BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1989

ABRIDGED REPORT
FOR THE YEAR
1988

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The industrial countries

In 1988 the pace of economic expansion in the industrial countries was much faster than expected, almost equaling that of the vigorous but brief expansionary phase of 1976-78. Thanks to modest increases in costs, large productivity gains and the decline of oil prices, inflation rates were only slightly higher than the moderate figures for 1987 on an annual average basis, although they accelerated towards the end of the year. The strength of capital formation helped to ease the constraint of productive capacity.

Monetary policies were tightened in the first half of last year, once it was clear that the stock market crisis of October 1987 had been overcome. Attention was focused on controlling the economic cycle and inflationary expectations at a time when foreign exchange markets were less unsettled. The early effects of this restrictive stance were evident in the slowdown of economic activity at the start of this year. Budget policies were neutral overall, thereby failing to provide adequate support for monetary policies. The result was widespread upward pressure on interest rates, particularly at the short end of the market.

Output in the industrial countries as a group rose by 4 per cent in real terms, compared with 3.4 per cent in 1987. This expansion was entirely due to the strength of domestic demand, which increased by 4.4 per cent, against 3.8 per cent the previous year. Growth rates were more uniform than in 1987: 3.9 per cent in the United States and 3.5 per cent in the EEC, the latter figure representing an acceleration of almost one percentage point over the previous year. Japan, with the highest growth rate, at 5.7 per cent, distanced itself still further from the average for the industrial countries (Table 1).

Within the European Community, the growth in the German and French economies accelerated from the moderate rates recorded in 1987 to 3.4 and 3.2 per cent respectively. Growth rates remained higher in Italy and the United Kingdom, at 3.9 and 3.7 per cent respectively.

Table 1

DEMAND AND GROSS PRODUCT IN THE LEADING INDUSTRIAL COUNTRIES

(constant prices; % changes)

	1986	1987	1988
United States			
Domestic demand (1)	3.7	3.0	3.0
Foreign demand (2)	−0.9	0.2	0.7
Gross product	2.8	3.4	3.9
Japan			
Domestic demand (1)	4.1	5.2	7.7
Foreign demand (2)	−1.4	−0.6	−1.9
Gross product	2.5	4.5	5.7
Germany			
Domestic demand (1)	3.5	3.1	3.5
Foreign demand (2)	−1.1	−1.2	—
Gross product	2.3	1.8	3.4
France			
Domestic demand (1)	3.9	3.5	3.5
Foreign demand (2)	−1.8	−1.1	−0.3
Gross product	2.1	2.4	3.2
United Kingdom			
Domestic demand (1)	4.2	5.1	6.5
Foreign demand (2)	−0.7	−0.5	−3.2
Gross product	3.2	4.6	3.7
Italy			
Domestic demand (1)	2.8	4.6	4.3
Foreign demand (2)	−0.3	−1.8	−0.6
Gross product	2.5	3.0	3.9
Total for the seven leading industrial countries			
Domestic demand (1)	3.8	3.9	4.6
Foreign demand (2)	−0.8	−0.1	−0.1
Gross product	2.7	3.4	4.2

Sources: OECD and national statistics.
(1) Total, including changes in stocks. — (2) As percentage contribution to product growth.

Private consumption increased by 3.4 per cent, similar to the rate recorded in 1987 and in line with the growth in disposable income, while public consumption slowed down from 1.9 to 1.2 per cent. The strongest stimulus to growth came from fixed investment, which expanded by around 8 per cent, compared with 4.4 per cent in 1987.

There was a widening of the differentials in the growth of domestic demand between Japan and the EEC and between Japan and the United States, consistent with the adjustment of the main trade and current account imbalances. Domestic demand expanded by 7.7 per cent in Japan, by 4.2 per cent in the EEC and by only 3 per cent in the United States, where net exports provided a significant contribution to growth, equal to 0.7 percentage points (Table 1). In Japan, by contrast, external demand made a negative contribution of almost 2 percentage points to GNP growth, continuing the transition from an export-led economy to one driven by domestic demand that had begun in 1986.

The different trends in labour productivity meant that the employment effect of the expansion in economic activity varied from one country to another. The number of persons employed rose by 2.3 per cent in the United States and by 1.7 per cent in Japan; the unemployment rate declined from 6.2 to 5.5 per cent and from 2.9 to 2.5 per cent respectively between 1987 and 1988. The demand for labour increased by 1.3 per cent in the EEC, broadly the same as in 1987, but the unemployment rate fell only slightly, from 10.8 to 10.2 per cent, as a result of an increase in the labour supply, which in turn was due to higher participation rates.

Despite the strength of demand, consumer price inflation in the leading industrial countries was not much higher than in 1987 (3.1 per cent against 2.8 per cent). In France and Canada it fell by comparison with the previous year, but rose by around 1 percentage point in Germany and the United Kingdom and by around half a point in the United States. In the manufacturing sector productivity gains generally outpaced the rise in nominal wages, particularly in Japan and France, where unit labour costs fell by 4.4 and 3.1 per cent respectively, whereas in the United Kingdom and Italy they rose by 2.9 and 3.7 per cent respectively.

The fall in oil prices, which in dollars were on average 17 per cent lower than in 1987, softened the price impact of higher costs for other primary products. The latter rose by more than 20 per cent in dollar terms, reflecting the simultaneous effects of brisk cyclical expansion and low stock levels.

The acceleration of inflation that started in the second half of 1988 is continuing into 1989. The twelve-month rate of increase in consumer prices in the leading countries rose from 3 per cent in January 1988 to 3.6 per cent in December and by March 1989 had reached 4.2 per cent. The increase was 7.9 per cent in the United Kingdom, 6.4 per cent in Italy and 5 per cent in the United States. In the early months of this year leading economic indicators pointed to less buoyant economic activity in some countries, such as the United States and the United Kingdom. The slowdown in the prices of non-energy raw materials in the first quarter could help contain inflation in later months. However, crude oil prices are still high following the rapid increases towards the close of 1988. Should this trend continue, inflation would receive renewed impetus during the second half of this year.

The developing economies

Fueled by a strong rise in exports, output in the LDCs rose by an average of 4.4 per cent in 1988, against 3.2 per cent in 1987. The disparities between different geographical areas grew more marked: whereas growth accelerated further in the Asian LDCs, rising from 7.2 to 9 per cent, it was cut by more than half in the Latin American countries, from 2.5 to 1.1 per cent, and remained more or less stationary at 1.7 per cent in Africa. The expansion was particularly rapid in the Asian NIEs, where output increased by 10.5 per cent.

Investment also differed from one group of LDCs to another; in Asia it was equivalent to 28 per cent of national income, while in Africa and Latin America it continued to stagnate at 18 and 17 per cent respectively, significantly below the levels of the seventies.

The slowdown of economic activity and investment during the eighties has affected almost exclusively those countries that are having difficulty servicing their foreign debts. During the seventies these countries recorded high ratios of investment to GDP (27 per cent), but accompanied by a downward trend in domestic saving, which fell by around 6 percentage points of GDP between 1973-77 and 1981-82, and by serious inefficiencies in resource allocation.

The acceleration in inflation was particularly marked in Latin America. Inflationary pressures worsened in Argentina and Brazil during the course of the year, partly owing to continuing serious budget disequilibria, which were financed by the creation of money. The oil-exporting countries recorded especially high budget deficits, as did the heavily indebted countries, which are feeling the pinch of mounting interest payments on their foreign debt. Adjustment policies produced encouraging results in some countries, such as Mexico, where the reduction in the budget deficit was accompanied by a considerable drop in inflation, from 159 to 52 per cent.

Economic policies in the industrial countries

Monetary policies. — The expansionary phase, which peaked in the last few months of 1987 and early 1988, was followed by a tightening of monetary conditions during the year. The restrictive stance originated in the United States, where the Federal Reserve tightened banks' liquidity conditions in March. It reinforced its action in August by raising the discount rate from 6 to 6.5 per cent, in November by increasing the pressure on banking reserves and again in February of this year by making a further half-point increase in the official discount rate. For 1988 as a whole the growth in the monetary aggregates in the United States was lower than that in nominal GNP; M2 and M3 expanded by 5.3 and 6.2 per cent respectively, thus keeping within the target range, which had been fixed at between 4 and 8 per cent for both aggregates.

The money supply grew more slowly than GDP in Italy too, although total domestic credit expanded much more briskly. In the other leading countries the growth differential between the broader monetary aggregates and output remained positive, though it was narrower than in 1987. On the whole, the reference aggregates were closer to the targets than in the previous year.

In all the leading countries except Germany, credit to the private sector grew faster than the broader monetary aggregates.

The restrictive monetary stance was reflected in the rise in short-term interest rates. The increases were large in the United Kingdom and the United States, where demand was strong and prices were coming under pressure, but were no less significant in Germany and other European economies, where the signs of a resurgence of inflation were less marked and where the increases were aimed at combating exchange rate tensions. Short-term interest rates rose less sharply in France and Japan, where price and exchange rate pressures were less acute; they also rose in Italy in the second half of the year.

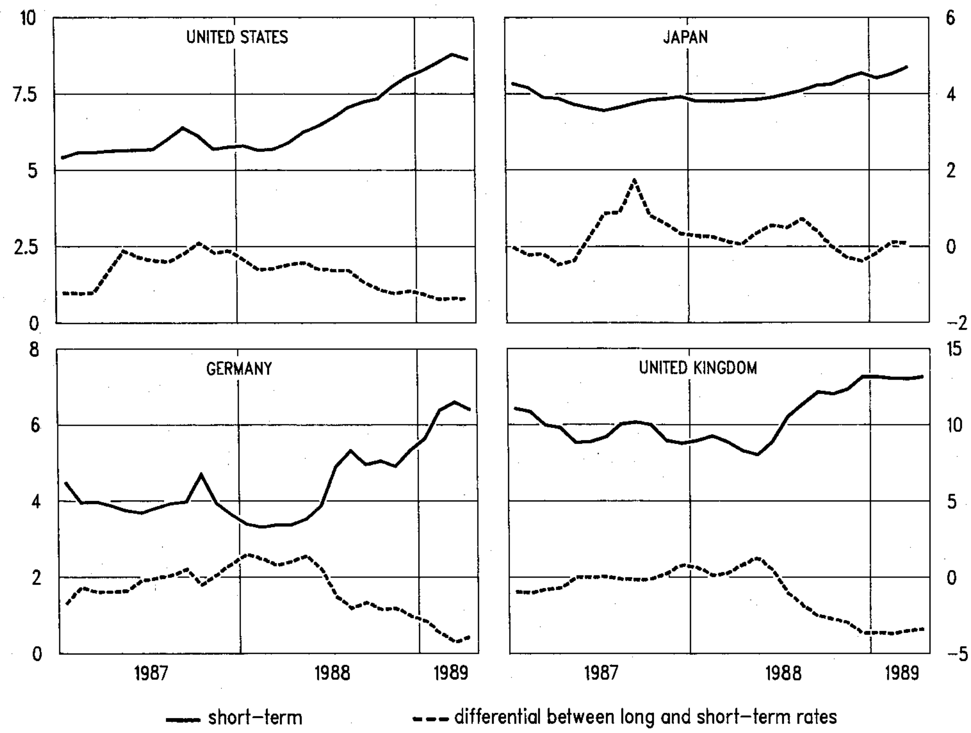
In the United States interest rates on the shortest maturities stood at 5.8 per cent at the beginning of 1988, but by December they had risen by more than 2 percentage points; in the first quarter of 1989 they showed a further increase of more than half a point. German rates rose during the summer, following increases in the lombard rate from 4.5 to 5 per cent and in the discount rate from 3 to 3.5 per cent. The German authorities' decision to raise official rates by half a point in December, in January 1989 and again in April led to further rises in short-term rates, which in the latter month were more than three percentage points above the levels recorded at the start of 1988 (Figure 1).

In the United Kingdom interest rates declined during the first five months of 1988, but the second half of the year saw the reappearance of the conflict between the need to forestall a further appreciation of the pound and domestic monetary conditions, which called for higher interest rates. Interest rates climbed rapidly during the summer, triggered by repeated increases in base rates (from 7.5 to 12 per cent) in response to the sharp rise in prices and following the gradual easing of upward pressure on sterling. A further increase in base rates at the end of November brought short-term rates to 13 per cent, more than four points higher than at the start of 1988, and they remained at this level for the first four months of 1989.

Figure 1

SHORT-TERM INTEREST RATES AND THE DIFFERENTIAL BETWEEN LONG AND SHORT-TERM RATES

(monthly averages)



With the exception of modest increases in the summer, long-term rates remained stable during 1988 in Germany, the United Kingdom and Japan, while they declined in France. Only in the United States did they rise, so that in December they were slightly above the levels prevailing before the stock market crisis. From the start of the summer there was a gradual narrowing of the differential between long and short-term rates in all the economies considered. At the beginning of this year the spread remained virtually unchanged in most countries, despite a small increase at the long end of the market, although it became markedly negative in Italy in March.

The gradual flattening of yield curves and their inversion in some countries suggest that the restrictive monetary stance has had the effect of containing inflationary expectations.

The stability of long-term rates helped the stock markets to recover: share prices on the leading stock exchanges rallied well during 1988, though they did not equal the peaks of the summer of 1987. The recovery of share prices led to a widening of the differential between bond yields and the earnings yield on shares. However, in March 1989 it was still below the September 1987 peaks in all countries except Germany.

In recent years less importance has been attached to quantitative targets in the conduct of monetary policy, owing to the greater emphasis being placed on exchange rate targets and the increasing difficulty of interpreting monetary aggregates as a result of financial innovation. Nonetheless, the authorities of the leading industrial countries continued to announce targets for monetary growth for 1989, intending thereby to underline their willingness to combat the spread of expectations of higher inflation and to bring money supply growth back to levels compatible with price stability in the medium term. Growth paths of between 3 and 7 per cent for M2 and between 3.5 and 7.5 per cent for M3 were set in the United States, representing reductions of one point and half a point respectively by comparison with 1988. For the first time since 1978 the German authorities fixed a specific target of 5 per cent for the growth of M3, rather than a target range. France and the United Kingdom confirmed the previous year's targets of 4-6 per cent for M2 in the former and 1-5 per cent for MO in the latter.

Fiscal policies. — The general government budget deficit of the industrial countries fell from 2.3 per cent of GDP in 1987 to 1.7 per cent in 1988, largely as a result of strong economic growth. Only in Germany did it increase, for the third consecutive year, rising to 2 per cent of GNP. Japan, the United Kingdom, Australia, Finland, Denmark and Sweden all recorded budget surpluses.

When the variations in budget balances are cyclically adjusted the fiscal impact on the economy is seen on average to have been neutral. It was expansionary in Germany, but restrictive in the United Kingdom and Canada and also France, albeit less markedly.

The US federal budget deficit remained virtually unchanged at $155 billion compared with $151 billion in 1987, overshooting the Gramm-Rudman-Hollings Act target by $10 trillion. This failure to contain the deficit, following the considerable reduction achieved in 1987, reflected the more rapid growth in public spending, which increased by 6 per cent in nominal terms, particularly in the sectors of defence, financial support for savings and loans associations and interest on the public debt.

Japan's budget surplus grew to over 1 per cent of GNP; the cyclical increase in revenue offset the expansionary impact of the reduction in personal income tax and the public investment programmes launched in 1987. Although the authorities continued to pursue their objective of budgetary consolidation as a means of reducing the public debt and the cost of debt servicing, fiscal policy and structural measures together tended to sustain domestic demand. The tax reform approved in December 1988, the central features of which were a reduction in personal and corporate income taxes and a revision of the system of indirect taxation, is also partly aimed at achieving this economic policy objective.

The German budget deficit grew from 1.8 to 2 per cent of GNP, only slightly below the level of 1983, which saw the start of the medium-term fiscal strategy aimed at trimming the public sector and reducing the budget deficit.

In France there was a marked contraction of the deficit, from 2.5 to 1.6 per cent of GDP, due in part to balancing the social security accounts and pruning expenditure. In the United Kingdom the public sector recorded its second consecutive surplus, largely thanks to positive cyclical trends; the surplus now stands at £14 billion, equal to 3 per cent of GDP, or £7 billion if the proceeds of privatization are discounted.

According to projections by international organizations, budget balances are again expected to have a neutral impact on the industrial countries as a group during 1989. The United States' deficit is expected to be larger than last year's; the Administration's most recent forecasts put the amount at $160 billion, equal to 3.3 per cent of GNP, which is $24 billion in excess of the Gramm-Rudrnan-Hollings target.

Despite increases in budget expenditure, the Japanese surplus is expected to grow as a result of the strong cyclical increase in tax revenue. In Germany the fiscal policy stance should be restrictive, with increased expenditure being more than offset by higher indirect taxes and by the profits earned by the Deutsche Bundesbank in 1988. The United Kingdom is expected to record a budget surplus similar to last year's.

EXCHANGE RATES AND WORLD TRADE

Exchange rates

Exchange rates remained broadly stable in 1988, in contrast to the wide variations of the previous three years ; the dollar appreciated against the Deutschemark and depreciated slightly against the yen, but its effective exchange rate fluctuated at around the level reached at the end of 1987. The reduction in the US current account deficit and the rise in interest rates helped to restore confidence in the dollar and to encourage a resumption of capital inflows to the United States.

In the first half of 1988 the US dollar showed a tendency to appreciate, being sustained from the spring onwards by the rise in interest rates and favourable trade figures. In the autumn, however, expectations about the currency's behaviour changed owing to the publication of less encouraging data on the US trade balance and the market's view that the increase of half a percentage point in the discount rate was not sufficient to cope with the inflationary pressures that were beginning to emerge.

The announcements in early December about the broad outlines of the new Administration's programme for reducing the Federal budget deficit helped create confidence in the dollar. The reinforcement of the Federal Reserve's anti-inflationary stance towards the end of the year, which culminated in another half-point increase in the discount rate this February, led to a further widening of the interest rate differential in favour of the dollar. The US currency appreciated rapidly after the meeting of the Group of Seven at the beginning of April, to reach 132 yen and DM 1.87.

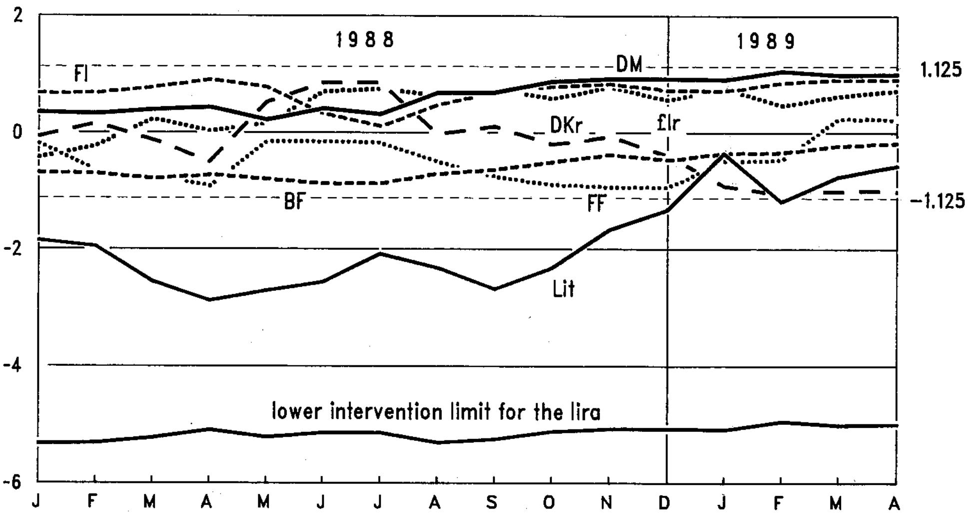
In March the effective exchange rate of the dollar was 2.9 per cent higher than a year earlier and the yen showed an appreciation of 0.9 per cent on the same basis; the Deutschemark, by contrast, was 2.5 per cent lower. The real effective exchange rate of the dollar, calculated on the basis of the wholesale prices of manufactures, was around 5 per cent higher than in the same period of the previous year, while those of the yen and the mark showed a depreciation of 4 and 3 per cent respectively.

Exchange rates within the EMS continued to display a high degree of stability. Between January 1987, the date of the last realignment, and March of this year there was no substantial change in the relationships between the currencies participating in the exchange rate mechanism. Effective and flexible management of the system increased the credibility of the commitment to maintain the central rates, thus easing the process of liberalization under way in some member countries, notably France and Italy, where the opening-up of markets was accompanied by a net inflow of capital that strengthened the exchange rates of their currencies.

Figure 2

POSITIONS OF EMS CURRENCIES WITHIN THE FLUCTUATION BAND

(percentage divergence; end-of-period data)



The French franc went through a period of slight weakness in the first four months of 1988 but in May it rose again towards the centre of the fluctuation band, a movement that coincided with the appreciation of the US dollar (Figure 2). At the end of August the Deutschemark rose rapidly to a position close to the upper limit of the narrow fluctuation band as a result of the halt in the appreciation of the dollar and the increase in the German discount rate, which was followed by similar measures in other countries participating in the exchange rate agreement. The French franc fell to a level 2 percentage points below its central rate against the mark and remained there until the end of the year. The Italian lira followed the French franc down, until it was around 4 percentage points below its central rate against the Deutschemark, but recovered again at the end of September. It continued to strengthen throughout the autumn as a result of an increase in interest rates and the liberalization of exchange controls on 1 October, which encouraged capital inflows ; by the end of the year the lira had moved back within the narrow band of fluctuation.

At the beginning of 1989 the coordinated raising of interest rates increased the degree of cohesion within the EMS and the French franc approached the centre of the fluctuation band. The appreciation of the lira came to a temporary halt in mid-February after the reintroduction of the 25 per cent reserve requirement on changes in banks' net foreign currency positions. After weakening slightly, owing partly to the Government's difficulties in taking measures to curb the budget deficit and to the increased pressure on consumer prices, the lira was brought back within the narrow fluctuation band by the raising of the discount rate on 3 March.

The exchange rate of the lira did not change substantially in the twelve months to March; in nominal terms it depreciated by 1.3 per cent against the currencies of the industrial countries as a whole and appreciated by 0.7 per cent against those of countries belonging to the EMS exchange rate mechanism, while in real terms it showed a modest appreciation against the currencies of both groups of countries (0.1 and 2 per cent respectively).

The balance of payments

Progress towards correcting the current account disequilibria of the United States and Japan was made last year for the first time since the beginning of the eighties. The US deficit fell to $135 billion, some $20 billion less than in 1987, and the Japanese surplus declined to $80 billion, compared with $87 billion the year before ; in relation to GNP the current account balances of the two countries fell by 0.6 and 0.8 per cent respectively, to 2.8 per cent in both cases. In Germany, on the other hand, the current account surplus continued to grow, rising from $45 billion in 1987 to $48 billion last year, equal to around 4 per cent of GNP.

In the United States the adjustment in the relative cyclical position of aggregate demand, which had begun in 1987, and the cumulative effect of the improvement in competitiveness since 1985 brought about a reduction of around $34 billion in the trade deficit. The current account showed a more modest improvement, since invisibles deteriorated by around $15 billion, owing mainly to a sharp decline in net investment income ($3 billion, against $20 billion in 1987), which is affected by the United States' growing net external debt.

In 1988 Japan's trade surplus decreased by around $2 billion; the decline amounted to about $10 billion at constant exchange rates.

In Germany the trade surplus continued to increase in the absence of any significant adjustment in the relative cyclical position of demand. The surplus vis-a-vis the EEC countries rose by a further $11 billion to $46 billion. The largest increases were in trade with the United Kingdom ($3.2 billion), Italy ($2.7 billion) and Spain ($1.2 billion). However, there was a decline of $4 billion in the surplus vis-a-vis the United States.

The industrial countries as a group reduced their trade deficit from $18 billion in 1987 to around $2 billion as a result of an improvement of about 2 per cent in their terms of trade; both exports and imports increased by around 9 per cent in volume.

In contrast to the previous year, the current account disequilibria of the major industrial countries were financed almost entirely by flows of private capital, especially long-term investment.

The trade balance of the developing countries as a whole deteriorated by around $20 billion, so that their combined current account swung from a surplus of $1.4 billion to a deficit of some $19 billion. Most of the deterioration was due to the contraction in the trade surplus of fuel exporters. Among non-fuel countries, exporters of manufactures recorded a small reduction in their current account surplus.

The process of European monetmy integration ten years after the establishment of the EMS

The European Monetary System celebrated its tenth anniversary in March 1989. Over the last decade important progress has been made towards achieving the objectives set at the time of its inception and the system has been continuously strengthened. In particular, in 1985 the central bank governors approved measures to increase the use of the official ECU, especially as regards the mobilization of reserves deposited with the EMCF. In the autumn of 1987 the Basle-Nyborg Agreement extended the scope for financing interventions by increasing recourse to the credit mechanisms and reinforcing the commitment of member countries' central banks to coordinate their actions aimed at stabilizing exchange rates. The EMS nevertheless remains unfinished; progress in exchange rate stabilization has not been accompanied by corresponding progress towards a convergence of economic policies.

The Single European Act of 1985 set precise deadlines for achieving a single market within the Community by means of an extensive programme of measures to remove existing barriers to the movement of factors of production and goods by the end of 1992. Some of these measures have already been approved by the competent authorities in the various countries, but a number of questions still remain open, especially with regard to the taxation of investment income, where prior agreement must be reached on the minimum degree of harmonization in order to avoid distortions in the allocation of resources. By deciding to implement the directives liberalizing capital movements, member countries committed themselves politically to reach agreement on this issue.

The European Council is aware of the importance of the changes now taking place and realizes that it would be difficult to strengthen the EMS further without modifying its institutional arrangements. Hence at its meeting in Hanover in June 1988 it decided to set up a committee to study and propose concrete stages leading towards European economic and monetary union.

In its report, submitted to the Heads of State and Government in the middle of April, the Committee concludes unanimously that the creation of European monetary and economic union could significantly raise the level of economic welfare in the Community. On the other hand, it recognizes the risks that the process of integration could entail, given existing imbalances ; in order to counter these risks it will be necessary to increase the degree of economic convergence by implementing a coherent set of economic policies, especially with regard to fiscal policy, regional imbalances and competition.

The creation of economic and monetary union requires monetary policy to be exercised by a single institution on the basis of collective decisions. This presupposes the establishment of a European System of Central Banks (ESCB), consisting of national central banks organized according to a federative model consistent with the political structure of the Community.

These institutional changes would require the approval of a new Treaty defining the functional and institutional arrangements of economic and monetary union and laying down provisions for its step-by-step implementation. In its Report the Committee suggests that preparatory work on the formulation of such a Treaty should begin immediately. It does not set specific deadlines for achieving monetary and economic union but identifies three basic stages.

In the first stage, which would begin in July 1990 and would signal the start of the process of unification, the degree of convergence between the economies of member countries would have to be increased and monetary and economic policies coordinated more closely within the existing institutional framework. The second stage would begin with the approval of the new Treaty, which would lay the institutional foundations for economic and monetary union, including the establishment of the ESCB. The third stage would see the complete achievement of economic and monetary union. The Committee agreed that the ECU had the potential to become the single Community currency and that there would be no discontinuity between the present ECU and the single currency of the union.

World trade and the commodity markets

World trade grew rapidly in 1988 and there were substantial shifts in the relative prices of the main product groups.

According to IMF estimates, the volume of world trade rose by 9.3 per cent, more than twice the rate of growth in world output (4.1 per cent). For the second year in succession, manufactures were the most dynamic component, increasing at a rate of around 11 per cent. The dollar prices of primary products other than oil were 18 per cent higher than in 1987, the sharpest increase in the past ten years; compared with the prices of manufactures they showed a rise of 12 per cent. Oil prices, on the other hand, fell by 20 per cent in nominal terms and by 25 per cent in relation to manufactures.

The rise in the prices of non-oil commodities — a continuation of the trend that had been under way since mid-1987 — took average prices back to their 1980 level. The increase in the prices of minerals and metals was particularly large, 48 per cent.

Foodstuffs also increased substantially in price, by 28 per cent, owing mainly to the decline in production caused by adverse weather conditions on the American continent. The prices of non-food agricultural products showed a more moderate upward tendency (9.4 per cent), whereas those of beverages remained unchanged.

In 1988 the prices of oil products showed a pronounced downward trend that was not reversed until the end of November. The disagreement among members of the OPEC cartel about their respective production quotas and the steady increase in the output of crude oil from around 18 million barrels a day at the beginning of 1988 to almost 23 million at the end of the year contributed to the downward pressure on prices.

The price of crude oil rose rapidly after the OPEC countries had reached a new agreement at the end of November; by April 1989 it stood at around $20 a barrel.

The regionalization Of world trade and the Uruguay Round

The recovery in world trade over the last two years has not diminished the concern about growing protectionist pressures, which have increasingly taken the form of quantitative restrictions and non-tariff barriers applied on a discriminatory basis according to the country or group of countries in which goods originate or to which they are exported. This has led to preferential relations between certain areas and introduced bilateralism into world trade, to the possible detriment of other countries.

Over the last decade the centre of gravity of world trade has shifted progressively towards the Far East, threatening to leave the European Community in a backwater if internal liberalization is not accompanied by greater external openness. For these and other reasons the GATT negotiations that commenced at Punta del Este in September 1986 are extremely important.

More than two years after the work of the Uruguay Round began, preliminary agreement in principle on all of the points under discussion was reached at the meeting of the 105 participating countries in Geneva in April 1989.

INTERNATIONAL CAPITAL MARKETS, EXTERNAL DEBT AND OFFICIAL RESERVES

International capital markets

After remaining unchanged in 1987, international lending increased again last year, owing partly to the favourable macroeconomic setting, and in particular to the growth of investment and foreign trade in the industrial countries and the stability of exchange rates. The process of international portfolio diversification was resumed and confidence in the soundness of the markets was restored by the way in which they weathered the stock market crisis of October 1987.

Gross bond issues, which had declined in 1987, rose to $225 billion in 1988, and net issues increased to $138 billion. The progress of financial innovation and securitization picked up again after the pause of the previous year.

Syndicated loans continued to expand very rapidly, to reach a total of $127 billion. Competition in the sector was intense, with very good terms available to borrowers despite increased credit demand. Spreads continued to narrow, declining to an average of 31 basis points for the OECD countries, as against 47 points in 1985. The implementation of the international agreements reached by the BIS Committee on Banking Regulations and Supervisory Practices, which lay down minimum capital ratios for banks, could initially lead to a stiffening of lending terms. The growth in syndicated lending was stimulated by increased demand from borrowers of less than prime creditworthiness, who found access to the bond market more difficult following the stock market crisis. There was also considerable borrowing to finance mergers and acquisitions; syndicated loans for this type of operation exceeded $34 billion, or about 30 per cent of total new lending, as against 12 per cent in 1987.

Borrowing facilities contracted in 1988, much of the reduction occurring in back-up facilities, whose share has declined steadily since the 1985 peak, while issues of Euro-commercial paper increased to $57 billion from the already high level of $55 billion recorded in 1987. International equity issues declined to $8 billion, failing to respond to the general recovery in national stock markets in the course of the year.

External debt

Despite some progress, the debt burden of the developing countries remains heavy, and many of them are having difficulty meeting their debt servicing obligations. The total external debt of the LDCs rose to more than $1,240 billion at the end of 1988. That of the fifteen most heavily indebted countries diminished slightly to $477 billion, but the ratio of their debt service payments to exports rose to about 40 per cent, since the growth in their exports, fueled by demand from the industrial countries, was offset by an increase in interest payments.

Financial flows to the developing countries continued to come largely from official sources, as they have ever since the onset of the debt crisis. In 1988 official resources accounted for more than 70 per cent of total foreign lending to the LDCs because of the reluctance of commercial banks to provide new money. The fifteen heavily indebted countries obtained about $5 billion in net financing from official sources, including the IMF, and made net repayments of about the same amount to private creditors. According to IMF figures, the exposure of the commercial banks diminished by some $12 billion after adjustment for exchange rate variations.

The secondary market in LDC debt has expanded rapidly in recent years. This has been facilitated by the mechanisms introduced by a number of debtor countries to convert their external debt into local currency and by a willingness on the part of the banks to sell their claims at a discount after making allocations to loss provisions.

Prices on the secondary market have fluctuated widely, with pronounced differences from one debtor country to another. In the second half of 1988 and the first few months of this year they have generally declined, reaching an average of less than 40 cents to the dollar for the fifteen heavily indebted countries. Gross trading in the first half of 1988 totaled about $40 billion on an annual basis. However, the market is still relatively illiquid, which prevents prices from being truly representative. This is due to the small volume of final demand, virtually all of which stems from the conversion programmes, and to hindrances on the supply side deriving from disparities in tax treatment and divergent accounting and supervisory rules in the creditor countries. The number of LDC debt reduction operations based on secondary market prices increased considerably, although in volume they were still relatively modest. Such operations consisted principally in debt-equity swaps or the conversion of claims into local-currency assets.

The high debt ratios and the deep discounts in the secondary market demonstrate that the situation of many countries is still precarious, even seven years after the onset of the crisis. Economic growth remains insufficient to raise per capita incomes and improve the countries' capacity to repay their debts. Difficulties in restoring normal access to the financial markets persist, even for those countries that have made strenuous efforts to eliminate the imbalances in their economies in recent years.

In March 1989 the US Treasury Secretary proposed some major innovations to the existing international debt strategy while at the same time reaffirming its fundamental principles. Emphasis is now being placed on the need to facilitate a reduction in debt, implicitly acknowledging the existence of a solvency problem as well as one of liquidity. A portion of IMF and World Bank resources would be made available to support operations to reduce the debt and ease the debt servicing burden, among other things by guaranteeing a part of the interest payments. The possibility that other industrial countries will contribute resources of their own to these operations is viewed with favour. Under the proposals the commercial banks would facilitate the process by temporarily waiving the restrictive contract clauses that now prevent debt reduction. Finally, the authorities of creditor countries have been asked to review tax and supervisory rules that may impede the banks' participation in the operations. This set of proposals has been accepted by both debtors and creditors as a basis for hastening the solution of the international debt problem. However, a number of important questions remain to be settled: the amount of financial resources that can be made available ; the definition of forms of IMF and World Bank intervention that are compatible with their institutional roles ; the most effective machinery for achieving adequate debt relief using the resources available. Moreover, it must be ensured that the transfer of risk to multilateral institutions and official lenders will remain limited, that the participation of private creditors in new financing packages will be maintained and indeed broadened, and that incentives to debtor countries to carry out adequate adjustment programmes will be enhanced by applying more effective conditionality to IMF and World Bank lending.

Official reserves

Gross official reserves, excluding gold, totaled $731 billion at the end of 1988. This represented an expansion of 1.7 per cent, much less than the extremely rapid growth registered in 1987. The slowdown was due partly to valuation adjustments connected with the appreciation of the dollar in the course of the year (expressed in SDRs, reserves rose by 7.2 per cent), but chiefly it reflects a smaller increase in the reserves of the industrial countries, which grew by $12 billion, compared with $150 billion in 1987, owing to the smaller scale of exchange market intervention. The largest increases in reserves were recorded by Japan ($12 billion), Canada and Spain ($8 billion each) and Italy (about $5 billion). There were significant reductions in the reserves of Germany and France, which contracted by $22 billion and $9 billion respectively.

The gross reserves of the developing countries remained virtually constant. Those of Latin American countries fell from $37 billion to $32 billion. At the end of 1988 Mexico's reserves amounted to $5 billion and Brazil's to $6 billion, while Argentina, Venezuela, Colombia and Chile had about $3 billion each.

THE ITALIAN ECONOMY

DEMAND, OUTPUT AND THE BALANCE OF PAYMENTS

The outturn for the year

The Italian economy expanded for the sixth successive year in 1988, with real GDP growth accelerating by nearly one point to 3.9 per cent (Table 2), in line with the other industrial countries. The growth was fueled by the buoyancy of foreign demand (up by 5.9 per cent, as against 3.3 per cent in 1987) and the continued strength of investment.

Table 2

RESOURCES AND USES OF INCOME

(percentage changes)

	1987		1988	
	Value at constant prices	Deflators	Value at constant prices	Deflators
Sources				
Gross domestic product	3.0	6.1	3.9	6.0
Imports (1)	10.1	−0.5	7.2	3.9
Uses				
Domestic demand	4.6	5.3	4.3	5.7
Households' consumption	3.9	5.2	3.8	4.9
Collective consumption	3.6	9.8	3.0	8.7
Gross capital formation	7.3	2.2	6.8	6.0
of which: fixed capital formation	6.8	3.5	4.9	4.6
machinery, equipment and transport equipment	14.1	3.3	6.0	3.1
buildings	−0.4	4.6	3.7	6.4
Exports (1)	3.3	1.9	5.9	4.6
Memorandum item:				
Growth in GDP at constant prices attributable to change in stocks	0.2		0.5	

Source: Istat.
(1) Goods and services (ESA). — (2) Includes statistical discrepancies.

The high level of economic activity finally generated a significant increase in employment, which labour force surveys show to have risen by 270,000 units. The number of employees in industry also rose, bringing to an end a long period of uninterrupted decline. The rise in employment kept pace with that in the labour force, thus preventing the unemployment rate from rising above the 12 per cent recorded in 1987. The disparity between the Centre-North and the South of Italy nonetheless increased, with the unemployment rate falling by 0.6 points in the former and rising by 1.4 points to over 20 per cent in the latter.

The increase of 4.3 per cent in domestic demand was in line with the average of the industrial countries. Though smaller than that recorded in 1987, it exerted pressure on prices and the external accounts in the second half of the year.

The average annual rate of consumer price inflation was 5 per cent, only 0.2 points above that recorded in 1987. At the end of the year, however, the twelve-month rate was close to 5.5 per cent. This acceleration in the closing months of the year was partly due to the rise in the prices of raw materials and the appreciation of the US dollar. The pattern was common to the other industrial countries, so that Italy's inflation differentials did not widen significantly: compared with the average for the EEC countries there was a difference of about 2 points; compared with Germany the differential rose to nearly 4 points, while it turned negative vis-a-vis the United Kingdom.

Imports of goods and services increased by 7.2 per cent at constant prices ; though less than in 1987, this was still larger than the growth in sales. The small improvement in the terms of trade was insufficient to offset the negative effect on the trade deficit, which rose slightly. The current account deficit on the broader definition used by the IMF increased more sharply, rising from 1.9 trillion lire in 1987 to 6.8 trillion last year.

The rate of increase in households' consumption (3.8 per cent) was nearly the same as in 1987, but considerably below that in total domestic demand. The growth in consumption paralleled the rise in disposable income, which was especially pronounced for wages and salaries. Once again, the increase in households' spending was mostly on consumer durables, with peaks for motor vehicles (11 per cent) and household and leisure goods (6-7 per cent).

Gross capital formation expanded very strongly, at a rate of 6.8 per cent overall and one of 4.9 per cent for fixed capital. Though this represented a significant slowdown compared with the previous year, the long investment cycle continued. It was fueled by the increasingly firm prospects of further growth in demand, with the level of capacity utilization already high, and by substantial company profits. The increase in spending on machinery, equipment and transport equipment was also smaller than in 1987, but nonetheless amounted to 6 per cent. Spending on non-residential building rose more rapidly than in the previous year (by 10.1 per cent as against 2.8 per cent), thus confirming that a growing proportion of investment is being used to expand capacity, whereas expenditure to modernize and rationalize existing plant had accounted for the lion's share in the early years of this expansionary phase.

The decline in investment in residential building came to an end and spending on public works picked up, so that investment in construction increased overall by 3.7 per cent, the highest increase for fifteen years. The national accounts also indicate a very high rate of stock-building, which added no less than half a percentage point to the growth in GDP. It should be remembered, however, that this item includes the statistical discrepancy between the estimates of total resources and total uses.

The public sector again made a very large contribution to domestic demand. Net borrowing by general government exceeded 114 trillion lire, equivalent to 10.6 per cent of GDP. A substantial increase in current revenues was matched by an almost equally large rise in outlays of around 5 per cent in real terms. In addition to interest payments, a number of other factors boosted government expenditure : the further impact of the wage agreements covering the period 1986-88, the payment of the higher salaries in the school system that were agreed last year and improvements in some social benefits and higher health service costs.

The current account remained broadly in equilibrium last year, with a deficit of around 0.6 per cent of GDP. Nonetheless, the signs of a deterioration in the external accounts that had first appeared in 1987 in the wake of the oil counter-shock were confirmed. The weak points were the balances on non-oil merchandise trade and invisibles. The *fob* trade deficit was small and showed little change compared with 1987 ; however, the non-energy component recorded a much larger deterioration (nearly 5 trillion lire on a *cif-fob* basis) owing to the differential between the rates of increase in imports and exports, with imports rising by nearly 10 per cent and exports by just over 6 per cent, which was 3 points less than the growth in world trade.

Valued at 1980 prices, Italy's share of world exports continued to decline from its 1979 peak, reaching 6 per cent. In contrast with developments in the recent past, the change in relative export prices failed to offset the deterioration in volume terms, with the result that Italy's market share at current prices also declined (to 6.8 per cent as against 7.1 per cent in 1987). Part of the explanation for the underperformance of Italian exports lies in the types of goods sold and the markets supplied. Technologically advanced capital goods and the markets of Japan and the newly-industrializing economies made the largest contributions to the growth in world demand in 1988, fields in which Italy's exports are still relatively unspecialized and insignificant, despite the progress made in the last few years.

In the energy field, which remains one of the main causes of Italy's trade deficit, imports declined in both value and volume terms. Trade in services (including factor incomes) produced a large deficit of nearly 4 trillion lire, an increase of 3 trillion on 1987, with more than half the deterioration being attributable to tourism. The rest of the increase in the current account deficit was due to the rise in transfer payments in connection with Italy's development aid.

The growth in total demand generated a large rise in value added at factor cost in both industry (5.6 per cent for industry excluding construction and 3.8 per cent for construction) and market services (5.1 per cent). Non-market services also expanded in real terms, but only by 1.8 per cent. Agricultural output was depressed by the unfavourable weather in 1988, with value added falling by 3.6 per cent and the sector's share of total GDP declining to 4 per cent.

The growth in economic activity was reflected in a 1.4 per cent increase in employment measured in standard labour units, as against a rise of 0.6 per cent in 1987. Industrial demand for labour increased by 1.5 per cent, with a fall in recourse to the Wage Supplementation Fund. Together with another substantial increase in the services sector (2.5 per cent), this more than offset the 3.6 per cent fall in agricultural employment, which nonetheless still accounts for around 10 per cent of the total.

Per capita productivity in manufacturing industry rose by more than 4 per cent, somewhat less than in the previous year. The increase for the economy as a whole amounted to 3 per cent, half a point more than in 1987. This performance partially compensated for the rise in per capita labour costs, which was greatest for market services (9 per cent, as against 8 per cent for manufacturing). Accordingly, unit labour costs rose by 3.6 per cent in manufacturing (only a little more than in 1987) and by 6 per cent in market services. On the other hand, the increases in unit variable costs in these two sectors differed less, amounting to 4.3 and 5.7 per cent respectively; the differential reflected the unequal impact of the rise in non-energy raw material prices, which more than offset the effect of the fall in the price of energy imports. Moreover, the latter was only passed on in part to industrial prices because domestic energy producers widened their operating margins considerably.

In manufacturing industry the increase in costs was reflected in producer prices, which rose by 4 per cent, as against 2.3 per cent in 1987. Profit margins remained virtually unchanged at the historically high levels of the previous year. In market services producer prices rose on average by 5.8 per cent, again with little change in profit margins. Over the year, however, there was a significant acceleration in the rate of increase in producer prices : on the basis of domestic sales of final products, the twelve-month rate of increase in wholesale prices rose from 4.8 per cent in December 1987 to 5.6 per cent in December 1988. Consumer prices also accelerated in the latter part of last year, with those of unregulated services recording a particularly large twelve-month increase in December (8 per cent, as against 4.4 per cent for the goods index and 5.5 per cent for the general index).

Developments in the first few months of 1989 and the outlook for the year

Seasonally adjusted estimates of industrial production (corrected for the number of working days and based on electricity consumption in March and April) suggest that the high level of output reached in the latter part of 1988 was maintained in the first four months of this year. The latest business opinion surveys indicate that both domestic and foreign demand are still strong but showing signs of slowing down. The trend of orders for manufactures is judged to be downward.

The labour force survey conducted in January also pointed to a pause in the expansion of employment that had been a feature of 1988. This result was nonetheless influenced by a faster exodus of workers from agriculture in the South of Italy. The overall unemployment rate was unchanged, but the regional disparity continued to widen, with the rate in the South rising and that in the Centre-North falling to less than 4 per cent for male workers.

In the first quarter the *cif-fob* trade balance recorded a deficit of 9.6 trillion lire, an increase of more than 3 trillion compared with the same period of 1988. Seasonally adjusted, the deficit was also larger than that of the previous quarter, despite the growth in exports. The balance on non-energy goods continued to deteriorate, notably for minerals, food and agricultural products and chemicals, which were affected by the increase in the world prices of raw materials. The value of energy imports rose as a result of the increase in the price of oil and some stockbuilding. The current account deficit was offset in the first quarter by an inflow of foreign capital amounting on a settlements basis to nearly 16 trillion lire, with banks accounting for two thirds of the total.

Price inflation has continued to quicken. The twelve-month rate of increase in consumer prices, as measured by the cost-of-living index, rose to 6.7 per cent in April, two points higher than the rate recorded six months earlier. The acceleration reflected the changes in indirect taxes introduced in November 1988 and January 1989. Final demand remains strong and production costs continue to be affected by rising prices for raw materials and intermediate goods. The twelve-month rate of increase in wholesale prices rose to 7 per cent in March, fueled by the upturn in the prices of oil and agricultural products in world markets and by the appreciation of the dollar against the lira.

The latest forecasts by international organizations suggest that the growth in world trade will be around 2 points lower than in 1988, partly as a result of most major industrial countries persisting with policies to curb demand in order to control domestic inflation. The international dollar prices of energy and other raw materials are expected to rise on average by around 10 and 5 per cent respectively compared with 1988, primarily as a result of the increases that have already been recorded.

Coupled with continued rapid growth in domestic demand, such developments on the international front would prolong the acceleration of inflation and aggravate the tendency for the trade deficit to rise.

These effects could best be mitigated primarily by fiscal measures that curbed the growth in consumption without prejudicing gross capital formation, provided money wages per employee rose no faster than in 1988. The rate of consumer price inflation would begin to slow down in the summer, with the average rate for 1989 exceeding last year's by around one point. The annual growth in GDP would still be above 3 per cent and would continue to be sustained primarily by exports and investment, notably in non-residential buildings. The external current account deficit would amount to a little more than 1 per cent of GDP.

DOMESTIC DEMAND

Households' consumption

Household consumer demand grew rapidly for the third consecutive yedr in 1988. Domestic consumption expanded by 3.8 per cent in real terms and by 8.8 per cent at current prices. The rate of growth in national consumption was nearly half a point higher, at 4.2 per cent, owing to a contraction in non-residents' expenditure in Italy and a 26 per cent rise in Italian households' consumption abroad.

The sustained economic expansion has generated expectations of permanently higher incomes, which in turn have influenced households' spending decisions. The effect was especially pronounced in expenditure on durable consumer goods, which rose by 11.6 per cent in real terms, the highest rate since the late seventies. Purchases of non-durable goods rose by 2.0 per cent in real terms and those of semi-durables by 3.3 per cent.

Aggregate saving by households and firms increased less than gross national income (by 9.3 and 10.1 per cent respectively) but at the same rate as private disposable income, which was adversely affected by a substantial rise in taxes. Adjusted for the transfer of resources to the public sector due to the effect of inflation on the real value of the public debt, the figures on private sector income and saving reveal a small decline in the sector's propensity to save. With the halt in disinflation, in fact, the "inflation tax" increased for the first time since 1982, rising from 4.2 to 5.0 per cent of private disposable income. Adjusted for inflation, households' propensity to save also decreased slightly.

For the last three decades Italy and Japan have had the highest private savings ratios among the leading industrial countries. During the rapid economic growth of the sixties private savings accounted for 26 per cent of national income in Italy, 28 per cent in Japan and 20 per cent elsewhere. In the seventies the private sector's propensity to save rose everywhere, but nowhere more sharply than in Italy. In the eighties it returned to the levels of the early sixties in all the major countries except Canada; in Italy the ratio was 26.3 per cent in 1987 and 26.1 per cent in 1988, higher than that of Japan. If the depreciation of financial assets due to inflation is taken into account, the private savings ratio is systematically lower, but the trends remain basically the same in the leading industrial countries, except the United States and Italy.

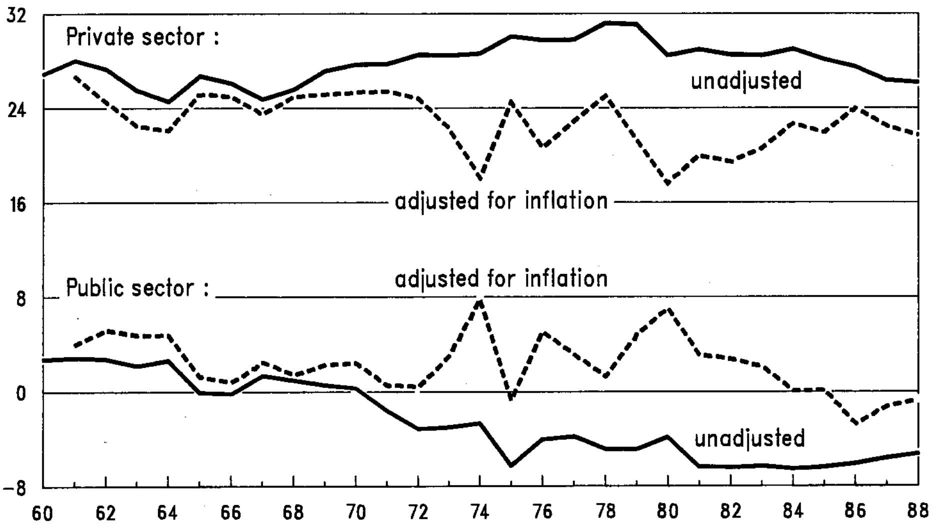
Government saving contributed significantly to total domestic saving in the sixties, but in the mid-seventies the deterioration in the public finances as a result of expansionary fiscal policies in the wake of the oil crisis depressed national savings ratios. Budget deficits increased almost everywhere in the early eighties, though more recently this trend has been halted in Germany, Japan and the United Kingdom.

The impact of inflation and the public sector finances leads to notable differences between Italy and the other industrial countries. The fiscal "turning point" came nearly a decade earlier in Italy, with the public sector passing from a surplus of about 2 per cent of GDP in the mid-sixties to a deficit of over 2 per cent in the early seventies. The decline in the national savings ratio also came earlier than elsewhere. Since the beginning of the eighties high interest rates have aggravated the current account deficit, which for the past eight years has averaged 6 per cent of national income (Figure 3).

Figure 3

PROPENSITY TO SAVE OF THE PRIVATE AND PUBLIC SECTORS IN ITALY, ADJUSTED AND UNADJUSTED FOR INFLATION (1)

(percentage of GDP)



Source: Based on Istat and Bank of Italy data.
(1) The public sector includes the Bank of Italy and the Italian Foreign Exchange Office. The adjustment for inflation is based on the consumer price index.

Rapid inflation and the large volume of public sector financial liabilities profoundly alter the trend in the components of national saving in Italy when the effects of inflation are taken into account. The deterioration in the government accounts that began in the mid-sixties was offset by the "inflation tax", a phenomenon that recurred in the seventies. The two-point decline in the national savings ratio between the two decades is thus perfectly matched by the decline in the adjusted private savings ratio from 24.5 to 22.3 per cent of national income. The ratio reached a historic low in 1980 but rose sharply in subsequent years before falling back slightly in 1987 and 1988. The average for the period 1981-88 is only marginally lower than that for the seventies. Inflation-adjusted government saving declined over the same period, reflecting the slowdown in inflation and the consequent reduction in the "inflation tax", and became negative in 1986; there was a corresponding further drop in the national savings ratio.

To summarize, there has been a long-run decline in national savings ratios in the leading industrial countries. In most cases this can be attributed in part to a deterioration in public finances and in part to a decline in the private savings ratio. In Italy the decline of about 6 points in the national savings ratio between the sixties and the eighties is ascribable almost equally to these two factors. The relative importance of the private and public sectors in determining the trend in national saving cannot be deduced directly from these results. If a reduction in public saving is offset even partially by increased private sector saving, the public sector's contribution to the decline in national saving cannot be accurately measured arithmetically.

One of the factors affecting households' saving decisions is the extent to which the financial markets enable households to transfer their purchasing power over time. This possibility is altered by the quantitative and qualitative development of financial instruments and intermediaries, especially those that directly finance household consumption. Consumer credit to households has expanded substantially in recent years. Moreover, total household indebtedness, which has traditionally been very low in Italy in comparison with other industrial countries, has been growing, albeit slowly.

Innovation and growth in the capital markets usually ease households' liquidity constraints. In a growing economy in which these constraints chiefly affect the young, one would expect such developments to diminish households' propensity to save. The effect would be marginal, however, if the formal credit market had previously been supplemented by an extensive network of transfers between family members. A sample survey of household budgets in 1987 carried out by the Bank of Italy gives indications as to the extent of rationing in the official credit markets and the correlation between liquidity constraints and transfers between family members.

About 15 per cent of the households in the sample had little access to the credit market and could be defined broadly as being subject to liquidity constraints. The survey found that unrequited private transfers go largely to households that do not have access to the credit market. Averaging 7 million lire a year, such assistance is large enough to help them overcome the liquidity constraint. However, the recipients of such transfers (2.7 per cent of the sample) are far fewer than those subject to liquidity constraints, so that even after intra-family transfers many households are still subject to a liquidity shortage. Unless this is offset entirely by intra-family credit, a possibility that was not investigated in the survey, there remain liquidity constraints that could be removed by an expansion in the financial markets, which would lower households' propensity to save.

Investment

The sustained expansion in gross fixed investment that has been under way for five years in the industrial economies also continued at a rapid pace in Italy last year. The estimated annual real rate of growth of 4.9 per cent was higher than overall economic growth for the second consecutive year, so that the ratio of gross fixed investment to GDP rose further to 23.8 per cent. At current prices investment expanded by 9.8 per cent, or by 13.5 per cent if stockbuilding is included.

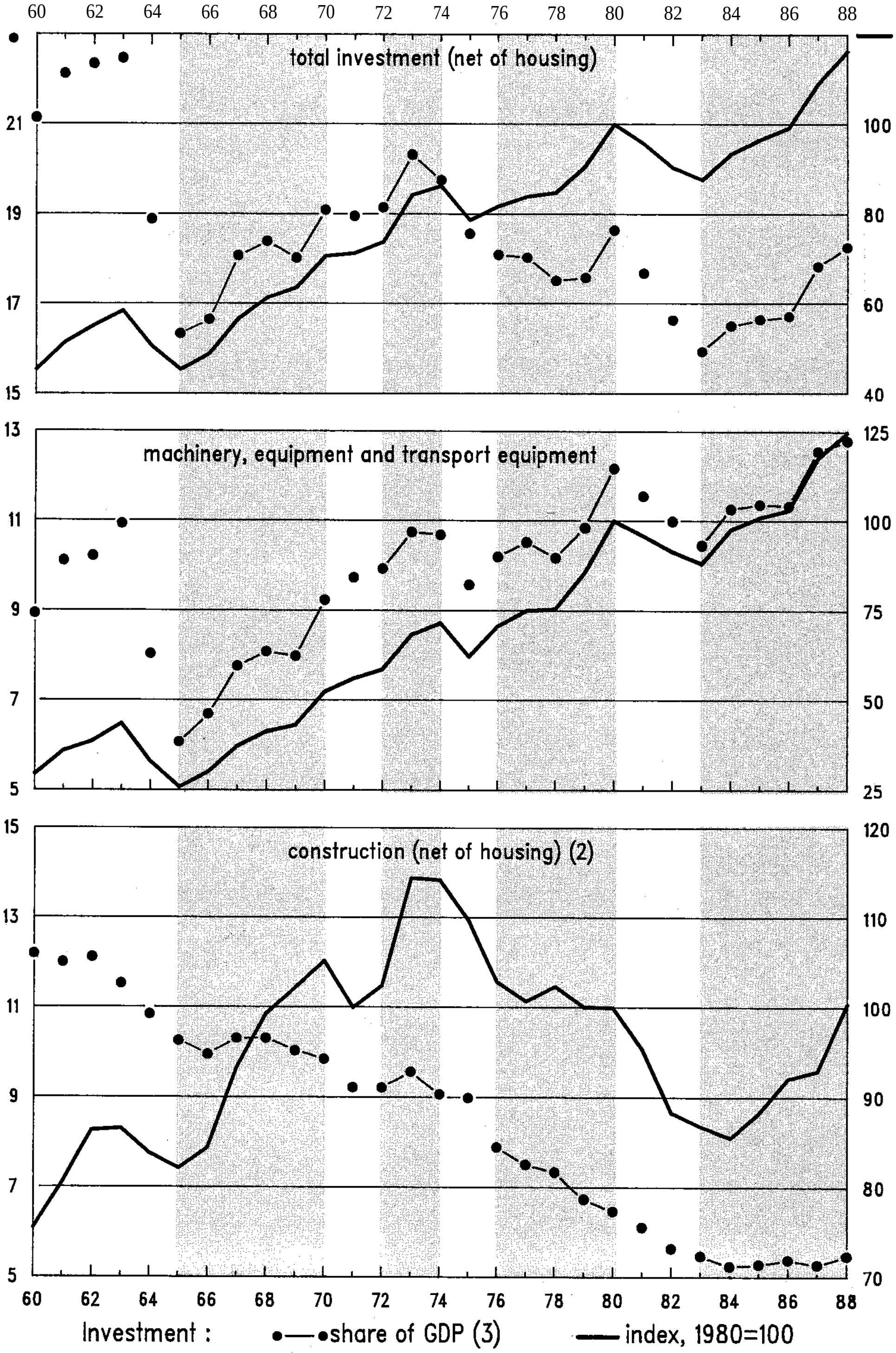
Gross fixed investment. — The most striking feature of capital formation in 1988 was the recovery in investment in construction. After stagnating for four years at the level to which it had fallen at the beginning of the decade, building investment expanded by 3.7 per cent in real terms last year, its best performance since 1973. The growth of investment in machinery, equipment and transport equipment (6.0 per cent) was broadly in line with the average for the entire cyclical expansion (7.5 per cent in the four previous years), though less than the surge registered in 1987.

