BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1988

ABRIDGED REPORT
FOR THE YEAR
1987

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RECENT DEVELOPMENTS AND ECONOMIC POLICIES

The industrial countries

Continuing the expansion that began in 1983, economic activity in the industrial countries grew faster in 1987 than had been predicted by international organizations. Inflation remained at the moderate levels of the previous year, comparable to those of the early sixties. However, this positive performance in the real economy contrasted with persisting large financial disequilibria, connected particularly with the US budget deficit and the wide current payments imbalances among the leading economies. At times these factors generated acute instability in the securities and foreign exchange markets.

Output in the industrial countries as a group expanded by 3.1 per cent in real terms, as against 2.7 per cent in 1986. There was a weaker stimulus than in the previous year from domestic demand, whose growth rate declined from 3.8 to 3.3 per cent, but there was a much sharper reduction in the negative contribution of net exports to real GDP growth, which contracted from 1.1 to 0.3 percentage points. The pace of economic activity picked up considerably in the course of the year. The annual rate of growth was less than 3 per cent in the first half but accelerated more strongly than expected to 4 per cent in the second. This pattern was especially marked in Japan and the leading European economies, reflecting the lagged effect on domestic demand stemming from the improvement in the terms of trade and the decline in interest rates that had taken place in 1986. Another expansionary factor was an increase in imports by the developing countries, where aggregate demand responded quickly to the rise in purchasing power produced by the recovery in the prices of oil and other raw materials.

Private consumption increased by 2.8 per cent, fueled not only by a rise in real income but also by greater financial wealth. Owing to exchange rate uncertainties and the weak stimulus from demand, investment grew at the same pace as in 1986, 3 per cent in volume terms, despite higher corporate profits.

Differentials in the rate of growth of domestic demand between the United States, Japan and the EEC countries, which had been negligible in 1986, widened in 1987 in a pattern consistent with the reduction of trade and payments imbalances. Domestic demand expanded by 5.1 per cent in Japan, 3.6 per cent in the EEC and 2.5 per cent in the United States. The differentials were less pronounced in terms of output owing to differences in the behaviour of real trade flows. The growth rate was comparable in the United States and the EEC (2.9 and 2.6 per cent respectively), but markedly higher in Japan (4.2 per cent).

Within the EEC, the United Kingdom and Italy recorded growth rates of 4.2 and 3.1 per cent respectively, while Germany and France achieved more modest expansions of 1.7 and 1.9 per cent. There were also fairly marked differences among the other member countries, especially between the North and South of the Community. Output increased by 5 per cent in Spain and Portugal and by about 2 per cent in the Netherlands and Belgium, while in Denmark and Greece budget austerity measures contributed to a contraction in output.

Turning to the components of demand, in the United States net exports had a positive effect on growth for the first time this decade, contributing 0.3 points to the change in GNP. In view of the stimulus that monetary and fiscal policy are also expected to generate, the expansion in employment and the 2.3 per cent annual rate of GNP growth in the first quarter of 1988 suggest that economic activity will remain brisk, although with sectoral disparities, notably between consumer goods industries and those oriented towards export markets. In Japan, output was rapid despite the negative contribution of the external sector as a consequence of the rise in the real exchange rate of the yen. The shift from foreign to domestic demand as the main engine of growth proceeded rapidly. In the leading EEC economies the contribution of foreign demand was generally negative, reducing the rise in GNP by more than 1 percentage point.

Inflation remained low, thanks both to the small rise in domestic costs and to the fact that increases in the prices of oil and raw materials were offset by the depreciation of the dollar. For the industrial countries as a group, consumer price inflation came to 3 per cent, more than half a percentage point higher than in 1986. Prices remained virtually unchanged in Japan and Germany, and progress was made in this regard in Italy, where inflation slowed down to under 5 per cent. On the other hand, the rate of price increase accelerated in the United Kingdom and the United States, where it picked up from 2.0 to 3.6 per cent.

Wholesale prices fell in Japan but rose slightly in the United States and the EEC, only partly reflecting the increase in the cost of oil and other commodities. In Japan and Europe import prices still had a disinflationary impact in 1987 owing to the appreciation of their currencies vis-à-vis the dollar, while in the United States the effect of the dollar's depreciation on imported inflation was held in check by foreign exporters' pricing policies, aimed at retaining their market shares (Table 1).

Table 1

PRICES AND LABOUR COSTS IN THE UNITED STATES, JAPAN AND THE EEC

(percentage changes)

	Consumer prices	Wholesale prices (1)	Import prices (2)	Unit labour costs (3)	Wages (4)
United States					
1984	4.3	2.7	1.8	2.6	4.9
1985	3.5	−0.9	−2.5	3.9	4.7
1986	2.0	−2.6	−3.4	2.6	3.0
1987	3.6	2.7	7.0	2.8	2.8
Japan					
1984	2.2	—	−2.7	0.3	3.9
1985	2.1	−1.0	−3.6	−0.2	3.5
1986	0.4	−10.0	−38.7	2.6	3.1
1987	−0.3	−3.3	−6.3	−0.3	2.4
EEC					
1984	6.7	7.1	9.3	5.0	7.3
1985	5.8	4.9	3.3	5.0	7.0
1986	3.4	—	−13.6	4.2	6.1
1987	3.1	1.6	−2.6	3.6	5.3

Sources: EEC, OECD and IMF.
(1) For the EEC, producer prices of manufactures. — (2) Average unit values. — (3) For the entire economy. — (4) Earnings per employee, entire economy.

The rise in unit labour costs was less than that in consumer prices in North America, thus helping to curb inflation. In the EEC it was slightly higher, but still half a point lower than in 1986.

The contrast between North America and Europe in employment became more pronounced in 1987. In the United States and Canada, where labour productivity was broadly unchanged, the number of persons employed increased by 2.7 per cent, whereas in the European Community there was a rise of about 1 per cent; this was better, however, than the Community's performance since the early eighties and was due to faster growth in domestic demand and special employment programmes aimed primarily at young people in such countries as Spain and the United Kingdom. The unemployment rate declined only slightly, to just under 8 per cent for the industrial countries as a whole. In the United States the reduction was more pronounced, with the rate falling from an average of 7 per cent in 1986 to 5.6 per cent in March 1988. In Japan the unemployment rate rose to a postwar peak of 3.2 per cent in the first half of 1987 but then fell back close to the average of 2.8 per cent for the eighties. In the EEC, however, the unemployment rate declined only slightly and remained at about 11 per cent.

The developing economies

For the LDCs as a whole, 1987 witnessed a slowdown in growth from 4.1 to 3.1 per cent and an acceleration of inflation to 40 per cent, the fastest rate recorded in the past decade. A strong 7.3 per cent increase in the volume of exports and an improvement of 3.4 per cent in the terms of trade produced a substantial improvement in their payments position. Their aggregate balance of payments on current account went from a deficit of about $40 billion to a small surplus, reflecting the adjustment of the fuel exporters' external positions and the surplus achieved by the other LDCs, especially the main exporters of manufactures.

The differences that have been evident in the performance of the various groups of developing countries in recent years persisted. The Asian economies are by far the most dynamic; during the eighties they have succeeded in maintaining stable prices and an average growth rate of 6.5 per cent, sustained by a rapid expansion of exports. In Latin America, growth slowed down from 4.0 to 2.3 per cent, since foreign debt placed a constraint on import capacity. Signs of difficulty in carrying out their domestic adjustment programmes also emerged. Their budget deficits, which had declined to less than 4 per cent of GDP in 1984-85 thanks to the stabilization programmes then adopted, have expanded again to about 6 per cent. Moreover, accommodating monetary policies have fueled inflationary pressures, so that the rate of consumer price inflation increased from about 90 per cent in 1986 to 130 per cent last year.

The situation of sub-Saharan Africa remains difficult. The average growth rate came to 2.2 per cent last year, not enough to increase per capita incomes. Thus the gap between these countries and the middle income LDCs widened.

Economic policies in the industrial countries

Monetary policies. — Except in the United States, monetary policies in the leading industrial economies were more expansionary last year than in 1986. The growth of the broad aggregates exceeded that of gross nominal income and in many cases overshot the targets. This reflected massive intervention to support the dollar and, in the fourth quarter, the severe instability in financial markets, to which the authorities reacted with large-scale injections of liquidity, especially in the United States.

However, the deviation of aggregates from the target path might lead to overestimating the expansionary effect of the monetary stance. As had happened in 1986, part of the rapid expansion of liquidity was matched by an increased demand for money in Germany, related to low interest rates and zero inflation, and in Japan, France and the United Kingdom owing to continuing innovation and deregulation in financial markets. In the United States the deceleration of the narrow aggregates resulted in part from portfolio shifts to higher-yielding assets, in view of the lag with which deposit rates respond to movements in market rates. The monetary stance was restrictive until the autumn in order to bolster the dollar and curb inflation. In the last few months of the year monetary policy became more expansionary, easing banks' reserve positions in accordance with the priority given to stabilizing financial markets and supporting economic activity.

The increasing emphasis the monetary authorities placed on exchange rate objectives influenced the behaviour of short-term interest rates. On average for the year these rates declined in Japan and Germany, where the monetary aggregates grew strongly, while in the United States they remained stable apart from a temporary rise in the fourth quarter. The result was a widening of the differential in favour of dollar assets, in keeping with the determination to support the US currency expressed in the Louvre Accord of February 1987.

Short-term interest rates rose in France. After declining in the first few months of the year they held more or less steady until November, when they rose sharply in response to the raising of the official discount rate, made necessary by heightened pressure on the franc. This action was taken in concert with the Deutsche Bundesbank, which lowered the Lombard rate by half a point. Over the following weeks the Bank of France again lowered its intervention rates, coordinating the decision with similar reductions by central banks of the other European countries (Germany, Belgium, the Netherlands, the United Kingdom, Switzerland and Austria).

In the United Kingdom the second half of the year was marked by an increasing conflict between stabilization of the exchange rate and control of the money supply. In view of the strong expansion of credit demand, a rise in interest rates appeared warranted. In February 1988 the upward pressure on sterling eased, so that base rates could be raised temporarily. In March and April, however, they were lowered again in response to the resurgence of exchange rate pressures, but this move did not prevent a further appreciation of the pound.

On average for 1987, long-term interest rates declined in Japan, Germany and the United Kingdom, but less sharply than short-term rates, while in the United States and France they rose by more than those at short term. The consequence was a large yield differential between short and long-term assets; the gap widened during the summer, when long-term rates in the leading economies began to rise, partly in response to the rise in American rates in connection with the problems in financing the current account deficit and partly owing to fears of a resurgence of inflationary pressures. After peaking in October, long-term interest rates eased as a result of stronger demand for bonds in the wake of the stock market crash. By December they had returned to the levels recorded at the start of the year, except in the United States and France.

The decline in long-term rates continued in the first quarter of 1988. The differential with respect to short-term rates thus narrowed, except in Germany, where the gap widened owing to the sharp fall in short-term rates. In April, however, monetary conditions in the United States were tightened as inflationary pressures intensified. Interest rates rose across the board, more especially at the long-term end of the spectrum.

The sustained rise in share prices in the first three quarters of 1987 (35 per cent in the United States, 34 per cent in Japan and 44 per cent in the United Kingdom) produced a widening gap between bond and share yields; in September the interest rate on long-term government securities exceeded the average yield on shares by more than six points in the United States, five in Japan and seven in the United Kingdom. Spreading fears of further increases in interest rates touched off the stock market crash of 19 and 20 October. The fall in share prices was remarkable not only for its amplitude (21 per cent in the United States and Japan, 17 per cent in the United Kingdom) but also for the fact that it occurred in all the major markets simultaneously. Greater interdependence both between countries and between different market segments, partly as a result of computerized trading techniques, increased the speed with which the shock was transmitted.

Increasing difficulty in forecasting money velocity, together with the greater attention paid to exchange rate stabilization, led to the abandonment of the practice of targeting some aggregates in 1988 and to a general reduction in the emphasis placed on them in the implementation of monetary policy. The US authorities have set a target range of between 4 and 8 per cent for the growth in M2 and M3 ; this is wider than the range set for 1987 in view of greater uncertainty about the economy and the loosening of the link between money and income observed in recent years. For the first time since 1974 the German monetary authorities have set targets for M3 instead of central bank money, retaining the lower and upper bounds at 3 and 6 per cent;

in this way they aim to reduce the variability of the chosen aggregate due to preference shifts among its components.

Fiscal policies. — The general government budget deficit of the industrial countries as a group declined from 3.3 per cent of GDP in 1986 to 2.6 per cent in 1987. The only major country in which it did not diminish was Germany.

According to IMF and OECD indicators of the cyclically adjusted budget balance, the fiscal impact was restrictive last year in the United States, France and Canada and moderately expansionary in Germany. In the United Kingdom and Italy the budget had a neutral effect. In the case of the United States, however, this assessment depends in part on exceptional and temporary factors.

The US federal budget deficit decreased from $221 billion in the 1986 fiscal year to $150 billion in 1987, or from 5.2 to 3.3 per cent of GNP, which is consistent with the target mandated by the Gramm-Rudman-Hollings Act; it was the largest reduction since the Second World War. The improvement reflected not only slower growth in public expenditure but also the temporary effects of the tax reform introduced in late 1986. Larger corporate income tax revenues more than offset a decline in personal income taxes, with a net gain of $20 billion.

In Japan, tax revenues were considerably higher than forecast, neutralizing the impact of the substantial increase in spending approved in May. In part this was the result of the strong cyclical expansion, in part the effect of temporary factors, such as an increase in receipts from capital gains tax thanks to the rise in share and land prices. Acccording to the OECD, once correction is made for these exceptional factors the Japanese fiscal stance switches from restrictive to expansionary.

The German budget deficit rose as a proportion of GNP for the second consecutive year, from 1.2 to 1.7 per cent, owing largely to the cyclical effect of a modest increase in nominal GNP.

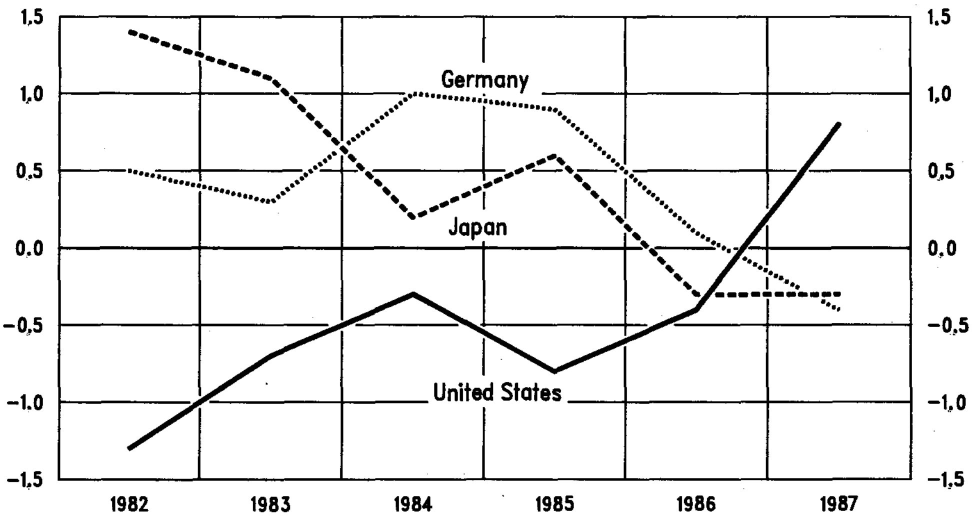
Fiscal policy in the three major countries thus moved at least some way towards redistributing the growth in domestic demand to the economies with large current account surpluses, thereby helping to correct the imbalances in international payments (Figure 1).

In the United Kingdom the public sector recorded a £3 billion surplus in the 1987-88 fiscal year, mainly because of the expansion of economic activity. In France the deficit decreased by 0.6 percentage points as a proportion of GDP, the largest reduction since the beginning of the eighties.

According to the projections of international organizations, fiscal policy will be more or less neutral in 1988 for the industrial countries as a group.

Figure 1

FISCAL STIMULI IN THE THREE LEADING INDUSTRIAL COUNTRIES (1)



Source: Based on OECD data.

(1) The indicator measures the cyclically adjusted change in the budget balance, expressed as a percentage of nominal GNP or GDP. A positive sign indicates a move towards restriction; a negative sign indicates expansion. The indicator for Japan is corrected for 1987 for the increase in receipts from capital gains tax.

In the United States, after difficult negotiations aimed in part at preventing the activation of automatic spending cuts under the Gramm-Rudman-Hollings Act, Congress and the Administration agreed on 20 November on a set of measures to reduce the federal budget deficit for 1988 by $30 billion. Estimates by the Administration and by international organizations in the light of these measures put the deficit at about the same level as in 1987. The forecasts assume GNP growth of at least 3.3 per cent; slower growth would make it difficult to achieve the budget target.

Japan's budget for 1988 calls for a sharp slowdown in public works spending and a consequent reduction in the deficit as a share of GNP. Net of the effect of temporary factors similar to those at work in 1987, the fiscal policy stance should be more or less neutral. In Germany the deficit is expected to rise from 1.7 to 2.6 per cent of GNP, about the same as in the late seventies.

EXCHANGE RATES AND WORLD TRADE

Exchange rates and the current accounts of the three leading industrial countries

The dollar, the yen and the Deutschemark. — The exchange rates of the main currencies again showed pronounced movements last year as a reflection of the continued worsening of the current account disequilibria of the three leading industrial countries. In particular, the US dollar depreciated further in the last few months of the year.

Between the end of February and May the decline in the dollar exchange rate was slowed down by substantial interventions by the central banks of the main industrial countries. In June the currency even began to strengthen, and by the first week of August it had recovered to the level recorded in March. However, in the second half of the month it came under pressure again, partly as a result of the release of figures showing that the US trade deficit was continuing to worsen. The countries that had been supporting the dollar also seemed less able to continue doing so because of the growing conflict between domestic and external monetary policy objectives.

After the stock exchange crisis in the second half of October the Federal Reserve gave priority to restoring a climate of confidence in the financial markets by inducing a fall in interest rates. The depreciation of the dollar therefore gathered pace in November and especially in December. On 23 December the monetary authorities of the Group of Seven countries issued a joint communiqué reaffirming their commitment to cooperate in order to reduce current account disequilibria and stabilize exchange rates. The Federal Reserve's substantial contribution to the concerted interventions made it possible to halt the fall of the dollar at the beginning of January. By then the currency's exchange rate was about 10 per cent lower than the 1980 average and hence more than 38 per cent below its peak of March 1985.

For the year as a whole, the international competitiveness of US firms in relation to their main rivals in the industrialized world, measured in terms of the wholesale prices of manufactures, returned to a level similar to that recorded in 1978, which was the highest since the beginning of the seventies; in the first few months of 1988 it was even 7 per cent higher. In relation to the currencies of the four main industrializing countries of Asia (Taiwan, South Korea, Hong Kong and Singapore) the real exchange rate of the dollar fell by 10.4 per cent over the year but remained 11 per cent higher than the 1980 level.

The current accounts of the three leading industrial countries. — The current account disequilibria of the United States, Japan and Germany continued to worsen, increasing to $161, 87 and 44 billion respectively. However, if the imbalances are set in relation to GNP to eliminate the somewhat distorting effect of the pronounced depreciation of the dollar, there was a significant reduction in the Japanese surplus from 4.4 per cent in 1986 to 3.6 per cent in 1987 and a more modest contraction in the German surplus from 4.2 to 3.9 per cent.

The US current account figures were disappointing, despite the expected reversal of the economy's relative cyclical position and the continuous improvement in US price competitiveness. These developments were in fact outweighed by the deterioration of 5 per cent in the terms of trade; the trade deficit therefore rose from $156 billion to more than $170 billion on a customs basis.

The slight increase in Japan's current account surplus reflects the improvement in the trade surplus to $96.5 billion. The strong growth in domestic demand, which rose by 5 per cent, and the real appreciation of the yen' were therefore not sufficient to reverse the trend in the trade balance as had been hoped.

Despite a deterioration of more than $8 billion in the balance on services and transfers, Germany's current account surplus rose by almost $6 billion owing to the further increase in the trade surplus to more than $70 billion, a gain that was achieved almost entirely at the expense of the other European countries.

The European Monetary System and the process of liberalization within the EEC

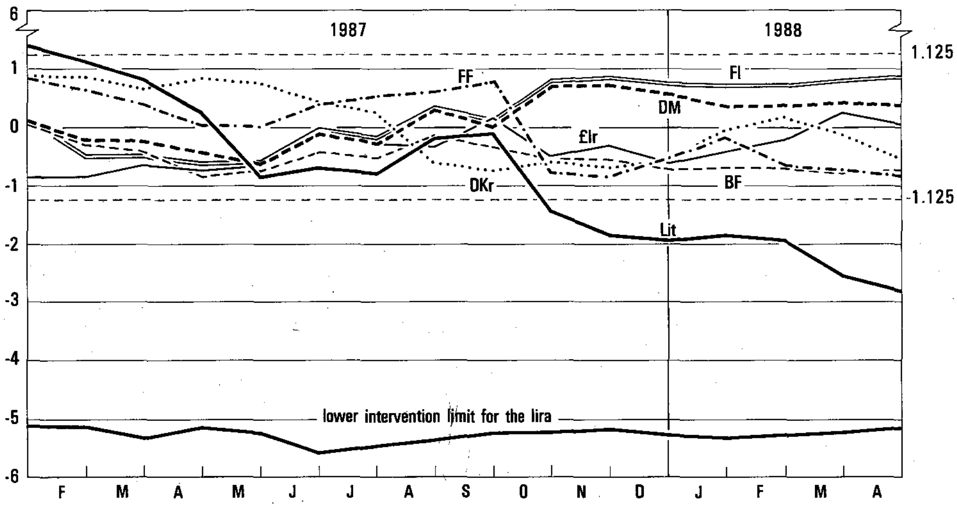
Exchange rates within the EMS. — Between the realignment of 12 January 1987 and the end of April 1988 the currencies participating in the EMS exchange rate mechanism experienced occasional periods of strain, often in connection with instability in the international foreign exchange markets. Central exchange rates were not adjusted, however, since the authorities firmly believed that a realignment was not justified by the economic fundamentals. Their ability to resist the pressure for adjustment was enhanced by the strengthening of the System's defence mechanisms agreed by the central bank Governors in Basle and confirmed by the Council of Finance Ministers in Nyborg, which enhanced coordination and flexibility in monetary and exchange rate responses and allowed the use of the very short-term financing facility to be extended to intramarginal interventions.

In the first week of May 1987 the French franc was allowed to drift downwards and the Italian lira reached the lower limit of the narrow band of fluctuation (Figure 2). In subsequent months the lira moved back towards the centre of the band and the French franc rose above all the other currencies in the System.

Figure 2

EMS EXCHANGES RATES

(percentage changes with respect to central rates; end-of-period data)



In the second half of August the renewed weakening of the dollar and the upward trend in interest rates in Germany created fresh strains within the System, particularly regarding the lira. On 13 September the Italian monetary authorities decided to adopt temporary credit and foreign exchange measures, which will be described below. A few days earlier Italy's ECU holdings deposited with the EMCF had been mobilized as a precaution. The measures led to an immediate stabilization of the lira and encouraged a renewed inflow of capital, making it unnecessary to use the ECU resources.

Signs of instability within the EMS reappeared when the dollar again weakened at the end of October; on this occasion the strains focused on the French franc. The French authorities decided to allow the exchange rate to slide, and within the space of two days the franc depreciated by around 2 per cent against the Deutschemark; the lira followed the franc down, slipping below the lower limit of the narrow band. The pressure on the French franc eased after the Ministers of Finance of France and Germany had decided on a concerted adjustment of interest rates on 5 November.

At the beginning of December the French franc rose back towards the centre of the band. In Italy the improvement in the balance of payments on current account in the second half of 1987 and the generally satisfactory performance of the economy allowed the monetary authorities to remove the September exchange control measures on 20 January, hence earlier than the planned expiry date in March.

In the twelve months to March 1988 the effective exchange rate of the Deutschemark rose by 1.7 per cent against the other currencies participating in the EMS exchange rate arrangement. The French franc and the Italian lira, on the other hand, depreciated by 1.8 and 3.2 per cent respectively and by 1.3 and 3.4 per cent against the currencies of all industrialized countries. Italy's competitiveness vis-à-vis the countries participating in the mechanism remained stable in terms of the wholesale prices of manufactures, whereas France registered a modest gain and Germany a slight loss, both of the order of 1 per cent.

In the twelve months to April the pound sterling showed a steady tendency to appreciate against the dollar and the mark. Between February 1987 and March 1988 it rose by 10 per cent against the mark and by 20 per cent against the dollar. In nominal effective terms the appreciation came to around 11 per cent; this was reflected in an increase of 13 per cent in the real exchange rate.

Liberalization of the financial markets in the EEC and its implications for the future of the EMS. — The proposals for achieving financial integration by 1992 are being discussed in the context of the measures to create the single European market. By that date the Community should have completely liberalized capital movements and created a single market in financial services. The latter will entail guaranteeing all Community intermediaries freedom of establishment and freedom to provide services in any member state in accordance with the principle of supervision by the country of origin of the parent bank and mutual recognition of domestic institutions, practices and financial products. This will require a minimum harmonization of laws and prudential requirements to ensure the stability of financial institutions and comparable levels of saver protection.

The "initial phase" of the liberalization of capital movements was completed in November 1986 with the approval of amendments to the

First Directive implementing Article 67 of the EEC Treaty. In November 1987 the EEC Commission presented to the Council a draft directive providing for the complete removal of restrictions, thereby extending the liberalization requirement to all transactions of a monetary nature (deposits, securities and short-term lending).

The Commission also tabled a draft regulation aimed at strengthening the Community's financial assistance instruments. The compromise reached in this connection in April by the Ministers of Finance provides for the amalgamation of the two existing medium-term credit mechanisms, namely financial assistance and Community lending.

With regard to the minimum harmonization of supervisory rules, on 13 January 1988 the Commission presented the draft Second Directive on the coordination of banking legislation, the aim of which is to lay down minimum common requirements for the conduct of banking activity (see the section in this Report dealing with banking supervision).

Since the complete liberalization of capital movements within the EMS will open up the possibility of broader and more frequent speculative attacks, it is necessary to strengthen the mechanisms for monetary coordination and financial support among the parties to the exchange rate agreements. The Italian authorities have proposed that consideration should be given to a procedure within the Committee of Governors to achieve ex ante coordination of member countries' monetary growth targets. They have also suggested a new mechanism for financing interventions so that in the event of speculative pressures that were not justified by the economic fundamentals the effects of shifts in investors' portfolios could be offset by inducing short-term capital movements in the opposite direction.

Finally, the prospect of complete financial integration has reopened the debate about the "institutional phase" of the EMS.

The commodity markets and world trade

Oil and raw materials. — Oil prices rose sharply during 1987, mainly owing to the greater discipline among OPEC countries in respecting the new production quotas agreed at the end of 1986. The average export price of crude rose by 30 per cent on an annual basis but was still 45 per cent below the 1980 level.

The dollar prices of other raw materials recovered markedly last year as a result of the acceleration in world production of manufactured goods and rigidity in the supply of some primary products. The overall price index rose by about 9 per cent, so that by the end of the year it had equalled the previous peak recorded in 1984. The recovery only partly offset the decline that had occurred since the beginning of the eighties; indeed, in 1987 average prices were 21 per cent below their 1980 level. If raw material prices are deflated using the export prices of industrialized countries' manufactures, the overall real price index for primary products was still 7 per cent lower than in 1986 and that for raw materials exported by developing countries was down by 17 per cent.

World trade and the balances of payments of the main areas. — In 1987 the rate of growth in the volume of world trade was higher than the average for the eighties (3 per cent); whereas GATT estimates the increase at 4 per cent, the IMF and the OECD put it at 4.9 and 5.6 per cent respectively.

Exports of manufactured goods became the main stimulus to the growth in world trade again last year, rising at a rate of more than 5 per cent (compared with 3.5 per cent in 1986), mainly on account of the strong expansion of 8 per cent in imports by industrialized countries.

The industrialized countries recorded a sharp deterioration in their current account balances in the year under review, taking the deficit to $49 billion, compared with $19 billion in 1986. The current payments balance of developing countries as a group showed a surplus of more than $4 billion, the first surplus since 1980. However, the aggregate conceals substantial differences in situation and performance. In fuel-exporting countries the continued contraction in the volume of imports (12 per cent in 1987), the stagnation in the volume of exports and the improvement of 12 per cent in their terms of trade caused the trade surplus to increase by about $32 billion to $46 billion, thus eliminating their current account deficit, which had amounted to $30 billion in 1986. Non-fuel exporters saw their exports expand by 10 per cent in volume and their imports by 7 per cent, so that their trade balance improved by $12 billion; their current account balance recorded a surplus of about $5 billion, compared with a deficit of $9 billion in 1986.

LDCs' exports in the eighties. — The adjustment of the external disequilibria of the developing countries, which began in 1983, has concentrated hitherto on reducing the volume of their imports. In future greater weight must obviously be given to stimulating export growth.

During the eighties the volume of exports by the developing countries as a whole increased at an annual average rate of around 2 per cent, more than 1 percentage point slower than the rate of growth in world trade. The simultaneous deterioration in their terms of trade by around 3 per cent a year drastically reduced their share of total world trade; in value terms, their exports fell from 28 per cent of the latter in 1980 to 19 per cent in 1987. The decline was due partly to their insufficient ability to focus their exports on industrial countries, whose imports increased at a rate of more than 5 per cent a year; shipments to these countries as a proportion of the developing countries' total exports declined by more than 3 percentage points during the eighties.

The export performance of developing countries as a whole conceals marked differences between the main country groups; in the eighties exports from countries in Latin America, sub-Saharan Africa, the Mediterranean and OPEC to the industrialized countries expanded more slowly than world exports in both value and volume; the newly industrializing countries of the Far East, by contrast, recorded growth rates that were three times higher. The explanation for the differences lies partly in the types of goods exported by the various groups and in the countries that were their main customers.

CAPITAL MARKETS, EXTERNAL DEBT AND OFFICIAL RESERVES

International capital markets

After three years of strong expansion, total gross lending in 1987 remained at the same level as in 1986 ($384 billion compared with $390 billion the previous year). However, there was a pronounced change in its composition, representing a turnaround in the process of securitization. After years of decline or stagnation, new syndicated loans expanded by 68 per cent, while gross bond issues fell by 23 per cent, their first decline since 1980.

One of the causes of this development was a change in expectations regarding interest rates, which began to rise again after two years of decline. Above all, there was a lowering of investors' perception of the liquidity of the Euro-bond market, partly as a result of the slump in perpetual floating-rate notes in December 1986 and last October's stock market crash.

A substantial process of readjustment has taken place in the Euro-bond market. The rapid pace of growth in previous years, combined with low profit margins and the continuous introduction of new instruments, had resulted in an excess supply of bonds. Many intermediaries therefore withdrew from the market sectors they considered unprofitable, and pricing policies reflected a general reassessment of risk. Discrimination between borrowers of different quality also became more pronounced and greater preference was given to large-scale traditional issues.

Notwithstanding the difficulties in the bond sector, the market proved flexible in providing alternative sources of financing. There was a reversal in the trend towards securitization, so that the share of gross financing in the form of syndicated loans rose sharply, from 14 to 23 per cent. Uncertainty about the future outlook for the capital markets was a further incentive for borrowers to establish more stable ties with the banks. The limited ability of some market makers to maintain orderly conditions on the stock markets at a time of increased price volatility and the losses sustained on the stock exchange by some securities dealers further reduced the advantages of securities houses over banks.

Both the size and structure of borrowing facilities were the same as in 1986; in particular, issues of Euro-commercial paper remained high, at over $55 billion.

International equity issues recorded a further increase of 56 per cent as a result of the performance of the stock markets during the first part of the year and a large volume of offers to non-residents in connection with the privatization of public enterprises.

External debt

Economic growth in the industrial countries and the recovery of world trade in 1987 created more favourable conditions for the adjustment process in debtor countries, thus easing the debt crisis. In the fifteen most heavily indebted countries, the ratio of debt service payments to exports fell from 43 to 36 per cent, the lowest level since the onset of the crisis.

The situation nonetheless remains precarious, partly because of uncertainty surrounding the implementation of adjustment programmes in a number of countries. The total external debt of the LDCs has continued to rise, reaching $1,200 billion at the end of last year. The debt/export ratio of the most heavily indebted countries is still above the levels prevailing at the beginning of the crisis; in the poorest countries it has reached an unprecedented peak of more than 450 per cent.

The Eastern European countries' gross debt in convertible currencies showed a marked increase for the third consecutive year: between the end of 1984 and last year it rose from $82 billion to almost $130 billion. Over the same period their net debt/export ratio also increased rapidly to stand at 143 per cent at the end of 1987, a figure that is nevertheless much lower than that recorded by many debtor LDCs.

Restructuring continues to represent an important means of alleviating the burden of debt servicing for LDCs. Long-term debts totaling $92 billion were renegotiated by the commercial banks, while loans exceeding $27 billion were rescheduled under the auspices of the Paris Club, including around $2 billion by Italy.

Notwithstanding restructuring, payments by LDCs for the servicing of medium and long-term debts exceeded new loans from both official and private sources for the fourth year in succession. According to World Bank estimates, the net transfer of resources from the most heavily indebted nations amounted to $20 billion in 1987, which is equivalent to approximately 2.5 per cent of their aggregate. GNP.

Net lending by the IMF to LDCs was negative for the second year running; this was the result of an increase in repayments from $7 to 11 billion as a consequence of the strong expansion of loans to these countries following the debt crisis.

Gross lending by multilateral development banks to LDCs increased only marginally, from $17 to 18 billion. Lending to the fifteen most heavily indebted countries was less than is considered necessary to overcome the debt crisis. There was a decline in both gross and net lending to these countries; the former fell by 9 per cent (from $7.5 to 6.8 billion) and the latter by over 30 per cent.

It is still proving difficult for debtor countries to obtain adequate loans from private sources. Between the end of 1986 and the end of 1987 the exposure of BIS reporting banks towards the most indebted nations rose by $1.4 billion, but at constant rates of exchange this represents a contraction of approximately $10 billion. The negotiations between commercial banks and debtor countries have continued to generate innovative financing techniques that widen the banks' options (the so-called menu approach) in order to facilitate agreements on new financial packages. The readiness of banks to take part in such novel schemes is frequently conditioned by the scant interest of some of their number to contribute to future financial packages, by the tax and supervisory regulations prevailing in different countries and by the size of the banks' loan loss provisions.

Official reserves

Expressed in dollars, gross official reserves (excluding gold) rose by 40 per cent, from $512 to 717 billion, the largest increase in absolute terms ever recorded and the third largest in relative terms, exceeded only during the explosion of international reserves in 1970 and 1971, when they rose by 41 and 70 per cent respectively. However, it is estimated that over a quarter of this expansion ($55 billion) can be attributed to valuation adjustments due to the depreciation of the dollar. Industrial countries accounted for approximately three quarters of the total increase in reserves, which was caused primarily by massive interventions to support the dollar.

The official reserves of developing countries grew by some $50 billion as a result of the improvement in their external position. The largest increase was recorded by Taiwan, whose reserves jumped from $46 to 77 billion; its official holdings of foreign exchange were negligible at the start of the eighties, but they are now on a par with those of Japan, which is the leading world holder of reserves.

IMF member countries' holdings of SDRs rose from $19.5 to 20.2 billion as a result of net sales by the Fund. However, reserve assets created by the IMF (SDRs and reserve positions) represented little more than 10 per cent of total official reserves excluding gold at the end of 1987, against 13 per cent in 1986.

The price of gold rose during the year from $391 to 484 per ounce, causing the market value of gold reserves to increase from $371 to 457 billion. The higher price of gold and the rapid growth in the dollar reserves of European countries led to a marked increase in official ECU reserves, which went up from ECU 45 to 55 billion.

THE ITALIAN ECONOMY

DEMAND, OUTPUT AND THE BALANCE OF PAYMENTS

The outturn for the year

The Italian economy grew by 3.1 per cent in 1987, compared with 2.9 per cent the previous year, thus continuing the acceleration that began in 1984. The increase in GDP was broadly in line with the OECD average and half a point higher than that for the EEC. The increase in employment was nonetheless disappointing, only 0.2 per cent in terms of standard labour units, in spite of the fact that the new national accounts definition introduced last year takes account of the decline in industry's recourse to the Wage Supplementation Fund.

The growth of domestic demand was particularly strong last year, 4.7 per cent. The comparatively moderate rise in unit costs and the favourable trend in the prices of imported goods softened the impact on consumer prices and the balance of payments.

Consumer prices rose by an average of 4.7 per cent over the year, the lowest rate of increase since 1969. It was thus possible to narrow the inflation differential further vis-à-vis the leading industrial countries, which is still wide in relation to Germany and Japan but has been reduced to approximately one point in relation to the United States, France and the United Kingdom. The slowdown in inflation did not continue beyond the second quarter of the year. The twelve-month rate, which rose until the autumn, stood one percentage point higher in December than in the corresponding month of 1986 (5.2 per cent against 4.2 per cent). The current account deteriorated by over 4,500 billion lire to close with a small deficit of around 1,200 billion; the swing was due principally to the rapid rise in imports of goods and services, which increased by 10 per cent in volume terms compared with a growth of 3.6 per cent in exports.

Among the components of domestic demand, there were particularly large increases in household consumption (4.3 per cent) and in investment in machinery, equipment and transport equipment (11.5 per cent), which expanded by more than had been forecast. Consumption was stimulated not only by the growth in disposable income — particularly gross wages and salaries and entrepreneurial income — but also by a further marked real expansion in households' wealth. The strong improvement in the terms of trade throughout 1986 and into 1987 delivered its full impact on consumer spending last year by boosting domestic purchasing power. The acceleration in investment in plant and machinery can be explained by the combination of high capacity utilization rates, optimistic expectations of overall demand growth and the healthy profitability and financial situation of producers. After two years of modest increases, capital formation rose strongly and was directed partly towards expanding the production base as well as completing the process of plant restructuring and modernization.

Investment in building and public works continued to be unsatisfactory, declining by 1.3 per cent, while the growth in collective consumption continued to exceed 3 per cent. The variation in stocks also made a positive contribution to the growth in output.

Notwithstanding an improvement of over two percentage points in the terms of trade, the current account of the balance of payments recorded a deficit equal to 0.1 per cent of GDP. Although this figure is small, the rapidity with which the previous year's surplus was wiped out is a significant reminder of the unsolved problems still affecting Italy's external accounts. The energy account built on the exceptional improvement recorded in 1986, thanks to the favourable trends in oil prices, but the deficit on trade in other goods rose by more than 8,000 billion lire. Exports of goods and services performed poorly during the first half of the year owing to the stagnation of world demand and the delayed effects of the loss of competitiveness during the last few months of 1986; they nonetheless recovered in the second half as world trade picked up, recording a larger real overall increase than in the previous year (3.6 per cent against 3.4 per cent). However, imports in volume terms increased almost three times as fast as exports and more than twice as fast as total demand, which could not be met by the otherwise satisfactory overall growth in domestic supply.

Among the other items of the balance of payments on current account, there was a further reduction in net receipts from tourism, which declined by around 500 billion lire after contracting by almost 2,000 billion in 1986. This was principally a reflection of the sharp rise in Italian expenditure on foreign travel.

The public finances again contributed to the expansion in domestic demand. The budget deficit amounted to 102,932 billion lire, broadly the same as in 1986. Current expenditure net of interest payments recorded a particularly large increase, growing by over 4 per cent in real terms, owing mainly to the substantial rise in public sector wages and salaries as a result of the renewal of wage agreements and the payment of arrears in connection with the now chronic delays in agreeing labour contracts in the public sector.

By comparison with 1986, the increase in output was particularly rapid in manufacturing industry (4.5 per cent), where capacity utilization reached a very high level. In the market services sector, which expanded by 3.7 per cent on average, the growth in transport, communications and other market services was similar to the rate for industry. The increase in agricultural value added was the same as in 1986 (1.7 per cent), while the performance of the construction sector was especially disappointing, with a fall in output of over 2 per cent.

The modest rise in employment in the economy as a whole was concentrated entirely in the services sector, with increases of 1.3 and 0.9 per cent respectively in market and non-market services; employment in agriculture and industry, by contrast, fell by more than 1 per cent. The rise in productivity per standard labour unit was thus satisfactory in the economy as a whole (2.9 per cent) and especially in manufacturing industry, where the 6 per cent increase surpassed the average for the six preceding years by more than 1.5 percentage points. On the other hand, the growth of 0.9 per cent in the labour force caused the unemployment rate to rise from 11.1 to 12 per cent (or from 12.7 to 13.3 per cent if workers receiving Wage Supplementation are included). The situation in the South deteriorated still further: with further delays in implementing the special measures under Law 64/1986 and expenditure under the Law falling by more than 10 per cent in money terms, unemployment in the South rose by around 3 points to 19.2 per cent, compared with 8.4 per cent in the Centre-North.

Per capita earnings grew by a year-on-year average of 8.6 per cent during 1987, as a result of an increase of 7.1 per cent in the private sector and one of 12 per cent in general government. Higher productivity made it possible to contain the pressure on inflation. Unit labour costs rose by 5.9 per cent in the private sector as a whole and by 1.8 per cent in manufacturing industry. Since the price deflator for the latter sector increased by 2.4 per cent, profit margins widened further.

As in previous years, the increase in the price deflator for market services was much higher than that for industrial goods; since 1980 the corresponding index of relative prices has risen by over 22 per cent (Table 2). Since the increase in the value added of services at constant prices exceeded that of manufacturing by approximately 11 points over the same period, the sectoral composition of GDP at current prices has shifted noticeably in favour of services.

Table 2

INVESTMENT, PRODUCTIVITY, COSTS AND PRICES IN MANUFACTURING INDUSTRY AND MARKET SERVICES (1)

	1987	1986	1987	1984-87	1981-87
	Indices 1980=100	Percentage variations (2)			
Gross product (at 1980 prices)					
market services / manufacturing industry	111.0	0.3	−0.3	1.0	1.5
Productivity					
market services / manufacturing industry	73.6	−3.0	−3.2	−4.2	−4.5
Unit labour costs					
market services / manufacturing industry	122.3	3.2	3.3	2.7	3.2
Price deflators					
market services / manufacturing industry	122.6	3.7	2.2	2.4	3.2

Source: Istat.
(1) Net of renting of buildings. — (2) Difference between average annual rates of growth of market services and manufacturing industry.

The expansion of the services sector during the eighties has not been uniform in the two main regions of Italy. In the Centre-North the growth has been in services supplied to firms and in those more closely linked with production. In the South, on the other hand, it has been mainly in the areas of general government and distribution. In the country as a whole the variation in productivity in the market services sector has been around 5 points per year worse than in manufacturing industry (— 0.3 and 4.6 per cent respectively), whereas the rise in labour costs per employee has been only one point lower (12.2 per cent against 13.4 per cent). The different degrees of openness of the markets in question thus favoured the increase in the relative prices of services described above.

Productivity in the Italian services sector is not following the trend evident in other industrial countries. Although the output per worker in market services showed a substantial increase over 1986, it was still below the 1980 level. Between 1980 and 1986 labour productivity in the services sector rose by an average of more than 2 per cent per year in the United Kingdom, Japan and Germany and by 1.8 per cent in France while it remained more or less static in the United States. In particular, the decline in productivity in Italy between 1980 and 1983 had no parallel in other developed economies and the subsequent recovery was weaker than growth elsewhere.

This divergence has occurred in spite of the fact that the restructuring which has been taking place in the Italian economy during the eighties has not been limited to industry. Investment in some areas of the services sector has been considerable, but it has failed to change the overall characteristics of the sector.

The quality and efficiency of the entire range of services are of increasing importance for the competitiveness of the economy, and this is true not only of private sector services but also of those directly or indirectly controlled by the public sector. The input-output analysis described later in this Report shows that public sector services play an important function in every area of the economy and affect its efficiency.

Increasing integration between sectors has made the economy more susceptible to the spread of inflationary pressures from private and public services to other activities. Any large increases in wages and salaries in the services sector that are not accompanied by parallel productivity gains can thus create the basis for inflationary tendencies and a reduction in the efficiency of the economy as a whole.

Developments in the first few months of 1988

In the first quarter of this year the seasonally adjusted general index of industrial production showed a rise of 2 per cent over the preceding quarter and one of more than 4 per cent over the whole of 1987. The output of capital goods was particularly buoyant, expanding by 10 per cent in relation to the corresponding period of 1987. This figure is confirmed by the results of surveys by Isco and the Bank of Italy, which indicate that firms have made substantial upward revisions in their investment plans.

Company surveys show that businessmen continue to take a highly optimistic view of the present state of demand, including that from abroad. Orders 2-3 months ahead continue to be high and stocks of finished products are returning to normal levels following rapid destocking during 1987. Surveys of companies' short-term expectations at the end of March indicate that production will expand further in the second quarter and suffer only a slight decline in the third.

This steady growth in economic activity is having a limited impact on employment, however. Figures for the start of this year show a rise of 0.3 per cent over the beginning of 1987, with a modest rise in the numbers employed in industry. The faster growth in employment in the services sector has been offset by reductions in agriculture and construction.

The trade account for January and February on a customs basis shows a deficit of about 3,500 billion lire, the same as in the first two months of 1987. The value of merchandise exports and imports increased by between 6 and 7 per cent. The seasonally adjusted figures indicate an underlying contraction in the energy deficit, whereas the balance of trade in other goods shows a slight deterioration.

The cost-of-living index rose by 0.3 per cent in April. The twelve-month rate of increase thus remained at 5 per cent, the level at which it has stood virtually unchanged since the beginning of the year; the general consumer price index reached the same figure in February. The underlying rate of change in wholesale prices slowed down sharply in January but quickened again thereafter, boosted by marked increases in the prices of imported raw materials; in March the rise worked out at 4.3 per cent.

DOMESTIC DEMAND

Households' consumption

In 1987 household consumer demand continued to grow in line with the trend that has been under way since 1984. Domestic consumption rose by 4.3 per cent in real terms and by 9.4 per cent at current prices ; the increase in national consumption was more pronounced, working out at 4.6 per cent in volume and 9.6 per cent in money terms.

Preliminary estimates, which have again been necessary since sectoral Istat data are not yet available, indicate that households' disposable income rose by 7.3 per cent in money terms and 2.4 per cent in real terms (Table 3). The propensity to consume, which had risen by almost 2 per cent in 1986, showed a further slight acceleration last year.

Table 3

APPROPRIATION ACCOUNT FOR HOUSEHOLDS

(at current prices; percentage changes on previous year)

	1982	1983	1984	1985	1986	1987
Gross domestic earnings	15.6	13.9	12.3	11.6	6.8	8.7
of which: general government	*16.1*	*15.4*	*13.5*	*10.1*	*7.1*	*13.0*
Net labour income from abroad	27.2	10.4	10.8	3.4	1.6	– 19.8
Emigrants' remittances	21.2	7.5	13.7	13.4	– 19.3	– 12.6
Gross income from unincorporated businesses and self-employment, dividends and other capital income	15.0	16.4	17.7	11.7	12.4	7.7
Net interest	47.8	8.3	13.6	4.3	– 3.6	– 3.5
Social security benefits	23.3	32.5	10.0	14.6	10.3	8.0
Employees' social security contributions (—)	29.5	22.5	11.5	8.9	14.4	7.2
Self-employed workers' social security contributions (—)	64.0	16.2	14.2	11.9	21.8	11.6
Direct taxation (—) (1)	23.9	22.8	13.8	14.1	12.9	8.9
Gross disposable income (2) (3)	**16.4**	**16.9**	**14.7**	**11.9**	**8.2**	**7.3**
at 1980 prices (4)	0.5	1.8	2.5	2.4	2.3	2.4
Households' national consumption	**17.1**	**15.5**	**14.6**	**12.6**	**10.3**	**9.6**
at 1980 prices	1.0	0.6	2.5	3.1	4.2	4.6

Sources: Istat and preliminary estimates by the Bank of Italy.

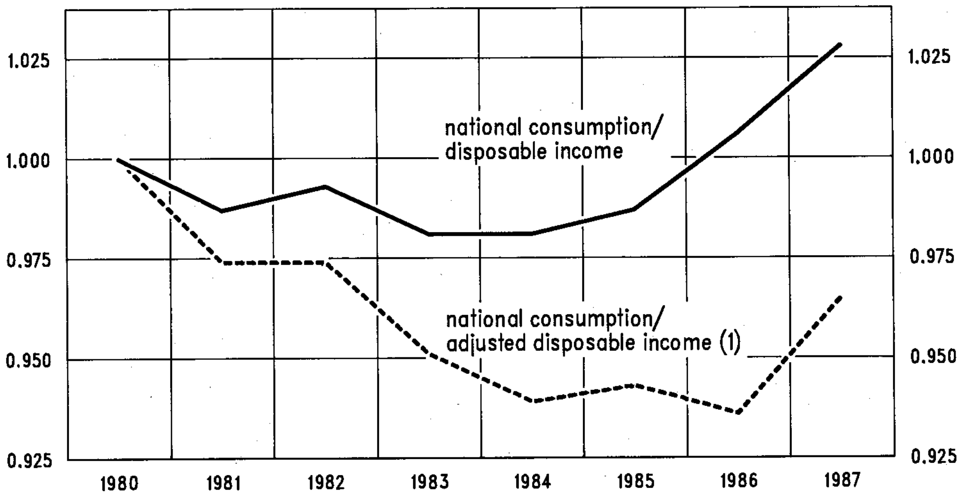
(1) Including the surtax on rental income. — (2) Including payments in connection with the condonation of tax and building offences. — (3) For the calculation of disposable income, the definition of the size and legal form of enterprises included in the household sector is that used in the old national accounts. — (4) Adjusted using the implicit price deflator of households' national consumption.

In order to arrive at a more faithful estimate of the behaviour of the propensity to consume, disposable income must be adjusted for "one-off" payments in connection with the condonation of building offences, which cannot be treated as current expenditure, and for the erosion of the purchasing power of households' financial assets. The propensity to consume adjusted in this way displays a much more pronounced decline between 1980 and 1984 than the same measure calculated on the basis of disposable income as defined in the national accounts (Figure 3). This reflects the faster growth in adjusted income in view of the marked slowdown in inflation over that period.

Figure 3

PROPENSITY TO CONSUME

(1980 =1)



Sources: Istat and preliminary estimates by the Bank of Italy.
(1) Adjusted disposable income disregards expenditure in connection with the condonation of building offences and takes account of the loss in purchasing power on net domestic financial assets (excluding shares) held by households at the beginning of the period and on those acquired during the year; the loss is assigned a coefficient of 0.5.

Between 1984 and 1986 the propensity to consume based on adjusted income remained more or less static, but that calculated on the basis of the national accounts rose significantly. The difference was most pronounced in 1986. The exclusion of payments in connection with the condonation of building offences (which can be put at around 3 trillion lire in that year) and the halving of the underlying rate of inflation at the end of the year boosted adjusted income. By comparison with the measure obtained from the traditional national accounts calculation, a much larger part of the growth in consumption in the two years following the oil counter-shock is explained by the growth in disposable income; the rise in the propensity to consume therefore has to be revised downwards from 4.1 to 2.4 per cent.

Last year the increase in consumption was again magnified by the growth in households' wealth; net of shares, financial assets rose in money terms at about twice the rate of increase of disposable income despite capital losses on securities. The growth differential between the two aggregates narrows considerably, however, if shares are included in households' financial wealth. The reduction in real interest rates provided a further boost.

As in the three years from 1984 to 1986, spending on durable goods was the most dynamic component of consumption. Purchases of transport equipment made a considerable contribution; the information available indicates a particularly large increase in purchases of cars with an engine capacity of more than 1500 cc (around 16 per cent according to the National Automobile Industry Association), due partly to the development of more flexible forms of credit.

Investment

The long cyclical expansion in gross fixed investment that had begun in 1983 accelerated last year. The real average annual rate of growth has been estimated at 5.2 per cent, compared with 1.4 per cent in 1986; the ratio of gross fixed investment to total value added rose to 23.6 per cent at 1980 prices, its highest level for six years.

As confirmation of the trends that have been under way since the beginning of the decade, last year's surge in capital formation was fueled by expenditure on plant, machinery and transport equipment, which increased by 11.5 per cent. Building investment declined by 1.3 per cent owing to a further contraction in residential construction. The statistics do not indicate the extent to which the various sectors of the economy contributed to the growth in gross fixed investment; as regards the industrial sector, the results of the regular sample survey are described in the following section.

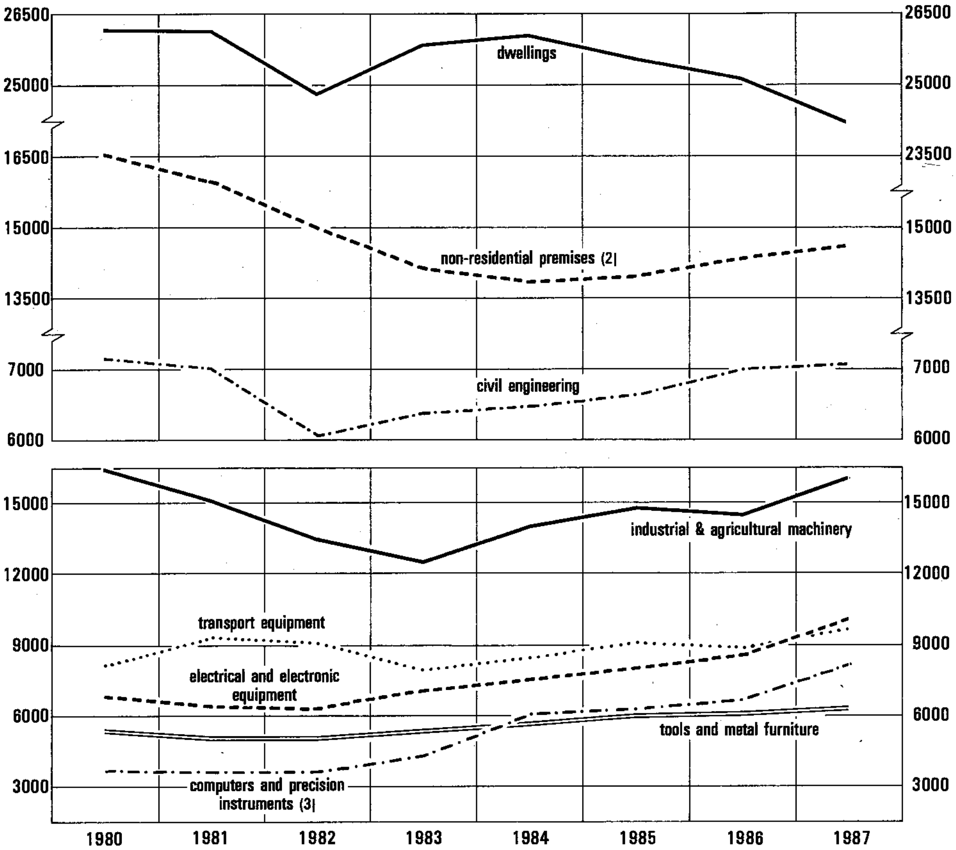
The information available suggests that the acceleration in capital formation reflected a further intensification of the modernization of production facilities and a resumption of the expansion in capacity, the first signs of which had been evident in 1986. This second phenomenon did not, however, prevent a further rise in the capacity utilization rate, at least in the industrial sector.

The continued importance of rationalization is demonstrated by the fact that the growth in investment was concentrated on computers and precision instruments (21.7 per cent in relation to 1986) and on electrical and electronic equipment (14.3 per cent; Figure 4). These types of capital good comprise the machines with the highest innovative content used in the reorganization of production processes, such as office and production automation, sophisticated data processing and forecasting.

Figure 4

GROSS FIXED INVESTMENT ACCORDING TO TYPE OF CAPITAL GOOD

(in billions of lire at 1980 prices)



Source: Istat.
(1) Gross fixed investment comprises wooden furniture and implements and other minor products in addition to the types of capital good indicated. — (2) Non-residential premises for business purposes (excluding civil engineering). — (3) Office and data processing machines and precision instruments.

At the same time investment in industrial and agricultural machinery showed a strong recovery of 10.1 per cent after decreasing slightly in 1986; in absolute terms it was only marginally below the peak of the last ten years recorded in 1980. This branch includes machine tools and other machines likely to expand production capacity by more than the two types of goods considered above, as is also evident from the procyclical nature of demand for such equipment. In the case of the industrial sector, surveys of firms confirm that the proportion of investment aimed at expanding capacity has been rising; estimates based on analysis of local peaks in the industrial production index are consistent with this finding. With reference to the economy as a whole, a further sign that capital formation was partly of a widening nature is to be seen in the strength of investment in non-residential premises used by businesses; after having declined continuously between 1980 and 1985, it began to rise again in the last two years at an average rate of 2.3 per cent.

The public sector's contribution to capital formation was greater than in the last two years. Net of expenditure on the public infrastructure, investment by public sector agencies and state controlled enterprises increased by about 10 per cent in money terms, compared with an increase of 8.2 per cent in investment by the economy as a whole.

The revival in public sector capital expenditure was concentrated entirely in the services sector. In the transport sector, the growth in investment by municipal enterprises in Northern Italy was accompanied by increased expenditure on passenger and freight ships in connection with the launch of the restructuring plan under Law 856 of 1986 and by a substantial rise in investment by the State Railways. In the communications sector the State Telephone Services Agency and especially the telephone company SIP invested heavily in extending and modernizing the network. Public sector investment in industry, on the other hand, barely kept pace with the rise in prices, although there were differences from one branch to another. The further sharp reduction in public sector investment in housing was due to difficulties in implementing spending programmes and the absence of new legislation; the public sector share of total expenditure on the purchase of new dwellings and the renovation of the existing housing stock declined from 7 per cent at the end of the seventies to 3 per cent in 1987.

According to national accounts estimates, which may include statistical discrepancies due to the balancing of supply and demand in the generation of income account, the increase in stocks was more marked last year, contributing 0.4 percentage points to GDP growth compared with 0.2 points in 1986. The results of surveys of business activity suggest that stocks of finished products diminished but that those of raw materials increased, with imports of primary products rising by 6.5 per cent in volume, considerably faster than the growth of 4.0 per cent in overall output by industry in the narrow sense.

Gross fixed investment in manufacturing industry: results and forecasts

The sample survey carried out by the Bank of Italy shows that manufacturing industry made a very large contribution to capital formation in 1987. Investment by firms with more than 50 employees increased by 9.3 per cent at constant prices, in line with initial investment plans (Table 4). According to companies' stated intentions, the strong expansion will continue at broadly the same rate this year (10.4 per cent).

Table 4

INVESTMENT AND EMPLOYMENT IN MANUFACTURING INDUSTRY: 1987 AND PLANS FOR 1988

(percentage changes on previous year)

Number of employees	Investment (1)				Employment			
	1987			1988	1987			1988
	Planned	Actual	Achievement rate (2)	Planned	Year-end	Annual average		Year-end
					Incl. WSF (3)		Excl. WSF (3)	Incl. WSF (3)
50-99	2.7	5.2	102.4	12.7	0.7	...	0.8	1.5
100-199	6.1	11.8	105.4	11.4	0.7	−0.4	−0.7	2.1
more than 200	12.0	9.6	97.9	9.8	−2.0	−2.3	−1.8	−1.1
Total ...	**9.8**	**9.3**	**99.5**	**10.4**	**−1.1**	**−1.6**	**−1.2**	**−0.2**

Source: Bank of Italy.
(1) At 1987 prices. For 1987 the annual change in the investment deflator was estimated by firms. — (2) Investment carried out in 1987 as a percentage of investment planned for 1987 at the end of 1986. — (3) Wage Supplementation Fund.

The vigorous investment activity was stimulated partly by the improvement in the economic climate and in demand expectations and partly by the further appreciable rise in gross profits in industry. These factors also had a positive influence on the behaviour of large enterprises, which improved on their past performance by achieving a high percentage of their planned investment (an average of 97.9 per cent for companies with more than 200 employees).

According to firms that carried out a larger volume of investment than they had planned (around half of the companies interviewed), the main reason for the increase was the rise in the expected level of demand (28 per cent of cases). A very small proportion (18 per cent) of companies investing less than planned attributed the disparity to a change in expectations. Other factors contributing to the upward revision of investment plans were the improvement in current and expected profits (respectively 10 and 15 per cent of replies) and, in the case of small enterprises, the changes in regulations (15 per cent). Delays in the delivery of machinery were given as the main cause of failure to reach planned expenditure (20 per cent of cases). This confirms the difficulties the market is now having meeting the strong and continuous growth in demand for capital goods. By contrast, only a small proportion of firms cut their investment plans owing to the subsequent non-availability of equity finance (1 per cent) or credit (5 per cent).

Companies' actual investment in 1987 and their plans for 1988 exhibit a growing propensity to expand production capacity. The proportion of investment for that purpose is thought to have increased by about 3 percentage points between 1986 and 1987 (from 29 to 32 per cent) and a further slight upward shift is expected this year. According to companies' estimates, this should lead to an acceleration in capacity growth. To expand production continues to be a more important objective for small firms with between 50 and 99 employees, thus confirming their role in stimulating growth. The proportion of such firms' investment with positive net effects on production capacity will probably rise from 39 to 43 per cent over the three years from 1986 to 1988.

A tendency to expand capacity is also evident in the case of larger companies, however. In those with more than 200 employees the proportion of investment oriented towards increasing capacity will rise from 26 per cent in 1986 to 29 per cent in 1988. This change in the strategy of large firms, which in the last few years had concentrated their resources on modernization and rationalization while keeping their production capacity unchanged, can be attributed to two factors. First, the steps they have taken to modernize their production techniques and modify the organization of work have already greatly reduced unit costs. Secondly, despite increased plant flexibility, which often permits increases in production without additional investment, the growth in demand has raised resource utilization to a very high level. The substantial increase in per capita working hours reported in 1987 by enterprises with more than 200 employees (1.8 per cent on the basis of hours remunerated), the signs of an increase in the use of multiple shifts and the rise in effective plant utilization rates confirm the considerable pressure on existing resources and hence the incentive to expand them.

Among the largest companies (those with more than 1,000 employees) the proportion of respondents giving demand factors as the reason for limiting the expansion in production capacity declined considerably, from 63 per cent in 1986 to 58 per cent last year. The reduction was due to an improvement in the expected level of demand (reported as a constraint in only 33 per cent of replies, compared with 40 per cent in 1986), while the number of firms considering demand expectations to be uncertain increased from 12 to 16 per cent. Among smaller firms, financial constraints are felt particularly strongly and are growing in importance; the availability of credit, its cost or the guarantees required by lenders were mentioned by 18 per cent of firms (12 per cent in 1986), compared with a figure of 6.5 per cent for larger companies. The expansionary tendencies noted above are reflected in the growth in employment. In small firms it rose in 1987 in terms of both year-end figures and annual averages, the latter taking account of the number of hours compensated by the Wage Supplementation Fund, which declined appreciably; the increase is likely to be even larger in 1988. Employment continued to fall in firms with more than 200 employees, but at a slower pace; according to estimates by companies themselves, at the end of 1988 the number of employees, including the worker equivalent of hours compensated by the Wage Supplementation Fund, is likely to be 1.1 per cent lower than at the end of 1987, whereas in the preceding year there had been a corresponding decline of 2.0 per cent. Taken in conjunction with the increase in employment in small and medium-sized firms, this should greatly help to halt the reduction in manpower in companies with more than 50 employees in 1988.

DOMESTIC SUPPLY

Agriculture

Agricultural production expanded by 1.8 per cent in real terms, which was slightly less than in 1986 (2.1 per cent) but still above the average for the eighties. The crop year was marked by a considerable increase in productive inputs and a significant rise in investment. By contrast, there was a further reduction in employment.

The agricultural trade deficit increased by 620 billion lire to 16,974 billion. The improvement in the terms of trade was more than offset by a large increase in imports in volume terms (6.0 per cent), coupled with a smaller rise in exports (2.9 per cent).

