BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1991

ABRIDGED REPORT
FOR THE YEAR
1990

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The industrial countries

The growth of real output in the industrial countries as a group diminished from 3.3 per cent in 1989 to 2.6 per cent in 1990. The slowdown was most pronounced in the second half of the year owing to a declive in economic activity in the United States, Canada and the United Kingdom.

Output in these three countries grew by 1 per cent or less during the year as a whole, whereas the Japanese and German economies expanded even more rapidly than in 1989 (by 5.6 and 4.5 per cent respectively), thanks to the strength of investment, which rose by 12.7 and 8.7 per cent, and private consumption, which increased by more than 4 per cent in both countries. The cyclical differences helped reduce imbalances in trade and current accounts. The expansion of demand in Japan and Germany attenuated the world economic slowdown, with export demand making an appreciable contribution to growth in the United States and even more so in the United Kingdom and Canada. France and Italy recorded intermediate levels of economic growth. For the European Community as a whole, gross product increased by an average of about 3 per cent, half a point less than in 1989 (Table 1).

Consumer price inflation in the industrial countries averaged 5.2 per cent in 1990 as against 4.6 per cent the previous year. It accelerated in the United States, Japan and the United Kingdom while remaining virtually unchanged in Germany. The figure for the European Community was 5.7 per cent, compared with 5.2 per cent in 1989.

The rise in labour costs outstripped productivity gains in all the countries: by 9 percentage points in the United Kingdom, 7 in Italy, 5 in Canada, over 4 in the United States and France and 2 in Japan and Germany. Productivity decreased in the United States, virtually stagnated in the United

Kingdom and grew by just under 1 per cent in Italy and France. The rise in unit labour costs affected profit margins, which narrowed everywhere, but especially in Canada and the United Kingdom. Import prices in dollars rose by 9 per cent for the industrial countries as a group. The inflationary impact of the rise in oil prices in the second half of the year was partially offset by a significant reduction in the cost of other raw materials, whose dollar prices declined by 8 per cent in the course of the year, and — for Japan and the European economies — by the depreciation of the dollar.

Table 1

DEMAND AND GROSS PRODUCT IN THE LEADING INDUSTRIAL COUNTRIES

(constant prices; percentage changes)

	1988	1989	1990
United States			
Domestic demand (1)	3.3	1.9	0.5
Foreign demand (2)	1.1	0.5	0.5
Gross product	4.5	2.5	1.0
Japan			
Domestic demand (1)	7.7	5.7	5.7
Foreign demand (2)	–1.2	–0.9	–0.2
Gross product	6.3	4.7	5.6
Germany			
Domestic demand (1)	3.7	2.7	4.9
Foreign demand (2)	0.1	1.2	–0.2
Gross product	3.7	3.9	4.5
France			
Domestic demand (1)	4.0	3.3	3.1
Foreign demand (2)	–0.3	0.3	–0.4
Gross product	3.8	3.7	2.8
United Kingdom			
Domestic demand (1)	7.6	2.9	–0.1
Foreign demand (2)	–3.7	–1.1	0.9
Gross product	3.9	1.9	0.7
Italy			
Domestic demand (1)	4.4	3.0	1.9
Foreign demand (2)	–0.5	–0.1	–
Gross product	4.1	3.0	2.0
Canada			
Domestic demand (1)	5.5	4.2	–
Foreign demand (2)	–1.1	–1.3	0.9
Gross product	4.4	3.0	0.9
Total for the seven leading industrial countries			
Domestic demand (1)	4.6	3.0	2.4
Foreign demand (2)	–0.1	0.1	0.3
Gross product	4.5	3.2	2.6
EEC			
Domestic demand (1)	5.0	3.5	2.8
Foreign demand (2)	–1.1	–0.3	–0.2
Gross product	3.9	3.3	2.8

Sources: EEC, OECD and national statistics.
(1) Total, including changes in stocks. – (2) Percentage contribution to the increase in gross product.

Inflation moderated slightly during the first half of the year, declining to a twelve-month rate of 4.9 per cent in July. It then accelerated between August and November, when it reached 5.8 per cent, owing partly to higher oil prices, but began to ease again in December. By March the twelve-month rate stood at 4.9 per cent in the United States, 5.3 per cent in the European Community and 4.9 per cent in the ERM countries.

The end of the Gulf conflict, the fall in oil prices and the easing of monetary conditions in a number of countries have led to an improvement in business confidence. According to the forecasts of international organizations, the industrial economies will grow by just over 1 per cent in 1991, possibly with an upturn in the second half induced by investment and private consumption. Inflation is expected to fall below 5 per cent on average for the year, reflecting the combined effects of the decline in oil prices and the slowdown in economic activity.

The problems of German unification

The monetary and economic unification of the two Germanies, which took effect on 1 July and was crowned by political unification on 3 October, has brought drastic change to the economy of the former German Democratic Republic. Public authorities and enterprises have had to jettison long-standing practices and patterns of behaviour and adjust to a new system based on the principles of the social market economy: free market forces within a regulatory framework designed to reconcile the principles of efficiency and equity.

Under the treaty of unification the West German Deutschemark became the sole legai tender and the Deutsche Bundesbank the sole monetary authority throughout German territory on 1 July 1990. The Banking Law of the Federal Republic was applied in the new *Länder* and the regulations of the former GDR governing foreign exchange markets and interest rates were abolished. The treaty also provides for the gradual adjustment of the tax and social security systems to those prevailing in the Federal Republic.

The transition has proved more difficult than expected. Consumer demand for goods produced in the Eastern part of the country has evaporated, as the price differentials with respect to products from Western Germany are insufficient to compensate for the difference in quality. The situation has been aggravated by the sharp decline in export demand as a result of the worsening economic crisis in the other countries of Central and Eastern Europe, which had been the principal outlets for goods from the GDR.

Industrial production in the Eastern part of Germany in the second half of 1990 was only about 50 per cent of what it had been in the corresponding period of 1989. At the end of the year unemployment stood at 640,000 out of a labour force estimated at just under 9 million, and more than 1.8 million workers were on short time. The rise in unemployment has hit the industrial sector hardest, and to a lesser extent agriculture. The loss of jobs in the private services sector, which consists chiefly of small family enterprises, has been much less pronounced.

Unification has had a severe impact on the budget. In 1990 net expenditure for Eastern Germany amounted to 3 per cent of GNP in the Western part of the country.

Although not yet completed, the dismantling of the system of indirect taxes and subsidies in the former GDR has not generated inflationary pressures. In fact, there has been a significant declive in the cost-of-living index based on the new prices in Deutschemarks. The abolition of the excise duties on most industrial products and the price reductions to liquidate inventories more than offset the price increases for formerly subsidized goods. In the second half of 1990 consumer prices were lower on average than a year earlier, indicating an increase of about 3 per cent in the purchasing power of consumers in the Eastern regions. This was due in part to the decision to defer until 1991 the increases in rents, domestic gas and electricity charges and public transport fares, which are stili considerably lower than in Western Germany.

Economic policy in the industrial countries

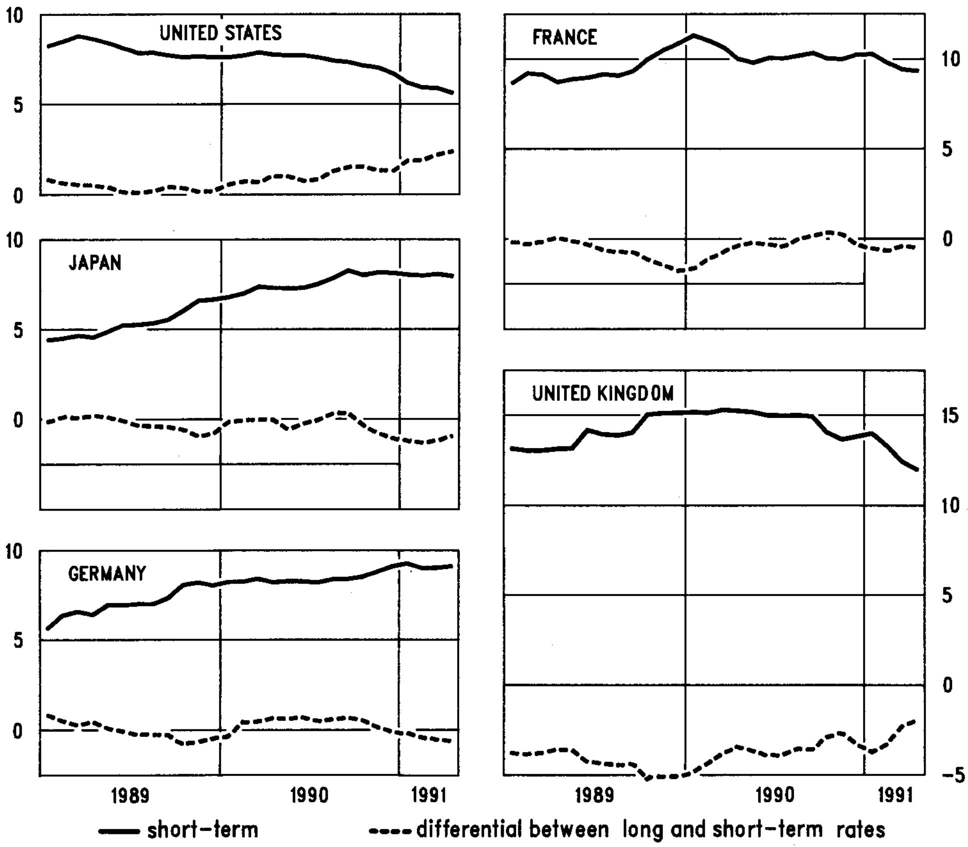
Monetary policies. — The need to control inflation while at the same time regulating the economic cycle made the conduct of monetary policy particularly difficult last year. The leading industrial countries maintained a generally restrictive stance for most of 1990, although in the fourth quarter a more pronounced divergence in growth rates led monetary authorities to differentiate their policies.

In the United States and the United Kingdom money market rates declined sharply in the last quarter, so that in December they were respectively 1.2 and 1.5 percentage points lower than in March. In the United States they fell to their lowest level since the spring of 1988 and were significantly below prevailing rates in the other major industrial countries (Figure 1). In France short-term interest rates declined during the first five months of the year but edged upwards over the next four months. Increases in official rates in Japan and Germany caused short-term interest rates to rise to more than 8 per cent and 9 per cent respectively, their highest level since early 1981 in Japan and mid-1982 in Germany.

Figure 1

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

(monthly averages)



Trends in long-term rates, by contrast, were similar in the various countries. After a sharp rise in the first quarter, which was especially pronounced in Germany owing to the expectations aroused by impending unification, long-term interest rates remained statile over the next four months in Germany and diminished in the other countries except Japan. In August fears of inflation kindled by the Gulf crisis caused a generai rise in interest rates, which in September exceeded the levels of the beginning of the year by 2 points in Japan and by about 1 point in the other leading countries. The downward trend then resumed, with the most pronounced reductions occurring in the United States and the United Kingdom, where rates declined by nearly one percentage point in the last three months of the year. The differential between long-term and short-term rates narrowed in the last quarter, turning negative again in Japan and, in December, in Germany and France as well (Figure 1).

Monetary conditions eased in the first few months of 1991. As economic activity remained sluggish, the discount rate in the United States was reduced by half a point in February and again in Aprii, and by mid-May the federai funds rate was down to 5.8 per cent. In Europe monetary policies were geared to the differing cyclical positions of the individuai economies, leading to a significant convergence of interest rates. The German lombard and discount rates were raised by half a point in early February, but short-term interest rates nevertheless declined slightly between late January and mid-March. This trend was later halted by the more pronounced weakening of the Deutschemark. In the United Kingdom the base rate was lowered repeatedly in February, March and Aprii by a total of 2 points. In Italy the discount rate was reduced by 1 point to 11.5 per cent on 12 May. In Spain the officiai rate was cut by 1 point in March and by a further 0.75 points to 12.75 per cent on 16 May. Long-term rates carne down markedly in Germany, France and Italy while remaining essentially stable elsewhere.

The growth in the monetary aggregates decelerated abruptly in 1990 in the United States, Japan and the United Kingdom, owing above all to a sharp slowdown in credit to the private sector. In Germany the shift of residente' deposits towards the Euromarket continued, owing to the high cost of compulsory reserves. Delocalization also occurred in France following the elimination of the remaining restrictions on capital movements in January 1990.

The money supply targets for 1991 appear to be appropriate in view of the slowdown in economic activity and the commitment to price stability. In the United States the target range for M2 has been lowered to 2.5-6.5 per cent, while that for M3 has been kept at 1-5 per cent. The Bundesbank has retained the 4-6 per cent target range for M3 for unified Germany, while in the United Kingdom the target range for MO has been lowered by 1 percentage point to 0-4 per cent. In France a target of 5-7 per cent has been set for the new monetary aggregate M3.

Fiscal policies. — On the basis of the standardized definitions used by international economic organizations, the industrial countries' public sector deficits rose from 1 per cent of gross product in 1989 to 1.3 per cent in 1990. If cyclical factors are taken finto account, the fiscal stance was broadly neutra) in all the countries but Germany, where it was highly expansionary.

The US federai budget deficit for the 1990 fiscal year amounted to $220 billion, or 4 per cent of GNP, against $153 billion the previous year (2.9 per cent). The deterioration was due chiefly to the downturn in the economy and expenditure of $55 billion in connection with the rescue of savings and loan institutions. The total cost of this operation, which is being spread over a number of years, is officially estimated at between $130 and 170 billion at current values; including interest, it will amount to between $300 and 500 billion.

Japan succeeded in balancing the state sector's current account, with the overall budget deficit amounting to only 0.5 per cent of GNP. Including local government finances and the growing surplus of the social security system, the public sector surplus increased to 2.8 per cent of GNP, compared with 2.4 per cent the previous year.

The financial costs of unification increased Germany 's public sector deficit from DM 20 billion in 1989 to DM 90 billion last year and from 0.9 to 3.7 per cent of GNP. The deficit was slightly less than had been officially forecast, thanks to larger-than-expected revenues in Western Germany and delay in implementing the expenditure programmes in the East. The overall figure comprises the deficits of the Federal Government and local authorities and borrowing of DM 20 billion by the German Unity Fund, but excludes the surplus of the social security system. In the second half of the year alone expenditure in the Eastern regions amounted to more than DM 70 billion, against around DM 18 billion in revenue. The largest items were transfers to local authorities and to the social security system and expenditure on public services.

In France the improvement in the public finances continued, with the public sector borrowing requirement decreasing from 1.5 to 1.2 per cent of GDP. In the United Kingdom, public sector debt repayment was almost nil in the 1990-91 financial year that has just ended; it amounted to 0.25 per cent of GDP, as against 1.5 per cent in 1989-90.

The main international economic organizations expect the fiscal impact for 1991 to be slightly restrictive in all the leading industrial countries except Germany, where the stance will remain strongly expansionary owing to the financing requirements associated with restructuring in the *Länder.*

In the United States, recent Administration estimates put the federai budget deficit for fiscal 1991 at $310 billion (5.4 per cent of GNP), reflecting slower economic activity and the increased cost of reorganizing the thrift institutions, which is expected to amount to $112 billion. The social security system, by contrast, will generate a surplus estimated at $60 billion.

In Japan the public sector surplus is expected to increase to 3 per cent of GNP in 1991. In Germany the Federal Government estimates the public sector borrowing requirement for 1991 at DM 140 billion, the equivalent of 5.4 per cent of GNP compared with 3.7 per cent last year.

EXCHANGE RATES AND WORLD TRADE

Exchange rates

In 1990 the behaviour of exchange rates between the dollar, the yen and the Deutschemark largely reflected divergent interest rate developments in the United States, Japan and Germany, stemming from the three countries' different cyclical positions and economic policy stances. In the twelve months to December the dollar depreciated by 7 per cent against the yen and by 14 per cent against the Deutschemark; in effective terms it depreciated by 8 per cent, while the yen and the Deutschemark appreciated by 1 and 2 per cent respectively.

The dollar continued to weaken until February 1991, when it traded at 128 yen and DM 1.45. The reduction in interest rates brought about by the Federal Reserve to counter the slowdown in economic activity contrasted with increases in Japan and Germany. The Gulf crisis accentuated the weakness of the dollar, since the US economy is more vulnerable to an increase in the price of oil on account of its high energy consumption in relation to GNP (4.8 per cent, roughly double the ratio for Japan or Germany).

In March, with the Gulf war over and expectations of an economic upturn in the United States becoming more widespread, the US currency began to strengthen rapidly; by the end of Aprii it had risen to more than DM 1.76, a gain of 15 per cent since the beginning of March.

The discussions at the meeting of the Finance Ministers of the Group of Seven countries at the end of April, at which the participants reaffirmed their commitment to cooperate in the exchange market, showed that a further appreciation of the dollar was not desirable. In early May the dollar fell to around DM 1.73, partly in response to the cut in the US discount rate.

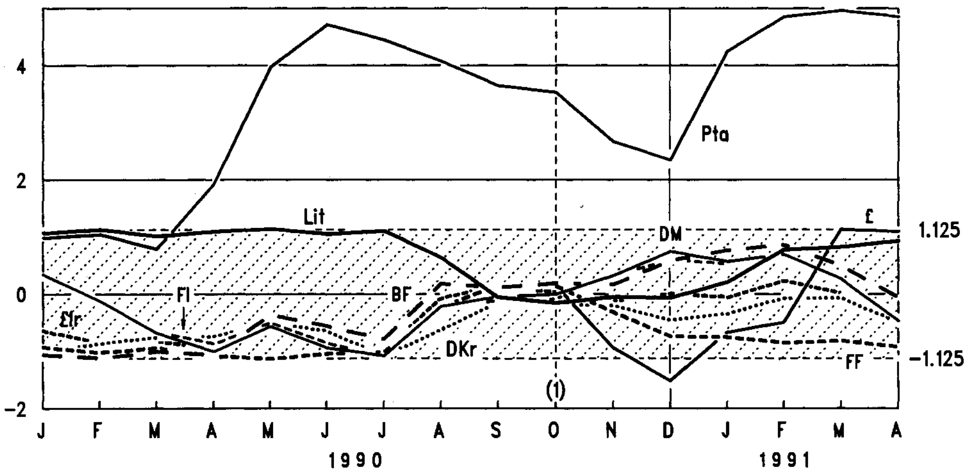
The EMS exchange rate mechanism, which saw the entry of the pound sterling last October, experienced a continuation of the period of stability that has now lasted for more than four years.

In the first seven months of 1990 the tendency of the lira to appreciate was curbed by exchange market interventions amounting to around $8 billion and by the reduction in short-term interest rates. In the same period the Spanish peseta rose into the upper part of its fluctuation band, appreciating by around 5 per cent against the Deutschemark. The German currency slid steadily into the lower part of the band, joining the French franc (Figure 2). French interest rates fell by more than 1 percentage point, narrowing the interest rate differential between France and Germany by an egual amount.

Figure 2

POSITIONS OF THE ERM CURRENCIES WITHIN THE FLUCTUATION BAND

(end-of-period data)



(1) Entry of the pound sterling into the ERM (8 October 1990).

The configuration of intra-ERM exchange rates changed progressively from August onwards as a result of the tightening of monetary conditions in Germany. In France, short-term interest rates declined during the autumn following the slowdown in the pace of both business activity and inflation; by the end of the year, however, they had been raised beyond their summer level in order to prevent an excessive depreciation of the franc. The differential between lira and DM interest rates diminished until September, closing to 2.1 percentage points; the deterioration in expectations subsequently prompted an increase in lira rates that enabled the lira to rise gradually towards the centre of the band.

The configuration of currencies within the ERM in the early months of 1991 was similar to that in the first half of 1990, with the lira and the peseta near their upper fluctuation limits against the French franc. The relative weakness of the Deutschemark allowed the other countries to reduce interest rates again.

On 8 October 1990 the United Kingdom brought sterling into the exchange rate mechanism with 6 per cent margins of fluctuation. Sterling moved into the lower part of the band, reflecting expectations of a cut in interest rates in response to the fall in economic activity. The resolute commitment of the British authorities to reduce inflation subsequently favoured the steady appreciation of sterling, which rose above the centre of the band in March.

Towards European Economic and Monetary Union

In 1990 the preparatory phase of Economic and Monetary Union, which had been launched by the European Council meeting in Hanover in June 1988, carne to a dose and the work of realizing EMU began.

The first of the three stages in this process opened in July and will end on 31 December 1993, the date by which the conditions set by the European Council in Rome last October for the transition to stage two must be met. These include, in particular, the completion of the single market programme, the ratification of the Treaty by member states, the launch of a process designed to ensure the independence of the Governors of the central banks of the Community, the prohibition of the monetary financing of budget deficits and the participation of the greatest possible number of member states in the exchange rate mechanism. In addition, the transition to stage two will depend on the achievement of satisfactory and lasting progress towards real and monetary convergence, especially as regards price stability and the restoration of sound public finances.

In stage one, steps have been taken to strengthen the mechanisms of economic policy coordination among the EEC countries. The Committee of Central Bank Governors of the Community has reinforced its structure by setting up a unit of economists and establishing three sub-committees for monetary policy, exchange rate policy and banking supervision. New procedures have been introduced for assessing ex ante whether national monetary objectives are compatible with the commitment to promote price and exchange rate stability. Work has begun on harmonizing the national monetary aggregates in order to pave the way for the construction of a single Community-wide aggregate.

Last year the Council of Economic and Finance Ministers (ECOFIN) carried out the first multilateral surveillance of member countries' economic policies and performance. Despite the progress that has been made in recent years, it was found that the degree of convergence remains insufficient: in some countries inflation is stili markedly higher than the lowest rates recorded in the Community, the budget deficits of the Netherlands, Belgium and Portugal stili give cause for concern, and those of Italy and Greece are considered excessive.

The Intergovernmental Conference to amend the Treaty of Rome and thus establish the framework of law for the subsequent stages of EMU opened in December. The key elements of economic union are the realization of an open single market that combines price stability with the promotion of growth, employment and environmental protection, together with sound and sustainable financial and budgetary conditions and economic and social cohesion.

Monetary union is based on a single currency, the ecu, and on a European System of Central Banks (ESCB) the linchpin of which will be a European Central Bank with legai personality. The draft Statute of the ESCB defines the main features of the new monetary institution and embodies the fundamental principles of independence, democratic accountability, indivisibility, federalism, subsidiarity and the primacy of the objective of price stability.

The Intergovernmental Conference is also charged with defining the relations between the various organs of the Community and the ESCB, in order to ensure the necessary coordination of national economic policies with the single monetary policy and implementation of the Community's exchange rate policy.

An assessment of economic and monetary conditions in the member countries will be made before the end of 1996 to verify whether the passage to stage three, which involves the irrevocable fixing of exchange rates, can be accomplished without disturbances. The Treaty may make provision for the transitional phase to be extended for countries which will not have carried out the adjustment necessary for full participation in EMU by that time.

World trade and relative prices

The volume of world trade rose by about 5 per cent in 1990, as against 7 per cent in 1989, thus reflecting the world economic slowdown. The direct impact of the Gulf crisis was limited on account of the low overall incidente of trade with the area subject to the United Nations embargo of 6 August 1990 (around 1 per cent). The industrial countries' exports and imports both rose by 6 per cent, compared with growth of 6.8 and 7.6 per cent respectively in 1989. The slowdown in trade was more pronounced for the developing countries, whose exports increased by 4 per cent and imports by 3 per cent, compared with rates of 7 and 8 per cent respectively the previous year.

Oil prices were highly volatile during 1990, primarily because of the Gulf crisis. On a monthly average basis, they fell from $19 a barrel at the beginning of the year to a low of $14 in June owing to excess supply due mainly to increased production by the OPEC countries.

Oil prices rose in July, in part because of the growing tension in the Gulf; they climbed further following the Iraqi invasion of Kuwait, to peak at an average of over $34 in October.

Between 17 and 18 January, immediately after the outbreak of war, the spread of expectations of a rapid conclusion of the conflict caused prices to collapse to around $18. From March onwards they settled at about $17 a barre!.

In 1990 the slowdown in world economic activity led to a further 8 per cent declive in the dollar prices of non-oil raw materials; cince the dollar prices of manufactures rose by 9 per cent, the relative prices of raw materials fell by around 16 per cent to a leve! 34 per cent below that recorded in 1980.

The industrial countries' terms of trade remained broadly unchanged. Those of oil-exporting countries improved by 11 per cent, while the other developing countries suffered a 3 per cent deterioration.

The balance of payments

Differences in the behaviour of domestic demand and the cumulative changes in real exchange rates led to a further reduction in the current account imbalances of the leading industrial countries last year. However, the true extent of the correction cannot be gauged, owing to the size of the "errors and omissions" itero in their balances of payments, which was positive by $73 billion for the United States and $18 billion for Germany and negative by $21 billion for Japan.

According to official statistics, the US deficit on current account declined to $99.3 billion (equa! to 1.8 per cent of GNP) and the trade deficit narrowed to $108.7 billion. The surplus on services carne to $22.9 billion and net investment income turned positive, with a $7.5 billion surplus.

Japan's current account surplus contracted to $35.8 billion (1.2 per cent of GNP) and its trade surplus to $63.9 billion, owing in part to an increase in the oil deficit to around $32 billion.

The process of German unification helped to reduce Germany's current account surplus to $43.9 billion (3.9 per cent of GNP). The trade surplus fell to $64.4 billion; the growth in domestic demand at a time of capacity constraints resulted in a large increase of around 30 per cent in the value of Germany's imports from the rest of the Community.

The EEC countries as a group recorded a $2.3 billion current account deficit in 1990, compared with a $6 billion surplus in 1989.

Gross international capital flows grew at a sustained pace and are now equal to about 17 per cent of world GNP, a proportion almost matching that of world merchandise trade. The net external positions of the three leading countries widened further in 1990, with the net foreign debt of the United States increasing to around $700 billion (13 per cent of GNP) and the net foreign creditor positions of Germany and Japan growing to around $360 billion and $310 billion (respectively 21 and 11 per cent of GNP).

Cross-border portfolio investment and movements of bank capital were influenced by changes in relative yields and the balance sheet positions of banks. The United States recorded a net outflow of $12 billion on account of portfolio investment, the first since 1974, whereas movements of bank capital produced a $21 billion inflow, due in part to the large reduction in US banks' foreign exposure. Japan's net capital outflow of $43 billion was largely attributable to net direct investment; short-term capital movements produced an inflow of $21 billion. Germany's exports of capital declined to $56 billion.

THE DEVELOPING COUNTRIES AND CENTRAL AND EASTERN EUROPE

Economic activity in the developing countries was seriously affected by the Gulf crisis owing to the increase in the price of oil, the loss of emigrants' remittances and the disruption of trade and tourism.

Asia remained the region with the fastest rate of growth, though there was a slowdown compared with the eighties: the GDP of this group of countries rose by 5 per cent and there was an increase of 3 per cent in per capita GDP, the only such increase among the developing countries. Inflation slowed further, to around 8 per cent on average, and exceeded 10 per cent in only seven of the thirty countries in the region. The market orientation, openness and strict fiscal and monetary policies of many of these Asian countries were factors in their rapid growth.

The GDP of the Latin American countries declined by 0.5 per cent. Pronounced monetary and fiscal imbalances were at the root of the difficulties encountered by many of these countries. Inflation rose to 770 per cent on average and remains an extremely serious problem throughout the region. Only in four minor countries did prices rise by less than 10 per cent.

GDP growth in Africa dropped to 2 per cent as a result of the worsening of the region's terms of trade, especially in the sub-Saharan part of the continent, the severe drought and the political and social tensions that continue to affect many countries. Real per capita GDP has declined without interruption since the mid-seventies and is now back at the level of twenty years ago. In 1989 per capita GDP at current prices in the sub-Saharan region amounted to no more than $340.

The difficulty of achieving adeguate economic development and social progress, coupled with persistent political instability in some countries, has given rise to very large migratory flows, attracted by the shortage of labour in some sectors of the industrial countries and facilitated by improvements in communications between the different parts of the world. According to World **Bank** estimates, net migration averaged more than one million people a year between 1986 and 1990. In numerical terms the migratory flows of the last few years have probably been smaller than those recorded during the mass migrations to the United States at the end of the nineteenth century and within Europe after the Second World War, but there are important qualitative differences that tend to make the integration of today 's immigrants more difficult. Pressures within the migrants' countries of origin appear to be a more important factor than in the past. Moreover, the earlier flows were towards rapidly developing regions with vast reserves of land and natural resources, and the religious, ethnic and cultural differences between immigrants and local populations were less pronounced. Set against these difficulties and the related costs there are some advantages for the destination countries: in the short term the inflow of workers may meet the demand for labour in sectors shunned by national workers, thereby reducing imbalances in the labour market; in the medium term the growth potential of countries that succeed in integrating immigrants economically and socially is likely to be enhanced.

All the Central and Eastern European countries continued to suffer from macroeconomic imbalances and widespread supply inefficiencies, the legacy of centrai planning. In addition, the start of the reform process was accompanied by recession and large increases in prices: output fell substantially last year, while the acceleration in inflation reflected price liberalization measures and the inadequacy of stabilization policies. The area's external deficit on current account in convertible currency increased from $3 to 14 billion. The decrease in economic activity was most serious in industry and led to a rapid rise in unemployment. Some countries introduced unemployment benefits to attenuate the social effects of this development. The private sector expanded significantly in all of the countries, but continued to make only a minor contribution to overall growth in view of its small size.

The abandonment of centrai planning in Central and Eastern European countries has created the need for a reform of their financial systems to separate the functions of the centrai bank from those of commerciai banks. Serious distortions stili exist, however, and competition among commerciai banks appears to be inadeguate, as does their performance of the allocative function. Banks' balance sheets are undermined by loans that are uncollectible or were granted at fixed rates that are no longer profitable. A large proportion of their liabilities consists of centrai bank refinancing (more than 40 per cent in Poland and Hungary) and the ceilings on deposit rates are an obstacle to fund-raising. The scope for evaluating projects and assessing creditworthiness is limited by the existence of administered prices, the Jack of instruments for imposing financial discipline on enterprises and by state ownership. Indicators of the level of financial development (Table 2) show that while the Central and Eastern European countries' ratios of money (M2) to GDP are comparatile with those of market economies, the ratios of financial wealth to GDP are much lower. In recent years the sum of the absolute values of the sectoral financial balances (the SSFB index) has been highest for the countries with large budget deficits (Bulgaria and the Soviet Union) and surpluses (Romania). The ratio of total financial flows to GDP (the ANIR index) remains low. Since the banking system stili plays only a minor role in financing productive activity, the proportion of firms' total financial needs covered by self-financing (including government transfers) continues to be very large (between 70 and 90 per cent), except in Yugoslavia, where bank loans have been used to meet firms' large losses.

Table 2

CENTRAL AND EASTERN EUROPEAN COUNTRIES: INDICATORE OF FINANCIAL STRUCTURE (1986-88)

(percentages)

	M2 (1)	Total financial assets (2)	SSFB (3)	ANIR (4)	Self-financing (5)
Bulgaria	93.2	93.2	11.5	22.6 (6)	73.0 (6)
Czechoslovakia	70.1	70.1	9.0	10.2	91.3
Hungary	47.6	51.6	7.6	21.8	84.6
Poland	68.1 (7)	68.1	11.3	22.9	72.2
Romania (6)	46.6	56.1	15.9	3.0	81.6
USSR	56.7	60.7	15.6	13.4	105.8
Yugoslavia	58.3 (7)	86.9	12.3	59.4	–88.0 (8)
Memorandum items:					
Germany	60.2	180.1	15.5	26.4	81.7
France	70.8	274.4	7.5	46.8	54.5
Italy	67.6	218.6	29.2	34.5	34.8

Sources: Based on IMF, World Bank, OECD and EEC data.

(1) As a ratio to GDP. – (2) Total financial assets of firms and households as a ratio to GDP; the aggregate comprises money, securities (where applicable) and inter-firm credits (only for Yugoslavia). – (3) Sum of sectoral financial balances in absolute terms as a ratio to GDP. – (4) Average new issue ratio: net issues of financial liabilities by all sectors as a ratio to GDP. – (5) Self-financing of firms as a proportion of total financing. – (6) 1987-88. – (7) Includes foreign currency deposits; in Yugoslavia and Poland the latter averaged respectively 35.5 and 32.2 per cent of M2 in 1986-88. – (8) The enterprise sector as a whole made a loss in 1986-88.

Significant progress was achieved last year in the management of the external debt of the developing and Central and Eastern European countries on the basis of strategies that distinguish between middle and low-income countries. Spontaneous capitai inflows revived and the main debt burden indicators improved as a result of the rise in exports and the debt-reduction and restructuring operations arranged in the context of the Brady Initiative or under the auspices of the Paris Club. The debt indicators nonetheless remain very high for the most heavily indebted countries: the fifteen middle-income countries covered by the Brady Initiative and the low-income countries, primarily those in sub-Saharan Africa.

For the middle-income debtor countries, more extensive recourse was made to major financial packages negotiated with commercia) banks and designed to reduce the debt burden in conjunction with stringent programmes of macroeconomic and structural adjustment supported by the

IMF and the World Bank. This gave some countries renewed access to international markets. The agreements reached so far involve a wide variety of solutions, so that their debt-reduction effects also differ considerably, in accordane with the case-by-case approach.

For the low-income countries the policy of granting relief in respect of ODA loans was continued. Between 1988 and 1990 loans totaling around $6 billion were canceled, egual to 7 per cent of their total debt in 1987. It is estimated that debt servicing will have been reduced by around 4 per cent, which is equivalent to 2.5 per cent of their exports.

In the last few years the flow of finance to the indebted developing countries has increased considerably, permitting a rise in current account deficits and the replenishment of official reserves, which together amounted to around $96 billion in 1990. The larger volume of finance supplied meant that last year's inflow of resources exceeded the outflows in respect of interest and profits for the first time since 1983.

THE ITALIAN ECONOMY

DEMAND, OUTPUT AND THE BALANCE OF PAYMENTS

The outturn for the year

Real gross domestic product rose by 2 per cent last year, the smallest increase since 1984. The decline of one percentage point by comparison with the previous year reflected the slowdown in world trade and domestic demand.

Foreign demand had already weakened in 1989 as a result of the downturn in the world economy, triggering a slowdown in exports. Domestic demand also began to falter from the spring of 1990 onwards; this was particularly evident in fixed investment and consumer spending on durables, the items that have been the mainstays of growth in recent years. In the months that followed, the Gulf crisis increased business uncertainty and led to further postponements of expenditure.

Among the componente of domestic demand, the growth in capital spending on machinery, equipment and transport equipment was nearly two points less than in 1989 (3.5 per cent compared with 5.2 per cent, Table 3). Such a pronounced deceleration had not been part of companies' origina! investment plans. As the Bank of Italy 's annual investment survey shows, the deteriorating outlook for demand and the smaller than expected growth in self-financing led large companies in particular to defer a sizable portion of planned investment in additional capacity. The deceleration in this component of gross capital formation also resulted in considerably slower growth of investment in non-residential building (3.7 per cent, as against 8.6 per cent in 1989), the recovery in which had signaled the transition to a period of capital widening.

Households' consumption rose by an annual average of 2.7 per cent, appreciably less than the gain of 3.6 per cent recorded in 1989. This reflected the limited real growth of disposable income in 1989 and 1990 (2.2 per cent, compared with 4.7 per cent in the previous two years).

Table 3

RESOURCES AND USES OF INCOME

(percentage changes)

	1989		1990	
	Value at constant prices	Deflators	Value at constant prices	Deflators
Resources				
Gross domestic product	3.0	6.0	2.0	7.5
Imports of goods and services	9.0	7.6	6.7	3.0
Uses				
Domestic demand	3.0	6.1	1.9	7.4
Households' consumption	3.6	6.3	2.7	6.2
Collective consumption	0.9	7.3	1.0	12.4
Gross capital formation	3.0	5.0	0.4	6.6
of which: fixed capital formation	*4.6*	*5.1*	*3.0*	*6.5*
machinery, equipment and transport equipment	*5.2*	*4.6*	*3.5*	*3.0*
buildings	*3.9*	*5.7*	*2.5*	*10.2*
Exports of goods and services	10.0	6.3	7.5	2.9
Memorandum item:				
Growth in GDP at constant prices attributable to change in stocks (1)	–0.2		–0.4	

Source: Istat.
(1) Includes statistical discrepancies.

The supply-side effects of the deceleration in demand varied from sector to sector. The value added of industry excluding construction rose by 1.3 per cent, almost two points less than in 1989. The increase in the value added of construction remained higher (2.5 per cent), owing partly to the projects connected with the World Cup football matches. The increase of 3.3 per ceni in the value added of market services was only half a point less than that achieved in 1989 and confirmed the smaller impact of cyclical phenomena on the sector. The growth in non-market services is estimated at 0.7 per cent. A severe and prolonged drought contributed to a decrease of almost 5 per cent in the value added of agriculture.

Employment in the economy as a whole grew by 1 per cent in terms of standard labour units, largely as a result of the consideratile increase that had occurred during the expansion in the second half of 1989. During 1990 employment in manufacturing industry stopped growing and began to contract, so that the annual average increase worked out at only 0.3 per cent.

By contrast, the demand for labour continued to rise in construction (2.8 per cent on average) and in market services (2 per cent), with about one third of the increase in the latter occurring in self-employment in cultural and recreational services and business services. Employment in generai government remained unchanged.

The substantial reduction in the number of job seekers as a result of the higher demand for labour was reflected in a fall in the unemployment rate to 11 per cent, after having been consistently 12 per cent for the previous three years. The rate adjusted to include workers receiving wage supplementation fell to below the level of 1984. Compared with that year, however, the unemployment rate was lower in the Centre and North but considerably higher in the South.

Gross per capita earnings rose by 9.6 per cent, the largest gain in the last five years. The main cause of the acceleration was the 15.7 per cent rise in earnings in generai government, reinforcing the improvement in the sector 's relative earnings that has been under way since 1987. Per capita earnings in manufacturing rose less rapidly last year than in 1989 (by 6.7 per cent, as against 7.3 per cent), despite the renewal of labour contracts covering more than half the work force. The increase for market services was about the same as in the previous year (7.5 per cent, compared with 7.6 per cent). The notable further increase in employers' net social security contributions drove up per capita labour costs by 8.2 per cent in manufacturing and 8.7 per cent in market services.

Labour productivity improved by a modest 1.3 per cent in market services and by only 0.9 per cent in manufacturing. Accordingly, unit labour costs went up by 7.3 per cent in both sectors, accelerating by more than one point compared with 1989.

In manufacturing, the overall rise in variable unit costs (5.8 per cent, compared with 6.5 per cent in 1989) was moderated by the fall in the lira prices of non-energy raw materials and semi-finished goods. Given the cyclical nature of the mediocre gains in productivity and the competitive pressures arising from the slowdown in producer prices abroad and the appreciation of the lira, Italian firms passed only part of their higher costs onto prices: the 2.7 per cent rise in the prices of industrial goods was half that registered in 1989, and profit margins were eroded. In market services, by contrast, the acceleration in variable unit costs from 6 to 7.2 per cent, which was due primarily to the faster rise in the key cost of labour, was passed on in full to final prices.

Consumer price inflation quickened from 6.3 to 6.5 per cent. There was a slight slowdown in the prices of consumer services, which in 1989 had increased by around 2 points more than those of goods: prices not subject to public control rose by 8.2 per cent, while controlled prices went up by 5.6 per cent. The jump in energy prices was partly offset by the deceleration in the prices of other non-food goods from 5.1 to 4.5 per cent owing to the moderate rise in the consumer prices of imports and domestic producer prices.

The deficit of 17.3 trillion lire on the current account of the balance of payments was around 3 trillion larger than in 1989. The *fob-fob* trade balance showed a small surplus (0.5 trillion lire), compared with a deficit of 2.7 trillion the previous year. The improvement was due mainly to the fall in world prices of non-energy raw materials and the abrupt slowdown in the growth of imports in volume terms; it was checked by the surge in oil prices following the Iraqi invasion of Kuwait and by the smallness of the increase in the volume of exports (3.5 per cent), which failed to keep pace with the growth of world demand, owing in part to considerable loss of competitiveness.

In contrast with the improvement in the trade balance, the deficit on invisibles worsened sharply, by around 6 trillion lire, and the deterioration in the deficit on investment incorre grew more pronounced. On the other hand, the surplus on foreign travel held steady after years of continual erosion, thanks in part to receipts connected with the World Cup football matches. The balance on transfer payments was also virtually unchanged.

In the year that saw the completion of foreign exchange liberalization, gross inflows and outflows of capital swelled to more than 800 trillion lire, compared with 536 trillion in 1989; net inflows increased by around 14 trillion to nearly 48 trillion, 23 trillion of which passed through authorized intermediaries. Foreign lending and borrowing produced net inflows that were 16 trillion lire higher than in 1989, while investment gave rise to net outflows of more than 1 trillion, as the expansion in residente' outward investment was greater than that in inward investment, although this too was substantial. The increase of just over 15 trillion lire in the official reserves was the same as in 1989.

Short-term developments and the outlook for 1991

In the first few months of 1991 the slowdown in industrial orders eased and the signs of an improvement in expectations strengthened. Industrial production picked up from the low level it had reached at the end of 1990. The Istat labour force survey conducted in January showed that employment in industry excluding construction was 0.7 per cent lower than in January

1990, thus confirming the decline that had begun in the second half of last year. By contrast, the demand for labour in the services sector continued to rise strongly.

There was no let-up in consumer price inflation in the early part of this year. The twelve-month rise in the cost of living, which by the end of 1990 had returned to the level of 6.4 per cent recorded at the beginning of the year, continued to edge upwards and reached 6.7 per cent in Aprii. The prices of industrial products rose at a faster rate.

The forecasts by the main international organizations agree that the economic slowdown — or recession, as it has become in some countries — should end during the year. The recovery of world demand is expected to stimulate an acceleration in Italian exports in the second half and the trend in capitai spending on machinery and equipment should turni upwards. On the other hand, the further increase in the incidence of taxation and social security contributions is expected to dampen the growth of disposable income and the expansion of households' consumption. The annual average rate of inflation should be broadly similar to that recorded in 1990, with unit labour costs rising at about the same rate. Should the hypotheses concerning the stabilization of crude oil prices prove correct and the dollar not appreciate further, the current account deficit could show some slight improvement.

DOMESTIC DEMAND

Households' consumption

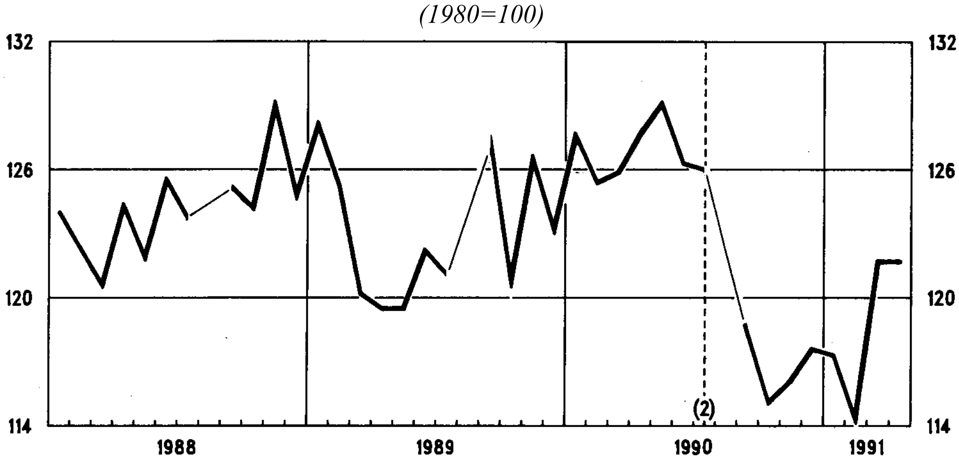
The growth in households' consumption slowed further in 1990. Final domestic consumption expanded by 9.1 per cent at current prices and by 2.7 per cent in real terms, the smallest increase of the last five years; national consumption (which includes the difference between residente' consumption abroad and that of non-residents in Italy) grew at similar rates (9.2 per cent at current prices and 2.6 per cent in real terms).

The uncertainty created by the Gulf crisis made households more cautious in their spending decisione in the last part of the year, especially as regards purchases of durable goods. The households' confidence index compiled by Isco registered a sharp deterioration following the outbreak of the Gulf crisis and reached a low point in February of this year, but then recovered immediately when the war had ended (Figure 3).

Figure 3

HOUSEHOLDS' CONFIDENCE INDEX (1)

(1980=100)



Source: Isco.
(1) Based on sample survey data. No survey is conducted in August. – (2) Iraqi invasion of Kuwait.

The main factors underlying the slowdown in households' spending, however, were the wealth and income developments of the last two years. The real rate of growth in households' disposable income fell from an annual average of 4.7 per cent in 1987-88 to 2.2 per cent in 1989-90, primarily as a result of slower growth in income from capitai (Table 4). Despite a smaller rise in interest income, the faster increase in gross earnings last year caused the growth in real disposable income to accelerate slightly from 1.8 to 2.5 per cent between 1989 and 1990. Disposable income and consumption thus increased at virtually the same rate, so that the propensity to consume was unchanged at 79.1 per cent.

Table 4

HOUSEHOLDS' DISPOSABLE INCOME (1)

(percentage changes and percentages)

	1987	1988	1989	1990
Gross earnings	9.3	9.7	7.9	10.9
Property and entrepreneurial income, dividends and other income from capital	10.5	12.3	7.7	7.4
Net interest income	12.8	10.6	27.4	13.2
Social security benefits	11.4	11.1	10.4	12.1
Income and wealth taxes (–)	8.4	18.5	13.2	12.5
Gross disposable income	**10.6**	**10.3**	**8.4**	**9.1**
at 1985 prices (2)	5.0	4.3	1.8	2.5
Households' national consumption	**10.0**	**10.6**	**10.3**	**9.2**
at 1985 prices (2)	4.5	4.6	3.6	2.6
Average propensity to consume (3)	77.6	77.7	79.1	79.1

Sources: Based on Istat and Bank of Italy data.

(1) At current prices unless otherwise specified. – (2) Deflated using the implicit price deflator of households' national consumption. – (3) Households' national consumption as a percentage of their disposable income.

Less than half the fall of nearly one percentage point in the real rate of increase in consumption was due to the slowdown in the growth of spending on services and non-durable goods from 2.8 to 2.4 per cent; the remainder was attributable to the decline in the growth of expenditure on durable goods to 4.1 per cent, which was stili high but well below the rates of more than 8 per cent recorded in the five previous years (Table 5).

Table 5

HOUSEHOLDS' DOMESTIC CONSUMPTION

(at 1985 prices; percentage changes on previous year)

	1985	1986	1987	1988	1989	1990
Non-durable and semi-durable goods	2.3	2.6	3.2	3.2	2.8	2.4
of which: food and beverages	*0.4*	*0.7*	*1.4*	*1.2*	*0.6*	*0.4*
clothing	*3.3*	*2.0*	*7.6*	*4.9*	*3.4*	*2.1*
footwear	*5.2*	*2.0*	*5.3*	*2.1*	*0.2*	*0.5*
Durable goods	8.3	8.9	8.8	12.1	9.0	4.1
Services	2.5	3.8	4.2	2.9	2.7	2.6
Households' domestic consumption	**3.0**	**3.7**	**4.2**	**4.2**	**3.6**	**2.7**

Source: Istat (provisional figures).

The main reason for the slower growth of spending on consumer durables was that households had largely completed the adjustment of the current stock of such goods to the desired level. This had gradually risen as a result of the improvement in incorre expectations after the cyclical upturn in 1983-84, the substantial fall in the relative prices of durable goods from the early eighties onwards and the changes that occurred in the structure of households over the last decade, mainly in connection with the increase in the female participation rate.

Investment

After six years of uninterrupted growth, the increase in investment showed signs of weakening: gross fixed investment greve by 3 per cent in real terms and net fixed investment by only 1.1 per cent, compared with 4.6 and 5 per cent respectively in 1989. Including the change in stocks (which is subject to statistical discrepancies, however), the growth in investment amounted to 0.4 per cent in real terms and 7.1 per cent at current prices.

Gross fixed investment. — Despite increasing more slowly, investment was again the most dynamic component of domestic demand and the ratio of gross fixed investment to GDP rose from 21.8 to 22 per cent, its highest value since 1981 (Table 6).

Table 6

FIXED INVESTMENT
(at 1985 prices)

	Percentage change			As a percentage of GDP		
	1988	1989	1990	1988	1989	1990
Construction	2.3	3.9	2.5	10.3	10.4	10.5
of which: residential buildings	*1.3*	*2.4*	*1.7*	*5.3*	*5.3*	*5.3*
non-residential buildings	*6.2*	*8.6*	*3.7*	*3.5*	*3.7*	*3.7*
public works	*–2.3*	*–1.7*	*2.3*	*1.5*	*1.4*	*1.5*
Machinery, equipment and sundry products	12.7	4.0	4.0	9.0	9.1	9.2
Transport equipment	7.3	10.2	1.4	2.2	2.3	2.3
of which: motor vehicles	*11.8*	*8.8*	*–1.8*	*1.8*	*1.9*	*1.8*
other	*–10.9*	*17.1*	*16.5*	*0.4*	*0.4*	*0.5*
Total gross fixed investment	**6.9**	**4.6**	**3.0**	**21.5**	**21.8**	**22.0**
Total excluding residential buildings	9.0	5.3	3.4	16.2	16.5	16.7
Total excluding construction	11.6	5.2	3.5	11.1	11.4	11.5
Total net fixed investment (1)	**11.0**	**5.0**	**1.1**	**10.2**	**10.4**	**10.4**

Sources: Based on Istat and Bank of Italy data.
(1) The ratio is calculated with reference to GDP excluding depreciation.

The demand for capital goods also stopped growing in the other leading European countries except Germany, after expanding rapidly in 1988 and 1989. In these countries the fall in orders actually began in the second half of 1989 and became more pronounced during 1990. In Italy, by contrast, domestic demand for investment goods except construction only started to weaken at the beginning of 1990 and then slowed down again when the Gulf crisis broke in August.

Last year was marked by large disparities between the different categories of investment. While there was little or no real growth in some types of expenditure (particularly on transport equipment and non-residential buildings), the growth of investment in machinery and equipment remained significant. Spending on motor vehicles underwent a sharp reversal, falling by 1.8 per cent after having risen by 8.8 per cent in 1989.

Last year 's shift in the composition of the demand for investment goods towards those traditionally involved in the rationalization of production suggests a pronounced recovery in this type of investment at the expense of capital widening, which had featured strongly in firms' investment plans in the two previous years. According to the results of Isco 's twice-yearly survey of industrial firms, the proportion of investment linked to the reorganization of production is likely to increase further in 1991.

There was a sizable fall in the rate of real growth in expenditure on non-residential buildings, from 8.6 to 3.7 per cent. Investment in dwellings continued to increase, albeit at a slower rate. In view of the lead times involved, the fact that the volume of building for which licences were granted in the first half of 1990 was 9.8 per cent higher than in the same period of 1989 suggests that the increase in residential investment will continue in 1991.

The public sector's contribution to gross fixed investment was smaller than in 1989. Capital spending, including that of the National Electricity Authority, increased by 4.8 per cent at current prices but fell by around 1.5 per cent in real terms.

Stocks. — The results of business opinion surveys indicate that stocks of finished goods rose above the level businesses considered normal for the first time cince 1987. This suggests that the stockbuilding cycle that began at the end of 1988, when the number of respondents reporting below-normal stocks was at its highest, has come to an end, in parallel with the weakening of demand.

Gross fixed investment in manufacturing industry: results and forecasts

The Bank of Italy's sample survey of investment and employment in manufacturing confirmed that capital spending by this sector slowed down last year, though it remained high. Gross fixed investment by firms with more than 50 employees increased on average by 5.8 per cent in real terms, compared with 6.7 per cent in 1989. This was nearly three points more than the figure for the whole economy based on national accounts data, but was primarily due to firms with between 50 and 99 employees, which increased their capital spending by 28.4 per cent in real terms, compared with 37.8 per cent in 1989.

More than half the firms surveyed reported that the capital goods they installed were for the purpose of rationalizing their production plant.

The slowdown in investment was accompanied by a fall in the demand for labour, so that employment declined on average by 1 per cent. Smaller firms also made a positive contribution in this field, with a 0.9 per cent increase in the number of their employees, while large firms recorded the sharpest fall (2.7 per cent).

A large proportion of planned investment was implemented, the achievement rate for the sample as a whole exceeding 97 per cent. Most of the unimplemented investment was attributable to state-controlled enterprises, which had an achievement rate of only 72 per cent.

According to the plans of the firms surveyed, capital spending is expected to increase much more slowly this year, at a rate of around 1.5 per cent. Firms in the private sector were more cautious, forecasting a decrease of 1 per cent, while, as usual, firms in the public sector had more ambitious plans, involving an increase of more than 23 per cent in real terms. Investment is expected to slow down in the engineering industry and the traditional sectors of Italian manufacturing (food products, textiles, footwear and clothing), while the situation appears promising in the paper, rubber and chemical industries.

DOMESTIC SUPPLY

Agriculture

The output of the agricultural sector decreased by 3.3 per cent last year, primarily as a result of the fall in olive and grape production (Table 7). Unfavourable climatic conditions were the main cause of the contraction, especially in the South.

The prices of marketable output rose by 3.4 per cent, while those of intermediate consumption rose by 3.6 per cent, entirely as a result of the sharp rise in the cost of energy inputs. The increase in producer prices was mainly due to the 18.7 per cent jump in the price of wine induced by the fall in output. The price of olive oil rose by only 8 per cent, as net imports increased by 67.4 per cent to a level close to that of domestic output.

Table 7

MARKETABLE OUTPUT AND VALVE ADDED OF AGRICULTURE, FORESTRY AND FISHERIES

	1990 values in billions of lire		Percentage changes			
			Percentage changes		Prices	
	Current prices	1985 prices	89/88	90/89	89/88	90/89
Marketable output	57,567	51,855	0.6	–3.3	4.4	3.4
Crops	*33,229*	*29,943*	*2.0*	*–5.5*	*2.5*	*4.9*
Livestock	*21,484*	*19,764*	*–0.6*	*0.2*	*7.5*	*1.2*
Forestry products	*631*	*521*	*–3.8*	*–6.6*	*6.9*	*1.6*
Fishery products	*2,223*	*1,627*	*–7.8*	*–3.8*	*5.1*	*4.9*
Intermediate consumption (1) (–)	16,999	16,305	0.2	–1.3	3.9	3.6
Production subsidies (+)	5,157	3,058	3.0	–9.9	21.5	6.7
Value added at factor cost	45,725	38,608	1.0	–4.7	6.3	3.6

Source: *Relazione generale sulla situazione economica del paese.*
(1) Seeds, animal feedstuffs, fertilizers, pesticides, power and fuel and other goods and services.

For the second year in succession there was a large reduction in the consumption of environmentally harmful intermediate products (fertilizers and pesticides), reversing the earlier upward trend. The consumption of intermediate products per unit of output nonetheless increased, despite the reduction in the total area under cultivation. Production subsidies fell by around 10 per cent at constant prices but stili amounted to over 5 trillion lire, equivalent to more than 11 per cent of the sector's value added, which consequently dropped sharply, by 4.7 per cent at constant prices; at current prices it represented 3.6 per cent of the value added of the economy as a whole.

The fourth census of agriculture. — Preliminary results based on the municipal registers of farmers, which were updated last year as part of the census of agriculture, indicate that there were just over 3 million farms in 1990. This was a decrease of around 230,000, or 7 per cent, since the 1982 census. The total area of farms declined by 4.3 per cent over the same period, while the utilized agricultural area decreased by about 800,000 hectares, or 5.1 per cent.

The results of the 1990 census confirm the trends revealed by the previous ones: the gradual abandonment of less profitable activities, with the disappearance of marginal farms; the increase in average farm size in the North; and the more rapid withdrawal of land from use in the mountainous areas of the country. The 1982 census had indicated a distinct attenuation of these trends, but the latest one suggests that they have strengthened slightly, though this may be partly due to the different phases of the cycle in which the two censuses were taken.

A tendency for both the number of farms and the utilized agricultural area to decline is evident in all the advanced countries, despite the high level of public support of agricultural incomes that is also a common feature. In the eighties, however, measures to make incorre support conditional on a reduction in overproduction were introduced in many countries, especially in the European Community.

Industry

Industrial activity continued to expand, albeit slowly: value added at factor cost rose by 1.5 per cent at constant prices, which was about two percentage points less than, 'in 1989 and more than four and a half points less than in 1988.

The value added of industry excluding construction expanded by 1.3 per cent, but this was not matched by an increase in output, which remained unchanged on average compared with 1989. When account is taken of the number of working days, it is estimated that output declined by 0.7 per cent.

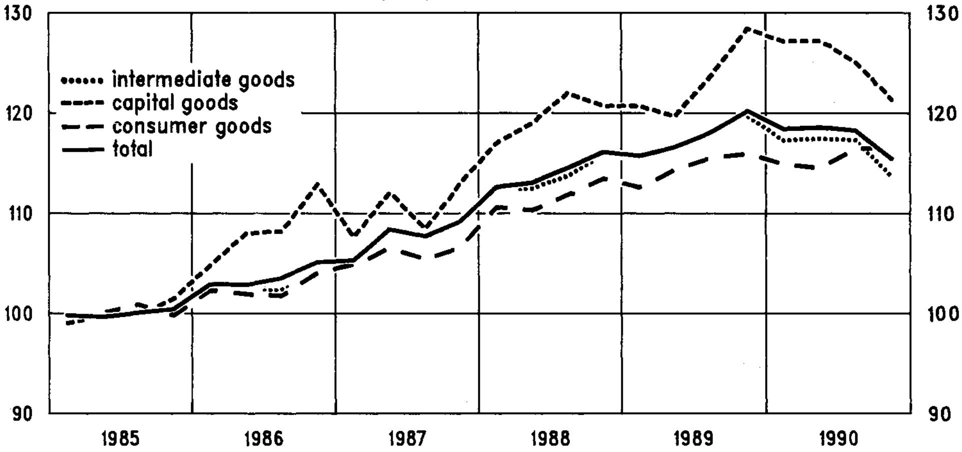
Industrial output slowed down as the year progressed. The cyclical downturn of the industrial sector was common to many other countries, including France and to a greater extent the United Kingdom, but not Germany.