Excluding housing investment, gross fixed investment grew at an average annual rate of 5.8 per cent in the five years from 1984 to 1988 (6.6 per cent in 1988 alone). This was higher than the average of 5.2 per cent recorded in the previous expansion from 1977 to 1980, but lower than the 9.3 per cent registered in 1966-70 or the 8.1 per cent of 1973-74. Thanks to the acceleration in the last two years, non-housing investment has risen rapidly, to stand at 18.3 per cent of GDP in 1988 (Figure 4).

Figure 4

INVESTMENT IN ITALY, 1960-1988 (1)

(1980 prices; percentages)



Source: Based on Istat data.

(1) The data for the 1960s are the result of backwards extrapolation of the values of the new national accounts on the basis of the old series for 1960-70. — (2) Investment in non-residential premises used by firms and investment in infrastructure (roads, railways, maritime facilities, sewers, electricity and telecommunications networks, etc.). — (3) Value added at factor cost (net of imputed banking services).

A comparably sharp rise in the investment/GDP ratio from a level only slightly higher took place in the second half of the sixties. However, the two cycles differ profoundly in character. In the sixties, after the short but sharp recession of 1963-64, there was a strong, sustained expansion in the economy's productive capacity together with vigorous growth in output averaging 6 per cent a year. Today, the rise in the investment ratio follows a prolonged period of capital deepening, not capital widening, during which economic growth has been comparatively modest.

When the benefits of lower oil prices stimulated an acceleration in domestic consumption in 1986, shortages in productive capacity rapidly emerged. Despite the more flexible use of factors of production made possible by new technology, the high cost of using resources more intensively and the strengthening of expectations of further growth led firms to expand their productive capacity. This has been reflected both in the rising ratio of investment to GDP in the last two years and in the differential growth of investment in construction on the one hand and machinery, equipment and transport equipment on the other in 1988.

It is only in the last few years of the present general expansion in investment that investment in non-residential construction has grown rapidly (4.3 per cent a year from 1986 to 1988, 8.0 per cent in 1988 alone). This is comparable to the averages for the expansions of 1966-70 and 1973-74 (5.1 and 5.6 per cent respectively) and contrasts with the average annual decline of 0.7 per cent registered between 1977 and 1980.

The expansion of the last three years has occurred in both components of non-residential construction — civil engineering (roads and railways, docks, sewers, telecommunications networks and electricity, water and gas distribution networks) and industrial and commercial premises — but it was the latter that soared in 1988, increasing by 10.1 per cent in real terms, as against 3.2 per cent in civil engineering.

The figures on non-residential building permits corroborate this finding when adjusted to take account of the average lag between the issue of the permit and completion of the project, and show that the rise has been most pronounced in industry.

The Bank of Italy's annual investment survey found that capital formation also continued to rise in manufacturing industry in 1988. Gross fixed investment by firms with 50 or more employees increased by 3.2 per cent in real terms, as a result of an expansion of between 8 and 9 per cent in capital expenditure by firms with fewer than 1,000 employees and a marked contraction in that by larger firms.

In the opinion of the firms surveyed, capital widening investment grew more rapidly than gross fixed investment as a whole, increasing its share of the total by more than two percentage points. This pattern was found in firms of all sizes, but as in the past the smaller the firm the greater the expansion of capacity and output.

According to companies' investment plans, capital formation should continue to increase in 1989. Gross fixed investment is expected to expand by about 6 per cent; investment by large firms, which as an aggregate is heavily influenced by the behaviour of publicly controlled enterprises, should pick up. The share accounted for by capital widening investment is likely to show a further increase of more than one percentage point. At the end of 1989 employment will probably be slightly higher than twelve months earlier; it is expected to contract further in the largest firms and to expand significantly in the smaller ones.

DOMESTIC SUPPLY

Agriculture

The gross marketable output of agriculture, forestry and fisheries decreased by 2.3 per cent last year. Harvests fell by 4.4 per cent owing to adverse weather and a more pronounced contraction in the area under cultivation. By contrast, livestock production increased, albeit by only 1 per cent. Value added at factor cost declined by 3.6 per cent, a larger decrease than the fall in output since the volume of intermediate inputs remained broadly unchanged.

Between 1970 and 1988 the output of the primary sector increased at an annual average rate of 1 per cent, steadily falling behind industrial output and services. The process of adjustment, which has been regulated by state intervention to support farm incomes, has entailed a progressive withdrawal from marginal activities and a concentration of resources on more profitable crops. This has led to a steady reduction in the area of land under cultivation and a fall in agricultural employment.

The prices of marketable agricultural production increased by only 1.6 per cent as a result of reduced EEC intervention purchases and the existence of large stocks of many products. The increase in prices did not compensate for the reduction in volume, so that output declined by 0.7 per cent at current prices.

The agricultural trade deficit touched 14 trillion lire, a slight increase over 1987. An improvement in volume terms, with imports increasing by only 1.4 per cent and exports rising by 8.7 per cent, was offset by a deterioration in the terms of trade. A growing proportion of Italy's agricultural imports come from EEC countries (70 per cent last year), but the proportion of Italian exports going to the same area is lower and declining (less than 60 per cent).

For some years the EEC institutions have been committed to reducing the burden of the common agricultural policy on the Community budget. In the international negotiations on the removal of tariff and non-tariff barriers to world trade, the Commission has continued to argue the case for granting assistance to agricultural producers.

The annual spring negotiations to set Community farm prices, which were concluded in June 1988, kept prices broadly unchanged in terms of ECUs. The devaluation of the green lira by an average of 2.5 per cent with effect from 1 January 1989 enabled Italian farmers to obtain higher prices. The firm line was confirmed in the negotiations of April 1989, which ended with agreement to reduce reference prices slightly in ECUs; for Italian farmers, the reduction was more than offset by a further devaluation of the green lira by between 1.3 and 2.3 per cent for all products except pigmeat.

In the GATT negotiations the Commission has refused to make a prior undertaking to eliminate all agricultural subsidies, which is judged to be an impossible proposal in view of the socio-economic role of European agriculture and the part it plays in the protection of the environment. However, at the Geneva conference in April of this year an agreement was reached that provides for a progressive and substantial reduction in such subsidies ; the first steps in this direction are to be taken by December.

Industry

Industry's performance was particularly encouraging last year, with value added at factor cost rising by 5.3 per cent, the fastest increase since 1979 (Table 3). The strong expansion in manufacturing industry (5.8 per cent) was the deciding factor in this respect. There was also an appreciable increase of 3.8 per cent in the output of the construction industry, stimulated by the growth in building investment. Energy production, on the other hand, increased by only 2.0 per cent.

Table 3

INDUSTRIAL VALUE ADDED AT FACTOR COST

	Values at 1980 prices (billions of lire)			% compo-sition	% changes		
	1986	1987	1988	1988	1986/85	1987/86	1988/87
VALUE ADDED:							
including construction	149,777	155,190	163,371	100.0	2.1	3.6	5.3
excluding construction	123,809	128,834	136,012	83.3	2.3	4.1	5.6
Goods							
manufactured goods	115,864	120,623	127,634	78.1	2.2	4.1	5.8
energy products. . . .	7,945	8,211	8,378	5.1	3.8	3.4	2.0
Construction and public works	25,968	26,356	27,359	16.7	0.9	1.5	3.8

Source: Istat.

The growth in the value added of industry excluding construction reflected the increase in gross output in volume terms, which was 5.9 per cent higher than in 1987; after adjustment for the number of working days, the increase came to 6.9 per cent.

In April of this year Istat published figures for the new industrial production index with 1985 as the base year. A number of differences are evident between the new and old indices at the aggregated level; in particular, the 1988 figure on the new index is almost 2 percentage points higher. The disparity first appeared in 1986, when the new and old indices showed growth rates of 3.6 and 2.7 per cent respectively, and widened in 1988 (5.9 per cent, against 5.0 per cent). Since sufficiently detailed information on the composition of the new index has not yet been published, the following remarks relate to the index with 1980 as the base year.

The strong growth in industrial activity was due primarily to the continued buoyant demand for capital goods, the output of which consequently showed the largest increases (16.4 per cent for transport equipment, 12.3 per cent for multi-sector goods and 3.1 per cent for industrial machinery, giving an overall increase of 8.5 per cent). The production of intermediate inputs and consumer goods grew more slowly, with the exception of durable consumer goods, which showed an increase of 7.4 per cent.

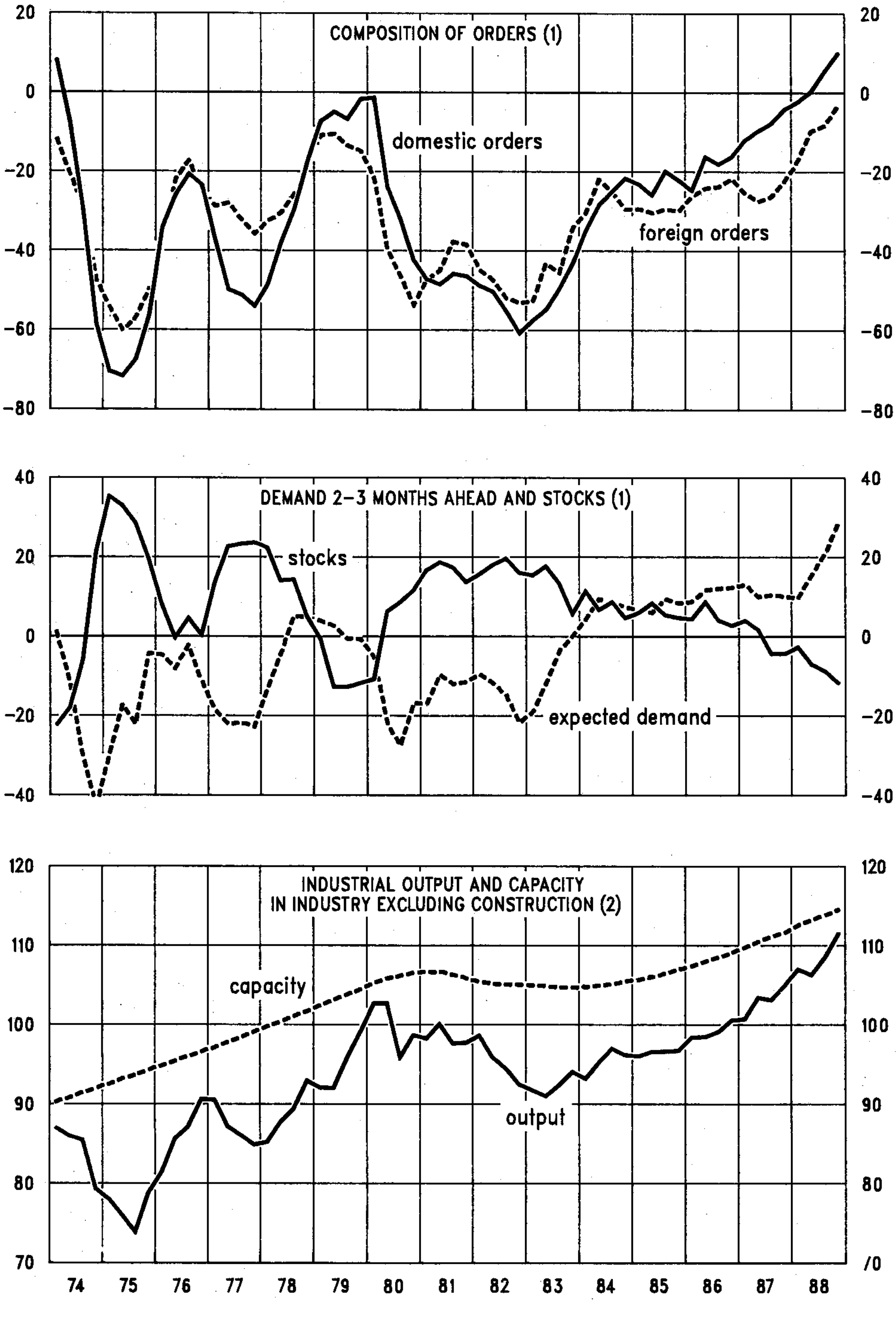
Output accelerated in the first quarter, weakened slightly in the spring but continued at a sustained pace in the third and fourth quarters. Production was not always sufficient to keep up with the rapid growth in demand.

In the last eighteen months stocks of finished products have fallen below the level businessmen consider normal (Figure 5). Although this level is tending to rise in the short term in line with the increase in expected demand, there has probably been a genuine reduction in industry's stocks of finished goods. Over the longer term, improved flexibility in production processes has led to a reduction in stocks in relation to sales.

Available information on actual production and forecasts of output based on electricity consumption suggest that industrial activity slowed down slightly in the first few months of 1989. Surveys of order books and demand prospects point to the same conclusion. It is estimated that in the first four months of 1989 the index of industrial production remained close to the very high level reached at the end of last year and was around 3 points higher than the 1988 average.

Figure 5

OUTPUT, CAPACITY, DEMAND AND STOCKS IN INDUSTRY EXCLUDING CONSTRUCTION



(1) Quarterly averages of net responses to the Isco-Mondo Economico survey. Data on domestic and foreign orders and expected demand are seasonally adjusted. — (2) Based on seasonally adjusted Istat indices with base 1980 = 100 (quarterly averages). The capacity index is calculated using the Wharton method.

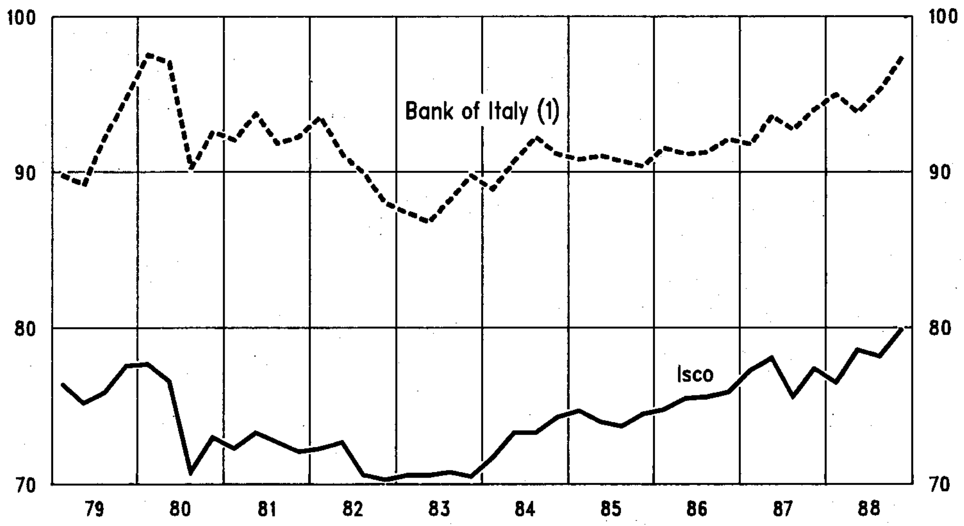
The economic cycle and capacity utilization in the eighties. — The current expansion in industrial production has continued uninterrupted for almost six years, whereas in the seventies the periods of growth in output did not last for more than two or three years.

An initial recovery in industrial activity occurred in 1983-84, when production accelerated sharply and came into step with the world economic cycle. Growth was more moderate in 1985 and part of 1986 but accelerated from the end of that year onwards, stimulated by the fall in oil prices. The improvement in the terms of trade sustained the growth in domestic demand, which was supplemented by significant impetus from foreign demand from mid-1987 onwards.

The investment boom in 1987 and 1988 and the increasing proportion of capital widening investment caused productive capacity to increase again, more than making up for the contraction that had occurred in the early eighties, but the expansion in capacity was not sufficient to keep pace with the growth in production. Capacity utilization rates therefore rose; according to economic surveys and estimates obtained using the Wharton method, they are now higher than during the previous cyclical peak (Figure 6).

Figure 6

CAPACITY UTILIZATION RATE



(1) The Wharton method is used for the Bank of Italy's index.

The structural changes that have occurred in industry in recent years should, however, have eased the short-term constraints imposed on output by the level of fixed assets. New technologies, and organizational patterns, plant modernization and changes in the structure and climate of the labour market have undoubtedly made many individual firms better able to cope with external shocks and changes in the level and composition of demand while keeping a lower average level of stocks. In industry as a whole, however, the effects of greater flexibility still appear to be fairly limited. The need for an expansion in productive capacity may therefore reappear in the present phase of the economic cycle.

Services

The value added of market services at factor cost grew by a substantial 5.1 per cent (Table 4), but for the second year in succession this was lower than the expansion in manufacturing output (5.8 per cent). The output of services as a whole has a low cyclical variability, since most services are produced to meet the more stable components of final demand. The supply of non-market services increased by 1.8 per cent.

Table 4

VALUE ADDED OF MARKET SERVICES AT FACTOR COST

	Values at 1980 prices (billions of lire)			% composition 1988	% changes		
	1986	1987	1988		1985/86	1986/87	1987/88
Wholesale and retail trade	67,607	68,698	71,702	33.5	1.6	1.6	4.4
Lodging and catering	11,420	11,790	12,308	5.7	2.7	3.2	4.4
Transport	24,714	25,628	28,235	13.2	2.8	3.7	10.2
Communications	6,946	7,522	7,856	3.7	4.3	8.3	4.4
Credit and insurance	20,783	21,342	21,790	10.2	7.2	2.7	2.1
Other market services	40,726	42,557	45,597	21.3	3.5	4.3	7.1
Renting of buildings	25,643	26,276	26,730	12.5	2.5	2.5	1.7
Total...	**197,839**	**203,813**	**214,218**	**100.0**	**3.0**	**3.0**	**5.1**

Source: Istat.

The increase in the value added of distribution, lodging and catering and communications was below the average but still substantial (4.4 per cent in each of the three branches).

Particularly high rates of increase were recorded in the output of the transport sector (10.2 per cent) and "Other market services" (7.1 per cent). The demand for transport services was stimulated by the increase in traffic in the domestic distribution network and the sustained growth in foreign trade. Rail freight increased by 6.2 per cent and the volume of goods carried on the motorway network is estimated to have risen even more steeply. Among "Other market services", business services increased by 6.7 per cent after two years of more moderate growth that had been out of line with the long-term rise in inputs of services in relation to the output of manufacturing industry.

Services accounted for 63.7 per cent of total domestic supply at current prices last year, compared with 56.1 per cent in 1980, 51.5 per cent in 1970 and 41.7 per cent in 1951. Market services alone generated 50 per cent of the value added of the economy in 1988.

In the last two decades the expansion in the services sector has been extremely rapid, in both absolute and relative terms. Non-market services, and in particular those supplied by general government, have grown more slowly than market services. Even at constant prices, the supply of the main categories of market services increased at a much faster rate than the average for the economy as a whole between 1970 and 1988; at 1980 prices, their share of total value added rose by almost 6 points over that period, from 41.5 to 47.2 per cent.

Energy

The primary energy requirement increased almost as rapidly as in 1987 (by 3.1 per cent, compared with 3.6 per cent), despite the energy savings made possible by the mild winter. Energy consumption was boosted by the growth in economic activity and the marked decline in the average cost of energy products.

The proportion of the requirement met by domestic production remained static, although domestic sources supplied more than 30 million TOE for the first time. However, since stocks fell by 3.8 million TOE (compared with an increase of 2.7 million TOE in 1987), energy imports decreased significantly, by 2.6 per cent.

The sectors in which energy consumption increased the most were industry (5.6 per cent) and transport (4.7 per cent). Household consumption did not rise, however, thanks to unusually warm weather in the early part of the year.

Until last year the energy intensity of industrial production had decreased steadily ever since the first oil crisis. Energy savings in industry offset the strong rise in consumption by households and the transport industry, thus preventing the total requirement from increasing as a proportion of GDP. The interruption of this trend appears to be due to the strong expansion in basic industries and the recommissioning of plant with a lower energy efficiency.

Electricity consumption rose by 5 per cent; four fifths of the additional requirement was met by increasing net imports, which now represent 14.2 per cent of total supply. The ratio of electricity consumption to the total domestic consumption of energy continued to rise, reaching 31 per cent.

The new National Energy Plan. — The Government approved the fifth energy policy document on 10 August 1988. The new Plan, which was drawn up in the wake of the National Energy Conference held in May 1987, is now before Parliament, together with the first drafts of implementing legislation.

The main departure in the new Plan is the greater emphasis placed on environmental considerations; the objective of easing the trowth constraints imposed by the country's dependence on imported energy is complemented by the concept of growth compatible with the protection of the environment, for which far-reaching legislation is foreseen.

The plan identifies five prime objectives: *a)* energy conservation; *b)* protection of the environment; *c)* the development of national resources; *d)* the diversification of types of energy and their geopolitical sourcing; and *e)* the competitiveness of the economy. The nuclear energy development programmes and the associated safety considerations, which had been an essential element in the previous energy plans, appear only in the section on scientific research.

Particular emphasis is placed on energy conservation as a means of reducing import dependency and limiting environmental damage. The evaluation of conservation methods is differentiated according to sector and to the technology used, accompanied by an assessment of financial and environmental costs and benefits; however, the Plan does not eXplain how costs and benefits are to be distributed among energy suppliers and consumers. As to environmental protection measures, the Plan proposes the introduction of comprehensive legislation setting precise limits for emissions of pollutants, not only by large fixed sources of pollution, such as electricity generating stations, but also by small sources and mobile units, such as motor vehicles.

The Plan favours increased consumption of coal and natural gas as the means of diversifying away from oil, but acknowledges that the use of coal gives rise to especially difficult logistical problems and that the management of a network of gas pipelines is also a complex matter. The reference to competitiveness is used partly as a criterion for setting energy prices and taxes, which should aim to discourage overall energy consumption and modify its composition without increasing companies' production costs.

EMPLOYMENT, WAGES AND PRICES

Employment

The expansion in economic activity had a positive effect on total employment last year. By the national accounts definition, employment increased by about 315,000 standard labour units, or 1.4 per cent (Table 5).

Table 5

EMPLOYMENT IN ITALY

(standard labour units; percentage changes on previous year)

	Total employment				Employees			
	1985	1986	1987	1988	1985	1986	1987	1988
Agriculture	−3.9	−0.7	−1.9	−3.6	−1.0	−2.3	−1.8	−1.2
Industry	−1.3	−0.6	−0.9	1.1	−1.5	−1.3	−0.8	1.0
of which: fuel & power products	*1.4*	*1.6*	*1.8*	*−0.2*	*1.4*	*1.6*	*1.8*	*−0.2*
manufacturing	*−1.4*	*−0.5*	*−1.0*	*1.5*	*−1.4*	*−1.2*	*−0.3*	*1.3*
industry excluding construction	*−1.3*	*−0.5*	*−0.9*	*1.5*	*−1.3*	*−1.1*	*−0.2*	*1.2*
construction	*−1.4*	*−1.1*	*−1.2*	*−0.2*	*−2.1*	*−1.8*	*−2.9*	*0.2*
Market services	3.6	2.2	2.2	2.7	4.9	2.5	1.4	2.4
of which: distributive trades, lodging and catering	*1.5*	*1.1*	*2.1*	*1.3*	*1.8*	*2.3*	*0.3*	*0.6*
transport & communications	*0.8*	*3.4*	*2.7*	*2.8*	*0.7*	*4.0*	*2.7*	*3.0*
credit and insurance	*1.4*	*1.1*	*1.3*	*1.1*	*1.4*	*1.1*	*1.3*	*1.1*
other market services	*10.1*	*3.9*	*2.0*	*5.6*	*13.8*	*2.0*	*2.0*	*4.3*
Market goods and services	**0.7**	**0.8**	**0.5**	**1.3**	**1.2**	**0.3**	**0.1**	**1.5**
Non-market services	**2.0**	**0.8**	**1.3**	**1.8**	**2.0**	**0.8**	**1.3**	**1.8**
Total	**0.9**	**0.8**	**0.6**	**1.4**	**1.4**	**0.4**	**0.4**	**1.6**

Source: Istat.

Employment rose not only in services but also in industry, finally reversing the continuous decrease in the sector's use of labour since 1980. After declining for several years, the share of wage and salary earners in total employment increased slightly, although in some sectors it continued to fall. The growth in the demand for labour occurred mainly in the Centre-North (1.8 per cent), while in the South it was disappointing (0.2 per cent).

Agricultural employment contracted by 3.6 per cent, with the number of self-employed farmers falling by 4.6 per cent. The accelerating exodus from farming was related to the sector's disappointing output, which also decreased by 3.6 per cent at factor cost. Employment in non-market services continued to rise at about the same pace as in previous years, increasing by 75,000 units, of which 60,000 were in general government.

Employment in the market services sector increased by 260,000 standard. labour units, or 2.7 per cent, with the number of self-employed workers rising by 140,000 units, or 3.2 per cent. The fastest growth (150,000 units, or 5.6 per cent) was registered in "other market services", which comprise business services and recreational, health and educational services to households. The growth in employment was accompanied by an improvement of 2.8 per cent in labour productivity, following a 0.9 per cent gain in 1987.

The increase in employment in manufacturing follows a period in which the rising demand for labour had been met exclusively by lengthening per capita working hours. As uncertainty about growth prospects gradually dissipated and production approached full capacity, the recruitment of additional manpower came to play a larger role in increasing the input of labour. However, the utilization of the human resources already available was again intensified in 1988; overtime rose to 4.7 per cent of total hours worked in large manufacturing firms, as against 4.3 and 4.5 per cent in 1986 and 1987 respectively'.

Recourse to the Wage Supplementation Fund, which has been essential to the industrial restructuring of the past decade, diminished last year by 21 per cent in industry excluding construction and by 21.5 per cent overall. The contraction in ordinary benefits, which are most directly linked to cyclical developments, was sharper than that in special benefits, which thus accounted for 83 per cent of total hours paid by the Fund in industry excluding construction, as against 55 per cent in 1980. However, the total number of hours for which benefits were paid under the scheme was still larger than in 1980 or in representative years of the seventies, which indicates the persistence of pockets of underutilization of labour. There were geographical differences as well; the number of hours paid by the Fund declined by only 11.5 per cent in the South, which accounted for 36 per cent of all hours paid in 1988.

The labour force continued to grow last year, expanding by about 320,000 persons, or 1.3 per cent. The participation rate rose from 41.8 to 42.3 per cent overall; the female rate rose from 29.6 to 30.1 per cent and the male rate from 54.6 to 55.1 per cent. Part of the increase in the labour force was due to demographic factors, since the population aged from 14 to 64 expanded by 1.1 per cent.

The importance of the demographic factor in labour force growth is steadily waning. In the next decade the Italian population aged from 15 to 64 will remain more or less stable, an increase of 850,000 in the South being offset by a contraction of 900,000 in the Centre-North. On the other hand, the proportion of working women is still lower in Italy than in the other advanced economies, which suggests that the rise in the female participation rate that began in the mid-seventies is likely to continue.

Thanks to the pronounced rise in employment, the growth of the labour force did not lead to an increase in the unemployment rate, which remained at an annual average of about 12 per cent, breaking the upward trend that had been under way since 1980. Adjusted for Wage Supplementation, there was actually a small decline, from 13.2 to 13.0 per cent.

Unemployment is still heavily concentrated among young people, who made up 71.4 per cent of the jobless in 1988 (72.4 per cent in 1987), and among women. There were pronounced regional differences, however; in the North there was a fall not only in the overall unemployment rate but also in those for women and young people aged from 14 to 29, which fell from 12.7 to 11.3 per cent and from 17.6 to 14.8 per cent respectively.

The regional disparity is the salient feature of the disequilibria in the labour market. Unemployment is higher in the South and still rising, while in the rest of the country it is declining. The divergence is due not only to population trends but also to the unsatisfactory rate of job creation in the South.

According to international definitions, which are followed in Italy as well, the unemployed are defined as those persons who are without work, are currently available for work and are actively seeking employment. The way in which the definition is applied varies from country to country, however, making international comparisons difficult.

The criteria applied in Italy are less restrictive than in a number of other industrial countries. The range of job search actions considered is large and the period of time that may elapse since the most recent attempt is very long. For persons registered with state employment offices, not even the general six-month limit is applied.

Unlike the results of Istat's labour force survey, the number of persons registered with the state employment offices cannot be considered a reliable measure of unemployment. Group 1 registrants, as defined under Law 56/1987, may legitimately include persons with part-time or temporary jobs, those performing military service and prisoners. Moreover, in practice persons who are no longer legally eligible cannot easily be removed from the register.

Applying more restrictive criteria obviously lowers the Italian unemployment rate. If persons who have made no concrete attempt to find a job are excluded, the rate drops from the official 12.0 per cent to 10.9 percent (Table 6). If only those who have attempted to find a job in the last month are considered, which is the yardstick applied by the US Bureau of Labor Statistics, the overall unemployment rate in Italy in 1988 would have been 7.1 per cent. On this basis, the male unemployment rate would come down from 8.1 to 7.1 per cent and that for persons under 30 years of age from 27.4 to 17.8 per cent, although even by this method of calculation youth unemployment remains extremely high. However, structural differences between labour markets prevent any strict comparison of these adjusted figures with those for other countries, including the United States, for which the BLS standard was originally designed.

Table 6

COMPARISON BETWEEN DIFFERENT MEASURES OF THE UNEMPLOYMENT RATE (1988)

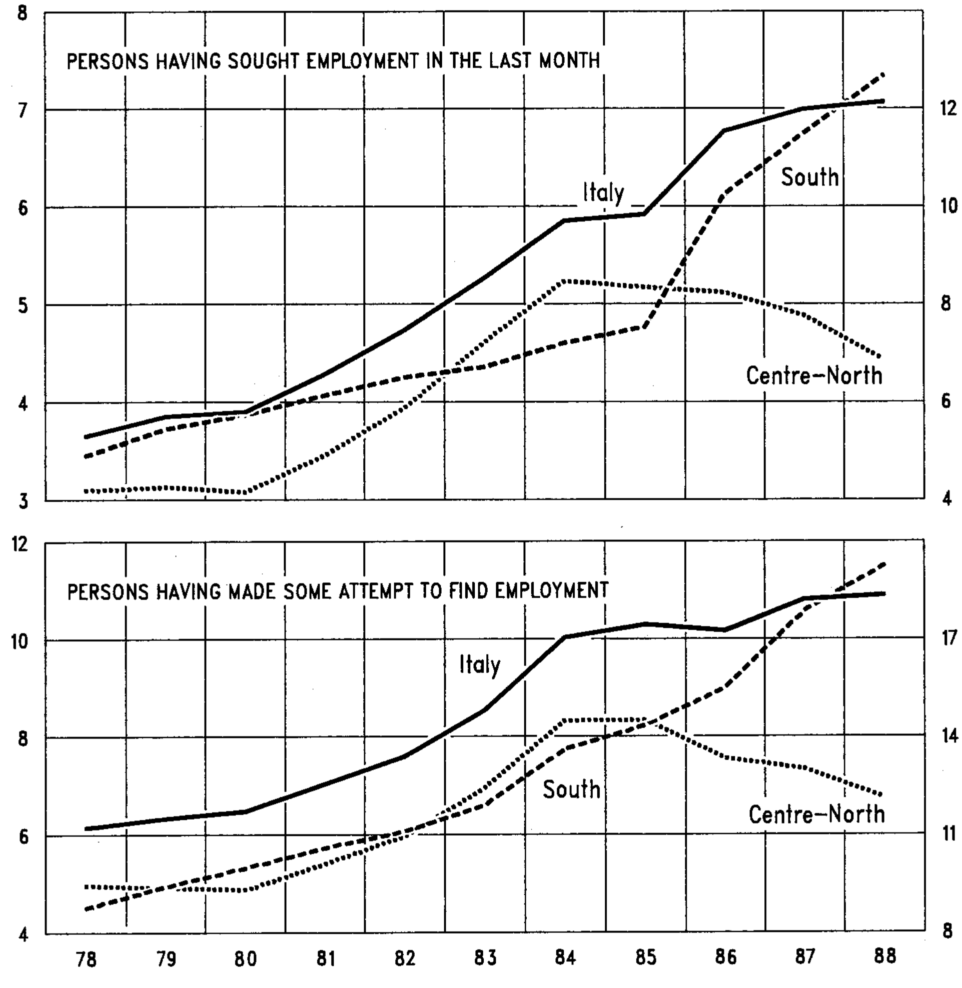
Definition	Italy	Centre-North	South
Official	12.0	7.8	20.6
(men only)	(8.1)	(4.7)	(14.5)
Adjusted for Wage Supplementation Fund (1)	13.0	8.7	21.7
Adjusted for Wage Supplementation Fund (1) and net of "other job-seekers"	9.5	6.2	16.3
Persons having sought employment in last month	7.1	4.4	12.7
(men only)	(4.7)	(2.7)	(8.8)
Excluding persons who made no attempt to find employment (2)	10.9	6.8	19.3
(men only)	(7.1)	(3.9)	(13.1)

(1) Adjusted for full-time equivalent workers drawing Wage Supplementation; estimated on the basis of contractual working hours. — (2) Official rate, net of persons who made no attempt to find employment.

The use of less restrictive definitions of the unemployed does not account for the observed increase in unemployment rates in Italy in the last ten years. Both the overall rise in unemployment and the current divergence between North and South are confirmed by using alternative definitions (Figure 7). According to the BLS criterion, the overall unemployment rate rose from 3.7 per cent in 1978 to 7.1 per cent in 1988; on the other basis it rose from 6.2 to 10.9 per cent.

Figure 7

ALTERNATIVE MEASURES OF THE UNEMPLOYMENT RATE

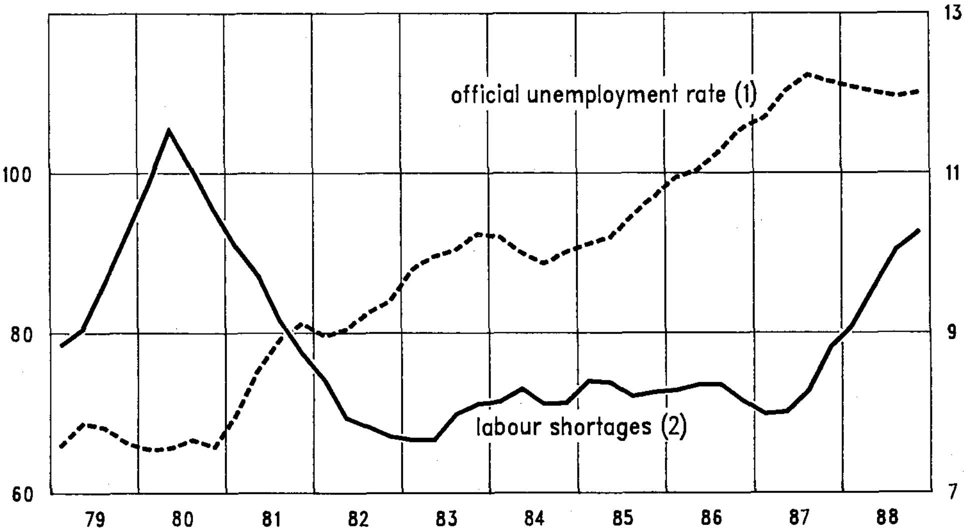


Source: Based on Istat data.

Regardless of the standard used, the statistics point to the persistence of excess labour supply overall. Nevertheless, the divergent regional trends suggest that some market segments may be beginning to experience labour shortages. This would appear to be confirmed by the results of the Isco-ME business survey; although still quite low, the percentage of industrial firms indicating that output has been impeded by a shortage of manpower has risen sharply in the last two years, following a pronounced decline between 1980 and 1983 and comparative stability over the next three years (Figure 8).

Figure 8

UNEMPLOYMENT AND LABOUR SHORTAGES



Source: Based on Isco and Istat data. The indicator of labour shortages is based on the percentage of firms responding that output has been impeded by a lack of manpower, either skilled or unskilled.
(1) Seasonally adjusted; right-hand scale. — (2) Index, 1980 = 100; left-hand scale.

Industrial relations and wages

No major labour contracts were signed in the private sector in 1988, but there was a pronounced increase in supplementary bargaining at company level, which had been subdued for several years. In the public sector the only important contract concluded during the year was that covering the school system.

There were fewer industrial disputes last year, partly reflecting the virtual absence of major nationwide settlements. The number of working hours lost was 30.2 per cent lower than in 1987, continuing the downward trend that began at the turn of the decade.

Gross earnings per employee rose by an average of 8.4 per cent in the economy as a whole. In all the main sectors except agriculture the increase was slightly less than that registered in 1987, a year in which the impact of wage settlements was concentrated on account of the payment of arrears and lump-sum compensation. In real terms, average gross earnings in the economy as a whole rose rapidly in 1987 and 1988 (by 4.9 and 3.2 per cent respectively), especially by comparison with the rates recorded in the first half of the decade.

As in 1987, earnings in general government increased faster than the average, rising by 10.5 per cent. In the market services sector the increase was 8.3 per cent and in manufacturing 7.1 per cent. These rates represent a departure from the trend observed since 1970 in the revised national accounts, which shows per capita earnings in manufacturing steadily gaining ground on those in market services. Whereas earnings were 26.8 per cent higher in market services than in manufacturing in 1970, they were 2.7 per cent lower in 1986 but recovered to within 1.2 per cent last year.

In the private sector the increase in actual earnings was larger than the rise in contractual minimum wages. Part of the difference was due to overtime and part to wage drift, which has become more pronounced in the second half of the eighties.

The increasing diversity in the components of wages and salaries from one firm to another is underlined by some of the supplementary agreements concluded at company level in manufacturing last year, which link a portion of wages to the performance of the firm, or propose to do so in future. The small number of agreements involved and the fact that they often lack any explicit mechanism tying wages and salaries to specific indicators of corporate performance make it impossible to describe them as true profit-sharing schemes. Frequently they merely provide for extraordinary bonuses, which should be seen in the light of the substantial profits reported in industry.

Labour costs per employee in manufacturing rose by 8.0 per cent in 1988. The difference between this figure and the 7.1 per cent rise in gross earnings was due to increases in employer social security contributions.

The rate of growth in unit labour costs in manufacturing rose from 3.1 to 3.6 per cent, chiefly as a result of a slowdown in productivity gains to 4.2 per cent, compared with the exceptional rate of 5.1 per cent achieved in 1987. This development, coupled with the segmentation of the labour market, highlights the risk of wage-price spirals in some parts of industry.

Prices

The slowdown in inflation since the early eighties was interrupted in 1988. Consumer prices rose by an annual average of 5 per cent, half a point above the target and 0.3 points higher than in 1987.

The reversal of the price trend was common to all the industrial economies, reflecting the acceleration of growth worldwide and especially the consequent sharp rise in raw materials prices. In Italy the faster increase in the prices of imported inputs was followed by an acceleration in industrial producer prices, while the rate of increase in the prices of consumer goods remained unchanged until the end of the year. The main cause of the acceleration in consumer price inflation was the further rise in the prices of services and, in the latter part of the year, the impact effect of higher indirect taxes.

Wholesale prices were affected by the acceleration in commodity prices. 'The year-on-year increase worked out at 4.7 per cent, nearly as large as that in consumer prices; in terms of twelve-month rates, the rise in wholesale prices overtook that in consumer prices towards mid-year and by December stood at 5.9 per cent, as against 5.4 per cent for consumer prices.

In manufacturing, the upturn in the prices of imported inputs from 1987 onwards led to a reversal in the year-on-year variation, the 1.4 per cent decline registered in 1987 being followed by a 7.3 per cent increase in 1988. This was accompanied by a slight acceleration in the prices of domestic inputs, which continued to be pushed upwards by the rapid rise in the cost of producer services (Table 7). The prices of intermediate inputs as a whole thus rose faster than unit labour costs, by 5.1 per cent as against 3.6 per cent. The latter were held in check by the substantial gain in per capita productivity.

Table 7

UNIT COSTS AND FINAL PRICES
IN MANUFACTURING AND MARKET SERVICES

(percentage changes on previous year)

Components (1)	Manufacturing		Market services (2)	
	1987	1988	1987	1988
Input prices:				
Domestic (3)	3.5	3.9	2.6	4.2
of which: energy	– 1.5	– 0.3	1.5	3.7
services	5.8	5.5	—	—
manufactures	—	—	2.8	4.1
Imports	– 1.4	7.3	1.6	3.9
of which: energy	– 5.9	– 14.1	– 4.6	– 15.7
industrial materials	– 2.5	15.1	– 1.2	11.7
Total	1.7	5.1	2.4	4.1
Labour costs per employee	8.4	8.0	8.4	9.0
Output per employee	5.1	4.2	0.9	2.8
Unit labour costs	3.1	3.6	7.4	6.0
Variable unit costs (4)	2.4	4.3	6.6	5.7
Total producer prices	2.3	4.0 (5)	5.5	5.8

Source: Based on Istat data.
(1) In manufacturing, domestic inputs account for 60.5 per cent of total inputs, which make up 48,9 per cent of variable unit costs. In market services the two shares are 84.7 and 19.0 per cent respectively. — (2) Excluding the renting of premises. — (3) Weighting net of intersectoral transactions. — (4) Calculated at fixed weights derived from the input-output tables for 1982, at 1980 prices. — (5) Provisional evaluation for the export component.

Variable unit costs in industry rose twice as fast as in 1987. The continued buoyancy of aggregate demand made it possible for nearly all of the increased costs to be passed on to producer prices. Unit profit margins held virtually stable; the national accounts show that income from labour accounted for 65.4 per cent of value added in manufacturing, compared with 65.5 per cent in 1987.

In the market services sector the rate of increase in variable unit costs reflected the rapid rise in unit labour costs. From 1980 to 1987 the latter rose at an average annual rate of 12.5 per cent, 3 points faster than in manufacturing. Unit costs rose more rapidly than in manufacturing in 1988, despite an appreciable improvement in productivity and only a moderate increase in input prices. The rise in production costs was reflected in substantially higher final prices for services. Industrial prices therefore continued to fall in relation to the prices of services.

Except in the case of food product prices, whose 12-month rate of increase accelerated towards the end of the year, the rise in producer prices was not immediately passed on to consumer goods prices, which rose overall by 4.4 per cent on a year-on-year basis, the same rate as in 1987. The prices of services, by contrast, increased by 6.4 per cent, as against 5.6 per cent the previous year, with unregulated prices acceleration from 5.5 to 7.4 per cent.

The quickening of consumer price inflation is also partly ascribable to the increases in indirect taxes enacted during the year. Adjusted for this effect, the 12-month rate of increase in the cost-of-living index remained virtually unchanged at around 4.3 per cent until the autumn.

At the end of 1988 and the beginning of 1989 there were disturbing signs of an acceleration in inflation. In lagged response to the upward pressure on producer prices in 1988, the rise in consumer goods prices began to speed up, with the 12-month rate increasing from 4.4 per cent in December to 5.2 per cent in February. In April the twelve-month rise in the cost-of-living index was 6.7 per cent, two points higher than in October. About one fifth of this acceleration was due to the Government's new fiscal measures.

THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

Italy's current account benefited only slightly last year from the strong growth of world demand and the substantial decline in crude oil prices. The current account recorded a deficit of 6.8 trillion lire (Table 8), a deterioration of nearly 4.8 trillion lire with respect to 1987. On a *fob fob* basis, merchandise trade showed a small deficit of about 750 billion lire, after virtual balance in 1987. Services generated a larger deficit of about 4.3 trillion lire, more than 3.6 trillion higher than in 1987, as a result of a reduction in net receipts from foreign travel and income from labour and larger net outflows on investment income and other services. The deficit on unrequited public transfers also increased slightly.

Table 8

CURRENT ACCOUNT BALANCES

(billions of lire)

	1987 (1)	1988
Goods	**−77**	**−746**
Goods cif-fob (customs data)	*−11,143*	*−12,875*
Services	**−650**	**−4,286**
Transport and insurance	−2,741	−2,983
Foreign travel	9,902	8,349
Investment income	−8,573	−9,278
Income from labour	2,156	1,990
Other	−1,394	−2,364
Unrequited transfers	**−1,213**	**−1,747**
Private	1,668	1,884
Public	−2,881	−3,631
Total	**−1,940**	**−6,779**

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

The current account deficit was equivalent to 0.6 per cent of GDP, a modest figure, but the future is clouded by the progressive weakening of Italy's comparative advantage in trade in services and by the difficulty some branches of industry are having meeting international competition.

Merchandise trade

On the basis of customs data *(cif-fob),* Italy's merchandise trade showed a deficit of 12,875 billion lire in 1988. The balance of trade in non-energy products deteriorated in volume terms and Italian exports lost world market share as a result of the unfavourable composition of external demand in terms of both products and geographical areas.

The growth in the volume of merchandise imports, 7 per cent, was nearly 4 percentage points less than in 1987, despite the fact that the expansion in domestic demand slowed down only slightly.

The volume of exports increased by 5.7 per cent, as against 3.1 per cent in 1987. World demand, as measured by the exports of the industrial countries, grew very rapidly throughout the year to show a year-on-year expansion of 9 per cent. The outcome was another contraction in Italy's market share, following the smaller decline in 1987.

The fastest growing component of world demand was that for high technology capital goods, a sector in which Italian industry is underrepresented. The effects of this unfavourable sectoral composition of world demand were compounded by the negative impact of its geographical pattern. In 1988 the fastest growing markets were, in descending order, the newly industrializing economies of Asia (Hong Kong, South Korea, Singapore and Taiwan), Japan and the United Kingdom. Except for the United Kingdom, none of these countries takes more than a very small percentage of Italian exports.

Expressed in lire, the average unit value of imports rose by 4.2 per cent. The decline in world oil prices was partially offset by the rise in the prices of other raw materials, especially non-agricultural commodities.

The average unit value of exports increased by 5.2 per cent. The figure is slightly lower if the farm and energy sectors are excluded. After two years in which export prices had risen less than domestic prices, strong world demand enabled Italian exporters to keep their unit profit margins virtually unchanged in 1988.

Invisibles

The deficit on invisibles worsened sharply in 1988, confirming the turnaround in this component's contribution to the current account that took place in the mid-eighties. Until 1985 invisible transactions as a whole were in surplus, but since then they have registered substantial deficits.

The surplus on foreign travel diminished by nearly 1.6 trillion lire last year. Foreign exchange receipts from spending by foreigners in Italy were only slightly higher than in 1987, while expenditure abroad by Italian residents increased by 34 per cent.

In real terms, tourist spending abroad by Italians increased by 29 per cent, while that of foreigners in Italy declined by 2.7 per cent. As there was a small rise in overnight stays by foreign visitors, the fall in real per capita tourist spending was even more pronounced.

Since world tourist demand continued to grow rapidly last year, the decline in Italy's real receipts from tourism appears to have been due to competitive factors other than price, such as the lack of significant improvement in the quality of hotel services, in promotional policies and in environmental protection.

Despite the explosive growth in Italian tourist spending abroad over the past three years, it is still low as a proportion of total consumer expenditure, even in relation to other countries that enjoy similar comparative advantages in this area.

The deficit on investment income amounted to 9,278 billion lire, 700 billion more than in 1987. Soaring international interest rates in the second half of the year produced substantial increases in gross flows, with receipts and payments rising by 22 and 12 per cent respectively on an annual average basis. The growth in the deficit stems from the increase in Italy's net external liabilities.

Italy's position in international trade in services

International trade in services, defined as all current transactions other than trade in merchandise and unrequited transfers, has been growing faster than world merchandise trade for two decades, so that by 1987 it was equivalent to about 40 per cent of the latter. The figure declines to 25 per cent, however, if investment income is excluded.

In the late eighties, international trade in services is still modest by comparison with trade in goods. It is also highly concentrated in the industrial countries, especially on the export side. Tariff and non-tariff barriers and protectionist policies have been major impediments to its expansion.

Steps towards a gradual liberalization of trade in services have been set in motion recently at international level, mainly through the measures to complete the single European market by 1992 and the Uruguay Round of multilateral negotiations under the auspices of GATT.

Until 1986 Italy had a permanent and increasing surplus on service transactions excluding investment income. Italy's position compares quite favourably with those of its major international competitors ; Italy is more or less on a par with France, the United Kingdom and Belgium as a net exporter of services.

Italy's international earnings from services come mainly from tourism, tourism-related transport services, and income from labour, a pattern that closely resembles those found in Greece, Spain and Portugal.

The United Kingdom, France and Belgium, by contrast, have a clear comparative advantage in "other private services". This item covers a variety of activities, ranging from such traditional services as insurance, finance, banking and merchanting to innovative services in management, engineering, information and telecommunications. More than 70 per cent of the United Kingdom's surplus, which is the largest in absolute terms, is generated by banking, financial and insurance services. France is a net exporter of engineering services, technical assistance and management services supplied to foreign subsidiaries. Belgium's largest surplus item consists in processing for third parties. Italy's trade in this group of services is in virtual balance, although some, such as banking, finance and insurance, account for a very small share of the total.

The signs of a weakening in the world tourist market and Italy's comparatively modest showing in the more innovative types of services that can be expected to achieve the most dynamic growth give cause for concern about Italy's future position in international trade in services.

CAPITAL FLOWS

Net inflows of foreign capital amounted to 18,882 billion lire in 1988, with the banking system accounting for more than 10,000 billion (Table 9). Since the current account deficit amounted to 6,779 billion lire and "errors and omissions" recorded a negative balance of 1,197 billion, there was a 10,906 billion lira increase in the reserves net of the revaluation of the gold component and exchange rate adjustments.

Table 9

CAPITAL FLOWS

(net; billions of lire)

	1987	1988	1988			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Foreign direct investment	5,264	8,902	1,229	1,573	3,220	2,880
Italian direct investment	−3,017	−7,094	−1,449	−1,470	−713	−3,462
Foreign portfolio investment	−4,836	7,530	2,180	2,155	449	2,746
Italian portfolio investment	−4,782	−7,100	−1,207	−2,789	−1,469	−1,635
Foreign loans	12,337	11,216	3,703	1,050	4,668	1,795
Italian loans	−1,380	−2,302	−540	−539	−96	−1,127
Medium and long-term trade credit	−478	−791	−376	−79	−61	−275
Short-term trade credit	2,429	−1,526	576	−469	−227	−1,406
Other	993	−177	336	−1,096	684	−101
Total non-bank capital	**6,530**	**8,658**	**4,452**	**−1,664**	**6,455**	**−585**
Bank capital (1)	**5,573**	**10,224**	**1,888**	**2,807**	**−1,399**	**6,928**
Memorandum items:						
Current account balance	−1,940	−6,779	−6,438	1,253	328	−1,922
Errors and omissions	−3,388	−1,197	2,510	−2,936	−2,100	1,329
Change in official reserves (2)	−6,775	−10,906	−2,412	540	−3,284	−5,750

(1) Net of exchange rate adjustments. — (2) Net of exchange rate adjustments and the revaluation of gold and ECUs received in exchange for gold. A minus sign indicates an increae in assets or a decrease in liabilities.

Non-bank financial transactions generated a surplus of 8,658 billion lire. Residents' net borrowing abroad of 11,216 billion was accompanied by a substantial net inflow of foreign investment (16,432 billion). These items were counterbalanced by a small outflow of Italian loans and a larger one of investment (14,194 billion), of which about half was in the form of portfolio investment.

At the end of 1988 Italy's net external debt amounted to $46 billion, corresponding to 5.6 per cent of GDP. When the official gold reserves are included, the net debtor position was less than $18 billion (2.1 per cent of GDP; Table a 9). The small increase in the net debt of the non-bank sector was coupled with a large increase in that of the banking sector, matched in turn by the increase in the official reserves.

Medium and long-term operations

The most important development last year was the increase in both inward and outward investment flows. Direct investment is closely linked to the accelerating internationalization of firms, a structural process in which Italian companies have been increasingly involved in recent years after previously concentrating on the domestic market, irrespective of whether strict exchange controls were in force. The rapid growth in both inward and outward portfolio investment has been fueled both by short-term factors and by the portfolio adjustment stimulated by the progressive removal of exchange restrictions over the last few years, culminating in the promulgation of the new exchange control law on 1 October 1988.

Gross foreign direct investment in Italy increased by more than 7 trillion lire to 14.1 trillion; disinvestment also rose considerably from 1.2 to 5.2 trillion. The resulting net inflow amounted to 8.9 trillion lire, as against 5.3 trillion in 1987. Most of the operations in both directions involved industry and the banking and insurance sector, which recorded a combined net inflow of more than 6.5 trillion lire.

Gross Italian direct investment nearly doubled from 4.6 to 8.6 trillion lire, while disinvestment was virtually unchanged at around 1.6 trillion. Acquisitions in the commercial sector were particularly large; the net investment was almost 1 trillion lire more than the 700 billion recorded in 1987.

Portfolio investment outflows rose again in connection with the liberalization of capital movements. For the second year in succession, gross Italian portfolio investment expanded by more than 80 per cent, from 19 to 33.9 trillion lire. The parallel increase in disinvestment limited the net outflow to around 7 trillion (Table 10).

Foreign portfolio investment amounted to nearly 30 trillion lire gross, an increase of more than 8 trillion compared with the previous year. The simultaneous decline in disinvestment resulted in a net inflow of 7.5 trillion lire, compared with a net outflow of 4.8 trillion in 1987.

Table 10

PORTFOLIO INVESTMENT

(billions of lire)

	1987			1988		
	Investment	Dis-investment	Balance	Investment	Dis-investment	Balance
Foreign capital	**21,383**	**26,219**	**–4,836**	**29,428**	**21,898**	**7,530**
Government securities	13,461	13,837	–376	19,391	14,134	5,257
Treasury bills	1,806	1,239	567	4,871	4,007	864
Treasury bonds	916	1,856	–940	692	729	–37
ECU securities	2,508	371	2,137	11,379	5,923	5,456
Other	8,231	10,371	–2,140	2,449	3,475	–1,026
Shares	7,077	11,441	–4,364	9,442	7,144	2,298
Bonds	845	941	–96	595	620	–25
Italian capital	**13,883**	**18,665**	**–4,782**	**26,810**	**33,910**	**–7,100**
Purchases by Italian investment funds	9,060	11,470	–2,410	16,736	18,411	–1,675
Units of foreign investment funds	1,457	1,327	130	1,805	612	1,193
Total	**35,266**	**44,884**	**–9,618**	**56,238**	**55,808**	**430**

The growth in non-residents' purchases of securities reflected greater confidence in Italy, following the gradual freeing of capital movements and the strengthening of favourable expectations regarding the position of the lira within the EMS. In the first half of the year the interest rate differential vis-a-vis the Deutschemark remained at the high value at which it had stood at the end of 1987. Its gradual narrowing in the second half was offset by the improvement in expectations regarding the exchange rate of the lira, which were influenced by its performance on the spot market.

Residents raised loans on international markets totaling 37.9 trillion lire, about 6.5 trillion more than in 1987. Repayments amounted to 26.7 trillion lire, §o that there was a net inflow of 11.2 trillion, compared with one of 12.3 trillion the previous year. This decrease was primarily attributable to there having been only a small increase in borrowing by public entities and in other government guaranteed loans, while repayments rose significantly.

Borrowing abroad by private residents, which is totally unrestricted under the new exchange control law, increased from 20.8 trillion lire to 26.5 trillion. The corresponding net inflow amounted to 6.2 trillion lire, as against one of about 5 trillion in 1987. The number of transactions remained virtually unchanged compared with the previous year, while their unit value increased considerably to more than 800 million lire. The growth in the size of loans was especially pronounced in the last quarter, partly owing to the removal of the restrictions on the size of foreign loans.

Developments during the year, short-term operations and the exchange rate

In the first quarter of 1988 capital flows gave rise to a substantial surplus, fueled by a widening of interest rate differentials and expectations of a stable exchange rate. Foreign portfolio investment produced a net inflow of 2.2 trillion lire, with investors concentrating on Treasury bills and securities denominated in ECUs. Net foreign loans amounted to 3.7 trillion, of which the public sector accounted for more than half. The inflow via banks amounted to 1.9 trillion, most of which was denominated in lire. The official reserves increased by 2.4 trillion lire.

The following months saw a loss of official reserves accompanied by a decline in the lira below the narrow fluctuation band. In the second quarter a decrease in foreign loans was coupled with large outflows on account of portfolio investment and trade credit, primarily at short term. Banks generated a net outflow in March and small inflows in April and May.