For the first time for twenty years there was a fall in agricultural producer prices (0.3 per cent) as a result of a 3.1 per cent decrease in livestock prices and small increases in those of other products. Against a background of falling inflation, this outcome primarily reflected the policy pursued by the Community during the last few years with the aim of gradually bringing prices in the Community into line with those ruling in world markets and curbing the production of surpluses. The fall in producer prices was accompanied by a larger drop in the prices of the goods and services acquired by farmers (0.8 per cent). Partly as a result of a large increase in production subsidies, agricultural income as a whole rose by 1.6 per cent, though this was significantly smaller than the rises recorded in the rest of the economy, in line with the pattern that emerged in 1984.

As regards employment, another 27,000 equivalent full-time workers, or 1.1 per cent of the total, left the agricultural sector. The decrease in employment was of a similar size to that of 1986 and mainly involved self-employed workers and the Southern regions. Investment, by contrast, was considerably up on 1986, especially in machinery, equipment and motor vehicles.

Industry

Industrial activity was on a positive trend in 1987, with an increase of 3 per cent in value added compared with the previous year

(Table 5). Strong growth in the manufacturing sector (4.3 per cent) was accompanied by a smaller increase in the value added of the energy sector and a further fall in that of the construction industry.

Table 5

INDUSTRIAL VALUE ADDED AT MARKET PRICES

	Values at 1980 prices (billions of lire)			% compo-sition 1987	% changes		
	1985	1986	1987		1985/84	1986/85	1987/86
VALUE ADDED:							
including construction	154,135	158,269	163,062	100.0	1.5	2.7	3.0
excluding construction	129,670	134,049	139,375	85.5	2.3	3.4	4.0
Goods:							
manufactured goods	115,588	119,367	124,480	76.4	2.4	3.3	4.3
energy products	14,082	14,682	14,895	9.1	1.3	4.3	1.5
Construction and public works	24,465	24,222	23,687	14.5	−2.4	−1.0	−2.2

Source: Istat.

Actual output also performed satisfactorily: the index of industrial production (which excludes construction) recorded a substantial 3.9 per cent rise, taking the index back above its 1980 level for the first time. A part of the rise in the index was due to the greater number of working days in 1987; after adjusting for this, the index was up 2.7 per cent on 1986.

The expansion in industrial activity was primarily attributable to the large rise in domestic demand for consumer goods, and especially consumer durables. The rise in exports of manufactures was less pronounced (3.4 per cent), though they showed a strongly rising trend in the second half of the year. The increase in investment was only partly reflected in domestic supply, and the 2 per cent growth recorded by the capital goods sector was well below the average. There are indications that the demand was met by an increase in imports coupled with a running down of stocks of finished products.

Output, capacity and the economic cycle. — Business surveys and calculations based on the Wharton method both indicate that the expansion of production capacity has failed to keep pace with the rapid growth in output. On an annual basis the rate of capacity utilization has returned to the peak levels reached at the top of the last expansionary phase between 1976 and 1980. Over the year the rate moved in parallel with output, recording peaks in the second and fourth quarters.

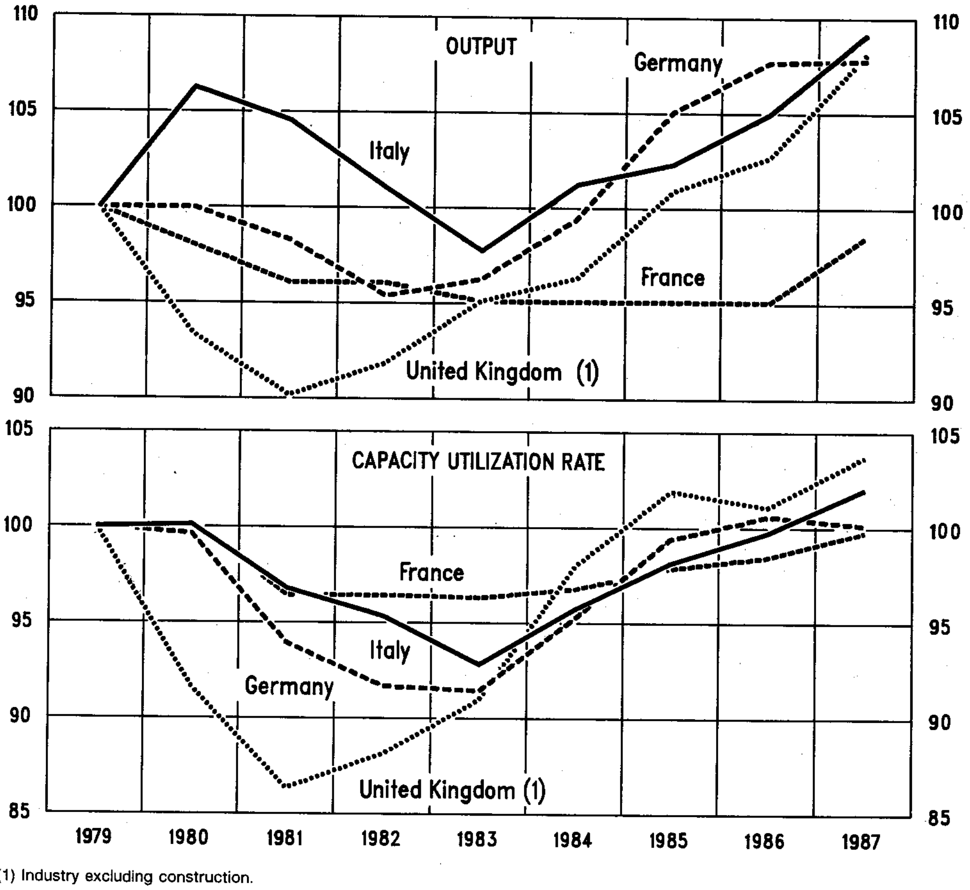
The impact of the rise in capacity utilization depends not only on the overall rate but also on the distribution of sectoral bottlenecks, which may significantly curb the supply of goods to the market. In the second quarter of last year 40 per cent of industrial branches, weighted on the basis of their share of total output, were working at full capacity with a pattern of supply bottlenecks similar to that recorded in 1980 at the end of the previous expansionary phase.

The rise in plant capacity utilization has been common to all the major European countries since the start of the expansionary phase in 1982-83 (Figure 5), with last year's economic growth pushing the rate up to very high levels.

Figure 5

OUTPUT AND THE CAPACITY UTILIZATION RATE IN MANUFACTURING INDUSTRY

(indices, 1979 = 100)



(1) Industry excluding construction.

When manufacturing output and capacity are analyzed together, the cyclical development of the Italian economy in the eighties is found to have lagged behind that of the other European countries. This is clearly visible in the figures for 1980, when output in Italy reached its peak, while the effects of the second oil shock had already made themselves felt in the other countries; it can be seen again in 1983, when Italy was the only country still to be in recession. Despite this lag, between 1979 and 1987 industrial production actually expanded a little faster in Italy than in any of the other countries. The only major European country not to have achieved a recovery in industrial output after the 1979-80 downturn is France, where production in 1987 was still below the level recorded in 1979.

Services

In a year marked by strong demand for investment goods and consumer durables, the increase in the value added of market services was smaller than that of manufacturing industry (3.7 compared with 4.3 per cent), the first differential in this direction since 1979-80. The output of non-market services expanded by 1 per cent, with the combined value added of services accounting for 62 per cent of total domestic supply at current prices.

The services sector was the only one in which employment recorded a further increase (1.3 per cent). During the eighties the sector's share of total employment has risen steadily, reaching 57 per cent last year; female workers have played an increasingly important role, with services accounting for 66 per cent of all female employment in 1987.

Table 6

VALUE ADDED OF MARKET SERVICES AT MARKET PRICES

	Values at 1980 prices (billions of lire)			% composition 1987	% changes		
	1985	1986	1987		1985/84	1986/85	1987/86
Wholesale and retail trade	69,782	72,456	75,311	36.3	3.7	3.8	3.9
Lodging and catering	11,251	11,600	12,145	5.9	2.0	3.1	4.7
Transport	17,095	17,702	18,039	8.7	3.1	3.6	1.9
Communications	5,717	5,803	6,465	3.1	11.6	1.5	11.4
Credit and insurance	21,066	22,556	23,170	11.2	5.0	7.1	2.7
Other market services	44,693	45,501	47,474	22.9	9.0	1.8	4.3
Renting of buildings	23,942	24,445	24,958	12.0	1.8	2.1	2.1
Total...	**193,546**	**200,063**	**207,562**	**100.0**	**4.8**	**3.4**	**3.7**

Source: Istat.

Among market services the best results in terms of value added were achieved by communications, lodging and catering and "Other market services" (Table 6). The communications sector has been expanding rapidly for years now (at an average annual rate of 7 per cent in the eighties) as a result of the supply of new services (data transmission, in particular) and the more widespread availability of traditional ones.

The strong growth of the lodging and catering sector (4.7 per cent) was due to the recovery in the demand for tourist services (there was a 2.1 per cent increase in the number of overnight stays in hotels and other forms of accommodation) and to the spread of the habit of eating and drinking outside the home.

The 4.3 per cent rise in "Other market services" was the result of widely differing performances by the component branches, with business services expanding only moderately (2.6 per cent) and social and personal services recording a large 6.4 per cent increase. For the second year running the value added of business services, which comprise both "advanced" services (EDP, market research and management consultancy, etc.) and "traditional" ones (technical, legal and accounting services and security services, etc.), grew more slowly than that of manufacturing industry.

The expansion of the services sector's share of economic activity has accelerated in the eighties and can be attributed primarily to the growth in the demand for market services by both firms (wholesale trade, communications, goods transport and business services) and households (lodging and catering, health services, recreation and entertainment and private education). The increase in government supplied services has played a much smaller role.

The value added of both components of market services has increased rapidly, but especially that of intermediate services. Between 1980 and 1987 this branch of the industry grew by 3.6 per cent a year, creating new jobs at an average annual rate of 3.9 per cent and at an even faster rate during the 1980-83 cyclical downturn (4.5 per cent). This development reflected the speed-up that occurred in the same period in the transition of the Italian economy to a higher level of inputs of services per unit of output.

The share of services in households' expenditure at current prices rose from around 31 per cent in 1980 to around 35 per cent in 1987, with more than half of this increase attributable to changes in relative prices. An important component of households' demand for services is that for retail services. The distribution of non-food products expanded very substantially between 1971 and 1986 in terms of both outlets (34 per cent) and jobs. By contrast, there was a significant reduction in the number of food shops (23 per cent) in connection with the rationalization that has taken place in this sector. In general, the retail mark-up has increased, partly because productivity gains have been small.

The integration of services in production. — Services and the rest of the productive economy were already tending to become more interdependent in the second half of the 1970s.

Empirical research has been carried out into this development using the input-output tables for the period 1974-82 reconstructed at constant prices. The study investigated both the expansion of services in industry, measured as the ratio of the direct and total inputs of services to total industrial output, and the integration of services in production, measured as the proportion of the output of the services sector used for intermediate consumption.

The results of the study show that a significant proportion of the expansion in the services sector was attributable to its links with the rest of the productive system; 21 per cent of the rise in the value added of the services sector in the period 1974-82 can be attributed to growth in trade with the other productive sectors (Table 7). Moreover, this proportion was on a rising trend and amounted to over 34 per cent in 1980-82.

Table 7

INTEGRATION OF MARKET SERVICES IN ECONOMIC ACTIVITY (1)

(percentage ratios to the change in value added)

	Integration effects			
	Total	of which:		
		With non-service sectors	With the services sector	Indirect effects
1974-1982	21.2 *(100.0)*	12.3 *(58.0)*	7.0 *(33.0)*	1.9 *(9.0)*
1974-1978	12.4 *(100.0)*	6.5 *(52.4)*	4.1 *(33.1)*	1.8 *(14.5)*
1978-1980	22.5 *(100.0)*	17.2 *(76.4)*	2.9 *(12.9)*	2.4 *(10.7)*
1980-1982	34.4 *(100.0)*	16.5 *(48.0)*	16.7 *(48.5)*	1.2 *(3.5)*

Source: Based on Istat data.
(1) The figures in brackets show the percentage breakdown of the integration effects.

The increasing integration of the services sector in economic activity reflects both the rise in the demand for services of other productive sectors, especially manufacturing industry, and the growth in the internal demand of the sector.

The greater use of inputs of services by industrial firms was due to the partial dismantling of the vertical organization of production; especially after 1978, this led to some functions being transferred outside the sector and to the purchase of new kinds of services.

While the consumption of energy inputs in production decreased between 1974 and 1982, direct inputs of services in manufacturing industry increased from 10 to 13 per cent of total industrial output. The increase in the importance of services for manufacturing was even more pronounced in terms of total inputs: they rose from the equivalent of 21 per cent of the sector's final output in 1974 to 28 per cent in 1982, a larger increase than was recorded in the other productive sectors.

The figures for the various branches of industry confirm the close link between the reorganization of production and an increasing role for services. The process appears to have gone further in the sectors in which restructuring was based on product diversification. Thus, the expansion of the services sector is not necessarily coupled with deindustrialization; rather it can be related to a shift in the boundaries between services and industry, which remains the locomotive of the growth of the economy as a whole.

Another part of the growth in services was fueled by the growth of trade within the services sector, which was particularly strong after 1980. Over the whole period in question the share of intra-sectoral flows rose by around 4 percentage points.

Despite the rapid growth of services in Italy, they still play a smaller role than in the other major European countries. A comparison made with Germany, France and the United Kingdom using input-output tables at current prices for 1980 shows that the level of services was on a par with those in France at the end of the period, but lower than in Germany or the United Kingdom.

In 1980 the ratio of the direct inputs of services to industrial output was equal to 11.7 per cent in Italy, compared with 12.6 per cent in Germany and 13.9 per cent in the United Kingdom. In terms of total inputs of services, the proportions were respectively 29.1, 32.5 and 36.9 per cent.

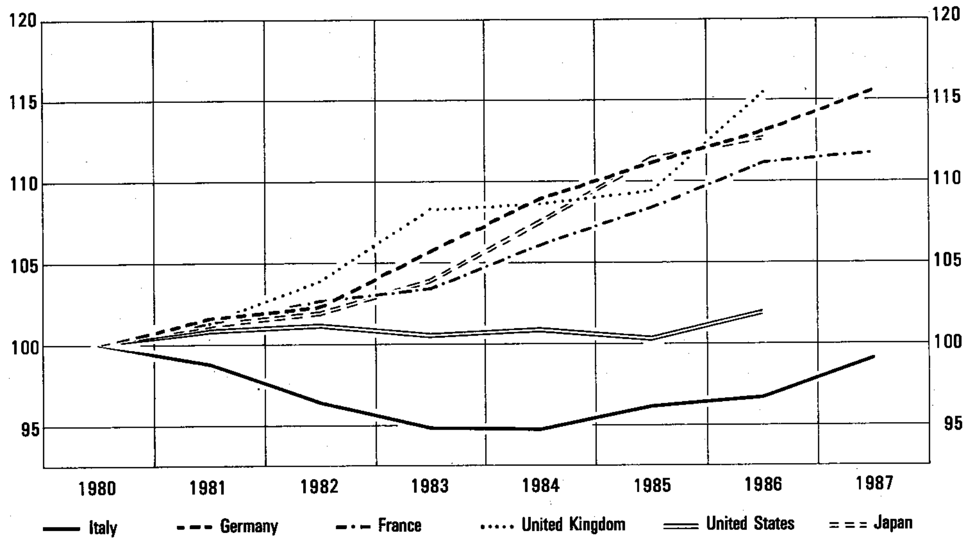
Since more up-to-date input-output data were not available, developments in the last few years were evaluated by looking at the rate of growth in the value added of market services. Between 1980 and 1986 the Italian rate was only a little higher than those recorded in France and Germany, while it was well below that of the United Kingdom. This suggests that there is scope in Italy for a further shift towards a service economy.

Italy's negative performance in terms of value added per worker in market services was in sharp contrast with those of the other leading industrial countries (Figure 6). The deterioration in the sector's productivity compared with industry was only partly offset by a small decrease in relative labour costs. This, coupled with a high degree of protection from international competition, resulted in a significant improvement in the services sector's terms of trade.

Figure 6

PRODUCTIVITY IN MARKET SERVICES

(indices, 1980 = 100)



The closer links between industry and services have far-reaching implications for the economy as a whole, since the technical conditions of the production of services increasingly impinge on the efficiency and competitiveness of manufacturing industry, which is more exposed to international competition.

Energy

The energy requirement increased by 3.6 per cent in 1987, compared with an expansion of 3.1 per cent in GDP; the corresponding figures for 1986 were 1.0 and 2.9 per cent. The energy intensity of output therefore increased for the first time since 1976.

The marked upturn in energy consumption was due largely to the change in relative prices that had occurred in the second and third quarters of 1986; its full effects emerged last year after an initial period of uncertainty about the likely behaviour of world petroleum prices, which had prompted final consumers to keep their consumption or production plans unchanged for the immediate future. The direction of the adjustment, which is consistent with the change in relative energy prices, nevertheless gives cause for serious concern when viewed in relation to Italy's long-term energy policy objectives.

The increase in demand also reflected the fact that the winter was less mild than in 1986. However, it was due largely to the combination of a pronounced revival in energy consumption for civil purposes and an acceleration in the strong trend growth in the consumption of oil products by the transport sector; both sectors recorded an increase of 5 per cent, against one of 4.3 per cent in households' final consumption. In the industrial sector, where the greatest energy savings had been made over the years, the reduction in energy intensity was also significantly smaller last year, around two and a half points per unit of output compared with an average of around four points between 1980 and 1986.

The halt in the nuclear energy programme and the reduction in the contribution from hydroelectric power stations (equivalent to 2.2 million TOE) were only partly offset by making greater use of domestic oil and natural gas reserves (1.8 million TOE, an increase of around 12 per cent over 1986). The increase in the energy requirement was therefore met by higher net imports of hydrocarbons, the world prices of which were such as to encourage substantial stockbuilding. The consumption of solid fuels increased only marginally.

The proportion of overall energy consumption covered from domestic sources decreased by one percentage point, thus falling below the 19 per cent level that has prevailed for the past fifteen years. During that period the energy self-sufficiency of the EEC countries as a whole has risen substantially, from below 40 per cent to more than 60 per cent of the requirement (the OECD average exceeded 75 per cent several years ago).

Electricity consumption continued to increase along the growth path determined by the trend in household consumption patterns and changes in industrial firms' technological requirements. In contrast to other countries, however, the measures taken in Italy to save electricity in the civilian sector do not appear to be adequate in the light of the macroeconomic objective of reducing the country's energy dependency, and the consumption of oil by private goods and passenger transport companies is continuing to grow at an excessively rapid pace.

Since it has been decided not to continue along the nuclear energy road, planning efforts are now being focused on the drafting of a new national energy plan. Some of the widely accepted priorities on which the plan will be based have already been announced; these include a reduction in the environmental cost of using fossil fuel and generating electricity, rationalization of the use of energy in all sectors, the development of domestic energy resources and a reduction in the geopolitical concentration of Italy's sources of supply.

EMPLOYMENT, WAGES AND PRICES

Employment

The demand for labour. — Total employment in terms of full-time equivalent workers, defined by Istat as standard units of total labour input to the economy, increased by 0.2 per cent in 1987, or by about 50,000 units (Table 8). The actual number of persons working, however, declined by 24,000.

Table 8

EMPLOYMENT IN ITALY

(full-time equivalent; percentage changes on previous year)

	Total employment				Employees			
	1984	1985	1986	1987	1984	1985	1986	1987
Agriculture	−2.1	−3.9	−1.1	−1.1	−4.2	−1.0	−2.5	−1.5
Industry	−4.7	−1.3	−0.7	−1.2	−4.5	−1.5	−1.3	−1.0
of which: fuel & power products	*1.5*	*1.4*	*1.5*	*1.3*	*1.5*	*1.4*	*1.5*	*1.3*
manufacturing	*−4.5*	*−1.4*	*−0.6*	*−1.4*	*−4.9*	*−1.4*	*−1.2*	*−0.8*
industry excluding construction	*−4.3*	*−1.3*	*−0.5*	*−1.3*	*−4.6*	*−1.3*	*−1.1*	*−0.7*
construction	*−5.8*	*−1.4*	*−1.2*	*−0.9*	*−4.2*	*−2.1*	*−2.3*	*−2.4*
Market services	4.9	3.5	2.7	1.3	4.5	4.6	2.4	0.7
of which: distributive trades, lodging and catering	*3.9*	*1.1*	*1.6*	*1.0*	*4.2*	*1.2*	*2.2*	*−0.7*
transport & communications	*0.1*	*0.8*	*1.1*	*1.5*	*−0.8*	*0.7*	*0.8*	*1.8*
credit and insurance	*2.5*	*1.4*	*1.1*	*2.0*	*2.6*	*1.4*	*1.1*	*2.0*
other market services	*10.7*	*10.1*	*5.6*	*1.6*	*10.6*	*13.9*	*4.1*	*1.5*
Market goods and services	**0.1**	**0.6**	**0.9**	**0.1**	**−0.9**	**1.1**	**0.2**	**−0.3**
Non-market services	**2.0**	**2.0**	**1.2**	**0.9**	**2.0**	**2.0**	**1.2**	**0.9**
Total	**0.4**	**0.8**	**0.9**	**0.2**	**−0.1**	**1.3**	**0.5**	**0.0**

Source: Istat.

The increase in the demand for labour was one of the smallest registered in this decade, contrasting with the sharp rise in output. This poor performance was due primarily to the decline in employment in the South and the brusque slowdown in job-creation in the services sector. The rate of increase in the number of persons employed in market services dropped from 2.7 to 1.3 per cent, despite an acceleration in the growth of value added from 3.4 to 3.7 per cent. The number of new jobs created fell from 241,000 in 1986 to 122,000 in 1987, the decline being virtually all accounted for by the performance of "Other market services", a sector in which the rapid growth in employment during the eighties had outstripped the real rise in output. After the large-scale transfer of many tasks from industry proper to service companies in the early part of the decade and the emergence of a group of new activities ancillary to production, this sector now appears to have begun a period of consolidation and rationalization.

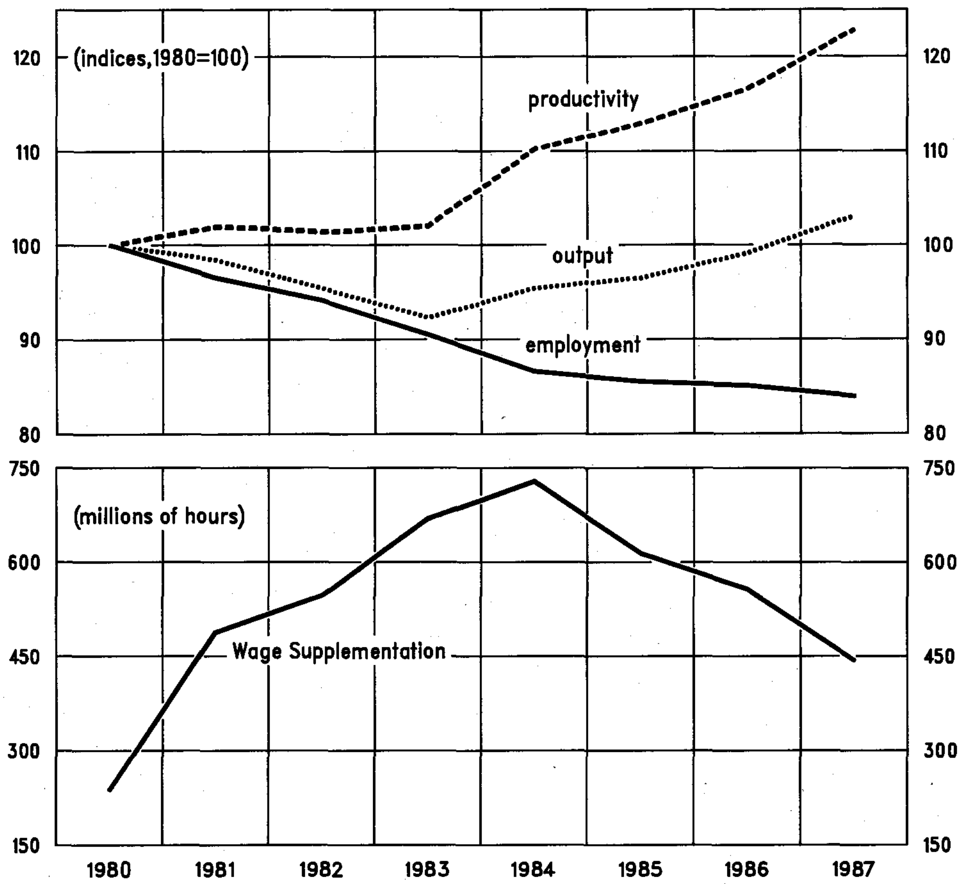
Agricultural employment declined by more than 1 per cent as a result of modest growth in output and the continued underlying exodus from farming. The sector's share of total employment in Italy dropped from 13.6 per cent in 1980 to 11.0 per cent in 1987, but it is still considerably higher than in other European countries.

Net of workers on wage supplementation, employment in industry excluding construction declined by about 70,000 standard labour units (1.3 per cent) despite the acceleration and strengthening of the economic expansion in the course of the year.

Figure 7

OUTPUT, EMPLOYMENT AND WAGE SUPPLEMENTATION IN INDUSTRY EXCLUDING CONSTRUCTION (1)

(indices, 1980 = 100)



(1) Industrial production and full-time equivalent employment.

The reduction in industrial employment has been continuous since the beginning of the decade (Figure 7). The need to hold down production costs to meet international competition, continued uncertainty about the medium-term outlook and the urgent need to carry out the restructuring that had not been accomplished during the seventies have caused output and employment trends to diverge. A fundamental factor in this process has been the use of the Wage Supplementation Fund, which has allowed firms to be highly flexible in manpower management while reducing the social distress of industrial restructuring. The total number of hours paid by the Fund more than trebled between 1980 and 1984, when a gradual decline finally began in parallel with the upturn in the economic cycle. Nevertheless, the number of hours paid in 1987 was still nearly twice as large as in 1980, and employment was about 16 per cent lower, even though industrial output expanded rapidly last year and capacity utilization approached its historic peaks. This forcefully underlines the far-reaching structural transformation that has been accomplished.

Last year, however, the downward trend in manufacturing employment was first attenuated, then reversed, a development that has been corroborated by the first labour force survey for 1988. Although substantial problem areas remain, the far-reaching restructuring initiated at the beginning of the decade appears to have been completed.

The number of persons working in the construction industry decreased by 0.9 per cent as activity slackened. The number of hours compensated by the Wage Supplementation Fund did not diminish significantly.

The labour force. — The labour force continued to grow in 1987, expanding by 0.9 per cent, or by 202,000 persons. The expansion was due entirely to the further significant rise in the female participation rate in accordance with the trend that began in the mid-seventies. Demographic factors had little impact nationwide, the population of working age increasing only slightly.

These factors had the effect of increasing total unemployment to 2.8 million persons. The overall unemployment rate rose from 11.1 to 12.0 per cent. Adjusted for workers on wage supplementation, the rise was less sharp, from 12.7 to 13.3 per cent.

For the second consecutive year the largest rise was in the number of "Other job seekers" (persons of non-working status who are looking for work), which increased by 14.5 per cent, as against 9.2 and 4.5 per cent for unemployed workers and first job seekers respectively. The number of young people seeking work is now over 2 million, producing an unemployment rate of 28 per cent for the under-30 age group and accounting for about three quarters of total unemployment.

The various employment measures passed in recent years continued to have an impact. Trainee contracts were given to nearly 400,000 young people, around 70 per cent more than in 1986. This instrument was used mainly by small firms, especially in industry. Those most commonly hired under the scheme are in the 19-24 age-group and have relatively poor educational backgrounds. Trainee contracts are still little used in the South.

The North-South disparity and the labour market

Unemployment in Italy is heavily concentrated in the South. While the unemployment rate, including the workforce on wage supplementation, has been falling in the Centre-North since 1984, it is still rising in the South, where it exceeded 20 per cent last year (Table 9). This glaring disparity stems not only from demographic factors, which indicate a further widening of the gap, but also from the substantial loss of jobs in the South, where employment declined by 2 per cent last year (Figure 8). The South has not shared in the economic recovery following the intense restructuring in the early eighties. In manufacturing specifically, the South is lagging behind the rest of the country in making the necessary readjustments in output and employment. Moreover, problems in implementing the new legislation on special development assistance for the South have caused investment to stagnate, doing enormous damage to the region's economic situation.

Table 9

LABOUR MARKET INDICATORS, OFFICIAL AND ADJUSTED FOR WAGE SUPPLEMENTATION FUND (1)

(percentage values)

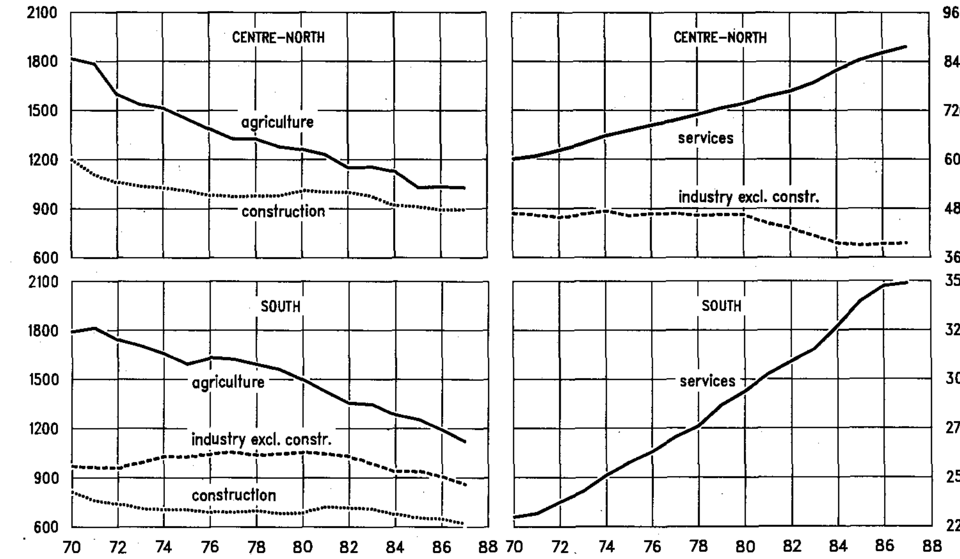
	Centre-North		South	
	Official	Adjusted for WSF	Official	Adjusted for WSF
		Unemployment rate		
1980	5.8	6.6	11.5	12.2
1981	6.7	8.4	12.2	13.1
1982	7.3	9.1	13.0	14.0
1983	8.1	10.2	13.8	15.0
1984	8.4	10.6	13.6	15.1
1985	8.3	10.3	14.4	15.7
1986	8.5	10.1	16.5	17.9
1987	8.4	9.6	19.2	20.5
		Employment rate		
1980	39.6	39.2	31.7	31.5
1981	39.7	39.0	31.5	31.2
1982	39.5	38.7	31.4	31.0
1983	39.3	38.4	31.6	31.2
1984	39.5	38.5	31.5	31.0
1985	39.6	38.7	31.7	31.2
1986	39.9	39.2	31.6	31.0
1987	40.2	39.7	30.7	30.2

Source: Based on INPS and Istat data.
(1) The adjustment for the Wage Supplementation Fund is based on contractual hours.

Figure 8

EMPLOYMENT BY REGION AND SECTOR

(thousands of persons)



Source: Based on INPS and Istat data.
(1) Net of Wage Supplementation.

Analysis of labour demand and supply in the North and the South indicates structural differences. In the South public sector employment plays a more important role and the number of workers in agriculture is still high (17.1 per cent of the total in 1987); the latter is affected less by changes in output than by long-run structural factors. Manufacturing industry needs to be expanded further in order to help reduce the South's high structural dependence on external resources. Furthermore, employment in this sector has never enjoyed rapid growth in the South, except in state-controlled enterprises. This poor performance despite the policy of development incentives can be attributed to a number of causes: a range of external diseconomies associated with deficiencies in infrastructures and social factors, the dramatic narrowing of the differential in labour costs in relation to the Centre-North (30 percentage points between 1960 and 1975), the crisis in traditional manufacturing industry in the South, and the concentration of new productive investment in capital-intensive plants and industries.

The unresolved dichotomy between North and South could set severe constraints on the overall growth of the Italian economy. First of all, the divergent employment trends in the two regions could spur excessive wage pressures in the Centre-North, which would then spread to the South despite the high national average unemployment rate. It has been shown that wages growth is correlated more closely with the unemployment rate in the Centre-North than with that in the South.

A second constraint that the North-South discrepancy imposes on non-inflationary growth in the economy as a whole stems from the burden of state support for incomes in the South. The South is still structurally dependent on external resources, as demonstrated by the fact that it lags further behind the North in per capita output than in per capita consumption. Transfer payments to bolster Southern consumption not only clash with the need to reduce the budget deficit but also diminish the manoeuverability of public spending, given the high social cost of spending cuts. It follows that economic policy needs to aim at expanding employment in the South and reducing the region's dependence on external resources.

Wages and labour costs

Industrial relations. — Most national, industry-wide labour contracts in both the public and private sectors were renewed during 1987. In late 1986 and early 1987 agreements were signed covering the main areas of manufacturing industry, followed in the autumn of 1987 by the new contract for the construction industry. In the services sector, settlements were also reached in tourism, the distributive trades and lodging and catering, insurance, and the main divisions of government employment.

The agreed wage increases varied little from industry to industry, and there was also a fairly uniform reduction in working time, averaging 20 hours a year. More attention than in the past was paid to the maintenance of sufficient wage differentials, providing in particular for special bonuses for technical and supervisory personnel. The wage raises in the public sector and in banking were larger than average.

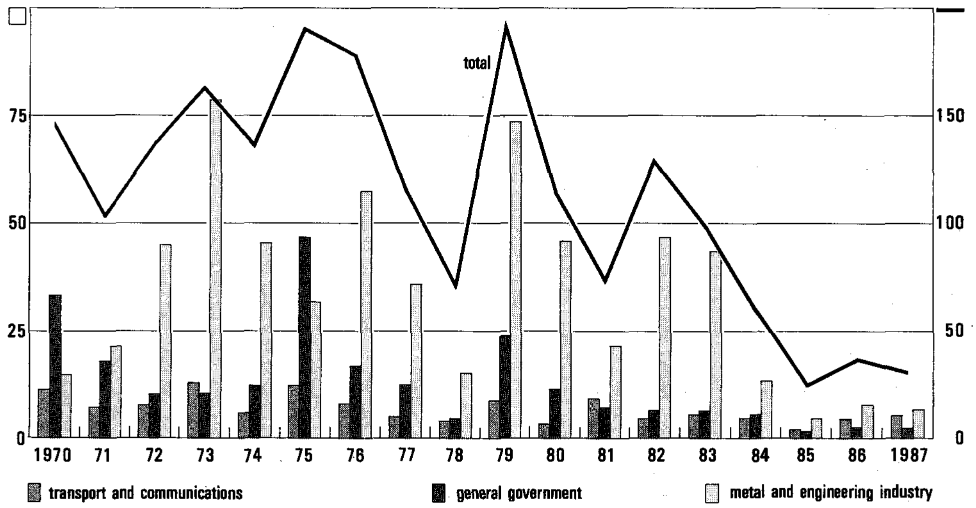
Industrial disputes. — The number of working hours lost through industrial disputes declined by 18.4 per cent in relation to 1986, because most contracts were signed in the early months of the year. The food, textile and construction sectors, in which agreement was not reached until mid-year or later, went against the general trend, and strikes also increased in the transport and communications sector.

Over the medium term there has been a pronounced decline in the amount of working time lost as a result of industrial disputes generally, and especially in industry (Figure 9). The decrease in strikes in the metal and engineering sector has been particularly large, in both absolute and relative terms. The same cannot be said of transport and communications, where there has actually been a sharp increase in the number of hours lost through strikes in the last few years.

Figure 9

HOURS LOST THROUGH INDUSTRIAL DISPUTES

(millions)



Source: Istat.

Wages and labour costs. — Gross earnings per employee in the industries producing goods and market services increased by 7.4 per cent in 1987 (Table 10), or about two percentage points more than in 1986. There was also an acceleration in real terms, in line with the rise in productivity (2.9 per cent). Gross earnings in general government increased much more sharply, by 11.9 per cent. The acceleration was due to the concentration in 1987 of the effects of the renewal of three-year labour agreements and the payment of lump-sum compensation or back pay to take account of the delay in signing the new contracts.

Part of the rise in earnings in the private sector was due to wage drift, as shown by the fact that in general the rise in contractual minimum wage rates was smaller than that in earnings. Another factor in the rise in actual earnings per employee was an increase of just under 1 per cent in the per capita number of hours worked. In manufacturing, gross per capita earnings increased 7.5 per cent, compared with a rise of 7.8 per cent in labour costs.

Table 10

LABOUR COSTS AND PRODUCTIVITY

(percentage changes)

	Value added at market prices (1)	Total employment (full-time equivalent)	Output per full-time equivalent worker	Earnings per full-time equivalent worker	Labour costs	Unit labour costs
	Total (excluding renting of buildings)					
1984	3.1	0.4	2.7	12.2	11.6	8.6
1985	2.9	0.8	2.1	10.1	10.5	8.2
1986	2.7	0.9	1.8	6.3	7.5	5.6
1987	3.1	0.2	2.9	8.6	8.9	5.9
	Agriculture					
1984	−3.9	−2.1	−1.8	11.0	9.1	11.1
1985	0.8	−3.9	4.9	11.7	12.5	7.2
1986	1.8	−1.1	2.9	5.1	6.4	3.4
1987	1.7	−1.1	2.8	5.6	6.1	3.3
	Industry excluding construction					
1984	4.2	−4.5	9.1	14.9	14.7	5.1
1985	2.4	−1.4	3.8	10.7	11.3	7.2
1986	3.1	−0.6	3.7	5.9	7.1	3.2
1987	4.5	−1.4	6.0	7.5	7.8	1.8
	Construction					
1984	−3.0	−5.8	3.0	11.4	8.5	9.3
1985	−2.4	−1.4	−1.0	10.5	10.9	8.6
1986	−1.0	−1.2	0.2	7.2	8.1	6.5
1987	−2.2	−0.9	−1.3	6.4	6.7	5.5
	Market services (excluding renting of buildings)					
1984	4.8	4.9	−0.1	10.3	9.2	9.3
1985	4.6	3.5	1.1	10.3	9.8	8.6
1986	3.3	2.7	0.7	6.3	7.3	6.5
1987	3.7	1.3	2.4	7.5	8.0	5.5

Source: Based on Istat data.
(1) 1980 prices; the figures for agriculture, industry and services include imputed bank services.

The strong expansion of output and the continuation of labour shedding, albeit at a decreasing pace, led to a rise of 6 per cent in labour productivity, an achievement that is unlikely to be repeated. Unit labour costs rose by less than 2 per cent.

Wage differentials widened last year. The easing of inflation, the reduced incidence of the *scala mobile* and the abandonment of uniform adjustments widened the range of earnings within each sector after the drastic wage levelling of the seventies.

The national accounts for the eighties confirm that there was no strict correlation between wage increases and labour productivity gains within any given sector. The deterioration in productivity in the services sector in 1987, which reversed the trend of the previous year, was not accompanied by a similar movement in per capita earnings. The earnings differential between industry and services widened only slightly in favour of the former.

These two sectors are much too broad, however, for it to be possible to discern the detailed pattern of intersectoral differentials. Since comparable data on output are not available, a more detailed analysis has been made on the basis of the work carried out by the Committee on the System of Wages and Contracts, which was set up by the Minister of Labour in June 1987. The data relate to 88 sectors of the economy and are taken from the survey of wages and employment by the Ministry of Labour for the first half of 1986.

The data reveal that in general, under the exchange rate policy currently pursued, the sectors most exposed to international competition have lower hourly wage rates than those whose output goes predominantly to the home market. Within manufacturing, there is a positive correlation between wages and capital intensity. Moreover, in all the sectors considered wages tend to rise with the size of local production plant measured by number of employees. There is also a positive correlation between average sectoral earnings and the average educational level of employees.

Table 11

HOURLY WAGE AND LABOUR COST DIFFERENTIAL BETWEEN CENTRE-NORTH AND SOUTH (1)

Firm size (No. employees)	Total (2)		Manufacturing							
			Total		(A)		(B)		(C)	
	Labour costs	Wages	Labour costs	Wages	Labour costs	Wages	Labour costs	Wages	Labour costs	Wages
Total	89.5	97.8	85.4	98.7	69.0	79.8	84.1	96.9	90.4	104.7
10-49 .	86.6	94.2	78.1	90.1	66.5	77.3	83.8	96.6	82.6	93.1
50-99 .	94.2	103.2	83.0	96.3	69.8	83.3	86.3	99.3	86.1	97.9
100-199 .	99.8	109.9	89.4	101.9	79.7	89.9	86.6	99.1	94.8	108.3
200-499 .	93.4	99.9	88.3	100.8	74.5	91.5	88.1	98.2	92.9	107.2
500-999 .	90.2	100.4	86.5	95.9	75.5	88.0	85.0	93.7	89.1	98.6
1000 and more . .	82.9	92.1	83.5	98.7	82.6	75.5	71.1	87.5	90.0	105.6

Source: Based on Ministry of Labour data.

(1) South as percentage of Centre-North, first half 1986. — (2) The sectors surveyed are industry excluding construction and market services.

(A) Low capital intensity industry: textiles, hides and leather, shoes and clothing, wood and furniture, rubber and plastic materials, miscellaneous manufactures.

(B) Average capital intensity industry: metal products, engineering machinery and materials, office machinery. eletrical and electronic machinery, precision optics, non-metallic mineral products, food and tobacco products, paper and printing products.

(C) High capital intensity industry: chemicals, artificial and synthetic fibres, metallic mineral products, basic metals, motor vehicles, other transport equipment.

Finally, considering the productivity gap between the Centre-North and the South and the higher unemployment in the latter region, the differential in hourly wage rates between the two regions is not pronounced. In manufacturing industry in particular, hourly wages in the South are only 1.3 per cent lower than in the Centre-North. The gap is wider only in the case of smaller production units (10 per cent for plants with between 10 and 49 employees; Table 11).

Prices

Inflation continued to slow down in 1987, though less strongly than in previous years. The further improvement in the terms of trade was reflected in the domestic demand deflator, which rose by 4.7 per cent, compared with an increase of 5.6 per cent in the GDP deflator.

After declining sharply in 1986, wholesale prices rose by 2.6 per cent on a year-on-year basis, owing partly to the turnaround in crude oil prices, an acceleration in the prices of some industrial raw materials and a continued high rate of increase of 4 per cent in the prices of final goods (Table 12).

Table 12

WHOLESALE AND CONSUMER PRICES

(percentage changes on previous year)

	1985	1986	1987		
			1st half	2nd half	Year
Wholesale prices:					
General index	7.3	−0.9	1.0	4.4	2.7
Final consumer goods	8.4	3.0	2.9	3.9	3.4
Final capital goods	7.8	5.7	5.6	6.6	6.1
Raw materials	6.1	1.2	0.2	2.4	1.3
Energy sources	8.1	−32.4	−12.0	16.4	0.5
Consumer prices:					
General index for goods and services	9.2	5.9	4.4	5.1	4.7
Unregulated prices	10.0	6.3	4.8	5.0	4.9
Regulated prices (1)	7.5	4.8	3.3	5.4	4.3
Public utility charges	9.3	9.1	2.8	4.3	3.5
Goods with controlled prices	7.5	4.8	5.1	7.0	6.1
Rents	5.8	9.1	6.5	5.3	5.9
Goods with monitored prices	5.9	−1.3	1.1	5.2	3.1
Energy component	6.6	−5.4	−3.6	4.8	0.5
General index net of energy	9.4	6.9	5.0	5.2	5.1

Source: Based on Istat data.
(1) Items aggregated using the weights of the consumer price basket and the price regulation regime as of January 1988.

The consumer price index rose by 4.7 per cent, as against 5.9 per cent in 1986 and a target rate of 4 per cent. The differential between Italy and the other major EEC countries narrowed from 3.9 to 2.3 percentage points. The differential with respect to the OECD area narrowed even more sharply, from 3.2 to 1.4 points.

Industrial producer prices increased by 2.3 per cent in 1987, slightly more than the rise in variable production costs. As a result, the ratio of operating profits to industrial value added rose slightly from the already high level of 1986.

The overall performance of manufacturing prices reflected firms' differential pricing policies depending on the state of the market in which they do business. The growth of demand in the home market favoured a divergence of final prices from unit costs, while the rise in export prices was about one percentage point less than that in production costs. In the first half of the year Italian manufactures apparently accepted a narrowing of profit margins on their exports in view of the relatively sluggish growth in world demand and significant reductions in the lira prices set by Italy's main competitors. In the second half, however, the recovery in markets abroad allowed them to raise prices.

The rise in unit production costs amounted to just under 2 per cent. The prices of intermediate inputs rose by 2.1 per cent, while unit labour costs increased by 1.8 per cent.

A breakdown of input prices by origin and product type shows that imported inputs, unlike those of domestic origin, continued to decline in price on an annual average basis owing to falls of 3.2 and 2.6 per cent in agricultural and industrial raw material prices respectively. After declining in 1986, domestic input prices rose by 4.1 per cent last year as a result of the recovery in energy prices and above all the increase of 6.4 per cent in the cost of intermediate services.

The temporary increase in VAT rates on some consumer durables and the higher excise duties on petrol and other petroleum products for final consumption, which were decided on 27 August, produced a mechanical upward shift of about 0.4 points in the general consumer price index in the last four months of the year.

The annual average increase in the prices of unregulated products was again faster than that for goods and services with regulated prices (4.9 per cent as against 4.3 per cent), but the discrepancy between the two rates was smaller than in 1986 and by the end of the year the twelve-month increase in regulated prices had exceeded that in unregulated prices. This stemmed in part from an acceleration in controlled prices, owing to the raising of the prices of medicines and tobacco products, and in part from the reversal of the decline in the prices of monitored products, which include a large proportion of energy products. The slowdown in public service charges continued, however, as there was no increase in national transport and communication charges.

THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

The current account was adversely affected last year by the strength of domestic demand in Italy compared with other countries and by a loss of competitiveness vis-à-vis North America. The balance swung back into deficit, though the figure was small (1,286 billion lire; Table 13). The deterioration compared with 1986 amounted to around 5 trillion lire.

Table 13

CURRENT ACCOUNT BALANCES
(billions of lire)

	1986 (1)	1987
Goods	**6,283**	**141**
Goods cif-fob (customs data)	*–3,736*	*–10,954*
Services	**–95**	**–134**
Transport and insurance	–2,333	–2,225
Foreign travel	10,353	9,902
Investment income	–9,259	–8,573
Income from labour	2,673	2,156
Other	–1,529	–1,394
Unrequited transfers	**–2,397**	**–1,293**
Private	2,174	1,668
Public	–4,571	–2,961
Total ...	**3,791**	**–1,286**

Source: For customs data, Istat.
(1) Revised.

The deficit was equivalent to just over 0.1 per cent of GDP and was the result of balance in trade in both merchandise and services and a small deficit on unrequited transfers.

There are still forces at work tending to increase the current account deficit: the sensitivity of merchandise trade to disparities in cyclical conditions; the rising trend of expenditure on foreign travel, coupled with the near-stagnation of receipts; and the foreseeable increase in Italy's net contribution to the budget of the European Communities. Even more than the trade account, the current account as a whole will continue to act as an external constraint on the scope for economic growth.

Merchandise trade

Valued on a customs basis (cif-fob) using the actual dates on which goods cross the frontier, merchandise trade recorded a deficit of 10,954 billion lire, three times that of 1986. The deterioration was most pronounced in the early part of the year as a result of the rise in the price of oil and the pressure generated by Italy's domestic demand expanding faster than world demand.

The volume of imports increased by 10.8 per cent, which was three points more than in 1986. This acceleration reflected the increase from 3.2 to 4.7 per cent in the rate of growth in domestic demand. The high level of plant capacity utilization meant that a growing share of demand was satisfied by imports, especially in the first half of the year.

Exports rose by 3.4 per cent in volume terms; world demand picked up in the second half of 1987, increasing by 4.3 per cent year on year in terms of the total exports of industrial countries. Export sales suffered from a loss of competitiveness vis-à-vis North American competitors, especially in the US market.

Expressed in lire, the average unit value of imports dropped by 1.4 per cent, with the value for energy imports falling by 6 per cent. The depreciation of the dollar offset the rise in the world market prices of oil and raw materials. Imports of manufactures continued to benefit from small reductions in prices, both in suppliers' own currencies and in lire.

The average unit value of exports rose by 1.1 per cent. As in 1986, sales of oil products moderated the rise in the general index. By contrast, the average unit value of exports of manufactures rose by 1.4 per cent.

The improvement in the terms of trade in 1987 was thus mostly attributable to manufactures, whereas in 1986 it had been entirely due to the large fall in energy prices. Changes in the terms of trade of manufactures are not necessarily the result of Italian and foreign firms' pricing policies for particular products since they may be partly or entirely due to the introduction of new products with different quality features.

It can be assumed, however, that exporting firms also continued to charge different prices to domestic and foreign customers with the aim of defending their shares of the export markets where international competition is fiercest. In some cases this behaviour may have been in response to the persistent weakness of demand (in the oil-exporting countries, for example), while in others it probably reflected the desire to limit the loss of competitiveness vis-à-vis local producers in the wake of exchange rate developments (as in North America). At all events, the strength of demand and the widening of profit margins in the domestic market encouraged firms to follow this course. Accordingly, the indicators of export and import competitiveness, which had started to diverge in 1986, continued to do so last year, with falls of respectively 1.9 and 2.6 per cent.

In order to profit from high levels of demand and favourable competitive conditions, Italian exporters tended to concentrate on the markets of the oil-exporting countries in the seventies and on those of North America in more recent years. Since these special factors have ceased to apply, they have had to look rapidly for other outlets. The results for 1987 highlight firms' adaptability, with exports to the EEC, other Western European countries and Eastern Europe all expanding by over 8 per cent. There were also sizable increases in exports to some Far Eastern markets with very good prospects for demand growth in the medium-to-long term (Japan, Hong Kong and Taiwan, but not China, which took 5.9 per cent less goods than in 1986).

Exports and manufacturing industry

The deterioration in the merchandise trade balance in 1987 — a year after the improvement in the international terms of trade between manufactures and energy had restored it to the level recorded before the second oil crisis — puts the spotlight back on the issue of the specialization of Italian exports. The question that has to be answered is whether Italian industry will be able in the long term to produce the surpluses needed to cover the cost of imported energy, raw materials and agricultural products, much of which is unavoidable.

The product specialization of Italian exports is still marked by the pre-eminence of "traditional" consumer goods (clothing and furnishings) and "traditional" investment goods (agricultural and industrial machinery), while Italy is relatively weak in technology intensive products (fine chemicals, computers and other electronic equipment). This pattern has remained basically unchanged for many years. The structure of Italian industry and its immutability make it the exception among the leading industrial countries, whose exports have gradually shifted from the first group of products to the second.

Italian industry's pattern of specialization stood the country in good stead in maintaining its competitiveness in the seventies. In the wake of the first oil crisis exporting firms concentrated on consolidating the pattern inherited from the past and the existence of sizable comparative advantages permitted Italy to profit immediately from the rapid growth in the demand for traditional products, generated primarily by the oil-exporting countries. At the same time, however, the penetration of the Italian market by foreign manufactures was beginning to increase, especially as regards electrical and electronic equipment and motor vehicles.

In the eighties the growth in Italy's total share of export markets has come to a halt, while the share of domestic demand met by imports has expanded rapidly. Italy is not the only industrial country to have suffered a deterioration in its merchandise trade in recent years. France, the United Kingdom and especially the United States have seen their market shares decrease, to the advantage of Germany and Japan. In addition, the import penetration of nearly all the industrial countries has increased as a result of the growth in world trade and the greater openness of their economies. Italy has nonetheless been one of the countries in which this development has been most pronounced.

Exports of "traditional" goods have continued to make a very substantial contribution to Italy's merchandise trade balance, with firms concentrating on products with high unit values and adopting innovative production and marketing techniques. Despite large increases in sales both at home and abroad, the output of technologically more advanced products has failed to keep pace with the very rapid growth in demand.

The consequent deterioration in Italian industry's position in international trade in the eighties has gone hand in hand with a far-reaching reorganization of production facilities and methods. However, the sectors whose trade performance has been least satisfactory, such as electronics and cars, are precisely those in which plant modernization has been taken furthest and profits have recovered most strongly.

The enhanced profitability of these sectors would have permitted an expansion of production capacity and an improvement in international competitiveness through appropriate pricing policies, even with the unaccommodating exchange rate policy in force.

This has occurred only to a limited extent. The policies firms adopted were influenced by a series of interrelated developments. Apart from the low relative price elasticity of the demand for some goods, various combinations of the following factors probably played a part: supply bottlenecks for certain factors of production (skilled workers, technology); the saturation of some market segments with a high level of production specialization; the desire to complete the phase of financial rehabilitation and balance sheet strengthening before undertaking any expansion of capacity; and a preference for international development through direct investment abroad in response to the action of competitors and the evolution of markets.

Foreign travel and other invisibles

There was a further reduction in the surplus on foreign travel, which amounted to 9,902 billion lire, compared with 10,353 billion in 1986 and 12,362 billion in 1985.

Receipts rose by 7.4 per cent, making good virtually all the fall recorded in 1986. In real terms the spending of visitors to Italy rose by 2.6 per cent.

The smallness of this real increase despite the good recovery in international tourism was partly due to the delayed effects of the sector's 5.2 per cent loss of competitiveness in 1986, coupled with a further 1.3 per cent decline last year.

Expenditure abroad by Italians jumped by 35.5 per cent in nominal terms and by 30.5 per cent when deflated with the indices of consumer prices (translated into lire) in the main countries of destination. The average annual increase between 1983 and 1987 amounted to 18.6 per cent in real terms, far higher than the corresponding figures for income and consumption.

The first ever reduction in Italy's surplus on tourism at current prices occurred two years ago. It was attributed primarily to special factors, one of the main effects of which was a sharp reduction in receipts from US tourists. The further decline in the surplus last year, despite the weakening of the special factors in question, suggests that attention should be focused on other less transient causes. These are related to the general competitiveness of the Italian tourist industry and the fact that foreign travel still accounts for a smaller proportion of total consumer expenditure in Italy than in the other advanced countries, including those which, like Italy, have significant comparative advantages in international tourism.

The deficit on investment income amounted to 8,573 billion lire last year. This was less than in 1986 as the result of a 2 per cent increase in receipts and a 3 per cent reduction in payments. The latter was primarily due to the decrease in the average size of the net foreign debt and to the appreciation of the lira against the dollar, the currency in which a large part of Italy's external liabilities are denominated.

The other services items recorded a deficit of 1,463 billion lire, a slight increase on the previous year.

Unrequited transfers resulted in a deficit of 1,293 billion lire, a decrease of more than 1 trillion compared with 1986. The improvement came entirely from public transfers, for which the net outflow fell from over 4,500 billion to 2,961 billion. The reduction in development aid disbursements was coupled with an increase in receipts from the Community budget in connection with the settlement of items in abeyance from 1986. Italy nonetheless remained a net contributor to the Community budget for the second year in succession. The proposed reform of the method of financing the budget is likely to increase Italy's net contribution.

CAPITAL FLOWS

In 1987 the official reserves rose by 6,775 billion lire, net of the revaluation of gold holdings and exchange rate adjustments ; net inflows of capital totaled 9,253 billion lire, the balance of payments on current account recorded a deficit of 1,286 billion lire, and there was a deficit of 1,192 billion lire on errors and omissions.

The capital inflows were chiefly the result of an increase of 5,573 billion lire in net external borrowing by the banks, while non-bank financial transactions generated net inflows of 3,680 billion lire (Table 14). Italian and foreign portfolio investment gave rise to a combined outflow of over 9,500 billion lire, while direct investment produced net receipts of around 2,300 billion. Foreign borrowing by Italian residents created substantial inflows of 12,337 billion lire: Treasury operations, in particular, resulted in a net inflow of over 4,500 billion lire.

Table 14

CAPITAL FLOWS

(net; billions of lire)

	1986	1987	1987			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Medium and long-term capital	**−2,460**	**12,316**	**4,566**	**−638**	**2,170**	**6,218**
Direct investment	−3,991	2,247	791	321	179	956
Foreign loans	5,037	12,337	3,703	373	2,454	5,807
Italian loans	−2,195	−2,370	−581	−950	−248	−591
Trade credit	−1,159	−971	−30	−52	−493	−396
Other	−152	1,073	683	−330	278	442
Short-term capital	**−1,744**	**−8,636**	**1,289**	**−3,309**	**−5,147**	**−1,469**
Italian portfolio investment	−3,299	−4,782	−740	−1,167	−2,794	−81
Foreign portfolio investment	1,744	−4,836	−16	−1,986	−1,924	−910
Trade credit	−189	982	2,045	−156	−429	−478
Total non-bank flows	**−4,204**	**3,680**	**5,855**	**−3,947**	**−2,977**	**4,749**
Banking flows (1)	**6,454**	**5,573**	**3,269**	**916**	**−2,260**	**3,648**

(1) Changes in banks' net foreign liabilities, net of exchange rate adjustments.

The liberalization of exchange controls means that financial transactions between Italy and the rest of the world are influenced more strongly than in the past by market forces. Nonetheless, they continue to be affected by institutional factors, chief among these being differences in the tax treatment of financial assets and state aid in the form of exchange guarantees for some types of foreign loans, export credit subsidies and assistance to developing countries.

The powers granted to the Government in 1986 to reorganize and amend the exchange control legislation were implemented by Presidential Decree 454 of 29 September 1987, which will come into force on 1 October 1988. Further steps in the revision of the exchange control regulations were taken in February of this year, with the issue of a ministerial decree containing detailed provisions, and in March, with the approval of a codified law on exchange controls.

At the end of 1987 Italy had a net external debtor position of $44 billion, or 5.2 per cent of GDP. If official gold reserves of over $34 billion are included, the position falls to $9.9 billion (1.2 per cent of GDP).

Direct investment

The important role direct investment plays in the internationalization of firms is confirmed by the continuing worldwide trend towards the acquisition and establishment of enterprises in countries other than that of the investing company. Net foreign investment in Italy gave rise to inflows of 5,264 billion lire, compared with virtual balance in 1986. New investment was the same as in the previous year, while disinvestment amounted to 1,166 billion lire, compared with 6,594 billion in 1986, of which over 4 trillion lire had been due to Lafico's sale of shares in Fiat.

Net investment abroad by Italian industrial groups amounted to 3,017 billion lire, the balance between new investment of 4,646 billion lire and disinvestment of 1,629 billion. There was a marked decline in new investment in banks, insurance companies and finance companies, which fell from a peak of 44 per cent of the total in 1985 to 22 per cent last year. The process of international expansion was especially marked in non-financial services, particularly those related to trade.

Investment in trade-related services was directed to a wide range of countries, though the largest flows were to EEC member states, especially Spain. The forthcoming creation of the single European market probably gave firms an incentive to establish a foothold in other Community countries; inward investment by these countries also increased, presumably for the same reason.

Portfolio investment and the abolition of the non-interest-bearing deposit on investment abroad

Purchases of foreign financial assets by residents amounted to 18,655 billion lire, an increase of over 90 per cent compared with 1986. Disinvestment also rose sharply, to 13,883 billion. Net outward investment thus amounted to 4,782 billion lire, almost 1.5 trillion more than the previous year (Table 15).

Table 15

PORTFOLIO INVESTMENT

(billions of lire)

	1986			1987		
	Investment	Dis-investment	Balance	Investment	Dis-investment	Balance
Foreign capital	**23,648**	**21,904**	**1,744**	**21,383**	**26,219**	**–4,836**
Government securities	11,898	7,158	4,740	13,461	13,837	–376
Treasury bills	1,175	1,139	36	1,806	1,239	567
Treasury bonds	824	519	305	916	1,856	–940
Treasury certificates and bills in ECUs	178	4	174	2,508	371	2,137
Treasury certificates	9,721	5,496	4,225	8,231	10,371	–2,140
Listed shares	10,490	13,818	–3,328	7,077	11,441	–4,364
Bonds and other	1,260	928	332	845	941	–96
Italian capital	**6,519**	**9,818**	**–3,299**	**13,883**	**18,665**	**–4,782**
of which: purchases by Italian investment funds (1)	2,072	5,101	–3,029	9,060	11,470	–2,410
Foreign investment fund units	1,775	1,596	179	1,457	1,327	130

(1) Excluding securities in Euro-lire.

In the past these transactions were affected by the compulsory non-interest-bearing deposit on Italian investment abroad. This requirement was gradually relaxed and finally abolished in May 1987, earlier than the internationally agreed expiry date, in conjunction with other measures to liberalize exchange controls.

Portfolio investment by Italian investment funds resulted in net outflows of 2,470 billion lire and that by other operators in net outflows of over 2 trillion lire, compared with 270 billion in 1986.

Although the deposit requirement has been abolished, such operations are still affected by the tax on investment income from abroad, which in some striking instances is higher than that on the same type of income from domestic sources. For example, interest on government bonds and securities issued in Italy is subject to withholding tax at 12.5 per cent, while the rate on interest from abroad is 30 per cent.

Italian investment in foreign bonds, which accounted for three quarters of total net purchases abroad, was concentrated on securities that are exempt from withholding tax on foreign investment income, such as certain foreign government securities (particularly those issued in Germany), Italian government securities issued abroad and, above all, paper issued by international bodies, including that denominated in Euro-lire.

Disinvestment by non-residents on the Italian market exceeded new investment by over 4,800 billion lire. In 1986, by contrast, foreign portfolio investment had given rise to a surplus of 1,744 billion. Investment in government securities, which had generated net inflows of 4,740 billion lire in 1986, recorded an outflow of 376 billion lire last year as a result of net sales of Treasury credit certificates and Treasury bonds, which were not wholly offset by net purchases of Treasury credit certificates and bills in ECUs and ordinary Treasury bills. Despite the fact that the maturities on the latter group of securities are shorter than twelve months, the highest turnover was in Treasury credit certificates, with purchases and sales of 8,231 and 10,372 billion lire respectively. There was net disinvestment in shares for the second year in succession (4,364 billion lire); sales exceeded purchases throughout the year, but especially in the first and last quarters.

Other medium and long-term capital flows

Borrowing abroad by Italian residents generated net receipts of 12,337 billion lire, over 7 trillion lire more than the previous year. Inflows were concentrated in the first and fourth quarters of the year; during the first few months they were stimulated by the higher cost of borrowing lire than foreign currencies, even in the light of expectations of exchange rate changes, whereas in the last quarter they can be attributed to the effects of the ceiling on bank lending in lire and to loans raised by the Treasury.

Government and government-guaranteed loans generated a total net inflow of 7,307 billion lire, compared with one of 4,042 billion in 1986. Three international bond issues by the Treasury in the last quarter of the year generated inflows of 4,742 billion lire; these operations were aimed at offsetting the outflows of capital caused by residents' diversifying their financial assets into other currencies following the abolition of the non-interest-bearing deposit, on foreign investment. Loans granted by the EIB and other Community bodies also increased, the balance on such operations rising from 2,132 to 3,516 billion lire.

Net inflows of foreign exchange resulting from "liberalized" loans, which can be raised abroad without prior authorization, rose from 2,153 billion lire in 1986 to 3,525 billion in 1987. This was chiefly due to an increase in the number of such operations to more than 30,000. Italian borrowers preferred to denominate these transactions in foreign currencies during the first part of the year, but after the introduction of the credit ceiling lira-denominated loans predominated, amounting to 600 billion lire in the fourth quarter and 1,300 billion for the year as a whole.

