016	5,277	6,310	7,687	8,145
Withholding tax on interest income	5,841	8,133	10,965	10,797	15,892
INDIRECT TAXES	**36,902**	**42,802**	**52,386**	**65,880**	**74,794**
of which: Value added tax	20,504	24,104	29,196	36,125	42,498
Business taxes (stamp duties, duties on government concessions, etc.)	4,784	5,344	6,199	7,294	8,490
Tax on oil products	6,543	7,027	8,244	11,585	13,014
Other taxes on manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)	909	1,039	1,176	1,298	1,326
Tax on tobacco consumption	2,000	2,299	3,199	3,732	4,229
Total tax revenue	**72,374**	**89,610**	**115,028**	**145,025**	**162,909**
EEC levies	2,286	2,996	3,516	4,111	4,706
Sales of goods and services	4,978	6,583	8,212	10,351	11,702
Payments by the social security sector	13,018	11,507	19,222	18,278	21,561
Other income	6,199	7,128	8,548	10,098	13,176
TOTAL REVENUE ...	**98,855**	**117,824**	**154,526**	**187,863**	**214,054**
BORROWING REQUIREMENT	**30,313**	**36,078**	**49,616**	**71,941**	**88,604**

Table a 14

THE PUBLIC DEBT

(face value; billions of lire and percentage composition)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
					Amounts outstanding					
Medium and long-term securities, excluding BI portfolio	15,209	16,500	25,006	39,590	52,143	49,682	56,057	81,308	150,671	208,883
of which: held by banks	*10,450*	*10,947*	*18,072*	*26,663*	*34,375*	*31,435*	*32,448*	*47,907*	*81,094*	*96,285*
Treasury bills, excluding BI portfolio	7,545	9,632	24,709	33,979	43,905	70,123	98,750	127,587	137,992	153,233
of which: held by banks	*7,305*	*6,929*	*18,334*	*23,910*	*25,117*	*35,437*	*39,097*	*56,514*	*51,317*	*44,700*
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	50,219
Lending by credit institutions	14,184	16,861	14,240	14,102	16,195	16,716	16,996	22,140	28,226	36,922
to: *central government bodies*	*296*	*331*	*366*	*398*	*356*	*499*	*621*	*1,411*	*1,577*	*1,571*
social security institutions	*1,520*	*1,587*	*1,778*	*1,932*	*2,188*	*2,468*	*1,213*	*1,455*	*1,680*	*2,435*
local authorities	*11,789*	*14,359*	*11,135*	*10,965*	*12,705*	*12,853*	*14,312*	*17,417*	*20,857*	*27,509*
autonomous government agencies	*274*	*220*	*650*	*491*	*629*	*524*	*445*	*1,454*	*3,596*	*4,911*
municipal enterprises	*305*	*364*	*311*	*316*	*317*	*372*	*405*	*403*	*516*	*497*
Other domestic debt	921	1,032	1,170	1,404	1,563	1,700	1,779	1,938	2,147	2,379
Foreign debt	1,061	1,474	1,616	1,941	2,392	3,433	6,414	9,549	12,144	15,979
SUB-TOTAL . . .	**52,959**	**61,522**	**85,975**	**115,121**	**147,052**	**174,701**	**215,635**	**281,747**	**375,342**	**467,615**
Borrowing from BI-UIC	30,773	40,994	38,026	43,153	43,255	52,978	66,555	78,670	79,631	92,863
of which: medium and long-term securities	*13,588*	*16,081*	*24,882*	*30,771*	*27,759*	*28,261*	*29,647*	*28,891*	*30,393*	*36,367*
Treasury bills	*11,654*	*18,028*	*7,588*	*3,987*	*3,657*	*2,641*	*8,099*	*12,086*	*12,670*	*6,641*
overdraft on BI account	*3,522*	*5,216*	*4,796*	*6,706*	*10,182*	*19,126*	*25,312*	*31,910*	*23,288*	*41,842*
other borrowing	*2,009*	*1,669*	*760*	*1,689*	*1,657*	*2,950*	*3,497*	*5,783*	*13,280*	*8,013*
TOTAL . . .	**83,732**	**102,516**	**124,001**	**158,274**	**190,307**	**227,679**	**282,190**	**360,417**	**454,973**	**560,478**
of which: state sector	*69,304*	*85,215*	*109,872*	*144,734*	*175,065*	*211,954*	*266,168*	*340,516*	*432,152*	*530,527*
					Percentage composition					
Medium and long-term securities, excluding BI portfolio	18.2	16.1	20.2	25.0	27.4	21.8	19.9	22.6	33.1	37.3
Treasury bills, excluding BI portfolio	9.0	9.4	19.9	21.5	23.1	30.8	35.0	35.4	30.3	27.3
Treasury bills in compulsory reserves	0.8	–	–	–	–	–	–	–	–	–
Post Office funds	16.0	15.6	15.5	15.2	16.2	14.5	12.6	10.9	9.7	9.0
Lending by credit institutions	16.9	16.5	11.5	8.9	8.5	7.3	6.0	6.1	6.2	6.6
Other domestic debt	1.1	1.0	0.9	0.9	0.8	0.8	0.6	0.5	0.5	0.4
Foreign debt	1.3	1.4	1.3	1.2	1.3	1.5	2.3	2.7	2.7	2.8
Borrowing from BI-UIC	36.7	40.0	30.7	27.3	22.7	23.3	23.6	21.8	17.5	16.6

BANKS' ASSETS

(billions

	ASSETS										
	Bank reserves			Lending		Bad debts & protested bills	Shares	Interbank accounts	Accounts with special credit institutions		Extrernal assets (5)
	Excess reserves in lire (2)	Compulsory reserves (3)	Deposits against excess lending	Loans & bankers' acceptances	Lira securities (4)					of which: savings certificates	
1975 - Dec.	3,429	12,047	–	59,397	39,450	1,049	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	86,397	2,732	1,966	35,297	3,642	1,319	18,247
1979 - " (8) ..	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	126,693	112,490	5,776	3,069	54,282	4,759	1,312	27,409
1981 - "	4,869	36,641	1,298	142,455	120,378	7,046	3,497	65,951	6,598	1,699	40,523
1982 - "	3,648	45,171	820	155,312	151,941	9,267	5,161	77,552	7,507	3,554	42,386
1983 - Jan.	2,774	52,517	1,477	155,361	138,545	9,583	5,318	53,895	7,346	3,401	36,792
Feb.	2,743	51,696	2,106	155,061	137,173	9,769	5,364	52,779	7,200	3,341	33,801
Mar.	3,392	50,938	1,443	157,674	134,648	9,937	5,376	56,488	6,965	3,269	30,589
Apr.	2,907	50,235	2,148	160,257	142,977	10,145	5,399	54,570	7,243	3,242	30,983
May	2,970	50,248	2,102	161,214	144,368	10,406	5,449	55,146	6,836	3,386	31,480
June	3,088	49,937	2,588	161,969	150,975	10,331	5,885	58,051	6,996	3,365	34,436
July	2,979	51,475	2,493	169,635	155,323	10,585	6,120	54,981	6,834	3,335	33,732
Aug.	3,689	52,123	115	165,674	159,662	10,869	6,204	60,172	6,891	3,314	35,553
Sept.	2,486	52,878	26	164,461	166,454	11,049	6,309	61,166	6,902	3,252	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	167,173	11,460	6,461	61,075	7,232	3,098	44,472
Dec.	3,925	54,082	–	178,800	180,098	11,565	6,602	89,497	7,662	3,451	52,271
1984 - Jan.	3,168	62,991	–	184,372	158,168	12,201	6,736	56,488	6,904	3,074	44,493
Feb.	2,742	61,319	–	185,655	152,780	12,533	6,808	56,340	7,087	3,012	41,822
Mar.	2,850	60,020	–	187,052	153,537	12,709	6,837	58,704	6,514	2,903	41,036
Apr.	2,986	59,944	–	191,657	157,838	13,064	7,058	56,725	6,591	2,887	40,507
May	3,352	59,020	–	192,670	157,360	13,291	7,308	60,151	6,659	2,857	41,262
June	3,629	58,529	–	195,892	160,215	13,445	7,401	61,419	6,519	2,830	40,846
July	2,968	59,294	–	205,147	159,476	13,760	7,910	57,643	6,121	2,844	39,974
Aug.	3,155	60,051	–	203,313	160,521	13,936	8,025	58,860	6,355	2,757	39,120
Sept.	2,312	60,276	–	206,224	168,786	14,061	8,048	63,197	6,189	2,647	58,504
Oct.	3,891	61,863	–	209,398	172,327	14,332	8,114	62,949	6,491	2,587	46,574
Nov.	5,408	62,578	–	211,906	173,407	14,315	8,161	66,537	6,570	2,566	57,235
Dec.	4,994	62,813	–	215,601	187,050	14,570	8,594	94,518	8,271	3,034	64,193
1985 - Jan.	4,014	73,644	–	219,498	171,730	15,123	8,696	68,298	7,190	2,999	
Feb.	2,979	73,070	–	219,310	168,481	15,253	8,743	67,433	6,495	2,979	
Mar. (9) ...	2,350	71,630	–	219,010	174,100	15,520	8,800	68,000	6,400	3,050	

(1) Components may not add up to totals because of rounding. – (2) Excluding deposits with the Post Office and the Deposits and Loans Fund. – (3) Includes backing for accounts and residents' foreign currency account. – (8) Owing to errors in the procedures previously used by some banks for automatically calculating loans, a break in the series