The summer months were marked by more favourable exchange rate expectations, which reflected the new flexibility of the lira, both downwards and upwards, and the return to a net inflow of capital. Foreign investment and loans recorded a combined surplus of around 8 trillion lire, due in part to the 1.3 trillion lira loan raised by the Treasury in July. The net outflow of Italian capital was about 2.5 trillion smaller and there was an overall surplus of about 6.5 trillion lire. The outflow of bank capital, which was due primarily to seasonal factors, only offset a part of the surplus on current and capital account, with the result that the official reserves rose by around 3.3 trillion lire.

After the authorities had rapidly countered the speculation against the lira in the first half of September, there was constantly an excess supply of foreign currency on the exchange market. Banks were responsible for most of the inflow of capital, with their net foreign debt rising in the fourth quarter by nearly 7 trillion lire after taking exchange rate adjustments into account. Fueled by strong demand for loans in foreign currency on the part of resident customers, the increase in foreign borrowing was also encouraged by the entry into force of the new exchange control legislation. Whereas the increase in net foreign currency debt in October was completely offset by a reduction in that denominated in lire, the November and December increases were reflected in full in the banks' total external debt, which rose to over 46 trillion lire at the end of the year.

By contrast, non-bank capital recorded a net outflow of 585 billion lire in the fourth quarter. The factors contributing to this result included the large volume of Italian direct investment, the small amount of foreign borrowing by private residents and a sizable outflow of trade credit.

The 13ank of Italy took up some of the net supply of foreign currency. The official reserves grew by more than 5 trillion lire in the last quarter, despite the 0.8 per cent rise in the effective exchange rate of the lira compared with the previous quarter.

Between 1987 and 1988 the effective exchange rate of the lira declined by 3.1 per cent on an annual average basis, primarily as a consequence of the appreciation of sterling. Measured against the other currencies participating in the European Exchange Rate Mechanism, the lira depreciated by 2.2 per cent. On the other hand, the year-on-year depreciation against the dollar was negligible, 0.4 per cent.

In the first quarter of this year very large inflows of capital (more than 11 trillion lire) increased the official reserves by about 7 trillion and the effective exchange rate of the lira rose by a further 0.3 per cent.

The inflow of bank capital was especially large in the first month and a half of 1989. On 17 February the monetary authorities decided to subject banks' fund-raising in foreign currency to the same reserve requirements as their domestic and external account deposits in lire, leading to a slowdown in the growth of their net external debt. The reduction in the inflow of funds from abroad mainly involved Italian banks with foreign branches and the Italian branches of foreign banks; in view of the increased substitutability between foreign loans and domestic bank lending, the branches of the former and the parent banks of the latter appear to have offset the reduction by lending directly to Italian residents, thereby contributing to the sharp rise in foreign loans in March, fueled primarily by small operations with maturities of up to 45 days.

PUBLIC FINANCES

The results for the year

The public sector borrowing requirement rose from 114.2 trillion lire in 1987 to 125.3 trillion, remaining virtually unchanged in relation to GDP at around 11.6 per cent. The borrowing requirement of the state sector, which has been virtually identical to the broader aggregate since 1986, followed a parallel course (Table 11).

The state sector borrowing requirement thus overshot the targets set by the Government: 109.5 trillion lire in the 1988 budget, 114.5 trillion in the Economic and Financial Planning Document published in May and the 118 trillion estimate made in September in the Forecasting and Planning Report for 1989.

Table 11

BORROWING REQUIREMENTS

(billions of lire)

	1986	1987	1988
State sector borrowing requirement	110,159	114,258	125,405
as a % of GDP	*12.3*	*11.7*	*11.6*
Net of settlements of past debts	109,553	113,705	124,609
as a % of GDP	*12.2*	*11.6*	*11.6*
Public sector borrowing requirement	110,140	114,148	125,261
as a % of GDP	*12.3*	*11.7*	*11.6*
Net of settlements of past debts	109,690	113,898	125,211
as a % of GDP	*12.2*	*11.6*	*11.6*

As in the past, the overshooting was the result of faster growth in expenditure due to several factors: improvements in social security benefits (some of which had been approved in earlier years), the considerable increase in the financial requirements of the health service, increases in public sector wages and salaries under the contracts for the period 1986-88, the wage settlement for school staff for the three years from 1988 to 1990 and the high level of recruitment by public bodies. Despite the restrictions on public sector recruitment, the number of employees in general government began to increase at a rapid rate again, rising by 1.8 per cent in 1987 and 1.7 per cent last years.

After changing little in 1987, the borrowing requirement net of interest payments (the primary deficit) declined significantly as a percentage of GDP: for the state sector it fell from around 3.5 per cent in 1986 and 1987 to just over 3 per cent (compared with a target of 2.5 per cent set in the Economic and Financial Planning Document).

The public sector's impact on economic activity appears to have been basically neutral when assessed in terms of the budget aggregates at constant prices and taking account of the change in the purchasing power of the public debt.

Total public sector revenue rose frorn 39.8 to 40.6 per cent of GDP following the adoption of various sets of measures. The first package, introduced at the end of 1987, is estimated to have produced an additional 3 trillion lire by increasing the yield from corporate income tax, corporate local income tax, withholding tax on bank deposit interest and some indirect taxes, decreasing health service contribution rates across the board and increasing personal income tax allowances. Another set of measures was introduced at the end of May, consisting primarily of indirect tax measures and estimated to have produced an additional 4 trillion lire. Finally, in July some VAT rates and the excise duties on some oil products were increased, generating estimated additional revenue of 1.7 trillion lire in 1988.

Tax revenue (including EEC levies and social security contributions) rose from 36.2 to 36.9 per cent of GDP (Table 12). The foregoing measures caused the ratio of indirect taxes to GDP to rise by 0.6 percentage points. The direct tax ratio also rose, but to a marginal extent (0.1 points) since the effects of the progressiveness of personal income tax were offset by the fall in the yield from corporate taxes. Despite the steps taken by the main social security institutions to recover arrears of contributions and the increases in some rates, the ratio of social security contributions to GDP remained unchanged at 12.4 per cent owing to the reduction in health service contributions mentioned above.

Net of financial items and interest payments, public expenditure has begun to increase again in recent years in relation to GDP, rising from 42.6 per cent in 1986 to 43.2 per cent in 1987 and 1988. The effects of demographic and socio-economic factors have been compounded by measures increasing outlays, some approved in earlier years.

Table 12

MAIN INDICATORS OF PUBLIC SECTOR FINANCES

(as a percentage of GDP)

	1986	1987	1988
Fiscal revenue (including EEC levies and social security contributions)	35.3	36.2	36.9
Total public sector expenditure (1)	51.3	51.4	51.6
of which: interest payments	8.7	8.2	8.4
Deficit on current account (1)	6.7	6.6	6.1
Net indebtedness (1)	11.7	11.6	11.0

(1) Net of settlements of past debts.

Outlays on wages and salaries increased by 11.7 per cent, compared with 7 per cent in 1986 (after adjustment for changes in health service contributions) and 14 per cent in 1987, when arrears for 1986 were paid; in relation to GDP they rose from 11.9 per cent in 1986 to 12.4 per cent in 1987 and 12.6 per cent last year. When account is taken of the increase in employment in the public sector between 1985 and 1988 (estimated at around 4 per cent), and excluding the cost of the 1988-90 wage agreement for school personnel (roughly 1 per cent of total wages and salaries), limit earnings are found to have risen by around 30 per cent in the period and to have far outstripped both the increase in prices (16.5 per cent), which the Government had set as the objective in pay negotiations, and the rise in private sector earnings (about 24 per cent).

Expenditure on social benefits increased by around 10 per cent, the same rate as in 1987. In the health sector, spending on clinical tests and medicines expanded increasingly as a result of the reduction in the related charges, which was offset only in part by the changes in prescription charges in July.

Once the decline in interest rates induced by the slowdown in inflation had come to an end, interest expenditure started to rise again with the growth in the public debt and as a result of the greater recourse to Treasury bills. For the public sector it rose from 77.79 trillion lire in 1986 to 80.13 trillion in 1987 and to 90.80 trillion last year, equivalent respectively to 8.7, 8.2 and 8.4 per cent of GDP.

The public debt continued to grow at a rapid pace, rising from 910.56 trillion lire at the end of 1987 to 1,037.21 trillion, and from 92.9 to 96.1 per cent of GDP. The share of the debt held by the market in the form of government securities rose from 78.9 to to 83.1 per cent in relation to GDP, while that owed to the central bank declined slightly.

The increase in the issue of Treasury bills that occurred towards the end of 1987 continued, coupled with a shortening of the maturities of new issues of medium and long-term securities. The residual maturity of the outstanding debt, which had lengthened to almost 4 years in mid-1987, fell steadily to 3 years at the end of 1988.

The Finance Law and fiscal policy for 1989

In September, as part of the preparatory work on the budget, it was estimated that the public sector borrowing requirement on a current programmes basis would amount to 137.50 trillion lire in 1989, which implied an increase in relation to GDP.

The budget policies formulated in September largely conformed with the guidelines in the Economic and Financial Planning Document approved by Parliament in August, in particular with the aim of steadily reducing the budget deficit net of interest payments. In order to exercise greater control over spending, especially capital expenditure, the growth of allocations was limited to 14 per cent of the outturn for 1987 as a first step, whereas the borrowing requirement was to be curbed by means of a series of revenue and expenditure measures planned to have a total impact of around 20 trillion lire.

Some of the proposals were watered down slightly before being passed by Parliament. In the tax field, the main measures finally adopted included the revision of the simplified system for taxing self--employed workers, provisions allowing taxpayers who had used the system to submit amended returns in order to benefit from condonation, and increases in VAT rates and excise duties on tobacco. Together, these measures were intended to outweigh the reduction in personal income tax, estimated to cost around 6 trillion lire in 1989. The measures approved with regard to social security contributions provided for a substantial reduction in the relief granted on health contributions and a series of measures to reduce evasion and speed up the payment of contributions.

The main measures adopted on the expenditure side affected public sector employment, public transport and the health sector, where the price freeze on medicines was extended and changes made in prescription charges.

The fact that the 1988 borrowing requirement was higher than the forecast made in September and the acceleration in inflation combined to change the situation radically. Unless further action were taken, the public sector borrowing requirement would have substantially exceeded the target of 117.35 trillion lire fixed when the Finance Law was drafted.

In March it was decided to reinforce the strategy formulated in September with the aim of bringing the budget deficit as a whole and net of interest payments back into line with the original targets. Pressure for action was generated by the difficulty of selling medium and long-term' government securities in the early months of the year, which reflected the acceleration in inflation and the spread of fears about the effectiveness of the budget, and by the need to curb consumer demand in order to hold down both inflation and the external current account deficit. Measures were formulated regarding the health service, the government's treasury management, the railways, the charging of health contributions to the budget and the taxation of imputed income from buildings. It was estimated that these measures would reduce the state sector borrowing requirement by around 12 trillion lire.

According to the Economic and Financial Planning Document published in May, the various measures will result in a state sector borrowing requirement of around 130 trillion lire, with a reduction of half a point in relation to GDP (from 11.6 to 11 per cent). In turn, the deficit net of interest payments should fall by nearly one and a half points to around 2 per cent of GDP, virtually the figure stated in last year's Document.

In this way the delay incurred last year in reducing the borrowing requirement net of interest payments would be made good. However, conditions on the financial markets have so far prevented the reduction in interest rates envisaged in last May's Economic and Financial Planning Document. This year's Document therefore sets a lower target for the primary deficit for the period 1990-92.

THE MONEY AND FINANCIAL MARKETS

The results for the year

Monetary policy was directed towards containing the expansion of domestic demand, which proved stronger than had been assumed when preparing the forecasts of financial flows. Higher consumption and investment, combined with a budget deficit far in excess of the targets, fueled the acceleration in inflation and caused the external payments position to worsen at a time when other leading countries were adopting tighter economic policies. Problems of managing the public debt hampered the central bank in its action to curb domestic demand; the links between the instruments and final objectives of monetary policy were further complicated by structural changes in the credit and money markets and by closer international financial integration.

The Treasury was obliged to issue a massive volume of securities during 1988 in order to cover the deficit and replace 428 trillion lire of maturing paper. Demand for securities, especially those at medium and long term, was affected by uncertainties regarding interest rates. These difficulties were compounded by disposals totaling 22.5 trillion lire by banks and investment funds, which had reduced their portfolios by 2 trillion lire in 1987.

The credit market reflected the brisk expansion in production and investment. Although deposit growth was no more than moderate, the banks met a large proportion of private sector demand for loans by reducing their portfolios of securities. In order to gain market share, they offered comparatively low lending rates, even when interbank rates were high. Given these circumstances, monetary policy had a limited impact on the expansion in lending, although it did succeed in containing the overall volume of banking intermediation.

The reform of exchange controls that came into force in October gave renewed impetus to the international integration of the Italian capital market. Liberalization encouraged the acquisition of net external financial assets equal to about 6 per cent of the flow of total financial assets, an increase of one percentage point over 1987. Capital inflows nonetheless outweighed outflows. High domestic interest rates, confidence in the lira and the liberalization measures together stimulated an influx of loans and portfolio investment.

The central bank was able to prevent the difficulties in the government securities market and the capital inflows from causing an expansion in the monetary aggregates. Monetary base grew by 7.6 per cent, or 1.6 percentage points less than in 1987. The M2 money supply increased by 8.5 per cent (Table 13), thus keeping within the target range of between 6 and 9 per cent and well below the rate of growth in nominal income. Credit to the non-state sector, by contrast, expanded by 15.7 per cent, compared with a target range of between 6 and 10 per cent; on an average annual basis, which is less affected by incidental factors, the growth rate was 12.7 per cent, only slightly higher than in 1987 (12.1 per cent) and between the rates of increase in GDP and investment. Total domestic credit rose by 14.9 per cent, 1.8 percentage points faster than in 1987. The increase was fueled partly by the state sector's domestic borrowing requirement, which grew from 106 to 119 trillion lire between 1987 and 1988.

Table 13

CREDIT, MONEY AND FINANCIAL ASSETS

(twelve-month growth rates)

	Domestic credit		Money supply			
	Financing of the non state sector (1)	Total	M2A	M2	Liquid assets (M3)	Financial assets (2)
1984 - Dec. (3)	15.6	19.8	11.3	12.1	14.1	19.1
1985 - Dec.	12.9	18.1	10.0	11.0	11.5	16.5
1986 - Dec.	11.4	15.1	8.1	9.4	8.2	16.6
1987 - Dec.	10.3	13.1	6.9	8.3	11.4	14.1
1988 - Dec.	15.7	14.9	5.2	8.5	12.2	14.6
1989 - Apr. (4)	16.6	15.0	6.9	10.9	....	....

(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.

The sustained growth in total domestic credit, at a time when the balance of payments was broadly in equilibrium, led to a similar increase in private sector financial assets, which grew by 14.6 per cent against 14.1 per cent in 1987; assets other than cash and bank deposits, in other words those consisting mainly of government securities, increased by 24.7 per cent.

Monetary policy became restrictive in the middle of the year. The growth forecasts for 1988, which had been calculated in the aftermath of the stock market crisis of October 1987, were revised upwards in all the leading industrial countries; price pressures began to develop, fueled by higher raw material prices in world markets and by an increase in capacity utilization rates. The growth in economic activity in Italy, which was boosted by a higher-than-forecast public sector deficit, led to fears of a deterioration in the external accounts. Credit to the non-state sector began to accelerate after the removal of the ceiling on bank lending. Difficulties in placing government securities and a shift of investor preference towards more liquid assets led to a rapid rise in the money supply in the second quarter. After an initial increaw in rates on Treasury bills in April, it thus became necessary to raise yields on all government securities in July; at the same time the floor price for 3-month Treasury bills was abolished. In the summer the Bank of Italy stepped up its use of securities repurchase agreements; at the end of August the discount rate was raised from 12 to 12.5 per cent at the same time as similar action was being taken in the leading European economies, and yields on government paper were increased accordingly.

Higher interest rates and the more optimistic expectations generated by the Government's commitment to limiting the growth of the budget deficit in 1989, as manifested in the Finance Bill, had a positive impact on sales of securities in the autumn, especially Treasury bonds. However, the level of domestic interest rates and favourable exchange rate expectations stimulated a strong expansion in bank lending in foreign currency, which since 1 October 1988 no longer has to be connected with import or export transactions. The inflow of foreign currency, which amounted to around 5 trillion lire in the last quarter, tended to recreate expansionary conditions in the money market; the growth in bank lending in lire slowed down in the summer, but then resumed at annual rates of over 20 per cent. The objective of controlling domestic cyclical tendencies came into conflict with that of maintaining external equilibrium. In order to reconcile these opposing requirements, bank liquidity was further tightened and the lira was allowed to appreciate, partly in order to curb inflationary pressures from abroad.

The countercyclical measures were complemented by others to raise the efficiency of the financial markets and improve monetary control. The new secondary market in government securities, which came into operation in May 1988, was broadened by the admission of new securities, including Treasury credit certificates in ECUs. The possibility of extending trading to Treasury bills is being examined. The most significant change in the primary market was the abolition of the floor price for Treasury bills, which came into effect in July 1988 for 3-month bills and in March 1989 for those at 6 and 12 months; as a result, tender rates will adjust more quickly to changes in market conditions, thus facilitating the financing of the budget deficit and monetary control. In November 1988 the system of uniform price auctions was introduced for Treasury bond issues.

In January of this year the Interministerial Committee for Credit and Savings approved the reform of compulsory reserves on lira deposits, which provides for the requirement to be met on a monthly average basis. In February the compulsory reserve on banks' net foreign currency positions was reintroduced; by treating banks' foreign and domestic fund-raising equally, this will enhance the effectiveness of monetary policy at a time of high international capital mobility.

Lending to the private sector and total domestic credit. — The expansion in economic activity, and especially the growth in investment, was reflected in the rapid growth of overall lending to the private sector (Table 14), which increased by more than 90 trillion lire, or 13 per cent, 2.6 percentage points higher than in 1987. The flow of finance rose from 6.7 to 8.4 per cent of GDP.

Table 14

TOTAL DOMESTIC CREDIT AND LENDING TO THE PRIVATE SECTOR

(changes in billions of lire)

	1983	1984	1985	1986	1987	1988
Total domestic credit	**120,629**	**140,077**	**153,728**	**152,189**	**151,597**	**195,491**
State sector borrowing requirement (1)	85,197	91,708	107,281	106,709	105,879	118,723
Finance to the non-state sector (2) (+)	35,432	48,368	46,447	45,480	45,718	76,768
finance to public bodies (3) (−)	*4,390*	*7,020*	*2,453*	*−249*	*1,543*	*1,914*
foreign loans (+)	*715*	*−921*	*2,214*	*2,243*	*3,177*	*2,659*
endowment funds (+)	*9,431*	*6,548*	*5,132*	*1,704*	*274*	*490*
share issues (4) (+)	*2,967*	*4,948*	*4,310*	*10,897*	*6,533*	*5,350*
other (5) (+)	*4,555*	*5,337*	*7,653*	*7,850*	*10,994*	*6,751*
Total finance to the private sector (=)	**48,710**	**57,217**	**63,297**	**68,423**	**65,153**	**90,104**
Percentage changes (6)	*13.1*	*13.3*	*12.7*	*12.3*	*10.4*	*13.0*
As a percentage of GDP	*7.7*	*7.9*	*7.8*	*7.6*	*6.7*	*8.4*

(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.

With the volume of funds raised through equity issues contracting for* the second consecutive year, corporate bond issues decreasing and self-financing growing more slowly, the productive sectors were forced to turn to credit institutions for finance. The flow of bank lending was more than double the figure for 1987, with lira loans expanding by 18 per cent and foreign currency loans by 26 per cent; in 1987 these two components had risen by 7.4 and 20 per cent respectively.

As mentioned above, the growth of bank lending in lire was financed partly through sales of securities. The increase in loans as a proportion of banks' assets over the last two years has accentuated a tendency that emerged in 1983, when the ceiling on lending ceased to be used as a permanent instrument of credit control. Until 1986 the shift towards lending was checked by the decline in interest rates, which permitted capital gains on securities. The reduction in securities portfolios in 1988 was prompted not only by changed expectations regarding interest rates but also by the lending policies pursued by credit institutions. In view of the reduced risk involved in lending during a phase of cyclical expansion and the keener competition in the loans market, banks did not put up their lending rates by as much as the rise in yields on government securities; significant increases were made only after the discount rate had been raised, confirming the importance of the announcement effect associated with changes in official rates.

Lending by special credit institutions expanded by 14.7 per cent, against 13.6 per cent in 1987. Growth was especially strong in industrial credit, which is more directly linked with investment activity, and in real estate credit, on account of favourable developments in the property market.

Financial assets and the monetary aggregates. — The flow of domestic financial assets taken up by the non-state sector, net of shares, grew from 15.6 to 16.8 per cent of GDP. The average annual stock of financial wealth, net of shares, rose in proportion to GDP, as it has done continuously since the beginning of the eighties.

The M2 money supply expanded by 8.5 per cent. As a ratio to GDP, this aggregate declined marginally but remained close to the average for the last six years. However, there were more marked differences of behaviour in its components than in previous years, reflecting more active liabilities management by banks. In order to hold down the overall cost of borrowed funds and improve profitability at a time of fierce competition in the credit market, banks further widened the differential between the rates offered on deposits held for transaction purposes and those paid on certificates of deposit, which remained more in line with yields on government securities. There was a fall in the absolute value of savings deposits. The narrower monetary aggregate M 1, which comprises essentially notes and coin in circulation and current accounts, rose by 7.6 per cent, close to the increase in M2. By contrast, the intermediate aggregate M2A, which includes savings deposits but not certificates of deposit, recorded a very modest rise of 5.2 per cent.

Among other financial assets, there was a strong increase in government paper. As well as absorbing the securities needed to finance the budget deficit, the non-state sector also took up those sold by banks and investment funds; total net purchases thus amounted to 109.5 trillion lire, an increase of 19.6 trillion over the previous year. Investor preferences were for Treasury bills, of which 44.4 trillion lire were subscribed, resulting in an increase of 12.2 per cent in liquid assets (M3), which include such securities. The last few months of the year saw an increase in subscriptions of Treasury bonds, the maturities of which lengthened to 5 years only in November.

The expansion of M3 and the shortening of maturities on new Treasury bond issues are evidence that the liquidity of different types of financial assets became more uniform last year and rose across the entire range. This development is confirmed by the substantial purchases of special credit institutions' certificates, which have much shorter maturities than their bonds.

The fall in subscriptions of investment fund units continued and fund managers reacted by selling domestic securities while increasing their portfolios of foreign assets. The latter sectot is one in which clients feel a greater need for professional management of their investments.

The first few months of 1989 and the outlook for the rest of the year

In the first quarter of this year uncertainty regarding the passage of the budget and expectations of higher interest rates discouraged investors from purchasing government securities, particularly those at medium or long term; combined with a budget deficit that was growing faster than in the corresponding period of 1988, this caused difficulties in financing the borrowing requirement in the market. Bank lending continued to accelerate rapidly and the inflow of foreign capital intensified. The worsening of the trade balance and the resurgence of inflation heightened concern about the strength of domestic demand.

While uncertainty still surrounded the stance of budgetary policy, monetary measures were implemented at the end of February and the beginning of March to ease expansionary pressures from both domestic and foreign sources. The control of bank liquidity was tightened, the cost of borrowing in foreign currencies was increased by extending reserve requirements to banks' net foreign currency positions, the discount rate was raised by one point to 13.5 per cent and interest rates on medium-term government securities were increased by a similar amount; yields on Treasury bills rose after the removal of the floor price for 6-month and 12-month issues.

Apart from supporting the prices of medium and long-term governtnent securities on the secondary market, the central bank also took up large quantities of Treasury bills at issue. In this way, the Treasury borrowing requirement for March was covered. Conditions on the financial market gradually eased as a result of the approval of fiscal measures to reduce the public sector deficit and the waning of expectations of further interest rate increases. The demand for medium-term securities recovered in April. In the same month the expansionary effects that central bank support to the Treasury had had on the money supply were offset by repurchase agreements; part of the expansion was mopped up in May by outright sales of securities, which will continue in June, when the Treasury's account will benefit from the bringing forward of income tax payments.

Action must continue to be taken to slow down the increase in prices and prevent the trade balance from deteriorating further. Monetary and exchange rate policies will remain restrictive and monetary base management will be aimed at keeping M2 growth within the 6-9 per cent target range announced last autumn. Since nominal income and the state sector borrowing requirement are now expected to increase more rapidly than was predicted in the economic planning documents, the attainment of this objective will call for stringent control of bank reserves and a yield structure that ensures that the private sector's securities portfolio grows at least three times as fast as the money supply.

Both credit in general and bank lending in particular will have to expand more slowly than at present. Total bank lending slowed down briefly in March, only to accelerate rapidly in April, bringing the annual rate of growth in the first four months to 18.5 per cent. Bearing in mind the brisk pace of fixed investment and the structural changes occurring in the banking system, the growth in financing to the non-state sector will tend to overshoot the 7-10 per cent target range announced last autumn. A rate of around 13 per cent would appear to be consistent with the new macroeconomic situation and current financial flows. Assuming a state sector borrowing requirement of 130 trillion lire, total domestic credit can be expected to grow at the same pace.

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

Monetaty base creation in 1988

The monetary base and bank reserves, adjusted for changes in the compulsory reserve ratio, expanded by 7.6 and 7.2 per cent respectively in 1988; in 1987 they had both grown by 9.2 per cent (Table 15).

Table 15

MONETARY BASE AND BANK DEPOSITS

(percentage changes on an annual basis) (1)

	1986	1987	1988	1987 Quarters I	II	III	IV	1988 Quarters I	II	III	IV	1989 1st qtr. (2)
Compulsory reserves												
adjusted (3)	10.1	9.7	8.0	3.0	24.2	4.7	5.7	-6.7	21.9	15.3	5.1	-1.7
unadjusted	*11.9*	*10.3*	*10.1*									
Bank reserves												
adjusted (3)	5.0 (8.8)	9.2	7.2	10.2	13.6	9.6	2.0	-2.8	21.2	20.3	-5.0	20.2
unadjusted	*7.2*	*10.6*	*8.5*									
Monetary base												
adjusted (3)	5.8 (8.2)	9.2	7.6	6.6	16.3	9.1	4.4	0.5	17.4	16.6	-1.3	15.9
unadjusted	*7.1*	*10.1*	*8.5*									
Bank deposits	8.9	6.8	7.3	11.6	11.5	2.0	3.9	2.9	12.8	11.3	4.6	8.0

(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 external sector accounted for 84 per cent of total monetary base creation, as against 48 per cent the previous year (Table 16); 84 per cent of the inflow of foreign currency came during the second half of the year, when lending by Italian banks was free of restrictions. In 1987, by contrast, all of the external sector's monetary base creation had occurred while the lending ceiling was in effect. Foreign exchange inflows were especially large in the fourth quarter, following the liberalization of banks' external transactions; they were stimulated by the large interest rate differential to the benefit of the lira, favourable exchange rate expectations and foreign investors' purchases of Italian government securities denominated in ECUs. In the absence of any

Table 16

MONETARY BASE (1)

(changes in billions of lire)

	1986	1987	1988					1989
			Year	Quarters				1st qtr. (2)
				I	II	III	IV	
External sector (3)	**3,543**	**6,756**	**10,947**	**2,297**	**−560**	**3,488**	**5,722**	**5,873**
Balance of payments	−2,965	1,202	682	524	−3,347	4,683	−1,178	−4,281
Net external position of banks (4)	6,454	5,573	10,224	1,888	2,807	−1,399	6,928	11,691
Treasury	**10,994**	**9,240**	**2,677**	**474**	**−454**	**3,423**	**−766**	**−303**
Borrowing requirement	110,159	114,258	125,405	26,951	24,454	42,851	31,149	30,475
Net sales of securities	−87,463	−84,656	−104,054	−23,355	−25,111	−32,835	−22,754	−25,214
primary market	−85,640	−70,720	−93,382	−19,057	−21,745	−29,090	−23,491	−18,958
Treasury bills	−6,455	−19,353	−29,045	−4,669	−6,510	−17,714	−153	−15,456
Treasury credit certificates	−47,664	−31,207	9,596	−7,164	99	11,339	5,322	−7,952
Treasury bonds	−31,542	−10,451	−58,740	−4,952	−10,513	−19,794	−23,481	279
other securities (5)	21	−9,709	−15,193	−2,272	−4,821	−2,921	−5,179	4,171
of which: securities issued to fund debts	—	*−421*	*−732*	—	*−60*	—	*454*	
open market	−1,823	−13,936	−10,672	−4,298	−3,366	−3,745	737	−6,256
of which: repurchase agreements	*1,913*	*−4,140*	*−1,066*	*−1,175*	*−850*	*−1,009*	*1,968*	*−6,339*
Other financing (6)	−11,702	−20,362	−18,674	−3,123	203	−6,593	−9,161	−5,564
Refinancing	**−4,334**	**−729**	**−30**	**45**	**−22**	**−207**	**154**	**−187**
Other sectors (7)	**−1,004**	**−1,321**	**−637**	**−1,633**	**1,043**	**−1,431**	**1,384**	**−763**
TOTAL (7)	**9,200**	**13,946**	**12,957**	**1,184**	**7**	**5,273**	**6,493**	**4,620**
Non-state sector	**3,143**	**4,386**	**4,445**	**−2,679**	**1,087**	**851**	**5,185**	**−2,619**
Bank reserves (7)	**6,057**	**9,559**	**8,512**	**3,863**	**−1,080**	**4,422**	**1,308**	**7,239**
Compulsory reserves	9,022	8,740	9,444	3,770	−80	3,454	2,300	4,484
Non-interest-bearing deposits against excess lending	—	657	−657	932	−1,588	−1	0	0
Excess reserves (7)	−2,965	162	−274	−839	588	969	−993	2,755

(1) Rounding may cause discrepancies in totals. — (2) Provisional. — (3) The creation of monetary base by the external 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) From 1989 includes special credit institutions. — (5) Contains a discrepancy due to bank charges on purchases of securities for customers and to accounting lags. — (6) 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. — (7) 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.

countercyclical impulse from fiscal policy, the need to curb the expansion in domestic demand made it impossible to allow a further narrowing of the interest rate differential, notwithstanding the favourable external position. Instead, towards the end of the year it became necessary to limit the inflow of foreign exchange reserves and strengthen monetary control by allowing the lira to appreciate.

Monetary base creation via the Treasury amounted to 2.68 trillion lire, as against 9.24 trillion in 1987. This component thus accounted for 21 per cent of the total flow of monetary base, the lowest share this decade. Market subscriptions of government securities came to 93.38 trillion lire, or 74 per cent of the Treasury borrowing requirement, compared with 62 per cent in 1987. Most of the new issues consisted of Treasury bonds, which benefited from the success of two-year issues in the first part of the year and stable interest rate expectations from the autumn onwards. Net bond issues thus rose from 9 to 47 per cent of the borrowing requirement. Demand for Treasury credit certificates was weak for most of the year, leading to substantial net redemptions of this type of paper, whereas in 1987 they had financed 27 per cent of the borrowing requirement. Issues of Treasury bills and other securities, chiefly denominated in ECUs, both increased compared with the previous year.

Given the growing Treasury borrowing requirement and substantial capital inflows from abroad, monetary management called for repeated open market operations by the central bank. The gross amount involved was larger than in 1987 and securities repurchase agreements were the predominant form of intervention. As in the previous year, the Bank of Italy also made outright purchases, mainly to bolster the market in Treasury credit certificates; the monetary impact of these operations was offset by selling Treasury bills.

Among the uses of monetary base, notes and coin in circulation expanded by 4.44 trillion lire, or 8.4 per cent, as against 4.39 trillion and 9.1 per cent in 1987. Banks' compulsory reserves increased by 9.44 trillion lire, compared with 8.74 trillion lire in 1987; the rate of growth was similar to that recorded in 1987 (10.1 per cent against 10.3 per cent), as bank deposits increased at the same rate in both years.

Developments in the course of the year

The overall monetary and financial situation was favourable at the beginning of the year but showed signs of deteriorating towards the end of the first quarter as the expiry of the lending ceiling approached.

On the external front, the capital inflows of the first two months gave way to an outflow of more than 1.5 trillion lire in March; in the credit market, the same month saw a vigorous expansion in bank lending that was to continue for the rest of the year and the first part of 1989. At the same time, it became clear in the course of the parliamentary debate on the Finance Bill that the state sector borrowing requirement for 1988 would be larger than forecast. The market in government securities began to react, with investor preferences shifting towards shorter maturities in February and even the demand for Treasury bills declining in March. The net floor-price yield on 12-month bills was raised by 34 basis points in April to bolster demand for both bills and Treasury credit certificates by restoring a normal yield curve. At the same time the Bank of Italy made outright open market purchases to stabilize the secondary market prices of Treasury credit certificates.

In April and May the Treasury's substantial borrowing requirement and the market's disinclination to subscribe medium-term paper resulted in large-scale injections of liquidity through the Treasury's overdraft facility. Despite open market operations by the Bank of Italy, banks' excess reserves expanded and the overnight rate declined significantly, after having been only slightly below the discount rate in March.

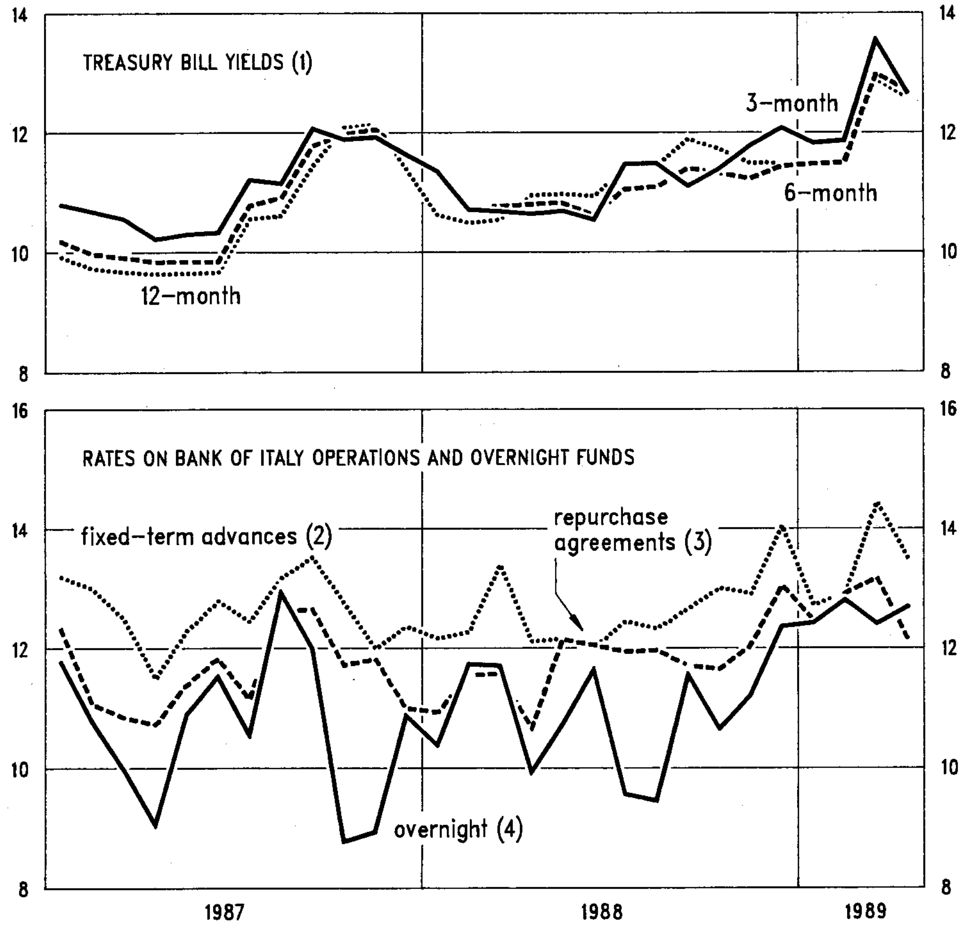
The monetary and credit aggregates accelerated in the second quarter. The Bank of Italy responded by stepping up its open market operations at rates that by May were above the discount rate (Figure 9). The situation on the foreign exchange front improved at the end of the spring; the outflow of reserves, equivalent to over 2 trillion lire in April, slowed down in May and gave way to substantial inflows in June and July, thanks in part to foreign investors' interest in government paper denominated in ECUs. The Bank of Italy countered the expansionary effect on the monetary base by means of temporary sales of securities.

At the beginning of July it was decided to raise government securities yields across the board in view of the Treasury's large borrowing requirement and the rise in interest rates worldwide. The first semi-annual coupon on Treasury credit certificates was increased from 5.8 to 6 per cent; net floor-price yields on 6-month and 12-month bills rose by 23 and 35 basis points respectively and those on bonds by 38 basis points. At the same time, the Treasury eliminated the floor price at auctions of 3-month bills to enhance the flexibility of short-term interest rates and facilitate the placement of government paper; the net yield rose by 70 basis points at the first auction in July.

As a result of the higher yields, net market subscriptions of Treasury bills and bonds in July exceeded 5 and 4 trillion lire respectively. The success of these issues, together with the raising of a foreign loan of $1 billion, enabled the Treasury to fund its deficit for the month, while keeping bank liquidity relatively low.

Figure 9

SHORT-TERM INTEREST RATES



(1) Average yields at auction before deduction of withholding tax. — (2) Average rate, weighted according to the penalty rates imposed. — (3) Average of marginal rates on repurchase agreements in the month. — (4) Monthly average of daily rates.

The benefit proved to be only temporary, however. In August the Treasury again encountered difficulty in covering its borrowing requirement, owing primarily to large-scale net redemptions of Treasury credit certificates. A further, sharper increase in yields was necessary at the end of August in view of the substantial funding requirement foreseen for September and October, which was exacerbated by the large volume of medium-term securities reaching maturity. The discount rate was raised from 12 to 12.5 per cent, in parallel with similar increases in other countries. The yield on Treasury bonds was raised by the same amount, and the initial semi-annual coupon on Treasury credit certificates was increased by 25 basis points. Net floor-price yields on 6-month and 12-month bills rose by 24 and 45 basis points respectively.

These measures ushered in a period of easier conditions in the government securities market that lasted until November. A decisive factor was the climate of confidence generated in September by the presentation of the Finance Bill for 1989, which indicated a borrowing requirement of 117.35 trillion lire, and by the reform of parliamentary rules to abolish secret voting on budget motions. Investor preferences shifted towards longer maturities, boosting demand for both 12-month bills and Treasury bonds. In October and early November bids for these securities were artificially swollen by fears of a scaling-down of applications ; the problem was resolved in mid-November by extending the uniform price auction to these securities.

The lira weakened in September, but in October it was already benefiting from the liberalization of banks' external transactions, as the large interest rate differential encouraged substantial capital inflows. Retaining control of the monetary and credit aggregates necessitated active exchange rate management. At the end of the year the lira rose into the narrow band of the EMS, where it remained almost continuously for the first few months of 1989 (Figure 10). Despite the appreciation of the lira, the inflow of foreign exchange reserves in the fourth quarter was substantial, accounting for more than half the total for the year.

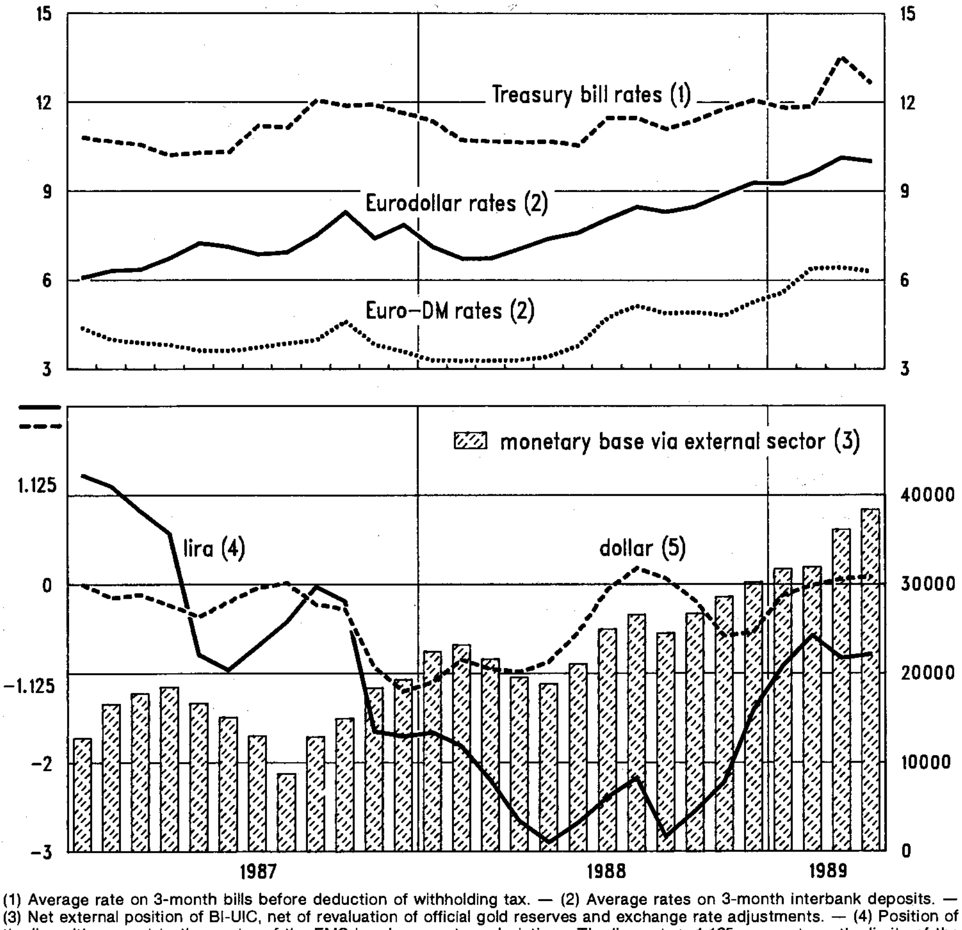
In the last few weeks of the year the Bank of Italy tightened control of the monetary base still further in response to economic developments at home and abroad. In the domestic economy, a pickup in activity was accompanied by an acceleration in inflation. In September and October the 12-month rate of expansion in the money supply had been above the target range. Credit growth remained rapid. The Treasury's borrowing requirement in December was larger than forecast, bringing the total for the year to over 125 trillion lire.

At this point, domestic economic and monetary management began to conflict with external equilibrium. Demand for the lira in the foreign exchange markets continued to exceed supply, despite rising interest rates abroad. Appreciation of the currency succeeded only partially in reconciling these conflicting objectives. Liquidity was already tight at the end of November but became even tighter in December. Despite the high seasonal demand for funds, the Bank of Italy carried out just one temporary purchase of securities at the start of the month at an average rate of over 13 per cent, leaving the banking system to resort to fixed-term advances on a large scale. The average rate on these exceeded 14.5 per cent in the second ten days of December, while the overnight rate reached 15 per cent. Freed from the constraint of the floor price, the rate on 3-month Treasury bills rose by about 25 basis points at the mid-month auction.

As uncertainty about the economic and financial situation heightened, the average maturity of securities issues began to shorten again, a tendency that was to continue in the new year. The issues of medium-term securities in December met with a disappointing response. Both the Treasury option certificates, which were introduced at the start of the month, and the 3-year bonds offered at mid-month went largely unsubscribed. The demand for 3-month Treasury bills increased.

Figure 10

INTEREST RATES, EXCHANGE RATES AND MONETARY BASE CREATION VIA THE EXTERNAL SECTOR



(1) Average rate on 3-month bills before deduction of withholding tax. — (2) Average rates on 3-month interbank deposits. — (3) Net external position of BI-UIC, net of revaluation of official gold reserves and exchange rate adjustments. — (4) Position of the lira with respect to the centre of the EMS band; percentage deviations. The lines at ± 1,125 per cent are the limits of the narrow fluctuation band. — (5) DM/dollar exchange rate; percentage deviations from the average rate for January 1987, divided by ten.

At the beginning of this year the Bank of Italy intervened repeatedly in the open market to mop up the excessive liquidity created by the Treasury; in the first half of January seven operations were carried out for a gross volume of 17.7 trillion lire at an average rate of about 12 per cent. 'This curbed the growth in bank liquidity, which nonetheless averaged 5.5 trillion lire. The monetary stance was made even more restrictive towards the end of the month by reducing both gross and net liquidity and increasing overnight rates, which touched 14 per cent in the last ten days.

A worrying deterioration in the public finances began to emerge at the very start of the new year. Budget estimates on a current programmes basis made it increasingly evident that the borrowing target set in the Finance Bill was unattainable unless stern measures were taken and that the Government's entire medium-term financial plan was at risk. The borrowing requirement in the first few months of the year far exceeded that recorded a year earlier, and securities issues met with difficulty. Investors' pronounced preference for short-term paper brought the share of the requirement financed by Treasury bills to 70 per cent in the first quarter, the highest figure since 1981. Moreover, bank lending, which had been growing rapidly for a number of months, accelerated further in February; over the first two months it expanded at an annual rate of 20 per cent.

These circumstances called for tighter monetary control for the twofold purpose of ensuring non-inflationary financing of the deficit in the short term and keeping the economy under control until the fiscal package that was being prepared began to take effect. To curb capital inflows and strengthen control of bank lending, the reserve requirement on banks' net external foreign currency positions was reintroduced on 17 February. The marginal rate was set at 25 per cent, the same as on fund-raising in lire. On 3 March the discount rate was raised from 12.5 to 13.5 per cent. The auction procedure without a floor price, which had already been introduced successfully for 3-month Treasury bills, was now extended to 6-month and 12-month bills. The after-tax yield on 5-year credit certificates rose from 11.47 per cent in February to 12.3 per cent in mid-March. The base rate on 3-year bonds was set at 12.11 per cent.

At the first auction in March the net allotment rate on 12-month bills rose by one percentage point and those on 3-month and 6-month bills by slightly more. During the transition to the new auction method the Bank of Italy temporarily stepped up its intervention in the primary market, with net Treasury bill purchases of over 5 trillion lire in the month.

The rise in official interest rates and market yields had an immediate effect on banks' lending rates, which had already risen by half a point by the end of March, and on lira lending, whose annual growth rate since the start of the year declined to 12 per cent.

Owing in part to unfounded alarmist rumours concerning the public debt, the securities market was slow to respond positively to the monetary measures. New medium-term issues went largely unsubscribed and selling pressure built up in the secondary market, reaching major proportions on some days and for some types of Treasury credit certificate. The Bank of Italy intervened repeatedly in the open market with outright purchases in excess of 1 trillion lire in the month.

Excluding repurchase agreements, the Bank's operations in the primary and secondary markets in government securities in March resulted in net purchases of 8.4 trillion lire, a much larger amount than the normal movements in its portfolio. This intervention helped avert the looming risk of market instability, which would have been aggravated had the Treasury exceeded its overdraft facility with the Bank of Italy. Bank liquidity, which was very high at the end of March, was brought down during the first half of April by means of repurchase agreements.

The Government's package of budget measures, the action of the Bank of Italy and the easier conditions in international capital markets helped stabilize interest rate expectations, thus reviving the demand for medium-term securities. The success of the Treasury's 3-year bond issue in mid-April was a positive sign. Treasury bills also benefited from the change in expectations; from the end of April onwards issues of all three maturities were oversubscribed and allotment rates declined, especially on 3-month bills.

The performance of the securities market remains encouraging despite the Bundesbank's decision to raise its discount rate from 4 to 4.5 per cent on 20 April. Subscriptions to the two Treasury bond auctions in May totaled 10,331 billion lire for an issue volume of 8,500 billion.

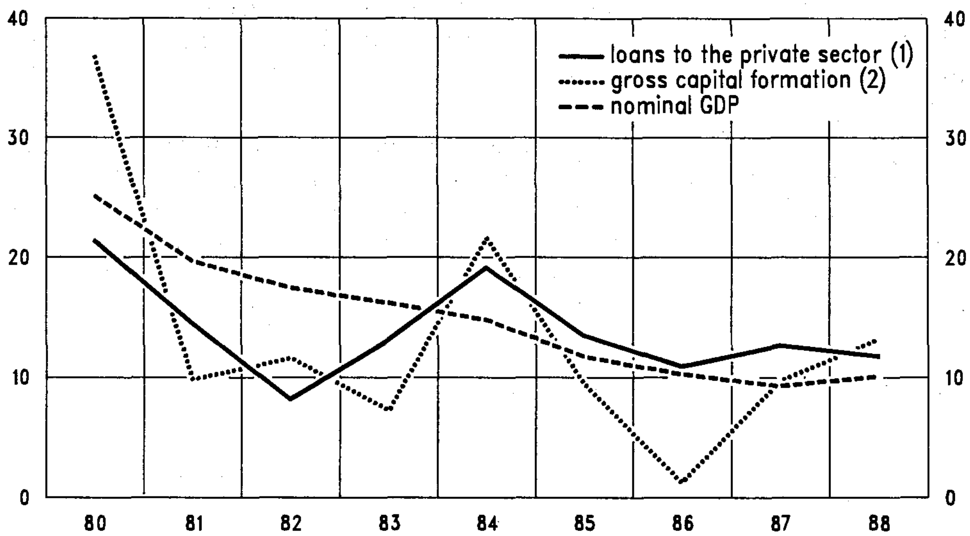
BANKING

Banking benefited from the rapid growth in economic activity and investment in 1988 (Figure 11). The uncertainty hanging over the domestic capital market led firms to reduce their issues of shares and bonds and increase their borrowing from banks and special credit institutions.

Figure 11

BANK LENDING AND ECONOMIC ACTIVITY

(annual rates of increase)



(1) Average annual rate of increase. Includes banker's acceptances and loans funded with medium and long-term securities. The foreign currency component is net of exchange rate adjustments. — (2) Gross capital formation plus change in stocks at current prices.

Banks met most of the demand for loans denominated in lire, especially after the abolition of the credit ceiling in March (Table 17). Foreign currency lending was made easier by the new exchange control legislation, which came into force last October, allowing economic agents to borrow abroad even for purposes not connected with foreign trade. More than one quarter of the increase in banks' lending was matched by net disposals of securities. This disinvestment affected all the segments of their portfolios.

Banks' policies were influenced last year not only by developments in the domestic economy but also by the approaching creation of the single European market. The greater importance attached to medium-term objectives was reflected in efforts to develop business with .foreign customers and banks. Italian banks' share of international lending increased, primarily as a result of the rapid expansion in the activity of their foreign branches and subsidiaries. In the domestic market, banks sought to put their operations on a sufficiently sound and diversified footing through mergers and the creation of multifunctional groups. The need to raise the average return on assets enhanced the importance attributed to creating and strengthening credit relations with customers. The shift in the composition of banks' assets towards a higher proportion of loans, which had already been a feature of previous years, continued at an accelerated pace, with the result that the structure of Italian banks' balance sheets now more closely resembles that of their counterparts in the other major Community countries. As a proportion of total bank credit, securities fell to one of the lowest levels recorded in the last ten years.

Table 17

BANK DEPOSITS AND LOANS (1)

(percentage rates of increase)

	1984	1985	1986	1987	1988					1989 Q1 (4)
					Year	Q1	Q2	Q3	Q4	
Deposits	11.6	10.1	8.9	6.8	7.3	2.9	12.8	11.3	4.6	8.0
Loans (2)	17.1	15.6	9.6	8.7	18.0	4.0	25.2	13.0	31.3	17.3
Securities (3)	7.4	6.3	6.7	0.6	−6.5	−9.9	−11.1	−0.3	−3.7	−0.4
government (3)	*11.3*	*9.7*	*6.9*	*−1.4*	*−5.2*	*−11.7*	*−11.8*	*0.2*	*4.0*	....

(1) Quarterly data are seasonally adjusted annualized rates. — (2) Including investments in bankers' acceptances and funded bank loans. 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 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. — (4) Provisional figures.

The policies pursued by the banks resulted in fierce competition in the loan market, with a consequent fall in lending rates in relation both to the rate of inflation and to the yield on government securities. Additional downward pressure on interest rates came from the improvement in the creditworthiness of some categories of borrower, while the positive performance of the economy over the last few years led to a slowdown in the growth of bad debts.

After suffering a sizable fall in profits in relation to total resources in 1987, banks sought to widen their margins last year. This was reflected in deposit rates, which rose less than the yields on government securities. At the same time banks differentiated the conditions on their various fund-raising instruments, primarily by offering higher rates on certificates of deposit. As a result they issued a very large volume of CDs, which accounted for more than 60 per cent of the total increase in deposits during the year and enabled banks to offset the outflow of deposits held as financial investments. The share of current accounts in total deposits increased in real terms, owing in part to the strengthening of the banks' role in the payment system.

The developments that occurred in banking in 1988 confirmed the trends that had already been under way in previous years. After remaining virtually unchanged at about 58 per cent for several years, the share of bank credit in the total debt of the private sector fell by around one percentage point as a counterpart to the large expansion in lending by the special credit institutions. The decline in the share of bank deposits in the private sector's total financial assets accelerated, with the proportion falling from 42 to 39 per cent of the annual average stock. However, to make an overall assessment of the role played by banks one needs to take account not only of their deposit-taking activities but also of the securities trading and custody services they provide directly or through affiliated companies. On this basis the share of the private sector's financial wealth handled by the banking system increased to just over 90 per cent.

Lending

Total bank lending rose by 52.1 trillion lire, or 18 per cent, with loans denominated in lire expanding by 43.6 trillion, or 17 per cent. However, the restrictive effect of the ceiling on bank loans in the last few months of 1987 accentuated the growth in lending measured on the basis of end-of-period data; measured in terms of annual averages, the rise in total bank lending was similar to that recorded the previous year (12.2 per cent as against 12.3 per cent), with the lira component actually growing less rapidly (11.3 per cent as against 12.6 per cent).

Net of exchange rate adjustments, foreign currency lending increased over the year by 8.5 trillion lire, or 25.9 per cent. More than three quarters of this growth (6.5 trillion lire) occurred in the last quarter, when the new exchange control legislation was in force.

Despite the tight control that the central bank kept on liquidity, the expansion in lira lending continued in the first two months of this year, in conjunction with the spread of expectations of higher inflation and interest rates. The rate of increase slowed after the discount rate had been raised by one point at the beginning of March, while the seasonally adjusted annual rate of growth for the first four months of the year fell to 14 per cent, after touching 19.6 per cent in the first two.

The distribution of loans by type of borrower in 1988 shows that most of the demand for credit came from the corporate sector and consumers, while that generated by financial arbitrage operations appears not to have reached the high level of 1987.

The increased scope for customers to borrow in foreign currency and the inflow of capital from abroad led to a further weakening of interest rates in the autumn, accompanied by a renewed acceleration in lira lending.

The growth in foreign currency loans was the most important development in bank lending. Their share of total lending amounted to 11.4 per cent at the end of 1987, rising to 12.4 per cent a year later and to 14.3 per cent at the end of April 1989, compared with 11.4 per cent in April 1988.

As in 1987, medium and long-term loans were the fastest growing component of bank lending in lire, rising at an average annual rate of 13.5 per cent, compared with 10.5 per cent for short-term loans. 'The demand for longer-term finance was fueled by the reduction in the tax on such loans from 2 to 0.25 per cent and was especially strong for mortgage loans. The situation on the supply side was modified by the changes in relevant supervisory regulations, the effects of which differed from one category of bank to another.

Banks continued to expand their off-balance-sheet activities, with guarantee commitments rising over the year by around 16 trillion lire, or 21 per cent. In part this growth reflects the expansion of the market in commercial notes, a borrowing instrument that is still usually backed by a bank guarantee.

Securities

Net of repurchase agreements with the Bank of Italy, banks' holdings of securities decreased by 13.8 trillion lire, or 6.3 per cent, whereas in 1987 they had increased by 1.4 trillion, or 0.7 per cent. There was thus a further shift in the composition of banks' assets away from securities, whose share in the total has been declining since 1984. This development can be attributed primarily to the abandonment of administrative instruments, such as the ceiling on loans and the securities investment requirement, as the normal means of controlling credit. The shift away from securities was common to the whole banking system, although large differences remain between the balance sheets of the various categories of bank.

The reduction in banks' portfolios affected all the various kinds of security. Holdings of corporate bonds dropped by 6.6 trillion lire, or 9 per cent, while those of government securities fell by 7.2 trillion, or 5 per cent, although the share of the latter in banks' portfolios remained almost unchanged at 67.2 per cent (as against 66.3 and 67.6 per cent in 1987 and 1986 respectively).

The decrease in government securities was heaviest in Treasury bills (down by 3.8 trillion lire, or 14.4 per cent) and variable rate credit certificates (down by 6.7 trillion, or 7.4 per cent) and in the main involved tax-exempt paper.

Most of the banks' disposals of Treasury credit certificates were offset by purchases of Treasury bonds, their holdings of which rose by 5.5 trillion lire, or about 43 per cent. Despite this rapid rate of growth, Treasury bonds continued to account for only 9.1 per cent of banks' total investment in securities and 13.5 per cent of their holdings of government paper.

Econometric studies confirm that the composition of banks' securities portfolios has been consistent with the changes in market yields over recent years and has also reflected an awareness of the inflation risk. It emerges that Treasury bills and credit certificates have been considered interchangable instruments for treasury management purposes and, taken together, as alternatives to Treasury bonds. On the other hand, banks have not shown themselves to be particularly sensitive to the market yields on corporate bonds. The parent banks of credit groups appear to have been strongly influenced by the need to finance the operations of their special credit subsidiaries. However, the extent to which individual banks reacted to changes in market conditions varied considerably.