The sharpest reversal in relation to the long upward trend of the eighties was in the production of investment goods (Figure 4): in the fourth quarter the production index was 5.5 per cent below its value in the corresponding period in 1989. Year on year, however, the output of this sector increased by 1.7 per cent. The pattern was less irregular in the other sectors: the production of intermediate goods declined by 0.9 per cent, while that of consumer goods rose by 0.9 per cent, as against 2.7 per cent in 1989.

Figure 4

INDUSTRIAL OUTPUT BY ECONOMIC PURPOSE

(seasonally adjusted data; 1985=100)



Source: Based on Istat data.

Notwithstanding these differences, the figures for output classified by product group were much more uniform than in the past. Notable among the sectors that increased output were those producing energy and non-metallic minerai products, which maintained high, though declining, levels of production. On the other side of the coin, there was a large 4,8 per cent fall in the output of agricultural and industrial machinery, while in the last part of the year the production of both motor vehicles and office machinery declined sharply.

Services

The value added of market services at factor cost increased by 3.3 per cent at constant prices (Table 8). By contrast, the supply of non-market services increased by only 0.7 per cent in real terms.

The two sectors with the fastest growth, and which also increased their output more rapidly than in 1989, were credit, with a rise of 6.2 per cent, and maritime and air transport, with one of 5 per cent. Growth slowed down sharply in inland transport (from 8.5 to 3.6 per cent), communications (from 5.9 to 3.7 per cent) and recreational and cultural services (from 5.3 to 2.9 per cent). The rate of expansion of business services provided to enterprises, one of the fastest-growing sectors in the eighties, remained unchanged at 3.9 per cent.

Table 8

VALUE ADDED OF MARKET SERVICES AT FACTOR COST

	1990 values in billions of lire		Percentage changes			
	Current prices	1985 prices	At 1985 prices		Prices	
			89/88	90/89	89/88	90/89
Wholesale and retail trade	202,967	153,749	3.3	2.7	4.8	5.8
Lodging and catering	40,194	26,905	0.2	2.6	8.1	8.1
Transport	75,180	60,275	7.3	3.7	5.4	5.4
Communications	19,858	16,533	5.9	3.7	–2.4	2.7
Credit and insurance	60,415	46,156	5.5	6.2	4.0	15.9
Other market services	153,241	97,602	4.1	3.1	7.8	9.1
Renting of buildings	90,592	59,604	3.3	2.4	7.4	7.6
Total	**642,447**	**460,824**	**4.1**	**3.3**	**5.8**	**7.7**

Source: Istat.

The productivity of market services and the disparity compared with industry. — Output per worker in market services increased at an average annual rate of 1 per cent in the seventies and eighties, a long way short of the 4.4 per cent achieved by manufacturing industry.

An analysis of overall factor productivity in the eighties shows that the growth in value added in services and manufacturing industry was achieved with egual increases in capitai but different incrementa) labour inputs. Overall productivity, measured in terms of the increase in value added net of that in the factors of production, rose at an average annual rate of 2.5 per cent in industry, but remained unchanged in services.

The disparity between the rates of productivity growth in industry and services has the same sign in all the main industrial countries except Germany (Table 9). In Germany, productivity in the services sector has risen at a rate similar to the average of the other countries, but industrial productivity has increased much more slowly. At least part of the gap is probably due to the different rates of technological progress in the two sectors.

Table 9

LABOUR PRODUCTIVITY, 1977-87 *(1)*

(annual average percentage changes)

	United States	Japan	France (2)	West Germany	United Kingdom	Italy
Manufacturing	3.08	6.17	2.39	1.06	3.39	4.85
Market services	0.44	2.72	1.92	2.15	1.73	0.29
– Wholesale and retail trade, lodging and catering	0.53	4.55	1.18	1.04	1.62	0.33
– Transport and communications	1.32	2.81	3.39	3.34	3.23	3.20
– Credit and insurance	–0.37	2.41	1.50	2.51	0.52	–1.62
– Other market services	0.48	0.72	—	1.77	–0.50	–0.85

Sources: Based on Istat data for Italy, on OECD data for the other countries.
(1) Value added at factor cost per employee. – (2) The credit and insurance sector includes other market services.

The increase in output per worker in Italy was smaller than in the other industrial countries in every branch of services except transport and communications. This suggests the existence of specific factors limiting the productivity gains that Italy can achieve in this sector. In some cases legai barriers to entry provide scope for collusive behaviour, which allows firms to survive despite being inefficient in both a static sense (sub-optimal factor productivity) and a dynamic sense (reduced inventive to innovate).

Moreover, in some sectors regulatory constraints make it impossible to exploit economies of scale and scope to the full. Even when a business is run efficiently, such obstacles can prevent it from growing to a size that would allow it to make the best use of the factors of production. Specifically, the backwardness of Italy 's distributive system, in terms of the size of outlets and the concentration of supply, is largely due to the constraints imposed by Italian commerciai law, which is more restrictive than that of other European countries. Legislation has limited the entry of new operatore, leading to collusion at the local leve) and excessively small units. Italy does not have a single company among the forty largest retailers in Europe, whereas Germany, France and the United Kingdom have ten each. Supermarkets account for around 25 per cent of the Italian food market, compared with an average of some 63 per cent in the other three countries. The classification of retailers by size shows that Italy has a larger proportion of small outlets staffed by less than 10 people. To some extent the disparities compared with the other major European countries can be attributed to socio-economic differences and the geographical dispersion of the population. Between 1977 and 1987 productivity growth per worker in the Italian Wholesale and retail trade was about one quarter of the average for France, Germany and the United Kingdom (Table 9).

The pace of productivity gains in service companies is linked to their size. Between 1982 and 1988 the slower rise in output per worker in some branches of the services sector was due to the performance of firms with less than 20 workers. In particular, the productivity of such firms decreased in distribution, lodging and catering and business services, while for larger firms it increased.

The energy balance

Italy's primary energy requirement increased by only 0.8 per cent last year, compared with 3 per cent in 1989. Energy consumption was influenced by the slower growth of the economy and the increase in average energy prices in the second half of the year. The particularly mild weather in the early months of 1990 also helped to curb demand: the saving in heating consumption amounted to more than one million TOE, compared with a total energy requirement of 163.5 million TOE. Owing to the further reduction in the domestic generation of electricity from renewable sources, net imports of electricity rose to a new peck for the second successive year.

The geographical composition of Italy's energy imports changed considerably as a result of the combination of the UN embargo on supplies from Iraq and occupied Kuwait and the production and distribution problems encountered by the Eastern European countries, especially the Soviet Union.

The diversification of Italy's energy sources. — The upheavals in the supply and price of oil following the Iraqi occupation of Kuwait did not significantly alter the total consumption of energy in Italy last year but stimulated a resumption of the diversification of primary energy sources away from oil and oil products. This process had virtually come to a halt in 1985 as a result of the fall in oil prices and the generai conviction that some of the causes of instability in the international market had been overcome, in part through the development of alternative sources.

Not ali parts of the economy succeeded in replacing oil products with alternative sources of energy. Industry made consideratile progress in this direction and oil now only accounts for one sixth of its total energy consumption, compared with nearly one half at the beginning of the seventies. The share of oil in the energy consumption of domestic users, market services, generai government and agriculture has also been substantially reduced over the last twenty years, from around 60 per cent to approximately 25 per cent. Between 1973 and 1990 these sectors and industry together saved a total of more than 23 million TOE.

By contrast, the consumption of petrol and diesel fuel by the transport sector almost doubled in the same period, rising from 19 to 33 million TOE, and the share of oil products in the sector's total energy consumption remained unchanged at around 95 per cent, primarily owing to the limited development of rail transport.

The sectors that have diversified their consumption the most have switched mainly to electricity, so that over the last twenty years the task of saving oil has been passed to the power generating industry. Thermal power stations have burned increasing quantities of coal and natural gas and a part of demand has been met through imports (almost 15 per cent of the total in 1990). On the other hand, there has been a decline in domestic generation from nuclear, hydroelectric, geothermal and other renewable sources. The savings of oil achieved by the electricity industry have not been sufficient, however, to reduce its total requirement, so that its consumption of fuel oil amounted to around 22 million TOE in 1990, equal to the peaks of the last twenty years and over 2 million TOE more than in 1973.

EMPLOYMENT, WAGES AND PRICES

Employment

The demand for labour. — The growth in total employment, measured in standard labour units, accelerated from 0.2 per cent in 1989 to 1 per cent last year, contrasting with the deceleration in GDP growth (Table 10). The divergence was due to the lagged response of employment to the sustained economic expansion of the eighties. Employment grew less rapidly during the last two quarters of the year, reflecting the slackening pace of economic activity. The most pronounced slowdown was in industry, halting the increase in the work force that had begun in the second half of 1988.

Table 10

EMPLOYMENT

(standard labour units; percentage changes on previous year)

	Total employment				Employees			
	1987	1988	1989	1990	1987	1988	1989	1990
Agriculture	-2.1	-4.5	-5.0	-2.0	-2.3	-2.0	1.7	-0.3
Industry	-0.9	0.9	0.2	0.8	-0.8	1.0	0.1	1.1
fuel & power products	*1.9*	*-0.3*	*-1.4*	*-0.2*	*1.9*	*-0.3*	*1.4*	*-0.3*
manufacturing	*-1.0*	*1.3*	*0.5*	*0.3*	*-0.4*	*1.2*	*0.5*	*0.5*
industry excluding construction	*-0.9*	*1.3*	*0.5*	*0.3*	*-0.3*	*1.2*	*0.4*	*0.4*
construction	*-1.1*	*-0.3*	*-0.7*	*2.8*	*-2.8*	*0.3*	*-1.1*	*3.6*
Market services	1.6	2.1	1.3	2.0	1.2	1.2	1.0	2.3
distributive trades, lodging and catering	*1.7*	*0.8*	*-0.4*	*1.0*	*0.2*	*-0.4*	*0.6*	*2.1*
transport & communications	*2.0*	*1.8*	*1.8*	*1.5*	*2.4*	*1.7*	*1.0*	*1.2*
credit and insurance	*1.3*	*1.6*	*2.3*	*1.6*	*1.3*	*1.6*	*2.4*	*1.6*
other market services	*1.3*	*4.9*	*3.9*	*4.0*	*1.5*	*2.9*	*1.3*	*3.5*
Market goods and services	**0.2**	**0.8**	**0.1**	**1.1**	..	**0.9**	**0.6**	**1.5**
Non-market services	**1.4**	**1.6**	**0.6**	**0.4**	**1.4**	**1.6**	**0.6**	**0.4**
Total	**0.4**	**1.0**	**0.2**	**1.0**	**0.4**	**1.1**	**0.6**	**1.2**

Source: Istat.

Both of the major geographical areas of the country benefited from the growth in employment; indeed, labour force surveys show that the rise was larger in the South than in the Centre-North. In the South, however, employment in industry excluding construction contracted by 0.9 per cent; the most marked gains in total employment were in construction and the services sector.

Labour market indicators for the largest industrial firms — now classified by Istat as those employing more than 500 workers in all their plants — show that the main impact of the slowdown in output was on the number of hours worked. Overtime declined from 5.6 per cent of total hours in 1989 to 5.1 per cent in 1990, with most of the reduction coming in the second half of the year, and recourse to the Wage Supplementation Fund increased by 12.6 per cent. The combination of these two factors caused a fall of 2.4 per cent in the number of hours worked per employee.

As a result of the cyclical downturn, the number of hours for which the Wage Supplementation Fund paid ordinary benefits increased by 52 per cent for industry as a whole, alter having declined steadily since 1984. Special benefits continued to fall, however, decreasing by 13.6 per cent, owing to the completion of restructuring programmes begun in previous years. There was thus a slight reduction in the total number of hours for which benefits were paid, but with an upturn in November and December.

The supply of labour. — The labour force expanded by 56,000 persons, or 0.2 per cent. The overall labour force participation rate was unchanged at about 42 per cent, as a small declive in the rate for men was offset by the continued, albeit weaker, increase in the female rate.

The growth in the labour force was smaller than the increase in employment, resulting in a fall in the unemployment rate from 12 to 11 per cent, the first significant reduction in ten years. If the unemployment figures are adjusted to include the full-time worker equivalent of the number of hours compensated by the Wage Supplementation Fund, the rate declined from 12.7 to 11.7 per cent.

The decrease in the unemployment rate was accompanied by a narrowing of disparities according to sex and age, especially in the Centre-North, but there was no significant reduction in geographical differences. Indeed, measured by the coefficient of variation, the dispersion between the regions increased from 60 to 63.6 per cent. Even though the unemployment rate in the South fell appreciably last year, from 21.1 to 19.7 per cent, it remains about twice as high as it was in 1980 and three times as high as in the rest of Italy. Unemployment in some regions is very low; the overall male rate in the North is 3 per cent, and just 1.3 per cent for men aged 30 or over.

For the quarterly labour force surveys from January 1991 onwards, Istat has revised its method of extrapolating the sample data to the entire population. This is now carried out separately not only for men and women but also for each age group, using registry office data on the age distribution of the population. As a result, it has been possible to increase the weight assigned to the younger age groups, which are underrepresented in the survey sample. The adjustment significantly alters the figures for the principal labour market aggregates. On the new basis, the participation rate for 1990 works out at 42.4 per cent, 0.4 points higher than the previous estimate mentioned above. According to the new criteria, in fact, the labour force is larger by 220,000 persons. The upward revision affects both employment (except in agriculture, where the work force is revised downwards) and unemployment, but the extent of the change is greater for the latter; for example, the new method gives an unemployment rate of 11.4 per cent for 1990, 0.4 points higher than that calculated on the old basis. Another effect of the larger weight assigned to the younger age groups is a widening of the North-South differential.

Job creation and job destruction

Gross job creation and destruction was substantial between 1984 and 1989. Job turnover, defined as the sum of job gains and job losses, affected about one job in four every year in industry and the private services sector.

The analysis presented here is based on annual figures from the INPS records on gross job creation and destruction (not adjusted for Wage Supplementation), broken down according to size of firm, branch of economic activity and province, and also according to cause, that is to say firm openings and closures and the expansion or contraction of the work force of existing firms.

The results reveal consideratile intersectoral differences in job turnover. Mobility is highest in construction and in the group comprising distribution, lodging and catering and recovery and repair services, and lowest in basic industry and in credit and insurance. Except in the transport equipment sector, where turnover is quite low, mobility in manufacturing is only slightly below the average, while in "Other services" it is slightly above. Gross job turnover, especially that connected with firm openings and closures, is generally highest in the sectors where small firms predominate (Table 11).

The impact of increases or reductions in staff by existing firms is greater than that of firm openings and closures, and these flows are also better correlated with net changes in employment. On average, between 6.5 and 8 per cent of jobs are shed each year by firms that remain in business and the creation of posts by existing firms is on a comparatile scale. The yearly destruction of jobs due to firm closures affects some 3 to 4 per cent of workers, but this is more than offset by the opening of new firms. Overall, the average life of a job is about ten years. Average job tenure is obviously shorter, owing to turnover among employees.

There are consideratile differences in behaviour and situation between firms in a given sector or province. More than 75 per cent of total employment flows involve a redistribution of jobs within the same sector and province.

Table 11

JOB CREATION AND DESTRUCTION BY SECTOR, 1984-89
(average annual change as percentage of initial employment)

	Net change in employment	Total turnover	Firm openings	Firm closures	Construction in existing firms	Expansions in existing firms	Average firm size (1)
Total services and industry	**1.15**	**22.73**	**3.99**	**3.55**	**7.24**	**7.95**	**8.0**
Industry excluding construction	**–0.18**	**19.19**	**3.25**	**3.22**	**6.46**	**6.25**	**13.9**
Energy	–1.93	5.51	0.41	0.37	3.35	1.38	212.6
Ferrous and non-ferrous ores and metals	–5.92	16.13	2.64	1.42	9.61	2.47	53.0
Non-metallic ores	–1.98	17.94	2.32	2.90	7.06	5.66	13.3
Chemicals	–1.01	12.45	1.41	2.61	4.12	4.31	52.5
Engineering	1.11	19.42	3.12	2.87	6.29	7.14	13.0
Transport equipment	–1.82	9.26	1.21	1.22	4.33	2.51	118.4
Food processing	0.94	22.11	3.15	3.16	7.43	8.38	8.4
Textiles	–0.30	24.55	5.02	5.10	7.33	7.10	12.5
Wood, paper, rubber and other industrial products	0.60	22.35	4.15	4.04	6.84	7.33	9.2
Construction	**1.22**	**41.85**	**6.37**	**5.79**	**14.52**	**15.17**	**5.2**
Lodging and catering, distributive trades, recovery and repair	**3.98**	**29.38**	**5.86**	**4.76**	**7.94**	**10.82**	**3.7**
Transport and communications	**0.39**	**14.14**	**2.12**	**1.68**	**5.20**	**5.15**	**17.4**
Credit and Insurance	**1.12**	**6.16**	**0.72**	**1.10**	**1.42**	**2.93**	**29.4**
Other services (2)	**4.51**	**25.79**	**5.41**	**3.59**	**7.04**	**9.74**	**4.8**

Source: Based on INPS data.
(1) Average number of employees per firm. – (2) Includes services to firms, hygiene, education, health services, recreational and cultural services and personal services.

The variability of the various types of flow is affected by the economie cycle, even though fluctuations in gross job turnover are not clearly correlated over time with the net change in employment. The probability of job gains and losses in existing firms appears to depend particularly strongly on changes in the economie situation and there is a negative correlation between gains and losses over time. However, the average number of workers recruited and dismissed per firm is less responsive to the business cycle, though varying considerably from year to year. The same applies to firm openings and closures, where the scale of job creation and destruction fluctuates substantially but is not strongly influenced by the economie climate.

Industrial relations and wages

Collettive bargaining and industrial disputes. — Most of the industry-wide labour agreements in the private sector expired in 1990. The bargaining round was protracted, one of the issues at dispute being the wage indexation mechanism. In the early summer the two sides agreed to defer talks on this question until June 1991 and in the meanwhile to continue the negotiations on renewal of the national agreements. The negotiations are stili under way.

The conclusion of wage agreements has been greatly complicated by the uncertainty surrounding the future *scala mobile* mechanism. Pending reform of the system, the new agreement covering the chemical industry lays down explicit overall increases in nominai earnings, including cost-of-living increments. However, it also includes a safeguard clause whereby increases in the contractual minima after the deduction of imputed cost-of-living increments will be adjusted if they fall outside a set range because actual inflation is higher or lower than expected. The range itself is narrow, averaging ±10 per cent of the expected change in the contractual minima. The acceleration in inflation compared with the expectations of last summer is likely to trigger the safeguard mechanism as early as this year.

Law 146 of 12 June 1990 laid down the criteria for defining "essential public services" and prescribed special procedures for exercising the right to strike in those sectors. Trade union organizations in these services must notify management of the duration of strikes, give minimum advance notice and comply with measures to ensure that "indispensable" services are not interrupted. The law leaves the specific details to be determined by collective bargaining and establishes a commission to rule on the suitability of the measures agreed and to settle any disputes over interpretation.

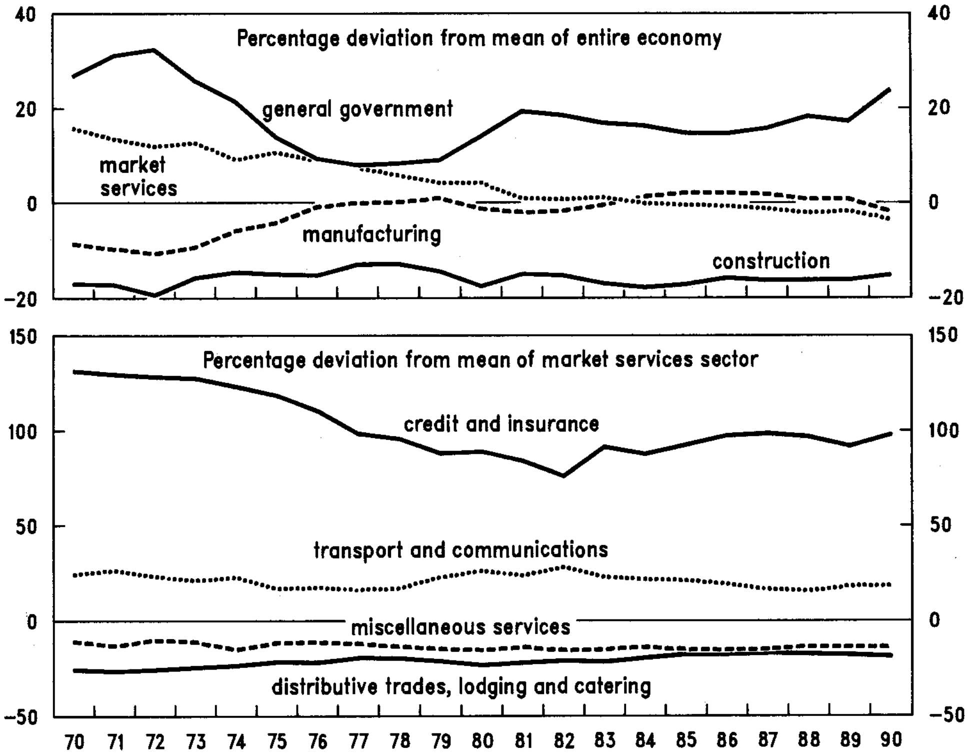
Wages and labour costs. — Gross earnings per full-time equivalent worker increased by 9.6 per cent for the economy as a whole. The increase in manufacturing industry was less rapid (6.7 per cent), but it was stili out of line with trends in the other leading EEC countries, aggravating the difficulties of industries exposed to international competition. Earnings in the public sector rose by 15.7 per cent, compared with 6.2 per cent in 1989.

Between 1985 and 1990 real gross per capita earnings in generai government rose at an average annual rate of 3.9 per cent, compared with 1.7 per cent in the rest of the economy.

The salary advantage of public sector employees is much the same as it was twenty years ago, despite the changes in the distribution of employees according to qualification that have occurred within each sector (Figure 5). Over the period, relative wages in the public sector first declined but then recovered, fluctuating erratically as a result of the bunching of salary increases as a result of collective wage agreements, which often carne late and explicitly made up for lost ground. This method of adjustment helped generate wage rivalry and leapfrogging.

Figure 5

GROSS EMPLOYEE COMPENSATION PER STANDARD LABOUR UNIT



Source: Based on Istat data.

In the other major branches of the economy, intersectoral differentials have not varied substantially since the generai convergence towards the mean between 1970 and 1976-77.

Average per capita earnings in industry last year did not fully reflect the impact of the new labour contracts, most of which were not concluded until the second half. The pace of wage growth in manufacturing gradually picked up during the year as the new contracts carne finto effect.

The nominai wage increases set in most of the new agreements did not make allowance for a marked decline in inflation. The contract signed in July for the chemical industry gave grounds for some optimism in this regard, but subsequent agreements were affected by the upturn in inflation. On average, the settlements provide for contractual minimum wages to be raised by just under 250,000 lire a month over the life of the agreements, with the bulk of the increments coming early in the period. Most of the new contracts run until the first half of 1994; company-level bargaining will presumably begin towards the end of 1992. The reduction in working hours will further increase the cost of the settlements, in some cases by as much as 1 per cent.

Cost-of-living adjustments accounted for about half of the average increase in earnings in industry excluding construction in 1990. The *scala mobile* covered 57.1 per cent of the rise in the cost of living, compared with 47.5 per cent in 1989, owing essentially to the fact that the trade union price index rose about one percentage point more than the other measures of inflation last year.

The two sides of industry have agreed to open negotiations on the *scala mobile* in June 1991. A number of modifications were made in 1986, whereby adjustment became twice-yearly instead of quarterly and at least a small portion of the adjustment was tied to the size of the individual's salary. However, indexation is stili not neutral with respect to wage differentials and thus tends to provoke leapfrogging and wage pressures. The adjustment of wages to the cost of living is based exclusively on past inflation. Moreover, no distinction is made between price changes attributable to the actions of firms and workers and those due to exogenous factors, such as variations in indirect taxation or the cost of imported raw materials. These features ali give the system an inflationary bias and prevent external shocks from being absorbed before a price-wage spirai can begin.

Employers' social security contributions also increased last year, with the result that per capita labour costs in manufacturing rose by 8.2 per cent.

Social charges, including allocations to severance pay funds and benefits in kind, have increased by about 9 percentage points in relation to gross earnings in manufacturing industry in the last ten years. The widening of the tax and social security wedge has been due primarily to the reduction in the substantial contribution relief accorded to employers in the second half of the seventies.

Labour productivity in manufacturing increased by less than 1 per cent last year, following the slowdown to 2.8 per cent in 1989 after five years in which it had risen by an annual average of 5.7 per cent. The smallness of the gains in 1990 reflected not only the deceleration in economic activity but also the waning impact of the industrial restructuring carried out in the first half of the eighties.

Before 1989 rapid productivity gains largely offset the difference in the rate of increase in per capita labour costs between Italy and the other leading industrial countries. In the last two years, however, the acceleration in per capita labour costs has been coupled with disappointing productivity growth, so that unit labour costs increased by 6.2 per cent in 1989 and 7.3 per cent in 1990, compared with around 2 per cent a year in 1987 and 1988.

Prices

The consumer price index rose by 6.5 per cent in 1990, as against 6.3 per cent in 1989. The GDP implicit price deflator, which reflects the internai components of inflation, accelerated more sharply, from 6 to 7.5 per cent, owing to the rise in unit labour costs, despite the fact that their impact on prices was cushioned by a narrowing of profit margins in some sectors. There was a difference of more than one percentage point with respect to the private consumption deflator, due chiefly to the rapid rise of 12.4 per cent in the production costs of collective consumption. Despite the rise in oil prices in the second half of the year, the combination of the world economic slowdown and Italy 's exchange rate policy curbed inflationary pressures, acting both on the cost of imported inputs and as a price constraint on the output of sectors exposed to international competition.

Declining world prices of non-fuel raw materials and the depreciation of the US dollar, which nearly halved the impact of the rise in oil prices, resulted in a decrease of 4.5 per cent in the cost of manufacturing firms ' imported inputs. Despite an acceleration of more than two percentage points in the prices of domestic inputs, the rise in the cost of total intermediate inputs thus slowed from 6.9 per cent in 1989 to 4.1 per cent last year (Table 12).

Since unit labour costs rose faster than input prices and accelerated with respect to the previous year, variatile unit costs in manufacturing increased by 5.8 per cent, only slightly less than the 6.5 per cent recorded in 1989. The increase was not entirely reflected in producer prices, the rise in which slowed down sharply from 5.6 to 2.7 per cent. The deceleration in export prices was even more pronounced, from 6.7 per cent in 1989 to 2 per cent fast year. The competitive constraint thus resulted in a narrowing of profit margins; labour 's share of value added in manufacturing industry increased by 3 percentage points.

Table 12

UNIT COSTS AND FINAL PRICES IN MANUFACTURING AND MARKET SERVICES

(percentage changes on previous year)

Components (1)	Manufacturing		Market services (2)	
	1989	1990	1989	1990
Input prices:	**6.9**	**4.1**	**5.7**	**6.6**
Domestic (3)	6.7	9.0	5.8	7.2
energy	*12.2*	*18.8*	*7.1*	*15.6*
services	*6.5*	*8.7*	—	—
manufactures	—	—	*5.4*	*2.8*
Imports	7.3	–4.5	4.5	2.6
energy	*20.2*	*9.6*	*22.8*	*11.9*
industrial materials	*12.0*	*–12.8*	*9.6*	*–7.5*
Unit labour costs	**6.2**	**7.3**	**6.1**	**7.3**
Variable unit costs (4)	**6.5**	**5.8**	**6.0**	**7.2**
Output prices:	**5.6**	**2.7**	**6.6**	**7.8**
Domestic	5.2	3.0	—	—
Imports	6.7	2.0	—	—

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.

Between 1986 and 1988 the differential in producer price increases between market services and manufacturing was in line with the differential in overall unit variatile costs, which rose faster in services owing to slower productivity growth. The slowdown in productivity gains in manufacturing in 1989 and 1990 translated irto a narrowing of profit margins, which was more pronounced in the second of the two years.

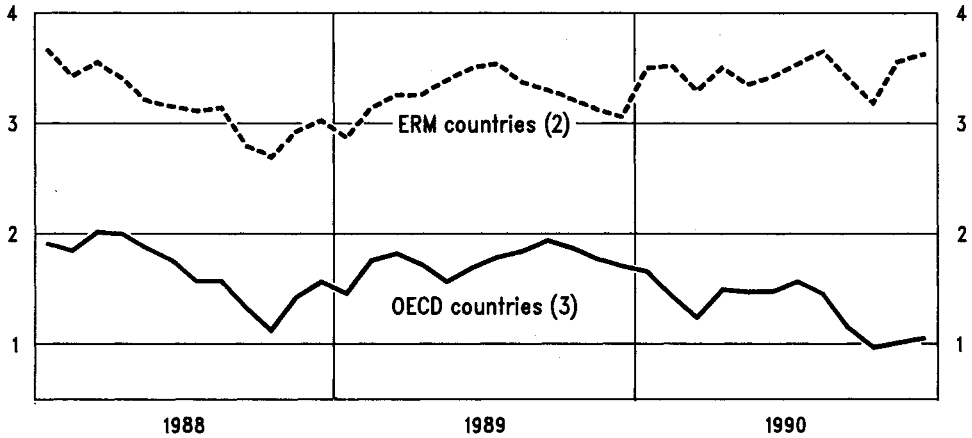
The divergente between the producer prices of services and industrial goods was also reflected in consumer price trends. Net of food and energy products, consumer goods prices rose by 4.5 per cent in 1990, as against 5.1 per cent the previous year. The prices of services, including public utility charges, continued to outpace the overall index, rising by an annual average of 7.3 per cent, compared with 7.7 per cent in 1989. Those not subject to controls rose by 8.2 per cent.

As measured by the implicit value added deflator at factor cost, the prices of market services (net of the renting of buildings) rose considerably in relation to those of manufactured goods between 1970 and 1990, by some 2.5 percentage points a year, chiefly because of the productivity gap between the two sectors. However, during the seventies the sharp rise in the cost of intermediate inputs, and especially energy, which are a less important cost factor in the services sector, helped lower the consumer prices of services in relation to those of goods. In the following decade, owing to the widening of the productivity gap and the decline in energy prices, the upward trend in the relative prices of services was fully reflected in their prices at the consumer level as well.

The inflation differential between Italy and the other countries in the narrow fluctuation band of the ERM increased from 3.3 to 3.5 percentage points in 1990 (Figure 6). The gap with respect to Germany and France widened from 3.5 and 2.7 points respectively in 1989 to 3.8 and 3.1 points. The differential is less pronounced when calculated on the consumer prices of manufactured goods alone; on this basis the gap vis-à-vis Germany narrowed from 4.7 points in 1987 to 2.9 points in 1990, while vis-à-vis France it held more or less statile at 2.7 points.

Figure 6

ITALY'S INFLATION DIFFERENTIALS
(consumer prices) (1)



Sources: Based on Istat and OECD data.
(1) In terms of twelve-month inflation rates. – (2) Participants in the EMS exchange rate mechanism (narrow fluctuation band). – (3) Excluding Turkey.

The relative prices of services have increased in all the major European economies, but the pattern and extent of the rise differ from country to country. Over the past ten years the increase in the consumer prices of services by comparison with those of goods (excluding food and energy products) has been greater in Italy than in the other leading European countries except the United Kingdom.

Measured by the cost-of-living index, the twelve-month inflation rate began to accelerate again last summer, rising from 5.6 per cent in June to 6.7 per cent in February 1991. The inflationary pressures generated by higher oil prices have now dissipated, but inflation has not fallen back to its earlier level; in April the twelve-month rate was still 6.7 per cent, which is inconsistent with the targets for the year. Another worrying sign is the behaviour of industrial producer prices, which accelerated steadily in late 1990 under the impact of rising costs.

THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

The current account deficit totaled 17.3 trillion lire last year, 2.7 trillion more than in 1989 (Table 13). The ratio to GDP rose from 1.2 to 1.3 per cent. The deficit on invisibles increased by more than 6 trillion, from 11.7 to 18 trillion lire, more than offsetting the improvement in merchandise trade. The largest deterioration was in investment income, while net income from foreign travel and the deficit on transfer payments remained substantially unchanged.

Table 13

CURRENT ACCOUNT BALANCES

(billions of lire)

	1989	1990
Goods	**–2,956**	**563**
Goods cif-fob (customs data)	*–17,113*	*–14,121*
Invisibles	**–11,612**	**–17,906**
Services	**1,674**	**616**
Transport and insurance	–3,817	–3,955
Foreign travel	7,151	7,085
Other	–1,660	–2,514
Income	**–10,284**	**–15,637**
Investment income	–11,366	–16,001
Income from labour	1,082	364
Unrequited transfers	**–3,002**	**–2,885**
Private	1,793	1,034
of which: emigrants' remittances	*1,894*	*1,387*
Public	–4,795	–3,919
Total	**–14,568**	**–17,343**

Source: For customs data, Istat.

Merchandise trade

Valued on *an fob-fob* basis, merchandise trade gave rise to a surplus of 563 billion lire, an improvement of about 3.5 trillion over the previous year. On the basis of customs data, there was a deficit of 14.1 trillion lire, 3 trillion lire less than in 1989. The reduction was the result of a large increase of 5.3 trillion lire in the surplus on trade in non-energy products, which outweighed the growth in the energy deficit.

The narrowing of the deficit on a customs basis was due principally to the 2.9 per cent improvement in the terms of trade (Table 14). However, imports increased more rapidly than exports in volume terms, resulting in a fall of 0.9 percentage points in the ratio of exports to imports in real terms.

Table 14

MERCHANDISE TRADE

(percentage changes on corresponding period of previous year)

	1989	1990		
		H1	H2	Year
At current prices				
Exports	15.9	7.5	3.8	5.6
Imports	16.6	3.7	3.7	3.7
Exports/imports (1)	–0.6	3.7	0.1	1.8
Average unit values				
Exports	6.3	1.9	2.3	2.1
Imports	7.6	–2.0	0.5	–0.7
Terms of trade (1)	–1.2	4.0	1.8	2.9
At constant prices				
Exports	9.0	5.6	1.5	3.5
Imports	8.3	5.9	3.0	4.5
Exports/imports (1)	0.6	–0.3	–1.5	–0.9

Source: Based on Istat customs data.
(1) Ratio of exports to imports.

The volume of imports increased by 4.5 per cent, almost 4 points less than the previous year. The reduction was due partly to the slower growth in domestic demand, which fell from 3 to 1.9 per cent, and partly to trends in competitiveness. Comparison between producer prices on the domestic market and competitore' export prices shows an average loss of more than 5 percentage points over the year (Table 15).

Table 15

MAIN DETERMINANTS OF THE VOLUME OF MERCHANDISE TRADE

(percentage changes on previous year)

	1989	1990
Exports		
World demand (1)	7.1	5.9
Export competitiveness (2)	2.2	5.0
Imports		
Domestic demand	3.0	1.9
Import competitiveness (2)	2.6	5.6

Sources: Based on Istat, IMF and OECD data.
(1) Exports of the industrial countries in volume terms. – (2) A minus sign indicates a gain in competitiveness.

The volume of exports rose by 3.5 per cent, compared with 9 per cent in 1989. This marked slowdown was due in part to a weakening of activity at international level. The rate of growth in world demand for manufactures, for which the industrial countries' exports are used as a proxy, slowed down by more than 1 percentage point, from 7.1 to 5.9 per cent. Italy 's market share at constant prices, which was 6.5 per cent in 1989, fell by about 0.2 percentage points last year, owing mainly to a 5 per cent rise in the real exchange rate on the basis of export prices. The adverse effects of relative price trends were partly compensated by the expansion in the German and French markets, the main outlets for Italian exports.

The average unit value of imports declined slightly, by 0.7 per cent, after rising by 7.6 per cent in 1989 (Table 16). The appreciation of the lira against the dollar offset the sharp increase in the dollar prices of energy products and accentuateti the slight fall in those of other imported raw materials. The effects of the lira's moderate rise of 0.5 per cent against the currencies of Italy's main trading partners were augmented by the impact of the marked slowdown in the foreign currency prices of imported manufactures.

Table 16

MAIN COMPONENTS OF THE AVERAGE UNIT VALUES OF MERCHANDISE IMPORTS

(percentage changes on previous year)

	1989	1990
Average unit value of manufactures in exporters' currencies	4.1	0.8
Effective exchange rate of the lira (1) (2)	–1.1	–0.5
Average unit value of energy products in dollars	11.9	24.5
Average unit value of agricultural products in dollars	–0.9	5.4
Average unit value of other raw materials in dollars	2.8	–0.1
Lira/dollar exchange rate (2)	5.4	–12.6
Average unit value of total imports in lire	**7.6**	**–0.7**

Sources: Based on Istat and IMF customs data.
(1) Vis-à-vis the currencies of the countries that account for most of Italy's imports of manufactures. – (2) A minus sign indicates an appreciation of the lira.

The average unit value of exports increased by 2.1 per cent, 4 points less than in the previous year. In contrast to 1989, this was lower than the rise in industrial output prices on the domestic market, which increased by 3 per cent. The difference is attributable not only to the slowdown in world demand but also to a loss of competitiveness, which forced Italian exporters to reduce their profit margins more sharply in foreign markets, where competition is keener.

Measured in terms of producer prices, the real exchange rate of the lira rose by 4.2 per cent (Table 17). The widening of the inflation rate differential to 2.8 per cent was compounded by a rise of 1.4 per cent in the nominai effective exchange rate, due mainly to the depreciation of the US dollar, the Canadian dollar, the yen and the pound sterling. At constant prices, Italy's market share in those countries fell considerably. The loss of competitiveness vis-à-vis Italy's ERM partners was more moderate, 1.8 per cent, on account of the fall in the nominai exchange rate against their currencies. The depreciation against the French frane and the Deutschemark, by 2.3 and 1.6 per cent respectively, made it possible to limit the effect of adverse movements in relative prices, so that the loss of competitiveness vis-à-vis France and Germany was only 0.1 and 1.8 per cent respectively, compared with 3.3 and 3.9 per cent in 1989.

Table 17

RELATIVE PRICES AND NOMINAL AND REAL EXCHANGE RATES VIS-À-VIS ITALY'S MAIN TRADING PARTNERS

(percentage changes on previous year)

	Real exchange rate of the lira (1) (2)		Relative prices in Italy (1)		Nominal exchange rate of the lira (2)	
	1989	1990	1989	1990	1989	1990
ERM countries (3)	**3.2**	**1.8**	**1.5**	**3.0**	**1.6**	**–1.2**
France	3.3	0.1	1.7	2.4	1.6	–2.3
Germany	3.9	1.8	2.3	3.5	1.5	–1.6
United Kingdom	3.7	4.5	0.6	–0.8	3.1	5.4
Netherlands	2.5	4.0	0.7	5.7	1.8	–1.7
Belgium	0.8	1.9	–0.8	4.9	1.6	–2.9
Spain	–2.2	1.3	1.5	2.8	–3.6	–1.4
United States	–4.6	16.0	0.7	1.2	–5.3	14.7
Canada	–5.5	18.2	3.7	4.6	–8.9	13.0
Switzerland	7.6	0.5	1.4	3.5	6.1	–2.8
Japan	5.8	24.0	3.6	3.3	2.1	20.1
Total (4)	**2.5**	**4.2**	**1.6**	**2.8**	**0.9**	**1.4**

Sources: Based on OECD, IMF and Istat data.
(1) Prices of industrial products. – (2) A minus sign indicates a devaluation of the lira (gain in competitiveness for the real exchange rate). – (3) Members of the Exchange Rate Mechanism of the EMS. – (4) The total also includes Austria and Sweden.

Invisibles

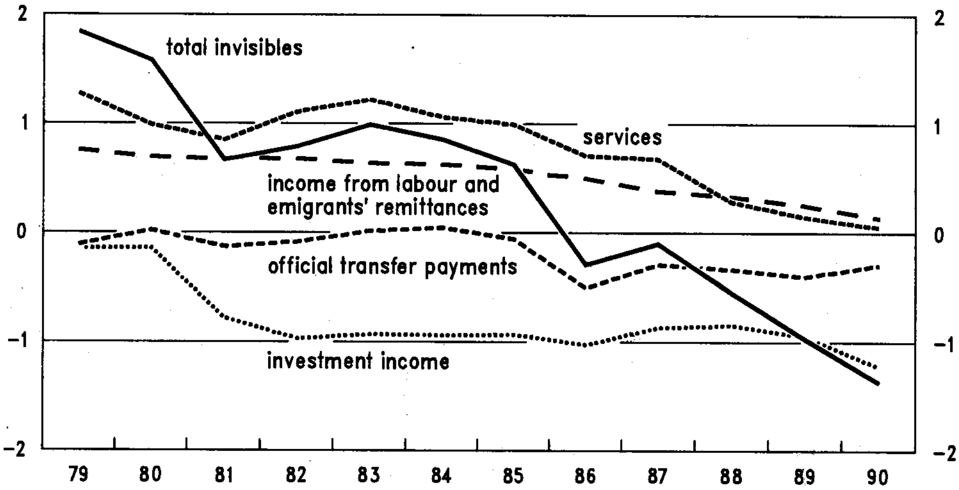
The deterioration in the deficit on invisibles in 1990 confirms the trend that began in the second half of the eighties (Figure 7).

The traditional surplus on services, which had already been seriously eroded in previous years, was almost wiped out in 1990. Both inflows and outflows recorded exceptionally high rates of increase, of 39 and 43 per cent respectively, with the fastest growth occurring in "Foreign travel" and "Other services". This development was only partly attributable to the completion of exchange liberalization; in the main, it appears to reflect a break in the statistics, as the new system for recording data on foreign currency transactions, on which the figures in question are based, has not yet been fully implemented. The use of transitional procedures during the present implementation phase may also have led to errors in the attribution of transactions, which can be corrected when the historical series are revised.

Figure 7

INVISIBLE ITEMS OF THE CURRENT ACCOUNT

(balances as a percentage of GDP)



The surplus on foreign travel remained unchanged at 7.1 trillion lire, although its ratio to GDP fell from 0.6 to 0.5 per cent. Non-residents' expenditure in Italy totaled 23.7 trillion lire, compared with 16.5 trillion in 1989, while Italians' expenditure abroad rose from 9.3 to almost 16.6 trillion lire. The large increase in the two gross foreign currency flows is ascribable mainly to the discontinuity in the historical series mentioned above.

The deficit on international transport amounted to approximately 4 trillion lire, slightly less than in 1989.

Services other than tourism and transport gave rise to a deficit of about 2.5 trillion lire, 700 billion more than in 1989. The "technology" component of this item proved an exception, with the deficit narrowing by 300 billion [ire to stand at 930 billion. Exports expanded by 41 per cent, more than double the rate of growth in imports, and the export cover ratio increased by more than 12 percentage points. Italy 's dependence on imported technology remains high; as a proportion of GDP, the deficit is dose to the [evels recorded in the early eighties.

Inflows and outflows of investment income amounted to 19.5 and 35.5 trillion lire respectively, producing a deficit of 16 trillion lire, an increase of 4.6 trillion over the previous year. Investment income rose from 9 per cent of total current account payments in 1989 to 10.9 per cent last year. The net outflow was fueled chiefly by the marked increase in Italy 's net external liabilities, combined with a moderate increase in international interest rates.

The surplus on private transfer payments was just over 1 trillion lire, nearly 800 billion less than in 1989. Official transfer payments recorded a deficit of almost 4 trillion lire, resulting from a net contribution of about 1.4 trillion lire to the EEC budget and net transfers of around 2.6 trillion to developing countries. Almost two thirds of the improvement of approximately 900 billion lire in relation to 1989 was due to a decrease in development aid.

CAPITAL FLOWS AND THE EXCHANGE RATE OF THE LIRA

Since last May residents have been completely free to engage in all manner of foreign financial transactions, so that the Italian economy is now in a position to participate fully in the international integration under way in financial markets. Both inflows and outflows of capitai grew at an exceptionally rapid rate last year; total gross flows amounted to more than 800 trillion lire, compared with 536 trillion in 1989. The ratio of financial flows to trade in goods and services rose from 96 to 129 per cent.

The increase in gross financial flows was again accompanied by larger net inflows amounting to 47.9 trillion lire, as against 34 trillion in 1989; nearly half the total represented transactions by authorized resident intermediaries, particularly special credit institutions (Table 18). After valuation adjustments, the net external assets of the centrai bank increased by 15.2 trillion to 103.4 trillion lire.

Table 18

CAPITAL FLOWS
(net; billions of lire)

	1989	1990	1990			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Foreign direct investment .	3,469	7,569	1,298	1,289	2,276	2,706
Italian direct investment ..	–2,748	–8,450	–1,654	–1,260	–4,542	–994
Foreign portfolio investment	17,117	22,978	6,158	6,810	3,917	6,093
Italian portfolio investment	–12,367	–23,317	–10,044	854	–7,594	–6,533
Foreign loans	19,853	36,171	12,975	11,586	13,295	–1,685
Italian loans	–1,708	–4,755	–2,287	–619	213	–2,062
Medium and long-term trade credit	–1,450	–2,200	–796	–453	–340	–611
Short-term trade credit ...	–2,308	–2,043	2,123	1,641	–1,998	–3,809
Other	–895	–1,063	115	90	–370	–898
Total non-bank capital ..	**18,963**	**24,890**	**7,888**	**19,938**	**4,857**	**–7,793**
Bank capital	**14,979**	**22,973**	**9,967**	**4,747**	**–2,790**	**11,049**
of which: special credit institutions	*9,409*	*17,575*	*3,327*	*4,447*	*3,895*	*5,906*
Total	**33,942**	**47,863**	**17,855**	**24,685**	**2,067**	**3,256**
Memorandum items:						
Current account balance	**–14,568**	**–17,343**	**–11,399**	**–2,653**	**860**	**–4,151**
Errors and omissions ...	**–3,988**	**–15,362**	**–552**	**–6,570**	**–784**	**–7,456**
Change in official reserves (1)	**15,386**	**15,158**	**5,904**	**15,462**	**2,143**	**–8,351**

(1) Net of valuation adjustments.

Since the current account recorded a deficit of 17.3 trillion lire, the errors and omissions balancing item was negative by 15.4 trillion.

At the end of 1990 Italy 's net external debt amounted to 95.1 trillion lire (Table al O). Excluding the gold component of the official reserves, it totaled 125.7 trillion lire, equivalent to 9.6 per cent of GDP (7.7 per cent in 1989).

Investment and loans

Gross inward direct investment increased by over 10 trillion lire to more than 25 trillion; disinvestment also increased substantially, from 11.4 to 17.5 trillion lire, so that the net inflow rose from 3.5 to 7.6 trillion. Italian direct investment gave rise to a net outflow of nearly 8.5 trillion lire.

Non-residents' portfolio investment increased by around 20 trillion lire to 87.4 trillion; their disinvestment also increased substantially, from 50.4 to 64.4 trillion lire (Table 19). Outflows of Italian portfolio investment more than doubled to over 110 trillion lire. Here too there was a large increase in disinvestment, but not enough to prevent the net outflow from rising from 12.4 to 23.3 trillion lire.

Table 19

PORTFOLIO INVESTMENT

(billions of lire)

	1989			1990		
	Inflows	Outflows	Balance	Inflows	Outflows	Balance
Foreign capital	**67,560**	**50,443**	**17,117**	**87,366**	**64,388**	**22,978**
Government securities	42,362	32,458	9,904	65,262	49,102	16,160
Treasury bills	*7,588*	*6,338*	*1,250*	*2,452*	*1,538*	*914*
Treasury credit certificates	*14,266*	*14,589*	*–323*	*24,188*	*21,799*	*2,389*
Treasury bonds	*4,259*	*3,475*	*784*	*9,636*	*8,102*	*1,534*
Ecu securities	*13,630*	*6,488*	*7,142*	*27,941*	*16,887*	*11,054*
Other	*2,619*	*1,568*	*1,051*	*1,045*	*776*	*269*
Listed shares	18,334	11,678	6,656	17,259	11,957	5,302
Listed bonds	6,497	5,983	514	4,845	3,329	1,516
Other items n.e.c.	367	324	43	—	—	—
Italian capital	**39,996**	**52,363**	**–12,367**	**86,720**	**110,037**	**–23,317**
of which:						
purchases and sales of foreign securities by Italian investment funds	*20,988*	*19,578*	*1,410*	*15,858*	*15,524*	*334*
units of foreign investment funds	*2,361*	*936*	*1,425*	*3,136*	*996*	*2,140*
Total	**107,556**	**102,806**	**4,750**	**174,086**	**174,425**	**–339**

The inflow of foreign loans also showed a very large increase, with disbursements rising by 81 trillion lire to nearly 144 trillion (Table 20). Redemptions rose substantially too, from 42.8 to 107.5 trillion lire, with the result that the net inflow amounted to more than 36 trillion, compared with 19.9 trillion in 1989.

Table 20

FOREIGN LOANS

(billions of lire)

	1989			1990		
	Disbursements	Redemptions	Balance	Disbursements	Redemptions	Balance
Public	**10,606**	**7,440**	**3,166**	**12,147**	**5,095**	**7,052**
EIB	3,867	1,674	2,193	2,404	1,580	824
Other EEC institutions	53	112	–59	—	150	–150
Other international institutions	100	300	–200	106	142	–36
International market	6,586	5,354	1,232	9,637	3,223	6,414
of which: loans raised by the Republic of Italy (1)	*5,196*	*3,825*	*1,371*	*7,570*	*1,235*	*6,335*
Private	**52,023**	**35,336**	**16,687**	**131,527**	**102,408**	**29,119**
From EEC countries	46,399	31,771	14,628	114,762	87,520	27,242
From other OECD countries	4,200	2,475	1,725	9,053	5,198	3,855
From non-OECD countries	1,424	1,090	334	7,712	9,690	–1,978
Total	**62,629**	**42,776**	**19,853**	**143,674**	**107,503**	**36,171**

(1) The gross flows for 1989 include a £400 million swap operation concluded in November.

Most of the increase in the inflow of loans was generated by the private sector, which received more than ten times the amount disbursed to the public sector, compared with a ratio of five to one in 1989. Most of the loans disbursed were at short terra, as suggested by the high correlation between the increases in inflows and outflows. The growth in the inflow of foreign loans was due in part to a further rise in the proportion of loans granted by foreign branches of Italian banks from the already high figure recorded in 1989; between the end of 1989 and the end of 1990 the share of such loans in total private sector borrowing rose from 35.3 to 37.5 per cent.

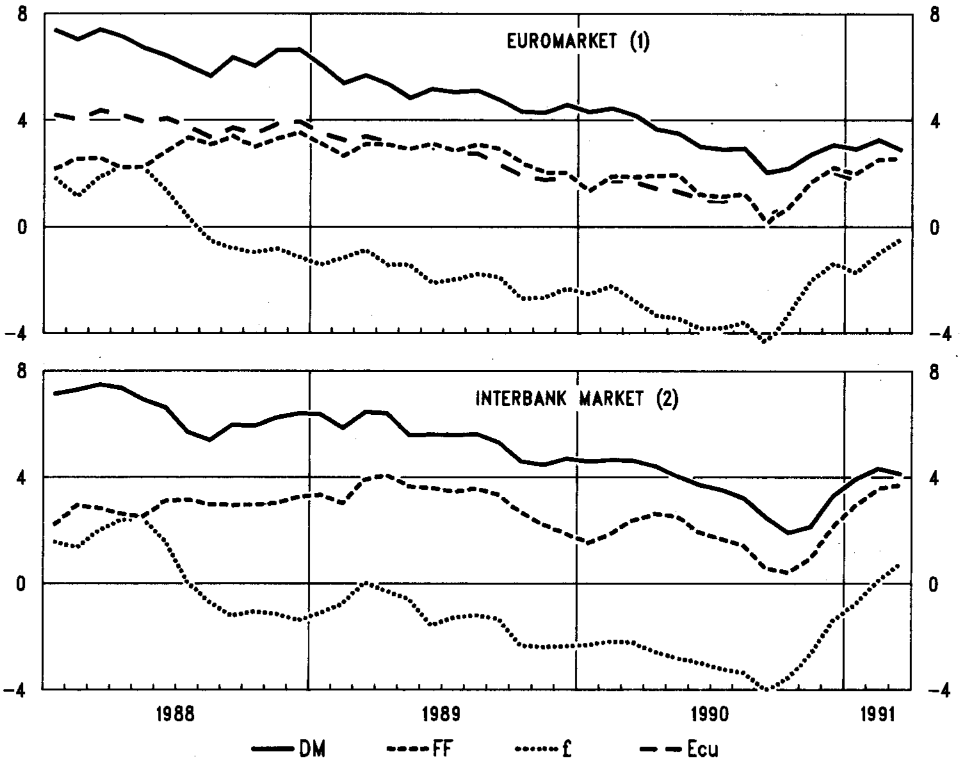
Developments during the year, short-term operations and the exchange rate

During the first seven months of the year the nominai effective exchange rate of the lira rose by 1.1 per cent. The lira appreciated by more than 5 per cent against the Bollar and by almost 1 per cent against the ERM currencies (which did not include the pound sterling), and accordingly approached the upper limit of the narrow EMS fluctuation band. The upward pressure on the lira was moderated by very large purchases of foreign exchange by the Bank of Italy, and the officiai reserves increased by more than 23 trillion lire.

The underlying influence on the exchange rate during this period was the strengthening of market expectations of stability after the adoption of the narrow fluctuation band, followed a few months later by the removal of the last of Italy 's exchange controls. The resulting improvement in the country 's creditworthiness and the reduction in exchange risk lowered the overall risk premium. The massive inflows of capital that ensued, totaling more than 62 trillion lire in the first seven months of the year according to settlements data, were only partially sterilized by the central bank and caused the interest rate differential between the lira and the other currencies to narrow steadily. The differentials in the Euromarket vis-à-vis the Deutschemark, the French franc and the US dollar fell by 1.4, 0.2 and 1.4 points respectively and similar movements occurred in the interbank market (Figure 8).

Figure 8

LIRA INTEREST RATE DIFFERENTIALS IN THE EUROMARKET AND THE INTERBANK MARKET



Source: BIS.
(1) Three-month rates. – (2) For Germany, France and the United Kingdom, three-month interbank rates; for Italy, the maximum rate applied to the freely available lira deposits of resident credit institutions with balances of more than one billion lire. The rate is the average of those reported at ten-day intervals.

In August the international financial situation changed. The Iraqi invasion of Kuwait caused world stock markets to fall and strengthened expectations of a rise in inflation. The increase in three-month interest rates in France, Germany and, to a lesser extent, Italy was accompanied by a shift towards short-term positions. The lira began to decline, then steadied in the lower part of the fluctuation band.

The change in market conditions was reflected in a reduction in the net inflow of capital, which amounted to 2.1 trillion lire in the third quarter. Special credit institutions moderated their net foreign fund-raising, albeit only slightly, while banks reduced their net foreign debt by about 6.7 trillion lire, net of valuation adjustments.

In the last quarter of the year the restrittive stance of monetary policy calmed growing expectations of a weakening of the lira. Interest rate differentials between the lira and the other leading currencies began to widen again alter reaching their minimum in September. Despite this, repeated intervention in support of the lira was necessary, entailing a total outflow of official reserves amounting to more than 8.3 trillion lire. Net non-bank capital movements turned negative, with an outflow of nearly 8 trillion. The narrowing of the differential between the interest rate on lira loans to residents and the three-month interbank rate in the Eurolira market led to a decline in lira lending to residents by foreign branches of Italian banks; by contrast, the net inflow of bank capital exceeded 11 trillion lire.

In December the lira returned to the middle of the EMS fluctuation band.

Between August and December the nominai effective exchange rate of the lira fell by nearly 1 per cent. The further 3 per cent appreciation of the lira against the dollar was accompanied by a depreciation of about 1.5 per cent against the ERM currencies. The annual average rise in the nominai effective rate amounted to 1.4 per cent, with the lira appreciating by 15 per cent against the dollar and depreciating by 1.9 per cent against the ERM currencies excluding sterling.

In the first quarter of 1991 there were again net capital inflows, totaling 20 trillion lire according to settlements data, with 3.7 trillion passing through authorized resident intermediaries. The official reserves increased by 7.8 trillion. The nominai effective exchange rate remained virtually unchanged compared with the last part of 1990, since the 0.5 per cent appreciation of the lira against the other ERM currencies was offset by a 1.8 per cent depreciation against the dollar.

The upward pressure on the lira was countered by intervention in the exchange market. The decision to zero-rate the compulsory reserve requirement on banks' net foreign currency fund-raising as from May will foster the international integration of Italy 's financial market and the competitiveness of Italian banks.

PUBLIC FINANCES

The results for the year

Excluding settlements of past debts, the public sector borrowing requirement rose from 133 trillion lire in 1989 to 143.9 trillion in 1990, but declined from 11.1 to 10.9 per cent of GDP. The borrowing requirement of the more narrowly defined state sector showed a similar absolute increase, rising from 132.3 to 140.4 trillion lire on the same basis (Table 21).

The figure for the state sector was nearly 7.5 trillion lire above the target set in September 1989 when the Government submitted its Forecasting and Planning Report and the Finance Bill to Parliament.

Table 21

BORROWING REQUIREMENTS
(billions of lire)

	1988	1989	1990
Public sector borrowing requirement	125,495	133,634	145,933
as a % of GDP	*11.5*	*11.2*	*11.2*
Net of settlements of past debts	125,445	133,034	142,933
as a % of GDP	*11.5*	*11.2*	*10.9*
State sector borrowing requirement	125,643	133,854	145,262
as a % of GDP	*11.5*	*11.2*	*11.1*
Net of settlements of past debts	124,847	132,335	140,431
as a % of GDP	*11.4*	*11.1*	*10.7*

The state sector borrowing requirement also exceeded the limit of 135.6 trillion lire set in May 1990 in the Economic and Financial Planning Document at the same time as supplementary budget measures were introduced. The increase in tax and social security receipts in the second half of the year was smaller than forecast in the Document, owing to the more pronounced slowdown in economic activity, delays in implementing the May measures, the decision to reduce the excise duties on oil products to offset part of the increase in oil prices caused by the Gulf crisis, and the fact that revenue from wage increases under agreements in some important branches of the private sector was not received until this year.

Net of interest payments and the settlement of past debts, the public sector borrowing requirement continued to decline, falling from 25.1 to 15.5 trillion lire and from 2.1 to 1.2 per cent of GDP. On the same basis the state sector borrowing requirement also decreased, from 27.1 to 14.7 trillion lire, thus broadly complying with the limit of 14.6 trillion set in September in the Forecasting and Planning Report for 1991.