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 (5)	of which: non-residents' lira accounts	Equity capital	Other items	Loan guarantees	of which: bankers' acceptances issued	
101,167	952	3,817	16,832	4,172	11,136	608	4,114	4,158	9,495	–	.... Dec. - 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	5,293	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	7,690	32,405	2,535	... " - 1980
277,771	2,066	2,981	58,306	5,039	55,694	1,638	16,758	10,641	39,393	3,572	... " - 1981
328,448	2,318	3,625	68,589	6,632	56,339	2,294	21,312	11,502	45,966	2,707	... " - 1982
319,253	2,367	5,577	50,301	6,324	51,999	2,295	21,434	6,353	45,444	2,538	.... Jan. - 1983
316,575	2,342	4,176	47,156	5,835	48,497	2,260	21,497	11,614	45,756	2,393	.... Feb.
315,747	2,654	3,555	49,115	4,783	46,726	2,272	22,277	12,593	47,405	2,508	.... Mar.
316,883	2,675	5,026	50,155	4,376	47,918	2,234	23,851	15,980	48,077	2,541	.... Apr.
315,231	2,658	5,122	48,675	4,222	50,914	2,359	25,389	18,008	49,668	2,465	.... May
321,283	3,048	6,069	51,272	5,284	53,853	2,520	28,647	14,800	52,733	2,231	.... June
324,125	3,000	7,082	51,794	4,120	54,014	2,683	28,697	21,325	52,360	1,851	..... July
327,782	3,149	5,651	54,807	3,725	54,727	2,716	28,728	22,383	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	33,974	49,472	1,426	.... Nov.
372,245	3,568	6,349	83,320	5,252	72,669	3,022	29,518	11,581	51,854	1,590	.... Dec.
361,125	3,563	9,556	51,656	4,978	65,443	3,067	29,543	9,657	52,336	1,398	.... Jan. - 1984
354,890	3,962	9,550	51,702	4,587	62,088	3,001	29,313	10,994	51,987	1,234	.... Feb.
356,640	4,127	8,046	52,595	4,469	62,052	3,363	32,103	9,227	52,720	1,027	.... Mar.
356,320	4,100	9,920	51,242	4,291	61,868	3,018	35,780	12,849	53,709	935	.... Apr.
354,733	4,204	6,494	53,207	3,560	65,211	2,959	36,233	17,431	54,168	880	.... May
357,464	4,303	8,517	55,063	4,144	65,630	2,995	36,427	16,347	54,225	837	.... June
360,724	4,430	7,646	52,595	4,044	66,401	3,056	36,650	19,803	55,371	776	..... July
361,348	4,184	5,162	54,444	4,058	65,419	3,372	36,897	21,824	54,389	747	.... Aug.
367,774	4,251	4,977	59,998	3,658	85,317	3,477	37,017	24,605	55,918	716	.... Sep.
371,109	4,722	7,105	59,514	3,178	72,989	3,482	37,135	30,187	55,858	715	.... Oct.
372,166	4,625	4,975	63,451	3,467	84,076	3,652	37,200	36,157	56,711	696	.... Nov.
415,581	4,949	2,864	89,233	4,518	91,908	3,879	36,989	14,562	58,313	608	.... Dec.
411,126	5,347	3,838	63,597	5,168		3,974	36,827		57,481	572	.... Jan. - 1985
405,609	5,718	4,293	65,913	4,684		4,222	36,963		59,604	569	.... Feb.
407,380	5,900	2,880	63,750	4,700		4,200	38,990		60,190	550	..(9) Mar.

cashiers' cheques. – (4) Treasury bills are at face value, medium and long-term securities at book value. – (5) UIC source. – (6) Lira deposits of customers. – (7) Trustee occurs in December 1979; the discrepancy has been estimated at about 350 billion lire and is ascribable entirely to short-term lending in lire. – (9) Provisional.

BANKS' PROFIT AND LOSS ACCOUNTS,

(in billions

	INTEREST RECEIVED						INTEREST PAID					Net interest income (c) = (a)-(b)
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities & parti-cipations	Interbank accounts	Foreign currency assets	Total (a)	Domestic deposits in lire	BI-UIC financing	Interbank accounts	Foreign currency liabilities	Total (b)	
												Banks and savings
1974	382	6,869	1,717	919	1,413	11,300	5,070	109	830	1,349	7,358	3,942
1975	536	8,219	2,703	1,218	667	13,343	6,503	115	1,011	601	8,230	5,113
1976	832	11,632	3,153	1,836	737	18,190	10,138	130	1,446	673	12,391	5,799
1977	1,050	13,870	5,371	2,304	1,031	23,626	14,246	96	1,617	985	16,944	6,682
1978	1,307	13,497	7,337	2,229	1,416	25,786	15,367	70	1,641	1,387	18,465	7,321
1979	1,597	15,155	8,987	2,623	2,259	30,621	17,970	92	1,924	2,172	22,158	8,463
1980	1,806	23,059	10,495	3,735	4,070	43,165	23,377	107	2,989	3,819	30,292	12,873
1981	2,010	29,530	12,654	5,304	7,025	56,523	30,030	127	4,062	6,677	40,896	15,627
1982	2,485	32,519	16,783	6,623	6,511	64,721	36,542	118	5,049	6,278	47,987	16,734
1983	2,904	34,538	22,458	6,963	5,491	72,354	41,425	236	5,267	5,479	52,407	19,947
1984 (*)	3,531	37,422	23,515	6,924	7,175	78,567	43,354	397	5,363	7,223	56,337	22,230
												Banks
1974	382	5,440	1,109	579	1,402	8,912	3,866	92	776	1,342	6,076	2,836
1975	525	6,531	1,875	696	658	10,285	4,838	95	939	595	6,467	3,818
1976	780	9,238	2,127	1,094	722	13,961	7,662	103	1,350	663	9,782	4,179
1977	945	10,980	3,762	1,381	979	18,047	10,577	76	1,460	943	13,056	4,991
1978	1,131	10,543	5,149	1,314	1,336	19,473	11,154	57	1,502	1,311	14,024	5,449
1979	1,331	11,683	6,213	1,557	2,113	22,897	12,743	77	1,769	2,034	16,623	6,274
1980	1,486	17,712	7,254	2,399	3,803	32,654	16,640	89	2,774	3,571	23,074	9,580
1981	1,627	22,520	9,088	3,430	6,566	43,231	21,468	108	3,768	6,243	31,587	11,644
1982	2,014	24,543	12,077	4,546	6,096	49,076	25,939	100	4,654	5,890	36,583	12,493
1983	2,260	25,863	15,663	4,809	5,077	53,672	29,098	206	4,798	5,089	39,191	14,481
1984 (*)	2,695	27,588	16,121	4,745	6,579	57,728	30,101	362	4,756	6,659	41,878	15,850
												Banks of
1974	105	1,348	288	47	658	2,446	986	28	202	646	1,862	584
1975	142	1,550	635	74	318	2,719	1,106	38	320	317	1,781	938
1976	213	1,973	540	102	327	3,155	1,703	20	376	323	2,422	733
1977	234	2,347	802	126	389	3,898	2,093	19	384	399	2,895	1,003
1978	264	2,105	939	135	532	3,975	2,032	9	343	541	2,925	1,050
1979	288	2,277	1,011	117	858	4,551	2,111	18	385	855	3,369	1,182
1980	294	3,383	1,211	108	1,509	6,505	2,681	25	640	1,398	4,744	1,761
1981	319	4,194	1,426	163	2,656	8,758	3,499	26	681	2,507	6,713	2,045
1982	352	4,630	1,988	286	2,415	9,671	4,211	26	828	2,331	7,396	2,275
1983	407	4,694	2,198	396	1,997	9,692	4,470	40	699	1,984	7,193	2,499
1984 (*)	473	4,801	1,990	456	2,505	10,225	4,410	58	704	2,520	7,692	2,533
												Public-law
1974	95	1,490	348	81	450	2,464	1,043	39	205	413	1,700	764
1975	136	1,781	517	89	195	2,718	1,293	24	221	161	1,699	1,019
1976	201	2,538	627	148	230	3,744	2,026	33	322	194	2,575	1,169
1977	253	2,759	1,199	227	320	4,758	2,805	21	341	304	3,471	1,287
1978	297	2,625	1,562	230	404	5,118	2,926	21	380	403	3,730	1,388
1979	360	2,871	1,941	341	645	6,158	3,444	29	433	605	4,511	1,647
1980	409	4,233	2,383	498	1,144	8,667	4,532	34	693	1,074	6,333	2,334
1981	448	5,328	3,190	641	1,834	11,441	5,760	47	1,101	1,759	8,667	2,774
1982	692	6,003	3,807	919	1,765	12,986	6,971	42	1,512	1,699	10.224	2,762
1983	673	6,495	5,005	1,023	1,412	14,608	7,857	126	1,710	1,449	11,142	3,466
1984 (*)	778	7,120	5,271	1,169	1,820	16,158	8,115	203	1,922	1,833	12,073	4,085

(1) Components may not add up to totals because of rounding. As of 1983 the figures for interest on securities and position with the Bank of Italy, as well as those for "Other income", are reporting for special periods and at special times. – (*) Provisional.