Deposits

Bank deposits rose over the year by about 39 trillion lire, or 7.3 per cent, compared with 34 trillion and 6.8 per cent in 1987 (Table 17). Net of certificates of deposit, the increase amounted to 14.8 trillion, or 3 per cent (23.5 trillion and 4.9 per cent in 1987). On an annual average basis, however, the increase was smaller than that of the previous year (6.3 per cent as against 9.9 per cent).

Current account deposits rose by 24 trillion lire, or 7.9 per cent (21.2 trillion and 7.6 per cent in 1987). Transaction balances continued to increase in importance as a factor in the demand for bank current accounts, as indicated by the broadly stable relationship between this aggregate and nominal GDP, the rise in the number of accounts and the gradual decline in average balances at constant prices.

The growth in current account deposits is evidence of a further increase in banking activity related to payment services. On the basis of a highly representative sample of banks, the number of payment operations carried out by customers can be estimated to have risen by 6 per cent. A growing proportion of payments was made by way of credit transfers and automated services, and more cash dispensers and automated teller machines were installed to allow customers to perform certain operations themselves. The banking system also strengthened its position in the credit card market, which expanded at a rapid pace. The use of cashless payment instruments is nonetheless still lower in Italy than in other major countries.

Certificates of deposit increased over the year by 24 trillion lire, or 75 per cent. This strong growth continued in the first quarter of this year: in April the share of CDs in total deposits reached 13 per cent, compared with 8.5 per cent twelve months earlier. The increase in CDs was partly offset by the decrease in savings deposits, which fell by around 9.2 trillion in 1988, or 4.6 per cent. Most of the fall occurred in fixed-term savings deposits, which decreased by 12.4 per cent. A profound change occurred last year in the maturity distribution of CDs, primarily as a result of the new regulations on operations beyond the short term, which allowed the banks to raise medium-term funds from customers up to the amount of lending with matching maturities.

Banks encouraged the shift in the composition of deposits by pursuing a policy for deposit rates designed to channel funds for transaction purposes into current accounts and those serving as a store of value into certificates of deposit. The after-tax yield differential between current account deposits and ordinary savings deposits, which had become positive in 1987, increased further to around 0.5 percentage points.

Profit and loss accounts

Banks' gross income rose from 4.54 to 4.65 per cent of their total resources, which was above the average for the last ten years (Table 18). The increase was due to a significant rise in the corresponding ratio of net interest income, while that of other income remained virtually unchanged.

Net interest income increased from 3.34 to 3.46 per cent of total resources. The rise in the share of loans in banks' assets helped to keep the average yield on lira assets unchanged at 11.8 per cent, while the policy pursued with regard to deposit rates resulted in a reduction in the average cost of liabilities from 7.2 to 6.8 per cent.

PROFIT AND LOSS ACCOUNTS OF THE BANKS (1)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 (2)
	as a percentage of total resources									
Net interest income	**2.74**	**3.44**	**3.53**	**3.29**	**3.36**	**3.35**	**3.23**	**3.43**	**3.34**	**3.46**
Non-interest income	**0.95**	**0.99**	**1.23**	**1.27**	**1.18**	**1.28**	**1.30**	**1.46**	**1.20**	**1.19**
securities trading	*0.45*	*0.44*	*0.56*	*0.66*	*0.54*	*0.67*	*0.70*	*0.84*	*0.58*	*0.58*
Gross income	**3.69**	**4.43**	**4.76**	**4.56**	**4.54**	**4.63**	**4.53**	**4.89**	**4.54**	**4.65**
Operating expenses	2.70	3.00	2.94	2.96	3.15	3.14	3.03	3.07	3.11	3.03
staff costs	*1.98*	*2.20*	*2.13*	*2.05*	*2.30*	*2.26*	*2.18*	*2.20*	*2.23*	*2.18*
Net income	**0.99**	**1.43**	**1.82**	**1.60**	**1.39**	**1.49**	**1.50**	**1.82**	**1.43**	**1.62**
Allocations to provisions (net)	0.69	0.99	1.29	0.98	0.72	0.71	0.67	0.66	0.50	0.60
for loan losses	*0.33*	*0.44*	*0.44*	*0.46*	*0.43*	*0.38*	*0.32*	*0.29*	*0.28*	*0.32*
Extraordinary income and withdrawals from provisions for loan losses (3)	0.04	0.01	0.03	0.08	0.03	0.02	0.08	0.01	−0.06	−0.01
Profit before tax	**0.34**	**0.45**	**0.56**	**0.70**	**0.70**	**0.80**	**0.91**	**1.17**	**0.87**	**1.01**
Tax	0.14	0.24	0.27	0.39	0.43	0.43	0.47	0.61	0.41	0.46
Net profit	**0.20**	**0.21**	**0.29**	**0.31**	**0.27**	**0.37**	**0.44**	**0.56**	**0.46**	**0.55**
	other data									
Total resources *(billions of lire)*	309,239	373,731	443,199	508,868	593,207	664,359	773,470	840,494	912,149	989,235
Number of employees	261,505	274,889	287,420	293,002	299,879	302,814	304,090	308,200	313,086	314,458
Total resources per employee *(millions of lire)*	1,183	1,360	1,542	1,760	2,004	2,221	2,544	2,727	2,940	3,184
Staff costs per employee *(millions of lire)*	23.4	29.8	32.8	36.1	46.2	50.2	55.4	60.0	65.7	69.4
	percentage rates of increase									
Staff costs per employee	12.5	27.8	9.7	13.2	28.0	8.7	10.0	8.3	9.5	5.6
Total resources per employee:										
in nominal terms	17.5	15.0	13.4	14.1	13.9	10.8	14.5	7.2	7.8	8.3
in real terms (4)	1.5	−5.1	−4.5	−1.9	−1.0	0.3	5.4	1.1	3.1	3.2
Number of employees	4.6	5.1	4.6	1.9	2.3	1.0	0.4	1.0	1.6	−0.4

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

The non-interest income deriving from securities trading remained at the relatively low level of the previous year (0.58 per cent of total resources). However, this included the profits of around 1.1 trillion lire accruing to the three banks of national interest on the disposal of their interests in Mediobanca. Net of this operation, income from securities trading amounted to 0.47 per cent of total resources.

Operating costs fell from 3.11 to 3.03 per cent of total resources. Staff costs decreased to 2.18 per cent, compared with 2.23 per cent in 1987, when the wage agreements for the banking sector were renewed. The reduction in this item reflected banks' efforts to rationalize their use of labour, including intra-group transfers of employees to special credit institutions and other subsidiary companies. Total employment in banking increased by 0.4 per cent, which was considerably less than the average for the last few years. The 5.6 per cent increase in unit labour costs was accompanied by an increase of 8.3 per cent in total resources per employee (3.2 per cent in real terms).

Banks' net income for the year increased from 1.43 to 1.62 per cent of total resources. Allocations to provisions rose from 0.5 to 0.6 per cent, with those for loan losses rising from 0.28 to 0.32 per cent.

Net profits rose by 0.09 points to 0.55 per cent of total resources, thus returning to the very high level recorded in 1986; in relation to banks' own funds, net profits increased from 7.9 to 8.8 per cent. The small reduction in the share of profits distributed to shareholders was accompanied by an increase from 54 to 61 per cent in that allocated to reserves. The rise in banks' capital and reserves was therefore particularly large: in the first four months of this year they increased by more than 7 trillion lire, compared with 5.4 trillion in the same period of 1987.

THE SPECIAL CREDIT INSTITUTIONS AND OTHER INTERMEDIARIES

The special credit institutions

Special credit expanded strongly in 1988, particularly at medium term. Domestic lending by special credit institutions increased by 14.7 per cent, as against 13.6 per cent in 1987 (Table 19), and its share of total private sector financial liabilities rose from 27.6 to 28.4 per cent. The growth reflects the high level of investment in equipment and construction and the buoyancy of the real estate market.

Table 19

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS

(percentage changes)

	1984	1985	1986	1987	1988				
					Year	Q1	Q2	Q3	Q4
Industrial	12.0	9.3	14.6	12.8	14.5	11.8	14.8	23.5	8.5
short-term	*34.6*	*33.4*	*56.5*	*17.0*	*13.1*	*– 10.3*	*32.7*	*57.8*	*– 13.2*
Public works	22.9	3.2	0.8	1.9	5.7	7.1	6.8	12.9	– 2.5
Real estate	(2) 13.2	9.6	13.1	19.8	18.8	20.1	18.3	17.0	19.9
Agricultural	(2) 12.6	8.2	12.7	13.3	13.3	15.7	12.8	11.1	14.3
Total	(2) **13.6**	**8.5**	**12.4**	**13.6**	**14.7**	**14.0**	**14.9**	**19.5**	**11.1**

(1) Quarterly figures are seasonally adjusted and on an annual basis. — (2) Adjusted for 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.

Fund-raising increased substantially, aided by the emergence of positive interest rate differentials with respect to competing instruments in late 1987; the growth was strongest in the components most sensitive to market conditions, such as certificates of deposit, which expanded by around 42 per cent. The uncertainty about interest rates engendered a shift to floating rate instruments in the longer-term segment. Lower rates abroad and expectations of exchange rate stability stimulated foreign currency borrowing, which increased by 5.9 trillion lire and was used mainly to fund domestic loans denominated in or linked to foreign currencies.

Net funding of the financial sector increased by 6.1 trillion lire, with more than half the net lending of the industrial credit institutions going to financial companies, in line with the trend of the last few years. Total lending to leasing companies rose by around 2.5 trillion lire, but there was also a substantial increase in that to factoring companies.

The institutions to grow fastest in recent years have been those controlled by banks. Between 1979 and 1988 they encouraged the changes occurring in the demand for credit, which were brought about mainly by large companies reducing their borrowing from credit intermediaries and increasing the proportion with longer maturities. Lending by the special credit institutions belonging to banking groups rose sharply, outpacing that of the others and offsetting the slowdown in lending by their parent banks, whose overall share of the market rose (Table 20).

Table 20

AVERAGE ANNUAL GROWTH RATES OF DOMESTIC LENDING

Type of intermediary	1980-83	1984-88	1980-88
11 lead banks (1)	14.2	12.3	13.2
Other banks	15.1	14.4	14.7
Total banks	**14.7**	**13.5**	**14.1**
Industrial and real estate credit institutions controlled by the 11 lead banks (1)	19.2	14.7	16.7
Other industrial and real estate institutions	12.4	11.4	11.8
Total industrial and real estate credit institutions	**15.6**	**13.1**	**14.2**
11 credit groups (1)	16.0	13.3	14.5
Other banks and industrial and real estate credit institutions	14.2	13.5	13.8
Total	**15.0**	**13.4**	**14.8**

(1) Includes the banks and industrial and real estate credit institutions belonging to the 11 principal credit groups.

The links between intermediaries take a variety of forms : some banks have their own special credit sections, which are an integral part of the financial group; others jointly own an institution, with each bank having a minority interest; and a few large industrial credit institutions are independent.

Most of the customers of special credit institutions belonging to credit groups are also customers of the parent bank; this is particularly true of the industrial credit institutions. The overlap is greatest in the case of special credit sections, more than 90 per cent of whose customers bank with the parent institution. The difference in rates of lending growth between special credit institutions and banks within the same group thus appears to be the result of a redistribution of the flow of credit to more or less the same customers. The coordination achieved by the more cohesive groups is also underlined by their maturity specialization; banks' special credit sections have a much smaller proportion of short-term assets than the independent industrial credit institutions and those with looser ownership links.

On the liabilities side, the fund-raising support provided by parent banks to their special credit affiliates is greatest for the non-industrial credit institutions. Banks with real estate sections have subscribed large proportions of their bond issues, thereby permitting the sections to expand their lending without the liability constraints that appear to have curbed the business of the institutions with multiple owners.

The consolidated profits of credit groups were more stable than the average for the credit system as a whole between 1979 and 1987. Within each group, however, the profits of the parent bank, and even more markedly those of the subsidiaries, varied much more than the average for their categories.

Lending. — Domestic lending by special credit institutions increased by 25.5 trillion lire in 1988, as against 20.7 trillion in 1987. Lending to households grew especially rapidly, by 6.2 trillion lire or 23.7 per cent (Table 21), on account of mortgage loans.

Table 21

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS ACCORDING TO BENEFICIARY

	Public sector			Private sector					Total
		of which: local authorities	of which: autonomous agencies	Finance, insurance and credit	Non-financial enterprises (1)	of which: state-owned enterprises	Households	Total	
	variations in billions of lire								
1987 - Subsidized	243	250	..	23	4,118	−399	740	4,881	5,124
Unsubsidized	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**
1988 - Subsidized	198	268	25	..	3,603	−207	1,050	4,653	4,851
Unsubsidized	2,289	353	1,771	2,694	10,622	263	5,121	18,437	20,726
Total . . .	**2,487**	**621**	**1,796**	**2,694**	**14,225**	**56**	**6,171**	**23,090**	**25,577**
	percentage variations								
1987 - **Total .....**	**8.1**	**0.2**	**41.3**	**19.9**	**12.0**	**1.5**	**24.0**	**14.6**	**13.6**
1988 - **Total .....**	**9.6**	**3.3**	**53.3**	**23.9**	**12.9**	**0.3**	**23.7**	**15.6**	**14.7**

(1) Includes lending to leasing companies.

Lending to the public sector expanded more slowly (by 9.6 per cent), though slightly faster than in recent years. The sharp contraction in bond issues by autonomous government agencies caused their borrowing to increase by 1.8 trillion lire, or 53.3 per cent.

The further improvement in corporate profits helped slow the increase in bad loans from 13.8 to 11.6 per cent and for the first time this decade they declined in relation to outstanding loans, falling from 5.1 to 4.9 per cent.

Lending by the industrial credit institutions increased by 13.5 trillion lire, or 14.5 per cent, as against 12.8 per cent in 1987. By contrast, the growth in short-term credit slowed from 17 to 13 per cent, partly as a result of the reduction from 2 to 0.25 per cent in the tax on medium and long-term loans. The growth in subsidized industrial credit slowed from 11 to 9.8 per cent; credit to large firms rose more slowly but there was a substantial increase in subsidized lending to smaller businesses.

Outstanding housing and building credit rose to 47 trillion lire, an increase of 19.2 per cent compared with 14.8 and 19.9 per cent in 1986 and 1987 respectively (Table 22). While mortgage loans expanded strongly, building credit continued to show only modest growth. Lending by the real estate credit institutions increased by 18.8 per cent in 1988.

Table 22

USES OF DOMESTIC LENDING BY SPECIAL CREDIT INSTITUTIONS

(billions of lire)

Type of lending	Agriculture		Housing		Industry		Transport, distribution, other services		Exports		Total	
	1987	1988	1987	1988	1987	1988	1987	1988	1987	1988	1987	1988
							net growth of credit					
Subsidized . . .	817	532	1,275	1,285	2,491	1,894	1,603	1,751	– 1,062	– 611	5,124	4,851
Unsubsidized .	879	1,111	5,284	6,297	1,955	2,305	7,478	11,013	—	—	15,596	20,726
Total . . .	**1,696**	**1,643**	**6,559**	**7,582**	**4,446**	**4,199**	**9,081**	**12,764**	**– 1,062**	**– 611**	**20,720**	**25.577**
							percentage growth of credit					
Subsidized . . .	*8.2*	*4.9*	*15.7*	*13.7*	*13.8*	*9.2*	*26.6*	*22.9*	*– 22.1*	*– 163*	*10.9*	*9.3*
Unsubsidized .	*26.2*	*26.2*	*21.3*	*20.9*	*7.6*	*8.3*	*14.4*	*18.5*	—	—	*14.7*	*17.1*
Total . . .	***12.7***	***10.9***	***19.9***	***19.2***	***10.1***	***8.7***	***15.7***	***19.0***	***– 22.1***	***– 16.3***	***13.6***	***14.7***

The demand for housing credit does not appear to have been significantly depressed by the increase in interest rates on fixed rate mortgages from 12.5 to 13.5 per cent in late 1987. The institutions sharply expanded their lending at floating rates (from 29 to 44 per cent of the total) and in foreign currency (from less than 0.5 to around 2.3 trillion lire). The initial cost of floating rate loans was about half a percentage point below that on fixed rate loans, while the differential amounted to over 4 points for loans denominated in ECUs, the foreign currency most commonly used.

Special credit institutions lent 7.2 trillion lire for export purposes, a decrease of 600 billion on 1987. The decline reflected both demand factors, such as the contraction in exports of capital goods to developing countries, and the larger role played by other lenders.

Disbursements of agricultural credit by special credit institutions and banks amounted to 17.1 trillion lire in 1988. In a year in which farm output contracted even at current prices, outstanding agricultural credit rose by 8.7 per cent, compared with 10.4 per cent in 1987. The growth of working credit slowed sharply from 9.8 to 4.4 per cent. By contrast, improvement credit accelerated from 11.4 to 14.8 per cent, mainly as a result of the rise in unsubsidized lending financed with foreign currency covered by a state exchange rate guarantee. This eased the demand for subsidized credit, which grew by no more than 1.9 per cent, as against 6.8 per cent in 1987 and 15.1 per cent in 1986. To some extent the slow growth was due to the limited resources made available by regional authorities.

Lending by the agricultural credit institutions rose by 13.3 per cent, which was faster than the average. Their share of total agricultural lending thus rose from 60.3 to 62.8 per cent, with most of the growth being in unsubsidized operations related to the sharp rise in foreign currency business.

Fund-raising. - Issues of certificates of deposit increased from 30.9 to 43.8 trillion lire. Two thirds of the growth occurred in the first quarter, and industrial credit institutions accounted for the greater part (10.9 trillion). Issues of CDs by real estate institutions also rose substantially.

Funds raised by way of bond issues increased by 7.5 trillion lire, or 6.6 per cent, compared with 11.5 trillion and 11.2 per cent in 1987. More than three quarters of total net issues were made by real estate institutions, with floating rate issues expanding fastest and increasing their share of total outstanding bond issues from 27.7 to 31.4 per cent.

Fund-raising abroad rose by 5.9 trillion lire, or 22 per cent, about the same as in 1987 (5 trillion and 22.8 per cent). This was primarily due to the favourable cost differential between bond issues in lire and medium-term funds in ECUs, which widened to 4.8 percentage points. Net borrowing covered by government exchange guarantees, mostly from the EIB, rose from 2 to 2.3 trillion lire.

Table 23

PROFIT AND LOSS ACCOUNTS OF THE SPECIAL CREDIT INSTITUTIONS

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 (1)
	as a percentage of total resources									
Interest income	10.97	11.76	12.91	14.41	14.72	14.80	14.22	13.44	12.21	12.07
Interest expenses	8.57	9.03	10.00	11.40	11.63	11.66	11.18	10.40	9.34	9.26
Net interest income	**2.40**	**2.73**	**2.91**	**3.01**	**3.09**	**3.14**	**3.04**	**3.04**	**2.87**	**2.81**
Non-interest income	−0.02	0.03	0.01	−0.05	−0.05	0.02	0.01	0.13	−0.10	−0.15
Gross income	**2.38**	**2.76**	**2.92**	**2.96**	**3.04**	**3.16**	**3.05**	**3.17**	**2.77**	**2.66**
Operating expenses	0.49	0.61	0.66	0.73	0.77	0.82	0.84	0.87	0.86	0.85
staff costs	*0.37*	*0.44*	*0.44*	*0.44*	*0.48*	*0.50*	*0.52*	*0.54*	*0.55*	*0.52*
Net income	**1.89**	**2.15**	**2.26**	**2.23**	**2.27**	**2.34**	**2.21**	**2.30**	**1.91**	**1.81**
Depreciation & allocations to provisions	1.49	1.82	1.71	1.36	1.41	1.46	1.28	1.11	1.07	1.02
Extraordinary income and expenditure	0.05	0.09	0.16	0.13	0.24	0.17	0.16	0.24	0.29	0.26
Profit before tax	**0.45**	**0.42**	**0.71**	**1.00**	**1.10**	**1.05**	**1.09**	**1.43**	**1.13**	**1.05**
Tax	0.24	0.24	0.32	0.42	0.39	0.42	0.41	0.60	0.44	0.40
Net profit	**0.21**	**0.18**	**0.39**	**0.58**	**0.71**	**0.63**	**0.68**	**0.83**	**0.69**	**0.65**
	other data									
Total resources *(billions of lire)*	84,778	91,891	104,073	124,147	141,255	158,816	176,806	189,751	208,209	237,203
Number of employees	9,990	10,318	10,654	11,130	11,840	12,045	12,109	12,281	12,109	12,470
Total resources per employee (2) *(millions of lire)*	7,842	8,143	9,301	10,687	11,221	12,164	13,330	14,324	15,305	16,141
Staff costs per employee (2) *(millions of lire)*	30.18	38.93	42.12	48.94	55.99	60.93	66.28	73.55	80.70	83.49
	percentage rates of increase									
Staff costs per employee	4.3	29.0	8.2	16.2	14.4	8.8	8.8	11.0	9.7	3.5
Total resources per employee:										
in nominal terms (2)	−0.7	3.8	14.2	14.9	5.0	8.4	9.6	7.5	6.8	5.5
at constant prices (2) (3)	−19.4	−14.2	−3.8	−1.3	−8.7	−2.0	0.9	1.3	2.1	0.5

(1) Provisional. — (2) Excluding certain special credit sections for which the data are affected by the substantial number of staff seconded from the parent bank. — (3) Deflated using the cost-of-living index.

Profit and loss accounts. — Net interest income declined from 2.87 to 2.81 per cent of total resources, owing chiefly to the relatively small expansion of capital and reserves, which itself reflected the contraction of profits in 1987 (Table 23). Capital and reserves thus declined in 1988 from 10.8 to 10.5 per cent of total resources. Non-interest income registered losses amounting to 0.15 per cent of total resources, against 0.10 per cent in 1987. This was due to larger outlays on commissions, especially those paid to banks and sales networks for the marketing of certificates of deposit. Moreover, the profit on securities transactions was sharply reduced. Net profits diminished slightly in relation both to total resources (from 0.69 to 0.65 per cent) and to capital and reserves (from 6.4 to 6.2 per cent).

Leasing, factoring and consumer credit

Leasing companies. — Sustained by strong investment growth and a plentiful supply of funds from banks and special credit institutions, lending by leasing companies expanded by 38 per cent (Table 24), despite the reduction of some tax benefits as a result of the introduction of the codified law on direct taxation.

Table 24

LEASING (1)

(amounts outstanding in billions of lire)

	1986	1987	1988
Finance provided (2)	7,737	10,540	14,001
Finance received from credit institutions	6,893	8,685	11,971
short-term lira loans	*4,573*	*6,200*	*8,014*
medium and long-term lira loans	*2,012*	*2,207*	*3,397*
foreign currency loans	*308*	*278*	*560*

(1) Data on 51 companies, two of which were absorbed in 1988 by two other companies covered by the survey. — (2) The value of goods leased under outstanding contracts, net of the capital repayments implicit in the rentals already received.

The finance granted by leasing companies covered by the Bank of Italy survey increased by 32.8 per cent in 1988, continuing the very rapid expansion of recent years. Measured in terms of the value of leasing contracts signed during the year (10.4 trillion lire), the growth was both slower and less than in 1987 (24 per cent, as against 37 per cent). A broader survey covering about twice as many companies showed that new leasing contracts amounted to over 15 trillion lire, the equivalent of about 14 per cent of total fixed investment in machinery, equipment and transport equipment.

Factoring companies. — Claims assigned to the companies covered by the Bank of Italy survey totaled 18.1 trillion lire at the end of 1988, an increase of 4 trillion or 28.6 per cent (Table 25). The purely financial role of factoring companies was further accentuated, with the finance they provided increasing by 38.8 per cent and rising from 69 to 74.5 per cent of assigned claims. Claims assigned without recourse continued to increase; by the end of the year they accounted for 31 per cent of the total outstanding, compared with 20 per cent in 1985.

Table 25

FACTORING (1)

(amounts outstanding in billions of lire)

	Factoring companies controlled by banks			Other			Total		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
Claims acquired	5,715	8,518	11,039	3,878	5,527	7,023	9,593	14,045	18,062
Finance provided	3,870	5,836	8,379	3,314	3,850	5,070	7,184	9,686	13,449
Finance received from credit institutions	3,183	3,985	5,850	2,730	3,003	3,590	5,913	6,988	9,440
short-term lira loans	*3,010*	*3,760*	*5,324*	*2,316*	*2,836*	*3,348*	*5,326*	*6,596*	*8,672*
medium and long-term lira loans	*101*	*136*	*278*	*359*	*150*	*210*	*460*	*286*	*488*
foreign currency loans	*72*	*89*	*248*	*55*	*17*	*32*	*127*	*106*	*280*

(1) Data on 37 companies, 20 of them controlled by banks; in 1988 one of these was absorbed by another company covered by the survey.

The tendency for factoring companies to raise funds on their own account strengthened. Direct fund-raising in the market, mainly by way of commercial notes, increased by 1.2 trillion lire. Borrowing from credit institutions amounted to 9.4 trillion at the end of the year, falling from 75 to 68 per cent of total external financing. Companies not controlled by banks raised substantial funds from their shareholders (800 billion lire).

Consumer credit. — The rapid growth in households' demand for consumer credit reflected the strength of expenditure on durable goods. A Bank of Italy survey showed that consumer credit increased by 22.7 per cent, the same rate as in 1987 (Table 26). Gross credit flows are estimated at 14.4 trillion lire, equivalent to 19 per cent of households' purchases of consumer durables, compared with 17 per cent in 1987. Consumer credit provided by banks accounted for more than two thirds of the sample total and again outstripped their total lending, although the pace was slower than in 1987 (25.3 per cent as against 33.3 per cent).

Table 26

CONSUMER CREDIT

	In billions of lire	Growth rate	
	1987 (1)	1987	1988 (2)
Stocks	17,925	22.7	22.7
Banks	*12,571*	*33.3*	*25.3*
Financial companies	*5,354*	*5.0*	*17.3*
Gross flows	11,383	26.7	26.4
Banks	*7,339*	*37.2*	*27.3*
Financial companies	*4,044*	*11.3*	*24.9*

(1) Partially estimated; based on data from 84 banks and a group of leading consumer credit companies. — (2) Provisional data from a sample 12 per cent smaller than the one used for 1987.

The business of specialized household finance companies picked up sharply compared with the modest growth of recent years; their lending rose by 17.3 per cent, as against 5 per cent in 1987. The expansion was due chiefly to the continuing strength of motor vehicle sales, which provide more than three quarters of their business.

INSTITUTIONAL INVESTORS

The savings managed by institutional investors (investment funds, portfolio management services and insurance companies) remained virtually unchanged compared with 1987, at 165.7 trillion lire, but there was a substantial shift in their composition. The net assets of investment funds decreased by 7.9 trillion lire from their end-1987 total of 59.5 trillion, primarily as a result of net redemptions amounting to around 13 trillion. The growth in the business of portfolio management services also came to a halt: at the end of the year their managed assets totaled 57.3 trillion, compared with 59.0 trillion at the end of 1987. By contrast, insurance companies' technical reserves increased, from 42.2 to 48.2 trillion, though at a slower pace than in previous years.

The fact that the sharp downturn in fund-raising by investment funds and portfolio management services was coupled with a large increase in households' holdings of government securities suggests a heightened propensity for households to handle investments in domestic bonds themselves and to use intermediaries mainly to manage those in shares and foreign securities.

Investment funds

Italian funds. — An increase in redemptions (from 17.6 to 19.2 trillion lire) was accompanied by a reduction of around two thirds in the volume of subscriptions (down from 17.5 to 6.3 trillion). Net fund-raising, which had been close to nil in 1987, was therefore negative by about 13 trillion lire. The large capital gains recorded during the year (6.2 trillion lire as against losses of 4.4 trillion in 1987) limited the fall in the funds' net assets to 7.9 trillion lire, despite the substantial volume of redemptions and the distribution of dividends amounting to 1.1 trillion lire.

At the end of the year the net assets of the Italian funds amounted to 51.6 trillion lire, split almost equally between bond-based, share-based and mixed funds. The share of total net assets managed by bond-based and mixed funds, which were the hardest hit by redemptions, declined further. There was also a parallel fall in the number of subscribers, from 3 to 2.5 million at the end of the year, when the average investment amounted to about 20 million lire.

The decline in unit sales did not curb the growth in the number of funds; rather it stimulated the supply of innovatory products (such as the units of funds specializing in foreign securities or linked to bank current accounts). At the end of 1988 there were 115 funds in operation (48 bond-based funds, 47 mixed funds and 20 share-based funds), an increase of 43.

The scale of redemptions forced funds to make large disposals of bonds and government securities (9.6 trillion lire) as well as significant sales of shares (2.1 trillion), although they continued to diversify their portfolios with the aim of increasing the proportion of foreign securities.

Government securities accordingly fell from 55.9 to 45.1 per cent of the funds' portfolios, to the advantage of shares (up from 24 to 28.2 per cent of the total) and especially foreign securities (up from 9.7 to 16 per cent). The reduction in the proportion of government securities was due entirely to very large disposals of Treasury credit certificates (7 trillion lire) and the capital losses incurred on them (Table 27).

Table 27

ITALIAN INVESTMENT FUNDS:
PORTFOLIO AND NET ASSETS

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

	1987 December	1988				1989 March (1)
		March	June	September	December	
Government securities	31,569	27,930	24,757	23,356	22,292	19,702
Treasury bills	*1,989*	*1,504*	*1,915*	*2,438*	*1,528*	*1,876*
Treasury credit certificates	*24,150*	*21,263*	*17,815*	*15,967*	*15,533*	*13,631*
Treasury certificates in ECUs	*643*	*684*	*680*	*673*	*488*	*438*
Treasury bonds	*3,558*	*3,248*	*3,189*	*3,211*	*3,962*	*2,892*
Bonds	5,254	5,046	5,044	4,849	4,672	4,361
Shares	13,561	13,440	12,756	13,180	13,958	13,494
Total lira-denominated securities	50,384	46,416	42,557	41,385	40,922	37,557
Securities denominated in foreign currency (2)	5,497	6,099	7,286	7,898	7,922	7,780
Bonds	*2,889*	*3,225*	*4,108*	*4,615*	*4,437*	*3,732*
Shares	*2,608*	*2,874*	*3,178*	*3,283*	*3,485*	*4,048*
Other financial assets	624	740	611	566	638	516
Total portfolio	**56,505**	**53,255**	**50,454**	**49,849**	**49,482**	**45,853**
Total net assets	**59,454**	**56,028**	**52,872**	**52,255**	**51,562**	**48,961**

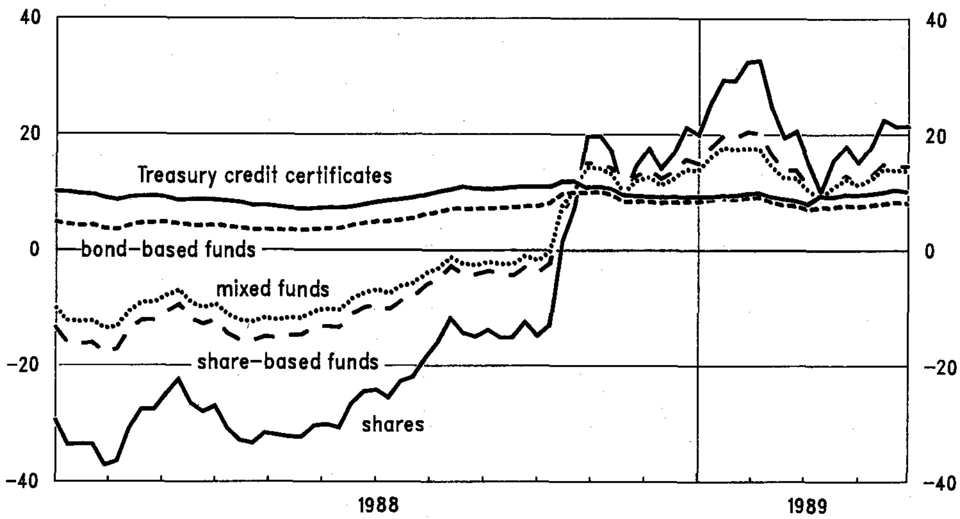
(1) Provisional. — (2) Includes government securities in foreign currency and lira Eurobonds.

The rise in share prices allowed share-based and mixed funds to improve substantially on the poor results they had recorded in 1987. Despite the capital gains realized on foreign bonds and very active management, the average yield on bond-based funds was below that on Treasury credit certificates, owing to the impact of management fees. The increase in the value of units amounted to 15.78 per cent for share-based funds and to 14.04 and 8.44 per cent respectively for mixed and bond-based funds (compared with — 14.83, — 11.05 and + 4.91 per cent in 1987). The ex post yields on Treasury credit certificates and Treasury bonds in 1988 were respectively 9.26 and 10.12 per cent, while that on shares amounted to 21.3 per cent (Figure 12).

Figure 12

SECURITIES MARKET INVESTMENTS: EX POST ANNUAL YIELDS

(percentages)



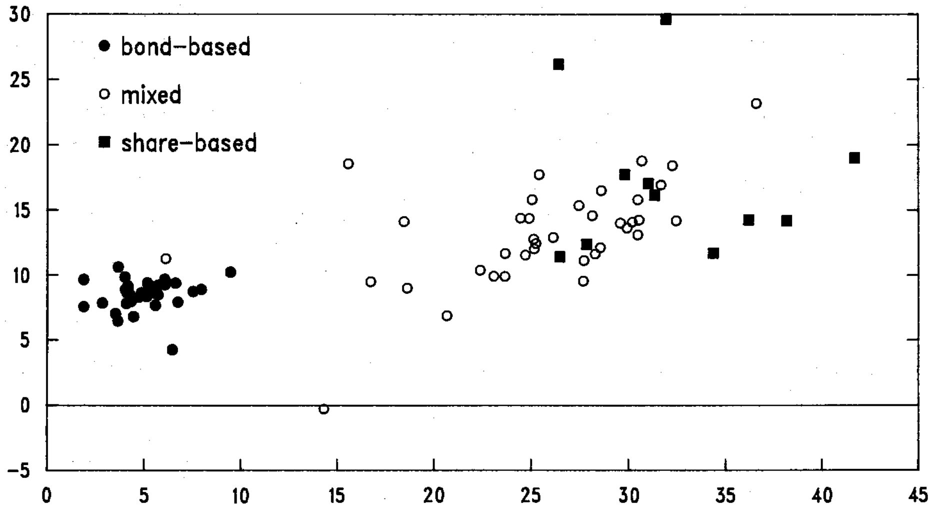
There was considerable dispersion between the yields of individual funds: in the twelve months to the end of April of this year the range was equal to 6 percentage points for bond-based funds, 23 points for mixed funds and 15 for share-based funds. The variabilities of the yields of individual funds were also widely dispersed, with considerable overlapping between mixed and share-based funds (Figure 13).

In the first quarter of this year net fund-raising remained negative (— 2.4 trillion lire), but less so than in the corresponding period in 1987 (— 4.1 trillion). This result reflected not only a decrease in redemptions but also an increase in subscriptions. Of the latter, 10.4 per cent were for units of the 16 funds that have started operations in 1989. Taken together, net redemptions and dividends (1 trillion) produced a further decline in funds' net assets to 49 trillion lire at the end of March.

Figure 13

YIELD AND VARIABILITY OF ITALIAN INVESTMENT FUNDS (1)

(percentages on a yearly basis; 31 May 1988 - 28 April 1989)



(1) Those operating at the end of May 1988. Ex post yield and standard deviation of monthly yields (on the y axis).

Foreign funds. — The fall in the proportion of savings held in investment funds only marginally affected the foreign funds operating in Italy. Despite net redemptions of 1.1 trillion lire (0.1 trillion in 1987), their net assets remained virtually unchanged (8.6 trillion lire as against 8.7 trillion at the end of 1987) as a result of capital gains totaling 1 trillion lire.

Tav. 28

FOREIGN INVESTMENT FUNDS: PORTFOLIO AND NET ASSETS

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

	1987 December	1988			
		March	June	September	December
Italian securities	7,022	6,460	5,657	5,343	5,433
shares	*3,922*	*3,810*	*3,476*	*3,438*	*3,368*
Foreign securities	1,112	1,685	2,296	2,452	2,756
shares	*790*	*1,175*	*1,419*	*1,313*	*1,527*
Total portfolio	**8,134**	**8,145**	**7,953**	**7,795**	**8,189**
Other net assets	560	577	657	724	397
Total net assets	**8,694**	**8,722**	**8,610**	**8,519**	**8,586**

The composition of the foreign funds' portfolios changed in a similar way to that of the Italian funds. A substantial decrease in the proportion of Italian securities (from 86.3 to 66.3 per cent) was accompanied by a doubling of their holdings of foreign shares and a quadrupling of their investment in foreign bonds (Table 28).

Portfolio management services

Portfolio management services suffered a decline in both customers and net assets last year, bringing to an end the period of very rapid expansion from 1985 to 1987, when their net assets under management had increased fivefold. Since the downturn was less pronounced than that recorded by Italian investment funds, by the end of the year portfolio management services had overtaken the funds in terms of net assets for the first time.

The portfolio management services provided by credit institutions, either directly or through subsidiaries, recorded an outflow of funds of 3.7 trillion lire and limited capital gains of around 2.2 trillion, so that their net assets under management fell by 2.9 per cent (from 53.8 to 52.3 trillion; Table 29). The number of customers decreased from 290,000 to 259,000, an even larger fall in percentage terms. Consequently, the average customer portfolio rose from 185 million lire to around 200 million.

Table 29

PORTFOLIO MANAGEMENT SERVICES (1)

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

	1987 December	1988				1989 March (2)
		March	June	September	December	
Lira securities	**52,336**	**51,376**	**50,334**	**50,223**	**50,116**	**49,243**
Government securities	41,639	40,364	38,906	38,610	38,476	37,454
Bonds	6,996	7,762	8,446	8,552	8,304	8,253
Shares	3,701	3,250	2,982	3,061	3,336	3,536
Foreign currency securities	**590**	**654**	**1,022**	**1,171**	**1,302**	**1,298**
Bonds (3)	506	560	921	1,060	1,117	1,102
Shares	84	94	101	111	185	196
Other assets	904	789	828	886	849	952
Total managed assets	**53,830**	**52,819**	**52,184**	**52,280**	**52,267**	**51,493**
Memorandum item:						
Net fund-raising (4)	–2,195	–1,024	–858	–555	–1,313	–1,501

(1) Offered by banks and by their affiliates. — (2) Provisional. — (3) Includes government securities denominated in foreign currency. — (4) The figures refer to the quarter ending in the month indicated.

The share of government securities in the portfolios managed by banks declined significantly (from 77.4 to 73.6 per cent), their place being mostly taken by bonds of other issuers, which rose from 13 to 15.9 per cent. On the other hand, the proportion of shares remained virtually unchanged (6.4 per cent, as against 6.9 per cent).

Compared with investment funds, the portfolios managed by banks continued to be biased in favour of lira-denominated bonds. However, investments in foreign securities more than doubled in the course of the year, to stand at 1,300 billion lire as against 600 billion at the end of 1987.

In the first quarter of this year the net assets under bank management declined by a further 800 billion lire as a result of a 1.5 trillion lira outflow of funds (— 1 trillion in the corresponding period of 1988).

Insurance companies

Premium income from direct insurance in Italy amounted to 19.8 billion lire in the casualty sector and 6.3 trillion in the life sector. The overall growth rate of 13.2 per cent was somewhat lower than in previous years. Strong demand caused a further increase in the relative importance of the life sector, with its share of premium income rising from 21.4 to 24.1 per cent.

Table 30

INSURANCE COMPANIES: ASSETS AND LIABILITIES

(end-of-period balance sheet values 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			
1987	655	15,421	1,404	4,412	30,966	19,729	3,697
1988 (4)	490	22,102	1,300	4,673	39,962	23,358	5,418
				casualty sector			
1987	2,064	19,914	398	5,493	43,630	22,493	7,059
1988 (4)	2,436	22,709	1,465	6,270	57,335	24,875	10,716
				total			
1987	2,719	35,335	1,802	9,905	74,596	42,222	10,756
1988 (4)	2,926	44,811	2,765	10,943	97,297	48,233	16,134

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.

Insurance companies' technical reserves also grew more slowly last year, by 3.6 trillion lire in the life sector and by 2.4 trillion in the casualty sector. By contrast, their net worth increased very substantially, from 10.8 to 16.1 trillion lire, as a result of large issues of shares and of new companies entering the sector (Table 30).

The companies' balance sheet assets increased by 30.4 per cent, with the proportion consisting of real estate continuing to fall as companies took advantage of the opportunities offered by the market. The importance of the securities portfolio also declined, while that of mortgages increased, in line with the pattern of lending in the credit sector.

THE SECURITIES MARKET

Conditions on the securities market fluctuated throughout 1988 and the early part of this year in response to rapid changes in expectations and corrective action by the authorities. The prices of government securities, especially Treasury credit certificates, recorded substantial falls and recoveries on the secondary market, while on the primary market moments of acute difficulty in selling government paper were followed by periods of strong demand. Share prices showed a clear but discontinuous rise, but this failed to prevent a decrease in new issues.

The losses investors incurred on Treasury credit certificates sharply curtailed the demand for this type of security, with the result that new issues in 1988 were less than redemptions. The performance of Treasury bonds was generally satisfactory, though irregular, with issues concentrated in September, October and November. Accordingly, a larger proportion of the borrowing requirement was financed with Treasury bills.

On the demand side, the net sales of government securities by investment funds were supplemented by disinvestment by banks. Consequently, households and firms acquired government securities in excess of the total net issues and further increased their share of the total stock.

The launch in May of the screen-based market for government securities improved the liquidity and transparency of the secondary market by making it easier to match supply and demand and revealing the prices and volumes of a not insignificant proportion of trades.

The uncertainty in international financial markets in the wake of the October 1987 stock market crash continued to influence the Italian stock market last year. The strength of the growth in economic activity helped share prices to recover, albeit with occasional setbacks that reduced market turnover.

The integration with foreign markets continued. Several important private and public sector financial groups undertook financial operations designed to expand their activity on international markets, though with mixed results. Since the beginning of this year a number of leading Italian stocks have been traded in London and one was also listed on the New York Stock Exchange in February. Further operations of this kind are in the pipeline. The growing competition from foreign stock markets gives renewed urgency to the problem of the adequacy of the Italian stock exchange. At the end of April 1989 the Senate approved a bill that contained new provisions on the organization of the securities market.

Parliament has also proceeded with its examination of proposals for the regulation of public issues of securities and insider trading and for the introduction of new types of intermediary, such as closed-end and property investment funds.

Bonds and government securities

Supply. — Gross issues of bonds and government securities amounted to 590.6,trillion lire and rose in relation to GDP from 46.7 to 54.7 per cent. The increase of around 133 trillion lire was almost entirely attributable to the government, with the special credit institutions also making a contribution; issues by firms and public enterprises, on the other hand, decreased further (Tables 31 and a 17).

Table 31

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS

(billions of lire)

	Stocks December 1988	Gross issues		Net issues	
		1987	1988	1987	1988
Public sector	804,637	406,116	531,585	83,987	102,544
Treasury bills	*244,835*	*316,111*	*409,411*	*25,171*	*36,275*
Treasury credit certificates	*346,265*	*55,480*	*27,350*	*35,268*	*– 7,849*
Treasury bonds	*146,180*	*19,020*	*75,383*	*13,538*	*59,781*
Special credit institutions	165,903	44,028	53,789	13,522	20,906
certificates of deposit	*43,818*	*18,929*	*32,000*	*2,510*	*12,940*
Firms and public corporations	36,739	7,383	5,195	4,037	809
Total . . .	**1,007,279**	**457,527**	**590,569**	**101,546**	**124,259**
as a percentage of GDP	*93.4*	*46.7*	*54.7*	*10.4*	*11.5*

After remaining virtually unchanged in 1987, gross issues of government securities rose by about one third to 531.6 trillion lire or 90 per cent of the total supply, compared with 88.8 per cent in 1987. The special credit institutions substantially modified the composition of their liabilities by reducing their gross bond issues by around 3.3

trillion lire and increasing those of certificates of deposit by 13.1 trillion. Firms reduced their bond issues from 7.4 to 5.2 trillion lire and stepped up their bank borrowing.

Net issues of government securities rose by 18.6 trillion to 102.5 trillion lire. The drop in the demand for Treasury credit certificates, coupled with the authorities' desire to bring their debt management policy into line with those of the other leading industrial countries and trigger a virtuous circle with positive effects on borrowing costs, led the Treasury to issue primarily fixed rate securities.

Net issues of Treasury bonds, which carried maturities of 2 and 4 years in the first part of the year and of 3 and 5 years in October and November, more than quadrupled to 59.8 trillion lire, notwithstanding the variability of demand. There were also large increases in net issues of Treasury bills and securities denominated in ECUs, which rose respectively from 25.2 to 36.3 trillion lire and from 2.9 to 15.6 trillion. By contrast, there were net redemptions of Treasury credit certificates amounting to 7.8 trillion lire.

In view of the inflated demand created in October and November by expectations that applications would be scaled down, the Treasury introduced uniform price auctions for bonds. Partly with the aim of reviving interest in floating rate paper, the floor price was abolished for auctions of 6-month and 12-month Treasury bills in March of this year, bringing the mechanism into line with that used for 3-month bills since July 1988.

In December, Treasury option certificates were issued for the first time, with the aim of lengthening the average maturity of the public debt. The certificates bear a maturity of 8 years and the right to redemption at par at the end of the fourth. The issue amounted to 1.5 trillion lire, but only 594 trillion was taken up, of which 150 trillion by the Bank of Italy.

Government securities in circulation at the end of the year totaled 804.6 trillion lire, with a large reduction in the proportion of Treasury credit certificates (from 50.5 to 43 per cent), coupled with increases in the shares of Treasury bills (from 29.7 to 30.4 per cent), Treasury bonds (from 12.2 to 18.2 per cent) and ECU bills and certificates (from 1.7 to 3.4 per cent).

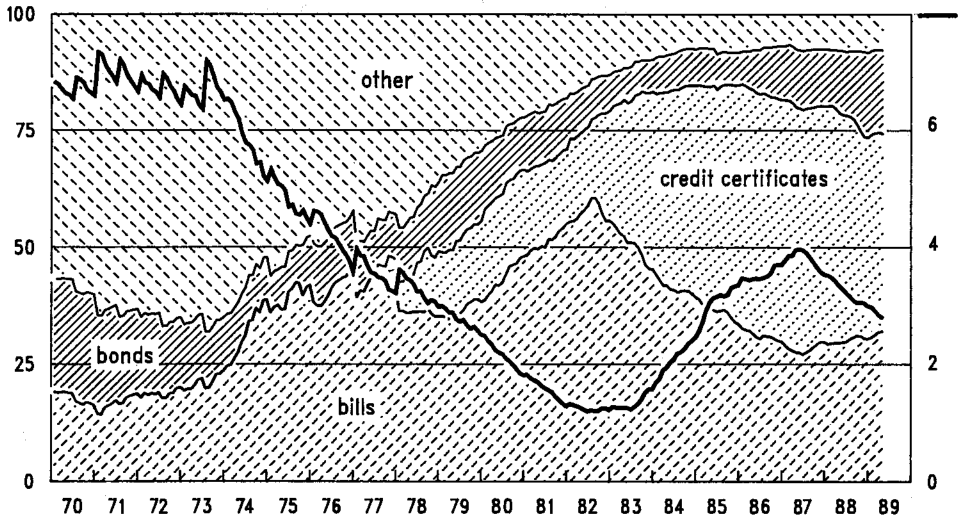
In the first four months of this year net issues of government securities totaled 37.5 trillion lire, compared with 32.7 trillion in the corresponding period of 1988. Most of these issues consisted of Treasury bills (67.1 per cent) and credit certificates (29.7 per cent), with sales of the latter benefiting from the abolition of the floor price in the auctions for 6-month and 12-month Treasury bills.

As a result of the increase in the proportion of shorter-term issues, the average maturity of the public debt decreased further, to 3 years at the end of December and to 2 years and 10 months at the end of April of this year (Figure 14).

Figure 14

GOVERNMENT SECURITIES:
COMPOSITION AND AVERAGE MATURITY (1)

(January 1970 - April 1989)



(1) Percentage composition of the stock and average maturity in years.

The Treasury's foreign borrowing was less than in 1987, partly because large inflows of foreign capital were generated by the persistent interest rate differential in favour of investment in Italy and expectations first of exchange rate stability and then of an appreciation of the lira. The Treasury's net fund-raising abroad through the issue of securities amounted to around 1.4 trillion lire, translated at the exchange rates obtaining on the date of issue, compared with 4.3 trillion in 1987. Two more foreign issues for the equivalent of 2.3 trillion lire were made in the first four months of this year.

The volume of lira-denominated Euromarket issues grew substantially, with residents participating for the first time. A total of 16 issues were made in 1988, amounting to the equivalent of 2 trillion lire, as against 0.9 trillion in 1987. In the first four months of this year another six issues were made for the equivalent of 0.8 trillion and an EEC lira issue for 100 billion lire was sold directly on the domestic American market.

Demand. — Investment funds continued to run down their holdings of bonds and government securities last year in the face of persistent net redemptions, with banks following a similar course to finance the increase in their loans. The combined sales by these two categories of investor rose from 2 to 22.5 trillion lire (Table 32). Accordingly, households and firms were again the most important subscribers of bonds, with purchases totaling 118.4 trillion.

Table 32

BONDS AND GOVERNMENT SECURITIES: NET ISSUES ACCORDING TO SUBSCRIBER

(billion of lire)

	Public sector					Special credit institutions (1)	Firms and public corporations	Total
	Treasury bills	Treasury credit certificates	Treasury bonds	Other	Total			
1988								
BI-UIC (2)	−4,410	5,221	912	−1,740	−17	22	−29	−24
Banks (2)	−4,191	−5,487	5,406	−1,917	−6,189	−4,827	−1,923	−12,939
Deposits and Loans Fund	—	—	—	−60	−60	314	−2	252
Special credit institutions	104	−105	2,001	−227	1,773	−644	517	1,646
Social security institutions	−685	1,240	757	20	1,332	293	128	1,753
Insurance companies	12	1,775	785	1,264	3,836	1,463	1,267	6,566
Investment funds	−593	−8,177	385	−614	−8,999	−248	−271	−9,554
External	864	−986	−37	5,416	5,257	−25		5,232
Other	45,174	−1,330	49,572	12,195	105,611	12,776		118,387
Total	**36,275**	**−7,849**	**59,781**	**14,337**	**102,544**	**7,966**	**809**	**111,319**

(1) Excluding certificates of deposit. — (2) Net of repurchase agreements and operations under the Ministerial Decree of 27.9.1974.

Banks' disposals amounted to 12.9 trillion lire and involved all the different kinds of security, with the important exception of Treasury bonds. By contrast, the reduction in investment funds' holdings was coupled with a far-reaching adjustment of their composition, which considerably reduced the share of floating rate securities. There also continued to be trading to exploit the scope for arbitrage between securities liable to different tax treatment.

Most of the Bank of Italy's outright purchases consisted of Treasury credit certificates (5.2 trillion lire) and Treasury bonds (0.9 trillion) and were offset by net disposals of Treasury bills (4.4 trillion).

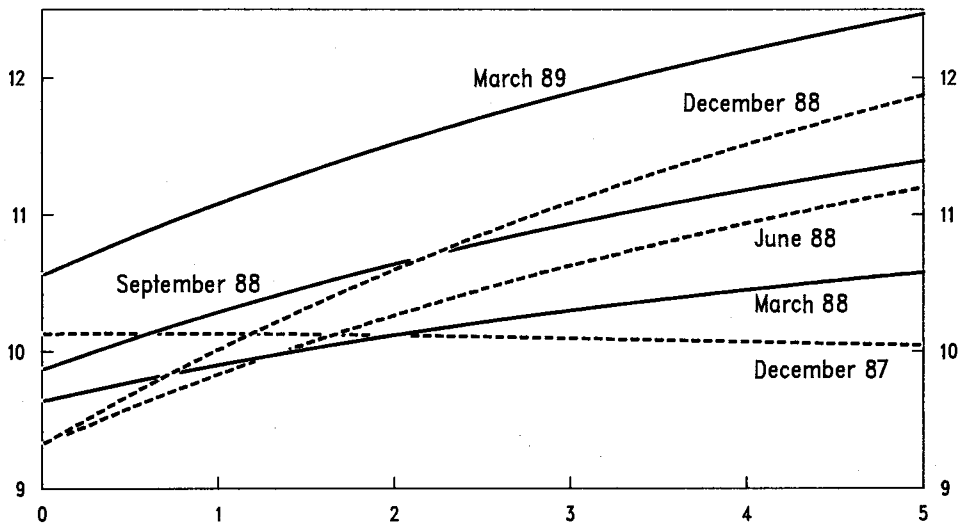
Interest rates. — The upward slope of the yield curve that emerged at the beginning of the year became increasingly pronounced, reflecting the tendency for interest rates to rise in the leading industrial countries and operators' greater uncertainty about interest rate developments, fueled by a higher-than-expected borrowing requirement.

The one-point increase in the discount rate in March of this year was reflected in short-term rates immediately, but affected long-term rates more slowly. Consequently, the slope of the yield curve became temporarily less pronounced, but has since gradually steepened again (Figure 15).

Figure 15

YIELD CURVES (1)

(statistical basis: Treasury bonds listed on the secondary market)



(1) The curves represent the relationship between the percentage yield on zero-coupon bonds and their maturity (in years on the x axis).

After remaining stable between May and August, the prices of Treasury bonds on the screen-based market showed signs of firming between September and November, but then fell sharply between January and March (Figure 16 and Table a21).

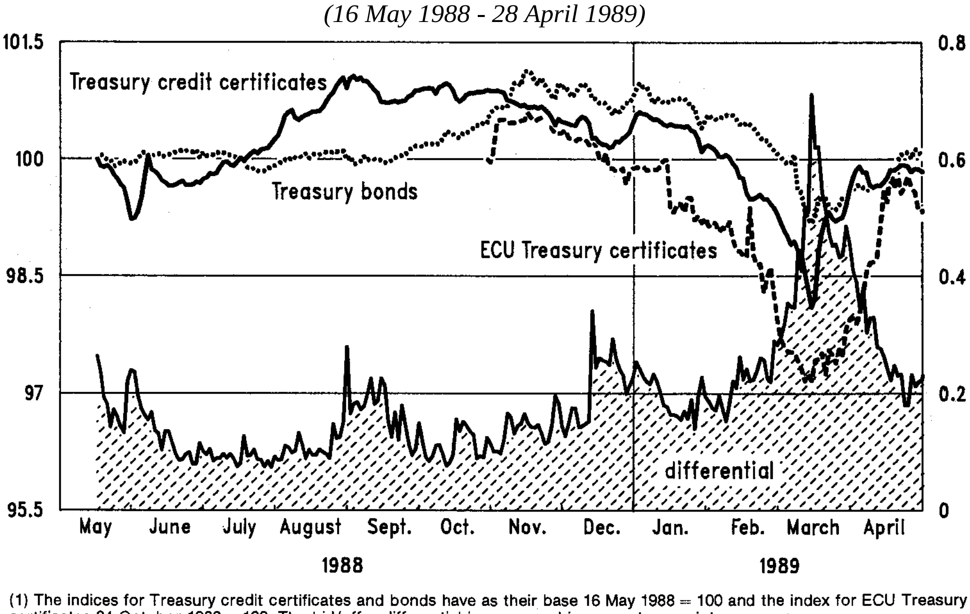
The yields at issue on fixed rate government securities moved in line with those on the secondary market; the yields offered on 4-year Treasury bonds rose by about 1.5 points between February and September, from 10.15 to 11.61 per cent after tax. The improvement in expectations in November permitted a 5-year issue to be made for the first time in 15 months. With the introduction of the uniform price auction for Treasury bonds, the net yield on the second Treasury bond issue in November amounted to 11.18 per cent, around 30 basis points less than that on the previous issue. The subsequent deterioration in expectations led the Treasury to shorten the maturity again in January and then to raise issue yields after the increase in the discount rate in March of this year. The net yield on 3-year Treasury bonds at the March auction was 12.11 per cent, compared with 10.60 in December.

Floating rate securities continued to be depressed by the disinvestment of banks and investment funds. The prices of Treasury credit certificates on the secondary market fell sharply until March of this year, when Bank of Italy intervention and the abolition of the floor price for 6-month and 12-month Treasury bill auctions encouraged a strong recovery: the index of their ex-coupon prices (16 May 1988 = 100) rose from a low of 98.10 on 10 March to 99.91 at the end of the month (Figure 16).

Figure 16

THE SCREEN-BASED MARKET FOR GOVERNMENT SECURITIES: INDICES OF EX-COUPON PRICES AND BID/OFFER DIFFERENTIAL (1)

(16 May 1988 - 28 April 1989)



(1) The indices for Treasury credit certificates and bonds have as their base 16 May 1988 = 100 and the index for ECU Treasury certificates 24 October 1988 = 100. The bid/offer differential is expressed in percentage points.

The net yields at issue on 5-year Treasury credit certificates increased by 80 basis points during 1988, from 10.58 to 11.38 per cent, and then rose by more than one percentage point to 12.62 per cent in the second March issue.