The Euro-lira market, which until only a few years ago was very narrow and restricted to short-term operations, has changed profoundly since the end of 1985. The monetary authorities have sanctioned both the creation of a longer-term sector and an expansion in the market. Since October 1985 there have been 24 lira issues totaling 2,300 billion lire in the Eurocurrency market, 930 billion of which was issued in 1987. The increasing internationalization of the lira and the dismantling of exchange controls are two important factors in Italy's financial integration with other industrial economies. The fact that they are occurring simultaneously has given Italian borrowers a source of financing in lire that is only partly regulated by the monetary authorities.

The cyclical pattern of capital flows, short-term operations and the lira exchange rate

In the course of the year the main financial items of the balance of payments went through three distinct phases, which influenced the management of both the exchange rate and official reserves. The steady increase in the importance of market forces as opposed to institutional factors as determinants of capital flows means that changes in relative yields are having a growing impact on all foreign financial transactions. By their very nature, short-term capital flows, and especially those resulting from changes in banks' net debtor positions, continue to be more volatile than other types of capital; in the year under review they were influenced by changes in expectations regarding the lira exchange rate.

During the year as a whole banking capital generated inflows of 5,573 billion lire as a result of an increase in domestic demand for foreign currency loans. Short-term trade credit also produced net inflows of 982 billion lire.

In the first quarter of 1987 all types of capital movements generated large net inflows, in keeping with the high real interest rates offered by the Italian financial market and the expectations of lira stability in the wake of the EMS realignment in January. Only Italian investment abroad generated net outflows, due to the international expansion of Italian firms and purchases of foreign securities by investment funds.

The surplus arising from total capital flows, which was partly offset by the deficit on current account, gave rise to an increase of over 5 trillion lire in official reserves. At the very beginning of the year the market exchange rates of the lira moved in anticipation of the realignment of 8 January, but they remained broadly stable from then until the beginning of May, when the monetary and exchange authorities allowed the lira to depreciate slightly within the EMS in connection with the start of the liberalization of exchange controls.

In May and June the outflows caused by currency diversification on the part of investment funds were augmented by other capital movements resulting from a change in expectations concerning the exchange rate of the lira following the abolition of exchange controls, which had been in force for over ten years. In the second quarter the largest outflows were generated by foreign disinvestment; excluding direct investment, this item recorded a deficit of 1,986 billion lire. Other sectors also showed a negative balance. Finally, the banks' foreign currency liabilities began to contract from June onwards. Capital outflows accelerated considerably during the summer months, causing strong pressures in the foreign exchange market. Notwithstanding the fiscal measures and an increase in interest rates, these pressures continued until mid-September, when calm was restored by the adoption of a package of foreign exchange and monetary measures.

The unwinding of speculative positions following the introduction of the measures of 13 September caused a substantial inflow of reserves, which was further swollen by the Treasury's bond issues abroad. Capital inflows in the last quarter of the year came mainly through banking channels; net Italian portfolio investment abroad was in balance at the end of the year, breaking the series of deficits that had begun at the end of 1984.

At the end of October the lira slipped within its band of fluctuation, in conjunction with a depreciation of the French franc. The effective exchange rate of the lira was virtually the same at the end of 1987 as it had been at the beginning of the year. Its depreciation against the EEC currencies was offset by a substantial appreciation against the dollar, which occurred chiefly in the second half of the year.

PUBLIC FINANCES

The results for the year

The decline in the ratio of the budget deficit to GDP that had begun in 1984 continued last year, thanks to the sustained expansion of the economy and the corrective measures taken in recent years. Though substantially above the target, the public sector borrowing requirement net of settlements of past debts diminished from 12.1 per cent of GDP in 1986 to 11.6 per cent last year; in 1983 it had been 14.3 per cent. In absolute terms, however, the deficit rose from 109.53 to 113.74 trillion lire (Tables 16 and. all).

Table 16

BORROWING REQUIREMENTS

(as a percentage of GDP)

	1985	1986	1987
State sector borrowing requirement	15.0	12.2	11.6
Net of settlements of past debts	13.5	12.1	11.6
Public sector borrowing requirement	14.6	12.2	11.6
Net of settlements of past debts	13.7	12.1	11.6

The relative diminution in the borrowing requirement was due to the behaviour of interest expenditure. Net of interest payments, the deficit remained virtually constant last year as a share of GDP after declining from 1983 to 1986. The increase in revenues, which was considerably larger than had been officially forecast, was offset by a sharp rise in non-interest expenditure, owing chiefly to the renewal of public sector labour contracts, which entailed the payment of arrears for all of 1986.

The state sector borrowing requirement moved in much the same fashion as the broader public sector aggregate, declining from 109.56 to 113.66 trillion lire net of settlements of past debts. The objective of reducing the overall deficit by 10 trillion lire and the deficit net of interest expenditure by 7 trillion was not attained; indeed, the growth in current expenditure was more than five percentage points greater than the planned limit, which was the target inflation rate.

The net indebtedness of the public sector, calculated on the basis of flow-of-funds accounts, rose from 103.5 to 106.3 trillion lire; it thus declined from 11.5 to 10.8 per cent of GDP, not diverging markedly from the trend of the overall borrowing requirement (Table 17). The item that differentiates these two aggregates, namely the balance on financial items, remained virtually unchanged in relative terms last year after declining in 1986. Capital contributions to state-controlled corporations and ENEL were reduced again last year, continuing the policy of allowing these enterprises to finance themselves by bond issues or loans from international institutions, with the state bearing the cost of redemption. The rise in the borrowing requirement of the state sector and of the broader public sector was also curbed by measures enacted in recent years to require public bodies to redeposit with the Treasury part of the funds they had held with banks. The impact of these measures was less than in the previous year, however; the funds in question, which had diminished by 2.84 trillion lire in 1986, remained more or less unchanged last year.

Table 17

MAIN INDICATORS OF PUBLIC SECTOR FINANCES

(as a percentage of GDP)

	1985	1986	1987
Fiscal revenue (including EEC levies and social) security contributions)	34.7	35.1	36.0
Total public sector expenditure (1)	50.9	50.9	50.7
of which: interest payments	*8.2*	*8.7*	*8.2*
Deficit on current account (1)	6.5	6.5	5.8
Net indebtedness (1)	12.2	11.5	10.8

(1) Net of settlements of past debts.

The effect of the public finances on economic activity was approximately neutral. Indicators based on the overall budget aggregates in both nominal and real terms suggest that the impulse exerted last year was slightly restrictive, but the impact was modified significantly by a substantial change in the composition of the budget items. The contribution to households' disposable income increased sharply, whereas the difference between transfers to firms and corporate taxes narrowed, but the immediate effect of this was to tighten corporate liquidity, not necessarily impede economic activity.

The ratio of total budget receipts to GDP rose from 39.4 to 39.9 per cent, mainly because of the fiscal package passed in August, which increased revenues in the second half of the year. The ratio of tax receipts and social security contributions to GDP rose from 35.1 to 36.0 per cent, including revenue accruing to the EEC. However, this rise was largely offset by a decline in receipts from the condonation of building offences and by the stagnation of interest income owing to the decline in interest rates and the transfer of local authorities' funds to the Treasury.

Apart from the August fiscal measures, the increase in tax receipts stemmed essentially from the full unfolding of the effects of the improvement in the terms of trade, which not only continued to boost indirect tax revenues, especially excise duties on petroleum products, but also began to augment direct tax revenues thanks to its positive effect on profits. Another factor in the overall rise was the increase in receipts from the flat-rate withholding tax on interest income from government securities from 320 billion lire to 1.81 trillion, although part of this was presumably offset by a rise in gross interest rates, hence in interest payments by the state. Moreover, receipts from the withholding tax on interest on bank deposits exceeded the amounts due for the year, implying substantial tax credits in favour of the credit system.

Public expenditure net of financial items, interest payments and settlements of past debts, which had declined in 1986, rose from 42.2 to 42.5 per cent of GDP as a consequence of substantial outlays connected with the renewal of public sector labour contracts. Expenditure on wages and salaries, which had risen by 7 per cent in 1986 net of variations in social security contributions, increased by 13 per cent last year, or from 11.8 to 12.3 per cent of GDP. Pension outlays rose by only 7.5 per cent, mainly because of the smallness of the real rise in contractual minimum wages, to which pensions are linked. A number of factors contributed to the increase: the implementation of the ruling by the Constitutional Court that all pensions should be raised to the minimum even when more than one pension is drawn; Law 45/1986, which gave a less restrictive interpretation of the rules on the application of the scala mobile to beneficiaries of supplementary pensions; and the further increments provided for by Laws 140 and 141 of 1985. It is estimated that these factors caused additional expenditure of about 2 trillion lire for the year. The increase in spending on health care, and especially on diagnoses and medicines, was due in part to the reduction of prescription charges enacted by the Finance Law for 1987.

Interest payments declined from 8.7 to 8.2 per cent of GDP despite the substantial increase in the public debt and, in particular, the greater resort to Treasury bills, for which interest payments are debited in advance, that is to say at issue. The decrease in the ratio was the result of lower interest rates thanks to the slowdown in inflation, above all the fall in rates between 1985 and 1986, which affected the entire outstanding stock of Treasury credit certificates in 1987 owing to lags in the mechanism for determining coupons.

As a result of the developments described above, the public debt continued to grow apace, rising from 793.1 trillion lire at the end of 1986 to 907.84 trillion lire at 31 December 1987, or from 87.9 to 92.6 per cent of GDP. Market funding of the deficit again increased at nearly twice the rate of growth in GDP, and borrowing abroad grew proportionally even faster. Central bank financing decreased slightly.

The lengthening of maturities was halted in the second half of the year in connection with signs of a resurgence of inflation, which forced the Treasury to issue more bills and to shorten the maturities of credit certificate issues; whereas in 1986 and the first half of 1987 a substantial volume of ten-year and seven-year certificates was issued, five-year issues predominated in the second half. The average residual term to maturity, which had lengthened substantially to three years and nine months at the end of 1986, increased to four years at the end of June but had come down to three years and seven months by the end of the year.

The Finance Law and fiscal policy for 1988

Budget forecasts put the state sector borrowing requirement for 1988 on the basis of unchanged policies and trends and net of settlements of past debts, at more than 125 trillion lire as against 113.66 trillion in 1987. This would represent an upturn in its ratio to GDP.

The fiscal policy embodied in the Finance Bill in late September was to limit the state sector borrowing requirement to 109.5 trillion lire, similar to the amount then forecast for 1987. An adjustment package was presented that was designed to narrow the deficit by about 16 trillion lire, including the effects of the earlier increase in indirect taxes and in advance payments on national and local corporate income taxes. On the revenue side the measures were to generate net additional receipts of about 8 trillion lire, much of it from higher indirect taxes, especially VAT; on the expenditure side a further 8 trillion lire was to be saved by making cuts in major expenditure items.

In November the planned increase in VAT rates was abandoned, in view of the worldwide stock exchange crisis and renewed upward pressure on prices. At the same time, it was decided to tighten the fiscal stance. To this end and to compensate for the loss of additional VAT receipts, the Government postponed the bulk of the planned reductions in personal income tax and employers' social security contributions and rescinded capital grants to ENEL and SIP. These adjustments would have produced a further net reduction of 6 trillion lire in the deficit, including the effect on interest expenditure. The changes proposed up to that point would have brought the state sector borrowing requirement down to about 103.5 trillion lire, and further measures were to be enacted during the year to attain the target figure of 100 trillion lire.

During the parliamentary passage of the Finance Bill, however, the original austerity of the budget was greatly attenuated. Some of the measures to cut major expenditure items were not approved and new provisions were incorporated that will produce substantial increases in spending in the medium term, such as those relating to the reorganization of the health service, the guaranteed minimum income and the raising of the INPS pension ceiling. However, most of the proposed tax measures were passed, albeit with amendments, and this should increase the ratio of tax revenue to GDP by about half a percentage point.

In view of the large margin by which the final budget fell short of the intended expenditure reductions and given the outturn for 1987, in the absence of further adjustment the state sector borrowing requirement for 1988 would amount to about 122 trillion lire. However, if the proposals contained in the recent decree law are implemented it should be possible to keep the requirement down to 115 trillion lire. As well as introducing these provisions, the Government approved the economic and financial planning paper called for by the Finance Law; this document outlines a plan aimed at attaining a small budget surplus, net of interest payments, in 1992 and first stabilizing and then reducing the ratio of the public debt to GDP.

The experience of the 1987 and 1988 budgets is not yet sufficient to make a definitive assessment of the effectiveness of the process for deciding budgetary policy as laid down in the resolutions of the finance committees of the Senate and the Chamber of Deputies, and partly repeated in the Finance Law for 1988. The resolutions require that medium-term planning objectives be decided earlier and set in the context of the medium and long-term trends for the entire public sector, and that new procedures be introduced to ensure that the desired results are achieved. These guidelines are clearly useful in rationalizing the annual budget process, but the new approach should be complemented by a thorough revision of Law 468/1978 to redefine the contents of the Finance Law, the procedures for drafting the budget and the structure of the budget itself.

THE MONEY AND FINANCIAL MARKETS

The results for the year

The instability in foreign exchange markets and the large overshooting of the state sector borrowing target conditioned the policy of the Bank of Italy, which was designed to accommodate the growth of the economy without rekindling inflation or giving rise to external payments imbalance. This accorded with a longer-term strategy to improve the workings of the money and financial markets and ensure orderly progress in the liberalization of capital movements.

Increasingly widespread uncertainty in the financial markets in the second half of the year led to difficulties in placing government securities and to a fall in share prices, which was aggravated by the worldwide stock exchange crisis. The growing integration of Italian financial markets with those in other countries and the speed with which domestic disequilibria affect the external accounts amplified the volume and volatility of foreign exchange flows, causing large fluctuations in official reserves.

The need to restrain domestic demand and maintain exchange-rate stability meant keeping the expansion of the monetary base under strict control, interrupting the decline in interest rates that had begun in 1986 and taking further measures to adjust the growth path of the money and credit aggregates at times of particular tension. The reserve requirement was extended in March to cover the banks' foreign currency business, and in September a temporary ceiling on lira lending was imposed.

These measures soon restored orderly market conditions and curbed the excessive expansion of lending, which had been growing much faster than either output or investment. At the beginning of 1988 interest rates could therefore be brought back down to the levels of a year earlier. However, the continued rise in the state sector borrowing requirement at a time of heavy credit demand indicates that constraints on monetary policy have still not been overcome.

Credit to the non-state sector expanded by 10.3 per cent in 1987, exceeding the upper limit of the target range by one point but less than the figure of 11.4 per cent recorded in 1986 (Table 18). If the rates of growth in the twelve months to November are considered in order to eliminate the abnormal bulge in lending at the end of 1985, the slowdown was even more marked, from 13.0 per cent in 1986 to 10.5 per cent in 1987. Total domestic credit expanded by 13.1 per cent, two points less than in 1986 but an equal amount above the objective announced in the Government's Forecasting and Planning Report for 1987. The M2 money supply grew by 8.3 per cent, one point less than in 1986 and within the target range.

Table 18

CREDIT, MONEY SUPPLY AND FINANCIAL ASSETS

(twelve-month growth rates)

	Domestic credit		Money supply		Liquid assets (M3)	Financial assets (2)
	Financing of the non-state sector (1)	Total	M2A	M2		
1983 - Dec.	13.2	20.7	11.5	12.3	13.6	19.7
1984 - Dec. (3)	15.6	19.7	11.3	12.1	14.1	19.1
1985 - Dec.	12.9	18.1	10.0	11.0	11.6	16.7
1986 - Dec.	11.4	15.1	8.1	9.4	8.2	17.1
1987 - Dec.	10.3	13.1	6.8	8.3	11.3	13.7
1988 - Apr. (4)	11.2	12.9	4.8	6.8	12.0	..

(1) Financing by banks and special credit institutions and securities issued by enterprises on the domestic market. The non-state sector comprises households and firms, insurance companies and public bodies not included in the state sector. — (2) Domestic financial assets of the non-state sector, net of actuarial reserves, severance pay provisions and pension funds. — (3) Adjusted for the distortions in banking statistics connected with the elimination of the ceiling on bank lending. — (4) Provisional. For M3, data refer to February.

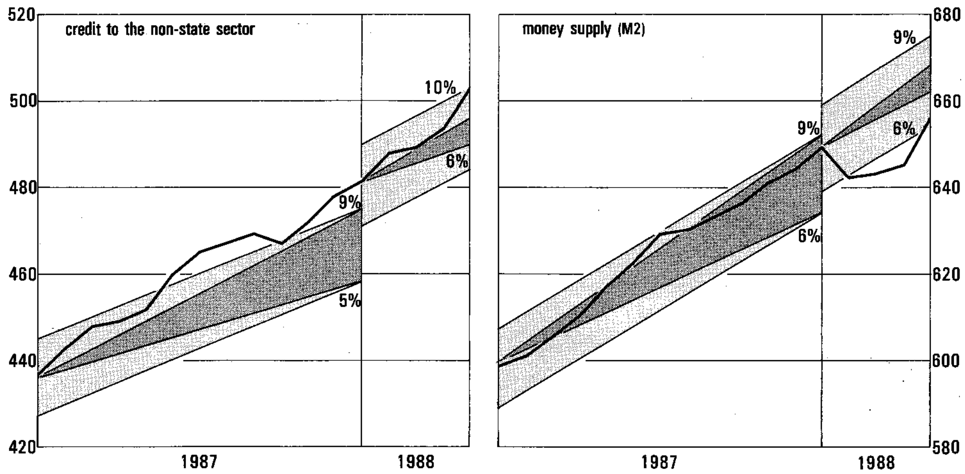
The inflow of foreign currency lending in early 1987 came to a halt after the measures taken in mid-March. The lowering of yields on government securities was comparatively small in the first quarter. In the wake of the contraction of foreign currency lending there was a sharp acceleration in lira lending by banks, and also by special credit institutions. The growth in bank lending in lire appears to have been related at least in part to financial arbitrage by large corporations, facilitated by the banks' practice of offering their best customers loans at less than the prime rate, a tendency that was also described in last year's *Report.* Nevertheless, the acceleration of credit threatened to fuel a further expansion of domestic demand, which was already high, at a time when the rate of inflation had ceased to decline and the balance of trade was deteriorating.

A further cause for concern was the weakening demand for government securities, especially those at longer term. This led to an acceleration of money supply growth, which exceeded the upper limit of the target range in April (Figure 10). The preference of investors for liquidity was presumably connected with increasing uncertainty about interest rates, caused by the growing realization that the budget deficit would exceed the target and by uncertainty over the political situation.

Figure 10

MONEY AND CREDIT AGGREGATES: TARGET RANGES AND ACTUAL GROWTH (1)

(stocks in trillions of lire)



(1) Seasonally adjusted. The outlines of the darkly shaded area represent the lowest and highest rates of growth consistent with the target. The lighter shaded area represents the width of the target range at the end of the year.

In addition to reminding the banks to limit their credit-granting at relatively unremunerative rates, the Bank of Italy reinforced its control of bank reserves by raising the maximum rate on financing to credit institutions. This was supplemented in July by raising the yield on government securities by nearly a point. Bank lending and the money supply showed signs of slowing down.

Widespread expectations of an imminent change in the central rate, which were not justified by the economic fundamentals, exerted intensifying exchange-rate pressures from August onwards, fueled in part by a new acceleration of bank lending in lire. The pressures persisted in September despite the August package of fiscal measures to contain the budget deficit, a half-point rise in the discount rate and an increase in the rate on government securities to offset the effect on households' incomes of the higher withholding tax on interest from them.

The imposition of a seven-month ceiling on bank lending in lire in mid-September, together with temporary exchange controls and the zero-rating of the reserve ratio on banks' foreign currency positions, successfully repulsed this speculative attack, which could have revived inflationary pressures and jeopardized the liberalization process initiated by the May measures. There was an immediate and massive re-entry of capital from abroad, while the rise in banks' lending rates was small.

In the latter part of the year investors maintained their preference for shorter-term government securities. The decline in the prices of Treasury bonds and credit certificates on the secondary market continued, owing in part to the thinness of trading in some securities and in part to sales by investment funds to meet increasing redemptions. Bank of Italy intervention in the stock exchange from October onwards to support the prices of medium-term securities, which was accompanied by outright sales of Treasury bills, helped overcome the crisis; meanwhile, Treasury bill yields declined thanks to strong demand at auctions. At the same time, a reform of the secondary market in government securities was put in hand to improve its operation; the new procedures were introduced in May 1988.

Lending to the private sector and total domestic credit. — Lending to the non-state sector, which comprises loans by banks and special credit institutions and fund-raising by firms through bond issues, increased by 45.8 trillion lire in 1987, or by 10.3 per cent (Table 19).

Table 19

TOTAL DOMESTIC CREDIT AND LENDING TO THE PRIVATE SECTOR

(changes in billions of lire)

	1983	1984	1985	1986	1987
Total domestic credit	**120,629**	**140,033**	**153,722**	**152,409**	**151,608**
State sector borrowing requirement (1)	85,197	91,708	107,281	106,714	105,833
Finance to the non-state sector (2) (+)	35,432	48,325	46,441	45,694	45,775
finance to public bodies (3) (−)	*4,390*	*7,020*	*2,453*	*−249*	*1,543*
foreign loans (+)	*715*	*−921*	*2,214*	*2,303*	*3,765*
endowment funds (+)	*9,431*	*6,548*	*5,132*	*1,704*	*246*
share issues (4) (+)	*2,967*	*4,948*	*4,310*	*10,897*	*6,535*
other (5) (+)	*4,555*	*5,337*	*7,653*	*7,951*	*8,458*
Total finance to the private sector (=)	**48,710**	**57,217**	**63,297**	**68,798**	**63,236**
Percentage changes (6)	*13.1*	*13.3*	*12.7*	*12.4*	*10.2*
As a percentage of GDP	*7.7*	*7.9*	*7.8*	*7.6*	*6.4*

(1) Net of borrowing abroad, Treasury loans to credit institutions and securities issued to fund past 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 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 companies. — (5) Bad debts of credit institutions, acceptances, atypical securities and other minor items. As of 1985 the difference between the finance provided by leasing, factoring and consumer credit companies and their net borrowing from credit institutions is also included. — (6) Based on end-of-period data.

The flow of bank lending diminished from 23.3 to 22.0 trillion lire. The reduction was more than offset by the rise in lending by special credit institutions from 16.9 to 20.0 trillion lire; with a rate of increase of 13.4 per cent, this was the fastest-growing component of credit to the private sector, especially industrial and real estate credit. The introduction of the lending ceiling did not provoke an acceleration in the institutions' short-term lending, as it had on similar occasions in the past. Net corporate bond issues decreased from 5.3 to 3.7 trillion lire; the bulk of such issues were made by state-owned enterprises, which accounted for 4.4 and 3.25 trillion lire in 1986 and 1987 respectively.

The total finance to the private sector, which also includes foreign loans and equity issues, amounted to 63.2 trillion lire, or 10.2 per cent of the initial stock, a considerable slowdown in relation to 1986, when the comparable figures were 68.8 trillion lire and 12.4 per cent. The flow of finance to firms and households declined from 7.6 to 6.4 per cent of GDP. The volume of foreign loans was larger than in 1986; equity issues came to 6.5 trillion lire, which was higher than the average for recent years but considerably less than the exceptional figure of 10.9 trillion lire reached in 1986.

The proportion of firms' total external finance raised through share and bond issues diminished from 29 to 19 per cent. Even before the October crash the decline in share prices reduced firms' propensity to issue equity and made savers reluctant to invest in the stock market, either directly or through investment funds. The capitalization of listed companies decreased from 190.5 trillion lire at the end of 1986 to 140.7 trillion lire at the end of 1987.

As mentioned above, the contraction in fund-raising via bond and share issues did not result in an increased flow of bank financing to firms. This is explained in part by strong, investment activity, which fostered an expansion in medium-term lending by special credit institutions, and in part by the imposition of the lending ceiling. The effect of the latter, however, was largely restricted to the financial component of the demand for credit, which is met primarily by banks. Operations of this kind should become more difficult to carry out in future as a result of the measures to improve the working of the payment system and the interbank market, which will make banks' cash management more efficient and responsive.

With profit margins more or less stable, firms financed heavy investment in part by decreasing their accumulation of financial assets. Net of equity participations, these increased by 8.6 per cent as against 13 per cent in 1986. The rise in bank deposits was especially small, 4.3 per cent. As a result, the net financial deficit of firms increased from 2.7 to 2.9 per cent of GDP.

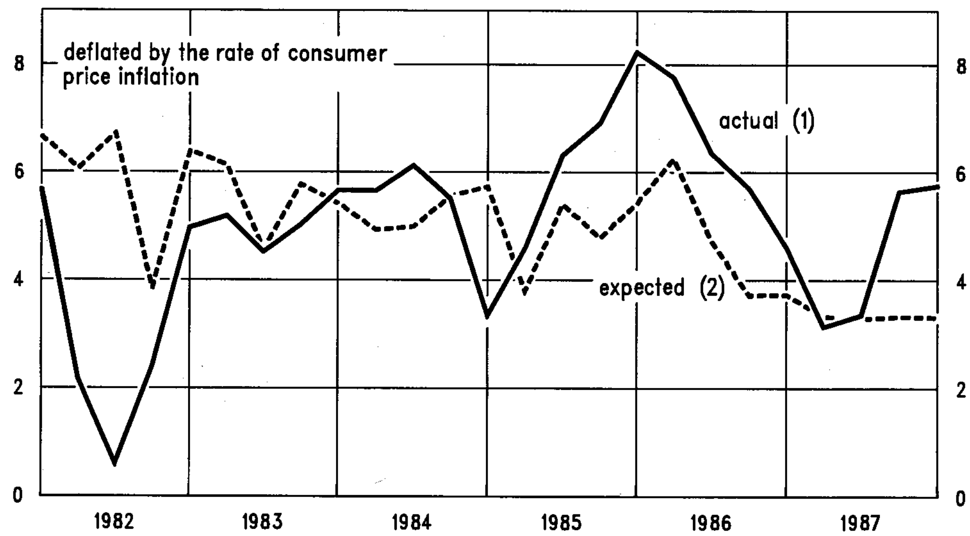
The debt of the public sector again expanded more rapidly than corporate debt. The domestic borrowing of the state sector rose to 105.8 trillion lire, equivalent to 70 per cent of total domestic credit (151.6 trillion lire), the same percentage as in 1986. The domestic public debt increased by 14.8 per cent last year, as against 17.6 per cent in 1986.

Financial assets and money. — In connection with the slower growth of total domestic credit and the deterioration in the balance of payments, domestic financial assets held by the non-state sector grew more slowly than in 1986, expanding by 13.7 per cent as against 17.1 per cent. As a ratio to GDP the flow of new financial assets declined from 18.1 to 15.7 per cent. At the end of the year the financial wealth of the non-state sector, net of shares, was equivalent to 126 per cent of GDP, compared with 121 per cent at the end of 1986.

Real interest rates on government securities had to be increased during the year in order to finance the public sector deficit in the market. Net of withholding tax, the real yield on six-month Treasury bills, which had fallen to a five-year low of just above 3 per cent in the first quarter of 1987, recovered to near the average for this period, rising to over 5 per cent in the last part of the year (Figure 11).

Figure 11

REAL RATE OF INTEREST ON 6-MONTH TREASURY BILLS



(1) The nominal Treasury bill rate, net of withholding tax, is 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.

Subscriptions of government securities made it possible to hold the expansion of the M2 money supply down to 8.3 per cent, in line with the growth of GDP. The expansion was spurred by widespread issues of bank certificates of deposit; net of CDs, the growth came to 6.8 per cent, compared with 8.1 per cent in 1986.

In a year of strengthening investor preference for short-term financial assets, the achievement of the money supply target was facilitated by the banks' policy regarding deposit rates. The average rate on bank deposits declined by more than the yields on government securities in the first half of the year and failed to rise with them in the second, so that the yield differential between Treasury bills and bank deposits widened from an average of four points in the first half to about five in the second. Rates on CDs were more responsive, though not enough to match the rise in securities yields. This choice by the banks was determined partly by the ceiling on the expansion in lending and partly by the need to counter a narrowing of profit margins, due among other things to losses on securities trading because of the decline in securities prices.

Purchases of government securities by households and firms rose to 83.3 trillion lire, accounting for 54 per cent of the flow of financial assets, as against 30 per cent in 1986. The rise was due entirely to larger subscriptions of Treasury bills, thus testifying to the increasing preference for liquidity. There was a sharp contraction in households' purchases of investment fund units, which had accounted for 23 per cent of the formation of financial assets in 1986 but were nil in 1987. The investment funds reacted to the change in savers' preferences by selling government securities and Italian shares while continuing to acquire foreign currency assets.

The outlook for 1988

Credit demand was high in the first few months of 1988. Bank lending rose sharply in January but came back down close to the permitted growth path in February and March. In April there was a renewed acceleration, only partly ascribable to the lifting of the credit ceiling. Over the first four months of the year the growth of lending to the non-state sector on a seasonally adjusted annual basis was more than 4 points above the upper limit of the target range.

The demand for government securities turned towards shorter maturities, causing the auction rates on Treasury bills to decline until March. Subscriptions of Treasury credit certificates recovered briefly in January but then again showed signs of weakness. In April, partly in order to halt the contraction in the demand for twelve-month Treasury bills, it was decided to raise the offer yield on such securities, which is the reference rate for the indexation of a large proportion of Treasury credit certificates at the same time; the issue spread on credit certificates was widened. In order to attract savers back to fixed rate securities, issues of Treasury bonds were resumed and the slope of the yield curve was steepened.

Owing in part to an increase in withholding tax on deposit interest, the banks accepted substantial disintermediation on the liabilities side, selling portfolio securities to their customers in order to make room on the assets side to meet loan demand. Private sector purchases of government securities at auction and from the banks were larger in the first four months of this year than in the corresponding period of 1987, while the growth of the money supply was of the order of 2 per cent on a seasonally adjusted annual basis.

The present credit expansion is part of an economic picture marked by buoyant growth in demand, especially domestic demand. This raises the question of whether the current rate of increase in economic activity is consistent with consolidating the progress made towards price stability and external payments balance. The demand stimulus stemming from the budget will be only partially offset by the Government's recent measures to reduce the deficit. High capacity utilization and excess demand in some sectors could fuel price and cost pressures, against a backdrop of rising raw materials prices and sizable. wage claims in significant areas of public employment.

This situation confirms the validity of the targets set last autumn for the expansion of lending to the non-state sector and money supply growth (6-10 and 6-9 per cent respectively). They will allow production and investment to continue to grow in line with the macroeconomic targets for the rest of the year. The central bank's management of the monetary base is aimed at slowing the growth of the credit aggregates and bringing it back within the target range.

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

Control of the monetary base was conditioned more strongly than in 1986 by the rise in the Treasury borrowing requirement and the continuing international integration of the Italian financial system, in a setting further complicated by the growing diversity of the credit markets.

Net of changes in the compulsory reserve coefficient, monetary base and bank reserves both increased by 9.2 per cent, whereas in 1986 they had risen by 8.2 and 8.8 per cent respectively after adjustment for the effects of industrial action by Bank of Italy staff at the end of 1985 (Table 20).

Table 20

MONETARY BASE AND BANK DEPOSITS

(percentage changes on an annual basis) (1)

	1985	1986	1987	1986				1987				1988
				Quarters				Quarters				Ist qtr. (2)
				I	II	III	IV	I	II	III	IV	
Compulsory reserves												
adjusted (3)	14.8	10.1	9.7	-7.7	17.8	7.2	19.5	0.6	22.7	6.5	7.0	-7.8
unadjusted	*19.1*	*11.9*	*10.3*									
Bank reserves												
adjusted (3)	18.1	5.0	9.2	-19.4	15.6	10.1	18.2	7.6	12.5	11.4	3.3	-0.8
	(14.0)	(8.8)		(-10.5)								
unadjusted	*21.8*	*7.2*	*10.6*									
Monetary base												
adjusted (3)	14.6	5.8	9.2	-5.2	7.6	9.5	12.1	5.0	15.5	10.2	5.2	−0.3
	(12.1)	(8.2)		(1.4)								
unadjusted	*17.3*	*7.1*	*10.1*									
Bank deposits	10.1	8.9	6.8	4.1	7.7	8.9	16.5	6.7	12.5	2.2	7.5	−2.6

(1) Based on end-of-period values. The quarterly figures are seasonally adjusted. — (2) Provisional. — (3) Adjusted for the change in the compulsory reserve coefficient and for the non-interest-bearing deposits against lending in excess of the ceiling. The figures in brackets are adjusted for the estimated 2.6 trillion lira abnormal rise in banks' cash balances at end-1985 caused by disruption of centralized accounting operations as a result of strikes by Bank of Italy staff.

The different phases through which monetary policy passed last year are evident from the composition of monetary base creation (Table 21). Monetary base increased overall by 13,946 billion lire, compared with 9,200 billion in 1986 net of the abnormal factors mentioned above; the contribution of the external sector was 6,756

Table 21

MONETARY BASE (1)

(changes in billions of lire)

	1985	1986	1987 Year	1987 Quarters I	II	III	IV	1988 Ist qtr. (2)
Foreign sector (3)	**–13,677**	**3,543**	**6,756**	**5,188**	**–2,686**	**–2,174**	**6,428**	**2,444**
Balance of payments	–8,352	–2,965	1,202	1,988	–3,789	271	2,732	
Net foreign position of banks	–5,299	6,454	5,573	3,269	916	–2,260	3,648	
Treasury	**27,519**	**10,994**	**9,240**	**1,682**	**2,501**	**9,403**	**–4,346**	**485**
Borrowing requirement	122,627	110,163	114,212	24,886	21,890	38,462	28,974	26,491
Net sales of securities	–82,877	–87,463	–84,657	–21,633	–18,657	–25,867	–18,500	–23,414
primary market	–81,397	–85,640	–70,721	–13,126	–16,955	–27,745	–12,895	–19,116
Treasury bills	1,802	–6,455	–19,353	8,026	140	–18,326	–9,193	–4,670
Treasury credit certificates	–68,695	–47,664	–31,207	–15,674	–7,655	–5,945	–1,934	–7,071
Treasury bonds	–2,625	–31,542	–10,322	–5,088	–2,268	–2,964	–2	–5,002
other securities (4)	–11,879	21	–9,839	–390	–7,172	–510	–1,766	–2,373
of which: securities issued to fund debts	*–10,403*	—	*–421*	—	—	*–143*	*–278*	—
open market	–1,480	–1,823	–13,936	–8,506	–1,703	1,878	–5,605	–4,298
of which: repurchase agreements	*4,933*	*1,913*	*–4,140*	*–5,445*	*2,552*	*793*	*–2,040*	*–1,175*
Other financing (5)	–12,231	–11,706	–20,316	–1,572	–732	–3,192	–14,820	–2,592
Refinancing	**5,881**	**–4,334**	**–730**	**–1,238**	**415**	**–347**	**439**	**10**
Other sectors (6)	**–647**	**–1,004**	**–1,321**	**–2,998**	**1,490**	**–4,888**	**5,075**	**–1,804**
TOTAL (6)	**19,076**	**9,200**	**13,946**	**2,634**	**1,721**	**1,994**	**7,597**	**1,135**
Non-state sector	**4,002**	**3,143**	**4,386**	**–3,233**	**2,026**	**613**	**4,981**	**–3,386**
Banks (6)	**15,073**	**6,057**	**9,559**	**5,867**	**–305**	**1,382**	**2,616**	**4,522**
Compulsory reserves	12,213	9,022	8,740	6,121	742	545	1,333	3,771
Non-interest-bearing deposits against excess lending	—	—	657	—	—	—	657	932
Excess reserves (6)	2,860	–2,965	162	–254	–1,047	837	627	–181

(1) Rounding may cause discrepancies in totals. — (2) Provisional. — (3) 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. — (4) Contains a discrepancy due to bank charges on purchases of securities for customers and to accounting lags. — (5) PO deposits of the public and 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. — (6) The data have been adjusted to exclude the growth in banks' deposits with the Bank of Italy caused by the method of recording monthly stock exchange settlements.

billion lire (3,543 billion in 1986) as a result of particularly large inflows in the first and last quarters and outflows in the second and third. Monetary base creation by the Treasury, which totaled 9,240 billion lire against 10,994 billion in 1986, occurred mainly in the third quarter, when a substantial rise in the borrowing requirement was only partially offset by a smaller increase in market sales of securities. Central bank refinancing destroyed liquidity amounting to 730 billion lire (compared with 4,334 billion in 1986, partly as a result of the exceptional circumstances mentioned above), while the residual sectors destroyed 1,321 billion lire, compared with 1,004 billion in 1986.

Purchases of government securities at issue by the non-state sector and the banking system decreased from 85,640 billion lire in 1986 to 70,721 billion lire last year; this constitutes a substantial decrease from 78 to 62 per cent of the Treasury borrowing requirement. Including outright net sales of Treasury bills and smaller quantities of other securities by the Bank of Italy, private investors acquired government securities equivalent to 70 per cent of the borrowing requirement, compared with 81 per cent in 1986. The composition of sales at issue according to type of security shows a clear reversal of the trend observed in 1986, when expectations of a decline in yields had stimulated investment in medium and long-term fixed rate securities; Treasury bonds fell from 37 per cent of total sales in 1986 to 15 per cent last year, while Treasury bills rose from 8 to 27 per cent.

As in the preceding year, control of the monetary base called for an active policy of central bank open market operations, but the vicissitudes of the securities market meant that interventions had to take a slightly different form in 1987. On the one hand, outright operations assumed growing importance, with the central bank selling a considerable volume of Treasury bills to the market and intervening to support the prices of medium and long-term bonds, while on the other the banking system's low propensity to subscribe securities and the substantial inflows of foreign exchange at certain times during the year necessitated larger sales under securities repurchase agreements, especially in the spring and again in October and November. Very little use had been made of this instrument in 1986, when the banking system had been predominantly in a net debtor position vis-à-vis the Bank of Italy.

Among the uses of monetary base, cash in circulation increased by 4,386 billion lire, or 9.1 per cent compared with a rise of 6.9 per cent in 1986. Most of the growth occurred in December and can be attributed partly to lower interest rates, particularly those on bank deposits, and partly to the days of the week on which public holidays fell, which may have encouraged the holding of larger cash balances than usual in the last few days of the year.

Compulsory reserves increased by 8,740 billion lire, or 10.3 per cent, only slightly less than the growth of 9,022 billion (11.9 per cent) recorded in 1986. The link between the rate of increase in this aggregate and the slowdown in the growth in bank deposits, which fell from 8.9 per cent in 1986 to 6.8 per cent last year, emerges more clearly if the flow of compulsory reserves is measured with reference to years ending in January, the month in which reserves are adjusted to the volume of banking intermediation at the end of the preceding year; calculated on this basis, the flow came to 7,465 billion lire, compared with 10,105 billion in 1986. In the year under review the growth in banking intermediation led to a further increase in the reserve ratio measured on the basis of stocks and to greater uniformity in the coefficients for the various sections of the banking system.

Developments in the course of the year

The tightness of liquidity at the start of the year, which had been induced to stem the outflow of reserves that had begun at the end of 1986, eased after the currency realignment on 11 January, helped by considerable inflows of foreign exchange, whose effects on the monetary base were only partly neutralized by means of open market operations. In February the reduced uncertainty about short-term developments in interest rates was also favourable to a revival in investor interest in Treasury credit certificates. The acceleration in the growth in the credit aggregates gave cause for concern during this phase, however; it was due largely to foreign currency loans, which were particularly attractive at that time because of the differential between domestic and international interest rates and expectations of exchange rate stability.

In such circumstances an increase in domestic interest rates might have been of limited effectiveness, as it would have encouraged further borrowing abroad, and it would have run counter to the downward trend in interest rates elsewhere. The monetary authorities intervened in mid-March by imposing a reserve requirement on banks' foreign borrowing; the measure, which was both cyclical and structural in nature, was aimed at containing the growth in the foreign component of lending while at the same time reinforcing the effectiveness of indirect instruments of control by making the link between monetary base and the total volume of banking intermediation more stable. At the same time the discount rate was reduced by half a percentage point to 11.5 per cent.

In the spring the financial situation showed signs of deteriorating owing to a combination of factors. The first was the expansion in the

Treasury borrowing requirement, which made it increasingly clear that the budget deficit for the year would exceed the target. The second factor was the growth in production and investment, which was fueling an acceleration in credit expansion; between March and June the annualized rate of increase in lending to the non-state sector since the beginning of the year rose from 12.6 to 13.7 per cent, and that in bank lending in lire accelerated from 10.9 to 16.7 per cent. Moreover, the demand for government securities began to weaken, particularly in the medium-term fixed rate sector; this was due partly to uncertainty about future interest rates, given the halt in the slowdown in consumer price inflation. The increase in the borrowing requirement and the low propensity to invest in securities had their counterpart in an acceleration in money supply growth, which rose to 10.2 per cent at the end of the second quarter after having remained within the target range during the first. The net liquidity of the banking system grew rapidly from March onwards, rising to a peak for the year of more than 5 trillion lire in April.

The central bank reacted to these developments by restricting the supply of liquidity; the average rates at which security repurchase agreements were granted rose by more than two percentage points in the two months from mid-March to stand at over 12 per cent; the overnight rate, which had been close to 8 per cent in the second ten days of March, was almost four percentage points higher in the same period of May. The decline in Treasury bill yields also came to a halt in May (Figure 12). In the meanwhile, through its direct contacts with the banking system, the Bank of Italy was explaining the nature and objectives of the monetary stance it had adopted.

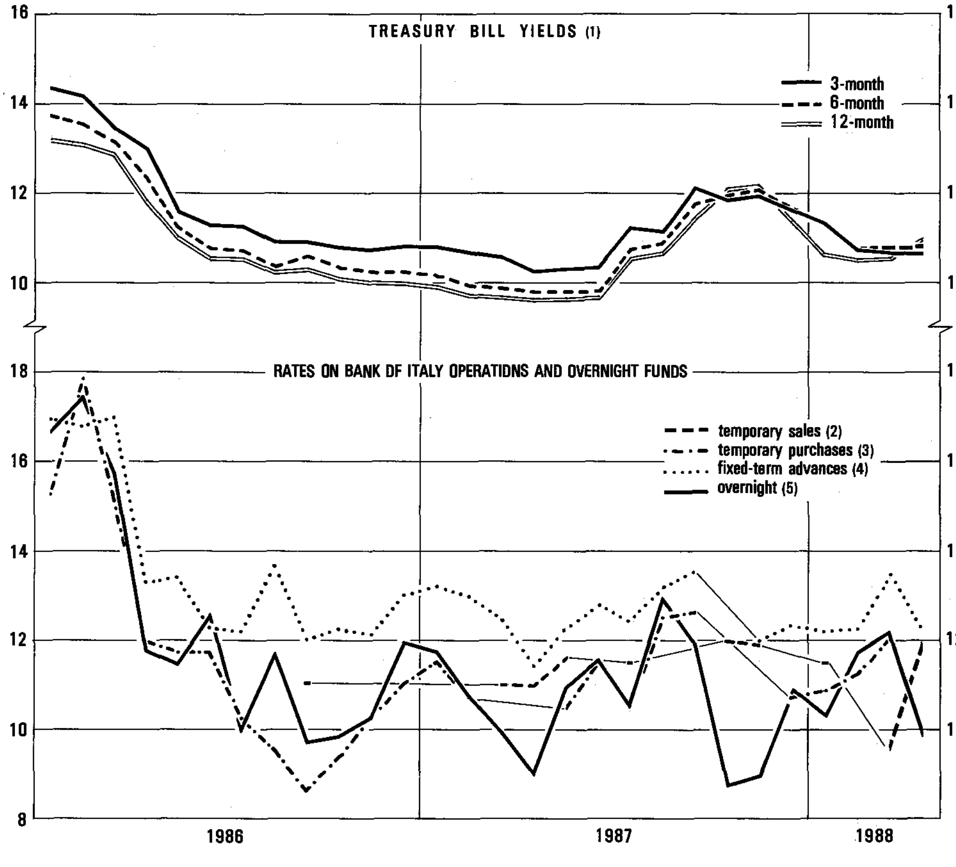
During the same period an outflow of foreign exchange reserves began to develop, a tendency that was to continue with varying intensity until the beginning of September. In May and June the outflow was due largely to movements of non-bank capital; the adjustment of private investors' portfolios was facilitated by the decision in May to abolish the non-interest-bearing deposit on investment abroad. The pressure in the foreign exchange market intensified after June and bank capital also began to show outflows.

In early July the lack of investor interest in new issues of Treasury credit certificates and Treasury bonds despite the increase in offer yields justified concern as to whether it would be possible to meet the Treasury borrowing requirement for the month, which was expected to be high for seasonal and other reasons. Offer yields were raised by more than one percentage point at the Treasury bill auction in mid-month in order to ensure that the deficit was financed by sales of Treasury bills and in view of considerations regarding macroeconomic and financial control. The average pre-tax rate for the three maturities rose from 9.9 to 11 per cent, the highest rate since May 1986.

The measures proved effective; net market sales of Treasury bills in July exceeded 6 trillion lire, making it possible to end the month with a margin of around 3.5 trillion lire on the Treasury's overdraft facility. Money supply growth slowed down sharply; the annualized rate of increase in bank deposits since the beginning of the year fell by almost two percentage points in July to 7.8 per cent and the expansion in M2 slowed down from 10.2 per cent in June to 9.2 per cent in the following month. At the same time there was a similar slowdown in lending to the non-state sector; the rate of growth since the beginning of the year fell from 13.7 to 12.7 per cent. In the external sector, a reduction in the outflow of medium and long-term capital was offset by a further deterioration in net movements of bank capital, induced by expectations of an imminent devaluation of the lira, which subsequently proved unfounded. The loss of reserves during the month exceeded 2 trillion lire.

Figure 12

SHORT-TERM INTEREST RATES



(1) Average yields at auction; compound interest, calendar year. Subject to withholding tax, at 6.25 per cent from the end of September 1986 and at 12.5 per cent since September 1987. — (2) Maximum rate during the month. — (3) Minimum rate during the month. — (4) Weighted according to the penalty rates imposed. — (5) Monthly average of daily rates.

The Bank of Italy further tightened its control of the monetary base, but in August the outflow of foreign exchange reserves nevertheless worsened, reaching a total of 4,250 billion lire during the month. Convinced of the need to support the exchange rate by taking action that would also have a rapid impact on the causes of the external disequilibria, the new Government adopted a package of fiscal and monetary measures on 27 August aimed at reducing the amount by which the borrowing requirement exceeded the annual targets, curbing the growth in consumption, especially that of consumer durables, and further enhancing the effectiveness of interest rate policy, thus at the same time reducing uncertainty in the securities market.

At the beginning of September renewed intense pressure on the lira made it obvious that the measures were not enough to convince the market of the authorities' firm intention to defend the exchange rate of the Italian currency; in the first eleven days of the month the loss of foreign exchange reserves was of the order of 4 trillion lire. In those circumstances, there was no guarantee that either a further increase in interest rates or a gradual depreciation of the lira would influence the behaviour of the market, which expected a substantial and immediate adjustment of the central rate of the lira, or stem the rapid outflow of exchange reserves, which had reached substantial proportions. Temporary foreign exchange restrictions were introduced by imposing a ceiling on the expansion in bank lending in lire until March 1988 and zero-rating the compulsory reserve on foreign borrowing by the banks. The exchange controls were so designed that they would curb short-term capital movements associated with foreign trade flows without invalidating the liberalization measures that had been introduced in May, while the credit ceiling was given a short time horizon and a temporal profile that would counteract speculative movements without impeding credit demand linked to productive requirements.

The package had an immediate impact; inflows of foreign exchange in the second half of September were considerably larger than the outflows in the first few days of the month, and the annualized rate of growth in lira lending since the beginning of the year fell from 14.4 per cent in August to 8.1 per cent in September. The extreme rapidity with which this component of credit contracted and the smallness of the rise in bank lending rates that accompanied the introduction of the ceiling confirm the size of the financial element in the expansion of lending in the months before September and the adequacy of the permitted growth in credit for the purpose of financing production.

Even after the restoration of more orderly conditions in the foreign exchange market and despite the fact that the increase in withholding tax on interest from government securities had been brought forward, investors continued to show little appetite for medium and long-term government securities in September. Since this was to some extent a temporary phenomenon due partly to uncertainty about fiscal policy for the following year, the Bank of Italy carried out open market operations to support the prices of medium and long-term government securities; net outright purchases by the Bank in September amounted to 1.2 billion lire. Uncertainty in the securities markets was accentuated after mid-October by the collapse of share prices on stock exchanges in Italy and abroad; the liquidation of holdings of government securities was exacerbated during that period by the activities of the investment funds, which had to contend with massive redemptions. The Bank of Italy continued its interventions in the medium and long-term securities market, with net outright purchases amounting to 1.1 billion lire in October.

In the final quarter, when there were substantial inflows of monetary base via the external sector, the liquidity of the banking system was kept relatively high. From October onwards it remained above 5 trillion lire, including temporary financing; the temporary finance provided to the banking system was allowed to expire and the Bank of Italy offered funds at interest rates that averaged about 11.5 per cent in October and November. In those same two months the overnight rate fell below 9 per cent, after having risen to an average of almost 13 per cent in August.

In December the conditions in the securities market showed signs of improvement, in the shape of a recovery in the prices of medium and long-term paper on the secondary market and a large excess of demand over supply at the issue of Treasury credit certificates at the beginning of the month. The demand for government securities remained high in early 1988, despite the reduction in offer yields; one factor in this was the expectation of lower interest rates on account of the curbing of the acceleration in consumer prices that had become apparent in July and the downward trend in nominal yields in other European countries. At the beginning of February, however, the market again showed little inclination to invest in medium and long-term government securities, partly owing to the uncertainty caused by the slow progress of the Finance Bill through Parliament; sales of Treasury bills at all maturities nevertheless continued to be high.

The demand for Treasury credit certificates remained weak in March; to accommodate market preferences, two-year Treasury bonds were offered at the beginning of the month. The financial picture was further complicated by new factors that emerged at that time. The trend in the public finances and the Finance Law approved by Parliament confirmed that the Treasury borrowing requirement for the year would not only exceed the forecast indicated in the Forecasting and Planning Report but also be substantially higher than the 1987 level; in addition, the weakness of demand for securities spread to Treasury bills, sales of which fell short of the requirement by 2.8 trillion lire during the month as a whole. Financing of the high April borrowing requirement promised to be difficult, particularly in the light of the small volume of Treasury credit certificates subscribed at the beginning of the month. The net interest rate offered on twelve-month Treasury bills was therefore raised by about 35 basis points at the mid-April auction in order to give an upwards slope to the yield curve for Treasury bills and at the same time reduce the differential between offer yields on twelve-month bills and those on two-year bonds.

BANKING

In 1987 the policy of the banks was to increase the proportion of their assets devoted to lending, an objective that they pursued for much of the year by reducing lending rates by more than the decline in yields on government securities. The demand for bank credit was fueled by the sustained growth in industrial production, companies' reduced recourse to the capital market and lower real lending rates. During some parts of the year large firms in particular borrowed from the banks to carry out arbitrage between the cost of bank loans and yields available in the money market. These operations were made possible by the imperfections in the interbank market and encouraged by the behaviour of the banks, which charged many business customers interest rates well below prime rate.

The financial component of lending contracted sharply when the bank credit ceiling was introduced in mid-September, so that by the end of 1987 the rate of increase in total lending was comparable to that in gross domestic product (Figure 13). A renewed acceleration began in the first quarter of this year, stimulated by the strong growth in production and the decline in lending rates (Table 22).

Table 22

BANK DEPOSITS AND LOANS (1)

(percentage rates of increase)

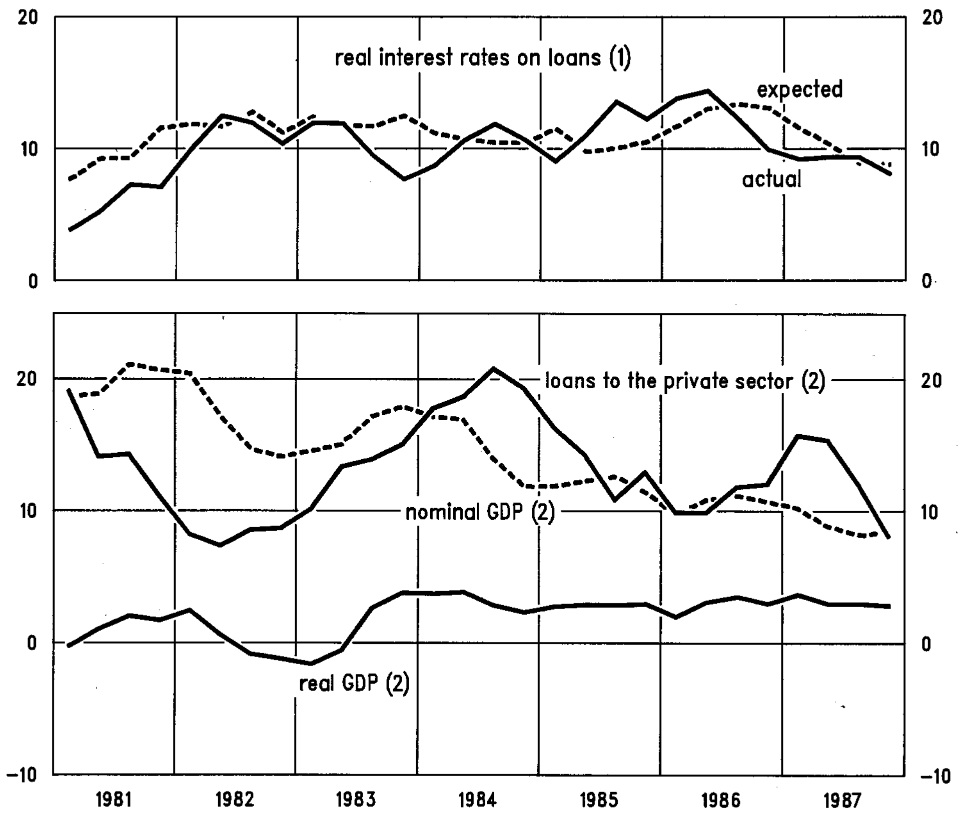
	1983	1984	1985	1986	1987					1988 Q1
					Year	Q1	Q2	Q3	Q4	
Deposits	13.3	11.6	10.1	8.9	6.8	6.7	12.5	2.2	7.5	−2.6
Loans (2)	14.0	17.1	15.6	9.6	8.6	12.3	15.7	−5.1	12.8	10.3
Treasury bills (3)	−11.4	−7.7	−35.1	20.7	−17.0	−18.7	−37.2	−73.3	197.0	−24.8
Medium and long-term securities (4)	30.4	12.0	18.3	4.5	5.3	0.1	16.7	16.9	−9.8	−16.1

(1) Quarterly data are seasonally adjusted annualized rates. — (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 have been adjusted for the distortions due to the elimination of the ceiling on loans. — (3) Net of repurchase agreements with the Bank of Italy and operations under the Ministerial Decree of 27.9.1974. — (4) Net of the effect of the funding of bank loans, repurchase agreements with the Bank of Italy and operations under the Ministerial Decree of 27.9.74.

The growth in deposits was below that in lending throughout the year and slowed down significantly after the increase of about one percentage point in interest rates on Treasury bills in July. The trend decline in deposits as a share of total financial assets was therefore reinforced. In the first quarter of 1988 deposits decreased on a seasonally adjusted basis.

Figure 13

BANK LENDING AND ECONOMIC ACTIVITY



(1) The average interest rate on lira loans deflated using the rate of increase in industrial wholesale prices. — (2) Rates of increase over the twelve months ending in the relevant quarter. For loans, the values are calculated using average quarterly data net of funding operations and exchange rate adjustments.

The banks' attempts to adjust the composition of their balance sheets were impeded by the fall in the prices of government securities, which made it expensive for them to mobilize their portfolios. On some occasions during the year they curtailed their securities trading and disposed of substantial quantities of Treasury bills, their holdings of which declined to the lowest level for a decade as a share of their balance sheet totals. In the first quarter of 1988 the banks made further very large sales of securities, including medium and long-term bonds.

Bank profits were affected not only by the reduction in income from securities trading but also by a narrowing of interest spreads, partly for cyclical reasons, and to a lesser extent by a rise in staff costs.

The banks' capital continued to increase last year, mainly as a result of allocations to reserves, so that their capital and reserves rose from 5.7 to 6.3 per cent of total resources.

Lending

Total bank lending rose by about 23,000 billion lire, or 8.6 per cent of the amount outstanding at the end of 1986 (Table 22). Lira lending accounted for 17,600 billion lire of the expansion and foreign currency lending for 5,400 billion.

Lending grew rapidly until the summer, rising at a seasonally adjusted annual rate of 14.4 per cent from the beginning of the year until August. From May onwards the increase also partly reflected the replacement of foreign currency loans with loans in lire triggered by the spread of unwarranted expectations of an exchange rate realignment.

The banks' lending policy caused the spread between the minimum lending rate and the gross rate on Treasury bills to decline by more than one and a half points between January and July. During the summer the differential was narrower than at any time in the past decade. In the months around mid-year the minimum lending rate was even below the overnight rate, creating favourable conditions for prime customers to engage in arbitrage in the money market.

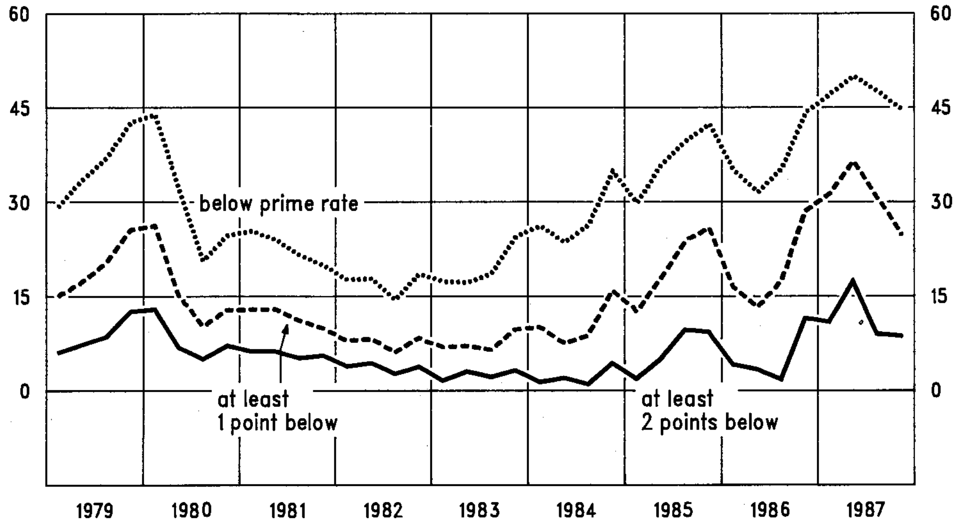
"Financial" loans come about as a result of the opportunities for large companies to obtain very short-term funds at interest rates below those prevailing in the most liquid segments of the money market. This phenomenon has been exacerbated by the behaviour of the banks, which have greatly increased their lending at rates below prime rate in their quest for expansion (Figure 14). Between 1983 and 1987 such loans rose from an annual average of 28 per cent of total lending to about 47 per cent, with peaks at the end of 1985 and in the summer of 1987 coinciding with foreign exchange crises. The tendency is also very marked if one considers only loans granted at rates at least one and at least two percentage points below prime rate; these two measures averaged respectively 31 and 12 per cent of total lending in 1987, with peaks of 36 and 17 per cent.

The acceleration in lending was checked in September by the introduction of the ceiling on lira lending. By the end of October foreign currency loans were 4,500 billion lire higher than in August, owing partly to the turnround in exchange rate expectations. The average interest rate on lira loans, which had increased by barely 25 basis points in the two months following the raising of yields on Treasury bills in July, rose by more than half a percentage point in September and October.

Figure 14

LOANS AT INTEREST RATES BELOW PRIME RATE (1)

(percentages of total lending)



(1) Data from the Central Credit Register.

As the March 1988 expiry date of the measures approached, strains developed that caused lending to grow faster than permitted.

The imposition of the ceiling gave strong impetus to the growth in guarantee commitments, which increased by 15,400 billion lire between August 1987 and March 1988. To a large extent, this expansion reflected the more widespread use of commercial notes, a financial instrument comparable to commercial paper in the US market except that it is not in the form of a bill of exchange.

Securities

The banks' securities portfolios increased by about 4,400 billion lire, or 2 per cent, compared with a rise of 13,800 billion lire or 6.8 per cent in 1986. They therefore fell to their lowest level for a decade in relation to total resources, namely 22 per cent compared with 29 per cent in 1978.

During the year as a whole the banks' holdings of Treasury bills decreased by about 5,600 billion lire, or 17 per cent, after increasing considerably in 1986 (Table 22). Medium and long-term government securities rose by 6,300 billion lire, or 5.3 per cent; purchases were concentrated mostly in Treasury credit certificates.

In the first quarter of 1988 the banks' securities portfolios contracted sharply by about 30 trillion lire in connection with the decline in deposits; in the same period of 1987 there had been a reduction of 23 trillion lire.

The fall in the prices of securities caused net profits from securities transactions to decline by more than 900 billion lire, or 18 per cent. Most of this was incurred by large banks, whose trading profits decreased by about 800 billion lire, or 31 per cent, while the savings banks recording a smaller decrease.

The interbank market and the payment system

Difficulties with treasury management prompted the large banks to increase their net borrowing in the interbank market from an annual average of 8,500 billion lire to 15,000 billion. In view of the tightening of liquidity by the monetary authorities, strains began to appear in this market too; as in the past, however, they were only partly reflected in interest rates, remaining largely confined to the more responsive market segments, such as the overnight market, and having only a limited and lagged effect on the bulk of funds.

The polarization between the small group of institutions that are traditionally borrowers in the interbank market and those that lend, which reduces market efficiency and tends to emphasize the bilateral nature of transactions, therefore became more pronounced.

The imperfections of the interbank market hinder the formation of a meaningful yield curve, which should serve as a guide for the banks in setting the rates to charge to customers. They therefore hamper the transmission of impulses emanating from central bank intervention in the liquidity market and encourage enterprises to engage in financial arbitrage with banking counterparts.

In Italy only a small proportion of interbank transactions are carried out to satisfy short-term requirements. Almost half the total of interbank funds, which averaged 85,000 billion lire in 1987, consists of deposits, most of them at sight, although the possibility of rapid mobilization is often only theoretical and the renegotiation of interest rates to take account of changes in market conditions is a laborious process. Time deposits, including the forms of shorter-term debt that are now developing, still constitute a small proportion of the market; for example, overnight funds account for an average of 1 per cent of interbank loans.

Some of the shortcomings of the interbank market stem from the immense volume of payments that are not settled immediately. This explains the abnormal size of correspondent accounts, which make up the other half of interbank funds and which can cause difficulties for bank treasury management, since the banks may find themselves short of liquidity while at the same time having funds on account with other banks.

The proposals that have been made to improve the efficiency of the payment system are aimed at increasing the proportion of payments settled immediately via the transfer of liquid funds held on account with the central bank. By mid-1989 payments by out-of-town cheque and those in external lire will be settled in this way. Access to clearing and to accounts at the central bank will be electronic and the clearing session will be extended to the afternoon. The interbank market will become deeper, since a larger number of operators will be able to transact business over a longer period. It will operate more smoothly, since telematic instruments will be used; it will also be more transparent, as up-to-date information on liquidity positions will be available.

Deposits

Bank deposits increased by 34 trillion lire, or 6.8 per cent of the total outstanding at the end of 1986 (Table 22); net of certificates of deposit, the increase came to 23,500 billion lire, or 4.9 per cent.

There were two distinct phases in the pattern of deposit growth last year. Until June they continued to increase at a rapid pace (9.6 per cent on a seasonally adjusted annual basis), since widespread expectations of a rise in interest rates discouraged investment in government securities. A sharp slowdown began in July in conjunction with the widening of around one percentage point in the differential between Treasury bill yields and deposit rates.