BY CATEGORY OF BANK (1)

of lire)

Other income (d)	of which: securities transactions	Gross earnings margin (e) = (c) + (d)	Operating costs (f)	of which: staff costs	Operating surplus (g) = (e)-(f)	Provisions (h)	of which: for loan losses	Extraordinary income and withdrawals from provisions (i)	Taxes (l)	Net profit (g)-(h) + (i)-(l)	Total resources	No. of staff	
banks (2)													
675	55	4,617	3,227	2,661	1,390	1,004	317	–76	153	157	119,782	203,505	 1974
1,065	375	6,178	4,112	3,295	2,066	1,513	522	–25	337	185	138,195	216,346	 1975
1,515	426	7,314	5,151	4,101	2,163	1,611	490	18	310	260	169,371	227,338	 1976
1,949	699	8,631	6,047	4,610	2,584	1,819	772	23	437	351	208,183	239,901	 1977
2,461	1,156	9,782	6,972	5,211	2,810	1,893	925	–5	465	447	250,435	249,999	 1978
2,937	1,389	11,400	8,365	6,119	3,035	2,127	1,014	120	445	583	307,772	261,505	 1979
3,708	1,625	16,581	11,204	8,206	5,377	3,706	1,631	39	881	829	372,503	274,889	 1980
5,437	2,477	21,064	13,033	9,437	8,031	5,725	1,945	146	1,208	1,244	441,537	287,420	 1981
6,452	3,352	23,186	15,061	10,433	8,125	5,005	2,352	392	2,009	1,503	507,238	293,002	 1982
7,052	3,256	26,999	18,642	13,667	8,357	4,250	2,500	207	2,564	1,750	591,487	299,282	 1983
8,446	4,362	30,676	20,844	15,012	9,832	4,685	2,554	142	2,902	2,387	662,430	302,755	... (*) 1984
616	148	3,452	2,417	1,992	1,035	740	273	–47	110	138	93,481	154,286	 1974
786	282	4,604	3,048	2,434	1,556	1,119	451	–21	261	155	106,210	164,618	 1975
1,166	336	5,345	3,814	3,006	1,531	1,103	420	25	240	213	130,307	172,651	 1976
1,411	478	6,402	4,395	3,341	2,007	1,365	657	2	351	293	159,889	182,352	 1977
1,727	803	7,176	5,102	3,816	2,074	1,340	759	–28	336	370	194,553	189,920	 1978
2,036	946	8,310	6,159	4,535	2,151	1,401	785	85	332	503	231,563	199,478	 1979
2,603	1,128	12,183	8,157	6,067	4,026	2,620	1,329	39	737	708	282,254	210,449	 1980
3,971	1,774	15,615	9,597	6,994	6,018	4,119	1,538	128	948	1,079	337,072	219,741	 1981
4,563	2,281	17,056	11,139	7,725	5,917	3,371	1,695	270	1,497	1,319	388,403	224,833	 1982
5,200	2,424	19,681	13,709	10,037	5,972	2,929	1,582	324	1,862	1,505	449,858	230,083	 1983
6,270	3,277	22,120	15,444	11,131	6,676	2,903	1,585	163	1,946	1,990	496,989	232,505	... (*) 1984
national interest													
168	34	752	672	570	80	82	81	38	20	16	27,007	39,453	 1974
204	65	1,142	783	638	359	314	240	18	45	18	30,019	41,800	 1975
273	56	1,006	949	773	57	84	72	41	3	11	34,445	42,438	 1976
301	83	1,304	1,065	827	239	192	144	5	33	19	39,837	43,659	 1977
333	113	1,383	1,196	925	187	149	145	10	26	22	46,241	45,106	 1978
421	159	1,603	1,400	1,076	203	236	215	66	22	11	52,237	47,241	 1979
577	220	2,338	1,847	1,390	491	362	273	19	115	33	64,921	48,464	 1980
975	373	3,020	2,088	1,578	932	872	243	69	31	98	78,305	50,097	 1981
923	386	3,198	2,448	1,769	750	560	372	171	262	99	89,975	51,373	 1982
1,115	519	3,614	2,970	2,263	644	505	445	291	317	113	98,991	51,393	 1983
1,329	640	3,862	3,171	2,383	691	424	317	179	249	197	105,556	50,850	... (*) 1984
banks													
202	51	966	710	593	256	215	71	–12	11	18	28,068	47,378	 1974
264	103	1,283	926	755	357	300	46	–7	30	20	29,657	50,517	 1975
385	110	1,554	1,130	905	424	343	155	–8	57	16	37,437	52,459	 1976
508	176	1,795	1,282	1,016	513	423	151	15	98	7	46,120	55,428	 1977
609	300	1,997	1,461	1,144	536	445	171	–20	47	24	56,503	56,132	 1978
662	315	2,309	1,825	1,394	484	368	172	–10	52	54	68,077	58,530	 1979
841	387	3,175	2,372	1,839	803	667	319	1	95	42	83,445	61,937	 1980
1,221	560	3,995	2,798	2,146	1,197	1,040	430	28	122	63	98,844	64,233	 1981
1,541	784	4,303	3,215	2,335	1,088	766	308	36	204	154	117,431	65,849	 1982
1,707	720	5,173	4,085	3,153	1,088	655	228	3	297	139	138,285	67,319	 1983
2,019	999	6,104	4,728	3,573	1,376	832	335	9	329	224	147,732	68,201	... (*) 1984

not comparable with those for earlier years owing to changes in the definitions of certain items. – (2) Except in the item "Number of staff", excludes credit institutions which at the time were

BANKS' PROFIT AND LOSS ACCOUNTS,

(in billions

	INTEREST RECEIVED						INTEREST PAID					Net interest income (c) = (a)-(b)
	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)	
												Ordinary
1974	125	1,771	318	316	262	2,792	1,268	17	321	257	1,863	929
1975	167	2,188	479	346	121	3,301	1,649	22	338	103	2,112	1,189
1976	249	3,219	625	540	140	4,773	2,670	36	530	132	3,368	1,405
1977	306	3,956	1,113	626	217	6,218	3,730	27	592	195	4,544	1,674
1978	373	3,856	1,702	559	319	6,809	3,994	20	631	290	4,935	1,874
1979	439	4,281	2,080	632	485	7,917	4,545	20	795	456	5,816	2,101
1980	495	6,551	2,292	1,015	897	11,250	5,868	22	1,207	856	7,953	3,297
1981	541	8,414	2,875	1,367	1,583	14,780	7,601	25	1,634	1,496	10,756	4,024
1982	595	8,744	3,992	1,625	1,378	16,334	8,912	21	1,831	1,328	12,092	4,242
1983	720	9,086	5,229	1,686	1,130	17,851	9,970	27	1,902	1,152	13,051	4,800
1984 (*)	890	9,525	5,293	1,591	1,522	18,821	10,315	85	1,699	1,611	13,710	5,111
												Cooperative
1974	57	831	155	135	32	1,210	569	8	48	26	651	559
1975	80	1,012	244	187	24	1,547	790	11	60	14	875	672
1976	117	1,508	335	304	25	2,289	1,263	14	122	18	1,417	872
1977	152	1,918	648	402	53	3,173	1,949	9	143	45	2,146	1,027
1978	197	1,957	946	390	81	3,571	2,202	7	148	77	2,434	1,137
1979	244	2,254	1,181	467	125	4,271	2,643	10	156	118	2,927	1,344
1980	288	3,545	1,368	778	253	6,232	3,559	8	234	243	4,044	2,188
1981	319	4,584	1,597	1,259	493	8,252	4,608	10	352	481	5,451	2,801
1982	375	5,166	2,290	1,716	538	10,085	5,845	11	483	532	6,871	3,214
1983	460	5,588	3,231	1,704	538	11,521	6,801	13	487	504	7,805	3,716
1984 (*)	554	6,142	3,567	1,529	732	12,524	7,261	16	431	695	8,403	4,121
												Savings
1974	–	1,429	608	340	11	2,388	1,204	17	54	7	1,282	1,106
1975	11	1,688	828	522	9	3,058	1,665	20	72	6	1,763	1,295
1976	52	2,394	1,026	742	15	4,229	2,476	27	96	10	2,609	1,620
1977	105	2,890	1,609	923	52	5,579	3,669	20	157	42	3,888	1,691
1978	176	2,954	2,188	915	80	6,313	4,213	13	139	76	4,441	1,872
1979	266	3,472	2,774	1,066	146	7,724	5,227	15	155	138	5,535	2,189
1980	320	5,347	3,241	1,336	267	10,511	6,737	18	215	248	7,218	3,293
1981	383	7,010	3,566	1,874	459	13,292	8,562	19	294	434	9,309	3,983
1982	471	7,976	4,706	2,077	415	15,645	10,603	18	395	388	11,404	4,241
1983	644	8,675	6,795	2,154	414	18,682	12,327	30	469	390	13,216	5,466
1984 (*)	836	9,834	7,394	2,179	596	20,839	13,253	35	607	564	14,459	6,380
												Central credit
1974	–	272	59	101	–	432	19	77	389	–	485	–53
1975	–	380	263	126	–	769	49	15	605	–	669	100
1976	–	636	272	181	–	1,089	34	71	951	–	1,056	33
1977	1	610	519	214	1	1,345	35	34	1,183	2	1,254	91
1978	4	601	527	181	2	1,315	35	33	1,149	2	1,219	96
1979	4	44	64	195	2	307	4	2	261	3	270	37
1980	6	469	435	414	4	1,328	29	122	1,159	11	1,321	7
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	1,922	17	2,074	192
1984 (*)	32	572	871	807	42	2,324	41	98	1,908	42	2,089	235

(1) Components may not add up to totals because of rounding. As of 1983 the figures for interest on securities and position with the Bank of Italy, as well as those for "Other income", are reporting for special periods and at special times. – (*) Provisional.