The yield curve for securities denominated in ECUs was upward sloping for the whole of 1988; yields fell by about one point in the first six months but then rose again gradually in the second half of the year.

In March of this year the increase in interest rates in the leading European countries caused the yield curve to shift upwards and steepen considerably.

In line with the indications coming from the secondary market, the net yields at issue on ECU Treasury bills diminished by about 80 basis points between January and April last year and then rose gradually by more than two percentage points over the following twelve months to 8.65 per cent at the end of April 1989. The issues of 5-year ECU Treasury certificates were made at net yields of 7.66 per cent in July, September and December and at a rate one point higher in April of this year.

There was very heavy secondary market trading in government securities throughout the year. Turnover on the Milan Stock Exchange increased by 37 per cent to 18.7 trillion lire. The screen-based market rapidly built up a substantial volume of business: in the first twelve months of its existence (from 16 May 1988 to 15 May 1989), turnover in the 20-30 securities traded on the market amounted to 65.5 trillion lire, which was four times the turnover on the stock exchange in all listed government securities (16.1 trillion).

Shares

Supply and demand. — The uncertainty that continued to reign on financial markets in 1988 slowed the development of the stock market and prevented a recovery of new issues despite the significant rise in share prices. Market activity nonetheless remained above the levels of the early eighties.

Table 33

GROSS SHARE ISSUES

	Billions of lire				% composition			
	1985	1986	1987	1988	1985	1986	1987	1988
Listed companies	**4,693**	**14,837**	**6,546**	**3,578**	*31.3*	*62.3*	*48.9*	*33.0*
state-controlled	2,161	3,652	2,395	539	*14.4*	*15.3*	*17.9*	*5.0*
private sector	2,532	11,185	4,151	3,039	*16.9*	*47.0*	*31.0*	*28.0*
Unlisted companies	**10,284**	**8,955**	**6,837**	**7,261**	*68.7*	*37.7*	*51.1*	*67.0*
state-controlled	7,348	5,365	2,128	2,472	*49.1*	*22.6*	*15.9*	*22.8*
private sector	2,936	3,590	4,709	4,789	*19.6*	*15.1*	*35.2*	*44.2*
Total	**14,977**	**23,792**	**13,383**	**10,839**	*100,0*	*100,0*	*100,0*	*100,0*
state-controlled	9,509	9,017	4,523	3,011	*63.5*	*37.9*	*33.8*	*27.8*
private sector	5,468	14,775	8,860	7,828	*36.5*	*62.1*	*66.2*	*72.2*

Gross issues by listed and unlisted companies amounted to around 10.8 trillion lire, a 19 per cent decrease on the 1987 figure of 13.4 trillion but only slightly less than the average of 11 trillion for 1981-85. Issues by listed companies fell by nearly a half, from 6.5 to around 3.6 trillion lire. Issues by unlisted companies were higher than in 1987, rising from 7.3 to 6.8 trillion lire (Table 33).

Investment funds' sales of shares exceeded their purchases by 2.1 trillion lire as a result of the net redemptions of their units; their holdings of shares declined from 9.6 to 7.9 per cent of the market capitalization of the Milan Stock Exchange.

Net purchases of listed shares by foreigners for portfolio investment purposes amounted to 2.3 trillion lire, the result of purchases totaling 9.4 trillion and sales totaling 7.1 trillion.

Share prices. — The increase in the profits of listed companies and the scarcity of new issues, which was only partly eased by investment funds' net sales, encouraged the rise in share prices; in the last few months of the year the upward trend was also fueled by the revival in the demand from abroad. The Milan Stock Exchange index rose by 21.3 per cent over the year. After falling significantly in January and reaching the low for the year in the first few days of February, the index rose steadily, apart from periods of weakness in April and May and again at the end of August. Even though prices did not recover sufficiently to offset all the 32.3 per cent fall recorded in 1987, by the end of the year the index had returned to a level close to that obtaining before the October 1987 crash.

Share turnover on the Milan Stock Exchange amounted to 41.3 trillion lire, with little change on the previous year (42 trillion) and nearly four times larger than the average for the period 1981-85 (11.1 trillion).

The value of the underlying securities involved in options ("premi") contracts also showed little change compared with 1987, rising from 11 to 11.4 trillion lire. By contrast, that of securities involved in contango ("riporti") contracts fell considerably, from 14.4 to 11.6 trillion.

The progress made in concentrating share certificates with Monte Titoli S.p.A. brought further improvements in the settlement of transactions and a reduction in the issue of scrip certificates. The face value of the shares deposited with Monte Titoli totaled 15.2 trillion lire at the end of December, compared with 11.5 trillion a year earlier, and represented about 37 per cent of the face value of all listed shares, as against 30 per cent at the end of 1987.

Share prices continued to fluctuate in the early months of this year. After rising in the first few days of January and falling in February, the Milan Stock Exchange index rose in March and April, to record a gain of 3.4 per cent since the beginning of the year. Share issues by listed companies amounted to 1.5 trillion lire between January and April, compared with 0.8 trillion in the same period of 1988; turnover also increased, from 14.3 trillion to 15.2 trillion lire.

HOUSEHOLDS' SAVING AND THE FINANCING OF ENTERPRISES

Financial balances

In 1988 the financial surplus of households equaled 14.5 per cent of GDP; this expansion of over one percentage point in relation to the previous year represents a reversal of trend, after the surplus had remained broadly unchanged for the first half of the eighties and declined in 1987. The sharp increase in firms' indebtedness last year, in connection with the continuing growth in investment, caused the deficit of enterprises to rise to 4.4 per cent of GDP, compared with 3.4 per cent in 1987. The public sector deficit was unchanged at 11.4 per cent, while the balance of payments on current account deteriorated from 0.2 to 0.6 per cent of GDP (Table 34).

Table 34

FINANCIAL BALANCES

	Households (1)	Enterprises (1)	Public sector (2)	External sector	House-holds (1)	Enterprises (1)	Public sector (2)	External sector
	(in billions of lire)				(as a percentage of GDP)			
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	128,955	−24,787	−109,221	−3,802	14.3	−2.7	−12.1	−0.4
1987	130,306	−32,941	−112,482	−1,940	13.3	−3.4	−11.4	0.2
1988	156,483	−47,633	−122,912	6,779	14.5	−4.4	−11.4	0.6

(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 wealth due to inflation confirms the rise of approximately one point in the deficit of enterprises but gives a smaller increase in the surplus of households and shows a slight contraction in the public sector deficit by comparison with 1987.

Households' net interest income amounted to 6.9 per cent of GDP, compared with 6.0 per cent in 1987. Net interest payments by enterprises fell from 3.5 to 3.1 per cent, while those of the public sector rose from 7.8 to 8.0 per cent.

Households' saving and indebtedness

Households' acquisitions of financial assets amounted to 173 trillion lire last year, an increase of more than 30 trillion over 1987. The increase in the year-end stock, net of shares, was 15.7 per cent, compared with 14.5 per cent the previous year. The sector's liabilities rose by 16.7 trillion lire, or 21 per cent, against 15.9 per cent in 1987 (Table 35).

Table 35

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS (1)

(billions of lire)

	Year-end stocks		Flows				
	1987	1988	1984	1985	1986	1987	1988
Notes and coin	40,812	44,170	2,905	3,060	2,479	3,451	3,358
Bank deposits	360,377	390,842	30,744	31,144	27,572	25,557	30,465
Post Office deposits	73,405	86,673	5,972	7,788	10,549	12,144	13,268
Treasury bills	148,079	189,622	20,036	15,377	4,704	28,531	41,542
Special credit institutions' deposits & savings certificates	26,432	39,702	4,273	1,544	2,584	2,676	13,270
Treasury credit certificates	160,597	169,993	28,507	31,156	18,867	32,389	8,228
Other government securities	50,910	96,864	5,355	1,440	16,498	13,800	45,329
Other medium & long-term securites (2)	33,285	44,993	3,623	2,655	2,366	5,750	10,690
Units in Italian investment funds	59,454	51,565	745	15,255	37,543	−61	−12,960
Shares & participations	119,404	138,665	141	1,337	3,867	944	108
Foreign assets (3)	12,528	15,502	545	641	−244	661	1,719
Other financial assets (4)	135,073	153,192	10,250	12,443	14,005	15,122	18,119
Total assets	**1,220.355**	**1,421.782**	**113,096**	**123,840**	**140,789**	**140,962**	**173,136**
Debt to banks (5)	43,044	52,089	4,065	6,048	8,290	5,257	9,103
Debt to special credit institutions	26,011	31,092	1,614	1,817	2,940	5,041	5,081
Other financial liabilities (6)	10,127	12,654	243	937	604	359	2,469
Total liabilities	**79,182**	**95,834**	**5,922**	**8,803**	**11,834**	**10,657**	**16,653**

(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. Stocks include banks' bad loans and protested bills.

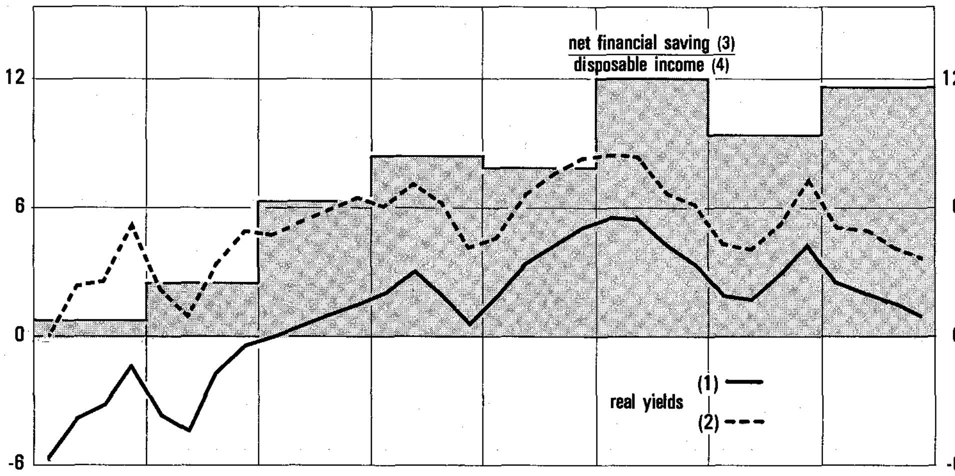
The rate of growth in the household sector's surplus adjusted for inflation was greater than that in private sector disposable income, so that the ratio between these two aggregates rose from 9.3 to 10.4 per cent. The total financial wealth of households, net of shares, increased from 128 to 137 per cent of disposable income.

The rise in the surplus of households is attributable mainly to continuing high real interest rates. The real yield on households' non-monetary financial assets (calculated on the basis of the actual inflation rate in the following six months) averaged 4.4 per cent over the year, compared with 5.2 per cent in 1987. If monetary instruments are included, real yields in 1988 stood at 1.9 per cent, by comparison with 2.7 per cent in 1987; the decrease was due to the fact that the yields on bank and Post Office deposits fell in relative terms owing to the sharper distinction made between transaction balances and financial investments (Figure 17).

Figure 17

HOUSEHOLDS' FINANCIAL SAVING

(percentages)



(1) Nominal ex ante rate of return, net of tax, on households' financial assets, deflated using the annualized inflation rate during the following half-year. — (2) Nominal ex ante rate of return, net of tax, on households' financial assets, net of instruments included in the M2A money supply, 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.

Securities accounted for a much larger share of the flow of households' financial assets, rising from 57.1 per cent in 1987 to 61.1 per cent last year. Households bought securities on both the primary and secondary markets, absorbing not only the increased net volume of Treasury issues but also the large amount of securities sold by banks and investment funds.

The increase in holdings of securities was offset by a fall of 13 trillion lire in investment fund units. Among other financial assets, there was a substantial increase in certificates of deposit issued by special credit institutions, from 1.9 to 7.7 per cent of the total flow. The share of CDs issued by banks also grew, from 5.9 to 10.5 per cent.

Households took advantage of the opportunities for diversification offered by the liberalization of exchange controls by directly acquiring external assets amounting to around 1.7 trillion lire. If purchases of external assets by investment funds are also included, acquisitions of foreign assets attributable to the financial decisions of households equaled 3.4 trillion lire.

Financial innovation and the consequent reduction in credit rationing have led to an increase in households' indebtedness in recent years, a trend that was confirmed in 1988. The increase affected liabilities of all kinds, but especially short-term bank loans ; this item, which includes some financing to small family businesses, rose by 23.9 per cent over the year.

The financing of enterprises and their liquidity situation

Fixed investment by enterprises continued to expand vigorously last year, whereas the slowdown in self-financing from the rapid rate of growth that had prevailed until 1986 was confirmed. In addition, firms raised considerably less through bond issues and there was a slight contraction in share issues. The net result of these developments was much higher borrowing from credit institutions than in recent years.

Nevertheless, the accumulation of financial assets by enterprises was also greater than in 1987. To a large extent this reflected substantial acquisitions of foreign assets, confirming the restructuring being undertaken by large enterprises, partly in view of the integration of European markets.

The flow of external financing to enterprises amounted to 73.5 trillion lire, against 54.5 trillion in 1987 (Table 36). Lending by banks and special credit institutions accounted for 75 per cent of total financing, against 59 per cent in 1987. A breakdown according to maturity shows that short-term loans rose from 38 to 57 per cent of the total.

The hesitant performance of the stock market and the low level of share prices caused share issues to fall from 6.5 to 5.3 trillion lire.

As in 1987, enterprises were net borrowers abroad, with inflows of funds amounting to 14 trillion lire and outflows to 12 trillion. The consolidated accounts of the private and public sectors nonetheless show that the private sector's net acquisitions of foreign assets, totaling 1.5 trillion lire, were more than offset by the increase of around 7.5 trillion lire in the public sector's external indebtedness.

Table 36

FINANCIAL ASSETS AND LIABILITIES OF ENTERPRISES

(billions of lire)

	Year-end stocks		Flows				
	1987	1988	1984	1985	1986	1987	1988
Liquid assets (M3)	183,442	196,722	17,128	11,101	13,655	12,932	13,280
of which: bank deposits	150,543	162,087	14,542	9,074	13,170	6,513	11,544
Treasury bills	12,353	15,819	1,544	−10	−748	4,723	3,466
Treasury credit certificates	24,035	24,857	4,925	6,164	5,372	3,308	822
Other government securities (1)	6,760	12,768	586	628	3,107	1,548	6,008
Other medium and long-term securities	6,365	7,912	5	857	1,051	1,614	1,547
Italian shares (2)	481,077	573,076	1,709	−2,847	3,276	3,540	−3,209
Net short-term foreign trade credits	702	2,220	2,547	−1,532	189	−2,429	1,526
Medium and long-term foreign trade credits and loans	27,213	28,547	386	1,578	3,521	420	2,395
Foreign shares	32,627	52,845	2,780	2,292	3,095	2,289	5,044
Other financial assets (3)	7,856	11,376	620	601	578	1,926	3,723
Total assets	**770,077**	**910,323**	**30,687**	**18,842**	**33,844**	**25,148**	**31,136**
Debt: short-term (4)	231,302	273,816	28,525	27,617	22,843	20,699	42,189
of which: banks (5)	201,493	238,420	25,652	24,018	15,693	16,061	36,603
special credit institutions	20,123	21,947	2,873	1,923	5,224	2,137	1,823
medium and long-term (6)	183,763	207,726	8,772	14,240	14,309	21,102	23,611
of which: banks	22,917	24,579	1,606	2,271	1,630	1,759	1,662
special credit institutions (7)	94,059	107,596	7,413	7,039	7,667	12,057	14,809
foreign	49,459	53,741	−921	2,214	2,243	3,177	2,659
Bonds	33,785	34,156	1,906	1,687	5,322	3,689	357
Shares	584,676	698,142	4,948	4,310	10,897	6,533	5,350
Endowment funds (8)	46,719	47,209	6,548	5,132	1,704	246	490
Other participations	13,377	15,270	1,046	1,639	1,513	1,731	1,758
Other financial liabilities (9)	32,948	34,587	−449	−131	2	496	−304
Total liabilities (10)	**1,126,571**	**1,310,906**	**51,296**	**54,494**	**56,590**	**54,497**	**73,451**

(1) Including purchases of Treasury bills in ECUs. — (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 included 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 financial assets acquired by enterprises totaled 31.1 trillion lire, an increase of 4 per cent. Among domestic assets, bank deposits increased by 5 trillion lire owing to the strong growth in production. Purchases of Treasury bonds, which amounted to 6 trillion lire, were only partially offset by a contraction of 4 trillion lire in Treasury bills and floating rate securities. Net purchases of foreign shares totaled 5 trillion lire, against 2.3 trillion in 1987, while there were net disposals of Italian shares amounting to 3.2 trillion lire.

The ratio of enterprises' financial assets to value added rose slightly to almost 32 per cent. Their liquid assets continued to decline gradually in relation both to value added and to their total domestic assets excluding shares.

The ratio of net interest payments to value added, which had declined sharply until 1986, remained stationary, for the second year in succession. The ratio of domestic debt to value added rose from 48 to 51 per cent between 1986 and 1988. The downward trend in bank lending rates over recent years nonetheless permitted a marked reduction in the average cost of domestic borrowing, which fell from 15.1 to 12.9 per cent between the two years.

Industrial restructuring and the demand for corporate credit. — The long phase of restructuring by Italian enterprises between the end of the seventies and the mid-eighties has had important repercussions on the credit nriarket, which make it more difficult to interpret the cyclical behaviour of the credit aggregates and to control them in the short term.

In manufacturing industry the most conspicuous consequence is the contrast that has developed between the financial behaviour of small and medium-sized enterprises on the one hand and that of large firms on the other. Small and medium-sized enterprises continue to depend heavily on bank credit; their financial situation has remained stable, but they have come to bear an increasing part of the cost of financing working capital. Large enterprises, whose indebtedness had worsened seriously during the seventies, have tended to reduce their dependence on bank credit, thanks to a strong recovery in self-financing and to more efficient management of financial flows within corporate groups.

Balance sheet data, which are available up to 1987, confirm the divergences between companies of different size. The ratio of gross operating profits to value added rose by 6 percentage points between 1982 and 1987 for enterprises with a turnover of more than 200 billion lire and by half a point for small and medium-sized enterprises. At the same time, net interest payments declined sharply for large companies, falling from 43.6 to 5.2 per cent of gross operating profits, while for small and medium-sized enterprises they only fell from 39.5 to 21.8 per cent.

Up to 1986 there was an even sharper contrast in the behaviour of the ratio of self-financing to investment, which grew by about 30 per cent for large enterprises and declined by around 5 per cent for small and medium-sized firms. In 1987 the ratio fell suddenly for all sizes of enterprise on account of the recovery in investment in that year.

At a time when banks were seeking to increase the proportion of loans among their assets, the differences in the financial structure of enterprises and in their relations with banks were reflected in differing attitudes to the use of credit. Between 1982 and 1987 the proportion of credit lines actually taken up fell for all categories of enterprise, but there was a considerable difference in the size of the reduction; the rate for small and medium-sized firms fell by an average of 14 points, from 52 to 38 per cent, while that for large firms recorded a contraction that was almost twice as large, declining from 45 to 19 per cent.

The fall in the take-up rate was accompanied by an increase in the number of credit lines. Here too the phenomenon was more pronounced among large enterprises, which have consistently held an average of over 30 credit lines in recent years. Moreover, the ratio of amounts overdrawn to credit taken up, which is often taken as an indicator of demand pressures in the credit market, fell from 7 per cent in 1982 to 3 per cent in 1987 for large firms, remained broadly stable at 5-6 per cent for medium-sized enterprises and increased from 9 to 13 per cent for small businesses.

The very low take-up rates and the proliferation of credit lines, combined with high profitability and self-financing, suggest that there has been an excess of credit to large enterprises in recent years, while the market segment catering for small and medium-sized firms shows clear signs of demand pressure.

Another consequence of the restructuring of large enterprises has been the concentration of the financial management of large industrial groups in separate holding companies. Credit to financial enterprises rose from less than 5 per cent of total bank lending in 1982 to around 12 per cent in 1987. The expansion of this sector has been encouraged by the lending policies of the banks, which for many years offered lower interest rates to financial firms than to other customers, even when the lending risk could be assumed to be the same. Between 1982 and 1987 the spread between the rates offered to non-financial and financial firms shifted from — 0.5 to 1.2 per cent.

The main characteristic of credit to financial firms is its volatility, which is particularly marked around company accounting dates. The credit demand of financial enterprises is influenced not only by the financing of production and investment by group companies but also by tax and financial considerations, such as opportunities for arbitrage between different segments of the market, and by speculative factors, such as exchange rate expectations; together, these weaken the link with cyclical developments and make it more difficult to interpret trends in credit aggregates. However, the impact of real variables on the credit aggregates can be seen to have remained stable over time if the demand for credit by financial firms is excluded from total credit demand; although it has made business managers more aware of financial considerations, corporate restructuring has therefore brought about no radical change in the motives underlying the credit demand of industrial enterprises. Nonetheless, the monetary authorities may have more difficulty than in the past influencing the volume of credit granted to the productive sector in the short term, since the growing importance of financial activities in large enterprises means that a not inconsiderable proportion of the demand for credit is closely related to decisions regarding investment in financial assets, and thus responds to interest rate differentials rather than to the level of rates.

Although company accounts are not yet available, the behaviour of corporate credit in 1988 does not appear to differ from the picture outlined above. The sharp increase in the debt of non-financial firms seems to have occurred mostly among small and medium-sized businesses, where demand was stimulated not only by the continuing expansion in economic activity but also by a growth in investment. The increase was accentuated by a change in banks' lending policies; as well as lowering rates generally, banks narrowed the differential between rates charged to non-financial and financial enterprises by around half a point and reduced those for small businesses by more than for large firms.

THE FINANCIAL SYSTEM IN THE MEZZOGIORNO

Italy's economic dualism

The growth in output and employment of the past few years has not been uniform throughout the Italian economy and the gap between North and South has begun to widen again. Between 1984 and 1987 gross product in the Mezzogiorno grew by an average of 1.9 per cent per year, as against 3.4 per cent in the rest of Italy. Provisional figures for 1988 confirm that the growth differential still persists. The performance of the Southern labour market has been especially poor in the last three years, both in absolute terms and in comparison with the Centre and North. Employment has declined by 0.6 per cent per year, against growth of 1.1 per cent in the Centre-North, while the labour force has been expanding at an average annual rate of 1.9 per cent, compared with one of 0.9 per cent in the rest of the country. The unemployment rate thus rose to 20.6 per cent in the Mezzogiorno in 1988 while falling to 7.8 per cent in the Centre-North.

Since the inception of special development assistance for the South in the early fifties, gross per capita output has expanded substantially, keeping pace with the growth in the rest of Italy, and consumption has risen even more rapidly. Nevertheless, per capita output in the South has remained permanently below 60 per cent of that in the Centre-North, despite a gradual increase in the ratio until the mid-seventies.

The economic structure of the Mezzogiorno has been transformed in the past four decades, but the regional differences persist. The share of agriculture in both output and employment is still more than twice as large as in the rest of Italy, while industry has not expanded as rapidly as in the Centre-North; manufacturing now accounts for just over 13 per cent of value added in the South, as against almost 30 per cent in the Centre-North.

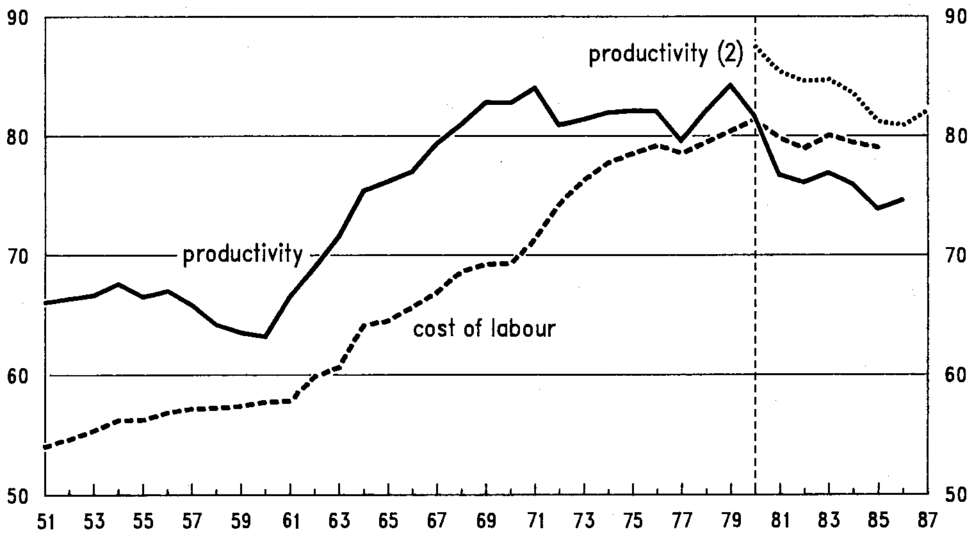
The persistence of regional disparities cannot be blamed on weaker capital formation. On the contrary, since the late fifties investment has ranged from 23 to 30 per cent of output, about 6 percentage points higher than in the Centre-North. In the eighties capital formation has continued to be more intensive in the South, averaging 27.7 per cent of output as against 19.8 per cent in the rest of the country; in the South it has responded scarcely at all to cyclical variations, which have had a decisive impact on investment in the rest of the economy. Gross fixed investment in machinery, equipment and transport equipment has grown especially rapidly in the South; in 1987 it was 31.5 per cent more than in 1980, as against 18.1 per cent in the Centre-North.

Despite the South's higher rate of capital formation, labour productivity in manufacturing is about 18 per cent lower than in the Centre-North, and since 1980 it has fallen perceptibly in relative terms (Figure 18). Northern industry now appears to be reaping the fruits of the improvements in management and production techniques begun during the recent period of intensive restructuring, which was less marked in the South.

Figure 18

PRODUCTIVITY AND LABOUR COSTS
IN INDUSTRY EXCLUDING CONSTRUCTION (1)

(ratio of South to Centre-North)



(1) Adjusted for Wage Supplementation from 1970 onwards. — (2) Revised national accounts.

The differential in industrial labour costs between the South and the Centre-North has steadily narrowed over the past three decades, but especially over the period from the early sixties to the mid-seventies in the wake of the abolition of the old collective bargaining agreements that sanctioned lower contractual wages in the regions of the South.

The 20 per cent differential in labour costs per employee that still exists is due mainly to tax relief and reductions in social security contributions for Southern enterprises. Wages and salaries differ very little between the two zones, the only significant disparity being found in very small firms. However, lower productivity erodes the South's relative advantage in terms of labour costs, so that the latter account for about the same share of value added in both parts of the country.

Financial aggregates and the balance of payments

The national accounts show a permanent deficit in the Mezzogiorno's foreign trade; in 1980 the deficit amounted to 22,440 billion lire, or 24.2 per cent of the region's gross product, and in 1987 to 50,559 billion, or 21.5 per cent. Over the same period Italy's overall trade deficit declined by 14,011 billion lire, as the surplus registered by the Centre-North soared from 6,217 billion lire (2.1 per cent of gross product) to 48,347 billion (6.5 per cent).

The public sector is the key to the South's ability to invest so much more than it saves. Several different statistical sources indicate that geographically definable government expenditure is distributed more or less evenly in proportion to population. The scale of the redistribution of resources by the public sector is revealed by the difference between these data and the figures on social security contributions and tax revenues. The South provides some 16 per cent of social security contributions and 20 per cent of total income tax revenues. This is not only lower than the South's share of the population but also lower than its share of national income, owing to the higher proportion of unregistered employment in the South, the progressive nature of the income tax system and the tax subsidies enjoyed by Southern firms. Moreover, a large part of the economic activity of the South is performed by enterprises with their headquarters in other regions. Even if taxation were strictly proportional to income, in the South it would still be considerably less than public expenditure, net of interest payments; the reverse holds true for the rest of the country.

Uncertainty as to the actual amount of public transfers and the lack of regional data on other balance-of-payments items make it impossible to say whether the South's balance of payments on current account with the rest of Italy is in deficit or surplus, much less determine its trend over time and the offsetting capital movements. The flows of financial assets and liabilities can be analyzed only for a few items.

Lending by banks located in the Mezzogiorno amounts to 17.5 per cent of the nationwide total. Although this is more than the 14 per cent registered at the beginning of the decade, it remains well below the South's share of national output (Table 37). Part of the difference is due to the underrepresentation of the sectors that borrow most heavily, first and foremost industry. More important is the fact that Northern-based firms, which employ an estimated 60 per cent of the industrial labour force in the South, finance a portion of their Southern activities with funds raised elsewhere.

Table 37

INDICATORS OF FINANCIAL STRUCTURE

(percentages)

	Ratio to GDP				South / Italy		Average annual growth rate, 1980-1988		
	South		Centre-North						
	1980	1987	1980	1987	1980	1988	South	Centre-North	Italy
Post Office deposits	14.2	15.3	6.7	6.4	39.8	43.4	15.3	13.1	14.0
Bank deposits	51.5	51.1	73.3	60.7	18.0	20.9	13.3	10.6	11.2
Bank lending	21.2	25.2	40.2	36.9	14.0	17.5	16.9	13.2	13.8
Special credit institution lending (1)	18.3	17.3	17.3	17.8	24.8	23.2	13.3	14.6	14.3
of which: subsidized	8.8	6.4	4.7	4.9	36.9	28.9	9.1	14.9	13.0
Special credit institution lending (2)	12.3	12.6	20.7	18.2	15.6	18.0	14.6	12.2	12.6

Sources: Bank deposits and lending: Credit statistics; Special credit institutions lending: Credit statistics and Central Credit Register; Post Office deposits: Ministry of Post and Telecommunications.
(1) Geographical distribution by region in which the credit is used. — (2) Geographical distribution according to the location of the borrower's headquarters.

In 1980 24.8 per cent of lending by special credit institution financed investments situated in the South, but only 15.6 per cent was granted to businesses with their headquarters there. By last year the lending figure had dropped to 23.2 per cent. Subsidized lending declined even more sharply, owing in part to the crisis in special development assistance.

On the liabilities side, banks operating in the South have suffered less disintermediation than those in other regions. Total fund-raising in the South rose from 18 per cent of the national aggregate in 1980 to 20.9 per cent in 1988.

In relation to gross output, bank deposits held steady at 51 per cent in the South between 1980 and 1987 while falling from 73.3 to 60.7 per cent in the Centre-North. The difference in trends reflects regional disparities in the use of other savings instruments, especially government securities, but the difference in level is due to the greater importance of Post Office deposits and the lower overall saving rate in the South.

Bank deposits were the largest component of households' financial assets both in the Centre-North and in the South at the beginning of the eighties. The subsequent shift away from bank deposits towards securities occurred in both parts of the country, but later and less markedly in the South. Nonetheless, Southern households' investments in securities are now quite substantial, whereas at the beginning of the period under examination they were negligible: between 1980 and 1987 they rose from 3 to 18.5 per cent of consumer spending, used here for lack of a direct measure of disposable income.

Bank interest rates and credit risk

Average bank deposit rates are roughly uniform throughout Italy, but the South is at a systematic disadvantage as far as lending rates are concerned. In the third quarter of 1988 the average rate on all bank lending in lire was 2.04 percentage points higher in the South, owing partly to differing borrower composition and partly to the state of the South's economic and financial system (Table 38). Differences in the size distribution of loans explain part of the disparity in interest rates. However, while the differential is much wider for small loans (those under 100 million lire), even for the largest it still amounts to more than one point. The part of the differential attributable to the difference in customer composition can be estimated at three quarters of a point.

Table 38

LENDING RATES (1)

Category of borrower and size of loan	South	Centre-North	Italy	Difference between South and Centre-North
General government	13.33	13.35	13.34	−0.02
Financial and insurance companies	13.49	11.99	12.10	1.50
Non-financial firms and households	15.49	13.43	13.74	2.06
of which:				
0 — 99 million	17.61	14.49	15.16	3.12
100 — 249 million	17.28	15.42	15.80	1.86
250 — 499 million	16.85	15.54	15.81	1.31
500 — 999 million	16.50	15.05	15.34	1.45
1 — 4.999 billion	15.57	14.19	14.44	1.38
5 — 9.999 billion	14.72	13.35	13.55	1.37
10 — 49.999 billion	14.37	12.62	12.88	1.75
50 billion and more	13.13	11.74	11.83	1.39
Total	**15.36**	**13.32**	**13.62**	**2.04**

Source: Central Credit Register; September 1988.
(1) Interest rate on short-term lending in lire to ordinary resident customers. Geographical distribution based on the branch at which the loan is taken out. Distribution by size of loan based on the credit extended by the entire credit system.

The observation that the lending rates charged in the South by banks with their headquarters in the Centre-North are nearly a full point lower than those of local banks gives some indication of the influence of supply-side factors. This information must be assessed with caution, however, because most of the Northern banks' branches in the South are located in the major cities, where competition is keener, and they lend to prime borrowers that generally qualify for lower rates.

Taking banks and special credit institutions together, in 1988 bad and doubtful debts amounted to 12.5 per cent of total outstanding lending to borrowers with their headquarters in the South, compared with 6.4 per cent for those located in the Centre-North.

The differences in the composition of lending by loan size explain a large part of this divergence; in the South there is a larger proportion of customers with small loans, which bear a higher risk nationwide. In North and South alike about four fifths of bad loans are to very small businesses with exposures of less than 80 million lire. Excluding this group, the difference in bad loan ratios narrows drastically; in September 1988 it was 2.6 per cent in the Mezzogiorno and 1.5 per cent in the rest of Italy.

Comparing the size distribution of lending rates with that of bad loans therefore reveals only a partial correlation between the riskiness of individual loans or classes of loan and the risk premium charged by the banks. The higher risk on some classes of borrower impinges on the entire interest rate structure, enabling the banks to mitigate the effect on their overall profitability.

As regards other intermediaries, the six Southern leasing companies covered by the Bank of Italy survey were owed arrears averaging 12 per cent of outstanding finance between 1985 and 1987, as against 6 per cent for companies in the Centre-North.

The higher underlying credit risk in the Southern economy is confirmed by a recent study of business formation and failure; a ranking of business mortality rates by sector and region based on INPS data shows Southern regions in first place in 15 out of 16 sectors.

Not only are average profits lower in the South, but the dispersion of the conventional indicators of profitability for individual firms is also wider. Figures for 1986 from the Company Accounts Data Service show that the standard deviation of the ratio of gross operating profits of industrial firms to value added was 54 per cent of the average in the South and 44 per cent in the rest of Italy; the standard deviation for return on equity was 9 times the average in the South and 1.7 times in the Centre-North.

SUPERVISORY ACTIVITY

The regulation of credit activity

The establishment of credit institutions and regulations regarding bank branches. — Since EEC Directive 77/780 was incorporated into Italian law, the Bank of Italy has authorized the establishment of credit institutions in accordance with its provisions and the implementing regulations issued by the Interministerial Committee for Credit and Savings on 31 October 1985. These were supplemented by the Committee's resolution of 20 March 1987, which reaffirmed the principle of separation between banking and commerce and laid down guidelines for preventing a non-financial company from taking a dominant position in the capital of a new bank.

The problem of managerial independence is not restricted to new banks, however, but extends to equity interests in existing institutions. One of the aims of the bill on the protection of competition recently approved by the Senate is to strengthen the independence of banking by making the acquisition of significant interests in credit institutions subject to authorization.

Twelve new credit institutions were authorized in 1988, comprising 2 limited companies, 1 cooperative bank and 9 rural and artisans' banks. Forty-six banks (2 limited companies, 2 cooperative banks and 42 rural and artisans' banks) have now been set up since the promulgation of Presidential Decree 350/1985, which ended the de facto ban on the establishment of new credit institutions.

The number of foreign banks operating in Italy has also increased, and six new branches were authorized in 1988 and the early months of this year. The greatest interest was shown by Japanese banks, which opened four branches.

At the end of last year there were 15,447 bank branches in Italy, as against 15,365 at the end of 1987. Most of the increase was attributable to the authorizations granted by the Sicily region and the provincial authorities in Bolzano and Trento under their autonomous powers in this field.

The rationalization of branch networks continued. A total of 630 relocations have been notified to the Bank of Italy since the new regulations on the transfer of branches were introduced last year. The significance of this figure is clear when it is compared with the total of 96 relocations of existing branches authorized under the 1986 branch plan. The banks' freedom to reorganize their networks was also increased during the year by changes in the regulations governing the opening of representative offices.

In the field of automated payment services, the total number of point-of-sale terminals rose to 12,600 and the number of banks involved to 106, while by the end of the year there were around 6,000 ATMs in operation.

As regards banks' foreign networks, authorization was given in January of this year for the opening of five branches and nine representative offices. Leading Italian banks have been particularly attracted to Tokyo, where they have opened branches and transformed their representative offices into securities representative offices.

The opportunities offered by mergers aroused greater interest last year, especially on the part of large banks. The operations were generally motivated by strategic objectives in view of the completion of the single European market, whereas in the past most mergers were concluded in connection with the rescue of banks in difficulties. In 1988 a total of 39 merger applications were examined, compared with 26 in 1987, 16 in 1986 and 20 in 1985, and a total of 19 were approved.

In the securities field banks have been authorized to have controlling interests in stock exchange dealing firms, including those that trade for their own account, provided these firms' share portfolios do not exceed their capital and reserves. A similar approach has been adopted to the securities operations of companies providing financial advisory and consultancy services.

The banks' request for permission to broaden the range of the services they supply through interests in companies performing banking-related activities has been granted as regards the marketing not only of investment fund units but also of other financial products supplied by their affiliates ; however, their marketing networks will not be able to conclude contracts directly with customers for products that entail the assessment of creditworthiness (e.g. deriving from leasing, factoring or consumer credit), which continues to be restricted to the managements of the financial companies involved.

The growth of non-bank financial intermediation nonetheless increasingly highlights the need for comprehensive prudential regulation that will ensure competitive equality and protect the stability of the financial system as a whole. The bill on securities firms recently tabled by the Government is an inportant step in this direction.

At the beginning of last year the Bank of Italy issued the regulations implementing the resolution on connected lending approved by the Interministerial Committee for Credit and Savings on 20 March 1987. The new regulations are designed to protect banks' operational autonomy vis-a-vis large shareholders and are based on the principles underlying the EEC Directive of 1986 on large exposures, which considers groups as a single entity in their dealings with both borrowers and lenders.

The supervisory authorities continued their examination of the various contracts used by banks in their portfolio management services. The law requires this activity to be carried out on an individual rather than a collective basis, the latter being the preserve of investment funds.

The regulation of banks' equity interests and operations. — The new regulations on banks' operations beyond the short term, which came into force in April 1988, accords with the policy the Bank of Italy has been pursuing for the last few years aimed at easing operational restrictions and reducing the divisions between the various categories of credit institution.

In the special credit sector the range of operations industrial credit institutions can undertake was broadened by Law 67/1988, while the expansion of the real estate and building credit institutions was facilitated by raising the ceilings on their operations outside their designated areas and making them more flexible.

The organizational model for credit institutions. — The adoption of limited company status by public sector banks would make credit activities and the legal forms of credit institutions more uniform. It would enable the entities in question to raise equity capital in the market, streamline their operational procedures in dealings with third parties, enhance their transparency vis-a-vis depositors and allocate powers and responsibilities more clearly among their governing bodies.

For some time now the leading Italian credit institutions have been organized as groups, dividing their activities among a number of companies governed by a common strategy in order to overcome the problems inherent in the need to expand their business in innovatory sectors and diversify their investments. The choice of this solution rather than promoting growth and product diversification within the bank itself was undoubtedly influenced by Italy's traditional system based on the specialization of credit intermediaries.

Last August the Government tabled a bill on the transformation of public sector credit institutions into limited companies. As well as containing provisions to facilitate this process, the bill also defines the concept of a credit group and lays down the instruments to be used with regard to disclosure, regulation and disciplinary action in the event of a group being in difficulty. It would strengthen the prudential and on-site supervisory powers of the Bank of Italy and authorize the Bank to issue instructions on total lending, risk diversification and capital adequacy in conformity with the directives of the Interministerial Committee for Credit and Savings.

The revision of savings banks' statutes has been completed, permitting them to raise capital in new forms and introducing two separate governing organs in each bank. In practice, most of the additional capital has been provided through the subscription of participation securities by larger banks with the aim of promoting integration. The large number of rural and artisans' banks that approved changes in their statutes is evidence of the success of the standard version formulated in 1987, which has now been adopted by more than half the banks in this category.

The disclosure of the conditions governing banking operations. — A satisfactory degree of transparency can be achieved if the interest rates and other conditions applicable to the most common operations are made public, the terms of contracts are comprehensible, customers are protected against unilateral changes in the terms originally agreed and adequate information is supplied during the life of contracts. Any legislation in this field should not dictate the economic conditions of contracts, which should continue to be agreed privately.

Last December the Italian Bankers' Association introduced a self-regulatory code on disclosure that has been adopted by nearly all banks. A similar code agreed among the special credit institutions will come into effect on 1 July 1989.

The state of the banking industry

Capital adequacy, self-financing and share issues. — In July the Bank of Italy and the other central banks of the Group of Ten countries signed the agreement on "International Convergence of Capital Measurement and Capital Standards". This calls on the supervisory authorities of the member countries to require the banking groups most active on international markets to keep the ratio of their capital to their risk-weighted assets above 8 per cent.

The combination of slower growth in own funds with an acceleration in lending caused the risk-weighted measure of the Italian banking system's capital adequacy to decline for the first time for more than five years. On the other hand, the measure based on volume of business was virtually unchanged. Excluding rural and artisans' banks, central credit institutions and the branches of foreign banks, the banks that failed to comply with the ratios needed to raise 3,000 billion lire, compared with 2,200 billion in 1987, while the capital in excess of requirements of the other banks remained almost unchanged at 18,500 billion. There was nonetheless a further decrease in the number of undercapitalized institutions, with 33 banks failing to satisfy one of the ratios, compared with 43 at the end of 1987.

On the basis of their accounts for 1988, which do not include allocations to reserves from last year's profits, banks' own funds were 8.3 per cent higher than at the end of 1987. The sharp slowdown by comparison with the average growth rate of 18 per cent between 1985 and 1987 reflected the fall in bank profits in 1987 and the conditions on the stock market last year, which were not conducive to share issues. However, the growth of own funds recovered in the first four months of this year as a result of the upturn in profits in 1988; the total rose by 9.5 per cent, from 63,661 to 69,734 billion lire.

The improvement in banks' profits in 1988 was reflected in their self-financing, which amounted to 5,752 billion lire, the highest level for five years. The three banks of national interest benefited in particular from the sale of their interests in Mediobanca, and the rate of growth in distributed profits slowed down from 7.5 per cent in 1987 to 2.5 per cent.

Share issues amounted to 1,264 billion lire (as against 4,000 billion in 1987) and accounted for 25.9 per cent of the total increase in capital and reserves, compared with 45.4 per cent in 1987. The only category to buck the trend was that of ordinary credit banks, which doubled their proceeds from share issues. The pause in issuing activity continued in the early part of 1989, with only 321 billion being raised by the end of April.

The own funds of the special credit institutions rose by 11 per cent, compared with 12.1 per cent in 1987; this was the smallest increase in the period 1983-88. They also decreased slightly in relation to total borrowing, from 11.7 to 11.2 per cent.

Lending risks. — Banks' bad debts rose from 23,354 to 24,113 billion lire last year, an increase of 3.2 per cent, compared with rises of 16.2 and 18.5 per cent in 1987 and 1986 respectively.

This pronounced slowdown in the growth of bad debts reflected both the strength of economic activity and the high level of write-offs. The latter, which were mostly made in the last part of the year following a change in their tax treatment, totaled 4,443 billion lire, of which 3,460 billion was withdrawn from provisions and 983 billion charged directly to profit and loss accounts, compared with 1,770 billion, 1,336 billion and 434 billion respectively in 1987.

The banking system's bad debts fell from 7.2 to 6.4 per cent of total lending. This was the first decrease for ten years and was partly due to the large rise in lending itself. The reduction was less pronounced for savings banks and larger than average for the smaller ordinary credit banks. Bad debts also fell slightly in relation to own funds; the ratio was highest for savings banks and lowest for cooperative banks, which traditionally have strong capital bases.

Excluding the effects of the increase in write-offs, the reduction in bad debts was caused primarily by two offsetting factors: the sustained improvement in corporate profitability and the increasing proportion of lending to small and medium-sized firms, which involve a larger, albeit decreasing, risk than prime borrowers.

The bad debts of the special credit institutions showed the smallest increase recorded over the period 1983-88, rising by 11.6 per cent from 8,805 to 9,826 billion lire. The ratio of bad debts to lending was 4.9 per cent, virtually the same as the 1987 figure and still well below that for banks (6.4 per cent).

The operational instruments of banking supervision

Inspections. — A total of 180 inspections were undertaken last year to verify the general organizational and operational conditions of three special credit institutions and a number of banks; the banks represented 16 per cent of the banking system and accounted for 13.2 per cent of total assets and liabilities (12.2 per cent in 1987). In addition, the Bank of Italy carried out 87 investigations under a cooperation programme with the Consob.

In 1988 an investment management company was also inspected, together with the pertinent operations at the depository bank involved.

Six of the inspections revealed technical and operational shortcomings that called for the appointment of special administrators in order to regularize operations. The inspections also highlighted the unsatisfactory quality of many banks' loan portfolios, with bad debts exceeding 6 per cent of total lending in 70.5 per cent of the banks inspected (68 per cent in 1987), although the ratio of losses to total lending was slightly better (3.2 per cent as against 3.9 per cent).

There was also evidence of increased awareness of the need to improve organizational structures and internal controls, stimulated partly by regular surveys conducted by the supervisory authorities. However, the greater attention being paid to this aspect does not yet appear to have produced results, as is confirmed by the frequent lack of internal control systems able to prevent and promptly identify the emergence of irregularities.

The prevention and management of banking crises. — Experience shows that the longer banks in difficulty delay corrective action, the less chance they have of recovering by their own means and that some form of merger or operational link with another bank becomes inevitable.

In 1988 one ordinary credit bank, one cooperative bank, one savings bank and three rural and artisans' banks were put under special administration. Three of these have been restored to ordinary administration and two put into compulsory liquidation. At the beginning of 1989 a rural bank under special administration was merged with another bank of the same category. As a result of the changes that occurred last year, the number of banks in liquidation fell to eight, with five proceedings near completion.

The continued uncertainty regarding the provisions of the penal code that are applicable to banking and the shortcomings of the law with regard to certain aspects of financial crimes prompted the Bank of Italy to undertake a study of these matters, which was submitted to the Second Justice Committee of the Chamber of Deputies. The Bank reaffirmed its view that the entrepreneurial nature of banking could not be reconciled with the application of the provisions of penal law covering public officials and called for legislation to overcome the problems raised by court decisions.

The number of administrative proceedings under the Banking Law decreased slightly. Most of the irregularities involved reflect the importance the Bank of Italy attributes to the accuracy and completeness of the data provided on banks' financial situations and loan portfolios in order to ensure the effectiveness of its prudential controls.

The traditional exchange of information with the Consob on banks and non-bank intermediaries was continued, while a special study was made of the risk of criminal use of the financial system. The results of the study were submitted to the Parliamentary Commission of Enquiry on the Mafia. The Code of Conduct approved by the Governors of the Group of Ten countries in December 1988 with the aim of preventing credit institutions from being used as intermediaries or depositories for the proceeds of illegal activities was also notified to the whole banking system, accompanied by a set of explanatory notes on its application, and the Italian Bankers' Association was invited to promote standard organizational arrangements in this field.

Investment funds

The net assets of investment funds fell by 13.3 per cent over the year, from 59,454 to 51,562 billion lire, as a result of net redemptions that were only offset in part by operating profits.

The Ministry of the Treasury authorized 39 new investment funds, most of which were set up by management companies already operating in the market. At the end of the year 59 management companies with a total of 169 funds were officially registered with the Bank of Italy.

Management companies sought to counter the downturn in subscriptions by expanding and diversifying the range of their products; they increased fund specialization by promoting products based on particular categories of security, such as savings shares and money market instruments.

The supervisory authorities reacted in two ways: on the one hand, they encouraged this development by defining procedures and setting out guidelines in accordance with the regulations and principles governing the industry; on the other, they stressed the importance of a properly structured internal organization in order to have a clear definition of the functions and responsibilities involved in the running of funds.

A working party including representatives of the Bank of Italy has been set up at the Ministry of the Treasury to examine the EEC Directive of 1985 on undertakings for collective investment in transferable securities and determine the amendments to Law 77/1983 that this necessitates.

THE GOVERNOR'S CONCLUDING REMARKS

In performing its increasingly intensive activity, the Bank is looking to the future: to the needs of a country advancing to a higher level of development, to the pressing and unfinished task of restoring sound public finances, to our demanding European commitments. The management and the entire staff of the Bank are aware how delicate are the technical and public duties entrusted to them; I should like to express my gratitude to them all.

Last year the Bank of Italy improved its operational efficiency by taking advantage of the changes increasingly made possible by the spread of automation. Work began on updating the technical facilities of the branches and adapting their organizational structure in order to enhance their effectiveness in the areas of administration, banking supervision and economic analysis. Projects were also completed or launched with regard to the revision of internal regulations, cost accounting, internal auditing and the automatic handling of securities, data and documentation. The Bank maintains an active presence in research, in relations with other central banks and in international fora engaged in the coordination and formulation of decisions.

The signing of labour agreements covering the Bank's personnel for the period 1988-1990, in which a more advanced system of industrial relations plays an important role, was one of the positive achievements of last year.

The measures to enhance the Bank's own efficiency go hand in hand with those aimed at improving the quality of services provided jointly by the central bank and the credit sector. The new method of clearing out-of-town cheques has shortened settlement times, to the benefit of both banks and customers. Arrangements were made to permit the direct crediting and debiting of centralized accounts with the Bank of Italy, and the procedure for the daily settlement of securities transactions was streamlined. These are the first fruits of the reform of the payment system, which the Bank has promoted and is in the course of implementing. The revised system for reporting banking supervision and foreign exchange statistics was completed and put into operation.

These objectives, which the Bank of Italy has been pursuing for many years, stem from the Bank's vision of the integrated conduct of monetary policy, banking supervision and activities relating to payment services.

In my report to this meeting last year I concentrated on European integration, the restoration of Italy's economic health and the credit system's quest for ways of achieving greater efficiency in a supranational market. The events of the intervening months prompt me to return to these themes today in order to review developments, chart the progress that has been made and indicate where action has been slow. The events in question have occurred during an expansionary phase of the economic cycle. In reviewing them, one's thoughts turn inevitably to the present situation, to the interaction between imbalances in the public finances and retrograde trends in prices and foreign trade; the analysis that follows also deals with the structural problems that seem most pertinent to today's concerns.

The remarks I am about to make complement the main body of the Report, which contains analytical material and more detailed information; together, they are the means whereby every year the Bank duly accounts to the country for its actions.

The world economy

Problems in the development of the world economy

In 1988 the industrial countries achieved better economic results than had been expected. The rate of increase in gross domestic product rose to 4 per cent, one of the highest rates of the decade ; fixed investment was the most dynamic component of total demand. Though slower than in Japan and the United States, the growth in output and employment was also brisk in Europe; however, Europe's unemployment rate remained at 10 per cent. World trade grew rapidly, increasing by more than 9 per cent in real terms.

On an annual average basis, consumer prices increased by 3.2 per cent in 1988, a slightly higher rate than that recorded the preceding year; inflation accelerated as the year proceeded, and by the first quarter of 1989 it was running at more than 4 per cent.

The adjustment of current account imbalances was unsatisfactory. The growth in external demand and the improvement in competitiveness as a result of the depreciation of the dollar over the previous three years contributed to the contraction in the United States' deficit from $154 to 135 billion. Japan's surplus decreased by only $7 billion to $80 billion and Germany's rose from $45 to 49 billion; the aggregate current account surplus of the European Community nevertheless fell from $38 to 18 billion. The deficits of other member countries actually worsened; the fact of having maintained exchange rate stability does not reduce the need for greater commitment to policies that will lead to balanced growth.

The results achieved last year demonstrate that the stock market crisis in the autumn of 1987, though acute, was confined to the financial markets. The prompt reaction of the central banks of the major countries contained it and ensured that it did not jeopardize the economic growth that has been under way since 1983.

One of the main features of this phase of economic expansion, which has few precedents in terms of longevity, has been the strength of investment. The ratio of fixed capital formation to gross product, which had been declining for a decade, rose by more than 3 percentage points between 1983 and 1988 to exceed the peak recorded before the 1974 oil crisis. The policies introduced in the early eighties to restore economic and financial equilibrium and curb inflation created the conditions for the growth in investment, which was subsequently boosted by the recovery in corporate profitability, itself enhanced by wage restraint and, after 1986, by the improvement in the terms of trade of the oil-importing countries. Cooperation within the Group of Seven helped achieve more appropriate exchange rates between the major currencies, and world trade transmitted and amplified the stimuli to growth.

The appearance of renewed inflationary pressures and the fear that they would strengthen and spread prompted the monetary authorities of the major countries to tighten their policies from the spring of last year onwards, in the conviction that a resurgence of inflation would seriously jeopardize the prospects for medium-term growth. Short-term interest rates increased by several percentage points; long-term rates rose more moderately.

The analysis of economic developments and policies conducted at the international meetings in Washington in April of this year recognized the need for a restrictive monetary stance in order to counter inflationary pressures and acknowledged the undesirability of movements in the dollar exchange rate that were incompatible with reducing payments imbalances; above all, it underlined the need for a different combination of economic policies. In particular, the United States, Italy and Canada were called upon to reduce their budget deficits in order to regain better control over domestic demand. Greater budgetary flexibility would permit a less stringent monetary stance and foster a decline in interest rates. All countries were urged to reinforce their structural policies with regard to matters such as taxation, public sector efficiency, the labour market and competition rules and to encourage saving on a sufficient scale to ensure an adequate rate of long-term economic growth.

The events we have witnessed in recent weeks illustrate the difficulty of implementing these recommendations. The slowness with which fiscal policies are being directed towards the regulation of overall demand is overburdening monetary policies, is making it both more important and more difficult to coordinate them and is being reflected in exchange rate movements that are incompatible with the restoration of balance-of-payments equilibrium.

Since the beginning of this year the dollar has risen by about 14 per cent against both the Deutschemark and the yen. Without any further impetus from interest rate differentials, its appreciation has accelerated recently owing to a demand for the United States currency that has seemed to feed on itself and which on occasion has drawn strength from the very fact of breaking through barriers the market considered significant. The agreed combination of economic policies should be implemented in order to prevent the present exchange rate movement from developing into a trend. Although we are aware of the limitations of exchange rate intervention if it is not supported by appropriate policies, the central banks need to maintain their presence in the foreign exchange markets, on the basis of the flexible and pragmatic arrangements agreed between them, thereby ensuring that market operators remain acutely conscious of exchange rate risks.

In the broader world context, the current attempt by the Soviet Union and other Eastern European countries to open their doors to the rest of the world and to introduce market forces into their economies is worthy of note. It is a courageous decision, with objectives that are by no means easy, nor achievable in the short term; substantial monetary and fiscal imbalances must be rectified. In the new order, prices are to become the indicator of efficiency and to create the link with market economies via realistic exchange rates.

Countries in Asia, especially the newly industrializing economies, also achieved positive results last year in terms of growth and price stability. Although the newly industrializing economies reduced their trade surpluses only slightly, they are increasing the role of domestic demand in the development process and relaxing the restrictions on imports, including those of manufactured goods.

The performance of the other developing countries was unsatisfactory. In many Latin American and African countries the rate of economic growth was slower than the increase in the population, leading to a further decline in per capita income. Inflation soared again, becoming uncontrollable in some Latin American countries. In the oil-exporting countries the fall in the price of crude oil curbed growth by reducing their import capacity.

The problem of foreign debt continues to pose a serious danger, and not only an economic one, despite progress towards finding a solution. To meet their obligations, the heavily indebted countries need to transfer an enormous volume of resources abroad, but policies consistent with this objective conflict with the need to increase investment and improve the standard of living of broad sections of the population.

The strategy pursued until now in tackling the debt problem was re-examined in several fora last year. The US Treasury Secretary recently outlined a plan centred on a recognition of the need for a reduction in debt and debt servicing; relief would be granted to those countries that undertook programmes of economic adjustment and restructuring agreed with the International Monetary Fund and the World Bank.

Considerable difficulties — for the banks, the international institutions and the supervisory authorities — must be overcome before the plan can be implemented. High expectations have been aroused; we must begin to respond to them quickly by agreeing individual adjustment programmes with the countries concerned. A range of options for reducing the debt burden could be considered, such as reductions of principal, the capitalization of interest or a lowering of interest rates. Action on the interest front has the advantage of bringing a greater immediate reduction in the flow of payments for the same volume of resources and maintaining a close link between debtors, banks and international organizations during the implementation of the recovery plans.

The free movement of goods, services and capital

There is a high risk of an intensification of trade conflicts in the world market in goods and services. The United States will have to increase its exports in the next few years in order to reduce its trade deficit. Many developed countries and newly industrializing economies depend heavily on foreign markets to generate growth. The developing countries will have to find adequate outlets in the rest of the world for their primary products and, even more important, for their manufactured goods. The economies of Eastern Europe see full participation in world trade as an important prerequisite for growth and the very symbol of the success of their planned change of course.