The reduction in the primary budget deficit was due to the series of measures adopted during the year. These mostly concerned revenues, which rose by about 1 percentage point in relation to GDP; the measures on the expenditure side were only sufficient to limit the increase in this aggregate in relation to GDP.

The budget drawn up in September 1989 provided for an increase of 15 trillion lire in revenue and a reduction of 3 trillion in expenditure, excluding the saving in interest payments arising from the fall in the primary deficit. The supplementary measures taken in May to correct the growing divergence from the originai targets were designed to increase revenue by around 6.5 trillion lire and reduce expenditure by some 5 trillion (including the decrease in net disbursements connected with the revision of the rules governing the centralized Treasury account). However, some of the measures accompanying the Finance Law proved to be less effective than had been expected, while the supplementary budget measures were delayed and watered down in Parliament. Overall, it can be estimated that last year's budgetary measures produced an increase in receipts and a decrease in net outlays totaling 23 trillion lire.

Interest payments continued to increase rapidly, rising from 107.9 to 127.4 billion lire, and from 9 to 9.7 per cent of GDP. This was due to the continued rise in the public debt at a rate faster than the growth in GDP, coupled with a small rise in average interest rates. In particular, the coupons on floating rate securities reflected the rise in Treasury bili rates in the second half of 1989 caused by the acceleration of inflation.

Considering the changes in the various items of the budget compared with 1989 (including the loss of purchasing power of the public debt) and the growth in the debt itself, the impact of the public finances on the economy was more or less neutral last year. The measures to increase revenue and curb expenditure offset both the large rise in wages and salaries, which was partly due to the payment of arrears, and the growth in social security outlays, which was attributable to the indexation of pensions and improvements in some types of benefit.

Including EEC levies, tax revenues and social security contributions rose from 38.2 to 38.9 per cent of **GDP** on an accruals basis and from 38 to 39.1 per cent on a cash basis (Table 22).

Table 22

MAIN INDICATORS OF PUBLIC SECTOR FINANCES

(as a percentage of GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Tax and social security receipts (1)	31.7	34.2	36.0	35.1	34.9	35.2	36.0	36.5	38.2	38.9
Total public sector expenditure (2)	46.7	49.0	50.5	50.3	51.2	51.0	50.9	51.1	52.3	53.2
of which: interest payments	*6.2*	*7.2*	*7.6*	*8.2*	*8.2*	*8.6*	*8.0*	*8.2*	*9.0*	*9.7*
Deficit on current account (2)	6.8	6.7	6.0	6.8	6.6	6.7	6.4	6.4	5.6	5.9
Net indebtedness (2)	11.6	11.7	11.1	11.8	12.3	11.7	11.4	11.3	10.5	10.8

(1) Including revenues attributable to the EEC. – (2) Net of settlements of past debts.

Social security contributions rose from 12.5 to 12.9 per cent of **GDP** as a result both of the full operation of the measures introduced in 1989 regarding contribution thresholds and voluntary payments and of the condonation scheme and action to recover overdue contributions. The increase in the contribution rates for public sector employees was offset by the abolition of employers' contributions to finance early retirement schemes.

About three quarters of the rise in tax revenue from 25.7 to 26 per cent of **GDP** was attributable to the increase in the part passed on to communes, provinces and regions. Indirect taxes rose substantially following the increases in the municipal surcharge on electricity consumption and the fax on motor vehicles and as a result of the changes made in the rates of petrol excise duty in the last part of 1989 and during 1990. The increase in revenue from direct taxes was less pronounced: sizable increases in personal incorre fax and the withholding tax on interest payments were accompanied by only a small rise in the yield from corporate taxes, reflecting the slowdown in the growth of profits.

The results of the last few years confirm the strength of the underlying forces tending to inflate the main items of public expenditure. The corrective measures succeeded only in curbing the latter's growth; net of interest payments and financial transactions, total expenditure rose slightly last year in relation to GDP, from 43.3 to 43.5 per cent.

The largest contribution to the increase in the ratio was made by wages and salaries, which grew by around 15 per cent, primarily owing to the application of the 1988-90 wage agreements in the public sector other than schools and the consequent payment of very large arrears. The rise in expenditure was checked by the restrictions on recruitment and the postponement of part of the pay increase in the health service and locai authorities to this year.

Social security outlays increased by 12 per cent, fueled by the rise in pension disbursements caused both by structural factors and by the increases in some minimum pensions, the revision of pensions which had been capped by the limit on eligible earnings and the compensation for the shortfall between the revisions made in 1989 on the basis of the planned rate of inflation and that made at the end of the year in the light of the actual rate. The rise in disbursements also reflected higher ordinary unemployment benefits and the increase in the number of workers paid by the Wage Supplementation Fund as a result of the slowdown in economic activity.

The rise in the ratio of expenditure to GDP was curbed by the slower growth in outlays for the purchase of goods and services, production subsidies and investment.

The public debt continued to grow at a rapid pace (Tables a12 and a13). The recent small improvements in the ratio of the borrowing requirement to GDP served only to slow down the rise in the ratio of the public debt to GDP, which increased from 94.8 per cent in 1988 to 98 per cent in 1989 and 100.9 per cent last year.

Despite the rapid growth in the debt last year, it proved possible to reconcile the aims of lowering interest rates and halting the decline in the residuai maturity of government securities. Average interest rates on new issues were virtually the same as in 1989, notwithstanding the slight acceleration in inflation. The residuai maturity of the public debt had begun to shorten in June 1988 and reached two years and six months at the end of 1989, but remained unchanged last year as a result of the lengthening of maturities in the primary market through the issue of seven-year Treasury bonds and credit certificates.

Treasury bills in lire and ecus represented 24.2 per cent of the public debt, compared with 23.1 and 24.4 per cent at the end of 1988 and 1989 respectively. There was an even larger reduction in the share of central bank financing, which fell from 12.6 to 11.2 per cent over the year. This reflected the fact that nearly all the Treasury 's requirements were met through sales of securities and the collection of PO deposits.

Fiscal policy for 1991 and the Economic and Financial Planning Document for 1992-94

In May 1990 the Economic and Financial Planning Document for 1991-93 confirmed the objective of beginning to reduce the ratio of the public debt to GDP by 1993, as indicated in earlier plans. The measures aimed at curbing the primary deficit were strengthened to offset the increase in interest payments caused by overshooting of the inflation target and the rise in international interest rates. A key role was assigned to the budget for 1991: that of turning the primary deficit of the public sector, expected to amount to 1 per cent of GDP in 1990, into a surplus on the order of 0.6 per cent. This swing, coupled with the effect it would have on interest payments, was expected to result in public and state sector borrowing requirements of 131.8 and 130.9 trillion lire respectively in 1991.

In September 1990 the Forecasting and Planning Report for 1991 set a target of 132 trillion lire for the state sector borrowing requirement. The earlier limit was thus basically confirmed, despite the fact that the forecast outturn for 1991 had risen by around 15 trillion lire excluding the effects of the May 1990 measures.

In order to achieve the objective, the size of the budget adjustment was increased. The measures contained in the Finance Law provided for reductions of 16 and 18 trillion lire in the expenditure of the public and state sectors respectively, increases of 23 and 21 trillion in their revenue and asset disposals totaling 5.6 trillion. The consequent savings in interest payments were estimated at 3.5 trillion lire and the state sector's primary surplus was revised upwards to 8 trillion lire.

Despite the rapid enactment of the Finance Bill and the accompanying measures, the Report on the Borrowing Requirement submitted to Parliament in March of this year indicated that the 132 trillion lira target would be exceeded by a wide margin and that the state sector borrowing requirement would rise to 144.2 trillion lire, primarily because the macroeconomic variables had diverged from their expected course.

In order to achieve the target, despite the loss of 2 trillion lire of revenue as a result of the exemption from ILOR granted to small enterprises, additional measures were adopted on 11 May to reduce the state sector borrowing requirement by around 12.6 trillion lire, which would allow savings of 1.6 trillion in interest payments. The revenue measures should raise an extra 7 trillion lire for the state sector (8.5 trillion for the public sector, supplemented by a 2.2 trillion inflow to the centralized Treasury account). State sector expenditure should fall by 5.5 trillion lire and that of the public sector by 2 trillion. The Government intends to take further corrective action if revenue and expenditure diverge from the planned levels.

The total adjustment for the year is now extremely large, amounting to over 60 trillion lire when the reduction in interest payments is included. Keeping the state and public sector borrowing requirements within the limits of 132 and 136.8 trillion lire respectively would be an important achievement and result in primary surpluses on the order of 12 and 10.4 trillion lire respectively.

The adjustment is expected to increase fax receipts and social security contributions by around 2.5 percentage points in relation to GDP, and expenditure net of interest payments should grow less rapidly as a proportion of national income. Attention nonetheless needs to be drawn to the fact that most of the revenue measures will only have an effect this year, while the measures to slow down the rise in expenditure are not sufficient to produce effects comparable with those obtained in other EEC countries.

THE MONEY AND FINANCIAL MARKETS

The results for the year

In a year in which Italy joined the narrow fluctuation band of the EMS and completed the liberalization of exchange controls, monetary policy was aimed primarily at ensuring exchange rate stability in a steadily deteriorating world economic climate. In this way it was possible to avert inflationary pressures from abroad and resist those stemming from the growth in nominai incomes and the larger than expected public sector deficit. Market interest rates began to decline in the early part of 1990 in conjunction with a slowdown in domestic demand and sizable capitai inflows, but turned upwards again when the lira carne under pressure as a result of the inflationary effects of the Gulf crisis coupled with the tightening of German monetary policy.

Inflation and nominai interest rates remained above the European average, confirming the persistente of the structural problems afflicting the Italian economy but not the rest of Europe. Nevertheless, the enhanced credibility of the lira's exchange rate within the narrow band made it possible to reduce interest rate differentials vis-à-vis Germany and France. On average, real interest rates were slightly lower than in 1989 and broadly in line with those prevailing abroad. In contrast with earlier occasiona when a similar situation arose, the increase in interest rates in the latter part of the year was confmed mainly to the short-term end of the market. The greater stability of long-term rates, which was due in part to the slowdown in economic activity, was reinforced by tighter exchange rate constraints and by the credibility of monetary policy. The modernization and strengthening of the market in government securities over the last few years also contributed, as did the provisions for the partial mobilization of banks ' reserve deposits from mid-October onwards, which deepened the money market and improved its ability to withstand short-run tensions.

Thanks to these developments, neither the external disturbances nor the larger than expected budget deficit impeded the orderly placement of gross issues of government securities totaling 755 trillion lire, equivalent to 58 per cent of GDP, compared with 597.5 trillion in 1989; these factors caused only a temporary pause in the lengthening of the maturity of new issues of fixed rate paper, which was raised to a maximum of seven years in June 1990 and ten years in March 1991.

The government securities avere subscribed by firms and households, partly through investment funds. Totali financial assets increased by 11.9 per cent to the equivalent of 139.4 per cent of GDP, 3.3 points more than at the end of 1989. On the basis of monthly averages, the M2 money supply grew by 9.9 per cent during the year, more than the 1989 figure of 9.5 per cent and almost one percentage point above the upper limit of the target range (Table 23). The ratio of M2 to GDP remained at about the same level as in recent years.

Table 23

CREDIT, MONEY AND FINANCIAL ASSETS

	Finance to the non-state sector		Total credit		M1	M2A	M2	M3	Financial assets
	Domestic	(1)	Domestic	(1)	(2)	(2)	(2)	(3)	(4)
	Percentage change (5)								
1987 ...	10.2	10.1	13.0	13.3	7.9	7.1	8.6	11.6	14.6
1988 ...	15.7	15.1	15.0	14.8	7.4	5.1	8.7	12.4	14.9
1989 ...	18.5	19.4	15.2	15.9	8.4	5.4	9.5	11.8	13.9
1990 ...	15.5	17.4	13.2	14.6	9.6	6.2	9.9	12.0	11.9
	As a percentage of GDP (6)								
1987 ...	50.7	53.8	133.8	139.2	34.1	60.8	64.0	84.2	125.3
1988 ...	52.9	55.9	138.8	144.1	33.0	57.6	62.7	85.3	130.3
1989 ...	57.3	61.0	146.3	152.8	32.8	55.6	62.8	87.3	136.1
1990 ...	60.0	65.0	151.1	159.8	32.8	53.9	63.0	89.3	139.4

(1) Including foreign loans and purchases of bonds by non-residents. – (2) Based on monthly averages; growth rates for 1987 are based on end-of-period data. The figure for 1989 is adjusted for the effect of strikes by bank personnel. – (3) The figure for 1989 is adjusted for the effect of strikes by bank personnel. – (4) Domestic, excluding shares. – (5) From December to December. – (6) Ratio of the December stock of monetary and credit aggregates to the annual average of GDP.

Credit demand slowed down as the pace of economic activity and investment slackened, but was sustained by corporate financing needs arising from the narrowing of profit margins and, towards the end of the year, by interest rate differentials that afforded opportunities for arbitrage. Domestic finance to the non-state sector expanded by 105.7 trillion lire, or 15.5 per cent. This was 3 percentage points lower than in 1989, but stili higher than the growth in nominali GDP and the prediction of 12 per cent contained in the Government's Forecasting and Planning Report for the year.

External borrowing rose to 21.2 trillion lire, 9.7 trillion more than in 1989. Including this component, finance to the non-state sector expanded by 17.4 per cent, two points less than the previous year. The state sector also borrowed more heavily from abroad, increasing its foreign loans from 8.4 to 14.9 trillion lire. The slowdown in the growth of total credit, from a rate of 15.9 per cent in 1989 to one of 14.6 per cent in 1990, was therefore less pronounced than that in domestic credit, which declined from 15.2 to 13.2 per cent.

There were two distinct phases in the conduct of monetary policy last year. In the spring, with the lira near the top of the narrow fluctuation band, the final measures to liberalize foreign exchange transactions reinforced the credibility of the authorities ' anti-inflationary stance and carne irto effect without disturbing the markets. In May the discount rate was lowered from 13.5 to 12.5 per cent; yields on government paper declined rapidly.

The outbreak of the Gulf crisis in August, the ensuing rise in oil prices and uncertainty about the world economic outlook undermined confidence in the ability of the Italian economy to avert a resurgence of inflation. The lira moved down towards the middle of the fluctuation band and bond prices declined more sharply in Italy than abroad. In the first half of September the Bank of Italy adopted a stance that entailed maintaining a high level of liquidity in order to halt the deterioration in market expectations; the demand for medium-term govemment securities — which had contracted alarmingly, resulting in net redemptions and a one-point rise in tender rates at the beginning of the month — recovered promptly and interest rates declined again.

In the autumn the rise in inflation and the larger than expected increase in the budget deficit were reflected in an acceleration in monetary growth, which reached and then overshot the upper limit of the target range. The raising of official rates in Germany and other European countries in November intensified the outflow of foreign exchange and the lira slipped below the centre of the fluctuation band.

Domestic monetary conditions were tightened. The rise in short-term interest rates countered the acceleration in money creation and restored the differential between domestic and external rates to levels consistent with maintaining equilibrium within the EMS. The average net yield on Treasury bills rose by 1.6 percentage points between July and December. Issues of 7-year bonds, which had been suspended in September and October, were successfully resumed in November.

The increase in official rates in Germany at the end of January 1991 caused renewed uncertainty, which was reflected in a rise in very short-term interest rates. As early as March, however, the lira approached the upper limit of the fluctuation band, thanks in part to the recovery of the US dollar. Capital inflows resumed, to some extent as a result of government borrowing abroad. Strong demand for medium-term securities more than offset the liquidity created through the external channel and as a result of Treasury borrowing of neariy 50 trillion lire. The banking system was obliged to seek substantial temporary finance from the Bank of Italy. The growth in the monetary aggregates slowed down, with the twelve-month increase in the M2 money supply declining to 8.4 per cent in Aprii on the basis of monthly averages. There were only small net issues of Treasury bills.

The downward trend in nominai interest rates gained momentum in March following the end of hostilities in the Gulf; by Aprii the yield on 3-month Treasury bills was 1.4 points lower than in December. An increase in banks' lending rates led to the liquidation of speculative positions and a deceleration in domestic credit.

Credit and financial assets

Credit expanded strongly for the fourth consecutive year. As in the past, the growth of 17.4 per cent in bank lending was fmanced by liquidating securities portfolios. The exceptional increase of 85.3 per cent in lending by banks' foreign branches raised the share of this component from 3.9 to 6 per cent of total bank credit to residents on an annual average basis.

The growth in lending by special credit institutions declined from 17.5 to 16.3 per cent; a sharp slowdown in subsidized lending was largely offset by an expansion in credit at market rates.

Lending by domestic credit institutions declined from 73.1 to 68.7 per cent of total fmance to the non-state sector, while the share of loans from non-resident institutions increased from 7.7 to 12.9 per cent (Table 24). For the second year in succession there were net redemptions of corporate bonds, while the flow of corporate risk capital increased to 17.9 trillion lire, exceeding the previous peck reached in 1986. As in 1988 and 1989, foreign investors showed keen interest in Italian shares.

Among the financial assets of the non-state sector, bank deposits grew by 11.6 per cent on the basis of end-of-period data, with certificates of deposit accounting for an increased share. Average deposit rates declined following the reduction in the discount rate in May, but remained more or less statile thereafter.

Table 24

TOTAL FINANCE TO THE NON-STATE SECTOR

(changes in billions of lire)

	1985	1986	1987	1988	1989	1990
Domestic finance to the non-state sector	46,168	45,967	46,119	78,181	106,865	105,673
Foreign loans	1,085	1,925	2,565	1,545	11,243	20,471
Non-residents' purchases of bonds	–63	166	13	–13	257	758
Endowment funds	5,764	2,196	1,058	1,268	1,865	1,167
Share issues	11,962	16,647	8,176	9,282	13,777	17,894
Other (1)	10,412	12,236	12,270	11,276	12,864	12,973
Total finance to the non-state sector	**75,328**	**79,137**	**70,201**	**101,539**	**146,871**	**158,936**
Percentage changes (2)	12.9	11.3	10.1	13.7	17.4	15.7
As a percentage of GDP	9.3	8.8	7.1	9.3	12.0	12.0
Memorandum item						
Non-residents' purchases of shares (3)	2,085	–3,887	753	11,203	10,118	12,904

(1) Bad debts of credit institutions, acceptances, lending by the Treasury and the Deposits and Loans Fund, atypical securities and other minor items. – (2) Based on end-of-period data, net of shares. – (3) Including equity participations.

The special credit institutions continued to substitute certificates of deposit for bonds and to increase their fund-raising abroad. Their net bond issues totaled 6.2 trillion lire, compared with 12 trillion lire raised through CDs and 21.4 trillion in foreign currencies and Eurolire.

The various monetary aggregates grew at different rates, reflecting the changing composition of banks' liabilities. On the basis of averages for the month of December, the money supply excluding CDs (M2A) expanded by 6.2 per cent, compared with 9.9 per cent for M2 and 9.6 per cent for Ml, the aggregate most closely linked to transactions.

Based on end-of-period data, the growth in M3, which includes Treasury bills, was 12 per cent, as against 11.8 per cent in 1989. Investment in Treasury bills was accompanied by large-scale subscriptions of medium-term government securities, which halted the shortening of the average maturity of the public debt; this stood at 29 months at the end of 1989 and 1990 and rose to 31 months in the first four months of 1991. Treasury credit certificates and option certificates accounted for a larger proportion of the public debt, while the share of bonds decreased.

After two years of net redemptions, investment funds made net sales of units totaling more than 800 billion lire. This turnaround, which occurred in the spring of 1990, is largely ascribable to the growing popularity of bond-based funds linked with sweep accounts.

The reforms that were introduced last year further improved the efficiency of the interbank and government securities markets and encouraged their development. The extension of uniform price auctions to issues of Treasury credit certificates in lire and ecus helped to curb speculative oversubscription in the expectation that allocations would be scaled down. A significant part of the sixfold increase in trading on the screen-based market in government securities was due to longer-term fixed rate paper. As a result, both the liquidity premium and yield variability decreased. The launch of reserve mobilization enabled the banks to manage their cash positions more efficiently.

The outlook for 1991

Output and domestic demand continued to stagnate during the first few months of this year. With the lira in the upper part of the fluctuation band, market interest rates fell below official rates, which were reduced in some European countries and in the United States. The supplementary budget measures announced in early May confirmed the Government's determination to hold the deficit for 1991 within the ceiling of 132 trillion lire.

In these circumstances, the discount rate was reduced by one point to 11.5 per cent on 12 May. The maximum premium applicable on fixed term advances to the banks was reduced from 2.25 to 1.75 percentage points, and within this limit it can now be levied at the Bank of Italy's discretion in accordante with the needs of liquidity management. In order to remove a competitive handicap for Italian banks with respect to other domestic and foreign intermediaries, the reserve requirement on changes in banks' net external foreign currency positions was zero-rated and temporary sales of securities to customers were exempted. These measures will release some 5 trillion lire in liquid resources in June. The banking system responded by announcing reductions in lending and deposit rates; the exchange rate remained statile.

In the Forecasting and Planning Report approved in September, the target range for the growth in the money supply was set at 5-8 per cent, one point lower than in 1989. As part of the prior coordination of monetary policies among Community countries, the target was endorsed by the Committee of Central Bank Governors, which judged it to be consistent with less inflationary growth in the Italian economy — a necessary condition for the convergente of economic conditions within the Community.

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

Monetary base creation in 1990

Calculated from average daily data and net of the abnormal growth caused by bank strikes at the end of 1989, monetary base expanded by 10.4 per cent in 1990, compared with 9.5 per cent the previous year (Table 25). Bank reserves increased by 10.7 per cent, against 9.2 per cent in 1989. The rates of growth were influenced by the especially large expansion in notes and coin held by both the public and the banks at the end of the year.

Table 25

MONETARY BASE AND THE MONEY SUPPLY (1)

	1989 December	1990				1991 March (2)
		March	June	September	December	
Bank reserves (3)	9.2	9.8	8.4	8.8	10.7	9.8
Monetary base (3)	9.5	10.9	9.2	9.3	10.4	9.8
Money supply (M2)	9.5	10.0	8.8	9.1	9.9	9.1

(1) Percentage changes on corresponding period of previous year. Figures for reserves and monetary base are calculated as averages of daily figures for the maintenance period of compulsory reserves (from 15th of each month to 14th of the following month) and those for the money supply are averages for each calendar month. – (2) Provisional. – (3) Adjusted for changes in the compulsory reserve ratio and for the abnormal expansion due to bank strikes, estimated for December 1989 at 3 trillion lire for monetary base and 8 trillion lire for the M2 money supply.

As in 1989, the increasing importance of capitai movements was again reflected in the composition of monetary base creation. The external sector generated 15.5 trillion lire, more than the total creation of monetary base of 13.7 trillion (Table 26).

In a reversal of the trend observed in previous years, the Treasury sector absorbed 1.4 trillion lire of monetary base net of open market operations by the Bank of Italy. The favourable conditions in the primary market meant that 114.5 trillion of the borrowing requirement of 145.3 trillion (including debt-funding operations) could be covered by net issues of government securities, while other forms of non-monetary financing generated 32.2 trillion lire.

Table 26

MONETARY BASE *(1)*
(changes in billions of lire)

	1988	1989 (2)	1990					1991 1st qtr. (3)
			Year (2)	Quarters				
				I (2)	II	III	IV	
External sector	**10,947**	**14,971**	**15,454**	**6,355**	**15,422**	**2,024**	**–8,347**	**7,772**
Treasury (4)	**13,349**	**8,452**	**–1,383**	**2,355**	**–16,830**	**12,150**	**942**	**–5,502**
Borrowing requirement	125,643	133,854	145,262	25,088	22,716	35,635	61,823	33,945
Primary market	–93,382	–95,784	–114,448	–17,109	–32,706	–16,883	–47,750	–29,330
Treasury bills	–29,045	–36,296	–39,136	–10,848	–7,640	–9,223	–11,425	–6,463
Treasury credit certificates	9,596	–18,757	–59,193	–9,246	–21,459	–11,303	–17,185	312
Treasury bonds	–58,740	–26,037	9,009	3,352	217	7,104	–1,664	–19,257
Other securities	–15,193	–14,694	–25,128	–367	–3,824	–3,461	–17,476	–3,922
of which: securities issued to fund debts	*–732*	*–454*	*–4,581*	–	–	–	*–4,581*	–
Other financing (5)	–18,912	–29,618	–32,197	–5,624	–6,840	–6,602	–13,131	–10,117
Open market (6)	**–10,601**	**–2,106**	**2,392**	**–2,701**	**–3,392**	**–6,557**	**15,042**	**7,458**
of which: repurchase agreements	*–1,066*	*4,411*	*2,299*	*–2,645*	*2,237*	*–4,471*	*7,178*	*8,447*
Refinancing	**–30**	**1,203**	**1,260**	**–1,432**	**693**	**–632**	**2,631**	**–2,727**
Other sectors (7)	**–707**	**–2,015**	**–4,048**	**–1,704**	**737**	**–3,530**	**450**	**–2,374**
Total (7)	**12,957**	**20,505**	**13,675**	**2,872**	**–3,370**	**3,455**	**10,718**	**4,627**
Notes and coin	**4,450**	**10,507**	**1,779**	**–6,364**	**1,847**	**583**	**5,713**	**–636**
Bank reserves (7)	**8,507**	**9,998**	**11,896**	**9,236**	**–5,217**	**2,872**	**5,005**	**5,263**
Deposits with the Bank of Italy	8,770	9,746	10,745	8,263	–2,941	2,698	2,725	5,440
of which: compulsory reserves (8)	*9,444*	*9,567*	*13,026*	*6,385*	*–782*	*2,738*	*4,684*	*4,497*
Other items (9)	–264	252	1,151	973	–2,276	174	2,280	–177

(1) Rounding may cause discrepancies in totals. – (2) The figures were distorted by bank strikes in the last quarter of 1989. The abnormal expansion, estimated at 5 trillion lire, can be attributed to the rise in holdings of notes and coin on the uses side and to open market operations and bank refinancing on the creation side. – (3) Provisional. – (4) Net of open market operations. – (5) PO deposits, foreign loans, loans granted by banks and special credit institutions to autonomous government agencies, deposits of social security institutions with the Treasury and indemnities lodged with the Deposits and Loans Fund. – (6) Excludes securities purchased with advances under the Ministerial Decree of 27.9.1974. – (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. – (8) From the fourth quarter of 1990, average reserve requirement for the maintenance period and compulsory reserves on net foreign currency fund-raising. – (9) Vault cash and undrawn ordinary advance facilities; until December 1988 includes deposits with the Treasury and compulsory stockpiling bills not rediscounted.

Unti! the summer, the Bank of Italy 's open market operations were aimed at offsetting the expansionary effects of inflows of foreign capital. In the last quarter subscriptions of securities remained high, despite an outflow of reserves. The Bank of Italy intervened with temporary purchases to meet the ensuing substantial demand for liquidity. Over the year as a whole, open market operations contributed 2.4 trillion lire to monetary base creation, the first positive contribution since the early seventies.

The Bank of Italy significantly increased both outright and temporary operations in the secondary market. In connection with the rapid growth in the screen-based market in government securities, gross outright operations amounted to 66.8 trillion lire, almost three times the 1989 figure. For the year as a whole, the banks had a net debtor position of 1.4 trillion lire with the Bank of Italy in respect of temporary operations, whereas in previous years they had been net creditors. The increase in the central bank's operations on the secondary market was offset by a reduction in purchases of securities at issue; both in absolute terms and in relation to redemptions, purchases reached their lowest level since the "divorce" between the Bank of Italy and the Treasury in 1981.

Refinancing created 1.3 trillion lire of monetary base. The particularly tight liquidity situation at the end of the year was reflected in the fact that outstanding fixed-term advances amounted to 2.6 trillion lire, compared with 1.4 trillion a year earlier.

"Other sectors" absorbed 4 trillion lire of monetary base, double the figure for 1989; the expansion can be ascribed to the increase in the net incorre of the Bank of Italy and the Italian Foreign Exchange Office, which was boosted particularly by higher interest on foreign assets.

If the data for December 1989 are adjusted for the effects of bank strikes — put at 5 trillion lire, although difficult to estimate owing to changes in seasonal factors — the expansion of notes and coin in circulation in 1990 was around 6.8 trillion lire. Bank reserves grew by 11.9 trillion lire overall, compared with 10 trillion last year.

Developments in the course of the year

Capital inflows intensified following the completion of foreign exchange liberalization a few months after the lira's entry into the narrow band of the EMS on 8 January 1990. The Bank of Italy had to reconcile the aim of curbing the expansionary monetary effects of the inflows with the need to avoid strains within the EMS.

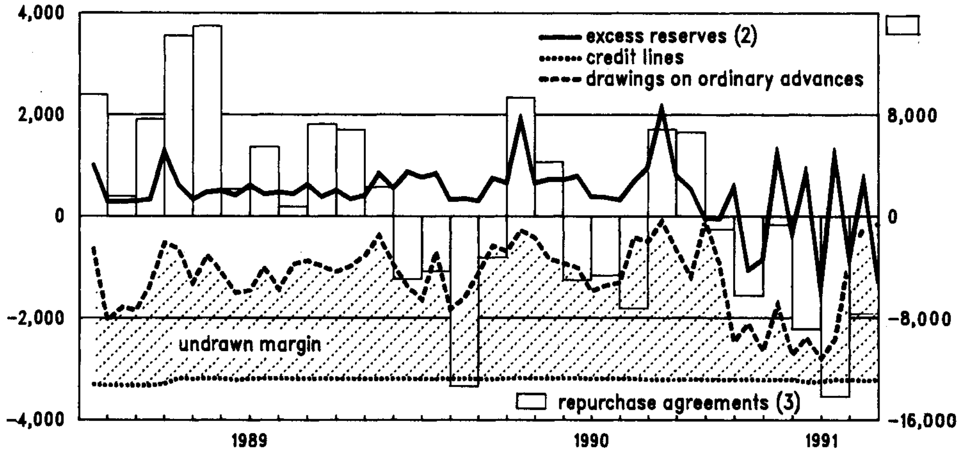
The sustained demand for government securities facilitated monetary control. In April and May, when the Treasury borrowing requirement totaled 31.8 trillion lire, net issues carne to 28.5 trillion, while on the open market the Bank of Italy made net outright sales amounting to 2.5 trillion lire. Favourable conditions in the foreign exchange and securities markets, the slowdown of inflation and the introduction of supplementary budget measures made it possible to lower the discount rate by one point to 12.5 per cent on 21 May.

In June and July the Bank of Italy provided substantial financing in the open market through repurchase agreements. The abundant creation of monetary base via the foreign sector, totaling 8.1 trillion lire, was not enough to offset the restrictive effects of the Treasury's cash surplus of 2.6 trillion lire, net issues of securities totaling 9.7 trillion lire and the large seasonal expansion of notes and coin in circulation. The banks ' net position in respect of temporary operations tumed sharply negative (Figure 9). A new issue of 7-year Treasury bonds was favourably received in the market. In July the extension of uniform price auctions to Treasury credit certificates at a time when demand was still buoyant led to a reduction in yields. During this period Treasury bili rates settled at around 10 per cent net of withholding tax.

Figure 9

BANK RESERVES *(1)*

(billions of lire)



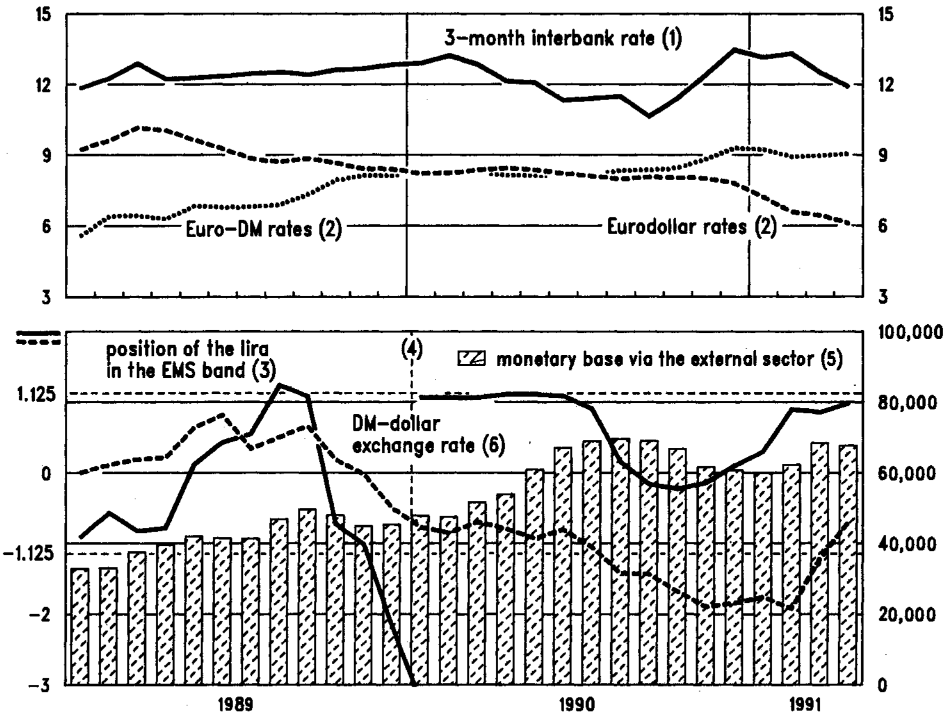
(1) 15-day averages of daily figures, except for the banking system's net position in respect of repurchase agreements, which is calculated as a monthly average. – (2) Balance on reserve account less average reserve requirement and deposits with the Bank of Italy held by banks not subject to reserve requirements; before the introduction of reserve mobilization, free deposits with the Bank of Italy. – (3) Monthly average of the banking system's net position with the Bank of Italy in respect of repurchase agreements and other temporary open market operations.

In August the Bank of Italy responded to a deterioration in exchange rate expectations by allowing the lira to slide gradually towards the centre of the EMS band. When the mood of uncertainty in the exchange market spread to the securities market, the central bank made outright purchases amounting to 2.4 trillion lire. In the same month it bought 1.4 trillion lire of Treasury bills at auction; the average net yield rose by 30 basis points.

Despite an increase of 50 basis points in the floor price for Treasury bonds and the predominance of index-linked securities, medium-term issues were undersubscribed at the beginning of September. In order to maintain orderly market conditions, the Bank of Italy offered only a limited volume of securities under repurchase agreements, thus allowing abundant liquidity to build up during the first twenty days of the month. The effect of this action spread rapidly to the longer end of the securities market, so that by mid-month demand for securities had already recovered and prices on the secondary market rose.

Figure 10

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



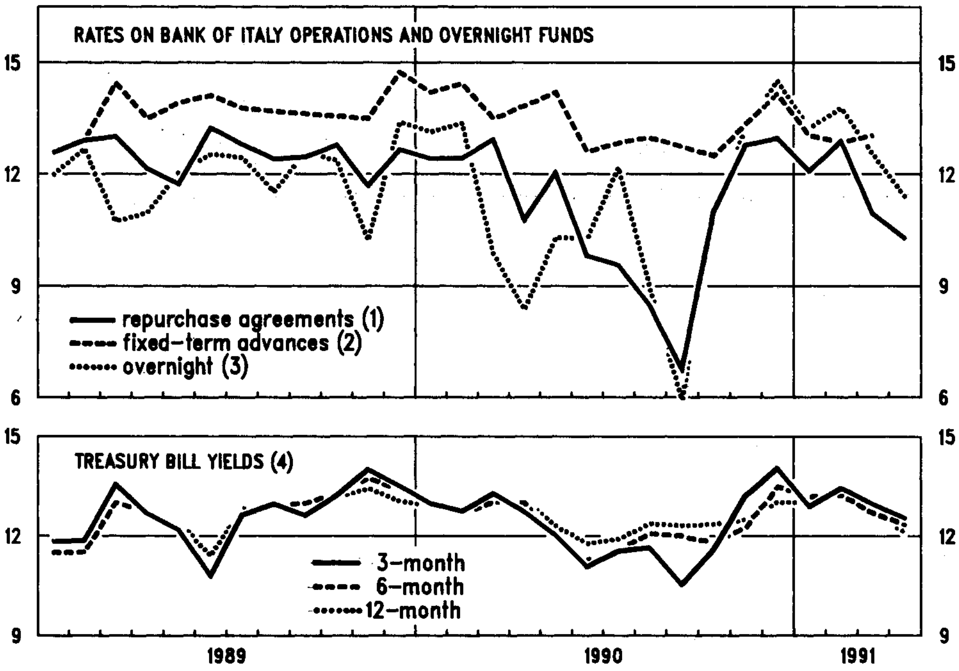
(1) Monthly averages of daily percentage rates. – (2) Monthly averages of daily percentage rates on 3-month interbank deposits. – (3) Percentage deviations from the centre of the band. The lines at plus and minus 1.125 denote the narrow fluctuation band. – (4) Realignment of the central rate of the lira on 8 January 1990. – (5) Net external position of BI-UIC, net of the revaluation of official gold reserves and exchange rate adjustments. – (6) Deviations from the January 1989 average divided by ten.

This phase ended in late September. In the last three months of the year priority was given to countering the weakness of the lira, which had fallen below the centre of the EMS fluctuation band (Figure 10), and curbing the expansion of the monetary aggregates. The resulting stabilization of expectations made it possible to confine the impact of the more restrictive monetary stance to short-term rates. The Bank of Italy intervened in the open market to counter the expansionary effect of the borrowing requirement, which amounted to almost 62 trillion lire in the quarter. The mobilization of compulsory reserves facilitated monetary policy during this period and prevented money market rates from being forced down too far by the consideratile creation of liquidity that occurred on certain days via the Treasury's overdraft with the Bank of Italy.

Figure 11

SHORT-TERM INTEREST RATES

(percentages)



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

In November, following the increase of half a percentage point in the German lombard rate and the consequent strengthening of the Deutschemark, capital outflows amounted to 5 trillion lire. The Bank of Italy offered repurchase agreements in the open market at marginal rates that swiftly rose to exceed the discount rate (Figure 11). The interbank yield curve shifted upwards and became downward sloping. The rise in domestic yields eased the pressure on the lira by reducing capital outflows. As in earlier months, conditions in the interbank market affected mainly short-dated securities, with the rise in yields most pronounced for the shortest maturities.

The firm monetary stance stabilized conditions at the longer end of the securities market so that in November it was possible to resume issues of 7-year Treasury bonds, which had been suspended in September.

In December monetary stringency was reinforced in the light of a further increase in German money market rates. The overnight rate rose to a monthly average of 14.5 per cent, while the 3-month interbank rate rose to 13.4 per cent. The interest rate differential vis-à-vis the Deutschemark, which had touched a minimum in the second half of September, widened to end the year at the same level as in March. At the end-of-month auction the average net yield on Treasury bills was 11.7 per cent, 1.7 points above the September figure.

At the beginning of this year the lira rose above the centre of the fluctuation band of the EMS and continued to strengthen in January and February. When German official rates were increased at the end of January, the Bank of Italy immediately offered securities totaling 2 trillion lire under repurchase agreements; given the liquidity conditions at the time, the marginai rate rose to 15 per cent. This firm signal was understood by the market and, although the Bank of Italy made no major intervention in the exchange market, the lira was only marginally affected by the Bundesbank's action. Despite the high level of short-term interest rates, conditions in the securities market remained favourable, permitting new paper to be issued at decreasing yields and in excess of the borrowing requirement.

In March and Aprii capitai inflows totaled 5.4 trillion lire, partly as the result of an Italian government Eurobond loan for 2.5 billion ecus issued in March. With the dollar recovering rapidly, especially vis-à-vis the Deutschemark, the lira appreciated within the EMS and carne dose to the upper limit of the fluctuation band. Monetary conditions began to ease in the second half of March. At the beginning of that month, it was possible to offer a 10-year fixed rate Treasury bond for the first time since the Second World War.

In May the lira stayed in the upper part of the narrow band, while the weakest currency was the French franc. The discount rate was reduced by 1 percentage point to 11.5 per cent, accentuating the decline in domestic interbank rates. The 3-month rate fell by almost half a percentage point, and the differential vis-à-vis the Deutschemark fell to around 2 percentage points.

The reduction in official rates, which had already been partly anticipated by the market, induced a further decline in yields on government securities. At the Treasury bili auction at the end of May the net tender rate was 10.2 per cent, 30 basis points lower than at the previous auction.

BANKING

Despite the slowdown in economic activity, the demand for bank credit remained strong last year, sustained by the reduction in firms' self-financing capacity and by continued brisk trading in real and financial assets. Adjustments in bank interest rates led to a slight reduction in the growth of bank lending from 21.7 to 17.4 per cent, with most of the slowdown occurring in the second and third quarters (Table 27). On an annual average basis, the narrowing of the differential between average lending rates and money market yields that had been evident over the previous three years carne to an end.

Table 27

BANK DEPOSITS AND LOANS *(1)*

(12-month percentage rates of change)

	1987	1988	1989				1990				1991 Mar.
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	(6)
Deposits (2)											
End of period	7.2	7.5	9.0	9.0	7.3	8.0	7.7	7.3	8.8	11.2	8.7
Monthly average (3)	....	7.6	8.3	8.3	7.7	8.0	8.3	7.2	8.3	9.2	8.2
Loans (4)	8.4	18.1	21.3	21.3	21.2	21.7	18.5	17.0	16.2	17.4	15.2
Securities (5)	..	–6.2	–4.7	–4.4	–9.2	–2.1	–9.8	–8.9	–5.3	–5.5	–1.5
Government securities (5)	*–1.9*	*–4.6*	*–2.0*	*–3.6*	*–10.3*	*–0.5*	*–11.8*	*–9.6*	*–2.2*	*–2.4*	....

(1) Figures for resident banks. – (2) Calculated on the basis of figures for December 1990 adjusted for strikes in the banking sector. – (3) Monthly averages of data for 10-day periods. – (4) Including investments in funded bank loans. The foreign currency component is valued net of exchange rate adjustments. – (5) Net of the effect of the funding of bank loans, repurchase agreements with the Bank of Italy and operations under the Ministerial Decree of 27.9.1974. – (6) Provisional figures.

Banks greatly increased their lending to residents via their foreign branches, whose operations are taxed less heavily. On average, the flow of such lending was equivalent to one sixth of the growth in total loans to residents by both domestic and foreign branches.

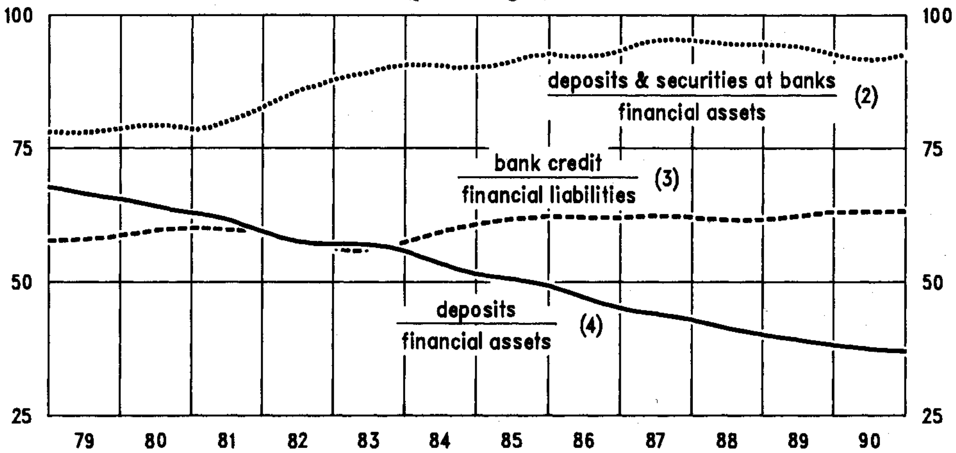
Total credit from Italian banks rose to more than 63 per cent of private sector debt net of shares (Figure 12).

Italian banks played a more prominent role in international markets and adjusted the composition of their deposit liabilities; whereas in the past the funds they raised abroad had come almost entirely from the interbank market, in 1990 deposit-taking from non-resident customers rose by about 16.6 trillion lire, an increase of more than a half. Once the liberalization of foreign exchange transactions had been completed, residents also began to alter the composition of their deposits in terms of currencies and countries of investment.

Figure 12

BANKING INTERMEDIATION INDICES *(1)*

(percentages)



(1) Ratios between average stocks in the twelve months ending in the reference quarter; the data for the last two years are partly estimated. – (2) Ratio of the private sector's bank deposits and securities deposited with banks for safe custody or administration to the private sector's domestic financial assets net of shares. – (3) Ratio of total domestic lending and securities purchased by banks to the private sector's total financial liabilities net of shares. – (4) Ratio of private sector deposits to the private sector's domestic financial assets net of shares.

Lira lending grew by 63.4 trillion lire in terms of year-end stocks, whereas customers' deposits net of compulsory reserves rose by 48 trillion; resident banks bridged the gap between these two aggregates mainly by selling securities worth 9.4 trillion lire (Table a16). The ratio of lira lending to deposits, which had gradually increased from 46.1 to 53.5 per cent between 1983 and 1988, rose by 5 percentage points in both 1989 and 1990 to stand at an annual average of more than 63 per cent.

There was a further reduction in bank deposits as a proportion of the private sector's total financial assets, but the ratio for the aggregate including indirect resources, which comprise securities for administration and safe custody, remained broadly statile (Figure 12).

The share of CDs in total customers' deposits continued to increase and that of savings deposits to decline, while the proportion of current accounts remained unchanged. Although banks differentiated more sharply in the rates they paid on different types of instrument, they were unable to avoid a small increase in the unit cost of funds in a year in which average money market rates declined.

The development of the screen-based interbank deposit market, which was launched in February 1990, and the possibility of mobilizing compulsory reserves from October onwards brought significant improvements in interbank operations and liquidity management.

The large increase in lira lending as a proportion of total bank lending and the good profits earned from securities transactions led to an increase in gross income as a percentage of total resources, in spite of the narrowing of the spread between unit interest income and the unit cost of funds. There was a smaller but stili appreciable increase in net income, in a year in which the opening of many new branches and the renewal of the labour agreement in the banking sector exerted pressure on costs. The high profits recorded last year contributed to the strengthening of banks' capital bases, which have been increased substantially in recent years in view of the setting of minimum capitai ratios.

The intensification of competition in the credit and deposit markets led to large shifts in the market shares of individuai banks and significant changes in the geographical distribution of their business.

Competition was especially fierce in lending to prime customers, contributing to a widening of the differential between average and minimum lending rates. The increased supply of bank credit from abroad and the trend away from operational specialization heightened the competitive pressures.

The bank mergers carried out or set in train last year are eligible for incentives under Law 218 of 30 July 1990, which began the process of transforming public-law banks finto limited companies and also prepared the ground for regulations on multifunctional groups, the organization model most of the credit institutions have adopted.

Lending

Lending by resident banks increased by 74.4 trillion lire, or 17.4 per cent; loans granted to domestic customers by banks' foreign branches rose by around 13.9 trillion, or 85.3 per cent. Residents ' total indebtedness to Italian banks thus increased by 19.9 per cent, less than the rate of 23.1 per cent recorded in 1989 but far higher than the rate of growth in GDP.

Net of exchange rate adjustments, foreign currency loans to residents from the domestic and foreign branches of Italian banks rose by almost 11.5 trillion lire, *an* increase of 17.5 per cent compared with one of 26.9 per cent the preceding year. They represented 16 per cent of total lending on an annual average basis, their share having risen rapidly in recent years. A large part of the growth occurred in the first half of the year; the subsequent slowdown was due to the deterioration of exchange rate expectations from August onwards.

Lending to financial companies, many of which are affiliates of banks, rose by 29 per cent. There was also a particularly large increase of 30 per cent in loans to "consumer" households, which do not include the proprietors of small enterprises. Bank loans to non-financial enterprises increased by 15.2 per cent, less than the average. Lending to manufacturing industry grew more slowly, but there was an acceleration in credit to other enterprises, including those in distribution, the tourist trade, hotels and catering, and business services.

Bad and doubtful debts increased by 4.8 per cent on an annual average basis, confirming the slowdown of the previous year. In relation to lira lending they fell from 7.9 to 7.1 per cent.

In a climate of continuing intense competition, the redistribution of market shares affected around 4 per cent of total lending. The geographical distribution of loans also changed considerably, although the shift was less pronounced than in 1989. The liberalization of the regulations on the opening of branches has not yet had a significant impact on banks' shares of the lending market. Banks responsible for 9.4 per cent of total lending were involved in mergers last year.

Treasury management and interest rates

The banks reduced their securities portfolios by 11.2 trillion lire, or 5.6 per cent, net of securities issued to consolidate loans to health authorities and operations with the Bank of Italy; in 1989 their disinvestment had amounted to 4.3 trillion, or 2.1 per cent of holdings. The year-end figures are strongly distorted by window dressing, however; on an annual average basis portfolios were reduced by more than 17.7 trillion, or 9.6 per cent, compared with 6.9 per cent in 1989. The reduction in holdings of govemment securities was less pronounced, so that their share of the total portfolio increased from 67.3 to almost 70 per cent. Banks made particularly large disposals of special credit institution bonds and also reduced their holdings of the institutions ' CDs from 3 to 2.2 trillion lire.

The banks' treasury management benefited from the start of operations on the screen-based interbank deposit market, which grew rapidly in terms of both turnover and the number of market participants. The daily average turnover steadily increased from 4.7 trillion lire in Aprii 1990 to 8.9 trillion a year later. Over the same period the number of institutions carrying out an average of at least one transaction a day rose from 90 to 190 and the percentage of deposits for terms longer than one day increased from less than 5 to 15.

The mobilization of compulsory reserves permitted further improvements in treasury management and had a significant impact both on the growth of the interbank market and on bank interest rates.

Very short-term interbank rates, which became less volatile when the screen-based deposit market carne irto operation, stabilized even more when the arrangements for mobilizing compulsory reserves were introduced. The average spread between the best bid and asked rates narrowed considerably and banks became better able to forecast future rates.

Deposits

After adjustment for the effect of strikes among bank staff at the end of 1989, residente' bank deposits in lire increased by 69 trillion lire in 1990, or 11.2 per cent, compared with 45.8 trillion (8 per cent) in 1989 (Table 27). However, as the change in the method of calculating compulsory reserves has reduced the cost of operations to boost the banks' year-end deposit figures, it is now necessary to consider monthly average data; on this basis, the growth carne to 54 trillion lire (9.2 per cent), compared with 43.3 trillion (8 per cent) in 1989.

In the first few months of 1991 the growth in deposits slowed down sharply, partly as a result of a large widening in the differential between deposit rates and yields on government securities. Based on monthly average data, the twelve-month rate of increase fell to 7.4 per cent in January and did not recover significantly in the months that followed; in April it was running at 7.6 per cent.

In 1990 certificates of deposit increased by 33.9 trillion lire, or 39.3 per cent, and their share in total bank deposits rose from 13.7 to 17.4 per cent.

Current account deposits, adjusted for the effect of the bank strikes at the end of 1989, increased by 40 trillion lire, or 11.4 per cent, compared with 7.9 per cent in the twelve months to December 1989; on the basis of monthly average data, the increase carne to 30.3 trillion, or 9.4 per cent.

In Italy a larger proportion of bank deposits are held on current account than in other major Community countries. Two factors help to explain this disparity. First, the payment of interest on current accounts was unique to Italy until only a few years ago, and secondly the functional specialization of the Italian banking system has influenced the composition of bank deposits, with some banks channeling time deposits to their special credit sections or subsidiary special credit institutions while they themselves concentrate on current accounts.

Savings deposits decreased by 5 trillion lire, or 2.7 per cent, after contracting by 5.3 per cent the previous year. Within this aggregate, time deposits now account for only 4.2 per cent of total deposits; the declive in demand deposits was less pronounced.

From May to the end of December 1990 foreign currency deposits with resident banks increased by 1 trillion lire, equal to about one third of the volume outstanding before the liberalization of foreign exchange transactions. The Ministerial Decree of 12 May 1991 subjected them to the same reserve requirements as lira deposits.

International business

The Italian banking system has increased its presence in international markets in the last two years, thereby helping to foster the wider use of the lira; Eurolira assets rose from 4.2 to 7.3 per cent of total bank assets in Eurocurrencies.

According to BIS data, Italian banks held 12 per cent of the total international assets of European banks in December 1990, compared with 10.2 per cent in 1987. Moreover, in recent years Italian banks have gradually increased their involvement in international credit operations with non-bank counterparts. Transactions with ordinary customers represented 23.7 per cent of the total international assets and liabilities of Italian banks in December 1990, compared with 16.7 per cent in 1987.

The increase in the international operations of Italian banks was achieved mainly by expanding the activities of their foreign branches, which increased to 95 last year. Most of the growth occurred in Europe, where at present more than 40 per cent of all their foreign branches are concentrated.

Deposit-taking by foreign branches increased last year, owing partly to the good reception of issues of Eurolira CDs on the London market from the end of 1989 onwards. The volume of CDs grew steadily throughout 1990 and issues continue to be well received; at the end of Apri! 1991 the total volume in circulation amounted to 6.2 trillion lire.

Table 28

PROFIT AND LOSS ACCOUNTS OF THE BANKS (1)

	1983	1984	1985	1986	1987	1988	1989	1990 (2)
	as a percentage of total resources							
Net interest income	**3.43**	**3.36**	**3.18**	**3.46**	**3.30**	**3.39**	**3.36**	**3.46**
Non-interest income	1.14	1.25	1.32	1.38	1.19	1.22	1.11	1.17
securities trading	*0.54*	*0.65*	*0.68*	*0.77*	*0.56*	*0.59*	*0.50*	*0.61*
other services	*0.57*	*0.55*	*0.58*	*0.55*	*0.56*	*0.56*	*0.55*	*0.49*
Gross income	**4.57**	**4.60**	**4.50**	**4.83**	**4.49**	**4.62**	**4.47**	**4.63**
Operating expenses	3.10	3.08	2.87	3.00	2.98	2.97	2.92	2.98
staff costs	*2.21*	*2.16*	*1.98*	*2.05*	*2.03*	*2.02*	*1.96*	*1.99*
Net income	**1.47**	**1.52**	**1.63**	**1.83**	**1.51**	**1.64**	**1.55**	**1.66**
Allocations to provisions (net)	0.89	0.82	0.89	0.72	0.64	0.70	0.62	0.66
for loan losses	*0.48*	*0.43*	*0.35*	*0.34*	*0.33*	*0.38*	*0.39*	*0.43*
Extraordinary income	0.16	0.09	0.15	0.04	–0.03	0.01	–0.04	–0.01
Profit before tax	**0.74**	**0.79**	**0.89**	**1.15**	**0.83**	**0.96**	**0.89**	**0.98**
Tax	0.43	0.43	0.47	0.58	0.38	0.44	0.45	0.43
Net profit	**0.31**	**0.36**	**0.42**	**0.57**	**0.45**	**0.52**	**0.44**	**0.55**
	other data							
Total resources *(billions of lire)*	603,964	679,359	791,698	859,607	930,654	1.020,215	1,139,866	1,243,260
Number of employees	300,334	301,038	306,240	311,790	316,607	317,702	315,194	320,697
Total resources per employee *(millions of lire)*	2,032	2,279	2,585	2,757	2,960	3,211	3,616	3,865
Staff costs per employee *(millions of lire)*	44.4	49.4	51.1	56.6	60.2	64.9	71.0	77.3
	percentage rates of increase							
Staff costs per employee	....	11.5	3.4	10.8	6.4	8.9	9.4	8.9
Total resources per employee:								
in nominal terms	....	12.2	13.4	6.4	7.4	8.5	12.6	6.9
in real terms (3)	....	1.5	4.4	0.5	2.6	3.4	5.6	0.8
Number of employees	....	0.2	1.7	1.8	1.5	0.3	–0.8	1.7

(1) Excluding central credit institutions, the larger rural and artisans' banks and, except for the item "Number of employees", credit institutions which at the dates in question were required to submit profit and loss returns at times other than the end of the year. – (2) Provisional figures. – (3) Deflated using the cost-of-living index.

Profit and loss accounts

In a year in which interest rates declined slightly, the unit return on lending fell by 0.4 percentage points, while the unit cost of funds increased moderately owing to the shift towards certificates of deposit. These movements in expenses and income were not reflected in net interest income, since lira lending to domestic borrowers increased from 39.6 to 43.1 per cent of total interest-bearing funds, the largest expansion in share since the removal of the ceiling on lending. Net interest income increased from 3.36 to 3.46 per cent of total resources (Table 28). Gross income rose from 4.47 to 4.63 per cent, one of the highest levels of the last eight years.

In a year in which labour contracts carne up for renewal, staff costs rose only moderately, increasing from 1.96 to 1.99 per cent of total resources. Staff costs per employee rose by 8.9 per cent, whereas total resources grew by 6.9 per cent. After falling by 2,500 in 1989, staff numbers rose again from 315,200 to 320,700, partly in connection with the many new branches opened last year.

Net income increased from 1.55 to 1.66 per cent of total resources; net profits rose from 0.44 to 0.55 per cent of the same aggregate and from 8.4 to 9.8 per cent of own funds. The good profits earned in 1990 allowed the banks to strengthen their capital bases; in January of this year their equity capital rose by 11.5 trillion lire, or 12.1 per cent, whereas in the same month of 1990 it had risen by 9.2 trillion, or 10.6 per cent (Table a16).