Table a 16 *cont'd*

BY CATEGORY OF BANK (1)

of lire)

Other income (d)	of which: securities transactions	Gross earnings margin (e) = (c) + (d)	Operating costs (f)	of which: staff costs	Operating surplus (g) = (e)-(f)	Provisions (h)	of which: for loan losses	Extraordinary income and withdrawals from provisions (i)	Taxes (l)	Net profit (g)-(h) + (i)-(l)	Total resources	No. of staff	
credit banks (2)													
173	54	1,102	686	541	416	274	80	−38	36	68	27,084	43,778	 1974
215	87	1,404	896	684	508	335	103	−11	97	65	32,021	46,962	 1975
357	136	1,762	1,145	872	617	405	118	−3	88	121	39,691	50,521	 1976
410	166	2,084	1,335	972	749	427	227	−10	136	176	49,422	54,065	 1977
538	298	2,412	1,586	1,130	826	437	293	−5	167	217	60,725	57,061	 1978
651	353	2,752	1,886	1,337	866	461	270	35	155	285	73,153	59,895	 1979
805	392	4,102	2,516	1,823	1,586	879	442	36	323	420	86,867	64,109	 1980
1,241	655	5,265	2,998	2,095	2,267	1,196	484	30	490	611	103,350	67,636	 1981
1,403	791	5,645	3,386	2,260	2,259	1,083	548	57	585	648	103,334	69,137	 1982
1,550	818	6,350	4,048	2,807	2,302	957	441	33	652	726	130,770	70,187	 1983
1897	1,138	7,008	4,600	3,177	2,408	832	522	−37	677	862	147,803	71,294	... (*) 1984
banks													
73	9	632	349	288	283	169	41	−35	43	36	11,322	23,677	 1974
103	27	775	443	357	332	170	62	−21	89	52	14,309	25,339	 1975
151	34	1,023	590	456	433	271	75	−5	92	65	18,734	27,233	 1976
192	53	1,219	713	526	506	323	135	−8	84	91	24,510	29,200	 1977
247	92	1,384	859	617	525	309	150	−13	96	107	31,084	31,621	 1978
302	119	1,646	1,048	728	598	336	128	−6	103	153	38,096	33,812	 1979
380	129	2,568	1,422	1,015	1,146	712	295	−17	204	213	47,021	35,939	 1980
534	186	3,335	1,713	1,175	1,622	1,011	381	1	305	307	56,573	37,775	 1981
696	320	3,910	2,090	1,361	1,820	962	467	6	446	418	67,663	38,474	 1982
828	367	4,544	2,606	1,814	1,938	812	468	−3	596	527	81,312	41,184	 1983
1,025	500	5,146	2,945	1,998	2,201	815	411	12	691	707	95,898	42,160	... (*) 1984
banks													
59	−93	1,165	810	669	355	264	44	−29	43	19	26,301	49,219	 1974
279	93	1,574	1,064	861	510	394	71	−4	76	36	31,985	51,728	 1975
349	90	1,969	1,337	1,095	632	508	70	−7	70	47	39,064	54,687	 1976
538	221	2,229	1,652	1,269	577	454	115	21	86	58	48,294	57,549	 1977
734	353	2,606	1,870	1,395	736	553	166	23	129	77	55,882	60,079	 1978
901	443	3,090	2,206	1,584	884	726	229	35	113	80	76,209	62,027	 1979
1,105	497	4,398	3,047	2,139	1,351	1,086	302	–	144	121	90,249	64,440	 1980
1,466	703	5,449	3,436	2,443	2,013	1,606	407	18	260	165	104,465	67,679	 1981
1,889	1,071	6,130	3,922	2,708	2,208	1,634	657	122	512	184	118,835	68,169	 1982
1,852	832	7,318	4,933	3,630	2,385	1,321	918	−117	702	245	142,129	69,199	 1983
2,176	1,085	8,556	5,400	3,881	3,156	1,782	969	−21	956	397	165,441	70,250	... (*) 1984
institutions(2)													
101	99	48	17	11	31	16	10	−3	–	12	5,058	654	 1974
−23	−25	77	25	14	52	29	14	−3	2	18	7,037	705	 1975
30	24	63	37	20	26	12	1	–	1	13	8,223	821	 1976
−220	−227	−129	38	20	−167	62	54	199	5	−35	9,817	885	 1977
−216	−224	−120	42	22	−162	56	52	198	6	−26	10,040	914	 1978
15	8	52	35	17	17	8	–	1	2	8	3,224	695	 1979
53	36	60	81	38	−21	16	−26	23	2	−16	14,052	1,140	 1980
94	72	193	90	46	103	51	1	–	3	49	16,248	1,191	 1981
91	66	316	113	51	203	176	24	38	7	58	18,194	1,284	 1982
149	92	341	150	72	191	100	62	−6	40	45	18,986	1,345	 1983
135	100	370	155	80	215	100	44	6	48	73	18,906	1,356	... (*) 1984

not comparable with those for earlier years owing to changes in the definitions of certain items. – (2) Except in the item "Number of staff", excludes credit institutions which at the time were *(billions*

	ASSETS										
	Cash and deposits (2)	Loans					Loans on behalf of the Treasury	Own portfolio (5)			TOTAL
		Domestic (3)	Financing of stockpiling (4)	Foreign		Total		Government securities	Bonds (6)	Shares & participations	
				Buyer credits	Credits to non-residents						
1975 - Dec.	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 - "	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
Mar.	4,751	98,674	704	3,926	401	103,705	9,914	10,063	2,746	1,583	132,762
Apr.	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.	6,266	109,583	727	4,148	337	114,795	9,222	12,432	2,497	1,882	147,094
Feb.	4,943	110,216	727	3,996	325	115,264	9,219	14,500	2,497	1,882	148,305
Mar.	5,099	111,370	739	3,974	319	116,402	9,219	14,904	2,749	1,888	150,261
Apr.	5,006	111,961	739	4,096	322	117,118	9,221	13,448	2,749	1,888	149,430
May.	4,013	112,714	739	4,108	300	117,861	9,216	13,060	2,749	1,888	148,787
June	4,833	113,293	752	4,085	284	118,414	8,818	13,110	2,521	2,041	149,737
July	4,180	114,622	752	3,951	250	119,575	8,817	14,564	2,521	2,041	151,698
Aug.	4,244	115,983	752	4,014	236	120,985	8,816	15,346	2,521	2,041	153,953
Sept.	4,468	116,776	758	4,153	236	121,923	8,819	14,860	2,605	2,104	154,779
Oct.	3,661	119,058	758	4,192	232	124,240	8,819	14,595	2,605	2,104	156,024
Nov.	3,802	120,770	758	4,311	242	126,081	8,802	16,269	2,605	2,104	159,663
Dec.	4,964	125,300	766	4,214	371	130,651	9,193	15,023	2,280	2,261	164,372
1985 - Jan. (*)	5,724	124,966	766	4,067	375	130,174	8,703	15,969	2,280	2,261	165,111
Feb. (*)	5,287	125,984	766	4,320	359	131,429	8,705	16,972	2,280	2,261	166,934

(1) From January 1983 onwards includes the agricultural credit section of Banco di Sardegna and from October 1984 the agricultural credit section of Istituto Bancario S. Paolo di Torino. – (2) voluntary stockpiling operations, equal to 93.3 billion lire at that date. From September 1983 onwards includes the future instalments on the bad debts of all the institutions (previously only those of the (5) Including securities in foreign currencies. – (6) From the fourth quarter of 1981 onwards includes securities issued by the Deposits and Loans Fund totalling 1,275.3 billion lire at end-December issues disbursed to special credit institutions. – (9) Includes compensatory loans in foreign currency deposited with the Bank of Italy. – (10) Paid-up capital and reserves. As from March 1980 the created out of gross profits and on which third parties have no claim. At end-December 1979 equity capital according to the new definition, which includes certain items previously excluded, stood at

Table a 17

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										
13,858	32,777	4,080	477	1,494	1,795	1,293	4,418	2,401	35	62,628	.... Dec. - 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
10,015	77,172	18,060	699	4,230	3,712	2,379	9,605	10,028	22	135,922	.... ' - 1982
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	.... Mar.
9,479	76,968	18,871	812	4,059	4,029	2,360	10,255	10,715	24	137,572	.... Apr.
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	84,744	19,441	818	4,442	4,516	2,440	14,069	12,612	31	151,726	.... Feb.
8,553	85,147	19,891	861	4,038	4,545	2,413	14,392	13,413	34	153,287	.... Mar.
8,551	84,583	20,153	861	4,041	4,527	2,407	14,701	13,413	34	153,271	.... Apr.
8,550	84,665	20,476	861	4,040	4,508	2,408	14,843	13,413	34	153,798	.... May.
8,543	85,617	21,178	890	4,123	4,394	2,426	15,149	14,596	42	156,958	.... June
8,199	85,282	21,203	890	3,778	4,394	2,302	15,616	14,596	42	156,302	.... July
8,183	85,495	21,102	890	3,984	4,507	2,350	16,067	14,596	42	157,216	.... Aug.
8,179	85,898	21,000	848	4,059	4,547	2,393	16,619	14,893	37	158,473	.... Sept
8,162	86,789	21,052	848	4,353	4,586	2,400	17,057	14,893	37	160,177	.... Oct.
8.160	87,696	21,617	848	4,906	4,898	2,404	17,256	14,893	37	162,715	.... Nov.
8,159	89,554	23,480	941	5,620	4,767	2,422	17,830	15,322	46	168,141	.... Dec.
7,678	89,229	23,705	941	4,836	4,746	2,382	17,885	15,322	46	166,770	.... Jan. - 1985
7,638	89,993	24,424	941	4,317	4,759	2,402	18,442	15,322	46	168,284	.... Feb.

Including liquid funds in foreign currencies. The volume of deposits with the Bank of Italy is derived from the accounts for that institution. – (3) From December 1981 onwards includesfinancing of real estate institutions and public works sections). – (4) From December 1981 onwards excludes financing of voluntary stockpiling operations, which is included among agricultural working credit. – 1981, 1,510.2 billion at end-1982,1,363.1 billion at end-1983 and 1,200.8 billion at end-1984. – (7) Includes savings certificates and other medium-term deposits. – (8) Includes the proceeds of bond components of equity capital have been classified as "Own funds", comprising capital and reserves created out of net profits, and "Other equity funds", which include provisions of a reserve nature 5,645.8 billion lire net of uncalled capital. – (11) Refers to the items defined as fund-raising plus bonds issued on behalf of the Treasury. – (*) Estimated.