There was a significant change in the composition of liabilities owing to the rapid growth of the market in certificates of deposit. Net issues of CDs totaled 10,500 billion lire last year, accounting for around one third of the entire expansion in deposits; around half were

3-month certificates. The growth continued in the first quarter of 1988, taking the ratio of CDs to total bank fund-raising to 8.5 per cent.

The increasing popularity of CDs was boosted by the banks' interest rate policy; rates on 6-month CDs were gradually raised by comparison with those on Treasury bills of the same maturity and on other types of deposit. Net of tax, the differential in relation to 6-month Treasury bill yields thus declined by around one percentage point between October 1987 and March 1988. Over the same period the spread over average deposit rates gradually widened. This shift was made possible by the steady decline in the implicit cost of reserve requirements on certificates of deposit, since such reserves bear interest at 8.5 per cent, compared with a rate of 5.5 per cent on other reserves.

Savings deposits rose by only 1 per cent last year. Despite the rapid growth in certificates of deposit, there was thus a further increase in the relative importance of current accounts, which made up 56.9 per cent of total deposits at the end of the year, compared with 56.4 per cent in 1986 and 54.8 per cent at the end of the seventies.

The expansion in the role of current accounts is partly a reflection of the changes that have been occurring for some years in the demand for bank money, in particular the increase in transaction balances. This is confirmed by the steady increase in the number of accounts, which rose from 18.3 to 19.4 million in 1987; per head of population, however, there are still fewer accounts in Italy than in the other major industrialized countries.

The reduction in the proportion of savings deposits was partly offset by the expansion in portfolio management services offered by the banks; the total financial assets managed by banks and their subsidiaries increased by around 11 trillion lire last year, or 25 per cent, to stand at 54 trillion lire.

Profit and loss accounts

Banks' net interest income, the difference between interest income and interest expenses, fell from 3.43 to 3.33 per cent of total resources (Table 23). Lending in lire, which is the most profitable component of assets, increased by half a point in relation to balance sheet totals, but this was outweighed by a contraction of one point in the spread between the average return on such lending and the unit cost of deposits. There was also a slight reduction in the margin between the yield on securities portfolios and the cost of deposits, which had been

Table 23

PROFIT AND LOSS ACCOUNTS OF THE BANKS (1)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 (2)
	As a percentage of total resources									
Net interest income	**2.92**	**2.75**	**3.46**	**3.54**	**3.30**	**3.37**	**3.36**	**3.24**	**3.43**	**3.33**
Non-interest income	**0.98**	**0.95**	**1.00**	**1.23**	**1.27**	**1.19**	**1.28**	**1.29**	**1.46**	**1.21**
securities trading	*0.46*	*0.45*	*0.44*	*0.56*	*0.66*	*0.55*	*0.66*	*0.69*	*0.84*	*0.58*
Gross income	**3.90**	**3.70**	**4.46**	**4.77**	**4.57**	**4.56**	**4.64**	**4.53**	**4.89**	**4.54**
Operating expenses	2.78	2.72	3.01	2.95	2.97	3.15	3.15	3.03	3.07	3.11
staff costs	*2.08*	*1.99*	*2.20*	*2.14*	*2.06*	*2.31*	*2.27*	*2.18*	*2.20*	*2.23*
Net income	**1.12**	**0.98**	**1.45**	**1.82**	**1.60**	**1.41**	**1.49**	**1.50**	**1.82**	**1.43**
Allocations to provisions (net)	0.76	0.69	0.99	1.30	0.99	0.72	0.71	0.67	0.66	0.49
for loan losses	*0.37*	*0.33*	*0.44*	*0.44*	*0.46*	*0.43*	*0.39*	*0.32*	*0.29*	*0.28*
Extraordinary income and withdrawals from provisions for loan losses (3)	—	0.04	0.01	0.03	0.08	0.03	0.02	0.07	0.01	−0.06
Profit before tax	**0.36**	**0.33**	**0.47**	**0.55**	**0.69**	**0.72**	**0.80**	**0.90**	**1.17**	**0.88**
Tax	0.19	0.14	0.24	0.27	0.40	0.43	0.44	0.47	0.61	0.41
Net profit	**0.19**	**0.19**	**0.23**	**0.28**	**0.29**	**0.29**	**0.36**	**0.43**	**0.56**	**0.47**
	Other data									
Total resources *(billions of lire)*	250,435	307,772	372,503	441,537	507,235	591,493	662,436	771,912	840,494	912,211
Number of employees	249,999	261,505	274,889	287,420	293,002	299,879	302,814	304,090	308,200	311,604
Total resources per employee *(millions of lire)*	1,002	1,177	1,355	1,536	1,755	1,998	2,215	2,538	2,727	2,948
Staff costs per employee *(millions of lire)*	20.8	23.4	29.8	32.8	36.1	46.2	50.2	55.4	60.0	65.9
	Percentage rates of increase									
Staff costs per employee	8.3	12.5	27.8	9.7	13.2	28.0	8.7	10.0	8.3	9.8
Total resources per employee:										
in nominal terms	15.4	17.5	15.1	13.4	14.3	14.0	10.7	14.6	7.6	8.1
in real terms (4)	2.7	1.5	−5.0	−4.5	−1.8	−1.0	0.3	5.5	1.3	3.3
Number of employees	4.2	4.6	5.1	4.6	1.9	2.3	1.0	0.4	1.0	1.1

(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. From 1983, the figures for net interest income and non-interest income, especially from securities trading, are not comparable to those for previous years. — (2) Provisional data. — (3) Including the balance between capital gains and losses on securities and investments. — (4) Deflated using the cost-of-living index.

increasing since 1982; the decline in Treasury bill rates in 1986 and the early months of 1987 affected the yield on securities indexed to these rates for the remainder of the year.

Profits were affected even more by the decline in non-interest income from 1.46 to 1.21 per cent of total resources ; this was entirely due to the fall in profits from securities trading from 0.84 to 0.58 per cent. As well as a reduction in capital gains, there was a fall of about one half in commission on the placement of new issues, mainly as a result of reduced sales of investment fund units to the public.

The contraction in gross income, which measures total net receipts from banking activities, contrasted with an increase in operating costs from 3.07 to 3.11 per cent of total resources, largely as a result of the rise in staff costs. Average costs per employee, including backdated pay awards, increased by 9.8 per cent, primarily owing to the entry into force of new labour agreements; this rate of increase was almost two percentage points higher than that in total resources per employee. Staff numbers rose by about 1 per cent.

The decline in net income had a marked effect on allocations to provisions; net of withdrawals these decreased from 0.66 to 0.49 per cent of total resources. Profitability was also affected by the devaluation of the banks' securities portfolios, on which capital losses of around 1,500 billion lire were recorded; these are included in the item "Extraordinary income and withdrawals from provisions for loan losses". The contraction in the tax base led to a reduction in the ratio of taxes to total resources.

Net profits decreased from 0.56 to 0.47 per cent of total resources and from 11 to 8 per cent of the banks' own funds. Allocations to reserves decreased slightly in absolute terms, but the proportion of net profits distributed as dividends rose by about 9 per cent, compared with an increase of more than 40 per cent in the banks' capital.

Shares of the banking market, 1983-87

The banking system's dominant role in the financial markets did not decline significantly between 1983 and 1987, but there were pronounced shifts in the market shares of the various categories of bank.

In the face of strong disintermediation on the liabilities side, the banking system has greatly expanded its range of services, especially those associated with securities trading and management. Whereas the ratio of deposits to the private sector's domestic financial assets (net of shares) decreased steadily from 56.5 per cent in 1982 to 42 per cent in 1987 — it had stood at 67 per cent in 1978 — securities held on behalf of customers increased over the same period at an annual average rate of 29 per cent and the ratio to deposits rose from 63 to 129 per cent.

Bank loans remained virtually unchanged as a proportion of the private sector's total financial liabilities. Disregarding the fall of around 4 points in 1981-82, when the credit ceiling was particularly restrictive, this indicator has remained stable at around 58 per cent since 1979.

The long-term decline in the market shares of the largest banks continued in the period under review. The institutions that gained were cooperative banks and large savings banks, owing primarily to the rapid economic growth in provincial areas, where they are traditionally strongest.

However, the degree of concentration of the banking system is significantly different if one considers the volume of lending to customers by banking and financial groups. For this purpose market shares have been adjusted by adding the volume of intermediation of directly, indirectly and jointly controlled banks to that of their parent banks (banking groups) and then including special credit sections and controlled special credit institutions (financial groups).

On the basis of aggregate "group" intermediation, the role of the largest institutions in the Italian financial system does not appear to have decreased significantly in the last five years. The market share of banking groups headed by large banks was appreciably higher than that for individual institutions and in the last five years it declined by less, particularly when measured in terms of lending (from 49.5 to 48.2 per cent). The increase in the share of cooperative banks and savings banks is also confirmed when examined on a group basis, especially in terms of lending and investments. The market shares of financial groups headed by large banks were the same as those for banking groups in 1987 and higher than they had been in 1982.

THE SPECIAL CREDIT INSTITUTIONS AND LEASING AND FACTORING COMPANIES

The special credit institutions

The business of the special credit institutions was boosted last year by the upturn in the investment cycle and the demand for real estate loans. Their domestic lending increased by 13.6 per cent, around one point more than in 1986, and continued to rise rapidly in the first few months of this year (Table 24).

Table 24

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS

(percentage changes)

	1983	1984	1985	1986	1987
Industrial	9.6	12.0	9.3	14.6	12.8
short-term	*−2.7*	*34.6*	*33.4*	*58.4*	*17.0*
Public works	32.2	22.9	3.2	0.8	1.9
Real estate	14.3	(2) 13.2	9.6	13.1	19.8
Agriculture	(1) 13.2	(2) 12.6	8.2	12.7	13.3
Total	(1) **13.4**	(2) **13.6**	**8.5**	**12.4**	**13.6**

(1) Excluding the data for Banco di Sardegna, which began operations as an agricultural credit section on 1 January 1983; if these data are included, the growth rate of lending by the agricultural credit institutions was 19.5 per cent and that by the special credit institutions as a whole was 13.9 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 the agricultural improvement loans previously granted by its real estate credit section have been attributed; not taking it into account, the rate of growth of lending by the real estate credit institutions was 10.9 per cent, that by the agricultural credit institutions 25.0 per cent and that by the special credit institutions as a whole 14.0 per cent.

The decline in long-term interest rates led to particularly rapid growth in lending by real estate credit institutions. Industrial credit institutions recorded an acceleration in medium-term lending owing to the substantial increase in investment in machinery, equipment and transport equipment, but their overall results were affected by the marked slowdown in short-term operations. In contrast to earlier experience, the ceiling on bank lending did not cause borrowers to switch from bank credit to short-term loans from industrial credit institutions. The recent reduction in the rate of tax on medium and long-term loans from 2 to 0.25 per cent eliminates a distortion that in the past had encouraged an expansion of the industrial institutions' short-term business. Their subsidized lending grew faster than in 1986, mainly owing to increased recourse to the facilities under the Law on the financing of machine tools.

In 1987, a year marked by strains in the capital market and the first since the abolition of the securities investment requirement, the special credit institutions financed their lending by issuing a larger volume of floating rate bonds, increasing their foreign borrowing and reducing their securities portfolios. Fund-raising increased mainly at medium and long term, in keeping with the lengthening of loan maturities.

Bond issues increased by 11.2 per cent, compared with 7.5 per cent in 1986, owing partly to purchases of around 2.7 trillion lire by the institutions themselves. Net of these operations, the expansion in bond issues was almost the same as in the preceding year.

The institutions' lending and borrowing rates, which had declined in 1986, continued to fall in the early part of last year but rose again in the second half in conjunction with the increase in capital market rates. In the last few months of the year there was faster growth both in issues of floating rate securities and in floating rate loans, including those of institutions for which this field had always been of secondary importance, such as real estate institutions.

In the first two months of 1988 placements of special credit institutions' certificates of deposit increased substantially to 5.7 trillion lire. This was due partly to the rise in yields on such ce rtificates, which had increased more than interest rates on Treasury bonds and bank certificates of deposit in the latter part of 1987. The rapid growth in this form of fund-raising enabled the institutions to restore their liquid assets and portfolios of government securities to the levels recorded at the beginning of 1987.

Lending

Domestic lending increased by 20.7 trillion lire, compared with 16.8 trillion in 1986 (Table 25). The expansion in loans to the public sector was small, though considerably larger than in the preceding year (2 trillion lire, against 600 billion). Lending to local authorities reflected increased credit-granting by the Deposits and Loans Fund; loans to autonomous government agencies, on the other hand, increased by about 1 trillion lire as a result of a number of large loans to the State Railways towards the end of the year.

Table 25

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS ACCORDING TO BENEFICIARY

	Public sector			Private sector					Total
		of which: local authorities	of which: autonomus agencies	Finance, insurance and credit	Non-financial enterprises	of which: state-owned enterprises	House-holds	Total	
				Variations in billions of lire					
1986 - Subsidized	188	228	− 18	—	3,639	8	901	4,540	4,728
Unsubsi-dized	402	497	228	3,861	5,795	1,490	2,039	11,695	12,097
Total . . .	**590**	**725**	**210**	**3,861**	**9,434**	**1,498**	**2,940**	**16,235**	**16,825**
1987 - Subsidized	243	250	—	23	4,118	− 399	740	4,881	5,124
Unsubsi-dized	1,711	264	986	1,849	7,735	680	4,301	13,885	15,596
Total . . .	**1,954**	**514**	**986**	**1,872**	**11,853**	**281**	**5,041**	**18,766**	**20,720**
				Percentage variations					
1986 - **Total .....**	**2.5**	**4.1**	**9.6**	**69.8**	**10.6**	**8.5**	**16.3**	**14.4**	**12.4**
1987 - **Total .....**	**8.1**	**0.2**	**41.3**	**19.9**	**12.0**	**1.5**	**24.0**	**14.6**	**13.6**

Credit to industry and the services sector. — Loans to industry, which had risen by 3.7 trillion lire in 1986, increased by 4.4 trillion lire last year owing to the upturn in the investment cycle (Table 26). For some years now the industrial credit institutions have been granting a growing proportion of credit to financial companies; this tendency continued in 1987 and began to be evident among the smaller institutions as well, but the term of such credit was lengthened, with the majority of loans being made to companies specializing in investment financing, such as leasing companies, and which therefore raise funds mainly through medium and long-term credit.

Short-term lending increased by 17 per cent, compared with 58.4 per cent in 1986, to stand at 18.8 trillion lire at the end of the year. The slowdown continued in the first two months of 1988; by February the twelve-month rate of growth was down to 16.3 per cent. The demand for credit at less than 18 months was steadily eroded by the decline in transactions to finance block purchases of shares and by the increased use companies made of new short-term fund-raising instruments. In the second half of the year it was also affected by the increase in the industrial credit institutions' short-term lending rates, which was more pronounced than that on bank loans.

Table 26

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS BY SECTOR

(in billions of lire)

	Agriculture		Housing		Industry		Transport, communications, misc. services		Exports		Total	
	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987
							Net increase in lending					
Subsidized....	1,240	817	1,209	1,275	2,344	2,491	1,199	1,603	−1,264	−1,062	4,728	5,124
Unsubsidized .	448	879	3,028	5,284	1,306	1,955	7,315	7,478	—	—	12,097	15.596
Total . . .	**1,688**	**1,696**	**4,237**	**6,559**	**3,650**	**4,446**	**8,514**	**9,081**	**−1,264**	**−1,062**	**16,825**	**20.720**
							Percentage increase in lending					
Subsidized....	*14.2*	*8.2*	*17.5*	*15.7*	*14.9*	*13.8*	*24.8*	*26.6*	*−20.8*	*−22.1*	*11.2*	*10.9*
Unsubsidized .	*15.4*	*26.2*	*13.9*	*21.3*	*5.3*	*7.6*	*16.4*	*14.4*	—	—	*12.9*	*14.7*
Total . . .	***14.5***	***12.7***	***14.8***	***19.9***	***9.1***	***10.1***	***17.2***	***15.7***	***−20.8***	**−22.1**	**12.4**	**13.6**

Subsidized credit increased overall by 3 trillion lire, or 11 per cent, but growth was not uniform; some measures, such as Law 1329/1965 on the financing of machine tools, generated a rapid acceleration in lending, whereas others had only a limited effect owing to a shortage of funds or delays in the implementation of new procedures.

Housing credit. — Housing credit increased by 6.6 trillion lire, compared with 4.2 trillion in 1986. The acceleration, which began in the second half of 1986, can be attributed almost entirely to the growth in real estate loans, since building credit was affected by the stagnation in building investment. The decline in interest rates, which continued until mid-year, was a significant factor in the growth in real estate credit, since it made it more advantageous to acquire housing financed with loans of this kind and reduced the ratio of mortgage loan repayments to borrowers' income.

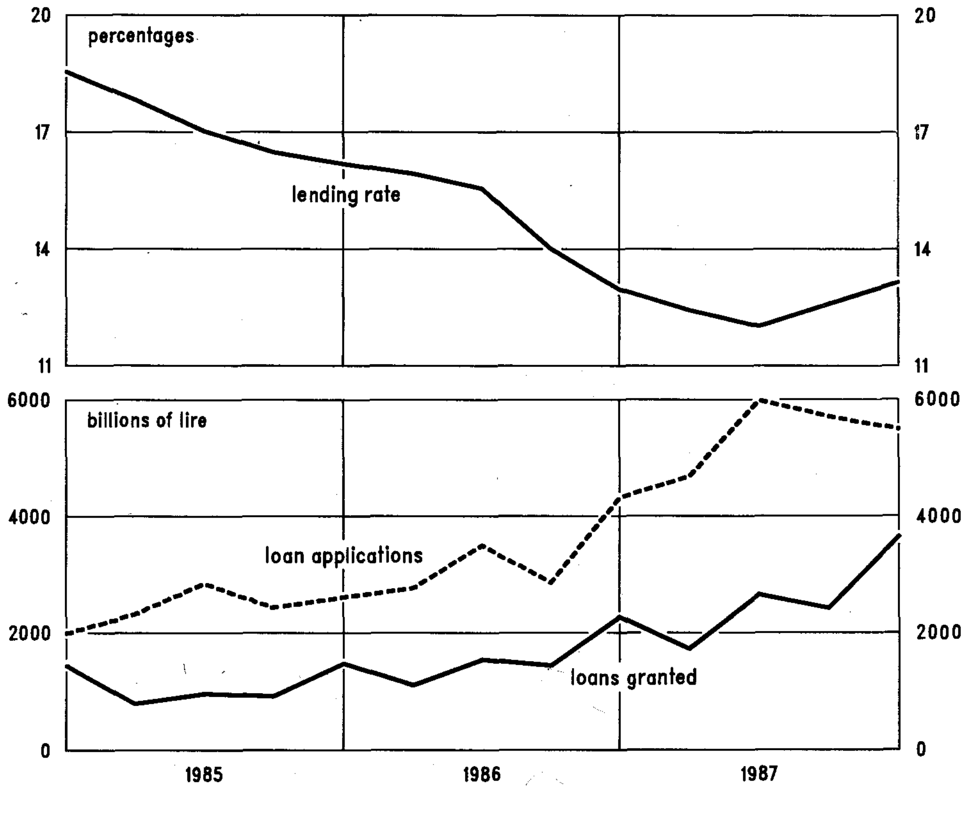
The reversal of the fall in interest rates in the second half of the year caused a reduction in the demand for mortgage loans, although this is not yet reflected in disbursements (Figure 15).

A number of regulations, such as the ceiling on bank tending, had the effect of diverting part of the demand for mortgage loans from the banks to the special credit institutions. The resolution of the Committee on Credit and Savings of 21 May 1987 redefining the limits on the banks' operations beyond the short term only came into force in

April of this year, but it may have prompted some categories of bank, such as savings banks, to restrict their operations of this kind in advance. As a result of these measures the pattern of the growth in lending by the special credit institutions was the inverse of that in medium and long-term bank lending, being more pronounced towards the end of the year.

Figure 15

OPERATIONS BY THE REAL ESTATE CREDIT INSTITUTIONS



Export financing. — Export credit remained almost static following the contraction of around 30 per cent during the preceding two years. It was affected by the fact that the growth in exports was mainly towards EEC countries, which are not eligible for credit subsidies. In addition, there was a contraction in exports of capital goods to developing countries, which are traditionally granted subsidized export credit.

Since the degree of subsidization permitted by international agreements is still small, the institutions' activities in this field continue to be dependent on the conclusion of framework agreements with other countries. Buyer credits increased by 1.1 trillion lire as a result of a single transaction with the Soviet Union. Foreign currency loans eligible for subsidies from the Central Institute for Medium-Term Credit came to 1.6 trillion lire.

Agricultural credit

Agricultural lending by special credit institutions and banks as a whole increased by 10.4 per cent, compared with 15.7 per cent in 1986, to total 23.4 trillion lire at the end of the year. The slowdown was due largely to the sluggishness of subsidized lending, which expanded at less than half the rate recorded the preceding year (6.8 per cent, against 15.1 per cent in 1986), owing partly to the slow implementation of Law 752/1986, which redefined the National Plan for Agriculture, and partly to the increase in interest rates in the second half of the year, which again prompted the special credit institutions to defer transactions of this kind.

Unsubsidized lending by agricultural credit institutions increased by 30.6 per cent, more than offsetting the slowdown in subsidized loans. The special credit institutions' lending as a proportion of the total for the agricultural credit system as a whole thus rose from 58.8 per cent at the end of 1986 to 60.3 per cent. There was an acceleration in operations financed in foreign currency, most of it covered by government exchange guarantees.

Fund-raising and the management of securities portfolios

Bond issues increased by 11.5 trillion lire, against 7.2 trillion in 1986. Floating rate bonds rose from 24.5 to 27.6 per cent of the total, owing partly to interest rate uncertainty but also to the complete abolition of the securities investment requirement, which had related only to fixed rate bonds; the institutions whose securities enjoyed higher demand as a result of the requirement, such as the agricultural credit institutions, increased their fund-raising via certificates of deposit and floating rate bonds. Sales of bonds to banks also increased from 1 trillion lire in 1986 to 1.5 trillion last year, although this did not halt the steady reduction in the banks' contribution to the special credit institutions' funds.

Issues of certificates of deposit stagnated for most of 1987 but accelerated sharply in December, when they totaled 2.5 trillion lire;

there was an even more rapid expansion in the first two months of 1988, with issues totaling about 5.7 trillion lire compared with a net volume of 2.6 trillion in the whole of 1987. This pattern was due mainly to interest rate developments, although the institutions' greater use of marketing networks to place certificates was also a factor, at a time when other financial products offered via the networks found little favour with the public.

Borrowing abroad rose by 5 trillion lire, compared with an increase of 1.8 trillion in 1986. Loans covered by government exchange guarantees accounted for only about 2 trillion of the increase. The fall in interest rates abroad in the last part of the year and the easing of expectations of a depreciation of the lira stimulated corporate demand for foreign currency loans, especially those in ECUs, leading to an increase in the institutions' foreign borrowing.

The growth in lending and bond purchases caused the institutions' holdings of government securities to contract by 4.1 trillion lire, more than twice the decrease recorded in 1986. The ratio between government securities plus liquid funds on the one hand and undisbursed credits on the other thus fell to its lowest level for the last five years.

Profit and loss accounts

Net interest income declined from 3.05 to 2.82 per cent of total resources last year, the lowest level since 1980 (Table 27). Whereas unit income from lending declined in line with the cost of fund-raising in lire, the yield on securities portfolios and investments showed a more marked decrease.

Securities trading, which had helped generate a substantial increase in income in 1986, contributed very little last year owing to the downturn in the financial markets; indeed, it produced less than the commission paid to the banks for their services, so that non-interest income showed losses equivalent to 0.05 per cent of total resources, against profits of 0.13 per cent in 1986.

Staff costs per employee rose at a rapid pace of 12.4 per cent, continuing a trend that has been under way for several years and has steadily increased the ratio of operating costs to total resources. In 1987, however, the considerable expansion in total resources per employee eased the impact of staff costs on net income.

Table 27

PROFIT AND LOSS ACCOUNTS OF THE SPECIAL CREDIT INSTITUTIONS

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 (1)
	As a percentage of total resources									
Interest income	10.43	10.97	11.76	12.91	14.41	14.72	14.80	14.22	13.45	12.28
Interest expenses	8.18	8.57	9.03	10.00	11.40	11.63	11.66	11.18	10.40	9.46
Net interest income	**2.25**	**2.40**	**2.73**	**2.91**	**3.01**	**3.09**	**3.14**	**3.04**	**3.05**	**2.82**
Non-interest income	−0.01	−0.02	0.03	0.01	−0.05	−0.05	0.02	0.01	0.13	−0.05
Gross income	**2.24**	**2.38**	**2.76**	**2.92**	**2.96**	**3.04**	**3.16**	**3.05**	**3.18**	**2.77**
Operating expenses	0.44	0.49	0.61	0.66	0.73	0.77	0.82	0.84	0.87	0.88
staff costs	*0.34*	*0.37*	*0.44*	*0.44*	*0.44*	*0.48*	*0.50*	*0.52*	*0.54*	*0.55*
Net income	**1.80**	**1.89**	**2.15**	**2.26**	**2.23**	**2.27**	**2.34**	**2.21**	**2.31**	**1.89**
Depreciation & allocations to provisions	1.42	1.49	1.82	1.71	1.36	1.41	1.46	1.28	1.13	1.03
Extraordinary income and expenditure	0.24	0.05	0.09	0.16	0.13	0.24	0.17	0.16	0.21	0.17
Profit before tax	**0.62**	**0.45**	**0.42**	**0.71**	**1.00**	**1.10**	**1.05**	**1.09**	**1.39**	**1.03**
Tax	0.41	0.24	0.24	0.32	0.42	0.39	0.42	0.41	0.58	0.46
Net profit	**0.21**	**0.21**	**0.18**	**0.39**	**0.58**	**0.71**	**0.63**	**0.68**	**0.81**	**0.57**
	Other data									
Total resources *(billions of lire)*	79,500	84,775	91,890	104,073	124,146	141,254	158,815	176,805	189,749	208,203
Number of employees	8,926	9,990	10,318	10,654	11,130	11,840	12,045	12,109	12,202	12,165
Total resources per employee *(millions of lire)*	8,907	8,486	8,906	9,768	11,154	11,930	13,185	14,601	15,550	17,115
Staff costs per employee *(millions of lire)*	29.91	31.23	39.64	43.18	49.06	56.93	66.17	75.40	83.88	94.29
	Percentage rates of increase									
Staff costs per employee	9.4	4.4	26.9	8.9	13.6	16.0	16.2	13.9	11.2	12.4
Total resources per employee:										
in nominal terms	7.0	−4.7	4.9	9.7	14.2	7.0	10.5	10.7	6.5	10.1
at constant prices (2)	−4.9	−17.7	−13.4	−7.6	−1.9	−7.0	−0.1	2.0	0.4	5.2

(1) Provisional. — (2) Deflated using the cost-of-living index.

The reduction in depreciation and allocations to provisions, which was made possible partly by the slowdown in loan losses, cushioned the impact of the decrease in net income on profits, which declined to 0.36 and 0.24 percentage points before and after tax respectively.

Leasing and factoring companies

Leasing companies. — Net of the capital instalments implicit in rental payments, the outstanding loans of the group of leasing companies covered by the Bank of Italy survey increased by 29.2 per cent, the same rate of growth as in 1986, to stand at about 10.6 trillion lire at the end of the year (Table 28). The use of leasing to finance the purchase of capital goods is continuing to increase, as shown by the rise in the ratio between the value of leasing contracts signed and expenditure on machinery, equipment and transport equipment from 7.1 per cent in 1986 to 8.5 per cent in 1987.

Table 28

LEASING (1)

(amounts outstanding in billions of lire)

	1985	1986	1987
Finance provided (2)	6,325	8,176	10,566
Finance received from credit institutions	5,479	7,333	9,748
short-term lira loans	*3,258*	*4,808*	*6,402*
medium and long-term lira loans	*1,943*	*2,216*	*3,030*
foreign currency loans	*278*	*309*	*316*

(1) Data on 51 companies. — (2) The value of goods leased under outstanding contracts, net of the capital repayments implicit in the rentals already received.

This trend was reinforced by a further narrowing of the differential between the interest rates implicit in leasing transactions and those charged by industrial credit institutions, especially in the last few months of the year, when the leasing companies did not raise their charges by as much as the increase in interest rates on special credit. The cost of leasing was also reduced by the expansion in operations eligible for government subsidies, which increased to more than 30 per cent of the agreements signed during the year.

Finance from credit institutions, which continued to be the leasing companies' main source of funds, increased at a slightly faster rate than the companies' lending. As far as lira finance is concerned, medium and long-term borrowing grew more rapidly than short-term finance, although at the end of the year more than two-thirds of the credit system's exposure towards the leasing companies was at short term.

Factoring companies. — The business of the factoring companies accelerated rapidly in 1987, owing partly to the greater autonomy afforded by new fund-raising instruments. Assigned claims, which had increased by 30 per cent in 1986, increased by a further 46 per cent to 14.3 trillion lire (Table 29). Bank-controlled companies recorded particularly rapid growth, with assigned claims increasing by almost a half. The volume of finance provided rose by 34 per cent, compared with an increase of 37 per cent in 1986. The slower expansion in lending may indicate a diversification of factoring activities, as confirmed by the very large increase in claims assigned without recourse, which more than doubled to account for around 30 per cent of total claims outstanding at the end of the year. The greater risks inherent in operations of this kind were covered by guarantees, which also increased substantially, from 600 billion lire in 1986 to 1.8 trillion last year.

Table 29

FACTORING

(amounts outstanding in billions of lire)

	Factoring companies by banks controlled			Other			Total		
	1985	1986	1987	1985	1986	1987	1985	1986	1987
Claims acquired	4,580	5,858	8,736	2,637	3,878	5,527	7,217	9,736	14,263
Finance provided	2,865	4,006	5,958	2,393	3,314	3,849	5,258	7,320	9,807
Finance received from credit institutions	2,477	3,263	4,211	2,026	2,730	3,000	4,503	5,993	7,211
short-term lira loans	*2,244*	*3,080*	*3,914*	*1,707*	*2,316*	*2,833*	*3,951*	*5,396*	*6,747*
medium and long-term lira loans	*147*	*111*	*208*	*266*	*359*	*150*	*413*	*470*	*358*
foreign currency loans	*86*	*72*	*89*	*53*	*55*	*17*	*139*	*127*	*106*
Number of companies covered by the survey	21	21	21	14	17	17	35	38	38

The factoring companies financed their operations by borrowing at short term, mainly from banks; at the end of the year around 70 per cent of their entire borrowed funds was in this form. Direct fund-raising in the market, which had been almost non-existent before last year, increased substantially after the imposition of the credit ceiling, with bank-controlled factoring companies issuing commercial notes. In the final quarter of 1987 the differential between interest rates on factoring transactions and those on bank loans narrowed to around 2.5 percentage points, compared with 3 points in the same period of 1986; in the case of companies belonging to industrial groups the reduction was from 3.5 to 2.5 points.

INSTITUTIONAL INVESTORS

The decline in the prices of shares and then in those of bonds affected fund-raising by institutional investors (investment funds, investment management services and insurance companies). Heightened risk awareness as a result of the downturn in prices caused savers to reduce the proportion of their assets invested even indirectly in shares. This led to a sharp contraction in fund-raising by investment funds, especially share-based and mixed funds, and a decline in the net flow of savings into investment management services, while the demand for supplementary pension schemes and insurance services strengthened.

The total savings attracted by institutional investors had recorded exceptionally rapid growth in 1986 but increased only slightly last year, rising from 157.2 to 166.4 trillion lire owing to the combined effects of a substantial reduction in net fund-raising, a rise in distributed profits and capital losses on portfolio assets.

Italian investment funds' redemptions equaled their total fund-raising, and by the end of the year their net worth had declined by 5.6 trillion lire. Investment management services continued to grow despite a decline in fund-raising, so that their managed assets rose from 47.0 to 57.5 trillion lire at the end of the year, almost equal to the total net worth of Italian investment funds. Insurance companies sharply increased their technical reserves, net of reinsurance commissions, from 34.5 to 40.8 trillion lire, as premium income continued to grow, especially in the life sector.

The first four months of 1988 witnessed a further slowdown in the flow of savings to institutional investors.

Investment funds

Italian funds. — After the remarkable expansion of net fund-raising by Italian investment funds in 1986, there was a progressive inversion of the trend last year. Redemptions came to 17.6 trillion lire in 1987 as against 8.8 trillion in 1986, and slightly exceeded new subscriptions (17.5 trillion lire, down from 46.3 trillion in 1986). Capital losses of 4.4 trillion lire due to the fall in share and bond prices, together with the distribution of 1.2 trillion lire in profits to unit-holders, decreased the funds' net worth from 65.1 to 59.5 trillion lire (Table 30). The number of accounts rose by 19 per cent to more than 3 million.

Table 30

ITALIAN INVESTMENT FUNDS: PORTFOLIO AND NET WORTH

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

	1986 Dec.	1987				1988 Mar. (1)
		Mar.	June	Sept.	Dec.	
Government securities	35,844	37,859	38,760	34,533	31,569	27,930
Treasury bills	*1,085*	*1,160*	*2,269*	*2,623*	*1,989*	*1,504*
Treasury credit certificates	*26,419*	*29,316*	*28,983*	*25,384*	*24,150*	*18,978*
Treasury certificates in ECUs	*836*	*764*	*696*	*668*	*643*	*684*
Treasury bonds	*7,340*	*6,338*	*5,475*	*4,510*	*3,558*	*5,424*
Bonds	5,153	5,457	5,597	5,486	5,254	5,046
Shares	17,887	18,947	18,996	17,861	13,561	13,440
Total lira-denominated securities	58,884	62,263	63,353	57,880	50,384	46,416
Securities denominated in foreign currency	3,727	4,505	5,457	7,157	5,497	6,099
Other net assets	144	267	482	906	624	740
Total portfolio	**62,755**	**67,035**	**69,292**	**65,943**	**56,505**	**53,255**
Net worth	**65,079**	**69,181**	**71,428**	**68,267**	**59,454**	**56,029**

(1) Provisional.

Share-based and mixed funds made net redemptions during most of the year, continuing a trend that had begun in late 1986, while net fund-raising by bond-based funds was substantial for the first four months but also turned negative in August. Net redemptions for all the funds peaked at over 2 trillion lire in November, following the stock market crisis the previous month.

At the end of 1987 there were 72 Italian investment funds in operation, as against 60 a year earlier. They were run by 38 management companies. The degree of concentration was fundamentally unchanged, with the largest three management companies controlling 44 per cent of the sector's net assets at the end of the year. Thirty-one of the funds were bond-based, thirty-three mixed and eight share-based. Nineteen of them offered units coupled with insurance policies. In the first four months of 1988 eleven new funds commenced operations, three of them specializing in shares and not charging entry fees.

The pattern of securities dealing by the funds during the year was influenced by their fund-raising performance, by movements in securities prices and by the abolition of the non-interest-bearing deposit against holdings of securities denominated in foreign currency. The funds made net sales of government securities amounting to 3.7 trillion lire and net purchases of shares and foreign securities worth respectively 2.2 and 2.4 trillion, as against net purchases of 24.9, 8.8 and 3.0 trillion lire respectively in 1986.

The funds' transactions in government securities switched from net purchases of 3.2 trillion lire in the first half, chiefly in the form of Treasury credit certificates, to net sales amounting to 6.9 trillion lire in the second. Sales of Treasury credit certificates with annual coupons were especially heavy, contributing to the fall in their prices on the secondary market.

Continuous investment in shares throughout the year confirmed the countercyclical role of the funds in this market segment. Despite the net redemptions recorded by the share-based and mixed funds, net purchases of shares came to 1.1 trillion lire in the first quarter and 500 billion lire in the second, equivalent to respectively 28.9 and 28.2 per cent of overall net fund-raising. In the second half, the pressure of redemptions reduced share purchases to 500 billion lire.

Following the abolition of the non-interest-bearing deposit on foreign securities, the funds initially stepped up their investment abroad, especially in the third quarter, when their holdings of foreign securities increased by some 1.6 trillion lire, but disinvestment occurred on a small scale in the fourth quarter.

As a result of securities dealings and price changes during the year, the funds' holdings of government securities were worth 31.6 trillion lire at the end of 1987 and represented 55.9 per cent of their overall portfolio, compared with 57.1 per cent a year earlier (Table 30). Treasury credit certificates increased from 42.1 to 42.7 per cent of the total, while Treasury bonds declined by more than five points from 11.7 to 6.3 per cent.

At the end of the year the funds' holdings of Italian shares amounted to 13.6 trillion lire, as against 17.9 trillion at the end of 1986; as a proportion of the overall portfolio they fell from 28.5 to 24.0 per cent. Foreign securities totaled 5.5 trillion lire, as against 3.7 trillion a year earlier, and their share of overall portfolio assets rose from 5.9 to 9.7 per cent, with the greater part of the expansion occurring in holdings of shares.

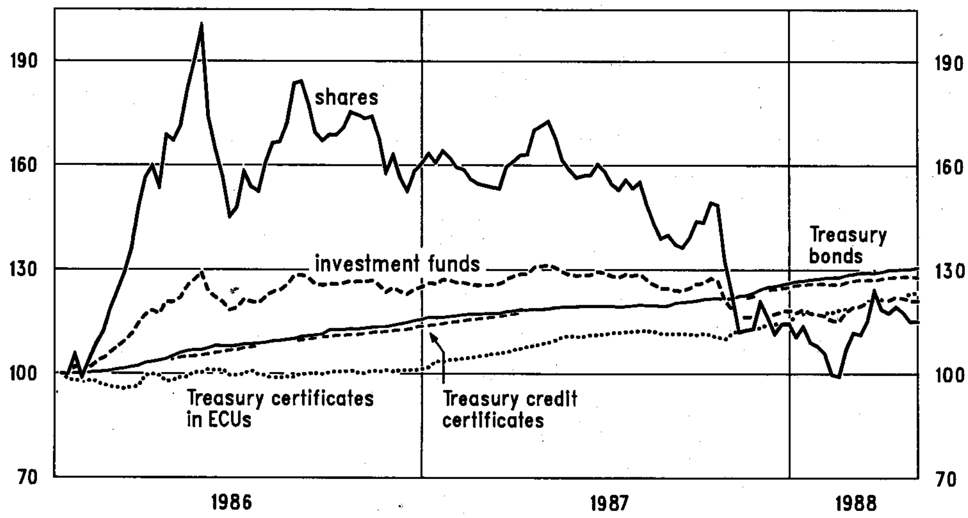
Purchases of securities on the German market (valued at 1.2 trillion lire, of which 700 billion was in shares) exceeded those in the United Kingdom and the United States (about 900 billion lire each) and subscriptions of bonds issued by international institutions (800 billion).

The net worth of the funds declined by 4.5 trillion lire in the first four months of 1988 as a result of net redemptions totaling 4.9 trillion lire, dividend distributions of 1.0 trillion and capital gains of 1.4 trillion. Holdings of government securities and shares fell by 4.6 trillion and 600 billion lire respectively, while foreign securities increased by 1.4 trillion.

Figure 16

SECURITIES MARKET INVESTMENTS: CAPITAL VALUE INDICES

(end-week data; 100 = 3 January 1986)



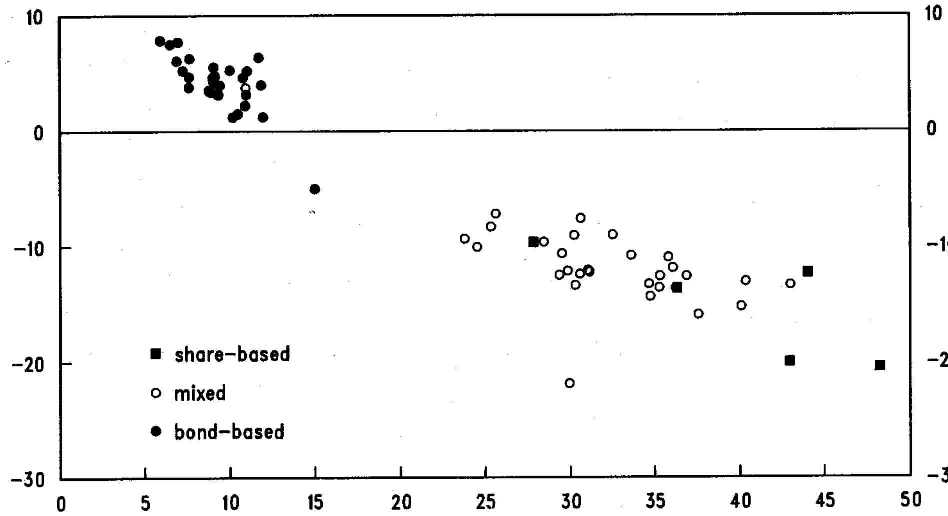
The yield on investment fund units was negative in 1987 owing to the decline in share prices (Figure 16). The Bank of Italy's capital value index showed a drop of 5 percentage points in 1987 for the investment funds as a group, as against a rise of 26.4 per cent in 1986. Bond-based funds achieved an annual average yield of 4.9 per cent, while mixed and share-based funds recorded negative yields of 11.0 and 14.8 per cent respectively.

At the end of April 1988 the overall capital value index showed a rise of 3.2 per cent since December. In the twelve months to April the yields of funds that had been in operation for at least one year ranged from — 5 to +7.9 per cent for bond-based funds and from — 21.9 to +3.8 per cent for share-based and mixed funds (Figure 17).

Figure 17

YIELD AND VARIABILITY
OF ITALIAN INVESTMENT FUNDS (1)

(percentages; May 1987 - April 1988)



(1) Those operating at the end of May 1987. Annualized average values and standard deviations of the monthly yields in the period.

Foreign investment funds. — Foreign investment funds operating in Italy also suffered from the decline in share and bond prices last year. Their net worth diminished by one fifth, from 10.7 to 8.7 trillion lire, as a result of capital losses of about 1.9 trillion lire and net redemptions of 100 billion lire (Table 31).

Virtually all the capital losses occurred in holdings of shares, which accounted for 57.9 per cent of the total portfolio at the end of 1987, against 66.4 per cent a year earlier. The proportion of shares in their portfolios nonetheless remained significantly higher than was the case of Italian share-based investment funds (49.6 per cent).

Table 31

FOREIGN INVESTMENT FUNDS

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

	1986 Dec.	1987			
		Mar.	June	Sept.	Dec.
Italian securities	9,047	9,019	8,972	8,563	7,022
shares	*5,767*	*5,731*	*5,571*	*5,315*	*3,922*
Foreign securities	1,263	1,476	1,620	1,739	1,112
shares	*1,078*	*1,275*	*1,364*	*1,525*	*790*
Total portfolio	**10,310**	**10,495**	**10,592**	**10,302**	**8,134**
Other net assets	360	433	476	384	560
Net worth	**10,670**	**10,928**	**11,068**	**11,686**	**8,694**

Investment management services

Unlike investment funds, investment management services continued to expand their business in 1987, albeit more slowly than in the previous year. Their growth, interrupted only in the fourth quarter by net redemptions, can be attributed to the reduction in the equity portion of the portfolios they manage.

On the basis of a study of all the investment management services run by banks and a large sample of non-bank operators, the overall net flow of savings into this sector can be estimated at about 10 trillion lire in 1987 (Table 32). At the end of the year the financial assets under management amounted to 57.5 trillion lire, against 47.0 trillion at the end of 1986, held in more than 310,000 accounts. The average customer portfolio was thus 185 million lire, compared with 20 million lire for the average investment fund account.

Table 32

INVESTMENT MANAGEMENT SERVICES (1)

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

	1986 Dec.	1987 Mar.	1987 June	1987 Sept.	1987 Dec.	1988 Mar. (2)
Government securities	30,756	38,210	44,475	46,257	41,730	40,200
Bonds	5,329	5,244	5,926	6,439	7,411	8,181
Shares	5,826	5,796	5,781	5,317	3,785	3,344
of which: unlisted	*75*	*47*	*50*	*50*	*31*	*29*
Other net assets	891	865	842	752	904	780
Total managed assets	**42,802**	**50,115**	**57,024**	**58,765**	**53,830**	**52,505**

(1) Offered by banks and by their affiliates. — (2) Provisional.

The distribution potential of the banking system and the substitution of investment management services for customer deposits meant that the bulk of the sector's fund-raising was carried out by the banks themselves. The total portfolio managed by banks rose from 36.7 to 49.1 trillion lire. Bank affiliates and non-bank management companies, by contrast, both suffered a decline in total assets under management, which fell from 6.1 to 4.7 trillion lire and from 4.2 to 3.6 trillion lire respectively.

The composition of the managed portfolio altered radically during the year as saver preferences changed. Virtually all the inflow of funds was invested in government securities, which rose from 72.0 to 77.1 per cent of the overall portfolio, while purchases of shares were negligible, their percentage consequently declining from 15.0 to 7.5 per cent. The incidence of bonds increased slightly, from 12.0 to 13.2 per cent, while foreign and unlisted securities, primarily bonds in both cases, remained of only secondary importance, each accounting for less than 2 per cent of the total portfolio.

In the fourth quarter of 1987 and the first few months of 1988 investment management services recorded net redemptions, to which they responded by selling government securities and shares and making net purchases of bonds.

Insurance companies

The insurance sector continued to grow vigorously last year, despite an increase in the tax on premiums in the latter part of the year. In the life sector, premium income from direct insurance in Italy increased by 39.3 per cent to 5 trillion lire, twice the figure recorded two years earlier. The premium income of casualty insurance companies rose by 13 per cent to 18.1 trillion lire.

At the end of 1987 there were 224 insurance companies authorized to operate in Italy, of which 56 were foreign companies. In the course of the year seven new Italian companies and four foreign companies were authorized, while three ceased operations and ceded their assets to other insurers. Balance sheet assets increased by 31.1 per cent last year to 82 trillion lire, while net worth rose by 36.5 per cent to 12.1 trillion lire owing to slower growth in liabilities to non-shareholders (Table 33).

Securities portfolios amounted to 34.8 trillion lire at the end of 1987, 6.9 trillion more than a year earlier, while the balance sheet value of real estate holdings increased by 1.5 trillion lire. The companies' heightened liquidity preference led to a substantial expansion of 1.1 trillion lire in bank deposits.

The pattern of portfolio shifts was similar in the two insurance sectors. An increase in government securities (from 38.3 to 42.6 per cent of the total portfolio) contrasted with a decline in special credit institution bonds (from 29 to 24 per cent). Shares increased from 4.5 to 5.7 trillion lire, or at about the same rate as the overall portfolio, thus highlighting the countercyclical behaviour of the insurance companies with respect to share prices.

Table 33

ASSETS AND LIABILITIES OF THE INSURANCE COMPANIES

(balance-sheet items in billions of lire)

	Main assets				Total assets	Technical reserves (3)	Net worth
	Deposits and cash	Securities (1)	Mortgages & annuities (2)	Real estate			
				life sector			
1986	315	11,392	1,415	4,189	24,479	15,186	3,141
1987 (4)	769	15,209	1,546	4,666	32,191	17,695	4,045
				casualty sector			
1986	1,821	16,557	313	5,320	38,057	19,270	5,687
1987 (4)	2,499	19,632	274	6,312	49,766	23,067	8,007
				total			
1986	2,136	27,949	1,728	9,509	62,536	34,456	8,828
1987 (4)	3,268	34,841	1,820	10,978	81,957	40,762	12,052

Source: Based on ANIA data.
(1) In lire and foreign currency, including participations. — (2) Net of corresponding liabilities. — (3) Net of reinsurance. — (4) Partly estimated.

At the end of 1987 there were 63 life insurance companies in operation, of which six were foreign. Technical reserves against direct insurance in Italy rose from 15.2 to 17.7 trillion lire, while balance sheet assets increased from 24.5 to 32.2 trillion lire. The change in the composition of assets was more pronounced than in those of the casualty sector; real estate assets declined from 17.1 to 14.5 per cent of total assets while holdings of securities rose from 46.5 to 47.2 per cent in connection with the growth of the new revalutable policies and other assets, including reinsurance.

In the casualty sector, technical reserves against direct insurance in Italy amounted to 23.1 trillion lire at the end of the year, compared with 19.3 trillion at the end of 1986, while balance sheet assets increased from 38.1 to 49.8 trillion lire. Compared with that of the life sector, the casualty companies' securities portfolio contained a higher proportion of shares (20.4 per cent), the value of their shareholdings having risen from 3.2 to 4.0 trillion lire.

THE SECURITIES MARKET

After growing rapidly in previous years, the securities market was affected by severe strains last year, as regards both interest-bearing securities and shares. The reversal of interest rate expectations in conditions of greater uncertainty caused difficulty in placing new issues in the primary market and generated selling pressure in the secondary market, where equilibrium was only reached after large falls in prices, which led to the curtailment or postponement of financial investments. There was also a reduction in the frequency with which share portfolios were adjusted, with a consequent fall in stock exchange turnover. By contrast, trading in government securities was heavy as a result of the scope for arbitrage between the various categories of security subject to different tax treatments.

In the government securities sector, Italian investment funds made large net sales of Treasury credit certificates and bonds to meet demand for redemptions and increase their holdings of foreign securities. Special credit institutions and non-residents also made large sales of government securities. The great variety of issue characteristics and tax regimes, especially as regards floating rate securities, tended to segment the market. Plans are being made for the adoption of issue techniques that would result in securities placed at different times having the same financial features, thus making them perfectly fungible in trading on the secondary market.

Despite the support provided by the Bank of Italy, operational difficulties were encountered that led the monetary authorities to speed up the reform of the secondary market in government securities with the aim of deepening it and bringing it into line with international standards. The reform is described in detail in the February 1988 issue of the Bank's *Economic Bulletin.*

The screen-based market started on the basis of a Convention signed by the Bank of Italy, 62 banks (including four central credit institutions and five branches of foreign banks), three special credit institutions, nine investment fund management companies, one insurance company, ten licensed stock exchange dealers and nine financial companies. Eighteen of these 95 members undertook to make continuous two-way quotes and have been included in the list of primary dealers with access to central bank credit and securities.

In the share market the decline in prices that had begun in May 1986 continued in 1987 as demand from investment funds dried up.

The downward price trend was exacerbated in the last few months of the year by the international stock market crash of 19 October.

The fall in prices on the leading world stock markets caused severe strains in financial markets and fears that the real economy would be affected. The latter were subsequently diminished by the prompt monetary policy measures adopted, which injected liquidity and helped to restore confidence. In a longer-term perspective, the October crisis can be seen as a 20 to 30 per cent correction in prices that had risen three or fourfold in just a few years.

The symptoms of fragility that emerged in the stock market in Italy as well as in other countries suggest the need to reassess the present arrangements with a view to enhancing stability. Proposals for reform have been submitted to Parliament: the Minister of the Treasury has tabled a bill that redefines the roles of persons authorized to operate on the stock exchange and provides for new categories of intermediary; private members have also tabled bills designed to regulate public offerings of shares and bonds, curb insider trading and broaden the market by enabling investors to acquire interests in unlisted companies and real estate through the creation of closed-end securities and property investment funds.

Bonds and government securities

Supply. — Gross issues of bonds and government securities amounted to 457.5 trillion lire, compared with 450.1 trillion in 1986, and declined in relation to GDP from 49.9 to 46.6 per cent (Table 34).

Table 34

STOCKS AND ISSUES OF GOVERNMENT SECURITIES AND BONDS

(billions of lire)

	Stocks Dec. 1987	Gross issues		Net issues	
		1986	1987	1986	1987
Public sector	701,051	402,976	406,116	97,459	83,986
Treasury bills	*208,561*	*265,866*	*316,111*	*9,697*	*25,171*
Treasury credit certificates	*353,915*	*79,255*	*55,480*	*53,534*	*35,267*
Treasury bonds	*85,584*	*53,276*	*19,020*	*35,025*	*13,538*
Special credit institutions	144,791	37,478	44,028	10,110	13,522
certificates of deposit	*30,871*	*18,839*	*18,929*	*3,305*	*2,510*
Firms and public corporations	35,914	9,614	7,383	6,071	4,037
Total	**881,756**	**450,068**	**457,527**	**113,640**	**101,545**
as a percentage of GDP	*89.7*	*49.9*	*46.6*	*12.6*	*10.3*

Gross issues of government securities totaled 406.1 trillion lire (385.4 trillion net of issue discounts), as against redemptions of 320.1 trillion and coupon payments on medium and long-term securities of 49.4 trillion. In the first four months of this year gross issues amounted to 178.8 trillion, a 19.1 per cent increase on the same period in 1987.

The composition of issues changed considerably compared with the recent past since interest rate uncertainty in the second half of the year led investors to prefer short-term assets. This was reflected in a sharp rise in Treasury bill issues, from 9.7 trillion lire in 1986 to 25.2 trillion last year, and a large fall in net issues of Treasury credit certificates and bonds, from 88.6 to 48.8 trillion.

Government securities in circulation at the end of the year amounted to 701.1 trillion lire (615.1 trillion at the end of 1986) and by the end of April 1988 had risen to 734.3 trillion, with Treasury bills accounting for 29.7 per cent, fixed rate securities for 21 per cent and floating rate securities for the remaining 49.3 per cent. The average maturity of government securities shortened from 3 years and 9 months at the end of 1986 to 3 years and 4 months at the end of April 1988, when the proportion of securities liable to tax amounted to 51.4 per cent.

The Treasury broadened its range of fund-raising instruments. Following issues of Treasury discount certificates, which totaled around 5 billion lire between March and June, recourse was again made to five-year Treasury credit certificates from mid-July onwards. Instead of a yearly coupon these carried a half-yearly coupon related to the yield on twelve-month Treasury bills. In addition, twelve-month Treasury bills in ECUs began to be issued in mid-October.

The interest rate on ECU Treasury bills, which are issued at par, is determined by way of a uniform yield auction with a maximum yield fixed by the Treasury. These securities are represented by one bearer certificate for an amount equal to the value of the issue, which is deposited with the Bank of Italy's central securities system.

In April of this year the methods used for the issue of ECU bills were changed to reduce the exchange risk incurred by market operators and thus stimulate demand. Non-resident participants in the auction can now pay for their purchases directly in ECUs, while residents can apply the exchange rate ruling on the day of the auction rather than that of the previous day. Partly as a result of these changes, more than two thirds of the demand for the ECU bills issued in April came from non-residents.

The Treasury made only four issues on foreign markets, as against eight in 1986; they were denominated in yen and dollars and for a larger total amount (4.3 trillion lire as against 1.9 trillion). The largest issue was the five-year yen issue amounting to the equivalent of 2.7 trillion lire made in November in two tranches, one at fixed rate and the other at floating rate. At the end of last year the face value of the foreign securities issued by the Treasury amounted to 9.4 trillion lire at current exchange rates.

Among other issuers, special credit institutions made net issues totaling 13.5 trillion lire; those of the State Railways and ENEL increased (respectively from 1.4 to 1.5 trillion and from 1.3 to 1.5 trillion), while those of IRI decreased (from 2.4 to 1.4 trillion).

Firms issued convertible bonds totaling 1.1 trillion lire, preferring these to ordinary bonds. Among the innovations introduced during the year, considerable use was made of bull and bear bonds, which consist of two equal tranches with symmetrical features and a redemption value linked to a stock market or currency index. The value of the bull tranche rises and falls within a fixed band in line with the chosen index, while that of the bear tranche moves inversely with the index.

In the Eurobond market, issues of securities denominated in lire, which had first appeared in October 1985, continued at a high level in 1987 (ten issues for a total of 930 billion lire) and in the first four months of this year (four issues for a total of 525 billion). Twelve of these issues were straight bonds with maturities ranging from three to eight years.

Demand. — 1987 saw a far-reaching redistribution of government securities among the various categories of investor as a result of successive changes in interest rates, differences in tax regimes, redemptions of investment fund units and the liberalization of investment in foreign currency securities.

The investment funds and special credit institutions made net sales of government securities totaling 3.7 and 4.2 trillion lire respectively (Table 35), while those of foreign investors were on a smaller scale (0.4 trillion). Net of repurchase agreements, the banks' purchases of government securities were considerably lower than in 1986 (1.1 as against 9.3 trillion). The Bank of Italy made outright purchases amounting to 3.1 trillion lire, the balance between Treasury bill sales totaling 3.0 trillion and purchases of medium and long-term securities amounting to 6.1 trillion. Finally, purchases by other categories of investor, primarily households, matched the volume of net issues and the disinvestment of the other sectors.

The market's attitude to issues of government securities changed during the year. The demand for medium and long-term securities was strong at first but gradually weakened, affecting Treasury bonds at the beginning of March and subsequently spreading to floating rate certificates. This trend became especially pronounced in the fourth quarter, when the fall in share prices failed to produce either substitution effects or expectations of lower interest rates to bolster the demand for medium and long-term securities. In the last three months of the year net subscriptions of Treasury bills amounted to 14.7 trillion lire, compared with around 2.1 trillion for Treasury credit certificates and bonds.

Table 35

SUBSCRIPTION OF PUBLIC SECTOR SECURITIES IN 1987

(billions of lire)

	Treasury bills	Treasury credit certificates	Treasury bonds	Other	Total
			1987-H1		
BI-UIC (1)	−616	−201	2,093	141	1,417
Banks (1)	−11,831	−3,595	1,043	826	−13,557
Special credit institutions	97	−1,661	21	30	−1,513
Investment funds	1,185	2,359	−1,715	1,371	3,200
Foreign sector	−117	−1,350	−548	1,784	−231
Other subscribers	5,858	29,282	9,958	4,831	49,929
			1987-H2		
BI-UIC (1)	−2,353	3,665	1,088	−733	1,667
Banks (1)	6,018	9,015	−104	−254	14,675
Special credit institutions	4	−2,441	−72	−158	−2,667
Investment funds	−284	−4,453	−1,792	−374	−6,903
Foreign sector	684	−791	−392	354	−145
Other subscribers	26,526	5,439	3,958	2,192	38,115
			1987		
BI-UIC (1)	−2,969	3,464	3,181	−592	3,084
Banks (1)	−5,813	5,420	939	572	1,118
Special credit institutions	101	−4,102	−51	−128	−4,180
Investment funds	901	−2,094	−3,507	997	−3,703
Foreign sector	567	−2,141	−940	2,138	−376
Other subscribers	32,384	34,721	13,916	7,023	88,044

(1) Net of repurchase agreements and BI sales of securities in connection with advances under the Ministerial Decree of 27.9.1974

Non-residents adjusted the composition of their portfolios, giving preference to short-term paper and issues denominated in ECUs. During the year they sold Treasury credit certificates and bonds for a total of 3.1 trillion lire while buying Treasury bills and ECU Treasury bills and certificates for a total of 2.7 trillion.

As discussed in last year's Report, the growing proportion of government securities liable to tax has given rise to very heavy trading designed to exploit the scope for price arbitrage between individuals and corporate bodies in respect of taxed and untaxed securities.

The banks increased their portfolio of taxed securities by 26.3 trillion lire (from 9.2 to 35.5 trillion) and decreased their holdings of untaxed securities by 13.1 trillion (from 65.2 to 52.1 trillion), turning over about a quarter of their portfolio. The investment funds cut back their portfolio of tax-exempt Treasury credit certificates and bonds by about 5.0 trillion in the first half of the year, while building up their taxed portfolios of these securities by 5.4 trillion. In the second half of the year they reduced their holdings of both taxed and tax-exempt securities of these kinds, by respectively 2.2 and 4.8 trillion.

Interest rates. — In the first part of 1987 there were further small decreases in the yields on bonds and government securities following the substantial falls recorded in 1986; subsequently they rose again, with the highest values for the year being recorded in the autumn. The upward trend was reversed in December but re-emerged in April of this year.

In the market for government securities, the yields at issue on Treasury credit certificates were increased significantly in August to bring them into line with the conditions that had developed in the secondary market. In September the gross yield on new issues was raised to offset the effect of the doubling of the rate of withholding tax.

The differential between the net issue yields on Treasury credit certificates and bills, which had stood at 84 basis points for ten-year paper at the beginning of the year, amounted to 93 points for the five-year securities issued in December and to 118 points for the similar paper issued in May of this year. The increase in the spread for Treasury credit certificates brought the conditions of the May 1988 issue into line with those on the secondary market.

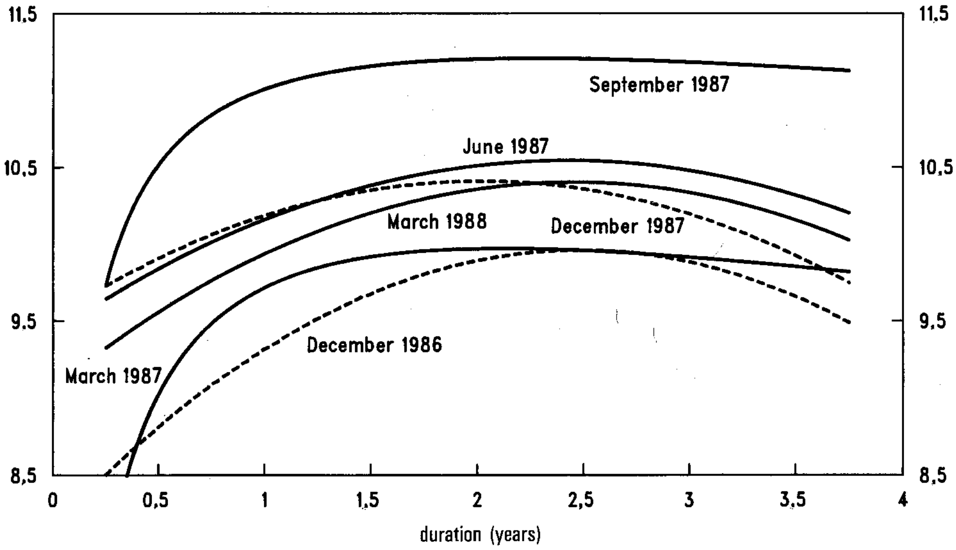
The issue yields on Treasury bonds declined by about 10 basis points in the first half of the year. In July they rose by over one percentage point, recording further rises until they peaked in October. Even though the pre-tax and post-tax yields on such paper had reached respectively 12.03 and 10.49 per cent, the uncertainty about long-term interest rates undermined demand, and issues were suspended for three months. The relative stability of interest rates subsequently permitted issues of Treasury bonds to be resumed and in May of this year the pre-tax and post-tax rates on four-year paper were respectively 12.12 and 10.58 per cent.

As regards securities denominated in ECUs, the Treasury certificates issued in September carried a pre-tax yield of 8.75 per cent (7.64 per cent after tax), more than one point above that of the previous issue in March. In the subsequent issue made in March of this year, these yields were reduced by a quarter of a percentage point. The development of the Euro-ECU market, coupled with the favourable reception given to ECU Treasury bills, permitted a reduction in their yields of about 1.5 percentage points between the first issue in October 1987 and that of April 1988 (from 8.99 to 7.48 per cent before tax and from 7.87 to 6.55 per cent after tax).

Figure 18

TIME/YIELD CURVES (1)

(annualized percentages)



(1) Constructed by interpolating the net yields to maturity of listed Treasury bonds.

At the end of April of this year the market yields on Treasury bonds were grouped in three distinct bands depending on the applicable tax regime. Since the market tended to bring net yields into line, the pre-tax yields on securities with tax withheld at the rate of 12.5 per cent were higher than those on securities taxed at the 6.25 per cent rate, which in turn were higher than the yields on tax-exempt paper.

From September onwards, the price support operations undertaken by the monetary authorities in the secondary market and the gradual raising of short-term interest rates helped to restore more orderly demand conditions. The Bank of Italy intervened repeatedly with outright purchases of securities; in the last quarter of 1987 it made purchases of medium and long-term securities totaling 3.0 trillion lire while selling Treasury bills for a total of 1.8 trillion.

The ex post yields on government securities, calculated with reference to all listed securities, declined substantially between 1986 and 1987, falling from 13.98 to 10.31 per cent in the case of Treasury credit certificates and from 16.36 to 9.10 per cent in that of Treasury bonds, the prices of which fell by 2.09 per cent. Investments in ECU Treasury credit certificates benefited from the 5.33 per cent depreciation of the lira against the ECU and on average yielded more than in the previous year (14.42 per cent as against 2.72 per cent).