THE SPECIAL CREDIT INSTITUTIONS AND OTHER FINANCIAL INTERMEDIARIES

Special credit institutions

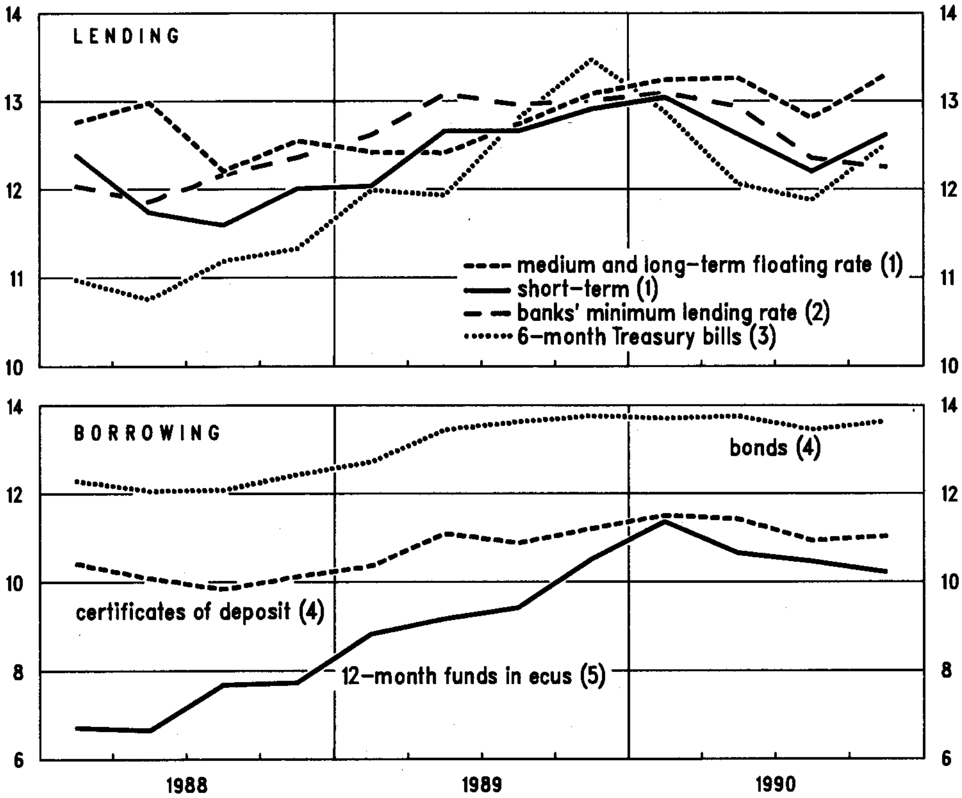
Lending by the special credit institutions grew more rapidly than GDP in 1990, continuing the trend of the last few years. A slackening in loan demand from manufacturing firms due to the economic slowdown was outweighed by increased borrowing by financial and service companies. There was a deceleration in lending growth only in the fourth quarter and the early months of 1991; it occurred mainly in subsidized lending, which was affected by a reduction in the funds available for loan incentives.

The overall growth in special credit amounted to just under 39 trillion lire, whereas the institutions raised more than 40 trillion lire in interest-bearing funds. Their portfolios of government securities therefore grew by 1.5 trillion lire. The share of external liabilities increased further alter having risen sharply in 1988 and 1989, owing in part to the deepening of the Eurolira market. Issues of certificates of deposit rose by more than 20 per cent, dose to the rate recorded in 1989, while the growth of bond issues slowed down despite a more rapid expansion in floating rate securities; for the third consecutive year there were net redemptions of the institutions' fixed rate bonds.

Lending rates on industrial credit were more responsive than in the past to money market conditions; this applied not only to rates on loans for periods of less than eighteen months, which are almost interchangeable with bank loans, but also to those on medium and long-term floating rate loans (Figure 13). Their greater responsiveness was due in part to the fact that the rates to which they are indexed have become more meaningful as a result of reforms in the money and financial markets, the rates in question being the rate on lira funds on the screen-based interbank market and the average yield on government securities. In several institutions the prompter adjustment of lending rates was also due partly to closer integration both between lira and foreign currency cash management and between treasury management in generai and the institutions' traditional business.

Figure 13

INTEREST RATES



(1) Average rate on unsubsidized loans. – (2) Average of 10-day data. – (3) Gross rate at issue. – (4) Gross yield on fixed-rate paper. – (5) Euromarket rates.

The institutions' performance in 1990 confirmed the long-term consolidation of their role in financial intermediation. During the eighties the ratio of special credit to total private sector financial liabilities fluctuated around a gradually rising trend, finally stabilizing in the last two years at around 27 per cent, and the institutions provided an increasing share of the finance for industrial investment and construction. Over the decade their liabilities remained at about 5 per cent of private sector financial assets, with a slight increase in the last two years.

The regulatory framework established by Law 218 of 30 July 1990 gives the special credit institutions new scope for development. In particular, the possibility for a single public limited company to engage in all types of medium and long-term credit will make for greater economies of scale and better exploitation of synergy within financial groups.

Lending. — Domestic lending increased by 16.3 per cent, compared with 17.5 per cent in 1989 (Table 29). The slowdown was due to a fall in the rate of growth of subsidized credit from 14.6 to 7.5 per cent. The expansion in lending at market rates accelerated from 18.7 to 19.6 per cent, the fastest rate recorded in recent years.

Lending to non-financial enterprises increased by 14.4 per cent, against 17.6 per cent in 1989. Credit to manufacturers showed the sharpest deceleration, from 16.6 to 11.8 per cent. Lending to service enterprises, which had expanded by 26.1 per cent in 1989, recorded further significant growth of 24.1 per cent, primarily in credit to firms offering ancillary fmancial services.

Table 29

DOMESTIC LENDING BY THE SPECIAL CREDIT INSTITUTIONS *(1)*
(percentage changes)

	1986	1987	1988	1989	1990					1991
					Year	Q1	Q2	Q3	Q4	Q1 (2)
Industrial (3)	15.0	12.9	15.8	19.3	16.3	21.4	21.7	10.1	12.7	14.5
short-term	*56.5*	*17.0*	*13.1*	*22.5*	*14.5*	*24.8*	*33.8*	*–9.3*	*13.3*	*–3.9*
Public works (3)	0.8	1.9	5.7	13.5	17.8	10.9	4.7	22.2	36.2	10.2
Real estate	13.1	19.8	18.8	17.7	18.0	19.2	18.2	16.4	18.5	18.4
Agricultural	12.7	13.4	13.4	8.2	8.3	13.3	2.9	11.4	6.2	9.6
Total	**12.6**	**13.6**	**15.5**	**17.5**	**16.3**	**19.4**	**18.1**	**12.7**	**15.4**	**15.0**

(1) Based on end-of-period data; quarterly figures are seasonally adjusted and on an annual basis. – (2) Provisional. – (3) The figures are adjusted for the merger of the public works credit section of Istituto Bancario San Paolo di Torino into the Credit Consortium for Public Works in December 1989.

Loans to financial companies increased by 6.8 trillion lire, or 17.4 per cent, as against 21.5 per cent in 1989. The largest amounts were lent to private sector holding companies and banking-related enterprises. Regional medium-term credit institutes and Southern industrial credit institutions increased their fmance to leasing and factoring companies, as the use of their services began to catch on among small and medium-sized firms and in the South of Italy.

Lending to generai govemment grew by 3.7 trillion lire, or 11.8 per cent, a large proportion of the increase consisting of loans granted under special legislation to finance the deficits of local health authorities. Most of this business was conducted by public works credit sections, whose lending expanded by 3.8 trillion lire, or 17.8 per cent.

Two thirds of the institutions' unsubsidized medium and long-term lending was at variable rates, continuing the trend of recent years. This is chiefly a reflection of the increasing proportion of real estate credit financed by fund-raising on the Euromarket, mostly at floating rates.

Industrial credit rose by 22.2 trillion lire, or 16.3 per cent, as against 19.3 per cent in 1989. The growth in the short-term component, which on average is less remunerative, slowed down even more markedly, from 22.5 to 14.5 per cent. Most of the deceleration occurred in the latter part of the year, when the interest rate on such loans rose above the minimum bank lending rate (Figure 13).

Foreign currency lending increased by the equivalent of 4.5 trillion lire, or 18.1 per cent. Among non-fmancial enterprises, small firms received a larger share of such loans than in the past.

Subsidized industrial credit grew by 3.1 trillion lire or 7.6 per cent, after expanding by 21.2 per cent the previous year. The slowdown was generai, but it was especially marked in lending to the distribution sector owing to the exhaustion of resources provided under Law 517/1975. The slackening pace of investment had its greatest impact on credit to the machine tools sector. The growth of subsidized lending for the South also decelerated.

Real estate and building credit expanded by 12.3 trillion lire, or 18 per cent, as against 17.7 per cent in 1989. Loans for new building again grew only modestly. The strong growth of credit for real estate purchases and property renovation over the past fave years has been stimulated mainly by the reduction in nominai interest rates; this has eased the burden of initial repayments, which has often constituted a serious obstacle to home purchases by middle-income households. The need for less costly credit has been met partly by foreign currency loans, which averaged 5.4 trillion lire over the past two years, just under half of total mortgage credit. In view of the broad stability of the lira, the lower interest rates available on the Euromarket have made such loans attractive to a growing number of borrowers. Competition from specialized foreign lenders in the mortgage loan market has accentuated.

Export credit, which had contracted in the previous two years, expanded by 400 billion lire in terms of net flows, or 5.8 per cent, thanks to an increase of 1.1 trillion lire in buyer credits, compared with one of 200 billion in 1989; supplier credit, on the other hand, continued to contract, falling by 700 billion lire, compared with 500 billion in 1989.

Lending by agricultural credit institutions increased by 1.5 trillion lire, as against 1.3 trillion in 1989. The decline in subsidized working credit, which accounts for over half of total working loans, carne to a halt. Improvement credit, which is intended to finance investment, expanded by about 800 billion lire, the same as in 1989. Loans to food processing and marketing enterprises accounted for more than three quarters of the growth, a trend that has been under way for several years.

Fund-raising and the management of securities portfolios. — More than half of the special credit institutions' fund-raising last year was in foreign currencies and Eurolire. This component grew by 21.4 trillion lire, or 40.7 per cent, and its share of net fund-raising rose from 44.9 to 52.6 per cent. As in previous years, the shift in the composition of the institutions' liabilities was fostered by the level of interest rates on the Euromarket, which remained lower than the cost of domestic funds, despite rising for a time in the first half of the year (Figure 13).

Fund-raising abroad by real estate credit institutions soared again, increasing by 76.7 per cent. The constraints on issues of CDs, which bear more heavily on these institutions than on their counterparts in other sectors, have made foreign currency borrowing their main alternative to bond issues. Among industrial credit institutions, regional medium-term institutes were particularly active in the Euromarkets, whereas at the end of 1988 they had barely dipped their toe in the water.

The volume of funds raised by CD issues increased by 12 trillion lire, or 22.8 per cent. After a period of stability early in the year, rates on fixed rate CDs followed the downward trend in yields on government securities, declining by about half a percentage point between May and July. In the last quarter of the year they rose slightly to around 11 per cent (Figure 13).

There was a pause in the significant lengthening of CD maturities that had occurred over the previous two years, as uncertainty about interest rate developments took hold. Net sales of certificates for terms of 24 months or less increased from 54.8 to 63.3 per cent of total subscriptions.

Net bond issues increased by 6.2 trillion lire, or 4.8 per cent, as against 6.7 per cent in 1989. Redemptions of fixed rate bonds exceeded new issues, while net fund-raising via floating rate bonds expanded by 11 trillion lire, or 23.7 per cent, compared with 22 per cent the previous year. Most active in this field were the real estate institutions and, especially in the fourth quarter, the large industrial credit institutions.

The institutions are discouraged from issuing fixed rate bonds by the high interest rates they have to offer. For the third consecutive year the average rates on industrial and real estate bonds of this kind were more than two points higher than those on CDs.

The slowdown in lending in the second half of the year resulted in an increase in the institutions' holdings of secondary liquidity. Their portfolios of government securities grew by 1.4 trillion lire during the year, halting a contraction that had begun in 1987. The share of lira-denominated Treasury credit certificates fell from 69 to 57.5 per cent, while the proportion of bonds and ecu-denominated paper increased.

Profit and loss accounts. — Net interest income contracted by nearly a tenth of a percentage point to 2.02 per cent of total resources (Table 30). Only part of the rise in the average cost of resources was offset by the higher return on assets, which was mainly attributable to floating rate securities. The rise in unit costs was due both to higher rates on fund-raising and to the fall in own funds from 9.3 to 8.9 per cent of total resources. The sharpest rise in fund-raising costs was the 1.2 point average increase in the rates on foreign liabilities, the main source of fund-raising during the year.

There was an appreciable increase in non-interest income, notably from securities trading and foreign exchange operations. The incidence of operating costs declined slightly. The rise in per capita staff costs as a result of the application of the new labour agreement was more than offset by the increase in total resources per employee. Net income accordingly increased from 1.24 to 1.26 per cent of total resources.

There was a small reduction in allocations to provisions, and in particular to loan loss provisions, as a result of the slower growth of bad debts. Net profits slipped significantly, from 0.57 to 0.44 per cent of total resources and from 5.9 to 5 per cent of capita) and reserves. The deterioration was largely due to a provision of more than 800 billion lire against prior year liabilities in the chemical sector.

Other intermediaries

Leasing companies. — Leasing business continued to expand at a fast pace, notably in the rea) estate sector. The value of current contracts increased by 6.7 trillion lire, or 25.1 per cent (25.7 per cent in 1989; Table 31). New contracts amounted to 20.8 trillion lire, an increase of 14.8 per cent (17.1 per cent in 1989). The share of total fixed investment financed by leasing rose from 7.5 to 7.9 per cent.

Real estate leasing was fueled by the growth in demand from the services sector for office and commercia) premises; it expanded by 60 per cent between December 1989 and December 1990 and its share of the total rose from 12.5 to 16.5 per cent. Industrial leasing was affected by the slowdown in investment in machinery, equipment and transport equipment; new contracts increased by 16.9 per cent, nearly seven points less than in 1989. Publicly subsidized finance accounted for 28 per cent of the leasing contracts signed, about the same as in 1989.

The credit system continued to meet more than 75 per cent of the industry 's fund-raising requirements (Table 31).

Table 30

PROFIT AND LOSS ACCOUNTS OF THE SPECIAL CREDIT INSTITUTIONS

	1982	1983	1984	1985	1986	1987	1988	1989	1990 (1)
	as a percentage of total resources								
Interest income	12.90	13.30	13.36	12.76	12.08	10.96	10.80	11.04	11.36
Interest expenses	10.37	10.67	10.72	10.27	9.77	8.80	8.64	8.93	9.34
Net interest income	**2.53**	**2.63**	**2.64**	**2.49**	**2.31**	**2.16**	**2.16**	**2.11**	**2.02**
Non-interest income	–0.06	–0.06	–	0.02	0.17	–0.01	–0.08	–0.04	0.05
securities trading	0.02	0.01	0.07	0.09	0.19	0.06	0.03	0.02	0.05
Gross income	**2.47**	**2.57**	**2.64**	**2.51**	**2.48**	**2.15**	**2.08**	**2.07**	**2.07**
Operating expenses	0.67	0.72	0.75	0.77	0.94	0.91	0.88	0.83	0.81
staff costs	*0.40*	*0.45*	*0.46*	*0.47*	*0.50*	*0.51*	*0.50*	*0.46*	*0.47*
Net income	**1.80**	**1.85**	**1.89**	**1.74**	**1.54**	**1.24**	**1.20**	**1.24**	**1.26**
Depreciation & allocations to provisions	1.04	1.22	1.12	0.91	0.52	0.50	0.46	0.47	0.45
loan loss provisions	*–0.19*	*–0.19*	*–0.23*	*–0.25*	*0.36*	*0.39*	*0.41*	*0.41*	*0.36*
Extraordinary income	0.11	0.33	0.16	0.14	0.21	0.22	0.17	0.14	–0.10
Profit before tax	**0.87**	**0.96**	**0.93**	**0.97**	**1.23**	**0.96**	**0.91**	**0.91**	**0.71**
Tax	0.35	0.31	0.34	0.34	0.46	0.32	0.31	0.34	0.27
Net profit	**0.52**	**0.65**	**0.59**	**0.63**	**0.77**	**0.64**	**0.60**	**0.57**	**0.44**
	other data								
Total resources *(billions of lire)*	136,496	153,946	172,713	192,549	205,410	224,723	257,698	289,057	330,351
Number of employees	11,130	11,840	12,045	12,109	12,281	12,511	12,882	13,721	13,483
Total resources per employee *(millions of lire)*	12,264	12,679	13,980	15,591	16,349	17,543	19,520	21,067	24,501
Staff costs per employee *(millions of lire)*	49.2	58.9	65.8	71.1	77.5	84.9	92.8	97.7	116.1
	percentage rates of increase								
Staff costs per employee	13.6	19.7	11.7	8.1	9.0	9.5	9.3	5.3	18.8
Total resources per employee:									
in nominal terms	14.6	3.4	10.3	11.5	4.9	7.3	11.3	7.9	16.3
at constant prices (2)	–1.5	–10.1	–0.3	2.7	–1.2	2.6	6.0	1.2	9.6

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

Lending rates declined by about half a point, as did the cost of funds borrowed from credit institutions. There was only a modest increase in the companies' own funds, which declined from 9.1 to 7.7 per cent of finance provided, accentuating the trend of recent years.

Table 31

LEASING (1)

(amounts outstanding in billions of lire)

	1985	1986	1987	1988	1989	1990
Finance provided (2)	10,180	12,965	16,816	21,120	26,554	33,220
Finance received from credit institutions	7,807	10,611	13,518	17,376	21,724	25,427
short-term lira loans	*4,772*	*7,181*	*9,897*	*11,789*	*14,109*	*15,752*
medium and long-term lira loans	*2,615*	*2,915*	*3,077*	*4,737*	*6,044*	*7,291*
foreign currency loans	*420*	*515*	*544*	*850*	*1,571*	*2,384*

(1) Estimate for all leasing companies based on a survey of a variable sample of companies (67 in 1990). – (2) The value of goods leased under outstanding contracts, net of the capital repayments implicit in the rentals already received.

Factoring companies. — Factoring business continued to expand rapidly, though the weakening of economic activity in the second half of the year led to a slowdown compared with the previous year, especially for companies belonging to industrial and financial groups. The valile of claims acquired was 36.3 trillion lire, an increase of 6.3 trillion or 21.1 per cent (33.3 per cent in 1989). There was a sharp slowdown in the expansion of claims without recourse, which declined from 32 to 27.8 per cent of the total. Factoring business remained largely financial in nature: advances against claims increased by 29.6 per cent, and the finance provided rose from 70.5 to 75.5 per cent of outstanding claims (Table 32).

On the liabilities side, factoring companies' borrowing from credit institutions increased by 5.5 trillion lire and from 75 to 80 per cent of their total fund-raising (Table 32).

Table 32

FACTORING (1)

(amounts outstanding in billions of lire)

	1985	1986	1987	1988	1989	1990
Claims acquired	7,550	10,489	16,077	22,457	29,940	36,272
without recourse	*1,578*	*2,381*	*4,421*	*6,355*	*9,581*	*10,084*
Finance provided	5,487	7,869	11,242	16,034	21,114	27,369
Finance received from credit institutions	4,665	6,401	7,913	11,059	15,935	21,442
short-term lira loans	*4,061*	*5,732*	*7,484*	*10,196*	*14,321*	*19,357*
medium and long-term lira loans	*457*	*536*	*313*	*542*	*392*	*1,082*
foreign currency loans	*147*	*133*	*116*	*321*	*1,222*	*1,003*

(1) Estimate for all factoring companies based on a survey of a variable sample of companies (51 in 1990).

The average spread between the factoring companies' borrowing and lending rates widened slightly from 2.1 to 2.3 percentage points, primarily as a result of a declive in the cost of their funds. The degree of risk remained low, with bad debts amounting to 5.7 per cent of claims without recourse.

Factoring will shortly benefit from the passage of Law 52/1991 regulating the transfer of title to commercial credits. With the aim of promoting more transparent company practices and contract conditions, the law provides for an official register of factoring companies, subjects them to supervision by the Bank of Italy and requires their annual accounts to be audited.

Consumer credit. — After several years of rapid growth, consumer credit expanded more slowly, primarily owing to the poor performance of car sales in the second half of the year. Overall, consumer credit growth decelerated from 23.7 to 15.4 per cent, with the total rising to 33.3 trillion lire (Table 33). The increase in credit supplied by household fmance companies slowed from 24.2 to 17.3 per cent, and their share of total credit reached 39 per cent. The credit granted by these companies outside the transport equipment sector, which accounts for some two thirds of their total business, increased by 50 per cent, as against 20.4 per cent in 1989.

Table 33

CONSUMER CREDIT

(billions of lire)

	1985	1986	1987	1988	1989	1990
Financial companies (1)						
Stocks	5,924	6,667	7,092	8,957	11,129	13,057
Gross flows	4,132	4,725	5,223	6,817	8,799	9,708
Banks						
Stocks	6,816	8,476	11,346	14,389	17,746	20,264
Total						
Stocks	12,740	15,143	18,438	23,346	28,875	33,321

(1) Estimate for all consumer credit companies based on a survey of a variable sample of companies (22 in 1990).

The credit extended to residents of Northern Italy increased from 42 to 45 per cent of household finance companies' total lending, with a corresponding fall in the share going to Southern consumere. There was an increase in revolving credit, which enables companies to establish more stable relations with customers since it is not linked to a specific purchase.

The household fmance companies again raised most of their funds from the credit system. Their indebtedness to banks and special credit institutions amounted to 9.6 trillion lire at the end of year, or more than two thirds of their total fund-raising. Lending rates declined by half a point but remained above 21 per cent. The spread over borrowing rates continued to average more than 8 points. Some signs of a deterioration in the quality of assets emerged, with bad debts increasing from about 5 to 6 per cent of outstanding credit.

The increase in consumer credit granted by banks slowed from 23.3 to 14.2 per cent and the total rose to 20.3 trillion lire (Table 33).

INSTITUTIONAL INVESTORS

The net inflow of resources to investment funds, portfolio management services and insurance companies exceeded 21.4 trillion lire last year, compared with net outflows in the two previous years. All three sectors benefited from their links with the banking system. This was true not only of investment funds and portfolio management services but also of the insurance industry, where cross-holdings with banks and product distribution agreements both increased. Investor preferences shifted towards government securities owing to the fall in share prices in the second half of the year and the greater stability of the exchange rate, which magnified the interest rate differentials in favour of lira-denominated bonds. The resources managed by institutional investors increased from 178.2 to 199.4 trillion lire during the year, while their share of total financial assets remained unchanged at 10.4 per cent.

Investment fund subscriptions exceeded redemptions for the first time for three years. Sweep accounts, which provide convertibility between current account balances and fund units, received the bulk of the inflow, growing in number and increasing threefold in terms of their share of net assets. Foreign-based funds again recorded net disinvestment. The growth in the resources of portfolio management services was attributable to the increase of 7.6 trillion lire in the assets managed directly by credit institutions; here too, the share of bonds and government securities rose to a high level. The assets managed by non-bank companies remained virtually unchanged.

The technical reserves of insurance companies rose from 61.1 to 75.5 trillion lire, with life insurance continuing to grow faster than casualty insurance. Further progress was made in strengthening the supervision of the industry.

Investment funds

Italian funds. — Net redemptions of 6.7 trillion lire in 1989 gave way to a net inflow of over 0.8 trillion last year as a result of the strong growth in subscriptions from 10 to 15.1 trillion and a fall in redemptions from 16.7 to 14.3 trillion (Table 34). Capital losses, due mainly to the fall in share prices in the last part of the year, and dividend payments led to a reduction in net assets from 49.2 to 47.4 trillion lire. The number of unit holders remained virtually unchanged compared with the end of 1989, at over 2.3 million. Net fund-raising in the first three months of 1991 amounted to 1.3 trillion, with sweep accounts continuing to provide the greater part of the net inflow. At the end of March the funds' net assets totaled 50.9 trillion lire.

Table 34

ITALIAN INVESTMENT FUNDS: FUND-RAISING AND NET ASSETS
(billions of lire)

Type of fund	Net assets	Net fund-raising		Dividends paid		Capital gains		Net assets	
	1988 December	1989	1990	1989	1990	1989	1990	Dec. 1989	Dec. 1990
Bond-based	18,631	–2,908	2,834	1,007	908	1,466	1,673	16,182	19,781
Mixed	17,745	–3,371	–2,085	73	52	2,091	–1,126	16,392	13,129
Share-based	15,186	–384	79	31	33	1,820	–2,168	16,591	14,469
Total	**51,562**	**–6,663**	**828**	**1,111**	**993**	**5,377**	**–1,621**	**49,165**	**47,379**

Fund-raising by the various types of fund differed markedly last year. Mixed funds were alone in recording net redemptions (2.1 trillion lire) and thus continuing the trend of the last few years. Share-based funds had a small net inflow of 0.1 trillion; the fall in their net fund-raising when share prices declined in the last part of the year was checked by the introduction of a capital gains tax payable by individual shareholders. The excellent performance of the bond-based funds, which raised 2.8 trillion lire, 900 billion as a result of the reinvestment of dividends, was attributable entirely to the growth in sweep accounts.

At the end of Aprii 1991 there were twelve sweep account funds. Even though many of the funds only carne finto operation in recent months, subscriptions amounted to 4.8 trillion in 1990 and their net fund-raising to 3.1 trillion lire, four times the total for all investment funds. At the end of the year their net assets represented 10.1 per cent of the total for the sector, compared with 2.8 per cent at the end of 1989.

The number of funds continued to increase: at the end of Aprii 1991 there were 199 in operation, compared with 149 at the end of 1989. A total of 56 management companies were in operation, one more than in 1989. There is clear evidence that management companies sought to satisfy investor preferente for more specialized products. Many of the new funds were of the share-based type, which increased from 35 to 66 and included funds specializing in specific branches of industry and services. There was also an increase in the number of funds specializing in investments in particular geographical areas. The concentration of the investment fund industry decreased: at the end of last year the five largest management companies held 46.3 per cent of total net assets, compared with 51.9 per cent at the end of 1989.

The growth in bond-based funds was reflected in net purchases of bonds and government securities. There were pronounced shifts in the composition of the sector's total net assets as a result of price movements and funds' purchases and sales of securities; the share of government securities rose from 40.6 to 52.3 per cent, whereas the proportion of Italian shares declined from 32.4 to 24.3 per cent and that of foreign securities from 15.1 to 12.2 per cent.

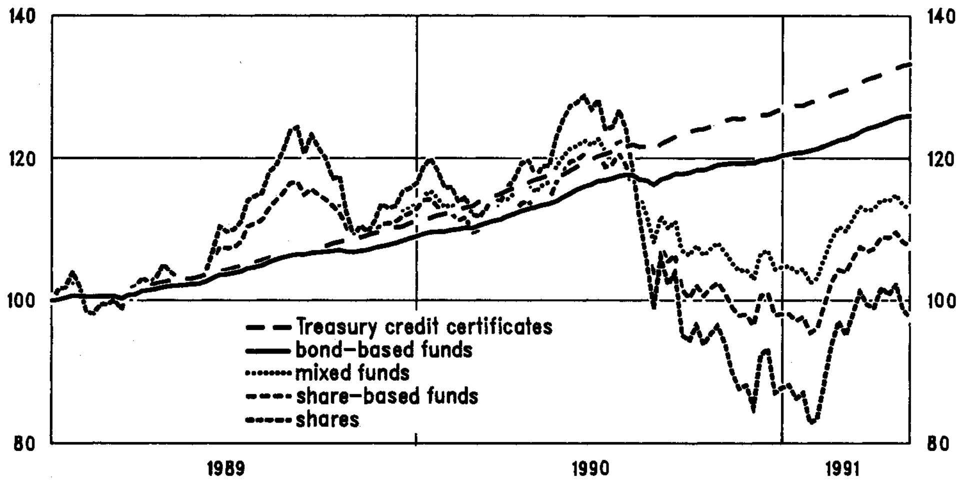
The increase in holdings of Treasury credit certificates was larger than the rise in government securities as a whole owing to the positive yield differential between these and other types of government paper in the early part of the year. As a result, their share of the total assets portfolio rose from 27.1 to 39 per cent. The share of Treasury bonds fell from 6.3 to 3.3 per cent over the year, but by the end of the first quarter of this year it had risen to 7.4 per cent.

Share-based and mixed fund units declined in value by 13.2 and 8 percentage points respectively, mainly on account of the fall in the prices of listed shares (Figure 14). The value of the units of bond-based funds (including distributed dividends) rose by 10.5 per cent; however, this fell short of the 14.2 per cent average net yield on Treasury credit certificates listed on the Milan Stock Exchange.

Figure 14

CAPITAL VALVE OF SELECTED INVESTMENTS

(indices; 31 December 1988 = 100; end-of-week data)



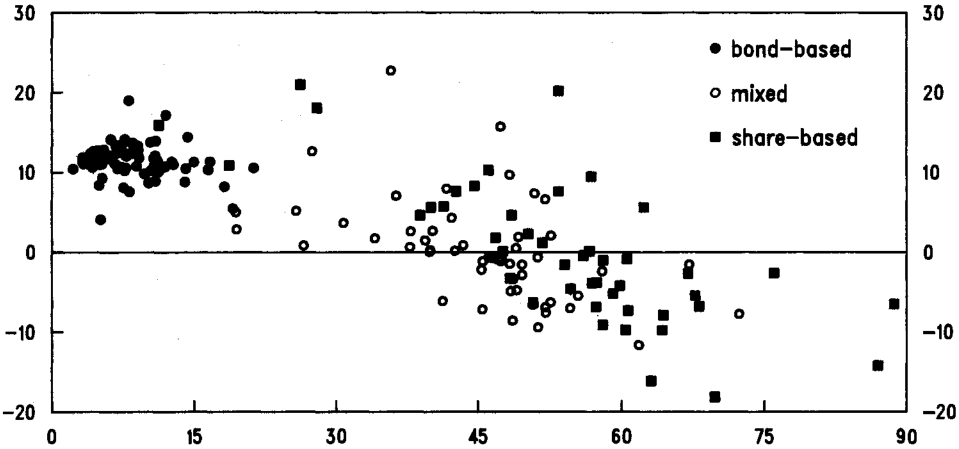
The wide fluctuations in share and bond prices led to greater dispersion and variability in the yields of individuai funds. In the twelve months ending in Aprii 1991 the yields of bond-based funds ranged from 4.1 to 19 per cent, while those of share-based and mixed funds ranged from —18.1 per cent to

22.7 per cent. The variability of individual funds' results differed considerably and was highest on average for share-based and mixed funds (Figure 15).

Figure 15

YIELD AND VARIABILITY OF ITALIAN INVESTMENT FUNDS (1)

(percentages on an annual basis; 30 April 1990 - 30 April 1991)



(1) Ex post yield and standard deviation of monthly yields (on the x axis).

Foreign funds. — The foreign investment funds operating in Italy recorded net redemptions of 1.4 trillion lire and also suffered capital losses on holdings of shares, so that their net assets fell by 2.3 to 6.2 trillion at the end of the year (Table 35). Italian securities rose from 66.7 to 71.7 per cent of their portfolios, while Italian shares fell from 43.8 to 37.6 per cent, in line with the change observed in domestic funds. There was a similar shift in their holdings of foreign securities, with shares declining from 28.7 to 23.5 per cent.

Table 35

ITALIAN INVESTMENT FUNDS:
SECURITIES PORTFOLIO AND NET ASSETS

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

	1989 December	1990			
		March	June	September	December
Italian securities	5,295	4,955	5,229	4,217	4,122
of which: shares	*3,479*	*3,321*	*3,239*	*2,349*	*2,159*
Foreign securities	2,644	2,305	1,973	1,565	1,624
of which: shares	*2,275*	*2,158*	*1,854*	*1,398*	*1,352*
Total securities portfolio	**7,939**	**7,260**	**7,202**	**5,782**	**5,746**
Other financial assets	539	657	769	731	415
Total net assets	**8,478**	**7,917**	**7,971**	**6,513**	**6,161**

Portfolio management services

The total managed assets of the services provided directly and indirectly by credit institutions rose by 19.8 per cent to more than 65 trillion lire as a result of net fund-raising of over 7.6 trillion and capital gains of 3.2 trillion (Table 36). The number of clients increased only slightly, from 251,200 to 256,900, so that the average portfolio rose from 216 to 253 million lire. In the first three months of this year there was a net inflow of 3.2 trillion and total managed assets rose to 70.8 trillion.

Table 36

PORTFOLIO MANAGEMENT SERVICES *(1)*
(end-of-period balance sheet values in billions of lire)

	1989 December	1990				1991 March (2)
		March	June	September	December	
Lira securities	**51,277**	**51,443**	**56,703**	**59,649**	**61,676**	**66,944**
Government securities	*39,084*	*39,161*	*43,301*	*46,415*	*48,840*	*53,597*
Bonds	*8,119*	*8,244*	*8,898*	*9,851*	*9,824*	*10,131*
Shares	*4,074*	*4,038*	*4,504*	*3,383*	*3,012*	*3,216*
Foreign currency securities	**1,768**	**1,755**	**1,339**	**1,378**	**1,797**	**2,059**
Bonds (3)	*1,475*	*1,504*	*1,183*	*1,229*	*1,651*	*1,887*
Shares	*293*	*251*	*156*	*149*	*146*	*172*
Other assets	1,208	1,683	1,477	1,656	1,549	1,784
Total managed assets	**54,253**	**54,881**	**59,519**	**62,683**	**65,022**	**70,787**
Memorandum item:						
Net fund-raising (4)	–359	173	2,378	2,952	2,105	3,190

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

The growth in managed assets last year was entirely in portfolios administered directly by banks, which rose from 49.4 to 60.9 trillion lire and represented 93.6 per cent of the total at the end of 1990. The concentration of the industry decreased over the year, with the share of assets managed by the ten largest banks falling from 50.5 to 48.2 per cent. The assets managed by subsidiary and related companies declined from 4.8 to 4.1 trillion lire.

The net inflow of resources was more pronounced in the second half of the year and was accompanied by an increase in holdings of government securities from 39.1 to 48.8 trillion lire and from 72 to 75.1 per cent of managed assets. Shares and foreign securities declined in importance, falling from 7.5 to 4.6 per cent and from 3.3 to 2.8 per cent respectively, while the proportion of Italian bonds remained unchanged at 15.1 per cent. The portfolios managed by banks' subsidiary and related companies contained a smaller proportion of government securities (68 per cent) and a larger percentage of Italian shares (14.9 per cent).

The assets managed by non-bank companies, which have a higher share content, remained virtually unchanged. A survey of the main companies showed that their assets rose from 5.2 to 5.3 trillion lire. The proportion of government securities declined from 45.1 to 43.8 per cent and the percentage of shares went down from 22.6 to 15.8 per cent, a larger decrease than that attributable to the fall in the share price index.

Insurance companies

Premium incorre from direct insurance in Italy totaled 25.5 trillion lire in the casualty sector and 8.7 trillion in the life sector, an overall increase of 15 per cent, with the life sector growing more rapidly. Insurance companies' technical reserves rose from 61.1 to 75.5 trillion lire (Table 37); those of the life sector, which had overtaken the casualty sector in 1989, amounted to 52.4 per cent of the total at the end of 1990.

Table 37

INSURANCE COMPANIES: ASSETS AND LIABILITIES
(end-of-period balance sheet values in billions of lire)

	Main assets				Total assets (3)	Technical reserves (4)	Net worth
	Deposits and cash	Securities (1)	Mortgages & annuities (2)	Real estate			
				Life sector			
1989	829	27,713	2,656	4,617	49,632	31,441	6,119
1990 (5)	1,050	36,241	2,643	5,002	61,586	39,604	7,288
				Casualty sector			
1989	2,294	26,308	716	6,477	57,685	29,619	10,537
1990 (5)	2,208	32,935	1,433	7,448	67,152	35,934	12,550
				Total			
1989	3,123	54,021	3,372	11,094	107,317	61,060	16,656
1990 (5)	3,258	69,176	4,076	12,450	128,738	75,538	19,838

Source: Based on ANIA data.
(1) In lire and foreign currency, including participations. – (2) Net of corresponding liabilities. – (3) Comprises insurance companies' main assets and various other items, such as reinsurance and sundry debtors. – (4) Net of reinsurance. – (5) Partly estimated.

Seventeen new authorizations were granted last year, of which five were for branches of foreign companies. At the end of 1990 there were 53 companies operating in the life sector, 167 in the casualty sector and 32 in both. Insurance companies issued 1.5 trillion lire of shares, compared with 1.2 trillion in 1989.

The high degree of international integration in the insurance sector is demonstrated not only by the presence of branches of foreign companies in Italy but also by the number of Italian companies in which foreign insurance and fmancial groups have acquired controlling interests. According to Isvap, the body responsible for supervising insurance companies, in 1989 the premium incorre of foreign-controlled companies amounted to 1.4 trillion lire in the life sector and 8.1 trillion in the casualty sector, equal to respectively 19 and 36.3 per cent of the total in each sector. By contrast, the premium incorre of Italian companies operating abroad through branches or subsidiaries carne to about 3.3 trillion in the life sector and 9.3 trillion in the casualty sector.

Insurance companies' total assets increased from 107.3 to 128.7 trillion lire. The share of real estate continued to decline, falling from 10.3 to 9.7 per cent of the total, while that of securities rose from 50.3 to 53.7 per cent.

Table 38

INSURANCE COMPANIES: SECURITIES PORTFOLIO

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

	Public sector				Special credit institutions (1)	Enterprises and public bodies	Shares	Foreign currency securities	Investment fund units	Total
	Treasury bills	Treasury credit certificates	Treasury bonds	Other						
					Life sector					
1989	93	10,350	2,076	2,066	4,890	2,743	2,658	2,761	76	27,713
1990 (2) ..	324	14,777	2,280	3,036	6,347	3,194	2,457	3,730	96	36,241
					Casualty sector					
1989	119	6,362	1,397	1,240	6,455	1,310	5,379	4,031	15	26,308
1990 (2) ..	136	10,129	963	1,803	6,531	1,920	7,392	4,016	45	32,935
					Total					
1989	212	16,712	3,473	3,306	11,345	4,053	8,037	6,792	91	54,021
1990 (2) ..	460	24,906	3,243	4,839	12,878	5,114	9,849	7,746	141	69,176

(1) Includes certificates of deposit. – (2) Partially estimated.

The increase in insurance companies' portfolios of securities from 54 to 69.2 trillion lire was accompanied by large purchases of government securities, holdings of which rose from 23.7 to 33.4 trillion. Italian share portfolios rose from 8 to 9.8 trillion lire, despite the fall in share prices, while holdings of foreign securities increased from 6.8 to 7.7 trillion (Table 38).

The growth of the life sector in recent years has been fueled by the demand for pension and savings plans. Insurance companies have responded to this trend by introducing with-profits policies and increasing the share of their foreign investments.

Figures for the end of September show that many companies were offering with-profits policies backed by assets totaling 26.8 trillion lire, of which 89.4 per cent was invested in bonds and govemment securities. In addition, nine companies were offering similar policies denominated in foreign currencies and backed by assets of more than 170 billion lire, consisting mainly of securities in ecus.

THE SECURITIES MARKET

Bond and share prices rose in the first half of 1990 but fell abruptly at the onset of the Gulf crisis. Medium and long-term government securities subsequently recovered and nearly reached their earlier levels; the fall in share prices continued until the beginning of the current year, but this did not prevent the value of new share issues from exceeding the record set in 1986. The degree of international integration intensified in both the bond and equity markets: public and private issuers stepped up their recourse to fund-raising abroad, non-residents' portfolio investment in lira assets increased and links between national securities markets continued to strengthen.

In a year of exceptionally large issues of securities, demand for government paper almost always exceeded supply. Issues of 7-year government securities from June onwards and 10-year paper in March 1991, the first 10-year domestic issue in forty years, helped to lengthen the average maturity of the public debt, reversing the trend that had prevailed since 1987. The screen-based market for government securities, which grew in terms of the number of dealers, the number of issues listed and turnover, facilitated orderly trading even in the uncertain conditions following the onset of the Gulf crisis and made it possible to limit the impact fluctuations in short-term rates had on long-term rates. The prompt listing of new issues and the increase in their size also enhanced the market's liquidity.

Law 1 of 2 January 1991, which was adopted alter a long passage through Parliament, reformed the regulations on securities trading and redefined the operational arrangements for the securities markets. It also provided for the creation of an options and futures market, which will make the range of hedging instruments used in Italy comparable with that available abroad; in the government securities sector this will help to reduce the cost of managing interest rate risk.

Law 157 of 17 May 1991 on insider trading introduces new principles finto Italian law that will promote symmetry of information between operatore by increasing market transparency and improving investor protection. The legislation on public offers of securities, which has stili to be enacted, will also help in this regard. Finally, the regulation of closed-end investment funds and pension funds will make it possible to strengthen the role of institutional investors in the securities market.

Bonds and government securities

Supply. — Gross issues of government securities, bonds and special credit institution certificates of deposit rose by 24.2 per cent to 815 trillion lire last year and grew from 55 to 62.4 per cent of GDP (Table 39). The expansion was entirely in public sector issues, which increased by 159.7 trillion lire to 758.3 trillion owing to the need to replace the very large volume of government paper reaching maturity and to fmance the borrowing requirement; the public sector accounted for 93 per cent of total issues. By contrast, gross issues by other borrowers declined slightly overall, with those of special credit institutions rising to 55 trillion lire, or 6.7 per cent of the total, and those of firms and public corporations falling to 1.8 trillion, or only 0.2 per cent of the total.

Table 39

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS

(billions of lire)

	Stocks December 1990	Gross issues		Net issues	
		1989	1990	1989	1990
Public sector	1,039,255	598,545	758,262	108,588	116,754
Treasury bills	*329,253*	*498,552*	*559,196*	*39,778*	*44,640*
Treasury credit certificates	*423,086*	*21,300*	*75,538*	*20,916*	*54,214*
Treasury bonds	*162,788*	*41,100*	*74,460*	*27,006*	*–13,347*
Treasury option certificates	*43,375*	*15,620*	*27,161*	*15,336*	*26,678*
Special credit institutions	202,293	53,392	54,984	17,173	18,027
certificates of deposit	*64,836*	*32,024*	(1)*32,610*	*8,968*	*12,032*
Firms and public corporations	34,144	4,197	1,800	35	–2,592
Total	**1,275,692**	**656,134**	**815,046**	**125,796**	**132,189**
as a percentage of GDP	*97.62*	*55.01*	*62.37*	*10.55*	*10.12*

(1) Estimated.

Net issues rose by 5.1 per cent to 132.2 trillion lire last year, but fell in relation to GDP from 10.6 to 10.1 per cent. Net issues of bonds and certificates of deposit by special credit institutions amounted to 18 trillion lire, slightly more than in 1989; firms and public corporations made net redemptions of 2.6 trillion, whereas in the previous year their new issues had broadly matched their redemptions.

The composition of government securities in circulation at the end of 1990 was substantially the same as a year earlier, with Treasury bills accounting for 31.7 of the total, Treasury credit certificates 40.7 per cent, Treasury bonds and option certificates 19.8 per cent, ecu Treasury bonds and certificates 4.4 per cent and other securities 3.4 per cent.

During the year the procedures for issuing medium and long-term securities were standardized by extending uniform price auctions to Treasury credit certificates in July and to ecu Treasury certificates in September. In addition, the practice of issuing securities in tranches was extended to all medium and long-term government paper, thus reducing the different issues and increasing their average size.

The longer terms offered on new issues, in particular the sale of 7 and 10-year fixed rate securities, made it possible to lengthen the average maturity of the public debt from 2 years and 5 months at the end of Aprii 1989 to more than 2 years and 6 months a year later, thus reversing the trend that had been under way since 1987.

The Treasury's domestic borrowing was accompanied by an increase in issues of Italian government bonds on the Euromarket. Gross Eurobond issues nearly doubled to 7.6 trillion lire and net issues increased fivefold to 6.4 trillion. The favoured currency was the ecu, with gross issues of 4.6 trillion. The cost of these issues was not dissimilar to that of other sovereign borrowers' issues of comparable liquidity and maturity; in the six months ending in March the difference between the average annual yield on Italian government ecu bonds and that on French government bonds was only around 8 basis points on 7 and 10-year maturities.

The market in Eurolira bonds continued to grow in 1990, with net issues by resident and non-resident borrowers totaling 6.7 trillion lire, compared with around 4.7 trillion in 1989. The present system for regulating the issue calendar on a quarterly basis will be abolished this July; moreover, banks active in the secondary Eurolira market will be eligible to operate as lead-managers, irrespective of nationality.

Demand. — In 1990 there was a further reduction in the banking sector 's holdings of bonds and government securities and an increase in those of other subscribers (Table 40). The Bank of Italy made net disposals totaling 4.2 trillion lire; most of this amount related to government securities, particularly Treasury credit certificates, holdings of which decreased by 14 trillion lire. Banks reduced their portfolios of other issuers' bonds; they too made Jeep cuts in their holdings of Treasury credit certificates.

Table 40

BONDS AND GOVERNMENT SECURITIES:
NET ISSUES ACCORDING TO SUBSCRIBER
(billions of lire)

	Public sector						Special credit institutions, firms and public bodies (1)	Total
	Treasury bills	Treasury credit certificates	Treasury bonds	Treasury certificates in ecus	Other	Total		
1990								
BI-UIC (2)	4,974	–14,049	4,480	–148	618	–4,125	–47	–4,172
Banks (2)	4,444	–10,273	–247	–890	7,885	919	–8,070	–7,151
Deposits and Loans Fund ...	–	–	–	–	–69	–69	–508	–577
Special credit institutions	30	–296	781	–	774	1,289	744	2,033
Social security institutions	156	1,025	716	–	113	2,010	469	2,479
Insurance companies	270	8,194	–230	28	1,423	9,685	2,593	12,278
Investment funds	635	4,850	–1,457	–80	282	4,230	–446	3,784
External	914	2,389	1,534	10,098	1,225	16,160	1,516	17,676
Other	33,217	62,374	–18.924	–1,746	11,734	86,655	7,152	93,807
Total ..	**44,640**	**54,214**	**–13,347**	**7,262**	**23,985**	**116,754**	**3,403**	**120,157**

(1) Excluding special credit institution certificates of deposit. – (2) Net of repurchase agreements and operations under the Ministerial Decree of 27.9.1974.

Net purchases of government securities by non-bank investors exceeded net issues last year. The volume of government paper held by households and firms increased by 86.7 trillion lire (of which 62.4 trillion was in Treasury credit certificates), purchases by investment funds totaled 4.2 trillion lire and subscriptions by non-residents grew by 50 per cent to 16.2 trillion. The streamlined procedures introduced in April 1991 for the repayment of withholding tax to foreign investors should entourage further growth in external demand.

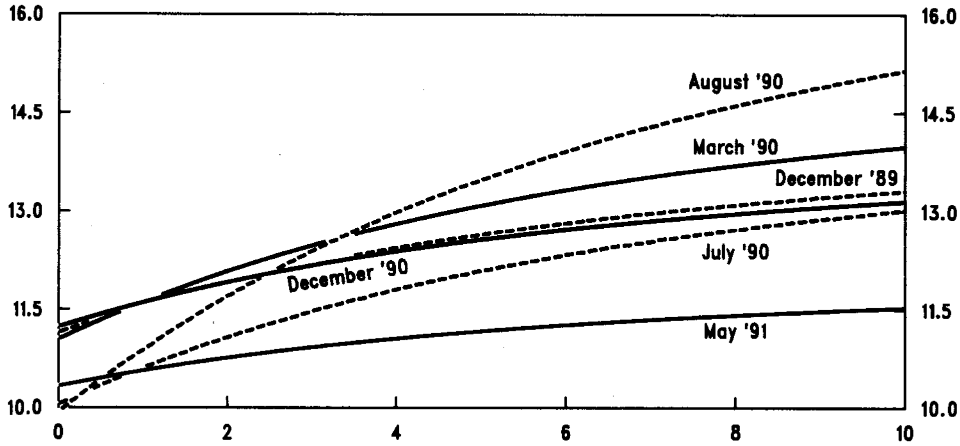
At the end of the year the banking system and the centrai bank held government securities amounting to 225.4 trillion lire, 21.7 per cent of the public debt issued on the domestic market, compared with 43.5 per cent five years earlier; over the same period the share held by households, firms and foreign investors rose from 52 to 71.9 per cent.

Interest rates. — The yield curve shifted upwards in the first quarter of 1990 in response to the rise in interest rates abroad, but carne back down in Aprii and even more markedly in May, owing to the reduction in the discount rate, and remained statile for the next two months (Figure 16).

Figure 16

YIELD CURVES (1)

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



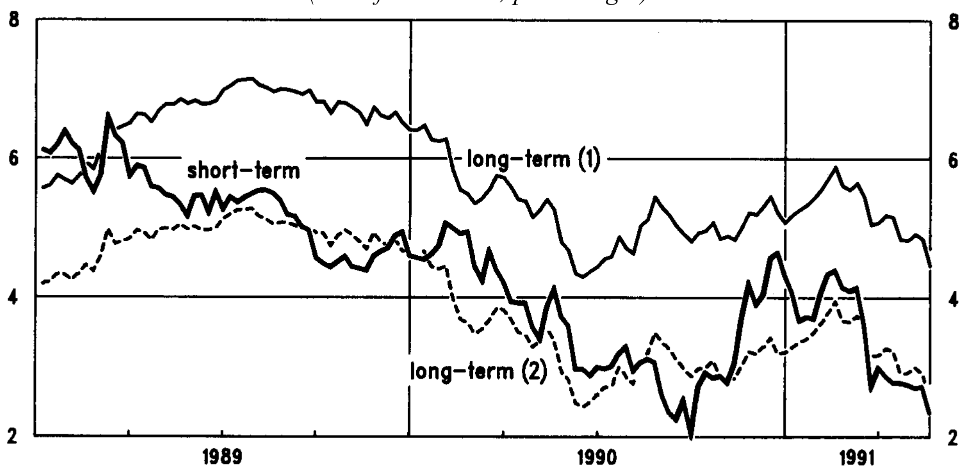
(1) Percentage yields on zero-coupon bonds net of withholding tax, plotted against their maturity in years on the x axis.

Net issue yields on 4-year Treasury bonds reached 12.5 per cent in February and March, then fell by more than 1 percentage point over the next four months. The declive in interest rates in the second quarter reduced the yield differential between medium and long-term lira and Deutschemark bonds to a low of 2.4 percentage points net of withholding tax on lira securities and to 4.3 points before fax (Figure 17).

Figure 17

SHORT AND LONG-TERM LIRA/DM YIELD DIFFERENTIALS

(end-of-week data; percentages)



(1) Before tax. – (2) Net of withholding tax in the case of lira yields.

The bid-offer spread on the screen-based market for government securities averaged 13 basis points in the first seven months of the year, but in August it widened to 37 basis points owing to uncertainty created by the Gulf crisis. The net issue yield on 4-year Treasury bonds rose to 12.4 per cent at the beginning of September.

The yields offered on 4-year Treasury bonds and Treasury option certificates fell to below 11.8 per cent in mid-September. The rise in the yields on shorter maturities in October and November flattened the yield curve at the end of the year, so that the curve for December was similar to that recorded a year earlier. The net tender rate on 3-month Treasury bills in December was more than 2 points higher than it had been in mid-July; over the same period the net issue yield on 4-year paper rose by around 78 basis points to 12.2 per cent.

The progressive flattening of the yield curve at the longer end of the maturity range made it possible to issue 7-year securities in November at rates half a point higher than those on 4-year paper and from January of this year onwards to replace maturing 4-year paper with 5-year securities at no additional cost. In the first two months of 1991 the further increase in official interest rates in Germany was partly discounted by the market and consequently did not put pressure on Italian rates, which declined slightly on both the primary and secondary markets. The shallow slope of the yield curve allowed the first issue of 10-year Treasury bonds at the beginning of March to be placed at an average tender rate equal to that on 5-year bonds. After the reduction in the discount rate, secondary market yields on Treasury bonds fell further, to just over 11 per cent net of withholding tax.

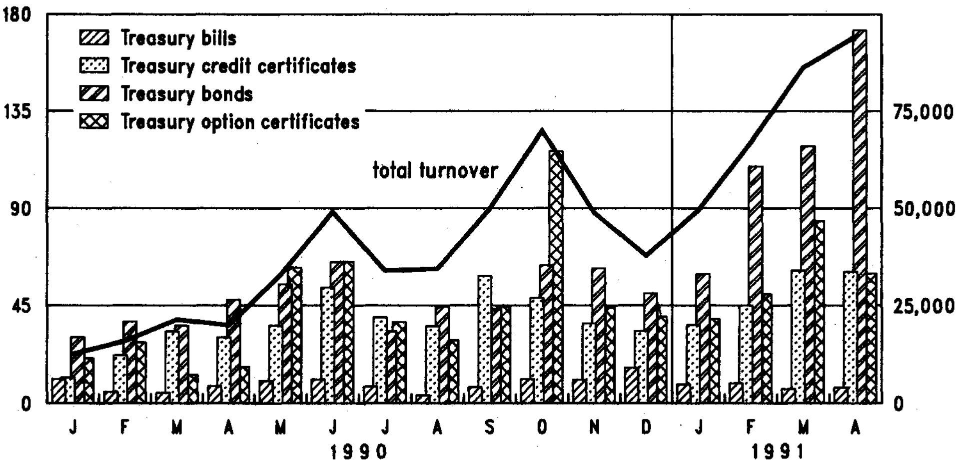
The net ex-post annual yield on Treasury credit certificates listed on the Milan Stock Exchange amounted to 14.2 per cent, compared with 13.1 per cent on Treasury option certificates, 12.1 per cent on Treasury bonds and 11.4 per cent on ecu Treasury certificates.

The screen-based market for government securities. — The rapid growth in trading from early 1990 onwards raised market turnover to 202.8 trillion lire in the first quarter of 1991, eight times the volume recorded in the last quarter of 1989 (Figure 18). Since the beginning of 1990 the number of securities listed has risen from 37 to 60 and the number of dealers from 190 to 239. In addition, the Italian branches of foreign banks have been admitted to the ranks of primary dealers, the trading day has been lengthened by an hour, the market has linked up with centralized securities depositaries abroad and the arrangements for crediting and debiting centralized securities accounts at the Bank of Italy have been extended nationwide. The growth of the market has been fostered by the larger size of new issues resulting from the use of tranches, the longer maturities offered and the prompt listing of issues. Further impetus has come from the more active role played by primary dealers, who since July have been required to transact individually at least 2 per cent of the market's total turnover.

Figure 18

THE SCREEN-BASED MARKET FOR GOVERNMENT SECURITIES: TOTAL TURNOVER AND AVERAGE DAILY TURNOVER PER ISSUE *(1)*

(billions of lire)



(1) Total turnover (right-hand scale) is monthly. Average daily turnover (left-hand scale) is derived for each category of security by dividing the corresponding turnover by the number of listed issues.

To facilitate the management of positions in Italian government securities, the centralized accounts at the Bank of Italy have been linked with the Euroclear and Cedel circuits since March 1990 for transactions in ecu Treasury certificates and since April of this year for all other government securities. As a result, transactions between non-residents no longer need to pass via an Italian bank. Transfers of government securities between residents have also been made easier by the introduction of the new procedure for debiting and crediting the centralized securities accounts at the Bank of Italy.

Trading has focused increasingly on fixed rate lira securities, which accounted for 59 per cent of total turnover in the first quarter of this year, while Treasury credit certificates made up 38.4 per cent and Treasury bills 2.5 per cent (Figure 18). Treasury bonds with maturities of seven and ten years accounted for 31.7 per cent of the total. The high liquidity of longer-term securities was confirmed by their average bid-offer spread of 2.7 basis points in the first quarter of this year, compared with one of 10.1 basis points for medium and long-term lira securities as a group.

Derivative instruments based on government securities. — Unregulated trading in a number of derivative instruments based on government securities has taken piace in Italy since 1987. It is estimated that in 1990 forward contracts and options were written on government securities with a value of 30 and 23 trillion lire respectively, including double-counting. The turnover in forward contracts on securities listed on the officiai screen-based market is estimated to have been around 8 per cent of that of spot contracts, while options do not appear to have exceeded 5 per cent of the spot volume.

The average spread between the best bid and offer prices on forward contracts was around two and a half times as wide as for spot contracts between August 1990 and April 1991, confirming the market's limited liquidity.

Shares

Supply and demand. — The rise in share prices in the first half of the year led to a large increase in the number of share issues, which surpassed the record set in 1986; nineteen new shares were admitted to listing. Though smaller than in 1989, turnover on the Milan Stock Exchange exceeded the annual average for the five years between 1985 and 1989.

Gross share issues by listed and unlisted companies amounted to around 24.8 trillion lire (Table 41), somewhat above the considerable figure of 19.9 trillion lire recorded in 1989 and 49.5 per cent higher than the average for 1985-89. Issues by private companies amounted to 19.4 trillion lire and represented 78.2 per cent of the total.

Table 41

GROSS SHARE ISSUES

	Billions of lire				% composition			
	1987	1988	1989	1990	1987	1988	1989	1990
Listed companies . .	**6,546**	**3,578**	**8,225**	**10,778**	***48.9***	***33.0***	***41.4***	***43.5***
state-controlled . . .	2,395	539	2,079	2,441	*17.9*	*5.0*	*10.5*	*9.9*
private sector	4,151	3,039	6,146	8,337	*31.0*	*28.0*	*30.9*	*33.6*
Unlisted companies	**6,837**	**7,261**	**11,632**	**13,999**	***51.1***	***67.0***	***58.6***	***56.5***
state-controlled . . .	2,218	2,472	3,828	2,959	*15.9*	*22.8*	*19.3*	*11.9*
private sector	4,709	4,789	7,804	11,040	*35.2*	*44.2*	*39.3*	*44.6*
Total . .	**13,383**	**10,839**	**19,857**	**24,777**	***100.0***	***100.0***	***100.0***	***100.0***
state-controlled . . .	4,523	3,011	5,907	5,400	*33.8*	*27.8*	*29.7*	*21.8*
private sector	8,860	7,828	13,950	19,377	*66.2*	*72.2*	*70.3*	*78.2*

The rise in share prices in the middle months of the year encouraged issues by listed companies, which rose by 31 per cent to 10.8 trillion lire. The value of new issues was less than the depreciation of existing shares, so that the capitalization of the Milan Stock Exchange fell from 215.2 to 168.1 trillion lire.

On the demand side, investment funds made net disposals of shares worth more than 300 billion lire in the year as a whole but recorded net purchases from the second quarter onwards, in keeping with the pattern of their fund-raising. Despite the larger volume of resources managed by banks' portfolio management departments, their holdings of shares fell from 4.1 to 3 trillion lire, a proportionately larger decline than the fall in the prices of listed shares. By contrast, insurance companies increased their holdings from 8 to 9.8 trillion lire. The combined holdings of investment funds, portfolio management departments and insurance companies rose from 14.7 to 15.9 per cent of the capitalization of the Milan Stock Exchange. The value of shares held by credit institutions for investment and trading rose by around 2.1 trillion lire to 25.6 trillion.

The uncertainty caused by the fall in share prices on the leading world stock markets curbed non-residents' investments in listed Italian shares, which amounted to 5.3 trillion lire last year, as against 6.7 trillion in 1989.