(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
1975	34,000	–	3,000	1,462	943	34	320	200	2,510	*8,469*	4,667	893
1976	46,500	–	1,500	2,489	500	309	–	100	238	*5,136*	3,452	829
1977	66,400	5,500	1,655	6,585	4,851	127	–	300	366	*19,384*	3,718	1,035
1978	62,750	9,684	10,499	1,484	1,795	–	–	200	244	*23,906*	3,761	1,523
1979	58,250	15,250	4,824	244	168	–	–	100	–	*20,586*	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	1,429	429	84	–	–	–	*52,242*	7,153	1,536
1983	266,351	74,650	13,000	1,632	–	–	–	2,000	–	*91,282*	6,152	2,735
1984	227,747	95,250	17,750	1,688	–	–	–	1,800	–	*116,488*	5,490	2,791
												Re
1975	27,009	–	1,029	154	52	108	9	86	404	*1,842*	805	63
1976	38,595	–	–	344	73	152	21	104	509	*1,203*	1,154	86
1977	61,605	–	546	425	87	199	23	120	587	*1,987*	1,544	109
1978	56,869	–	806	740	759	189	26	151	640	*3,311*	1,907	150
1979	48,428	5,000	3,167	1,077	782	163	33	165	691	*11,078*	2,163	192
1980	102,000	10,184	1,716	1,209	792	124	35	188	712	*14,960*	2,706	238
1981	164,258	6,250	1,500	1,196	800	137	38	205	810	*10,936*	3,666	288
1982	240,674	19,000	4,661	1,772	980	144	40	238	889	*27,724*	4,602	338
1983	255,280	7,130	9,198	1,764	1,000	122	43	257	896	*20,410*	4,827	417
1984	218,446	38,250	9,171	2,558	1,010	108	46	271	961	*52,375*	5,758	594
											Premiums, discounts	
1975	–	–	70	58	93	4	19	11	330	*585*	715	113
1976	–	–	23	219	93	30	–	10	49	*424*	591	131
1977	–	–	157	986	806	27	–	30	67	*2,073*	463	133
1978	–	–	232	199	298	–	–	16	34	*779*	323	202
1979	–	31	116	33	21	–	–	5	–	*206*	135	122
1980	–	55	1	–	–	–	–	–	9	*65*	256	78
1981	–	134	92	–	–	–	–	–	–	*226*	172	36
1982	–	873	19	–	–	–	–	–	–	*892*	83	28
1983	–	868	62	–	–	–	–	–	–	*930*	92	72
1984	–	262	146	–	–	–	–	–	–	*408*	26	13
												Net
1975	6,991	–	1,901	1,250	798	–78	292	103	1,776	*6,042*	3,147	717
1976	7,905	–	1,477	1,926	334	127	–21	–14	–320	*3,509*	1,707	612
1977	4,795	5,500	952	5,174	3,958	–99	–23	150	–288	*15,324*	1,711	793
1978	5,881	9,684	9,461	545	738	–189	–26	33	–430	*19,816*	1,531	1,171
1979	9,822	10,219	1,541	–866	–635	–163	–33	–70	–691	*9,302*	1,442	1,100
1980	25,500	2,691	–1,696	–1,209	–792	–124	–35	–188	–574	*–1,927*	2,413	452
1981	33,783	2,816	3,908	1,489	475	–137	–38	–205	–810	*7,498*	2,640	687
1982	32,604	27,377	–1,630	–343	–551	–60	–40	–238	–889	*23,626*	2,468	1,170
1983	11,071	66,652	3,740	–132	–1,000	–122	–43	1,743	–896	*69,942*	1,233	2,246
1984	9,301	56,738	8,433	–870	–1,010	–108	–46	1,529	–961	*63,705*	–294	2,184

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

Table a 18

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											
2,252	*7,812*	1,023	300	300	150	94	30	*1,897*	*18,178*	1,808	1975
2,810	*7,091*	1,202	–	100	100	163	–	*1,565*	*13,792*	2,135	1976
2,981	*7,734*	1,298	200	157	–	256	–	*1,911*	*29,029*	2,357	1977
3,088	*8,372*	1,300	65	140	–	258	–	*1,763*	*34,041*	3,608	1978
3,240	*8,394*	625	–	610	–	100	–	*1,335*	*30,315*	3,893	1979
4,172	*10,315*	1,196	–	–	–	171	50	*1,417*	*24,830*	4,133	1980
5,372	*12,861*	352	742	502	–	807	–	*2,403*	*33,924*	8,812	1981
5,782	*14,471*	2,386	611	2,300	–	893	–	*6,190*	*72,903*	6,892	1982
5,700	*14,587*	2,471	352	300	–	1,175	–	*4,298*	*110,167*	12,534	1983
4,257	*12,538*	2,774	–	750	–	802	150	*4,476*	*133,502*	11,784	1984
demptions											
443	*1,311*	185	50	55	34	77	8	*409*	*3,562*	–	1975
533	*1,773*	236	80	83	47	81	13	*540*	*3,516*	–	1976
610	*2,263*	260	117	52	53	81	13	*576*	*4,826*	–	1977
647	*2,704*	387	95	83	86	81	13	*745*	*6,760*	–	1978
841	*3,196*	404	116	112	103	84	18	*837*	*15,111*	–	1979
1,036	*3,980*	725	116	127	107	99	13	*1,187*	*20,127*	–	1980
976	*4,930*	1,104	117	123	111	98	13	*1,566*	*17,432*	–	1981
1,136	*6,076*	1,160	63	131	115	115	19	*1,603*	*35,403*	–	1982
1,411	*6,655*	1,388	64	246	91	115	19	*1,923*	*28,988*	–	1983
1,810	*8,162*	1,729	154	306	96	135	18	*2,438*	*62,975*	–	1984
and double counting											
263	*1,091*	44	33	24	21	1	1	*124*	*1,800*	136	1975
433	*1,155*	58	–	7	12	6	–	*83*	*1,662*	263	1976
462	*1,058*	66	26	20	–	–	–	*112*	*3,243*	511	1977
381	*906*	46	4	7	–	–	–	*57*	*1,742*	623	1978
286	*543*	12	–	22	–	–	–	*34*	*783*	1,161	1979
353	*687*	–	–	–	–	–	4	*4*	*756*	1,048	1980
215	*423*	4	3	22	–	1	–	*30*	*679*	1,626	1981
137	*248*	12	5	–	–	–	–	*17*	*1,157*	888	1982
128	*292*	1	–	–	–	–	–	*1*	*1,223*	1,635	1983
22	*61*	–	–	–	–	–	3	*3*	*472*	2,010	1984
issues											
1,546	*5,410*	794	217	221	95	16	21	*1,364*	*12,816*	1,672	1975
1,844	*4,163*	908	–80	10	41	76	–13	*942*	*8,614*	1,872	1976
1,909	*4,413*	972	57	85	–53	175	–13	*1,223*	*20,960*	1,846	1977
2,060	*4,762*	867	–34	50	–86	177	–13	*961*	*25,539*	2,985	1978
2,113	*4,655*	209	–116	476	–103	16	–18	*464*	*14,421*	2,732	1979
2,783	*5,648*	471	–116	–127	–107	72	33	*226*	*3,947*	3,085	1980
4,181	*7,508*	–756	622	357	–111	708	–13	*807*	*15,813*	7,186	1981
4,509	*8,147*	1,214	543	2,169	–115	778	–19	*4,570*	*36,343*	6,004	1982
4,161	*7,640*	1,082	288	54	–91	1,060	–19	*2,374*	*79,956*	10,899	1983
2,425	*4,315*	1,045	–154	444	–96	667	129	*2,035*	*70,055*	9,774	1984

SOURCES AND USES OF MONETARY BASE (1)

(changes in billions of lire)

	SOURCES								TOTAL MONETARY BASE	USES				
	FOREIGN SECTOR			TREASURY			REFINANCING	OTHER SECTORS		NON-STATE SECTOR	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
1975	–1,439	–274	–1,715	16,469	12,388	4,081	785	1,,87	*4,539*	1,780	1,634	–	1,124	2,758
1976	–1,531	2,647	1,102	14,866	5,331	9,535	–1,656	–4,018	*4,963*	1,691	4,415	–	–1,144	3,271
1977	1,730	3,425	5,140	22,567	26,543	–3,976	227	5,003	*6,395*	1,835	3,664	–	896	4,560
1978	6,997	–1,067	5,911	34,305	29,321	4,984	–56	–979	*9,860*	2,936	5,076	–	1,848	6,924
1979	1,824	1,054	2,868	30,371	29,611	760	2,624	689	*6,941*	2,631	5,508	–	–1,198	4,310
1980	–6,258	6,932	708	37,017	27,277	9,740	–2,576	–2	*7,870*	3,670	3,046	626	527	4,199
1981	1,533	–1,521	25	53,296	39,064	14,233	119	–5,738	*8,639*	4,430	2,946	821	442	4,209
1982	–2,521	–3,062	–5,647	72,653	59,977	12,676	638	2,670	*10,336*	3,528	8,544	–519	–1,218	6,808
1983	3,793	4,996	8,840	88,604	84,090	4,514	–3	–747	*12,604*	4,081	9,092	–927	359	8,523
1984	57	5,138	5,141	95,351	85,323	10,028	–218	–1,104	*13,847*	3,861	8,855	–2	1,133	9,986
1983 - Jan.	–474	1,174	815	2,060	–1,805	3,865	1,953	–1,519	*5,114*	–2,379	7,675	681	–863	7,493
Feb.	–248	–418	–642	6,580	4,672	1,908	–1,809	277	*–265*	–18	–928	651	30	–247
Mar.	–1,406	1,054	–524	4,789	4,277	512	–101	–133	*–246*	580	–805	–687	667	–826
Apr.	1,211	871	2,048	9,159	11,440	–2,281	3	–128	*–359*	71	–669	759	–521	–430
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	5,758	8,424	–2,666	–83	1,360	*1,572*	1,239	–390	539	184	333
July	2,038	687	2,748	9,896	7,604	2,293	65	–765	*4,340*	2,947	1,576	–75	–107	1,394
Aug.	1,463	–1,632	–255	9,536	12,579	–3,043	–17	–557	*–3,871*	–2,514	619	–2,639	662	–1,358
Sept.	–199	–877	–1,183	9,146	8,853	294	559	279	*–51*	438	797	–105	–1,181	–489
Oct.	–661	469	–37	8,198	7,151	1,047	1,228	–893	*1,345*	–12	1,023	–1	334	1,357
Nov.	742	929	1,707	9,152	7,073	2,079	–1,881	–218	*1,687*	262	495	–26	956	1,425
Dec.	–317	339	112	8,105	6,336	1,769	–15	1,924	*3,790*	3,951	–345	–	183	–161
1984 - Jan.	–750	579	–199	2,437	–2,254	4,691	1,525	–657	*5,360*	–2,795	9,005	–	–850	8,155
Feb.	–508	–626	–1,150	6,590	7,852	–1,262	–6	88	*–2,331*	–214	–1,690	–2	–425	–2,117
Mar.	–1,964	833	–1,284	9,398	7,725	1,673	–1,502	727	*–386*	724	–1,298	–	188	–1,110
Apr.	750	451	1,372	9,299	10,035	–736	1,870	–2,198	*308*	267	–79	–	120	41
May	–1,569	2,739	1,165	7,739	8,267	–528	–1,952	447	*–867*	–333	–918	–	383	–535
June	–185	790	586	2,822	5,409	–2,587	2,298	1,132	*1,429*	1,354	–491	–	566	75
July	1,864	–78	1,783	8,049	7,072	977	–635	–1,060	*1,066*	1,326	765	–	–1,025	–260
Aug.	1,682	–655	1,026	7,164	6,059	1,105	–1,624	–832	*–325*	–1,327	817	–	185	1,001
Sept.	–437	198	–238	10,170	11,115	–945	–182	1,243	*–121*	455	204	–	–780	–576
Oct.	1,258	–626	631	9,328	8,887	442	2,127	–803	*2,396*	–801	1.587	–	1,610	3,197
Nov.	2,638	294	2,932	11,580	7,818	3,762	–2,126	–1,252	*3,316*	1,045	729	–	1,542	2,271
Dec.	–2,722	1,239	–1,483	10,774	7,339	3,435	–9	2,062	*4,004*	4,161	224	–	–380	–156