Shares

Supply and demand. — Gross equity issues by listed companies totaled 6.5 trillion lire, less than half the figure of 14.8 trillion recorded in 1986. The high risk premium demanded by the market in view of the increased volatility of share prices raised the cost of equity capital and hence diminished corporate recourse to this form of financing. The sharpest reduction was in issues of savings shares, which fell from 6.5 trillion lire in 1986 to just 1.1 trillion lire last year.

Share issues by four major public and private groups (IRI, Montedison, Fiat and Olivetti) accounted for 74 per cent of the total, as against 53 per cent in 1986. Banks of national interest and insurance companies carried out particularly large capital increases, amounting to 2 trillion and 0.7 trillion lire respectively. Issues by listed private sector companies totaled 4.2 trillion lire, substantially exceeding those by state-controlled enterprises, which came to 2.4 trillion lire (Table 36).

Share issues by unlisted companies bore up better than those of listed companies. Only partially affected by the changed stock exchange climate, they fell from 9.0 to 6.8 trillion lire, a decrease of about 25 per cent.

In 1986 the share market had been boosted chiefly by purchases by investment funds, but demand was slack last year in the absence of stimulus from this source. Net purchases of shares by Italian investment funds amounted to 2.2 trillion lire, as against 8.8 trillion in

1986. Foreign investors, who had liquidated part of their Italian equity portfolio by selling shares worth 4.0 trillion lire in 1986, carried out additional net disinvestment of 4.4 trillion lire in 1987.

Table 36

GROSS SHARE ISSUES

	Billions of lire				% composition			
	1984	1985	1986	1987	1984	1985	1986	1987
Listed companies	**5,980**	**4,693**	**14,837**	**6,546**	*50.7*	*31.3*	*62.3*	*48.9*
state controlled	3,970	2,161	3,652	2,395	*33.7*	*14.4*	*15.3*	*17.9*
private sector	2,010	2,532	11,185	4,151	*17.0*	*16.9*	*47.0*	*31.0*
Unlisted companies	**5,804**	**10,284**	**8,955**	**6,837**	*49.3*	*68.7*	*37.7*	*51.1*
state controlled	2,434	7,348	5,365	2,128	*20.7*	*49.1*	*22.6*	*15.9*
private sector	3,370	2,936	3,590	4,709	*28.6*	*19.6*	*15.1*	*35.2*
Total	**11,784**	**14,977**	**23,792**	**13,383**	*100.0*	*100.0*	*100.0*	*100.0*
state controlled	6,404	9,509	9,017	4,523	*54.4*	*63.5*	*37.9*	*33.8*
private sector	5,380	5,468	14,775	8,860	*45.6*	*36.5*	*62.1*	*66.2*

Share prices. — The Milan stock exchange index of share prices fell by 32.3 per cent last year. This steep downward adjustment in the value of share capital, which follows a 64 per cent rise in 1986, has only three precedents in this century, in 1926, 1931 and 1945. Accordingly, the total capitalization of the Milan Stock Exchange at the end of the year diminished sharply, from 190.5 to 140.7 trillion lire, notwithstanding an increase in the number of companies listed from 286 to 316.

In view of the 6.5 per cent increase in the profits of listed companies and the decline in share prices, the year-end weighted average price/earnings ratio for the 147 firms whose 1987 results are available fell from 30 to 18, which put it below the average of 21.3 for the previous ten years.

The exceptionally strong rise in the market in the first few months of 1986 had pushed share prices to levels that did not seem warranted by the fundamentals but were due to expectations based on extrapolation. This was not confined to the Italian market but also affected all the principal foreign stock exchanges, where the phenomenon actually accentuated over the first three quarters of 1987, up until the stock market crash of 19 October.

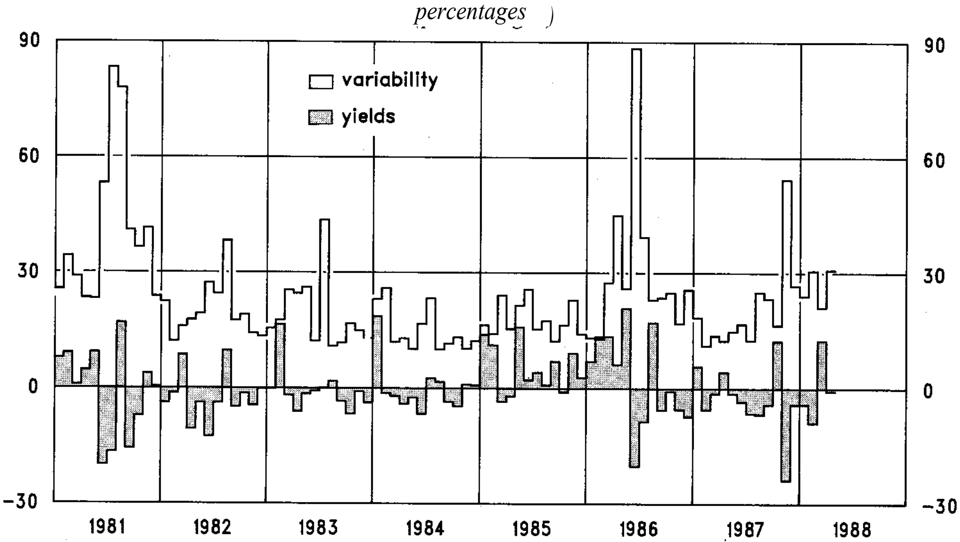
Italian share prices declined throughout the year, except in the months of March, April and September. In the three weeks beginning on 19 October the Milan stock exchange index fell by about one quarter, reducing market capitalization by more than 46 trillion lire. The rapid decline in prices was accompanied by a substantial increase in the volume of trading, which reached a daily average of some 250 billion lire.

The fall in prices, which was touched off by news of the crash on Wall Street, drew continuing momentum both from sales aimed at cutting losses and from short selling in expectation of further price declines. The reduced value of shares used to guarantee loans also led to some forced sales, accentuating the downward trend.

There was a pronounced increase in the daily variability of share prices in the autumn, but not to the same extent as in earlier crises, which had occurred during strong bull markets, so that the turnaround was much sharper (Figure 19).

Figure 19

SHARE MARKET:
YIELDS AND VARIABILITY (1)
(percentages)



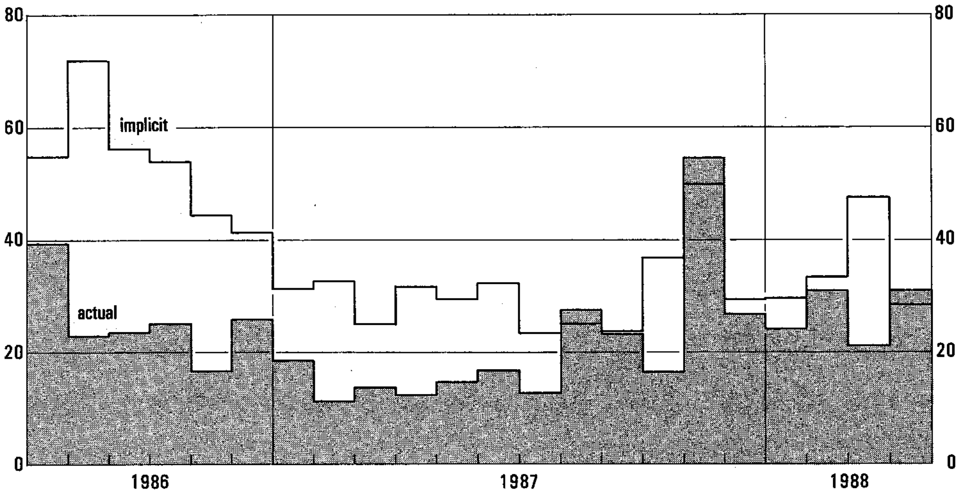
(1) Stock exchange months. Based on daily data (MIB historical index).

Prices on the options market can be used to obtain estimates of the future variability of share prices implicit in traders' valuations. These estimates declined steeply in the second half of 1986 and for nearly all of 1987; comparing them with the actual price changes over this period, however, suggests that they do not provide accurate forecasts on a time scale of one month (Figure 20).

The changed stock exchange climate affected the volume of transactions, which contracted more or less in proportion to the decline in prices, falling from 66.7 to 42.0 trillion lire for the year. The decline also involved the options market, where the value of the premiums paid diminished from 700 to 340 billion lire. However, since option prices themselves fell by nearly one half, the value of the shares covered by traded options rose from 10.6 to 11.0 trillion lire.

Figure 20

SHARE MARKET:
ACTUAL AND IMPLICIT VARIABILITY (1)
(percentages)



(1) Stock exchange months. Actual variability based on daily data (MIB historical index). Implicit variability based on monthly data on the options market.

The contraction in trading facilitated action to reduce the circulation of scrip certificates, which are issued when the corresponding share certificates are not available. In November the Bank of Italy arranged a special, mutually agreed clearing that regularized share transactions totaling more than 800 billion lire. There was also a notable increase in the volume of shares handled centrally by Monte Titoli, the securities depository. At the end of 1987 centralized shares amounted to 11.5 trillion lire at face value, as against 3.9 trillion a year earlier. This represented more than 30 per cent of listed shares and a much higher proportion of those eligible for centralized management.

In the first four months of 1988 the Milan stock exchange index rose by 4.4 per cent. There was no corresponding increase in volume, which came to 14.4 trillion lire, as against 15.8 trillion in the same period of 1987. Despite the rise in prices, the state of the market did not allow listed companies to finance themselves via the equity market. New share issues amounted to 4 trillion lire, as against 2.9 trillion in the first four months of 1987.

HOUSEHOLDS' SAVING AND THE FINANCING OF ENTERPRISES

Financial balances

The effects of the improvement in the terms of trade in 1986 and the fall in real yields on financial assets caused the financial surplus of households to decrease by approximately one percentage point in relation to GDP in 1987, to stand at 13.4 per cent, after having remained broadly unchanged for four years. At the same time, the slower growth in self-financing by enterprises and the acceleration in productive investment led to a slight rise in the deficit of enterprises from 2.7 per cent of GDP in 1986 to 2.9 per cent last year. The decrease in the private sector's overall surplus was not wholly offset by the fall in the public sector deficit from 12 to 11.5 per cent of GDP; these developments were accompanied by a deterioration of 0.5 per cent of GDP in the balance of payments on current account (Table 37).

Table 37

FINANCIAL BALANCES

	Households (1)	Enterprises (1)	Public sector (2)	External sector	Households (1)	Enterprises (1)	Public sector (2)	External sector
	(in billions of lire)				*(as a percentage of GDP)*			
1980	45,844	−29,239	−33,559	8,532	11.7	−7.5	−8.6	2.2
1981	59,075	−27,991	−52,019	10,301	12.6	−6.0	−11.1	2.2
1982	73,365	−22,335	−66,496	8,432	13.5	−4.1	−12.2	1.5
1983	92,746	−27,638	−76,515	−2,323	14.6	−4.4	−12.1	−0.4
1984	106,774	−28,878	−94,378	4,314	14.7	−4.0	−13.0	0.6
1985	115,038	−39,902	−109,923	7,111	14.1	−4.9	−13.5	0.9
1986	128,727	−24,297	−107,771	−3,791	14.3	−2.7	−12.0	−0.4
1987	131,625	−29,776	−113,395	−1,286	13.4	−2.9	−11.5	0.1

(1) As of 1985, the liabilities of households and enterprises include credit from a group of consumer credit, leasing and factoring companies. — (2) Consolidated public sector. Includes technical reserves of social security institutions.

Adjusting the sectoral balances for changes in the purchasing power of financial assets due to inflation accentuates the trends described above; in relation to GDP, the financial surplus of households falls by around two percentage points and the public sector's deficit contracts by 1.5 percentage points.

Households' net interest income amounted to 5.9 per cent of GDP, compared with 6.6 per cent in 1986 and a peak of 7.7 per cent recorded in 1984. Net interest payments by the public sector and enterprises fell to respectively 7.3 and 3.4 per cent of GDP, against 7.6 and 3.8 per cent in 1986.

Households' saving and indebtedness

The rise in households' propensity to consume is mirrored in the substantial stability in the accumulation of financial assets, which rose to 142.4 trillion lire, compared with 140.6 trillion in 1986, but declined from 17.2 to 14.8 per cent of the end-1986 stock figure, net of shares. The sector's liabilities increased by 10.8 trillion lire, or 15.7 per cent, against 20.9 per cent the previous year (Table 38).

Table 38

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS (1)

(billions of lire)

	Year-end stocks		Flows				
	1986	1987	1983	1984	1985	1986	1987
Notes and coin	37,362	40,802	3,143	2,905	3,060	2,481	3,440
Bank deposits	334,821	360,385	25,136	30,744	31,144	27,575	25,564
Post Office deposits	61,265	73,364	3,690	5,972	7,788	10,553	12,099
Treasury bills	119,548	148,612	16,045	20,036	15,377	4,705	29,024
Special credit institutions' deposits & savings certificates	23,755	26,432	1,364	4,273	1,544	2,584	2,677
Treasury credit certificates	126,572	159,103	29,619	28,507	31,156	18,704	30,307
Other government securities	36,116	48,865	3,329	5,355	1,440	16,486	13,379
Other medium & long-term securities (2)	27,100	33,354	4,526	3,623	2,655	2,360	5,825
Units in Italian investment funds	65,079	59,448	—	745	15,255	37,509	−61
Shares & participations	151,625	119,365	203	141	1,337	3,867	945
Foreign assets (3)	11,773	12,535	85	545	641	−245	752
Other financial assets (4)	119,930	138,212	9,964	10,250	12,443	13,983	18,464
Total assets	**1,114,946**	**1,220,477**	**97,104**	**113,096**	**123,840**	**140,562**	**142,415**
Debt to banks (5)	38,022	43,051	2,435	4,065	6,048	8,288	5,265
Debt to special credit institutions	20,971	26,010	1,720	1,614	1,817	2,941	5,039
Other financial liabilities (6)	9,532	10,254	204	243	937	604	486
Total liabilities	**68,525**	**79,315**	**4,359**	**5,922**	**8,803**	**11,833**	**10,790**

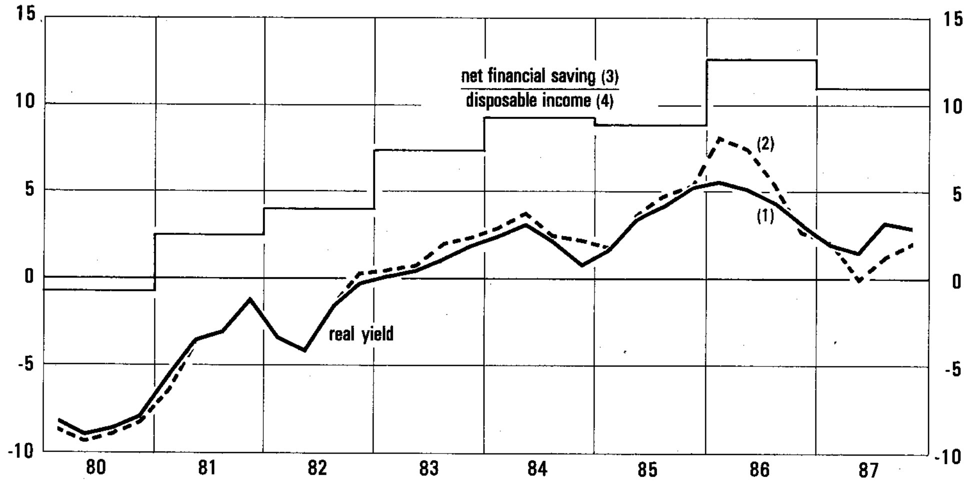
(1) Partly estimated data. — (2) Excluding foreign bonds. — (3) Lira and foreign currency bonds plus foreign investment fund units. — (4) Technical reserves, pension and severance pay funds, atypical securities and bankers' acceptances. — (5) Flows include bad loans and protested bills. The data for 1984 are adjusted for the distortion induced by the expiry of the ceiling on bank lending. — (6) Includes loans from social security and insurance institutions and financing by a group of non-bank consumer credit companies. Stock data include banks' bad loans and protested bills.

The smaller growth of financial assets was due partly to a fall in yields. The annual average real rate of return on households' financial assets, net of investment fund units and shares, fell from 4.5 to 2.3 per cent. If investment fund units are included and capital losses due to the fall in prices of medium and long-term securities are taken into consideration, the reduction was about twice as large, with yields falling from 5.9 to 1.4 per cent (Figure 21).

Figure 21

HOUSEHOLDS' FINANCIAL SAVING

(percentages)



(1) Nominal ex ante rate of return, net of tax, on money and securities, deflated using the annualized inflation rate during the following half-year. — (2) Nominal ex post rate of return, net of tax, on money, securities and investment fund units, deflated using the annualized inflation rate of the following half-year. — (3) Adjusted for the loss of purchasing power on net financial assets due to inflation. — (4) Of the private sector.

There was a marked change in the composition of the flow of households' financial assets by comparison with 1986, since purchases of investment fund units were entirely offset by sales last year whereas in 1986 net purchases had made up 27 per cent of new assets. This tendency contrasted with the sharp increase in the proportion of securities — especially Treasury bills — and Post Office deposits. The liberalization of exchange controls that came into effect in May 1987 led to an indirect currency diversification of financial portfolios as a result of asset switching by investment funds, though net foreign investment effected directly by households remained limited.

The main feature of the adjustment in households' portfolios appears to have been an increase in the proportion of government securities, which rose by almost four percentage points to account for 29.2 per cent of total financial assets. The increase was less marked if assets are considered net of shares, in which case the proportion of government securities rose from 29 per cent in 1986 to 32 per cent in

1987, while over the same period the share of liquid assets fell from 45 to 43 per cent, mostly as the result of a contraction in the share of bank deposits.

Households' liabilities towards credit institutions increased by 10.3 trillion lire, compared with 11.2 trillion in 1986.

Consumer credit. — Recourse to new forms of borrowing from specialized intermediaries and banks to finance consumer expenditure has gained ground in Italy, as in other industrial economies. The banks' growing interest in new sectors of the market, which can be explained partly by the fall in the profitability of corporate business, has led to a streamlining of procedures and more competitive lending conditions.

According to a survey carried out by the Bank of Italy, consumer credit outstanding at the end of 1987 can be put at 16.7 trillion lire, an increase of 22.7 per cent, compared with 21 per cent in 1986 and 25.3 per cent in 1985.

Effective bank lending rates were around 17 per cent last year, while non-banking companies charged 22 per cent; these figures were respectively one and a half and two percentage points lower than in 1986. The narrowing of the differential between the two classes of lender is confirmation of increased competitiveness throughout the sector.

The survey shows that so far consumer credit has entailed less risk for banks than lending in general, with bad and doubtful debts amounting to only 2.5 per cent of the volume outstanding in 1987, but that in the case of finance companies the ratio was around 7 per cent.

The financing of enterprises and their liquidity

Fixed investment by enterprises expanded strongly in 1987, whereas self-financing, though still considerable, slowed down by comparison with the previous year. Total external financing diminished, since an increase in borrowing from credit institutions and abroad was outweighed by a considerable reduction in both share and bond issues and state financing. Consequently, the accumulation of financial assets was smaller than in 1986, with the flow of bank deposits and medium and long-term government securities declining by a half. The large industrial groups nonetheless continued to expand, partly through substantial purchases of Italian and foreign shares. These trends appear to indicate that enterprises are concentrating less on financial investment than in recent years and paying greater attention to strategies aimed more strictly at enhancing production as part of a medium-term programme of expansion within the European market.

Table 39

FINANCIAL ASSETS AND LIABILITIES OF ENTERPRISES

(billions of lire)

	Year-end stocks	Flows				
	1987	1983	1984	1985	1986	1987
Liquid assets (M3)	182,194	12,560	17,128	11,101	13,654	11,680
of which: bank deposits	150,474	11,073	14,542	9,074	13,169	6,445
Treasury bills	11,186	−508	1,544	−10	−748	3,555
Treasury credit certificates	24,032	2,831	4,925	6,164	5,543	3,752
Other government securities (1)	6,549	599	586	628	3.108	1,338
Other medium and long-term securities	6,365	959	5	857	1,050	1,614
Italian shares (2)	481,140	893	1,709	−2,847	2,297	3,601
Net short-term foreign trade credits	2,222	−616	2,547	−1,532	189	−982
Medium and long-term foreign trade credits and loans	24,641	1,630	386	1,578	3,521	2,317
Foreign shares	32,532	2,526	2,780	2,292	3,095	2,747
Other financial assets (3)	8,806	371	620	601	585	2,766
Total assets	**768,480**	**21,752**	**30,687**	**18,842**	**33,042**	**28,833**
Debt: short-term (4)	231,122	18,974	28,525	27,617	22,755	20,630
of which: banks (5)	201,020	18,666	25,652	24,018	16,077	15,211
special credit institutions	20,296	308	2,873	1,923	4,616	2,932
medium and long-term (6)	182,084	9,892	8,772	14,240	14,775	20,565
of which: banks	22,916	1,710	1,606	2,271	1,630	1,758
special credit institutions (7)	93,164	6,904	7,413	7,039	7,453	11,369
foreign	48,487	715	−921	2,214	2,303	3,765
Bonds	33,786	2,392	1,906	1,687	5,322	3,689
Shares	596,746	2,967	4,948	4,310	10,897	6,535
Endowment funds (8)	46,313	9,431	6,548	5,132	1,704	246
Other participations	13,304	765	1,046	1,639	1,503	1,447
Other financial liabilities (9)	32,848	−70	−449	−131	2	581
Total liabilities (10)	**1,136,203**	**44,350**	**51,296**	**54,494**	**56,958**	**53,692**

(1) Including purchases of Treasury bills in ECUs amounting to 720 billion lire. — (2) Does not include shares issued by state-controlled enterprises purchased by their holding companies. — (3) Includes technical reserves of insurance companies, foreign bonds and other minor items. — (4) Includes financing from a group of factoring companies. — (5) Flows include bad debts and consolidations and are adjusted for exchange rate changes. The data for banks for 1984 are adjusted for the distortion of banking statistics caused by the expiry of the bank lending ceiling. — (6) Includes financing from a group of leasing companies. — (7) Flows include bad debts and consolidations. — (8) Net of state-controlled enterprises' consolidation of debt to banks. — (9) Includes acceptances acquired by non-bank investors, atypical securities, other minor items and, for stock data, bad debts to credit institutions. — (10) Excludes severance pay and pension funds.

The flow of external financing amounted to 53.7 trillion lire, compared with 57 trillion in 1986. Lending by banks and special credit institutions accounted for 58 per cent of total financing, against 52 per cent in 1986, thus returning towards the values recorded in the first half of the eighties (Table 39). A breakdown according to maturity shows that the share of overall medium and long-term financing increased from 26 to 38 per cent. In particular, borrowing from special credit institutions in the form of medium and long-term mortgage loans — traditionally the largest component — increased from 13 to 21 per cent of the total.

The downturn in the stock market and the uncertainty that pervaded the financial markets for most of the year made it more difficult for enterprises to raise funds through share and bond issues, which were almost 6 trillion lire less than the very large volume floated in 1986. Risk capital decreased from 19 to 12 per cent of total external financing, but was still higher than during the first half of the eighties.

By contrast with the previous year, enterprises were net borrowers abroad, excluding purchases of shares and bonds. Net flows of loans and trade credit totaled 2.4 trillion lire, compared with outflows of around 1.4 billion lire in 1986. Enterprises' net short-term trade debt amounted to around 1 trillion lire, whereas in 1986 they had granted net credit of around 200 billion lire.

The flow of financial assets acquired by enterprises totaled 28.8 trillion lire, 4.2 trillion less than in 1986 (Table 39). The main reason for this was the reduction in bank deposits, which fell from 13 to 6.5 trillion lire. The contraction in purchases of medium and long-term government securities from 8.6 to 4.4 trillion lire was offset by an increase in purchases of bonds and Treasury bills; the flow of bonds amounted to 1.6 trillion lire, compared with 1 trillion in 1986, while purchases of Treasury bills came to 3.5 trillion lire, in contrast to net disinvestment of 700 billion the previous year.

The ratio of enterprises' liquid assets and securities to value added remained at around 31 per cent. Their liquid assets continued to decline gradually in relative terms, falling to 78 per cent of their total domestic assets excluding shares, compared with figures of over 90 per cent in the early eighties.

The process of financial concentration continued, alongside a considerable expansion in fixed investment aimed partly at increasing productive capacity. Net purchases of Italian shares totaled 3.6 trillion lire, while investment in foreign shares amounted to 2.7 trillion lire, against 2.3 and 3.1 trillion lire respectively in 1986.

The ratio of net interest payments to value added, which has been declining steadily since 1981, remained at around 5 per cent last year. The combination of a fall in the average effective cost of domestic borrowing from 15.7 to 13.6 per cent and an increase in outstanding debt from 48.1 to 50 per cent of value added left enterprises' interest payments unaltered at around 47 trillion lire.

SUPERVISORY ACTIVITY

The regulation of credit activity

The establishment of credit institutions and regulations regarding bank branches. — The Bank of Italy authorizes credit institutions to commence their activities after ascertaining that they possess the requisite minimum own funds and that persons in a position to influence the conduct of their business have the necessary experience and repute. Until December 1989 the Bank of Italy will also take account of the economic needs of the market.

In exercising its powers of authorization, the Bank of Italy complies with the directives issued by the Interministerial Committee for Credit and Savings on the separation of banking and commerce. The implementing regulations were issued in February 1988 and provide for the authorization of credit institutions set up by non-financial companies, on condition that they do not have the de jure or de facto power to control the conduct of the banking business. Shareholdings up to and including 15 per cent of a banking company's equity capital, whether held directly or indirectly, are considered not to bestow such a power of influence. In the event of an interest in excess of 15 per cent, information has to be provided on the nature and scale of the financial links envisaged and on the precautionary measures the promoters intend to adopt to guarantee the operational autonomy of the credit institution. The Bank of Italy will take due account of the foregoing in its examination of applications and will not accept any that would result in a non-financial company having a majority interest in a credit institution.

No restrictions are placed on the control of credit institutions by financial companies, subject to the proviso that such companies are not part of a group that also operates in non-financial sectors. For the purpose of these regulations, financial companies include insurance companies, firms that provide finance and those that deal in, hold, manage or place securities.

Eighteen new banks were authorized to start operations in 1987 (16 rural and artisans' banks, 1 cooperative bank and 1 branch of a foreign bank). It is especially noteworthy that in the early part of 1988 two new banks were authorized in the form of public limited companies, the first such authorizations not connected with a merger for over twenty years. Another six banks have already been authorized this year and at the end of April thirty-two applications were under examination (for 5 cooperative banks, 3 public limited companies and 24 rural and artisans' banks). In 1987 thirteen banks ceased operations.

In the special credit sector five applications have been received for the creation of new institutions: two in the real estate credit sector, two in the industrial credit sector and one in the agricultural credit sector.

The changes in banking activities, the integration of the European fnancial systems and the increase in competition require banks to adapt their branch networks to the needs of the market. The Bank of Italy has introduced a number of regulatory innovations that considerably increase the scope for banks to restructure their branch networks.

The present phase of gradual liberalization has been preceded by the branch policy that has been pursued for over ten years through a series of Branch Plans, which have resulted in a reduction in the segmentation of banking markets, the establishment of branches outside banks' traditional areas of operation and a heightening of competition in local markets.

The implementation of a resolution approved by the Interministerial Committee for Credit and Savings on 21 May 1987 has led to the abolition of the distinction between branches undertaking a full range of operations and those subject to various restrictions; banks are now free to decide which services each of their branches will provide and when they will operate.

Banks have also been empowered to sell branches to other banks when they wish to do so in accordance with Articles 53 and 54 of the Banking Law.

In a resolution approved on 15 March 1988 the Credit Committee laid down guidelines for new regulations on the relocation of bank branches. The new system is based on the division of banks (excluding rural and artisans' banks) into five groups that are sufficiently homogeneous in terms of size and geographical extension and on the assignment of an appropriate area of mobility to each group.

The procedure for relocations within this area of mobility is extremely simple: advance notice of each transfer has to be given to the Bank of Italy; unless the Bank of Italy orders the suspension of a transfer within thirty days of its notification, applications are automatically approved. An order to suspend a relocation is given when the bank does not meet requirements with regard to the regularity of its operations and the adequacy of its technical and organizational structure or else does not satisfy the prudential capital ratios.

It is noteworthy that the nineteen leading Italian banks and the branches of foreign banks have been granted the faculty to transfer branches anywhere they like in Italy.

The next step in the revision of the regulations governing banks' geographical extension will be a simplification of the criteria and procedures for the authorization of new branches.

The regulation of banks' operations and equity interests. — The defence of the principle of maturity specialization embodied in Italian credit legislation, the need to encourage the standardization of the functions performed by the various categories of bank and the increasing diversification of the economy's demand for financial services are the key factors underlying the new regulations on lira and foreign currency lending beyond the short term and banks' off-balance-sheet business, which have been drawn up in conformity with a resolution approved by the Interministerial Committee for Credit and Savings on 21 May 1987.

The scope for lira lending and fund-raising operations with maturities of more than eighteen months has been standardized for all the categories of bank. The limit on medium-term lending has been fixed at between 6 and 10 per cent of a bank's total customer deposits, depending on the strength of its capital base. Additional medium-term loans can be granted up to the equivalent of 5 per cent of total customer deposits, provided they are matched by an equal amount of medium-term deposits. Total lending beyond the short term may not exceed 30 per cent of a bank's total lending in lire. With the aim of avoiding excessive maturity transformation, all banks are now allowed to raise medium-term funds up to the amount of their medium-term lending.

The supervisory regulations governing operations in foreign currency have also been revised in parallel with the reform of Italy's exchange control legislation and to adapt them to the changes that have taken place in markets and intermediaries. The limit for medium-term loans in foreign currency has been fixed at 30 per cent of a bank's total foreign currency lending. In order to curb the risk associated with maturity transformation, a set of maturity bands has been defined, for each of which banks are required to match their loans with medium-term deposits. Unmatched lending is permitted up to a limit fixed by the Bank of Italy, provided it does not exceed the total amount of a bank's medium-term export credit.

In recent years Italy's major credit institutions have responded to the growing competition from non-bank intermediaries and the integration of Europe's financial markets by creating diversified, centrally-controlled groups within which credit and non-credit companies combine functional specialization with separate legal identity. This form of organization should enable the Italian banking system to supply a wide range of financial products and meet the requirements of their customers.

The need to ensure that the development of such groups is consistent with the efficiency and stability of the credit system poses new problems for the banks and the supervisory authorities alike.

Banks have to adopt technical and organizational arrangements permitting prompt control over their affiliates to avoid the risk that inadequately coordinated decision-making will lead to a less than optimal allocation of resources at group level or less effective assessment of borrowers' creditworthiness.

The supervisory authorities are responsible for promoting the traditional objectives of stability and efficiency not only in parent credit institutions but also in their affiliates. Accordingly, new regulations on connected lending have been introduced with the aim of meeting the operational needs of groups considered as single economic units, while ensuring a satisfactory balance between the lending of individual group companies and their own funds.

The total lending of a parent credit institution and its banking subsidiaries to non-bank affiliates may not exceed four fifths of the parent company's capital and reserves. Lending to any one affiliate is restricted to one fifth of the same aggregate.

Steps have also been taken to ensure that the principle of separation between banks and their owners is respected. The lending of a parent credit institution and its banking and financial subsidiaries to the group of an "influential" shareholder must not exceed either one fifth of the parent company's capital and reserves or two fifths of this aggregate multiplied by the percentage of the parent company's capital held by the shareholder in question.

The banks' interest in satisfying the financial investment requirements of their customers and the heightened competition of other intermediaries that collect funds from the public have led them to promote their portfolio management activities. Despite the considerable uncertainty surrounding the prices of securities in 1987, banks succeeded in increasing the volume of savings they managed directly or indirectly.

With the aim of protecting the transparency of this service and investment funds' exclusive right to engage in collective investment, regulations have been issued covering the form of contracts, customer information requirements and conflicts of interest to ensure the customized management of portfolios.

At the end of 1987 the portfolios under management amounted to around 54 trillion lire, compared with around 43 trillion a year earlier. The breakdown by type of asset was as follows: government securities, 77.5 per cent; bonds 13.7 per cent; shares, 7.1 per cent; and other, 1.7 per cent.

The state of the banking industry

Capital adequacy, self-financing and share issues. — Banks' own funds increased during the year from 59,625 to 70,088 billion lire, at a slightly slower rate than that recorded in 1986 (17.6 as against 19 per cent).

There was a further strengthening of their capital base. The ratio of own funds to total customer deposits rose from 11.6 to 13.0 per cent, with about half the banking system having ratios above 12 per cent. Substantial improvements were made by savings banks and large banks, especially the three banks of national interest.

Banks' greater recourse to equity capital was reflected in a large increase to 1.8 trillion lire in the amounts they distributed last year as dividends or otherwise. These payments rose to an average of around 20 per cent of pre-tax profits, with a peak of 41 per cent in the case of the cooperative banks. The public law banks and those of national interest recorded particularly large increases in their dividend payments.

Even more equity capital was raised than in 1986 and this source contributed 39.4 per cent of the increase in banks' capital and reserves (37.8 per cent in 1986). However, whereas in 1986 the favourable stock market conditions enabled every category of bank except savings banks to issue shares on a substantial scale, last year such operations were restricted almost exclusively to the three banks of national interest, which completed operations they had put in hand in 1986, and to cooperative banks, which are peculiar in that they can make "tap" issues.

1987 saw the initial application of the capital adequacy ratios related to banks' volume of business and risk assets. Excluding rural and artisans' banks, central credit institutions and branches of foreign banks, at the end of last year there were 43 banks (13 per cent of the total) with less than the minimum required capital and a total shortfall of around 2.2 trillion lire. On the other hand, the other banks recorded a surplus of 18.4 trillion.

Comparison of the 1987 figures with estimates made for the years from 1983 to 1986 shows both a large reduction in the shortfall in banks' capital compared with the minimum requirements and a narrowing of the differences in capital strength between the various categories of bank.

The items eligible for inclusion in the calculation of capital expanded at an annual rate of over 20 per cent and grew faster than both risk assets and volume of business, the expansion in which slowed sharply during the period. As a rule, the undercapitalized banks built up their capital bases faster than the banking system as a whole, recording average annual increases of around 30 per cent. At the same time, the increases in their risk assets and volume of business were about one percentage point below the industry averages; this disparity widened in 1987.

The proportion of banks failing to meet the capital requirements in the simulation fell from 27 to 13 per cent and the capital surpluses, which were about equal to the shortfalls in 1983, were eight times the latter in 1987.

The introduction of the compulsory minimum capital requirements has put banking supervision in Italy on a similar footing to that of the other major countries. This process of standardization will eventually lead to the application of a broadly uniform regulatory framework.

The solutions on which agreement has already been reached in the EEC and the Group of Ten are in line with the approach adopted in Italy but nonetheless involve changes in the composition of some supervisory aggregates.

The relevant EEC Directives are to be finalized shortly and this will permit the adaptation of Italy's regulations to incorporate both sets of international agreements, with the result that capital ratios will also be applied on a consolidated basis and extended to the special credit institutions.

The own funds of the special credit institutions expanded last year from 21,368 to 23,710 billion lire — an increase of 11 per cent (16.7 per cent in 1986), the smallest to have been recorded since 1983. Both self-financing and recourse to external sources of capital were down on the previous year.

The ratio of the special credit institutions' own funds to their total borrowing declined slightly to 12.9 per cent, thereby reversing a long-standing upward trend. This value was nonetheless still above the corresponding figure for banks. The special credit institutions' own funds were equivalent to 13.3 per cent of their total lending (13.7 per cent in 1986), considerably less than the 22.4 per cent recorded by banks.

Lending risks. — 1987 saw a 16.2 per cent increase in banks' bad debts, from 20,092 to 23,355 billion lire. This compared with increases of respectively 18.5 and 21.6 per cent in 1986 and 1985.

Despite this slowdown in their growth, the banking system's bad debts rose to 7.2 per cent of total lending, with a maximum of 8.7 per cent for savings banks and a minimum of 5.8 per cent for smaller ordinary commercial banks. Between 1983 and 1987 the ratio of bad debts to lending rose by 1.7 percentage points, with the largest increases being recorded by savings banks (3.1 points) and cooperative banks (1.8 points). On the other hand, the ratio of bad debts to own funds remained unchanged.

The continued increase in the proportion of bad debts well after the upturn in corporate profitability appears to be connected with factors that affect the duration of recovery proceedings. More detailed analysis of Central Credit Register data on individual positions shows that the percentage of loans that become bad debts each year has been stable for four years now, after the sharp rise that occurred in the early eighties following the economic recession. Correspondingly, the ratio of new bad debts to the existing stock has declined steadily over the last four years. By contrast, the other factors influencing the stock of bad debts (write-offs and partial repayments on the one hand, and interest on the other) have had a negligible net effect, probably as a result of the lengthening of the time needed to complete recovery proceedings.

The bad debts of the special credit institutions increased by 13.8 per cent (16.1 per cent in 1986), rising from 7,734 to 8,805 billion lire. The total doubled between 1983 and 1984, though the rate of increase declined each year. The ratio of bad debts to lending rose over the same period from 3.7 to 5.0 per cent, but was virtually unchanged in the last two years.

Translated into lire at current exchange rates, the Italian credit system's exposure to foreign borrowers accelerated again last year after slowing down in 1986; the share of the high-risk countries nonetheless continued to decline.

The development of new payment systems. — Technological innovation and a more diversified demand on the part of both individuals and firms are offering banks considerable opportunities in the industrial countries and creating new forms of competition. In Italy, these developments are coupled with the need to increase the efficiency of the traditional means of payment.

The White Paper on the Payment System in Italy that the Bank of Italy published in the early part of 1987 identified the factors holding back the system's efficiency and preventing banks from obtaining the information necessary for their treasury management and, more importantly, from carrying out customer transfer orders in a reasonably short and predictable time. This analysis of the causes was followed in April by a second document indicating the steps to be taken and completed by the end of 1989.

All the various aspects of the payment system will be reorganized through the large-scale computerization of procedures, which will permit substantial improvements in the promptness and reliability of payment services.

The widespread introduction of "innovatory" points of contact with customers has been encouraged by the regulations governing automated equipment that were issued towards the end of 1986 with the aim of giving banks greater freedom in deciding on their locations and simplifying the procedures for their installation, without detriment to compliance with minimum security conditions.

At the end of October a total of 3,700 ATMs were in operation, of which about 700 were installed on the premises of firms and in government offices.

The first POS terminals were installed in Italy in 1986 as part of a national scheme that was initially envisaged as a joint response of the whole banking system. Subsequently, the difficulties encountered in implementing such a vast project and, in particular, the desirability of leaving room for competition between banks in a field considered to offer major business opportunities led to the decision to permit banks to develop their own systems.

In June around 250 POS units were operating as part of the national scheme. In the second half of the year authorizations were granted to 28 banks for the installation of a total of 1,700 POS terminals. Another 1,600 terminals involving 18 banks were authorized in the first three months of 1988.

The operational instruments of banking supervision

Inspections. — The principal objective of inspections in 1987 was to verify the ability of the banks concerned to cope with market forces efficiently and with good prospects for lasting stability, in addition to examining the traditional aspects of their business.

Inspections focused in particular on the analysis of banks' organizational structures and their working: the formulation of objectives, the consistency and efficiency of procedures, management control systems, the reliability of information flows and the effectiveness of internal auditing.

A total of 200 general inspections were undertaken in 1987, together with 4 of limited scope. The former involved 5 special credit institutions and 17.7 per cent of the banking system (16.8 per cent in 1986) and covered 12.2 per cent of total assets and liabilities.

The prevention and management of banking crises. — The changes that have taken place in financial intermediation, especially in the banking industry, have tended to make cases of instability in the credit system more frequent and to cause them to develop in new ways.

The emergence of crises as exceptional events, often caused by fraudulent behaviour and punctuated by the sudden revelation of capital shortages, is being replaced by a slower and more widespread development of difficulties stemming from a worsening profit performance and greater discrimination by the market.

The first objective of the intervention of the Bank of Italy with regard to banks that show signs of being in difficulty is to reveal the true state of the company to its governing bodies and to press for the adoption of the measures needed to overcome the problems.

The aim of supervision is to find non-traumatic solutions to banking crises. A reduction in the volume of business, a strengthening of the capital base through the participation of new members, merger and the sale of all or a part of the bank permit many crises to be resolved.

Nonetheless, it becomes necessary to put a bank under special administration or into compulsory liquidation if, despite serious operational problems, their governing bodies are unwilling to undertake the action shown to be necessary on technical grounds.

In 1987 four rural banks and one savings bank were put under special administration. During the year five cases of banks in difficulty were resolved: two banks were returned to ordinary administration, two were merged with other banks of the same category and one was put into compulsory liquidation. In the early part of 1988 two other cases developed and two were resolved, one by way of compulsory liquidation.

Towards the end of 1987 the Interbank Deposit Protection Fund was formally established with the participation of virtually the whole credit system. To date the Fund has not had to intervene.

Investment funds

The uncertainty caused by events in financial markets influenced the fund-raising of investment funds, for which sales of units over the whole year equaled redemptions.

The industry responded to the unfavourable situation by diversifying its range of products and improving the quality and scope of its marketing.

With the aim of meeting specific customer requirements, fund management companies added to their product ranges as well as combining units with other financial products and, in particular, developing fund-raising through regular savings plans.

Investment funds also sought to counter the slowdown in business by reducing the costs to subscribers, reducing entry charges, introducing more favourable terms for switching between funds managed by the same company and launching funds involving no entry charges or a decreasing scale of exit charges depending on the time units are held.

The liberalization of exchange controls enabled the funds to increase their activity in international financial markets, in part by setting up funds designed to invest primarily in foreign securities.

THE GOVERNOR'S CONCLUDING REMARKS

In the past year the credit system has intensified its efforts to consolidate and develop its structures, organization and operational efficiency, in the knowledge that it must contend with keener competition not only at home but also in the international arena.

The Bank of Italy has supported this endeavour by taking specific measures with regard to the system and within the Bank itself in order to encourage the process of change in the financial sector. The progress that has been achieved and the very nature of the problems with which this Report deals confirm the validity of the Bank's strategy and its reliance on the entrepreneurial responses of market operators.

In the financial sphere, the opposite extremes of dirigisme and laissez faire are both subject to severe limitations. Recent events, and particularly those that shook the capital markets in late 1987, demonstrate the soundness of an approach that is based on experience and seeks the most effective combination of public intervention and market forces.

Not infrequently the pendulum is in danger of swinging too far in one direction. The lesson to be learnt from this is that deregulation should not mean removing fixed points of reference and renouncing all rules; by the same token, rejecting its excesses should not imply returning with a vengeance to restrictions and controls.

In the fields for which we have responsibility, namely money and credit, instruments for providing guidance are indispensable to ensure that freedom of choice in the production and distribution of goods and services both inside and outside Italy creates lasting economic and social progress and does not degenerate into instability and inflation. Both of these jeopardize the delicate balance of experience, aspirations and expectations that encourage citizens to save and enterprises to invest. Article 47 of the Constitution recognizes the value of savings, as something worthy of protection and as the basis of development; it depicts credit and money as targeted and controlled variables: if they are to act as an anchor, they must themselves be firmly anchored.

It is in this spirit that the Bank of Italy as an institution, and its staff at Head Office and in the branches, interpret their tasks, which they again strove to perform conscientiously last year, in preparing analyses and proposals in the context of an intense debate on economic and legal issues, in active daily participation in the increasingly broad and lively securities, foreign exchange, money and credit markets, in supervising an ever more varied array of financial intermediaries, in raising the efficiency of the Bank and in exploiting its human resources to the full.

The results achieved vindicate the policies chosen; however, it is on the problems facing us that attention should be focused.

The world economy

The slow adjustment of external disequilibria and the stock market crisis

Events in the world economy in 1987 were dominated by recurrent exchange rate pressures, uncertainty in financial markets and the stock market crash of October. The most severe strains emerged at precisely the time when the real economic situation of the industrial countries was improving.

The Wall Street crash came at the end of a prolonged rise in the stock market. Share prices had increased particularly rapidly in the preceding months; at the beginning of October they were more than 30 per cent higher than in December 1986. An increasingly large differential had developed between rising bond yields and falling returns on shares. The stock markets, no less than the foreign exchange markets, confirmed that under the pressure of speculation they are subject to wide fluctuations in prices and that price corrections are likely to be slow in coming, and hence traumatic.

The October crisis occurred against the background of the difficulties encountered in reducing the current account disequilibria of the three leading industrial countries. The strategy outlined in the Louvre Accord of February 1987 had been designed to stabilize exchange rates, initially by means of concerted intervention, in order to allow time for the substantial depreciation of the dollar to begin to eliminate the imbalance in trade in goods and services. Appropriate economic policies were to be adopted to consolidate the achievements in this regard and create favourable conditions for growth; they were to promote different rates of expansion in domestic demand in the various countries in order to reinforce the effects of the changes in exchange rates. During the summer, when short-term interest rates everywhere began to rise from an already high level, the market perceived a cooling of the climate of cooperation essential to the success of this strategy. The collapse in share prices in New York spread rapidly to other financial centres owing to market integration and psychological reactions.

In order to safeguard the stability of the financial system and prevent the stock market decline from affecting economic activity, the monetary authorities in the United States, in particular, reacted to the situation by injecting liquidity, thereby encouraging a fall in interest rates. A further depreciation of the dollar was accepted, and the US currency declined by about 8 per cent against the major currencies between the end of October and the end of December. The operations to stabilize exchange rates were resumed in the last few days of the year in the context of restored cooperation within the Group of Seven; their effectiveness was enhanced by the fact that the market judged the new nominal effective exchange rate of the dollar to be more appropriate.

Share prices recovered in the first three months of 1988; the performance of the various markets differed from April onwards, with some showing substantial fluctuations. By the end of last week the New York Stock Exchange index had recouped about a quarter of the losses sustained in October; the Tokyo index was close to the levels recorded before the crisis. Economic activity has remained strong in the industrial countries; the growth in consumption has been accompanied by an equally large expansion in investment, high capacity utilization rates, good profitability and favourable growth prospects.

Fears of a resurgence of inflation have not been allayed, despite the fact that oil prices have again fallen after recovering in the first half of last year. Raw material prices have continued to rise; expressed in SDRs, they are now 20 per cent above the low point of March 1987. International liquidity has continued to expand rapidly. In the United States, where the unemployment rate has fallen to its lowest level since 1974, operating rates are close to their upper limits in several sectors.

The events that culminated in the stock market decline were a reminder that investors should not ignore underlying profitability and capital adequacy when making their portfolio choices. They also revealed the limits of the support that can be given to exchange rates using monetary instruments alone when economic fundamentals are divergent and the contribution from fiscal policy is small.

It became clear that increasingly close links exist between the various financial markets and between the money and capital markets, fostered by international portfolio diversification, the freedom of movement of capital even at short term and growing recourse to techniques for spreading and covering risks. The increasing use of negotiable credit instruments and the blurring of the operational boundaries between the various types of intermediary confirmed the need to establish forms of prudential control for intermediaries and markets that are not subject to supervision. The disadvantages of having different operational practices and rules in highly inter-dependent markets became apparent.

In 1987 the imbalances in the current accounts of the three leading industrial countries increased further in dollar terms; the US deficit came to $161 billion and the surpluses of Japan and the Federal Republic of Germany amounted to $87 and 44 billion respectively.

These figures conceal the beginnings of the process of adjustment. Tangible signs of a reduction in the external disequilibria of the United States and Japan have begun to emerge for the first time since 1983; the growth in domestic demand in the United States was around one and a half percentage points slower than the rate of 4 per cent recorded in the rest of the industrial area. The greatest stimulus to growth came from Canada, Italy, the United Kingdom and above all Japan. The Japanese economy exhibited a remarkable ability to switch to a model of growth led by domestic demand. Greater progress towards correcting the disequilibria would have been achieved if the savings ratio of US households had not continued to fall, declining to a historic low of 3.7 per cent of disposable income.

Price competitiveness moved in a direction favourable to adjustment. At the end of 1987 the real effective exchange rate of the dollar was 12 per cent lower than it had been at the beginning of the decade; that of the yen rose by 35 per cent over the same period and the Deutschemark showed a less pronounced appreciation of 4 per cent.

Exporters of manufactured goods to the US market had initially absorbed the exchange rate changes by cutting their profit margins, which had widened substantially during the period of dollar appreciation. At the end of last year, however, exchange rate developments began to be reflected more fully in prices.

In the United States the slowdown in the volume of imports and the acceleration in that of exports were not sufficient to offset the movements in the terms of trade. In value terms, US exports are equivalent to 60 per cent of the country's imports, so that a rate of increase in exports that is two thirds higher than the growth in imports is barely sufficient to keep the trade balance unchanged. More than 40 per cent of the deficit stems from trade with developing and newly industrializing countries, the latter often having aggressive foreign exchange policies and restrictive trading practices. Finally, the United States' accumulated net foreign financial liabilities, mounting to more than $400 billion at the end of last year, entail interest payments that are a heavy burden on the current account.

The adjustment required in the volume of traded goods is substantial and affects the entire configuration of world trade. The projections made by international organizations indicate the danger that may arise over the medium term if progress in correcting the imbalances is too slow: the resulting financial instability and exchange rate volatility could trigger a recession.

This consideration emphasizes the need to strengthen cooperation among the major countries, as reaffirmed at the meetings of the Group of Seven and the Group of Ten in April. The United States must persevere with measures to curb its budget deficit. Fiscal stimulus to domestic demand in Japan and especially in Germany must be accompanied by structural policies aimed at encouraging growth and imports. The newly industrializing countries in South-East Asia, whose current account surpluses exceeded $30 billion in 1987, should also contribute to correcting the imbalances.

In view of the time needed for the forces of adjustment to develop their full impact on the underlying disequilibria, the commitment to curbing exchange rate instability between the leading currencies must be maintained.

One way of reinforcing economic policy coordination and enhancing its effectiveness would be to adopt a dynamic system of 'target zones between the main currency areas; in the case of Europe, this should be based on the ECU.

The international debt problem remains serious. The recovery in world trade and the revival in raw material prices have eased the financial difficulties of the most heavily indebted developing countries. Nevertheless, many of them have encountered obstacles that have prevented them from adhering to their stabilization programmes; inflation has begun to accelerate again.

During the eighties the real trade balance of the most heavily indebted economies has improved by the equivalent of around 8 per cent of their 1980 national income, but much of this has been offset by the deterioration in their terms of trade. The external constraint is depressing growth and investment, making absorption of the debt more difficult in the long run. This has adverse consequences for world trade as a whole.

The strategy pursued hitherto with regard to the debt problem remains valid in its case-by-case approach, its emphasis on appropriate domestic policies and its encouragement of cooperation between debtors, creditors and international institutions ; however, greater efforts are needed to sustain growth and ensure adequate flows of foreign finance. New market lending was inadequate in 1987. On the other hand, the volume of official debts restructured was double the figure for the previous year. The recent decision to carry out a substantial increase in the capital of the World Bank is a significant development. In order that financial support from the International Monetary Fund can also rise, the proposals for a considerable increase in quotas and lending in conjunction with appropriate structural adjustment programmes should be approved.

Towards the single European market

The European Community has achieved important successes in the eighties in curbing inflation and stabilizing exchange rates within the EMS. It has been less successful on the growth and employment fronts. National product has grown more slowly than in the other industrial areas over this period. New jobs have not been created; the unemployment rate has far exceeded the OECD average, and has been especially high among the young.

Quite apart from cyclical developments, the countries of the Community exhibit marked differences in national income and wealth, both among themselves and within their own borders. At one extreme is the group of countries with high per capita incomes, typically with a stationary or declining population, which have defeated inflation but seem to be content with rates of growth of less than 2 per cent. Labour costs are relatively high; much of investment is geared to reducing manpower, despite the already high level of capital intensity. Expectations that demand will expand only moderately are a factor depressing investment and potential growth. Unprecedentedly high unemployment is prevailing alongside high capacity utilization rates.

At the other extreme, countries with lower national income, less developed economic structures and a still large agricultural sector are showing greater vigour, drawing stimulus from their peoples' aspirations for a higher standard of living. However, deficiencies in their infrastructures and other external diseconomies are an obstacle to the inflow of capital from more advanced areas and to an increase in employment.

Italy is among the major industrial economies in terms of national product, the diversity of its industrial sector and the level of consumption. It displays dynamism, a capacity for initiative and an ability to adapt to changing external conditions; on the other hand, it continues to be afflicted by unresolved regional disparities, high unemployment, inadequacies in its infrastructure and public services and a large budget deficit. More than any other country, it shares the aspirations and problems of the two extremes represented in Europe, owing to its characteristics and its geographic situation.

The completion of a vast internal market by 1992, a commitment incorporated into the national legislation of the EEC countries through the ratification of the Single European Act, presents a historic opportunity to give fresh impetus to growth, tackle the problem of unemployment and strengthen the Community's ability to contribute to the formulation of economic policy at world level. The single market implies eliminating frontiers, passport and customs controls and all divisions between member countries. It also means removing the technical barriers and tax differences that fragment markets and prevent individuals and firms from freely choosing where to base their activities, sell their products and supply their services.

In an integrated Europe, which will be less susceptible to external buffeting and constraints, it will be possible not only to enjoy new "trade creation" benefits but also to achieve increases in efficiency thanks to larger production units and more competitive markets. The European Community will be able to offer itself as a focal point for the development of neighbouring areas with much lower national income and very different demographic prospects.

It would be a serious mistake, however, to suppose that the benefits will accrue automatically as a result of the operation of the invisible hand of the market.

Integration between economies at different stages of development is both an opportunity and a test. The savings capacity and technological resources of the more prosperous regions complement the abundant labour supply and desire for improved living standards of others where external diseconomies limit productivity but the growth potential is greater.

Europe will not fail the test if appropriate policies are followed. From the cyclical point of view, policy must be directed in some countries towards reducing excessive current account surpluses by transferring resources to domestic uses, and in others towards restoring sound public finances. The phase of disinflation can be considered to be at an end; the objective to be pursued is that of ensuring sustained growth while continuing to maintain price stability. From the structural point of view, financial and employment policies must be implemented that favour the flow of capital to regions with higher growth potential, maintain a strict link between wage increases and productivity gains and promote the reduction of subsidies and rigidities.

The Directive that will bring forward the implementation of full capital mobility, probably to 1990, is due to be approved shortly; it will increase the freedom of choice for savers and enterprises and contribute to a more efficient use of resources. However, if policies are not coordinated between member countries the potential exchange rate pressures will increase; the entire system will face a heightened risk of realignments that are not justified by economic fundamentals and competitive positions. The exchange rate's function as a disciplinary force on macroeconomic policies and on industry's behaviour in determining costs and setting prices might be jeopardized.

Hence there is an urgent need to strengthen the coordination of the stance and instruments of monetary policy. In the phase now beginning, the construction of Europe requires that monetary and credit objectives be set in concert, and not decided in effect by just one country and accepted by the others via the exchange rate constraint. While remaining flexible and pragmatic, monetary management must pay greater heed to exchange rate stability by allowing variations in the external component of monetary base to have a swift impact on interest rates.

Liberalization increases the probability and potential size of temporary shifts in investors' portfolio preferences between the currencies of the European Monetary System in response to expectations of changes in central rates. We have proposed the creation of a joint refinancing mechanism in order to provide a better defence against such shifts. The very existence of this instrument would discourage speculative attacks; its use would help prevent undesired effects on exchange rates and domestic monetary conditions.

The formation of a single decision-making body, through the creation of a European central bank, would set the seal on the process of integration. Tangible measures can already be taken to achieve that objective, which we believe is now more widely shared. The tasks and responsibilities of the EEC Committee of Governors could be enhanced with regard to the formulation of joint monetary objectives and the coordination of exchange rate policies vis-à-vis third countries; they could be extended to cover the activation and operation of the proposed refinancing mechanism aimed at offsetting destabilizing capital movements. At the same time, more active support for the development of the ECU in the markets and the establishment of direct links between the private and official markets could bring the creation of a common currency closer.

Domestic economic management, today and tomorrow

Developments during 1987

In the scenario I have sketched of a broader and more cohesive European Economic Community, Italy still suffers from long-standing weaknesses, but it has also regained some strengths that need to be consolidated. That the achievements of recent years must be constantly repeated has been confirmed by the economic events of the year that has elapsed since I last addressed you.

The objectives of expanding output and curbing inflation have been successfully reconciled with the need for external payments equilibrium and relative exchange rate stability, but economic policy has had a hard task regulating the economy. The difficulties stemming from Europe's slow growth have been accompanied by the impact that the budget deficit and the public debt have had on demand, financial flows and short-term capital movements. Adverse pressures quickly become acute whenever political or economic events in the domestic or world arena cloud expectations and shorten the time frame of corporate and household decision-making. In such circumstances monetary policy in particular must respond promptly, using all the instruments at its command in actions whose success can never be taken for granted.

Last year interest rates had to be adjusted repeatedly. It was also necessary to combine tax measures to contain consumer spending with the temporary reintroduction of credit and foreign exchange controls. The Treasury borrowing requirement exceeded the planned limit for 1987 by 14 trillion lire. The growth of credit to the non-state sector and that of the money supply were kept broadly in line with the objectives.

The fragility of the situation in which these regulatory measures were taken is evidenced by the size of interventions in both directions in the foreign exchange market. Between the EMS realignment in January and the end of April the Bank of Italy made purchases equivalent to more than $4 billion. From then until the first ten days of September support for the lira required sales totaling nearly $10 billion, and in the rest of the year the Bank purchased foreign exchange worth some $8 billion.

In the spring of 1987, against a background of accelerating domestic demand and a slowdown in world economic growth, the budget deficit did not appear to be developing in line with the target for the year. The external accounts were deteriorating, liquidity preferences were strengthening and the demand for government securities, especially at medium term, was flagging.

The Bank of Italy tightened control of the monetary base. From April onwards bank liquidity contracted and money market rates tended upwards.

Inflation showed signs of reviving during the summer; the annual rate of increase in consumer prices rose from 4.5 per cent in June to 5.5 per cent in October.

The issue yields on government securities were raised by about one point in July. Only subscriptions of short-term paper were affected. Uncertainty spread to the foreign exchange market, where operators mistakenly attributed the deterioration in the trade balance to poor competitiveness rather than to the growth differential between Italy and the other economies.

In August exchange rate expectations gave rise to heavy downward pressure on the lira, fueled by the expansion in lira credit, which Italian banks, especially the larger ones, were granting to their best customers at interest rates below the rising cost of liquidity. Determined market intervention in defence of the lira, tax measures to curb consumer spending and the raising of the discount rate to 12 per cent failed to dispel expectations of a decline in the exchange rate.

In mid-September it was necessary once again to impose restrictions on foreign exchange movements and on bank lending in lire. There could be no more convincing evidence of the linkage that expectations create between domestic disequilibria and exchange rate instability, in conditions of high capital mobility and in an economy in which budget deficits encourage total financial assets to expand much faster than national income. The speed with which bank lending subsided when the administrative controls were announced confirms that the demand for credit for financial transactions may become very substantial indeed.

The measures enacted in August and September ended the exchange crisis and curbed the growth of domestic demand. They did not halt the decline in the prices of government securities in the secondary market, despite the inflow of liquidity from abroad. The difficulties were compounded by the approach adopted in the Finance Bill for 1988, which initially centred on increases in indirect taxation at a time when prices were already rising. The doubling of the tax on interest from government securities further weakened demand, despite having been introduced earlier than planned by inclusion in the August package of measures in order to reduce uncertainty.

It was essential to prevent the temporary acceleration in prices in the summer from becoming a permanent escalation in inflation. The Finance Bill had to be revised, both to make it more rigorous and to eliminate the increase in VAT rates. In November the Government submitted the necessary amendments to Parliament.

The fall in share prices, which accelerated in the second half of October in the wake of the worldwide stock market crash, did not have repercussions on the real economy. In the financial sphere, the continued shift in investor preference towards more liquid assets had to be accepted. The investment funds, hard-pressed by redemptions, continued to sell government securities. It became more difficult to place new issues, despite a further half-point rise in yields on twelve-month Treasury bills and on Treasury credit certificates. The Bank of Italy took steps to underpin the prices of medium-term securities, purchasing 3.7 trillion lire worth between September and December. At the same time, it sold Treasury bills from its portfolio in order to maintain monetary control.

All in all, the performance of the economy last year was satisfactory. Real GDP continued to grow, expanding by 3.1 per cent. The volume of investment in plant and machinery expanded by 12.1 per cent. Inflation was held in check. In December the twelve-month rate of increase in consumer prices came back down to 5.2 per cent, and the average for the year worked out at 4.7 per cent, the lowest rate since 1969. Nevertheless, inflation in Italy is still more than twice as fast as in the other two leading participants in the EMS exchange rate mechanism, France and Germany. The balance of payments on current account was close to equilibrium. Portfolio diversification, for which there was more scope after the liberalization in May, generated foreign exchange outflows of about 3.5 trillion lire. These occurred mainly in the months preceding the stock market crisis and were more than offset by inflows of foreign capital, largely in the form of government borrowing.

The efforts to reduce inflation were assisted by a further slight decline in import prices as a result of the depreciation of the dollar. In manufacturing, wage increases were not large enough to generate cost pressures, thanks to a substantial rise in productivity, which improved by 6 per cent, thus keeping the increase in unit labour costs down to 1.8 per cent, while per capita labour costs rose by 7.8 per cent. In the economy as a whole the latter rose by 8.9 per cent and productivity by 2.9 per cent, so that unit labour costs went up by 5.9 per cent.

The improvement in the terms of trade that had begun in 1986 continued in 1987, concealing a deterioration in the real trade balance. The volume of imports of goods and services expanded by 10 per cent and that of exports by 3.6 per cent. All of the gain in exports came in the second half of the year, after stagnation during the first six months.

In the labour market, there was less recourse to the Wage Supplementation Fund; the number of hours worked per employee rose, but not the number of persons employed. Unemployment rose to 12 per cent of the labour force and regional disparities intensified; the rate held steady at 8 per cent in the Centre-North while rising by three percentage points in the South to 19 per cent.

In the cyclical management of the economy, the foreign exchange, credit and fiscal measures taken during the summer were intended to lead into a fiscal stance for 1988 that would damp down consumer demand, leave more room for exports and investment and give impetus to the improvement in the public finances.

In late 1987 and early 1988 the demand for floating rate securities improved. In January the authorities took advantage of the relaxation of tension in the exchange market to lift the foreign exchange restrictions ahead of schedule. The strong demand for Treasury bills drove yields at issue down by more than one percentage point; the issue yield curve now acquired an upward slope, in line with that of the market.

Thus there was partial implementation of the plan for the management of the public debt, which the Treasury and the Bank of Italy had agreed in the autumn on the assumption that the proposed fiscal policy for 1988 would be applied in full. The plan had a threefold objective: to lengthen the average maturity of the debt, to increase the proportion of fixed rate securities, and to offer savers a greater variety of instruments. It was also proposed to standardize the financial characteristics of new issues of the main types of security in order to make comparisons easier and thus facilitate secondary market trading. Furthermore, the plan called for more regular, though still limited, issues of Treasury certificates and bills in ECUs and for borrowing on the international market during the delicate initial period of foreign exchange liberalization.

The difficult parliamentary passage of the Finance Bill eventually produced a law entailing a borrowing requirement of over 120 trillion lire for 1988, 20 trillion lire above the original target.

Adjusted for the number of working days, industrial production in the first quarter of 1988 was 6 per cent greater than in the corresponding period of 1987. Imports were 9.4 per cent higher in value, a rate of growth nearly three times that of exports. The trade deficit amounted to 6.5 trillion lire, more than half as large as that for the whole of 1987.