Share prices. — After a brief downturn at the beginning of the year, share prices rose in the first half, peaking in mid-June 11.2 per cent above the level of end-1989.

The sharp fall in prices during August, when shares lost 14.5 per cent of their value, induced the Consob to adopt a number of temporary measures at the end of that month, including a ban on short-selling until the beginning of October. At the end of the year the Milan Stock Exchange index was 25.1 per cent lower than it had been at the end of 1989.

As a measure of the size of the Italian share market, the ratio of market capitalization to GDP fell from 18 to 12.9 per cent last year, the lowest level since 1986. The average for the last five years was 16.5 per cent, more than double that for the previous five years.

The profits of a sample of 127 firms grew by 8.5 per cent in 1990. The ratio of their market capitalization to net profit stood at 15.7 at the end of 1990, compared with 22.3 at the end of 1989.

The decline in turnover on the Milan stock market contrasted with a growth in trading in Italian shares on the SEAQ system of London's

International Stock Exchange. The number of Italian shares listed on SEAQ rose from fourteen at the end of 1990 to twenty-one in May 1991. The average closing bid-offer spread on the London market fluctuated around 1 per cent in the first half of the year but widened rapidly to more than 2 per cent from August onwards in connection with the sharp swings in prices caused by the Gulf crisis.

THE SAVING AND FINANCING
OF ENTERPRISES AND HOUSEHOLDS

Financial saving

The non-state sector acquired 192.2 trillion lire of domestic financial assets excluding shares, which represent about 30 per cent of total financial assets. This was about 4 trillion less than in the previous year and led to an increase in the stock of 11.9 per cent, compared with 13.9 per cent in 1989. Despite the slowdown, which reflected the development of total domestic credit, the ratio of total financial assets to **GDP** rose further, in line with the trend that has been under way since the early eighties. Excluding shares, this ratio is now comparatile with the European average, though stili much smaller than those of the United States and Japan.

The portfolio diversification encouraged by the liberalization of capitai movements resulted in foreign assets increasing by 37.2 trillion lire, compared with 15.1 trillion in 1989.

The proportion of monetary assets to total financial assets excluding shares continued to decline. That of currency and bank and **PO** deposits fell from 43.6 to 41.1 per cent, which is in line with the values of other industrial countries. There was a further increase in the share of monetary assets consisting of certificates of deposit issued by banks, particularly those with maturities of more than eighteen months, which represented 8.5 per cent of the total flow of financial assets.

The government securities held directly by households, enterprises and the other entities included in the non-state sector increased by 88.7 trillion lire, compared with 101.1 trillion the previous year, and they rose from 39.1 to 40 per cent of total financial assets.

The financing of enterprises

At a time of cyclical decline in corporate profitability, the share of capitai expenditure covered by self-financing continued to fall, reaching the level of the mid-eighties. Corporate borrowing from credit institutions consequently increased (Table 42 and Figure 19), boosted by the financial arbitrage opportunities that emerged, especially in the last part of the year.

Table 42

ENTERPRISES' FINANCIAL LIABILITIES (1)

(billions of lire)

	Stocks		Flows				
	1989	1990	1986	1987	1988	1989	1990
Loans (2)	562,481	684,511	38,443	41,104	67,474	114,479	117,458
of which: banks	*282,338*	*333,666*	*13,883*	*12,164*	*36,057*	*60,424*	*51,328*
special credit institutions	*153,470*	*176,237*	*11,153*	*12,010*	*15,707*	*22,077*	*22,767*
foreign lenders ..	*70,003*	*104,017*	*2,243*	*3,178*	*2,709*	*17,440*	*26,800*
Bonds	33,178	29,725	5,120	3,640	233	–455	–3,488
Shares	834,015	690,641	15,550	7,921	7,626	12,919	16,488
Endowment funds	45,464	46,091	1,704	246	490	272	627
Non-share participations	16,170	17,710	1,330	1,360	1,390	900	1,540
Other financial liabilities (3)	38,994	41,510	246	767	–232	–809	–126
Total liabilities (4)...	**1,530,302**	**1,510,188**	**62,393**	**55,038**	**76,981**	**127,306**	**132,407**

(1) Partly estimated. – (2) Includes the finance provided by leasing and factoring companies; flows include bad debts. – (3) Includes acceptances acquired by non-state investors, atypical securities, other minor items and, only for stocks, credit institutions' bad debts. – (4) Excludes provisions for staff retirement benefits.

Excluding shares, companies' domestic and foreign financial liabilities increased by 113.8 trillion lire. This was slightly more than in the previous year, while the rate of growth in such liabilities declined from 20.1 to 17.9 per cent. Net issues of shares rose from 12.9 to 16.4 trillion lire.

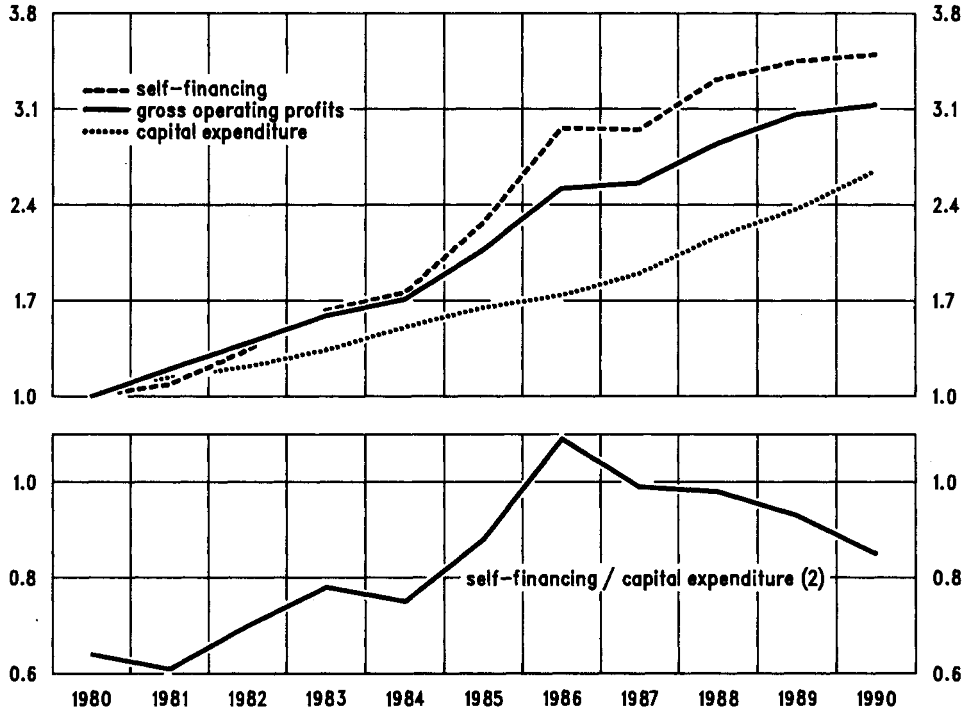
The stability of the exchange rate and the fact that domestic interest rates were higher than those abroad led to a sharp increase in firms' foreign liabilities: borrowing from non-resident credit institutions rose to 26.8 trillion lire, compared with 17.4 trillion in 1989 and 2.7 trillion in 1988. Foreign branches of Italian banks provided about half the total. Non-residents also made net purchases of shares totaling 12.9 trillion lire, compared with 10.1 and 11.2 trillion in 1989 and 1988 respectively.

The tendency in recent years for large industrial groups to centralize the management of their financial activities, coupled with the re-emergence of arbitrage opportunities in the last part of the year, led to a further increase over the year in financial companies' share of total bank lending from 20.3 to 21.5 per cent.

Figure 19

FACTORS DETERMINING THE BORROWING OF ENTERPRISES (1)

(indices, 1980=1)



(1) Estimated from Istat and Bank of Italy data. – (2) Ratio of self-financing to capital expenditure, in billions of current lire.

The net borrowing of the corporate sector increased from 25.1 to 38.8 trillion lire and the ratio of outstanding debt to value added also rose significantly (Figure 20). The results are dose to those recorded in the early eighties, but the composition of the debt has changed as a result of the steady increase in loans granted to financial companies or related to investments in securities and, among non-financial companies, the greater propensity to borrow of small and medium-sized firms.

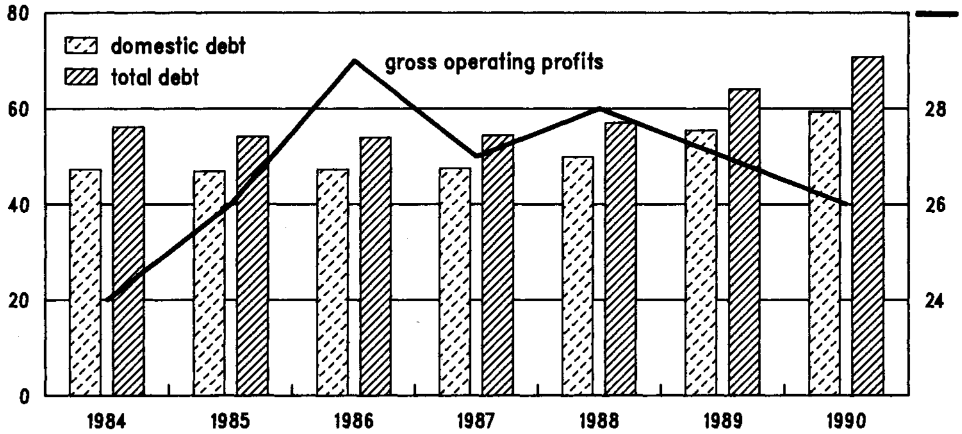
According to Central Credit Register data, bank credit to branches of industry with an average borrowing facility of 1 billion lire or less expanded by 22.7 per cent, in line with the previous year, while the rate of expansion slowed from 20.3 to 14 per cent for branches with an average facility of between 1 and 2 billion lire and plummeted from 22.4 to 3.1 per cent for those with an average facility of over 2 billion. The lending of special credit institutions showed a similar pattern.

The rate of increase in borrowing from credit institutions was especially high in the sectors producing transport equipment (22.9 per cent) and office equipment (33.4 per cent) and in the building industry (23.9 per cent). By contrast, demand for credit in the energy and chemicals sectors declined by 21.7 and 2.5 per cent respectively.

Figure 20

CORPORATE SECTOR DEBT AND GROSS OPERATING PROFITS AS A RATIO TO VALUE ADDED (1)

(percentages)



(1) Estimates based on Istat and Bank of Italy data. Domestic debt comprises bank and special credit institution lending and companies' bond issues. Total debt comprises domestic debt and non-residents' lending and non-share portfolio investments.

Strong demand and a change in banks' lending policies resulted in a significant increase in the proportion of bank credit facilities that firms actually used: from 46.8 to 53.2 per cent for financial companies and from 49.7 to 53.5 per cent for non-financial companies.

Households' debt

Last year saw a further increase in the propensity of Italian households, traditionally strong savers, to finance their expenditure by borrowing. The ratio of outstanding debt to disposable incorre continued on the rising trend of the last few years and reached 22.3 per cent. This is nonetheless a much smaller value than those of Japan (84 per cent), the United States (78 per cent) and France (60 per cent). Households' financial liabilities increased by 26.5 trillion lire, compared with 28.4 trillion in the previous year, while their rate of growth declined from 16.5 to 13.2 per cent.

Following the adoption of the ESA classification, credit statistics now distinguish between consumer households, consisting of employees, pensioners and recipients of property incorre, and producer households, consisting of entrepreneurial units without independent legai status and with less than 20 employees, such as family businesses, craft enterprises and members of the professione. The rate of increase in the debt of consumer households dropped from 18.9 to 15.7 per cent, in line with the slower growth in spending on consumer durables and dwellings. Ali forms of finance were affected, but there was a particularly pronounced deceleration in the growth of consumer credit, from 23.7 to 15.4 per cent, as a result of the stagnation of car purchases, which account for about two thirds of disbursements.

The growth in the debt of producer households also slowed, falling from 13.9 to 10.5 per cent. This was the result of an increase of 11.3 per cent in bank credit and a sharp falloff in lending by special credit institutions.

THE PAYMENT SYSTEM

The development of technology, the transformation of financial markets and the drive towards integration have complicated the pursuit of efficiency, stability and security in national payment systems and made this task all the more urgent.

Faced with growing pressure for change and a consequent increase in competition, operators are seeking to curb costs and risks, in part through cooperation and the standardization of instruments and procedures. Nonetheless, the difficulty of achieving adeguate solutions relying on market forces alone has prompted operators themselves to invite central banks to play a larger role.

Safeguarding the stability of the economic system has always been one of the main concerns of central banks and they have recently taken a renewed interest in the working of the payment system owing to its importance for the efficient functioning of markets and as a factor of international competitiveness.

Accordingly, the Bank of Italy has worked to make the domestic system more efficient and improve the competitiveness of Italian credit institutions. The progress achieved in recent years can be gauged by the ratio of payments settled at the central bank to GDP, which rose from 5.7 in 1988 to 13.7 in 1990.

Last year banks introduced revised procedures for making and receiving payments, payment cards and cheques; in particular, the procedure for cheque truncation was put finto effect.

In the interbank payment circuit, the finality of settlement in monetary base was enhanced by the reform of the system of compulsory reserves. Related steps included the reconfiguration of banks' lira accounts at the Bank of Italy, expanded use of the interbank network, an improved flow of information to banks on market liquidity and more efficient management of banks' reserve deposits.

In the securities field, new procedures were introduced in the centralized deposit systems to increase their use in the settlement of domestic and cross-border transactions, and further efforts were made to identify the technical and legislative measures needed to bring domestic trading and settlement methods irto line with the most advanced systems abroad.

Last year also saw progress towards unifying the payment system by means of fuller operational and institutional integration between the banking and postal circuits.

The control of payment system risk, which is currently carried out by monitoring banks' intra-day exposures in the clearing process, will be made more effective by measures defining the requirements for access to the system: with a decree issued on 7 May 1991 the Treasury Minister empowered the monetary authorities to regulate the clearing house participation of credit institutions, as defined by the Community 's Second Banking Coordination Directive, on the basis of technical, organizational and capital standards.

Retail payment instruments and services

The use of payment instruments. — The relative importance of the different payment instruments and services continued to shift gradually last year, in line with the patterns observed in other leading countries.

The spread of automated teller machines made it easier for bank customers to obtain cash and encouraged their use in transactions. As regards cashless payment instruments, the growth in the number of transactions effected per capita by means of payment orders and credit and debit cards accelerated.

Legal tender. — Notes and coin continue to play an important role in the Italian payment system. In 1990 the average stock of currency grew by around 4 per cent in real terms, leading to a reversal in the previous downward trend in the ratio of currency to GDP, which had fallen from 6.3 to 5.4 per cent during the eighties.

Payment system developments in Italy have influenced the use of cash in contradictory ways. On the one hand, the growth of bank current accounts, fueled in part by increasing recourse to direct payroll credit transfers, has led to greater use of bank payment services; on the other, the spread of automated teller machines has been accompanied by an increase in the average number and value of cash withdrawals from current accounts and in the ratio of ATM cash withdrawals to households' total retail payments made with bank instruments.

Bank payment instruments and services. — Payments made with bank instruments increased faster than in 1989, rising by 6.2 per cent in number and 22.7 per cent in value. The significant growth recorded for services such as cash withdrawals and the handling of bank receipts was accompanied by an increase of 9 per cent in the number of customers' current accounts.

The share of payment orders and direct debits in the total number of transactions rose from 29.6 to 31.2 per cent in line with the trend of the last few years. By contrast, cheques and bankers' drafts accounted for a declining share, although they are stili the most common instruments (Table 43).

Table 43

BANK PAYMENT INSTRUMENTS IN 1990 (1)

	Number				Value			
	Thousands	%	Percentage change		Billions of lire	%	Percentage change	
			1989/1988	1990/1989			1989/1988	1990/1989
Bank cheques (2)	443,338	46.6	1.5	6.9	1,301,978	20.2	8.8	13.5
Bankers' drafts .	211,376	22.2	2.9	–2.4	484,864	7.5	–0.2	8.8
Payment orders and direct debits (3)	295,949	31.2	9.8	12.1	4,654,861	72.3	21.3	27.3
of which: automated credits (4) ..	*36,553*	*3.8*	*9.9*	*12.1*	*75,575*	*1.2*	*17.6*	*26.1*
automated debits (5) ..	*71,578*	*7.5*	*24.8*	*25.5*	*159,593*	*2.5*	*55.8*	*32.3*
Total .	**950,663**	**100.0**	**4.1**	**6.2**	**6,441,703**	**100.0**	**16.3**	**22.7**

(1) Based on a sample of 75 banks that account for about 80 per cent of current account bank deposits. – (2) Excludes cheques for cash withdrawals at bank counters. – (3) Includes debits made in connection with payments of bills and bank receipts. – (4) Automated execution of payment orders by crediting recipients' current accounts. – (5) Automated execution of direct debits from customers' accounts for which prior authorization has been granted. Includes the estimated amount of debits made in connection with the payment of bills and automated bank receipts via RiBa.

Last year 443 million personal cheques were written (excluding 57 million drawn for cash) and 211 million bankers' drafts issued. The total value of these instruments rose to 1,800 trillion lire.

The Bank of Italy became more deeply involved in two projects to improve and streamline interbank exchange and settlement of out-of-town cheques: the "out-of-town cheques" procedure and cheque truncation. These procedures, which in the future will be combined for cheques up to a certain value, provide for settlement in monetary base.

The number of payment orders and direct debits is estimated to have risen to 300 million, an increase of 12.1 per cent, compared with one of 9.8 per cent in 1989. These operations account for 72 per cent of the total value of payments made through the banking system. Bank payment orders are becoming a commonly used instrument throughout the economy, even for small-value transactions, and are certain to play a growing role in intemational transfers of funds.

Payment cards. — Growing competition among suppliers of payment services and the steady change in consumere' habits have led to a considerable increase in both the number and the use of payment cards. In 1990 the number of cards in issue rose by 26 per cent and the number of transactions by 56.5 per cent. Nonetheless, payment cards stili account for a small share (around 3 per cent) of the total number of cashless payments.

Postal payment instruments. — More than 670 million payments for a total value exceeding 688 trillion lire were made last year by means of postal payment instruments and services (inpayments, cheques, postal giros and money orders). The Postal Administration's payment system activity is particularly important in the field of retail payments. The posta! system's extensive network of offices and single circuit make its current accounts service particularly suitable for handling collections and payments on behalf of public bodies and firms.

In 1990 the Post Office's membership in the clearing system operated by the Bank of Italy was finalized and provision made for the exchange and settlement of payments between the two circuits on the basis of common procedures. The complete operational integration of the banking and postai circuits will also require the achievement of full mutuai acceptability of payment instruments and inter-circuit standardization of instruments and services.

Unlike other European countries, Italy lacks an institutional forum in which to frame strategies and policies for the development of the payment field. As a step towards correcting this situation, the Postai Administration and the Bank of Italy recently undertook a joint study of the problems connected with the progress of integration and cooperation between the two circuits.

The interbank exchange and settlement circuit

The interbank payment system. — The interbank payments settled at the Bank of Italy increased by 80 per cent to around 18,000 trillion lire last year. The national clearing procedure handled more than 91 per cent of this total while direct transfers of funds on centralized accounts accounted for the rest. The growth was largely attributable to the effects of the two new clearing procedures that were initiated in July 1989: "electronic memoranda" and SIPS (the Interbank Payment System via the Interbank Society for Automation). The expansion of interbank payments was also fueled by the inception of the screen-based interbank deposit market and by the reform of the system of compulsory reserves, which made additional liquidity available for daily operations. The rapid growth in gross payment flows settled at the central bank is reflected in their ratio to GDP having risen to 13.7, which was more than twice the figure for 1988 (Table 44).

Table 44

CLEARING AND SETTLEMENT OF INTERBANK PAYMENTS
(amounts in trillions of lire)

	Clearing (1)		Settlement on centralized accounts with the central bank (2) *(b)*	Total transactions settled in monetary base *(a+b)*/GDP (%)
	Gross flow *(a)*	Balances		
1988	4,892.3	810.3	1,307.1	5.7
1989	8,364.5	983.8	1,474.5	8.3
1990	16,240.7	1,286.2	1,634.4	13.7

Sources: Bank of Italy, *Società interbancaria per l'automazione* and Istat.
(1) Transactions of the Bank of Italy, the Provincial Departments of the Bank of Italy acting for the Treasury and the Post Office. – (2) Transactions net of clearing balances and giro transfers.

The clearing system. — The value of transactions passed through the clearing system increased by 94.2 per cent to 16,000 trillion lire (Table 45).

The wholesale system's "electronic memoranda" and SIPS procedures handled two thirds of the total, while local clearing accounted for almost all of the remainder.

Clearing balances amounted to 1,286 trillion lire, an annual increase of 31 per cent that was considerably smaller than that of flows. The tendency for the expansion of multilateral clearing mechanisms to improve the efficiency of liquidity management is confirmed by the reduction in the ratio of balances to flows from 16.6 per cent in 1988 to 7.9 per cent last year (Table 45).

Table 45

FLOW OF FUNDS THROUGH THE CLEARING SYSTEM

(amounts in trillions of lire)

	Clearing system (1)						
	Local clearing	Retail system (2)	Wholesale system		Total flows *(a)*	Balances *(b)*	Balances/ Total flows *(b/a)*100*
			Memoranda (3)	SIPS (4)			
1988	4,284.1	–	608.2	–	4,892.3	810.3	16.6
1989	5,210.7	0.6	1,434.4	1,718.8	8,364.5	983.8	11.8
1990	5,430.2	15.9	5,147.2	5,647.3	16,240.7	1,286.2	7.9
1990 – 1st qtr. ..	1,381.1	1.7	954.0	1,134.3	3,471.1	325.0	9.4
2nd "	1,318.0	3.9	1,246.0	1,453.2	4,021.1	316.0	7.9
3rd "	1,272.1	4.5	1,291.1	1,457.3	4,025.0	331.4	8.2
4th "	1,459.0	5.8	1,656.1	1,602.6	4,723.5	313.8	6.6
1991 – 1st qtr. ..	1,450.7	7.8	1,470.3	1,765.6	4,694.4	394.9	8.4

(1) Includes transactions of the Bank of Italy, the Provincial Departments of the Bank of Italy, the Provincial Departments of the Bank of Italy acting for the Treasury and the Post Office. – (2) The Bancomat procedure was initiated on 29 November 1989 and cheque truncation on 26 March 1990. – (3) The "electronic memoranda" procedure was initiated on 11 July 1990. – (4) Initiated on 19 July 1989.

Retail exchanges amounted to around 16 trillion lire in 1990 and were largely determined by the cheque truncation procedure, which involved items totaling 7 trillion lire (Table 45).

The 11,000 trillion lire of transactions handled by the wholesale system were distributed almost equally between SIPS (52 per cent) and electronic memoranda (42 per cent).

SIPS transactions rose rapidly, owing in part to foreign exchange liberalization; in the first quarter of this year they amounted to more than 1,700 trillion lire, a value approximately egual to that recorded in the second half of 1989, when the procedure was introduced.

The transactions passed through the procedure for electronic memoranda also increased sharply, with interbank deposits accounting for 63 per cent of these operations.

Centralized reserve and advance accounts — Movements of funds on centralized accounts at the Bank of Italy increased by around 24 per cent to 2,900 trillion lire (Table 46). The share of these flows attributable to clearing balances rose appreciably (from 35 to 40 per cent), whereas that of payments to and from the Bank of Italy and the Treasury diminished.

Table 46

FUND TRANSFERS THROUGH BANKS' CENTRALIZED ACCOUNTS
(trillions of lire)

	Total	of which: Direct debiting and crediting (1): Interbank giro transfers	Intra-bank giro transfers	Total	Banks' multilateral clearing balance
1988	2,019.8	–	–	–	712.7
1989	2,303.2	18.5	–	18.5	828.8
1990 (2)	2,868.5	25.5	40.5	66.0	1,138.2
1990 – I qtr.	690.7	10.4	–	10.4	285.7
II "	653.5	5.0	–	5.0	265.8
III " (3)	709.3	5.0	–	5.0	282.8
IV " (4)	815.0	5.1	40.5	45.6	303.9
1991 – I qtr.	862.6	7.3	46.4	53.7	341.7

(1) Direct debiting and crediting began on 3 April 1989. – (2) Up to 14 January 1991. – (3) Up to 14 October 1990, the last day before the reform of the system of compulsory reserves. – (4) Refers to the reserve period.

In the fourth quarter of last year, the mobilization of compulsory reserves led to changes in the configuration of banks' accounts held with the Bank of Italy. The centralized accounts now comprise both the reserve accounts, for banks' compulsory reserves and for the deposits of banks not subject to reserve requirements, and ordinary advance accounts. Moreover, the local deposit accounts that had been held almost exclusively by rural and artisans' banks were taken finto the new centralized accounts. Accordingly, the number of holders of centralized accounts nearly doubled and stood at 892 at the end of March of this year.

The pricing of payment services. — In nearly all the industrial countries the large outlays required to install computerized procedures have sharpened awareness that the charges for services supplied by central banks need to be related to their cost.

A comprehensive re-examination of the pricing of the payment services supplied by the Bank of Italy led to a reformulation of policy objectives in this field; the aim of recovering part of the cost of supplying services was combined with that of stimulating operatore to use the new services and innovative instruments.

The new pricing policy has initially been applied to the procedures for the direct movement of funds on centralized accounts and electronic memoranda; to encourage the use of computerized procedures, the charges on paper-based operations are currently from three to six times higher than those on transactions carried out via the interbank network.

Clearing and settlement of securities transactions

Securities settlement. — The value of the securities handled through the settlement procedures increased by more than 140 per cent last year to reach 1,485 trillion lire, with that of government securities rising by 242 per cent to account for more than 84 per cent of the total, compared with 60 per cent in 1989; share, warrant and option settlements declined by 10.2 per cent, mainly as a result of the fall in prices, whereas bond settlements rose by around 64 per cent, recovering from the sizable contraction recorded the previous year.

The daily settlement procedure handled 86.5 per cent of the total value and the monthly settlement procedure the remaining 13.5 per cent. This distribution reflects differences in the types of securities settled and in settlement methods.

The daily settlement procedure mainly handles transactions in government securities and bonds; these are settled three days after trade date (two days for Treasury bills), and every day is a settlement day. The monthly procedure is used chiefly to settle the share contracts stipulated during an entire stock exchange account, with a single settlement day for each account for the final balances resulting from ali the trades effected between the fifteenth and forty-fifth day preceding settlement day.

The centralized administration of government securities. — The proportion of government securities centralized in the deposit system managed by the Bank of Italy rose from 90.3 to 95.6 per cent of ali government securities in circulation; the nominai value of the deposited securities rose from 808 to 980 trillion lire. The centralization of securities in denominations of less than 5 million lire and the redemption at maturity of issues that had not been centralized contributed to this result.

The "centralized securities accounts" procedure that was introduced in September 1990 permits securities to be transferred in real time at all Bank of Italy branches by debiting and crediting participants' single centralized accounts. Previously, the securities transfer service had been available at only seven of the Bank's branches.

Cedel and Euroclear began to take part in the Italian system in March 1990 for ecu-denominated securities and in Aprii of this year for lira securities. The link with these international securities clearing houses, which participate through two leading Italian banks, makes it easier for non-resident operatore to take up Italian government securities by simplifying settlement.

Monte Titoli SpA. — Monte Titoli continued to expand its centralized securities depositary business. The face value of centralized securities (shares, warrants and bonds) rose from 71 to 83 trillion lire. The face value of centralized shares was egual to 40 per cent of that of ali listed shares in circulation; the proportion rises to 85 per cent if one disregards shares held by controlling syndicates and thus withheld from circulation.

In line with the orientations that are emerging at the Community level, Monte Titoli has been developing contacts with its counterparts abroad.

The exchange of services between centralized depositaries will facilitate international securities trading, in accordance with the recommendations of the OECD and the Group of Thirty.

SUPERVISORY ACTIVITY

The legislative framework

A series of important legislative measures regarding financial services have been approved in the last few months with the result that Italy now has a comprehensive, coherent and effective body of laws in this field.

Law no. 218 of 30 July 1990 and the three legislative decrees issued on 20 November are designed to encourage the rationalization and modernization of the credit system by increasing the range of strategic options open to bankers.

Publicly-owned credit institutions may now transfer their banking activities to limited companies, convert their capital parts finto shares and merge with other banks, including those belonging to categories that were previously precluded. The rules governing the control of the capital of the banking companies that are set up envisage a reduction in the influente of the public sector by permitting the sale to the public of minority interests and empowering the Government to authorize their privatization, with due account being taken of the public interest involved.

The law encourages the drive to increase the size of banks by granting tax relief for mergers. The rules governing the supervision of credit groups foresee an organizational model that will permit the whole range of financial services to be provided by means of separate operating companies headed by a bank or a financial company.

Law no. 287 of 10 October 1990 is designed to safeguard competition and the market and lays down rules for the ownership of banks' capital that implement the principle of separation between banking and commerce.

The rules on competition supplement the directly applicatile ones embodied in Community law, provide for a Competition Authority to monitor compliance, and forbid the abuse of dominant positions and agreements that restrict competition. Operations that increase concentration — including mergers and the acquisition of control in various forms — fall within the scope of Law 287/1990 when they involve enterprises beyond a certain size. The Competition Authority is empowered to forbid operations that would create or strengthen a dominant position in the domestic market or eliminate or substantially and permanently reduce competition.

Responsibility for avoiding restrictive practices in the banking system is entrusted to the Bank of Italy, which is accordingly required to safeguard both stability and competition.

The provisions of Law 287/1990 regarding the ownership of credit institutions are designed to protect the autonomy of banks' managements and the neutrality of their decisione. They permit individuai non-financial companies to hold, directly and indirectly, up to 15 per cent of a bank 's capital, but not to acquire control. The Bank of Italy is empowered to issue regulations to prevent conflicts of interest from arising in connection with lending to significant shareholders.

Law no. 1 of 2 January 1991 covers securities investment business and the organization of the stock market. The underlying aim is to promote the development of Italy 's capital markets by creating specialized bank and non-bank securities houses in line with the arrangements envisaged for the single European market.

Law 1/1991 provides for the creation of multifunctional securities investment firms, which, together with banks, will be the only persons authorized to engage in securities business. Actual trading in securities is restricted to these firms, except that banks are allowed to trade in government securities. This new category of intermediary will replace stockbrokers, stock exchange commission dealers and all the other operators that have come irto being in the absence of specific legislation. The Consob is responsible for authorizing securities investment firms and significant shareholders are required to underwrite protocols of autonomy.

The rules governing securities business apply to both banks and securities investment firms. The Consob is responsible for controlling the transparency of information and the propriety of contracts, while the Bank of Italy is responsible for ensuring compliance with the capitai adequacy requirements introduced to protect stability. In order to avoid conflicts of interest, different types of securities activity will have to be organized in separate units that are required to keep separate accounts. The compulsory creation of an insurance fund enhances the protection of investors. Law 1/1991 also requires all securities trading to be conducted on a regulated market and lays down guidelines for improving the working of existing markets and creating new ones, with special reference to futures and options.

Supervision of credit activity

Establishment and concentration. — The banks set up in 1990 were the first to be authorized without reference to "the economic needs of the market".

Five new credit institutions were authorized during the year: three rural and artisans' banks, one cooperative bank and one limited company. In addition, Banca della Valle d'Aosta was set up under a regional law. The number of special credit institutions decreased by one following the closure of a public works special credit section.

Sixty-four banks have now been authorized since the promulgation of Presidential Decree 350/1985 (5 limited companies, 3 cooperative banks and 56 rural and artisans' banks). At the end of Aprii a further 81 applications were pending, in part because of the intervening increase in the minimum capitai requirement (3 limited companies, 14 cooperative banks and 64 rural and artisans' banks).

The process of concentration continued at a rapid pace: seventeen authorizations were granted involving eleven mergers, three amalgamations and three acquisitions of a controlling interest. The merger of two 2nd class pledge banks with a 1st class pledge bank has also been given favourable consideration and submitted to the Interministerial Committee for Credit and Savings for its approvai in accordance with Artide 47 of the Banking Law. In addition, eleven mergers have been approved by the competent authorities of the special statute regions involved.

Law 218/1990 has begun to produce its effects: by the end of May 1991 two projects for the restructuring of publicly-owned credit institutions had been submitted to the Bank of Italy. On 13.2.1991 the Minister of the Treasury issued a Decree authorizing Cassa di Risparmio di Roma to implement its plans to merge with Banco di Santo Spirito and gradually combine its activities with those of Banco di Roma.

Branch networks. — Between March 1990, when the regulations governing branch networks were liberalized, and the end of last year banks submitted 3,095 applications to open new branches, corresponding to 20 per cent of the branches operating at the end of 1989.

The number of authorized branches rose over the year from 15,577 to 17,721 (Table 47) and another 477 new branches were authorized in the first three months of this year.

Table 47

THE ITALIAN BANKING SYSTEM

	At end-1989		Changes in 1990				At end-1990	
			Banks			Branches		
	No. of banks	No. of branches (1)	New	Closed	Sold		No. of banks	No. of branches (1)
Public-law banks	6	2,236	–	–	–	213	6	2,449
Banks of national interest	3	1,280	–	–	–	179	3	1,459
Ordinary credit banks (2)	110	3,519	2	–6	–	462	106	3,981
Cooperative banks ...	113	2,834	1	–6	–	456	108	3,290
Savings banks	75	4,032	–	–	–	466	75	4,498
1st class pledge banks	7	166	–	–	–	25	7	191
2nd class pledge banks	2	6	–	–	–	–	2	6
Rural and artisans' banks	728	1,446	(3) 6	–19	–	346	715	1,792
Branches of foreign banks	36	53	5	–	–4	–3	37	50
Central credit institutions	5	5	–	–	–	–	5	5
Total . . .	**1,085**	**15,577**	**14**	**–31**	**–4**	**2,144**	**1,064**	**17,721**

(1) Branches located in Italy. – (2) Includes banks set up as public limited companies, one private limited company and Banca Nazionale delle Comunicazioni. – (3) Includes three new banks following mergers.

Sales and relocations of branches do not change the total, but they are indicative of banks' rationalization of their networks. Last year saw 18 operations involving the sale of 23 branches, while a total of 240 branches were relocated in accordance with the procedure of tacit approvai, as against 300 in 1989.

The automation of bank-customer transactions is an important aspect of the development and modernization of the payment system. At the end of last year 53,000 automated installations were in operation: 9,200 ATMs, of which more than 75 per cent on bank premises, and 43,800 POS units belonging to 232 different banks. The majority of these installations are in the North of Italy, with the western regions having the highest density.

When examining Italian banks' applications to open branches and representative offices abroad, the Bank of Italy takes account not only of the status of the applicant but also of the financial centre in which the office is to be opened; it supports the tendency for domestic banks to enter foreign markets, provided this complies with criteria of gradualness and geographical diversification. Last year the Bank authorized 7 branches and 13 representative offices, most of which were located in Europe.

Prudential and on-site controls. — A total of 192 credit institutions were inspected last year, compared with 196 in 1989. Special care is being taken to ensure that this activity keeps abreast of the organizational and operational changes that are under way in the banking system and continues to play its role of complementing prudential supervision.

The increase in data processing power and the ability to combine accounting and administrative data more effectively have broadened and deepened the scope for the analysis of banks' situations and made it possible to establish generai criteria that enhance the uniformity of supervisory activity.

Interventions to correct unsatisfactory situations include administrative measures pursuant to Artide 35 of the Banking Law and, specifically, the application of more stringent capital adequacy ratios. Last year one bank was required to comply with a ratio of risk-weighted assets to own funds of 8 and for another four the ratio was set at 10. In addition, three of these banks were required to convene a meeting of their shareholders to approve the necessary corrective action.

Close collaboration continued to be maintained with the supervisory authorities of the other EEC and G-10 countries. This included the exchange of information regarding both the regulations applicatile to parts of the banking system and the situations of individuai banks, with special reference to the results of inspections carried out in the Italian branches of foreign banks.

The state of the banking industry

Capital adequacy, self-financing and external sources. — Banks ' year-end prudential returns, which do not include their allocations to provisions for the year, show that their own funds rose by 8.4 trillion lire, compared with 10.7 trillion the previous year. In percentage terms the increase amounted to 11.3 per cent, compared with 16.8 per cent in 1989.

The slowdown reflected the reduction in the inflow of external capital from 4.4 to 2.8 trillion lire and from 41.5 to 33.2 per cent of the total increase. Most of the decrease was attributable to the smaller volume of external capital raised by public-law banks, whose contribution had been boosted in 1989 by Istituto Bancario S. Paolo di Torino having included the capital of its Public Works Credit Section in its accounts following its acquisition of an interest in Crediop and the assignment to the latter of the Section's assets and liabilities.

Gross operating profits grew by 18.1 per cent, a sizable improvement on the 5.9 per cent recorded in 1989 and in line with the result for 1988. Self-financing rose from 40 to 43 per cent of gross profits, despite a substantial increase in loan writeoffs and a larger volume of dividends.

The banking system's capital ratios continued to converge, primarily owing to the faster pace at which banks that were sub-standard at the end of 1989 strengthened their capital bases. These banks increased their own funds by 40.1 per cent and kept the expansion in their assets moderate. In contrast with the previous year, banks meeting the capital adequacy requirements did not increase their assets significantly faster than sub-standard banks.

Recourse to subordinated loans among sub-standard banks was made mainly by major, large and medium-sized banks and savings banks, which raised 2.2 trillion lire in this way, compared with 0.1 trillion for the others.

Credit risk. — Banks' bad debts increased by 7 per cent and totaled 26.9 trillion lire at the end of the year. The faster growth in lending resulted in their falling from 5.5 to 5.1 per cent of this aggregate; they also declined in relation to own funds, from an average of over 31 per cent in 1986-89 to 28.5 per cent last year.

The proportion of existing loans classified as bad debts during the year varied according to the size of the bank and the geographical location of its customers. Small banks in the South of Italy continued to have a larger proportion of bad debts among small borrowers than elsewhere. The new bad debts observed for a sample of about 2,000 major corporate customers showed a tendency to decline further throughout the country.

New bad debts under the revised classification introduced last year totaled 5.5 trillion lire, an increase of 24.5 per cent. About half this amount was attributable to the textile, clothing and leather sectors (600 billion), building and construction (700 billion) and wholesale and retail trade and recovery and repair services (1,200 billion, an increase of 42 per cent on 1989).

The bad debts of the special credit institutions rose by 9.3 per cent from 11.1 to 12.1 trillion lire. The results of the various categories varied widely, partly owing to the different policies adopted towards the tax-deductibility of bad debts. Those of the leading special credit institutions fell by 6.5 per cent, but those of industrial credit sections and agricultural credit institutions increased by 29.1 and 26.5 per cent respectively. The ratio of bad debts to total loans fell from 4.5 to 4.3 per cent, confirming the downward trend of recent years.

Investment funds

New subscriptions rose above redemptions in the third quarter of 1990 and net fund-raising for the year amounted to 828 billion lire, the first positive result since 1986. The improvement was due to the rising trend of subscriptions and to an even greater extent to the steady declive in redemptions.

The Treasury Ministry authorized 29 new funds last year. One fund was voluntarily wound up, so that the number authorized at the end of the year rose to 259. These were run by 61 registered management companies, one less than at the end of 1989 following the withdrawal of one company from this activity.

Management companies continued to implement the strategy developed in the last two years with the aim of diversifying their product ranges to meet the requirements of investors and restructuring their operations to cut costs. Diversification was pursued by creating new funds specializing in particular branches of activity, geographical areas, currencies and types of security or by combining units with other financial products, which led, for example, to further expansion of so-called sweep funds. Increased operational efficiency was pursued through internal reorganization and in some cases through mergers and other forms of cooperation.

THE GOVERNOR'S CONCLUDING REMARKS

As in the past, the Annual Report presented to you today describes and interprets the events that have affected the economy in the last twelve months, provides an account of the Bank's activities on the intemational stage and in Italy, and records the steps taken in the fields of monetary policy, supervision and the payment system. It reveals the intensity of the changes that are taking piace in the financial system, and particularly in the credit sector. These concem the legislation and regulations applicatile to credit institutions, the organization and geographícal distribution of their activities, the composition of their accounts, the services they provide to customers and the ways in which they cooperate. Those who work in the banking system recognize that the economy and society require it to provide an improved operational capability and a wider range of more efficient services; in formulating and implementing their basic strategies and in performing their day-to-day activities, they are committed to supporting the effort Italy is making to meet the European challenge.

The banks and the centrai bank form a system for creating money and transferring it between producers, merchants and consumere. In recent years the Bank of Italy has planned a series of measures to transform the way in which it performs its functions, and most of these have already been implemented. The introduction of modern procedures for managing banks' compulsory reserves, the system of centralized accounts for the clearance and settlement of transactions in government securities and the reorganization of the Bank's supervisory activities are among the main accomplishments of last year. The secondary market for Government securities, the interbank deposit market and major projects regarding the payment system were developed in dose cooperation with the banking system and other operatore and institutions.

The changes in the Bank's *modus operandi* are reflected in the ways in which its human and technical resources are organized and managed in the central Departments and in the branches. A major project involving the comprehensive reform of branch operations is under way and the branches' data transmission and processing facilities are being modemized at the same time. Automation is also being carried further in the Central Administration and is stimulating other innovations. All of these activities require and are supported by an intensive training programme.

Both the conception and implementation of the strategy to which the Bank of Italy is committed are the work of a staff that is highly qualified, aspires to achieve the best possible results and is conscious of the values the Bank represents. I wish to express my thanks to them, confident that their perseverance will enable the Bank to continue to perform its institutional tasks in a way that satisfies the requirements of a society that is advancing.

This meeting and the entire Bank will wish to join me in remembering Rinaldo Ossola, who died last December. He was Deputy Director General from 1969 to 1975 and Director General from 1975 to 1976, during which time he also played an extremely active diplomatic role in the fora devoted to multilateral economic cooperation. He was subsequently called upon to hold office in Government. We shall keep alive the memory of his dedication to the Bank for nearly forty years, the services he rendered to Italy, his competente and intelligence, and his ability to propose new solutions that contributed to the renewal of the international monetary system.

The world economy

Economic developments and prospects

The growth in the world economy was already showing signs of slowing down in the first half of 1990, following an expansion that had lasted for seven years. In August the crisis in the Gulf generated a wave of uncertainty, which caused households and firms to reduce their spending plans still further and spread to production. The difficulties of economic reform in the countries of Central and Eastern Europe and the Soviet Union became more pronounced.

In the face of events in the Gulf, the major industrial countries confirmed their commitment to economic policies oriented towards stability in order to prevent the rise in energy costs from inducing a permanent increase in inflation. With the markets prey to adverse expectations, their aim was to provide a more certain frame of reference, partly through the careful control of money creation. The acceleration in prices was short-lived: between July and November the rate of inflation in these countries rose by more than one point to 5.8 per cent, reflecting the increase in oil prices; it then fell back to 4.8 per cent in Aprii of this year.

World trade grew by 4.6 per cent in 1990, compared with 7.2 per cent in 1989. The growth in output in the industrial countries as a whole was 2.6 per cent, but in the second half of the year it barely exceeded an annual rate of 1 per cent. There were substantial cyclical divergences; the sharp slowdown in activity during the year in the United States, Canada and the United Kingdom contrasted with rapid, albeit decelerating growth in Germany and Japan, while France and Italy found themselves mid-way between the two groups, with output increasing by around one point less than in 1989.

In the United States, cyclical developments and the banks' reduced willingness to lend in view of the deterioration in their assets encouraged an easing of monetary policy, leading to a reduction in official interest rates in December and again in February and Aprii of this year.

Unification led to rapid growth in the economy of the Western regions of Germany, while output and employment declined sharply in the Eastern part of the country. In view of the substantial transfer payments needed to finance the economic restructuring of the Eastern regions, the 1990 budget of the united Germany recorded a large deficit equivalent to almost 4 per cent of gross national product, whereas in 1989 the budget of the Federal Republic had been virtually in balance. The budget deficit is expected to increase by more than one point in 1991 despite the recent tax measures; monetary policy has been tightened to counter the pressure the deficit is exerting on resources. The monetary authorities in Japan also adopted a more restrictive stance to curb demand and contain the rise in real estate values and share prices.

The current account payments imbalances of the leading countries diminished, reflecting cyclical differences and changes in competitive positions. In Japan the surplus was equal to just over 1 per cent of gross product, compared with 2 per cent in 1989 and more than 4 per cent in 1986. The surplus of the united Germany decreased owing to the growth in domestic demand following unification; the main beneficiaries were the Community countries that trade most intensively with Germany, such as Italy, France, Belgium and the Netherlands. Although the United States' deficit has been declining since 1988, it remains at around $100 billion, equal to 1.8 per cent of gross national product; it is adding to a net external debtor position that now exceeds $700 billion.

The end of hostilities in the Gulf eliminated a source of uncertainty that threatened to turn the slowdown in economic activity finto a worldwide recession. Oil prices, which had touched peaks of $40 a barrel, fell to below $20; the danger that inflation would be accentuated by events in the Gulf receded. This was followed by a fall in market and official interest rates in a number of countries. Although subject to wide fluctuations, the exchange rate of the dollar recovered from the extremely depressed levels it had reached last year, as market perceptions reflected the improved prospects for the US economy.

In the countries where economic activity is weak, policies have been directed towards preventing the downturn from persisting and spreading. At their recent meetings in Washington, the Group of Seven countries emphasized the importante of action that was concerted but differentiated according to the situation in each country to promote growth in the world economy coupled with price stability. The declive in interest rates that has already begun in several countries can be reinforced by an appropriate combination of economic policies that ease the pressure of the public finances on the capitai markets.

Saving and investment in the world economy

The changes now occurring and those yet to come confirm that the shortage of savings is a problem facing the world economy as a whole, a conviction we expressed on this occasion two years ago. The evidente for such a shortage is to be found by comparing the level of saving with the substantial volume of funds required for investment. Heavy demand for resources is coming from the less developed economies, many of which are burdened with foreign debt, and from the regions that suffered most as a result of the Gulf conflict. The Central and Eastern European countries and the Soviet Union have immense investment requirements. In the industrial countries there is also an urgent need for improvements in infrastrutture, land management and environmental protection, and demographic trends are putting additional strain on social security and health systems.

Between the sixties and the eighties gross saving declined by around 3 percentage points as a proportion of national income in the OECD countries. The slowdown in growth, the aging of the population, the spread of social security systems and the development of financial instruments and intermediaries that gave households easier access to credit all contributed in this regard. The contraction in saving occurred primarily in the public sector; although the condition of the public finances has improved in some major countries in recent years, in others the state is still drawing on private saving to finance current expenditure.

Real interest rates, which were marginally positive in the sixties and dose to zero in the seventies, rose to historically high levels at the beginning of the last decade as a result of policies to combat inflation; they then stabilized at around 4 per cent. Whereas real interest rates had previously been well below the rate of growth in output, they have now exceeded that rate for more than ten years and are showing consideratile downward rigidity.

It would be an oversimplification to postulate a mechanical link between the shortage of saving and the behaviour of real interest rates. The high level of interest rates is a complex phenomenon, the causes of which and their relative importance are difficult to determine; they include not only the imbalance between the supply of savings and the demand for investment but also the increased profitability of capital, the overburdening of monetary policy and continued uncertainty.

Our economies are not doomed to endure real interest rates at their current level; rates can be reduced if the leading countries persevere with economic policies directed towards maintaining stability in both prices and expectations, easing the pressure of current account budget deficits on real and financial resources and encouraging saving in the private sector. Even in less developed areas, improvements in efficiency and higher rates of growth may generate additional resources. Lower real interest rates would foster a recovery in economic activity, ease the burden on heavily indebted countries and facilitate the investment needed by developing countries and for the transformation of the planned economies.

In the countries of Central and Eastern Europe, the problems of generating and mobilizing savings are inextricably bound up with the difficulties of marrying political and institutional reforms with the transition to a market economy. The quality of their production plant is proving inadeguate to meet the needs of economies that have less and less protection; the process of regeneration, which of necessity will be far-reaching, first entails a period of falling output.

The recent report by the Group of Ten stressed the need for the Eastem European countries to implement structural reform as rapidly as possible in order to avoid the higher costs and risks inherent in a gradualist approach. The conditions attached to the financial support provided by international institutions should aim to stimulate reform, on which depend the flows of bilateral aid and direct investment that are essential during the period of transformation and take-off in order to complement domestic saving, introduce competitive technologies and mobilize the abundant and qualified human resources these countries possess.

In the Soviet Union economic and monetary disequilibria are becoming more pronounced. Output continues to fall. The inefficiencies of the transport and distribution system are affecting the supply of goods to consumer markets and the regularity of deliveries of raw materials and semi-finished products to industry. Hoarding is being exacerbated by the loss of confidence in the currency, and persistent excess liquidity is fueling inflation. The reform process must be continued to keep the period of declining activity as short as possible and to complete the transition.

Some of the developing countries, particularly those in Latin America, are carrying out adjustment programmes, as a result of which they are achieving more balanced growth and inflows of private capital have resumed. However, the majority of these countries are having difficulty implementing the necessary policies. Their problems were aggravated in 1990, not only by the Gulf crisis but also by the slower growth in their export markets in industrial countries, the fall in raw material prices and restrictions on intemational trade, the removal of which is being held up in the GATT negotiations. The overall rate of growth of the less developed regions was barely 1.5 per cent, half that of 1989 and less than the rate of population increase.

The difficulties of the poorest countries are giving rise to substantial migratory flows. In Europe, the phenomenon has become particularly marked in the Mediterranean basin and is also increasing between East and West. In the Mediterranean area, the propensity to emigrate reflects rapid population growth, especially in North Africa, and a greater awareness of income disparities; it is also encouraged by the demand for labour in sectors in which Europeans no longer wish to work. According to widely accepted projections, the population of working age in the countries on the Northem rim of the Mediterranean will increase by only a few million between now and the year 2020, but in countries on the Southem and Eastern shores it will expand by more than 100 million, predominantly in urban areas. The pressure from regions so dose at hand requires the industrial countries of Europe to adopt effective and uniform measures to regulate migratory flows, facilitate the integration of immigrants and provide adeguate resources to support the development of their countries of origin.

European Economic and Monetary Union

The development of the European Community accelerated last year: its originai objectives were supplemented by the search for a new continental equilibrium to take account of the end of bipolarity between East and West and the unification of Germany. Within this new context, the European Councils held in Dublin and Rome defined the methods and timetable for grafting Economic and Monetary Union onto the emerging single market and for a pian to advance towards Political Union. The two Inter-governmental Conferences that opened in Rome last December are drafting the necessary treaties. The difficulties the Community had in pursuing a coordinated policy during the Gulf crisis underlined the weakness of a half-finished structure and the need to complete it.

The implementation of the single market is proceeding apace. The process of passing the necessary Community legislation is at an advanced stage. In 1990 the percentage of such legislation that had been incorporated irto national regulations also rose rapidly, although not to the same degree in all member countries.

The Community's first line of approach is through the removal of the remaining non-tariff barriers, which affect a wide spectrum of sectors. The second is through competition policy, which is proving a potent force for structural change. The Commission, which has wide executive powers in this field, launched a Community policy on mergers last year and intensified its action with regard to national policies on the granting of aid to enterprises. The recent judgement by the European Court of Justice confirming the Commission's power to intervene in order to eliminate the public monopoly in telecommunications also opens up other sectors to competition policy, such as air transport, postal services, energy and rail transport.

These significant advances contrasted with difficulties on the tax harmonization front. Some important aspects, such as those regarding excise duties and VAT, appear dose to solution. Conversely, little progress has been made on the crucial question of the taxation of savings: the issue has been in suspense since the Council rejected the Commission's proposals almost two years ago, despite the undertakings given when the Directive on the liberalization of capital movements was approved.

The first phase of Economic and Monetary Union began in July. The United Kingdom's entry to the exchange rate mechanism means that for the first time in the history of the European Community the four major European countries are parties to an agreement limiting exchange rate fluctuations without any restrictions on capital movements. This requires monetary policy coordination within the Committee of Central Bank Govemors to be strengthened.

The work of the Intergovemmental Conference on Economic and Monetary Union has confirmed the consideratile degree of consensus on the objectives to be achieved, namely the creation of a single central bank with full autonomy, strict rules for national budgetary policies, convergence between the economies of member countries and the final transition to a single currency. When laws and common institutions are being established to set the seal on a union between systems and traditions rooted in the history of each individual country, there is bound to be intense debate both between countries and within them on the ways of effecting the transition.

The conclusions reached at the European Council meeting in Rome foresee that, on the basis of the new treaty and significant economic convergence, the transitional phase will commence at the beginning of 1994 with the creation of the European central bank. There are some who argue that the new institution is unnecessary as long as national authorities retain ultimate responsibility for monetary policy. In our view, however, the central institution needs to be brought iato being at the start of the transitional phase to guarantee the commitment that has been assumed and as a means of attaining the objectives of the treaty; the Commission performed the same function in the creation of the single market, and continues to do so. To abandon this method would weaken the credibility of proceeding towards a single monetary policy and irrevocably fixed exchange rates, cause uncertainty as to the final structure of the system and adversely affect the markets.

It is no less essential to achieve greater economic convergence even before the beginning of the transitional phase. Countries with sound public finances and a statile currency will find it difficult to win the necessary public support for a monetary union with countries that do not fulfil these conditions. In the final stage of EMU the Community itself will exert discipline on member states with regard to public finances, but even today the procedures for multilateral surveillance provide that the broad thrust of member states' policies regarding convergence shall be agreed at Community level.

Italy is an essential part of the history and life of the European Community, with a positive exchange of ìdeas and initiatives over a period of more than forty years; the measures the country has to take are increasingly the same as those the building of the Community requires and are becoming more and more urgent.

The Italian economy and economic policy

The results for 1990

Last year was marked by a deceleration in economic activity, an intensification of domestic inflationary pressures and a widening of the deficit in the current account of the balance of payments. Under the impetus of the economie expansion of the eighties, employment grew by 300,000 persons, with most of the additional jobs being created in the private services sector. The public sector borrowing requirement amounted to 140 trillion lire, 7 trillion more than the target despite supplementary budget measures enacted in May.

The economic slowdown mirrored the trend in the world economy but also stemmed from domestic demand factors. Signs of slower growth in investment and of the end of the prolonged rise in expenditure on consumer durables emerged as early as the spring. Confidence weakened in August with the onset of the crisis in the Gulf. Gross domestic product increased by 2 per cent in the year as a whole, with a perceptible slowdown in the second half. From the first quarter onwards employment grew very little overall and contracted in manufacturing industry.

Consumer prices increased by an annual average of 6.5 per cent. The twelve-month rate declined to 6 per cent in May but then increased again, to reach 6.6 per cent in December. Apart from fluctuations in the course of the year, the persistente of inflationary pressures cannot be ascribed to external factors. Indeed, the stability of the lira within the EMS, the weakness of the dollar and the decline in the prices of raw materials other than energy led to a reduction in the average unit value of merchandise imports expressed in lire, despite the rise in oil prices.

The GDP deflator, which better reflects the domestic component of inflation, rose by 7.5 per cent last year, one and a half points more than in 1989. Wages and salaries per unit of labour in the private sector increased by 7.4 per cent. In the main labour contracts signed last year, the need to maintain competitiveness conflicted with the desire to keep pace with large salary increases in the public sector, which exceeded 15 per cent, nine points more than the rise in the cost of living.

In view of the stability of the lira and the slackening of demand, industrial firms passed only part of the increase in costs onto prices; the resultant narrowing of profit margins helped defend export market shares. The trade account improved by 3.5 trillion lire, and by more than 5 trillion net of energy products, ending the year in balance. The expansion of demand in Germany had an appreciable effect: Italian exports to the German market increased by more than 18 per cent in value. The current account deficit nevertheless rose to 17.3 trillion lire, owing mainly to the deterioration in the deficit on investment incorre, which increased to 16 trillion lire.

Italy 's integration finto the international financial markets has accelerated appreciably in the last few years. As in other countries, capital transactions are now the predominant component in our balance of payments. This fundamental change requires markets and intermediaries to compete in the international financial arena; it also has implications for the conduct of monetary policy.

Monetary and exchange rate policy

In the conduct of monetary and exchange rate policy, the Bank of Italy sought to combine the disinflationary impact of adherence to the narrow EMS band and the achievement of the money supply targets with the need to contain interest rates so as not to jeopardize economic activity. Exchange rate stability and freedom of capital movements restrict the scope for central bank action to govern the domestic economy, but they do not eliminate it. The Bank made extensive use of the freedom of manoeuvre that is stili available, and which will remain until European integration has been completed. The credibility now attaching to the long-run stability of the lira made it possible to handle unexpected contingencies by making small adjustments in the exchange rate and allowing the money supply to deviate briefly from its targeted growth path.

Between January and July, investors' perceptions of reduced risk on lira investments made it possible to bring domestic interest rates down with respect to German rates, so that the differential on the interbank market narrowed from 4.6 to 3.2 percentage points. The average yield on govemment securities declined, with that on Treasury bills falling from 11.2 to 10.1 per cent net of withholding tax. The rise in capital movements produced net inflows, which consolidated the position of the lira. The extremely delicate phase that had begun with Italy 's adherence to the narrow fluctuation band and the liberalization of foreign exchange transactions was concluded without tension.

The monetary policy stance was not altered after the onset of the Gulf crisis, as evidenced by the underlying stability of real interest rates. Constancy in the basic stance does not imply automaticity in the conduct of monetary policy, however. At the beginning of September, when expectations were uncertain, market subscriptions of medium-term govemment securities covered only part of the volume reaching maturity, despite the Treasury having increased the base yield on bonds by half a percentage point. Taking advantage of the lira's strength, the Bank of Italy refrained from mopping up the additional liquidity for several days in order to curb an excessive rise in medium and long-term interest rates. The signal was perceived immediately, and operators purchased securities on the secondary market at yields lower than those offered on issues at the beginning of the month. At the mid-month auctions demand once again exceeded supply, and the rise in Italian interest rates carne back more closely into line with that observed elsewhere.