(1) Components may not add up to totals because of rounding. – (2) The creation of monetary base by the foreign sector does not tally with 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. – (3) 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 autonomous government agencies.

INTEREST RATES: BANK OF ITALY OPERATIONS

(percentages)

	OFFICIAL					
	Current accounts (1)			Bill discounting		Ordinary advances
	At sight	Tied		Ordinary bills (base rate)	Agricultural working and improvement credits	
		8-day	Compulsory reserves (3)			
From 1 Jan. 1958	0.50	1.50	4.25	4.00	4.00	4.00
to: 7 June 1958	"	"	3.75	3.50	3.50	3.50
14 Aug. 1969	"	"	"	4.00	"	4.00
9 Mar. 1970	"	"	"	5.50	"	5.50
1 Oct. 1970	"	"	5.50	"	"	"
11 Jan. 1971	"	"	"	"	"	5.00
5 Apr. 1971	"	"	"	5.00	"	"
14 Oct. 1971	"	"	"	4.50	"	4.00
31 Jan. 1972	"	"	"	"	3.50	"
10 Apr. 1972	"	1.00	"	4.00	"	3.50
17 Sept. 1973	"	"	"	6.50	6.50	6.50
20 Mar. 1974	"	"	"	9.00	9.00	9.00
27 Dec. 1974	"	"	"	8.00	8.00	8.00
28 May 1975	"	"	"	7.00	7.00	7.00
15 Sept. 1975	"	"	"	6.00	6.00	6.00
2 Feb. 1976	"	"	"	7.00	7.00	7.00
25 Feb. 1976	"	"	"	8.00	"	8.00
18 Mar. 1976	"	"	"	12.00	"	12.00
4 Oct. 1976	"	"	"	15.00	"	15.00
13 June 1977	"	"	"	13.00	"	13.00
29 Aug. 1977	"	"	"	11.50	"	11.50
4 Sept. 1978	"	"	"	10.50	"	10.50
8 Oct. 1979	"	"	"	12.00	"	12.00
6 Dec. 1979	"	"	"	15.00	"	15.00
29 Sept. 1980	"	"	"	16.50	"	16.50
23 Mar. 1981	"	"	"	19.00	9.50	19.00
25 Aug. 1982	"	"	"	18.00	"	18.00
11 Apr. 1983	"	"	"	17.00	9.00	17.00
16 Feb. 1984	"	"	"	16.00	8.50	16.00
7 May 1984	"	"	"	15.50	"	15.50
4 Sept. 1984	"	"	"	16.50	"	16.50
4 Jan. 1985	"	"	"	15.50	"	15.50

	EFFECTIVE				
	Fixed term advances	Repurchase agreements			
		Purchases		Sales	
		Minimum	Average	Maximum	Average
1983 - Jan.	20.87	18.40	18.54	18.25	18.20
Feb.	20.87	18.70	19.12	–	–
Mar.	20.64	18.50	19.25	18.50	17.93
Apr.	–	–	–	17.60	16.97
May	19.30	17.30	17.49	16.90	16.42
June	20.00	17.60	17.80	16.00	15.67
July	19.16	17.90	17.99	16.00	15.11
Aug.	19.52	18.15	18.20	14.45	14.07
Sept.	19.71	–	–	14.80	14.27
Oct.	19.90	–	–	–	–
Nov.	20.00	–	–	16.25	15.26
Dec.	19.81	18.10	18.96	16.00	15.43
1984 - Jan.	19.96	17.00	17.83	–	–
Feb.	18.52	15.20	16.63	–	–
Mar.	17.45	14.50	16.07	–	–
Apr.	16.65	15.00	15.74	–	–
May	16.92	14.60	15.12	–	–
June	16.53	–	–	–	–
July	16.49	14.60	15.07	–	–
Aug.	18.50	–	–	–	–
Sept.	17.36	–	–	16.00	15.79
Oct.	16.50	–	–	16.00	15.29
Nov.	17.47	–	–	–	–
Dec.	17.48	14.50	15.66	14.75	14.11
1985 - Jan.	15.95	16.30	16.65	13.10	12.94
Feb.	16.68	–	–	12.60	12.35
Mar.	17.10	–	–	12.45	12.30
Apr.	16.04	–	–	14.00	13.28

(1) Current accounts of banks, social security institutions, insurance companies and, as from 1 January 1963, central credit institutions, special credit institutions, and public corporations. 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 points 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 3, 2 or 1 point penalties 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	
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	17.62	12.47	19.44	23.46	19.19
1984	15.30	15.29	15.43	15.37	17.27	12.93	19.07	17.73	16.14	11.75	17.64	22.23	17.67
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
Mar.	18.58	18.88	18.57	18.73	19.13	14.78	22.31	20.67	18.13	12.93	20.19	23.84	20.00
Apr.	17.84	18.27	18.26	18.17	18.70	–	–	–	18.01	13.00	19.94	23.71	19.50
May.	17.36	17.65	17.97	17.64	18.16	–	–	–	17.58	12.52	19.36	23.43	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. (8)	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
							(20.19)	(18.66)					
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
Mar.	15.66	15.61	15.81	15.71	17.41	13.22	19.78	18.38	16.39	11.72	17.85	22.37	17.50
Apr.	15.60	15.45	15.67	15.57	17.35	–	–	–	16.26	11.64	17.57	22.17	17.50
May.	14.95	14.99	15.34	15.16	17.10	–	–	–	16.09	11.60	17.37	22.03	17.00
June	14.71	14.86	15.21	15.00	16.86	12.80	18.93	17.61	15.86	11.64	17.11	21.87	17.00
July	14.71	14.99	15.21	15.06	16.79	–	–	–	15.81	11.60	17.01	21.76	17.00
Aug.	14.95	14.99	15.21	15.08	16.72	–	–	–	15.78	11.67	16.96	21.71	17.00
Sept.	15.42	15.39	15.21	15.34	17.20	12.76	18.72	17.43	15.79	11.70	17.44	22.10	18.00
Oct.	15.27	15.30	15.14	15.23	17.31	–	–	–	15.85	11.70	17.71	22.30	18.00
Nov.	14.95	14.90	14.89	14.90	17.31	–	–	–	15.90	11.73	17.72	22.29	18.00
Dec.	14.82	14.69	14.68	14.70	17.31	12.92	18.85	17.49	15.95	11.76	17.69	22.25	18.00
1985 - Jan.	13.93	13.75	13.77	13.77	16.36	–	–	–	15.45	11.17	17.19	21.82	17.00
Feb.	13.62	13.46	13.36	13.42	16.09	–	–	–	15.15	10.87	16.89	21.49	17.00
Mar.	13.54	13.38	13.38	13.40	16.04	....	....	....	15.14	11.02	16.82	21.43	17.00
Apr.	14.41	14.31	14.00	14.24	15.70	–	–	–	15.05	11.14	16.78	21.35	17.00

(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 the Central Risks Office. – (7) The monthly data refer to the end of the month in question, whereas the annual data are weighted averages of the monthly rates. – (8) The figures in brackets are the lending rates recorded by the Central Risks Office recalculated in accordance with the threshold loans size in force as of February 1984.