The external accounts reflect and confirm the buoyancy of domestic demand. Investment is continuing to grow, stimulated by the high rate of capacity utilization and by high profits; part of it is being directed to plant expansion. The increase in disposable income and in financial wealth has fueled purchases of durable and non-durable consumer goods; a continuation of this tendency would jeopardize current account equilibrium, which assumes even greater importance at a time of financial market liberalization and integration.

Creeping inflation, which we have not yet managed to eradicate, has been fluctuating at around 5 per cent for consumer prices and 4 per cent for wholesale prices. If the kind of cost and demand pressures implicit in some recent public sector wage claims were to materialize and corrective budget measures were not taken, inflation would begin to accelerate once more.

After the hesitant recovery in January and February, the demand for government securities weakened once again. The decline was most pronounced at the longer end of the market, notably for Treasury credit certificates. The problem lay less with demand from the public than with that from the banks, which were concentrating on meeting strong loan demand in the face of stagnant deposits. The Bank of Italy resumed purchases of medium-term government securities until the end of April. In the last two months the Treasury has raised interest rates on twelve-month bills, increased the spread on credit certificates and improved the yields on four-year bonds.

The public finance rehabilitation plan approved in the last few days by the Government aims to achieve a budget surplus net of interest payments in 1992 by reducing expenditure and increasing revenue. Immediate budget measures have also been announced to reduce the borrowing requirement for 1988 to 115 trillion lire, decreasing the Treasury's resort to market borrowing by 7 trillion lire. The demand-damping effect is smaller, in that the direct impact of the measures on income and consumption is equivalent to about half that amount.

The current phase of buoyant economic expansion signaled by all the indicators permits and requires countercyclical measures to be implemented almost simultaneously with the start of the progressive rehabilitation programme implicit in the Government's plan; this will enhance the credibility of the plan itself and strengthen market confidence.

The credit and money supply targets for 1988 are unchanged from those set by the Interministerial Committee for Credit and Savings last autumn. They constitute a disciplining force for the entire economy. The banks have been invited to slow down their lending, and not just that connected with financial transactions. For its part, the Bank of Italy is carefully regulating bank liquidity; it is curbing the creation of monetary base in order to slow down the growth in credit, which had shown signs of accelerating even before the lifting of the lending ceiling.

Economic policy and control of the money supply in an internationally integrated economy

Given the prospect of freedom from foreign exchange controls and the full integration of Italian financial markets with the rest of Europe, the events I have just described demonstrate the crucial importance of being able to make full use of fundamental instruments such as fiscal policy and incomes policy for purposes of economic management. Only in this way will it be possible to achieve the complementarity between these instruments and monetary policy that is necessary if each is to be correctly and effectively applied to its proper objectives.

For monetary policy, European economic and financial unification will further complicate the task of safeguarding external payments balance, in that it will require consistency between capital movements and exchange rate stability. In the past it was frequently possible to use monetary means to reconcile conflicting objectives, such as internal and external equilibrium or stability and growth, albeit at not inconsiderable cost; the scope for such action will inevitably tend to be narrower in future. Greater reliance will have to be placed on fiscal and incomes policy to curb cost pressures and free the resources needed for investment and for exports.

For countercyclical and other purposes, economic policymakers must regain full control over the budget as soon as possible. The fiscal measures concerning the allocation of resources as well as the volume and composition of aggregate demand must also be consistent with the guidelines the European Community elects to follow.

In Italy more than in the other industrial countries, the labour market continues to be hampered by rigidities that are scarcely reconcilable with the need to reduce the country's high unemployment. They are to be found in legislation and labour agreements and in the rate of increase in both aggregate wages and wage differentials. They have an adverse effect on price stability, employment and efforts to reduce regional disparities, as well as causing strained labour relations. As regards wage determination in both the public and private sectors, employment policy must ensure that efficiency and competence are suitably rewarded while reconciling increases in productivity and nominal incomes in specific sectors with the overall objectives of economic policy.

The commitment to improving institutional and market arrangements extends to monetary policy. Financial integration and the removal of foreign exchange restrictions make it more essential than ever that interest rates, especially short-term rates, be free to respond promptly to pressures in the foreign exchange market, and that interest rates at issue and secondary market yields be consistent.

Efforts to woo investors back to fixed rate securities, both public and private, must be based on a maturity diversification that reconciles the liquidity and yield requirements. Longer-term investors ought to be paid a premium to compensate them for the risk of interest rate variations and the reduced liquidity of their assets. As a rule, this will produce a rising yield curve; far from reflecting or signaling inflationary expectations, such an arrangement will help to redirect savings towards longer maturities.

Strengthening the fixed rate segment will permit greater mobility in short-term interest rates and deepen the secondary market in government securities. The recently initiated reform of this market is intended to improve its working and enhance its transparency, so that prices better reflect the state of supply and demand.

An efficient money market is a prerequisite for the smooth functioning of the secondary market in government securities and the prompt transmission of monetary policy impulses. In the interbank market the range of maturities has widened in the competitive segment for very short-term deposits, but the segment remains small and operates alongside others that are highly unresponsive. Variations in liquidity cause very sharp swings in interest rates in this segment, but these are transmitted only partially and with delay to the rest of the money market.

The rationalization of the payment system and of financial transactions will make a major contribution to a more functional interbank market. Broadening the market will reduce the volatility of the overnight rate, strengthening its role as an indicator of monetary conditions, and will induce the banks to respond more promptly to changes in liquidity.

A further contribution could come from changes in compulsory reserve requirements. The Treasury and the Bank of Italy are now examining a system that would allow banks to mobilize the funds committed for this purpose, provided that the requirement were met on average over the monthly maintenance period. Each bank's free and compulsory reserves would be amalgamated into a single deposit with the Bank of Italy. Within specified limits, the banks would have the option of using these deposits rather than resorting to interbank borrowing or central bank financing. The control of monetary base and the punitive terms of lending of last resort would ensure that banks did not overuse this new facility while relying on central bank refinancing to comply with the monthly average reserve requirement.

Competing in Europe

Italy needs to develop its economy rapidly, in qualitative as well as quantitative terms, and it has the potential to do so. Substantial private and community needs remain to be satisfied. The nation has a skilled work force, considerable private savings and small and large entrepreneurs of initiative.

Membership of the increasingly integrated European Community will offer new opportunities and present new challenges. We are nonetheless obliged to remove the obstacles to growth, which are mainly endogenous.

Unresolved structural problems and systemic weaknesses are undermining the real and financial stability of our economy. By far the most serious and alarming are the direct and indirect consequences of the shortcomings and disequilibria of the public sector. If our awareness of the problems and our determination to resolve them ultimately proved inadequate, we would be in danger of undoing the progress Italy has achieved in past years.

Problems and weak points remain in the labour market and the energy sector as well as in branches of production such as agriculture. Above all they affect the quality and efficiency of the services provided to households and businesses by the tertiary sector and by government. They are even to be found in industrial firms, notwithstanding the restructuring that has taken place.

In the single European market labour and capital costs will tend to equalize, or will be forced to, under the spur of competition, which will be accentuated by decreased exchange rate flexibility. Awareness of this is spreading among the managers of firms and among the work force.

In the late fifties and sixties the Italian economy was able to draw greater advantage than others from the first stage of European economic integration and the resulting surge in trade, moving as it was from a high initial level of protection.

The current second stage, which will complete European economic integration, will lead to a further expansion of trade in areas where it is already intense, as in manufactured goods, but it will have its greatest effects on services. Equating service activities with products that cannot be traded internationally will become even less realistic. The ease of communication and the freedom of movement of persons will give European consumers and enterprises access to a vast range of services beyond their national frontiers, and not only those financial services with which I shall deal below.

Only a substantial improvement in the efficiency and competitiveness of the entire Italian economy can enable us to seize the opportunities for growth that this process is creating, to turn to advantage the potential inherent in our large labour force and to begin at once to tackle the problem of unemployment, which will not disappear even when the effects of the slowdown in the birth rate make themselves felt.

The productive economy

In an open economy, it would be a mistake to attempt to solve the employment problem by blocking the application of new techniques and productivity gains or confining them to defined sectors.

Since 1980 employment in Italy has increased by 350,000 persons and its composition has changed radically. The growth has not been enough, however, to keep pace with the rapid expansion in the labour force and to prevent a steady rise in the unemployment rate. The number of persons employed in industry has decreased by a million. Public and private services have created over two million jobs, more than offsetting the decline in industry and agriculture. Employment has risen faster in services used directly in the production of other goods than in services for final consumption.

Given that the reduction in manpower in manufacturing industry is coming to an end, now that restructuring has been substantially completed, and that the outflow of labour from farming is also tending to slow down, strong and sustained economic growth will mean that the jobs created by the services sector can raise the overall level of employment.

The expansion of this sector has taken different forms, depending on the region. In the Centre-North it has occurred primarily in services to business, while in the South it has involved mainly government services and commerce.

Even the statistical data now show that the Southern question and the unemployment problem coincide. Economic progress cannot be achieved in the South unless manufacturing industry and advanced services are strengthened by means of initiatives designed to take advantage of the abundance of labour in that region, given the prospect of a labour shortage in the rest of the country. It is equally important, however, to exploit other activities capable of stimulating trade with other regions, such as those connected with agriculture and tourism.

Progress on both these fronts can be assisted by improving the infrastructure, which remains poor by European or Northern Italian standards, raising the efficiency of government departments and public services and encouraging the emergence of new entrepreneurs. Measures in favour of industrial and other firms need to concentrate on the South, where even enterprises with growth potential find their costs and profitability affected by external diseconomies.

With regard to the energy question, Italy is the only major industrial country not to have achieved any reduction in its import dependency since 1980; it still imports 83 per cent of its requirement, as against a European Community average of 44 per cent. Italy also stands out for its heavy reliance on hydrocarbons, which meet 80 per cent of the country's energy needs, compared with 63 per cent for the Community as a whole.

It has now been decided to call a halt to the nuclear energy programme, given the current state of technology. A strategy must be adopted that is consistent with this decision. In view of the acknowledged need for a greater measure of environmental protection than in the past, priority must be given to resolute policies of energy conservation and diversification as regards both the sources of energy and their suppliers. Prices, utility charges and tax measures need to be used actively to contain and steer energy consumption. The ability to adjust indirect taxes is essential in this regard. The situation of Italy with regard to energy resources is such that it should continue to be free to use this instrument even after the complete integration of markets within the European Community.

In a growing economy, the rationalization of energy sources and energy conservation alone will restrain but not halt the increase in the demand for energy, which is a fundamental factor for every type of productive activity. Even if energy is considered as equivalent to any other good traded freely in international markets, higher imports will be a burden on the balance of payments; this must be offset by efforts to produce at more competitive prices in order to export a larger volume of other goods and services.

As it prepares to face competition in more fully integrated markets, Italian industry is still composed of a large number of small and medium-sized companies and a few large groups, both public and private. The proportion of small firms has tended to grow, owing in part to decentralization by the largest companies. Firms with fewer than 100 employees accounted for 23 per cent of sales by manufacturing firms with 20 or more employees in 1973, 26 per cent in 1980 and 30 per cent in 1985.

During the eighties small businesses have advanced steadily in terms of output, exports, investment and jobs, but their productivity has risen less rapidly than that of large firms. They retain the advantage of greater flexibility in the use of resources and lower labour costs per employee. They need to invest more in new technology, enhance their expertise, strengthen their marketing and their financial and cash management and increase personnel training.

All the statistical sources indicate a dramatic improvement in the economic and financial condition of large private firms. They have cut overall unit costs, economized on labour and reduced their borrowing.

In public enterprises, which have also made significant progress in this regard, the improvement in profitability has been less pronounced. In the last few years the decline in interest rates and the decrease in borrowing have reduced interest charges for them too; the restructuring process should now be completed. This will be particularly arduous in the industries that are still struggling to overcome a worldwide crisis.

Investment policies geared towards rationalization, careful management of stocks and the return to profitability have enabled both private and public enterprises, and especially the largest firms, to make a drastic reduction in recourse to external financing. The net borrowing of the entire corporate sector decreased from 7.5 per cent of GDP in 1980 to 2.9 per cent in 1987, despite the expansion of corporate investment.

This trend, in combination with the limited growth of output, the reduction in employment and the modest expansion in plant capacity, has given rise to fears that preoccupation with financial matters might distract attention from the production of goods and services. Whenever financial management has been effectively integrated with productive activity, this risk has been averted and the return to profitability has been accelerated.

Between 1983 and 1986 the gross operating profit, net of debt servicing, of a group of 400 leading industrial firms in both the public and private sectors rose from 8 to 21 per cent of value added. This recovery in the yield on real capital illustrates the positive results of the reorganization of production, and tends to alter the balance of relative advantage between real and financial investment in favour of the former. Combined with good demand expectations, the improvement in profits in 1987 led to renewed investment aimed at expanding plant capacity.

Equity investment at home and abroad also represents a path to corporate expansion. Firms are moving towards flexible forms of organization, especially companies operating internationally. They are acquiring subsidiaries to gain access to technology and markets. They view internationalization as a valid objective for its own sake. It is the responsibility of senior management to avoid losing sight of a coherent strategy for pursuing profitability through a policy of functional complementarity that enhances the efficiency of each unit.

In view of the vitality of entrepreneurial initiative, the legal framework in which business is conducted also needs to be adapted, and this is a task for government. The changes required concern the joint stock company as a market institution at the centre of a network of relations with shareholders, creditors, consumers, employees and the state. It is not only the relationships between these interests that depend on the legislative framework, but also the very ability of firms to compete effectively. The time has come to introduce anti-trust legislation in strict accordance with Community directives to provide consumer protection, ensure free access to markets for large and small firms alike and to prevent behaviour that distorts the workings of the market. It is particularly important to establish a legal and regulatory framework for holding companies and takeover bids that safeguards the rights of minority shareholders while not stifling initiatives to modify or strengthen the structure of controlling interests.

Government services and public finances

A large services sector is a characteristic feature of modern industrial economies. It supplies a significant and growing share of the factors of production used by industry. Accordingly, the prices of manufactures are increasingly dependent on the cost of services.

Italy has been the odd man out as regards productivity trends in the services sector: between 1980 and 1986 output per worker in market services rose on average by 13 per cent in the United Kingdom, Germany and France, while in Italy it fell by 4 per cent.

The productivity and competitiveness of the economy are determined primarily by the condition of the public sector. Input-output tables show that public sector market services are used, directly or indirectly, by every branch of production. Services supplied for final consumption by households constitute the greater part of government services. Public dissatisfaction with their shortcomings ultimately generates upward pressure on earnings.

The far-reaching changes and rapid rise in the demand for services in connection with the growth of the economy, social and geographical shifts and the aging of the population have made the task of the public sector more difficult. Its response to these changes in terms of the organization and use of resources has been inadequate. Not infrequently, the private sector has had to make good the shortcomings by duplicating the activities of public providers; no plans have been drawn up for transferring the production of some services to the corporate sector.

Insufficient progress has been made in improving rules, procedures and methods. The narrowing of wage and salary differentials has weakened the link between earnings and the standard and quantity of work. The areas and sectors in which the demand for services has increased most do not correspond to those in which the rise in government employment has been greatest. The inadequate levels of capital and investment in technology have restricted the productivity of important sectors. The separation between responsibility for spending decisions and responsibility for the financing of expenditure has led to slack management.

Closer comparison with the other European countries will heighten the contrast between the requirements of citizens and firms and the ability of the public sector to meet them. Delay in acting would increase the calls for the indiscriminate dismantling of the pillars of the welfare state. On the contrary, these need to be safeguarded as achievements that a civilized society cannot renounce. If these services are to be preserved, benefits will have to be managed in accordance with principles of efficiency and restricted to those who are genuinely entitled to receive them.

It is now increasingly recognized that the major obstacle to the stable growth of the Italian economy is the state of the public sector. Every alarm has been sounded, every metaphor employed. If the present condition were to persist, Italy would be unable to play its rightful role in the economic order towards which Europe is moving. It would be prevented from doing so not only by the shortcomings in public services but also by the imbalances building up in the public finances.

A borrowing requirement that for the last two years has represented a double-digit percentage of gross domestic product and the consequent accumulation of debt act in several ways to curb economic progress.

During the seventies and early eighties the budget deficit and the public debt increased in relation to GDP in nearly every industrial country, thereby attenuating the recessionary effects of the deterioration in their terms of trade and in some cases helping to ease social conflicts that would otherwise have been difficult to overcome. However, as the eighties progressed these countries radically improved the state of their public finances: Germany and Belgium halved the ratio of their budget deficits to GDP, the United Kingdom is close to balancing its budget, while Denmark and Sweden have swung from a large deficit to a surplus. In Italy the borrowing requirement decreased from 14.3 per cent of GDP in 1983 to 11.6 per cent in 1987, when the average for the rest of the Community was 3 per cent. The persistence of large deficits pushed Italy's public debt up to more than 90 per cent of national income last year, whereas in the rest of the EEC the average was 52 per cent.

This constitutes a burdensome legacy. High real interest rates are the channel through which its effects are transmitted. If interest rates were brought down, and hence faster monetary expansion accepted, the tax explicitly levied on present and future generations would be replaced by an inflation tax.

Closer integration in the European Community can only marginally reduce the pressure the Treasury exerts on domestic interest rates. It is true, of course, that integration will give creditworthy firms greater scope for raising funds abroad and may make it easier for the Treasury to place a part of its debt in international markets, though not even the state can ignore the exchange risk. However, it would be an illusion to believe that the burden of adjustment could be avoided in this way.

The analyses underlying the Government's plan for 1988-92 confirm that the debt would spiral upwards in relation to national income in the absence of corrective action. It is indispensable that the budget deficit net of interest payments be eliminated through expenditure and revenue measures, changes in budget procedures and a revision of the structure of the finance law. Partly because it would help to restore confidence, eliminating this component of the budget deficit is the only course that will permit a parallel decrease in interest rates, ultimately removing the difference between the cost of the debt and the growth rate of the economy. At that point the public debt will stop rising in relation to GDP and start to decline. It is essential that the trend be reversed and the virtuous circle set in motion by market means, the only ones that are feasible.

Banking and finance in evolution

Community legislation

The efforts within the Community to strike a balance between the principles of mutual recognition of national banking regulations and harmonization of their key features are expressed in the proposal for the Second Coordination Directive. This supplements the definition of a credit institution by identifying the activities to be covered by mutual recognition, ensures a degree of flexibility by making provision for secondary legislation, confirms the autonomy of banks and recognizes basic elements of group structures. The Directive is based on awareness that the integration process would rapidly come to a halt or entail serious risks if the stability of financial systems were not protected by uniform prudential rules, especially as regards minimum initial capital, solvency ratios, identification of qualified shareholders, large exposures, investments and confidentiality.

The supervision of the foreign branches of a credit institution will be entrusted to the home country authorities. Their task will be complicated by the size of the market and the persistence of differences between national regulations. The opening of banking frontiers creates the need for a Community forum to tackle problems of interpretation, coordinate interventions and formulate guidelines for secondary legislation; such a forum already exists in embryo in the Banking Advisory Committee.

European financial integration will be achieved through the liberalization of both short-term capital movements, scheduled to take place during 1990, and the supply of banking and financial services, to be completed by the end of 1992. By giving everyone in the Community the right to invest and borrow in any member country, the first part of this programme acts on the demand side and is concerned with instruments. By allowing the credit institutions of every member country to operate throughout the Community, the second part acts on the supply side and is mainly concerned with institutions. In view of the substantial overlap between these two processes, it will be necessary for monetary policy and banking supervision to give consideration to the problems that the timing difference may cause. There will also have to be minimal harmonization of the various types of contract and financial product, most of which are governed by national regulations.

The action of the credit authorities

During the last ten years the Italian credit authorities have sought to create the conditions that would permit the money and financial markets to become broader, more diversified and more efficient. New categories of intermediaries have developed. Competition has intensified.

In the banking field this aim has been pursued in several ways : the shift from a system of supervision based primarily on the authorization of individual operations to one relying principally on general rules, the easing of restrictions on operations and the segmentation of the institutional categories of intermediary, the reaffirmation of the entrepreneurial concept of banking in contrast with others that curtailed banks' autonomy, the introduction of forms of supervision on a consolidated basis, the application of new regulations for bank branches, the permission for public banks to raise private capital, and the indication of the diversified financial group as the preferred form of organization for credit activities. These measures mean that the acceleration in the unification of the Community has not caught Italy unprepared. It is now time to quicken the pace.

The application of company law to the credit sector has been extended in recent years by legislation approved by the Community and the Italian Parliament as well as by court decisions and regulations issued by the credit authorities, whose supervisory practices have often anticipated the shape of such legislation. Enhancing banks' entrepreneurial role does not reduce the importance of public regulation to protect savings: market forces on their own do not guarantee that financial structures will be both stable and efficient.

The Bank of Italy has studied the legal framework for public sector credit institutions, which account for around two thirds of the banking system, and formulated proposals that elaborate on earlier indications. Establishment in the form of a limited company allows public sector banks to take advantage of the greater scope provided by company law and promotes equality of competition. The solution preferred by the Bank of Italy would involve the public entity in transferring the banking business to a limited company, of which it would own the controlling interest, while maintaining the special features rooted in its own history.

The group model enables both private and public sector credit institutions to supply a wider range of services without losing the advantages of specialization. It is an organizational solution whose validity is independent of the specific requirements of the Italian banking system. Law 114 of 1986 has given both the supervisory authority and banks' governing bodies access to the information needed to monitor the performance of the subsidiary companies of a group headed by a credit institution. There is also the alternative configuration in which a non-bank financial company heads the group. In both cases the group would be operating within the ambit of the Second Community Directive and would have to be subject to supervision and prudential controls on a consolidated basis.

The separate incorporation of banking businesses in the public sector and the group model of organization provide credit institutions with new scope for rationalizing, supplementing and diversifying their activities and for creating the structures that best fit their strategies.

Recent events in international financial markets have confirmed the need to strengthen the safeguards to limit the potential instability of the financial sector and prevent it from transmitting harmful impulses to the real economy.

The control of financial intermediaries includes interventions both to promote stability and to enhance transparency; their complementarity does not nullify the difference between their purposes. The conceptual and operational separateness of the two types of control explains why they have been entrusted to different authorities.

Banks will remain at the centre of the financial system. They are the principal channel for the transmission of monetary policy, they influence investment and output through the supply of credit and they play a key role in the complex payments mechanism. The fact that their balance sheets include assets that are not easily negotiable and monetary liabilities makes them unique. They are subject to special controls and have the privilege of access to central bank credit, which produces its effects in the economy through them, and all the more rapidly the less the market is segmented.

Non-bank intermediaries that are empowered by savers to decide how their wealth is to be invested perform an activity that involves a relationship of trust, in the same way as banking. These intermediaries need to be set within a regulatory framework that, by protecting the trust element in the relationship, will also defend the stability of this important sector of the financial system. In view of the common features and the need for equal competitive conditions, the prudential control of these operators should be analogous to that of banks, albeit less severe and arranged differently. The legislation governing investment funds was based on this principle. The blurring of the traditional boundaries between both markets and intermediaries requires that stability-oriented regulation and control should be comprehensive and undivided.

The situation is different for operators instructed to carry out transactions for savers who have made their own investment choices. Such operators are links in the complex impersonal mechanism for fixing the prices of financial instruments that constitutes the stock market in the broadest sense of the term. As part of the measures designed to increase its efficiency, the primary requirement for these operators, and any others that have direct access to the market, will be to respect a code of conduct serving to prevent conflicts of interest and make adequate information available to investors.

The strategy of the credit institutions

Italian credit institutions, both individually and collectively, must formulate strategies to strengthen and upgrade their position in both domestic and international markets. We firmly believe that they can cope successfully with Community competition, just as industrial firms did when customs tariffs were abolished thirty years ago.

Comparison with the regulatory frameworks governing the operations of the credit institutions of the other main EEC countries shows that Italian banks are not disadvantaged. Unlike the legislation in some other countries, the 1936 Banking Law allows them to place securities with their customers, to belong to share underwriting and placement syndicates and to assist the flotation of companies in this way. Recently, the scope for banks to lend beyond the short term has been increased and standardized, while opportunities have been created for medium-term fund-raising. The Interministerial Committee for Credit and Savings has gradually eased the restrictions on equity investments and can be expected to move further in this direction.

Acquiring the trappings of an overseas presence does not signify preparing to meet international competition. In expanding abroad, banks need to be selective but at the same time to take an overall view, preferring to establish a branch here, to purchase a subsidiary there or to negotiate an agreement with foreign banks, depending on which method will most enhance the bank's ability to meet the financial needs of borrowers and investors in international markets.

The experience of banking systems that are already operating in conditions of complete freedom from exchange controls and freedom of establishment abroad shows that only a small number of banks have acquired multinational status. Even then, their main source of income has remained the business they do in their home countries, primarily in retail banking.

Community integration will bring the larger Italian banks into more direct competition with those of other countries. There will be even greater pressure on them to strengthen their structures and capital bases, to cut their costs, to make better use of their human resources and to focus on the most profitable sectors of the market. With a view to ensuring an active role for themselves in a larger and more diversified market, the leading banks and special credit institutions must assess the adequacy of their organization, range of operating and professional specializations and size. Mergers, even on a large scale, may prove desirable.

For Italian banks the outcome of the 1992 challenge will be decided first and foremost in Italy. It will be won by defending traditional markets and customers through improvements in the quality of supply in the three basic areas of corporate finance, payment services and the management of households' savings, rather than by entering new markets and fields of activity, which can often prove costly.

The profits of banks and special credit institutions were lower on average in 1987 than in the previous two years, with considerable differences between the results of individual institutions. The adverse effect of their rigid cost structures on profitability is becoming more pronounced as a result of the disappearance of special factors that had boosted profits in recent years, some of them related to the performance of the securities market.

The banking system's awareness of the need to give higher priority to reducing costs and raising profitability is increasing, owing partly to the pressure exerted by the compulsory minimum capital ratios. Translating this awareness into action is not proving easy; the improvements in efficiency achieved by the less profitable institutions are still inadequate.

As regards corporate finance, excessive and technically indistinguishable lines of credit entail the risk of sudden large fluctuations in the amount of credit actually used. More active monitoring at each stage of the various types of loan is conducive to more balanced management of a bank's resources and a stable customer base. A close link between lending policy and conditions in the money market improves banks' situation as well as making for more efficient transmission of monetary policy stimuli generated by indirect instruments.

Similarly, on the liabilities side banks' operations can be made more effective by diversifying both fund-raising instruments and offering differentiated returns. Banks' balance sheets and profit and loss accounts would immediately benefit from the introduction of a rational set of prices and yields that distinguished between payment services and those involving the investment of savings. The development of fund-raising through the issue of certificates of deposit is a first step in this direction. Such a distinction would also facilitate the conduct of monetary policy.

Improvement of the mechanisms that make up the payment system in Italy is a precondition for customers to be supplied with rapid and reliable transfer services as well as prompt and complete information, for banks themselves to have the data they need for their treasury management, and for the efficiency of the interbank market to be increased. The Bank of Italy has already begun to implement the plans that were drawn up and published in April of this year in a follow-up document to the 1987 White Paper on the payment system. Far-reaching changes will be made to the architecture of the system through the widespread application of telematic procedures. Substantial improvements will stem from the exchange and settlement of out-of-town cheques in the clearing house, the direct debiting and crediting of accounts with the central bank and the creation of a single computerized interbank clearing system. The banks, both individually and collectively, must act promptly to develop the operating and data processing procedures needed to exploit the full potential of the new system.

As regards branches, the possibility of interbank sales, the elimination of the distinctions between the different categories and, most recently, the liberalization of the regulations on relocations give banks new freedom to exercise their entrepreneurial autonomy and reorganize their networks. Branches provide the foundation for customer relationships and are one of the most effective instruments for meeting competition, but they also generate costs and become a source of weakness if made to serve as an ostentatious symbol of a bank's rank. Streamlined branch offices with resources, products and delivery times that match the requirements of the area served are the key to rationalization, the necessary prerequisite for the future growth of the bank's network.

The more intense competition that is now a feature of banking markets must not impede the cooperation required to solve problems that concern the whole system. In some fields, such as the review of fund-raising techniques, a cooperative phase may be necessary if competition is to develop effectively. The bodies representing the banking system, and in particular the Italian Bankers' Association, provide the natural fora in which to discuss these matters, identify solutions to infrastructure problems and specify technical requirements.

Ladies and Gentlemen,

My remarks today have been concerned with action on two broad economic policy fronts: the action to be taken in Europe to create a genuine, united Community that can stand alongside the United States and Japan as a point of reference in the world economy, and the action required in Italy to achieve an efficient public sector that promotes growth and stability and does not squander resources.

The objectives towards which Europe is moving are those of a Community that appears to be reviving the ambitions of its founding fathers, namely the removal of all internal frontiers and the curbing of member countries' powers of veto. The objective of a true monetary union and the establishment of a European central bank is taking shape. The major disputes about minor issues appear to have subsided; though the road ahead is still arduous, the way is now clear for progress towards the completion of economic union, which will prepare the ground for political union and make it essential. The agenda is a demanding one, owing to the complexity of the problems to be resolved and the importance of the interests at stake. It will be a laborious process, never free of the risk of setbacks, but for the civilization to which we belong it is the only way to avoid losing the thread that was broken by two world wars and retied by those with the vision to imagine Europe as a community.

If this vision is to become reality, the European Community must adopt the correct approach to the fundamental choices it now faces. It must reconcile capital mobility with exchange rate stability by intensifying monetary cooperation to the point of establishing a common policy. It must recognize that the need for economic progress in vast backward regions of the Community is so great that individual countries will be able to enjoy soundly based monetary stability only if economic growth is achieved throughout the area. It must participate in international cooperation with unity of purpose and powers of action of its own. It must be the Europe of true equality, in which all member countries contribute to the formulation and implementation of policy.

Italy's commitment to this vision is profound and its contribution is essential. Both have their roots in the tradition of the Risorgimento and in a long-standing inclination towards a universal society. The more our country builds on its strengths and corrects its weaknesses, the more it can contribute to the construction of a solid common edifice, and the better it will be able to participate and progress within Europe. Being a part of Europe means accepting clearly defined obligations regarding the action to be taken.

Substantial progress towards the restoration of monetary stability has been achieved in the decade that is now drawing to a close. This major accomplishment, which some considered impossible only a few years ago, has been attained by determined, resolute action. Yet it is an incomplete success, vulnerable precisely for this reason and constantly jeopardized by pressures from competing corporatistic claims that must be resisted in the public interest.

The state of the public sector well illustrates the precariousness of our achievement. The disequilibria in the sector have grown worse owing to the inadequacy of the measures to redress the situation; they are obstructing the economy's productive forces and sapping their vitality.

There is a close link between the construction of a unified Europe, which is now under way and in which we wish to be active participants, and the righting of our public finances, so that decisions regarding these two spheres must be taken and implemented in tandem. Italy generates 19 per cent of the Community's total GDP but accounts for 29 per cent of its public debt. The quality of some of our basic public services is below that of an advanced society. The shortcomings of the public sector penalize the entire economy, because economic legislation, administrative efficiency, transportation, telecommunications, urban organization, education and scientific research are major factors in overall competitiveness.

With the advent of complete capital mobility, a large and growing public debt makes the task of monetary management more arduous. The state's continuous massive borrowing imposes an economic cost and a financial constraint that impede not only economic growth but also the resolution of Italy's fundamental problems, namely unemployment and the South.

For a country with Italy's resources and powers of initiative, the damage implicit in an inefficient public sector and seriously unbalanced public finances is not so much the danger of sudden explosions, or of economic and social crises, but rather the day-to-day reality of constant waste, unrealized development potential and the threat of a resurgence of inflation, which has not been entirely defeated.

When the inflationary spiral was carrying Italy away from the rest of Europe, we set out the conditions and institutional changes required to restore stability. We believed that this could be achieved if the arrangements and attitudes most directly barring the way were altered. At the same time we warned against the illusion that dramatic crises could produce miraculous cathartic effects. Without trauma, some established mechanisms and patterns of behaviour have been changed substantially, to the benefit of all.

The same resolution and commitment are required today.

A chronic budget deficit and a level of public debt that is a burden on this and future generations point to unresolved problems transcending economics and finance. They concern the foundations of our institutions, the rules of civilized society; they affect the relationship between individual risk and social solidarity; they impinge on both the linkage between economic life and public administration and the consistency between policy choices and resource constraints.

In its procedures for authorizing and financing expenditure and monitoring the quality of public services, Italy follows rules and practices that are incompatible with sound finances. Each of these aspects has been analyzed in a number of fora, and each of them has been the subject of concrete proposals that have been successfully tested in other countries. All of these proposals accord with the Constitution and many of them reinforce and apply its principles.

Procedural reform must be accompanied by measures to improve the balance between expenditure and revenue: an incomes policy that respects general economic constraints and rewards skill and productivity, a closer link between welfare expenditure and real need, greater efficiency in the health service to reduce costs and raise standards, a system of corporate subsidies aimed more directly at overcoming regional disparities, and a more rigorous and equitable tax system, especially as regards tax evasion and avoidance.

It is not true that this means dismantling institutions of genuine social solidarity; on the contrary, sound public finances, in which consistency has been restored between resources and expenditure, will actually be more responsive to society's expectations, and more just. It is not true that the action to be taken is beyond our capability. Nor does the state of the economy prevent an immediate start being made; indeed, the present phase of growth, which is particularly vigorous in all the components of domestic demand, calls for action to curb an expansion that is already beginning to conflict with the balance-of-payments constraint.

The Government's financial rehabilitation plan is based on a sound diagnosis and it sets forth the guidelines for action. The sectoral measures that will give practical force to the plan need to be taken with urgency. A sharp reversal of the trend in Italy's public finances is a sine qua non for remaining on a truly equal footing in the European Community. It is essential if the progress made hitherto is to be consolidated and translated into economic growth on the scale the nation's resources permit and its needs demand.

STATISTICAL APPENDIX

LIST OF TABLES

SOURCES AND

(seasonally

	QUARTERLY NATIONAL ACCOUNT								
	SOURCES								TOTAL
	Agriculture forestry and fisheries (1)	Industry (1)	Market services (1)	Imputed output of bank services (−)	Non-market services (1)	Indirect taxes on imports	GDP	Imports of goods and services	
	(billions of lire at 1980 prices)								
1980	22,305	152,506	166,494	16,607	45,730	20,004	*390,432*	93,561	*483,993*
1981	22,433	151,605	170,112	16,208	46,726	20,204	*394,872*	90,020	*484,892*
1982	21,842	148,670	173,745	16,072	47,519	20,123	*395,827*	89,401	*485,228*
1983	23,663	148,197	176,112	16,348	48,164	20,198	*399,986*	87,930	*487,916*
1984	22,803	151,844	184,603	16,538	49,059	20,908	*412,679*	97,586	*510,265*
1985	22,904	154,135	193,546	17,530	49,839	21,687	*424,581*	102,145	*526,726*
1986	23,424	158,269	200,063	18,021	50,538	22,558	*436,831*	106,958	*543,789*
1987	23,735	163,062	207,562	18,602	51,038	23,602	*450,397*	117,644	*568,041*
1981 - I	5,610	37,912	41,696	4,101	11,600	5,012	*97,792*	22,029	*119,758*
II	5,597	38,233	42,447	4,058	11,656	5,068	*98,944*	22,801	*121,745*
III	5,659	37,687	42,768	4,049	11,709	5,054	*98,828*	22,347	*121,176*
IV	5,567	37,772	43,201	4,001	11,761	5,070	*99,370*	22,842	*122,213*
1982 - I	5,560	37,703	43,973	4,015	11,815	5,104	*100,140*	23,466	*123,606*
II	5,424	37,505	43,717	4,016	11,862	5,058	*99,550*	22,906	*122,456*
III	5,342	36,807	42,980	4,026	11,903	4,976	*97,982*	22,039	*120,021*
IV	5,516	36,656	43,076	4,015	11,939	4,984	*98,156*	20,990	*119,146*
1983 - I	5,860	37,004	42,734	4,019	11,971	4,973	*98,523*	21,536	*120,059*
II	5,801	36,912	43,371	4,092	12,013	4,991	*98,997*	21,822	*120,818*
III	6,042	36,983	44,533	4,117	12,062	5,080	*100,583*	22,524	*123,107*
IV	5,960	37,298	45,475	4,120	12,118	5,154	*101,884*	22,048	*123,931*
1984 - I	5,644	37,807	45,423	4,041	12,181	5,168	*102,182*	23,566	*125,748*
II	5,859	37,773	45,812	4,068	12,239	5,205	*102,820*	24,018	*126,838*
III	5,701	38,066	46,297	4,159	12,294	5,242	*103,441*	24,486	*127,927*
IV	5,599	38,199	47,071	4,270	12,345	5,293	*104,237*	25,516	*129,752*
1985 - I	5,496	38,392	47,781	4,389	12,391	5,346	*105,017*	25,400	*130,417*
II	5,695	38,423	48,298	4,427	12,437	5,400	*105,826*	25,415	*131,240*
III	5,854	38,587	48,384	4,338	12,483	5,440	*106,410*	25,059	*131,468*
IV	5,858	38,733	49,084	4,376	12,528	5,502	*107,328*	26,272	*133,600*
1986 - I	5,549	38,831	49,010	4,379	12,582	5,492	*107,086*	26,830	*133,916*
II	5,979	39,432	49,905	4,466	12,620	5,625	*109,094*	26,103	*135,197*
III	6,002	39,808	50,538	4,564	12,653	5,701	*110,138*	27,692	*137,830*
IV	5,894	40,199	50,610	4,612	12,683	5,739	*110,513*	26,333	*136,846*
1987 - I	5,923	40,165	51,115	4,679	12,709	5,790	*111,023*	28,136	*139,160*
II	5,929	40,805	51,723	4,752	12,740	5,883	*112,328*	29,122	*141,450*
III	5,937	40,863	52,504	4,631	12,775	5,957	*113,405*	29,539	*142,944*
IV	5,946	41,229	52,220	4,540	12,814	5,972	*113,641*	30,847	*144,488*

Source: Istat.
(1) Value added at market prices.

Table al

USES OF INCOME

adjusted data)

USES						HOUSEHOLDS' DOMESTIC CONSUMPTION					
						BY TYPE OF GOOD				BY TYPE OF CONSUMPTION	
Buildings and public works	Machinery, equipment and vehicles	Households' consumption	Collective consumption	Change in stocks	Exports of goods and services	Consumer	Semi-durable	Durable	Services	Food	Non-food
						(billions of lire at 1980 prices)					
49,915	44,865	244,126	58,055	9,694	77,338	95,330	49,369	27,073	72,354	63,758	180,368
49,195	43,406	247,788	59,600	1,787	83,116	96,311	49,231	27,938	74,308	63,929	183,859
45,942	41,343	250,402	61,319	4,021	82,201	97,972	47,594	28,086	76,750	65,022	185,380
46,439	40,721	252,067	63,093	1,527	84,069	100,082	46,783	27,347	77,855	65,977	186,090
46,428	45,333	258,165	64,722	5,165	90,452	102,011	47,640	28,487	80,027	66,567	191,598
46,166	47,907	265,793	67,004	5,928	93,928	104,073	49,004	30,140	82,576	66,911	198,882
46,505	48,863	275,225	69,102	6,933	97,161	106,716	50,742	32,156	85,611	67,490	207,735
45,904	54,458	287,131	71,432	8,472	100,644	109,192	54,278	34,377	89,284	68,870	218,261
12,431	11,208	61,549	14,812	310	19,449	24,039	12,228	6,897	18,385	16,031	45,517
12,438	11,025	61,844	14,871	829	20,739	24,029	12,344	6,966	18,503	15,974	45,870
12,413	10,637	62,060	14,894	–308	21,479	24,058	12,370	6,971	18,662	15,938	46,122
11,912	10,537	62,336	15,023	957	21,449	24,185	12,289	7,104	18,758	15,986	46,350
11,487	10,662	62,495	15,147	2,152	21,662	24,329	12,136	7,138	18,892	16,125	46,370
11,344	10,488	62,583	15,383	1,481	21,178	24,486	11,910	7,054	19,132	16,261	46,322
11,582	10,140	62,733	15,348	481	19,736	24,591	11,798	7,023	19,322	16,343	46,390
11,529	10,052	62,592	15,441	–93	19,625	24,566	11,750	6,871	19,404	16,292	46,299
11,644	10,010	62,551	15,528	357	19,971	24,710	11,782	6,751	19,308	16,319	46,232
11,603	10,082	62,741	15,793	–134	20,734	24,930	11,650	6,722	19,439	16,457	46,284
11,633	10,094	63,123	15,817	885	21,555	25,162	11,664	6,832	19,464	16,571	46,551
11,559	10,535	63,653	15,954	421	21,809	25,280	11,687	7,043	19,643	16,630	47,022
11,578	10,935	64,248	15,964	1,026	21,997	25,456	11,724	7,083	19,985	16,675	47,573
11,572	11,068	64,457	16,095	1,565	22,079	25,413	11,965	7,078	20,001	16,582	47,875
11,680	11,619	64,521	16,219	804	23,083	25,480	11,947	7,108	19,985	16,615	47,906
11,598	11,711	64,939	16,444	1,767	23,293	25,662	12,003	7,218	20,056	16,695	48,244
11,532	12,014	65,473	16,540	1,532	23,325	25,835	12,007	7,380	20,251	16,739	48,734
11,571	11,954	66,203	16,666	1,786	23,059	25,963	12,177	7,507	20,556	16,738	49,465
11,438	11,945	66,819	16,831	1,250	23,184	26,083	12,296	7,590	20,850	16,729	50,090
11,624	11,993	67,297	16,967	1,360	24,359	26,192	12,523	7,663	20,918	16,705	50,592
11,621	11,678	67,787	17,128	2,092	23,610	26,343	12,558	7,836	21,051	16,724	51,063
11,662	12,301	68,315	17,258	612	25,049	26,536	12,584	7,963	21,233	16,778	51,537
11,728	12,259	69,117	17,278	2,473	24,974	26,837	12,652	8,077	21,551	16,924	52,193
11,494	12,625	70,006	17,438	1,756	23,528	27,000	12,950	8,281	21,775	17,064	52,942
11,410	13,141	70,872	17,645	2,271	23,821	27,017	13,413	8,429	22,014	17,138	53,733
11,544	13,961	71,747	17,810	1,847	24,540	27,220	13,707	8,602	22,218	17,207	54,540
11,466	13,539	72,126	17,974	1,318	26,520	27,343	13,645	8,728	22,409	17,211	54,914
11,483	13,817	72,387	18,003	3,035	25,763	27,613	13,513	8,618	22,643	17,313	55,074

Table a2

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

Sector	1980	1981	1982	1983	1984	1985	1986	1987
				Unit labour costs (1) *(Current lire per thousand lire of value added at 1980 prices)*				
Market goods and services	**682.8**	**814.3**	**954.9**	**1,101.7**	**1,192.0**	**1,286.1**	**1,351.1**	**1,411.2**
Agriculture, forestry and fisheries	927.3	1,033.5	1,142.6	1,324.1	1,466.3	1,577.7	1,622.8	1,681.6
Industry	613.4	735.7	862.8	971.8	1,028.0	1,112.9	1,155.2	1,195.2
Excluding construction	*607.5*	*713.2*	*830.6*	*933.0*	*988.8*	*1,063.1*	*1,095.7*	*1,123.4*
Energy products	*244.5*	*311.5*	*365.7*	*447.1*	*508.7*	*565.5*	*583.3*	*639.8*
Manufactures	*655.4*	*765.4*	*890.5*	*991.2*	*1,043.8*	*1,119.1*	*1,153.9*	*1,176.1*
Construction	*617.6*	*815.4*	*981.3*	*1,108.2*	*1,167.7*	*1,307.7*	*1,411.0*	*1,526.0*
Services	673.4	805.5	957.0	1,124.8	1,224.6	1,320.8	1,404.4	1,477.9
Distributive trades, lodging & catering	*550.1*	*678.3*	*818.9*	*945.1*	*1,047.6*	*1,171.6*	*1,213.5*	*1,277.0*
Transport & communications	*975.8*	*1,167.1*	*1,408.3*	*1,609.2*	*1,660.8*	*1,753.8*	*1,827.6*	*1,856.4*
Finance and insurance	*577.5*	*635.7*	*718.0*	*887.3*	*958.7*	*1,004.8*	*1,045.2*	*1,139.7*
Miscellaneous services	*539.9*	*663.0*	*784.7*	*936.4*	*1,059.5*	*1,144.2*	*1,299.8*	*1,378.6*
Non-market services	**980.3**	**1,257.3**	**1,444.1**	**1,666.3**	**1,855.1**	**2,040.6**	**2,195.4**	**2,445.4**
General government	983.0	1,268.3	1,452.9	1,678.2	1,873.6	2,056.9	2,215.9	2,468.2
TOTAL . . .	**722.0**	**876.8**	**1,024.0**	**1,180.8**	**1,282.9**	**1,386.5**	**1,462.3**	**1,548.2**
				Value added at market prices per full-time equivalent worker (1) *(thousands of lire at 1980 prices)*				
Market goods and services	**17,352.1**	**17,562.5**	**17,482.9**	**17,618.8**	**18,193.4**	**18,677.2**	**19,082.3**	**19,716.3**
Agriculture, forestry and fisheries	7,450.6	7,884.8	8,140.0	8,619.5	8,488.0	8,875.1	9,181.6	9,402.2
Industry	19,261.6	19,603.9	19,606.2	20,168.6	21,677.8	22,293.2	23,045.1	24,035.9
Excluding construction	*20,235.1*	*20,899.1*	*21,096.1*	*21,969.2*	*23,787.3*	*24,640.4*	*25,601.9*	*26,977.2*
Energy products	*79,388.2*	*77,915.6*	*77,032.2*	*73,980.8*	*73,081.0*	*73,001.6*	*75,023.0*	*75,151.4*
Manufactures	*18,355.1*	*18,996.1*	*19,202.1*	*20,158.1*	*21,963.1*	*22,800.2*	*23,683.0*	*25,055.4*
Construction	*15,861.7*	*15,308.9*	*14,786.7*	*14,530.2*	*14,965.4*	*14,813.8*	*14,841.6*	*14,642.4*
Services	19,287.4	19,078.7	18,589.5	18,333.9	18,383.5	18,709.8	18,872.1	19,369.7
Distributive trades, lodging & catering	*17,477.8*	*17,274.2*	*16,797.8*	*16,570.8*	*16,597.9*	*16,976.0*	*17,326.5*	*17,843.4*
Transport & communications	*15,825.5*	*15,671.6*	*15,630.4*	*15,151.5*	*16,023.9*	*16,714.5*	*17,028.9*	*17,490.4*
Finance and insurance	*54,638.5*	*53,008.9*	*51,279.6*	*52,760.1*	*52,318.7*	*54,196.0*	*57,394.4*	*57,823.8*
Miscellaneous services	*19,007.1*	*19,031.7*	*18,499.7*	*18,064.7*	*17,781.5*	*17,608.8*	*16,971.0*	*17,426.1*
Non-market services	**12,542.2**	**12,515.0**	**12,468.6**	**12,407.3**	**12,390.5**	**12,345.2**	**12,371.3**	**12,378.2**
General government	13,399.4	13,387.0	13,412.2	13,464.0	13,459.2	13,463.0	13,485.3	13,482.3
TOTAL . . .	**16,557.2**	**16,708.3**	**16,621.4**	**16,712.6**	**17,168.2**	**17,545.9**	**17,880.4**	**18,392.7**

Source: *Istat.*
(1) Net of renting of buildings.

INDUSTRIAL PRODUCTION BY ECONOMIC PURPOSE

(indices, 1980=100; seasonally adjusted)

	FINAL INVESTMENT GOODS				FINAL CONSUMER GOODS				INTERMEDIATE GOODS				MANUFAC-TURING	OVERALL INDEX
	For industry	Transport equipment	Multi-sector	Total	Durable	Semi-durable	Non-durable	Total	For industry	For consumer goods	Mixed purpose	Total		
1978	90.6	78.4	72.6	82.1	88.6	82.0	87.3	86.3	85.6	93.8	94.4	93.1	87.9	*88.8*
1979	89.1	82.4	88.6	87.7	94.0	94.9	94.3	94.4	91.6	100.4	97.8	97.6	94.1	*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	*100.0*
1981	101.2	114.5	100.8	103.4	90.7	99.9	102.3	97.4	98.8	100.4	95.8	97.4	98.4	*98.4*
1982	88.3	112.7	105.2	95.8	88.8	101.1	103.9	97.6	91.0	99.4	91.9	93.7	95.1	*95.4*
1983	79.5	121.0	110.3	92.6	85.3	92.0	104.7	94.2	86.6	96.0	89.8	90.9	92.0	*92.3*
1984	77.7	119.4	126.5	94.4	88.0	94.5	106.0	96.3	87.6	102.6	93.8	95.2	95.3	*95.4*
1985	80.3	118.0	144.2	99.2	88.2	92.2	110.8	97.5	86.0	103.5	93.4	94.9	96.3	*96.5*
1986	82.5	131.0	145.5	103.1	93.7	94.3	113.7	101.1	86.5	103.9	95.7	96.5	98.8	*99.2*
1987	84.2	137.1	145.4	105.2	101.4	89.9	120.0	104.9	87.3	110.7	100.3	101.1	102.7	*103.1*
1981 - I	101.7	110.7	104.6	103.8	92.3	96.1	99.2	95.8	99.4	97.8	97.6	97.9	98.3	*98.2*
II	105.6	115.4	101.1	106.4	92.3	100.1	102.1	98.0	101.0	101.8	96.1	98.3	99.7	*99.5*
III	100.4	117.8	100.3	103.4	89.9	101.4	103.4	98.0	98.5	100.4	94.9	96.8	98.3	*98.3*
IV	96.9	114.1	97.2	99.9	88.2	101.9	104.7	97.9	96.4	101.5	94.7	96.7	97.5	*97.7*
1982 - I	95.6	114.0	104.3	100.5	90.1	103.6	104.3	98.9	96.7	102.1	95.4	97.3	98.2	*98.4*
II	90.0	111.9	105.6	96.8	89.1	101.8	102.2	97.4	92.5	98.1	92.8	94.1	95.4	*95.7*
III	86.0	112.7	107.2	94.8	88.2	100.1	104.1	97.3	88.5	101.2	91.3	93.4	94.7	*95.0*
IV	81.6	112.2	103.7	91.2	87.7	98.8	105.0	97.0	86.4	96.3	88.2	90.0	92.3	*92.6*
1983 - I	80.7	113.8	105.0	91.2	86.2	96.8	104.9	95.9	85.9	94.7	87.3	89.0	91.4	*91.7*
II	77.4	119.1	109.5	90.8	83.5	91.5	104.8	93.4	86.0	93.9	88.2	89.4	90.6	*91.0*
III	79.8	122.5	112.2	93.5	85.5	91.6	103.3	93.6	86.5	95.5	90.7	91.3	92.2	*92.5*
IV	80.0	128.7	114.5	95.1	86.2	88.2	105.9	93.9	87.9	100.0	93.0	94.1	93.9	*94.2*
1984 - I	77.6	121.9	112.3	92.0	86.0	88.5	103.6	93.1	87.2	99.7	92.8	93.8	92.8	*93.2*
II	77.3	115.0	119.3	91.9	88.1	95.8	106.4	96.8	86.7	102.5	94.3	95.3	95.0	*95.3*
III	78.3	123.5	132.2	96.6	90.2	95.4	107.7	98.0	89.0	103.9	95.0	96.4	97.0	*97.0*
IV	77.7	117.2	142.3	97.0	87.6	98.2	106.4	97.3	87.6	104.2	93.2	95.2	96.4	*96.2*
1985 - I	77.9	118.2	149.0	98.6	88.6	92.7	108.0	96.7	84.4	102.9	94.1	94.9	95.8	*96.2*
II	79.6	117.3	144.4	98.6	88.4	92.1	111.8	97.9	87.7	104.1	92.9	95.0	96.5	*96.6*
III	81.5	115.4	141.8	99.0	87.9	92.7	111.7	97.8	86.3	103.9	92.8	94.7	96.4	*96.5*
IV	82.3	121.0	141.8	100.5	88.1	91.6	111.8	97.6	85.6	103.2	93.7	95.0	96.6	*96.8*
1986 - I	83.7	126.8	139.8	102.0	90.4	96.9	114.0	100.7	86.1	106.0	94.7	96.4	98.8	*98.8*
II	82.7	129.3	145.2	102.9	92.1	93.9	113.0	100.2	85.9	102.8	95.2	95.8	98.1	*98.5*
III	81.4	131.7	146.9	102.8	94.0	93.2	112.1	100.3	86.0	102.3	96.0	96.2	98.2	*98.7*
IV	82.2	136.5	150.1	104.7	98.3	93.3	115.6	103.2	87.9	104.6	96.7	97.4	100.2	*100.6*
1987 - I	81.8	133.2	148.6	103.6	100.4	91.9	116.7	103.9	84.6	107.6	98.2	98.7	100.9	*101.3*
II	85.5	138.6	145.4	106.3	102.3	91.3	117.8	104.8	88.0	112.1	100.3	101.6	103.3	*103.5*
III	84.5	131.9	137.8	103.0	99.4	87.9	122.6	104.6	88.4	111.5	99.4	100.9	102.0	*102.5*
IV	85.0	144.5	149.8	107.8	103.6	88.5	122.9	106.3	88.1	111.7	103.2	103.2	104.7	*105.1*

Source: Based on Istat data.

WHOLESALE PRICES BY ECONOMIC PURPOSE (1)

(indices, 1980 = 100)

	Overall index	Final consumer goods				Final capital goods	Raw materials and intermediate goods		
		Food	Other non-durable goods	Durable goods	Total		Energy (2)	Non-energy (2)	Total
1978	72.1	81.7	71.2	74.2	76.5	75.2	51.9	71.1	68.2
1979	83.3	90.0	80.2	84.6	85.4	84.5	63.6	84.7	81.4
1981	116.6	114.6	116.7	112.8	114.9	119.4	139.9	113.4	117.5
1982	132.8	133.4	134.6	125.0	131.9	137.1	161.9	127.3	132.6
1983	145.7	147.4	153.3	136.4	146.8	155.0	176.9	137.0	143.2
1984	160.8	161.4	170.4	147.7	161.2	170.2	200.0	151.3	158.8
1985	172.6	173.4	188.2	158.2	174.6	183.5	216.2	160.5	169.1
1986	171.1	178.4	192.6	165.3	179.9	194.1	146.1	162.5	159.9
1987	175.6	180.5	204.4	171.8	186.1	205.9	146.9	164.6	161.9
1981 - I	109.2	107.2	110.6	107.8	108.4	111.4	123.7	106.9	109.4
II	114.8	113.1	113.9	110.3	113.1	117.6	138.6	111.5	115.8
III	118.9	115.6	117.7	113.7	116.0	122.5	147.9	115.4	120.5
IV	123.6	122.5	124.5	116.1	122.0	126.1	149.5	119.8	124.3
1982 - I	127.6	127.6	127.2	120.4	125.8	130.9	150.7	124.3	128.4
II	130.2	130.4	129.3	124.1	128.7	135.6	153.8	126.1	130.4
III	134.4	135.3	137.0	126.1	133.8	138.6	166.0	128.2	134.0
IV	138.9	140.3	144.9	129.4	139.3	143.3	177.1	130.6	137.7
1983 - I	141.1	142.8	148.9	132.4	142.4	148.6	173.3	132.5	138.8
II	143.4	144.5	152.0	135.2	144.7	153.3	171.7	134.9	140.5
III	146.7	148.8	153.9	137.3	147.8	156.8	177.8	137.9	144.0
IV	151.6	153.7	158.4	140.6	152.3	161.2	184.8	142.8	149.3
1984 - I	156.4	157.3	166.3	143.6	157.0	166.0	192.2	147.3	154.2
II	159.9	161.3	168.8	146.9	160.4	169.2	195.1	151.0	157.8
III	161.9	162.5	170.9	148.9	162.1	171.2	200.8	152.6	160.0
IV	165.0	164.4	175.6	151.4	165.0	174.5	211.9	154.4	163.2
1985 - I	169.5	168.3	182.3	155.1	169.7	179.5	222.6	157.5	167.5
II	173.2	174.2	188.2	157.9	174.9	182.8	222.0	160.6	170.1
III	173.1	174.1	189.7	158.8	175.6	184.7	210.9	161.5	169.1
IV	174.7	176.9	192.5	160.8	178.2	187.1	209.2	162.5	169.7
1986 - I	173.8	178.8	191.1	163.0	179.1	191.7	181.8	163.5	166.3
II	170.7	178.3	191.1	164.8	179.3	193.4	144.9	162.6	159.8
III	169.3	177.7	191.8	166.0	179.5	194.9	127.6	161.9	156.6
IV	170.5	178.6	196.4	167.2	181.6	196.2	130.3	161.9	157.0
1987 - I	173.1	179.8	198.9	170.3	183.7	201.6	142.0	162.8	159.6
II	174.8	180.9	201.8	171.1	185.3	204.9	145.5	164.0	161.1
III	176.2	179.1	206.5	172.3	186.2	207.0	151.4	164.8	162.8
IV	178.3	182.2	210.6	173.6	189.2	210.0	148.8	166.8	164.0
1988 - I	180.2	185.3	211.4	176.0	191.4	213.9	143.0	169.4	165.2

Source: Istat.

(1) The pre-1981-I figures were obtained by dividing the figures of the 1976-based index by the conversion factor linking the 1976 and 1980-based series with reference to the 1980 average. – (2) Based on Istat data.

CONSUMER PRICES (1)

(indices, 1985=100)

	POPULATION AS A WHOLE												WORKER AND EMPLOYEE HOUSEHOLDS					
		Goods				Other than food & services								Categories of expenditure				
	Overall index	food	non-food	total	Services	clothing & footwear	housing, fuel & electricity	furniture, furnishings, etc.	medical care and health	transport & communications	recreation, entertainment, education, & cultural services	other goods & services	Overall index	food	clothing	electricity & other fuels	housing	miscellaneous expenditure
1978	37.8	42.4	36.6	39.5	33.9	38.2	28.4	39.9	36.3	36.5	39.2	32.4	37.4	42.5	39.2	25.0	31.9	35.0
1979	43.4	48.0	42.1	45.0	39.6	43.5	35.0	45.0	40.9	42.1	44.4	38.3	43.3	48.3	44.7	29.9	40.1	40.8
1980	52.5	55.5	53.9	54.6	47.8	52.5	46.9	54.3	49.4	52.4	52.7	49.8	52.4	55.4	53.4	45.3	47.7	51.3
1981	61.9	64.5	63.1	63.8	57.6	61.5	56.4	64.3	60.6	61.8	61.0	59.6	62.2	64.4	62.5	57.3	55.5	61.8
1982	72.1	75.1	73.1	74.0	67.7	71.4	67.1	74.2	70.4	72.1	69.6	69.9	72.4	74.7	72.4	69.8	64.7	71.9
1983	82.7	84.3	83.4	83.8	80.0	81.1	79.8	83.8	78.6	84.4	81.8	81.5	83.3	84.4	82.2	82.5	77.2	83.4
1984	91.6	92.0	92.0	92.0	90.6	90.3	93.2	91.8	87.6	93.4	91.0	90.6	92.1	92.1	91.1	91.7	95.0	91.9
1986	105.9	105.5	103.7	104.5	108.9	108.3	100.6	106.4	104.6	104.3	109.0	108.3	106.1	105.3	108.4	94.0	108.5	107.2
1987	110.9	110.0	108.3	109.0	114.9	115.5	103.7	111.8	109.8	107.8	113.8	115.6	111.0	109.5	115.5	93.9	115.6	112.2
1981 - I	58.3	60.6	59.7	60.1	54.3	58.1	52.5	60.6	57.7	58.5	58.5	56.0	58.7	60.6	59.3	51.7	53.3	58.5
II	60.9	63.5	62.2	62.8	56.6	60.5	55.2	63.5	59.8	60.6	59.8	58.9	61.2	63.4	61.5	56.0	54.3	60.9
III	62.7	65.6	63.8	64.6	58.4	61.6	57.7	65.2	61.3	62.5	61.4	60.5	63.0	65.3	62.5	59.6	55.6	62.7
IV	65.6	68.5	66.8	67.6	61.1	65.8	60.1	67.8	63.8	65.3	64.2	63.1	66.0	68.3	66.9	61.9	58.9	65.3
1982 - I	68.3	71.2	69.1	70.0	64.1	67.7	62.9	70.4	67.1	67.5	66.8	66.3	68.5	70.8	68.7	64.3	61.5	68.0
II	70.3	73.0	71.1	72.0	66.5	70.2	64.6	73.1	69.8	69.1	68.4	68.8	70.6	72.5	71.2	66.0	63.5	70.3
III	73.2	76.7	74.1	75.3	68.5	71.4	67.9	75.0	71.5	73.9	70.4	70.8	73.6	76.3	72.5	71.4	64.7	73.0
IV	76.5	79.4	78.0	78.6	71.6	76.2	73.2	78.2	73.1	77.7	72.8	73.8	77.0	79.2	77.3	77.2	69.3	76.3
1983 - I	79.3	81.3	80.3	80.7	75.9	77.8	75.9	80.8	75.0	80.2	78.4	78.1	79.8	81.2	78.9	79.6	72.0	79.8
II	81.6	83.2	82.4	82.8	78.8	80.0	77.1	83.0	78.8	83.7	81.1	80.4	82.1	83.2	81.3	80.5	73.6	82.7
III	83.5	85.3	84.0	84.6	80.8	81.1	79.1	84.6	79.8	85.5	82.8	82.7	84.1	85.5	82.3	83.3	75.0	84.5
IV	86.3	87.5	86.8	87.1	84.5	85.4	86.9	86.9	80.9	88.0	85.1	84.8	87.0	87.8	86.3	86.7	88.3	86.6
1984 - I	88.9	89.6	89.6	89.6	87.2	87.1	91.4	89.1	82.3	91.0	87.9	87.6	89.5	89.7	88.0	90.8	92.9	89.2
II	90.9	91.6	91.3	91.5	89.5	89.1	92.9	90.9	86.5	92.3	90.3	89.7	91.4	91.7	90.2	91.2	94.7	91.1
III	92.2	92.6	92.3	92.4	91.6	90.2	93.3	92.3	89.5	94.3	91.8	91.4	92.6	92.7	91.1	91.0	95.6	92.7
IV	94.4	94.2	95.0	94.6	94.0	94.7	95.1	94.8	91.9	96.0	94.0	93.8	94.7	94.4	95.2	93.8	96.6	94.8
1985 - I	97.1	96.9	97.2	97.0	97.4	96.5	98.1	97.2	97.6	97.8	97.4	96.8	97.2	97.0	96.8	99.1	97.5	97.3
II	99.4	99.5	99.6	99.5	99.3	99.1	100.0	99.4	99.7	99.8	99.1	99.3	99.4	99.4	99.1	101.5	98.7	99.4
III	100.6	100.8	100.5	100.6	100.6	100.2	99.5	100.7	100.8	100.5	100.6	101.1	100.5	100.8	100.1	98.9	99.5	100.7
IV	102.8	102.9	102.8	102.8	102.8	104.2	102.4	102.7	102.0	101.9	102.9	102.9	102.8	102.8	104.0	100.6	104.2	102.5
1986 - I	104.4	104.4	103.0	103.6	106.3	105.4	102.0	104.3	102.8	103.3	107.4	105.6	104.6	104.1	105.5	98.5	105.8	105.2
II	105.5	105.2	103.3	104.1	108.5	107.5	101.0	106.0	104.5	104.1	108.2	107.7	105.8	104.9	107.5	95.3	107.5	106.8
III	106.1	105.8	103.6	104.5	109.5	108.5	99.3	106.9	105.1	104.7	109.5	109.0	106.4	105.5	108.5	92.0	108.3	107.8
IV	107.4	106.8	104.8	105.7	111.2	111.7	100.1	108.4	105.8	105.3	110.7	110.8	107.7	106.5	111.9	90.4	112.3	108.8
1987 - I	108.9	108.6	105.9	107.1	112.9	113.2	101.6	109.8	107.1	106.0	111.6	113.1	109.1	108.1	113.2	91.8	113.7	110.2
II	110.2	109.6	107.3	108.3	114.4	114.8	102.7	111.3	109.6	106.8	112.4	115.0	110.2	109.0	114.9	92.6	115.0	111.3
III	111.3	110.0	108.9	109.4	115.5	115.5	104.1	112.2	110.9	108.4	114.8	116.4	111.4	109.5	115.5	94.7	115.8	112.9
IV	113.1	111.9	111.0	111.4	116.9	118.4	106.2	113.8	111.7	109.9	116.5	117.9	113.3	111.5	118.4	96.5	118.1	114.5
1988 - I													114.5	112.1	119.5	95.9	120.2	116.2

Source: Istat.