In November the Bundesbank raised its officiai interest rates, while the Italian Treasury's borrowing requirement greatly exceeded the forecast for the month. Exchange market intervention and higher short-term interest rates were needed to maintain the lira's position within the EMS and contain the expansion of the money supply. From December to the beginning of March 1991 the average yield on Treasury bills was about 11.5 per cent, one and a half points higher than in September. Interbank rates rose even more sharply, so that the differential vis-a-vis German rates temporarily increased to almost the level observed in early 1990. 'This monetary and exchange rate response halted the deterioration in expectations. Towards the end of the year medium-term yields on the secondary market were less than half a point above their September level of 11.6 per cent. In February they began to fall, both in absolute terms and in relation to rates abroad. The downward pressure on the lira waned and gave way to an upward tendency in March.

The Treasury issued an exceptionally large volume of securities last year to replace maturing paper and finance the deficit: 755 trillion lire, equivalent to 58 per cent of GDP, compared with 598 trillion in 1989. The issue volume is a reflection both of the size of the public debt and of its short maturity.

As lending rates were not fully adjusted to the rise in money market rates in the last few months of the year, it became more attractive to use bank loans to finance purchases of short-term government paper. This contributed to an acceleration in lending, reversing the slowdown recorded during the early part of the year. Domestic finance to the non-state sector expanded by 15.5 per cent in 1990, three points less than in 1989 but three and a half more than forecast. The demand for credit was fueled by a decline in corporate self-financing and an increase in transactions in both real and financial assets.

Domestic financial assets increased by 11.9 per cent, but the most liquid components grew more moderately. While the growth in nominal GDP was higher than forecast, the increase in the money supply remained within the target range until December, when the twelve-month rate of expansion rose to 9.9 per cent, exceeding the 9 per cent ceiling, in part because of the events that occurred at the end of the year. The growth in the money supply slowed down in early 1991; between January and April it remained within the more restrictive target range set for this year.

A net inflow of foreign exchange reserves of 24 trillion lire until the summer was followed by an outflow of 9 trillion in the closing months of the year, so that the official reserves rose by 15 trillion lire in 1990 as a whole. This increase reflects the fact that our economy is part of a stable exchange rate area but must contend with higher current and expected inflation than its partners, a very large budget deficit and persistent difficulty in controlling incomes growth. The convergence of Italy's inflation rate with the European average requires real interest rates to be no lower than those prevailing in the countries with more stable currencies. In fact, in real terms interest rates in Italy are comparable to those in the other leading industrial countries. In assessing the increase in official reserves and the year-end stock figure of around 73 trillion lire net of gold, one must take into account the intensification of capital inflows and outflows and the size of the country's net external debt. Total capital flows exceeded 800 trillion lire in 1990, while Italy's net debtor position stood at 125 trillion lire, excluding gold holdings of more than 30 trillion lire.

The persistence of inflation and the state of the economy

The performance of the economy last year and the account I have just given of the conduct of monetary and exchange rate policy corroborate the lesson of the last three years, namely that exchange rate discipline and financial integration alone can narrow but not close the gap between Italy and the more stable EMS countries. If inflation is to be tamed, a rigorous exchange rate policy must be accompanied by a change in the patterns of behaviour that determine domestic costs.

Between 1987, the date of the last effective realignment within the EMS, and 1990 the lira depreciated by 2.6 per cent in nominal terms vis-a-vis the narrow band currencies and by 2.8 per cent vis-a-vis the Deutschemark, on the basis of average annual figures. It remained virtually unchanged against the currencies of the wider group comprising Italy's competitors. This performance curbed imported inflation and moderated the rise in domestic costs, but not sufficiently to match the rate recorded by our competitors. The lira prices of imports rose on average by 3.6 per cent a year, with the result that consumer price inflation was about one percentage point a year lower than the annual rise in the GDP deflator, a significant difference.

Inflation, which had come down from over 20 per cent in 1980 to 4.7 per cent in 1987, averaged 5.9 per cent between 1987 and 1990. We have not succeeded in reducing the inflation differential vis-a-vis the other countries adhering to the narrow fluctuation band; it remains at more than three percentage points. Indirect taxation has contributed to consumer price inflation, adding nearly half a point a year over the three years.

Short-run fluctuations apart, between 1987 and 1990 Italy suffered a cumulative loss of 4.2 per cent in the price competitiveness of industrial products, ascribable partly to the depreciation of the dollar and the yen. The loss in relation to the economies belonging to the narrow fluctuation band amounted to 3.6 per cent. At the very least, this loss of price competitiveness must be halted by reducing inflation to the level experienced by our competitors. However, the current account deficit that Italy has been running for a decade cannot be remedied without an increase in domestic saving, in particular by the public sector. Compliance with the balance-of-payments constraint therefore goes hand in hand with the restoration of sound public finances. In the past, negative saving by the public sector has translated into insufficient saving by the country as a whole, as reflected in the cuffent account deficit. Italy's net external debt and the public debt fuel rising interest payments: it is imperative that this double spiral be broken.

Industrial output, which decreased by 2.5 per cent in the last quarter of 1990, has steadied at a slightly higher level in these initial months of the new year; industrial employment is falling and recourse to the Wage Supplementation Fund increasing. Economic surveys taken after the termination of hostilities in the Gulf show a revival of confidence among households and improved demand expectations among firms, indicating that economic activity may begin to pick up later in the year. Faster growth will depend on the state of the world economy, which is still uncertain, and on a recovery in investment.

The twelve-month rate of increase in the cost of living rose to 6.8 per cent in May, half a point more than in December. In most other industrial countries the downward trend has already resumed.

In this cyclical situation, and with the price of oil at its current level, inflation is likely to decelerate in Italy as well in the second half of the year, and all the more sharply the more costs are curbed. Even if the twelve-month rate falls to less than 6 per cent by the end of the year, which is possible, the differential with respect to France and Germany will not narrow significantly. Cost pressures are tending to cause a further erosion of competitiveness. The rise in labour costs per employee in the private sector is some two or three percentage points faster than in France and Germany. This is hampering the reduction in the current account deficit that might result from the improvement in the terms of trade. In the first four months of this year the trade deficit declined to 8.8 trillion lire, including insurance and freight costs for imports, compared with 10 trillion in the same period of 1990.

Having established that the state sector borrowing requirement would be 14 trillion lire above the target of 132 trillion set for 1991, on 11 May the Government introduced measures to bring it back within the ceiling and promised to take further action should this prove necessary.

With the easing of the tensions provoked by the conflict in the Gulf, the average rate on Treasury bills has come down by more than one percentage point since mid-March to 10.2 per cent and that on longer-term securities by half a point. The lira has strengthened, in conjunction with the appreciation of the dollar and the depreciation of the Deutschemark. The demand for medium and long-term securities has enabled the Treasury to limit issues of bills to the volume required to replace those maturing, and to offer the market a regular supply of longer-term securities with maturities of up to ten years.

Official interest rates have been reduced from 12.5 to 11.5 per cent, and the reserve requirement on banks' deposit liabilities has been eased. These measures were taken on 12 May at a time of stagnating industrial output and slack demand for investment goods; they are consistent with the guidelines that emerged from the recent meetings in Washington and contribute to the coordinated management of exchange rates within the EMS.

The target range for the growth in the money supply in 1991 remains 5-8 per cent, as announced last September. The Committee of EEC Central Bank Governors has judged these limits to be consistent with less inflationary growth in the Italian economy and with the necessary convergence of economic conditions among member countries.

The contradiction in Italy's situation

The contradiction in Italy's situation is becoming increasingly evident. In the eighties Italy made significant progress in strengthening the economy and reducing inflation, but its structures and economic policies continue to reflect the difficulties it is having in raising the overall quality of the system to the level required by the commitment to Europe. 'The elimination of all internal barriers within the Community makes areas of backwardness that have long been identified even more conspicuous and worrying. Firms that are capable of operating successfully in the world market coexist with the inefficiencies of the administrative machinery and of the sectors less exposed to competition at home and abroad.

We need to adopt incisive policies and rigorous standards of conduct, irrespective of membership of the Economic and Monetary Union. The decision to participate in EMU adds a compelling spur to action; its aim is to ensure that the opportunity for economic and social progress Europe offers us will not be wasted. Monetary stability and budgetary adjustment are the conditions for being a part of EMU from its very inception. Our ability to reap all the potential benefits of membership depends on the competitiveness of the whole economy.

Three issues are central: the public finances, labour relations and the efficiency of services. They are important not only in their own right and for their direct effects on industry, but also because they impinge on every aspect of Italian society, beginning with the regional imbalance between the South and the rest of the country. These interconnected questions, with their implications for monetary stability, have already been examined in various fora; there is consensus on the nature and urgency of the measures to be taken.

The public finances. — By moving towards the setting of limits on the budget deficits and public debt of states that aspire to be part of EMU, Europe itself enjoins us to restore sound public finances. The Government's recent Economic and Financial Planning Document confirmed that we must accomplish the first, decisive step of stabilizing the ratio of public debt to GDP within two years, and then reduce it. Given the present high level of international interest rates, it is unlikely that the average cost of the public debt will fall below the rate of growth of the economy in the next few years. Reducing the ratio of debt to GDP will therefore require, at one and the same time, sustained growth in output and a fiscal policy capable of producing a substantial budget surplus net of interest payments. If the budget is once more to become an instrument that can be fully deployed for governing the business cycle, it will then be necessary to eliminate the budget deficit on current account, a target the Planning Document sets for 1996.

Over the next three years it will be necessary to raise the incidence of taxation further and, above all, to stabilize the sources of revenue. These objectives must be achieved in ways that comply with the norms that are being set, either de jure or de facto, by the European Community. Even without formal tax harmonization, Italy must not diverge from the general levels of indirect taxation and taxes on investment, corporate and personal earned income obtaining in the Community. Otherwise, it will be impossible to prevent not only a narrowing of the tax base, but also a weakening of the productive sector, a flight of domestic savings and the relocation of financial intermediation and trading activities in other countries. In the radical overhaul, indeed reform, of the tax and social security contribution system that needs to be carried out, revenue must be increased by broadening the tax base where it has been eroded and especially by collecting taxes that have been evaded on income from real estate, self-employment and small businesses, and, more generally, by reviewing the specific concessions granted to particular sectors, categories and areas.

Together with rigorous action to combat tax evasion, the primary task of fiscal policy remains that of curbing public expenditure and increasing its efficiency. The basic problem is the upward slope of expenditure. The situation in the health service and, above all, in the pension system is already serious and expected to worsen; the Government has undertaken to draft legislation for the reform of the pension system by mid-June.

The necessary condition for curbing budget expenditure and deficits while at the same time improving the quality of services continues to be compliance with the Constitutional principle that legislation entailing additional expenditure indicate the means whereby it will be financed. The Government and Parliament are called upon to make this principle fully operational by making changes to ensure that the unity and financial consistency of the budget are not undermined by sectoral provisions or devices to circumvent the financing rule. Responsibility for a larger proportion of revenue, expenditure and decisions can be decentralized, provided that stringent limits are set, including restrictions on bon-owing, so that administrators are forced to decide their priorities.

In the supply of public goods, in the provision of services such as education and above all health, in the social security system and in public employment, the principle of squaring the accounts can and must be accompanied by production methods, organizational procedures and rules that enhance efficiency. Greater efficiency at both the central and local levels must be sought not only through compliance with the financing requirement but also by ensuring that services rendered are commensurate with remuneration, by fostering competition within the public sector itself and with private sector firms, by adopting entrepreneurial management procedures and, not least, by transferring activities to the private sector.

The nature and size of the public sector 's presence in the economy need to be changed drastically. The sale of public assets, especially shareholdings, is not simply a means of resolving the problem of debt and debt servicing. Carried out in accordance with rules and procedures that are both functional and strict, disposals must relieve the state of the burden of activities that are not its proper concern.

The labour market. — Economic policymakers and the two sides of industry must rapidly make incomes growth consistent with inflation at the lowest levels in Europe. The Economic and Financial Planning Document sets sharply diminishing inflation targets: 4.5 per cent in 1992, 4 per cent in 1993 and 3.5 per cent in 1994. These targets imply action to curb the factors that perpetuate inflation. They have to be achieved if the plan to rehabilitate the public finances is to succeed.

Changes in the methods and levels of collective bargaining and in indexation provisions need to be coordinated with the action being taken by the Government to orient expectations and behaviour to price stability through incisive policy measures and guidelines that take account of developments in all forms of income. To slow down the growth of nominal wages and salaries in both the public and private sectors, an economic policy that is credible in every respect must assure employees in each sector of the economy that a wage-price spiral in other sectors will not erode the real value of their wage settlements. A sound monetary yardstick reinforces the independence of the two sides of industry in wage negotiations, restoring their power to reach agreement within individual firms and at other levels on the distribution of income between profits and wages, on relative wages and on company incentives.

In the present system of industrial relations, the *scala mobile* tones down conflict by partly protecting the value of incomes. As it is now configured, however, it tends to compress wage differentials, prolongs the impact of rises in production costs and commodity prices, and even gives increases in indirect taxation an inflationary echo.

The credibility of the inflation target and the protection of the real value of wage settlements hinge primarily on exchange rate stability. The pressure of foreign competition on employment in the non-sheltered sectors, particularly manufacturing industry, is greater than in the past. In closely integrated economies with exchange rates that are on the way to becoming irrevocably fixed, wage behaviour must be dictated by the more moderate trend prevailing in the Community if employment is to be safeguarded. To avert shifts in relative incomes that are not justified by productivity differentials, public sector wage settlements must not diverge from those in the sectors exposed to competition. As regards immediate steps to reduce inflation rapidly to European levels, the Economic and Financial Planning Document lays down that in the new configuration of public sector employment, which must be in place before the next contracts can be drawn up, the growth of per capita earnings in the public sector must not exceed the target rate of inflation. Subject to that condition, incomes policy will have to tackle and resolve the specific problems of the civil service, and will make monetary stability and the competitiveness of the economy the paramount considerations for determining wage increases in other parts of the public and private sectors not directly exposed to foreign competition.

Social security contributions and personal income tax drive a wedge between companies' labour costs and their employees ' net earnings. Higher tax and contribution levels than in the major European countries would be justified only if they were matched by public services whose quality and cost offset the burden placed on the competitiveness of domestic producers.

We must also move towards European standards of labour market legislation in the fields of recruitment, vocational training and retraining, and unemployment benefits.

There is a growing need to innovate in the use of technology and personnel and to increase labour flexibility. In the South the elimination of rigidities, including those in the wage structure, is essential if the development gap is to be bridged.

Services.— The performance of market services as a whole compared unfavourably with that of industry in the eighties; the average annual growth in labour productivity was more than four percentage points lower, wage increases one point lower and the rise in the value-added deflator three points higher, preserving relative profit margins in the face of the rapid increase in the sector's unit labour costs. During the past decade the consumer prices of services rose faster than those of goods by an average of two points a year, despite the fact that the prices of goods include distribution costs. The differential was roughly twice as large as in France or Germany.

Under the discipline exerted by the exchange rate, industry is tending to align its prices and costs with those prevailing in the world market. No signs of a comparable development can be seen in vast areas of the private and public services sector, which now accounts for around two thirds of GDP. This difference in behaviour has been observed in other countries, and within certain limits it is perfectly normal, but in Italy it is hardening into a structural dualism, leading to internal conflict on both sides of industry.

The single European market will see the elimination of protection not only for banking and financial services, which we shall discuss in a moment, but also for various other categories of services. This must be accompanied by a wide-ranging, affirmative competition policy commensurate with the specific features of each branch of the tertiary sector. Bathers to entry, cartel agreements and public monopolies are obstacles to economies of scale, turnover among companies and innovation.

The law adopted last October for the protection of competition provides instruments for vigorous intervention, in services as well as elsewhere. The new Authority is responsible for preventing collusive agreements and the abuse of dominant positions, and for proposing changes to administrative rules or provisions that impede competition.

The adequacy of policies and conduct in both the private sector and general government will be gauged by their capacity to produce a surplus on trade in goods and services, to set against the deficit on investment income and other current account transactions. Industry bears the brunt of this burden; it is in the front lime in international competition. By easing the external constraint on the growth of income and employment, industry and the most efficient segments of the tertiary sector can determine the performance attainable by the economy as a whole.

In the eighties a long period of investment in the modernization of plant and production methods enabled industrial companies to regain competitiveness and profitability. The strengthening of the productive base was accompanied by the restoration of sound corporate finances. International competition is now more acute, however, and new players have entered the arena, such as the newly industrialized countries of Asia. To face this challenge, companies must focus on product innovation, improvements in quality and the realization of the full potential of human resources.

European integration, the exchange rate constraint, the removal of non-tariff barriers and the diminished independence of national industrial policy reduce the scope for compensating for the remaining weaknesses, and demand that they be addressed and overcome.

Italian industry must exploit the opportunities offered by a rate of productivity growth that can surpass that of other European countries. The economy is diverse, with a wealth of small and medium-sized firms that are one of our country's specific strengths and which ensured the continuity of economic growth in the seventies.

The public imterests that justify state participation in enterprises need to be reassessed. In the companies that will remain in the public sphere, stringent standards of economic efficiency must be the hallmark of a renewed commitment to entrepreneurial values. In the fields of transport, telecommunications, service networks and infrastructure, public companies can and must have a long-term vision.

Industry must be strengthened, its productivity improved and its costs curbed, but to meet the challenge of competition, both private and public services must make even greater progress in enhancing quality in relation to cost. Services account for more than 40 per cent of industry's current inputs, excluding labour and resources supplied by industry itself. If the deficiencies in private and public services continue to raise manufacturers' costs and to impede their investment decisions, Italy's productive base is bound to contract.

Monetary policy: the institutional framework and operational instruments

The integration of the European Community is creating new conditions and prospects for monetary policy; all the member states are required to make their legal systems, market structures and operating procedures consistent with the design for Europe.

In Italy monetary policy benefited in the eighties from the clarification of the institutional relationship between the Treasury and the central bank, the creation of new markets, the enhanced efficiency of existing ones and improvements in intervention techniques. At the operational level, despite the progress that has been achieved, monetary policy continues to be affected by the pressure the public finances exert on monetary conditions. At the institutional level, apart from changes that would be desirable in the powers regarding official interest rates, the condition for moving to the second phase of EMU is the elimination of direct monetary financing of the budget deficit.

The Treasury's current account with the Bank of Italy, which was regulated by a law adopted at the end of 1947 to confine borrowing from the central bank to the financing of temporary imbalances between receipts and payments, has degenerated into a regular and copious source of monetary financing as the result of a provision approved in 1948 that linked the overdraft limit to the total amount of public expenditure.

Reform of this facility is also a prerequisite for a major change in the compulsory reserves. In most countries these have proved an effective instrument for exercising monetary control; in Italy they have also served to absorb the liquidity created via the Treasury's current account, especially in the early eighties. Monetary and financial integration make it necessary to eliminate the differences between the reserve systems in force in individual member states. The competitiveness of the Italian banking system is diminished by the fact that the cost of reserves is well above the Community average, despite their higher remuneration.

The link that exists between compulsory reserves and the Treasury's current account means that the two systems need to be modified simultaneously, in the short time left before the advent of the single market and the second phase of EMU. The new arrangements for Treasury access to central bank credit will have to conform with the guidelines agreed in the Community and prevent the account from being a source of finance; the flexibility of the Treasury's cash management will have to be assured in ways that comply with this limitation. It will then be possible to reduce the compulsory reserve ratio substantially, notably for bank deposit flows, and bring it into line with those of the other major European countries. The outstanding amounts could be dealt with by converting the current account overdraft into long-term government securities and releasing the reserves in excess of the new requirement gradually, to avoid overburdening the public finances and upsetting the monetary and financial equilibria.

The measures adopted on 12 May of this year modified the reserve system and brought a first reduction in its cost. The requirement in respect of repurchase agreements was abolished and the ratio applicable to net foreign currency fund-raising was reduced to zero. Subjecting residents' gross foreign currency deposits to the same reserve ratio as their lira deposits is consistent with the liberalization of the use of foreign exchange.

The secondary market for government securities, which was set up three years ago, demonstrated its usefulness in a year in which it was necessary to renew a large volume of maturing government paper in addition to financing the borrowing requirement. The new market and the related trading and settlement procedures ensure transparent, multilateral and efficient trading, based on an operating system that is superior in many respects to those in other countries. Daily turnover in the first four months of this year exceeded 3.5 trillion lire, more than four times the figure for the same period of 1990. The fastest growth was in securities with residual maturities of more than five years, which currently account for about two thirds of the total turnover. Issues of long-term securities are made easier by the depth of the secondary market; we are moving towards a situation in which the volume of transactions on the secondary market will exceed that on the primary market and will determine its equilibrium conditions at the margin. Secondary market prices are a more reliable guide for the Treasury and for investors and are replacing the base rate as a benchmark for new issues.

The introduction of seven and ten-year Treasury bonds, of which 39 trillion lire have been issued in the space of a year, was an important step forward. The key to maintaining this trend towards longer maturities, which simplifies the management of the public debt, lies in restoring sound public finances; it is strengthened by a monetary policy oriented towards internal and external stability and will benefit from an increase in the role of institutional investors. The creation of official futures and options markets in government securities, which could be brought into operation relatively quickly, would be a step towards completing the structure of the financial market and encourage foreign investors to play a stable role in Italy.

The launch of the new procedure for the clearing and settlement of interbank transactions, the creation of the market for interbank deposits and the mobilization of compulsory reserves resulted in an integrated system, based on telematic techniques and providing a more efficient and transparent environment for the growing volume of transactions. The partial mobilization of compulsory reserves has enabled banks to improve their treasury management and made very-short-term rates more meaningful. The positive impact on the new interbank deposit market rapidly became apparent: daily turnover, which had been running at around 6 trillion lire before mobilization, rose to nearly 9 trillion lire in April of this year. The combined effect of the changes has been to make the intra-day markets for monetary base an integral part of a market spanning the monthly period for which the average reserve requirement is calculated. There has been a pronounced reduction in the variability of interbank rates, which now provide a better indicator for both the monetary authorities and operators.

The changed configuration of the money market since it became possible to mobilize reserves has also modified the role of the traditional instruments for the refinancing of banks. Ordinary advances are no longer the only immediately available source of funds to satisfy their monetary base requirements; a revision of these credit lines is now possible and desirable. The recent amendment to the regulations on fixed-term advances enables the Bank of Italy to set the penalty surcharge up to a maximum of 1.75 percentage points. It will therefore be possible to link the cost of refinancing more closely to market conditions.

Money market rates are the reference variable for the central bank's operations in almost all countries. Within the EMS, active management of short-term rates is also indispensable to maintain orderly exchange market conditions. In Italy, the link between interbank rates and the exchange rate grew stronger last year following the lira's adhesion to the narrow band and the removal of the last restrictions on capital mobility. The interest rate differential vis-a-vis foreign currencies fluctuated widely in parallel with exchange rate developments, but tended to narrow. The upward and downward movements of the lira last year confirm that Italian interest rates can be reduced permanently with respect to those abroad only insofar as an effective and credible programme is implemented to restore sound public finances and reduce inflation. In the meanwhile, it is left entirely to monetary policy to counter the deterioration in expectations in order to prevent a decline in the propensity of savers to invest in financial assets.

Monetary policy is already conducted within the framework of European integration as regards the setting of intermediate objectives. The Committee of EEC Central Bank Governors has indicated that the coordination among central banks in the first phase of EMU is to focus on monetary aggregates, the targets for which must be set in accordance with a policy stance defined for the area as a whole. As the integration of the financial market proceeds, each country's control of its monetary aggregates, an indispensable component of a stability-oriented policy, will be increasingly influenced by exchange rate considerations. Any attempt to evade this constraint would have only short-lived success, create tensions in the markets and give rise to imbalances that would be unsustainable in the long run. The objectives agreed for each country at Community level should refer exclusively to the domestic component of money creation; the set of objectives defined in this way will be the expression of the monetary policy of the whole Community. As in a system of communicating vessels, the area's overall liquidity situation will make itself felt in each country through flows of foreign exchange.

Financial institutions and markets

The three new laws: towards a financial services code

The laws approved last year — on securities markets and intermediation, banking groups and publicly owned banks, competition and company ownership — complement Italy's banking law. The incorporation of the relevant Community Directives into Italian law will complete the foundations of the legal framework for finance with which Italy will participate in the European market. The unitary nature of the provisions governing the financial sector has been enhanced and oriented to the development of the capital markets.

The new legislation on securities business provides for a composite system in which banks and other specialized intermediaries will operate together. When they engage in the same activities, they will be subject to the same rules on transparency and proper conduct under the control of the Consob. Capital requirements designed to safeguard stability will be laid down for securities investment firms as well. The securities industry will be strengthened not only by the regulation of intermediaries but also by the reorganization of the stock exchange and the creation of new markets.

In common with the other legislation, the provisions regarding publicly owned banks aim to create equal competitive conditions in the credit industry. They attenuate the distinctions between the various categories of bank, remove the requirement for special credit institutions to operate in only one sector and allow intermediaries considerable discretion in deciding the group structure to adopt. Operational specialization becomes an entrepreneurial choice rather than a legal requirement. The transformation of publicly owned banks into limited companies promotes the objective of increasing the size of banks and groups and allows a new balance between the public and private ownership of banking companies.

The law on competition marks a significant change in public intervention in the economy. Banks and other enterprises are prohibited from engaging in practices considered by the Treaty of Rome to restrict competition. In the credit sector the application of the law on competition is entrusted to the Bank of Italy, in consultation with the Competition Authority, in view of the need for the protection of competition and prudential supervision to make a coordinated contribution to the efficient working of the financial system. Other provisions of the law defend the independence of credit institutions in their allocation of resources through restrictions on shareholdings, protocols of autonomy and limitations on connected lending. The new legislation does not impose a model of widely dispersed share ownership; it permits a significant role even for non-financial entrepreneurs, within prescribed limits that preclude their exercising control.

The Second Banldng Directive opens the Italian market to banks from the other member states and the European market to Italian banks, defines the division of supervisory responsibility and develops the principle of cooperation between the authorities of home and host countries. In order to eliminate uncertainty regarding the framework in which banks will be required to operate, the Directive should be implemented promptly by including the necessary provisions in the Community enabling legislation under discussion in Parliament.

The legal framework that is emerging will make it possible to resolve problems that arise at present from the differences between the regulation of banks and special credit institutions; it will also be possible to make a clearer distinction between the various forms of fund-raising, specifying the methods and limits for direct fund-raising by firms and allowing only credit institutions to receive deposits and other repayable funds from the public on a continuous basis. The decree law relating to the vast and heterogeneous sector of fmancial companies, which is currently under discussion in Parliament, fills a gap in the legislation; it lays down rules that in the ensuing law should be differentiated according to the activity actually performed.

Proceeding in stages, Parliament has strengthened and extended a body of financial legislation that continues to be based on general principles. They are worth recalling. The unitary nature of the financial sector is of cardinal importance. A balanced complementary relationship between institutions and markets increases the efficiency with which savings are intermediated. The entrepreneurial nature of banking and financial institutions, the full responsibility of managers and their operational autonomy are indispensable to the correct allocation of resources. Independence from interests extraneous to banking enterprises is protected in various ways by the law, but in the conduct of business it is the responsibility of the governing organs to defend this independence with their technical competence and professional ethics. The uncertainty inherent in banking and financial activities is countered with rules that relate balance sheet aggregates to measures of risk and require organizational efficiency and effective internal controls. 'The transparency and fairness of customer relations are also a condition of efficiency.

In view of the diversity of aims, intermediaries in the financial sector will be supervised by different authorities, cooperating in ways that will not blur their separate responsibilities. The formula successfully used in the credit sector, namely a technical authority endowed with decision-making autonomy and discretion in applying guidelines laid down by law, has also been adopted for the securities and insurance industries and in the field of competition policy. For groups, the unitary basis of the controls is ensured by the principle of consolidation.

Once the Second Banking Directive has been incorporated into Italian law, it will be possible to begin drafting a code that will enhance the systematic nature of the legislation regarding credit and establish the necessary links with the laws on other aspects of finance.

Recent legislation based on measures coordinated in international fora requires that in their dealings with customers intermediaries make a greater and more continuous effort to help identify funds originating in illegal activities. There is a duty to cooperate in the fight against forms of organized crime that are attacking the very foundations of civilized society; such cooperation also promotes the stability of the credit system and defends its reputation; it must not alter the institutional aims or functional characteristics of credit institutions or the supervisory authority.

Banking

One of the features of the eighties in the industrial countries was the transformation of banking and finance, driven by the interacting processes of international integration, innovation in technology and financial instruments, and regulatory reform. Efficiency was pursued by reviewing and in many instances removing operational limitations; this was accompanied by more vigorous measures to induce credit institutions to strengthen their capital bases.

The restrictions on the operation of Italy's banking system were also attenuated and refocused. The credit institutions' response to greater freedom was not uniform. Rankings changed more rapidly than in the past, even among the large banks, reflecting differences in market positions, corporate organization and the strategic and operational skills of their managers.

The rise in the share of assets in the traditional and more profitable form of loans enabled Italian banks to remain highly profitable throughout the decade, despite increasing competition. This possibility is receding for a growing number of banks as their securities portfolios decline.

The profits they have earned have enabled banks significantly to strengthen their capital bases, which are now on a par with those of other European banks and will be made more visible by the asset revaluations permitted by legislation approved last year. This facilitates the application of more stringent standards for own funds in conformity with the recent Community Directive that is being incorporated into Italian law.

Competition has spurred the various categories of bank to expand their business outside their traditional market segments. Savings and cooperative banks, which together hold some 45 per cent of total bank deposits, increased their share of the flow of bank lending to large firms from 18 to 28 per cent between 1982 and 1989. Banks of national interest and public-law banks have maintained and in some cases strengthened their role in fmancing small businesses and households. The pattern of risks has changed. The strategy of geographical expansion has sometimes involved banks in extending credit to marginal borrowers. The banking system has also committed more resources to sectors where higher profitability is associated with greater risk, such as consumer credit, the issue and management of credit cards and the financing of securities and real estate transactions.

Now that the key regulatory reforms have been completed and the capital base of the banking system strengthened, it is up to credit institutions to prepare themselves for the new challenges of the single market. Important early applications confirm that the law on publicly owned banks provides effective instruments for reorganizing and merging banking enterprises. The drive to achieve increases in size must not entail sacrificing the local roots of an important component of the banking system, which supports a similarly localized part of the productive system. The liberalization of branch networks led to the opening of some 1,500 new branches in its first year, and work is under way on nearly as many more.

The faster the system changes, the more difficult it is for each bank to decide on the extent and means of expansion. The greater freedom they now have permits but does not guarantee improved efficiency; it is management action that determines earnings and the adequacy of customer services.

There is widespread, but in part still latent, demand for intermediation, payment and advisory services; increasing efforts are being made to ensure that the financial assistance provided satisfies the requirements of the economy in terms of quality, cost and transparency.

Banking is taxed more heavily in Italy than in the rest of the Community. The taxation of interest income on interbank deposits, the restrictive criteria for loan loss provisioning and the shortcomings of legislation on the taxation of groups are competitive handicaps that need to be corrected before the advent of the single market.

Recent events in major banking systems, notably the savings and loan crisis in the United States, have again raised the question of how far and in what way the solvency of individual credit institutions should be protected and of how broad the safety net should be in the event of bank failures. Inespective of specific institutional arrangements, which are susceptible to change, certain principles need to be safeguarded.

The first and most important defence of the stability of credit institutions is their ability to generate profits by virtue of enterprising and discerning management. Equity capital must act as a stimulus to this end; it provides flexibility and constitutes a guarantee for depositors. It must be stressed that supervisory authorities are required to safeguard the stability of the system: the supervision of individual institutions is intended to forestall crises, but it cannot eliminate the possibility of their occurring, much less be responsible for overseeing single transactions. Lending of last resort must be allowed to be discretional, flexible and prompt, especially in the sometimes brief period available when a bank is close to the borderline between illiquidity and insolvency. On other occasions we have drawn attention to the narrow limits current legislation imposes on the use of this instrument.

By their very existence, deposit protection schemes forestall crises of confidence among depositors and mitigate the losses savers incur as a result of specific failures. In exceptional circumstances, such schemes may be supplemented by special government measures. The question whether schemes providing very extensive coverage may increase moral hazard among both banks and depositors has been raised in the United States and Europe; the need to protect small depositors, who have less easy access to information, is not in question. The interbank deposit protection scheme that has operated in Italy since 1987 appears to strike a reasonable balance between the various needs. Experience and the studies being conducted at Community level on guidelines for a future directive on deposit protection may suggest changes in the present system.

The development of the Italian stock market

In Italy credit institutions traditionally played a much larger role than capital markets. This changed in the eighties, primarily owing to the rapid growth of the market in government securities and the emergence of new forms of intermediation. The share market recorded some progress: between 1980 and 1990 the number of companies listed on the Milan Stock Exchange rose from 133 to 223 and market capitalization from 6 to 13 per cent of GDP. Gross share issues rose from an average of 4 per cent of firms ' external finance in the seventies to 11 per cent in the eighties.

Nonetheless, the gap between Italy and other major industrial countries has not narrowed. Share turnover in Italy last year was equivalent to 4 per cent of GDP, compared with 10 per cent in France, 15 per cent in the United Kingdom, 20 per cent in the United States, 33 per cent in Germany and 41 per cent in Japan. Listed shares account for less than one quarter of the total equity of Italy's public limited companies. The securities actually traded are still only a tiny fi-action of the total. In 1990 more than 60 per cent of trades involved securities of the country's four largest corporate groups.

The banking system and the stock market are complementary allocative mechanisms; both are essential if the investment of households ' savings, firms ' capital spending and the ownership structures of companies are to be adequately supported. The legislation now in force, including the recent law on insider trading, makes it possible to undertake the urgent task of further developing the Italian securities market, and especially the share market.

The Consob and the Bank of Italy are jointly drawing up the regulations implementing the law on securities business. They will be issued at the beginning ofJuly. The rules governing activities other than those that the law expressly reserves to securities investment firms are being made as uniform as possible and, in particular, neutral with respect to banks' choice whether to trade directly or through an investment firm.

There are still obstacles to the full development of the capital markets. The taxation of financial instruments penalizes share issues by comparison with borrowing. Italy still levies a sizable tax on stock exchange transactions, whereas it has been abolished elsewhere. There is a need for the range of institutional investors to be broadened so as to guarantee large and continuous inflows of funds and portfolio management criteria oriented to the longer term. A significant step forward can be taken by setting up pension funds, which are now virtually non-existent. Their development, which will switch a part of Italy's retirement provisions over to the funded system, will help to ease the burden on the public finances in the long run, encourage the participation of working people in the management of collective savings and create a broad base for share ownership. The transformation of public sector entities and firms into limited companies and the disposal of some state assets will help to enlarge the market on the supply side.

The development of the stock market requires a considerable commitment on the part of the credit system. By expanding their portfolio management services and creating investment funds, banks have fostered the transition to more sophisticated methods of investing households' savings while maintaining their relationship with these customers. Banks' relations with business customers can and must evolve in a similar fashion, by guiding medium-sized firms in their search for a better balance between their sources of finance, which may also entail changes in their ownership structure. The largest public and private sector groups will have to be encouraged and helped to issue shares and bonds. This will reduce the scale of firms' borrowings from banks and industrial credit institutions, which now often exceed the limits envisaged in Community legislation on large exposures. For the Italian banking system, the alternative to promoting the development of the capital market cannot be for the institutions to attempt to safeguard their traditional relations with corporate customers, as business would migrate to other intermediaries and other financial centres.

As you listened to my remarks, you may have perceived a state of mind marked by both serenity and concern.

The unifying factor and inspiration for the Bank of Italy in performing the functions with which it is entrusted is the commitment to Europe made by the Government and Parliament, interpreting the will of the country. Clear indications as to the approach, the methods and the timing of action in the pursuit of internal and external stability and an efficient fmancial system flow from that commitment. Hence the serenity, which stems from the conviction that the Bank's operational stance is consistent both with its specific institutional aims and with the European objective.

We are nonetheless conscious that the attainment of these goals requires the full cooperation of a wide range of participants: institutions, the employers and the unions, private and public entities. The analysis we have presented to you confirms that the results fall short of expectations. Inconsistent, discordant patterns of behaviour are clearly at the root of the failure to achieve the price and budgetary objectives, which have been changed and revised too many times, and it is equally evident that this discordance reverberates through the economy and the groups of which it is composed. Hence the concern.

The decisions to join the EMS, to remove all restrictions on the movement of goods, services and capital, to adopt the narrow fluctuation band for the lira, and to participate actively in the design and implementation of Economic and Monetary Union have all contributed to Italy's economic and social advancement and enhanced its prestige.

We are still some way from the fmal step of irrevocably fixing the parities of the EMS currencies. And yet, as a result of those political and technical decisions, the exchange rate of the lira is no longer being used to restore lost equilibria at a lower level and through sacrifices by all sections of society, but has become the sextant indicating the position for the key economic variables, the constraint forcing Italy to converge.

The interaction of the forces generated by the integration of the Community impinges fully on enterprises and workers in the part of the economy most bound by the rules of the market, most directly subject to the discipline of the exchange rate. It is less keenly perceived in the other sectors. The behaviour of manufacturers exposed to international competition and that of protected sectors also differed in the past. When the difference persisted, its immediate effects were neutralized by devaluation and inflation.

Today, competition in the European Community is between entire economic and institutional systems, and no longer simply between firms and products. By definition, integration is all-embracing. It is incompatible with membership of an integrated area to have some parts of the economy producing inferior goods and services and to have abnormal growth in incomes, whether from employment or from capital. The national economy would be progressively emarginated in the integrated area: its most vigorous productive core would tend to contract, squeezed by the cost of the inefficiencies of the other sectors, which at a later stage would also suffer the consequences of that emargination and slower growth.

The whole country must react, with the state taking the lead by making the budget constraint the linchpin for its own operations and those of every central and local government body and by establishing guidelines for industrial relations and applying them where it is the employer. This is the way to moderate and ultimately reconcile sectoral interests that conflict in the short term and to encourage people to behave in ways consistent with the goals that they themselves have set, in their collective capacity.

These principles are at the heart of the Economic and Financial Planning Document for 1992-94 that the Government adopted a few days ago. The objectives it sets for the adjustment of the public fmances and the macroeconomic results it postulates and implies will have to be achieved if there is to be convergence: they are difficult, but not impossible.

The timetable of European integration lays down precise deadlines that are now close at hand. The countdown for completion of the first phase of Economic and Monetary Union and the start of the second has begun. Time is now short. There is an urgent need for results that will give substance to the solemn undertakings to defeat inflation and to restore sound public finances, that will give credibility and weight to our presence in the markets and our participation in international fora. There is a real risk that hard-won successes will be nullified.

If the analysis and interpretation of the conditions and prospects of the Italian economy set out in these Concluding Remarks are endorsed, if the country has confidence in its ability to keep faith with the choices made, this Report, which is the product of the work of the whole Bank, can provide useful operational pointers. It seeks in any case to provide further testimony to the motives, the convictions and the economic and social values that induce the Bank of Italy to persist resolutely in the line of conduct it has pursued hitherto.

STATISTICAL APPENDIX

LIST OF TABLES

SOURCES AND USES OF INCOME

(billions of lire

	National							
	Sources							
	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
1980	35,637	281,379	333,148	30,520	95,427	41,126	*756,197*	162,447
1981	35,477	276,675	339,740	30,233	96,969	41,738	*760,366*	160,564
1982	34,684	272,364	345,059	30,428	98,517	41,795	*761,991*	160,106
1983	37,876	272,373	349,076	31,905	100,034	41,917	*769,370*	157,903
1984	36,046	278,805	363,061	32,352	101,430	43,046	*790,036*	177,317
1985	36,327	284,939	375,923	34,373	103,109	44,655	*810,580*	184,290
1986	37,027	292,348	389,358	35,587	104,747	46,369	*834,262*	189,629
1987	38,412	301,974	402,607	36,888	105,794	48,523	*860,422*	206,457
1988	37,177	319,451	419,192	38,813	107,223	51,167	*895,397*	220,960
1989	37,481	329,749	435,512	41,839	108,143	53,512	*922,558*	240,952
1990	35,887	334,677	449,805	43,643	108,901	54,947	*940,574*	257,076

Source: Istat.
(1) Value added at market prices.

Table al

AND HOUSEHOLDS' CONSUMPTION
at 1985 prices)

accounts								Households' domestic consumption by type of consumption	
	Uses								
Total	Buildings and public works	Machinery, equipment and vehicles	Households' consumption	Collective consumption	Change in stocks	Exports of goods and services		Food	Non-food
918,644	96,463	78,669	467,517	118,099	17,918	139,978		112,727	204,654
920,930	94,319	75,341	474,627	120,768	4,776	151,099		112,678	206,096
922,097	89,246	72,460	480,312	123,918	8,754	147,406		114,959	206,294
927,273	90,651	70,092	483,621	128,159	3,897	150,853		115,979	206,037
967,353	89,920	76,596	493,167	131,082	12,903	163,686		116,750	210,822
994,870	89,457	78,136	507,806	135,502	14,965	169,004		117,268	220,870
1,023,891	91,193	80,111	526,618	138,977	13,835	173,158		118,104	232,333
1,066,879	90,519	89,355	548,576	143,762	13,808	180,859		119,811	245,237
1,116,357	92,631	99,734	571,453	147,833	13,579	191,127		121,229	261,319
1,163,510	96,233	104,898	591,894	149,169	11,085	210,231		121,993	275,861
1,197,650	98,605	108,546	607,846	150,617	5,995	226,040		122,425	286,304

Table a2

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

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	Unit labour costs *(current lire per thousand lire of value added at 1985 prices)*									
Market goods and services (1)	**439.4**	**513.4**	**592.1**	**643.9**	**695.6**	**728.9**	**759.1**	**789.2**	**831.1**	**894.1**
Agriculture, forestry and fisheries	607.3	670.5	766.7	862.7	916.4	940.0	943.1	1.008.3	1.001.2	1.082.6
Industry	429.3	501.6	561.9	593.3	637.4	665.8	684.4	703.4	745.2	805.5
Excluding construction	431.9	500.5	562.2	592.7	633.5	656.8	672.6	687.7	730.8	784.2
Energy products	196.8	228.6	274.4	310.8	349.7	366.0	387.1	410.5	435.5	470.8
Manufactures	460.9	534.1	595.9	624.2	664.0	688.6	703.3	715.5	760.1	815.6
Construction	408.5	490.7	537.6	567.6	621.4	673.0	699.1	739.0	771.6	863.8
Services (1)	399.0	473.7	560.0	617.5	673.6	708.1	749.5	788.8	837.3	898.2
Distributive trades, lodging & catering	345.4	415.3	481.6	545.8	614.2	645.8	684.4	708.8	749.6	794.2
Transport & communications	446.2	532.6	607.9	641.8	673.1	687.5	714.9	720.5	758.0	808.5
Finance and insurance	359.8	401.1	512.5	555.4	580.2	599.4	658.0	681.8	706.1	754.2
Miscellaneous services	344.2	415.8	493.6	558.8	624.2	673.6	711.1	796.9	865.7	945.8
Non-market services	**605.8**	**696.5**	**802.3**	**897.2**	**982.5**	**1,061.5**	**1,167.6**	**1,296.8**	**1,396.6**	**1,597.8**
General government	607.9	697.0	803.3	899.1	982.3	1,063.9	1,170.7	1,302.2	1,395.9	1,601.6
Total (1)	**466.1**	**542.6**	**625.2**	**682.6**	**738.2**	**778.6**	**819.4**	**863.2**	**910.5**	**995.3**
	Value added at market prices per full-time equivalent worker *(thousands of lire at 1985 prices)*									
Market goods and services (1)	**32,522.3**	**32,489.0**	**32,784.1**	**33,748.9**	**34,496.3**	**35,238.8**	**36,441.9**	**37,851.6**	**39,193.6**	**39,596.7**
Agriculture, forestry and fisheries	13,418.4	13,874.0	14,885.4	14,427.3	15,204.0	15,508.4	16,534.8	16,747.2	17,805.8	17,306.8
Industry	33,553.9	33,677.4	34,882.3	37,547.2	38,948.9	40,083.1	41,923.5	44,067.9	45,459.7	45,758.9
Excluding construction	34,460.5	34,951.7	36,456.2	39,684.6	41,380.7	42,681.2	44,834.6	47,298.8	48,620.3	49,121.1
Energy products	123,270.8	123,112.2	120,560.3	119,653.0	118,159.7	122,195.0	123,216.4	125,394.3	130,478.9	134,124.6
Manufactures	31,495.0	31,963.3	33,527.7	36,725.2	38,459.2	39,592.1	41,701.4	44,226.1	45,462.1	45,857.2
Construction	30,547.5	29,555.5	29,953.9	30,746.3	31,200.1	31,749.9	32,562.8	33,512.6	35,007.8	34,916.0
Services (1)	38,508.1	37,540.1	36,822.6	36,636.6	36,589.1	37,098.9	37,778.3	38,668.3	39,762.8	40,295.3
Distributive trades, lodging & catering	33,913.1	33,106.7	32,522.3	32,324.5	32,301.8	32,594.4	33,317.8	34,484.0	35,575.3	36,164.8
Transport & communications	40,986.1	41,307.7	40,110.1	41,606.4	43,286.2	43,949.8	44,668.2	47,227.0	49,648.0	50,735.2
Finance and insurance	93,669.0	91,780.6	91,348.0	90,297.3	93,859.0	100,081.4	98,367.2	101,826.5	104,938.4	109,712.4
Miscellaneous services	36,641.8	34,899.2	34,272.7	33,618.3	32,305.4	32,313.9	33,257.8	32,479.6	32,534.6	32,242.7
Non-market services	**25,972.7**	**25,850.0**	**25,769.3**	**25,614.9**	**25,533.4**	**25,729.4**	**25,619.7**	**25,544.5**	**25,608.1**	**25,690.9**
General government	27,931.5	27,956.8	28,133.2	27,938.3	27,917.9	28,067.8	27,893.2	27,802.9	27,883.9	28,040.6
Total (1)	**31,413.9**	**31,348.3**	**31,564.3**	**32,311.8**	**32,895.7**	**33,539.8**	**34,488.5**	**35,614.9**	**36,714.3**	**37,074.2**

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

INDUSTRIAL PRODUCTION BY ECONOMIC PURPOSE

(indices, 1985=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		
1981	125.9	97.1	69.9	104.2	102.8	108.3	92.3	99.9	114.9	97.0	102.6	102.6	102.2	102.0
1982	110.0	95.5	72.9	96.6	100.6	109.6	93.7	100.1	105.9	96.0	98.5	98.7	98.8	98.8
1983	99.0	102.6	76.5	93.4	96.7	99.8	94.5	96.6	100.7	92.8	96.2	95.8	95.5	95.7
1984	96.8	101.2	87.7	95.1	99.7	102.4	95.7	98.8	101.9	99.1	100.5	100.3	98.9	98.9
1985	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
1986	103.5	132.3	102.8	108.4	105.6	100.6	102.9	102.5	101.3	102.8	102.9	102.7	103.4	103.6
1987	106.8	125.9	107.7	110.3	114.6	99.1	108.9	105.9	102.1	108.4	108.4	107.7	107.1	107.6
1988	114.7	150.6	106.2	119.6	122.7	102.8	115.5	111.6	108.3	108.3	115.1	113.6	113.8	114.1
1989	119.5	148.1	110.5	123.1	127.1	105.3	118.4	114.6	115.8	113.2	118.3	117.5	117.4	117.6
1990	122.0	153.5	107.4	125.2	125.1	105.1	122.8	115.6	116.3	110.6	117.3	116.4	116.9	117.6
1984 – I	96.0	103.4	79.2	92.8	97.6	96.3	94.2	95.9	100.7	96.3	99.6	98.8	96.4	96.8
II	97.1	99.7	84.1	94.0	101.2	100.4	96.5	99.1	101.3	98.8	101.4	100.7	99.2	98.5
III	98.2	103.9	90.3	97.2	101.1	106.9	95.7	100.4	103.7	101.5	101.5	101.8	100.4	100.3
IV ...	95.8	97.8	97.3	96.7	99.1	106.1	96.2	99.7	101.9	99.7	99.5	99.9	99.8	99.8
1985 – I	97.5	105.8	97.8	99.0	101.5	99.3	97.8	99.3	98.0	97.7	99.6	99.2	99.3	99.8
II	98.3	102.2	102.7	99.7	99.9	99.4	101.0	100.0	100.5	98.8	99.6	99.6	99.9	99.6
III	101.2	95.0	99.1	99.7	99.4	102.4	99.9	100.9	100.4	103.8	99.7	100.3	100.2	100.1
IV ...	103.0	97.0	100.4	101.5	99.2	99.0	101.2	99.8	101.0	99.7	101.1	100.9	100.5	100.5
1986 – I	103.3	111.1	103.9	104.8	102.2	100.7	104.5	102.3	102.3	104.0	102.4	102.6	102.9	102.9
II	104.3	129.6	99.5	108.0	104.0	100.2	102.7	101.9	100.1	101.9	102.4	102.1	103.0	102.9
III	102.9	138.0	97.5	108.2	106.0	100.1	101.2	101.8	100.0	101.9	102.8	102.4	103.1	103.6
IV ...	103.3	150.7	110.5	112.9	110.3	101.5	103.3	104.1	102.8	103.3	104.1	103.9	104.5	105.1
1987 – I	103.4	122.9	108.0	107.6	113.4	100.1	105.7	104.9	98.6	106.8	105.7	105.1	105.0	105.3
II	107.6	126.3	114.7	112.0	115.9	101.2	107.1	106.5	103.1	109.5	109.3	108.7	107.5	108.4
III	106.8	118.6	104.2	108.4	113.5	96.6	111.6	105.4	102.8	108.3	108.2	107.7	107.0	107.7
IV ...	109.2	135.8	103.9	113.0	115.7	98.7	111.0	106.6	103.7	108.9	110.2	109.4	108.9	109.2
1988 – I	111.5	146.3	107.6	117.0	119.9	103.3	114.1	110.6	107.5	110.3	113.5	112.5	112.3	112.6
II	110.0	153.0	102.7	119.0	120.4	101.1	115.5	110.3	106.0	107.7	114.0	112.5	112.0	113.1
III	116.7	153.1	109.5	122.0	123.4	103.3	115.1	111.8	109.4	106.2	115.4	113.7	114.4	114.5
IV ...	116.8	150.1	104.9	120.7	127.2	103.5	117.4	113.5	110.5	109.2	117.5	115.8	115.7	116.1
1989 – I	117.3	145.5	107.5	120.7	126.4	102.6	116.4	112.6	113.5	110.2	116.6	115.5	115.3	115.7
II	117.7	139.0	106.7	119.6	126.9	104.8	118.4	114.3	114.6	111.8	117.2	116.3	116.4	116.6
III	118.7	153.9	111.2	123.7	125.8	108.2	118.3	115.5	116.3	113.7	119.3	118.3	117.9	118.1
IV ...	124.4	154.6	116.7	128.4	129.2	105.7	120.5	116.0	118.7	117.1	120.2	119.7	120.1	120.2
1990 – I	124.9	155.5	105.8	127.1	125.8	104.7	120.7	114.8	119.0	110.2	118.1	117.3	118.0	118.4
II	123.3	154.7	113.4	127.2	125.8	103.5	121.3	114.5	118.7	110.4	118.4	117.5	117.2	118.6
III	122.0	153.6	107.0	125.1	127.5	104.6	124.6	116.5	115.1	112.5	118.3	117.3	117.8	118.2
IV ...	118.1	150.1	103.5	121.3	121.3	107.8	124.6	116.5	112.4	109.2	114.4	113.6	114.8	115.4

Source: Based on Istat data.

CONSUMER PRICES FOR THE POPULATION AS A WHOLE (1)

(indices, 1985 = 100)

	Overall index	Goods			Services	Other than food & services						
		Food	Non-food	Total		Clothing & footwear	Housing, fuel & electricity	Furniture, furnishings, etc.	Medical care and health	Transport & commu-nications	Recreation, enter-tainment, education & cultural services	Other goods & services
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
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
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
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
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
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
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
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
1989	123.8	121.5	119.2	120.2	131.7	129.7	115.6	124.4	125.9	117.6	130.7	131.0
1990	131.8	129.0	126.2	127.4	141.3	137.2	127.5	131.0	134.1	123.8	140.7	139.0
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
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
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
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
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
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
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
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
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
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
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
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
1989 – I	121.2	119.0	116.9	117.9	128.6	126.8	112.9	121.7	122.9	115.4	129.0	127.9
II	123.2	121.0	118.3	119.5	131.1	128.8	114.0	123.8	125.8	117.0	130.3	130.5
III	124.3	122.1	119.3	120.5	132.6	129.7	115.0	125.2	126.9	118.1	131.0	132.0
IV	126.4	123.8	122.1	122.9	134.4	133.4	120.5	126.9	127.8	120.0	132.4	133.6
1990 – I	129.0	126.2	123.8	124.9	138.2	134.6	123.8	128.7	130.1	121.7	138.5	136.2
II	130.7	128.3	124.7	126.3	140.3	136.4	124.9	130.5	133.2	122.5	139.2	138.0
III	132.4	130.0	126.4	128.0	142.2	137.2	127.3	131.5	135.3	124.5	141.2	140.0
IV	134.9	131.5	129.9	130.6	144.4	140.6	134.1	133.4	137.6	126.3	143.7	142.0

Source: Based on Istat data.

(1) The pre-1985 figures were obtained by using the conversion factors linking the 1980 and 1985-based series.

Table a5

CONSUMER PRICES FOR WORKER AND IEMPLOYEE HOUSEHOLDS (1)

(indices, 1989 = 100)

	Overall index	Categories of expenditure								
		Food	Clothing	Electricity & other fuels	Housing	Household goods	Medical care and health	Transport & commu-nications	Recreation, enter-tainment, education & cultural services	Other goods & services
1981	50.1	53.3	48.2	55.4	42.4	....	....	....	....	....
1982	58.3	61.8	55.8	67.4	49.4	....	....	....	....	....
1983	67.0	69.8	63.3	79.8	59.0	....	....	....	....	....
1984	74.1	76.2	70.2	88.6	72.5	....	....	....	....	....
1985	80.5	82.7	77.0	96.7	76.3	....	....	....	....	....
1986	85.5	87.0	83.4	90.9	82.8	....	....	....	....	....
1987	89.4	90.6	88.9	90.8	88.3	....	....	....	....	....
1988	93.8	94.2	94.1	94.5	94.0	....	....	....	....	....
1989	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1990	106.1	106.0	105.9	113.6	107.2	105.6	104.5	104.7	105.2	106.5
1986 – I	84.2	86.1	81.3	95.2	80.8	....	....	....	....	....
II	85.2	86.7	82.8	92.1	82.1	....	....	....	....	....
III.........	85.7	87.3	83.6	88.9	82.7	....	....	....	....	....
IV	86.7	88.1	86.2	87.4	85.7	....	....	....	....	....
1987 – I	87.9	89.4	87.2	88.7	86.8	....	....	....	....	....
II	88.8	90.2	88.5	89.5	87.8	....	....	....	....	....
III.........	89.7	90.6	89.0	91.5	88.4	....	....	....	....	....
IV	91.2	92.2	91.2	93.3	90.2	....	....	....	....	....
1988 – I	92.2	92.7	92.1	92.7	91.8	....	....	....	....	....
II	93.1	93.3	93.5	93.5	93.5	....	....	....	....	....
III.........	94.1	94.5	94.0	95.2	94.3	....	....	....	....	....
IV	95.9	96.2	96.8	96.6	96.6	....	....	....	....	....
1989 – I	97.8	97.9	97.7	97.5	97.8	97.8	97.5	97.9	98.6	97.5
II	99.5	99.6	99.3	98.1	99.2	99.5	99.8	99.6	99.5	99.5
III.........	100.5	100.5	99.9	99.3	100.0	100.6	100.9	100.5	100.2	100.8
IV	102.2	102.0	103.1	105.2	103.0	102.0	101.7	102.0	101.7	102.2
1990 – I	103.9	103.6	103.9	109.8	105.3	103.7	102.7	103.2	102.8	104.2
II	105.1	105.3	105.3	110.1	106.3	105.1	104.2	103.8	103.6	105.7
III.........	106.6	106.7	105.7	113.0	107.2	105.8	105.0	105.5	105.7	107.2
IV	108.7	108.3	108.5	121.5	110.0	107.9	106.2	106.4	108.8	108.9
1991 – I	110.8	110.6	109.3	123.9	111.1	109.7	108.6	108.8	111.0	111.3

(1) The pre-1990 figures were obtained by dividing the figures of the 1985-based index by the conversion factor linking the 1985 and 1989-based series with reference to the 1989 average.

WHOLESALE PRICES
(indices, 1989=100)

	Overall index	Final consumer goods: Durable	Final consumer goods: Non-durable	Final consumer goods: Total	Final capital goods	Raw materials and intermediate goods: Energy	Raw materials and intermediate goods: Non-energy	Raw materials and intermediate goods: Total
1989	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1990	107.4	103.3	107.3	105.7	105.5	116.8	103.1	108.3
1989 – I	98.0	99.6	97.7	98.4	98.2	95.5	99.2	97.8
II	99.6	99.6	99.1	99.2	99.9	99.5	99.9	99.8
III	99.6	99.7	100.6	100.2	100.3	98.2	100.0	99.3
IV	102.8	101.2	102.7	102.1	101.6	106.7	101.0	103.2
1990 – I	104.3	102.6	104.9	103.9	103.8	108.4	102.1	104.5
II	104.2	102.2	106.5	104.9	105.1	105.3	102.9	103.8
III	108.2	103.9	107.2	105.7	106.1	119.9	103.0	109.5
IV	112.9	104.3	110.4	108.1	107.0	133.5	104.3	115.5

Source: Based on Istat data.