In this complex and shifting context, protectionist pressures are latent and are often emerging in new forms. The GATT negotiations aimed at achieving further progress towards free trade in sensitive sectors, such as agriculture and services, are proceeding amidst considerable difficulty. The Trade Act approved in the United States in 1988 has aroused fears on account of the wider powers it grants the Administration to restrict trade. Bilateral agreements to control trade in particular products have become numerous and widespread.

The regionalization of trade that is taking place as a result of agreements among groups of countries is a positive development in that it leads to closer integration between neighbouring economies ; it produces a higher and more secure degree of trade liberalization than has been achieved so far in the wider context of the GATT. The erection of protective barriers against other countries would be a betrayal of the spirit that has inspired this process.

Free trade in goods and services should be defended and strengthened, as it is fundamental to efficient production and to greater welfare for consumers.

Capital movements are becoming an increasingly prominent feature of the balance of payments. The world foreign exchange market has expanded enormously and financial transactions are exerting a greater influence on the level and variability of exchange rates.

The freedom of movement of capital, as proclaimed in national legislation and international agreements, is a precondition for improving resource allocation and exploiting the full potential of investment opportunities. On account of their size and volatility, however, capital movements, and in particular those of a short-term nature, can produce exchange rates that are inconsistent with the fundamentals of the economies concerned, delay the restoration of balanced trade in goods and services and jeopardize free trade itself. In the present phase of the cycle, the scale of international liquidity and the speed with which the international capital market finances current account disequilibria increase the obligation for economic policymakers to act promptly to prevent pressures building up and having explosive effects on the economy.

The opening-up of economies has led to greater interdependence; the corollary to this must be a coordination of policies that also ensures stable exchange rate relationships. Only if this condition is met can free trade and the freedom of movement of capital coexist and foster balanced growth in the world.

Monetary cooperation within the Community has made significant progress in the ten years since the inception of the European Monetary System. The EMS is now a cornerstone of stability in economic relations within the EEC. The exchange rate mechanism has been the instrument for achieving more uniform economic conditions in participating countries; it has stood the test of prolonged and substantial movements in the dollar's exchange rate and the removal of exchange controls. The convergence of the economies involved has reduced the frequency of exchange rate realignments; the last occurred more than two years ago.

The Single European Act of 1986, which reinforced and extended the Treaty of Rome, marked a turning-point in efforts to ensure that the physical, technical and fiscal barriers still dividing member countries are dismantled before 1992.

The liberalization of financial transactions will be concluded by the middle of next year, when the Directive on short-term capital movements comes into force; it will be an important step towards the completion of the internal market.

However, it would be hazardous to take this step without adequate progress in harmonizing the tax treatment of investment income. The wide disparities between member countries with regard to the taxation of financial assets would cause distortions in savings flows and exchange rates, make the conduct of monetary policy more difficult and create strains within banking systems and financial markets.

When they approved the Directive last June, member countries made a political commitment to promote a tax regime that would ensure an orderly liberalization of capital movements. Uncertainty still surrounds the arrangement that will be applied, heightened by Germany's recent decision to abolish the withholding tax introduced at the beginning of the year. The principle of the mutual recognition of laws cannot be carried to the point where convergence towards a new equilibrium is left to competition between national tax regimes, as some governments propose. Broad neutrality as to where savings are held implies either establishing a system for assessing taxpayers' foreign income so that it can be taxed at the rate applied in their country of residence, or taxing investment income at source at harmonized rates. In the absence of one or other of these solutions, investment income would end up not being taxed in the country of residence of the recipient and in many cases would be exempt from withholding tax in the country in which it was earned.

These problems characterize the transition to a new order, but they are not the only ones; with broadly stable exchange rates and complete freedom of capital movements, the autonomy of national monetary policies in fact tends to diminish. The response lies in extending the process of integration to monetary policy itself.

Awareness of these links led the European Council to reaffirm the objective of economic and monetary union at its meeting in Hanover in June 1988 and to establish a Committee under the Chairmanship of the President of the Commission of the European Communities and composed of the governors of the central banks and a number of experts to draw up a final blueprint and propose concrete stages leading towards such union.

The Report presented in April, which was unanimously approved by the Committee, contains a clear and reasoned exposition of the feasibility and benefits of economic and monetary union. It is a landmark that cannot be ignored. The implementation of the union, which the Report divides into three stages, presupposes institutional changes that require the approval of a new Treaty.

In the final stage of the plan a single monetary area will be created with irrevocably locked exchange rates and a common monetary policy directed towards price stability. The most important institutional innovation will be the creation of a European System of Central Banks. With regard to fiscal policy, the union will entail stringent constraints on budget deficits and the method of financing them and establish powers to define and pursue a common macroeconomic policy. By achieving economic and monetary union, the Community will attain an objective that transcends the economic sphere; it will complete the design envisaged and desired by its founders.

Even now, as a first step towards union but also as a necessary complement to the liberalization of monetary and capital movements, monetary policy coordination must be made more effective by strengthening the role and structure of the Committee of Governors of the Community; moreover, member countries should honour their commitment to speed up economic convergence.

The transition from the coordination of national policies to the formulation of a common monetary policy would occur as early as the second stage, during which the European System of Central Banks would begin to operate, establishing operational mechanisms and procedures for collective decision-making to guide money creation by individual central banks.

The principles that have always inspired our convinced participation in the construction of Europe mean that integration within the Community should go hand in hand with a commitment to free trade with the rest of the world. If that condition is met, the institutional and economic experience of the Community will help foster growth and prosperity in the world economy as a whole.

The Italian economy

The results for 1988

The Italian economy also performed strongly last year. Rapid growth and moderate inflation, despite the reappearance of some tensions, coincided with the full implementation of foreign exchange liberalization, which was achieved against the background of broad balance-of-payments equilibrium. These favourable economic conditions would have allowed a breakthrough to be made towards the adjustment of the public finances, but the measures adopted have failed to correct the tendency for the budget deficit to increase.

Spurred by investment and export demand, gross domestic product expanded by 3.9 per cent and industrial output by nearly 6 per cent. Capacity utilization exceeded the peaks recorded at the beginning of the decade and firms in some industries developed a more flexible response to variations in the volume and composition of demand. Employment increased significantly in terms of both the total man-hours worked and the number of persons employed, which rose by some 300,000; the improvement also extended to industry, after seven years of falling employment. The prolonged rise of the unemployment rate halted at about 12 per cent, despite the continued growth in the labour force. Regional disparities worsened, however; unemployment remained stable in the Centre and declined in the North, which is approaching full employment, but it increased further in the South.

The expansion in investment, which has been under way since 1983, continued at a vigorous pace. In the last two years expenditure on machinery, equipment and transport equipment has increased by 21 per cent at constant prices. Stimulated by the outlook for demand and facilitated by good corporate profitability, part of capital accumulation is now being directed towards expanding capacity, and non-residential construction is also picking up after years of stagnation.

Private consumption expanded by 3.8 per cent. The main stimulus continued to be provided by households' disposable income, which was augmented not only by the growth in employment but also by the rise in real per capita earnings.

In manufacturing industry, strong domestic demand was accompanied by a more rapid increase in costs. The prices of intermediate goods rose by an average of 5.1 per cent. Labour costs per employee increased by 8 per cent; substantial productivity gains, albeit smaller than those achieved in 1987, held the rise in unit labour costs to 3.6 per cent. The increase in producer prices kept pace with costs, accelerating from 2.3 to 4 per cent. Average profit margins remained at a historically high level that appears, however, to be in line with those in the other leading industrial economies.

Consumer price inflation averaged 5 per cent in 1988, half a percentage point above the target. The twelve-month rate remained steady until the late autumn, but rose to 5.4 per cent in December and continued to rise in the early part of this year.

The upturn in inflation rates is a global phenomenon that has been more pronounced in some countries than in Italy. The inflation differential between Italy and the rest of the European economies continued to narrow, albeit modestly. However, the swiftness of the acceleration at the end of the year reinforced the concern that had been felt since the spring. When economic activity is expanding rapidly everywhere, competitive constraints tend to slacken, even without a depreciation of the currency, thus weakening resistance to cost increases and allowing demand pressures free rein. Where foreign competition is less direct and domestic market segmentation more pronounced, as in much of the services sector, it is easier for businesses to increase their relative prices.

The balance of payments was the other focus of constant attention last year. The new exchange control legislation, which embodies the principle of freedom to engage in all external transactions, came into effect on 1 October. Preventing current account disequilibria and ensuring that the increase in capital flows occurred in an orderly manner was essential.

The increase of almost 6 per cent in the volume of exports last year was not sufficient to prevent a fall in Italy's share of world markets ; this occurred despite both a slight improvement in competitiveness, with profit margins in manufacturing industry remaining unchanged, and the fact that domestic demand was growing at about the same rate as in the other leading countries. The loss of market share was due chiefly to the sectoral composition of world trade, with expansion being fueled by demand for high technology capital goods. Italian industry still specializes mainly in traditional goods, although the international success of some innovatory Italian products indicates that the situation is changing. The persistence of these structural characteristics, which has been studied in previous Annual Reports, also helps to explain the behaviour of imports. The growth in the volume of imports other than energy products touched 10 per cent and occurred mainly in capital goods.

The trade deficit worsened by 1.7 trillion lire, a figure which conceals a deterioration of 5 trillion lire in non-energy products, despite stable terms of trade. The energy balance improved as a result of a decline in import prices and a reduction in stocks. The transience of the market conditions underlying this improvement has been confirmed by the recent rise in oil prices. Italy's dependence on imported energy continues to limit the economy's potential for growth. The easing of this constraint requires a policy aimed at energy conservation and the development of domestic energy resources. The National Energy Plan sets forth policy guidelines that have still to be put into practice.

The deficit on trade in services is worsening. The surplus on tourism contracted by 16 per cent in a single year and will probably diminish further; it is now less than the net outflow due to investment income. The other items, most notably unrequited transfers, have recorded growing deficits for some time. The deterioration in the current account amounted to nearly 5 trillion lire; the deficit was 6.8 trillion lire, equivalent to only 0.6 per cent of gross domestic product.

The successful management of the delicate phase of exchange control liberalization was facilitated by interest rate differentials in favour of the lira; the exchange rate was allowed to fluctuate around the level considered appropriate to the condition of the economy. From mid-year onwards, the supply of foreign exchange exceeded the demand, at times substantially. More than half of the increase of 10.9 trillion lire in the foreign exchange reserves last year was recorded in the fourth quarter, despite the fact that the lira had been allowed to rise towards the narrow fluctuation band. On an annual average basis, the nominal effective exchange rate of the lira declined by 3.1 per cent.

Between the beginning of the seventies and the first half of the eighties external financial assets declined from 9 to 5 per cent of residents' portfolios as a result of exchange controls. Once the non-interest-bearing deposit on investment abroad had been abolished, the proportion quickly rose to over 6 per cent. However, non-residents increased their investment in Italy even more substantially; net of disinvestment, there was a capital inflow of 16 trillion lire. The international financial markets have responded positively to Italy's decision to liberalize capital movements, interpreting it as a pledge of both price and exchange rate stability.

Domestic economic management

Strong measures to reduce the budget deficit would have been consistent with the requirements of cyclical economic management; they would have enhanced the prospects for sustained economic growth, not undermined them. By curbing consumption, they would have eased the pressure on prices and the deterioration in the balance of payments on current account. By laying the basis for stronger investor confidence, they would have made it possible to keep the market in government securities in equilibrium at lower interest rates. The benefit to the budget would thus have been twofold: they would have reduced the primary deficit and also eased the debt service burden.

This did not happen. The corrective measures adopted, which concentrated more on increasing revenue than on curbing expenditure, were substantial but they could not prevent the state sector borrowing requirement from rising to 124.6 trillion lire, or 11.6 per cent of GDP, about the same ratio as in 1987. The relative size of the primary deficit, which had begun to decline in 1984, continued to contract, but the improvement was smaller than had been planned; this component of the state sector borrowing requirement decreased from 3.8 to 3.4 per cent of GDP, compared with the target of 2.8 per cent.

The task of restricting demand again fell largely on monetary policy. In August and again this March official interest rates had to be raised from their already high levels, and the entire interest rate structure shifted upwards. In the last quarter of 1988 the effects of this policy were reinforced by the appreciation of the lira.

As early as the spring of last year the rapid growth of imports and bank lending was signaling a strengthening of aggregate demand. The Bank of Italy tightened liquidity conditions, causing the rates on open market repurchase operations to rise. Nevertheless, under the pressure of exceptionally keen competition in the credit market, the banks' average lending rate continued to decline after the removal of the lending ceiling; by the end of May it was down to 13.2 per cent, one point lower than the peak reached the previous October. Financed in part by sales of securities, the expansion in bank lending exceeded 25 per cent in the second quarter on a seasonally adjusted annual basis.

Financing the Treasury became increasingly difficult. Yields on Treasury paper were first raised in April. Partly in order to smooth the launch of the secondary market in government bonds, the Bank of Italy intervened to support prices, especially those of Treasury credit certificates, and made offsetting sales of Treasury bills. Despite the set of measures enacted by the Government in May with the aim of reducing the Treasury's market borrowing by 7 trillion lire, a further across-the-board increase in rates on new government issues became necessary in July. The floor price for auctions of 3-month Treasury bills was eliminated. Improved market conditions enabled the Treasury to fund its borrowing requirement, but only at the cost of a shortening of maturities.

From the beginning of the summer onwards the Bank of Italy again began to urge fiscal measures that would bolster investor confidence in government paper while at the same time curbing consumer demand.

Economic and financial conditions necessitated raising official interest rates by half a point to 12.50 per cent at the end of August, at the same time as similar action was being taken in almost all European countries following the increase in US rates.

In presenting its Finance Bill in September, the Government reaffirmed its commitment to redressing the public finances. In accordance with the three-year financial plan, the budget measures were designed to reduce the deficit by 20 trillion lire on a current programmes basis in 1989, to 117.35 trillion lire. A key element was the control of spending on an accruals basis. The abolition of secret parliamentary voting on expenditure bills helped foster confidence in the success of the adjustment plan. Financial intermediaries and savers responded positively: fixed rate securities were heavily subscribed at declining yields and with maturities lengthened to five years ; uniform price auctions were introduced for issues of this kind.

At the end of November expectations began to deteriorate again. The borrowing requirement for the year was overshooting the preliminary estimate published in September; by the end of the year the difference amounted to about 7 trillion lire. The implementation of the budget measures announced for 1989 was becoming increasingly difficult. The demand for government securities again flagged and there was a further acceleration in bank lending, both in lire and in foreign currencies. The Bank of Italy took up only part of the net supply of foreign exchange, thus letting the lira appreciate in order to curb imported inflation and damp down domestic pressures on prices. Monetary policy in the other leading industrial countries was also orientated more decisively towards combating inflation, with official interest rates being raised in many European countries and in the United States between December and February.

I reported to Parliament on the seriousness of the situation in a statement I made in early February. On that occasion I reiterated the urgent need for fiscal adjustment measures.

In issue after issue in January and even more markedly in February, investors expressed their increasingly strong preference for shorter-term securities, a preference that was further accentuated by unfounded rumours concerning the public debt. Of necessity, the borrowing requirement was thus financed preponderantly through issues of Treasury bills. Economic indicators reflected the rekindling of inflation and the deterioration in the trade balance.

In February and March a number of monetary measures were enacted to link up with the expected fiscal package. They consisted of three main elements: the reintroduction of a reserve requirement on banks' net new foreign currency liabilities, a one-point rise in the official discount rate to 13.50 per cent, and the abolition of the floor price on 6-month and 12-month Treasury bills to allow the market to fix equilibrium yields without constraints or fear of outside influence. Yields on bills at all three maturities rose by about one point in the first auction in March and those on Treasury bonds and credit certificates were also increased substantially.

The Government approved the package of budgetary measures on 23 March. It acknowledged that the excessive borrowing requirement in 1988, the resurgence of inflation, the rise in interest rates and the watering-down of the measures contained in the Finance Law had progressively altered the situation, so that the target of 117.35 trillion lire for the 1989 deficit had been superseded. The new package aims to reduce the state sector borrowing requirement by 12 trillion lire to 130 trillion by cutting expenditure, raising additional revenue and modifying cash management procedures. This would bring the overall requirement down to 11 per cent of GDP and reduce the primary deficit by nearly one and a half percentage points to about 2 per cent of GDP, in line with the target set in the medium-term plan.

To allow time for the monetary and fiscal package to take effect, the Bank of Italy covered the Treasury's residual borrowing requirement for March and supported the prices of medium-term government securities in the secondary market. It made net purchases totaling 8.4 trillion lire, of which 6.8 trillion were securities at issue, whereas in January and February the Bank's portfolio had contracted by 1.6 trillion lire. In April and May the entire supply of government securities was again taken up in the market. Bank liquidity, which was high at the end of March, was brought down to more normal levels in the first half of April by means of repurchase agreements. Outright operations in May mopped up 2.2 trillion lire; more liquidity will be absorbed in June, when the Treasury will benefit from the bringing forward of income tax payments.

This flexible short-term monetary policy accords with a discretionary interpretation of the relationship between the central bank and the Treasury as it has been defined since 1981, when the Bank was relieved of the obligation to subscribe government securities at issue. This arrangement is fundamental to the operational distinction between management of the public debt and the conduct of monetary policy. It strengthens the independence of the central bank but in no way undermines the cooperation between the two institutions, to which the Bank is all the more committed when there is full agreement on the analysis of the situation and the ways to deal with it. In March this flexibility averted the risk of a financial crisis ; it will not jeopardize the achievement of the annual target for the creation of monetary base.

The cost of living is now rising at an annual rate of nearly 7 per cent, more than 2 points above last year's low, recorded in October. The acceleration has been due partly to the increase in indirect taxes, the appreciation of the dollar and the rise in world raw material prices, but it is the persistent strength of demand that enables these factors to have their full impact on final prices, generates direct inflationary pressure in its own right and affects the trade account. Exports have expanded strongly but imports have grown even more rapidly, so that in the first four months of this year the trade deficit increased to over 11 trillion lire, a deterioration of 4 trillion in comparison with the same period of 1988. The increase in imports involved not only raw materials, both for current production and for stockbuilding, but also manufactures.

The Bank of Italy has combated the resurgence of inflation mainly by allowing the lira to appreciate. Since last September the effective exchange rate has risen by 1.3 per cent. This action entails a cost, in the sense that if it is protracted owing to the inadequacy of fiscal adjustment it will exacerbate the trade deficit. It is essential to avoid any cyclical misalignment between Italy and the world economy, which is slowing down. Fiscal policy should aim to curb consumer demand for the remainder of 1989. Bringing forward part of the first instalment of income tax payments from November to May could prove insufficient. Nominal per capita earnings must not rise faster than in 1988. The growth in GDP is expected to slow down, but still to exceed 3 per cent in real terms, thanks to exports and investment.

The objective of the restrictive monetary stance is to reverse the acceleration in inflation by this summer. Monetary base management will seek to keep the growth in the M2 money supply within the 6-9 per cent target range announced in September, when forecasts of the nominal growth in GDP and the size of the public sector borrowing requirement were lower. Rigorous control of the borrowing requirement to prevent it from overshooting the target is fundamental to maintaining stable expectations.

The growth in credit, and especially that in bank lending, will have to decline. After slowing down in March, the expansion in bank lending accelerated again in April. Given not only the sustained growth in fixed investment but also the economic policy approach I have just outlined and the banks' ability to continue to finance loans by selling securities, financing to the non-state sector is expected to grow by about 13 per cent this year.

Plans for more effective action to redress the public finances now focus on the adjustment measures for 1990. The Economic and Financial Planning Document presented by the Government to Parliament under the new budget procedure postulates a reduction of 16 trillion lire in the primary borrowing requirement on a current programmes basis. The drafting of the necessary measures to achieve this reduction is the most urgent and delicate task facing the Government and the public administration in the preparation of the Finance Bill. This process will also affect the financial market in the next few months; experience has shown that investors' readiness to subscribe government securities is closely related to credible action to redress the public finances.

For fully effective economic policy

International capital mobility and financial innovation complicate the linkage between financial aggregates and real economic variables and make it essential to provide the conditions in which all the instruments of economic policy can operate effectively.

Intermediate monetary targets, even in the form of broad target ranges, have not lost their usefulness. The announcement of such targets encourages market behaviour that is consistent with the monetary guidelines and they give the central bank a yardstick for assessing the divergence of the economy from its planned course.

In setting such targets, as in the whole conduct of monetary policy, an overall view of financial flows is increasingly necessary in order to take account of the differing impact that financial innovation and unexpected cyclical impulses have on the various aggregates. With investment far higher than forecast, credit expanded much faster than the money supply in a number of countries last year. If the public debt is large and increasing, primarily at short term and still held to a considerable extent by the banks, as is the case in Italy, expansionary conditions may well make it especially difficult to set intermediate targets and achieve them simultaneously and on schedule.

In Italy, the rapid growth in output and investment gave rise to strong demand for bank loans. The policy decisions of the banks themselves also contributed to the growth in lending; their slowness to adjust lending and deposit rates to market conditions facilitated control of the money supply but did not assist the action to curb lending. Monetary policy has been more successful in governing the rate of growth of aggregate bank credit, comprising both lending and securities, than in influencing its composition. The banks speeded up the replacement of securities by loans, which has been under way since 1984; in a year of modest deposit growth, they thus financed an increase of 52 trillion lire in lending by reducing their securities portfolios by 14 trillion lire, mainly through sales of Treasury credit certificates and special credit institution bonds, as well as by increasing their own external borrowing by 10 trillion lire. The growth in lending to the non-state sector was equal to 15.7 per cent at the end of the year, compared with the target of 10 per cent. By contrast, the growth in the M2 money supply worked out at 8.5 per cent, within the 6-9 per cent target range.

Monetary policy is more effective when it can operate through well-developed financial markets. In Italy, significant improvements in efficiency were made or initiated in 1988 with regard to the payment system, reserve requirements and the secondary market in government securities. The imminent launch of a screen-based market in interbank funds operated by the banks themselves is in keeping with the innovations that are under way. These developments, together with the elimination of the floor price in Treasury bill auctions, will make it easier for the central bank to shift its focus from primary to secondary market operations.

Within a framework of increasingly stable exchange rates, more effective monetary policy must be supplemented by flexible, countercyclical fiscal policy. Given such backing, monetary policy can concentrate more on preserving external balance.

This situation does not obtain in the Italian economy, however. For extended periods over the past eighteen months the Bank of Italy has had to create conditions in which the budget deficit could be covered via market sales of securities ; it has had to curb demand at a time of very substantial capital inflows, which were accentuated by the restrictive monetary stance. A degree of exchange rate flexibility, the extension of reserve requirements to the banks' net fund-raising in foreign currencies and moral suasion only attenuated this contradiction, but could not resolve it.

A fiscal policy directed towards domestic balance is all the more necessary now that complete freedom from exchange controls within the European Community is approaching. Imbalances between domestic money creation and the demand for money and credit will lead even more swiftly to balance-of-payments disequilibria. Monetary aggregates will need to be regulated with reference to targets for the entire Community. The rate of growth of credit in each country will have to be consistent with these targets and its monetary counterpart compatible with exchange rate stability. As we move towards this new arrangement, the scope for national monetary policy to reconcile conflicting objectives will narrow.

Countries that lack fiscal flexibility will find it difficult to keep pace with European integration. Among the member countries that have yet to redress their public finances, Belgium and especially Ireland have made significant progress in the last two years. With the prospect of the lira joining the narrow fluctuation band of the EMS, Italy cannot postpone making equally substantial progress.

Saving

The need for action appears all the more urgent in the light of the emerging trends in domestic saving.

Gross saving, which fluctuated between 25 and 28 per cent of national income from the mid-sixties onwards, has fallen during the eighties, so that last year it stood at 20.9 per cent. The decline is due mainly to the public sector. The negative saving of general government, that is to say its current deficit, rose from an average of 3.8 per cent of national income in the seventies to 6.1 per cent this decade. Adjusted for inflation, the deterioration in public saving has been more pronounced in recent years, shifting from saving of almost 3 per cent of national income in the early eighties to negative saving of around 2 per cent in the last three years.

The private sector's propensity to save also declined between the two decades, although less sharply. Gross private saving, adjusted for inflation, averaged 21.6 per cent of national income from 1981 to 1988, almost a full percentage point lower than in the seventies but still higher than the average of 19 per cent for the other major OECD countries. During the eighties the savings ratio has recovered only partially from the fall that occurred when the acceleration in inflation in the wake of the second oil shock eroded the financial wealth of households without curbing their consumption. The recovery, which has been aided by the improvement in corporate profitability, has not been strong enough to offset the simultaneous growth in the budget deficit and has come to a halt in the past two years.

The need to reflect on the prospects for saving in Italy is indicated by a variety of factors, which the experience of other countries suggests might undermine households' propensity to save.

In the next few years the propensity to save might be reduced by changes taking place in the structure and organization of households themselves, such as the decline in the average size of family and the spread of one-person households, which reduce economies of scale in consumer spending. In the longer run, the aging of the population, due mainly to the fall in the birth rate, will also operate in the same direction.

Developments that are otherwise positive may also tend to increase consumption more than income. The paradox is only apparent, however. The precautionary motive in the broad sense remains one of the fundamental determinants of saving. Economic and social progress that augments individual prosperity, enhances future security and increases efficiency can blunt that motivation and lead to a fall in the propensity to save.

The increasing availability of personal credit offers an example of this effect in the financial sphere. By easing liquidity constraints, personal loans improve a household's ability to alter the timing of its consumption and thus raise its level. In economies where personal credit has partly replaced intra-family financial transfers, households' indebtedness has increased substantially, to the detriment of the propensity to save.

The response to this change must come first and foremost from economic policy. It is doubtful, however, whether the propensity to save can be bolstered by paying higher remuneration on savings. The high real interest rates of the past decade in a number of countries have not impeded a rise in the propensity to consume, although in some cases, as in Italy, they have given households a strong incentive to invest their savings in financial assets. In the last few years the real return on saving has been distinctly higher than the secular trend, so that there appears to be little likelihood of an appreciable and lasting rise. High yields can safeguard existing saving, but not raise it significantly.

Fiscal policy in the broad sense can do much by encouraging thrift and discouraging consumption. The public sector can and must do more, by generating saving within the sector itself.

In the leading industrial countries the last few years have witnessed increasing public saving, which has once again become marginally positive, even before adjustment for inflation. Italy, however, is dramatically out of line with the average. The plan for the rehabilitation of the public finances announced last year and confirmed in the Economic and Financial Planning Document aims to stabilize the public debt as a proportion of national income by 1992 and to reduce it gradually thereafter. Net of interest payments, the budget deficit should be replaced by a surplus of 0.6 per cent of GDP in 1992.

This is an important intermediate objective. Progress will then have to be made towards eliminating the public sector's current deficit, which the planning document estimates at around 30 trillion lire in 1992. The aim should be a system of public finances that creates saving rather than destroying it, in order to augment the economy's capital stock, ease the balance-of-payments constraint and regain the use of the budget as a countercyclical instrument.

Financial institutions and the market

Markets, operators, financial instruments and even the regulations governing financial intermediation are changing at an accelerating pace. The problem of the relationship between financial institutions and the market is re-emerging, sometimes in new forms, in Italy, in the European Community and in the world at large.

In Italy, legislation on the securities market is required all the more urgently because of the shortcomings of the stock exchange and the need for comprehensive regulation of the new activities and operators in this market. The bills before Parliament contain provisions that would significantly broaden and strengthen the market. The main principles on which the proposed legislation on securities firms is based are that all operators engaging in securities business should be governed by the same regulations, trading concentrated on the stock exchange and rules formulated to prevent conflicts of interest between intermediaries and customers. The bill reaffirms the view of competition and transparency as public goods that are complementary to stability. As the bill stands, some of the ways envisaged for concentrating trading on the stock exchange do not appear consistent with the foregoing principles or with an efficient capital market; they restrict the activity of dealers, especially banks, and create obstacles to the search for the best execution of customers' orders.

In the European Community the foundations are being laid for an integrated financial market: the Second Directive on the coordination of banking legislation, which could be approved this year, was flanked at the end of 1988 by the proposed "Securities" Directive. The Community approach recognizes that securities business is one of the banks' activities, that participants in the securities market need to be governed by special regulations, that these must guarantee equal treatment to bank and non-bank intermediaries performing the same operations and that the control of stability must be graduated in accordance with the type of activity undertaken.

Under the system that is emerging, the UK model, in which securities business is mainly conducted by non-bank institutions, will coexist with the continental model, in which credit institutions play a major role on the securities market. A pronounced bias in favour of one or other of these models would be a simplification running counter both to the situation in many member countries and to developments in the leading financial centres. The far-reaching changes in corporate finance, the spread of securitization, the growth of a global securities market and the standardization of instruments have blurred the frontiers between loans and securities and between deposit banking and investment banking. On the other hand, heightened awareness of conflicts of interest and the need for investor protection is leading to the regulation of firms' internal organization and conduct of business with customers. Accordingly, the separation between banking and securities activities that some countries instituted between the two world wars is disappearing. There is a general movement towards a new equilibrium between the role of the market and the centrality of banks, whose dual function of granting loans and creating money remains unique and irreplaceable.

Between 1980 and 1988 the proportion of the financial assets of households and enterprises that was intermediated by financial institutions fell in Italy from 59 to 46 per cent. This reflected the reduction in the share of bank liabilities from 57 to 40 per cent, which was only offset to a limited extent by the increase in those of non-bank intermediaries, especially investment funds. This major change was determined by the growing supply of government securities, which have taken their place alongside bank deposits in investors' portfolios. In 1980 households held 30 per cent of the government securities in circulation; last year they held 56 per cent. Italy is no longer among the countries with only a small proportion of saving invested directly in the market.

Non-bank finance has developed through the spread of services such as the collective investment of savings, portfolio management, leasing, factoring and merchant banking. The range of intermediaries has widened, strengthening the links between traditional banking and the capital market. Banks have taken part in these developments, responding flexibly to the emergence of new products and markets; in many cases they have operated indirectly through specialized subsidiaries in the banking-related sector.

Banks, credit institutions' non-bank affiliates and other operators that are frequently owned by institutions in other countries or by industrial and commercial groups are now all present in one and the same market, in which they provide closely comparable forms of finance and assistance to investors. Legislation is needed to supplement that proposed on securities intermediaries and complete the regulation of the new forms of non-bank fund-raising and lending. Rules will have to be introduced requiring intermediaries' own funds to be commensurate with the overall riskiness of their activities. As for conflicts of interest, the regulations will have to guarantee that all participants performing the same activity are treated equally.

The changes that are under way are directed towards applying prudential criteria to all intermediaries and simplifying supervisory procedures.

Even though non-bank intermediation has expanded considerably in recent years, with investment funds to the fore, Italy still has fewer types of operator than other countries at a comparable level of development, and some markets, such as those for insurance and pensions, are growing less rapidly. At the end of 1987 technical reserves and private pension entitlements amounted to 11 per cent of households' financial assets, a much smaller share than in most of the other industrial countries.

The limited recourse to contractual savings and pension plans in Italy reflects the scale of the state pension system. In years to come, the financial situation of this system, in which pensions are financed out of current contributions, will be adversely affected by the demographic trends that have already been established. The sharp rise in the number of old people entitled to benefits in relation to the working population that pays the contributions calls for corrective action to prevent the system from becoming increasingly unbalanced.

Principles of sound finance and the arrangements in force in other countries suggest that funded personal and company pension schemes should be developed in Italy to supplement the compulsory state system. In view of the nature of their liabilities, supplementary pension funds generate a stable and long-term demand for financial assets. In addition to restoring the equilibrium of the state pension system, the development of pension funds would improve the composition of financial assets in terms of instruments and maturities and broaden the capital base of the corporate sector.

The credit system

The profitability of a bank, as of any other enterprise, is an indicator of its efficiency and a guarantee of its independence. Profits provide the means of strengthening a bank's capital base and increasing its market share.

Last year's large shift in the composition of banks' balance sheets in favour of loans enabled them to improve their net income, which rose to an average of 1.62 per cent of total resources, thus offsetting part of the fall recorded in 1987. One factor that contributed to this positive result was the start made on curbing operating costs, especially by some large banks.

Retained profits plus the fresh capital raised by some institutions were not sufficient to maintain the upward trend of the ratio of capital and reserves to risk-weighted assets, a direct consequence of the large increase in loans. In order to operate in the single European market, banks will have to have adequate capital, defined in the proposed Community Directive as a solvency ratio of 8 per cent, the level set in Italy two years ago. One quarter of the banks operating in the Community fail to meet this standard at present, while fewer than one fifth of Italian banks are below the mark. The fact that the capital ratio for the credit system as a whole is above the compulsory minimum does not mean that the system possesses all the funds it will need to continue growing in the coming years. Banks, especially the large ones, will have to invest to reinforce their positions in the domestic and international markets and to make the best use of technology.

The development of credit institutions is likely to be more efficient and better balanced if it is based on a diversified pattern of ownership, involving all the main categories of economic agents: enterprises, households, foreign operators and the public sector.

I have already expressed a favourable opinion on insurance companies acquiring shareholdings in banks, even controlling interests, provided operational independence is safeguarded on both sides; the same applies to banks acquiring interests in insurance companies.

Capital must also be able to flow into the credit sector from industrial and commercial companies. Provision is made for this in the bill on competition and the market; the aim of the proposed legislation is to prevent a single non-financial company or group from exercising control over a credit institution or group. The extensive discussion of this aspect has not revealed differences of principle. It is generally accepted that the potential conflict between the interests of depositors and those of shareholder-borrowers is a threat to stability and the efficient allocation of resources that the law cannot ignore. In the face of these risks, the first line of defence must be at the level of ownership.

The acquisition of control of individual banks by a non-financial company or group has not been advocated as a matter of principle but as a means of meeting immediate needs, as a way of providing the credit sector with the capital, managers and organizational techniques it requires to overcome the challenges in store. The transfer of skills and resources between different sectors of the economy is beneficial and should be fostered. In the not so distant past the revival of industrial and commercial firms benefited from the contributions of the financial sector and the introduction of more efficient methods of financial management. This was achieved, however, without creating ties of ownership or control; in a market in which the factors of production are sufficiently mobile, transfers of managers and methods do not depend on the existence of such links.

The positive view we have taken of diversification in the pattern of ownership has led us to adopt an open stance with regard to the participation of sound foreign institutions in the capital of Italian credit institutions, within a framework of reciprocity.

In the longer term, however, the strengthening and broadening of banks' equity base will have to be achieved primarily by attracting households' savings, either directly or indirectly. The development of the role of long-term institutional investors, such as pension funds, would allow savings and pension plan resources to be invested in the capital of banks.

The declining importance of operational and geographical specialization and the opening of the domestic market to Community competition mean that it would be desirable for credit institutions to adopt a standard legal form. Outside the cooperative sector, the public limited company is the one most frequently adopted for collective enterprises, both in Italy and abroad. A common form enhances the mobility of equity interests ; in a competitive and rapidly changing industry, ownership itself must be laid open to the critical assessment of the market and the possibility of its changing hands is a necessary condition if credit institutions are to achieve their optimal size and configuration through growth or merger.

A year ago I described the problems concerning the legal status of public sector banks. If they were to become public limited companies in accordance with the procedures proposed in the bill presented by the Minister of the Treasury, they would be able to raise equity capital in the market and diversify their ownership.

The extent to which Italian credit institutions are in public hands is without parallel: banks belonging directly or indirectly to the public sector account for 65 per cent of total deposits. This situation has its roots far in the past. One contributory factor has been the capital that publicly owned banks, in the absence of other rescuers, have injected into banks in difficulty: in the last twenty years 42 banks with a total of 835 branches have passed into the public sector. A shift in the division between public and private in the credit system is feasible, given the degree to which the financial system has developed, the accumulation of savings by households and enterprises and the likely future configuration of the supplementary pension system. The frontier between public and private ownership must be crossable in both directions.

The drive to achieve a size that will allow Italian credit institutions to compete more effectively with foreign banks has gathered pace. Our urging has been heeded: important initiatives are taking shape, while others are running into obstacles that need to be removed in a far-sighted approach to the interests of both individual institutions and the credit system as a whole. The plans involve large banks and special credit institutions and are designed to create units of a size, diversification and capital strength that will allow them to play a significant role in European and world markets.

Mergers must seek to produce viable combinations of capital, managerial skills and networks, evaluated on the basis of a thorough analysis of costs and benefits. On its own, adding balance sheets and operating structures together neither guarantees economies of scale nor ensures greater potential for growth.

The skill of a banking entrepreneur is, of course, revealed by his ability to identify the potentialities of a merger, but perhaps even more after the decision has been taken, when the structures of the new institution have to be organized rapidly to translate these potentialities into profits.

Especially for large concerns, the multi-functional group serves to increase the scale of operations while conserving the advantages of specialization. The importance of the potential outcome and the need for certainty call for a regulatory framework such as that foreseen in the bill now before Parliament, which would make the banking and financial services group an entity that can be made directly subject to supervision, via the parent company. Having a pure holding company as the parent company rather than the credit institution may permit a better balance to be struck between group member companies in the formulation of strategy and may be more appropriate for public banks adopting the status of limited companies. The need to reorganize the banking system confirms that it would be desirable, as I have noted on other occasions, for company law to recognize and regulate corporate groups, with special reference to the unitary nature of their management and the protection of minority shareholders and creditors.

Lending to small and medium-sized businesses by local banks and their links with savers in their traditional areas of operation are characteristics worth defending and a source of competitive strength. But even for these banks the need to find new markets, diversify their risks, achieve economies of scale and cope with increasing competition is a reason for adopting appropriate forms of concentration, even if they control a large share of their local market. The need to improve and expand services and reduce their cost can also be met by creating consortia and concluding agreements among several banks, supported by their central institutions.

Concentration becomes not only desirable but necessary when a bank's financial position is precarious. In such cases decisions must take account of the speed with which a salvable situation may deteriorate.

The first intervention by the Interbank Deposit Protection Fund was made last year with ways and means that corresponded to the multiple interests involved. The Fund, which was set up on a voluntary basis, proved effective and flexible in operation; it can be further improved in the light of the experience gained. The banks' ability to exercise self-regulation was also demonstrated in other projects regarding the disclosure of company information, the publicizing of rates and conditions, the identification of customers, the payment system and automation. These forms of cooperation will enable them to improve the quality of banking services and strengthen their ability to compete in the market.

Banks have taken full advantage of the removal of the restrictions on the transfer of branches: in the first year of operation of the new regulations they decided to relocate 630 offices. In addition, since 1986 about 6,000 automated teller machines have been or are being installed and about 12,600 point-of-sale terminals.

The next step to be taken is to liberalize the opening of new branches. The Bank of Italy will be submitting a procedure based on tacit approval to the Interministerial Committee for Credit and Savings. Each bank's expansion plans will have to be consistent with its capital strength and profitability, the orderly development of its branch network and its technical and organizational structures. The introduction of the new regulations will mark the start of a delicate phase for the banking system; as other countries have found, there is a danger of overbranching, with a consequent increase in fixed costs. It will be up to each bank to assess the benefits and risks inherent in the opportunities opening up for itself and its competitors.

The new order will imply a new approach to branch networks. Branches will generally need to be streamlined and increasingly serve as points for maintaining contact with customers and for the sale of services, rather than their production. The latter can be relatively centralized in order to reduce fixed costs and permit the most efficient use of staff and technology.

Financial intermediation and the South of Italy

Although we are aware that financial factors on their own are not sufficient to bring about economic growth, the Bank of Italy pays particular attention to matters regarding financial intermediation in the South, and a special section of this year's Report is devoted to the subject.

The seriousness of the South's economic problems is well known. It is reflected in the area's trade deficit, which has varied between 15 and 25 per cent of its gross product in the period since 1951. In absolute terms the deficit in 1987 was of the order of 50 trillion lire. Most of the deficit is financed by transfer payments to the southern regions. This flow, part of which returns to the Centre-North in the form of demand, enables the South to maintain a higher level of investment per unit of output than the rest of Italy and to narrow the difference in consumption compared with the rest of the country.

The fact that the higher rate of investment is not matched by faster growth in output, as sectoral surveys confirm, indicates that the problem does not lie only in the volume of resources but also in the efficiency of production processes. In the last few years the productivity gap in industry has widened, not narrowed: value added per employee in the South of Italy is now nearly twenty per cent below that of the Centre-North. The charging of social security contributions to the budget offsets part of the effect on competitiveness, but highlights the need for a closer link between earnings and companies' productivity performance.

These summary considerations call for a review of the mechanisms for allocating resources and the functioning of markets and financial intermediaries in the South of Italy. The efficiency with which the transferred resources are used could be enhanced by further increasing the proportion of capital investment, entrusting their allocation to the market rather than to the budgets of government entities and focusing public intervention on major infrastructure projects.

The transformation taking place in Italy's financial system will make the intermediation of saving more efficient, to the benefit of the South as well as the rest of the country. However, the financial structure of the Southern regions needs to be specially strengthened in terms of diversification, integration with domestic and foreign markets and competitiveness. Progress has been made in recent years. The geographical and sectoral segmentation of the credit market has been considerably attenuated by the reduction in the specialization of credit institutions, the increase in the area in which they can operate, mergers between banks in different parts of the country and a branch policy designed to foster competition. In 1977 the difference between banks' operating costs per unit of total resources in the two parts of the country, which is affected by factors such as population density and the average size of transactions, amounted to about 30 per cent; today it is less than 20 per cent. Nonetheless, the credit system in the South remains less exposed to competition, less profitable and less highly capitalized.

Banks operating in the South are undoubtedly faced with greater difficulties in assessing businessmen's creditworthiness, greater uncertainty about the outcome of plans, and a greater likelihood of projects encountering obstacles in the social and economic fabric and in external diseconomies. On the other hand, the Southern regions offer potential for development, and not only because of the underemployment of their human and material resources. There are opportunities for new industrial initiatives, for the modernization of agriculture and for the promotion of advanced services. This is confirmed by the renewed interest shown by both Italian and foreign groups. In recent years the South has itself produced entrepreneurs who have successfully coped with business risks and set in motion significant endogenous growth, albeit still on a small scale.

The contribution of banks lies in their independent selection of firms in the light of a broadly-based assessment of each investment project, which implies knowledge of the economic environment in the South and of market trends in Italy and abroad. In a phase devoted to making good a lag in development, it is essential for talented entrepreneurs to be able to go to banks that can recognize their potential and meet all the financing requirements of their companies. Nationwide banking groups with the experience and the diversified organization needed to provide a full range of financial services are best suited to these tasks. The presence of more banks of this kind in the South, alongside the major indigenous credit institutions, would foster the development of the area; they would not replace the smaller local banks, which would have an incentive to innovate and improve their efficiency. Increased competition and the fuller disclosure of rates and conditions are the means to achieve the desired narrowing of the interest rate differential between the South and the Centre-North.

Ladies and Gentlemen,

Saving, its formation and the ways in which it is intermediated are crucial in any economy; they have a decisive bearing on stability and growth, current and future prosperity and the very contribution that economic activity makes to the progress of society.

This ancient truth is still relevant, both to the present and to the future, to the world economy and to ours. After six years of uninterrupted growth in the industrialized countries, there is a danger that balance-of-payments disequilibria will be compounded by a savings shortfall as a result of households' rising propensity to consume and the difficulties in generating higher public saving; the warning signs are present in the insidious acceleration in inflation and in high real interest rates. In the less developed countries, in those with high external debt and in the centrally planned economies there is often an acute need both for more saving and investment and for a better balance between them.

The European Community is committed to creating an integrated area without internal barriers, open to external trade and capable of playing a full role in international relations alongside the other major economic powers. There is now full acknowledgement of the limits to which purely national monetary policies are subject in integrated markets and of the need for a close link between monetary and fiscal policy. On the basis of this recognition, the Committee set up by the Heads of State and Government at their meeting in Hanover has developed comprehensive proposals for achieving true economic and monetary union. Member states must now make a fundamental political decision. If they decide to move towards such a union, national monetary policies defined in accordance with common guidelines will become more effective from the very beginning of the first phase and discipline on budgetary policies will become more stringent.

The strength of the Italian economy stems from the high propensity of households and enterprises to save. Our present affluence and the social and demographic changes that are occurring preclude any further increase in the savings ratio, and indeed give cause to fear it will decline. The prospects for growth, for investment and for employment therefore depend on restoring the ability of the public sector to generate saving and provide services of the quality demanded by citizens and enterprises. Saving, capital accumulation and efficient services are the means of overcoming structural deficiencies in some sectors and areas of the country. In industry these deficiencies are reflected in the slowness with which Italy's specialization in world trade is developing; in the South of Italy they are evident in forms of underdevelopment, overlaid with a precarious situation in the civic sphere, neither of which can be tolerated any longer. The mere fact of being a part of the new constellation emerging in Europe demands that the difficult task of restoring sound public finances be completed as soon as possible.

We are now witnessing an acceleration in the transformation of the financial markets and the conditions in which the central bank operates. The new electronic technology dispenses with the paper documents that have been a cornerstone of the payment system based on token money. With the dismantling of national frontiers, the economic agents of one country have unimpeded access to the money created in others. The further development of financial markets and intermediaries in response to the requirements of economic growth and integration is both reshaping the demand for saving and its supply and modifying the methods of intermediation.

These changes open up the possibility of gains in efficiency and freedom. For this potential to be realized, the functions that legislation and tradition have allotted to central banks in the payment system, in the management of the currency and in the intermediation of savings must also be further refined. For its part, the Bank of Italy has responded by fostering the transformation and reviewing its own methods of operation.

Italy's commitment to the creation of better monetary and financial conditions at home and new institutional arrangements within the European Community is often overwhelmed, however, by day-to-day concerns. The public finances continue to send shockwaves through the financial market. Recently we have again had moments of difficulty maintaining the equilibrium of the securities market, which is burdened with a large and increasing volume of short-term public debt. We were able to overcome these difficulties, but we did not eradicate them; they are inherent in the state of the public accounts.

It is essential to make a breakthrough in tackling the imbalances in the public finances, the unresolved problem of the Italian economy. The public sector borrowing requirement will not contract without reforms that impinge upon the level and the quality of expenditure on the one hand and the determination of revenue on the other. The measures adopted by the Government and Parliament in recent years have been neither insignificant nor easy ; they have limited the effects of the underlying trends, but they have not eliminated the trends themselves.

The economic conditions for successful action are better today than at any time in the past. The need for corrective measures is universally proclaimed and the present economic upswing is a compelling reason to act swiftly.

In an economy undergoing a sustained expansion and showing clear signs of overheating, it is up to economic policy to dampen domestic demand, loosen the external constraint and create conditions in which growth can continue and reduce unemployment. These are tasks that every reasonable economic approach assigns to fiscal policy. In accordance with its statutory obligations, the Bank of Italy is committed to stifling the resurgence of inflation and preventing a repetition of the damage we suffered in years past. It will continue to exercise tight control over liquidity in order to reinforce the anti-inflationary effect of a stable exchange rate. The plan to reverse the acceleration in prices in the second half of the year must not miscarry.

Five years ago we indicated the elimination of the borrowing requirement net of interest payments as a first objective; it would have been a significant achievement had it come early enough to curb the rise in interest payments caused by the growth of the public debt. This goal remains to be fulfilled, but the ultimate objective must be to eliminate the budget deficit on current account. If the attack is not directed at the root causes of the deficit, all progress in curbing its effects will prove inadequate and appear tenuous to those who entrust their savings to the state.

The restoration of sound public finances is not beyond the capability of a country that has quadrupled its per capita income in forty years. Economies with less potential than ours have succeeded. Naturally, the steps to be taken imply modifying deeply entrenched habits and arrangements ; they will affect widespread positions of privilege and will require an ability to overcome prejudice and mistrust and to renounce the defence of special interests. Any delay increases the burden we and future generations will have to bear. An advanced society must be able to adopt rules and restrictions that are recognized to be in the general interest: this is the very essence of its existence. The vitality of the economy, the challenges surmounted in recent years and the evidence of the widespread benefits this has brought give grounds for confidence. The course is mapped out: there is no justification for not following it with determination.

STATISTICAL APPENDIX

LIST OF TABLES

	QUARTERLY NATIONAL ACCOUNTS								
	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)								
1970	20,310	103,001	107,212	11,526	34,715	14,082	*267,794*	60,852	*328,646*
1971	20,301	103,032	111,393	12,851	35,851	14,366	*272,092*	62,500	*334,592*
1972	18,580	106,831	116,487	14,676	37,392	14,823	*279,437*	68,605	*348,042*
1973	19,740	116,596	124,634	16,056	38,698	15,690	*299,302*	75,003	*374,305*
1974	19,972	124,621	130,375	15,521	39,866	16,237	*315,550*	76,624	*392,174*
1975	20,847	115,972	128,529	15,193	40,977	16,050	*307,182*	66,939	*374,121*
1976	20,053	125,496	138,104	15,483	42,272	16,950	*327,392*	76,360	*403,752*
1977	19,888	130,065	143,170	15,599	43,391	17,527	*338,442*	77,640	*416,082*
1978	20,287	134,132	150,566	16,283	44,316	17,885	*350,903*	81,374	*432,277*
1979	21,503	143,642	159,704	16,844	44,938	18,969	*371,912*	90,884	*462,796*
1980	22,305	151,321	164,780	16,471	45,730	20,004	*387,669*	93,521	*481,190*
1981	22,433	149,168	168,911	16,361	46,729	20,506	*391,386*	90,068	*481,454*
1982	21,842	147,125	171,719	16,367	47,525	20,816	*392,660*	89,399	*482,059*
1983	23,663	146,675	174,048	16,368	48,168	20,893	*397,079*	87,818	*484,897*
1984	22,803	150,506	181,647	16,518	48,977	21,628	*409,043*	97,727	*506,770*
1985	22,904	153,615	188,715	17,534	49,654	22,434	*419,788*	102,243	*522,031*
1986	23,363	157,039	194,529	18,106	50,303	23,334	*430,462*	106,955	*537,417*
1987	24,161	162,393	200,252	18,720	50,796	24,415	*443,297*	117,715	*561,012*
1988	23,356	170,693	209,883	20,292	51,685	25,392	*460,717*	126,227	*586,944*

Source: Based on the *Relazione generale sulla situazione economica del paese.*
(1) Value added at market prices.

Table a 1

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)					
53,224	23,274	157,578	42,573	7,409	44,588	71,973	25,884	12,768	46,953	53,983	103,595
51,699	24,927	163,119	44,805	2,437	47,605	73,482	26,768	13,900	48,969	54,661	108,458
51,564	26,068	169,093	47,068	2,226	52,023	74,747	28,551	14,720	51,075	54,802	114,291
54,086	30,342	180,835	48,273	6,614	54,155	78,467	32,179	16,774	53,415	57,012	123,823
54,378	31,773	187,554	49,502	11,004	57,963	81,641	33,487	16,611	55,815	58,809	128,745
52,213	27,620	188,151	50,720	−3,491	58,908	81,629	33,578	15,122	57,822	57,642	130,509
48,482	31,389	197,915	51,896	8,990	65,080	84,498	35,854	17,061	60,502	58,606	139,309
47,990	33,354	205,965	53,325	3,934	71,514	85,878	37,744	19,704	62,639	58,910	147,055
48,315	33,542	212,941	55,198	4,314	77,967	88,756	39,042	21,252	63,891	60,490	152,451
48,474	38,057	228,489	56,854	6,318	84,604	92,139	44,117	25,224	67,009	62,053	166,436
49,611	44,451	241,358	58,055	10,460	77,255	95,329	48,143	27,578	70,308	63,801	177,557
48,489	42,607	244,822	59,600	2,820	83,116	96,309	47,505	27,978	73,030	63,732	181,090
45,710	40,656	248,078	61,319	4,095	82,201	98,210	47,560	27,830	74,476	65,048	183,030
46,380	39,185	249,544	63,093	2,508	84,187	99,993	46,578	27,017	75,956	65,977	183,567
45,933	43,444	254,818	64,683	7,591	90,301	101,130	47,027	28,512	78,149	66,567	188,251
45,717	44,933	262,794	66,949	7,811	93,827	102,970	48,341	30,635	80,848	66,911	195,883
46,205	45,863	272,875	68,889	6,170	97,415	105,272	49,720	33,358	84,525	67,490	205,385
45,999	52,328	283,649	71,359	7,088	100,589	107,775	52,041	35,611	88,222	68,784	214,865
47,690	55,472	294,344	73,502	9,406	106,530	109,885	53,761	39,732	90,966	69,652	224,392

Table a2

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

Sector	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
	Unit labour costs (1) *(current lire per thousand lire of value added at 1980 prices)*									
Market goods and services	**591.0**	**695.2**	**833.3**	**973.3**	**1,123.5**	**1,219.6**	**1,318.5**	**1,388.7**	**1,462.5**	**1,532.3**
Agriculture, forestry and fisheries	753.0	876.7	978.6	1,083.9	1,250.5	1,389.2	1,482.2	1,501.1	1,494.7	1,595.2
Industry	565.7	649.4	785.9	916.8	1,030.4	1,086.1	1,169.7	1,226.8	1,272.2	1,316.7
Excluding construction	*578.9*	*656.3*	*781.2*	*903.9*	*1,013.0*	*1,066.3*	*1,140.1*	*1,188.5*	*1,227.9*	*1,273.6*
Energy products	*397.7*	*460.6*	*589.9*	*683.5*	*825.4*	*940.3*	*1,040.9*	*1,105.4*	*1,173.5*	*1,238.1*
Manufactures	*591.2*	*668.9*	*792.7*	*917.0*	*1,022.5*	*1,070.6*	*1,142.1*	*1,188.8*	*1,226.2*	*1,270.4*
Construction	*497.5*	*600.4*	*783.2*	*940.6*	*1,057.4*	*1,119.0*	*1,243.7*	*1,346.3*	*1,413.7*	*1,452.7*
Services	543.3	666.8	799.9	947.7	1,119.4	1,231.1	1,339.6	1,418.0	1,522.6	1,614.3
Distributive trades, lodging & catering	*469.3*	*564.8*	*700.7*	*843.8*	*975.0*	*1,093.5*	*1,223.9*	*1,292.0*	*1,428.2*	*1,508.4*
Transport & communications	*609.6*	*712.0*	*848.2*	*997.7*	*1,144.8*	*1,217.9*	*1,295.5*	*1,348.5*	*1,408.8*	*1,444.0*
Finance and insurance	*470.5*	*628.6*	*665.3*	*755.3*	*963.7*	*1,041.2*	*1,091.4*	*1,134.3*	*1,205.3*	*1,291.1*
Miscellaneous services	*470.1*	*583.8*	*734.4*	*876.6*	*1,038.8*	*1,179.6*	*1,300.4*	*1,411.4*	*1,487.5*	*1,621.0*
Non-market services	**779.0**	**980.3**	**1,257.2**	**1,443.9**	**1,666.2**	**1,858.2**	**2,040.2**	**2,191.4**	**2,456.6**	**2,697.3**
General government	....	983.0	1,268.3	1,452.9	1,678.6	1,873.6	2,053.4	2,210.3	2,486.1	2,729.8
TOTAL	**614.8**	**733.4**	**894.8**	**1,041.2**	**1,201.0**	**1,308.7**	**1,416.2**	**1,497.1**	**1,597.5**	**1,687.2**
	Value added at market prices per full-time equivalent worker (1) *(thousands of lire at 1980 prices)*									
Market goods and services	**16,694.0**	**17,027.8**	**17,147.7**	**17,136.9**	**17,277.5**	**17,816.7**	**18,200.9**	**18,519.7**	**19,057.5**	**19,717.8**
Agriculture, forestry and fisheries	7,471.1	7,880.6	8,327.0	8,582.3	9,126.5	8,959.2	9,400.6	9,612.0	10,180.6	10,176.2
Industry	17,750.0	18,165.8	18,327.9	18,425.1	19,021.5	20,513.1	21,225.2	21,796.5	22,799.6	23,748.9
Excluding construction	*18,020.6*	*18,696.4*	*19,049.6*	*19,355.2*	*20,232.9*	*22,058.7*	*22,994.0*	*23,634.9*	*24,809.6*	*25,813.6*
Energy products	*41,683.6*	*42,120.3*	*41,135.4*	*41,174.3*	*40,074.7*	*39,547.8*	*39,699.3*	*40,556.4*	*41,178.5*	*42,079.4*
Manufactures	*17,268.5*	*17,952.0*	*18,312.2*	*18,615.5*	*19,542.0*	*21,411.4*	*22,358.4*	*22,977.5*	*24,156.0*	*25,174.9*
Construction	*16,765.3*	*16,312.8*	*15,934.3*	*15,416.6*	*15,228.0*	*15,595.2*	*15,588.9*	*15,900.1*	*16,331.6*	*16,992.1*
Services	19,435.6	19,476.2	19,208.9	18,763.9	18,422.8	18,376.8	18,399.2	18,552.6	18,724.0	19,244.5
Distributive trades, lodging & catering	*16,929.5*	*17,019.5*	*16,717.0*	*16,292.9*	*16,062.9*	*16,134.5*	*16,210.0*	*16,322.8*	*16,278.3*	*16,775.5*
Transport & communications	*20,495.4*	*21,685.4*	*21,562.3*	*22,052.2*	*21,297.9*	*21,926.0*	*22,491.2*	*22,434.8*	*22,870.0*	*24,214.0*
Finance and insurance	*53,402.9*	*50,208.7*	*50,664.8*	*48,744.9*	*48,579.8*	*48,169.0*	*49,894.5*	*52,883.0*	*53,609.6*	*54,150.1*
Miscellaneous services	*17,858.2*	*17,572.4*	*17,176.7*	*16,553.0*	*16,284.9*	*15,926.2*	*15,505.1*	*15,451.1*	*15,822.2*	*16,046.2*
Non-market services	**12,501.5**	**12,542.2**	**12,516.1**	**12,470.2**	**12,408.4**	**12,368.2**	**12,296.1**	**12,356.1**	**12,322.8**	**12,318.9**
General government	....	13,399.4	13,387.4	13,412.2	13,464.0	13,406.4	13,355.7	13,386.2	13,299.2	13,306.1
TOTAL	**15,997.6**	**16,286.5**	**16,363.9**	**16,335.1**	**16,430.8**	**16,854.0**	**17,146.4**	**17,418.5**	**17,846.5**	**18,382.0**

Source: *Istat.*
(1) Net of renting of buildings.