(1) The pre-1986-I figures were obtained by dividing the figures of the 1980-based index by the conversion factor linking the 1980 and 1985-based series with reference to the 1985 average.

BALANCE OF PAYMENT

(billions

	CURRENT ACCOUNT							CAPITAL MOVEMENTS	ERRORS & OMISSIONS (3)	OVERALL BALANCE
	Goods (2)	Freight	Foreign travel	Emigrants' remittances	Income from capital	Other services	Total			
Rece										
1978	45,992	1,507	5,334	1,655	1,721	4,587	*60,796*	4,829	236	–
1979	55,021	1,863	6,816	2,005	2,746	6,077	*74,528*	7,603	272	–
1980	65,419	2,346	7,032	2,211	4,067	7,584	*88,659*	10,422	–	–
1981 (7) .	83,093	2,623	8,293	2,614	6,020	8,804	*111,447*	19,039	–	–
1982	94,866	2,634	10,879	3,166	7,067	11,048	*129,660*	19,324	–	–
1983	103,614	2,975	13,098	3,447	5,722	12,953	*141,809*	18,390	–	–
1984	120,408	3,859	14,437	3,865	7,668	16,540	*166,777*	28,543	3,772	–
1985	138,470	4,548	15,953	4,048	8,695	20,017	*191,731*	41,777	–	–
1986	134,371	4,116	14,691	3,945	7,031	19,238	*183,392*	57,062	–	–
1987	140,756	4,121	15,782	3,510	6,897	21,265	*192,331*	73,470	–	–
Pay										
1978	45,996	–	1,024	–	2,656	5,815	*55,491*	3,374	–	–
1979	62,247	–	1,252	–	3,418	6,677	*73,594*	6,985	–	–
1980	83,770	–	1,634	–	5,040	8,361	*98,805*	6,318	216	–
1981 (7) .	97,110	–	1,600	–	10,171	10,241	*119,122*	9,278	553	–
1982	112,055	–	1,951	–	12,882	12,820	*139,708*	11,474	323	–
1983	112,791	–	2,144	–	12,140	14,028	*141,103*	15,218	85	–
1984	138,760	–	3,025	–	15,222	17,024	*174,031*	25,004	–	–
1985	157,155	–	3,591	–	17,191	21,555	*199,492*	37,055	5,313	–
1986 (8) .	139,087	–	4,338	–	17,290	23,988	*184,703*	57,119	1,597	–
1987	148,942	–	5,880	–	16,770	23,883	*195,475*	68,716	408	–
Bal										
1978	–4	1,507	4,310	1,655	–935	–1,228	*5,305*	1,455	236	*6,996*
1979	–7,226	1,863	5,564	2,005	–672	–600	*934*	618	272	*1,824*
1980	–18,351	2,346	5,398	2,211	–973	–777	*–10,146*	4,104	–216	*–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	–9,177	2,975	10,954	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*
1985	–18,685	4,548	12,362	4,048	–8,496	–1,538	*–7,761*	4,722	–5,313	*–8,352*
1986 (8) .	–4,716	4,116	10,353	3,945	–10,259	–4,750	*–1,311*	–57	–1,597	*–2,965*
1987	–8,186	4,121	9,902	3,510	–9,873	–2,618	*–3,144*	4,754	–408	*1,202*

(1) Rounding may cause discrepancies in totals. – (2) Imports cif, exports fob. – (3) As of 1985 unclassifiable capital movements and items in transit are included under the
sign indicates an increase in assets or a decrease in liabilities. – (6) Including the revaluation of ECUs issued against gold. – (7) New series for the item "Foreign travel". – (8) New

ON A SETTLEMENTS BASIS (1)

of lire)

CHANGES IN BANKS' NET EXTERNAL POSITION (4) (5)	CHANGES IN OFFICIAL RESERVES(5)									EXCHANGE RATE ADJUST-MENTS
	Gold	Convertible currencies	ECUs	SDRs	Reserve position in the IMF	Short-term liabilities	Medium & long-term position	Revaluation of gold (6)	Total	
ipts										
–	–	–	–	–	–	–	–	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*	957
–	2,357	7,258	6,019	468	133	–	428	–	*16,663*	–
5,006	4,327	2,197	–	–	232	81	188	–	*7,025*	–
5,452	–	–	–	–	21	–	53	5,762	*5,836*	473
ments										
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*	–
–	–	6,209	6	252	436	93	294	1,890	*9,180*	–
4,818	–	–	–	–	–	58	–	2,946	*3,004*	489
–	–	–	3,018	206	–	–	–	5,409	*8,633*	433
–	4,610	5,966	2,062	167	–	158	–	–	*12,963*	–
ance										
–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	–6,209	–6	–252	–436	–93	–294	–1,890	*–7,668*	957
–4,818	2,357	7,258	6,019	468	133	–58	428	–2,946	*13,659*	–489
5,006	4,327	2,197	–3,018	–206	232	81	188	–5,409	*–1,608*	–433
5,452	–4,610	–5,966	–2,062	–167	21	–158	53	5,762	*–7,127*	473

heading "Errors and omissions". – (4) The 1984 figures have been adjusted for the arrangements regarding the foreign assets of Banco Ambrosiano in liquidation. – (5) A minus series for the items "Foreign travel" and "Income from capital".

MAIN ITEMS OF THE BALANCE OF

(billions

	CURRENT ACCOUNT									
	GOODS (FOB)						SERVICES & TRANSFERS		CURRENT ACCOUNT BALANCE	
	Imports		Exports		Balance		Balance		Un-adjusted *(5+7)*	Seasonally 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)*
1978	44,587		47,047		2,460		2,801		*5,261*	
1979	60,069		59,278		–791		5,344		*4,553*	
1980	80,464		65,972		–14,492		5,960		*–8,532*	
1981	99,944		86,687		–13,257		2,956		*–10,301*	
1982	110,292		98,332		–11,960		3,528		*–8,432*	
1983	113,162		109,449		–3,713		6,036		*2,323*	
1984	139,884		129,630		–10,254		5,940		*–4,314*	
1985	156,444		144,516		–11,928		4,817		*–7,111*	
1986	137,446		143,729		6,283		–2,492		*3,791*	
1987	*150,308*		*150,449*		*141*		*–1,427*		*–1,286*	
1983 - I	27,268	26,156	25,551	26,117	–1,717	–39	–285	1,445	*–2,002*	1,406
II	28,087	27,639	27,261	26,753	–826	–886	2,319	1,873	*1,493*	987
III	26,315	28,943	26,242	27,545	–73	–1,398	2,914	1,052	*2,841*	–346
IV	31,492	30,424	30,395	29,034	–1,097	–1,390	1,088	1,666	*–9*	276
1984 - I	34,183	32,804	31,786	32,496	–2,397	–308	–708	973	*–3,105*	665
II	33,692	33,092	31,277	30,683	–2,415	–2,409	2,013	1,472	*–402*	–937
III	33,373	36,739	31,263	32,785	–2,110	–3,954	3,348	1,517	*1,238*	–2,437
IV	38,636	37,249	35,304	33,666	–3,332	–3,583	1,287	1,978	*–2,045*	–1,605
1985 - I	40,849	39,306	34,171	34,988	–6,678	–4,318	244	2,449	*–6,434*	–1,869
II	39,629	38,889	36,606	35,922	–3,023	–2,967	1,782	1,183	*–1,241*	–1,784
III	35,732	39,483	35,112	36,831	–620	–2,652	1,736	–589	*1,116*	–3,241
IV	40,234	38,766	38,627	36,775	–1,607	–1,991	1,055	1,774	*–552*	–217
1986 - I	37,812	36,416	35,593	36,457	–2,219	41	–2,585	–581	*–4,804*	–540
II	35,333	34,765	36,684	36,024	1,351	1,259	224	–627	*1,575*	632
III	29,594	32,827	34,318	35,926	4,724	3,099	2,065	211	*6,789*	3,310
IV	34,707	33,438	37,134	35,322	2,427	1,884	–2,196	–1,495	*231*	389
1987 - I	35,900	34,493	34,678	35,586	–1,222	1,093	–1,752	98	*–2,974*	1,191
II	37,844	37,160	37,395	36,785	–449	–375	1,907	1,082	*1,458*	707
III	34,923	38,700	36,458	38,176	1,535	–524	645	–1,150	*2,180*	–1,674
IV	41,641	39,955	41,918	39,902	277	–53	–2,227	–1,457	*–1,950*	–1,510

(1) Rounding may cause discrepancies in totals. — (2) The 1984 figures are adjusted for the arrangements regarding the foreign assets of Banco Ambrosiano in

Table a7

PAYMENTS ONA TRANSACTIONS BASIS (1)

of lire)

CAPITAL MOVEMENTS			ERRORS AND OMISSIONS	CHANGES IN BANKS' NET EXTERNAL POSITION (2) (3)	CHANGES IN OFFICIAL RESERVES (3)	EXCHANGE RATE ADJUSTMENTS	OVERALL BALANCE (9+13+14) = −(15+16+17)
Medium and long-term	Short-term	Total					
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
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*
2,807	−305	2,502	−228	7,886	−1,946	318	*−6,258*
9,491	1,734	11,225	609	1,322	−2,208	−647	*1,533*
6,999	−2,065	4,934	977	−1,505	3,921	105	*−2,521*
997	616	1,613	−143	6,792	−11,183	598	*3,793*
2,610	−2,547	63	4,308	6,654	−7,668	957	*57*
4,669	1,532	6,201	−7,442	−4,818	13,659	−489	*−8,352*
−4,015	−189	−4,204	−2,552	5,006	−1,608	−433	*−2,965*
2,698	982	3,680	−1,192	5,452	−7,127	473	*1,202*
587	−169	418	−543	2,231	−137	33	*−2,127*
48	894	942	420	3,681	−6,554	18	*2,855*
499	146	645	−183	−1,122	−2,603	422	*3,303*
−137	−255	−392	163	2,002	−1,889	125	*−238*
960	262	1,222	−1,339	826	2,194	202	−3,222
−637	−1,492	−2,129	1,527	4,218	−3,189	−25	*−1,004*
1,147	−978	169	1,702	630	−4,287	548	*3,109*
1,140	−339	801	2,418	980	−2,386	232	*1,174*
2,997	169	3,166	−1,104	877	2,772	723	*−4,372*
2,003	1,012	3,015	−3,145	4,262	−2,386	−505	*−1,371*
1,676	760	2,436	−2,177	−4,138	2,906	−143	*1,375*
−2,007	−409	−2,416	−1,016	−5,819	10,367	−564	*−3,984*
−906	2,071	1,165	−3,057	5,190	1,697	−191	*−6,696*
3,018	−654	2,364	567	1,588	−6,144	50	*4,506*
−4,496	−754	−5,250	−1,074	−2,983	2,805	−287	*465*
−1,631	−852	−2,483	1,012	1,211	34	−5	*−1,240*
3,810	2,045	5,855	−893	3,333	−5,410	89	*1,988*
−3,791	−156	−3,947	−1,300	1,538	2,463	−212	*−3,789*
−2,548	−429	−2,977	1,068	−2,266	2,050	−55	*271*
5,227	−478	4,749	−67	2,847	−6,230	651	*2,732*

liquidation. — (3) Inclusive of the revaluation of gold and EMCF gold credits. A minus sign indicates an increase in assets or a decrease in liabilities.

Table a8

ITALY'S REAL EFFECTIVE EXCHANGE RATES (1)

(indices, 1980 = 100)

	13 industrial countries	EEC	Germany	France	UK	Belgium	Netherlands	US
1978	*93.1*	*94.2*	89.8	99.9	110.6	85.4	87.3	94.7
1979	*95.7*	*95.7*	92.0	99.9	106.7	90.0	93.2	99.2
1981	*98.0*	*101.3*	103.6	100.7	93.1	105.2	99.9	80.1
1982	*98.2*	*102.4*	101.4	104.3	95.2	115.5	99.2	74.3
1983	*100.7*	*106.2*	103.1	109.0	102.2	122.9	103.4	72.2
1984	*102.0*	*109.1*	106.7	110.9	104.4	128.0	105.1	67.4
1985	*100.4*	*107.1*	106.5	105.9	101.1	126.5	106.3	66.4
1986	*103.3*	*107.3*	104.3	104.4	109.4	126.1	114.8	88.6
1987	*105.5*	*107.7*	103.4	105.7	112.3	126.8	115.7	102.6
1981 - I	*99.0*	*101.3*	104.5	100.5	89.5	104.4	101.2	87.4
II	*97.6*	*101.0*	103.5	101.2	89.4	105.1	100.1	78.8
III	*98.2*	*102.3*	104.9	100.5	96.4	106.3	100.7	75.4
IV	*97.1*	*100.7*	101.6	100.7	97.2	105.1	97.6	78.9
1982 - I	*97.4*	*101.5*	102.3	101.6	94.6	110.5	99.0	76.7
II	*96.9*	*100.8*	100.2	101.0	94.3	114.8	98.8	75.2
III	*98.6*	*103.1*	101.1	107.2	94.0	117.2	98.9	72.7
IV	*99.9*	*104.3*	102.1	107.5	97.8	119.5	100.0	72.7
1983 - I	*101.6*	*106.3*	103.1	107.2	108.3	120.9	103.7	76.1
II	*100.6*	*105.7*	102.2	109.1	101.0	121.5	104.0	73.5
III	*100.2*	*106.1*	103.4	109.3	99.0	123.5	102.9	69.8
IV	*100.5*	*106.8*	103.8	110.2	100.3	125.5	102.9	69.4
1984 - I	*101.3*	*107.9*	104.9	111.0	102.0	127.4	103.6	69.6
II	*102.0*	*108.6*	105.9	110.7	103.7	127.8	104.6	69.9
III	*102.3*	*109.6*	107.4	111.0	104.8	128.1	105.7	66.1
IV	*102.4*	*110.3*	108.4	110.7	107.3	128.9	106.6	64.1
1985 - I	*102.9*	*111.4*	109.7	110.9	110.4	129.6	107.5	61.7
II	*101.3*	*108.5*	108.3	107.7	100.4	128.2	107.3	64.1
III	*98.4*	*104.3*	104.4	103.0	95.0	124.1	104.5	67.0
IV	*99.0*	*104.3*	103.8	101.8	98.6	124.0	105.8	73.0
1986 - I	*101.2*	*105.7*	103.9	102.2	105.8	124.9	110.8	81.0
II	*101.8*	*106.0*	103.9	103.9	102.4	124.9	114.5	85.3
III	*104.0*	*107.9*	104.3	105.4	110.6	126.9	116.4	92.4
IV	*106.2*	*109.4*	105.0	106.0	119.1	127.8	117.7	95.7
1987 - I	*106.3*	*108.5*	103.7	106.0	117.9	126.1	116.4	101.8
II	*105.0*	*107.2*	103.1	105.1	111.2	126.0	115.6	102.3
III	*104.9*	*107.4*	103.4	105.2	111.0	127.0	115.0	99.5
IV	*105.7*	*107.6*	103.2	106.4	109.2	127.9	115.9	106.8
1988 - I	*105.8*	*107.9*	*103.5*	*107.0*	*107.5*	*128.9*	*116.9*	*108.4*

Sources: Based on Istat, OECD and IMF data.
(1) Calculated with reference to the wholesale prices of manufactures in domestic and foreign markets.

Table a9

ITALY'S EXTERNAL POSITION

(amounts in billions of lire)

	1978	1979	1980	1981	1982	1983	1984 (1)	1985	1986	1987 (2)
Non-bank assets										
Direct investments	4.8	5.9	7.0	7.4	8.1	9.8	14.2	17.7	27.6	34.3
Portfolio and other investments	5.1	5.0	5.5	4.5	4.4	3.9	4.9	7.8	14.8	18.9
Loans	3.0	3.4	4.1	4.1	4.5	4.7	5.4	7.2	9.4	12.2
Trade credits	22.4	28.6	26.8	23.3	21.2	20.7	19.1	23.0	27.7	36.8
of which: short-term	*12.0*	*17.0*	*16.7*	*14.8*	*13.1*	*12.5*	*11.9*	*15.6*	*18.4*	*22.4*
TOTAL ...	**35.3**	**42.9**	**43.4**	**39.3**	**38.2**	**39.1**	**43.6**	**55.7**	**79.1**	**102.2**
Non-bank liabilities										
Direct investments	8.0	9.1	8.9	7.7	7.4	7.3	11.6	19.0	25.7	31.4
Portfolio and other investments	2.8	4.3	6.0	5.4	4.7	4.4	3.3	6.6	10.8	11.2
Private loans	11.1	9.9	12.4	17.9	21.2	21.0	19.4	20.1	23.4	31.3
Official loans	5.5	7.7	11.2	15.3	17.9	19.5	21.2	28.4	35.8	48.1
Trade credits	10.3	12.5	12.5	13.6	11.0	11.8	11.9	14.4	16.8	23.8
of which: short-term	*9.3*	*11.6*	*11.7*	*12.9*	*10.5*	*10.7*	*10.6*	*13.1*	*15.1*	*20.5*
TOTAL ...	**37.7**	**43.5**	**51.0**	**59.9**	**62.2**	**64.0**	**67.4**	**88.5**	**112.5**	**145.8**
Net non-bank position	**-2.4**	**-0.6**	**-7.6**	**-20.6**	**-24.0**	**-24.9**	**-23.8**	**-32.8**	**-33.4**	**-43.6**
Net position of banks	**-7.1**	**-8.5**	**-15.9**	**-13.4**	**-10.6**	**-12.9**	**-15.1**	**-14.5**	**-21.8**	**-29.9**
Net position of BI and UIC (3)	**9.3**	**17.9**	**22.4**	**19.3**	**13.7**	**19.7**	**20.6**	**15.3**	**19.4**	**29.5**
TOTAL NET POSITION	**-0.2**	**8.8**	**-1.1**	**-14.7**	**-20.9**	**-18.1**	**-18.3**	**-32.0**	**-35.9**	**-44.0**
(in trillions of lire)	*—0.2*	*7.1*	*—1.0*	*—17.6*	*—28.6*	*—30.0*	*—35.4*	*—53.7*	*—48.5*	*—51.4*
Memorandum items:										
– official gold reserves	14.3	20.1	36.7	29.0	23.7	26.2	21.6	23.6	26.1	34.1
– lira/dollar exchange rate	830	804	930	1,200	1,370	1,659	1,936	1,678	1,351	1,169

(1) New series for direct and portfolio investment, subject to further revision. – (2) Provisional. – (3) Assets are stated net of gold reserves but, as of 1979, inclusive of ECUs received in exchange for gold.

Table a10

CONSOLIDATED ACCOUNTS OF THE PUBLIC SECTOR

(billions of lire)

	1980	1981	1982	1983	1984	1985	1986	1987
REVENUE								
Current revenue	**133,607**	**166,818**	**207,448**	**256,550**	**287,426**	**325,338**	**367,420**	**405,274**
Direct taxes	37,608	51,293	67,439	85.329	93.885	106.408	116.239	131.490
Indirect taxes	33,522	38,297	46,649	57,987	67,283	72,698	81,680	92,919
Social security contributions								
Actual	44,488	53,130	67,217	79,126	86,955	97,116	111,369	121,816
Imputed	5,005	6,363	7,391	9,712	11,567	13,006	13,877	14,829
Income from capital	2,360	3,291	3,172	3,555	4,082	5,506	6,572	6,598
Sales of goods and services	6,014	8,096	9,980	11,927	14,059	16,429	19,057	21,243
Other	4,520	6,348	5,600	8,914	9,595	14,175	18,626	16,379
Capital account revenue	**708**	**1,189**	**1,860**	**913**	**1,367**	**1,419**	**1,611**	**1,621**
Total revenue	**134,315**	**168,007**	**209,308**	**257,463**	**288,793**	**326,757**	**369,031**	**406,895**
EXPENDITURE								
Current expenditure	**150,856**	**198,219**	**243,881**	**294,293**	**336,581**	**383,253**	**425,850**	**462,823**
Compensation of employees	49,073	65,468	76,213	88,296	99,834	111.207	120.740	135.714
Intermediate consumption	17,171	21,764	26,709	32,420	38,388	45,175	49,025	55,047
Social services	54,687	72,805	88,609	109,355	121,556	139,161	154,797	166,897
Subsidies to firms	6,255	6,539	8,437	11,335	11,842	13,835	15,918	16,884
Interest payments	20,648	28,799	39,265	47,933	59,265	66,653	78,061	80,691
Other	3,022	2,844	4,684	4,954	5,696	7,222	7,309	7,590
Capital account expenditure	**17,955**	**23,829**	**29,188**	**33,316**	**37,656**	**47,930**	**47,002**	**50,528**
Gross investment	13,856	19,024	23,259	27,165	31,160	35,158	37,676	40,910
Investment grants	3,365	4,777	5,887	5,884	6,042	7,340	8,596	8,957
Other	734	28	42	267	454	5,432	730	661
Total expenditure	**168,811**	**222,048**	**273,069**	**327,609**	**374,237**	**431,183**	**472,852**	**513,351**
Deficit on current account	**-17,249**	**-31,401**	**-36,433**	**-37,743**	**-49,155**	**-57,915**	**-58,430**	**-57,549**
Total deficit	**-34,496**	**-54,041**	**-63,761**	**-70,146**	**-85,444**	**-104,426**	**-103,821**	**-106,456**

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

Table a 11

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT (1)

(billions of lire)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Medium and long-term securities, excluding BI portfolio	14,178	12,175	–2,303	5,727	23,429	66,968	55,942	83,647	77,099	52,574
Treasury bills, in lire and ECUs, excluding BI portfolio	9,270	9,926	26,218	28,234	29,039	10,377	14,918	–1,878	8,369	32,239
Post Office funds	4,871	6,748	2,195	2,591	3,683	4,939	6,365	9,067	11,271	12,879
Lending by credit institutions	–140	2,558	752	988	5,193	5,699	8,711	–2,098	1,519	3,403
central government bodies	*32*	*490*	*343*	*819*	*783*	*–139*	*10*	*–89*	*–199*	*–96*
social security institutions	*155*	*255*	*280*	*–1,254*	*242*	*225*	*755*	*–2,203*	*66*	*470*
local authorities (2)	*–170*	*1,740*	*148*	*1,459*	*3,105*	*3,441*	*6,651*	*394*	*1,002*	*1,404*
autonomous government agencies	*–161*	*71*	*–74*	*–68*	*1,065*	*2,059*	*1,315*	*–307*	*597*	*1,611*
municipal enterprises	*5*	*2*	*55*	*33*	*–1*	*113*	*–19*	*107*	*52*	*14*
Other domestic debt	234	160	136	79	160	209	232	72	24	144
Foreign debt	273	581	787	2,515	2,570	1,298	2,353	3,031	872	6,029
Total	**28,686**	**32,148**	**27,785**	**40,134**	**64,074**	**89,490**	**88,521**	**91,840**	**99,153**	**107,269**
Borrowing from BI-UIC	5,024	343	9,930	13,692	12,589	1,259	13,726	27,479	10,980	7,020
of which: overdraft on BI account	*1,910*	*3,476*	*8,944*	*6,186*	*6,598*	*–8,622*	*18,554*	*6,340*	*4,525*	*9,274*
PUBLIC SECTOR BORROWING REQUIREMENT	**33,710**	**32,491**	**37,715**	**53,826**	**76,663**	**90,749**	**102,247**	**119,319**	**110,133**	**114,289**
Borrowing requirement net of settlements of past debts	*31,210*	*31,991*	*37,615*	*53,826*	*75,663*	*90,749*	*102,247*	*111,861*	*109,527*	*113,736*
Financing of ENEL	**898**	**1,068**	**2,790**	**1,056**	**3,389**	**2,138**	**1,765**	**1,115**	**77**	**1,335**
of which: bond issues	*867*	*209*	*471*	*–756*	*1,213*	*1,081*	*1,045*	*669*	*1,289*	*1,507*
loans from credit institutions	*–269*	*477*	*58*	*–109*	*794*	*–309*	*1,022*	*182*	*–666*	*–262*
borrowing abroad	*300*	*382*	*2,261*	*1,921*	*1,382*	*1,366*	*–302*	*264*	*–546*	*90*
BORROWING REQUIREMENT OF THE ENLARGED PUBLIC SECTOR	**34,608**	**33,559**	**40,505**	**54,882**	**80,052**	**92,887**	**104,012**	**120,434**	**110,210**	**115,624**

(1) Rounding may cause discrepancies in totals. – (2) For 1986 and 1987, includes the loans disbursed by the state sector to local authorities with centralized Treasury accounts and recorded by banks during the delay before the completion of the relevant procedures under the item "Tied deposits with the Treasury".

Table a 12

THE PUBLIC DEBT (1)

(face value; billions of lire and percentage composition)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
					Amounts outstanding					
Medium and long-term securities, excluding BI portfolio	39,502	52,008	49,527	55,802	80,895	149,876	207,892	294,961	374,454	429,742
of which: held by banks	*26,663*	*34,375*	*31,435*	*32,435*	*47,907*	*81,094*	*96,285*	*127,468*	*128,806*	*136,513*
Treasury bills, excluding BI portfolio	33,979	43,905	70,123	98,357	127,395	137,772	152,691	150,814	159,187	191,427
of which: held by banks	*23,910*	*25,117*	*35,436*	*39,097*	*56,514*	*51,317*	*44,743*	*26,584*	*30,510*	*26,590*
Post Office funds	24,105	30,853	33,048	35,639	39,322	44,261	50,626	59,693	70,964	83,843
Lending by credit institutions	14,122	16,680	17,432	18,420	23,613	29,312	38,024	35,925	37,444	40,847
central government bodies	*393*	*883*	*1,226*	*2,045*	*2,828*	*2,689*	*2,699*	*2,609*	*2,411*	*2,315*
social security institutions	*1,932*	*2,188*	*2,468*	*1,213*	*1,455*	*1,680*	*2,435*	*232*	*298*	*768*
local authorities (2)	*10,965*	*12,705*	*12,853*	*14,312*	*17,417*	*20,857*	*27,508*	*27,902*	*28,904*	*30,308*
autonomous government agencies	*516*	*587*	*513*	*445*	*1,511*	*3,570*	*4,885*	*4,578*	*5,175*	*6,785*
municipal enterprises	*316*	*317*	*372*	*405*	*403*	*516*	*497*	*605*	*657*	*671*
Other domestic debt	1,404	1,563	1,700	1,779	1,938	2,147	2,379	2,451	2,475	2,619
Foreign debt	1,941	2,392	3,433	6,578	9,731	12,545	16,408	18,435	17,618	23,536
SUB-TOTAL . . .	**115,053**	**147,402**	**175,262**	**216,575**	**282,895**	**375,914**	**468,019**	**562,278**	**662,142**	**772,015**
Borrowing from BI-UIC	43,153	43,255	52,978	66,555	78,670	79,630	92,863	120,286	130,954	137,968
of which: medium and long-term securities	*30,771*	*27,759*	*28,261*	*29,647*	*28,891*	*30,393*	*36,367*	*45,083*	*52,681*	*53,975*
Treasury bills	*3,987*	*3,657*	*2,641*	*8,099*	*12,086*	*12,670*	*6,641*	*21,658*	*23,056*	*18,551*
overdraft on BI account	*6,706*	*10,182*	*19,126*	*25,312*	*31,910*	*23,288*	*41,842*	*48,182*	*52,707*	*61,981*
other	*1,689*	*1,657*	*2,950*	*3,497*	*5,783*	*13,280*	*8,013*	*5,363*	*2,511*	*3,461*
TOTAL . . .	**158,206**	**190,657**	**228,240**	**283,130**	**361,564**	**455,543**	**560,883**	**682,564**	**793,096**	**909,983**
					Percentage composition					
Medium and long-term securities, excluding BI portfolio	25.0	27.3	21.7	19.7	22.4	32.9	37.1	43.2	47.2	47.2
Treasury bills, excluding BI portfolio	21.5	23.0	30.7	34.8	35.2	30.3	27.2	22.1	20.1	21.0
Post Office funds	15.2	16.2	14.5	12.6	10.9	9.7	9.0	8.7	9.0	9.2
Lending by credit institutions	8.9	8.8	7.7	6.5	6.5	6.4	6.8	5.3	4.7	4.5
Other domestic debt	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Foreign debt	1.2	1.2	1.5	2.3	2.7	2.7	2.9	2.7	2.2	2.6
Borrowing from BI-UIC	27.3	22.7	23.2	23.5	21.8	17.5	16.6	17.6	16.5	15.2

(1) Rouding may cause discrepancies in totals. – (2) For 1986 and 1987, includes the loans disbursed by the state sector to local authorities with centralized Treasury accounts and recorded by banks during the delay before the completion of the relevant procedures under the item "Tied deposits with the Treasury".

Table a13

STATE SECTOR EXPENDITURE, REVENUE AND BORROWING REQUIREMENT

(billions of lire)

	1983	1984	1985	1986	1987
EXPENDITURE					
Wages, salaries and pensions	57,295	64,863	71,756	77,954	88,107
Purchases of goods and services	13,912	16,840	19,620	21,661	25,233
Interest payments	47,105	57,579	63,558	73,180	76,262
Direct investment	11,316	12,610	11,889	13,548	13,918
Loans and shareholdings	16,059	12,692	14,159	11,055	10,771
of which: local authorities	*3,896*	*3,725*	*4,304*	*5,671*	*6,064*
financial institutions	*1,767*	*1,726*	*2,085*	*2,479*	*2,111*
public enterprises	*9,431*	*6,548*	*5,469*	*1,840*	*274*
Disbursements to: local authorities	71,396	73,902	91,083	98,831	112,475
of which: health care	*30,656*	*33,307*	*39,753*	*41,993*	*46,447*
social security institutions	27,437	29,626	36,611	38,197	40,946
enterprises	11,493	13,383	12,958	14,773	17,665
households	4,679	6,109	7,442	8,554	9,614
other	4,486	8,355	10,468	14,470	10,003
Other expenditure	9,602	11,717	11,400	12,173	9,686
Total . . .	**274,780**	**307,676**	**350,944**	**384,396**	**414,680**
REVENUE					
Direct taxes					
Personal income tax	46,546	51,073	61,852	66,746	74,091
Corporate income tax	5,457	8,117	9,173	12,090	15,018
Local income tax	7,635	8,027	10,555	13,800	16,618
Withholding tax on interest income	10,642	15,618	13,910	16,729	15,680
Indirect taxes					
Value added tax	36,081	41,882	44,911	48,050	52,964
Business taxes (stamp duties, duties on government concessions, etc.)	7,189	8,475	9,443	10,603	12,185
Excise duty on oil products	11,585	13,014	13,653	19,198	21,796
Excise duty on other manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)	1,294	1,316	1,177	1,308	1,372
Tax on tobacco consumption	3,732	4,134	4,399	5,126	5,095
Total tax revenue, net of accounting operations, discounts and bank commissions	**143,969**	**161,015**	**178,098**	**202,508**	**225,222**
Receipts from the building offences condonation	–	–	226	4,223	1,144
EEC levies	4,110	4,539	4,895	6,992	7,820
Sales of goods and services	9,932	11,920	14,478	15,212	17,958
Health care and other social security contributions	19,256	24,245	28,448	32,789	34,667
Other income	9,253	10,262	12,575	12,509	14,078
Total receipts, net of accounting operations, discounts and bank commissions	**186,520**	**211,981**	**238,720**	**274,233**	**300,889**
BORROWING REQUIREMENT	**88,260**	**95,695**	**112,224**	**110,163**	**113,791**

BANKS' ASSETS

(billions

	A S S E T S										
	Bank reserves			Lending		Bad debts & protested bills	Shares	Interbank accounts	Accounts with special credit institutions		External assets (5)
	Excess reserves in lire (2)	Compulsory reserves (3)	Deposits against excess lending	Loans & bankers' acceptances	Lira securities (4)					of which: savings certificates	
1978 - Dec.	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	4,117	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	7,047	3,497	65,951	6,598	1,699	40,523
1982 - "	3,648	45,171	820	155,312	151,951	9,267	5,158	77,552	7,507	3,553	42,386
1983 - "	3,925	54,082	–	178,800	180,089	11,566	6,602	89,503	7,662	3,451	52,271
1984 - "	4,994	62,813	–	215,596	187,037	14,570	8,600	94,512	8,277	3,038	64,193
1985 - "	7,921	74,826	–	244,225	199,257	17,800	9,422	96,873	9,141	3,799	72,513
1986 - Jan. (9)	3,270	83,123	–	238,266	175,821	18,355	9,742	72,453	7,855	3,701	63,513
Feb. (9) ...	2,783	81,740	513	233,444	175,238	18,490	9,870	63,580	7,725	3,717	57,522
Mar.	3,293	79,547	740	232,514	176,879	18,786	10,079	64,534	8,655	3,742	56,053
Apr.	3,578	79,012	408	237,871	185,026	19,120	10,001	65,685	8,808	3,893	56,500
May	4,660	79,036	631	238,486	186,298	19,389	9,992	66,355	8,709	3,874	57,753
June	3,407	78,541	1,028	239,144	182,111	19,552	10,326	63,737	7,528	3,870	58,914
July	3,433	79,163	1,205	249,287	185,708	20,076	10,546	61,478	6,590	3,615	53,034
Aug.	3,115	79,424	–	244,688	187,791	20,274	10,476	66,768	6,884	3,942	53,196
Sept.	3,673	79,156	–	245,233	197,668	20,676	10,591	70,147	6,966	3,910	56,337
Oct.	2,982	81,212	–	253,920	196,199	21,002	11,146	73,507	7,716	3,890	61,614
Nov.	5,255	82,788	–	257,697	202,345	21,162	11,275	85,858	8,898	4,285	65,863
Dec.	4,680	83,794	–	266,035	211,156	20,963	11,717	107,757	8,879	4,179	70,750
1987 - Jan.	3,928	93,502	–	270,097	186,894	21,512	11,949	76,956	8,161	4,052	65,569
Feb.	3,348	91,671	–	269,906	186,028	21,913	12,243	70,225	8,366	4,110	63,391
Mar.	4,770	89,535	–	266,141	193,695	22,335	12,105	74,026	8,340	4,132	64,133
Apr.	4,475	90,152	–	270,269	204,148	22,604	12,030	75,072	8,336	4,076	62,362
May	3,449	95,879	–	273,533	202,784	22,809	11,999	78,994	8,141	4,034	66,298
June	3,713	90,600	–	275,509	200,857	22,961	12,159	78,194	8,115	4,053	69,431
July	3,023	91,806	–	281,928	197,174	23,361	13,368	73,576	7,612	3,926	65,118
Aug.	3,681	91,530	–	276,711	196,877	23,539	13,371	76,701	7,299	3,995	65,471
Sept.	4,554	91,008	–	268,247	205,541	23,756	13,499	81,656	7,198	3,956	67,796
Oct.	4,415	91,908	497	273,381	211,321	23,979	13,659	81,063	8,056	3,966	70,710
Nov.	4,602	92,708	172	279,175	215,846	24,186	13,627	88,517	9,318	4,011	69,541
Dec.	5,148	92,365	472	288,823	221,789	24,043	13,176	102,005	9,322	4,154	66,762
1988 - Jan.	3,653	100,941	1,055	293,011	201,351	24,675	13,466	76,856	7,694	4,076	....
Feb.	3,645	98,091	1,587	288,584	195,983	24,843	13,364	76,993	7,503	3,960	....
Mar. (10) ..	2,320	96,168	1,209	288,152	194,795	24,821	13,632	77,564	7,888	3,801	....

(1) Rounding may cause discrepancies in totals. – (2) Excluding deposits with the Post Office and the Deposits and Loans Fund. – (3) Includes backing for cashiers' cheques. –
operations under the Ministerial Decree of 27.9.1974. The 1988 figures include Lit. 2,050 billion acquired in the same way in January. – (5) UIC data. – (6) Lira deposits of resident
a break in the series occurs in December 1979: the discrepancy has been estimated at about 350 billion lire and is ascribable entirely to short-term lending in lire. – (9) The data on

Table a 14

AND LIABILITIES (1)

of lire)

LIABILITIES: 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	MEMORANDUM: Loan guarantees	of which: bankers' acceptances issued	
187,088	2,577	2,315	31,486	4,945	24,035	942	7,750	5,293	22,238	–	.... Dec. - 1978
224,644	2,305	5,079	35,749	4,798	29,795	1,109	9,795	2,954	26,166	696	...(8) " - 1979
254,341	1,900	2,427	47,414	5,377	41,590	1,320	12,462	7,691	32,405	2,535	..... " - 1980
277,771	2,066	2,981	58,306	5,039	55,694	1,638	16,758	10,642	39,393	3,572	..... " - 1981
328,450	2,318	3,625	68,599	6,623	56,339	2,296	21,312	11,506	45,966	2,707	..... " - 1982
372,240	3,568	6,349	83,320	5,252	72,669	3,022	29,506	11,596	51,854	1,590	..... " - 1983
415,581	4,949	2,864	89,240	4,512	91,908	3,879	36,895	14,643	58,313	609	..... " - 1984
457,743	6,467	8,740	89,879	4,459	98,319	4,673	43,166	23,205	63,711	377	..... " - 1985
447,476	6,585	5,451	66,683	5,218	90,762	4,776	43,235	6,988	63,828	443	.. (9) Jan. - 1986
438,354	6,477	5,627	59,148	4,863	86,424	4,377	43,426	6,586	65,427	784	.. (9) Feb.
438,426	6,355	2,691	59,487	4,799	87,975	4,572	46,027	5,319	68,126	1,010	.... Mar.
440,682	6,732	2,872	59,377	4,570	89,110	4,154	49,687	12,980	69,794	1,044	.... Apr.
438,320	6,395	2,512	58,372	4,843	92,273	4,611	49,843	18,753	72,387	918	.... May
439,994	5,979	4,335	57,167	5,500	92,447	4,893	50,147	8,718	72,847	803	.... June
440,833	6,327	4,218	57,325	5,439	85,182	4,796	50,953	20,241	72,494	647	..... July
440,751	6,301	2,977	61,487	4,813	84,439	5,233	51,008	20,838	72,891	564	.... Aug.
449,658	6,394	3,526	66,576	4,863	88,148	5,052	51,203	20,079	73,979	465	.... Sept.
455,895	5,934	3,352	71,306	4,381	93,776	5,269	51,321	23,334	75,062	415	.... Oct.
458,624	5,956	2,924	82,404	4,530	99,875	5,001	51,560	35,268	75,271	390	.... Nov.
498,685	4,815	4,407	97,975	5,338	102,858	5,990	51,585	20,068	64,267	307	.... Dec.
488,522	5,458	3,177	73,142	5,778	97,280	5,420	51,642	13,571	64,518	299	.... Jan. - 1987
481,045	5,098	3,081	68,296	4,973	96,782	5,735	52,007	15,806	64,479	301	.... Feb.
484,014	4,827	3,170	73,203	5,269	99,150	6,987	55,418	10,029	65,497	292	.... Mar.
489,006	4,681	3,101	72,130	5,021	96,314	5,539	59,967	19,227	66,505	281	.... Apr.
486,927	4,392	3,417	76,270	4,947	101,476	5,744	60,859	25,597	68,588	274	.. (9) May
492,361	3,698	3,573	79,595	5,399	106,932	6,290	61,264	8,718	68,278	258	.... June
490,524	3,946	4,827	73,234	6,162	100,307	6,151	61,269	16,697	69,223	232	..... July
488,684	4,234	4,003	76,848	5,719	99,037	6,122	61,344	15,310	68,980	235	.... Aug.
494,650	3,546	3,229	81,187	5,227	102,283	6,555	61,729	11,901	71,025	682	.... Sept.
497,816	3,549	3,279	83,168	4,844	108,364	5,677	61,791	15,854	73,310	1,081	.... Oct.
496,588	3,753	6,078	88,491	4,772	107,313	5,727	61,721	29,276	73,638	1,206	.. (9) Nov.
532,701	3,209	5,711	97,779	5,979	103,453	6,705	61,828	13,245	75,756	1,066	.... Dec.
516,663	3,215	9,226	78,294	7,155	....	6,691	61,847	....	76,126	993	.... Jan. - 1988
508,063	3,320	9,068	73,457	6,828	....	7,374	62,028	....	79,825	1,109	.... Feb.
509,171	3,421	7,708	72,271	5,995	....	7,203	64,925	....	84,407	1,142	. (10) Mar.

(4) Treasury bills are at face value, medium and long-term securities at book value. The 1987 figures include Lit. 2,120 billion of securities acquired in November in connection with customers. – (7) Trustee accounts and residents' foreign currency accounts. – (8) Owing to errors in the procedures previously used by some banks for automatically calculating loans, liquidity had to be estimated owing to industrial action at the Bank of Italy. – (10) Provisional.

BANKS' PROFIT AND LOSS ACCOUNTS

(in billion,

	INTEREST RECEIVED						INTEREST PAID					Net interest income (c) = (a)-(b)
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities and participations	Interbank accounts	Foreign currency assets	Total (a)	Domestic deposits in lire	BI-UIC financing	Interbank accounts	Foreign currency liabilities	Total (b)	
Banks and savings												
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	17,971	92	1,924	2,172	22,159	8,462
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	2,285	32,519	16,783	6,623	6,511	64,721	36,542	117	5,048	6,278	47,985	16,736
1983	2,904	34,535	22,459	6,962	5,491	72,351	41,426	237	5,266	5,479	52,408	19,943
1984	3,531	37,440	23,518	6,925	7,176	78,590	43,366	397	5,364	7,225	56,352	22,238
1985	4,182	39,092	25,911	6,700	7,825	83,710	45,137	494	5,423	7,643	58,697	25,013
1986	4,590	39,380	23,759	6,299	5,995	80,023	39,449	822	5,056	5,853	51,180	28,843
1987 (4)	5,212	37,315	21,556	5,964	6,184	76,231	34,100	358	5,289	6,100	45,847	30,384
Banks												
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	12,744	77	1,769	2,034	16,624	6,273
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	1,814	24,543	12,077	4,546	6,096	49,076	25,939	99	4,653	5,890	36,581	12,495
1983	2,260	25,862	15,664	4,808	5,077	53,671	29,099	207	4,797	5,089	39,192	14,479
1984	2,694	27,588	16,121	4,744	6,579	57,726	30,101	362	4,755	6,660	41,878	15,848
1985	3,181	28,715	18,021	4,420	7,130	61,467	31,391	459	4,748	6,997	43,595	17,872
1986	3,484	28,854	16,142	4,311	5,405	58,196	27,401	789	4,345	5,297	37,832	20,364
1987 (4)	3,986	27,694	15,043	4,030	5,534	56,287	24,290	328	4,434	5,485	34,537	21,750
Banks of												
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
1985	591	4,751	2,286	460	2,688	10,776	4,704	78	574	2,639	7,995	2,781
1986	620	4,655	2,211	469	2,060	10,015	4,117	225	674	1,978	6,994	3,021
1987 (4)	691	4,449	2,173	331	1,972	9,616	3,603	119	579	1,907	6,208	3,408
Public-law												
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	492	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
1985	875	7,176	6,197	901	2,166	17,315	8,385	272	2,047	2,131	12,835	4,480
1986	964	7,532	4,881	1,128	1,632	16,137	7,338	392	1,560	1,639	10,929	5,208
1987 (4)	1,138	7,204	4,881	925	1,713	15,861	6,420	132	1,989	1,738	10,279	5,582

(1) Rounding may cause discrepancies in totals. As of 1983 the figures for interest on securities and positions with the Bank of Italy, as well as those for "Non-interest income", excludes credit institutions which at the time were reporting for special periods and at special times. – (4) Provisional.

BY CATEGORY OF BANK (1)

of lire)

Non-interest income (d)	of which: securities transactions	Gross income (e) = (c) + (d)	Operating expenses (f)	of which: staff costs	Net income (g) = (e)-(f)	Allocations to provisions (net) (h)	of which: for loan losses	Extraordinary income and withdrawals from provisions (i)(2)	Taxes (l)	Net profit (g)-(h) + (i)-(l)	Total resources	Number of staff	
banks (3)													
2,461	1,156	9,782	6,972	5,211	2,810	1,893	925	–5	464	448	250,435	249,999	 1978
2,937	1,389	11,399	8,365	6,119	3,034	2,129	1,014	120	445	580	307,772	261,505	 1979
3,708	1,625	16,581	11,204	8,206	5,377	3,705	1,631	39	881	830	372,503	274,889	 1980
5,437	2,477	21,064	13,033	9,437	8,031	5,725	1,945	145	1,208	1,243	441,537	287,420	 1981
6,452	3,353	23,188	15,061	10,433	8,127	5,005	2,352	392	2,009	1,505	507,235	293,002	 1982
7,052	3,257	26,995	18,643	13,668	8,352	4,249	2,558	206	2,565	1,744	591,493	299,879	 1983
8,448	4,363	30,686	20,852	15,018	9,834	4,686	2,555	142	2,903	2,387	662,436	302,814	 1984
9,944	5,319	34,957	23,421	16,832	11,536	5,182	2,438	548	3,659	3,243	771,837	304,090	 1985
2,252	7,086	41,095	25,810	18,481	15,285	5,509	2,460	136	5,136	4,776	840,494	308,200	 1986
10,992	5,321	41,376	28,350	20,345	13,026	4,466	2,530	–568	3,700	4,292	912,211	311,604	... (4) 1987
1,727	803	7,176	5,102	3,816	2,074	1,340	759	–28	335	371	194,553	189,920	 1978
2,036	946	8,309	6,159	4,535	2,150	1,403	785	85	332	500	231,563	199,478	 1979
2,603	1,128	12,183	8,157	6,067	4,026	2,619	1,329	39	737	709	282,254	210,449	 1980
3,971	1,774	15,615	9,597	6,994	6,018	4,119	1,538	127	948	1,078	337,072	219,741	 1981
4,563	2,282	17,058	11,139	7,725	5,919	3,371	1,695	270	1,497	1,321	388,400	224,833	 1982
5,199	2,425	19,678	13,709	10,038	5,969	2,929	1,635	323	1,863	1,500	449,364	230,416	 1983
6,269	3,277	22,117	15,444	11,131	6,673	2,903	1,590	163	1,946	1,987	496,995	232,457	 1984
7,789	4,307	25,661	17,531	12,646	8,130	3,527	1,560	523	2,539	2,587	581,088	233,022	 1985
9,536	5,628	29,900	19,225	13,797	10,675	3,612	1,738	56	3,490	3,629	629,988	235,876	 1986
8,127	4,041	29,877	21,194	15,200	8,683	2,703	1,548	–347	2,269	3,364	682,936	238,160	... (4) 1987
national interest													
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
1,116	519	3,615	2,970	2,263	645	505	452	291	317	114	98,991	51,393	 1983
1,329	640	3,862	3,171	2,383	691	424	335	179	249	197	105,556	50,850	 1984
1,670	961	4,451	3,491	2,607	960	536	289	118	330	212	119,440	50,081	 1985
2,056	1,306	5,077	3,745	2,779	1,332	389	245	25	442	526	125,822	49,951	 1986
1,573	789	4,981	4,037	2,985	944	407	216	–39	70	428	131,916	49,934	... (4) 1987
banks													
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	370	172	–10	52	52	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	27	122	62	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
1,706	720	5,172	4,085	3,153	1,087	655	259	3	297	138	138,297	67,319	 1983
2,019	999	6,104	4,728	3,573	1,376	832	374	10	329	225	147,732	68,201	 1984
2,706	1,450	7,186	5,158	3,906	2,028	1,281	328	290	554	483	174,718	68,634	 1985
3,306	1,860	8,514	5,813	4,386	2,701	1,215	429	–9	756	721	188,154	70,614	 1986
2,804	1,341	8,386	6,519	4,932	1,867	786	487	–7	404	670	205,431	71,443	... (4) 1987

are not comparable with those for earlier years. – (2) Includes the balance of gains and losses on the valuation of securities and securities trading. – (3) Except in the item "Number of staff",

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 and parti-cipations	Interbank accounts	Foreign currency assets	Total (a)	Domestic deposits in lire	BI-UIC financing	Interbank accounts	Foreign currency liabilities	Total (b)	
Ordinary												
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	20	1,831	1,328	12,091	4,243
1983	720	9,085	5,230	1,685	1,130	17,850	9,971	28	1,901	1,152	13,052	4,798
1984	889	9,525	5,293	1,590	1,522	18,819	10,315	85	1,698	1,612	13,710	5,109
1985	1,044	10,243	5,673	1,523	1,556	20,003	10,787	92	1,592	1,544	14,015	5,988
1986	1,151	10,082	5,380	1,437	1,154	19,204	9,361	142	1,608	1,160	12,271	6,933
1987 (4)	1,278	9,634	4,748	1,420	1,200	18,280	8,311	54	1,392	1,239	10,996	7,284
Cooperative												
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	2,644	10	156	118	2,928	1,343
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	482	532	6,870	3,215
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
1985	671	6,545	3,901	1,536	720	13,373	7,515	17	535	683	8,750	4,623
1986	749	6,585	3,670	1,277	559	12,840	6,585	30	503	520	7,638	5,202
1987 (4)	879	6,407	3,241	1,354	649	12,530	5,956	23	474	601	7,054	5,476
Savings												
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	8,673	6,795	2,154	414	18,680	12,327	30	469	390	13,216	5,464
1984	837	9,852	7,397	2,181	597	20,864	13,265	35	609	565	14,474	6,390
1985	1,001	10,377	7,890	2,280	695	22,243	13,746	35	675	646	15,102	7,141
1986	1,106	10,526	7,617	1,988	590	21,827	12,048	33	711	556	13,348	8,479
1987 (4)	1,226	9,621	6,513	1,934	650	19,944	9,810	30	855	615	11,310	8,634
Central credit												
1978	4	601	527	181	2	1,315	35	33	1,149	2	1,219	96
1979	4	44	64	195	2	309	4	2	261	3	270	39
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
1985	28	433	1,003	969	73	2,506	46	88	2,042	70	2,246	260
1986	3	421	846	836	56	2,162	50	126	1,643	59	1,878	284
1987 (4)	45	411	737	922	70	2,185	50	94	1,630	81	1,855	330

(1) Rounding may cause discrepancies in totals. As of 1983 the figures for interest on securities and positions with the Bank of Italy, as well as those for "Non-interest income", excludes credit institutions which at the time were reporting for special periods and at special times. – (4) Provisional.

BY CATEGORY OF BANK (1)

of lire)

Non-interest income (d)	of which: securities transactions	Gross income (e) = (c) + (d)	Operating expenses (f)	of which: staff costs	Net income (g) = (e)-(f)	Allocations to provisions (net) (h)	of which: for loan losses	Extraordinary income and withdrawals from provisions (i)(2)	Taxes (l)	Net profit (g)-(h) + (i)-(l)	Total resources	Number of staff	
credit banks (3)													
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	878	442	36	323	421	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	792	5,646	3,386	2,260	2,260	1,083	548	57	585	649	113,331	69,137	 1982
1,549	818	6,347	4,049	2,808	2,298	957	452	32	653	720	130,764	70,381	 1983
1,896	1,138	7,005	4,600	3,177	2,405	832	464	−38	677	858	147,809	71,246	 1984
2,309	1,385	8,297	5,457	3,777	2,840	932	524	66	885	1,089	175,318	71,187	 1985
2,818	1,787	9,751	5,962	4,085	3,789	1,167	652	13	1,279	1,356	194,588	71,306	 1986
2,455	1,358	9,739	6,528	4,454	3,211	977	528	−145	924	1,165	209,682	71,767	... (4) 1987
banks													
247	92	1,384	859	617	525	309	150	−13	95	108	31,084	31,621	 1978
302	119	1,645	1,048	728	597	336	128	−6	103	152	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	3,911	2,090	1,361	1,821	962	467	6	446	419	67,663	38,474	 1982
828	368	4,544	2,605	1,814	1,939	812	472	−3	596	528	81,312	41,323	 1983
1,025	500	5,146	2,945	1,998	2,201	815	417	12	691	707	95,898	42,160	 1984
1,104	511	5,727	3,425	2,356	2,302	778	419	49	770	803	111,612	43,120	 1985
1,356	675	6,558	3,705	2,547	2,853	841	411	27	1,013	1,026	121,423	44,005	 1986
1,295	553	6,771	4,110	2,829	2,661	533	317	−156	871	1,101	135,907	45,016	... (4) 1987
banks (3)													
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
1,853	832	7,317	4,934	3,630	2,383	1,320	923	−117	702	244	142,129	69,463	 1983
2,179	1,086	8,569	5,408	3,887	3,161	1,783	965	−21	957	400	165,441	70,357	 1984
2,155	1,012	9,296	5,890	4,186	3,406	1,655	878	25	1,120	656	190,749	71,068	 1985
2,716	1,458	11,195	6,585	4,684	4,610	1,897	721	80	1,646	1,147	210,507	72,324	 1986
2,865	1,499	11,499	7,156	5,145	4,343	1,763	982	−221	1,431	928	229,275	73,444	... (4) 1987
institutions (3)													
−216	−224	−120	42	22	−162	56	52	198	6	−26	10,040	914	 1978
15	8	54	35	17	19	8	–	1	2	10	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
140	114	400	177	84	223	80	62	52	78	117	22,475	1,371	 1985
258	234	542	196	100	346	60	43	12	117	181	21,853	1,380	 1986
132	83	462	214	109	248	120	31	52	65	115	25,480	1,442	... (4) 1987

are not comparable with those for earlier years. – (2) Includes the balance of gains and losses on the valuation of securities and securities trading. – (3) Except in the item "Number of staff",

ASSETS AND LIABILITIES OF THE

(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 and participations	
				Buyer credits	Credits to non-residents						
1978 - Dec.	8,384	54,445	677	1,761	325	57,208	12,670	1,733	558	394	80,947
1979 - "	5,607	60,253	682	1,923	233	63,091	12,059	2,202	510	734	84,203
1980 - "	6,122	68,644	714	2,589	228	72,175	11,403	2,205	596	856	93,357
1981 - "	4,854	81,877	591	3,195	441	86,104	10,572	2,860	2,001	1,145	107,536
1982 - "	5,452	96,529	627	3,916	443	101,515	9,913	8,148	2,229	1,702	128,959
1983 - "	5,195	109,934	727	4,321	372	115,354	9,684	11,409	2,356	2,023	146,021
1984 - "	4,964	125,302	766	4,214	371	130,653	9,193	15,023	2,132	2,409	164,374
1985 - "	4,601	135,988	806	3,543	238	140,575	8,593	16,441	2,645	2,744	175,599
1986 - Jan.	5,330	136,566	806	3,302	255	140,929	8,060	17,037	2,645	2,744	176,745
Feb.	5,590	138,535	806	3,195	292	142,828	8,057	16,108	2,645	2,744	177,972
Mar.	5,580	141,376	819	3,261	353	145,809	8,058	15,329	2,442	2,758	179,976
Apr.	5,238	142,262	819	3,188	278	146,547	8,056	14,340	2,442	2,758	179,381
May	5,113	143,540	819	3,286	271	147,916	8,056	14,690	2,442	2,758	180,975
June	5,137	142,008	833	3,136	187	146,164	7,619	15,720	2,577	3,072	180,289
July	6,103	142,748	833	2,903	164	146,648	7,614	16,085	2,577	3,072	182,099
Aug.	5,146	143,283	833	2,874	174	147,164	7,613	16,809	2,577	3,072	182,381
Sept.	5,478	144,726	848	2,821	161	148,556	7,613	16,408	2,509	3,163	183,727
Oct.	4,200	147,062	848	2,897	232	151,039	7,721	15,516	2,509	3,163	184,148
Nov.	4,464	148,823	848	2,871	216	152,758	7,683	15,205	2,509	3,163	185,782
Dec.	4,567	152,813	855	2,961	225	156,854	8,057	14,511	1,992	3,398	189,379
1987 - Jan.	5,761	152,702	855	2,763	223	156,543	7,494	15,890	1,992	3,398	191,078
Feb.	5,256	154,239	855	2,775	237	158,106	7,493	15,883	1,992	3,398	192,128
Mar.	5,558	156,440	862	3,685	252	161,239	7,493	15,041	2,546	3,573	195,450
Apr.	5,352	157,452	862	3,942	252	162,508	7,493	13,599	2,546	3,573	195,071
May	5,186	158,106	862	4,028	242	163,238	7,472	13,643	2,546	3,573	195,658
June	5,414	158,758	878	4,082	227	163,945	7,020	12,974	3,726	3,587	196,666
July	6,849	160,981	878	4,075	227	166,161	7,020	12,600	3,726	3,587	199,943
Aug.	6,745	161,203	878	4,037	223	166,341	7,019	12,902	3,726	3,587	200,320
Sept.	6,381	163,222	881	3,972	219	168,294	7,019	12,527	4,746	3,620	202,587
Oct.	6,351	166,816	881	4,033	287	172,017	7,019	10,402	4,746	3,620	204,155
Nov.	5,798	169,180	881	3,919	296	174,276	7,231	10,178	4,746	3,620	205,849
Dec.	5,159	173,533	891	4,064	297	178,785	7,291	10,411	4,859	3,659	210,164
1988 - Jan. (12)	7,647	173,702	891	4,066	300	178,959	6,745	12,752	4,859	3,659	214,621
Feb. (12)	8,502	175,317	891	4,095	313	180,616	6,744	14,552	4,859	3,659	218,932

(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 certificates and other medium-term deposits. – (8) Includes the proceeds of bond issues disbursed to special credit institutions. – (9) Includes compensatory loans in foreign currency deposited with profits, and "Other equity funds", which include provisions of a reserve nature created out of gross profits and on which third parties have no claim. At end-December 1979 equity capital according behalf of the Treasury. – (12) Estimated.