Table a7

ITALY'S REAL EFFECTIVE EXCHANGE RATES BASED ON THE PRODUCER PRICES OF MANUFACTURES

(indices, 1980 = 100)

	14 industrial countries	EEC	Germany	France	UK	Belgium	Netherlands	US
1982	*95.6*	*100.0*	99.6	103.8	93.4	104.4	97.5	73.1
1983	*98.5*	*104.4*	102.0	108.6	101.0	110.0	102.5	71.4
1984	*98.5*	*105.8*	104.8	108.9	102.6	111.0	103.3	66.3
1985	*96.9*	*103.8*	104.7	103.9	99.4	109.1	104.6	65.3
1986	*100.0*	*103.9*	101.5	102.1	107.4	116.3	110.4	86.8
1987	*102.5*	*104.6*	100.4	103.6	109.9	119.1	111.3	100.3
1988	*100.0*	*102.2*	99.3	102.1	99.5	118.7	110.4	99.6
1989	*102.5*	*105.4*	103.1	105.5	103.2	119.7	113.2	95.1
1990	*106.8*	*107.3*	105.0	105.6	107.9	121.9	117.7	110.3
1984 – I	*98.6*	*105.5*	103.6	110.2	100.7	112.0	102.5	68.8
II	*98.5*	*105.3*	104.0	108.9	101.8	111.1	102.7	68.7
III	*98.4*	*105.9*	105.2	108.6	102.7	110.6	103.8	64.8
IV	*98.4*	*106.4*	106.3	108.0	105.2	110.3	104.5	62.9
1985 – I	*99.1*	*107.8*	108.2	108.0	108.9	110.5	106.6	60.8
II	*97.6*	*105.1*	106.3	106.1	98.5	110.3	105.4	62.9
III	*95.0*	*101.1*	102.4	101.2	93.3	107.5	102.4	65.7
IV	*96.0*	*101.3*	102.0	100.2	96.9	108.0	103.8	71.7
1986 – I	*97.8*	*102.2*	101.5	99.3	103.6	112.4	107.4	79.4
II	*98.3*	*102.6*	101.0	101.7	100.3	114.4	109.4	83.4
III	*100.9*	*104.8*	101.5	103.4	108.8	118.5	111.7	90.6
IV	*103.0*	*106.2*	101.9	103.9	116.7	120.0	113.2	93.6
1987 – I	*103.7*	*105.9*	101.0	104.4	115.8	119.1	112.3	99.9
II	*102.1*	*104.3*	100.2	103.4	108.9	118.3	111.1	100.0
III	*101.8*	*104.2*	100.4	103.1	108.5	118.8	110.6	97.2
IV	*102.3*	*104.0*	100.0	103.4	106.7	120.3	111.2	104.1
1988 – I	*101.4*	*103.0*	99.4	102.4	104.2	120.1	110.9	104.8
II	*99.9*	*101.8*	98.9	101.7	98.5	119.0	110.2	101.8
III	*99.0*	*101.9*	99.2	101.9	97.9	118.2	110.4	93.4
IV	*99.7*	*102.1*	99.5	102.5	97.5	117.7	110.3	98.6
1989 – I	*100.4*	*103.3*	101.3	103.9	97.4	118.7	111.0	95.4
II	*101.3*	*104.7*	102.5	105.0	101.2	119.0	111.7	91.6
III	*103.5*	*106.7*	104.6	106.5	104.4	120.7	114.8	94.2
IV	*104.8*	*107.1*	104.0	106.6	109.9	120.4	115.3	99.3
1990 – I	*106.5*	*107.7*	104.5	106.2	111.5	122.3	117.1	105.7
II	*107.1*	*107.9*	105.3	105.9	110.3	122.7	118.8	108.1
III	*106.8*	*107.0*	105.4	105.3	104.4	121.2	118.2	112.3
IV	*106.8*	*106.7*	104.8	104.9	105.1	121.5	116.7	115.2

Sources: Based on Istat, OECD and IMF data.

(billions

	Current account							Capital movements	
	Goods (2)	Services and unrequited transfers					Total	Non-banking	Banking
		Freight	Foreign travel	Income from capital	Other	Total			
Rece									
1981 (5)	83,093	2,623	8,293	6,020	11,418	28,354	111,447	19,039	—
1982	94,866	2,634	10,879	7,067	14,214	34,794	129,660	19,324	—
1983	103,614	2,975	13,098	5,722	16,400	38,195	141,809	18,390	4,996
1984	120,408	3,859	14,437	7,668	20,405	46,369	166,777	28,543	5,138
1985	138,470	4,548	15,953	8,695	24,065	53,261	191,731	41,777	—
1986	134,371	4,116	14,691	7,031	23,183	49,021	183,392	57,062	6,454
1987	140,756	4,121	15,782	6,897	24,775	51,575	192,331	73,470	5,573
1988	155,739	4,758	16,144	8,262	26,435	55,599	211,338	105,481	10,224
1989	180,432	4,479	16,442	13,136	32,618	66,675	247,107	190,301	14,979
1990	191,344	6,130	23,654	18,084	47,661	95,529	286,873	352,276	22,973
Pay									
1981 (5)	97,110	—	1,600	10,171	10,241	22,012	119,122	9,278	1,521
1982	112,055	—	1,951	12,882	12,820	27,653	139,708	11,474	3,062
1983	112,791	—	2,144	12,140	14,028	28,312	141,103	15,218	—
1984	138,760	—	3,025	15,222	17,024	35,271	174,031	25,004	—
1985	157,155	—	3,591	17,191	21,555	42,337	199,492	37,055	5,299
1986 (6)	139,087	—	4,338	17,290	23,988	45,616	184,703	57,119	—
1987	148,942	—	5,880	16,770	23,883	46,533	195,475	68,716	—
1988	168,565	—	7,795	18,840	28,423	55,058	223,623	92,317	—
1989	199,950	—	9,291	25,802	37,773	72,866	272,816	165,381	—
1990	210,813	—	16,569	35,385	53,370	105,324	316,137	322,772	—
Bal									
1981	–14,017	2,623	6,693	–4,151	1,177	6,342	–7,675	9,761	–1,521
1982	–17,189	2,634	8,928	–5,815	1,394	7,141	–10,048	7,850	–3,062
1983	–9,177	2,975	10,954	–6,418	2,372	9,883	706	3,172	4,996
1984	–18,352	3,859	11,412	–7,554	3,381	11,098	–7,254	3,539	5,138
1985	–18,685	4,548	12,362	–8,496	2,510	10,924	–7,761	4,722	–5,299
1986 (6)	–4,716	4,116	10,353	–10,259	–805	3,405	–1,311	–57	6,454
1987	–8,186	4,121	9,902	–9,873	892	5,042	–3,144	4,754	5,573
1988	–12,826	4,758	8,349	–10,578	–1,988	541	–12,285	13,164	10,224
1989	–19,518	4,479	7,151	–12,666	–5,155	–6,191	–25,709	24,920	14,979
1990	–19,469	6,130	7,085	–17,301	–5,709	–9,795	–29,264	29,504	22,973

(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 heading "Errors and travel". – (6) New series for the items "Foreign travel" and "Income from capital".

A SETTLEMENTS BASIS (1)
of lire)

Errors & omissions (3)	Changes in official reserves (4)								
	Gold	Convertible currencies	Ecus	SDRs	Reserve position in the IMF	Short-term liabilities	Medium & long-term position	Total	
ipts									
–	–	99	–	–	22	–	244	365	(5) 1981
–	–	3,789	2,254	–	2	–	–	6,045	1982
–	–	–	–	208	–	210	–	418	1983
–	–	–	–	–	–	–	–	–	1984
–	–	7,375	5,430	424	76	–	380	13,685	1985
–	–	923	–	–	36	82	231	1,272	1986
–	–	–	–	–	27	–	29	56	1987
–	–	–	962	67	137	84	–	1,250	1988
–	–	–	–	–	–	209	–	209	1989
–	–	–	–	43	–	4	–	47	1990
ments									
–	–	–	100	186	–	91	–	377	(5) 1981
–	–	–	–	88	–	38	336	462	1982
–	–	6,623	1,970	–	551	–	61	9,205	1983
–	–	4,276	179	138	236	95	271	5,195	1984
–	–	–	–	–	–	34	–	34	1985
–	–	–	4,453	308	–	–	–	4,761	(6) 1986
–	–	5,790	695	168	–	178	–	6,831	1987
–	–	10,969	–	–	–	–	1,187	12,156	1988
–	–	13,316	1,820	96	281	–	82	15,595	1989
–	–	13,299	287	–	169	–	1,450	15,205	1990
ance									
–553	–	99	–100	–186	22	–91	244	–12	1981
–323	–	3,789	2,254	–88	2	–38	–336	5,583	1982
–87	–	–6,623	–1,970	208	–551	210	–61	–8,787	1983
3,772	–	–4,276	–179	–138	–236	–95	–271	–5,195	1984
–5,313	–	7,375	5,430	424	76	–34	380	13,651	1985
–1,597	–	923	–4,453	–308	36	82	231	–3,489	(6) 1986
–408	–	–5,790	–695	–168	27	–178	29	–6,775	1987
–197	–	–10,969	962	67	137	84	–1,187	–10,906	1988
1,196	–	–13,316	–1,820	–96	–281	209	–82	–15,386	1989
–8,055	–	–13,299	–287	43	–169	4	–1,450	–15,158	1990

omissions". – (4) Changes in official reserves are given net of valuation adjustments, A minus sign indicates an increase in assets or a decrease in liabilities. – (5) New series for the item "Foreign

MAIN ITEMS OF THE BALANCE OF

(billions

	Current account									
	Goods (fob)						Services, income and transfers		Current account balance	
	Imports		Exports		Balance		Balance			
	Un-adjusted	Seasonally adjusted	Un-adjusted	Seasonally adjusted	Un-adjusted	Seasonally adjusted	Un-adjusted	Seasonally adjusted	Un-adjusted	Seasonally adjusted
1981	99,944		86,687		–13,257		3,100		–10,157	
1982	110,292		98,332		–11,960		4,307		–7,653	
1983	113,162		109,449		–3,713		6,273		2,560	
1984	139,884		129,630		–10,254		6,208		–4,046	
1985	156,444		144,516		–11,928		5,082		–6,846	
1986	137,446		143,729		6,283		–2,644		3,639	
1987	150,684		150,292		–392		–1,004		–1,396	
1988	167,318		165,817		–1,501		–6,013		–7,514	
1989	195,105		192,149		–2,956		–11,612		–14,568	
1990	202,369		202,932		563		–17,906		–17,343	
1986 – I	37,812	36,567	35,593	36,856	–2,219	289	–2,585	–706	–4,804	–417
II	35,333	34,734	36,684	35,869	1,351	1,135	224	–726	1,575	409
III	29,594	32,670	34,318	35,836	4,724	3,166	2,065	615	6,789	3,781
IV	34,707	33,475	37,134	35,168	2,427	1,693	–2,348	–1,827	79	–134
1987 – I	35,570	34,482	34,244	35,872	–1,326	1,390	–1,876	–188	–3,202	1,202
II	37,740	36,692	35,352	34,380	–2,388	–2,312	1,774	677	–614	–1,635
III	35,230	38,988	38,225	39,980	2,995	992	535	–703	3,530	289
IV	42,144	40,522	42,471	40,060	327	–462	–1,437	–790	–1,110	–1,252
1988 – I	38,970	37,860	35,087	37,225	–3,883	–635	–2,883	–1,136	–6,766	–1,771
II	42,646	41,156	43,405	42,040	759	884	190	–1,187	949	–303
III	38,856	43,228	40,171	42,217	1,315	–1,011	–1,131	–2,261	184	–3,272
IV	46,846	45,074	47,154	44,335	308	–739	–2,189	–1,429	–1,881	–2,168
1989 – I	48,743	47,440	42,717	45,617	–6,026	–1,823	–5,001	–2,966	–11,027	–4,789
II	51,441	49,483	50,469	48,527	–972	–956	–684	–2,211	–1,656	–3,167
III	43,917	49,067	46,232	48,670	2,315	–397	–2,237	–3,294	78	–3,691
IV	51,004	49,115	52,731	49,335	1,727	220	–3,690	–3,141	–1,963	–2,921
1990 – I	52,308	50,969	46,985	50,303	–5,323	–666	–6,076	–3,826	–11,399	–4,492
II	51,574	49,589	53,189	50,928	1,615	1,339	–4,268	–6,420	–2,653	–5,081
III	44,077	49,356	47,586	50,176	3,509	820	–2,649	–3,651	860	–2,831
IV	54,410	52,455	55,172	51,525	762	–930	–4,913	–4,009	–4,151	–4,939

(1) Rounding may cause discrepancies in totals. – (2) Changes in official reserves are given net of valuation adjustments. A minus sign indicates an increase in assets or a decrease in liabilities.

PAYMENTS ON A TRANSACTIONS BASIS (1)
of lire)

Capital movements						Errors and omissions	Changes in official reserves (2)
Non-banking				Banking	Capital account balance		
Investment	Lending	Trade and other credits	Total				
–770	11,485	620	11,335	–1,521	9,814	355	–12
–1,076	7,909	–1,745	5,088	–3,062	2,026	44	5,583
–1,065	3,200	–300	1,835	4,996	6,831	–604	–8,787
–1,026	2,410	–1,118	266	5,138	5,404	3,837	–5,195
–713	4,743	2,393	6,423	–5,299	1,124	–7,929	13,651
–5,542	2,842	–1,488	–4,188	6,454	2,266	–2,416	–3,489
–7,277	10,957	2,469	6,149	5,573	11,722	–3,551	–6,775
2,159	8,914	35	11,108	10,224	21,332	–2,912	–10,906
4,813	18,145	–3,995	18,963	14,979	33,942	–3,988	–15,386
–1,630	31,416	–4,896	24,890	22,973	47,863	–15,362	–15,158
–1,584	911	1,838	1,165	5,590	6,755	–3,057	1,106
2,751	388	–775	2,364	1,803	4,167	567	–6,309
–4,452	252	–1,050	–5,250	–2,362	–7,612	–1,074	1,897
–2,257	1,291	–1,501	–2,467	1,423	–1,044	1,148	–183
115	3,122	2,681	5,918	3,269	9,187	–728	–5,257
–2,812	–619	–410	–3,841	916	–2,925	666	2,873
–4,558	2,206	375	–1,977	–2,260	–4,237	–1,282	1,989
–22	6,248	–177	6,049	3,648	9,697	–2,207	–6,380
749	3,163	489	4,401	1,888	6,289	2,889	–2,412
–537	511	–1,591	–1,617	2,807	1,190	–2,679	540
1,396	4,572	594	6,562	–1,399	5,163	–2,063	–3,284
551	668	543	1,762	6,928	8,690	–1,059	–5,750
–763	6,117	931	6,285	11,285	17,570	443	–6,986
4,337	5,921	–2,258	8,000	–856	7,144	–1,324	–4,164
4,940	5,136	549	10,625	2,237	12,862	–4,732	–8,208
–3,701	971	–3,217	–5,947	2,313	–3,634	1,625	3,972
–4,429	10,688	1,629	7,888	9,967	17,855	–552	–5,904
7,622	10,967	1,349	19,938	4,747	24,685	–6,570	–15,462
–5,999	13,508	–2,652	4,857	–2,790	2,067	–784	–2,143
1,176	–3,747	–5,222	–7,793	11,049	3,256	–7,456	8,351

Table al0

ITALY'S EXTERNAL POSITION (1)
(amounts in trillions of lire)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (2)
Resident non-banks										
(A) Assets	47.2	52.3	64.9	84.4	93.5	107.4	119.5	141.0	168.5	204.5
Direct investment (3)	9.3	11.5	16.6	27.9	30.2	37.8	40.6	52.7	59.1	67.8
Portfolio investment	5.0	5.6	6.1	9.1	12.6	19.5	21.6	32.0	48.4	71.1
Loans	4.9	6.2	7.8	10.4	12.1	12.7	14.3	14.0	14.7	18.7
Trade credits	28.0	29.0	34.4	37.0	38.6	37.4	43.0	42.3	46.3	46.9
short-term	*17.8*	*17.9*	*20.7*	*23.0*	*26.2*	*24.9*	*23.6*	*23.8*	*26.8*	*27.3*
(B) Liabilities	71.9	85.2	106.2	130.5	148.5	152.0	170.4	175.9	229.2	289.4
Direct investment (4)	10.1	11.1	13.3	23.8	33.6	36.6	38.6	50.3	64.8	67.8
Portfolio investment	5.6	5.5	6.1	5.0	9.3	12.7	11.2	20.8	40.8	60.2
Private loans	21.5	29.0	34.8	37.6	33.7	31.6	36.6	29.5	46.1	80.4
Official loans	18.4	24.5	32.4	41.1	47.7	48.4	56.2	46.2	47.9	53.3
Trade credits	16.3	15.1	19.6	23.0	24.2	22.7	27.8	29.1	29.6	27.7
short-term	*15.5*	*14.4*	*17.8*	*20.5*	*22.0*	*20.4*	*22.9*	*24.3*	*24.9*	*23.5*
(C) Net position (A - B)	–24.7	–32.9	–41.3	–46.1	–55.0	–44.6	–50.9	–34.9	–60.7	–84.9
Resident banks (excluding the Central Bank)										
(D) Net position	–16.1	–14.5	–21.4	–29.2	–24.3	–29.4	–35.0	–77.3	–91.2	–113.6
ALL RESIDENTS, EXCLUDING THE CENTRAL BANK (C+D)	**–40.8**	**–47.4**	**–62.7**	**–75.3**	**–79.3**	**–74.0**	**–85.9**	**–112.2**	**–151.9**	**–198.5**
Bank of Italy and UIC										
(E) Net position, excluding gold	23.2	18.8	32.7	39.9	25.6	26.2	34.5	45.6	59.6	72.8
(F) Net position	58.0	51.2	76.0	81.8	65.2	61.4	74.3	82.8	93.2	103.4
ALL RESIDENTS, EXCLUDING GOLD (C+D+E)	**–17.6**	**–28.6**	**–30.0**	**–35.4**	**–53.7**	**–47.8**	**–51.4**	**–66.6**	**–92.3**	**–125.7**
ALL RESIDENTS (C+D+F)	**17.2**	**3.8**	**13.3**	**6.5**	**–14.1**	**–12.6**	**–11.6**	**–29.4**	**–58.7**	**–95.1**

(1) The last direct compilation of data on the external assets and liabilities of residents was made at the end of September 1988. Subsequent figures are estimates, based on flows and the trends in financial and foreign exchange markets. Through 1987, the external assets and liabilities of special credit institutions were included under "loans"; as of 1988 they are estimates and are included in the position of authorized intermediaries, which through 1987 comprised only the assets and liabilities of banks. – (2) Provisional. – (3) Includes property investments and Italy's quotas in international organizations. – (4) Includes property investments.

CONSOLIDATED ACCOUNTS OF THE PUBLIC SECTOR
(billions of lire)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
REVENUE										
Current revenue	**166,796**	**207,491**	**256,646**	**287,501**	**325,151**	**366,574**	**402,165**	**449,390**	**514,220**	**572,688**
Direct taxes	51,293	67,439	85,329	93,885	106,385	116,470	131,735	147,381	173,370	190,721
Indirect taxes	38,297	46,649	57,987	67,283	72,661	81,743	93,240	109,076	123,821	138,880
Social security contributions										
Actual	53,130	67,217	79,126	86,955	97,114	111,378	120,988	133,353	149,685	169,165
Imputed	6,363	7,391	9,712	11,567	13,116	14,120	14,773	16,028	17,758	20,302
Income from capital	3,269	3,215	3,651	4,157	5,568	6,249	5,630	5,199	5,698	5,181
Sales of goods and services	8,096	9,980	11,927	14,059	16,364	18,990	20,014	21,526	24,479	26,051
Other	6,348	5,600	8,914	9,595	13,943	17,624	15,785	16,827	19,409	22,388
Capital account revenue ...	**1,189**	**1,860**	**913**	**1,309**	**1,400**	**1,604**	**1,377**	**1,568**	**1,884**	**2,405**
Total revenue...	**167,985**	**209,351**	**257,559**	**288,810**	**326,551**	**368,178**	**403,542**	**450,958**	**516,104**	**575,093**
EXPENDITURE										
Current expenditure	198,197	243,924	294,539	336,908	383,502	427,176	465,570	519,321	581,323	652,190
Compensation of employees	65,468	76,213	88,296	99,834	111,084	121,561	135,416	151,472	163,519	187,860
Intermediate consumption .	21,764	26,709	32,420	38,388	45,247	49,030	54,934	61,333	65,566	70,917
Social services	72,805	88,609	109,355	121,556	139,055	154,826	170,500	189,517	209,883	235,312
Subsidies to firms	6,539	8,437	11,485	12,094	14,168	16,268	17,013	16,545	19,600	18,829
Interest payments	28,777	39,308	48,029	59,340	66,352	77,401	79,146	89,929	107,869	127,415
Other	2,844	4,648	4,954	5,696	7,596	8,090	8,561	10,525	14,886	11,857
Capital account expenditure	**23,829**	**29,188**	**33,316**	**37,682**	**47,773**	**46,212**	**50,141**	**54,698**	**60,197**	**66,718**
Gross investment	19,024	23,259	27,165	31,160	34,877	37,464	41,255	44,817	50,433	51,826
Investment grants	4,777	5,887	5,884	6,042	7,388	7,972	8,197	9,267	9,046	10,898
Other	28	42	267	480	5,508	776	689	614	718	3,994
Total expenditure...	**222,026**	**273,112**	**327,855**	**374,590**	**431,275**	**473,388**	**515,711**	**574,019**	**641,520**	**718,908**
Deficit on current account .	**–31,401**	**–36,433**	**–37,893**	**–49,407**	**–58,351**	**–60,602**	**–63,405**	**–69,931**	**–67,103**	**–79,502**
Total deficit	**–54,041**	**–63,761**	**–70,296**	**–85,780**	**–104,724**	**–105,210**	**–112,169**	**–123,061**	**–125,416**	**–143,815**

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

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT *(1)*

(billions of lire)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Medium and long-term securities, excluding BI portfolio (2)	5,727	23,429	66,968	55,942	83,647	77,099	52,363	54,703	49,789	76,020
Treasury bills, in lire and ecus, excluding BI portfolio (2)	28,234	29,039	10,377	14,918	–1,878	8,369	32,239	47,941	45,750	33,810
Post Office funds	2,591	3,683	4,939	6,365	9,067	11,267	12,917	10,996	15,364	12,770
Lending by credit institutions (2)	1,035	5,276	5,744	8,830	–2,211	1,530	3,428	4,885	7,365	7,348
central government bodies	*819*	*783*	*–139*	*10*	*–89*	*–199*	*–96*	*1,300*	*1,199*	*1,147*
social security institutions	*–1,255*	*242*	*225*	*755*	*–2,203*	*66*	*470*	*545*	*–684*	*3*
local authorities (3)	*1,506*	*3,187*	*3,486*	*6,769*	*281*	*1,013*	*1,429*	*1,028*	*3,053*	*4,184*
autonomous government agencies	*–68*	*1,065*	*2,059*	*1,315*	*–307*	*597*	*1,611*	*1,907*	*3,715*	*1,871*
municipal enterprises	*33*	*–1*	*113*	*–19*	*107*	*52*	*14*	*105*	*82*	*144*
Other domestic debt	79	160	209	232	58	24	144	137	101	188
Foreign debt	2,515	2,570	1,298	2,353	3,031	872	6,029	4,188	8,359	14,876
Total	**40,180**	**64,156**	**89,535**	**88,639**	**91,714**	**99,160**	**107,120**	**122,850**	**126,728**	**145,013**
Borrowing from BI-UIC	13,692	12,589	1,259	13,726	27,479	10,980	7,020	2,645	6,906	920
of which: overdraft on BI account	*6,186*	*6,598*	*–8,622*	*18,554*	*6,340*	*4,525*	*9,274*	*4,331*	*1,842*	*2,909*
PUBLIC SECTOR BORROWING REQUIREMENT	**53,872**	**76,745**	**90,794**	**102,365**	**119,193**	**110,140**	**114,140**	**125,495**	**133,634**	**145,933**
Borrowing requirement net of settlements of past debts	*52,072*	*75,045*	*90,794*	*102,365*	*112,693*	*109,690*	*113,890*	*125,445*	*133,034*	*142,933*
Financing of ENEL	**1,056**	**3,389**	**2,138**	**1,765**	**1,115**	**77**	**1,335**	**46**	**2,446**	**1,160**
of which: bond issues	*–756*	*1,213*	*1,081*	*1,045*	*669*	*1,289*	*1,507*	*261*	*1,262*	*90*
loans from credit institutions	*–109*	*794*	*–309*	*1,022*	*182*	*–666*	*–262*	*633*	*1,462*	*1,321*
borrowing abroad	*1,921*	*1,382*	*1,366*	*–302*	*264*	*–546*	*90*	*–848*	*–278*	*–251*
BORROWING REQUIREMENT OF THE ENLARGED PUBLIC SECTOR	**54,928**	**80,134**	**92,932**	**104,130**	**120,308**	**110,217**	**115,475**	**125,541**	**136,080**	**147,093**

(1) Rounding may cause discrepancies in totals. – (2) Methodological changes in the credit statistics introduced as from 31 December 1988 have resulted in a discontinuity in the series. – (3) From 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".

THE PUBLIC DEBT *(1)*

(face value: billions of lire and percentage composition)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
					Amounts outstanding					
Medium and long-term securities, excluding BI portfolio (2)	55,802	80,895	149,876	207,892	294,961	374,454	429,752	483,510	534,939	616,967
of which: held by banks	*32,648*	*48,420*	*82,690*	*98,699*	*131,449*	*133,719*	*137,753*	*138,332*	*128,843*	*124,136*
Ecu and lira Treasury bills, excluding BI portfolio (2)	98,357	127,395	137,772	152,691	150,814	159,187	191,427	239,318	284,976	318,949
of which: held by banks	*39,857*	*56,972*	*51,544*	*44,879*	*26,689*	*30,624*	*26,271*	*23,579*	*24,002*	*27,332*
Post Office funds	35,639	39,322	44,261	50,626	59,693	70,960	83,877	94,873	110,237	123,007
Lending by credit institutions (2)	18,780	24,056	29,800	38,630	36,418	37,948	41,376	45,535	52,899	60,247
central government bodies	*2,045*	*2,828*	*2,689*	*2,699*	*2,609*	*2,411*	*2,315*	*3,614*	*4,813*	*5,959*
social security institutions	*1,213*	*1,455*	*1,680*	*2,435*	*232*	*298*	*768*	*1,348*	*664*	*666*
local authorities (3)	*14,672*	*17,859*	*21,345*	*28,114*	*28,395*	*29,408*	*30,837*	*31,025*	*34,078*	*38,263*
autonomous government agencies	*445*	*1,511*	*3,570*	*4,885*	*4,578*	*5,175*	*6,785*	*8,694*	*12,409*	*14,280*
municipal enterprises	*405*	*403*	*516*	*497*	*605*	*657*	*671*	*853*	*935*	*1,079*
Other domestic debt	1,779	1,938	2,147	2,379	2,437	2,461	2,606	2,743	2,844	3,032
Foreign debt	6,578	9,731	12,545	16,408	18,435	17,619	23,536	28,763	35,116	48,755
SUB-TOTAL	**216,935**	**283,337**	**376,401**	**468,626**	**562,758**	**662,629**	**772,574**	**894,741**	**1,021,011**	**1,170,957**
Borrowing from BI-UIC	66,555	78,670	79,630	92,863	120,286	130,954	137,968	140,522	147,474	147,752
of which: medium and long-term securities	*29,647*	*28,891*	*30,393*	*36,367*	*45,083*	*52,681*	*53,975*	*58,104*	*66,203*	*57,462*
Ecu and lira Treasury bills	*8,099*	*12,086*	*12,670*	*6,641*	*21,658*	*23,056*	*18,551*	*13,273*	*10,291*	*16,498*
overdraft on BI account	*25,312*	*31,910*	*23,288*	*41,842*	*48,182*	*52,707*	*61,981*	*66,312*	*68,154*	*71,063*
other	*3,497*	*5,783*	*13,280*	*8,013*	*5,363*	*2,511*	*3,461*	*2,834*	*2,826*	*2,729*
TOTAL	**283,490**	**362,007**	**456,031**	**561,489**	**683,044**	**793,583**	**910,542**	**1,035,263**	**1,168,485**	**1,318,709**
of which: central government	*277,805*	*353,932*	*443,266*	*545,859*	*666,351*	*775,708*	*889,477*	*1,010,493*	*1,140,586*	*1,283,266*
					Percentage composition					
Medium and long-term securities, excluding BI portfolio	19.7	22.4	32.9	37.0	43.2	47.2	47.2	46.7	45.8	46.8
Ecu and lira Treasury bills, excluding BI portfolio	34.7	35.2	30.2	27.2	22.1	20.1	21.0	23.1	24.4	24.2
Post Office funds	12.6	10.9	9.7	9.0	8.7	8.9	9.2	9.1	9.4	9.3
Lending by credit institutions	6.6	6.6	6.5	6.9	5.3	4.8	4.5	4.4	4.5	4.6
Other domestic debt	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2
Foreign debt	2.3	2.7	2.7	2.9	2.7	2.2	2.6	2.8	3.0	3.7
Borrowing from BI-UIC	23.5	21.7	17.5	16.6	17.6	16.5	15.2	13.6	12.6	11.2

(1) Rounding may cause discrepancies in totals. – (2) Methodological changes in the credit statistics introduced as from 31 December 1988 have resulted in a discontinuity in the series. – (3) From 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".

STATE SECTOR EXPENDITURE, REVENUE AND BORROWING REQUIREMENT

(billions of lire)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
EXPENDITURE										
Wages, salaries and pensions	40,850	49,662	57,295	64,863	71,756	78,612	87,102	98,644	106,190	121,898
Purchases of goods and services	9,222	10,931	13,912	16,840	19,620	21,659	25,278	28,021	28,557	30,220
Interest payments	27,327	38,918	47,105	57,577	63,558	73,824	76,051	87,456	105,269	125,773
Direct investment	6,971	8,684	11,316	12,610	11,818	13,818	14,459	16,343	18,573	18,213
Loans and shareholdings	8,074	12,887	16,059	12,692	14,372	11,689	10,808	13,566	14,865	15,379
of which: local authorities	*2,751*	*3,901*	*3,896*	*3,725*	*4,304*	*5,671*	*6,063*	*9,063*	*10,711*	*10,778*
financial institutions	*1,864*	*573*	*1,767*	*1,726*	*2,085*	*2,375*	*2,260*	*1,957*	*1,855*	*1,038*
public enterprises	*3,006*	*7,384*	*9,421*	*6,548*	*5,469*	*1,840*	*1,065*	*257*	*257*	*125*
Disbursements to: regions	27,100	38,007	49,431	52,594	61,261	64,406	72,342	80,044	90,359	93,458
of which: health care (on current account)	*18,426*	*24,309*	*30,482*	*33,025*	*39,369*	*41,430*	*45,760*	*54,315*	*61,146*	*66,284*
provinces and communes	13,939	16,012	18,443	20,192	27,406	29,519	34,271	34,971	36,064	38,719
social security institutions	12,573	23,176	27,437	29,626	37,008	38,300	40,075	42,443	53,631	62,168
enterprises	5,924	9,086	11,493	13,383	12,441	15,021	17,666	18,555	19,117	18,697
households	2,575	3,028	4,679	6,109	7,675	8,781	10,107	11,740	14,339	16,413
other	7,501	7,375	8,008	9,471	12,560	18,924	15,399	16,414	16,765	16,818
Other expenditure	4,254	7,139	9,603	11,719	11,455	11,453	9,351	14,994	16,560	16,613
Total expenditure	**166,310**	**224,905**	**274,781**	**307,676**	**350,930**	**386,006**	**412,909**	**463,191**	**520,289**	**574,369**
REVENUE										
Direct taxes	**46,411**	**62,022**	**78,244**	**86,689**	**98,807**	**111,606**	**124,686**	**139,997**	**160,474**	**179,027**
of which: personal income tax	*29,006*	*37,051*	*46,546*	*51,072*	*61,852*	*66,746*	*74,091*	*87,619*	*95,918*	*108,353*
corporate income tax	*3,131*	*3,636*	*5,457*	*8,117*	*9,173*	*12,090*	*15,018*	*13,495*	*16,966*	*17,213*
local income tax	*5,239*	*6,253*	*7,635*	*8,027*	*10,555*	*13,800*	*16,618*	*16,633*	*20,146*	*21,620*
withholding tax on interest income	*7,948*	*10,835*	*10,642*	*15,618*	*13,910*	*15,729*	*15,679*	*18,197*	*22,719*	*27,647*
Indirect taxes	**42,806**	**52,383**	**65,725**	**74,326**	**79,291**	**90,902**	**100,536**	**117,854**	**133,674**	**151,783**
of which: value added tax	*24,099*	*29,186*	*36,081*	*41,882*	*44,912*	*48,050*	*52,963*	*62,020*	*71,796*	*79,031*
business taxes (stamp duties, duties on government concessions, etc.)	*5,443*	*6,330*	*7,187*	*8,474*	*9,437*	*10,595*	*12,185*	*14,900*	*15,981*	*18,263*
excise duty on oil products	*7,027*	*8,244*	*11,585*	*13,014*	*13,653*	*19,198*	*21,796*	*24,359*	*25,904*	*30,837*
excise duty on other manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)	*1,038*	*1,175*	*1,295*	*1,315*	*1,177*	*1,308*	*1,373*	*1,886*	*3,316*	*5,053*
tax on tobacco consumption	*2,299*	*3,199*	*3,732*	*4,134*	*4,399*	*5,127*	*5,095*	*5,507*	*5,841*	*6,126*
Total net tax revenue	**89,217**	**114,405**	**143,969**	**161,015**	**178,098**	**202,508**	**225,222**	**257,851**	**294,148**	**330,810**
Receipts from the building offences condonation	–	–	–	–	226	4,223	1,144	285	183	156
EEC levies	2,996	3,514	4,111	4,539	4,895	6,992	7,819	8,634	8,829	9,469
Sales of goods and services	6,583	8,212	9,932	11,920	14,478	15,611	16,694	17,048	18,665	21,910
Health care and other social security contributions	11,504	19,222	19,256	24,245	28,448	33,067	33,648	38,219	47,821	53,568
Other income	6,397	7,464	9,253	10,262	12,575	13,446	14,553	16,243	17,243	17,776
Total net receipts	**116,697**	**152,817**	**186,521**	**211,981**	**238,720**	**275,847**	**299,080**	**338,280**	**386,889**	**433,689**
BORROWING REQUIREMENT	**49,613**	**72,088**	**88,260**	**95,695**	**112,210**	**110,159**	**113,829**	**124,911**	**133,400**	**140,680**

Source: Based on data from *Relazione generale sulla situazione economica del paese* and from *Rendiconto generale dell'amministrazione dello Stato.*

Table al5

SOURCES AND USES OF MONETARY BASE (1)

(changes in billions of lire)

	Sources: Foreign sector	Sources: Treasury (2): Borrowing requirement	Sources: Treasury (2): Non-monetary financing (3)	Sources: Treasury (2): Total	Sources: Open market operations (4)	Sources: Refinancing	Sources: Other sectors (5)	Total monetary base (5)	Uses: Currency	Uses: Bank reserves: Deposits with BI (5) (6)	Uses: Bank reserves: Deposits with BI: of which comp. res. (7)	Uses: Bank reserves: Other (8)	Uses: Bank reserves: Total
1981	25	53,292	6,842	46,450	–32,217	119	–5,738	8,639	4,431	4,156	2,946	53	4,209
1982	–5,647	72,798	31,178	41,620	–28,944	638	2,669	10,336	3,526	7,099	8,544	–289	6,810
1983	8,840	88,260	62,137	26,123	–21,609	–3	–747	12,604	4,079	8,370	9,092	155	8,525
1984	5,141	95,695	80,656	15,039	–5,012	–218	–1,103	13,847	3,852	8,930	8,855	1,065	9,995
1985	–13,677	122,626	93,628	28,999	–1,480	5,880	–646	19,076	4,004	14,832	12,213	239	15,072
1986	3,543	110,159	97,342	12,817	–1,823	–4,334	–1,003	9,200	3,140	6,686	9,022	–626	6,060
1987	6,756	114,250	91,074	23,176	–14,004	–729	–1,253	13,946	4,381	8,956	8,740	608	9,565
1988	10,947	125,643	112,294	13,349	–10,601	–30	–708	12,957	4,450	8,770	9,444	–264	8,507
1989	14,971	133,854	125,402	8,452	–2,106	1,203	–2,015	20,505	10,507	9,746	9,567	252	9,998
1990	15,454	145,262	146,645	–1,383	2,392	1,260	–4,047	13,675	1,778	10,745	13,026	1,152	11,897
1989 - Jan.	2,411	2,881	5,963	–3,082	3,224	660	429	3,642	–4,271	8,763	8,895	–850	7,913
Feb.	253	12,863	10,961	1,902	–4,195	–755	–779	–3,574	206	–3,471	–3,480	–309	–3,780
Mar.	4,446	15,085	7,992	7,093	–5,289	–91	–1,639	4,520	1,295	798	–930	2,427	3,226
Apr. .	2,222	12,912	14,395	–1,483	–921	–66	–455	–703	641	–160	1,459	–1,184	–1,344
May	2,283	12,636	8,231	4,405	–5,863	15	–482	358	–1,137	1,261	1,167	233	1,494
June	–471	–12,273	1,632	–13,905	10,049	1,567	2,753	–7	2,707	–1,664	–1,492	–1,050	–2,714
July .	–160	13,035	6,418	6,617	100	1,335	–1,438	6,454	2,990	2,835	2,722	629	3,464
Aug.	5,447	8,549	9,551	–1,002	–2,300	–2,884	–992	–1,731	–3,037	557	570	749	1,306
Sept.	2,846	17,895	18,181	–286	–3,149	35	474	–80	1,367	–182	–210	–1,264	–1,447
Oct.	–1,639	12,402	13,687	–1,285	5,612	10	–1,055	1,642	–1,591	1,241	847	1,992	3,233
Nov.	–3,068	19,390	9,585	9,805	–2,494	–38	–816	3,389	1,697	1,583	987	109	1,692
Dec.	399	18,478	18,804	–326	3,119	1,416	1,986	6,594	9,640	–1,816	–967	–1,230	–3,046
1990 - Jan.	2,464	–5,205	8,971	–14,176	11,166	3,665	420	3,539	–7,463	11,456	11,638	–454	11,002
Feb.	–285	12,127	8,100	4,027	–1,875	–5,066	–720	–3,919	–151	–3,498	–3,354	–270	–3,768
Mar.	4,176	18,166	5,662	12,504	–11,992	–31	–1,404	3,252	1,250	305	–1,898	1,697	2,002
Apr. .	2,226	17,202	15,505	1,697	–4,539	–16	–1,616	–2,248	–32	–1,844	256	–373	–2,216
May	7,029	14,603	17,322	–2,719	–764	20	–781	2,786	–673	2,450	1,200	1,009	3,459
June	6,167	–9,089	6,720	–15,809	1,912	689	3,133	–3,908	2,552	–3,547	–2,239	–2,913	–6,460
July .	1,906	6,498	10,227	–3,729	11,819	–644	–1,650	7,702	1,853	3,223	3,179	2,626	5,849
Aug.	622	10,415	6,552	3,863	–7,187	14	–964	–3,653	–2,413	–310	–249	–930	–1,240
Sept.	–504	18,722	6,706	12,016	–11,188	–2	–915	–594	1,143	–215	–192	–1,522	–1,737
Oct.	–2,332	24,149	18,897	5,252	1,597	–40	–1,363	3,114	–1,643	2,356	2,452	2,401	4,757
Nov.	–4,999	18,941	16,897	2,044	9,950	11	70	7,075	1,820	6,544	2,248	–1,289	5,255
Dec.	–1,015	18,733	25,086	–6,353	3,495	2,660	1,743	529	5,536	–6,175	–16	1,168	–5,007

(1) Rounding may cause discrepancies in totals. – (2) Net of open market operations. – (3) Securities sold in the primary market, PO deposits, foreign loans, loans granted by banks and special credit institutions to autonomous government agencies, social security institutions' deposits with the Treasury and indemnities lodged with the Deposits and Loans Fund. – (4) Excludes securities purchased with advances under the Ministerial Decree of 27.9.1974). – (5) 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. – (6) Until September 1990 includes banks' compulsory and free deposits, non-interest-bearing deposits against excess lending and backing for cashiers' cheques, from October 1990 onwards includes the balance on reserve accounts, banks' compulsory reserves against net foreign currency deposits, the deposits of banks not subject to the reserve requirement, non-interest-bearing deposits against excess lending and backing for cashiers' cheques. – (7) From October 1990 onwards average reserve requirement in the maintenance period (15th of the month indicated – 14th of the following month) and compulsory reserves against net foreign currency deposits. – (8) Vault cash and undrawn margin on ordinary advance facility; until December 1988 includes deposits with the Treasury and undiscounted stockpiling finance bills.

BANKS' ASSETS

(billions

	Assets									
	Bank reserves		Lending	Securities	Bad debts & protested bills	Shares & equity participa-tions	Interbank accounts (4)	Accounts with special credit institutions		External assets
	(2)	of which: compulsory reserve (3)						(4)	of which: savings certificates	
1981 – Dec.	42,804	36,654	147,071	119,125	7,103	3,493	60,890	6,941	1,876	42,941
1982 – "	49,639	45,184	160,564	150,442	9,314	5,140	72,279	7,904	3,800	45,080
1983 – "	58,039	54,108	185,277	176,842	11,647	6,574	84,799	8,041	3,656	54,630
1984 – "	67,846	62,838	223,567	187,923	14,688	8,520	88,243	8,461	3,219	72,502
1985 – "	82,858	74,890	251,977	202,491	17,946	9,340	87,934	9,291	3,985	80,060
1986 – "	88,557	83,858	274,258	214,764	21,105	11,640	97,121	8,861	4,308	77,871
1987 – "	98,085	92,438	297,136	220,992	24,205	12,979	92,842	9,386	4,188	73,682
1988 – "	106,721	101,822	351,417	208,701	24,944	14,641	88,645	9,485	3,822	80,268
1989 – Jan.	114,652	110,665	361,396	185,078	25,961	15,100	69,100	7,215	3,815	71,427
Feb.	110,908	107,199	363,887	182,386	25,451	15,153	68,567	7,791	3,403	75,158
Mar.	114,073	106,244	361,099	189,555	25,671	15,425	66,277	7,675	3,413	78,212
Apr.	112,782	107,719	368,250	191,194	25,765	15,913	64,476	8,702	3,317	80,261
May	114,210	108,909	376,843	195,578	25,961	16,070	69,022	8,386	3,159	89,040
June	111,645	107,406	384,209	184,068	25,928	15,982	69,657	8,643	3,048	91,982
July	115,171	110,157	395,565	176,450	26,305	16,572	64,119	6,791	2,718	93,293
Aug.	116,339	110,720	389,448	176,711	26,653	16,958	61,773	6,805	2,726	87,021
Sept.	114,901	110,443	387,649	183,522	26,781	17,964	67,805	7,161	2,680	88,437
Oct.	118,109	111,299	395,362	179,708	27,164	18,363	62,377	7,917	2,683	89,805
Nov.	119,673	112,288	408,767	181,203	27,279	18,510	70,432	8,135	2,957	92,729
Dec.	116,814	111,361	427,183	200,395	26,166	19,599	104,171	10,420	2,977	100,608
1990 – Jan.	127,532	122,698	432,964	160,987	26,688	19,345	75,297	9,113	2,779	82,932
Feb.	124,027	119,480	431,308	155,979	26,848	19,309	66,846	8,498	2,479	82,058
Mar.	125,827	117,497	425,492	163,513	26,548	19,379	71,290	8,001	2,525	86,942
Apr.	123,769	117,765	431,524	171,952	26,946	19,690	66,121	7,962	2,726	85,833
May	127,160	119,026	439,319	169,100	27,178	19,762	71,913	7,966	2,630	89,987
June	120,865	116,793	445,031	167,092	27,229	19,958	70,090	8,716	2,579	96,890
July	126,560	119,968	458,162	152,085	27,575	20,074	63,378	8,071	2,466	86,813
Aug.	125,243	119,689	447,842	161,219	27,873	20,064	67,840	7,892	2,243	89,928
Sept.	123,504	119,399	444,727	176,306	27,977	20,326	74,887	7,745	2,335	99,115
Oct.	128,344	122,019	457,712	176,172	28,455	20,708	70,020	8,215	2,197	101,141
Nov.	133,618	124,294	468,623	167,637	28,605	21,150	67,240	9,115	2,152	103,055
Dec.	128,794	124,322	496,139	191,020	28,269	21,486	82,407	9,219	2,151	110,630
1991 – Jan.	131,423	127,180	489,924	158,182	28,797	21,185	59,425	8,033	2,100	106,099
Feb.	134,349	131,998	488,167	147,663	29,070	21,301	59,097	7,652	2,145	107,382
Mar. (8)	133,800	128,760	486,470	152,160	....	....	....	....	....	....
Apr. (8)	132,880	127,220	493,540	154,160	....	....	....	....	....	....

(1) Rounding may cause discrepancies in totals. – (2) Banks' excess reserves, non-interest-bearing deposits against excess lending, compulsory reserve deposits and backing for cashiers' – (5) Residents' foreign currency accounts and funds managed for government departments. – (6) Based on Bank of Italy accounting data. – (7) As defined for supervisory purposes. – (8)

AND LIABILITIES (1)
of lire)

Liabilities: Deposits	Other domestic funds (5)	Lending by BI-UIC (6)	Interbank accounts (4)	Accounts with special credit institutions (4)	Funds raised abroad	Funds raised abroad: of which: non-residents' deposits	Equity capital (7)	Other items	Memorandum: Loan guarantees	
274,127	2,085	2,982	60,405	5,067	58,542	1,687	21,063	6,097	40,558	..... Dec. – 1981
325,080	2,335	3,626	72,516	6,644	60,934	2,520	26,437	2790	47,907	..... " – 1982
368,389	3,588	6,351	87,760	5,301	77,122	3,272	36,789	549	54,181	..... " – 1983
411,862	4,968	2,866	95,624	4,623	100,149	3,985	44,295	7,363	60,947	..... " – 1984
454,170	6,541	8,745	98,603	4,505	100,269	4,736	52,132	16,932	66,936	..... " – 1985
496,101	4,849	4,412	108,168	5,109	99,322	6,079	61,799	14,417	67,679	..... " – 1986
531,819	3,232	5,718	103,966	5,777	103,828	6,802	72,433	2,534	79,884	..... " – 1987
571,564	4,037	5,730	98,018	5,787	122,999	8,680	77,740	–1,053	95,463	..... " – 1988
553,486	4,241	6,386	81,898	6,873	123,369	9,426	86,014	–12,338	98,870	..... Jan. – 1989
547,527	4,183	5,630	79,705	6,279	129,598	11,241	85,532	–9,153	102,241	..... Feb.
555,000	4,176	5,540	76,739	5,653	134,963	11,193	83,639	–7,723	106,652	..... Mar.
562,076	4,404	5,443	75,071	5,990	132,805	10,923	83,035	–1,481	106,494	..... Apr.
554,675	4,930	5,460	82,806	5,522	139,927	11,063	84,257	17,533	107,425	..... May
565,720	4,626	5,983	83,278	6,696	146,513	13,939	84,561	–5,263	109,485	..... June
566,449	4,894	6,382	75,210	6,056	138,309	13,699	84,646	12,320	110,786	..... July
565,102	4,079	3,414	72,013	5,543	139,931	13,096	85,404	6,222	112,221	..... Aug.
570,320	4,056	3,454	79,628	5,700	144,711	12,858	85,832	519	112,200	..... Sept.
574,981	4,862	4,913	73,255	5,247	148,272	11,838	85,818	1,457	115,151	..... Oct.
571,689	4,503	4,878	80,415	5,044	147,647	11,796	86,050	26,502	117,105	..... Nov.
625,348	4,442	6,298	119,609	6,337	152,955	11,089	87,468	2,899	118,901	..... Dec.
603,855	4,463	9,956	82,852	6,844	137,747	13,305	96,703	–7,562	118,972	..... Jan. – 1990
594,921	4,827	4,890	75,666	6,328	139,062	13,258	95,977	–6,798	122,513	..... Feb.
598,008	4,540	4,866	82,451	6,725	143,452	13,100	95,002	–8,052	125,857	..... Mar.
605,815	4,743	4,844	75,106	6,237	139,337	12,959	93,922	3,793	124,456	..... Apr.
595,512	4,668	4,868	78,919	5,485	147,287	14,231	93,942	21,704	124,874	..... May
606,836	4,905	5,560	78,463	6,388	149,935	15,596	94,194	9,590	122,133	..... June
607,672	4,997	4,907	70,613	5,410	143,566	14,812	94,469	11,084	123,768	..... July
606,056	5,461	4,921	73,611	5,548	143,228	14,306	94,505	14,571	122,927	..... Aug.
620,256	5,215	4,921	82,357	5,709	148,211	15,339	94,678	13,240	127,802	..... Sept.
628,105	5,614	4,888	76,649	5,831	150,046	14,512	94,846	24,788	131,536	..... Oct.
624,661	5,777	4,898	74,008	5,089	152,573	13,895	95,200	36,837	131,640	..... Nov.
686,333	5,852	7,563	89,922	7,158	158,965	15,286	95,594	16,577	134,996	..... Dec.
651,578	6,215	4,928	65,080	7,039	153,641	14,200	107,110	7,477	135,421	..... Jan. –1991
645,518	6,077	7,854	62,955	6,638	154,500	14,052	106,305	4,834	132,761	..... Feb.
649,820	....	4,810	....	....	....	....	....	....	....	. (8) Mar.
655,570	....	4,850	....	....	....	....	....	....	....	. (8) Apr.

cheques. Based in part on Bank of Italy accounting data. – (3) From October 1990 based entirely on Bank of Italy accounting data. – (4) Correspondent accounts are stated as liquidity balances. Provisional.

(in billions

	Interest received					Interest paid				Net interest income (a)	Non-interest income	
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities	Accounts with credit institutions	Foreign currency assets	Domestic deposits in lire	BI-UIC financing	Accounts with credit institutions	Foreign currency liabilities		(b)	of which: securities transactions
												Banks and savings
1984 ...	3,647	38,638	23,311	7,078	8,157	43,397	192	6,134	8,303	22,805	8,471	4,402
1985 ...	4,139	40,226	25,513	6,909	8,868	45,174	277	6,293	8,701	25,210	10,423	5,364
1986 ...	4,982	40,418	23,607	6,286	6,760	39,487	203	6,073	6,551	29,739	11,827	6,587
1987 ...	5,648	38,317	21,074	5,924	6,946	34,208	194	6,006	6,751	30,750	11,079	5,220
1988 ...	6,120	42,739	21,272	5,536	8,264	35,446	263	5,522	8,074	34,626	12,498	6,054
1989 ...	6,433	51,441	20,347	6,014	12,559	40,299	240	5,737	12,217	38,301	12,640	5,660
1990 (3)	7,438	59,093	19,567	5,897	14,988	44,103	249	5,619	13,947	43,065	14,555	7,646
												Banks of
1984 ...	479	4,853	1,892	456	2,524	4,410	44	700	2,520	2,530	1,427	640
1985 ...	581	4,809	2,128	460	2,708	4,704	62	570	2,639	2,711	1,852	961
1986 ...	643	4,703	2,117	469	2,085	4,117	53	670	1,978	3,199	1,980	1,133
1987 ...	692	4,502	2,038	331	2,005	3,603	39	575	1,907	3,444	1,623	734
1988 ...	730	5,077	2,074	346	2,286	3,734	47	602	2,170	3,960	2,774	1,793
1989 ...	799	6,212	2,036	347	3,388	4,231	54	647	3,319	4,531	2,086	1,112
1990 (3)	904	7,301	1,815	411	3,724	4,673	62	811	3,551	5,058	2,321	1,191
												Public-law
1984 ...	735	7,254	5,072	1,181	1,877	8,115	83	1,922	1,833	4,166	2,075	999
1985 ...	858	7,255	5,892	901	2,232	8,385	127	2,047	2,131	4,448	2,792	1,451
1986 ...	1,005	7,660	4,679	1,128	1,675	7,338	76	1,560	1,639	5,534	2,977	1,544
1987 ...	1,171	7,378	4,595	928	1,781	6,420	79	1,991	1,738	5,625	2,768	1,087
1988 ...	1,230	8,077	4,201	897	2,221	6,457	97	1,540	2,210	6,322	2,790	961
1989 ...	1,407	9,744	3,670	1,014	3,794	7,441	81	1,643	3,595	6,869	2,938	926
1990 (3)	1,607	10,748	3,720	934	4,768	8,241	78	1,292	4,364	7,802	3,439	1,516
												Banks (2)
1984 ...	901	10,466	5,529	1,730	2,421	10,375	29	2,473	2,690	5,480	2,000	1,179
1985 ...	1,035	11,157	5,892	1,697	2,497	10,850	49	2,467	2,602	6,310	2,559	1,429
1986 ...	1,200	10,872	5,726	1,632	1,836	9,421	42	2,628	1,857	7,318	3,005	1,808
1987 ...	1,373	10,261	4,923	1,584	1,822	8,377	39	2,104	1,886	7,557	2,688	1,345
1988 ...	1,505	11,362	4,655	1,378	2,008	8,566	42	1,880	2,081	8,339	2,692	1,248
1989 ...	1,683	13,323	4,484	1,398	2,720	9,674	45	1,731	2,808	9,350	2,796	1,310
1990 (3)	1,881	15,274	3,980	1,346	3,006	10,522	42	1,626	2,903	10,394	3,490	2,148

(1) Rounding may cause discrepancies in totals. – (2) Except in the item "Number of staff", excludes credit institutions which at the time were reporting for special periods and at special

BY CATEGORY OF BANK (1)
of lire)

of which: other services	Gross income (c)=(a)+(b)	Operating expenses (d)	Operating expenses: of which: staff costs	Net income (e)=(c)-(d)	Allocations to provisions (net) (f)	Allocations to provisions: of which: for loan losses	Extraordinary income (g)	Taxes (h)	Net profit (e)-(f)+(g)-(h)	Total resources	Number of staff	
banks (2)												
3,761	31,276	20,934	14,694	10,342	5,590	2,938	640	2,925	2,467	679,359	301,038	... 1984
4,612	35,633	22,741	15,649	12,892	7,021	2,797	1164	3,703	3,332	791,698	306,240	... 1985
4,725	41,566	25,825	17,638	15,741	6,190	2,882	312	4,974	4,889	859,607	311,790	... 1986
5,216	41,829	27,764	18,877	14,065	5,974	3,027	–317	3,540	4,234	930,653	316,607	... 1987
5,711	47,124	30,341	20,631	16,783	7,096	3,881	123	4,536	5,274	1,020,215	317,702	... 1988
6,249	50,941	33,275	22,390	17,666	7,066	4,466	–492	5,129	4,979	1,139,866	315,194	... 1989
6,064	57,620	37,038	24,773	20,582	8,212	5,351	–149	5,385	6,836	1,243,260	320,697	(3) 1990
national interest												
685	3,957	3,188	2,369	769	579	387	275	245	220	105,450	49,851	... 1984
713	4,563	3,511	2,591	1,052	699	346	218	329	242	119,319	49,073	... 1985
744	5,179	3,759	2,750	1,420	457	294	38	440	561	125,504	48,908	... 1986
778	5,067	4,069	2,954	998	468	269	–25	68	437	131,624	48,710	... 1987
864	6,734	4,392	3,145	2,342	970	685	–172	237	963	146,888	48,075	... 1988
878	6,617	4,733	3,330	1,884	820	707	–70	202	792	167,791	46,859	... 1989
981	7,379	5,285	3,617	2,094	1,023	876	–124	83	864	179,377	46,827	(3) 1990
banks												
991	6,241	4,729	3,490	1,512	1,037	509	78	328	225	147,736	68,960	... 1984
1,239	7,240	4,723	3,379	2,517	1,885	407	380	553	459	174,722	69,417	... 1985
1,245	8,511	5,520	3,898	2,991	1,552	563	–4	686	749	187,880	70,859	... 1986
1,455	8,393	6,045	4,318	2,348	1,294	668	–4	375	675	204,506	71,872	... 1987
1,532	9,112	6,547	4,732	2,565	1,650	932	449	589	775	218,526	70,962	... 1988
1,680	9,807	7,180	5,159	2,627	1,554	971	–106	600	367	243,931	68,662	... 1989
1,568	11,241	7,761	5,403	3,480	1,710	1,303	–44	584	1,142	264,592	69,653	(3) 1990
790	7,480	4,844	3,240	2,636	1,061	587	65	716	924	165,149	72,015	... 1984
1,088	8,869	5,716	3,812	3,153	1,219	651	181	943	1,172	195,630	73,397	... 1985
1,141	10,323	6,451	4,253	3,872	1,271	783	97	1,292	1,406	215,750	73,446	... 1986
1,247	10,245	6,908	4,528	3,337	1,180	633	–85	924	1,148	230,807	74,262	... 1987
1,342	11,031	7,439	4,852	3,592	1,279	747	21	1,060	1,274	244,651	73,992	... 1988
1,409	12,146	8,087	5,204	4,059	1,329	861	–72	1,264	1,394	268,595	74,067	... 1989
1,255	13,884	8,862	5,717	5,022	1,705	1,238	–152	1,448	1,717	290,463	74,602	(3) 1990

times. – (3) Provisional. Excludes, except in the item "Number of staff", the figures of banks that sent their statistical returns late.