Table a3

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		
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
1988	86.8	159.5	163.2	114.2	108.9	88.0	123.8	108.5	95.0	114.5	105.3	106.2	108.2	108.3
1982 - I	95.9	115.5	104.6	101.0	90.2	103.2	104.5	99.0	96.9	102.4	95.8	97.6	98.6	98.7
II	90.7	112.2	106.0	97.4	89.4	102.2	102.0	97.5	92.7	98.7	92.8	94.3	95.6	95.9
III	85.3	111.3	106.6	93.9	87.9	99.9	104.2	97.1	88.3	100.7	90.8	93.0	94.2	94.5
IV	81.4	111.8	103.4	90.9	87.7	98.8	104.9	97.0	86.3	95.8	88.4	90.0	92.1	92.5
1983 - I	80.9	114.5	105.2	91.4	86.2	96.7	104.8	95.8	85.8	94.9	87.4	89.1	91.5	91.8
II	77.7	119.0	109.3	91.0	83.5	91.7	105.0	93.5	86.2	94.0	88.1	89.4	90.7	91.0
III	79.6	122.1	112.2	93.3	85.6	91.6	103.5	93.7	86.4	95.3	90.6	91.2	92.2	92.4
IV	79.8	128.5	114.4	94.9	86.1	88.2	105.7	93.7	87.9	99.8	93.0	94.0	93.8	94.1
1984 - I	77.6	122.0	112.3	92.0	85.9	88.6	103.5	93.0	87.1	99.7	92.8	93.8	92.8	93.2
II	77.5	115.0	119.2	92.0	88.1	95.9	106.2	96.8	86.8	102.6	94.3	95.4	95.0	95.3
III	78.2	123.6	132.6	96.6	90.4	95.4	107.8	98.0	89.1	103.9	95.1	96.5	97.0	97.0
IV	77.6	117.1	142.0	96.9	87.5	98.1	106.6	97.3	87.6	104.1	93.1	95.2	96.3	96.2
1985 - I	77.9	117.8	148.6	98.4	88.4	92.6	108.0	96.6	84.2	102.8	94.0	94.8	95.7	96.0
II	79.7	116.7	144.2	98.6	88.2	92.0	112.1	97.9	87.6	104.1	93.0	95.1	96.5	96.6
III	81.3	116.1	142.6	99.2	88.2	92.8	111.9	98.1	86.3	104.0	93.0	94.8	96.6	96.7
IV	82.4	121.3	141.4	100.5	88.1	91.6	111.4	97.5	85.8	103.2	93.6	95.0	96.5	96.8
1986 - I	83.5	125.5	138.7	101.4	89.9	96.3	113.8	100.3	85.6	105.8	94.5	96.1	98.4	98.4
II	82.7	128.4	145.0	102.7	91.9	94.0	113.2	100.2	85.8	102.7	95.4	95.9	98.1	98.5
III	81.4	133.4	148.6	103.4	94.6	93.6	112.6	100.8	86.1	102.7	96.3	96.5	98.6	99.1
IV	82.4	136.8	149.6	104.8	98.4	93.5	115.1	103.1	88.4	104.6	96.4	97.4	100.2	100.6
1987 - I	81.5	130.8	147.5	102.8	99.7	90.8	116.6	103.3	83.9	107.5	97.9	98.3	100.3	100.8
II	85.3	137.1	144.7	105.7	101.9	91.3	118.2	104.9	87.8	111.7	100.7	101.6	103.2	103.4
III	84.6	135.0	140.3	104.1	100.4	88.4	123.2	105.3	88.5	112.0	99.9	101.3	102.7	103.1
IV	85.4	145.4	149.0	108.1	103.8	89.0	122.0	106.2	89.0	111.7	102.7	103.1	104.7	105.0
1988 - I	87.4	159.6	154.8	112.9	106.2	89.6	122.5	107.4	95.4	111.8	103.7	104.6	107.0	107.0
II	86.0	158.9	159.2	112.8	106.3	87.0	122.4	106.7	93.6	112.2	102.6	103.7	106.1	106.3
III	86.5	159.7	164.9	114.4	110.3	88.2	123.8	109.1	94.4	114.2	105.5	106.1	108.3	108.5
IV	87.3	160.0	173.9	116.6	112.8	87.3	126.7	110.7	96.5	120.0	109.3	110.2	111.3	111.5

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
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
1988	183.9	188.3	213.2	182.6	194.9	216.9	144.4	173.8	169.2
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	169.3	165.2
II	182.6	186.3	213.0	183.1	194.0	215.9	143.4	172.0	167.5
III	184.8	187.9	213.2	184.4	195.1	217.6	147.2	175.0	170.6
IV	188.0	193.8	215.1	186.8	198.9	220.3	144.2	179.0	173.5
1989 - I	192.3	210.2	216.9	190.0	203.6	223.9	150.3	182.7	177.5

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.

Table a5

CONSUMER PRICES *(1)*

(indices, 1985= 100)

	POPULATION AS A WHOLE												WORKER AND EMPLOYEE HOUSEHOLDS					
	Overall index	Goods			Services	Other than food & services							Overall index	Categories of expenditure				
		food	non-food	total		clothing & footwear	housing, fuel & electricity	furniture, furnishings, etc.	medical care and health	transport & communications	recreation, entertainment, education, & cultural services	other goods & services		food	clothing	electricity & other fuels	housing	miscellaneous expenditure
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
1988	116.5	114.3	113.4	113.8	122.3	122.2	108.8	117.1	115.0	112.3	122.8	122.8	116.5	113.9	122.2	97.8	123.2	118.2
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	112.6	111.6	112.1	119.8	119.7	106.7	115.1	112.7	111.0	120.5	120.3	114.5	112.1	119.5	95.9	120.2	116.2
II	115.7	113.5	112.7	113.1	121.5	121.5	107.8	116.5	114.1	111.8	121.5	122.3	115.6	112.9	121.4	96.8	122.4	117.4
III	116.8	114.6	113.9	114.2	122.6	122.2	109.2	117.5	114.9	113.0	122.7	123.5	116.8	114.2	122.1	98.5	123.5	118.6
IV	118.9	116.6	115.5	116.0	125.2	125.3	111.6	119.5	118.4	113.4	126.4	125.0	119.1	116.3	125.6	100.0	126.5	120.7
1989 - I													121.5	118.4	126.9	100.6	128.2	123.7

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 PAYMENTS

(billions

	CURRENT ACCOUNT							CAPITAL MOVEMENTS	ERRORS & OMISSIONS (3)	OVERALL BALANCE
	Goods (2)	Freight	Foreign travel	Emigrants' remittances	Income from capital	Other services	Total			
										Rece
1979	55,021	1,863	6,816	2,005	2,746	6,077	*74,528*	7,603	–	–
1980	65,419	2,346	7,032	2,211	4,067	7,584	*88,659*	10,422	–	–
1981 (6) .	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	–	–
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	–	–
1988	155,739	4,758	16,144	3,582	8,262	22,853	*211,338*	105,481	–	–
										Pay
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	–	–
1981 (6) .	97,110	–	1,600	–	10,171	10,241	*119,122*	9,278	–	–
1982	112,055	–	1,951	–	12,882	12,820	*139,708*	11,474	–	–
1983	112,791	–	2,144	–	12,140	14,028	*141,103*	15,218	–	–
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	–	–
1986 (7) .	139,087	–	4,338	–	17,290	23,988	*184,703*	57,119	–	–
1987	148,942	–	5,880	–	16,770	23,883	*195,475*	68,716	–	–
1988	168,565	–	7,795	–	18,840	28,423	*223,623*	92,317	–	–
										Bal
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 (7) .	−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*
1988	−12,826	4,758	8,349	3,582	−10,578	−5,570	*−12,285*	13,164	−197	*682*

(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) New series for the item "Foreign travel". – (7) New series for the items "Foreign travel" and "Income from

Table a6

ON A SETTLEMENTS BASIS (1)

of lire)

CHANGES IN BANKS' NET EXTERNAL POSITION (4) (5)	CHANGES IN OFFICIAL RESERVES (5)								EXCHANGE RATE AND OTHER ADJUST-MENTS
	Gold	Convertible currencies	ECUs	SDRs	Reserve position in the IMF	Short-tem liabilities	Medium & long-term position	Total	
ipts									
1,004	–	781	–	–	11	–	–	*792*	8,060
7,886	–	–	–	–	–	139	281	*420*	22,868
1,322	–	–	–	–	–	–	379	*379*	126
–	2,343	2,519	2,544	–	–	–	–	*7,406*	–
6,792	–	–	–	13	–	211	9	*233*	14,284
6,654	1,512	–	–	–	–	–	–	*1,512*	–
–	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	*74*	6,235
11,219	2,570	–	1,860	13	37	65	–	*4,545*	–
ments									
–	4,247	–	5,974	232	–	20	1,207	*11,680*	–
–	18,030	2,221	4,008	143	514	–	–	*24,916*	–
–	623	1,506	703	324	113	91	–	*3,360*	–
1,505	–	–	–	168	73	37	284	*562*	2,818
–	10,949	8,451	5,013	–	689	–	–	*25,102*	–
–	–	6,209	6	252	436	93	294	*7,290*	933
4,818	–	–	–	–	–	58	–	*58*	3,435
–	–	–	3,018	206	–	–	–	*3,224*	5,842
–	4,610	5,966	2,062	167	–	158	–	*12,963*	–
–	–	11,827	–	–	–	–	1,195	*13,022*	3,424
ance									
1,004	–4,247	781	–5,974	–232	11	–20	–1,207	*–10,888*	8,060
7,886	–18,030	–2,221	–4,008	–143	–514	139	281	*–24,496*	22,868
1,322	–623	–1,506	–703	–324	–113	–91	379	*–2,981*	126
–1,505	2,343	2,519	2,544	–168	–73	–37	–284	*6,844*	–2,818
6,792	–10,949	–8,451	–5,013	13	–689	211	9	*–24,869*	14,284
6,654	1,512	–6,209	–6	–252	–436	–93	–294	*–5,778*	–933
–4,818	2,357	7,258	6,019	468	133	–58	428	*16,605*	–3,435
5,006	4,327	2,197	–3,018	–206	232	81	188	*3,801*	–5,842
5,452	–4,610	–5,966	–2,062	–167	21	–158	53	*–12,889*	6,235
11,219	2,570	–11,827	1,860	13	37	65	–1,195	*–8,477*	–3,424

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 capital".

MAIN ITEMS OF THE BALANCE OF

(billion.

	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)*
1979	60,069		59,278		−791		5,685		*4,894*	
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		4,826		*−7,102*	
1986	137,446		143,729		6,283		−2,481		*3,802*	
1987	149,952		149,875		−77		−1,863		*−1,940*	
1988	167,368		166,622		−746		−6,033		*−6,779*	
1984 - I	34,183	32,812	31,786	32,530	−2,397	−282	−708	875	*−3,105*	593
II	33,692	33,242	31,277	30,998	−2,415	−2,244	2,013	1,316	*−402*	−928
III	33,373	36,844	31,263	32,496	−2,110	−4,348	3,348	1,634	*1,238*	−2,714
IV	38,636	36,986	35,304	33,606	−3,332	−3,380	1,287	2,115	*−2,045*	−1,265
1985 - I	40,849	39,338	34,171	35,031	−6,678	−4,307	244	2,347	*−6,434*	−1,960
II	39,629	39,079	36,606	36,258	−3,023	−2,821	1,782	1,022	*−1,241*	−1,799
III	35,732	39,517	35,112	36,543	−620	−2,974	1,736	−348	*1,116*	−3,322
IV	40,234	38,510	38,627	36,684	−1,607	−1,826	1,064	1,805	*−543*	−21
1986 - I	37,812	36,597	35,593	36,568	−2,219	−29	−2,585	−657	*−4,804*	−686
II	35,333	34,795	36,684	36,273	1,351	1,478	224	−799	*1,575*	679
III	29,594	32,829	34,318	35,770	4,724	2,941	2,065	550	*6,789*	3,491
IV	34,707	33,225	37,134	35,118	2,427	1,893	−2,185	−1,575	*242*	318
1987 - I	35,818	34,690	34,546	35,668	−1,272	978	−1,876	−75	*−3,148*	903
II	37,756	36,978	37,252	36,795	−504	−183	1,774	685	*1,270*	502
III	34,844	38,680	36,319	37,973	1,475	−707	535	−894	*2,010*	−1,601
IV	41,534	39,604	41,758	39,439	224	−165	−2,296	−1,579	*−2,072*	−1,744
1988 - I	39,010	37,857	35,429	36,697	−3,581	−1,161	−2,857	−1,089	*−6,438*	−2,250
II	42,662	41,692	43,706	43,168	1,044	1,477	209	−1,105	*1,253*	372
III	38,856	43,204	40,246	42,163	1,390	−1,041	−1,062	−2,506	*328*	−3,547
IV	46,840	44,615	47,241	44,594	401	−21	−2,323	−1,333	*−1,922*	−1,354

(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 ON A 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 AND OTHER ADJUSTMENTS	OVERALL BALANCE (9+13+14) = −(15+16+17)
Medium and long-term	Short-term	Total					
(11)	*(12)*	*(13)*	*(14)*	*(15)*	*(16)*	*(17)*	*(18)*
−266	−2,138	−2,404	−666	1,004	−10,888	8,060	*1,824*
2,807	−305	2,502	−228	7,886	−24,496	22,868	*−6,258*
9,491	1,734	11,225	609	1,322	−2,981	126	*1,533*
6,999	−2,065	4,934	977	−1,505	6,844	−2,818	*−2,521*
997	616	1,613	−143	6,792	−24,869	14,284	*3,793*
2,610	−2,547	63	4,308	6,654	−5,778	−933	*57*
4,660	1,532	6,192	−7,442	−4,818	16,605	−3,435	*−8,352*
−4,026	−189	−4,215	−2,552	5,006	3,801	−5,842	*−2,965*
4,101	2,429	6,530	−3,388	5,452	−12,889	6,235	*1,202*
10,184	−1,526	8,658	−1,197	11,219	−8,477	−3,424	*682*
960	262	1,222	−1,339	826	3,893	−1,497	*−3,222*
−637	−1,492	−2,129	1,527	4,218	−2,668	−546	*−1,004*
1,147	−978	169	1,702	630	−4,990	1,251	*3,109*
1,140	−339	801	2,418	980	−2,013	−141	*1,174*
2,997	169	3,166	−1,104	877	5,478	−1,983	*−4,372*
2,003	1,012	3,015	−3,145	4,262	−6,067	3,176	*−1,371*
1,676	760	2,436	−2,177	−4,138	4,876	−2,113	*1,375*
−2,016	−409	−2,425	−1,016	−5,819	12,318	−2,515	*−3,984*
−906	2,071	1,165	−3,057	5,190	5,365	−3,859	*−6,696*
3,018	−654	2,364	567	1,588	−6,418	324	*4,506*
−4,496	−754	−5,250	−1,074	−2,983	5,294	−2,776	*465*
−1,642	−852	−2,494	1,012	1,211	−440	469	*−1,240*
3,875	2,043	5,918	−782	3,333	−5,460	139	*1,988*
−3,663	−178	−3,841	−1,218	1,538	1,142	1,109	*−3,789*
−2,435	458	−1,977	238	−2,266	368	1,627	*271*
6,324	106	6,430	−1,626	2,847	−8,939	3,360	*2,732*
3,876	576	4,452	2,510	2,587	−638	−2,473	*524*
−1,195	−469	−1,664	−2,936	4,011	681	−1,345	*−3,347*
6,682	−227	6,455	−2,100	−852	−4,449	618	*4,683*
821	−1,406	−585	1,329	5,473	−4,071	−224	*−1,178*

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.

ITALY'S REAL EFFECTIVE EXCHANGE RATES (1)

(indices, 1980 = 100)

	14 industrial countries	EEC	Germany	France	UK	Belgium	Netherlands	US
1979	*94.4*	*94.2*	91.4	96.5	105.9	89.4	92.5	98.5
1981	*96.7*	*100.4*	102.7	101.4	92.3	100.7	99.2	79.4
1982	*96.3*	*100.7*	100.4	104.6	94.1	105.2	98.2	73.6
1983	*99.0*	*104.9*	102.5	109.1	101.5	110.5	103.0	71.7
1984	*99.0*	*106.4*	105.4	109.5	103.2	111.6	103.9	66.6
1985	*97.4*	*104.4*	105.3	104.4	99.9	109.7	105.0	65.6
1986	*100.9*	*104.9*	102.4	102.8	108.3	117.4	113.5	87.5
1987	*103.0*	*105.2*	100.7	104.4	110.3	119.5	113.5	100.6
1988	*101.2*	*103.5*	100.1	104.1	100.4	119.7	113.7	100.5
1982 - I	*95.6*	*99.9*	101.1	101.5	93.4	103.3	97.8	75.8
II	*94.9*	*99.1*	99.0	101.3	93.2	104.9	97.8	74.4
III	*96.9*	*101.7*	100.3	108.7	93.2	105.4	98.1	72.1
IV	*97.7*	*102.3*	101.1	106.8	96.8	107.1	99.1	72.0
1983 - I	*100.4*	*105.5*	102.7	108.2	108.0	110.3	103.6	75.9
II	*99.3*	*104.9*	101.7	110.7	100.4	110.7	103.8	73.1
III	*98.3*	*104.6*	102.8	108.7	98.4	110.1	102.4	69.4
IV	*98.0*	*104.6*	102.7	108.8	99.2	111.0	102.3	68.6
1984 - I	*98.8*	*105.7*	103.8	110.3	100.9	112.2	102.6	68.9
II	*99.1*	*105.9*	104.6	109.5	102.4	111.8	103.3	69.1
III	*99.2*	*106.7*	106.0	109.4	103.4	111.5	104.5	65.2
IV	*99.1*	*107.2*	107.0	108.7	105.9	111.1	105.3	63.3
1985 - I	*99.4*	*108.1*	108.7	108.4	109.3	110.9	106.4	61.0
II	*98.2*	*105.7*	106.9	106.8	99.1	111.0	105.7	63.2
III	*95.6*	*101.7*	103.1	101.8	93.8	108.1	103.3	66.1
IV	*96.5*	*101.9*	102.6	100.8	97.4	108.6	104.7	72.1
1986 - I	*98.8*	*103.2*	102.5	100.0	104.6	113.5	110.1	80.2
II	*99.5*	*103.8*	102.1	102.5	101.5	115.7	113.2	84.4
III	*101.7*	*105.6*	102.2	104.0	109.5	119.4	115.0	91.2
IV	*103.8*	*107.1*	102.6	104.7	117.6	120.8	115.7	94.3
1987 - I	*104.1*	*106.4*	101.3	104.9	116.1	119.5	114.4	100.2
II	*102.5*	*104.8*	100.5	104.1	109.2	118.7	113.2	100.3
III	*102.4*	*104.8*	100.8	104.1	108.9	119.3	112.8	97.6
IV	*103.0*	*104.7*	100.4	104.4	107.0	120.7	113.8	104.5
1988 - I	*102.5*	*104.3*	100.2	103.9	105.0	121.0	114.3	105.7
II	*100.9*	*102.9*	99.6	103.4	99.3	119.8	112.7	102.5
III	*100.1*	*103.2*	100.1	103.9	98.7	119.2	113.5	94.2
IV	*101.2*	*103.8*	100.5	105.2	98.4	118.8	114.3	99.6
1989 - I	*101.9*	*105.0*	102.1	107.0	98.1	120.4	114.6	96.2

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)

	1979	1980	1981	1982	1983	1984 (1)	1985	1986	1988	1988 (2)
Non-bank assets										
Direct investments	5.9	7.0	7.4	8.1	9.8	14.2	17.7	27.6	34.3	39.9
Portfolio and other investments	5.0	5.5	4.5	4.4	3.9	4.9	7.8	14.8	18.9	25.0
Loans	3.4	4.1	4.1	4.5	4.7	5.4	7.2	9.4	12.2	13.2
Trade credits	28.6	26.8	23.3	21.2	20.7	19.1	23.0	27.7	36.8	34.0
of which: short-term	*17.0*	*16.7*	*14.8*	*13.1*	*12.5*	*11.9*	*15.6*	*18.4*	*20.2*	*19.8*
TOTAL ...	**42.9**	**43.4**	**39.3**	**38.2**	**39.1**	**43.6**	**55.7**	**79.1**	**102.2**	**112.1**
Non-bank liabilities										
Direct investments	9.1	8.9	7.7	7.4	7.3	11.6	19.0	25.7	31.4	36.9
Portfolio and other investments	4.3	6.0	5.4	4.7	4.4	3.3	6.6	10.8	11.2	17.5
Private loans	9.9	12.4	17.9	21.2	21.0	19.4	20.1	23.4	31.3	33.0
Official loans	7.7	11.2	15.3	17.9	19.5	21.2	28.4	35.8	48.1	48.8
Trade credits	12.5	12.5	13.6	11.0	11.8	11.9	14.4	16.8	23.8	21.8
of which: short-term	*11.6*	*11.7*	*12.9*	*10.5*	*10.7*	*10.6*	*13.1*	*15.1*	*19.6*	*18.1*
TOTAL ...	**43.5**	**51.0**	**59.9**	**62.2**	**64.0**	**67.4**	**88.5**	**112.5**	**145.8**	**158.0**
Net non-bank position	**-0.6**	**-7.6**	**-20.6**	**-24.0**	**-24.9**	**-23.8**	**-32.8**	**-33.4**	**-43.6**	**-45.9**
Net position of banks	**-8.5**	**-15.9**	**-13.4**	**-10.6**	**-12.9**	**-15.1**	**-14.5**	**-21.8**	**-29.9**	**-35.4**
Net position of BI and UIC (3)	**17.9**	**22.4**	**19.3**	**13.7**	**19.7**	**20.6**	**15.3**	**19.4**	**29.5**	**34.9**
TOTAL NET POSITION	**8.8**	**-1.1**	**-14.7**	**-20.9**	**-18.1**	**-18.3**	**-32.0**	**-35.9**	**-44.0**	**-46.4**
(in trillions of lire)	*7.1*	*—1.0*	*—17.6*	*—28.6*	*—30.0*	*—35.4*	*—53.7*	*—48.5*	*—51.4*	*—60.7*
Memorandum items:										
– official gold reserves	20.1	36.7	29.0	23.7	26.2	21.6	23.6	26.1	34.1	28.5
– lira/dollar exchange rate	804	930	1,200	1,370	1,659	1,936	1,678	1,351	1,169	1,306

(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	1988
REVENUE									
Current revenue	**133,593**	**166,796**	**207,491**	**256,646**	**287,501**	**325,151**	**366,769**	**403,376**	**451,717**
Direct taxes	37,608	51,293	67,439	85,329	93,885	106,385	116,280	131,804	146,710
Indirect taxes	33,522	38,297	46,649	57,987	67,283	72,661	81,743	93,114	109,182
Social security contributions									
Actual	44,488	53,130	67,217	79,126	86,955	97,114	111,369	121,769	134,118
Imputed	5,005	6,363	7,391	9,712	11,567	13,116	14,039	14,687	15,782
Income from capital	2,346	3,269	3,215	3,651	4,157	5,568	6,554	7,073	7,818
Sales of goods and services	6,104	8,096	9,980	11,927	14,059	16,364	19,068	19,510	21,666
Other	4,520	6,348	5,600	8,914	9,595	13,943	17,716	15,419	16,441
Capital account revenue	**708**	**1,189**	**1,860**	**913**	**1,309**	**1,400**	**1,611**	**1,481**	**1,738**
Total revenue	**134,301**	**167,985**	**209,351**	**257,559**	**288,810**	**326,551**	**368,380**	**404,857**	**453,455**
EXPENDITURE									
Current expenditure	**150,854**	**198,197**	**243,924**	**294,539**	**336,908**	**383,502**	**426,824**	**468,469**	**517,551**
Compensation of employees	49,073	65,468	76,213	88,296	99,834	111,084	120,616	136,133	151,474
Intermediate consumption	17,171	21,764	26,709	32,420	38,388	45,247	49,388	55,877	61,941
Social services	54,696	72,805	88,609	109,355	121,556	139,055	154,748	169,972	186,256
Subsidies to firms	6,255	6,539	8,437	11,485	12,094	14,168	16,268	17,577	16,717
Interest payments	20,634	28,777	39,308	48,029	59,340	66,352	77,789	80,127	90,799
Other	3,025	2,844	4,648	4,954	5,696	7,596	8,015	8,783	10,364
Capital account expenditure	**17,955**	**23,829**	**29,188**	**33,316**	**37,682**	**47,773**	**46,632**	**50,014**	**54,798**
Gross investment	13,856	19,024	23,259	27,165	31,160	34,877	37,580	40,576	44,535
Investment grants	3,365	4,777	5,887	5,884	6,042	7,388	8,278	8,766	9,743
Other	734	28	42	267	480	5,508	774	672	520
Total expenditure	**168,809**	**222,026**	**273,112**	**327,855**	**374,590**	**431,275**	**473,456**	**518,483**	**572,349**
Deficit on current account	**-17,261**	**-31,401**	**-36,433**	**-37,893**	**-49,407**	**-58,351**	**-60,055**	**-65,093**	**-65,834**
Total deficit	**-34,508**	**-54,041**	**-63,761**	**-70,296**	**-85,780**	**-104,724**	**-105,076**	**-113,626**	**-118,894**

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

Table a11

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT (1)

(billions of lire)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Medium and long-term securities, excluding BI portfolio	12,175	−2,303	5,727	23,429	66,968	55,942	83,647	77,099	52,363	54,703
Treasury bills, in lire and ECUs, excluding BI portfolio	9,926	26,218	28,234	29,039	10,377	14,918	−1,878	8,369	32,239	47,941
Post Office funds	6,748	2,195	2,591	3,683	4,939	6,365	9,067	11,267	12,925	10,763
Lending by credit institutions	2,680	744	1,035	5,276	5,744	8,830	−2,211	1,530	3,428	4,885
central government bodies	*490*	*343*	*819*	*783*	*−139*	*10*	*−89*	*−199*	*−96*	*1,300*
social security institutions	*255*	*280*	*−1,255*	*242*	*225*	*755*	*−2,203*	*66*	*470*	*545*
local authorities (2)	*1,862*	*140*	*1,506*	*3,187*	*3,486*	*6,769*	*281*	*1,013*	*1,429*	*1,028*
autonomous government agencies	*71*	*−74*	*−68*	*1,065*	*2,059*	*1,315*	*−307*	*597*	*1,611*	*1,907*
municipal enterprises	*2*	*55*	*33*	*−1*	*113*	*−19*	*107*	*52*	*14*	*105*
Other domestic debt	160	136	79	160	209	232	72	24	144	137
Foreign debt	581	787	2,515	2,570	1,298	2,353	3,031	872	6,029	4,188
Total . . .	**32,269**	**27,777**	**40,180**	**64,156**	**89,535**	**88,639**	**91,727**	**99,160**	**107,128**	**122,616**
Borrowing from BI-UIC	343	9,930	13,692	12,589	1,259	13,726	27,479	10,980	7,020	2,645
of which: overdraft on BI account	*3,476*	*8,944*	*6,186*	*6,598*	*−8,622*	*18,554*	*6,340*	*4,525*	*9,274*	*4,331*
PUBLIC SECTOR BORROWING REQUIREMENT	**32,612**	**37,707**	**53,872**	**76,745**	**90,794**	**102,365**	**119,206**	**110,140**	**114,148**	**125,261**
Borrowing requirement net of settlements of past debts	*32,062*	*36,657*	*52,072*	*75,045*	*90,794*	*102,365*	*112,706*	*109,690*	*113,898*	*125,211*
Financing of ENEL	**1,068**	**2,790**	**1,056**	**3,389**	**2,138**	**1,765**	**1,115**	**77**	**1,335**	**−154**
of which: bond issues	*209*	*471*	*−756*	*1,213*	*1,081*	*1,045*	*669*	*1,289*	*1,507*	*261*
loans from credit institutions	*477*	*58*	*−109*	*794*	*−309*	*1,022*	*182*	*−666*	*−262*	*633*
borrowing abroad	*382*	*2,261*	*1,921*	*1,382*	*1,366*	*−302*	*264*	*−546*	*90*	*−1,048*
BORROWING REQUIREMENT OF THE ENLARGED PUBLIC SECTOR	**33,680**	**40,497**	**54,928**	**80,134**	**92,932**	**104,130**	**120,321**	**110,217**	**115,483**	**125,107**

(1) Rounding may cause discrepancies in totals. – (2) For 1986 onwards 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)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
					amounts outstanding					
Medium and long-term securities, excluding BI portfolio	52,008	49,527	55,802	80,895	149,876	207,892	294,961	374,454	429,752	485,198
of which: held by banks	*34,375*	*31,435*	*32,435*	*47,907*	*81,094*	*96,285*	*127,468*	*128,806*	*134,331*	*134,036*
Treasury bills, excluding BI portfolio	43,905	70,123	98,357	127,395	137,772	152,691	150,814	159,187	191,427	239,375
of which: held by banks	*25,117*	*35,436*	*39,097*	*56,514*	*51,317*	*44,743*	*26,584*	*30,510*	*25,981*	*23,107*
Post Office funds	30,853	33,048	35,639	39,322	44,261	50,626	59,693	70,960	83,885	94,648
Lending by credit institutions	17,002	17,746	18,780	24,056	29,800	38,630	36,418	37,948	41,376	46,261
central government bodies	*883*	*1,226*	*2,045*	*2,828*	*2,689*	*2,699*	*2,609*	*2,411*	*2,315*	*3,615*
social security institutions	*2,188*	*2,468*	*1,213*	*1,455*	*1,680*	*2,435*	*232*	*298*	*768*	*1,313*
local authorities (2)	*13,027*	*13,166*	*14,672*	*17,859*	*21,345*	*28,114*	*28,395*	*29,408*	*30,837*	*31,865*
autonomous government agencies	*587*	*513*	*445*	*1,511*	*3,570*	*4,885*	*4,578*	*5,175*	*6,785*	*8,692*
municipal enterprises	*317*	*372*	*405*	*403*	*516*	*497*	*605*	*657*	*671*	*776*
Other domestic debt	1,563	1,699	1,779	1,938	2,147	2,379	2,451	2,475	2,619	2,756
Foreign debt	2,392	3,433	6,578	9,731	12,545	16,408	18,435	17,619	23,536	28,623
SUB-TOTAL . . .	**147,724**	**175,576**	**216,935**	**283,337**	**376,401**	**468,626**	**562,772**	**662,643**	**772,595**	**896,861**
Borrowing from BI-UIC	43,255	52,978	66,555	78,670	79,630	92,863	120,286	130,954	137,968	140,344
of which: medium and long-term securities	*27,759*	*28,261*	*29,647*	*28,891*	*30,393*	*36,367*	*45,083*	*52,681*	*53,975*	*58,104*
Treasury bills	*3,657*	*2,641*	*8,099*	*12,086*	*12,670*	*6,641*	*21,658*	*23,056*	*18,551*	*13,273*
overdraft on BI account	*10,182*	*19,126*	*25,312*	*31,910*	*23,288*	*41,842*	*48,182*	*52,707*	*61,981*	*66,312*
other	*1,657*	*2,950*	*3,497*	*5,783*	*13,280*	*8,013*	*5,363*	*2,511*	*3,461*	*2,655*
TOTAL . . .	**190,979**	**228,554**	**283,490**	**362,007**	**456,031**	**561,489**	**683,058**	**793,597**	**910,563**	**1,037,205**
					percentage composition					
Medium and long-term securities, excluding BI portfolio	27.2	21.7	19.7	22.4	32.9	37.0	43.2	47.2	47.2	46.8
Treasury bills, excluding BI portfolio	23.0	30.7	34.7	35.2	30.2	27.2	22.1	20.1	21.0	23.1
Post Office funds	16.2	14.4	12.6	10.9	9.7	9.0	8.7	8.9	9.2	9.1
Lending by credit institutions	8.9	7.8	6.6	6.6	6.5	6.9	5.3	4.8	4.5	4.5
Other domestic debt	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Foreign debt	1.2	1.5	2.3	2.7	2.7	2.9	2.7	2.2	2.6	2.7
Borrowing from BI-UIC	22.7	23.2	23.5	21.7	17.5	16.6	17.6	16.5	15.2	13.5

(1) Rounding may cause discrepancies in totals. – (2) From 1986 on, 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 al3

STATE SECTOR EXPENDITURE, REVENUE AND BORROWING REQUIREMENT

(billions of lire)

	1984	1985	1986	1987	1988
EXPENDITURE					
Wages, salaries and pensions	64,863	71,756	77,754	87,392	97,848
Purchases of goods and services	16,840	19,620	21,661	25,230	27,335
Interest payments	57,579	63,558	73,180	76,218	87,962
Direct investment	12,610	11,818	13,548	13,879	15,976
Loans and shareholdings	12,692	14,372	11,844	10,340	13,868
of which: local authorities	*3,725*	*4,304*	*5,671*	*6,063*	*9,063*
financial institutions	*1,726*	*2,085*	*2,375*	*2,111*	*2,102*
public enterprises	*6,548*	*5,469*	*1,840*	*274*	*257*
Disbursements to: regions	52,594	61,261	64,406	72,342	80,036
of which: health care	*33,307*	*39,753*	*41,923*	*46,446*	*54,377*
provinces and communes	20,192	27,406	29,585	34,353	35,052
social security institutions	29,626	37,008	38,269	40,842	42,766
enterprises	13,383	12,441	14,732	17,667	18,378
households	6,109	7,675	8,839	10,156	10,794
other	9,471	12,560	18,952	15,424	16,406
Other expenditure	11,717	11,469	11,629	9,133	14,787
Total . . .	**307,676**	**350,944**	**384,399**	**412,976**	**461,208**
REVENUE					
Direct taxes	**86,689**	**98,807**	**111,606**	**124,686**	**139,686**
of which: personal income tax	*51,072*	*61,852*	*66,746*	*74,091*	*87,605*
corporate income tax	*8,117*	*9,173*	*12,090*	*15,018*	*13,495*
local income tax	*8,027*	*10,555*	*13,800*	*16,618*	*16,639*
withholding tax on interest income	*15,618*	*13,910*	*15,729*	*15,679*	*17,889*
Indirect taxes	**74,326**	**79,291**	**90,902**	**100,536**	**118,140**
of which: value added tax	*41,882*	*44,912*	*48,050*	*52,963*	*62,499*
business taxes (stamp duties, duties on government concessions, etc.)	*8,482*	*9,437*	*10,595*	*12,185*	*14,922*
excise duty on oil products	*13,014*	*13,653*	*19,198*	*21,796*	*24,349*
excise duty on other manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)	*1,315*	*1,177*	*1,308*	*1,373*	*1,803*
tax on tobacco consumption	*4,134*	*4,399*	*5,127*	*5,095*	*5,507*
Total tax revenue, net of accounting operations, discounts and bank commissions	**161,015**	**178,098**	**202,508**	**225,222**	**257,826**
Receipts from the building offences condonation	–	226	4,223	1,144	285
EEC levies	4,539	4,895	6,992	7,819	8,330
Sales of goods and services	11,920	14,478	15,482	15,813	17,012
Health care and other social security contributions	24,245	28,448	32,524	34,668	35,080
Other income	10,262	12,575	12,511	14,473	18,002
Total receipts, net of accounting operations, discounts and bank commissions	**211,981**	**238,720**	**274,240**	**299,139**	**336,535**
BORROWING REQUIREMENT	**95,695**	**112,224**	**110,159**	**113,837**	**124,673**

	ASSETS										
	Bank reserves			Lending		Bad debts & protested bills	Shares	Interbank accounts	Accounts with special credit institutions		External assets (5)
	Excess reserves in lire (2)	Compulsory reserves (3)	Deposits against excess lending	Loans & bankers' acceptances	Lira securities (4)					of which: savings certificates	
1979 - Dec. (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 - "	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	–	270,099	186,894	21,512	11,949	76,956	8,159	4,050	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	197,239	23,361	13,368	73,576	7,612	3,926	65,118
Aug.	3,681	91,530	–	276,711	196,967	23,539	13,371	76,701	7,299	3,995	65,471
Sept.	4,554	91,008	–	268,247	205,716	23,756	13,499	81,656	7,199	3,956	67,796
Oct.	4,415	91,908	497	273,404	211,506	23,979	13,659	81,062	8,056	3,967	70,710
Nov.	4,602	92,702	172	279,176	216,044	24,186	13,639	88,510	9,322	4,019	69,541
Dec.	5,148	92,359	472	288,817	218,778	24,043	13,076	102,008	9,301	4,147	66,762
1988 - Jan.	3,653	100,796	1,055	293,003	198,617	24,677	13,293	76,825	7,718	4,092	67,024
Feb.	3,645	98,013	1,613	288,578	192,700	24,843	13,364	76,831	7,533	3,957	66,886
Mar.	4,340	96,117	1,223	288,233	191,433	24,846	13,574	77,499	7,881	3,822	67,332
Apr.	3,302	95,652	1,246	299,378	196,267	25,018	13,742	74,920	7,770	3,644	69,994
May	4.999	96,333	–	303,456	195,566	25,294	13,749	79,371	7,793	3,556	74,379
June	4,908	96,102	–	306,392	194,159	24,947	13,876	83,297	7,646	3,604	79,515
July	3,908	98,218	–	316,389	190,269	25,157	14,270	78,288	6,841	3,518	77,563
Aug.	4,499	99,493	–	310,545	195,238	25,466	14,165	81,734	6,884	3,329	77,620
Sept.	5,896	99,400	–	309,564	200,829	25,686	14,392	85,293	7,680	3,560	77,418
Oct.	4,113	101,212	–	318,203	201,732	25,942	14,528	81,848	8,488	3,613	72,081
Nov.	7,891	103,040	–	329,813	201,412	26,078	14,647	84,658	8,986	3,565	79,045
Dec.	4,871	101,739	–	341,546	206,098	24,772	14,641	97,073	9,343	3,775	76,476
1989 - Jan. (9)	3,585	110,634	–	352,990	185,400	....	....	....	....	....	....
Feb. (9)	3,519	107,154	–	354,640	181,900	....	....	....	....	....	....
Mar. (9)	7,627	106,223	–	351,540	187,900	....	....	....	....	....	....

(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. 2,012 billion acquired in the same way in January, subsequently disposed of in December. – (5) UIC for automatically calculating loans, a break in the series occurs in December 1979: the discrepancy has been estimated at about 350 billion lire and is ascribable entirely to short-term

Table a14

AND LIABILITIES (1)

of lire)

LIABILITIES									MEMORANDUM		
Deposits (6)	Other domestic funds (7)	Lending by BI-UIC	Interbank accounts	Deposits of special credit institutions	Funds raised abroad (5)	of which: non-residents' deposits	Equity capital	Other items	Loan guarantees	of which: bankers' acceptances issued	
224,644	2,305	5,079	35,749	4,798	29,795	1,109	9,795	2,954	26,166	696	. . (8) Dec. - 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
498,685	4,815	4,407	97,975	5,338	102,858	5,990	51,585	20,068	64,267	307	. . . . " - 1986
488,522	5,458	3,177	73,144	5,778	97,280	5,420	51,642	13,568	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	. . . . 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	16,763	69,223	232	. . . . . July
488,684	4,234	4,003	76,848	5,719	99,037	6,122	61,344	15,400	68,980	235	. . . . Aug.
494,650	3,546	3,229	81,187	5,227	102,283	6,555	61,729	11,579	71,025	682	. . . . Sept.
497,816	3,549	3,279	83,170	4,844	108,364	5,676	61,791	16,384	73,311	1,081	. . . . Oct.
496,585	3,753	6,078	88,502	4,762	107,313	5,730	61,718	29,183	73,638	1,206	. . . . Nov.
532,697	3,209	5,711	97,875	5,887	103,453	6,707	61,828	10,105	75,752	1,066	. . . . Dec.
516,668	3,215	9,226	78,302	7,148	105,102	6,690	61,846	5,155	76,128	993	. . . . Jan. - 1988
508,063	3,320	9,068	73,463	6,822	107,147	7,374	62,018	4,105	79,828	1,109	. . . . Feb.
509,191	3,324	7,731	72,578	6,322	106,718	6,712	64,693	1,920	83,191	1,142	. . . . Mar.
514,416	3,528	7,668	71,522	5,669	112,483	7,422	67,230	4,775	83,544	897	. . . . Apr.
512,615	3,786	7,755	75,448	4,752	115,209	7,244	67,306	14,070	85,571	788	. . . . May
519,387	3,446	7,782	77,979	5,912	120,452	7,565	67,142	8,742	86,160	750	. . . . June
523,643	3,919	7,821	70,895	5,470	118,577	8,050	67,321	13,256	88,662	784	. . . . . July
523,178	3,789	7,592	75,645	5,553	117,255	7,861	68,057	14,575	89,823	780	. . . . Aug.
530,943	3,837	7,578	80,996	5,177	116,572	7,342	68,119	12,935	90,127	832	. . . . Sept.
536,669	3,636	7,929	75,139	5,059	111,644	6,758	67,998	20,073	90,229	858	. . . . Oct.
530,497	3,821	7,627	79,865	5,530	121,445	7,956	68,025	38,760	90,760	875	. . . . Nov.
571,448	3,939	5,722	90,801	5,827	120,169	8,568	67,166	11,485	91,578	803	. . . . Dec.
554,810	....	6,383	....	....	....	....	....	....	....	....	. . (9) Jan. - 1989
548,410	....	5,626	....	....	....	....	....	....	....	....	. . (9) Feb.
555,410	....	5,536	....	....	....	....	....	....	....	....	. . (9) Mar.

(4) Treasury bills are at face value, medium and long-term securities at book value. The 1987 figures include Lit. 2,052 billion of securities acquired in November in connection with data. – (6) Lira deposits of resident customers. – (7) Trustee accounts and residents' foreign currency accounts. – (8) Owing to errors in the procedures previously used by some banks lending in lire. – (9) Provisional.

BANKS' PROFIT AND LOSS ACCOUNTS,

(in billions

	INTEREST RECEIVED						INTEREST PAID					Net interest income (c) = (a)-(b)
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities 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
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	41,425	237	5,266	5,479	52,407	19,944
1984	3,532	37,443	23,492	6,949	7,176	78,592	43,366	397	5,363	7,226	56,352	22,240
1985	4,167	39,085	25,880	6,746	7,827	83,705	45,138	495	5,422	7,643	58,698	25,007
1986	4,595	39,380	23,759	6,299	5,995	80,028	39,449	828	5,056	5,853	51,186	28,842
1987	5,220	37,397	21,586	5,913	6,187	76,303	34,168	366	5,225	6,103	45,862	30,441
1988 (4)	5,895	40,955	21,624	5,479	7,470	81,423	34,877	320	4,621	7,368	47,186	34,237
												Banks
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	29,098	207	4,797	5,089	39,191	14,480
1984	2,695	27,588	16,105	4,759	6,579	57,726	30,101	362	4,755	6,661	41,879	15,847
1985	3,181	28,709	18,021	4,420	7,131	61,462	31,392	460	4,747	6,997	43,596	17,866
1986	3,487	28,854	16,142	4,311	5,405	58,199	27,401	794	4,345	5,297	37,837	20,362
1987	3,990	27,719	15,055	3,966	5,535	56,265	24,312	335	4,363	5,487	34,497	21,768
1988 (4)	4,456	30,354	14,359	3,690	6,627	59,486	24,537	261	3,716	6,556	35,070	24,416
												Banks of
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	4,469	40	699	1,984	7,192	2,500
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	226	674	1,978	6,995	3,020
1987	692	4,449	2,173	331	1,972	9,617	3,603	119	579	1,907	6,208	3,409
1988 (4)	787	5,021	2,201	346	2,262	10,617	3,734	60	606	2,170	6,570	4,047
												Public-law
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	5,258	1,181	1,820	16,157	8,115	203	1,922	1,833	12,073	4,084
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	394	1,560	1,639	10,931	5,206
1987	1,138	7,204	4,881	928	1,713	15,864	6,420	136	1,991	1,738	10,285	5,579
1988 (4)	1,263	7,913	4,517	894	2,148	16,735	6,457	125	1,537	2,210	10,329	6,406

(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. Excludes, except in the item "Number of staff" the figures of banks that

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)													
2,937	1,389	11,399	8,365	6,119	3,034	2,129	1,014	120	445	580	309,239	261,505	 1979
3,708	1,625	16,581	11,204	8,206	5,377	3,705	1,631	39	881	830	373,731	274,889	 1980
5,437	2,477	21,064	13,033	9,437	8,031	5,725	1,945	145	1,208	1,243	443,199	287,420	 1981
6,452	3,353	23,188	15,061	10,433	8,127	5,005	2,352	392	2,009	1,505	508,868	293,002	 1982
7,012	3,257	26,956	18,672	13,668	8,284	4,249	2,556	206	2,535	1,706	593,207	299,879	 1983
8,493	4,364	30,733	20,873	15,018	9,860	4,686	2,554	142	2,884	2,432	664,359	302,814	 1984
10,056	5,320	35,063	23,430	16,832	11,633	5,180	2,438	547	3,646	3,354	773,470	304,090	 1985
12,251	7,088	41,093	25,810	18,481	15,283	5,509	2,460	136	5,136	4,774	840,494	308,200	 1986
10,986	5,307	41,427	28,403	20,375	13,024	4,533	2,576	−543	3,707	4,241	912,149	313,086	 1987
11,761	5,729	45,998	30,011	21,567	15,987	5,918	3,194	−111	4,595	5,363	989,235	314,458	... (4) 1988
2,036	946	8,309	6,159	4,535	2,150	1,403	785	85	332	500	232,721	199,478	 1979
2,603	1,128	12,183	8,157	6,067	4,026	2,619	1,329	39	737	709	283,434	210,449	 1980
3,971	1,774	15,615	9,597	6,994	6,018	4,119	1,538	127	948	1,078	338,408	219,741	 1981
4,563	2,282	17,058	11,139	7,725	5,919	3,371	1,695	270	1,497	1,321	389,740	224,833	 1982
5,170	2,425	19,650	13,727	10,038	5,923	2,929	1,635	323	1,845	1,472	450,709	230,416	 1983
6,311	3,278	22,158	15,456	11,131	6,702	2,903	1,590	163	1,936	2,026	498,449	232,457	 1984
7,901	4,308	25,767	17,531	12,646	8,236	3,525	1,560	522	2,535	2,698	582,265	233,022	 1985
9,535	5,630	29,897	19,225	13,797	10,672	3,612	1,738	56	3,490	3,626	629,988	235,876	 1986
8,105	3,803	29,873	21,207	15,208	8,666	2,708	1,548	−322	2,275	3,361	682,926	239,215	 1987
8,910	4,367	33,326	22,445	16,204	10,881	3,963	2,433	63	2,919	4,062	731,925	239,126	... (4) 1988
national interest													
421	159	1,603	1,400	1,076	203	236	215	66	22	11	52,486	47,241	 1979
577	220	2,338	1,847	1,390	491	362	273	19	115	33	65,157	48,464	 1980
975	373	3,020	2,088	1,578	932	872	243	69	31	98	78,545	50,097	 1981
923	386	3,198	2,448	1,769	750	560	372	171	262	99	90,181	51,373	 1982
1,116	519	3,616	2,971	2,263	645	505	452	291	316	115	99,205	51,393	 1983
1,329	641	3,862	3,176	2,383	686	424	335	179	245	196	105,742	50,850	 1984
1,660	961	4,441	3,492	2,607	949	536	289	118	329	202	119,591	50,081	 1985
2,056	1,306	5,076	3,745	2,779	1,331	389	245	25	442	525	125,822	49,951	 1986
1,573	788	4,982	4,036	2,985	946	408	216	−39	70	429	131,910	49,934	 1987
2,582	1,730	6,629	4,260	3,153	2,369	999	629	−181	238	951	147,255	49,138	... (4) 1988
banks													
662	315	2,309	1,825	1,394	484	370	172	−10	52	52	68,458	58,530	 1979
841	387	3,175	2,372	1,839	803	667	319	1	95	42	83,841	61,937	 1980
1,221	560	3,995	2,798	2,146	1,197	1,040	430	27	122	62	99,252	64,233	 1981
1,541	784	4,303	3,215	2,335	1,088	766	308	36	204	154	117,836	65,849	 1982
1,699	720	5,165	4,089	3,153	1,076	655	259	3	294	130	138,586	67,319	 1983
2,066	999	6,150	4,729	3,573	1,421	832	374	10	328	271	148,063	68,201	 1984
2,819	1,451	7,299	5,159	3,906	2,140	1,281	328	289	553	595	175,004	68,634	 1985
3,305	1,861	8,511	5,813	4,386	2,698	1,215	429	−9	756	718	188,154	70,614	 1986
2,798	1,125	8,377	6,513	4,932	1,864	786	487	−7	404	667	205,429	71,443	 1987
2,653	896	9,059	6,997	5,355	2,062	1,134	763	395	603	720	218,634	71,018	... (4) 1988

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", sent their statistical returns late.

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 participations	Interbank accounts	Foreign currency assets	Total (a)	Domestic deposits in lire	BI-UIC financing	Interbank accounts	Foreign currency liabilities	Total (b)	
												Ordinary
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	890	9,524	5,290	1,593	1,522	18,819	10,315	85	1,698	1,613	13,711	5,108
1985	1,044	10,240	5,637	1,523	1,557	20,001	10,787	93	1,591	1,544	14,015	5,986
1986	1,154	10,082	5,380	1,437	1,154	19,207	9,361	144	1,608	1,160	12,273	6,934
1987	1,279	9,640	4,751	1,349	1,200	18,219	8,319	57	1,318	1,239	10,933	7,286
1988 (4)	1,430	10,451	4,452	1,202	1,399	18,934	8,394	54	1,056	1,416	10,920	8,014
												Cooperative
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	6,143	3,567	1,529	732	12,524	7,261	16	431	695	8,403	4,122
1985	671	6,542	3,901	1,536	720	13,370	7,516	17	535	683	8,751	4,619
1986	749	6,585	3,670	1,277	559	12,840	6,585	30	503	520	7,638	5,202
1987	881	6,426	3,250	1,358	650	12,565	5,970	23	475	603	7,071	5,494
1988 (4)	976	6,969	3,189	1,248	818	13,200	5,952	22	517	760	7,251	5,949
												Savings
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	9,855	7,387	2,190	597	20,866	13,265	35	608	565	14,473	6,393
1985	986	10,376	7,859	2,326	696	22,243	13,746	35	675	646	15,102	7,141
1986	1,108	10,526	7,617	1,988	590	21,829	12,048	34	711	556	13,349	8,480
1987	1,230	9,678	6,531	1,947	652	20,038	9,856	31	862	616	11,365	8,673
1988 (4)	1,439	10,602	7,268	1,794	844	21,947	10,343	59	908	813	12,123	9,824
												Central credit
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	50	98	1,899	42	2,089	235
1985	28	437	999	970	73	2,507	52	88	2,036	70	2,246	261
1986	4	421	846	836	56	2,163	50	127	1,643	59	1,879	284
1987	12	411	737	922	70	2,152	50	94	1,630	81	1,855	397
1988 (4)	18	494	733	802	72	2,119	56	77	1,556	72	1,761	358

(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. Excludes, except in the item "Number of staff" the figures of banks that

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)													
651	353	2,752	1,886	1,337	866	461	270	35	155	285	73,430	59,895	 1979
805	392	4,102	2,516	1,823	1,586	878	442	36	323	421	87,150	64,109	 1980
1,241	655	5,265	2,998	2,095	2,267	1,196	484	30	490	611	103,702	67,636	 1981
1,403	792	5,646	3,386	2,260	2,260	1,083	548	57	585	649	113,658	69,137	 1982
1,537	818	6,335	4,056	2,808	2,279	957	452	32	645	709	131,133	70,381	 1983
1,889	1,139	6,997	4,602	3,177	2,395	832	464	−38	674	851	148,190	71,246	 1984
2,319	1,385	8,305	5,459	3,777	2,846	929	521	66	883	1,100	175,529	71,187	 1985
2,818	1,787	9,752	5,962	4,085	3,790	1,167	652	13	1,279	1,357	194,588	71,306	 1986
2,432	1,334	9,718	6,532	4,457	3,186	977	528	−119	925	1,165	209,680	72,165	 1987
2,342	1,188	10,356	6,857	4,715	3,499	1,159	657	−36	1,051	1,253	219,925	71,966	... (4) 1988
banks													
302	119	1,645	1,048	728	597	336	128	−6	103	152	38,347	33,812	 1979
380	129	2,568	1,422	1,015	1,146	712	295	−17	204	213	47,286	35,939	 1980
534	186	3,335	1,713	1,175	1,622	1,011	381	1	305	307	56,909	37,775	 1981
696	320	3,911	2,090	1,361	1,821	962	467	6	446	419	68,066	38,474	 1982
818	368	4,534	2,611	1,814	1,923	812	472	−3	590	518	81,785	41,323	 1983
1,027	501	5,146	2,949	1,998	2,200	815	417	12	689	708	96,454	42,160	 1984
1,103	511	5,722	3,421	2,356	2,301	779	422	49	770	801	112,141	43,120	 1985
1,356	675	6,558	3,705	2,547	2,853	841	412	27	1,013	1,026	121,423	44,005	 1986
1,302	554	6,796	4,126	2,834	2,670	537	318	−157	876	1,100	135,907	45,673	 1987
1,333	553	7,282	4,331	2,981	2,951	671	384	−115	1,027	1,138	146,924	47,004	... (4) 1988
banks (3)													
901	443	3,090	2,206	1,584	884	726	229	35	113	80	76,518	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	104,791	67,679	 1981
1,889	1,071	6,130	3,922	2,708	2,208	1,634	657	122	512	184	119,127	68,169	 1982
1,842	832	7,306	4,945	3,630	2,361	1,320	923	−117	690	234	142,498	69,463	 1983
2,182	1,086	8,575	5,417	3,887	3,158	1,783	965	−21	948	406	165,910	70,357	 1984
2,155	1,013	9,296	5,899	4,186	3,397	1,655	878	25	1,111	656	191,205	71,068	 1985
2,716	1,458	11,195	6,585	4,684	4,611	1,897	721	80	1,646	1,148	210,507	72,324	 1986
2,881	1,504	11,554	7,196	5,167	4,358	1,825	1,027	−221	1,432	880	229,222	73,871	 1987
2,853	1,355	12,677	7,569	5,365	5,108	1,956	761	−174	1,677	1,301	257,310	75,332	... (4) 1988
institutions (3)													
15	8	54	35	17	19	8	–	1	2	10	12,380	695	 1979
53	36	60	81	38	−21	16	−26	23	2	−16	14,180	1,140	 1980
94	72	193	90	46	103	51	1	–	3	49	16,423	1,191	 1981
91	66	316	113	51	203	175	24	38	7	59	18,335	1,284	 1982
169	92	361	150	72	211	100	58	−6	40	65	19,116	1,345	 1983
179	100	414	155	79	259	100	48	5	48	116	18,986	1,356	 1984
166	114	427	177	84	250	80	62	52	78	144	22,572	1,371	 1985
257	234	541	196	100	345	78	43	12	117	162	21,853	1,380	 1986
166	117	463	214	109	249	120	31	52	65	116	25,480	1,442	 1987
113	56	471	212	110	259	117	61	38	49	131	26,994	1,473	... (4) 1988

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", sent their statistical returns late.