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
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
1984	16.98	15.60	15.57	14.82	15.86	14.55	15.09	14.93	3.09
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
Mar.	21.31	18.76	18.74	18.28	18.91	17.87	18.76	18.23	1.74
Apr.	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
Mar.	17.48	15.68	15.69	15.25	16.33	15.04	15.04	15.35	2.39
Apr.	17.37	15.74	15.74	15.08	15.96	14.72	15.27	15.16	2.43
May.	17.05	15.75	15.71	14.95	15.89	14.67	15.25	15.03	2.54
June	16.73	15.54	15.47	14.73	15.96	14.63	14.78	14.87	2.62
July	16.45	15.18	15.12	14.28	15.69	13.99	14.89	14.43	3.32
Aug.	16.48	15.28	15.22	14.32	15.55	13.96	15.08	14.45	3.15
Sept.	16.63	15.64	15.58	14.45	15.35	14.24	15.15	14.58	3.57
Oct.	16.69	15.35	15.32	14.31	15.22	14.13	14.50	14.49	4.01
Nov.	16.36	15.25	15.23	14.29	14.94	14.33	14.36	14.44	4.05
Dec.	16.01	14.53	14.52	13.84	14.74	13.54	14.03	13.93	3.94
1985 - Jan.	15.15	13.27	13.22	12.85	13.52	12.44	12.75	12.71	3.50
Feb.	14.50	13.29	13.25	12.49	13.21	12.38	12.34	12.52	3.14
Mar.	14.23	13.51	13.48	12.78	13.11	12.45	12.71	12.73	3.13
Apr.	14.44	13.57	13.53	13.22	13.03	12.86	13.39	13.12	3.19

FINANCIAL ASSETS OF THE

(stocks in

	1975	1976	1977	1978	1979	1980
FINANCIAL ASSETS						
Domestic	**176,396**	**208,722**	**245,828**	**306,345**	**389,992**	**554,704**
notes and coin	12,304	13,953	15,780	18,533	21,001	24,545
demand deposits: with banks	45,568	55,536	68,224	83,567	104,145	121,452
with the Post Office	1,465	1,835	2,532	3,592	5,912	4,325
M1	*59,337*	*71,324*	*86,536*	*105,692*	*131,058*	*150,322*
savings deposits: banks (2)	48,731	59,879	73,578	87,112	100,838	112,163
P.O.	11,846	14,085	16,537	20,308	24,756	28,451
M2	*119,914*	*145,288*	*176,651*	*213,112*	*256,652*	*290,936*
Treasury bills	208	2,571	6,074	9,787	18,007	33,738
M3	*120,122*	*147,859*	*182,725*	*222,899*	*274,659*	*324,674*
Bankers' acceptances	–	–	–	–	2	1,134
Deposits and savings certificates with special credit institutions	3,727	3,669	3,905	4,939	5,362	5,776
Medium and long-term securities	17,433	17,673	17,975	24,015	28,045	27,391
of which: Treasury credit certificates	*11*	*44*	*1,280*	*3,824*	*6,902*	*8,450*
Shares (3)	24,676	27,388	27,029	38,060	62,821	172,916
Other financial assets	10,438	12,133	14,194	16,432	19,103	22,813
Actuarial reserves	*10,195*	*11,863*	*13,893*	*16,041*	*18,419*	*21,801*
Deposits on payments abroad + other (4)	*243*	*270*	*301*	*391*	*684*	*1,012*
Foreign (3)	....	**13,319**	**14,449**	**16,565**	**20,385**	**23,633**
Short-term credit (net)	....	175	1,395	2,240	4,342	4,653
Loans	....	8,402	7,860	8,643	9,533	9,988
Medium and long-term securities	586	1,028	942	1,113	1,480	2,148
Shares and participations	3,151	3,714	4,252	4,569	5,030	6,844
TOTAL . . .	....	**222,041**	**260,277**	**322,910**	**410,377**	**578,337**
AGAINST FINANCING OF						
Private sector	**135,059**	**156,192**	**175,402**	**211,580**	**263,698**	**411,631**
Short-term borrowing	46,091	56,433	65,142	73,296	88,843	106,333
banking system (5)	*44,962*	*55,054*	*63,457*	*70,756*	*85,329*	*101,212*
special credit institutions (5)	*1,129*	*1,379*	*1,685*	*2,540*	*3,514*	*5,121*
Medium and long-term borrowing	51,233	58,628	65,726	75,417	85,133	101,616
loans: banks	*5,404*	*6,665*	*8,078*	*10,408*	*13,998*	*18,060*
special credit institutions	*30,612*	*34,733*	*39,138*	*43,621*	*47,175*	*53,470*
public sector	*1,198*	*1,254*	*1,389*	*1,523*	*1,581*	*1,791*
foreign	*4,855*	*5,775*	*5,572*	*7,285*	*9,283*	*15,006*
bonds	*9,164*	*10,201*	*11,549*	*12,580*	*13,096*	*13,289*
Shares and participations	35,947	38,777	41,083	57,784	81,902	192,238
shares	*30,209*	*32,053*	*32,716*	*46,323*	*69,224*	*176,007*
endowment funds	*3,754*	*4,417*	*5,595*	*7,974*	*8,847*	*12,505*
financing by local authorities	*1,984*	*2,307*	*2,772*	*3,487*	*3,831*	*3,726*
Other financial liabilities (6)	1,788	2,354	3,451	5,083	7,820	11,444
Foreign sector	....	**–1,490**	**4,415**	**13,869**	**22,993**	**33,369**
Public sector (consolidated) (7)	**89,036**	**104,741**	**122,138**	**145,083**	**172,573**	**206,865**
Unclassified (8)		**–37,402**	**–41,678**	**–47,622**	**–48,887**	**–73,528**

(1) Components may not add up to totals because of rounding. – (2) Including certificates of deposit. – (3) 1984 figures are estimates. – (4) Including an estimate of atypical deposit on payments abroad. – (6) Credit institutions' bad debts, acceptances acquired by investors other than credit institutions, an estimate of atypical securities, loans granted by balances of credit institutions and discrepancies.

Table a 23

ECONOMY AND THEIR COUNTERPARTS (1)

billions of lire)

1981	1982	1983 I	1983 II	1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV
636,409	**721,409**	....	....	....	**898,130**	....	....	....	**1,109,884**
28,839	32,309	30,447	31,253	32,080	36,256	33,827	35,065	35,439	39,748
138,739	164,648	151,264	154,527	159,826	182,934	170,134	173,509	178,445	208,942
5,083	5,852	6,143	6,113	6,196	7,110	7,863	7,424	7,459	7,437
172,661	*202,809*	*187,854*	*191,893*	*198,102*	*226,300*	*211,824*	*215,998*	*221,343*	*256,127*
124,215	147,765	147,679	149,095	153,548	168,892	166,389	166,048	171,106	187,291
30,366	33,166	33,392	33,352	33,532	36,853	37,624	38,080	38,535	42,517
327,242	*383,740*	*368,925*	*374,340*	*385,182*	*432,045*	*415,837*	*420,126*	*430,984*	*485,935*
58,376	70,216	80,455	84,234	86,053	85,781	100,640	104,910	108,873	107,516
385,618	*453,956*	*449,380*	*458,574*	*471,235*	*517,826*	*516,477*	*525,036*	*539,858*	*593,451*
1,847	1,471	1,758	1,620	1,163	1,101	864	697	628	544
7,132	13,990	14,976	15,942	15,300	15,354	16,707	18,047	18,048	19,641
33,903	47,067	58,974	69,438	81,249	87,120	110,297	122,332	130,391	131,757
11,949	*22,483*	*31,792*	*39,911*	*50,153*	*52,706*	*70,770*	*81,263*	*86,800*	*87,025*
177,691	173,645	....	....	....	239,754	....	....	....	319,500
30,218	31,280	32,519	33,972	35,332	36,975	38,490	40,195	42,208	44,991
24,900	*29,600*	*30,964*	*32,327*	*33,691*	*35,055*	*36,702*	*38,349*	*39,996*	*41,643*
5,318	*1,680*	*1,555*	*1,645*	*1,641*	*1,920*	*1,788*	*1,846*	*2,212*	*3,348*
24,312	**29,611**	....	....	....	**33,547**	....	....	....	**25,004**
2,280	3,562	....	....	....	2,987	....	....	....	2,517
11,087	12,525	....	....	....	14,862	....	....	....	17,188
1,360	1,735	....	....	....	1,278	....	....	....	1,590
9,585	11,789	....	....	....	14,420	....	....	....	3,709
660,721	**751,020**	....	....	....	**931,677**	....	....	....	**1,134,888**
461,107	**505,919**	....	....	....	**630,546**	....	....	....	**787,372**
119,255	133,039	135,706	138,633	140,401	153,118	160,500	166,878	176,043	185,717
111,953	*124,069*	*126,502*	*129,882*	*131,927*	*143,353*	*150,866*	*156,191*	*165,023*	*172,628*
7,302	*8,970*	*9,204*	*8,751*	*8,474*	*9,765*	*9,634*	*10,687*	*11,020*	*13,089*
129,186	151,858	....	....	....	172,389	....	....	....	190,398
21,226	*22,457*	*22,857*	*23,539*	*24,188*	*25,485*	*26,243*	*27,498*	*28,297*	*29,365*
63,689	*73,506*	*75,209*	*76,397*	*78,734*	*80,348*	*81,457*	*82,348*	*84,758*	*87,656*
2,079	*2,484*	*2,524*	*2,987*	*2,830*	*2,889*	*3,099*	*3,182*	*3,860*	*3,458*
28,054	*34,666*	....	....	....	*42,528*	....	....	....	*46,875*
14,138	*18,745*	*20,212*	*20,022*	*20,755*	*21,139*	*21,326*	*21,828*	*22,821*	*23,044*
196,265	204,778	....	....	....	285,733	....	....	....	388,550
173,733	*174,512*	....	....	....	*247,832*	....	....	....	*342,902*
18,090	*25,617*	....	....	....	*32,408*	....	....	....	*38,995*
4,442	*4,649*	....	....	....	*5,493*	....	....	....	*6,653*
16,401	16,244	17,954	18,032	18,613	19,306	20,618	21,143	22,495	22,707
17,574	**4,167**	....	....	....	**11,361**	....	....	....	**318**
261,423	**330,431**	....	....	....	**407,354**	....	....	....	**502,934**
–79,383	**–89,497**	....	....	....	**–117,584**	....	....	....	**–155,736**

securities and the units of Italian investment funds. – (5) Including acceptances acquired; the lending of the banking system excludes loans used to pay the non-interest-bearing insurance companies and bank loans used to pay the non-interest-bearing deposit on payments abroad. – (7) Including social security institutions' actuarial reserves. – (8) Including the