BANKS' PROFIT AND LOSS ACCOUNTS,
(in billions

	Interest received					Interest paid				Net interest income (a)	Non-interest income	
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities	Accounts with credit institutions	Foreign currency assets	Domestic deposits in lire	BI-UIC financing	Accounts with credit institutions	Foreign currency liabilities		(b)	of which: securities transactions
												Cooperative
1984 ...	612	6,181	3,518	1,524	734	7,251	14	431	695	4,178	974	499
1985 ...	676	6,587	3,838	1,529	730	7,508	15	534	683	4,620	1,137	511
1986 ...	770	6,634	3,583	1,273	566	6,578	13	504	521	5,210	1,400	659
1987 ...	914	6,468	3,137	1,347	663	5,966	15	474	604	5,470	1,374	547
1988 ...	1,025	7,321	3,203	1,270	842	6,190	19	537	770	6,145	1,507	599
1989 ...	1,135	8,832	3,100	1,295	1,133	6,934	21	651	1,066	6,823	1,805	859
1990 (3)	1,302	10,337	3,122	1,242	1,467	7,679	20	756	1,281	7,734	1,978	908
												Savings
1984 ...	920	9,884	7,300	2,187	601	13,246	22	608	565	6,451	1,995	1,085
1985 ...	989	10,418	7,763	2,322	701	13,727	24	675	646	7,121	2,083	1,012
1986 ...	1,364	10,549	7,502	1,784	598	12,033	19	711	556	8,478	2,465	1,443
1987 ...	1,498	9,708	6,381	1,734	675	9,842	22	862	616	8,654	2,626	1,507
1988 ...	1,630	10,902	7,139	1,645	907	10,499	58	963	843	9,860	2,735	1,453
1989 ...	1,409	13,330	7,057	1,960	1,524	12,019	39	1,065	1,429	10,728	3,015	1,453
1990 (3)	1,744	15,433	6,930	1,964	2,023	12,988	47	1,134	1,848	12,077	3,327	1,883
												Central credit
1984 ...	37	615	824	807	42	50	45	1,899	42	289	124	100
1985 ...	5	480	968	970	73	52	38	2,036	70	300	143	114
1986 ...	6	437	841	836	56	50	38	1,643	59	386	167	146
1987 ...	6	424	728	922	70	50	34	1,630	80	356	115	66
1988 ...	10	505	723	802	72	56	42	1,556	72	386	91	35
1989 ...	12	572	786	898	109	35	15	1,821	134	372	108	33
1990 (3)	14	572	749	954	193	43	11	1,718	209	501	175	83
												Rural and
1984 ...	3	164	158	44	..	251	..	5	..	113	27	18
1985 ...	..	182	184	47	..	278	..	5	..	130	26	14
1986 ...	2	189	197	36	..	264	..	7	..	153	30	17
1987 ...	3	185	181	50	..	256	..	5	..	158	31	16
1988 ...	3	213	185	48	..	249	..	5	..	195	31	13
1989 ...	5	255	191	67	3	274	..	6	2	239	32	16
1990 (3)	7	297	202	69	5	298	..	6	3	273	50	34

(1) Rounding may cause discrepancies in totals. – (2) Except in the item "Number of staff", excludes credit institutions which at the time were reporting for special periods and at special

BY CATEGORY OF BANK (1)
of lire)

of which: other services	Gross income (c)= (a)+(b)	Operating expenses (d)	Operating expenses: of which: staff costs	Net income (e)=(c)-(d)	Allocations to provisions (net) (f)	Allocations to provisions: of which: for loan losses	Extraor-dinary income (g)	Taxes (h)	Net profit (e)-(f)+ (g)-(h)	Total resources	Number of staff	
banks												
454	5,152	2,930	1,935	2,222	914	449	78	689	697	95,772	40,222	... 1984
584	5,757	3,392	2,259	2,365	958	457	166	768	805	111,478	43,013	... 1985
671	6,610	3,735	2,431	2,875	918	455	48	977	1,028	120,632	43,860	... 1986
731	6,844	4,149	2,726	2,695	647	358	–108	838	1,102	135,100	45,544	... 1987
818	7,652	4,548	2,974	3,104	838	431	–55	1,033	1,178	149,445	47,003	... 1988
845	8,628	5,043	3,253	3,585	964	611	–136	1,156	1,329	169,699	48,143	... 1989
947	9,712	5,845	3,797	3,867	1,147	663	68	1,295	1,493	188,008	49,633	(3) 1990
banks (2)												
841	8,446	5,243	3,660	3,203	1,999	1,006	144	947	401	165,252	69,990	... 1984
988	9,204	5,399	3,608	3,805	2,260	936	219	1,110	654	190,549	71,340	... 1985
924	10,943	6,360	4,306	4,583	1,992	787	133	1,579	1,145	209,842	74,717	... 1986
1,005	11,280	6,593	4,351	4,687	2,385	1,099	–95	1,335	872	228,615	76,219	... 1987
1,155	12,595	7,415	4,928	5,180	2,359	1,086	–120	1,617	1,084	260,704	77,670	... 1988
1,437	13,743	8,232	5,444	5,511	2,399	1,316	–108	1,907	1,097	289,849	77,463	... 1989
1,313	15,404	9,285	6,239	6,119	2,627	1,271	103	1,975	1,620	320,820	79,982	(3) 1990
institutions												
20	413	155	79	258	144	90	6	48	72	18,906	1,358	... 1984
25	443	170	76	273	136	105	57	78	116	22,475	1,371	... 1985
16	553	194	95	359	102	60	19	114	162	21,724	1,379	... 1986
40	471	211	103	260	134	44	54	62	118	25,385	1,442	... 1987
45	477	150	44	327	195	71	45	45	132	26,786	1,473	... 1988
67	480	261	116	219	184	147	77	35	77	26,629	1,532	... 1989
80	676	310	130	366	196	109	90	135	125	28,438	1,613	(3) 1990
artisans' banks												
9	140	76	45	64	15	14	1	3	47	2,288	1,065	... 1984
11	156	86	51	70	14	12	2	3	55	2,794	1,167	... 1985
13	183	102	62	81	16	13	,,	1	64	3,219	1,217	... 1986
14	189	118	74	71	10	7	,,	1	60	3,813	1,286	... 1987
17	226	131	83	95	9	7	–7	2	77	4,220	1,341	... 1988
15	271	145	91	126	12	9	–9	2	103	4,831	1,407	... 1989
16	323	175	112	148	17	12	5	5	131	5,374	1,497	(3) 1990

times. – (3) Provisional. Excludes, except in the item "Number of staff", the figures of banks that sent their statistical returns late.

(billions

	ASSETS											
		Loans						Own portfolio (6)				
				Foreign								
	Cash and deposits (2)	Domestic (3) (4)	Financing of stockpiling (5)	Buyer credits	Credit to residents	Total	Loans on behalf of the Treasury (4)	Govern-ment securities	Bonds (7)	Shares and participations	Total
1981 – Dec.	4,854	81,877	591	3,195	442	86,105	10,572	2,860	1,999	1,147	107,537
1982 – "	5,452	96,530	627	3,916	444	101,517	9,914	8,148	2,227	1,705	128,963
1983 – "	5,197	110,498	727	4,321	372	115,918	9,120	11,409	2,354	2,025	146,023
1984 – "	4,964	126,335	766	4,214	371	131,686	8,159	15,023	2,119	2,422	164,373
1985 – "	4,601	137,435	806	3,543	238	142,022	7,145	16,441	2,619	2,775	175,603
1986 – "	4,574	154,781	855	2,961	226	158,823	6,089	14,511	1,940	3,450	189,387
1987 – "	5,159	175,788	891	4,064	297	181,040	5,036	10,411	4,836	3,682	210,164
1988 – "	5,461	202,951	940	4,123	551	208,565	3,879	12,335	4,544	4,529	239,313
1989 – Jan.	7,020	202,714	940	4,170	801	208,625	3,315	12,592	5,572	4,499	241,623
Feb.	6,283	206,048	940	4,215	789	211,992	3,314	12,905	5,709	4,499	244,702
Mar.	6,474	209,906	964	4,234	799	215,903	3,314	11,786	4,766	4,363	246,606
Apr.	6,179	211,932	964	4,279	808	217,983	3,314	11,299	5,250	4,363	248,388
May	5,005	215,780	964	4,351	839	221,934	3,314	10,963	5,417	4,363	250,996
June	5,405	216,454	982	4,427	906	222,769	2,842	11,359	5,368	4,742	252,485
July	5,321	220,276	982	4,334	864	226,456	2,842	12,040	5,481	4,741	256,881
Aug.	4,895	222,627	982	4,458	901	228,968	2,842	11,646	5,534	4,750	258,635
Sept.	4,771	226,115	978	4,376	946	232,415	2,842	11,061	4,785	4,679	260,553
Oct.	4,715	230,512	978	4,356	943	236,789	2,842	9,863	4,693	4,660	263,562
Nov.	4,548	233,292	978	4,328	979	239,577	2,842	9,575	4,987	4,662	266,191
Dec.	5,099	238,558	990	4,344	1,281	245,173	2,791	9,709	4,166	5,247	272,185
1990 – Jan.	5,875	240,069	990	4,249	1,107	246,415	2,238	9,421	4,961	5,307	274,217
Feb.	5,736	244,380	990	4,262	1,311	250,943	2,238	9,412	5,417	5,305	279,051
Mar.	6,227	248,072	1,008	4,679	1,162	254,921	2,238	8,241	5,047	5,605	282,279
Apr.	5,973	250,399	1,008	4,698	1,150	257,255	2,238	8,077	5,044	5,599	284,186
May	5,825	253,596	1,008	4,750	1,021	260,375	2,238	8,388	5,228	5,597	287,651
June	5,768	253,626	1,025	4,993	1,166	260,810	1,757	9,828	5,451	6,021	289,635
July	5,335	258,260	1,025	4,905	1,158	265,348	1,757	10,924	5,975	6,024	295,363
Aug.	5,748	261,490	1,025	4,995	1,110	268,620	1,757	10,822	5,728	6,028	298,703
Sept.	5,831	262,835	1,029	5,199	1,109	270,172	1,757	11,918	5,254	6,469	301,401
Oct.	6,175	266,787	1,029	5,222	1,062	274,100	1,757	10,973	5,308	6,469	304,782
Nov.	4,737	270,202	1,029	5,248	1,049	277,528	1,757	11,976	5,320	6,469	307,787
Dec.	5,438	277,402	1,041	5,476	1,311	285,230	1,708	11,149	4,760	6,516	314,801
1991 – Jan. (13) ...	7,254	277,897	1,041	5,366	1,420	285,724	1,309	11,874	4,824	6,502	317,487
Feb. (13) ...	6,282	281,982	1,041	5,413	1,532	289,968	1,309	11,150	5,149	6,490	320,348
Mar. (13) ...	....	285,860	....	....	....	....	1,309	11,932	....	....	....

(1) From January 1983 onwards includes the agricultural credit section of Banco di Sardegna and from October 1984 the agricultural credit section of Istituto Bancario S. Paolo di Torino. of 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 remainder is included in the item "domestic loans". – (5) From December 1981 onwards excludes financing of voluntary stockpiling operations, which is included under 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, 1,304.4 billion at end-1985, 849.4 billion at end-1986, 679.7 billion at end-1987, 509.3 billion at end-1988, institutions. – (10) Includes external lira liabilities and compensatory loans in foreign currency deposited with the Bank of Italy. – (11) Paid-up capital and reserves. – (12) Special current accounts

SPECIAL CREDIT INSTITUTIONS (1)
of lire)

Liabilities											
Bonds											
On behalf of the Treasury	Other	Certificates of deposit (8)	Rediscounts	Short-term financing	Public funds	Mediocredito centrale funds (9)	Foreign liabilities (10)	Equity capital (11)	Other (12)	Total	
10,905	68,863	9,515	696	5,034	3,091	2,097	6,813	8,360	34	115,408	.... Dec. – 1981
10,015	77,171	18,060	699	4,230	3,712	2,379	10,494	10,028	22	136,810	.... " – 1982
9,120	85,134	19,264	818	4,550	4,696	2,436	15,137	12,612	31	153,798	.... " – 1983
8,159	89,554	23,480	941	5,619	4,771	2,422	19,620	15,322	46	169,934	.... " – 1984
7,145	95,022	25,549	889	6,626	5,365	2,521	22,058	18,105	43	183,323	.... " – 1985
6,089	102,193	28,258	943	6,362	6,707	2,538	24,268	21,225	74	198,657	.... " – 1986
5,036	113,681	30,878	1,069	6,701	7,537	3,038	29,997	23,609	71	221,617	.... " – 1987
3,949	121,239	43,837	1,112	7,559	7,911	3,541	36,548	25,957	56	251,709	.... " – 1988
3,374	120,910	44,509	1,112	5,261	8,253	3,517	37,628	25,957	56	250,577	.... Jan. – 1989
3,344	120,890	45,386	1,112	6,153	8,152	3,674	38,604	25,957	56	253,328	.... Feb.
3,342	121,384	46,514	1,038	6,278	8,215	3,710	40,366	26,585	50	257,482	.... Mar.
3,339	121,976	47,351	1,038	6,910	8,144	3,850	41,085	26,585	50	260,328	.... Apr.
3,336	123,844	48,235	1,038	6,668	8,208	4,005	42,964	26,585	50	264,933	.... May
3,331	124,684	50,385	1,127	6,860	8,146	4,114	44,387	27,327	46	270,407	.... June
2,893	125,158	50,326	1,127	5,482	8,332	4,206	45,530	27,327	46	270,427	.... July
2,874	125,991	49,955	1,127	5,844	8,349	4,224	47,329	27,327	46	273,066	.... Aug.
2,868	126,751	50,025	1,100	5,740	8,370	4,234	47,964	27,645	28	274,725	.... Sept.
2,867	128,261	50,396	1,100	6,284	8,300	4,386	48,357	27,645	28	277,624	.... Oct.
2,866	128,840	50,994	1,100	6,653	8,511	4,434	49,628	27,645	28	280,699	.... Nov.
2,863	129,378	52,804	1,175	8,703	8,806	4,237	52,686	28,365	36	289,053	.... Dec.
2,319	128,521	53,190	1,175	7,820	8,773	4,156	53,125	28,365	36	287,480	.... Jan. – 1990
2,305	129,814	54,758	1,175	7,673	8,647	4,204	53,855	28,365	36	290,832	.... Feb.
2,262	129,981	56,345	1,144	7,262	8,712	4,078	56,516	29,117	24	295,441	.... Mar.
2,258	130,750	57,350	1,144	6,892	8,719	4,067	56,474	29,117	24	296,795	.... Apr.
2,258	131,346	58,660	1,144	6,950	8,708	4,052	58,027	29,117	24	300,286	.... May
1,878	131,739	60,097	1,255	7,771	8,775	4,060	61,050	30,087	27	306,739	.... June
1,878	131,250	60,894	1,255	7,457	8,706	4,084	62,449	30,087	27	308,087	.... July
1,859	131,988	62,456	1,255	7,314	8,764	4,128	64,648	30,087	27	311,526	.... Aug.
1,761	132,785	62,198	1,170	6,549	8,827	3,978	66,104	30,342	24	313,738	.... Sept.
1,761	133,536	62,972	1,170	7,723	9,050	4,060	67,607	30,342	24	318,245	.... Oct.
1,761	134,561	63,643	1,170	8,047	9,003	4,075	70,302	30,342	24	322,928	.... Nov.
1,759	135,601	64,836	1,216	9,339	9,323	4,149	74,101	30,724	38	331,086	.... Dec.
1,339	136,180	64,629	1,216	8,728	9,392	4,159	74,412	30,724	38	330,817	...... (13) Jan. – 1991
1,320	137,212	65,071	1,216	7,344	9,311	4,176	76,566	30,724	38	332,978	...... (13) Feb.
1,318	137,886	65,469	....	....	....	....	81,381	....	....	....	...... (13) Mar.

– (2) Including liquid funds in foreign currencies. The volume of deposits with the Bank of Italy is derived from the accounts of that institution. – (3) From December 1981 onwards includes financing those of the real estate institutions and public works sections). – (4) The item "Loans on behalf of the Treasury" comprises only operations financed by "bonds on behalf of the Treasury"; the – (6) Including securities in foreign currencies. – (7) From the fourth quarter of 1981 onwards includes securities issued by the Deposits and Loans Fund totaling 1,275.3 billion lire at end-December 338.8 billion at end-1989 and 167.8 billion at end-1990. – (8) Includes savings certificates and other medium-term deposits. – (9) Includes the proceeds of bond issues disbursed to special credit for agricultural credit and current accounts of stockpiling agencies. – (13) Provisional.

FINANCIAL MARKET:
(billions

	Bonds and											
	Public sector											
	Government securities											
	Treasury bills (2)	Treasury bills in ecus	Floating rate Treasury credit certificates	Treasury bonds	Treasury certificates in ecus	Treasury discount certificates	Treasury option certificates and ordinary certificates (3)	Other	Local govern-ment agencies	Autono-mous govern-ment agencies	Bonds on behalf of Treasury	Total
												Gross
1983	266,351	–	74,650	13,000	822	–	–	1,000	–	2,000	–	*357,823*
1984	227,747	–	95,250	17,750	1,792	–	–	–	–	1,800	–	*344,339*
1985	256,281	–	97,209	17,288	3,602	–	8,213	2,195	–	2,500	–	*387,288*
1986	265,866	–	79,255	53,276	2,360	–	–	–	–	2,500	–	*403,257*
1987	316,111	2,311	55,480	19,020	2,231	5,049	5,555	–	–	2,000	–	*407,757*
1988	409,411	7,289	27,350	75,383	11,167	–	1,291	–	–	1,000	–	*532,891*
1989	498,552	11,313	21,300	41,100	9,025	–	16,255	–	–	1,000	–	*598,545*
1990	559,196	6,109	75,538	74,460	8,016	–	31,743	–	–	3,200	–	*758,262*
												Re
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*
1989	458,775	8,049	–	13,236	1,591	–	938	2,663	19	2,069	1,083	*488,423*
1990	514,556	10,180	20,017	85,716	822	–	4,225	470	21	582	1,098	*637,687*
												Premium, discounts
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*
1989	–	–	384	858	–	–	285	–	–	7	–	*1,534*
1990	–	–	1,307	2,091	–67	–	483	–	–	7	–	*3,821*
												Net
1983	11,071	–	66,652	3,740	822	–	–918	–968	–43	1,743	–896	*81,203*
1984	9,300	–	56,738	8,433	1,792	–	–1,712	–1,976	–46	1,529	–961	*73,097*
1985	13,181	–	78,567	3,973	3,602	–	6,769	245	–50	2,216	–1,014	*107,489*
1986	9,697	–	53,534	35,025	2,360	–	–1,436	–1,746	–36	1,398	–1,056	*97,740*
1987	25,171	2,311	35,268	13,538	2,231	3,808	4,136	–1,272	–36	1,526	–1,053	*85,628*
1988	36,275	5,738	–7,849	59,781	11,167	–	8	–475	–37	329	–1,087	*103,850*
1989	39,778	3,264	20,916	27,006	7,433	–	15,032	–2,663	–19	–1,076	–1,083	*108,588*
1990	44,640	–4,071	54,214	–13,347	7,262	–	27,035	–470	–21	2,610	–1,098	*116,754*
												Cou
1983	24,849	–	14,014	2,993	217	–	816	1,037	27	204	716	*44,873*
1984	21,281	–	25,325	4,105	317	–	725	870	24	477	646	*53,770*
1985	21,297	–	27,456	5,040	541	–	946	678	18	702	639	*57,317*
1986	18,387	–	38,514	5,789	882	–	1,225	761	15	877	557	*67,007*
1987	18,775	–	36,958	8,477	1,082	–	1,157	589	13	889	470	*68,410*
1988	24,426	–	37,980	10,032	1,308	245	1,639	486	10	1,256	359	*77,741*
1989	31,697	–	38,486	16,752	2,230	256	1,804	461	7	1,021	275	*92,989*
1990	36,051	–	45,879	20,086	2,921	277	4,713	164	5	1,005	190	*111,291*

(1) Rounding may cause discrepancies in totals. – (2) For these securities the net issues are obtained by deducting redemptions from gross issues. – (3) Ordinary certificates comprise the securities

GROSS AND NET ISSUES OF SECURITIES (1)
of lire)

Government securities													
Special credit institutions				Government agencies and firms									
Industrial	Public works	Real estate	Total	ENEL	ENI	IRI EFIM	Motor-ways (IRI)	Private firms	Inter-national institutions	Total	Total bonds & govern-ment securities	Shares	
issues													
6,152	2,735	5,700	*14,587*	2,471	352	300	–	1,175	–	*4,298*	*376,708*	12,534	1983
5,490	2,791	4,257	*12,538*	2,774	–	750	–	802	150	*4,476*	*361,353*	11,784	1984
8,487	1,322	5,253	*15,062*	2,777	125	873	–	1,148	550	*5,473*	*407,823*	14,977	1985
10,535	922	7,182	*18,639*	2,780	655	3,741	–	1,617	821	*9,614*	*431,510*	23,792	1986
12,230	1,345	11,524	*25,099*	2,741	500	2,350	–	1,342	450	*7,383*	*440,239*	13,383	1987
9,463	1,557	10,769	*21,789*	1,693	117	1,500	–	1,335	550	*5,195*	*559,875*	10,839	1988
10,706	578	10,084	*21,368*	2,661	100	100	–	1,036	300	*4,197*	*624,110*	19,857	1989
9,401	3,381	9,592	*22,374*	1,085	–	–	–	515	200	*1,800*	*782,436*	24,777	1990
demptions													
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	1,399	56	1,159	95	*4,470*	*446,021*	–	1988
6,914	1,453	4,620	*12,987*	1,377	200	1,020	27	1,430	84	*4,138*	*505,548*	–	1989
9,344	1,173	5,022	*15,539*	960	213	1,382	19	1,700	80	*4,354*	*657,580*	–	1990
and double counting													
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
112	7	57	*176*	22	–	–	–	–	2	*24*	*1,734*	1,488	1989
760	23	56	*839*	35	–	–	–	–	3	*38*	*4,698*	3,531	1990
issues													
1,233	2,246	4,161	*7,640*	1,082	288	54	–91	1,060	–19	*2,374*	*91,217*	10,899	1983
–294	2,184	2,425	*4,315*	1,045	–154	444	–96	667	129	*2,035*	*79,447*	9,774	1984
1,678	554	2,946	*5,178*	669	–103	539	–103	685	509	*2,196*	*114,863*	12,220	1985
3,230	–173	3,748	*6,805*	1,289	316	2,898	–98	917	749	*6,071*	*110,616*	18,872	1986
4,870	–14	6,156	*11,012*	1,507	223	1,586	–62	435	348	*4,037*	*100,677*	10,433	1987
2,012	177	5,777	*7,966*	262	–226	101	–56	176	452	*709*	*112,525*	9,697	1988
3,680	–882	5,407	*8,205*	1,262	–100	–920	–27	–393	213	*35*	*116,828*	18,369	1989
–703	2,185	4,514	*5,995*	90	–213	–1,382	–19	–1,185	117	*–2,592*	*120,157*	21,246	1990
pons													
4,762	1,318	4,193	*10,273*	1,440	298	656	37	471	7	*2,909*	*58,055*	–	1983
4,981	1,670	4,835	*11,486*	1,492	268	673	31	635	16	*3,115*	*68,371*	–	1984
5,032	1,913	5,275	*12,220*	1,594	241	678	24	623	25	*3,185*	*72,722*	–	1985
5,146	1,919	5,678	*12,743*	1,606	283	1,019	17	670	89	*3,684*	*83,434*	–	1986
5,039	1,755	5,820	*12,614*	1,422	242	936	11	600	163	*3,374*	*84,398*	–	1987
5,391	1,763	6,643	*13,797*	1,706	256	1,062	9	600	213	*3,846*	*95,384*	–	1988
5,388	1,939	7,424	*14,751*	1,613	226	1,101	4	700	249	*3,893*	*111,633*	–	1989
5,825	1,848	8,182	*15,855*	1,869	226	1,083	3	500	273	*3,954*	*131,100*	–	1990

issued by the Treasury to fund debts.

Table a20

INTEREST RATES ON BANK OF ITALY OPERATIONS

	Official						Effective				
	Current account (1)		Bill discounting					Repurchase agreements			
								Purchases		Sales	
	Excess reserves	Compulsory reserves (2)	Ordinary bills, (base rate)	Agricultural working credits (3)	Ordinary advances		Fixed term advances (4)	Minimum (5)	Average	Maximum (5)	Average
From: 28 May 1975	0.50	5.50	7.00	7.00	7.00	1989 – Jan. . .	12.72	13.10	13.29	12.37	12.02
15 Sept. 1975	"	"	6.00	6.00	6.00	Feb. . .	12.92	–	–	12.92	12.71
2 Feb. 1976	"	"	7.00	7.00	7.00	Mar. . .	14.45	–	–	13.18	12.95
25 Feb. 1976	"	"	8.00	"	8.00	Apr. . .	13.50	–	–	12.14	11.90
18 Mar. 1976	"	"	12.00	"	12.00	May . .	13.94	–	–	11.75	11.59
4 Oct. 1976	"	"	15.00	"	15.00	June .	14.12	13.90	14.03	12.60	12.32
13 June 1977	"	"	13.00	"	13.00	July . .	13.78	13.60	13.90	12.31	12.16
29 Aug. 1977	"	"	11.50	"	11.50	Aug. .	13.69	–	–	12.17	11.90
4 Sept 1978	"	"	10.50	"	10.50	Sept. .	–	–	–	12.48	12.35
8 Oct. 1979	"	"	12.00	"	12.00	Oct. . .	–	12.85	13.06	12.73	12.56
6 Dec. 1979	"	"	15.00	"	15.00	Nov. . .	13.50	10.73	11.96	12.19	11.89
29 Sept. 1980	"	"	16.50	"	16.50	Dec. .	14.74	12.51	12.77	–	–
23 Mar. 1981	"	"	19.00	9.50	19.00	1990 – Jan. . .	14.21	12.26	12.89	12.65	12.55
25 Aug. 1982	"	"	18.00	"	18.00	Feb. . .	14.44	12.49	12.86	–	–
11 Apr. 1983	"	"	17.00	9.00	17.00	Mar. . .	13.50	12.95	13.16	12.90	12.76
16 Feb. 1984	"	"	16.00	8.50	16.00	Apr. . .	–	–	–	10.77	10.31
7 May 1984	"	"	15.50	"	15.50	May . .	14.21	12.43	12.59	11.67	11.40
4 Sept. 1984	"	"	16.50	"	16.50	June .	12.62	9.88	10.73	–	–
4 Jan. 1985	"	"	15.50	"	15.50	July . .	12.86	9.58	9.85	–	–
8 Nov. 1985	"	"	15.00	8.00	15.00	Aug. .	13.00	8.65	8.97	–	–
22 Mar. 1986	"	"	14.00	7.50	14.00	Sept. .	–	–	–	6.86	6.52
25 Apr. 1986	"	"	13.00	7.00	13.00	Oct. . .	12.50	–	–	11.01	10.65
27 May 1986	"	"	12.00	6.50	12.00	Nov. . .	13.35	12.50	12.79	13.19	12.98
14 Mar. 1987	"	"	11.50	"	11.50	Dec. .	14.16	12.98	13.25	–	–
28 Aug. 1987	"	"	12.00	"	12.00	1991 – Jan. . .	13.04	11.67	11.97	12.38	12.28
26 Aug. 1988	"	"	12.50	"	12.50	Feb. . .	12.86	11.78	11.97	15.00	13.00
6 Mar. 1989	"	"	13.50	"	13.50	Mar. . .	13.05	10.72	10.92	–	–
21 May 1990	"	"	12.50	"	12.50	Apr. . .	–	10.23	10.40	–	–
13 May 1991	"	"	11.50	6.00	11.50						

(1) Current accounts of banks, social security institutions, insurance companies, 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 9.5 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. From December 1989 onwards floating rate certificates with maturities of more than 18 months were also made 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) Weighted average rate on actual operations. Until 12 May 1991 the penalties applied were 2.25, 1.25 and 0.50 points for operations undertaken within respectively 5, 15 and 30 days of the preceding ones. Since 13 May 1991 a single penalty rate up to a maximum of 1.75 points is applied in accordance with the requirements of monetary control. – (5) Average of the marginal tender rates on repurchase agreements during the month.

Table a21

MONEY MARKET AND BANK INTEREST RATES (1)

INTEREST RATES ON SECURITIES
(average values before tax)

	Variable rate Treasury credit certificates	Treasury certificates in ecus	Treasury option certificates	Index-linked Treasury certificates	Treasury bonds	Straight bonds: Industrial credit institutions	Straight bonds: Real estate credit institutions	Straight bonds: ENEL ENI IRI	Straight bonds: Total
1981	20.25	–	–	–	19.36	19.68	19.54	19.44	19.78
1982	20.78	–	–	–	20.21	20.28	21.58	20.19	20.61
1983	19.83	13.11	–	–	18.30	17.93	18.72	17.68	17.99
1984	16.98	11.51	–	3.40	15.60	14.82	15.86	14.55	14.93
1985	14.68	9.88	–	4.61	13.71	13.08	13.19	12.62	12.95
1986	12.41	8.52	–	4.49	11.47	10.56	11.10	9.96	10.56
1987	10.66	8.44	–	4.57	10.58	10.13	10.10	9.59	9.87
1988	11.25	8.11	–	5.39	10.54	10.87	10.85	10.78	10.38
1989	12.71	9.32	10.65	6.65	11.61	11.61	11.69	11.74	11.21
1990	12.31	9.99	11.48	6.87	11.87	12.03	12.15	12.17	11.81
1989 – Jan.	11.66	8.47	–	6.40	10.64	10.93	11.13	11.04	10.45
Feb.	11.77	8.63	–	6.04	10.89	11.21	11.18	11.15	10.55
Mar.	12.69	9.20	–	5.87	11.54	11.57	11.47	11.48	10.89
Apr.	12.84	9.43	–	5.93	11.52	11.68	11.49	11.53	10.94
May	12.76	9.55	–	6.23	11.59	11.72	11.65	11.68	11.04
June	12.24	9.55	10.49	6.64	11.44	11.77	11.93	11.64	11.11
July	12.39	9.32	10.63	6.56	11.63	11.65	11.92	11.71	11.14
Aug.	12.99	9.24	10.64	6.66	11.61	11.66	11.82	11.84	11.09
Sept.	13.11	9.35	10.55	6.91	11.84	11.67	11.81	11.93	11.53
Oct.	13.24	9.53	10.64	7.17	12.03	11.58	11.90	12.07	11.68
Nov.	13.44	9.71	10.69	7.58	12.32	11.79	12.02	12.44	12.03
Dec.	13.39	9.88	10.91	7.81	12.30	12.08	11.99	12.39	12.07
1990 – Jan.	13.14	9.94	11.62	7.75	12.28	11.83	12.22	12.26	11.93
Feb.	12.93	9.85	11.71	7.95	12.41	12.03	12.22	12.52	11.90
Mar.	12.90	10.04	11.74	7.76	12.43	12.15	12.17	12.72	12.00
Apr.	12.86	10.12	11.64	7.27	12.20	12.11	12.21	12.62	11.88
May	12.55	10.21	11.54	7.30	11.97	12.18	12.24	12.40	11.89
June	11.69	10.07	11.21	6.74	11.32	12.07	12.13	11.90	11.68
July	11.52	9.87	11.22	6.29	11.26	11.69	11.92	11.65	11.48
Aug.	11.87	9.83	11.52	6.64	11.79	12.02	12.04	12.10	11.82
Sept.	11.98	10.21	11.39	6.43	11.60	12.05	12.09	12.15	11.93
Oct.	11.88	10.14	11.36	5.99	11.58	11.92	12.12	11.81	11.60
Nov.	11.96	9.91	11.36	6.05	11.69	12.00	12.21	11.87	11.69
Dec.	12.40	9.75	11.47	6.31	11.96	12.29	12.26	12.09	11.91
1991 – Jan.	12.61	9.73	11.52	6.25	12.04	12.28	12.26	12.15	11.94
Feb.	12.58	9.54	11.48	6.35	12.00	12.38	12.02	12.12	11.95
Mar.	12.45	9.16	11.35	6.22	11.69	12.16	11.84	11.74	11.67
Apr.	11.69	8.75	11.19	5.87	11.34	11.85	11.80	11.41	11.41

TOTAL DOMESTIC CREDIT AND FINANCIAL ASSETS (1)

(changes in billions of lire)

	Finance to the non-state sector (a)	State sector borrowing requirement (b)	Total domestic credit (a)+(b)	Foreign sector (2)	Balancing item	Financial assets (3)		
						M2A	M2	M3
1981	29,567	45,239	74,806	1,533	–8,640	67,699	30,337	30,337	54,801
1982	31,666	69,133	100,799	–2,521	–12,701	85,577	61,790	61,790	73,294
1983	36,076	85,197	121,273	3,793	–15,418	109,648	45,623	48,879	64,332
1984	53,442	91,708	145,151	57	–16,346	128,862	50,745	55,035	76,661
1985	46,168	107,267	153,435	–8,352	–10,378	134,705	50,195	55,957	71,338
1986	45,967	106,710	152,676	–2,965	1,667	151,379	45,450	53,605	57,489
1987	46,119	105,872	151,991	1,202	2,850	156,043	42,140	52,643	86,325
1988	78,181	118,990	197,171	682	–15,260	182,592	34,952	58,913	102,897
1989	106,865	122,695	229,560	407	–33,690	196,278	51,664	81,828	123,065
1990	105,673	124,425	230,097	–7,815	–30,103	192,179	45,664	79,520	112,170
1989 – Jan.	8,769	1,408	10,177	–1,204	–5,470	3,503	–23,111	–15,539	–888
Feb.	5,536	13,005	18,541	–3,313	–2,853	12,375	–8,457	–4,132	4,666
Mar.	539	13,024	13,563	219	–706	13,077	2,368	6,564	6,931
Apr.	9112	12,165	21,278	4,379	–3,795	21,861	8,352	11,008	16,453
May	11,926	11,675	23,601	930	–22,378	2,153	–11,156	–8,730	–4,630
June	5,924	–12,468	–6,543	–290	22,828	15,995	11,586	13,652	10,054
July	15,669	10,798	26,467	386	–10,442	16,411	8,235	9,526	9,439
Aug.	–3,126	7,522	4,396	2,677	2,780	9,852	–4,844	–3,622	2,097
Sept.	1,006	16,876	17,882	2,908	–11,667	9,123	3,008	3,565	8,322
Oct.	10,745	9,340	20,085	281	–6,132	14,234	2,991	5,779	6,549
Nov.	17,493	21,039	38,532	–4,996	–17,963	15,573	–3,056	–1,883	3,600
Dec.	23,273	18,309	41,582	–1,570	22,109	62,122	65,749	65,640	60,472
1990 – Jan.	7,268	–6,300	968	–2,417	6,600	5,151	–25,285	–18,328	–414
Feb.	1,214	10,789	12,003	–2,485	–2,931	6,587	–13,107	–9,112	–5,015
Mar.	–1,003	18,100	17,097	839	–4,670	13,266	–802	2,201	6,329
Apr.	9,732	12,838	22,570	3,525	–11,567	14,528	7,553	8,742	9,824
May	11,862	11,872	23,734	1,811	–20,001	5,543	–15,277	–12,950	–7,218
June	4,784	–9,526	–4,742	5,379	17,516	18,153	12,507	14,910	11,544
July	18,060	750	18,810	545	–9,985	9,369	6,453	7,917	7,107
Aug.	–7,574	9,039	1,464	1,671	–1,275	1,861	–6,903	–5,059	–4,348
Sept.	–2,343	18,651	16,308	2,717	–4,075	14,950	10,652	12,748	16,019
Oct.	16,858	22,723	39,581	–5,590	–10,312	23,679	3,636	9,258	10,016
Nov.	13,910	17,671	31,581	–7,585	–10,376	13,620	–2,529	–422	1,346
Dec.	32,906	17,818	50,724	–6,225	20,975	65,473	68,765	69,615	66,981
Outstanding in Dec. 1990	**783,984**	**1,190,058**	**1,974,041**	....	....	**1,820,854**	**765,074**	**885,023**	**1,166,525**
1991 – Jan	–5,001	4,930	–71	–2,052	....	....	–36,106	–31,519	–17,116
Feb.	3,757	6,381	10,137	3,259	....	....	–6,586	–3,914	–1,989
Mar.	584	15,907	16,491	2,822	....	....	3,685	5,697	7,877

(1) Rounding may cause discrepancies in totals. The figures for 1991 are provisional. – (2) Net foreign position of BI-UIC and banks. – (3) Non-state sector's domestic financial assets net of shares, non-share participations, atypical securities, provisions for retirement and welfare benefits and technical reserves.

Table a24

M2 HELD BY THE NON-STATE SECTOR AND ITS COUNTERPARTS (1)

(changes in billions of lire)

	M2				Counterparts								
					State sector							
	Notes and coin	Sight deposits	Savings deposits (2)	Total	Borrowing requirement financed domestically	(–) Non-monetary resources (3)	Total	Non-state sector (4)	Special credit institutions (5)	Other items	Domestic total	Foreign sector (6)
1981	4,294	12,134	13,909	30,337	48,388	30,837	17,551	18,456	7,583	–14,786	28,804	1,533
1982	3,471	27,514	30,806	61,790	70,115	22,770	47,344	16,757	4,680	–4,470	64,311	–2,521
1983	3,944	23,238	21,697	48,879	87,002	58,541	28,461	24,201	4,826	–12,402	45,086	3,793
1984	3,662	26,701	24,671	55,035	93,424	68,600	24,825	39,774	2,505	–12,125	54,978	57
1985	3,807	24,569	27,581	55,957	109,384	70,119	39,265	35,560	945	–11,462	64,309	–8,352
1986	3,107	29,981	20,518	53,605	109,135	79,988	29,147	29,951	174	–2,703	56,570	–2,965
1987	4,126	21,987	26,530	52,643	108,066	81,260	26,805	26,404	1,709	–3,478	51,441	1,202
1988	4,733	24,154	30,027	58,913	121,061	102,077	18,985	53,084	–4,490	–9,348	58,231	682
1989	10,259	37,038	34,531	81,828	124,856	103,870	20,986	79,527	–2,083	–17,009	81,421	407
1990	1,848	32,367	45,305	79,520	125,780	116,229	9,552	73,297	–7,923	12,409	87,335	–7,815
1989 – Jan.	–3,931	–18,569	6,961	–15,539	1,697	14,911	–13,214	10,302	–8,729	–2,694	–14,335	–1,204
Feb.	–12	–5,162	1,042	–4,132	13,093	16,032	–2,939	1,151	1,875	–906	–819	–3,313
Mar.	1,029	2,166	3,369	6,564	13,033	7,484	5,549	–1,744	3,072	–533	6,345	219
Apr.	1,181	7,612	2,215	11,008	12,318	9,534	2,784	7,563	–192	–3,527	6,629	4,379
May	–1,880	–7,673	823	–8,730	11,790	5,002	6,788	8,677	–2,741	–22,384	–9,660	930
June	2,507	10,969	176	13,652	–12,006	6,112	–18,117	6,473	3,365	22,222	13,942	–290
July	3,532	1,849	4,145	9,526	10,939	5,109	5,830	13,346	–3,568	–6,467	9,140	386
Aug.	–2,587	–3,039	2,004	–3,622	7,682	11,800	–4,118	–5,669	317	3,171	–6,299	2,677
Sept.	505	3,433	–373	3,565	16,973	14,021	2,952	–815	671	–2,151	657	2,908
Oct.	–1,044	3,557	3,266	5,779	9,766	8,362	1,403	6,885	1,988	–4,778	5,498	281
Nov.	1,123	–4,609	1,603	–1,883	21,201	10,979	10,222	14,809	–303	–21,615	3,113	–4,996
Dec.	9,836	46,505	9,299	65,640	18,370	–5,476	23,846	18,548	2,163	22,653	67,210	–1,570
1990 – Jan.	–7,010	–21,842	10,524	–18,328	–6,212	24,006	–30,218	6,754	–3,673	11,227	–15,911	–2,417
Feb.	–358	–8,570	–184	–9,112	10,760	13,312	–2,551	–2,378	–190	–1,507	–6,627	–2,485
Mar.	887	482	832	2,201	18,197	10,412	7,785	–5,360	–2,004	940	1,362	839
Apr.	666	8,333	–257	8,742	12,886	8,511	4,375	7,551	178	–6,888	5,217	3,525
May	–1,470	–11,516	36	–12,950	11,936	21,688	–9,752	8,739	642	–14,390	–14,761	1,811
June	2,235	10,378	2,297	14,910	–9,365	5,240	–14,605	6,159	–164	18,141	9,531	5,379
July	2,616	357	4,944	7,917	884	3,094	–2,210	15,162	–2,004	–3,576	7,372	545
Aug.	–1,970	–5,275	2,186	–5,059	9,078	3,860	5,217	–10,639	–876	–432	–6,730	1,671
Sept.	131	10,441	2,175	12,748	18,709	3,475	15,234	–3,248	30	–1,986	10,031	2,717
Oct.	–1,015	4,460	5,813	9,258	22,935	12,071	10,865	13,366	–1,913	–7,469	14,848	–5,590
Nov.	1,226	–6,788	5,140	–422	17,885	11,256	6,629	10,913	–203	–10,177	7,163	–7,585
Dec.	5,909	51,907	11,799	69,615	18,087	–696	18,783	26,279	2,253	28,526	75,840	–6,225
1991 – Jan.	–3,205	–33,260	4,946	–31,519	4,930	....	....	....	....	....	....	–2,052
Feb.	73	–5,868	1,881	–3,914	6,381	....	....	....	....	....	....	3,259
Mar.	2,136	4,387	–826	5,697	15,907	....	....	....	....	....	....	2,822

(1) Rounding may cause discrepancies in totals. The figures for 1991 are provisional. – (2) Includes banks' repurchase agreements and CDs. – (3) Government securities held outside the banking system and the Deposits and Loans Fund and special credit institution loans to autonomous government agencies. – (4) Financing obtained by the banking system in the form of loans and purchases of bonds and shares. – (5) Financing obtained from the Bank of Italy and banks. – (6) Net foreign position of BI-UIC and banks.

THE BANK'S CAPITAL AND RESERVES

Capital. – There were no changes in the holdings of the Bank's shares, which were distributed as follows at 31 December:

Shareholders with voting rights:							
Savings banks and pledge banks ...	75	with	177,930	shares	and	469	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	"
	93	with	299,930	shares	and	785	votes
Shareholders without voting rights:							
Savings banks and pledge banks ...	8	with	70	shares			
Total ...	101	with	300,000	shares			

Reserves. – The changes in the ordinary and extraordinary reserve funds during 1990 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 1989	1,202,608,724,639	1,285,015,548,259
increase: due to appropriation of 20 per cent of profits for the year 1989	89,311,104,245	89,311,104,245
due to income received in 1990 from investment of reserves	128,372,763,792	161,366,396,138
decrease: due to distribution to shareholders of a part of the income accruing in the course of 1989 (Article 56 of the Statutes) .	1,022,297,046	1,093,902,954
Balance at 31 December 1990	1,419,270,295,630	1,534,599,145,688

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

ASSETS

GOLD				
I on hand			2,037,155,238,069	
II on deposit abroad			20,143,948,102,428	22,181,103,340,497
GOLD CREDITS (EMCF)				7,644,992,027,306
CASH ON HAND				5,817,965,467
DISCOUNTS AND ADVANCES				
I portfolio discounts:				
— ordinary bills		352,074,396,361		
— stockpiling bills		2,491,339,663,690	2,843,414,060,051	
II advances:				
— current account		2,522,093,375,367		
— fixed term		2,637,884,047,875		
— under Treasury Decree of 27.9.1974		1,454,998,975,000	6,614,976,398,242	
III deferred payments in the clearing system			—	9,458,390,458,293
BILLS FOR COLLECTION WITH CORRESPONDENTS				—
EXTERNAL ASSETS IN FOREIGN CURRENCIES				
I ecus			10,433,306,378,811	
II other:				
— banknotes and foreign currency bills		2,394,090,852		
— current accounts with correspondents		1,003,377,628,203		
— time deposits		97,555,911,210		
— other		1,334,598,851,346	2,437,926,481,611	12,871,232,860,422
DOLLAR CREDIT (EMCF)				2,865,642,360,821
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)				
I current accounts			58,651,178,495,746	
II special accounts			2,736,091,707,127	61,387,270,202,873
EXTRAORDINARY ADVANCE TO THE TREASURY				—
TREASURY CURRENT ACCOUNT				71,063,339,340,513
SUNDRY CLAIMS ON THE GOVERNMENT				792,066,724,340
SECURITIES				
I government and government-guaranteed securities:				
— freely available		65,996,945,218,193		
— investment of statutory reserves		2,212,756,018,557		
— investment of staff severance pay and pension funds		2,155,612,976,585	70,365,314,213,335	
II securities of companies and agencies:				
— investment of statutory reserves		144,302,969,026		
— investment of staff severance pay and pension funds		825,971,534,417	970,274,503,443	
III shareholdings and participations:				
— in subsidiary companies and agencies				
investment of statutory reserves	282,798,478			
investment of staff severance pay and pension funds	155,958,140,773	156,240,939,251		
— in associated companies and agencies				
investment of statutory reserves	39,742,844,416			
investment of staff severance pay and pension funds	30,576,651,841	70,319,496,257		
— in other companies and agencies				
investment of statutory reserves	363,690,955,179			
investment of staff severance pay and pension funds	454,708,461,326	818,399,416,505	1,044,959,852,013	72,380,548,568,791
			carried forward . . .	260,650,403,849,323

LIABILITIES

NOTES IN CIRCULATION		73,376,174,504,000
BI DRAFTS		1,535,187,555,948
OTHER SIGHT LIABILITIES		
I transfer orders	—	
II other	1,928,891,446	1,928,891,446
RESERVE DEPOSITS ON CURRENT ACCOUNT		
I credit institutions subject to the compulsory reserve requirement	121,357,031,581,975	
II other entities	187,222,400,599	121,544,253,982,574
OTHER COMPULSORY DEPOSITS		
I compulsory bank reserves against foreign currency deposits	2,260,548,654,991	
II collateral for the issue of bankers' drafts and guaranteed personal cheques	9,561,968	
III tied deposits in relation to investment abroad	194,445	
IV in respect of companies in the process of incorporation	2,340,059,946	
V in respect of bank lending in excess of the ceiling	—	
VI other	79,596,412,365	2,342,494,883,715
OTHER DEPOSITS ON CURRENT ACCOUNT		75,895,723,789
TIED DEPOSITS ON CURRENT ACCOUNT		—
DEPOSITS FOR CASH DEPARTMENT SERVICES		83,222,507,261
DEPOSITS IN FOREIGN CURRENCY ON BEHALF OF THE UIC		—
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC		2,736,091,707,127
EXTERNAL LIABILITIES		
I deposits in foreign currencies	3,724,299,992	
II external accounts in lire	307,033,328,159	310,757,628,151
ECU LIABILITIES (EMCF)		10,510,634,388,127
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT		555,285,551,789
SUNDRY PROVISIONS		
I for gold price fluctuations (under Decree Law 867/1976 and Art. 104 (1b) of the codified income tax law)	26,064,102,209,111	
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 diminution in value of foreign exchange	2,431,133,844,697	
V for exchange rate adjustments (under Art. 104 (1c) of the codified income tax law)	172,914,297,186	
VI for diminution in value of securities	5,341,244,218,659	
VII for contingent losses	2,403,006,748,480	
VIII for insurance cover	926,691,685,925	
IX for building works	1,959,098,746,417	
X for renewal of equipment	711,250,000,000	
XI for taxation	2,273,886,799,745	
XII for staff severance pay and pensions	4,166,241,000,000	
XIII for grants to BI pensioners and their surviving dependants	1,578,388,391	
XIV for severance pay to contract staff under Law 297/1982	957,616,168	47,887,820,009,258
	carried forward	260,959,747,333,185

AMOUNTS IN LIRE

ASSETS

		brought forward	260,650,403,849,323
UIC ENDOWMENT FUND			500,000,000,000
REAL PROPERTY			
I Bank premises		3,007,297,819,088	
II investment of staff severance pay and pension funds		506,400,197,931	3,513,698,017,019
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS			28,414,717,698
FURNITURE AND EQUIPMENT			
I furniture and fittings		114,992,249,007	
II equipment		234,200,505,857	
III coins and collections		707,195,088	349,899,949,952
SUNDRY ITEMS			
I banknotes in production		10,784,393,962	
II procedures, studies and designs of the technical departments:			
— completed	42,960,760,493		
— in preparation	23,171,026,652	66,131,787,145	
III deferred charges		8,547,575,914	
IV sundry debtors		487,433,661,316	
V other		1,122,372,602,511	1,695,270,020,848
ACCRUED INCOME			3,042,736,853,791
PREPAID EXPENSES			533,140,071
			269,780,956,548,702
MEMORANDUM ACCOUNTS			
I Securities and other valuables:			
— held as collateral	9,107,114,957,918		
— other	1,279,978,639,863,185	1,289,085,754,821,103	
II Depositaries of securities and valuables:			
— domestic	14,700,623,000		
— foreign	7,715,150,975,945	7,729,851,598,945	
III Unused overdraft facilities		715,434,395,758	
IV Debtors for securities, exchange and lire receivable (BI forward sales)			
— securities	5,240,000,000,000		
— internal correspondents	—		
— external correspondents	5,060,869,063,140	10,300,869,063,140	
V Securities, exchange and lire receivable (BI forward purchases)			
— securities	—		
— foreign currencies and lire	5,020,639,109,590	5,020,639,109,590	
VI Order suspense accounts			
— purchases of foreign currencies	216,241,656,355		
— lire in respect of sales of foreign currencies	268,517,195,000		
— purchases of securities	—		
— lire in respect of sales of securities	—	484,758,851,355	
VII Exchequer for depreciation allowances		97,300,967,948	1,313,434,608,807,839
		TOTAL . . .	**1,583,215,565,356,541**

Audited and found correct. – Rome, 26 April 1991

THE AUDITORS
Domenico Amodeo
Mario Cattaneo
Vittorio Coda
Arnaldo Mauri
Franco Gaetano Scoca

LIABILITIES

brought forward			260,959,747,333,185
ACCUMULATED DEPRECIATION OF PROPERTY			610,407,811,128
ACCUMULATED DEPRECIATION OF FURNITURE AND FITTINGS			99,181,735,431
ACCUMULATED DEPRECIATION OF EQUIPMENT			164,196,864,060
ACCUMULATED DEPRECIATION (Art. 67 (3) of the codified income tax law)			19,852,990,735
ACCUMULATED DEPRECIATION OF THE PROCEDURES, STUDIES AND DESIGNS OF THE TECHNICAL DEPARTMENTS			22,499,075,788
ACCUMULATED DEPRECIATION OF DEFERRED CHARGES			4,769,617,818
SUNDRY ITEMS			
I sundry creditors		31,789,697,614	
II other		328,840,120,873	360,629,818,487
ACCRUED EXPENSES			353,820,408,136
DEFERRED INCOME			735,837,309,798
CAPITAL		300,000,000	
ORDINARY RESERVE FUND		1,419,270,295,630	
EXTRAORDINARY RESERVE FUND		1,534,599,145,688	2,954,169,441,318
REVALUATION SURPLUS RESERVE UNDER LAW 72/1983			1,304,000,000,000
REVALUATION SURPLUS RESERVE UNDER LAW 408/1990			1,278,076,471,229
PROVISION FOR TAX UNDER LAW 408/1990			243,443,137,377
NET PROFIT FOR DISTRIBUTION			670,324,534,212
			269,780,956,548,702
MEMORANDUM ACCOUNTS			
I Depositors of securities and other valuables		1,289,085,754,821,103	
II Securities and valuables on deposit		7,729,851,598,945	
III Holders of unused overdraft facilities		715,434,395,758	
IV Securities, exchange and lire for delivery (BI forward sales)			
— securities	5,240,000,000,000		
— foreign currencies and lire	5,060,869,063,140	10,300,869,063,140	
V Creditors for securities, exchange and lire for delivery (BI forward purchases)			
— securities	—		
— internal correspondents	—		
— external correspondents	5,020,639,109,590	5,020,639,109,590	
VI Order suspense accounts			
— lire in respect of purchases of foreign currencies	216,241,656,355		
— sales of foreign currencies	268,517,195,000		
— lire in respect of purchases of securities	—		
— sales of securities	—	484,758,851,355	
VII Depreciation allowances		97,300,967,948	1,313,434,608,807,839
TOTAL . . .			**1,583,215,565,356,541**

THE ACCOUNTANT GENERAL

LUIGI GIANNOCCOLI

THE GOVERNOR

CARLO AZEGLIO CIAMPI

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

COSTS OF ADMINISTRATION			
central and local boards		1,550,523,605	
staff:			
wages and salaries and related costs	873,867,619,279		
pensions and severance payments	301,999,211,372	1,175,866,830,651	
professional services		146,707,176,063	
other		185,751,688,137	1,509,876,218,456
TAXES AND DUTIES			
stamp duty on the circulation of banknotes and demand drafts		—	
other taxes and duties:			
currrent year	80,743,444,028		
previous years	673,916,164,000	754,659,608,028	754,659,608,028
INTEREST PAID			
on compulsory bank reserves		7,254,931,458,425	
other		19,628,317,458	7,274,559,775,883
EXPENDITURE ON SECURITIES TRANSACTIONS			14,845,725,668
EXPENDITURE ON FOREIGN TRANSACTIONS			15,254,018
LOSSES ON SECURITIES			—
EXCHANGE RATE LOSSES			431,931,692,751
LOSSES ON THE DISPOSAL OF ASSETS			—
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES			1,844,582,562
TECHNICAL DEPARTMENTS – INITIAL STOCKS			27,060,134,868
EXPENDITURE ON TRANSACTIONS WITH THE TREASURY			1,567,516,728,000
VALUATION LOSSES			
on securities		20,918,388,626	
on foreign exchange		90,258,862,577	
on other assets		—	111,177,251,203
DEPRECIATION			
of buildings		81,709,597,905	
of furniture and fittings		9,933,880,563	
of equipment		37,874,102,493	
of the procedures, studies and designs of the technical departments		19,918,523,836	
of deferred charges		5,691,990,829	
other		466,115,489	155,594,211,115
APPROPRIATION OF INVESTMENT INCOME TO RESERVES			
to ordinary reserve fund		128,372,763,792	
to extraordinary reserve fund		161,366,396,138	289,739,159,930
		carried forward . . .	12,138,820,342,482

INCOME AND PROFITS

INTEREST RECEIVED				
on discounts and advances:				
ordinary portfolio discounts		22,770,900,686		
stockpiling portfolio discounts		24,310,341,784		
advances		272,719,796,487	319,801,038,957	
on lending to the Treasury			700,587,918,391	
on lending to the UIC			4,712,528,345,962	
on lending abroad			480,313,243,026	
other			34,076,185,488	6,247,306,731,824
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES				
freely available				
interest-bearing:				
Treasury bills	791,591,892,584			
variable rate Treasury credit certificates	4,244,882,225,103			
other government securities	2,206,326,856,178	7,242,800,973,865		
government-guaranteed securities		41,557,080,509	7,284,358,054,374	
investment of reserves and staff severance pay and pension funds				
interest-bearing:				
government and government-guaranteed securities	514,280,941,667			
other securities	110,017,709,992	624,298,651,659		
from investments in:				
subsidiary companies and bodies	9,595,356,550			
associated companies and bodies	12,038,627,300			
other companies and bodies	55,162,604,733	76,796,588,583	701,095,240,242	7,985,453,294,616
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND				54,934,425,300
SECURITIES ISSUE DISCOUNTS				187,741,955,277
PROFITS ON SECURITIES				699,801,033,477
EXCHANGE RATE GAINS				—
COMMISSIONS AND OTHER FINANCIAL REVENUES				240,223,721,720
INCOME FROM REAL PROPERTY				15,249,067,381
PROFITS FROM THE DISPOSAL OF:				
real property			1,249,612,356	
other property			2,599,340,783	3,848,953,139
CAPITALIZATION OF DEFERRED CHARGES				3,397,591,557
TECHNICAL DEPARTMENTS - FINAL STOCKS				35,360,040,683
TECHNICAL DEPARTMENTS - PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR				11,103,111,591
VALUATION GAINS				
on securities			—	
on foreign exchange			—	
on other assets			—	—
			carried forward . . .	15,484,419,926,565

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

	brought forward	12,138,820,342,482
ALLOCATIONS TO PROVISIONS		
for losses on bill portfolio	—	
for diminution in value of foreign exchange	500,000,000,000	
for diminution in value of securities	900,000,000,000	
for contingent losses	—	
for insurance cover	140,000,000,000	
for building works	400,000,000,000	
for renewal of equipment	200,000,000,000	
for taxation	1,100,000,000,000	
for staff severance pay and pensions	304,553,000,000	
for grants to BI pensioners and their surviving dependants	252,858,954	
for severance pay of contract staff under Law 297/1982	246,580,831	3,545,052,439,785
NON-OPERATING LOSSES AND EXTRAORDINARY CHARGES		139,876,289
		15,684,012,658,556
NET PROFIT		670,324,534,212
	TOTAL . . .	**16,354,337,192,768**

APPROPRIATION

TO ORDINARY RESERVE FUND	
TO EXTRAORDINARY RESERVE FUND	
TO SHAREHOLDERS	
TO THE TREASURY	

Audited and found correct. – Rome, 26 April 1991

THE AUDITORS
DOMENICO AMODEO
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
FRANCO GAETANO SCOCA

INCOME AND PROFITS

	brought forward	15,484,419,926,565
WITHDRAWALS FROM PROVISIONS		
for losses on bill portfolio	—	
for diminution in value of foreign exchange	90,258,862,577	
for diminution in value of securities	20,918,388,626	
for contingent losses	—	
for insurance cover	—	
for building works	81,709,597,905	
for renewal of equipment	—	
for taxation	673,916,164,000	
for staff severance pay and pensions	—	
for grants to BI pensioners and their surviving dependants	105,998,000	
for severance pay contract staff under Law 297/1982	74,823,266	866,983,834,374
NON-OPERATING PROFITS AND EXTRAORDINARY EARNINGS		2,933,431,829
	TOTAL . . .	**16,354,337,192,768**

OF PROFIT

	134,064,906,842
	134,064,906,842
	30,000,000
	402,164,720,528
TOTAL . . .	**670,324,534,212**

THE ACCOUNTANT GENERAL
LUIGI GIANNOCCOLI

THE GOVERNOR
CARLO AZEGLIO CIAMPI

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1990

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

Francesco CONTI
Gaetano DI MARZO*
Angelo FERRATI
Paolo Emilio FERRERI*
Callisto GEROLIMICH COSULICH
Giuseppe GIOIA
Paolo LATERZA
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
Carlo SANTINI – 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 società e la borsa* Companies and Stock Exchange Commission
EFIM	–	*Ente partecipazioni e finanziamento industria manifatturiera* Shareholding and Financing Agency for Manufacturing Industry
ENEL	–	*Ente nazionale energia elettrica* National Electricity Agency
ENI	–	*Ente nazionale idrocarburi* National Hydrocarbon Agency
ILOR	–	*Imposta locale sui redditi* Local income tax
INA	–	*Istituto nazionale assicurazioni* National Insurance Institute
INPS	–	*Istituto nazionale per la previdenza sociale* National Social Security Institute
INVIM	–	*Imposta nazionale sul valore immobiliare* Capital gains tax on property
IRI	–	*Istituto per la ricostruzione industriale* Institute for Industrial Reconstruction
IRPEF	–	*Imposta sul reddito delle persone fisiche* Personal income tax
IRPEG	–	*Imposta sul reddito delle persone giuridiche* Corporate income tax
Isco	–	*Istituto nazionale per lo studio della congiuntura* National Institute for the Study of the Economic Situation
Istat	–	*Istituto centrale di statistica* Central Institute for Statistics
SACE	–	*Sezione speciale per l'assicurazione del credito all'esportazione* Special Department for the Insurance of Export Credits
UIC	–	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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