Table a16

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										
12,970	49,436	6,519	574	2,398	2,177	1,452	5,081	4,222	20	84,849	.... Dec. - 1978
12,280	54,694	6,695	595	2,703	2,479	1,515	3,074	5,646	23	89,704	.... " - 1979
11,714	60,977	7,444	602	3,620	2,680	1,697	4,007	6,772	25	99,538	.... " - 1980
10,905	68,863	9,515	696	5,034	3,091	2,097	5,953	8,360	34	114,548	.... " - 1981
10,015	77,171	18,060	699	4,218	3,712	2,379	9,605	10,028	22	135,909	.... " - 1982
9,120	85,134	19,264	818	4,540	4,696	2,436	13,981	12,612	31	152,632	.... " - 1983
8,159	89,554	23,480	941	5,620	4,771	2,422	17,852	15,322	46	168,167	.... " - 1984
7,145	95,022	25,549	889	6,626	5,365	2,521	20,050	18,105	43	181,315	.... " - 1985
6,546	95,118	25,743	889	5,399	5,616	2,477	19,857	18,105	43	179,793	.... Jan. - 1986
6,524	95,188	26,039	889	5,288	5,790	2,521	19,589	18,105	43	179,976	.... Feb.
6,523	95,709	26,305	973	5,745	5,912	2,541	20,234	18,968	35	182,945	.... Mar.
6,512	96,176	26,433	973	6,358	6,058	2,576	20,312	18,968	35	184,401	.... Apr.
6,512	97,042	26,879	973	6,027	6,333	2,602	20,931	18,968	35	186,302	.... May
6,490	97,879	27,743	934	4,944	6,400	2,544	21,254	20,033	39	188,260	.... June
6,107	97,201	27,791	934	3,793	6,410	2,452	21,262	20,033	39	186,022	.... July
6,095	97,198	27,818	934	3,854	6,443	2,519	21,234	20,033	39	186,167	.... Aug.
6,091	97,893	27,860	1,050	3,910	6,424	2,507	21,274	20,554	26	187,589	...... Sept.
6,090	97,131	28,937	1,050	4,707	6,220	2,517	21,367	20,554	26	188,599	.... Oct.
6,090	98,130	29,280	1,050	5,395	6,427	2,527	21,172	20,554	26	190,651	.... Nov.
6,089	102,193	28,258	943	6,354	6,522	2,538	21,878	21,226	74	196,075	.... Dec.
5,490	102,243	28,417	943	5,913	6,557	2,484	21,984	21,226	74	195,331	.... Jan. - 1987
5,457	102,402	28,753	943	5,490	6,586	2,569	22,337	21,226	74	195,837	.... Feb.
5,457	103,659	28,470	962	5,301	6,680	2,566	22,967	21,844	67	197,973	.... Mar.
5,450	104,673	28,224	962	5,334	6,688	2,576	23,938	21,844	67	199,756	.... Apr.
5,448	106,066	27,966	962	5,169	6,816	2,605	24,070	21,844	67	201,013	.... May
5,445	107,521	28,416	1,022	5,287	6,715	2,649	24,253	22,858	82	204,248	.... June
5,048	108,176	28,241	1,022	4,630	6,752	2,674	24,793	22,858	82	204,276	.... July
5,048	109,102	28,044	1,022	4,241	6,886	2,754	24,775	22,858	82	204,812	.... Aug.
5,044	110,503	27,794	983	4,514	7,101	2,789	24,995	23,123	64	206,910	...... Sept.
5,042	111,472	28,190	983	4,915	7,066	2,822	25,000	23,123	64	208,677	.... Oct.
5,038	112,235	28,407	983	5,826	7,061	2,874	24,743	23,123	64	210,354	.... Nov.
5,036	113,681	30,878	1,069	6,517	7,319	3,038	26,861	23,604	71	218,074	.... Dec.
4,474	114,208	33,599	1,069	4,740	7,288	2,925	27,047	23,604	71	219,025	.... (12) Jan. - 1988
4,468	114,652	36,546	1,069	4,656	7,560	2,814	27,357	23,604	71	222,797	.... (12) 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 includes financing 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, 1,200.8 billion at end-1984, 1,034.4 billion at end-1985, 849.4 billion at end-1986 and 679.7 billion at end-1987. – (7) Includes savings the Bank of Italy. – (10) Paid-up capital and reserves. As from March 1980 the components of equity capital have been classified as "Own funds", comprising capital and reserves created out of net to the new definition, which includes certain items previously excluded, stood at 5,645.8 billion lire net of uncalled capital. – (11) Refers to the items defined as fund-raising plus bonds issued on

FINANCIAL MARKE

(billi

	Treasury bills (1)	Treasury bills in ECUs	BONDS AND									
			Public sector									
			Goverment securities									
			Variable rate Treasury credit certificates	Treasury bonds	Other certificates	Bonds of Deposits & Loans Fund	Treasury certificates in ECUs	Other	Local government agencies	Autonomous government agencies	Bonds on behalf of Treasury	Total
												Gross
1980	127,500	–	12,930	21	–	–	–	–	–	–	147	*13,098*
1981	198,041	–	9,200	5,500	–	2,685	1,275	–	–	–	–	*18,660*
1982	273,278	–	47,250	3,050	1,429	–	429	84	–	–	–	*52,242*
1983	266,351	–	74,650	13,000	632	1,000	–	–	–	2,000	–	*91,282*
1984	227,747	–	95,250	17,750	1,688	–	–	–	–	1,800	–	*116,488*
1985	256,281	–	97,209	17,288	3,367	10,408	–	–	–	2,500	–	*130,772*
1986	265,866	–	79,255	53,276	2,079	–	–	–	–	2,500	–	*137,110*
1987	316,111	2,311	55,480	19,020	590	10,604	–	–	–	2,000	–	*87,694*
												Re
1980	102,000	–	10,184	1,716	–	1,209	792	124	35	188	712	*14,960*
1981	164,258	–	6,250	1,500	–	1,196	800	137	38	205	810	*10,936*
1982	240,674	–	19,000	4,661	–	1,772	980	144	40	238	889	*27,724*
1983	255,280	–	7,130	9,198	–	1,764	1,000	122	43	257	896	*20,410*
1984	218,447	–	38,250	9,170	–	2,558	1,022	108	46	271	961	*52,386*
1985	243,100	–	17,100	13,000	–	2,290	1,022	82	50	284	1,014	*34,842*
1986	256,169	–	25,150	17,750	–	2,092	1,035	55	36	625	1,056	*47,799*
1987	290,940	–	19,680	5,269	–	1,603	1,051	37	36	469	1,053	*29,198*
												Premiums, discounts
1980	–	–	55	1	–	–	–	–	–	–	9	*65*
1981	–	–	134	92	–	–	–	–	–	–	–	*226*
1982	–	–	873	19	–	–	–	–	–	–	–	*892*
1983	–	–	868	62	–	–	–	–	–	–	–	*930*
1984	–	–	262	147	–	–	–	–	–	–	–	*409*
1985	–	–	1,542	315	–	–	–	–	–	–	–	*1,857*
1986	–	–	571	501	–	–	–	–	–	477	–	*1,549*
1987	–	–	532	213	–	1,241	–	–	–	5	–	*1,991*
												Net
1980	25,500	–	2,691	−1,696	–	−1,209	−792	−124	−35	−188	−574	*−1,927*
1981	33,783	–	2,816	3,908	–	1,489	475	−137	−38	−205	−810	*7,498*
1982	32,604	–	27,377	−1,630	1,429	−1,772	−551	−60	−40	−238	−889	*23,626*
1983	11,071	–	66,652	3,740	632	−764	−1,000	−122	−43	1,743	−896	*69,942*
1984	9,300	–	56,738	8,433	1,688	−2,558	−1,022	−108	−46	1,529	−961	*63,693*
1985	13,181	–	78,567	3,973	3,367	8,118	−1,022	−82	−50	2,216	−1,014	*94,073*
1986	9,697	–	53,534	35,025	2,079	−2,092	−1,035	−55	−36	1,398	−1,056	*87,762*
1987	25,171	2,311	35,268	13,538	590	7,760	−1,051	−37	−36	1,526	−1,053	*56,505*
												Cou
1980	9,035	–	3,245	2,108	–	1,223	801	63	38	169	891	*8,538*
1981	16,262	–	4,673	2,223	–	1,108	724	55	34	154	843	*9,814*
1982	23,943	–	6,608	2,782	–	1,444	646	47	31	137	782	*12,477*
1983	24,849	–	14,014	2,993	191	1,246	567	40	27	204	716	*19,998*
1984	21,281	–	25,325	4,105	266	1,073	487	35	24	477	646	*32,438*
1985	21,297	–	27,456	5,040	451	1,190	406	28	18	702	639	*35,930*
1986	18,387	–	38,514	5,789	778	1,639	324	22	15	877	557	*48,515*
1987	18,775	–	36,958	8,477	912	1,411	242	18	13	889	470	*49,390*

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

GROSS AND NET ISSUES OF SECURITIES

of lire)

GOVERNMENT SECURITIES												SHARES	
Special crediti institutions				Government agencies and firms							TOTAL bonds & government securities		
Industrial	Public works	Real estate	Total	ENEL	ENI	IRI EFIM	Motor-ways (IRI)	Private firms	International institutions	Total			
issues													
5,375	768	4,172	*10,315*	1,196	–	–	–	171	50	*1,417*	*24,830*	4,133	 1980
6,478	1,011	5,372	*12,861*	352	742	502	–	807	–	*2,403*	*33,924*	8,812	 1981
7,153	1,536	5,782	*14,471*	2,386	611	2,300	–	893	–	*6,190*	*72,903*	6,892	 1982
6,152	2,735	5,700	*14,587*	2,471	352	300	–	1,175	–	*4,298*	*110,167*	12,534	 1983
5,490	2,791	4,257	*12,538*	2,774	–	750	–	802	150	*4,476*	*133,502*	11,784	 1984
8,487	1,322	5,253	*15,062*	2,777	125	873	–	1,148	550	*5,473*	*151,307*	14,977	 1985
10,535	922	7,182	*18,639*	2,780	655	3,741	–	1,617	821	*9,614*	*165,363*	23,792	 1986
12,230	1,345	11,524	*25,099*	2,741	500	2,350	–	1,342	450	*7,383*	*120,176*	13,383	 1987
demptions													
2,706	238	1,036	*3,980*	725	116	127	107	99	13	*1,187*	*20,127*	–	 1980
3,666	288	976	*4,930*	1,104	117	123	111	98	13	*1,566*	*17,432*	–	 1981
4,602	338	1,136	*6,076*	1,160	63	131	115	115	19	*1,603*	*35,403*	–	 1982
4,827	417	1,411	*6,655*	1,388	64	246	91	115	19	*1,923*	*28,988*	–	 1983
5,758	594	1,810	*8,162*	1,729	154	306	96	135	18	*2,438*	*62,986*	–	 1984
6,737	761	2,282	*9,780*	2,108	228	334	103	463	32	*3,268*	*47,890*	–	 1985
7,183	1,086	3,360	*11,629*	1,469	339	843	98	699	55	*3,503*	*62,931*	–	 1986
7,235	1,345	4,965	*13,545*	1,214	276	764	62	906	96	*3,318*	*46,061*	–	 1987
and double counting													
256	78	353	*687*	–	–	–	–	–	4	*4*	*756*	1,048	 1980
172	36	215	*423*	4	3	22	–	1	–	*30*	*679*	1,626	 1981
83	28	137	*248*	12	5	–	–	–	–	*17*	*1,157*	888	 1982
92	72	128	*292*	1	–	–	–	–	–	*1*	*1,223*	1,635	 1983
26	13	22	*61*	–	–	–	–	–	3	*3*	*473*	2,010	 1984
72	7	25	*104*	–	–	–	–	–	9	*9*	*1,970*	2,757	 1985
122	9	74	*205*	22	–	–	–	1	17	*40*	*1,794*	4,920	 1986
125	14	403	*542*	20	1	–	–	1	6	*28*	*2,561*	2,950	 1987
issues													
2,413	452	2,783	*5,648*	471	−116	−127	−107	72	33	*226*	*3,947*	3,085	 1980
2,640	687	4,181	*7,508*	−756	622	357	−111	708	−13	*807*	*15,813*	7,186	 1981
2,468	1,170	4,509	*8,147*	1,214	543	2,169	−115	778	−19	*4,570*	*36,343*	6,004	 1982
1,233	2,246	4,161	*7,640*	1,082	288	54	−91	1,060	−19	*2,374*	*79,956*	10,899	 1983
−294	2,184	2,425	*4,315*	1,045	−154	444	−96	667	129	*2,035*	*70,043*	9,774	 1984
1,678	554	2,946	*5,178*	669	−103	539	−103	685	509	*2,196*	*101,447*	12,220	 1985
3,230	−173	3,748	*6,805*	1,289	316	2,898	−98	917	749	*6,071*	*100,638*	18,872	 1986
4,870	−14	6,156	*11,012*	1,507	223	1,586	−62	435	348	*4,037*	*71,554*	10,433	 1987
pons													
2,861	745	1,921	*5,527*	924	55	154	62	90	13	*1,298*	*15,363*		 1980
3,423	841	2,474	*6,738*	1,037	57	152	54	65	11	*1,376*	*17,928*		 1981
4,441	1,041	3,426	*8,908*	1,212	216	419	46	337	9	*2,239*	*23,624*		 1982
4,762	1,318	4,193	*10,273*	1,440	298	656	37	471	7	*2,909*	*33,180*		 1983
4,981	1,670	4,835	*11,486*	1,492	268	673	31	635	16	*3,115*	*47,039*		 1984
5,032	1,913	5,275	*12,220*	1,594	241	678	24	623	25	*3,185*	*51,335*		 1985
5,031	1,865	5,521	*12,417*	1,606	283	1,019	17	670	89	*3,684*	*64,616*		 1986
4,968	1,720	5,771	*12,459*	1,422	242	936	11	600	163	*3,374*	*65,223*		 1987

Table a18

SOURCES AND USES OF MONETARY BASE (1)

(changes in billions of lire)

	SOURCES								TOTAL MONETARY BASE (4)	USES				
	FOREIGN SECTOR			TREASURY			REFINANCING	OTHER SECTORS (4)		NON-STATE SECTOR	BANK RESERVES			
	Balance of payments	Banks' net external position	TOTAL (2)	Borrowing requirement	Other financing (3)	TOTAL					Compulsory reserves	Non-interest-bearing deposit against excess lending	Excess reserves (4)	TOTAL (4)
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	30,403	29,642	760	2,624	689	*6,941*	2,631	5,508	–	−1,198	4,310
1980	−6,260	6,935	708	37,018	27,278	9,740	−2,576	−2	*7,869*	3,670	3,046	626	527	4,199
1981	1,533	−1,521	25	53,293	39,059	14,233	119	−5,738	*8,639*	4,430	2,946	821	442	4,209
1982	−2,521	−3,062	−5,647	72,799	60,123	12,676	638	2,670	*10,336*	3,528	8,544	−519	−1,218	6,808
1983	3,793	4,994	8,840	88,260	83,746	4,514	−3	−747	*12,604*	4,081	9,092	−927	359	8,523
1984	57	5,138	5,141	95,695	85,668	10,027	−218	−1,103	*13,847*	3,861	8,855	−2	1,133	9,986
1985	−8,352	−5,299	−13,677	122,627	95,107	27,519	5,881	−647	*19,076*	4,002	12,213	–	2,860	15,073
1986	−2,965	6,454	3,543	110,163	99,170	10,994	−4,333	−1,004	*9,200*	3,143	9,022	–	−2,965	6,057
1987	1,202	5,573	6,756	114,212	104,973	9,240	−730	−1,321	*13,946*	4,386	8,740	657	162	9,559
1986 - Jan.	−3,044	388	−2,630	1,107	−7,340	8,447	−3,262	−1,143	*1,412*	−2,647	8,727	–	−4,668	4,058
Feb.	−1,578	2,274	708	12,729	13,462	−733	150	−1,418	*−1,293*	370	−1,793	555	−425	−1,662
Mar. (5)	−2,074	2,928	1,028	12,523	9,153	3,370	4,010	−8,287	*121*	1,622	−2,188	322	364	−1,502
Apr.	2,287	−1	1,987	14,019	18,289	−4,270	−6,729	6,672	*−2,340*	−1,791	−574	−309	334	−549
May	1,555	2,182	3,790	10,350	13,481	−3,131	−400	1,490	*1,749*	341	51	275	1,082	1,408
June	664	−378	345	−4,392	−990	−3,402	1,854	617	*−585*	695	−515	497	−1,262	−1,280
July	1,459	−567	889	13,879	10,677	3,202	−147	−1,011	*2,934*	1,965	615	179	176	970
Aug.	703	−1,464	−763	8,057	9,229	−1,172	−1,214	277	*−2,872*	−1,080	83	−1,507	−369	−1,792
Sept.	−1,697	−331	−2,030	14,276	13,077	1,199	527	371	*68*	−422	−54	−5	550	490
Oct.	−651	1,953	1,283	7,085	4,230	2,855	19	−3,096	*1,060*	−433	2,074	–	−580	1,494
Nov.	−133	−550	−657	14,717	10,404	4,313	−605	1,665	*4,715*	795	1,590	−1	2,331	3,920
Dec.	−456	20	−408	5,815	5,499	316	1,464	2,858	*4,230*	3,728	1,004	−5	−497	502
1987 - Jan.	−380	619	197	743	−6,772	7,515	−1,223	−758	*5,730*	−2,985	9,810	–	−1,095	8,715
Feb.	1,442	2,377	3,792	11,166	16,534	−5,368	−78	−1,046	*−2,700*	−294	−1,825	–	−581	−2,406
Mar.	926	273	1,199	12,977	13,442	−465	63	−1,194	*−397*	46	−1,864	–	1,421	−443
Apr.	1,579	−883	719	15,440	14,802	638	−69	22	*1,310*	762	847	–	−299	548
May	−2,865	1.011	−1,835	9,996	6,617	3,379	317	−1,305	*555*	867	667	–	−979	−312
June	−2,503	788	−1,570	−3,547	−2,030	−1,516	167	2,774	*−145*	397	−773	–	231	−542
July	110	−2,019	−2,056	13,904	8,726	5,177	1,263	−597	*3,788*	3,130	1,352	–	−694	658
Aug.	−1,011	−3,214	−4,248	9,485	6,305	3,180	−840	−420	*−2,328*	−2,726	−276	–	674	398
Sept.	1,172	2,973	4,130	15,073	14,027	1,045	−770	−3,871	*535*	209	−531	–	857	326
Oct.	237	1,769	2,042	8,719	12,207	−3,489	103	2,805	*1,461*	49	899	648	−135	1,412
Nov.	1,656	1,815	3,434	12,347	14,359	−2,012	689	−1,043	*1,069*	306	819	−321	265	763
Dec.	839	64	952	7,908	6,754	1,155	−353	3,312	*5,066*	4,625	−385	330	496	441

(1) Rounding may cause discrepancies in totals. – (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. – (4) The series has been adjusted for the growth in bank funds with the Bank of Italy attributable to the procedures for recording monthly stock exchange settlements. – (5) The figures for "Refinancing" and "Other sectors" were affected by the provisional accounting procedures adopted as a result of the industrial action of the previous months.

INTEREST RATES ON BANK OF ITALY OPERATIONS

OFFICIAL

	Current accounts (1)			Bill discounting		
	At sight	Tied		Ordinary bills (base rate)	Agricultural working and improvement credits (3)	Ordinary advances
		8-day	Compulsory reserves (2)			
At 1 Jan. 1970	0.50	1.50	3.75	4.00	3.50	4.00
From: 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
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
8 Nov. 1985	"	"	"	15.00	8.00	15.00
22 Mar. 1986	"	"	"	14.00	7.50	14.00
25 Apr. 1986	"	"	"	13.00	7.00	13.00
27 May 1986	"	"	"	12.00	6.50	12.00
14 Mar. 1987	"	"	"	11.50	"	11.50
28 Aug. 1987	"	"	"	12.00	"	12.00

EFFECTIVE

	Fixed term advances (4)	Repurchase agreements			
		Purchases		Sales	
		Minimum	Average	Maximum	Average
1986 - Jan.	16.97	15.25	17.88	–	–
Feb.	16.76	17.85	18.71	–	–
Mar.	16.99	15.25	17.26	–	–
Apr.	13.31	12.00	13.47	–	–
May	13.41	11.75	12.43	–	–
June	12.35	11.75	12.45	–	–
July	12.21	10.25	10.99	–	–
Aug.	13.69	9.55	10.51	–	–
Sept.	12.00	8.60	9.78	11.00	10.63
Oct.	12.29	9.40	10.76	–	–
Nov.	12.14	10.25	11.08	–	–
Dec.	13.03	11.00	11.98	–	–
1987 - Jan.	13.20	11.50	12.50	–	–
Feb.	13.00	10.70	11.18	–	–
Mar.	12.50	–	–	11.00	10.18
Apr.	11.50	–	–	11.00	10.43
May	12.30	10.50	11.58	11.60	11.19
June	12.79	11.55	12.01	–	–
July	12.45	10.50	11.38	11.50	10.46
Aug.	13.18	12.55	12.92	–	–
Sept.	13.53	12.65	12.87	–	–
Oct.	–	–	–	12.00	11.41
Nov.	12.00	–	–	11,95	11,67
Dec.	12.37	10.75	11.33	–	–
1988 - Jan.	12.17	10.85	11.36	11.50	10.33
Feb.	12.28	11.25	11.65	–	–
Mar.	13.40	12.05	12.66	9.55	9.42
Apr.	12.12	–	–	11.95	10.17

(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) On 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 was fixed at 9.50%. On 17 July 1986 the higher return on reserves was extended to certificates with maturities of between 3 and 6 months and the rate was reduced to 8.5 per cent with effect from 1 November. – (3) From 31 January 1972 the rate of interest on operations connected with compulsory stockpiling and state purchases of grain was fixed at 1 per cent. – (4) The weighted average rate on actual operations. As of 16 February 1984 the penalties applied were 3.5, 2.5 and 1.5 points for operations undertaken within respectively 5, 15 and 30 days of the preceding ones. On 8 November 1985 the penalties were reduced to 2.25, 1.25 and 0.50 points.

MONEY MARKET AND BANK INTEREST RATES (1)

	TREASURY BILL YIELDS (2)				BANK INTEREST RATES										
	3-month bills	6-month bills	12-month bills	Average (3)	Interbank accounts (4) (5)	Deposits (6)	Loans (7)		Deposits (4)		Loans (4)		Certificates of deposit (4)		ABI prime rate (8)
							In lire	Total	Maximum	Average	Minimum	Average	6-month	12-month	
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	–	14.64	–	–	–	15.43
1980	15.94	15.98	15.47	15.92	16.77	11.79	20.32	19.41	14.86	–	19.03	–	–	–	19.93
1981	19.63	19.84	19.12	19.70	19.31	13.89	22.89	21.83	17.60	–	21.44	–	–	–	22.13
1982	19.38	19.37	19.43	19.44	19.91	15.03	23.08	21.65	18.82	–	21.62	–	–	–	21.54
1983	17.83	17.77	18.05	17.89	18.31	14.24	21.24	19.58	17.62	–	19.44	–	–	–	19.19
1984	15.30	15.29	15.43	15.37	17.27	12.93	19.07	17.73	16.14	–	17.64	–	–	–	17.67
1985	13.86	13.73	13.63	13.71	15.25	11.66	17.51	16.23	14.48	–	16.36	–	–	–	16.55
1986	11.93	11.46	11.15	11.40	13.40	9.33	15.78	14.53	11.98	8.89	14.08	15.93	11.98	11.99	14.18
1987	11.07	10.74	10.55	10.73	11.34	7.63	13.43	12.47	9.94	7.02	12.07	13.59	9.87	9.82	12.74
1986 - Jan.	14.34	13.73	13.19	13.58	15.25	–	–	–	13.37	10.17	15.29	16.86	13.15	13.51	15.88
Feb.	14.17	13.59	13.08	13.40	16.71	–	–	–	13.36	10.22	15.65	17.45	13.16	13.52	16.00
Mar.	13.46	13.19	12.88	13.07	17.39	11.05	17.37	16.10	13.41	10.28	15.76	17.75	13.27	13.59	16.00
Apr.	12.99	12.39	11.84	12.28	15.49	–	–	–	12.94	9.98	15.42	17.53	13.02	13.43	15.25
May	11.60	11.23	11.00	11.18	13.44	–	–	–	12.33	9.36	14.75	17.02	12.48	12.76	14.50
June	11.24	10.78	10.57	10.74	12.50	9.07	16.60	15.20	11.65	8.59	13.86	16.20	11.84	11.70	13.50
July	11.24	10.71	10.56	10.75	12.31	–	–	–	11.49	8.31	13.53	15.50	11.63	11.49	13.50
Aug.	10.92	10.39	10.27	10.44	11.95	–	–	–	11.45	8.28	13.37	15.24	11.53	11.39	13.50
Sept.	10.92	10.61	10.28	10.54	11.61	8.62	15.11	13.81	11.16	8.13	13.17	14.92	11.33	10.99	13.00
Oct.	10.79	10.38	10.08	10.35	11.32	–	–	–	11.03	7.90	12.89	14.49	10.92	10.75	13.00
Nov.	10.69	10.25	10.02	10.27	11.27	–	–	–	10.84	7.79	12.69	14.23	10.73	10.39	13.00
Dec.	10.81	10.25	10.01	10.25	11.51	8.55	14.01	13.00	10.69	7.62	12.54	13.93	10.69	10.34	13.00
1987 - Jan.	10.81	10.19	9.93	10.14	12.07	–	–	–	10.65	7.66	12.47	13.83	10.53	10.18	13.00
Feb.	10.69	9.98	9.74	9.93	12.19	–	–	–	10.43	7.49	12.29	13.78	10.08	9.88	12.88
Mar.	10.57	9.92	9.68	9.92	11.71	7.81	13.63	12.71	10.24	7.34	12.15	13.65	9.88	9.69	12.50
Apr.	10.23	9.85	9.65	9.84	10.86	–	–	–	10.00	7.08	11.82	13.41	9.75	9.60	12.50
May	10.31	9.85	9.66	9.91	10.49	–	–	–	9.81	6.92	11.64	13.21	9.57	9.45	12.50
June	10.34	9.85	9.68	9.89	11.03	7.40	12.99	12.08	9.67	6.75	11.53	13.01	9.49	9.23	12.50
July	11.21	10.78	10.56	10.87	10.95	–	–	–	9.67	6.72	11.60	13.17	9.44	9.28	12.50
Aug.	11.15	10.92	10.62	10.93	11.52	–	–	–	9.67	6.73	11.75	13.27	9.49	9.60	12.50
Sept.	12.07	11.78	11.45	11.80	12.12	7.46	13.30	12.34	9.67	6.77	12.24	13.69	9.84	10.06	13.00
Oct.	11.89	11.98	12.09	11.96	11.54	–	–	–	9.77	6.83	12.52	14.15	10.04	10.22	13.00
Nov.	11.93	12.06	12.14	12.03	10.77	–	–	–	9.80	6.91	12.40	14.01	10.14	10.28	13.00
Dec.	11.64	11.66	11.39	11.55	10.76	7.82	13.79	12.74	9.81	6.94	12.34	13.79	10.18	10.29	13.00
1988 - Jan.	11.36	11.37	10.63	11.08	10.54	–	–	–	9.78	6.94	12.22	13.67	10.15	10.22	12.63
Feb.	10.72	10.78	10.50	10.66	10.61	–	–	–	9.52	6.70	11.97	13.55	9.98	10.13	12.63
Mar.	10.69	10.78	10.56	10.68	10.87	....	....	....	9.46	6.69	11.94	13.43	9.91	10.08	12.63
Apr.	10.65	10.81	10.96	10.80	10.74	–	–	–	9.50	6.74	11.90	13.36	9.85	10.07	12.63

(1) Annual figures are the average of monthly values. – (2) Annual compound rates, calendar year. Subject to withholding tax at 6.25 per cent from September 1986 and at 12.5 per cent from September 1987. – (3) Weighted average of allotment rates in the public auctions. – (4) Monthly average of rates reported at 10-day intervals. Average rates are the weighted average of rates on individual positions weighted with the relevant balances. – (5) Maximum rate applied to the lira sight deposits of resident credit institutions with a debit balance of more than 1 billion lire. – (6) Average end-quarter rates on sight and time deposits and current accounts of 20 million lire or more recorded by Central Risks Office. – (7 Quarterly average of lending rates recorded by the Central Risks Office. – (8) The monthly data refer to the end of the month in question.

Table a21

INTEREST RATES ON SECURITIES

(averages)

	Variable rate Treasury credit certificates	Treasury certificates in ECUs	Index-linked Treasury 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
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	13.11	....	18.30	18.25	17.93	18.72	17.68	18.52	17.99	2.45
1984	16.98	11.51	3.40	15.60	15.57	14.82	15.86	14.55	15.09	14.93	3.09
1985	14.68	9.88	4.61	13.71	13.68	13.08	13.19	12.62	13.12	12.96	2.69
1986	12.41	8.52	4.49	11.47	11.45	10.56	11.10	9.96	10.36	10.56	1.58
1987	10.66	8.44	4.57	10.58	10.58	10.13	10.10	9.59	9.44	9.87	2.01
1986 - Jan. ...	14.14	8.21	4.89	13.46	13.43	12.97	13.28	12.05	13.24	12.84	1.90
Feb. ...	14.65	8.62	4.91	13.83	13.80	13.07	13.20	11.89	12.93	12.79	1.68
Mar. ...	14.53	8.86	5.25	13.37	13.35	12.55	12.97	11.07	11.98	12.36	1.41
Apr. ...	14.01	8.45	5.28	12.28	12.27	11.69	12.52	10.45	12.45	11.76	1.25
May ...	13.12	8.35	5.19	10.89	10.87	10.28	11.19	9.45	10.83	10.36	1.32
June ...	12.19	8.42	4.65	10.85	10.83	9.80	10.55	9.39	9.13	9.85	1.71
July	11.74	8.60	4.20	11.06	11.04	9.74	10.46	9.56	8.76	9.87	1.73
Aug. ...	11.58	8.72	3.88	10.81	10.79	9.72	10.30	9.70	9.26	9.87	1.50
Sept. ...	11.10	8.52	3.80	10.43	10.42	9.54	10.09	9.48	9.42	9.58	1.55
Oct. ...	10.79	8.35	3.72	10.26	10.25	9.12	9.63	8.98	8.89	9.22	1.57
Nov. ...	10.60	8.55	3.99	10.33	10.33	9.20	9.43	8.80	8.80	9.16	1.62
Dec. ...	10.51	8.56	4.15	10.05	10.05	9.05	9.63	8.70	8.65	9.09	1.73
1987 - Jan. ...	10.39	8.53	4.09	9.78	9.78	8.97	9.63	8.20	8.74	8.96	1.69
Feb. ...	10.24	8.42	4.43	9.84	9.83	9.02	9.53	8.29	8.48	8.92	1.78
Mar. ...	10.04	8.40	4.55	10.03	10.03	9.13	9.36	8.51	8.18	8.96	1.78
Apr. ...	9.89	8.22	4.65	10.07	10.07	9.28	9.42	8.70	8.01	9.09	1.67
May ...	9.87	8.13	4.64	10.20	10.20	9.68	9.57	8.80	8.71	9.40	1.69
June ...	9.91	8.11	4.57	10.41	10.41	9.92	9.94	8.92	9.67	9.69	1.75
July	10.25	8.08	4.36	10.90	10.89	10.34	10.39	9.69	9.98	10.23	1.90
Aug. ...	11.18	8.27	4.58	11.30	11.30	10.71	10.47	10.53	10.89	10.60	2.10
Sept. ...	11.33	8.52	4.29	11.30	11.30	11.02	10.56	10.90	11.11	10.80	2.16
Oct. ...	11.58	8.90	4.59	11.41	11.41	11.01	10.39	10.83	10.34	10.55	2.19
Nov. ...	11.91	8.98	4.97	11.25	11.25	11.31	10.69	11.14	10.09	10.69	2.67
Dec. ...	11.30	8.67	5.15	10.50	10.50	11.19	11.22	10.58	9.09	10.56	2.71
1988 - Jan. ...	10.92	8.26	5.24	10.29	10.29	10.76	11.18	10.22	9.33	10.28	2.81
Feb. ...	10.62	8.19	4.82	10.30	10.30	10.84	10.94	10.25	10.03	10.33	2.95
Mar. ...	10.58	8.09	5.04	10.29	10.29	10.84	10.79	10.51	9.82	10.35	2.61
Apr. ...	10.86	7.89	5.33	10.39	10.39	10.80	10.64	10.79	9.68	10.35	2.57

FINANCIAL ASSETS OF THE PRIVATE

(billions

	1978	1979	1980	1981	1982	1983	1984
FINANCIAL ASSETS							
Domestic	**52,217**	**62,079**	**60,328**	**81,118**	**94,203**	**115,373**	**137,599**
M 1	19,155	25,365	19,265	22,339	30,148	23,469	30,768
M 2	36,459	43,539	34,286	36,306	60,574	45,102	55,251
M 3	40,172	51,760	51,147	61,266	72,239	60,269	76,274
Special credit institution deposits and savings certificates	1,034	423	414	1,356	6,858	1,364	4,273
Medium and long-term securities (2)	5,708	3,216	−1,391	5,563	8,030	41,863	43,001
Investment fund units (3)	–	–	–	–	–	–	745
TOTAL . . .	*46,914*	*55,399*	*50,170*	*68,185*	*87,127*	*103,496*	*124,293*
Shares and participations (4)	529	675	2,143	1,204	1,260	1,096	1,850
Other financial assets (5)	4,774	6,005	8,015	11,729	5,817	10,781	11,455
Foreign	**501**	**3,610**	**746**	**511**	**2,885**	**3,481**	**6,184**
Short-term trade credits (net)	−409	2,138	305	−1,734	2,065	−616	2,547
Medium and long-term trade credits and loans	832	1,052	50	640	−219	1,630	386
Medium and long-term securities	−67	−177	−179	−288	77	−545	−79
Shares and participations (6)	145	597	569	1,892	962	3,013	3,330
TOTAL . . .	**52,718**	**65,688**	**61,074**	**81,629**	**96,088**	**118,854**	**143,783**
AGAINST FINANCING OF							
Private sector	**25,217**	**32,752**	**43,517**	**48,976**	**44,863**	**52,263**	**64,372**
Short-term borrowing	9,045	16,983	18,720	12,022	14,448	20,092	34,314
banks (7)(8)	*8,190*	*16,009*	*17,113*	*9,841*	*12,780*	*19,784*	*31,441*
special credit institutions (8)	*855*	*974*	*1,607*	*2,181*	*1,668*	*308*	*2,873*
factoring companies (9)	–	–	–	–	–	–	–
Medium and long-term borrowing	9,977	10,801	15,534	24,940	19,322	15,449	14,707
banks	*2,332*	*3,589*	*4,062*	*3,166*	*1,232*	*3,028*	*3,884*
special credit institutions (7)	*5,242*	*4,800*	*6,867*	*11,914*	*10,510*	*8,624*	*9,027*
leasing and consumer credit companies (9)	–	–	–	–	–	–	–
public sector	*−58*	*−296*	*−86*	*399*	*−83*	*689*	*810*
trade credits and foreign loans	*1,487*	*2,227*	*4,497*	*8,641*	*3,074*	*715*	*−921*
bonds	*974*	*481*	*194*	*820*	*4,589*	*2,392*	*1,906*
Shares and participations	4,375	2,465	5,164	6,023	10,321	13,163	12,542
shares (10)	*892*	*865*	*1,923*	*2,001*	*2,038*	*2,967*	*4,948*
endowment funds (11)	*2,494*	*836*	*2,952*	*3,154*	*7,384*	*9,431*	*6,548*
other participations (12)	*989*	*764*	*289*	*868*	*899*	*765*	*1,046*
Other financial liabilities (13)	1,820	2,503	4,098	5,992	771	3,560	2,810
Foreign sector (14)	**5,261**	**4,553**	**−8,532**	**−10,301**	**−8,432**	**2,323**	**4,314**
Public sector (15)	**22,775**	**27,631**	**33,558**	**52,020**	**66,496**	**76,514**	**94,378**
Unclassified (16)	**−534**	**752**	**−7,470**	**−9,066**	**−5,839**	**−12,245**	**−10,653**

(1) Rounding may cause discrepancies in totals. – (2) Includes Treasury bills in ECUs. – (3) Units of Italian investment funds. – (4) Excludes shares issued by state-controlled items. – (6) Includes the units of foreign-based investment funds. – (7) Flows are adjusted for changes in exchange rates on foreign currency loans; also includes securities issued to – (9) Included since 1985. – (10) Net share issues by private sector companies and the contribution of third parties to the financing of state-controlled companies. – (11) Net of the securities, loans granted by insurance companies and bank loans used to pay the non-interest-bearing deposit on payments abroad. – (14) Balance of payments on a transactions

Table a22

SECTOR AND THEIR COUNTERPARTS: FLOWS (1)
of lire)

1985	1986	1987	1986				1987			
			I	II	III	IV	I	II	III	IV
139,843	**167,385**	**165,423**	**....**	**....**	**....**	**....**	**....**	**....**	**....**	**....**
25,669	34,654	22,975	−15,224	4,116	6,978	38,784	−18,277	7,883	1,875	31,494
53,125	55,016	49,179	−18,795	2,185	12,207	59,419	−11,751	9,288	2.892	48,750
68,296	58,926	82,416	−3,664	373	10,739	51,477	−7,484	11,218	22,037	56,645
1,544	2,584	2,677	631	1,438	117	398	269	−54	−622	3,084
42,900	47,251	56,215	12,023	12,888	10,055	12,285	28,922	12,973	8,256	6,164
15,255	37,509	−61	12,871	15,331	6,446	2,861	3,936	1,840	−1,726	−4,111
127,995	*146,270*	*141,247*	*21,861*	*30,030*	*27,357*	*67,021*	*25,643*	*25,877*	*27,945*	*61,782*
−1,510	6,164	4,546	....	....	....	....	....	....	....	....
13,358	14,951	19,630	3,398	3,688	3,723	4,143	4,613	4,843	4,962	5,213
2,850	**6,212**	**5,828**	**....**	**....**	**....**	**....**	**....**	**....**	**....**	**....**
−1.532	189	−982	−2.071	654	754	852	−2.045	156	429	478
1,578	3,521	2,317	576	1,321	655	969	−159	772	643	1,061
−33	−414	1,876	17	−127	−485	180	936	21	27	892
2,838	2,916	2,617	....	....	....	....	....	....	....	....
142,694	**173,597**	**272,252**	**....**	**....**	**....**	**....**	**....**	**....**	**....**	**....**
67,466	**71,597**	**69,463**	**....**	**....**	**....**	**....**	**....**	**....**	**....**	**....**
30,922	27,538	21,162	−7,809	5,165	8,675	21,507	471	6,96	−7,135	20,862
27,323	*20,860*	*15,744*	*−10,735*	*5,557*	*7,610*	*18,428*	*−705*	*6,363*	*−7,718*	*17,803*
1,923	*4,616*	*2,931*	*2,411*	*−908*	*550*	*2,563*	*554*	*−22*	*−38*	*2,437*
1,676	*2,062*	*2,487*	*516*	*516*	*516*	*516*	*622*	*622*	*622*	*622*
21,261	27,045	34,361	10,043	3,265	4,593	9,144	9.692	4,601	10,596	9,473
5,017	*5,145*	*6,487*	*931*	*1,367*	*941*	*1.906*	*1.511*	*2.057*	*1.120*	*1.799*
8,856	*10,394*	*16,408*	*3,320*	*1,046*	*2,092*	*3,936*	*3,494*	*2,053*	*5,047*	*5,815*
2,261	*2,297*	*2,645*	*574*	*574*	*574*	*574*	*661*	*661*	*661*	*661*
1,272	*1,584*	*1,367*	*202*	*1,091*	*206*	*86*	*149*	*57*	*1,090*	*70*
2,214	*2,303*	*3,765*	*1,021*	*176*	*−213*	*1,319*	*2,730*	*−383*	*1,687*	*−270*
1,687	*5,322*	*3,689*	*3,995*	*−989*	*993*	*1,323*	*1,146*	*155*	*990*	*1,398*
11,081	14,104	8,228	....	....	....	....	....	....	....	....
4,310	*10,897*	*6,535*	....	....	....	....	....	....	....	....
5,132	*1,704*	*246*	....	....	....	....	....	....	....	....
1,639	*1,503*	*1,447*	....	....	....	....	....	....	....	....
4,202	2,910	5,712	1,253	577	440	640	1,277	1,246	1,375	1,815
−7,111	**3,791**	**−1,286**	**−4,804**	**1,575**	**6,789**	**231**	**−2,974**	**1,458**	**2,180**	**−1,850**
109,923	**107,771**	**113,395**	**....**	**....**	**....**	**....**	**....**	**....**	**....**	**....**
−27,585	**−9,562**	**−10,320**	**....**	**....**	**....**	**....**	**....**	**....**	**....**	**....**

companies and taken up by their parent companies. – (5) Includes technical reserves, atypical securities, the non-interest-bearing deposit on payments abroad and other minor fund debts and credit institutions' bad debts. The lending of banks excludes loans to pay the non-interest-bearing deposit on payments abroad. – (8) Includes acceptances acquired. funding of state-controlled companies' debts with banks. – (12) Excludes the participations of the Treasury. – (13) Retirement funds, credit institutions' bad debts, atypical basis. – (15) Includes the technical reserves of social security institutions. – (16) Includes the balances of financial intermediaries and discrepancies.

(billions

	1977	1978	1979	1980	1981	1982	1983
FINANCIAL ASSETS							
Domestic	**268,129**	**326,587**	**401,431**	**545,376**	**668,098**	**747,759**	**884,745**
notes and coin	15,781	18,533	21,000	24,545	28,839	32,309	36,256
demand deposits: with banks	68,224	83,576	104,145	121,452	138,739	164,648	182,913
with the Post Office	2,532	3,592	5,912	4,325	5,083	5,852	7,109
M1	*86,573*	*105,692*	*131,057*	*150,322*	*172,661*	*202,809*	*226,278*
savings deposits: banks (2)	73,578	87,111	100,837	112,163	124,214	151,744	169,687
PO	16,537	20,307	24,755	28,450	30,366	33,262	36,952
M2	*176,652*	*213,110*	*256,649*	*290,935*	*327,241*	*387,815*	*432,917*
Treasury bills	6,074	9,788	18,007	33,737	57,983	70,024	85,561
Bankers' acceptances	–	–	2	1,133	1,847	1,471	1,101
M3	*182,726*	*222,899*	*274,658*	*325,805*	*387,071*	*459,310*	*519,579*
Deposits and savings certificates with special credit institutions	3,905	4,939	5,362	5,776	7,132	13,990	15,354
Medium and long-term securities (3)	17,663	23,726	27,771	27,061	33,210	42,252	85,043
of which: Treasury credit certificates (4)	*1,295*	*3,831*	*6,885*	*8,423*	*11,879*	*18,309*	*51,397*
Investment fund units (5)	–	–	–	–	–	–	–
Shares and participations	25,027	31,442	44,052	129,131	171,402	157,300	179,120
Other financial assets	38,808	43,582	49,588	57,603	69,283	74,907	85,649
Actuarial reserves + retirement funds	*38,486*	*43,174*	*48,890*	*56,592*	*63,964*	*73,227*	*83,730*
Deposits on payments abroad + other (6)	*321*	*408*	*699*	*1,011*	*5,319*	*1,680*	*1,919*
Foreign	**14,215**	**16,281**	**20,027**	**22,940**	**23,384**	**28,530**	**35,462**
Short-term trade credit (net)	1,394	2,240	4,342	4,653	2,280	3,562	2,987
Medium and long-term trade credits and loans	7,886	8,668	9,555	10,008	11,105	12,536	16,364
Medium and long-term securities	942	1,094	1,480	2,147	1,360	1,734	1,279
Shares and participations (7)	3,993	4,279	4,650	6,132	8,639	10,698	14,832
TOTAL . . .	**282,344**	**342,867**	**421,458**	**568,316**	**691,482**	**776,289**	**920,207**
AGAINST FINANCING OF							
Private sector	**191,962**	**222,392**	**267,675**	**391,191**	**478,091**	**516,173**	**590,212**
Short-term borrowing	65,142	73,297	88,843	106,332	119,254	133,040	152,629
banks (8)	*63,457*	*70,757*	*85,329*	*101,211*	*111,952*	*124,070*	*143,351*
special credit institutions (8)	*1,685*	*2,540*	*3,514*	*5,121*	*7,302*	*8,970*	*9,278*
factoring companies (9)	–	–	–	–	–	–	–
Medium and long-term borrowing	67,279	76,776	86,048	102,331	129,855	152,253	173,864
banks	*8,076*	*10,408*	*13,997*	*18,059*	*21,225*	*22,457*	*25,485*
special credit institutions	*39,130*	*43,609*	*47,207*	*53,464*	*63,689*	*73,707*	*81,465*
leasing and consumer credit companies (9)	–	–	–	–	–	–	–
public sector	*2,953*	*2,895*	*2,599*	*2,513*	*2,912*	*2,828*	*3,518*
trade credits and foreign loans	*5,572*	*7,284*	*9,150*	*15,006*	*27,891*	*34,516*	*42,257*
bonds	*11,549*	*12,580*	*13,096*	*13,289*	*14,138*	*18,745*	*21,139*
Shares and participations	36,573	45,969	61,344	144,720	183,547	182,515	208,710
shares	*27,177*	*33,247*	*46,746*	*125,835*	*157,605*	*148,440*	*165,553*
endowment funds	*5,595*	*7,974*	*8,789*	*12,505*	*18,090*	*25,617*	*32,408*
other participations (10)	*3,801*	*4,748*	*5,809*	*6,380*	*7,852*	*8,458*	*10,749*
Other financial liabilities (11)	22,968	26,350	31,440	37,808	45,435	48,365	55,009
Foreign sector	**2,145**	**9,970**	**23,055**	**33,366**	**17,556**	**4,149**	**12,845**
Public sector (12)	**119,075**	**141,842**	**169,493**	**203,039**	**255,058**	**321,421**	**397,946**
Unclassified (13)	**–30,838**	**–31,337**	**–38,765**	**–59,280**	**–59,223**	**–65,454**	**–80,796**

(1) Rounding may cause discrepancies in totals. – (2) Includes certificates of deposit and banks' repurchase agreements with customers. – (3) Includes Treasury bills in ECUs. -
and other minor items. – (7) Includes the units of foreign-based investment funds. – (8) Includes acceptances acquired; the lending of the banks excludes loans used to pay th
acceptances acquired by investors other than credit institutions, atypical securities, loans granted by insurance companies and bank loans used to pay the non-interest-bearin

SECTOR AND THEIR COUNTERPARTS: STOCKS (1)

of lire)

1983	1985	1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV
1,061,012	**1,545,453**	**....**	**....**	**....**	**1,987,615**	**....**	**....**	**....**	**1,915,766**
39,921	43,729	43,318	42,590	42,739	46,839	43,999	45,907	46,005	51,146
209,688	230,241	215,570	221,281	227,765	261,175	245,787	252,166	253,199	279,079
7,437	8,745	8,603	7,736	8,081	9,355	9,306	8,902	9,646	10,119
257,046	*282,751*	*267,491*	*271,607*	*278,585*	*317,369*	*299,092*	*306,975*	*308,850*	*340,344*
188,198	207,866	202,849	199,855	204,175	217,675	222,061	222,187	221,803	231,780
42,924	50,712	52,158	53,221	54,130	61,265	63,405	64,684	66,085	73,364
488,168	*541,293*	*522,498*	*524,683*	*536,890*	*596,309*	*584,558*	*593,846*	*596,738*	*645,488*
107,550	123,224	137,557	135,201	134,216	127,179	131,659	132,732	151,626	159,798
544	348	926	776	455	301	283	255	360	959
596,262	*664,865*	*660,981*	*660,660*	*671,561*	*723,789*	*716,500*	*726,833*	*748,724*	*806,245*
19,627	21,171	21,802	23,240	23,357	23,755	24,024	23,970	23,348	26,432
128,254	171,628	183,250	197,552	209,075	220,478	253,153	266,095	272,831	278,268
84,698	*122,672*	*130,391*	*139,418*	*145,655*	*147,299*	*173,005*	*179,914*	*181,411*	*183,135*
1,146	19,783	36,980	52,880	62,351	65,079	69,181	71,379	68,267	59,448
218,619	557,544	....	....	....	829,100	....	....	....	600,505
97,103	110,462	113,860	117,547	121,269	125,414	130,026	134,869	139,829	144,868
94,920	*108,126*	*111,824*	*115,523*	*119,222*	*122,920*	*127,796*	*132,673*	*137,549*	*142,425*
2,183	*2,336*	*2,036*	*2,024*	*2,047*	*2,494*	*2,230*	*2,196*	*2,280*	*2,443*
46,799	**58,045**	**....**	**....**	**....**	**69,517**	**....**	**....**	**....**	**73,193**
2,517	4,195	....	....	....	4,459	....	....	....	6,222
19,344	19,739	....	....	....	20,333	....	....	....	24,641
1,320	1,315	....	....	....	1,298	....	....	....	3,215
23,619	32,796	....	....	....	43,427	....	....	....	43,115
1.107,811	**1,603,498**	**....**	**....**	**....**	**2,057,132**	**....**	**....**	**....**	**1,988,959**
701,313	**1,096,928**	**....**	**....**	**....**	**1,414,841**	**....**	**....**	**....**	**1,266,299**
182,418	210,255	200,923	205,108	212,038	233,044	232,209	239,168	231,232	251,071
168,011	*192,249*	*179,990*	*184,568*	*190,432*	*208,360*	*206,349*	*212,708*	*204,189*	*220,969*
10,825	*12,748*	*15,159*	*14,251*	*14,801*	*17,364*	*17,918*	*17,896*	*17,858*	*20,295*
3,582	*5,258*	*5,774*	*6,289*	*6,805*	*7,320*	*7,942*	*8,564*	*9,185*	*9,807*
198,867	215,282	....	....	....	237,051	....	....	....	271,936
29,369	*34,386*	*35,317*	*36,684*	*37,625*	*39,531*	*41,042*	*43,099*	*44,219*	*46,018*
86,709	*94,410*	*96,929*	*98,150*	*99,791*	*103,795*	*106,656*	*108,910*	*113,173*	*119,174*
8,762	*10,978*	*11,552*	*12,126*	*12,700*	*13,274*	*13,936*	*14,597*	*15,258*	*15,920*
4,328	*5,600*	*5,802*	*6,893*	*7,098*	*7,184*	*7,333*	*7,391*	*8,481*	*8,551*
46,655	*45,177*	....	....	....	*43,192*	....	....	....	*48,487*
23,044	*24,731*	*28,726*	*27,737*	*28,738*	*30,075*	*31,242*	*31,397*	*32,388*	*33,786*
258,408	601,189	....	....	....	867,463	....	....	....	656,363
210,371	*546,687*	....	....	....	*809,365*	....	....	....	*596,746*
38,986	*44,177*	....	....	....	*446,067....*	....	....	*46,313*	
9,051	*10,325*	....	....	....	*12,031*	....	....	....	*13,304*
61,620	70,203	73,242	74,409	76,423	77,283	80,565	82,237	85,189	86,929
5,831	**−14,414**	**....**	**....**	**....**	**−13,095**	**....**	**....**	**....**	**−14,302**
492,324	**605,549**	**....**	**....**	**....**	**731,567**	**....**	**....**	**....**	**828,814**
−91,639	**−84,565**	**....**	**....**	**....**	**−58,182**	**....**	**....**	**....**	**−91,852**

(4) Includes ordinary certificates, those for health insurance institutions and Treasury certificates in ECUs. – (5) Units of Italian investment funds. – (6) Includes atypical securities non-interest-bearing deposit on payments abroad. – (9) Included since 1984. – (10) Excludes the participations of the Treasury. – (11) Retirement funds, credit institutions' bad debts, deposit on payments abroad. – (12) Includes social security institutions' technical reserves. – (13) Includes the balances of financial intermediaries and discrepancies.

THE BANK'S CAPITAL AND RESERVES

Capital. — There were some changes in the members of the Bank, though these only concerned savings and pledge banks that disposed of their shareholdings or were involved in mergers. The distribution of shares and votes at 31 December was as follows:

Shareholders with voting rights:

Savings banks and pledge banks	78	with	177,922	shares	and	472	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	"
	96	with	299,922	shares	and	788	votes

Shareholders without voting rights:

Savings banks and pledge banks	9	with	78	shares
Total ...	105	with	300,000	shares

Reserves. — The changes in the ordinary and extraordinary reserve funds during 1987 are given below; the composition is also indicated in accordance with Article 2 (6) of Law 649/1983.

Amounts in lire	Ordinary reserve fund	Extraordinary reserve fund
Balance at 31 December 1986	665,249,358,348	695,629,722,616
increase: due to appropriation of 20 per cent of profits for the year 1986	78,234,168,914	78,234,168,914
due to income received in 1987 from investment of reserves ...	99,074,050,480	126,894,463,954
decrease: due to distribution to shareholders of a part of the income accruing in the course of 1986 (Article 56 of the Statutes)	505,593,060	544,406,940
Balance at 31 December 1987	842,051,984,682	900,213,948,544

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET

AMOUNTS IN LIRE

ASSETS

GOLD				
I on hand			2,652,189,829,658	
II on deposit abroad			26,225,578,339,648	28,877,768,169,306
GOLD CREDITS (EMCF)				9,953,080,513,245
CASH ON HAND				10,836,719,037
DISCOUNTS AND ADVANCES				
I portfolio discounts:				
— ordinary bills		306,596,321,745		
— stockpiling bills		2,135,912,597,204	2,442,508,918,949	
II advances:				
— current account		1,561,077,343,698		
— fixed term		—		
— under Treasury Decree of 27.9.1974		2,051,813,732,650	3,612,891,076,348	
III deferred payments in the clearing system			—	6,055,399,995,297
BILLS FOR COLLECTION WITH CORRESPONDENTS				—
EXTERNAL ASSETS IN FOREIGN CURRENCIES				
I ECUs			12,042,936,720,245	
II other:				
— banknotes and foreign currency bills		1,003,463,927		
— current accounts with correspondents		715,233,111,215		
— time deposits		825,566,994,870		
— other		166,515,112,400	1,708,318,682,412	13,751,255,402,657
DOLLAR CREDITS (EMCF)				2,089,855,961,968
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)				
I current account			20,303,493,146,307	
II special accounts			3,155,934,484,789	23,459,427,631,096
EXTRAORDINARY ADVANCE TO THE TREASURY				—
TREASURY CURRENT ACCOUNT				61,981,008,568,283
SUNDRY CLAIMS ON THE GOVERNMENT				749,732,474,747
SECURITIES				
I government and government-guaranteed securities:				
— freely available		65,980,444,126,725		
— investment of statutory reserves		818,406,818,276		
— investment of staff severance pay and pension funds		1,295,779,542,062	68,094,630,487,063	
II securities of companies and agencies:				
— investment of statutory reserves		584,544,245,542		
— investment of staff severance pay and pension funds		1,032,828,151,357	1,617,372,396,899	
III shareholdings and participations:				
— in subsidiary companies and agencies				
investment of statutory reserves	652,896,631			
investment of staff severance pay and pension funds	144,887,515,717	145,540,412,348		
— in associated companies and agencies				
investment of statutory reserves	12,665,248,745			
investment of staff severance pay and pension funds	25,153,681,959	37,818,930,704		
— in other companies and agencies				
investment of statutory reserves	162,281,053,567			
investment of staff severance pay and pension funds	206,714,238,617	368,995,292,184	552,354,635,236	70,264,357,519,198
			carried forward	217,192,722,954,834

AT 31 DECEMBER 1987

LIABILITIES

NOTES IN CIRCULATION		54,453,721,610,000
BANCA D'ITALIA DRAFTS		767,374,157,847
OTHER SIGHT LIABILITIES		
I transfer orders	—	
II other	3,393,017,930	3,393,017,930
FREELY AVAILABLE DEPOSITS ON CURRENT ACCOUNT		499,113,894,074
TIED DEPOSITS ON CURRENT ACCOUNT		—
DEPOSITS FOR CASH DEPARTMENT SERVICES		43,030,652,903
COMPULSORY DEPOSITS		
I compulsory bank reserves	93,454,473,285,513	
II collateral for the issue of bankers' drafts and guaranteed personal cheques	10,019,770	
III tied deposits in relation to investment abroad	726,763,806	
IV in respect of companies in the process of incorporation	9,859,935,709	
V in respect of bank lending in excess of the ceiling	657,137,200,746	
VI other	131,137,136,895	94,253,344,342,439
DEPOSITS IN FOREIGN CURRENCY ON BEHALF OF THE UIC		—
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC		3,155,934,484,789
EXTERNAL LIABILITIES		
I deposits in foreign currencies	3,394,256,745	
II external accounts in lire	104,293,173,376	107,687,430,121
ECU LIABILITIES (EMCF)		12,042,936,475,213
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT		695,055,207,684
SUNDRY PROVISIONS		
I for gold price fluctuations (under Decree Law 867/1976)	35,068,855,523,845	
II for losses ensuing from exchange rate management (under Decree Law 867/1976)	1,200,795,276,401	
III for losses on bill portfolio	234,919,178,078	
IV for losses on foreign exchange	1,652,705,164,233	
V for losses on securities	4,048,733,440,996	
VI for contingent losses	2,403,006,748,480	
VII for insurance cover	706,691,685,925	
VIII for building works	1,389,657,839,597	
IX for renewal of equipment	406,250,000,000	
X for taxation	1,688,958,156,745	
XI for staff severance pay and pensions	3,148,816,000,000	
XII for grants to BI pensioners and their surviving dependants	772,045,643	
XIII for severance pay to contract staff under Law 297/1982	655,119,627	51,950,816,179,570
	carried forward	217,972,407,452,570

BALANCE SHEET

AMOUNTS IN LIRE

ASSETS

brought forward			217,192,722,954,834
UIC ENDOWMENT FUND			500,000,000,000
REAL PROPERTY			
I Bank premises		1,612,646,315,729	
II investment of staff severance pay and pension funds		185,597,320,892	1,798,243,636,621
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS			25,057,127,813
FURNITURE AND EQUIPMENT			
I furniture and fittings		73,324,360,752	
II equipment		140,533,613,049	
III coins and collections		307,195,088	214,165,168,889
SUNDRY ITEMS			
I banknotes in production		6,879,983,327	
II procedures, studies and designs of the technical departments:			
— completed	38,915,307,609		
— in preparation	11,323,154,670	50,238,462,279	
III sundry debtors		218,643,208,170	
IV other		1,613,881,260,437	1,889,642,914,213
ACCRUED INCOME			2,370,578,098,427
PREPAID EXPENSES			—
			223,990,409,900,797
MEMORANDUM ACCOUNTS			
I Securities and other valuables:			
— held as collateral	7,016,987,254,266		
— other	815,723,544,702,563	822,740,531,956,829	
II Depositaries of securities and valuables:			
— domestic	2.890,974,400		
— foreign	3,299,547,776,011	3,302,438,750,411	
III Unused overdraft facilities		1,898,927,496,026	
IV Debtors for securities receivable (BI forward sales)		346,000,000,000	
V Securities receivable (BI forward purchases)		—	
VI Debtors for foreign currencies and lire receivable (BI forward sales)			
— domestic	—		
— foreign	4,950,000,000,000	4,950,000,000,000	
VII Foreign currencies and lire receivable (BI forward purchases)		4,950,000,000,000	
VIII Exchequer for depreciation allowances		416,290,767,731	838,604,188,970,997
TOTAL . . .			**1,062,594,598,871,794**

Audited and found correct. — Rome, 28 April 1988

THE AUDITORS

DOMENICO AMODEO
VITTORIO CODA
LUIGI GUATRI
ARNALDO MAURI
FRANCO GAETANO SCOCA

AT 31 DECEMBER 1987 *(cont.)*

NINETY-FOURTH YEAR

LIABILITIES

brought forward			217,972,407,452,570
ACCUMULATED DEPRECIATION OF PROPERTY			455,567,438,418
ACCUMULATED DEPRECIATION OF FURNITURE AND FITTINGS			72,726,031,119
ACCUMULATED DEPRECIATION OF EQUIPMENT			127,654,221,489
ACCUMULATED DEPRECIATION OF THE PROCEDURES, STUDIES AND DESIGNS OF THE TECHNICAL DEPARTMENTS			18,924,898,163
SUNDRY ITEMS			
I sundry creditors		197,531,376,790	
II other		766,011,400,390	963,542,777,180
ACCRUED EXPENSES			163,865,609,359
DEFERRED INCOME			862,800,150,907
CAPITAL		300,000,000	
ORDINARY RESERVE FUND		842,051,984,682	
EXTRAORDINARY RESERVE FUND		900,213,948,544	1,742,565,933,226
REVALUATION SURPLUS RESERVE UNDER LAW 72/1983			1,304,000,000,000
NET PROFIT FOR DISTRIBUTION			306,355,388,366
			223,990,409,900,797
MEMORANDUM ACCOUNTS			
I Depositors of securities and other valuables		822,740,531,956,829	
II Securities and valuables on deposit		3,302,438,750,411	
III Holders of unused overdraft facilities		1,898,927,496,026	
IV Securities for delivery (BI forward sales)		346,000,000,000	
V Creditors for securities for delivery (BI forward purchases)		—	
VI Foreign currencies and lire for delivery (BI forward sales)		4,950,000,000,000	
VII Creditors for foreign currencies and lire for delivery (BI forward purchases)			
— domestic	—		
— foreign	4,950,000,000,000	4,950,000,000,000	
VIII Depreciation allowances		416,290,767,731	838,604,188,970,997
TOTAL . . .			**1,062,594,598,871,794**

THE ACCOUNTANT GENERAL

LUIGI GIANNOCCOLI

THE GOVERNOR

CARLO AZEGLIO CIAMPI

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

COSTS OF ADMINISTRATION			
central and local boards		1,400,151,867	
staff:			
wages and salaries and related costs	647,264,342,217		
pensions and severance payments	231,435,964,283	878,700,306,500	
professional services		88,808,299,750	
other		139,977,308,833	1,108,886,066,950
TAXES AND DUTIES			
stamp duty on the circulation of banknotes and demand drafts		—	
other taxes and duties:			
current year	80,330,222,455		
previous years	329,786,031,496	410,116,253,951	410,116,253,951
INTEREST PAID			
on compulsory bank reserves		5,299,355,368,758	
other		47,351,983,374	5,346,707,352,132
EXPENDITURE ON SECURITIES TRANSACTIONS			9,491,105,061
EXPENDITURE ON FOREIGN TRANSACTIONS			7,869,746
LOSSES ON SECURITIES TRADING			—
EXCHANGE RATE LOSSES			—
LOSSES ON THE DISPOSAL OF ASSETS			—
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES			1,467,271,611
TECHNICAL DEPARTMENTS — INITIAL STOCKS			16,832,501,214
EXPENDITURE ON TRANSACTIONS WITH THE TREASURY			1,501,805,155,000
VALUATION LOSSES			
on securities		425,011,224,156	
on foreign exchange		97,269,088,948	
on other assets		—	522,280,313,104
DEPRECIATION			
of Bank premises		52,678,075,286	
of furniture and fittings		8,624,533,726	
of equipment		18,035,894,214	
of the procedures, studies and designs of the technical departments		10,843,919,344	
other		6,659,033	90,189,081,603
APPROPRIATION OF INVESTMENT INCOME TO RESERVES			
to ordinary reserve fund		99,074,050,480	
to extraordinary reserve fund		126,894,463,954	225,968,514,434
		carried forward	9,233,751,484,806

FOR THE YEAR 1987

NINETY-FOURTH YEAR

INCOME AND PROFITS

INTEREST RECEIVED				
on discounts and advances:				
ordinary portfolio discounts		20,305,224,108		
stockpiling portfolio discounts		21,153,099,969		
advances		193,752,265,396	235,210,589,473	
on lending to the Treasury			620,938,578,408	
on lending to the UIC			823,770,643,871	
on lending abroad			244,928,287,118	
other			8,305,384,711	1,933,153,483,581
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES				
freely available				
interest-bearing:				
Treasury bills	1,897,303,755,902			
variable rate Treasury credit certificates	3,444,017,790,416			
other government securities	1,520,438,927,763	6,861,760,474,081		
government-guaranteed securities		118,863,075,083	6,980,623,549,164	
investment of reserves and staff severance pay and pension funds				
interest-bearing:				
government and government-guaranteed securities	200,944,593,674			
other securities	177,103,832,011	378,048,425,685		
from participations (not represented by securities) in:				
subsidiary companies and bodies	7,082,708,835			
associated companies and bodies	9,029,522,036			
other companies and bodies	32,598,613,838	48,710,844,709	426,759,270,394	7,407,382,819,558
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND				66,699,774,319
SECURITIES ISSUE DISCOUNTS				91,690,705,785
PROFITS FROM TRADING IN AND REDEMPTION OF SECURITIES				405,812,452,489
EXCHANGE RATE GAINS				51,486,705,562
COMMISSIONS AND OTHER FINANCIAL REVENUES				240,299,236,675
INCOME FROM REAL PROPERTY				12,797,957,320
PROFITS FROM THE DISPOSAL OF:				
real property			669,200,000	
other property			1,879,085,280	2,548,285,280
TECHNICAL DEPARTMENTS - FINAL STOCKS				19,538,295,502
TECHNICAL DEPARTMENTS - PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR				—
VALUATION GAINS				
on securities			—	
on foreign exchange			—	
on other assets			—	—
			carried forward	10,236,874,009,494

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

brought forward		9,233,751,484,806
ALLOCATIONS TO PROVISIONS		
for losses on bill portfolio	—	
for losses on foreign exchange	150,000,000,000	
for losses on securities	640,000,000,000	
for contingent losses	—	
for insurance cover	30,000,000,000	
for building works	90,000,000,000	
for renewal of equipment	50,000,000,000	
for taxation	450,000,000,000	
for staff severance pay and pensions	190,983,000,000	
for grants to BI pensioners and their surviving dependants	117,068,045	
for severance pay of contract staff under Law 297/1982	164,675,950	1,601,264,743,995
NON-OPERATING LOSSES AND EXTRAORDINARY CHARGES		1,159,683,199
		10,836,175,912,000
NET PROFIT		306,355,388,366
TOTAL...		**11,142,531,300,366**

APPROPRIATION

TO ORDINARY RESERVE FUND ....

TO EXTRAORDINARY RESERVE FUND ....

TO SHAREHOLDERS ....

TO THE TREASURY ....

Audited and found correct. - Rome, 28 April 1988

THE AUDITORS

DOMENICO AMODEO
VITTORIO CODA
LUIGI GUATRI
ARNALDO MAURI
FRANCO GAETANO SCOCA

NINETY-FOURTH YEAR

INCOME AND PROFITS

brought forward		10,236,874,009,494
WITHDRAWALS FROM PROVISIONS		
for losses on bill portfolio	—	
for losses on foreign exchange	97.269.088.948	
for losses on securities	425,011,224,156	
for contingent losses	—	
for insurance cover	—	
for building works	52,678,075,286	
for renewal of equipment	—	
for taxation	329,786,031,496	
for staff severance pay and pensions	—	
for grants to BI pensioners and their surviving dependants	91,880,000	
for severance pay of contract staff under Law 297/1982	29,134,967	904,865,434,853
NON-OPERATING PROFITS AND EXTRAORDINARY EARNINGS		791,856,019
TOTAL...		**11,142,531,300,366**

OF PROFITS

	61,271,077,673
	61,271,077,673
	30,000,000
	183,783,233,020
TOTAL...	**306,355,388,366**

THE ACCOUNTANT GENERAL

LUIGI GIANNOCCOLI

THE GOVERNOR

CARLO AZEGLIO CIAMPI

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1987

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

BOARD OF DIRECTORS

Gaetano CARBONE*
Francesco CONTI
Gaetano DI MARZO
Angelo FERRATI
Paolo Emilio FERRERI*
Callisto GEROLIMICH COSULICH
Giuseppe GIOIA
Antonio MARCEGLIA
Lucio MORODER
Rosolino ORLANDO*
Giovanni Battista PARODI*
Gavino PIRRI
Giulio PONZELLINI

* Member of the Executive Committee

BOARD OF AUDITORS

Domenico AMODEO
Vittorio CODA
Luigi GUATRI
Arnaldo MAURI
Franco Gaetano SCOCA

ALTERNATES

Mario CATTANEO
Piergaetano MARCHETTI

CENTRAL MANAGERS

Giorgio SANGIORGIO — CHIEF LEGAL ADVISER
Luigi PATRIA — CENTRAL MANAGER FOR TECHNICAL DEPARTMENTS
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
Luigi GIANNOCCOLI — ACCOUNTANT GENERAL
Giorgio MAYDA — INSPECTOR GENERAL
Luigi SCIMIA — CENTRAL MANAGER FOR BANK PROPERTY AND SPECIAL PROJECTS
Alfio NOTO — CENTRAL MANAGER WITH RESPONSIBILITY FOR THE MILAN BRANCH

LIST OF ABBREVIATIONS

ABI	—	*Associazione bancaria italiana* Italian Bankers' Association
ANAS	—	*Azienda Nazionale Autonoma delle Strade Statali* State Road Agency
ANIA	—	*Associazione Nazionale fra le imprese assicuratrici* National Association of Insurance Companies
BI	—	*Banca d'Italia* Bank of Italy
CIPA	—	*Convenzione interbancaria per i problemi dell'automazione* Interbank Convention on Automation
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
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