TOTAL DOMESTIC CREDIT AND FINANCIAL ASSETS (1)

(flows in billions of lire)

	Finance to non-state sector (a)	State sector domestic borrowing requirement (b)	Total domestic credit (a) + (b)	Foreign sector (2)	Other items & discrepancies	Financial assets (3)	of which: M2	of which: M3
1975	16,861	14,218	31,079	−1,438	−4,016	25,625	24,305	24,314
1976	19,753	14,208	33,961	−1,531	−1,548	30,882	26,585	29,143
1977	17,289	17,973	35,262	1,730	−942	36,050	33,619	37,455
1978	17,498	31,763	49,261	6,997	−1,797	54,461	43,191	47,116
1979	25,217	28,531	53,748	1,824	5,246	60,818	47,109	56,048
1980	29,256	34,015	63,271	−6,258	−4,322	52,691	35,367	51,551
1981	28,092	45,242	73,334	1,533	−5,867	69,000	31,090	55,831
1982	31,404	68,987	100,391	−2,521	−11,011	86,859	58,388	69,818
1983	35,003	85,542	120,545	3,793	−12,054	112,284	53,682	69,304
1984	51,112	91,364	142,476	57	−15,216	127,317	53,845	75,593
1983 - Jan.	721	2,000	2,721	−474	−3,794	−1,547	−10,089	−5,270
Feb.	217	6,589	6,806	−248	−2,732	3,826	−3,457	−62
Mar,	4,533	4,689	9,222	−1,406	−191	7,625	−664	1,457
Apr.	2,602	8,850	11,452	1,211	−6,215	6,448	1,183	1,875
May	1,312	6,059	7,371	−1,244	−1,452	4,675	−1,962	713
June	464	5,440	5,904	2,888	2,577	11,369	7,424	7,852
July	8,488	9,627	18,115	2,038	−11,522	8,631	6,236	5,623
Aug.	−2,828	9,139	6,311	1,463	−1,479	6,295	882	2,866
Sept.	−163	9,158	8,995	−199	−165	8,631	4,841	5,278
Oct.	6,748	7,552	14,300	−661	−2,480	11,159	2,654	3,690
Nov.	4,578	8,863	13,441	742	−10,108	4,075	−1,519	1,250
Dec.	8,331	7,576	15,907	−317	25,507	41,097	48,152	44,032
1984 - Jan.	5,097	2,300	7,397	−750	−801	5,846	−11,772	−2,561
Feb.	1,876	6,609	8,485	−508	−2,565	5,412	−7,157	−2,593
Mar.	2,553	8,636	11,189	−1,964	249	9,474	2,101	3,272
Apr.	5,461	9,216	14,677	750	−7,320	8,107	375	1,656
May	1,872	7,588	9,460	−1,569	−1,978	5,913	−2,470	581
June	3,779	2,663	6,442	−185	2,206	8,463	5,024	4,887
July	10,626	7,795	18,421	1,864	−9,947	10,338	5,014	5,711
Aug.	−652	7,001	6,349	1,682	−5,317	2,714	−903	1,484
Sept.	3,341	8,862	12,203	−437	−1,758	10,008	6,652	7,511
Oct.	5,634	9,219	14,852	1,258	−6,196	9,914	3,771	6,540
Nov.	4,175	9,569	13,744	2,638	−8,155	8,226	1,768	4,396
Dec.	7,349	11,907	19,256	−2,722	26,366	42,901	51,442	44,709
Amounts outstanding as of Dec. 1984	**357,209**	**492,375**	**849,584**	**....**	**....**	**789,835**	**510,544**	**619,769**
1985 - Jan. (*)	3,115	5,966	9,081	90	−1,878	7,293	−4,622	−724
Feb.	120	8,813	8,933	−1,478	563	8,018	−6,093	−1,200
Mar.	1,636	13,255	14,891	−3,149	−4,096	7,646	2,786	2,935

(1) Components may not add up to totals because of rounding. – (2) Overall balance of the balance of payments. – (3) Domestic financial assets of the non-state sector, net of shares, participations, atypical securities and actuarial reserves. – (*) Provisional.

FINANCING OF INVESTMENT

(flows in billions of lire)

	Households	Firms and dwellings	Public sector (consolidated) (1)	Credit institutions (consolidated) (2)	TOTAL	Foreign sector
			1983			
Gross fixed investment	–	68,043	26,020	2,703	96,766	–
Changes in stocks	–	–1,511	–	–	–1,511	–
Capital transfers	–	–9,484	9,307	–	–177	177
Financial assets	92,068	21,386	18,806	92,770	225,030	25,154
liquid assets	51,083	12,787	5,560	6,759	76,189	122
medium and long-term securities	34,154	4,496	807	36,076	75,533	–29
shares and participations (3)	552	2,641	11,271	700	15,164	2,177
other loans (net) (4)	6,279	1,462	1,168	49,235	58,144	22,884
FINANCIAL REQUIREMENT	**92,068**	**78,434**	**54,133**	**95,473**	**320,108**	**25,331**
Gross saving (5)	90,423	36,877	–42,373	11,334	96,261	–1,183
Financial liabilities (6)	1,645	45,815	95,729	84,139	227,328	26,337
short-term borrowing (7)	1,118	19,462	15,190	67,166	102,936	21,673
loans and other borrowings: domestic	527	10,590	9,368	10,040	30,525	1,178
foreign	–	647	1,259	2,593	4,499	–
medium and long-term securities	–	2,392	69,912	3,428	75,732	–231
shares and participations (8)	–	12,724	–	912	13,636	3,717
Adjustments	–	–4,258	777	–	–3,481	177
SOURCES OF FINANCE	**92,068**	**78,434**	**54,133**	**95,473**	**320,108**	**25,331**
NET FINANCIAL INVESTMENT	**90,423**	**-24,429**	**-76,923**	**8,631**	**-2,298**	**-1,183**
			1984			
Gross fixed investment	–	77,348	29,531	2,835	109,714	–
Changes in stocks	–	4,268	–	–	4,268	–
Capital transfers	–	–14,601	14,277	–	–324	324
Financial assets	108,747	30,708	10,948	99,275	249,678	28,542
liquid assets	57,070	18,557	217	–5,204	70,640	168
medium and long-term securities	38,785	5,749	683	22,441	67,658	–
shares and participations (3)	1,731	4,536	8,492	908	15,667	2,802
other loans (net) (4)	11,161	1,866	1,556	81,130	95,713	25,572
FINANCIAL REQUIREMENT	**108,747**	**97,723**	**54,756**	**102,110**	**363,336**	**28,866**
Gross saving (5)	106,150	38,830	–49,403	12,893	108,470	5,188
Financial liabilities (6)	2,597	57,263	106,528	89,217	255,605	23,354
short-term borrowing (7)	2,191	31,895	31,158	72,118	137,362	19,093
loans and other borrowings: domestic	406	11,747	9,380	9,901	31,434	378
foreign	–	–778	2,271	3,067	4,560	–
medium and long-term securities	–	1,906	63,719	2,205	67,830	–172
shares and participations (8)	–	12,493	–	1,926	14,419	4,055
Adjustments	–	1,630	–2,369	–	–739	324
SOURCES OF FINANCE	**108,747**	**97,723**	**54,756**	**102,110**	**363,336**	**28,866**
NET FINANCIAL INVESTMENT	**106,150**	**-26,555**	**-95,580**	**10,058**	**-5,927**	**5,188**

(1) The sector's financial liabilities include the actuarial reserves of the social security institutions. – (2) Including insurance companies and Italian investment funds. – (3) Excluding the shares issued by state-controlled companies and taken up by their companies. – (4) The figures for the credit institutions include bad debts and arrears of payments. – (5) Households' gross saving has been put equal to their net financial investment. – (6) Financial liabilities have been adjusted for exchange rate changes affecting foreign currency loans, include credit institutions' bad debts 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. – (7) Including BI-UIC financing of the Treasury. – (8) Net issued by private sector companies and the contribution of third parties to the financing of state-controlled companies.

LIST OF ABBREVIATIONS

ABI	—	*Associazione bancaria italiana* Italian Bankers' Association
BI-UIC	—	*Banca d'Italia-Ufficio italiano dei cambi* Bank of Italy-Italian Foreign Exchange Office
CICR	—	*Comitato interministeriale per il credito e il risparmio* Interministerial Committee for Credit and Savings (Credit Committee)
CIP	—	*Comitato interministeriale per i prezzi* Interministerial Committee on Prices
CIPE	—	*Comitato interministeriale per la programmazione economica* Interministerial Committee for Economic Planning
Confindustria	—	*Confederazione generale dell'industria italiana* Confederation of Italian Industry
Consob	—	*Commissione nazionale per le società e la borsa* Companies and Stock Exchange Commission
EFIM	—	*Ente partecipazioni e finanziamento industria manifatturiera* Shareholding and Financing Agency for Manufacturing Industry
ENEL	—	*Ente nazionale energia elettrica* National Electricity Agency
ENI	—	*Ente nazionale idrocarburi* National Hydrocarbon Agency
ILOR	—	*Imposta locale sui redditi* Local income tax
INA	—	*Istituto nazionale assicurazioni* National Insurance Institute
INAM	—	*Istituto nazionale per l'assicurazione contro le malattie* National Health Insurance Institute
INPS	—	*Istituto nazionale per la previdenza sociale* National Social Security Institute
INVIM	—	*Imposta nazionale sul valore immobiliare* Capital gains tax on property
IRI	—	*Istituto per la ricostruzione industriale* Institute for Industrial Reconstruction
IRPEF	—	*Imposta sul reddito delle persone fisiche* Personal income tax
IRPEG	—	*Imposta sul reddito delle persone giuridiche* Corporate income tax
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
SACE	—	*Sezione speciale per l'assicurazione del credito all'esportazione* Special Department for the Insurance of Export Credits
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office