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						
1979 - Dec.	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 - "	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	2,250	3,398	191,336
Feb.	5,256	154,239	855	2,775	237	158,106	7,493	15,883	2,423	3,398	192,559
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	2,450	3,573	194,975
May	5,186	158,106	862	4,028	242	163,238	7,472	13,643	2,510	3,573	195,622
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	4,417	3,587	200,634
Aug.	6,745	161,203	878	4,037	223	166,341	7,019	12,902	4,664	3,587	201,258
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	4,308	3,620	203,717
Nov.	5,798	169,180	881	3,919	296	174,276	7,231	10,178	4,426	3,620	205,529
Dec.	5,159	173,533	891	4,064	297	178,785	7,291	10,411	4,859	3,659	210,164
1988 - Jan.	7,877	173,702	891	4,066	300	178,959	6,745	12,752	5,082	3,659	215,074
Feb.	8,519	175,939	891	4,096	310	181,236	6,744	14,529	4,945	3,659	219,632
Mar.	7,677	179,013	899	4,091	480	184,483	6,744	15,536	4,569	3,703	222,712
Apr.	7,376	179,870	899	4,091	476	185,336	6,744	16,206	4,222	3,703	223,587
May	6,653	182,326	899	4,156	483	187,864	6,724	16,149	4,588	3,703	225,681
June	6,445	181,483	925	4,213	488	187,109	6,248	17,292	4,646	3,734	225,474
July	5,516	184,711	925	4,215	518	190,369	6,998	17,189	4,585	3,734	228,391
Aug.	6,278	186,802	925	4,235	521	192,483	6,997	15,792	5,097	3,734	230,381
Sept.	5,623	189,995	930	4,276	429	195,630	6,997	15,817	5,277	3,845	233,189
Oct.	5,299	192,200	930	4,155	503	197,788	7,827	13,922	5,276	3,845	233,957
Nov.	5,121	194,185	930	4,114	514	199,743	7,789	13,630	4,762	3,845	234,890
Dec.	5,472	199,110	940	4,123	551	204,724	7,715	12,335	4,879	4,195	239,320
1989 - Jan. (12)	7,087	199,101	940	4,171	821	205,033	7,151	12,576	5,950	4,195	241,992
Feb. (12)	6,355	202,371	940	4,230	811	208,352	7,150	12,642	6,102	4,195	244,796

(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 – (7) Includes savings certificates and other medium-term deposits. – (8) Includes the proceeds of bond issues disbursed to special credit institutions. – (9) Includes compensatory loans in foreign reserves created out of net profits, and "Other equity funds", which include provisions of a reserve nature created out of gross profits and on which third parties have no claim. At end-December 1979 plus bonds issued on behalf of the Treasury. – (12) Estimated.

Table al6

SPECIAL CREDIT INSTITUTIONS (1)

of lire)

LIABILITIES: Bonds: On behalf of the Treasury	Bonds: Other	Certificates of deposit (7)	Rediscounts	Short-term financing	Public funds	Mediocredito centrale funds (8)	Foreign currency loans (9)	Equity capital (10)	Other	TOTAL (11)	
12,280	54,694	6,695	595	2,703	2,479	1,515	3,074	5,646	23	89,704	.... Dec. - 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
6,089	102,193	28,258	943	6,362	6,522	2,538	21,878	21,226	74	196,083	.... " - 1986
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	5,489	6,586	2,569	22,337	21,226	74	195,836	.... 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	5,333	6,688	2,576	23,938	21,844	67	199,755	.... Apr.
5,448	106,066	27,966	962	5,168	6,816	2,605	24,070	21,844	67	201,012	.... May
5,445	107,521	28,414	1,022	5,307	6,882	2,649	24,253	22,858	82	204,433	.... June
5,048	108,176	28,240	1,022	4,651	6,752	2,674	24,793	22,858	82	204,296	.... July
5,048	109,102	28,044	1,022	4,260	6,886	2,754	24,775	22,858	82	204,831	.... Aug.
5,044	110,503	27,794	983	4,515	7,259	2,789	24,995	23,123	64	207,069	...... Sept.
5,042	111,472	28,190	983	4,940	7,066	2,822	25,000	23,123	64	208,702	.... Oct.
5,038	112,235	28,896	983	5,827	7,132	2,874	24,743	23,123	64	210,915	.... Nov.
5,036	113,681	30,878	1,069	6,517	7,537	3,038	26,861	23,604	71	218,292	.... Dec.
4,474	114,208	33,599	1,069	4,740	7,288	2,925	27,047	23,604	71	219,025	.... Jan. - 1988
4,468	114,761	36,720	1,069	4,647	7,535	3,042	27,330	23,604	71	223,247	.... Feb.
4,466	115,824	39,307	1,040	5,270	7,568	3,096	27,725	24,657	60	229,013	.... Mar.
4,454	116,477	40,092	1,040	5,410	7,351	3,143	28,132	24,657	60	230,816	.... Apr.
4,432	117,452	40,353	1,040	5,394	7,464	3,197	28,517	24,657	60	232,566	.... May
4,402	118,389	42,037	1,109	5,304	7,930	3,238	29,045	25,528	62	237,044	.... June
3,995	118,426	42,420	1,109	4,858	7,689	3,262	29,442	25,528	62	236,791	.... July
3,960	118,896	42,210	1,109	4,649	7,862	3,355	30,075	25,528	62	237,706	.... Aug.
3,956	119,825	42,137	1,037	4,878	7,947	3,372	30,904	25,179	79	239,314	...... Sept.
3,956	120,195	42,005	1,037	5,898	7,982	3,395	31,011	25,179	79	240,737	.... Oct.
3,956	120,437	42,492	1,037	6,591	7,997	3,452	31,469	25,179	79	242,689	.... Nov.
3,949	121,239	43,818	1,112	7,545	7,911	3,541	32,785	25,297	56	247,253	.... Dec.
3,374	120,983	44,374	1,112	5,601	8,252	3,516	33,341	25,297	56	245,906	.... (12) Jan. - 1989
3,344	121,141	45,084	1,112	6,513	8,123	3,352	34,266	25,297	56	248,288	.... (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, 679.7 billion at end-1987 and 509.3 billion at end-1988. currency deposited with the Bank of Italy. – (10) Paid-up capital and reserves. As from March 1980 the components of equity capital have been classified as "Own funds", comprising capital and equity capital according to the new definition, which includes certain items previously excluded, stood at 5,645.8 billion lire net of uncalled capital. – (11) Refers to the items defined as fund-raising

FINANCIAL MARKET:

(billions

	BONDS AND											
	Public sector											
	Goverment securities											
	Treasury bills (1)	Treasury bills in ECUs	Floating rate Treasury credit certificates	Treasury bonds	Treasury certificates in ECUs	Treasury discount certificates	Fixed rate Treasury credit certificates	Other	Local government agencies	Autonomous government agencies	Bonds on behalf of Treasury	Total
												Gross
1981	198,041	–	9,200	5,500	–	–	820	3,140	–	–	–	*216,701*
1982	273,278	–	47,250	3,050	1,429	–	–	513	–	–	–	*325,520*
1983	266,351	–	74,650	13,000	632	–	–	1,000	–	2,000	–	*357,633*
1984	227,747	–	95,250	17,750	1,688	–	–	–	–	1,800	–	*344,235*
1985	256,281	–	97,209	17,288	3,367	–	8,213	2,195	–	2,500	–	*387,053*
1986	265,866	–	79,255	53,276	2,079	–	–	–	–	2,500	–	*402,976*
1987	316,111	2,311	55,480	19,020	590	5,049	5,555	–	–	2,000	–	*406,116*
1988	409,411	7,289	27,350	75,383	9,861	–	1,291	–	–	1,000	–	*531,585*
												Re
1981	164,258	–	6,250	1,500	–	–	724	1,410	38	205	809	*175,194*
1982	240,674	–	19,000	4,661	–	–	926	1,970	40	238	889	*268,398*
1983	255,280	–	7,130	9,198	–	–	918	1,968	43	257	896	*275,690*
1984	218,447	–	38,250	9,170	–	–	1,712	1,976	46	271	961	*270,833*
1985	243,100	–	17,100	13,000	–	–	1,444	1,950	50	284	1,014	*277,942*
1986	256,169	–	25,150	17,750	–	–	1,436	1,746	36	625	1,056	*303,968*
1987	290,940	–	19,680	5,269	–	–	1,419	1,272	36	469	1,053	*320,138*
1988	373,136	1,551	35,000	14,787	–	–	1,254	475	37	671	1,087	*427,998*
												Premiums, discounts
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*
1988	–	–	199	815	–	–	29	–	–	–	–	*1,043*
												Net
1981	33,783	–	2,816	3,908	–	–	96	1,730	-38	-205	-809	*41,281*
1982	32,604	–	27,377	-1,630	1,429	–	-926	-1,457	-40	-238	-889	*56,230*
1983	11,071	–	66,652	3,740	632	–	-918	-968	-43	1,743	-896	*81,013*
1984	9,300	–	56,738	8,433	1,688	–	-1,712	-1,976	-46	1,529	-961	*72,993*
1985	13,181	–	78,567	3,973	3,367	–	6,769	245	-50	2,216	-1,014	*107,254*
1986	9,697	–	53,534	35,025	2,079	–	-1,436	-1,746	-36	1,398	-1,056	*97,459*
1987	25,171	2,311	35,268	13,538	590	3,808	4,136	-1,272	-36	1,526	-1,053	*83,987*
1988	36,275	5,738	-7,849	59,781	9,861	–	8	-475	-37	329	-1,087	*102,544*
												Cou
1981	16,262	–	4,673	2,223	–	–	822	1,065	34	154	843	*26,076*
1982	23,943	–	6,608	2,782	–	–	907	1,230	31	137	782	*36,420*
1983	24,849	–	14,014	2,993	191	–	816	1,037	27	204	716	*44,847*
1984	21,281	–	25,325	4,105	266	–	725	870	24	477	646	*53,719*
1985	21,297	–	27,456	5,040	451	–	946	678	18	702	639	*57,227*
1986	18,387	–	38,514	5,789	778	–	1,225	761	15	877	557	*66,903*
1987	18,775	–	36,958	8,477	912	–	1,082	589	13	889	470	*68,165*
1988	24,426	–	37,980	10,032	1,051	245	1,577	486	10	1,256	359	*77,422*

(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														
Special crediti institutions				Government agencies and firms							TOTAL bonds & government securities	SHARES		
Industrial	Public works	Real estate	Total	ENEL	ENI	IRI EFIM	Motor-ways (IRI)	Private firms	Inter-national institutions	Total				
issues														
6,478	1,011	5,372	12,861	352	742	502	–	807	–	2,403	231,965	8,812	.....	1981
7,153	1,536	5,782	14,471	2,386	611	2,300	–	893	–	6,190	346,181	6,892	.....	1982
6,152	2,735	5,700	14,587	2,471	352	300	–	1,175	–	4,298	376,518	12,534	.....	1983
5,490	2,791	4,257	12,538	2,774	–	750	–	802	150	4,476	361,249	11,784	.....	1984
8,487	1,322	5,253	15,062	2,777	125	873	–	1,148	550	5,473	407,588	14,977	.....	1985
10,535	922	7,182	18,639	2,780	655	3,741	–	1,617	821	9,614	431,229	23,792	.....	1986
12,230	1,345	11,524	25,099	2,741	500	2,350	–	1,342	450	7,383	438,598	13,383	.....	1987
9,463	1,557	10,769	21,789	1,693	117	1,500	–	1,335	550	5,195	558,569	10,839	.....	1988
demptions														
3,666	288	976	4,930	1,104	117	123	111	98	13	1,566	181,690	–	.....	1981
4,602	338	1,136	6,076	1,160	63	131	115	115	19	1,603	276,077	–	.....	1982
4,827	417	1,411	6,655	1,388	64	246	91	115	19	1,923	284,268	–	.....	1983
5,758	594	1,810	8,162	1,729	154	306	96	135	18	2,438	281,433	–	.....	1984
6,737	761	2,282	9,780	2,108	228	334	103	463	32	3,268	290,990	–	.....	1985
7,183	1,086	3,360	11,629	1,469	339	843	98	699	55	3,503	319,100	–	.....	1986
7,235	1,345	4,965	13,545	1,214	276	764	62	906	96	3,318	337,001	–	.....	1987
7,336	1,374	4,843	13,553	1,418	343	1,299	56	1,159	95	4,370	445,921	–	.....	1988
and double counting														
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
115	6	149	270	13	–	–	–	–	3	16	1,329	1,142	.....	1988
issues														
2,640	687	4,181	7,508	–756	622	357	–111	708	–13	807	49,596	7,186	.....	1981
2,468	1,170	4,509	8,147	1,214	543	2,169	–115	778	–19	4,570	68,947	6,004	.....	1982
1,233	2,246	4,161	7,640	1,082	288	54	–91	1,060	–19	2,374	91,027	10,899	.....	1983
–294	2,184	2,425	4,315	1,045	–154	444	–96	667	129	2,035	79,343	9,774	.....	1984
1,678	554	2,946	5,178	669	–103	539	–103	685	509	2,196	114,628	12,220	.....	1985
3,230	–173	3,748	6,805	1,289	316	2,898	–98	917	749	6,071	110,335	18,872	.....	1986
4,870	–14	6,156	11,012	1,507	223	1,586	–62	435	348	4,037	99,036	10,433	.....	1987
2,012	177	5,777	7,966	262	–226	201	–56	176	452	809	111,319	9,697	.....	1988
pons														
3,423	841	2,474	6,738	1,037	57	152	54	65	11	1,376	34,190		.....	1981
4,441	1,041	3,426	8,908	1,212	216	419	46	337	9	2,239	47,567		.....	1982
4,762	1,318	4,193	10,273	1,440	298	656	37	471	7	2,909	58,029		.....	1983
4,981	1,670	4,835	11,486	1,492	268	673	31	635	16	3,115	68,320		.....	1984
5,032	1,913	5,275	12,220	1,594	241	678	24	623	25	3,185	72,632		.....	1985
5,031	1,865	5,521	12,417	1,606	283	1,019	17	670	89	3,684	83,004		.....	1986
4,968	1,720	5,771	12,459	1,422	242	936	11	600	163	3,374	83,998		.....	1987
....	....	....	....	1,706	266	1,766	9	600	213	4,560	....		.....	1988

Table aI8

SOURCES AND USES OF MONETARY BASE (1)

(changes in billions of lire)

	SOURCES								TOTAL MONETARY BASE	USES				
	FOREIGN SECTOR			TREASURY			REFINANCING	OTHER SECTORS		NON-STATE SECTOR	BANK RESERVES			
	Balance of payments	Banks' net external position	TOTAL (2)	Borrowing requirement	Other financing (3)	TOTAL		(4)	(4)		Compulsory reserves	Non-interest-bearing deposit against excess lending	Excess reserves (4)	TOTAL (4)
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	110,159	99,165	10,994	–4,333	–1,004	9,200	3,143	9,022	–	–2,965	6,057
1987	1,202	5,573	6,756	114,258	105,018	9,240	–730	–1,321	13,946	4,386	8,740	657	162	9,559
1988	682	10,224	10,947	125,405	122,727	2,677	–30	–637	12,957	4,445	9,444	–657	–274	8,512
1987 - Jan.	–380	619	197	748	–6,767	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	7,950	6,795	1,155	–353	3,312	5,066	4,625	–385	330	496	441
1988 - Jan.	1,704	1,450	3,142	194	–296	490	1,497	–25	5,104	–2,481	8,535	548	–1,498	7,585
Feb.	–887	1,632	736	11,129	14,634	–3,505	–165	–821	–3,755	–1,296	–2,842	417	–33	–2,458
Mar.	–293	–1,194	–1,581	15,627	12,138	3,489	–1,287	–787	–167	1,098	–1,923	–34	692	–1,265
Apr.	–3,042	903	–2,047	12,143	11,556	587	293	–683	–1,851	–460	–464	98	–1,024	–1,390
May	–853	130	–735	11,316	9,112	2,204	–348	–419	701	–82	726	–1,684	1,741	783
June	548	1,774	2,222	995	4,240	–3,246	34	2,145	1,156	1,629	–342	–2	–129	–473
July	3,724	84	3,917	13,749	10,930	2,819	39	–1,863	4,912	3,673	2,257	–	–1,018	1,238
Aug.	3,198	–1,564	1,617	10,535	14,698	–4,163	–235	991	–1,790	–3,673	1,271	–	612	1,883
Sept.	–2,239	81	–2,046	18,567	13,800	4,767	–11	–558	2,152	851	–74	–	1,375	1,301
Oct.	2,051	103	2,182	8,993	11,298	–2,306	376	–748	–496	–579	1,870	–	–1,787	83
Nov.	–795	2,691	1,882	15,405	10,865	4,539	–331	–88	6,002	417	1,758	–	3,826	5,585
Dec.	–2,434	4,134	1,658	6,752	9,752	–3,000	109	2,220	987	5,347	–1,329	–	–3,031	–4,360

(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.

Table al9

INTEREST RATES ON BANK OF ITALY OPERATIONS

(billions of lire)

	OFFICIAL					
	Current accounts (1)			Bill discounting		
		Tied				
	At sight	8-day	Compulsory reserves (2)	Ordinary bills (base rate)	Agricultural working and improvement credits (3)	Ordinary advances
At 1 Jan. 1971	0.50	1.50	5.50	5.50	3.50	5.50
From: 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
26 Aug. 1988	"	"	"	12.50	"	12.50
6 Mar. 1989	"	"	"	13.50	"	13.50

	EFFECTIVE				
		Repurchase agreements			
		Purchases		Sales	
	Fixed term advances (4)	Minimum (5)	Average	Maximum (5)	Average
1987 - Jan.	13.20	12.33	12.50	–	–
Feb.	13.00	11.07	11.18	–	–
Mar.	12.50	–	–	10.85	10.18
Apr.	11.50	–	–	10.73	10.43
May	12.30	11.35	11.58	11.60	11.19
June	12.79	11.83	12.01	–	–
July	12.45	11.25	11.38	11.00	10.46
Aug.	13.18	12.63	12.92	–	–
Sept.	13.53	12.65	12.87	–	–
Oct.	–	–	–	11.72	11.41
Nov.	12.00	–	–	11.83	11.67
Dec.	12.37	11.00	11.33	–	–
1988 - Jan.	12.17	10.90	11.36	11.00	10.33
Feb.	12.28	11.56	11.65	–	–
Mar.	13.40	12.57	12.66	9.55	9.42
Apr.	12.12	–	–	10.67	10.17
May	12.17	–	–	12.16	11.87
June	12.02	–	–	12.05	11.80
July	12.45	–	–	11.94	11.73
Aug.	12.33	–	–	11.97	11.79
Sept.	–	–	–	11.71	11.60
Oct.	13.01	–	–	11.65	11.38
Nov.	12.91	–	–	12.05	11.84
Dec.	14.05	13.05	13.09	–	–
1989 - Jan.	12.72	13.10	13.29	12.37	12.02
Feb.	12.92	–	–	12.92	12.71
Mar.	14.45	–	–	13.18	12.95
Apr.	13.50	–	–	12.14	11.90

(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 per cent, 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 per cent. 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. Since 15 February 1989 floating rate certificates with maturities of more than 18 months have also been eligible for the higher return on reserves. – (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. – (5) Average of the marginal tender rates on repurchase agreements during the month.

Table a20

MONEY MARKET AND BANK INTEREST RATES (1)

	TREASURY BILL YIELDS (2) 3-month bills	TREASURY BILL YIELDS (2) 6-month bills	TREASURY BILL YIELDS (2) 12-month bills	TREASURY BILL YIELDS (2) Average (3)	BANK INTEREST RATES Interbank accounts (4) (5)	BANK INTEREST RATES Deposits (6)	Loans (7) In lire	Loans (7) Total	Deposits (4) Maximum	Deposits (4) Average	Loans (4) Minimum	Loans (4) Average	Certificates of deposit (4) 6-month	Certificates of deposit (4) 12-month	ABI prime rate (8)
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	11.33	7.62	13.43	12.47	9.93	7.01	12.06	13.58	9.87	9.81	12.74
1988	11.17	11.06	11.17	11.12	10.82	7.45	13.51	12.43	9.51	6.69	12.11	13.57	9.88	10.02	12.76
1987 - Jan. ..	10.81	10.19	9.93	10.14	12.07	–	–	–	10.65	7.66	12.47	13.83	10.53	10.17	13.00
Feb. ..	10.69	9.98	9.74	9.93	12.18	–	–	–	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	9.58	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	9.83	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	–	–	–	9.79	6.94	12.22	13.67	10.15	10.22	12.63
Feb. ..	10.72	10.78	10.50	10.66	10.61	–	–	–	9.53	6.70	11.97	13.55	9.98	10.13	12.63
Mar. ..	10.69	10.78	10.56	10.68	10.87	7.50	13.47	12.42	9.46	6.69	11.94	13.43	9.91	10.09	12.63
Apr. ..	10.65	10.81	10.96	10.80	10.74	–	–	–	9.50	6.74	11.90	13.35	9.85	10.07	12.63
May ..	10.70	10.83	10.98	10.83	10.45	–	–	–	9.40	6.63	11.84	13.24	9.75	9.96	12.50
June ..	10.55	10.63	10.94	10.71	10.51	7.34	13.25	12.15	9.39	6.56	11.84	13.26	9.72	9.90	12.63
July ..	11.48	11.06	11.41	11.29	10.60	–	–	–	9.41	6.57	12.00	13.46	9.70	9.89	12.63
Aug. ..	11.49	11.09	11.45	11.33	10.72	–	–	–	9.41	6.58	12.12	13.69	9.71	9.88	12.87
Sept. .	11.11	11.41	11.90	11.47	10.93	7.42	13.62	12.42	9.47	6.63	12.40	13.90	9.86	9.97	13.00
Oct. ..	11.40	11.32	11.73	11.48	10.98	–	–	–	9.55	6.68	12.40	13.86	10.00	10.04	13.00
Nov. ..	11.79	11.23	11.49	11.49	11.16	–	–	–	9.58	6.73	12.36	13.77	9.98	10.06	13.00
Dec. ..	12.08	11.44	11.51	11.68	11.73	7.52	13.71	12.73	9.62	6.77	12.34	13.67	9.98	10.06	13.00
1989 - Jan. ..	11.83	11.48	11.44	11.57	12.02	–	–	–	9.61	6.80	12.42	13.75	9.98	10.01	13.00
Feb. ..	11.87	11.50	11.51	11.62	12.25	–	–	–	9.62	6.84	12.46	13.82	10.02	10.04	13.00
Mar. ..	13.55	12.99	12.89	13.20	13.07	....	....	....	9.73	6.91	12.97	14.29	10.15	10.14	14.00
Apr. ..	12.67	12.70	12.58	12.66	12.83	–	–	–	9.86	7.01	13.15	14.47	10.32	10.29	14.00

(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		Bonds					Shares
				Treasury bonds	Total	Credit institutions		ENEL ENI IRI	Firms	Total	
						industrial	real estate				
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
1988	11.25	8.11	5.39	10.54	10.54	10.87	10.85	10.78	9.00	10.38	2.58
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
May ...	11.21	7.82	5.55	10.49	10.49	10.76	10.59	10.89	9.67	10.33	2.75
June ..	11.33	7.87	5.26	10.47	10.47	10.85	10.77	10.90	8.96	10.38	2.63
July ...	11.41	7.92	5.20	10.61	10.61	10.88	10.74	10.91	7.92	10.34	2.48
Aug. ...	11.45	8.10	5.20	10.74	10.74	10.93	10.72	10.96	8.42	10.42	2.45
Sept. ..	11.69	8.22	5.35	10.88	10.88	11.08	10.88	11.09	8.62	10.53	2.47
Oct. ...	11.68	8.24	5.49	10.67	10.67	10.86	10.92	11.02	8.77	10.44	2.39
Nov. ...	11.63	8.24	5.78	10.61	10.61	10.83	10.99	10.88	7.76	10.38	2.38
Dec. ...	11.66	8.42	6.38	10.70	10.73	11.05	11.01	10.97	9.02	10.46	2.41
1989 - Jan. ...	11.66	8.47	6.40	10.64	10.69	10.93	11.13	11.04	9.15	10.45	2.37
Feb. ...	11.77	8.63	6.04	10.89	10.93	11.21	11.18	11.15	9.84	10.55	2.49
Mar. ...	12.69	9.20	5.87	11.54	11.58	11.57	11.47	11.48	10.88	10.89	2.52
Apr. ...	12.84	9.43	5.93	11.52	11.56	11.68	11.61	11.53	11.50	11.00	2.47

	1979	1980	1981	1982	1983	1984	1985
FINANCIAL ASSETS							
Domestic	**62,079**	**60,328**	**81,118**	**94,203**	**115,373**	**137,599**	**139,843**
M 1	25,365	19,265	22,339	30,148	23,469	30,768	25,669
M 2	43,539	34,286	36,306	60,574	45,102	55,251	53,125
M 3	51,760	51,147	61,266	72,239	60,269	76,274	68,296
Special credit institution deposits and savings certificates	423	414	1,356	6,858	1,364	4,273	1,544
Medium and long-term securities (2)	3,216	–1,391	5,563	8,030	41,863	43,001	42,900
Investment fund units (3)	–	–	–	–	–	745	15,255
TOTAL . . .	*55,399*	*50,170*	*68,185*	*87,127*	*103,496*	*124,293*	*127,995*
Shares and participations (4)	675	2,143	1,204	1,260	1,096	1,850	–1,510
Other financial assets (5)	6,005	8,015	11,729	5,817	10,781	11,455	13,358
Foreign	**3,610**	**746**	**511**	**2,885**	**3,481**	**6,184**	**2,850**
Short-term trade credits (net)	2,138	305	–1,734	2,065	–616	2,547	–1,532
Medium and long-term trade credits and loans	1,052	50	640	–219	1,630	386	1,578
Medium and long-term securities	–177	–179	–288	77	–545	–79	–33
Shares and participations (6)	597	569	1,892	962	3,013	3,330	2,838
TOTAL . . .	**65,688**	**61,074**	**81,629**	**97,088**	**118,854**	**143,783**	**142,694**
AGAINST FINANCING OF							
Private sector	**32,752**	**43,517**	**48,976**	**44,863**	**52,263**	**64,372**	**67,466**
Short-term borrowing	16,983	18,720	12,022	14,448	20,092	34,314	30,922
banks (7)(8)	*16,009*	*17,113*	*9,841*	*12,780*	*19,784*	*31,441*	*27,323*
special credit institutions (8)	*974*	*1,607*	*2,181*	*1,668*	*308*	*2,873*	*1,923*
factoring companies (9)	–	–	–	–	–	–	*1,676*
Medium and long-term borrowing	10,801	15,534	24,940	19,322	15,449	14,707	21,261
banks	*3,589*	*4,062*	*3,166*	*1,232*	*3,028*	*3,884*	*5,017*
special credit institutions (7)	*4,800*	*6,867*	*11,914*	*10,510*	*8,624*	*9,027*	*8,856*
leasing and consumer credit companies (9)	–	–	–	–	–	–	*2,216*
public sector	*–296*	*–86*	*399*	*–83*	*689*	*810*	*1,272*
trade credits and foreign loans	*2,227*	*4,497*	*8,641*	*3,074*	*715*	*–921*	*2,214*
bonds	*481*	*194*	*820*	*4,589*	*2,392*	*1,906*	*1,687*
Shares and participations	2,465	5,164	6,023	10,321	13,163	12,542	11,081
shares (10)	*865*	*1,923*	*2,001*	*2,038*	*2,967*	*4,948*	*4,310*
endowment funds (11)	*836*	*2,952*	*3,154*	*7,384*	*9,431*	*6,548*	*5,132*
other participations (12)	*764*	*289*	*868*	*899*	*765*	*1,046*	*1,639*
Other financial liabilities (13)	2,503	4,098	5,992	771	3,560	2,810	4,202
Foreign sector (14)	**4,553**	**–8,532**	**–10,301**	**–8,432**	**2,323**	**–4,314**	**–7,111**
Public sector (15)	**27,631**	**33,558**	**52,020**	**66,496**	**76,514**	**94,378**	**109,923**
Unclassified (16)	**752**	**–7,470**	**–9,066**	**–5,839**	**–12,245**	**–10,653**	**–27,585**

(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

SECTOR AND THEIR COUNTERPARTS: FLOWS (1)

of lire)

1986	1987	1988	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 III	1988 IV
168,421	**164,233**	**191,280**	....	....	....	....	....	....	....	....
34,652	23,050	27,504	−18,274	7,887	1,876	31,561	−20,996	9,057	6,529	32,914
55,009	49,297	56,928	−11,741	9,293	2,893	48,852	−21,042	13,243	15,168	49,559
58,917	83,311	101,647	−6,741	9,883	22,693	57,476	−827	15,455	31,962	55,055
2,584	2,676	13,270	268	−55	−620	3,084	8,759	2,730	100	1,681
47,261	58,408	72,624	29,515	13,456	8,493	6,945	27,832	17,726	8,352	18,714
37,543	−61	−12,960	3,955	1,872	−1,727	−4,161	−4,123	−3,767	−2,681	−2,389
146,304	*144,335*	*174,580*	*26,998*	*25,155*	*28,838*	*63,343*	*31,642*	*32,144*	*37,733*	*73,061*
7,143	4,484	−3,101	....	....	....	....	....	....	....	....
14,974	15,415	19,801	3,558	3,789	3,908	4,159	4,574	5,045	4,841	5,341
6,212	**1,877**	**12,992**	....	....	....	....	....	....	....	....
189	−2.429	1,526	−2,043	178	−458	−106	−576	469	227	1,406
3,521	420	2,395	−310	590	508	−368	525	393	131	1,347
−414	1,727	5,220	932	−11	−8	815	1,408	823	1,206	1,783
2,916	2,159	3,851	....	....	....	....	....	....	....	....
174,633	**166,110**	**204,272**	....	....	....	....	....	....	....	....
71,912	**68,867**	**94,427**	....	....	....	....	....	....	....	....
27,618	21,228	46,401	502	6,981	−7,386	21,131	−2,958	15,496	3,016	30,847
20,468	*16,590*	*40,815*	*−502*	*6,554*	*−7,522*	*18,060*	*−3,268*	*14,718*	*525*	*28,840*
5,224	*2,137*	*1,823*	*379*	*−199*	*−489*	*2,446*	*−631*	*−163*	*1,551*	*1,066*
1,926	*2,502*	*3,763*	*626*	*626*	*626*	*626*	*941*	*941*	*941*	*941*
26,579	34,788	35,408	10,118	5,048	10,080	9,542	12,217	5,083	9,859	8,247
5,145	*6,487*	*6,553*	*1,510*	*2,058*	*1,120*	*1,799*	*1,789*	*1,323*	*1,469*	*1,972*
10,607	*17,098*	*19,890*	*3,665*	*2,238*	*5,202*	*5,993*	*6,387*	*1,949*	*6,012*	*5,541*
1,858	*3,058*	*4,701*	*765*	*765*	*765*	*765*	*1,175*	*1,175*	*1,175*	*1,175*
1,404	*1,279*	*1,247*	*388*	*275*	*326*	*288*	*195*	*156*	*316*	*579*
2,243	*3,177*	*2,659*	*2,644*	*−443*	*1,676*	*−701*	*2,626*	*109*	*910*	*−986*
5,322	*3,689*	*357*	*1,146*	*155*	*990*	*1,397*	*44*	*371*	*−23*	*−35*
14,114	8,510	7,598	....	....	....	....	....	....	....	....
10,897	*6,533*	*5,350*	....	....	....	....	....	....	....	....
1,704	*246*	*490*	....	....	....	....	....	....	....	....
1,513	*1,731*	*1,758*	....	....	....	....	....	....	....	....
3,601	4,340	5,021	912	880	1,284	1,265	1,386	951	1,376	1,308
3,802	**−1,940**	**−6,779**	**−3,148**	**1,270**	**2.010**	**−2,072**	**−6,438**	**1,253**	**328**	**−1,922**
109,221	**112,482**	**122,912**	....	....	....	....	....	....	....	....
−10,302	**−13,299**	**−6,288**	....	....	....	....	....	....	....	....

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.

FINANCIAL ASSETS OF THE PRIVATE

(Billions

	1978	1979	1980	1981	1982	1983	1984
FINANCIAL ASSETS							
Domestic	**326,587**	**401,431**	**545,376**	**668,098**	**747,759**	**884,745**	**1,061,012**
notes and coin	18,533	21,000	24,545	28,839	32,309	36,256	39,921
demand deposits: with banks	83,567	104,145	121,452	138,739	164,648	182,913	209,688
with the Post Office	3,592	5,912	4,325	5,083	5,852	7,109	7,437
M1	*105,692*	*131,057*	*150,322*	*172,661*	*202,809*	*226,278*	*257,046*
savings deposits: banks (2)	87,111	100,837	112,163	124,214	151,744	169,687	188,198
PO	20,307	24,755	28,450	30,366	33,262	36,952	42,924
M2	*213,110*	*256,649*	*290,935*	*327,241*	*387,815*	*432,917*	*488,168*
Treasury bills	9,788	18,007	33,737	57,983	70,024	85,561	107,550
Bankers' acceptances	–	2	1,133	1,847	1,471	1,101	544
M3	*222,898*	*274,658*	*325,805*	*387,071*	*459,310*	*519,579*	*596,262*
Deposits and savings certificates with special credit institutions	4,939	5,362	5,776	7,132	13,990	15,354	19,627
Medium and long-term securities (3)	23,726	27,771	27,061	33,210	42,252	85,043	128,254
of which: Treasury credit certificates (4)	*3,831*	*6,885*	*8,423*	*11,879*	*18,308*	*51,397*	*84,698*
Investment fund units (5)	–	–	–	–	–	–	1,146
Shares and participations	31,442	44,052	129,131	171,402	157,300	179,120	218,619
Other financial assets	43,582	49,588	57,603	69,283	74,907	85,649	97,103
Actuarial reserves + retirement funds	*43,174*	*48,890*	*56,592*	*63,964*	*73,227*	*83,730*	*94,920*
Deposits on payments abroad + other (6)	*408*	*699*	*1,011*	*5,319*	*1,680*	*1,919*	*2,183*
Foreign	**16,281**	**20,027**	**22,940**	**23,384**	**28,530**	**35,462**	**46,799**
Short-term trade credit (net)	2,240	4,342	4,653	2,280	3,562	2,987	2,517
Medium and long-term trade credits and loans	8,668	9,555	10,008	11,105	12,536	16,364	19,344
Medium and long-term securities	1,094	1,480	2,147	1,360	1,734	1,279	1,320
Shares and participations (7)	4,279	4,650	6,132	8,639	10,698	14,832	23,619
TOTAL . . .	**342,867**	**421,458**	**568,316**	**691,482**	**776,289**	**920,207**	**1,107,811**
AGAINST FINANCING OF							
Private sector	**222,392**	**267,675**	**391,191**	**478,091**	**516,173**	**590,212**	**701,313**
Short-term borrowing	73,297	88,843	106,332	119,254	133,040	152,629	182,418
banks (8)	*70,757*	*85,329*	*101,211*	*111,952*	*124,070*	*143,351*	*168,011*
special credit institutions (8)	*2,540*	*3,514*	*5,121*	*7,302*	*8,970*	*9,278*	*10,825*
factoring companies (9)	–	–	–	–	–	–	*3,582*
Medium and long-term borrowing	76,776	86,048	102,331	129,855	152,253	173,864	198,867
banks	*10,408*	*13,997*	*18,059*	*21,225*	*22,457*	*25,485*	*29,369*
special credit institutions	*43,609*	*47,207*	*53,464*	*63,689*	*73,707*	*81,465*	*86,709*
leasing and consumer credit companies (9)	–	–	–	–	–	–	*8,762*
public sector	*2,895*	*2,599*	*2,513*	*2,912*	*2,828*	*3,518*	*4,328*
trade credits and foreign loans	*7,284*	*9,149*	*15,006*	*27,891*	*34,516*	*42,257*	*46,655*
bonds	*12,580*	*13,096*	*13,289*	*14,138*	*18,745*	*21,139*	*23,044*
Shares and participations	45,969	61,344	144,720	183,547	182,515	208,710	258,408
shares	*33,247*	*46,746*	*125,835*	*157,605*	*148,440*	*165,553*	*210,371*
endowment funds	*7,974*	*8,789*	*12,505*	*18,090*	*25,617*	*32,408*	*38,986*
other participations (10)	*4,748*	*5,809*	*6,380*	*7,852*	*8,458*	*10,749*	*9,051*
Other financial liabilities (11)	26,350	31,440	37,808	45,435	48,365	55,009	61,620
Foreign sector	**9,970**	**23,055**	**33,366**	**17,556**	**4,149**	**12,845**	**5,813**
Public sector (12)	**141,842**	**169,493**	**203,039**	**255,058**	**321,421**	**397,946**	**492,324**
Unclassified (13)	**-31,337**	**-38,765**	**-59,280**	**-59,223**	**-65,454**	**-80,796**	**-91,639**

(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 the acceptances acquired by investors other than credit institutions, atypical securities, loans granted by insurance companies and bank loans used to pay the non-interest-bearing

Table a23

SECTOR AND THEIR COUNTERPARTS: STOCKS (1)

of lire)

1985	1986	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 III	1988 IV
1,545,453	**1,987,650**	**....**	**....**	**....**	**1,916,263**	**....**	**....**	**....**	**2,229,787**
43,729	46,838	44,002	45,912	46,013	51,157	48,839	49,822	50,195	55,369
230,241	261,176	245,787	252,168	253,199	279,143	260,349	269,669	275,861	304,996
8,745	9,355	9,306	8,902	9,646	10,119	10,235	8,989	8,953	7,557
282,715	*317,369*	*299,095*	*306,982*	*308,858*	*340,419*	*319,423*	*328,480*	*335,009*	*367,922*
207,866	217,674	222,062	222,190	221,806	231,777	229,180	232,089	239,423	247,933
50,712	61,261	63,405	64,683	66,084	73,405	75,956	77,232	78,538	86,673
541,293	*596,303*	*584,562*	*593,855*	*596,748*	*645,601*	*624,559*	*637,802*	*652,969*	*702,528*
123,224	127,180	132,198	132,816	152,207	160,433	180,577	183,183	199,924	205,441
348	301	283	255	664	1,062	1,133	740	794	773
664.865	*723,784*	*717,043*	*726,926*	*749,619*	*807,095*	*806,269*	*821,724*	*853,687*	*908,742*
21,171	23,755	24,024	23,968	23,348	26,432	35,191	37,921	38,021	39,702
171,628	220,481	251,367	265,694	274,723	281,952	313,460	333,196	342,211	357,387
122,672	*147,300*	*171,019*	*178,957*	*182,126*	*184,632*	*201,441*	*206,397*	*199,512*	*194,850*
19,783	65,077	69,181	71,379	68,266	59,454	56,028	52,872	52,255	51,565
557,544	829,118	....	....	....	600,481	....	....	....	711,741
110,462	125,435	128,993	132,782	136,790	140,849	145,424	150,469	155,310	160,651
108,126	*122,942*	*126,808*	*130,675*	*134,541*	*138,407*	*143,330*	*148,252*	*153,175*	*158,098*
2,336	*2,493*	*2,185*	*2,108*	*2,249*	*2,442*	*2,094*	*2,216*	*2,135*	*2,553*
58,045	**69,578**	**....**	**....**	**....**	**74,169**	**....**	**....**	**....**	**102,318**
4,195	4,459	....	....	....	702	....	....	....	2,220
19,739	20,333	....	....	....	27,213	....	....	....	28,547
1,315	1,299	....	....	....	3,045	....	....	....	7,833
32,796	43,487	....	....	....	43,210	....	....	....	63,718
1,603,498	**2,057,228**	**....**	**....**	**....**	**1,990,432**	**....**	**....**	**....**	**2,332,105**
1,096,928	**1,415,424**	**....**	**....**	**....**	**1,256,081**	**....**	**....**	**....**	**1,461,393**
210,255	233,218	232,412	239,389	231,202	251,245	248,184	264,783	267,607	297,913
192,249	*208,048*	*206,238*	*212,788*	*204,465*	*221,436*	*218,065*	*233,885*	*234,218*	*262,517*
12,748	*17,985*	*18,364*	*18,166*	*17,677*	*20,123*	*19,492*	*19,330*	*20,881*	*21,947*
5,258	*7,184*	*7,810*	*8,435*	*9,061*	*9,686*	*10,627*	*11,568*	*12,508*	*13,449*
215,282	236,641	....	....	....	273,504	....	....	....	309,277
34,386	*39,531*	*41,041*	*43,099*	*44,219*	*46,018*	*47,807*	*49,130*	*50,599*	*52,571*
94,410	*104,008*	*107,040*	*109,465*	*113,898*	*120,069*	*125,409*	*127,283*	*132,770*	*138,688*
10,978	*12,835*	*13,600*	*14,364*	*15,129*	*15,894*	*17,069*	*18,244*	*19,420*	*20,595*
5,600	*7,000*	*7,388*	*7,664*	*7,990*	*8,279*	*8,474*	*8,630*	*8,947*	*9,526*
45,177	*43,192*	....	....	....	*49,459*	....	....	....	*53,741*
24,731	*30,075*	*31,242*	*31,396*	*32,388*	*33,785*	*33,833*	*34,207*	*34,191*	*34,156*
601,189	867,463	....	....	....	644,772	....	....	....	760,621
546,687	*809,365*	....	....	....	*584,676*	....	....	....	*698,142*
44,177	*46,067*	....	....	....	*46,719*	....	....	....	*47,209*
10,325	*12,031*	....	....	....	*13,377*	....	....	....	*15,270*
70,203	78,102	81,019	82,338	85,286	86,560	89,795	90,924	93,564	93,582
-14,414	**-13,226**	**....**	**....**	**....**	**-13,144**	**....**	**....**	**....**	**-16,394**
605,549	**712,116**	**....**	**....**	**....**	**825,946**	**....**	**....**	**....**	**949,347**
-84,565	**-57,087**	**....**	**....**	**....**	**-78,450**	**....**	**....**	**....**	**-62,241**

(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	76	with	177,930	shares	and	471	votes
Public law credit institutions	7	"	54,500	"	"	137	"
Banks of national interest	3	"	21,000	"	"	54	"
Social security institutions	1	"	15,000	"	"	34	"
Insurance companies	7	"	31,500	"	"	91	"
	94	with	299,930	shares	and	787	votes

Shareholders without voting rights:

Savings banks and pledge banks	8	with	70	shares
Total	102	with	300,000	shares

Reserves. — The changes in the ordinary and extraordinary reserve funds during 1988 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 1987	842,051,984,682	900,213,984,544
increase: due to appropriation of 20 per cent of profits for the year 1987	61,271,077,673	61,271,077,673
due to income received in 1988 from investment of reserves	119,682,101,726	133,159,434,083
decrease: due to distribution to shareholders of a part of the income accruing in the course of 1987 (Article 56 of the Statutes)	665,064,049	695,435,951
Balance at 31 December 1988	1,022,340,100,032	1,093,949,024,349

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

ASSETS

GOLD				
I on hand			2,480,939,732,719	
II on deposit abroad			24,532,210,548,738	27,013,150,281,457
GOLD CREDITS (EMCF)				9,310,416,860,868
CASH ON HAND				5,782,738,177
DISCOUNTS AND ADVANCES				
I portfolio discounts:				
— ordinary bills		426,266,217,724		
— stockpiling bills		2,248,467,429,396	2,674,733,647,120	
II advances:				
— current account		1,924,229,474,949		
— fixed term		9,999,272,500		
— under Treasury Decree of 27.9.1974		2,081,482,880,650	4,015,711,628,099	
III deferred payments in the clearing system			—	6,690,445,275,219
BILLS FOR COLLECTION WITH CORRESPONDENTS				—
EXTERNAL ASSETS IN FOREIGN CURRENCIES				
I ECUs			10,464,648,879,056	
II other:				
— banknotes and foreign currency bills		1,599,574,999		
— current accounts with correspondents		1,044,064,157,742		
— time deposits		828,463,929,355		
— other		325,119,901,377	2,199,247,563,473	12,663,896,442,529
DOLLAR CREDIT (EMCF)				1,154,231,935,431
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)				
I current accounts			30,530,571,744,328	
II special accounts			3,459,593,632,040	33,990,165,376,368
EXTRAORDINARY ADVANCE TO THE TREASURY				—
TREASURY CURRENT ACCOUNT				66,312,332,648,288
SUNDRY CLAIMS ON THE GOVERNMENT				797,669,699,310
SECURITIES				
I government and government-guaranteed securities:				
— freely available		64,350,880,262,500		
— investment of statutory reserves		1,234,375,699,615		
— investment of staff severance pay and pension funds		1,415,602,990,863	67,000,858,952,978	
II securities of companies and agencies:				
— investment of statutory reserves		447,293,625,987		
— investment of staff severance pay and pension funds		984,685,958,940	1,431,979,584,927	
III shareholdings and participations:				
— in subsidiary companies and agencies				
investment of statutory reserves	777,715,802			
investment of staff severance pay and pension funds	160,951,224,208	161,728,940,010		
— in associated companies and agencies				
investment of statutory reserves	30,371,051,425			
investment of staff severance pay and pension funds	24,687,503,148	55,058,554,573		
— in other companies and agencies				
investment of statutory reserves	219,829,827,937			
investment of staff severance pay and pension funds	283,201,173,903	503,031,001,840	719,818,496,423	69,152,657,034,328
			carried forward	227,090,748,291,975

AT 31 DECEMBER 1988

NINETY-FIFTH YEAR

LIABILITIES

NOTES IN CIRCULATION		58,952,314,508,000
BANCA D'ITALIA DRAFTS		820,987,383,107
OTHER SIGHT LIABILITIES		
I transfer orders	—	
II other	5,791,237,537	5,791,237,537
FREELY AVAILABLE DEPOSITS ON CURRENT ACCOUNT		588,330,352,653
TIED DEPOSITS ON CURRENT ACCOUNT		—
DEPOSITS FOR CASH DEPARTMENT SERVICES		15,295,316,567
COMPULSORY DEPOSITS		
I compulsory bank reserves	102,898,130,690,474	
II collateral for the issue of bankers' drafts and guaranteed personal cheques	7,061,246	
III tied deposits in relation to investment abroad	60,400,163	
IV in respect of companies in the process of incorporation	7,110,801,934	
V in respect of bank lending in excess of the ceiling	—	
VI other	147,014,238,788	103,052,323,192,605
DEPOSITS IN FOREIGN CURRENCY ON BEHALF OF THE UIC		—
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC		3,459,593,632,040
EXTERNAL LIABILITIES		
I deposits in foreign currencies	3,858,656,744	
II external accounts in lire	109,707,182,416	113,565,839,160
ECU LIABILITIES (EMCF)		10,464,648,796,299
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT		473,327,206,878
SUNDRY PROVISIONS		
I for gold price fluctuations (under Decree Law 867/1976 and Art. 104 (1b) of the codified income tax law)	32,561,573,983,619	
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	1,709,422,263,641	
V for exchange rate adjustments (under Art. 104 (1b) of the codified income tax law)	231,169,956,506	
VI for losses on securities	4,048,733,440,996	
VII for contingent losses	2,403,006,748,480	
VIII for insurance cover	736,691,685,925	
IX for building works	1,463,409,896,338	
X for renewal of equipment	426,250,000,000	
XI for taxation	1,499,115,040,745	
XII for staff severance pay and pensions	3,590,816,000,000	
XIII for grants to BI pensioners their surviving dependants	1,187,698,029	
XIV for severance pay to contract staff under Law 297/1982	743,059,151	50,107,834,227,909
	carried forward	228,054,011,692,755

BALANCE SHEET

AMOUNTS IN LIRE

ASSETS

			brought forward	227,090,748,291,975
UIC ENDOWMENT FUND				500,000,000,000
REAL PROPERTY				
I Bank premises			1,675,266,472,914	
II investment of staff severance pay and pension funds			198,466,747,068	1,873,733,219,982
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS				25,715,742,239
FURNITURE AND EQUIPMENT				
I furniture and fittings			90,536,401,718	
II equipment			167,738,709,315	
III coins and collections			307,195,088	258,582,306,121
SUNDRY ITEMS				
I banknotes in production			7,198,240,769	
II procedures, studies and design of the technical departments:				
— completed		50,570,939,021		
— in preparation		14,577,339,015	65,148,278,036	
III sundry debtors			324,194,586,072	
IV other			1,229,499,384,228	1,626,040,489,105
ACCRUED INCOME				2,730,256,369,105
PREPAID EXPENSES				—
				234,105,076,418,527
MEMORANDUM ACCOUNTS				
I Securities and other valuables:				
— held as collateral		6,851,407,265,918		
— other		995,207,275,025,370	1,002,058,682,291,288	
II Depositaries of securities and valuables:				
— domestic		12,927,203,400		
— foreign		2,405,348,344,054	2,418,275,547,454	
III Unused overdraft facilities			1,419,949,233,061	
IV Debtors for securities, exchange and lire receivable (BI forward sales)				
— securities		60,000,000,000		
— internal correspondents		—		
— external correspondents		4,950,000,000,000	5,010,000,000,000	
V Securities, exchange and lire receivable (BI forward purchases)				
— securities		37,000,000,000		
— foreign currencies and lire		4,950,000,000,000	4,987,000,000,000	
VI Order suspense accounts				
— purchases of foreign currencies		—		
— lire in respect of sales of foreign currencies		—		
— purchases of securities		—		
— lire in respect of sales of securities		—	—	
VII Exchequer for depreciation allowances			278,993,897,524	1,016,172,900,969,327
			TOTAL . . .	**1,250,277,977,387,854**

Audited and found correct — Rome, 27 April 1989

THE AUDITORS

DOMENICO AMODEO
VITTORIO CODA
LUIGI GUATRI
ARNALDO MAURI
FRANCO GAETANO SCOCA

LIABILITIES

	brought forward			228,054,011,692,755
ACCUMULATED DEPRECIATION OF PROPERTY				492,810,604,760
ACCUMULATED DEPRECIATION OF FURNITURE AND FITTINGS				88,416,428,972
ACCUMULATED DEPRECIATION OF EQUIPMENT				146,144,227,645
ACCELERATED DEPRECIATION (Art. 67 (3) of the codified income tax law)				9,004,776,917
ACCUMULATED DEPRECIATION OF THE PROCEDURES, STUDIES AND DESIGN OF THE TECHNICAL DEPARTMENTS				24,503,536,333
SUNDRY ITEMS				
I sundry creditors			260,149,979,897	
II other			812,068,806,910	1,072,218,786,807
ACCRUED EXPENSES				181,691,179,753
DEFERRED INCOME				375,538,559,120
CAPITAL			300,000,000	
ORDINARY RESERVE FUND			1,022,340,100,032	
EXTRAORDINARY RESERVE FUND			1,093,949,024,349	2,116,589,124,381
REVALUATION SURPLUS RESERVE UNDER LAW 72/1983				1,304,000,000,000
NET PROFIT FOR DISTRIBUTION				240,147,501,084
				234,105,076,418,527
MEMORANDUM ACCOUNTS				
I Depositors of securities and other valuables			1,002,058,682,291,288	
II Securities and valuables on deposit			2,418,275,547,454	
III Holders of unused overdraft facilities			1,419,949,233,061	
IV Securities, exchange and lire for delivery (BI forward sales)				
— securities		60,000,000,000		
— foreign currencies and lire		4,950,000,000,000	5,010,000,000,000	
V Creditors for securities, exchange and lire for delivery (BI forward purchases)				
— securities		37,000,000,000		
— internal correspondents		—		
— external correspondents		4,950,000,000,000	4,987,000,000,000	
VI Order suspense accounts				
— lire in respect of purchases of foreign currencies		—		
— sales of foreign currencies		—		
— lire in respect of purchases of securities		—		
— sales of securities		—	—	
VII Depreciation allowances			278,993,897,524	1,016,172,900,969,327
	TOTAL . . .			**1,250,277,977,387,854**

THE ACCOUNTANT GENERAL
LUIGI GIANNOCCOLI

THE GOVERNOR
CARLO AZEGLIO CIAMPI

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

COSTS OF ADMINISTRATION			
central and local boards		1,516,491,421	
staff:			
wages and salaries and related costs	657,551,192,458		
pensions and severance payments	220,134,177,412	877,685,369,870	
professional services		117,001,801,934	
other		156,177,440,201	1,152,381,103,426
TAXES AND DUTIES			
stamp duty on the circulation of banknotes and demand drafts		—	
other taxes and duties:			
current year	56,466,336,522		
previous years	389,843,116,000	446,309,452,522	446,309,452,522
INTEREST PAID			
on compulsory bank reserves		5,814,868,018,365	
other		6,737,157,775	5,821,605,176,140
EXPENDITURE ON SECURITIES TRANSACTIONS			7,596,941,093
EXPENDITURE ON FOREIGN TRANSACTIONS			8,670,272
LOSSES ON SECURITIES TRADING			—
EXCHANGE RATE LOSSES			—
LOSSES ON THE DISPOSAL OF ASSETS			100,000,000
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES			1,676,873,411
TECHNICAL DEPARTMENTS — INITIAL STOCKS			19,538,295,502
EXPENDITURE ON TRANSACTIONS WITH THE TREASURY			1,012,722,786,000
VALUATION LOSSES			
on securities		387,148,370,797	
on foreign exchange		3,282,900,592	
on other assets		—	390,431,271,389
DEPRECIATION			
of buildings		46,247,943,259	
of furniture and fittings		7,538,988,353	
of equipment		34,637,121,457	
of the procedures, studies and designs of the technical departments		14,713,088,900	
other		57,624,839	103,194,766,808
APPROPRIATION OF INVESTMENT INCOME TO RESERVES			
to ordinary reserve fund		119,682,101,726	
to extraordinary reserve fund		133,159,434,083	252,841,535,809
		carried forward	9,208,406,872,372

INCOME AND PROFITS

INTEREST RECEIVED				
on discounts and advances:				
ordinary portfolio discounts		21,778,494,635		
stockpiling portfolio discounts		22,314,826,759		
advances		276,566,135,724	320,659,457,118	
on lending to the Treasury			719,910,543,424	
on lending to the UIC			1,159,691,006,631	
on lending abroad			223,236,231,752	
other			17,266,649,769	2,440,763,888,694
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES				
freely available				
interest-bearing:				
Treasury bills	1,265,251,960,012			
variable rate Treasury credit certificates	3,403,134,529,112			
other government securities	1,306,893,123,407	5,975,279,612,531		
government-guaranted securities		92,756,959,781	6,068,036,572,312	
investment of reserves and staff severance pay and pension funds				
interest-bearing:				
government and government-guaranteed securities	275,566,225,549			
other securities	161,223,146,071	436,789,371,620		
from participations (not represented by securities) in:				
subsidiary companies and bodies	9,138,891,905			
associated companies and bodies	10,649,275,726			
other companies and bodies	39,296,308,005	59,084,475,636	495,873,847,256	6,563,910,419,568
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND				67,020,137,329
SECURITIES ISSUE DISCOUNTS				106,970,701,709
PROFITS FROM TRADING IN AND REDEMPTION OF SECURITIES				310,266,559,261
EXCHANGE RATE GAINS				104,691,689,840
COMMISSIONS AND OTHER FINANCIAL REVENUES				225,018,915,033
INCOME FROM REAL PROPERTY				15,659,992,805
PROFITS FROM THE DISPOSAL OF:				
real property			882,815,000	
other property			2,875,289,259	3,758,104,259
TECHNICAL DEPARTMENTS - FINAL STOCKS				22,935,698,725
TECHNICAL DEPARTMENTS - PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR				9,832,645,466
VALUATION GAINS				
on securities			—	
on foreign exchange			—	
on other assets			—	—
			carried forward	9,870,828,752,689

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

brought forward		9,208,406,872,372
ALLOCATIONS TO PROVISIONS		
for losses on bill portfolio	—	
for losses on foreign exchange	60,000,000,000	
for losses on securities	387,148,370,797	
for contingent losses	—	
for insurance cover	30,000,000,000	
for building works	120,000,000,000	
for renewal of equipment	20,000,000,000	
for taxation	200,000,000,000	
for staff severance pay and pensions	442,000,000,000	
for grants to BI pensioners and their surviving dependants	515,055,386	
for severance pay of contract staff under Law 297/1982	157,031,202	1,259,820,457,385
NON-OPERATING LOSSES AND EXTRAORDINARY CHARGES		474,622,744
		10,468,701,952,501
NET PROFIT		240,147,501,084
TOTAL...		**10,708,849,453,585**

APPROPRIATIO

TO ORDINARY RESERVE FUND ...

TO EXTRAORDINARY RESERVE FUND ...

TO SHAREHOLDERS ...

TO THE TREASURY ...

Audited and found correct - Rome, 27 April 1989

THE AUDITORS

DOMENICO AMODEO

VITTORIO CODA

LUIGI GUATRI

ARNALDO MAUR!

FRANCO GAETANO SCOCA

INCOME AND PROFITS

brought forward		9,870,828,752,689
WITHDRAWALS FROM PROVISIONS		
for losses on bill portfolio	—	
for losses on foreign exchange	3,282,900,592	
for losses on securities	387,148,370,797	
for contingent losses	—	
for insurance cover	—	
for building works	46,247,943,259	
for renewal of equipment	—	
for taxation	389,843,116,000	
for staff severance pay and pensions	—	
for grants to BI pensioners and their surviving dependants	99,403,000	
for severances pay contract staff under Law 297/1982	69,091,678	826,690,825,326
NON-OPERATING PROFITS AND EXTRAORDINARY EARNINGS		11,329,875,570
TOTAL...		**10,708,849,453,585**

OF PROFITS

	48,029,500,217
	48,029,500,217
	30,000,000
	144,058,500,650
TOTAL...	**240,147,501,084**

THE ACCOUNTANT GENERAL

LUIGI GIANNOCCOLI

THE GOVERNOR

CARLO AZEGLIO CIAMPI

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1988

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 CENTRAL BANK OPERATIONS
Vincenzo DESARIO	— CENTRAL MANAGER FOR BANKING SUPERVISION
Antonio FINOCCHIARO	— SECRETARY GENERAL
Pierluigi CIOCCA	— CENTRAL MANAGER FOR ECONOMIC RESEARCH
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
Roberto MORI	— CENTRAL MANAGER FOR INFORMATION SYSTEMS AND ORGANIZATION

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 societa 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